

CR No 6 — Decision to end mining of zinc-lead ore in "Olkusz-Pomorzany" Mine by the subsidiary — ZGH "Boleslaw" S.A. (Published on 29.04.2020 at 03:23 pm)

Management Board of Stalprodukt S.A. ("Issuer") publishes information received today (i.e. 29 April 2020) from its subsidiary — ZGH "Bolesław" S.A. - about the decision made to terminate mining activities being carried out by this entity. Please see below the content of the notification received by the Issuer.

Management Board of ZGH "Boleslaw" S.A. (hereinafter referred to as: "the Company") informs that on 29.04.2020 it adopted a resolution on the termination of mining of zinc and lead ores in "Olkusz - Pomorzany" Mine on 31.12.2020. The termination of mining shall be understood as submission of the statement referred to below on 31.12.2020.

Therefore, pursuant to Article 38(1)(5) of the Act of 9 June 2011 Geological and mining law, on 31.12.2020, the Company will submit to the competent licensing authority a statement on the renunciation of its concessions:

- 1) Concession No 172/93 of 20 July 1993 issued by the Minister for the Environment, Natural Resources and Forestry in the wording established by the Decisions of 29 April 1996, mark BKK/OZ/779/96 of 11 January 2001, DG/wk/AK/487-229/2001 of 1 February 2010, DGiKGwk-4771-3/5818/09/LP, and of 12 June 2013 DGKks-4771-14/22643/12/JM for mining zinc and lead ores from the "Pomorzany" deposit in the town and district of Olkusz and Bolesław and Klucze districts, Olkuski powiat, Małopolskie province.
- 2) Concession No 8/2003 of 15 October 2003 issued by the Minister for the Environment in the wording established by decisions of 12 June 2013 mark DGKks-4771-15/22651/12/JM of 18 February 2019 mark DGK.VI.4771-13.186385.2018.JM for mining zinc and lead ores from the part of "Olkusz" deposit below the level of +276 m above sea level to the level of +113 m, located within the administrative borders of the town and district of Olkusz and Bolesław district, Olkuski powiat, Małopolskie province,
- 3) Concession No 1/2009 of 2 February 2009 issued by the Minister of the Environment in the wording established by decisions of 11 October 2016 mark DGK.VI.4771-18.62741.2016.JM and of 31 July 2019 mark DGK.4771.18.2019.JM for mining zinc and lead ore from the deposit "Klucze I" (below the level of +285.2 m to the level of +200.2 m), located within the administrative borders of the Klucze district, Olkuski powiat, Małopolskie province.

As of the date of submission of the statement referred to above, the Management Board takes note of and undertakes to refrain from mining zinc-lead ores from the "Olkusz-Pomorzany" Mine. Following the submission of the declaration referred to in point 2, the mining of minerals is permitted only in connection with the conduct of activities aimed at the liquidation of the "Olkusz Pomorzany" Mine in the following manner.

The Management Board decides about starting the process of liquidation of the "Olkusz - Pomorzany" Mine and to take all necessary steps to complete the extraction within the deadline indicated above. The liquidation will be carried out in accordance with mine operations plan for the decommissioned mine (or mine operations plan for the decommissioned part of the mine, depending on the course of the procedure and the decision of the mining supervisory authority) and the provisions of the Act of 9 June 2011. The Geological and Mining Law, other provisions of generally applicable law, as well as decisions of the authorities responsible for the liquidation of the "Olkusz-Pomorzany" Mine. In the event of a change in the provisions of generally applicable law, the Management Board undertakes to verify the adopted mine operations plan in order to adjust the actions to the requirements of the law and ensure that the objective indicated above is achieved.

The Company's Management Board, bearing in mind the negative social impact of the liquidation of the "Olkusz Pomorzany" Mine, will take steps to mitigate these effects as much as possible.

The cost of carrying out the liquidation of the "Olkusz-Pomorzany" Mine in accordance with the liquidation programme is estimated by the Company to be approximately PLN 140 million, which is included in the Company's balance sheet in the form of a reserve (PLN 116.8 million) and funds accumulated in the mine liquidation fund (PLN 19.8 million).

The "Olkusz-Pomorzany" Mine operates on the "Pomorzany" and "Olkusz" deposits (the dropped part) and "Klucze I" based on the following concessions: No 172/93 valid until 31-12-2023, No 8/2003 valid until 31-12-2028, No 1/2009 valid until 31-12-2029. Exploitation of the "Pomorzany" deposit began in 1974 and 82.7 million tons of zinc-lead ore was extracted by the end of 2019. Exploitation of the "Olkusz" deposit began in 2004 and 5.8 million tons of ore were extracted. Exploitation of the "Klucze I" deposit began in 2009 and 2.2 million tons of ore were extracted.

In total, more than 90.7 million tons of ore were extracted.

For many years, in the "Olkusz-Pomorzany" Mine more than 2.6 million tons of ore per year with zinc content of more than 4% and more than 1.7% lead were extracted. For several years now, the extraction volume and percentage content of metals have been falling. In 2019, the output was only 1.6 million tons and the zinc content was 2.6% and lead content was 1.3%.

At the end of 2019, the size of developed reserves was approx. 3.7 million tons. In 2020, in accordance with the Company's annual plans, the extraction of 1.5 million tons of ore with 2.5% zinc and 0.9% lead analysis is planned. The extraction plan has been carried out as planned. Thus, it should be estimated that at the end of 2020, the industrial ore resources in the three deposits exploited by the Company will be around 2 million tons.

The Management Board, when making the decision to terminate the extraction of zinc-lead ore from the "Olkusz-Pomorzany" mine as of 31 December 2020, took into account the condition of resources, i.e. their quantity, quality and distribution in individual mining divisions. The Management Board also took into account the experience from other mines being liquidated, i.e. "Bolesław" and "Olkusz" mines, which were previously part of the structures of ZGH "Bolesław" and the possibility of ensuring the volume and quality of extraction after 2020 in terms of production costs. Thus, the experience of the mines being liquidated at the ZGH shows unequivocally that it is not possible to exploit the available resources clean. In the years between 1954 and 1996, 25 million tons of ore were extracted in the "Bolesław" mine and 3.8 million tons of developed reserves remained. In the years between 1968 and 2001, 15 million tons of ore were extracted in the "Olkusz" mine and 2.2 million tons of developed reserves remained. It is technically impossible to exploit all resources clean.

In total, 92.3 million tons of ore will have been extracted from the "Olkusz-Pomorzany" mine between 1974 and 2020. Leaving only about 2 million tons of developed resources as of 31 December 2020 will be a conspicuous success and such a deposit should be considered as a "swept clean" deposit.

Taking into account the above, due to the depletion of resources, the termination of extraction on 31 December 2020 seems fully justified.

In mining practice, it is rare for a mine to be closed down as a result of the depletion of a deposit. Most mines are closed due to economic reasons, generally speaking, carrying on with their production is unprofitable. In the course of its operations in the years 1954-2020, ZGH managed to exploit together with the "Bolesław", "Olkusz" and "Olkusz - Pomorzany" mines more than 130 million tons of ore, closing the "Bolesław" and "Olkusz" mines at that time due to depletion of deposits. The deposits of the "Olkusz-Pomorzany" Mine have also been practically exploited to the end. Thanks to the favourable market situation in the years 2015 to 2019, it was possible to maintain mining activity despite the forced reduction of extraction from 2.6 million tons/year to 1.5 million tons/year, with a decrease in the content of zinc and lead in the ore from over 6% to just over 3%.

The possibility of ending mining at the end of 2021 was analysed, but the radical changes in the market between December 2019 and April 2020 caused by the outbreak of the coronavirus pandemic have resulted in a drop in metal prices, accelerating the decision to end mining.

Zinc prices in December 2019 were at 2,350 USD/ton. In the first quarter of 2020, the price of zinc fell below 1,900 USD/ton. The projections are not optimistic due to the impact of the pandemic on the global economic situation. It is unprofitable to carry out mining activities in the current conditions. The closure of the mine will not adversely affect the continuation of the Company's operations.

At the same time, the Issuer's Management Board would like to remind you that the above mentioned deadline for ZGH "Bolesław" S.A. to cease its mining operations is in line with its

earlier plans. In particular, this date was specified in the development strategy for the Zinc Segment, published in current report no. 33 of 27.10.2016.

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.