

## **Current Report CR No 33 – Confidential information concerning the implementation of the Zinc Segment’s development policy (27.10.2016)**

The Management Board of Stalprodukt S.A. (the “Company”, “Issuer”), herewith, informs that as of today confidential information (within the meaning of art. 17 par.1 of the MAR Regulation) was received from the Management Board of the subsidiary company, i.e. ZGH “Bolesław” S.A that a new mining concession has been obtained for the “Klucze I” deposit and further implementation of the Zinc Segment development policy.

Legal basis: Art. 17 par. 1 of the Regulation of the European Parliament and of the Council (EU) No 596/2014 dated 16 April 2014 on market abuse (market abuse regulation) and repealing the Directive 2003/6/EC of the European Parliament and the Council and Directive of the Commission 2003/124/EC, 2003/125/EC and 2004/72/EC.

### **Implementation of the Zinc Segment’s Policy**

#### **1. Indications for new guidelines of the ZGH ”Bolesław” S.A. raw material policy**

For a few years now the company ZGH “Bolesław” S.A. has been preparing for the closure of the “Olkusz-Pomorzany” mine and start-up of its liquidation. The winding-up of the ore excavation works was planned for the end of 2017. This was caused by the depletion of the excavated deposit (decreasing deposit growth and ore metal content), and the resulting impossibility to effectively pursue the mining activities. Under such conditions the issue of the ZGH “Bolesław's” raw material policy, i.e. provision of at least 50% of charge material from the company’s own resources to secure the production of zinc for the “Bolesław” Zinc Works, assumes a priority status. It should be underlined that another zinc works operating within the Zinc Segment (Huta Cynku „Miasteczko Śląskie” S.A.), has, for years, been based on concentrate deliveries from external sources thanks to a different zinc production technology (ISP).

It should also be underlined that due to the closure of a few big mines in the recent years or temporary reduction of their capacities, the market experienced a significant deficit of metal concentrates (estimated at approx. 800 thou. tons of zinc concentrate in 2016). This, in turn, contributes to the increase of zinc concentrate and zinc metal prices. The decreasing output from the ”Olkusz-Pomorzany” mine stands for ZGH’s higher costs of raw material purchases from external suppliers.

#### **2. Actions undertaken by the company**

In an attempt to counteract these adverse trends, the Management Board of ZGH „Bolesław” S.A. has undertaken a number of measures in the recent year, including the most important ones :

- Development of concentrate production (recycling) from zinc ferrous waste i.e. steelmaking dusts, sludge and post-flotation tailings,

- Adjusting the zinc electrolysis technology to the use of concentrates recycled from steelmaking dusts through the launching of the dechlorinating and defluorinating installation (from 10% to 30% of the total charge);
- Exploration works conducted in the “Klucze” and ”Laski” deposits, aimed at their future exploitation (in its previous reports the Issuer informed about the plans for the exploitation in these local mining projects). After the completion of the exploration works in the ”Klucze” deposit, the Management Board of ZGH “Bolesław” S.A. applied for a concession to expand the excavation area of the currently exploited “Klucze I” deposit.

### **3. Concession for the exploitation of the ”Klucze I” deposit and extension of the ”Olkusz-Pomorzany” operation period**

As of 27.10.2016 the Minister of Environment’s decision took effect amending the concession No 1/2009 dated 02.02.2009 for excavation of zinc and lead ores from the “Klucze I” deposit (below the level +251m m.a.s.l to the level +200.2m m.a.s.l.), situated within the administrative borders of the Klucze commune, Olkusz county, Małopolska province.

The amendments to the concession concerned regarded the expansion of the ”Klucze I” excavation area and extension of the concession term. The expansion of the ”Klucze I” mining area with the area extending beyond the fault line will allow for the exploitation of about 2 million tons of ore from this part of the deposit. Considering approx. 4 million tons of the ”Olkusz-Pomorzany” mine resources and additional deposit growth, a new schedule for the deposit depletion was approved, which will allow for the extension of the mine’s operation until the year 2020.

The company’s new mining policy provides for the decrease of the ore mining output from the level of 2.45 million tons to average 1.8 million tons per year. Exploiting the above mentioned deposits, the company will still be able to produce around 60 thousand tons of zinc concentrates per year, which will allow for the increase of the concentrates production output by approx. 170 thousand tons compared to the realization of mine’s closure scenario in 2017.

The investment outlays for putting the “Klucze I” beyond-the-faultline area into operation will amount to PLN 25 million.

The extension of the “Olkusz-Pomorzany” mine’s operation period will also allow to postpone the costs of its liquidation, estimated at approx. PLN 142 million.

At the same time the Management Board of ZGH “Bolesław” S.A. informs about the completion of the exploration drillings at the “Laski” deposit. A report, on the deposit’s volume of resources, which is to be prepared, will answer the question about the purposefulness of the future launching of this mining project.

#### **4. Launching the post-flotation waste recycling plant**

Within the development of concentrates production from recycled zinciferrous waste, in 2015, the ZGH „Bolesław” S.A. company based in Bukowno started to carry out the construction project for a post-flotation waste recycling plant (the Issuer informed about this investment in the Management Board’s Report on the Activities of the Stalprodukt S.A. Capital Group for the year 2015). Today, on 27.10.2016, the Management Board of ZGH „Bolesław” S.A. has taken a decision on the start-up of the new installation.

The start-up of the post-flotation waste recycling plant is one of the key elements of the policy focused on obtaining charge material for zinc production. Moreover, the investment project was carried out with a view to the rationalization of the post-flotation waste management i.e. (tailings ponds). The cost of the project amounted to approx. PLN 58 million, considering that the amount of PLN 42 million accounts for the extra funding obtained from the loan granted by the National Fund for Environmental Protection and Water Management. The implementation of this task has a pro-ecological character. It is the world's first installation of this type, allowing for an effective recovery of zinc and lead, in the form of sulfide concentrates, from the waste accumulated at zinc mining sites. The planned recycling volume will ultimately reach the level of around 2 million tons per year, which will allow for the production of approx. 20 thousand. tons of zinc concentrates per year. Over the next 15 years this will account for approx. 15% of the charge material for zinc production.

Considering the average 2015 zinc market prices, the project's estimated payback time will be 4 years. This period may be shortened after the achievement of the ecological effect and partial remission of the loan.

##### **Decision on the construction of a new wash tubs hall taken**

Moreover, today i.e. 27.10.2016, the Management Board of ZGH „Bolesław” S.A. has taken a decision to start the project entitled. „New Wash Tubs Hall”. The planned financial outlays will amount to approx. PLN 240 million. It is predicted that the completion of this project will allow the company to increase of the electrolytic zinc production output from 80 to 100 thousand tons per year (the Issuer signaled the possibility that such a project may be carried out in the Management Board's Report on the Activities of the Stalprodukt Capital Group for the year 2015). ZGH „Bolesław” S.A. will undertake efforts to obtain co-financing for this project from the National Center for Research and Development, within the Intelligent Development Program, amounting to approx. PLN 40 million.

The project's innovative character will consist in the possibility of zinc production with the electrolytic method enriching the charge with oxides obtained from the recycling of steelmaking dusts making up to 50% of the volume and sulfide concentrates, originating from the secondary processing of the post-flotation tailings, which will provide a greater

flexibility of the concentrate supplies from various sources. The predicted project completion time is the end of the 1<sup>st</sup> half of 2019.

Advantages resulting from the project:

- the world's first zinc production technology, using the electrolytic method with above 50% of recycled materials in the charge,
- possibility of increased production output by 25 % ,
- reduction of zinc unit production cost by 5 % ,
- estimated payback time: 5 years,
- reduction of the Huta "Boleslaw" employment level by 75 persons,
- reduction of the zinc production embodied energy by 1,5% ,
- reduction of the charge material costs (use of cheaper recycled materials),
- reaching the technological level comparable to the world's best electrolytic zinc producers.

The implementation of the project will be facilitated by the extended operation of the company's mining segment (securing the significant part of raw material supplies over the next 4 years) and postponement, i.e. until after 2020, of the "Olkusz-Pomorzany" mine liquidation and the necessary costs related thereto.

##### **5. Other activities aimed at the cost optimization of the Zinc Segment's operation.**

The companies operating within the Zinc Segment undertake a number of actions aimed at the optimization of the Segment's operation and costs reduction. In 2014, BOLTECH Sp. z o.o. company was formed from the merged BOLOIL S.A., BOLSPED Sp. z o.o. and BOL-THERM Sp. z o.o. companies.

Undertaking further actions aimed at the further simplification of the subsidiary companies' structure (operating within the Zinc Segment), on 27.10.2016 the ZGH „Bolesław” S.A. company based in Bukowno (Merging Company) submitted a merger plan with the Kraków-Śródmieście Regional Court in Kraków, 12<sup>th</sup> Economic Department of the National Court Register, agreed upon between the company's Management Board and the Management Board of the subsidiary company „BOLESŁAW-RECYCLING” sp. z o.o. based in Bukowno (Merged Company). The Merging Company holds 100% of the Merged Company's shares. The plan provides for the merger through transferring the entire assets of the Merged Company to the Merging Company, without creating new shares or increasing the Merging Company's share capital. The merger of the above entities is a desired move both for strategic and operational reasons. The goal of the merger is to simplify the Capital Group's structure

and improved effectiveness of its operation. The merger of the companies will allow for the reduction of their operational costs by approx. PLN 2 million per year, and, consequently, for maximization of the merged companies' profits. Moreover, the merger will affect the more effective use of the merged companies' potential, better allocation of cash, more effective management of human resources and assets of the merged companies.