

**Independent Certified Auditor's Report  
on the audit of the Annual Consolidated Financial Report  
of Stalprodukt Spółka Akcyjna Capital Group  
based in Bochnia  
for the reporting year from 1 January 2017 to 31 December 2017**

Wrocław, April 2018

**Independent Certified Auditor's Report for the General Meeting of Shareholders, Supervisory Board and Management Board on the audit of the Annual Consolidated Financial Report for the reporting year from 1 January 2017 to 31 December 2017 of Stalprodukt Spółka Akcyjna Capital Group based in Bochnia**

**Report on the Audit of the Annual Consolidated Financial Report**

We have carried out the audit of the enclosed Annual Consolidated Financial Report of the Capital Group, whose Parent Company is Stalprodukt S.A. based in Bochnia, ul. Wygoda 69 (hereinafter referred to as: "Parent Company"), consisting of:

- 1) introduction to the Financial Report,
- 2) consolidated balance sheet drawn up as of 31 December 2017 with assets and liabilities totalling **PLN 3 937 757 thousand**,
- 3) consolidated profit and loss account for the period from 1 January 2017 to 31 December 2017, showing net profit amounting to **PLN 275 428 thousand**,
- 4) consolidated statement of changes in equity for the period from 1 January 2017 to 31 December 2017, showing an increase of equity amounting to **PLN 298 914 thousand**,
- 5) consolidated cash flow statement for the period from 1 January 2017 to 31 December 2017 showing an increase of cash amounting to **PLN 211 858 thousand**,
- 6) additional information and explanations.

**Opinion**

We have carried out an audit of the Annual Consolidated Financial Report of the Capital Group whose mother company is Stalprodukt S.A. ("Parent Company") („Group”) containing the Consolidated Report on Financial Standing as of 31 December 2017 and Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement for the year concluded as of the day of issue and Additional Information containing the description of the adopted accounting principles and other information explaining the “Consolidated Financial Report”).

In our opinion the enclosed Financial Report:

- Presents accurately and clearly the Capital Group's assets and financial standing as of 31 December 2017 and its consolidated financial result and consolidated cash flow for the reporting year concluded as of the day of issue hereof in accordance with the applicable International Financial Reporting Standards approved by the European Union and the adopted accounting principles (policy),
- stands in accordance as to its form and content with the law provisions applicable to the Group and provisions of the Parent Company's Articles of Association.

This Opinion is coherent with the additional report prepared for the Audit Committee which was issued by us on 26 April 2018.

**Opinion Basis**

We have carried out the audit in accordance with the International Auditing Standards in the version adopted as the National Auditing Standards by the Polish Council of Certified Auditors ("NAS") and pursuant to the Certified Auditors, Auditing Companies and Public Supervision Act as of 11 May 2017 ("Certified Auditors Act" - Journal of Laws 2017, item 1089) and EU Regulation No 537/2014 dated 16 April 2014 on specific requirements regarding statutory audit of public-interest entities ("EU Regulation" - EU Official Journal item L158). In accordance with these standards our responsibility was further described in the section of our Report entitled Certified Auditor's Responsibility for the Audit of the Consolidated Financial Report.

We are independent of the Group's Companies in compliance with the Code of Ethics for Professional Accountants of the International Federation of Accountants ("IFAC Code") adopted by the resolutions of the Polish Council of Certified Auditors and with other ethical requirements which are applicable for financial report audits in Poland. We have fulfilled the other ethical requirements in compliance with these requirements and the IFAC Code. During the audit the Key Certified Auditor and the auditing company remained independent of the Company in accordance with the independence requirements provided for in the Certified Auditors Act and in the EU Regulation.

We believe that the audit evidence obtained by us is sufficient and appropriate for us to issue our opinion based thereon.

### Audit Key Issues

The audit key issues are the ones, which in our professional judgement, proved to be most significant during the audit of the Consolidated Financial Report for the present reporting period. They embrace the most significant assessed kinds of risk leading to a material misstatement caused by a deception. We addressed these issues, in the context of our audit of the Consolidated Financial Report, in their entirety and while formulating our opinion as well as while conclusively responding to these kinds of risks, and in the cases where we found this appropriate, we presented our observations related to these kinds of risk. We do not express a separate opinion on these issues.

Description of the kind of risk leading to a material misstatement	Certified Auditor's procedures used in response to the identified risk
<p><b>Loss of value of tangible assets</b></p> <p>The long-term financial assets account for 44.92 percent of the Company's total assets. In accordance with the accounting policy, the Company makes write-offs of the financial assets if the same have happened to lose their value. The accounting principles referring to the asset adjusting write-offs and additional information on the given balance sheet item have been presented in the Note No 2 and in the notes referring to the particular types of assets. The issue has been recognized as a risk leading to a material misstatement due to the importance of the financial assets in the Company's total assets.</p>	<p>Our procedures embraced:</p> <ul style="list-style-type: none"> <li>- the assessment of the consistence of the applied accounting policy, referring to the recognition of the write-offs adjusting the value of the assets which lost their value, with the appropriate standards,</li> <li>- understanding and assessment of the environment of the internal audit concerning the stock taking process, identification of the preconditions underlying the loss of value of the assets, analytical tests and detailed reliability tests in connection with the source documentation and explanations,</li> </ul> <p>As a result of the conducted audit procedures we have not identified any significant issues that would require any adjustments.</p>
<p><b>Zinc Sales</b></p> <p>The sales proceeds obtained by the Group are substantially dependent on the fluctuation of prices in the main segment of sales, i.e. sales of zinc. The Zinc Segment accounts for 57.3 percent of the sales and 83.0 of the consolidated results of the Segments.</p> <p>In connection with the above, we recognized the above area as significant for the Group's economic standing.</p>	<p>Our procedures embraced:</p> <ul style="list-style-type: none"> <li>- understanding and assessment of the environment of the internal audit concerning the stock taking process, identification of risk referring to the fluctuation of zinc prices,</li> <li>- analysis of the hedging policy applied by the Company, securing it against the sudden changes of zinc prices,</li> <li>- analysis of disclosures' completeness in reference to the risk from exposure to the changing zinc prices.</li> </ul> <p>As a result of the conducted audit procedures, we have not identified any significant issues that would require any adjustments.</p>

## **Responsibility of the Mother Company's Management Board and Supervisory Board for the Consolidated Financial Report**

The Parent Company's Management Board is responsible for the preparation of the Consolidated Financial Report, which presents accurately and clearly the Group's assets and financial standing as well as its financial result in accordance with the International Financial Reporting Standards approved by the European Union, adopted accounting principles (policy) as well as the law provisions and Articles of Association applicable to the Group, and also for the internal audit, which is recognized by the Company's Board as indispensable for the preparation of the Financial Report free from a material misstatement caused by a deception or error.

Preparing the Consolidated Financial Report, the Parent Company's Management Board is responsible for the assessment of the Group's capacity to continue its activities, for the disclosure, if applicable, of any issues related to the continuation of activities, as well as for making the continuation of activities the underlying accounting principle, except for the situation when the Management Board intends to put the Group into liquidation, or to wind up its activities or when the same has no alternative for the liquidation or winding up its activities.

The Parent Company's Management Board and the Members of the Supervisory Board are obligated to assure that the Consolidated Financial Report shall meet the requirements provided for in the Accountancy Act as of 29 September 1994 ("Accountancy Act" – Journal of Laws 2017, item 2342). The Members of the Parent Company's Supervisory Board are responsible for supervising the financial reporting process.

## **Certified Auditor's Responsibility for the Audit of the Consolidated Financial Report**

Our goals are the acquisition of rational certainty on whether the Consolidated Financial Report in its entirety does not contain a material misstatement caused by a deception or error and issuing the audit report containing our opinion. The sufficient certainty stands for the high level of certainty, but it does not guarantee that the audit carried out in accordance with the NAS will always detect an existing material misstatement. Such misstatements may occur due to a deception or error and are recognized as material ones if it can be rationally expected that individually or jointly they might affect the economic decisions taken on the basis of the present Consolidated Financial Report.

The scope of the audit neither includes any assurance on the future profitability of the audited Group nor the efficiency or effectiveness of the activities pursued by the Mother Company's Management Board managing the Company's affairs at present or in the future.

During the audit, compliant with the NAS we exercise sound judgement and express professional scepticism, as well as:

- we identify and assess the risks leading to a material misstatement caused by a deception or error in the Consolidated Financial Report, we design and conduct the auditing procedures corresponding to these risks and we obtain audit evidence, which is sufficient and appropriate to serve as the basis of our opinion. The risk of the non-detection of a material misstatement, caused by a deception, is higher than the risk of the non-detection of a material misstatement caused by an error because the former may be combined with a collusion, forgery, fraud, intentional omissions, misleadings or evasion of internal inspection,
- we acquire understanding of the internal audit, appropriate for our audit purposes, in order to design the audit procedures, which are appropriate in the circumstances concerned, but not aimed at expressing an opinion on the effectiveness of the Group's internal audit,
- we assess the appropriateness of the applied accounting principles (policy) and legitimacy of the accounting estimates and related disclosures made by the Parent Company's Management Board,
- we draw a conclusion on the appropriateness of the Parent Company's Management Board's making the continuation of activities the underlying accounting principle and, on the basis of the obtained audit evidence we conclude whether there exists any essential uncertainty related to the events or conditions which may substantially discredit the Group's capacity to

continue its activities. If we come to the conclusion that there exists some essential uncertainty, we are required to draw attention in our Certified Auditor's Report to the related disclosures contained in the Consolidated Financial Report or, if such disclosures are inadequate, we modify our opinion. Our conclusions are based on the audit evidence obtained by the day of issue of our Certified Auditor's Report, however, some future events or conditions may cause the Group to cease pursuing its activities,

- we assess the general presentation, structure and content of the Consolidated Financial Report, including the disclosures, and whether the Consolidated Financial Report features the underlying transactions and events in a way enabling an accurate presentation,
- we obtain sufficient appropriate audit evidence in respect of the financial information pertaining to the companies or economic activities within the Group in order to express our opinion on the Consolidated Financial Report. We are responsible for managing, supervising and conducting the Group's audit and we remain exclusively responsible for our opinion on the audit.

We provide the Parent Company's Supervisory Board with the information, among others, about the planned scope and time of the audit and significant audit determinations, including all the significant weaknesses of the internal audit, which are identified during the audit.

We make a statement to the Parent Company's Supervisory Board that we have met all the applicable ethical requirements related to independence and that we will inform them about all the interrelations and other matters which might rationally be recognized as threatening our independence, and where applicable, we inform about the applied security measures.

Among the issues passed on to the Parent Company's Supervisory Board, we determined the ones which were recognized as most significant during the audit of the Consolidated Financial Report for the present reporting period, and therefore we recognized them as the audit key issues. We describe these issues in our Certified Auditor's Report unless law provisions or regulations prohibit the public disclosure thereof or, when we determine, in exceptional circumstances, that the given issue should not be presented in our report because it might be rationally expected that the negative consequences would outweigh the advantages of such information for the public interest.

#### **Other Information Including the Report on Activities**

Other information contains the Report on the Group's Activities for the reporting year concluded as of 31 December 2017 ("Report on Activities") along with the Declaration on Corporate Governance, referred to in art. 49b par. 1 of the Accountancy Act, which is a separate part of the Report and the Financial Report for the reporting year concluded as of 31 December 2017 ("Financial Report") (jointly "Other Information").

#### **Responsibility of the Parent Company's Management Board and Supervisory Board**

The Parent Company's Management Board is responsible for the preparation of the Report on the Group's Activities in accordance with the law provisions.

The Parent Company's Management Board and Members of the Supervisory Board are obligated to assure that the Report on the Group's Activities shall meet the requirements provided for in the Accountancy Act.

#### **Certified Auditor's Responsibility**

Our Opinion on the Consolidated Financial Report does not embrace Other Information. In connection with the audit of the Consolidated Financial Report our obligation is to get familiar with Other Information and, while doing so, determine whether Other Information is not essentially incoherent with the Consolidated Financial Report or with our knowledge acquired during the audit, or whether it seems materially misstated in any other way. If, on the basis of the work performed, we shall detect any material misstatements in Other Information, we are obligated to inform about this fact in our Audit Report. In accordance with the requirements of the Certified Auditors Act we are also obligated to express our opinion on whether the Report on the Group's Activities was

prepared in line with the provisions and whether it stands in accordance with the information contained in the Consolidated Financial Report. Moreover, we are obligated to express our opinion on whether the Group contained the required information in its Declaration on Corporate Governance.

We received the Report on the Group's Activities before the date of issue of the present Audit Report and the Annual Report will be available following this date. In the case we detect any material misstatements in the Annual Report, we are obligated to inform the Mother Company's Supervisory Board about the fact.

### **Opinion on the Report on Activities**

In our opinion based on the work performed, the Report of the Group's Activities:

- was prepared in accordance with art. 49 of the Accountancy Act and par. 92 Regulation of the Minister of Finance as of 19 February 2009 on current and periodic information disclosed by issuers of securities and conditions governing recognition of equivalent information required by non-member states (Journal of Laws 2014, item 133 with subsequent amendments) ("Regulation")
- and stands in accordance with the information contained in the Consolidated Financial Report.

Moreover, in the light of knowledge about the Group and its environment, acquired during our audit, we declare that we have not detected any material misstatements in the Report on the Group's Activities.

### **Opinion on the Declaration on Corporate Governance**

In our opinion the Group contained required information in its Declaration of Corporate Governance as provided for in par. 91 subpar. 5 point 4 letter items a, b, g, j, k and l of the Regulation on Current Information. Moreover, in our opinion, the information indicated in par. 91 subpar. 5 point 4, letter items c-f, h and of the Regulation contained in the Declaration on Corporate Governance stands in accordance with the applicable provisions and with the information contained in the Consolidated Financial Report.

### **Selection of the Auditing Company**

We were selected to carry out the audit of the Stalprodukt S.A. Financial Report by the Resolution No 34/X/2017 adopted by the Stalprodukt S.A. Supervisory Board as of 19 May 2017. We have continued to audit the Company's financial reports since the reporting year concluded on 31 December 2014; i.e. for 4 (four) consecutive years.

### **Independence**

While carrying out the audit, the key Certified Auditor and the auditing company remained independent of the Company in accordance with the Certified Auditors Act Regulation No 537/2017 and rules of professional ethics approved in the resolutions of the Polish Chamber of Statutory Auditors.

In accordance with our best knowledge and belief, we declare that we have not rendered and non-audit services, which are forbidden by the provisions of art. 136 of the Certified Auditors Act and art. 5 par. 1 of the Regulation 537/2017.

Andrzej Waśków, Certified Auditor No 13332

Key Certified Auditor carrying out the audit in the name of the auditing company:

Accord'ab Biegli Rewidenci Spółka z o. o.

ul. Grabiszyńska 241, 53-234 Wrocław

The auditing company authorized to carry out audits of financial reports No 262  
Wrocław, this day 26 April 2018