

Current Report (CR) No 3 - Assumptions for the directions of strategic activities of the Stalprodukt S.A. Capital Group for the years 2023-2030 (published on February 17, 2023 at 17:19)

In connection with the approval by the Supervisory Board of the Company at today's meeting of the "Assumptions for the directions of strategic activities of the Stalprodukt S.A. Capital Group for the years 2023-2030", the Issuer announces to the public the most important points of this document.

Assumptions for the directions of strategic activities of the Capital Group Stalprodukt S.A. for the years 2023-2030

I. Introduction

"Assumptions for the directions of strategic activities of the Capital Group Stalprodukt S.A. for the years 2023-2030" have been prepared, among others, as a result of the review of strategic options carried out by the Company, the commencement of which was announced by the Company in Current Report No 20 of October 9, 2020. The unstable period related to the pandemic, market turbulence, intensifying the state of general uncertainty was definitely not conducive to such a process, especially in terms of searching for partners for long-term cooperation.

The new directions of development of the Stalprodukt Group are also the result of the assessment of complicated external conditions and the resulting prospects for the future. It was this assessment that had a decisive influence on the shape and assumptions of this document.

The most important factors that determined the presented assumptions include issues such as:

- "European Green Deal", which has the greatest impact on the current situation and prospects of European industry;
- growing expectations from customers and related lenders with the implementation of the climate neutrality policy,
- the need to implement the energy transformation policy, i.e. costly investments aimed at reducing the carbon footprint (including in own energy sources),
- announcing the introduction of a carbon footprint tax (CBAM) while reducing the number of free CO₂ emission allowances, which will be the greatest challenge for maintaining competitiveness, especially in energy-intensive industries, and the Stalprodukt Group (production of zinc and steel products) operates within such a framework,
- expected further increase in cost of CO₂ emission allowances,
- reducing the negative impact of our operations on the natural environment,
- EU product policy and circular economy, which promote the economical management of raw materials and their recycling,

- situation on the raw material markets (significant from the point of view of all operating segments of the Group),
- multiple consequences (economic, commercial, political) of the outbreak of war in Ukraine,
- trade policy issues, including the growing importance of trade protectionism and protective tariffs and sanctions against Russia introduced as a result of the attack on Ukraine,
- situation on the steel market in the EU.

II. Basic risks for the Group's operations:

- possible restrictions in the supply of electricity and raw materials;
- the risk of significant increases in the costs of purchasing electricity and natural gas;
- further tightening of regulations regarding climate policy, especially the introduction of a new greenhouse gas emission reduction target (by 62% for sectors covered by the EU ETS by 2030 is a serious challenge for energy-intensive entities such as ZGH and HCM for the coming years, and meeting its requirements guarantees continued operation of this business segment);
- possible tightening of environmental regulations;
- effects of the introduction of the so-called border carbon tax (CBAM), including withdrawal of free CO₂ emission allowances,
- significant economic downturn or even possible recession in Poland and the EU.

III. Main goals to be achieved by the Group:

- **improvement of energy efficiency through:**
 - ✓ development of cogeneration sources with a total capacity of approx. 22 MW,
 - ✓ reconstruction of technological lines, including:
 - replacement of natural gas burners with hydrogen burners;
 - changing the method of drying electrical steels;
 - expansion of the Waelz process heat recovery installation and the use of waste heat generated in this process;
 - use of post-process gas.
- **decarbonisation of the Group's production as a result of:**
 - ✓ elimination of the use of steam coal,
 - ✓ replacement of "grey" hydrogen, by so-called "green" hydrogen (i.e. using renewable energy for the electrolysis process),
 - ✓ construction of own renewable energy sources (photovoltaic and wind farms) with a total capacity of approx. 110 MW (land for photovoltaic farms is fully secured, while land for wind farms is secured in 50%). Obtained energy from RES will be used only for own needs,
 - ✓ installation of electrolyzers (with a capacity of 20 MW) in order to start the production of "green" hydrogen,
 - ✓ possible use of solutions related to CO₂ capture and storage.

- **Measurable goals:**
 - ✓ reduction of CO₂ emissions (including direct and indirect emissions):
 - in the area of steel processing by 72 thousand tonnes/year, i.e. by 55%;
 - in the area of zinc production:
 - in the process of electrolysis (ZGH) - by 266 thousand. tonnes/year, i.e. by 50%;
 - in the ISP process (HCM) - by 96 thousand tonnes/year, i.e. by 20%;
 - reduction of the demand for electricity by approx. 268 GWh/year, which is approx. 40% of the current consumption.

- **Other goals of the Group include:**
 - ✓ significant increase in the share of high-grade sheets (so-called HiB) in the plant in Bochnia – at least up to 50 thousand tonnes/year,
 - ✓ further improvement of the magnetic parameters of sheets (thanks to the introduction of induction heating to the process),
 - ✓ potential introduction to the production of high-grade non-grain oriented electrical intended for the production of electric cars (so-called "NGO" sheets),
 - ✓ minimizing the negative impact of zinc activity on the natural environment and improving the quality of discharged wastewater by limiting the discharge of chlorine and sulphates (a project to build a wastewater treatment plant).

The total expenditure on the above projects will amount up to PLN 1 billion in the period until 2030, with the participation of the steel processing and zinc production areas in each of approx. 50% of these expenditures.

The total effects in the form of reduced demand, mainly for the purchase of electricity and gas, will amount to approx. PLN 290 million per year after the full program is completed.

Planned activities	Estimated annual savings in the Group (PLN million)
Reduction of electricity consumption	150
Reduction of natural gas consumption	93
Reducing CO ₂ emissions	43
SUM	286

The above effects have been estimated on the basis of the following assumptions:

- energy and gas prices at the end of Q4 2022,
- EUA = EUR 75/t,
- EURPLN = 4.75.

IV. A new area of the Group's activity: commercial building construction project, i.e. an office building and premises for rent in the PRS formula at ul. Wadowicka/Tischner in Krakow - "Tischnera Green Town".

Guided by the need to reduce the risk associated with operating in energy-intensive industries, exposed to high regulatory risk (broadly understood EU climate policy) and looking for alternative investment areas, the Management Board decided to diversify its activities and implement the commercial building construction project.

In making this decision, the Management Board of the Company took into account, among others possessed potential in the form of an attractive real estate with an area of approximately 7.5 ha, located in the center of Krakow at the intersection of Tischnera and Wadowicka streets. After an analysis of the commercial and residential real estate market in Kraków and its development prospects, the Company found it reasonable to build commercial buildings, i.e. an office building and premises for rent in the PRS formula at Wadowicka/Tischner in Krakow, entitled "Tischner's Green Town". The estate is intended to be neutral in terms of environmental impact and consist of modern buildings with a high BREEAM rating, powered by cogeneration sources (ultimately based on "green" hydrogen), energy obtained from photovoltaic panels located on the roofs and facades of buildings and the use of heat pumps and rainwater. The project also includes charging points for electric cars.

It is assumed that the investment will be implemented in 2 stages:

- **1st stage:** construction of approx. 38 thousand sq.m. of office space and approx. 90 thousand sq. m. of premises for rent in the PRS (Private Rented Sector) formula,
- **2nd stage:** additionally approx. 45 thousand sq.m. of office or residential space (depending on market conditions).

Prerequisites for the project:

- a noticeable trend of a gradual increase in the share of people renting an apartment (still below the EU average),
- restrictions - due to high interest rates and a decrease in creditworthiness - in access to mortgage loans, which significantly limits many people's ability to buy apartments,
- additional advantages of residential investments mitigating the investment risk and increasing the profitability of projects in Poland is the shortage of flats and overpopulation of Polish cities and the influx of foreigners in connection with the war in Ukraine and for reasons of improving economic conditions (this situation is particularly visible in the case of the city of Krakow, which due to its size and location in southern Poland is characterized by a relatively large migration to the city),
- development of office infrastructure in Krakow in recent years, especially in the shared services sector (SSC), which is an additional incentive to invest in an office and residential estate with a high standard of finish.

The attractiveness of the office and service development in the vicinity of Wadowicka and Tischnera streets is confirmed by the nearby investments in office buildings, such as: Kreo Office Building (Wadowicka 12), Wadowicka 3 Office Buildings, Imperial Business Center and Tischnera Office. The density of commercial development in this area is due to a number of conveniences that improve the standard of living and work, such as:

- easy access to the transport hub - the A4 ring road and the Bonarka railway station and the Łagiewniki tram terminal;
- direct access to the Bonarka City Center shopping mall;
- quick access to the center of Krakow via Rondo Mateczny with no heavy traffic typical of the Old Town of Krakow,
- convenient access to various attractions of Krakow (Sanctuary of Divine Mercy in Łagiewniki, Krakus Mound, Łagiewnicka Route providing easy access to the Jagiellonian University Campus and the Zakrzówek bathing area).

Basic parameters of the complex:

- Area of premises for rent: over 90 thousand sq.m., with an estimated number of approx. 2 thousand,
- Office and service space: approx. 38 thousand sq. m.

Other parameters regarding the height of buildings, building area index, etc. - in accordance with the Local Spatial Development Plan for the Wadowicka/Tischnera area.

Total construction cost of stage 1: **up to PLN 1 billion.**

Total annual revenue of stage 1: **min. PLN 125 million.**

V. Dividend Policy

Despite the planned ambitious investment projects, the Management Board of Stalprodukt intends to continue the adopted policy of regular dividend payment, which assumes allocating 15 to 25 percent of standalone net profit.

Legal basis: Art. 17 par. 1 of the Market Abuse Regulation of the European Parliament and the (EU) Council No 596/2014 as of 16 April 2014 r. (Market Abuse Regulation MAR) repealing the Directive 2003/6/EC of the European Parliament and the Council as well as Directives of the EU Commission 2003/124/EC, 2003/125/EC and 2004/72/EC.