

Cognor Holding S.A. Group

Independent Registered Auditor's Report

Consolidated Financial Statements

Report on Group's operations

Registered Auditor's Report on the audit of the consolidated financial statements

For the year from 1 January to 31 December 2016

Content:

Independent Registered Auditor's Report

prepared by PricewaterhouseCoopers Sp. z o.o.

Consolidated Financial Statements

prepared by Cognor Holding S.A. Group

Report on Group's operations

prepared by Management Board of Cognor Holding S.A.

Registered Auditor's Report on the audit of the consolidated financial statements

prepared by PricewaterhouseCoopers Sp. z o.o.



Independent Registered Auditor's Report

To the General Shareholders' Meeting and the Supervisory Board of Cognor Holding S.A.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of the Cognor Holding S.A. Group (hereinafter called "the Group"), having Cognor Holding S.A., Zielona 26 Street, Poraj, as its parent company (hereinafter called "the Parent Company"), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit and loss and other comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the year from 1 January to 31 December 2016 and a summary of significant accounting policies and other explanatory notes.

Management and Supervisory Board's Responsibility

The Parent Company's Management Board is responsible for the preparation of these consolidated financial statements, on the basis of correctly maintained consolidation documentation, and their fair presentation in accordance with the International Financial Reporting Standards as adopted by the European Union and in accordance with the applicable regulations. The Parent Company's Management Board is also responsible for internal controls as management determines necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The Management Board and Supervisory Board are obliged to ensure that the consolidated financial statements meet the requirements of the Accounting Act of 29 September 1994 ("the Accounting Act" – Journal of Laws of 2016, item 1047 as amended).

Auditor's Responsibility

Our responsibility was to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with section 7 of the Accounting Act and International Standards on Auditing as adopted by the National Council of Certified Auditors as the National Standards on Audit and Assurance with a resolution dated 10 February 2015. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*PricewaterhouseCoopers Sp. z o.o., Katowice Business Point, ul. Ściegiennego 3, 40-114 Katowice, Polska,
T: +48 (32) 604 0200, F: +48 (32) 604 0300, www.pwc.com*

PricewaterhouseCoopers Sp. z o.o. is entered into the National Court Register (KRS) maintained by the District Court in Warsaw, with the reference number (KRS) 0000044655, and tax identification number (NIP) 526-021-02-28. Share capital amounts to PLN 10,363,900. Headquarters in Warsaw, Al. Armii Ludowej 14.



Independent Registered Auditor's Report

To the General Shareholders' Meeting and the Supervisory Board of Cognor Holding S.A. (cont.)

Opinion

In our opinion, the accompanying consolidated financial statements:

- a. give a true and fair view of the Group's financial position as at 31 December 2016 and its financial performance and its cash flows for the year from 1 January to 31 December 2016, in accordance with the International Financial Reporting Standards as adopted by the European Union and the applicable accounting policies;
- b. comply in terms of form and content with the applicable laws, including the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions of recognizing as equal information required by the law of other state, which is not a member state ("the Decree" – Journal of Laws of 2014, item 133 as amended);
- c. have been prepared on the basis of correctly maintained consolidation documentation.

Report on Other Legal and Regulatory Requirements

Opinion on the Report on the Group's operations

Our opinion on the audit of the consolidated financial statements does not cover the Report on the Group's operations.

The Parent Company's Management Board is responsible for the preparation of the Report on the Group's operations in accordance with the Accounting Act, and the Decree. Further, the Management Board and Supervisory Board are obliged to ensure that the Report on the Group's operations meets the requirements of the Accounting Act.

With respect to our audit of the consolidated financial statements, our responsibility was to read the Report on the Group's operations and consider whether the information included in this Report complies with the regulations of article 49 of the Accounting Act and the Decree and is consistent with the information in the related consolidated financial statements. Our responsibility was also to consider, based on the knowledge of the Group and its environment obtained during our audit, whether the Report on the Group's operations does not contain any material misstatements.

In our opinion, the information contained in the Report on the Group's operations for the year from 1 January to 31 December 2016 comply with the requirements of article 49 of the Accounting Act and the Decree and is consistent with the information in the audited consolidated financial statements. Further, based on the knowledge of the Group and its environment obtained during our audit we have not identified any material misstatements in the Report on the Group's operations.

With respect to our audit of the consolidated financial statements, our responsibility was also to read the Group's Statement of Corporate Governance, which is a separate part of the Report on the Group's operations. In our opinion, the Group included information in accordance with the scope defined in the Decree, and information as indicated in the Decree, complies with the applicable regulations and is consistent with the information contained in the consolidated financial statements.



Independent Registered Auditor's Report

**To the General Shareholders' Meeting and the Supervisory Board of
Cognor Holding S.A. (cont.)**

Auditor conducting the audit on behalf of PricewaterhouseCoopers Sp. z o.o., Registered Audit
Company No. 144:

A handwritten signature in black ink, appearing to read 'Tomasz Reinfuss', written in a cursive style.

Tomasz Reinfuss

Key Registered Auditor
No. 90038

Katowice, 21 March 2017

Cognor Holding S.A. Group

**Registered auditor's report on the audit of the consolidated
financial statements
for the year from 1 January to 31 December 2016**



Translation note:

Our report has been prepared in Polish language and in English language. In all matters of interpretation of information, views or opinions, the Polish language version of our report takes precedence over the English language version.

Registered auditor's report on the audit of the consolidated financial statements for the year from 1 January to 31 December 2016

To the General Shareholders' Meeting and the Supervisory Board of Cognor Holding S.A.

This report contains 11 pages and consists of:

	Page
I. General information about the Group.....	2
II. Information about the audit.....	6
III. The Group's results, financial position and significant items of the consolidated financial statements	7
IV. The independent registered auditor's statements.....	10
V. Final information	11



Translation note:

Our report has been prepared in Polish language and in English language. In all matters of interpretation of information, views or opinions, the Polish language version of our report takes precedence over the English language version.

Cognor Holding S.A. Group
Registered auditor's report on the audit of the consolidated financial
statements for the year from 1 January to 31 December 2016

I. General information about the Group

- a. Cognor Holding S.A. ("the Parent Company") with its seat in Poraj, Zielona 26 Street is the parent company of the Cognor Holding S.A. Group ("the Group").
- b. The Parent Company was formed on the basis of a Notarial Deed drawn up on 18 October 1991 at the Notary Public's Office of Krystyna Bińkowska in Gdańsk and registered with Rep. A No. 5718/91. On 17 December 2001, the Parent Company was entered in the Register of Businesses maintained by the District Court in Gdańsk, XII Business Department of the National Court Register, with the reference number KRS 0000071799.
- c. The Parent Company was assigned a tax identification number (NIP) 584-03-04-383 for the purpose of making tax settlements and a REGON number 190028940 for statistical purposes.
- d. As at 31 December 2016 the Parent Company's share capital amounted to PLN 150,531,736.00 and consisted of 75,265,868 shares, with a nominal value of PLN 2.00 each.

- e. As at 31 December 2016, the Parent Company's shareholders were:

Shareholder's name	Number of shares held	Par value of shares held (PLN)	Type of shares held	Votes (%)
PS Holdco Sp. z o.o. *	50,800,324	101,600,648.00	ordinary	67.49
Others	24,465,544	48,931,088.00	ordinary	32.51
	75,265,868	150,531,736.00		100.00

As at 31 December 2015, the Parent Company's shareholders were:

Shareholder's name	Number of shares held	Par value of shares held (PLN)	Type of shares held	Votes (%)
PS Holdco Sp. z o.o. *	43,691,307	87,382,614.00	ordinary	62.55
Others	26,160,180	52,320,360.00	ordinary	37.45
	69,851,487	139,702,974.00		100.00

* Przemysław Sztuczkowski owns 100% of shares in the entity PS Holdco Sp. z o.o.

- f. In the audited year, the Group's operations comprised scrap collection, scrap processing into steel billets and steel products.

Translation note:

Our report has been prepared in Polish language and in English language. In all matters of interpretation of information, views or opinions, the Polish language version of our report takes precedence over the English language version.

Cognor Holding S.A. Group
Registered auditor's report on the audit of the consolidated financial
statements for the year from 1 January to 31 December 2016

I. General information about the Group (cont.)

g. During the audited year, the Management Board of the Parent Company comprised:

- | | |
|---------------------------|---|
| • Przemysław Sztuczkowski | President of the Management Board; |
| • Przemysław Grzesiak | Vice President of the Management Board; |
| • Krzysztof Zoła | Member of the Management Board; |
| • Dominik Barszcz | Member of the Management Board. |

Cognor Holding S.A. Group
Registered auditor's report on the audit of the consolidated financial statements
for the year from 1 January to 31 December 2016

I. General information about the Group (cont.)

h. As at 31 December 2016, the Cognor Holding S.A. Group comprised the following entities:

Name	Nature of equity relationship (interest in %)	Consolidation method	Auditor of the financial statements	Type of opinion	Balance sheet date
Cognor Holding S.A.	Parent Company	Not applicable	PricewaterhouseCoopers Sp. z o.o.	unqualified	31 December 2016
Cognor S.A.	Subsidiary (94.38%)	Full	PricewaterhouseCoopers Sp. z o.o.	audit in progress	31 December 2016
Cognor Holding S.A. Sp. k. (poprzednio Kapitał S.A. Sp. k.)	Subsidiary (51.0%)	Full	ECDDP Holdings Limited	audit in progress	31 December 2016
Złomrex Metal Sp. z o.o.	Subsidiary (94.38%)	Full	PricewaterhouseCoopers Sp. z o.o.	audit in progress	31 December 2016
Cognor Blachy Dachowe S.A.	Subsidiary (100%)	Full	ECDDP Holdings Limited	audit in progress	31 December 2016
Business Support Services Sp. z o.o.	Subsidiary (100%)	Full	ECDDP Holdings Limited	audit in progress	31 December 2016
AB STAHL AG	Subsidiary (100%)	Full	The entity is not audited.	n/a	31 December 2016
Cognor International Finance plc	Subsidiary (94.38%)	Full	FKCA Limited	audit in progress	31 December 2016
Przedsiębiorstwo Transportu Samochodowego S.A.	Subsidiary (87.74%)	Full	ECDDP Holdings Limited	audit in progress	31 December 2016
4 Groups Sp. z o.o.	Associate (30%)	Equity method	The entity is not audited..	n/a	31 December 2016
MADROHUT Sp. z o.o.	Associate (21.93%)	Equity method	The entity is not audited.	n/a	31 December 2016



Translation note:

Our report has been prepared in Polish language and in English language. In all matters of interpretation of information, views or opinions, the Polish language version of our report takes precedence over the English language version.

Cognor Holding S.A. Group
Registered auditor's report on the audit of the consolidated financial
statements for the year from 1 January to 31 December 2016

I. General information about the Group (cont.)

- i. During the financial year, the following changes took place in the scope of consolidation:
- In 2016, the Group increased its shareholdings in Cognor Blachy Dachowe S.A. to 100.00% (as at the end of 2015: 77.40%);
 - Interests in the following entities were reduced: in Złomrex Metal Sp. z o.o. to 94.38% (100.00% as at the end of 2015), Cognor International Finance plc to 94.38% (100.00% as at the end of 2015) and in MADROHUT Sp. z o.o. to 21.93% (22.44% as at the end of 2015).
- j. The Parent Company is an issuer of securities admitted for trading on the Warsaw Stock Exchange. In accordance with the choice of selecting accounting policies permitted by the Accounting Act, the Company has decided to prepare its consolidated financial statements in accordance with IFRS as adopted by the European Union.

Cognor Holding S.A. Group
Registered auditor's report on the audit of the consolidated financial statements for the year from 1 January to 31 December 2016

II. Information about the audit

- a. The audit of the consolidated financial statements as at and for the year from 1 January to 31 December 2016 was conducted by PricewaterhouseCoopers Sp. z o.o. with its seat in Warsaw, Al. Armii Ludowej 14, registered audit company no. 144. The audit was conducted on behalf of the registered audit company under the supervision of the key registered auditor, the Group's registered auditor Tomasz Reinfuss (no. 90038).
- b. PricewaterhouseCoopers Sp. z o.o. was appointed registered auditor to the Parent Company by Resolution No. 7 of the Supervisory Board of Cognor Holding S.A. dated 18 May 2016 in accordance with paragraph 18.8 of the Parent Company's Memorandum of Association.
- c. PricewaterhouseCoopers Sp. z o.o. and the key registered auditor conducting the audit are independent of the entities belonging to the Group within the meaning of art. 56, clauses 2-4 of the Act dated 7 May 2009 on registered auditors and their self-government, registered audit companies and on public supervision (Journal of Laws of 2016, item 1000 as amended).
- d. The audit was conducted in accordance with an agreement dated 7 June 2016, in the period from 14 November 2016 to 21 March 2017.
- e. An audit was conducted in accordance with International Standards on Auditing as adopted by the National Council of Certified Auditors as the National Standards on Audit and Assurance with a resolution dated 10 February 2015. The scope of an audit was influenced by an application of materiality. In accordance with these auditing standards, the concept of materiality is applied by the auditor at the planning stage and when conducting the audit as well as to evaluate the effect of misstatements identified and adjusted (if any) on the consolidated financial statements, and to form the opinion in the Independent Registered Auditor's Report.

An audit was designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. The misstatements are considered to be material, if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on a professional judgement, the certain quantitative thresholds for materiality were determined and documented, including the overall materiality for the consolidated financial statements as a whole. These, together with qualitative considerations, helped us to determine the scope of the audit and the nature, timing and extent of the audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole. Therefore, all statements included in the Independent Registered Auditor's Report, including those related to the other legal and regulatory requirements, have been expressed considering the materiality determined in accordance with those auditing standards and the auditor's judgement.

Translation note:

Our report has been prepared in Polish language and in English language. In all matters of interpretation of information, views or opinions, the Polish language version of our report takes precedence over the English language version.

Cognor Holding S.A. Group
Registered auditor's report on the audit of the consolidated financial statements for the year from 1 January to 31 December 2016

III. The Group's results, financial position and significant items of the consolidated financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2016 (selected lines)

	31.12.2016 PLN '000	31.12.2015 PLN '000	Change		Structure	
			PLN '000	(%)	31.12.2016 (%)	31.12.2015 (%)
ASSETS						
Non-current assets	424,942	408,497	16,445	4.0	47.5	48.3
Current assets	470,359	437,814	32,545	7.4	52.5	51.7
Total assets	895,301	846,311	48,990	5.8	100.0	100.0
LIABILITIES AND EQUITY						
Equity	155,903	168,691	(12,788)	(7.6)	17.3	19.9
Long-term liabilities	416,808	439,447	(22,639)	(5.2)	45.7	52.0
Short-term liabilities	322,590	238,173	84,417	35.4	36.0	28.1
Total liabilities and equity	895,301	846,311	48,990	5.8	100.0	100.0

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year from 1 January to 31 December 2016 (selected lines)

	2016 PLN '000	2015 PLN '000	Change		Structure	
			PLN '000	(%)	2016 (%)	2015 (%)
Revenue	1,352,393	1,364,804	(12,411)	(0.9)	100.0	100.0
Costs of sales	(1,209,687)	(1,268,982)	59,295	(4.7)	(89.4)	(93.0)
Gross profit on sales	142,706	95,822	46,884	48.9	10.6	7.0
Net profit/ (loss) for the period	1,526	(13,945)	15,471	(110.9)	0.1	(1.0)
Other comprehensive income for the year, net of tax	11	572	(561)	(98.1)	-	-
Total comprehensive income for the period	1,537	(13,373)	14,910	(111.5)	0.1	(1.0)

Cognor Holding S.A. Group
Registered auditor's report on the audit of the consolidated financial statements for the year from 1 January to 31 December 2016

III. The Company's results, financial position and significant items of the consolidated financial statement (cont.)

Selected ratios characterizing the Group's financial position and results

The following ratios characterise the Group's activities, results of operations during the year and its financial position as at the balance sheet date compared with previous years:

	2016	2015
Asset ratios		
- receivables turnover	35 days	38 days
- inventory turnover	84 days	78 days
Profitability ratios		
- net profit margin	0%	(1)%
- gross margin	7%	4%
- return on capital employed	2%	(8)%
Liability ratios		
- gearing	83%	80%
- payables turnover	36 days	33 days
	31.12.2016	31.12.2015
Liquidity ratios		
- current ratio	1.4	1.8
- quick ratio	0.6	0.7

The above ratios have been calculated on the basis of the consolidated financial statements.

It was not the purpose of the audit to present the Group in the context of the results of operations and ratios achieved. A detailed interpretation of the ratios requires an in-depth analysis of the Group's operations and its circumstances.

Our audit did not cover detailed comparative data constituting the basis for calculating the ratios for the previous years.

Cognor Holding S.A. Group
Registered auditor's report on the audit of the consolidated financial statements for the year from 1 January to 31 December 2016

III. The Company's results, financial position and significant items of the consolidated financial statement (cont.)

The consolidated financial statements do not take into account the effects of inflation. The consumer price index (on a December to December basis) amounted to 0.8% in the audited year (deflation, -0.5% in 2015).

The following comments are based on information obtained during the audit of the consolidated financial statements.

The factors described below had a significant impact on the Group's results of operations and on its financial position as at the balance sheet date:

- The Group's core activities in the current financial year comprised of scrap collection and scrap processing into steel billets and steel products. Revenue amounted to PLN 1,352,393 thousand, which constituted a 0.9% decrease compared with the previous year. This decrease was mainly due to the lower volume of sales partly compensated by prices' increase.
- The cost of materials and energy used was the largest item of operating expenses and amounted to PLN 747,171 thousand in the audited year, which constituted 64.2% of operating expenses. The cost of materials and energy used has decreased by PLN 52,242 thousand. i.e. by 6.5% compared with the previous year, mainly due to decrease described above and lower that in prior year scrap prices.
- Profitability measured with profit on sales amounted to 8% and was 3 percentage points higher than in the previous year.
- At the end of the financial year the Group's total assets amounted to PLN 985,301 thousand. During the year total assets increased by PLN 48,990 thousand (i.e. by 5.8%). This increase was mainly due to increase of inventory as well as property, plant and equipment.
- Liability ratios and the structure of liabilities have changed. The gearing ratio increased from 80% at the end of the previous year to 83% at the end of the current year mainly due to an increase of trade payables. The payables turnover ratio increased from 33 days to 36 days respectively.

The financial statements have been prepared on the assumption that the Company will continue in operation as a going concern.

Cognor Holding S.A. Group
Registered auditor's report on the audit of the consolidated financial statements for the year from 1 January to 31 December 2016

IV. The independent registered auditor's statements

- a. The Management Board of the Parent Company provided all the information, explanations, and representations required by us in the course of the audit and provided us with a representation letter confirming the completeness of the information included in the accounting records and the disclosure of all contingent liabilities and post balance-sheet events which occurred up to the date on which that letter was signed.
- b. The scope of the audit was not limited.
- c. In all material respects, the capital consolidation and determination of non-controlling interests have been properly carried out.
- d. The consolidation of equity items and the determination of minority interests were carried out properly in all material respects.
- e. The elimination of mutual balances (receivables and payables) and transactions (revenue and costs) of the consolidated entities were carried out, in all material respects, in accordance with IFRS as adopted by the European Union.
- f. The elimination of unrealized gains/losses of consolidated entities included in the book value of assets and in respect of dividend payments was carried out, in all material respects, in accordance with IFRS as adopted by the European Union.
- g. The impact of the disposal or partial disposal of shares in subordinated entities was accounted for properly in all material respects, in accordance with IFRS as adopted by the European Union.
- h. The consolidation documentation was complete and accurate and it is stored in a manner ensuring proper safeguarding.
- i. The consolidated financial statements of the Group as at and for the year ended 31 December 2015 were approved by Resolution No. 6 passed by the General Shareholders' Meeting of the Parent Company on 28 June 2016 and filed with the National Court Register in Częstochowa on 25 July 2016.
- j. The notes to the consolidated financial statements, which include the introduction and additional notes and explanations present all the significant information in accordance with IFRS as adopted by the European Union.
- k. The information in the Report on Group's operations for the year from 1 January to 31 December 2016 has been presented in accordance with the provisions of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information to be provided by issuers of securities and conditions for recognizing as equivalent the information required by the provisions of law of a country not being a member state (Journal of Laws of 2014, item 133 as amended) and is consistent with that presented in the consolidated financial statements.

Cognor Holding S.A. Group
Registered auditor's report on the audit of the consolidated financial statements for the year from 1 January to 31 December 2016

V. Final information

This report has been prepared in connection with our audit of the consolidated financial statements of the Cognor Holding S.A. Group having Cognor Holding S.A., Zielona 26 Street, Poraj, as its Parent Company. The consolidated financial statements were signed by the Parent Company's Management Board on 21 March 2017.

This report should be read in conjunction with the Independent Registered Auditor's Report dated 21 March 2017 to the General Shareholders' Meeting and the Supervisory Board of Cognor Holding S.A., that includes the audit opinion on the said consolidated financial statements. The opinion on the consolidated financial statements expresses a general conclusion drawn from the audit and involves assessing the materiality of individual audit findings rather than being a sum of all the evaluations of individual financial statement components. This assessment takes account of the impact of the facts noted on the truth and fairness of the consolidated financial statements.

Person conducting the audit on behalf of PricewaterhouseCoopers Sp. z o.o., Registered Audit Company No. 144:



Tomasz Reinfuss

Key Registered Auditor
No. 90038

Katowice, 21 March 2017



Translation note:

Our report has been prepared in Polish language and in English language. In all matters of interpretation of information, views or opinions, the Polish language version of our report takes precedence over the English language version.

PricewaterhouseCoopers Sp. z o.o. is entered into the National Court Register (KRS) maintained by the District Court in Warsaw, with the reference number (KRS) 0000044655, and tax identification number (NIP) 526-021-02-28. Share capital amounts to PLN 10,363,900. Headquarters in Warsaw, Al. Armii Ludowej 14.