STALPRODUKT S.A.

Abridged Consolidated Financial Report for the 4th Quarter of 2018.

Additional Information

Bochnia, February 2019

I. Introductory Information

1. The basic data

Apart from the parent company, the Stalprodukt S.A. Capital Group embraces 11 associated entities accounting for subsidiary companies, in which Stalprodukt holds 100% of shares, except for Zakłady Górniczo-Hutnicze "Bolesław", where it holds 94.92 % of shares.

As the group's parent company, Stalprodukt S.A., provides operating and development guidelines for the associated entities formed within the framework of the Company's restructuring and expansion of its production, trade and services and organization of its own sales network.

The basic objects of operation of the capital group companies are:

- production of electrical transformer sheets – parent company Stalprodukt S.A., GO Steel Frydek Mistek a.s.
- production of cold formed profiles, road safety barriers as well as cut-to-length cold- and hot-rolled sheets and strips – parent company Stalprodukt S.A.,
- non-ferrous metal ores mining and zinc and lead production – ZGH "Bolesław" S.A. along with its subsidiary companies:
  - Zinc Smelter - Huta Cynku "Miasteczko Śląskie" S.A. – production of rectified zinc, lead and cadmium,
  - Bol-Therm Sp. z o.o. – 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. – zinc ores mining and concentrate production,
  - Agencja Ochrony Osób i Mienia "Karo" Sp. z o.o. – bodyguard and property security services,
  - PRD Olkusz Sp. z o.o. - construction and repair of roads (a subsidiary of Boltech Sp. z o.o). As of 6.11.2017 it was transformed into a joint stock company.
- trade activities:
  - Stalprodukt-Centrostal Kraków Sp. z o.o., managing the all-Poland sales network with department and trade offices in Gliwice, Włocławek, Wrocław, Szczecin and Radom,
  - Stalprodukt - Zamość Sp. z o.o.,
- other production- and services-related activities:
  - production of galvanized banding steel and wire, as well as steel strips - Cynk-Mal S.A.,
  - spare parts production and regeneration - Stalprodukt-Wamech Sp. z o.o.,
  - installation, repair/renovation and maintenance of machines - Stalprodukt-Serwis Sp. z o.o.,

- structural steel production - STP Elbud Sp. z o.o., Stalprodukt-Wamech Sp. z o.o.,
- galvanizing services - STP Elbud Sp. z o.o. and Cynk-Mal S.A.,
- roads and freeways construction and management – Stalprodukt-MB Sp. z o.o.
- bodyguard and property security – Stalprodukt-Ochrona Sp. z o.o.,
- designing equipment related to the use of renewable energy sources – Anew Institute Sp. z o.o.

Changes in the Issuer's and Capital Group's Ownership Structure

1. Compared to the 4th quarter of 2017, the capital of ZGH "Bolesław" S.A. increased to the level of 94.92 % towards the end of the 4th quarter of 2018 in relation to 94.59 % achieved in the comparable period. The increase took place within the buy-back process of the employee shares of the ZGH "Bolesław" S.A. Company as well as in connection with the purchase of 56,192 shares from the State Treasury for the price of PLN 1,339,055.36, i.e. PLN 23.83 per share.
2. On 28 February 2018 a transaction was concluded for the purchase of 100% shares of the GO Steel Frydek Mistek a.s. company based in the Czech Republic. The 1st of March 2018 was fixed as the take-over date. From that moment onwards the Company will be subject to full consolidation. In the period from 1 March, 2018 to 31 December, 2018, the Company generated sales revenues in the amount of PLN 2,033,166 thousand KCz (PLN 340 148 thousand) and net profit of PLN 50,527 thousand KCz (PLN 8 453 thousand). At the same time, in the entire 2018, it generated sales revenues of PLN 2,485,027 thousand KCz (PLN 415 745 thousand) and net profit of PLN 58,500 thousand KCz (PLN 9 787 thousand).
3. On 16.01.2018 the Extraordinary General Meeting of Shareholders of PRD Olkusz S.A. adopted a resolution No 3 on the mandatory buy-back of shares. The payment of the price amounting to PLN 23.7 thousand took place on 4 June this year. As a consequence, the share held by Boltech Sp. z o.o. increase to 100%.
4. As part of the analysis of dependencies in the Capital Group, some premises were found related to obtaining significant influence over the Stalnet Sp. z o. o entity (the number of shares held has not changed and a significant effect was achieved as a result of the redemption of part of shares held by other shareholders). Therefore, the entity was consolidated using the equity method. In previous reporting periods, the shares in the entity were included as long-term investments.

2. Fundamental Principles Governing the Preparation of the Abridged Consolidated Financial Report

The presented Abridged Consolidated Financial Report was prepared in respect of the period from 1 October 2018 to 31 December 2018 with the use of the full consolidation method, considering all the Group's subsidiaries. The comparable data cover the period from 1 October 2017 to 31 December 2017 referring to the profit and loss account and the cash flow statement, the balance sheet values reflect the status as of 31 December 2017.

The Group's reporting year is equivalent to the calendar year.

This Abridged Consolidated Financial Report was prepared in line with the International Financial Reporting Standards approved by the European Union and, in particular, with the International Accounting Standard No 34 ”Interim Financial Reporting” and was based on the assumption that the Group will be continuing its activities in the predictable future. As of the Financial Report approval day, the Issuer's Management Board does not find any circumstances likely to threaten the continuation of activities pursued by the Capital Group.

The Abridged Consolidated Financial Report does not contain all the information and disclosures required in the consolidated financial report and the additional information sheet mainly contains the explanations of events and changes indispensable for the understanding of the changes in the Group's financial standing and its performance results to have occurred since the end of the previous reporting year.

The Additional Information sheet embraces selected data explaining the facts required by the IAS 34 and the Regulation of the Minister of Finance as of 29.03.2018 r. on current and periodic information to be disclosed by issuers of securities and conditions for recognizing as equivalent of information whose disclosure is required under the laws of a non-member state (Journal of Laws 2018, item 757).

If the Additional Information sheet does not contain a description of some events, required by the above mentioned regulations, this shall mean that such events have not occurred during the reporting period.

II. Accounting Principles (Policy)

1. In abridged consolidated financial report the accounting principles (policy) used, including the assets and liabilities, income and costs valuation methods as well as calculation methods adopted, were identical with the ones presented in detail in the Consolidated Report 2017.

   In the reporting period no essential amendments were introduced into the accounting standards (policy), except for the amendment referred to in item 4, nor any adjustments were made in respect of the fundamental errors and adopted estimated values which would have significantly affected the Group's property and liquidity standing and its financial result.

2. The changes introduced into the standards and interpretations issued by the International Financial Reporting Standards Council and International Financial Reporting Standards Interpretation Committee, applicable since 1 January 2017 or later, either do not apply to the Stalprodukt Group, or do not significantly affect the heretofore applied accounting policy and assessment of its asset position and financial standing. The numerous changes introduced into the existing accounting standards and interpretation changes, referring to the existing standards, have already been adopted by the International Financial Reporting Standards Council, but not approved by the EU yet and so the same shall take effect at later dates.

   The Management Board does not expect the introduction of the above standards and interpretations to significantly affect the accounting principles (policy) applied by the Group, its financial standing and financial result, but the same may still require further additional or amended disclosures to be included in the report. The above mentioned changes were precisely described in the Additional and Explanatory Information sheet appended to the published Consolidated Financial Report for 2017.

3. The information contained in the Consolidated Financial Report was compiled in compliance with the principles pertaining to the assets and liabilities valuation and net financial result measurement, defined as of the balance sheet day, in compliance with IFRS adopted by the European Union and interpretations related thereto, announced in the form of the European Commission Regulations, with the principle of materiality observed.

4. In accordance with the above principles also the Issuer's separate report was prepared, incorporated into the present Report with a reservation concerning the change in the accounting policy related to the valuation and inventory costs calculation methods. Since 1 January 2018, the Company has used the weighted average cost method to replace the previously used FIFO „first in, first out" method. This change was caused by the launching of the IFS 9 IT system, full application of the production module along with the introduction of the full production orders' recording system. In the Issuer's assessment, the altered reporting principles will yield more reliable and more useful information about the transaction's impact on the financial standing and financial results through the more effective management of the supply chain and production process. For comparative purposes the present report features retrospective presentation of financial reports' results for 2017, using the new method of inventory costs calculation. The Table below shows the impact of the changed accounting policy on the comparative data.

For day	generation costs	Net profit	Balance sheet value of inventories	Shareholders' equity
01.01.2017	507	-507	-507	-507
30.06.2017	769	-769	-769	-769
30.09.2017	-55	55	55	55
31.12.2017	-177	177	177	177

5. On 27 December, 2018 the accounting principles (policy) were updated taking into account the change described in point 4 and to the extent related to the new version of IFS 9 system including a description of system parameters, methods of securing access to data and their processing system as well as algorithms and collections constituting account books on data storage media. In the opinion of the Issuer, in addition to the aforementioned changes in point 4, the remaining ones shall not have a material effect on the property and financial position, liquidity and the financial result of the Group.

   In the scope of changes in accounting principles (policy), the entries related to IFRS 15 *Revenue* and IFRS 9 *Financial Instruments* were updated. At the same time, after conducting the analyses, the Management Board does not expect the introduction of the above standards to have a material impact on the financial position and financial result of the Capital Group.

   According to IFRS 15, Revenues are recognized when the client obtains control over good or service. The client obtains such control when he / she has the ability to direct the use of the good or services and obtain benefits from them. An entity recognizes a contract with a customer covered by this standard only if all of the following criteria are met:

   a) the parties have entered into a contract (in writing, or otherwise or in accordance with other usual commercial practices) and are required to perform their duties;

   b) the entity is able to identify the rights of each party regarding the goods or services to be transferred;

   c) the entity is able to identify the payment terms for goods or services to be transferred;

   d) the contract has economic content (i.e. it can be expected that as a result of the contract the risk, schedule or amount of future cash flows of the entity shall change); and

   e) it is probable that the entity shall receive a remuneration which it will be entitled to in exchange for goods or services that shall be transferred to the client.

In accordance with IFRS 9, a financial instrument is any contract that gives rise to a financial asset in one entity and a financial liability or equity instrument in another. Financial assets are recognized when the Company becomes a party to contractual provisions of the instrument. Financial assets are derecognised from the account books when the rights to obtain cash flows from financial assets have expired or have been transferred, and the company has transferred substantially all the risks and profits derived from their ownership.

The main financial instruments used by the Company include: bank loans and short-term deposits. The main purpose of these instruments is to raise funds for operations. The company also has other financial instruments, such as: cash, receivables and liabilities for deliveries and services that arise directly in the course of its business and long-term loans.

In addition, the Company holds shares in other entities which constitute the long-term investments.

Financial instruments at the time of entry into the account books are valued according to the cost (purchase price), which is the fair value of the payment made. Transaction costs that can be directly assigned to transactions are recognized in the initial value of financial instruments.

After initial recognition at fair value, the financial instruments are classified in one of three categories and are valued as follows:

1) financial instruments measured at amortized cost,
2) financial instruments at fair value, and revaluation gains / losses are recognized through comprehensive income,
3) financial instruments at fair value through profit or loss.

Ad1) Financial instruments measured at amortized cost using the effective interest rate method to calculate interest. These instruments are held to maturity date. These are investments with specified or determinable payments and a set maturity date, which the company intends and has the option to hold until that time (receivables, loans). Impairment write-offs are recognized in accordance with the accounting principle and are presented in the note to the financial statements.

The risk of trade credit is mitigated by actions in the scope of selecting contractors with good creditworthiness, setting credit limits for them, payment security policy and their ongoing monitoring in accordance with the applicable procedures. Therefore, the Company's exposure to the risk of bad debts is insignificant. The credit risk should be properly assessed by making appropriate write-offs for receivables in the books.

The company classifies clients to risk groups based on the adopted classification, basing on the adopted risk grouping methods. The groups define the risk level from low (group 10) to the highest (group 0). Revaluation write-offs for positions measured at amortized cost are determined on the basis of historical data by grouping, grouped probability of credit risk and customer behaviour in the past.

Ad2) financial instruments are measured at fair value, and revaluation gains / losses are recognized through comprehensive income. The valuation method is applied to financial assets, the flows of which are only payments from capital and interest, maintained in order to collect contractual cash flows and for sale, and which are measured at fair value. Revenue from interest on such financial assets is calculated using the effective interest rate method. Impairment write-offs are recognized in accordance with the accepted accounting principles.

Ad3) Financial assets measured at fair value through profit or loss. Assets that do not meet the amortized cost measurement criteria (item 1) and at fair value through other income (item 2) are measured through the financial result. The profit or loss from the measurement of investments at fair value is recognized in the financial result. These include trade receivables subject to factoring used to manage liquidity when the terms of the factoring agreement result in the cessation of recognizing receivables or loans that do not meet the SPPI test.

The financial instrument is removed from the balance sheet when the Company loses control over the contractual rights making up a given financial instrument; usually this happens when the instrument is sold or when all cash flows attributed to the instrument are transferred to an independent third party.

At each balance sheet date, the Company assesses whether there is objective evidence of impairment of a financial asset or a group of financial assets. Such premises include, among others: serious financial problems of the debtor, disappearance of an active market for a given financial instrument, adverse changes in the financial, legal and market environment of the issuer of the financial instrument, continuation of a significant decline in the fair value of the instrument. Where such premises exist, an impairment loss should be estimated and a revaluation write-off should be made.

Derivative financial instruments are initially recognized in the books according to the purchase price, and then they are estimated at fair value. Changes in the fair value of derivative financial instruments are recognized instead of the statement of comprehensive income, as the Company does not use the instruments that would qualify as hedge accounting. On the other hand, the companies from the group, due to the specificity and nature of their business model, apply hedge accounting.

6. In the report for the IV quarter there was a change in the presentation of expenditures for major repairs in the amount of PLN 11,634 thousand. These expenditures were presented in fixed assets instead of used so far prepayments and accruals.

III. Estimated Values

- a deferred income tax reserve liability was increased by the amount of PLN 19 015 thousand in connection with the occurrence of transitory positive differences,
- a provision for bad debt was established amounting to PLN 821 thousand, while the one amounting to PLN 1 175 thousand was released,
- a provision for employee benefits was established amounting to PLN 12 486 thousand, and the one amounting to PLN 12 520 thousand was released,
- a provision for the mine liquidation was established, amounting to PLN 3 853 thousand, while the one amounting to PLN 2 052 was released,
- a provision for land restructuring was established, amounting to PLN 418 thousand, while the one amounting to PLN 516 thousand was released,
- a provision for electrical energy origin certificates and CO_2 emissions allowances was established in the amount of PLN 12 233 thousand, and the one amounting to PLN 16 869 thousand was released,
- a provision for damages, amounting to PLN 300 thousand was released,
- a provision for bonus fund provision, amounting to PLN 3 000 thousand was released,
- a bonus fund provision amounting to PLN 343 thousand was established,
- the purchase value of shares in Stalnet Sp. z o.o. was adjusted within consolidation procedures, and the amount of PLN 15 983 thousand was recognized as a financial revenue of the accounting period,
- a provision in the amount of PLN 6 255 thousand was released due to execution of purchase contract for buying additional 50,000 tons of hot rolled coils in 2018.

IV. Business Segments

The segment-based reporting was based on IFRS 8 ”Operating Segments”. The rules governing the Stalprodukt Capital Group's division into operating segments and accounting principles applied in this kind of reporting were described in detail in the last published Consolidated Financial Report for 2017.

Revenues presented in the breakdown into operating segments include only revenues from external customers. There are no transactions between the 3 operating segments (electro-technical sheet segment, profiles segment and zinc segment). As part of the accounting policy (principles), the "other operations" item was separated to balance the results of the Capital Group. The scope of "other activities" includes assembly services, maintenance services, security, galvanizing services, etc. These services are carried out by the Capital Group companies for external customers and for the needs of individual segments, which in the Issuer's opinion is not a transaction between operating segments. At the same time, taking into account the consolidation principles, revenues from sales under "other activities" made for the benefit of operating segments as realized within the Capital Group were excluded from consolidation.

Information on Operating Segments for 4th quarter of 2018 (PLN thousand)

Itemization	Operating Segments				Total
	Electrical Sheets Segment	Profiles Segment	Zinc Segment	Other Activities	The carrying value
Segment Revenues	202 460	180 297	489 3400	94 950	967 047
Domestic	16 300	131 295	295 064		
Export	186 160	48 358	194 276		
Segment Costs	184 798	183 823	414 540	91 487	874 648
Segment Result	**17 662**	**-3 526**	**74 800**	**3 463**	**92 399**
Other Operating and Financial Revenues Non-Attributable to the Segment					22 979
Other General, Operating and Financial Costs Non-Attributable to the Segment					52 843
Gross Profit					**62 535**
Income Tax					15 385
Net Profit					**47 150**
Segment Assets	982 533	791 892	2 169 144	386 736	4 330 305
Assets Non-Attributable to the Segment					30 398
Total Assets					4 360 703
Liabilities	294 628	299 193	655 583	109 766	1 359 170
Contingent Liabilities					296 115
Total Liabilities					1 655 285
Investment Outlays	3 715	708	50 601	9 746	64 770
Depreciation	9 521	4 587	20 675	5 144	39 927

Information on Operating Segments for 4th quarter of 2017 (PLN thousand)

Itemization	Operating Segments				Total
	Electrical Sheets Segment	Profiles Segment	Zinc Segment	Other Activities	
Segment Revenues	132 028	185 911	515 151	66 446	899 536
Domestic	9 239	139 064	302 509		
Export	122 789	46 847	212 642		
Segment Costs	118 989	187 779	422 495	59 072	788 335
Segment Result	**13 039**	**-1 868**	**92 656**	**7 374**	**111 201**
Other Operating and Financial Revenues Non-Attributable to the Segment					27 159
Other General, Operating and Financial Costs Non-Attributable to the Segment					62 442
Gross Profit					**75 918**
Income Tax					20 192
Net Profit					**55 726**
Segment Assets	786 469	765 985	2 072 581	290 194	3 915 229
Assets Non-Attributable to the Segment					22 528
Total Assets					3 937 757
Liabilities	183 194	266 501	868 422	87 857	1 405 974
Contingent Liabilities					296 115
Total Liabilities					1 702 089
Investment Outlays	4 604	1 433	24 961	5 816	36 814
Depreciation	6 830	4 263	20 025	3 527	34 645

V. Ocena uzyskanych wyników i sytuacja finansowa

In the 4th quarter of 2018, compared to the analogical period of 2017, the Stalprodukt S.A. Capital Group recorded an increase of sales by PLN 67 641 thousand, i.e. by 7.5%. At the profit-on-sales level PLN 40 545 was achieved, compared to PLN 76 654 thousand generated in the 4th quarter of 2017. In the 4th quarter of 2018, the net profit amounted to PLN 47 150 thousand compared to PLN 55 726 thousand generated in the 4th quarter of 2017, which accounts for a 15.4 % decrease.

The Electrical Sheets Segment recorded the increase of transformer sheet sales volumes by 47 % compared to the 4th quarter of 2017, accompanied by the increase of the Segment's sales by 53.3 %. The sales volume increase was largely caused by the consolidation of the GO Steel Frydek Mistek activities in the Segment. The 4th quarter was the period devoted to the further adjustment of the Czech company's trade policy and harmonization of the prices. During the whole period, a slight price pressure was felt, which translated into a slowdown in the price increase recorded in the III quarter. The effect of the above mentioned factors was an increase in the segment's margin by PLN 4,623 thousand. At the same time, the Issuer points to the presence of the constant and considerable price pressure from the Segment's customers.

However, in comparison to the III quarter of 2018, there was a decrease in volume by 13.9% and a decrease in sales revenues by PLN 30,798 thousand, i.e. by 13.2%. This factor had a decisive impact on the deterioration of the segment's result compared to the III quarter of 2018. The drop in volumes occurred in December 2018 and was mainly related to prolonged negotiations with clients for deliveries for the I quarter of 2019. In the Issuer's opinion, this phenomenon was of a one-off nature.

The Profiles Segment recorded a sales volume decrease in relation to the 4th quarter of 2017 by 12 %. At the same time, the Segment's sales decreased by PLN 5 614 thousand, i.e. by 3.0 %. The segment recorded a loss in the fourth quarter. Analyzing the market conditions on the Profile Segment's market, the Issuer supports the earlier opinion that the maintaining negative relation of the input material's prices to the prices of finished products and a significant increase of the imports, adversely affected the Segment's results. The Issuer underlines a considerable variability of the market, which is related to the overlapping and often contradictory factors, price policy adopted by steelworks, or the commencement of the planned or continued infrastructural investments within the current financial perspective. At the same time, the Issuer would like to emphasize that earlier expectations regarding a systemic solution to the issue of dumped imports, which may have a positive impact on the situation of the Company and steel processors, have not been fully resolved, due to among others (relatively) high quota amounts.

Excessive imports of steel products (including, among others, pipes and profiles manufactured by Stalprodukt) into the European Union market have a significant impact on the competitive position of EU producers. Therefore, all initiatives aimed at limiting excessive imports of steel products and protecting the interests of local producers are accepted with great hope. In this context, two protective procedures should be mentioned:

a) On 17 July 2018 an Implementing Regulation of the European Commission (EU) No. 2018/1013 was issued imposing temporary protection measures on imports of certain steel products (the investigation was initiated by the European Commission on 26 March, 2018 and included initially 26 categories of steel products). The above mentioned protective measures finally covered 23 categories of imported steel products, including open and hollow structural sections produced by Stalprodukt. As a consequence of this proceeding, on 31 January, 2019, the Commission Implementing Regulation No. (EU) 2019/159 was issued imposing definitive protection measures on the import of steel products being under investigation. This regulation introduced specific levels of tariff quotas for specific product groups and countries from which they are imported (including among others from Turkey, Russia, Ukraine and Belarus). After exceeding the accepted limits, the duty of 25% shall be charged.

b) On 28 September 2018, the European Commission announced the initiation of an anti-dumping proceeding regarding imports of welded tubes, pipes and hollow profiles of square or rectangular cross section, of iron other than cast iron or steel other than non-stainless steel, originating in the former Yugoslav Republic of Macedonia, Russia and Turkey. This proceeding results from a complaint lodged on 14 August 2018 by the Committee on the Defence of Steel Welded Pipes Industry in the European Union ('the applicant') on behalf of producers representing more than 40% of the total Union production of hollow components.

According to the schedule, the investigation shall be closed within usually 13 days, but not later than within 14 months from the date of publication of the notification. Interim measures may normally be imposed no later than within seven months and in any case not later than eight months following the date of publication of the notification. The Commission shall provide information on the planned introduction of the provisional duties three weeks before the imposition of provisional measures.

However, it is difficult to determine as of today whether and what measures the European Commission may introduce in the above-mentioned proceedings.

In the 4th quarter of 2018 the Zinc Segment's net sales amounted to PLN 489 340 thousand and decreased by 5 % in relation to the comparable period in the previous year when the sales amounted to PLN 515 151 thousand.

The sales figure is affected by the LME metal prices, USD exchange rates and the achieved sales volumes.

The decrease in turnover in the zinc segment in the IV quarter of 2018, as compared to the comparable period of the previous year, was caused by a significant drop in the zinc price exchange (by 19%), lead (by 21%) and silver (13%). The increase in the US dollar exchange rate (by 5%) only slightly offset the dynamics of this decline.

The prices of metals basic for the Zinc Segment were quoted as follows:

4th Quarter of 2018

Average LME zinc price: 2 631 USD/ton
Average LME lead price: 1 964 USD/ton
Average LME silver price: 14.5 USD/oz.
USD exchange rate: PLN 3.7671

4th Quarter of 2017
Average LME zinc price: 3 236 USD/ton
Average LME lead price: 2 492 USD/ton
Average LBM silver price: 16.7 USD/oz.
USD exchange rate: PLN 3.5955

Converted to PLN, the base LME zinc price decreased by 15 %, from PLN 11 631 in the 4th quarter of 2017 to PLN 9 914 in the present reporting period.
Converted to PLN, the base LME lead price decreased by 17 %, from PLN 8 964 in the 4th quarter of 2017 to PLN 7 399 in the present reporting period.
Converted to PLN, the base LBM silver price decreased by 9 % from PLN 60.1 in the 4th quarter of 2017 to PLN 54.8 in the present reporting period.

In the IV quarter of 2018, the sales volume of zinc products decreased, while the sales volume of lead and silver products increased.
In the IV quarter of 2018, zinc and zinc products were sold, by 3% less than in the IV quarter of 2017. Over 83% of turnover of the ZGH Group is dependent on zinc. The sales volume of lead and lead concentrates increased by 29% compared to the IV quarter of 2017. Only about 9% of the turnover of the ZGH Group is dependent on lead. Silver sales in the IV quarter of 2018 increased by 26% compared to the IV quarter of 2017. Over 3 % of turnover of the ZGH Group is dependent on silver.
Transactions hedging metals prices and the dollar exchange rate partly offset the drop in sales revenues caused mainly by the decrease in prices of metals traded on LME.

At the same time, the increase of the operating costs resulted in the decrease of the Segment’s profit margin from 18.0 % to 15.3 %. This decrease in the reporting period is caused mainly by:

- the decrease of the LME metal prices
- increase of reductors’ prices in the ISP process (“HC Miasteczko Śląskie”) and the Waelz process (coke, coke breeze) and increase in natural gas prices.

VI. Financial instruments and risk management assessment

The Parent Company is exposed to various types of financial risks - including changes in market prices of debt and equity instruments, fluctuations of currencies and interest rates. The overall financial risk management program of the Issuer focuses on the unpredictability of financial markets and seeks to minimize the potential negative effects on the Parent Company's financial results. The Department of Financial and Risk Management, supervised by the Finance Director, manages the risk in the Parent Company. The main objective is to minimize the negative effects of external changes on the results obtained by the Company. Depending on the type and size of risk, the Company complies with the appropriate instruments for the diagnosis, assessment and hedging.

As of 31 December 2018, the subsidiary companies belonging to the Zinc Segment were applying cash flow hedge accounting for commodity and currency swaps in accordance with the rules described in the Annual Report. As of 31 December 2018 they held the following hedging measures active (the links have been established for the period from January 2019 to May 2021):

1) currency

Hedging Type	Description of Hedging Instrument	Nominal Amount	Fair Value of the Hedging Instrument as of the Balance Sheet Day	Effective Portion Taken to Capital Revaluation Reserve	Nature of the Risk Type Hedged Against
Active currency hedging instruments as of 31.12.2018 r.			**PLN thousand**		
Cash Flow Hedging	forward	$182 719 200,00	-10 838	-10 838	risk from USD/PLN exchange rates
Cash Flow Hedging	forward	€2 400 000,00	561	561	risk from EUR/PLN exchange rates
Cash Flow Hedging	option strategies		0	0	risk from USD/PLN exchange rates
Cash Flow Hedging	option strategies (collar)				risk from EUR/PLN exchange rates

2) raw material

Hedging Type	Description of Hedging Instrument	Nominal Amount	Fair Value of the Hedging Instrument as of the Balance Sheet Day	Effective Portion Taken to Capital Revaluation Reserve	Nature of the Risk Type Hedged Against
Active commodity hedging instruments as of 31.12.2018 (zinc)			**PLN thousand**		
Cash Flow Hedging	swap	19 225	16 419	16 419	Price Change Risk Zn LME PLN
Cash Flow Hedging	swap (USD)	56 950	71 230	71 230	Price Change Risk Zn LME USD
Cash Flow Hedging	option strategies (collar)	10 000	4 852	4 346	Price Change Risk Zn LME
Cash Flow Hedging	put	5 000	5 951	4 346	Price Change Risk Zn LME
Cash Flow Hedging	call	5 000	-1 099	0	Price Change Risk Zn LME
Active commodity hedging instruments as of 31.12.2018 (lead)			**PLN thousand**		
Cash Flow Hedging	swap	3 350	3 785	3 785	Price Change Risk Pb LME PLN
Cash Flow Hedging	swap (USD)	0	0	0	Price Change Risk Pb LME USD
Cash Flow Hedging	option strategies (collar)	2 400	1 763	1 692	Price Change Risk Pb LME
Cash Flow Hedging	put	1 200	1 817	1 692	Price Change Risk Pb LME
Cash Flow Hedging	call	1 200	-54	0	Price Change Risk Pb LME
Active commodity hedging instruments as of 31.12.2018 (silver)			**PLN thousand**		
Cash Flow Hedging	swap	0	0	0	Price Change Risk Ag LMBA

Explanations Referring to Balance Sheet Items Related to Derivative Instruments

Explanation Referring to the Item: Other long- and Short-Term Investments	PLN thousand	
	31.12.2018	31.12.2017
Long-Term investments	68 499	37 636
Short-Term Investments	103 418	118 499
TOTAL, including:	**171 917**	**156 135**
a) valuation of derivative transactions	118 042	84 335
b) securities	53 875	71 800

Explanation to Item: Liabilities pertaining to hedging instruments	PLN thousand	
	31.12.2018	31.12.2017
Contracts for Hedging Transactions	15 362	79 331
Conclusions of Currency Option Transactions	13 954	187 043
Adjustment pertaining to the amount resulting from the closed transactions settlements with brokers	-1 089	-14 719
TOTAL	**28 227**	**251 655**

Valuation of Derivative Transactions

Valuation of Derivative Transactions	PLN thousand			
	31.12.2018		31.12.2017	
	Financial Assets	Financial Liabilities (Payables)	Financial Assets	Financial Liabilities (Payables)
Commodity Transactions - Zinc	100 939	5 749	4 510	242 112
Commodity Transactions - Lead	5 602	54	1 459	9 543
Currency Transactions - USD/PLN EUR/PLN	11 501	22 424	78 362	0
Commodity Transactions- Silver	0	0	4	0
Total	**118 042**	**28 227**	**84 335**	**251 655**

Division of Hedging Instruments

Division of Hedging Instruments	PLN thousand			
	31.12.2018		31.12.2017	
	Financial Assets	Financial Liabilities (Payables)	Financial Assets	Financial Liabilities (Payables)
Hedging Instruments	**114 274**	**26 501**	**79 112**	**247 735**
Commodity Transactions - zinc	*97 568*	*5 067*	*2 228*	*238 192*
Commodity Transactions - lead	*5 602*	*54*	*1 459*	*9 543*
Currency Transactions - USD/PLN, EUR/PLN	*11 104*	*21 380*	*75 421*	*0*
Commodity Transactions - Silver	*0*	*0*	*4*	*0*
Trade Instruments	**3 769**	**1 726**	**5 223**	**3 920**
Commodity Transactions- zinc	*3 371*	*682*	*2 282*	*3 920*
Commodity Transactions - lead	*0*	*0*	*0*	*0*
Currency Transactions - USD/PLN, EUR/PLN	*398*	*1 044*	*2 941*	*0*
Commodity Transactions - silver	*0*	*0*	*0*	*0*
Total	**118 043**	**28 227**	**84 335**	**251 655**

Financial Report Presentation of Applied Derivative Instruments

The result of the hedging instruments valuation, in its portion recognized as 'effective hedging', is taken to the capital revaluation reserve. Asian options, aimed at hedging the Company against the change of time value, are taken to costs or to financial revenues. The trade instruments valuation result is taken to costs or financial revenues. The result from the application of hedging instruments is used to adjust the hedged item (sales). The result from the application of trade instruments is taken to costs or financial revenues.

Derivative Transactions Presented in the Profit and Loss Account:	PLN thousand	
	31.12.2018	31.12.2017
Sales of Products Adjustment	*-68 173*	*-154 350*
Sales of Goods Adjustments	*0*	*0*
Revaluation of Investments	*2 438*	*11 960*
Gains/Loss on Sale of Investments	*-3 345*	*5 803*
Total	**-69 080**	**-136 587**

Cash Result from Reconciliation of Derivative Instruments:	PLN thousand	
	31.12.2018	31.12.2017
Commodity Transactions	*-103 654*	*-178 757*
Currency Transactions	*19 707*	*34 331*
Total	**-83 947**	**-144 426**

Sales of Products Adjustment Related to Application of Hedging Instruments:	PLN thousand	
	31.12.2018	31.12.2017
Sales Increase	*45 252*	*54 078*
Sales Decrease	*-113 425*	*-208 428*
TOTAL	**-68 173**	**-154 350**

Status of Capital from Revaluation Related to Application of Hedge Accounting (excluding Deferred Tax)	PLN thousand	
	31.12.2018	31.12.2017
Valuation of Open Hedging Instruments:	**87 195**	**-167 502**
- Zn	*91 995*	*-234 869*
- Pb	*5 477*	*-8 058*
- USD/PLN	*-10 838*	*73 535*
- Ag	*0*	*4*
- EUR/PLN	*561*	*1 886*
Result from the Application of Hedging Instruments Capital-Retained until the Realization of the Hedged Item:	**-407**	**-2 107**
- Zn	*-407*	*-1 914*
- Pb	*0*	*-193*
- USD/PLN		*0*
TOTAL	**86 788**	**-169 609**

VII. Other Information

1. In the 4th quarter of 2018, the Capital Group did not experience any seasonality consequences. During the reporting period no other positions were recorded, significantly affecting the assets, liabilities, equity, net profit or cash flow, which would be untypical in terms of their kind, volume/size or frequency.
2. As of the balance sheet day, the Stalprodukt S.A. Capital Group holds the below mentioned off-balance-sheet contingent liabilities:
   - guarantees of good workmanship concerning the production and assembly of road barriers totaling PLN 20 774 thousand, and endorsement of a blank promissory note amounting to PLN 13 000 thousand, issued by STP Elbud Sp. z o.o. in order to secure the investment credit granted by Bank Pekao S.A.,
   - guarantees and sureties (avals) granted by ZGH “Bolesław” amounting to PLN 1 547.5 thousand,
   - ZGH “Bolesław” S.A. issued a bill of exchange in connection with the agreement concluded with the National Center for Research and Development, amounting to PLN 38.8 million (wash tubs hall investment project) for subsidizing the project within

the Intelligent Development operating program (Number of Agreement POIR.01.01.02-00-0159/16-00),

- no hedging’s securing the financing banks in respect of the signed credit agreements, which were disclosed in the 2017 report, were subject to change.

3. The Issuer does not publish result forecasts.
4. The pending bankruptcy and composition proceedings cover the Group's receivables totaling PLN 4 976 thousand, wherein Stalprodukt's share amounts to PLN 743 thousand and ZGH “Bolesław”'s - PLN 4 233 thousand.

   During the reporting period, no other essential proceedings were instituted or pending before the courts or government agencies, concerning any liabilities or receivables, which might exert a significant influence on the Group's future results and its financial standing.
5. As of the Report submission day, the shareholders holding at least 5% of the total number of votes at the General Meeting of Shareholders are:

- STP Investment S.A. holding 1 829 319 shares, accounting for a 32.78 %-share in capital and 5 875 691 votes, accounting for 48.17 % of the total number of votes at the General Meeting of Shareholders,
- Stalprodukt Profil S.A. holding 579 652 shares, accounting for 10.39 %-share in capital and 1 095 488 votes, accounting for 8.98 % of the total number of votes at the General Meeting of Shareholders.
- ArcelorMittal Sourcing a société en commandite par actions holding 1 066 100 shares, accounting for a 19.10 %-share in capital and 1 066 100 votes, accounting for a 8.74 % of the total number of votes at the General Meeting of Shareholders.

6. As of the Report submission day, the ownership statuses of management and supervision officers in respect of the Issuer's shares are as follows:

a/ management officers:
- Piotr Janeczek 115 053 shares of nominal value: PLN 230 106,
- Józef Ryszka 504 shares of nominal value: PLN 1 008,
- Łukasz Mentel 100 shares of nominal value: PLN 200.

b/ supervision officers:
- Janusz Bodek 61 974 shares of nominal value: PLN 123 948.

In the period pending from the date of issuance of the previous periodic report, no changes occurred in respect of the shareholding status of the managing and supervising officers.

Moreover, Piotr Janeczek indirectly holds, i.e. through:

- STP Investment S.A. - 1 829 319 shares, accounting for a 32.78 %-share in capital and 5 875 691 votes, accounting for 48.17 % of the total number of votes at the General Meeting of Shareholders,
- Stalprodukt Profil S.A. - 579 652 shares, accounting for a 10.39 %-share in capital and 1 095 488 votes, accounting for 8.98 % of the total number of votes at the General Meeting of Shareholders,
- F&R FINANSE sp. z o.o. – 43 807 shares, accounting for a 0.79 %-share in capital and 43 807 votes, accounting for 0.36 % of the total number of votes at the General Meeting of Shareholders,
- Stalnet sp. z o.o. – 135 564 shares, accounting for a 2.43 %-share in capital and 383 572 votes, accounting for 3.14 % of the total number of votes at the General Meeting of Shareholders,

i.e. the total of 2 588 342 shares, accounting for a 46.38 %-share in capital and 7 398 558 votes, accounting for 60.65 % of the total number of votes at the General Meeting of Shareholders.

Considering the shares directly held by Mr. Piotr Janeczek, he holds a total of (i.e. directly and indirectly) 2 703 395 Stalprodukt S.A. shares, accounting for a 48.45 %-share in capital and 7 973 471 votes, accounting for 65.36 % of the total number of votes at the General Meeting of Shareholders.

Moreover, attention should be paid to the fact that the Shareholders' agreement concluded on 30 June 2016, concerning the acquisition of the Company's shares and consensual voting at the General Meetings of the Company's Shareholders, as well as pursuing the common policy in respect of the Company, was terminated on 29 June 2018 (Current Report No 17 as of 29.06.2018).

7. Apart from the typical and routine transactions, concluded in line with market conditions, with the capital group- associated companies, resulting from the on-going operating activities, neither the Stalprodukt Company, nor its subsidiaries concluded any other transactions with associated companies during the reporting period.
8. The total value of the Issuer's transactions with associated companies in the period from 01.10.2018 to 31.12.2018 and in the comparable period from 01.10.2017 to 31.12.2017 is presented in the Table below.

Items the 4th quarter of 2018	PLN thousand			
	Mutual settlements		Mutual revenues and costs	
	Receivables	Liabilities	Revenues	Costs
Stalprodukt-MB sp. z o.o.	31	1 433	100	1 017
Stalprodukt-Wamech sp. z o.o.	141	2 556	342	2 629
Stalprodukt-Centrostal sp. z o.o.	54	1 378	121	1 219
Stalprodukt-Serwis sp. z o.o.	77	1 246	177	1 470
Stalprodukt-Zamość sp. z o.o.	1 529	85	2 374	91
Stalprodukt-Ochrona sp. z o.o.	23	740	55	705
STP Elbud sp. z o.o.	291	4 055	864	7 036
Anew Institute sp. z o.o.		384		111
ZGH "Bolesław" S.A.		20		33
Cynk-Mal S.A.	5 390		8 806	866
GO STEEL Frydek Mistek a.s.	45 193	7 162	77 557	10 971

Moreover, in the 4th quarter of 2018 transactions were concluded with the companies in which the Company holds shares: Stalnet Sp. z o.o. - revenue PLN 11 thousand, costs PLN 81 thousand; receivables PLN 5 thousand, liabilities PLN 33 thousand; Stalprodukt-Profil S.A. revenue PLN 3 thousand, costs PLN 0 thousand, receivables PLN 0 thousand, liabilities: PLN 0 thousand. Under the contract to perform a specific task, the balance towards F&R Finanse Sp. z o.o. amounts PLN 12 804 thousand. These were market-type transactions.

Items the 4th quarter of 2017	PLN thousand			
	Mutual settlements		Mutual revenues and costs	
	Receivables	Liabilities	Revenues	Costs
Stalprodukt-MB sp. z o.o.	27	1 789	123	1 147
Stalprodukt-Wamech sp. z o.o.	133	2 118	333	3 371
Stalprodukt-Centrostal sp. z o.o.	64 631	178	83 414	234
Stalprodukt-Serwis sp. z o.o.	74	1 249	176	1 578
Stalprodukt-Zamość sp. z o.o.	80	103	191	132
Stalprodukt-Ochrona sp. z o.o.	22	762	55	958
STP Elbud sp. z o.o.	383	4 331	715	7 075
Anew Institute sp. z o.o.		68		331
ZGH "Bolesław" S.A.		10		30
Cynk-Mal S.A.	7 196		6 909	2 797

9. In the reporting period the Group made investment outlays on the purchase and formation of tangible fixed assets amounting to PLN 64 770 thousand. No significant fixed asset components have been disposed of during the reporting period.
10. Pursuant to the agreement of 06.12.2018, Stalprodukt S.A. granted a cash loan of PLN 0.5 million to Anew Institute Sp. z o. o. The loan is interest-bearing, in addition, the commission for the Lender for the commissioning of the loan was established. According to the agreement, it was granted for the period until 31.12.2019.
11. Neither the Issuer nor its Capital Group's entities issued, redeemed or paid any debt or other capital securities, apart from the ones referred to herein.
12. During the reporting period and within the submission of the present quarterly report, neither the Parent Company, nor its subsidiaries, granted any sureties, loans, credits or guaranties, apart from the ones referred to herein.
13. In the Issuer's assessment, the factors likely to affect the Group's results at least in the perspective of the coming quarter, shall be:
    - fluctuations of charge prices and demand for Stalprodukt's products,
    - fluctuations of the LME zinc and lead prices and LBM silver prices ,
    - fluctuations of currency exchange rates.
14. During the reporting period and following 31.12.2018 until the preparation of the Abridged Consolidated Report for the 4th quarter no other important events took place, apart from the ones mentioned herein, which might significantly affect the Group's standing and its financial results. The Issuer does not possess any other information, which, in his opinion, is essential for the assessment and changes in the Group's staffing level, assets structure and financial standing, or information essential for the assessment of its potential capacity to settle the liabilities incurred.
15. Pursuant to par. 62, subpar. 1 of the Regulation of the Minister of Finance as of 29.03.2018 on current and periodic information to be disclosed by issuers of securities and conditions for recognizing as equivalent of information whose disclosure is required under the laws of a non-member state (Journal of Laws 2018, item 757 with subsequent amendments), the Issuer does not submit its separate quarterly report. This Report constitutes a supplement to the Abridged Consolidated Report rendered as the "Stalprodukt S.A. Mid-Year Abridged Financial Report for the 4th Quarter of 2018".
16. No additional information was appended to the Abridged Consolidated Financial Report for the 4th quarter of 2018 as, during the reporting period, no other events, concerning the separate report, took place, apart from the ones referred to herein.

17. This Abridged Consolidated Financial Report for the 4th quarter of 2018 was approved for publication by parent Company's Management Board on 28.02.2019.

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Łukasz Mentel
Member of the Management Board
– Financial Director

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Józef Ryszka
Member of the Management Board
– Marketing Director

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Piotr Janeczek
President of the Management Board – CEO