

REPORT ON AUDIT PREPARED BY AN INDEPENDENT STATUTORY AUDITOR

for the General Meeting of Shareholders and the Supervisory Board of the company Stalprodukt S.A.

Report on the audit as regards the consolidated annual financial statements

Opinion

Our company audited the annual consolidated financial statements of the capital group ("Group"), with Stalprodukt S.A. as the dominant entity ("Parent Company"). The aforementioned audit covered consolidated statement concerning the financial position as at 31 December 2018 and the consolidated statement concerning total income, consolidated statement regarding changes concerning the equity, consolidated cash-flow statement for the year which ended on that day and additional information including a description of the accounting principles adopted by the entity as well as other explanatory information concerning "consolidated financial statements".

According to our opinion the attached consolidated financial statements:

- presents a reliable and explicit representation of the consolidated property related and financial situation of the Group as at 31 December 2018 and its consolidated financial result as well as consolidated cash flows as regards the financial year which ended on that day following the applicable International Financial Reporting Standards approved by the European Union together with adopted accounting principles (policy);
- is consistent as regards the form and content of the legal provisions applicable in reference to the Group and the statute of the Parent Company.

This opinion is in accordance with the additional report prepared for the Audit Committee issued by our company on the day of issuing this report.

Grounds for the opinion

Our company conducted the audit following the National Standards of Audit in accordance with the International Standards of Audit adopted based on the resolution of the National Council of Statutory Auditors no. 2041/37a/2018 on 5 March 2018 as regards national professional standards and § 1 sec. 1 item 7, 24, 29 to 32 and 34 of Resolution no. 3430/52a/2019 issued by the National Council of Statutory Auditors on 21 March 2019 as regards national audit standards and other documents ("NAS") as well as pursuant to the Act issued on 11 May 2017 on statutory auditors, audit companies and public supervision (hereinafter referred to as the "Act on Statutory Auditors" – the Polish Journal of Laws item 1089, as amended). According to these standards our company bears liability for the audit. The aforementioned liability is described in more detail in the section of our report titled "The liability of the Statutory Auditor for auditing the financial statements".

Our company is independent in reference to companies within the Group following the Code of Professional Ethics of the International Federation of Accountants (hereinafter referred to as “IFAC Code”). The aforementioned code was adopted based on the resolution of the National Council of Statutory Auditors no. 2042/38/2018 on 13 March 2018 as regards the professional ethics of statutory auditors and other requirements. Our company fulfilled our ethical obligations following the aforementioned requirements as well as IFAC Code. The key statutory auditor and the audit company remained independent in reference to the Company in the course of conducting the audit in accordance with the independence requirements determined in the Act on Statutory Auditors.

In our opinion our company obtained adequate and appropriate audit evidence allowing us to provide the grounds for issuing a opinion

Explanation with comments

Our company would like to inform that until the date of issuing this opinion, the statutory auditor of the controlled company Gradir Montenegro D.o.o. provided an opinion containing reservations as regards comparative information and did not provide the consolidated financial statements necessary for the audit procedures. Total balance sheet disclosed in the financial statements of this company amounts to PLN 128.7 million and constitutes 2.6% of the consolidated balance sheet total before applying the exclusions. Our opinion does not contain reservations as regards this issue.

What is more, we would like to inform that Subsidiary unit Go Steel Frydek Mistek A.S. received an opinion with reservations concerning the inability to confirm the opening balance. The statutory auditor of the subsidiary does not raise any reservations as regards balances at the end of the financial year. The total of this subsidiary company balance sheet according to the consolidation package amounts to PLN 305.4 million and accounts for 6.2% of the consolidated balance sheet total before the exclusions. Our opinion does not contain reservations as regards this issue.

Other issues

The consolidated financial statements of the Group covering the year which ended on 31 December 2017 were audited by a statutory auditor acting on behalf of another auditor who prepared an opinion on this report on 26 April 2018.

Key issues covered by the audit

The key issues cover by the audit include issues which proved to be the most significant during the audit of the consolidated financial statements covering the current reporting period based on our professional experience. They include the most significant risks concerning material misstatement, such as the assessed risks concerning material misstatement due to fraud. Our company referred to the aforementioned issues in the context of our financial statements audit as a whole and during the formulation of our opinion. What is more, we summarized our reaction concerning the discussed risks and in cases where it deemed necessary one presented the most significant observations concerning the discussed risks. We shall not prepare a separate opinion devoted to these issues.

Key issues covered by the audit	How did our audit refer to the discussed issue
<p>Risks connected to sales revenues</p> <p>The Group generated sales revenues amounting to PLN 3 956.7 million in the audited period.</p> <p>Due to the significant value of the discussed position in the Consolidated statement of total income and in connection with the application of IFRS no. 15 “Revenues resulting from contracts with customers” the aforementioned issue was subject to our analyses in the first year of application.</p>	<p>Our procedures included, among others:</p> <ul style="list-style-type: none"> • Analysis and understanding of the principles concerning revenue apprehension, including the analysis of the assessment of the impact of new IFRS standard no. 15 on the consolidated financial statements prepared by the Management Board in the Parent Company. • Understanding and assessing the internal control conditions as regards the apprehension of revenues in case of individual operating segments. • Verification based on a selected sample and analytical procedures concerning the correctness of the apprehension of sales revenues in reference to individual entities, including verification of the moment when revenue was generated and its compliance with IFRS no. 15. • Verification of correctness as regards consolidation exclusions concerning the transactions realized between related entities. • Assessment of the correctness and completeness as regards the disclosures following the applicable International Accounting Standards and International Financial Reporting Standards. <p>The aforementioned procedures provided our company with sufficient and appropriate audit evidence necessary to describe the risk concerning sales revenues.</p>
<p>Risk concerning long-term investments in controlled companies and related entities</p> <p>The Parent Company conducted significant investments during the audited period as regards the purchase of the controlled company GO Steel Frydek Mistek A.S. The purchase price was PLN 170.6 million but the entity generated a profit due to a bargain purchase amounting to PLN 19.7 million. The key audit risk as regards this area of the consolidated financial statements was pointed out due to significant investments realized during that year and the significant value of the aforementioned item in the</p>	<p>Our procedures included, among others:</p> <ul style="list-style-type: none"> • Analysis and understanding of the principles as regards the apprehension and evaluation of investments in controlled companies, including the method of determining the profit in reference to a bargain purchase. • Verification of significant investment increases during the analyzed period, including the reference to source documents and assessment of the correctness as regards settling the transactions. • Assessment of the correctness as regards the settlement and valuation of investments

<p>Consolidated Financial Statements of the Group.</p>	<p>in associated entities, this includes the verification of the correctness regarding the calculation of profits resulting from acquiring a significant package of shares in an associated entity.</p> <ul style="list-style-type: none"> • Assessment and verification of the correctness of the determination of the value of the company presented in the consolidated financial statements. This includes, in particular, the analysis of the assessment of conditions referring to the impairment of the Company's goodwill. • Verification of the correctness of determining non-controlling interest and minority share in profit. • Assessment of the correctness and completeness referring to disclosures following the applicable International Accounting Standards as well as the International Financial Reporting Standards. <p>The aforementioned procedures provided our company with sufficient and appropriate audit evidence necessary to analyze the described risk connected with investments in controlled companies and related entities.</p>
<p>Risk concerning tangible fixed assets and intangible assets</p> <p>The Group owned intangible assets and legal assets as well as tangible assets valued as in total amounting to PLN 2,139.8 million at the balance sheet date and this amount accounted for 49.1% of the balance sheet total as at the balance sheet date.</p> <p>Due to the specific character of the industry and the number of the items in fixed assets category, our company identified risk concerning accounting principles applied by the entity, in particular the ones relating to the valuation of fixed assets and intangible assets.</p> <p>In this context, our company indicated the procedure for verification of the economic usefulness of fixed assets as well as the qualification of audit and development following the IFRS and other valuations as</p>	<p>Our procedures included, among others:</p> <ul style="list-style-type: none"> • Analysis and understanding of the principles as regards the apprehension and measurement of intangible assets and legal assets as well as tangible assets. • Verification based on a selected sample as regards increases and decreases in tangible fixed assets and intangible assets at the level of individual significant elements within the group. • Understanding and assessing the internal control conditions regarding the discussed investments. • Using the method of observing the existence of fixed assets – confirmation based on the selected target sample. • Confirmation of the correctness as regards the presentation of uncompleted investments. • Verification of the conditions as regards activating development works indicated by the Management Board of the Parent Company in reference to developing an

<p>constituting a significant issue.</p>	<p>innovative wind turbine.</p> <ul style="list-style-type: none"> • Assessment of the correctness and completeness as regards the disclosures following the applicable International Accounting Standards and the International Financial Reporting Standards. <p>The aforementioned procedures resulted in presentation of changes regarding the scope of presenting the development works and the costs of planned major overhaul to be realized in the Parent Company.</p>
<p>Currency related risks and the risk resulting from changes as regards raw material prices</p> <p>The controlled companies, namely ZGH “Bolesław” S.A. and Huta Cynku Miasteczko Śląskie S.A. conduct an active policy aimed at securing the risks by entering into derivative contracts which results from the exposure to risk connected changes in raw material prices and currency related risk.</p> <p>The aforementioned controlled companies make use of hedge accounting applying the option of continuing this method following IFRS 39.</p> <p>The aforementioned area was the subject of our analyzes due to the existence of significant risk resulting from changes as regards raw material prices and currency related risk.</p>	<p>Our procedures included, among others:</p> <ul style="list-style-type: none"> • Analysis and understanding of the apprehension principles as regards derivative instruments, in particular referring to hedge accounting. • Understanding and assessing the internal control conditions as regards the apprehension of derivative instruments. • Verification of the correctness of apprehending derivative transactions, this includes the verification of compliance with IFRS no. 9 and transitional provisions. • Verification of the correctness as regards the valuation as well as the completeness and presentation of assets and liabilities in reference to derivative instruments as at the balance sheet date. • Assessment of the correctness and completeness as regards the disclosures following the applicable International Accounting Standards and International Financial Reporting Standards. <p>The aforementioned procedures provided our company with sufficient and appropriate audit evidence necessary to describe the risk management as regards changes concerning raw materials and currency related risk.</p>
<p>The risk as regards changing the method of spending and inventory valuation</p> <p>The Parent Company changed its accounting policy related to the valuation and the method of determining inventory costs in the audited period by replacing currently applied FIFO method with the method of weighted</p>	<p>Our procedures included, among others:</p> <ul style="list-style-type: none"> • Analysis and understanding as regards the changed inventory valuation and spending method, this included the analysis of the computer inventory valuation system. • Understanding and evaluation as regards the internal control conditions regarding the

<p>average manufacturing cost.</p> <p>Our company indicated the risk in the aforementioned area resulting from the significant impact of changes concerning valuation of inventories and the cost of manufacturing the products sold by the entity.</p>	<p>inventory.</p> <ul style="list-style-type: none"> • Our company conducted an assessment and verification of the transformed comparative data disclosed by the Parent Company. • Assessment of the correctness and completeness as regards the disclosures following the applicable International Accounting Standards and International Financial Reporting Standards. <p>The aforementioned procedures provided our company with sufficient and appropriate audit evidence necessary for describing the risk in the area of risk management as regards the changes in method of spending and evaluating the inventory.</p>
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Liability of the Management Board and Supervisory Board of the Parent Company for the consolidated financial statements

The Management Board of the Parent Company is liable for preparation of the consolidated financial statements. These statements are to present a reliable and clear representation of the material and financial situation and the financial result obtained by the Group following the International Financial Reporting Standards approved by the European Union, adopted accounting principles (policy) and the applicable laws and statute. Additionally, it refers to internal control considered by the Management Board of the Parent Company as necessary to enable the preparation of consolidated financial statements without significant distortion resulting from fraud or error.

The Management Board of the Parent Company is liable for assessing the Group's ability to continue business activity during the preparation of the consolidated financial statements. It discloses, if applicable, issues connected to continuing business activity and adopting the principle of continuing business activity as accounting grounds. This does not apply if the Management Board of the Parent Company intends to liquidate the Group, either by discontinuing running a business or when it has no realistic alternative to liquidating or discontinuing its activity.

The Management Board of the Parent Company and members of the Supervisory Board of the Parent Company have the obligation of ensuring that the consolidated financial statements fulfil the requirements provided for in the Act on Accounting. Members of the Supervisory Board of the Parent Company are liable for supervision of the financial reporting process.

The liability of the statutory auditor for auditing the consolidated financial statements

Our objectives included obtaining reasonable assurance that the consolidated financial statements do not contain any material misstatement due to fraud or error within its full scope as well as the issuance of a report expressing our opinion. Reasonable assurance involves a high level of certainty. Nevertheless, it does not guarantee that an audit following NAS

detects the existing significant distortion in each case. Distortions can result from fraud or error and are considered significant if in case of such a discrepancy one can reasonably expect that, individually or together, these distortions can influence users' business decisions undertaken based on these consolidated financial statements.

The concept of materiality is applied by the statutory auditor both in case of planning and conducting the audit as well as while assessing the impact of the discrepancies indicated during the audit and not corrected distortions, if any, as regards the financial statements. Moreover, this applies while formulating the auditor's opinion. Consequently, all opinions and statements included in the audit report refer to the qualitative and value-oriented level of significance determined following the statutory auditor's standards and professional judgement.

The audit does not cover assurance as regards the future profitability of the Group or the efficiency or effectiveness of the Management Board of the Parent Company exercising its obligations currently or in the future.

Our company applies professional judgment and maintain professional scepticism in the course of the audit following the NAS as well as:

- our company identifies and assesses risks as regards material misstatement of the consolidated financial statements resulting from fraud or error, plans and conducts audit procedures related to these risks and collects audit evidence adequate and sufficient for providing grounds our opinion. The risk of not indicating a significant misstatement resulting from fraud is greater than that the one resulting from the error – the fraud can involve conspiracy, falsification, omissions on purpose, misrepresentation or avoiding internal control;
- our company understands the internal control which is appropriate as regards the audit to plan audit procedures suitable under particular circumstances does not express an opinion on the effectiveness of the internal control within the Group;
- our company assesses the suitability of the applied accounting principles (policy) and the reasonableness of accounting estimates as well as disclosures conducted by the Management Board of the Parent company;
- our company draws conclusions as regards the suitable manner in which the Parent Company's Management Board comply with the principle of continuing the business activity as an accounting grounds. It evaluates, based on the audit evidence, whether there is material uncertainty as regards the events or conditions which could undermine the ability of the Group to continue business activity. If one concludes that there is significant uncertainty, it is required to indicate that in our auditor's report in reference to disclosures in the consolidated financial statements. If such disclosures are inadequate, the company modifies our opinion. Our conclusions result from audit evidence collected prior to the date of our audit report. Nevertheless, events or conditions in the future can result in the Group terminating its business activity;
- the company assesses the overall presentation, structure and content of the consolidated financial statements. This includes disclosure and whether the consolidated financial

statements represent corresponding transactions and events in a manner providing a reliable presentation

- our company collects sufficient relevant audit evidence as regards the financial information of entities or businesses activities realized within the Group with the purpose of issuing an opinion concerning the consolidated financial statements. Our obligations include managing, supervising and conducting the analysis of the Group. Our company is solemnly liable for our audit opinion.

Our company provides the Audit Committee operating within the Parent Company with information on, inter alia, planned scope and time of the audit as well as significant findings resulting from the audit. This covers all significant weaknesses concerning internal control identified during the audit.

Our company ensures the Audit Committee operating within the Parent Company that our auditors complied with the applicable ethical requirements as regards independence. We are to inform the Committee about all relationships and which one could reasonably expect to pose a threat to our independence. Where it is applicable, we report security measures we applied.

As regards the issues forwarded to the Audit Committee operating within the Parent Company, we identified the issues which proved the most significant during the audit of the consolidated financial statements covering current reporting period. Consequently, we considered these issues to be key audit issues. Our company describes the aforementioned issues in our statutory auditor's report, unless legal provisions or regulations prohibit public disclosure. In exceptional circumstances our company can conclude that a particular issue should not be disclosed in our report as one could reasonably expect that the negative consequences would outweigh the benefits of such information from the perspective of the public interest.

Other information, including a report on business activity

Other information includes a report on the business activity of the Group covering the financial year which ended on 31 December 2018 ("Report on business activity") together with a statement on corporate order and a statement on non-financial information referred to in the Art. 49b sec. 1 of the Act on Accounting which constitute separate parts of this Report as well as the Annual Report covering the financial year which ended on 31 December 2018 ("Annual Report") (together referred to as "Other information").

Liability of the Management Board and Supervisory Board of the Parent Company

The Management Board of the Parent Company is liable for preparation of the Report on the activities of the Group in accordance with legal provisions.

The Management Board of the Parent Company as well as the members of the Supervisory Board of the Parent Company have to ensure that the Report on the activities of the Group fulfils the requirements provided for in the Act on Accounting.

Liability of the statutory auditor

Our opinion concerning the audit as regards the consolidated financial statements does not include the Report on activities. As regards the audit covering the consolidated financial statements our obligations include a review of the Report on activities. Moreover, our company has to consider whether this report is not significantly inconsistent with the consolidated financial statements or our knowledge obtained during the audit or if it seems significantly distorted in another manner. If one discovers significant distortions based on the work performed as regards the Report on activities, our company is required to include such information in the report on audit. Moreover, issuing an opinion on whether the report on activities was prepared in accordance with the regulations and whether it is consistent with the information contained in the consolidated financial statements constitutes our obligation following the requirements of the Act on statutory auditors.

What is more, our company is required to provide an opinion on whether the Group covered required information in its statement on corporate order. Additionally, it has to provide information whether the Group prepared statements concerning non-financial information.

Our company obtained the report on the activities performed by the Group prior to the date of this audit report. The Annual Report is to be available after this date. If our company discovers a significant distortion concerning the Annual Report, it shall be obliged to inform the Supervisory Board of the Parent Company.

Opinion on the Report on activities

In our opinion based on the activities performed during the audit, the Report on the activities of the Group:

- was realized observing the Art. 49 of the Act on Accounting and paragraph 70 of the Regulation of the Minister of Finance issued on 29 March 2018 as regards current and periodic information published by issuers of securities and on conditions for considering the information as equivalent if required by legal provisions of non-member state ("Current Regulation concerning Current Information" – Journal of Laws published in 2018, item 757, as amended);

- is consistent with the information covered by the consolidated financial statements.

What is more, based on our the knowledge concerning the Group and the environment it operates in which our company obtained during our audit, one declares that no significant distortions were identified as regards the Report on the activities of the Group.

Opinion on the statement concerning the application of corporate order

In our opinion the Group included all pieces of information indicated in paragraph 70 sec. 6 item 5 of the Regulation concerning Current Information in the statement as regards the application of corporate order. What is more, our company believes that the information indicated in paragraph 70 sec. 6 item 5 lit. c-f, h and i of the Regulation covered by the

statement as regards the application of corporate order complies with the applicable regulations and information covered by the consolidated financial statements.

Information concerning non-financial information

Our company confirms that the Group prepared a statement on non-financial information referred to in art. 49b sec. 1 of the Act on Accounting as a separate part of the Report on activities of the Group. Our company performed this obligation observing the requirements of the Act on Certified Auditors.

Our company did not conduct any assurance work as regards the statement concerning non-financial information. Consequently, our company cannot provide any attestation in this regards.

Report concerning other legal and regulatory requirements

Declaration concerning provision of services not covered by the audit of financial statements

Based on our best of our knowledge and belief the services not covered by audit concerning the financial statements presented to the Group and controlled companies comply with legal provisions and regulations effective in Poland. Our company did not provide non-audit services prohibited based on the Art. 5 section 1 of the EU Regulation and the Art.136 of the Act on statutory auditors.

Selection an auditing company

Our company was appointed to audit the financial statements of the Group based on a resolution issued by the Supervisory Board of the Parent Company on 25 May 2018. Our company audits the financial statements of the Group for the first time.

Katarzyna Kiec-Domańska is the key statutory auditor responsible for the audit. This audit resulted in this independent statutory auditor's report.

Acting for Polscy Biegli Sp. z o.o. with its register office in Warsaw located at ul. Józefa Bema 87 lok. 3 entered into the register auditing companies under number 4159 with key statutory auditor auditing the consolidated financial statements on behalf of the aforementioned entity

Document signed by

Katarzyna Kiec-Domańska
Key Statutory Auditor reg. no. 13309

Date: 2019.04.30