

Current Report (CR) No 6 – Judgement of the Regional Court of Kraków regarding the compensation for the mining damages caused by the subsidiary company ZGH “Bolesław” S.A. (25.04.2018)

The Management Board of Stalprodukt S.A. (“Issuer”) disclosed confidential information, received from the subsidiary company ZGH “Bolesław” S.A. (“Company”), regarding the judgements issued by the Regional Court of Kraków in the case brought by Przedsiębiorstwo Wodociągów i Kanalizacji sp. z o.o. – water and sewerage limited liability company in Olkusz (“PWiK sp. z o.o.”) against the Company for the payment of compensation for in respect of mining damages and in the case brought by the Company against PWiK sp. z o.o.

”Acting under Art. 17 par.1 of the Market Abuse Regulation of the European (EU) Parliament and of the Council, No 596/2014 as of 16 April 2014, regarding market abuse (market abuse regulation) and repealing the Directive 2003/6/EC of the European Parliament and the Council and the Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC, the Management Board of ZGH “Bolesław” S.A. (hereinafter: Company) informs that, on 25.04.2018 the Regional Court of Kraków, 9th Economic Department (the cases under the joint File No IX GC 543/13):

1. regarding the suit brought by Przedsiębiorstwo Wodociągów i Kanalizacji sp. z o.o. in Olkusz against the Company for the payment of compensation in the amount of PLN 64,015,224.00 (File No IX GC 99/14) issued a preliminary judgement, recognizing the action of PWiK sp. z o.o. in Olkusz as justified as a matter of principle. The potential amount of the compensation shall be subject to further proceedings and may total the maximum of PLN 64 million. In connection with the referenced lawsuit, already in 2015, the Company formed a provision amounting to PLN 15 million. The judgement is not final and legally binding. The Company shall lodge an appeal against the judgement,
2. regarding the suit brought by the Company against PWiK sp. z o.o. in Olkusz for declaratory action seeking to establish that the Company is not liable for the lack of water supplies resulting from the mine dewatering activities after the mine liquidation and that the Company is not liable for the pollution of the existing or former water intakes, PWiK sp. z o.o (File No IX GC 543/13), issued a judgement dismissing the action. The judgement is not final and legally binding. The Company shall lodge an appeal against the judgement.

In the Company’s assessment, the judgements referred to above, do not unequivocally for judge the amounts of the potential compensation liabilities that will be imposed on the Company. In this respect the following remarks should be made:

1. to start with, one should be informed that from the beginning of 2017 onwards, PWiK sp. z o.o. ceased to use the mining waters, provided by the Company, in its activities as defined in the Articles of Association. Starting from that moment, PWiK sp. z o.o. has exclusively used its own independently-constructed water supply system, based, in particular, on the Kolbark, Cieślin and Bydlin water intakes. The above intakes seem to sufficiently secure the Olkusz region’s water supply,
2. what is recognized as damages in the case concerned, is the value of the outlays made by PWiK sp. z o.o. in order to build the new water supply system. It should be pointed out that, considering the present condition, as for today PWiK sp. z o.o. expended around

gross PLN 29 million to this end. These funds were used for the construction of the above mentioned water intakes and water distribution pipelines. Therefore, at the present moment, this is how much the damages total and not PLN 64 million,

3. in the Company's assessment, the potential compensation amount should be rendered as a net amount (exclusive of VAT, which PWiK sp. z o.o. may deduct). The present status means that the above mentioned amount should be reduced by 23%.,
4. while building the water supply system, PWiK sp. z o.o. benefited from the EU extra funding amounting to 60-80% of the project value. In the Company's assessment, the adversary has not sustained any loss in this respect,
5. determining the compensation amount, one should exclude investments related to the water supply activities, e.g. water chlorination equipment, UV irradiation,
6. the above issues shall, most probably, be the object of further proceeding, including the valuations to be made by the experts."

The Issuer's Management Board points out that the information on the legal actions brought by both of the disputing parties, i.e. PWiK sp. z o.o. and ZGH "Bolesław" S.A., was included in the Additional Information appended to the Consolidated Financial Report for the first quarter of 2014.

Moreover, it should be reminded that the issue of contingent liabilities related to the acquisition of ZGH "Bolesław" S.A. was described in detail in the Stalprodukt S.A. Consolidated Financial Report for the year 2013. (item 11. Settlement of the ZGH "Bolesław" S.A. purchase price). The contingent liabilities were defined as resulting from the risks identified by the Acquirer and related, among others, to: the "Olkusz-Pomorzany" mine liquidation costs and liability for the mining damages. The amount resulting from the above mentioned estimates totaled PLN 296 115 thousand. This amount was entered in the Balance Sheet as of 31.12.2013 in the position "Contingent liabilities due to the purchase of ZGH".

Legal basis:

Art. 17 ust. 1 Rozporządzenia Parlamentu Europejskiego i Rady (UE) nr 596/2014 z dnia 16 kwietnia 2014 r. w sprawie nadużyć na rynku (rozporządzenie w sprawie nadużyć na rynku) oraz uchylające dyrektywę 2003/6/WE Parlamentu Europejskiego i Rady i dyrektywę Komisji 2003/124/WE, 2003/125/WE i 2004/72/WE.