



Cognor S.A. Group

**Opinion and Report
of the Independent Auditor
Financial Year ended
31 December 2015**

The opinion contains 2 pages
The supplementary report contains 12 pages
Opinion of the independent auditor
and supplementary report on the audit
of the consolidated financial statements
for the financial year ended
31 December 2015



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OPINION OF THE INDEPENDENT AUDITOR

To the General Meeting of Cognor S.A.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the Group, whose parent entity is Cognor S.A. with its registered office in Poraj, 26 Zielona Street ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2015, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes comprising a summary of significant accounting policies and other explanatory information.

Management's and Supervisory Board's Responsibility for the Consolidated Financial Statements

Management of the Parent Entity is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations and preparation of the report on the Group's activities. Management of the Parent Entity is also responsible for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

According to the Accounting Act dated 29 September 1994 (Official Journal from 2013, item 330 with amendments) ("the Accounting Act"), Management of the Parent Entity and members of the Supervisory Board are required to ensure that the consolidated financial statements and the report on the Group's activities are in compliance with the requirements set forth in the Accounting Act.

Auditor's Responsibility

Our responsibility is 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 dated 29 September 1994 (Official Journal from 2013, item 330 with amendments) ("the Accounting Act") and International Standards on Auditing as adopted by the National Council of Certified Auditors as the National Standards on Assurance.

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 our 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, we consider internal control relevant to the entity'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 of the Parent Entity, 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 opinion.

Opinion

In our opinion, the accompanying consolidated financial statements of Cognor S.A. Group have been prepared and present fairly, in all material respects, the financial position of the Group as at 31 December 2015 and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union, and are in compliance with the respective regulations that apply to the consolidated financial statements, applicable to the Group.

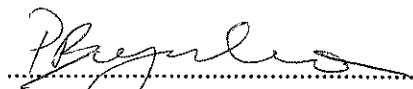
Specific Comments on Other Legal and Regulatory Requirements

Report on the Group's Activities

As required under the Accounting Act, we report that the accompanying report on the Group's activities includes, in all material respects, the information required by Art. 49 of the Accounting Act and by the Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2014, item 133) and the information is consistent with the consolidated financial statements.

On behalf of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
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Marcin Domagała
Member of the Management Board of
KPMG Audyt Sp/z o.o., entity which is
the General Partner of KPMG Audyt Spółka
z ograniczoną odpowiedzialnością sp.k.
Key Certified Auditor
Registration No. 90046


Przemysław Boryczka
Certified Auditor
Registration No. 12664

21 March 2016



Cognor S.A. Group

**Supplementary report
on the audit of the
consolidated financial
statements
Financial Year ended
31 December 2015**

The supplementary report contains 12 pages
The supplementary report on the audit of the
consolidated financial statements
for the financial year ended
31 December 2015

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1. General

1.1 Identification of the Group

1.1.1 Name of the Group

Cognor S.A. Group

1.1.2 Registered office of the Parent Company of the Group

26 Zielona Street
42-360 Poraj

1.1.3 Registration of the Parent Company in the register of entrepreneurs of the National Court Register

Registration court:	District Court in Częstochowa, XVII Commercial Department of the National Court Register
Date:	17 December 2001
Registration number:	KRS 0000071799
Share capital as at the end of reporting period according to the National Court Register:	PLN 132,444,496.00

In 2015, the Management Board of the Parent Company, based on authorizations granted by the General Meeting's resolutions dated 14 March 2011, assigned to holders of exchangeable notes 3,629,239 ordinary shares of Cognor S.A. issued in a form of the conditional increase of the share capital at the rate of PLN 2.35 per share.

1.1.4 Management of the Parent Company

The Management Board is responsible for management of the Parent Company.

As at 31 December 2015, the Management Board of the Parent Company was comprised of the following members:

- Przemysław Sztuczkowski – President of Management Board,
- Przemysław Grzesiak – Vice President of Management Board,
- Krzysztof Zoła – Member of Management Board,
- Dominik Barszcz – Member of Management Board.

1.2 Information about companies comprising the Group

1.2.1 Companies included in the consolidated financial statements

As at 31 December 2015, the following companies were consolidated by the Group:

Parent Company:

- Cognor S.A.

Subsidiaries consolidated on the full consolidation basis:

- Huta Stali Jakościowych S.A.,
- Ferrostal Łabędy Sp. z o.o.,
- Złomrex Metal Sp. z o.o.,
- ZW Walcownia Bruzdowa Sp. z o.o.,
- Cognor Blachy Dachowe S.A.,
- Business Support Services Sp. z o.o.,
- Cognor S.A. sp.k. (previously Kapitał S.A. sp.k.)
- Cognor International Finance plc,
- ZW Profil S.A.,
- Przedsiębiorstwo Transportu Samochodowego S.A.

The subsidiary Złomrex International Finance S.A. in liquidation was consolidated on the full consolidation basis until the moment of liquidation i.e. 11 December 2015.

1.2.2 Entities excluded from consolidation

As at 31 December 2015, the following subsidiaries of the Group were not consolidated due to their insignificance:

- AB Stahl AG,
- Profil Centrum Sp. z o.o.,
- FER Holding Sp. z o.o.,
- HSJ Holding Sp. z o.o.

1.3 Key Certified Auditor and Audit Firm Information

1.3.1 Key Certified Auditor information

Name and surname: Marcin Domagała
Registration number: 90046

1.3.2 Audit Firm information

Name: KPMG Audyty Spółka z ograniczoną odpowiedzialnością sp.k.
Address of registered office: ul. Inflancka 4A, 00-189 Warsaw
Registration number: KRS 0000339379
Registration court: District Court for the Capital City of Warsaw in Warsaw, XII Commercial Department of the National Court Register
NIP number: 527-26-15-362

KPMG Audyty Spółka z ograniczoną odpowiedzialnością sp.k. is entered in the register of audit firms, maintained by the National Council of Certified Auditors, under number 3546.

1.4 Prior period consolidated financial statements

The consolidated financial statements for the financial year ended 31 December 2014 were audited by KPMG Audyty Spółka z ograniczoną odpowiedzialnością sp.k. and received an unmodified opinion.

The consolidated financial statements were approved at the General Meeting of the Parent Entity on 19 June 2015.

The consolidated financial statements were submitted to the Registry Court on 13 July 2015.

1.5 Audit scope and responsibilities

This report was prepared for the General Meeting of Cognor S.A. with its registered office in Poraj, 26 Zielona Street and relates to the consolidated financial statements comprising: the consolidated statement of financial position as at 31 December 2015, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes comprising a summary of significant accounting policies and other explanatory information.

The consolidated financial statements were audited in accordance with the contract dated 3 July 2015, concluded on the basis of the resolution of the Supervisory Board dated 22 June 2015 on the appointment of the auditor.

We conducted our audit in accordance with section 7 of the Accounting Act dated 29 September 1994 (Official Journal from 2013, item 330 with amendments) ("the Accounting Act") and International Standards on Auditing as adopted by the National Council of Certified Auditors as the National Standards on Assurance.

We audited the consolidated financial statements at the Group entities during the period from 2 to 6 November 2015, from 7 to 9 December 2015, from 14 to 18 December 2015, from 8 to 12 February 2016, from 15 to 19 February 2016 and from 22 to 26 February 2016.

Management of the Parent Company is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations and preparation of the report on the Group's activities.

Our responsibility is to express an opinion and to prepare a supplementary report on the audit of the financial statements.

The Management Board of the Parent Company submitted a statement, dated as at the same date as this report, as to the true and fair presentation of the accompanying consolidated financial statements, which confirmed that there were no undisclosed matters which could significantly influence the information presented in the consolidated financial statements.

All required statements, explanations and information were provided to us by Management of the Group and all our requests for additional documents and information necessary for expressing our opinion and preparing the report have been fulfilled.

The scope of the work planned and performed has not been limited in any way. The method and scope of our audit is detailed in working papers prepared by us and retained in the offices of the Audit Firm.

The Key Certified Auditor and the Audit Firm fulfill the independence requirements as described in Art. 56 points 3 and 4 of the Act on Certified Auditors and their Self-Governance, Audit Firms authorized to Audit Financial Statements and Public Oversight dated 7 May 2009 (Official Journal from 2015, item 1011 with amendments).

1.6 Information on audits of the financial statements of the consolidated companies

1.6.1 Parent Company

The separate financial statements of the Parent Company for the year ended 31 December 2015 were audited by KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k., certified auditor number 3546, and received an unmodified opinion.

1.6.2 Other consolidated entities

Entity's name	Authorised auditor	Financial year end	Type of auditor's opinion
Huta Stali Jakościowych S.A.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp. k.	31 December 2015	opinion not issued yet
Ferrostał Łabędy Sp. z o.o.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp. k.	31 December 2015	opinion not issued yet
Złomrex Metal Sp. z o.o.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp. k.	31 December 2015	opinion not issued yet
ZW Walcownia Bruzdowa S.A.	ECDDP Audyt Sp. z o.o.	31 December 2015	unmodified opinion
Cognor Blachy Dachowe S.A.	ECDDP Audyt Sp. z o.o.	31 December 2015	unmodified opinion
Business Support Services Sp. z o.o.	statutory audit not required	31 December 2015	not applicable
Cognor S.A. sp. k.	statutory audit not required	31 December 2015	not applicable
Cognor International Finance plc	FKCA Ltd	31 December 2015	opinion not issued yet
ZW Profil S.A.	ECDDP Audyt Sp. z o.o.	31 December 2015	opinion not issued yet
Przedsiębiorstwo Transportu Samochodowego S.A.	ECDDP Audyt Sp. z o.o.	31 December 2015	unmodified opinion

2 Financial analysis of the Group

2.1 Summary analysis of the consolidated financial statements

2.1.1 Consolidated statement of financial position

ASSETS	31.12.2015		31.12.2014		31.12.2013	
	PLN '000	% of total	PLN '000	% of total	PLN '000	% of total
Non-current assets						
Property, plant and equipment	278,043	32.9	289,565	30.8	293,145	32.2
Intangible assets	10,834	1.3	11,338	1.2	12,163	1.3
Investment in associates	3,147	0.4	3,232	0.3	4,946	0.5
Other investments	13,578	1.6	13,768	1.5	6,352	0.7
Other receivables	49	0.0	34	0.0	41,500	4.6
Prepaid perpetual usufruct of land	20,828	2.5	22,794	2.4	18,535	2.0
Deferred tax assets	82,018	9.7	81,932	8.7	74,319	8.2
Total non-current assets	408,497	48.4	422,663	44.9	450,960	49.5
Current assets						
Inventories	263,476	31.0	283,058	30.1	234,816	25.8
Other investments	4,236	0.5	4,607	0.5	5,190	0.6
Current income tax receivables	290	0.0	10	0.0	12	0.0
Trade and other receivables	127,378	15.0	187,421	19.9	186,553	20.5
Prepayments	-	-	-	-	9,205	1.0
Cash and cash equivalents	36,928	4.4	35,648	3.8	14,778	1.6
Non-current assets classified as held for sale	5,505	0.7	7,110	0.8	8,951	1.0
Total current assets	437,814	51.6	517,854	55.1	459,505	50.5
TOTAL ASSETS	846,311	100.0	940,517	100.0	910,465	100.0
EQUITY AND LIABILITIES						
Equity						
Issued share capital	139,702	16.5	132,444	14.1	132,444	14.6
Reserves	194,935	23.0	202,193	21.5	149,575	16.4
Foreign currency translation reserves	32	0.0	(540)	(0.1)	(477)	(0.1)
Accumulated losses from previous years and net result of the current year	(187,547)	(22.1)	(168,074)	(17.9)	(166,107)	(18.2)
Total equity attributable to equity holders of the parent	147,122	17.4	166,023	17.6	115,435	12.7
Non-controlling interest	21,569	2.6	21,263	2.3	13,699	1.5
Total equity	168,691	20.0	187,286	19.9	129,134	14.2
Liabilities						
Interest-bearing loans and borrowings	386,446	45.7	408,896	43.5	6,677	0.7
Employee benefits obligation	9,113	1.1	9,597	1.0	7,313	0.8
Other liabilities	37,479	4.4	34,294	3.6	-	-
Deferred tax liabilities	6,409	0.7	11,011	1.2	11,637	1.3
Total non-current liabilities	439,447	51.9	463,798	49.3	25,627	2.8
Bank overdraft	15,846	1.9	6,969	0.7	-	-
Interest-bearing loans and borrowings	48,873	5.7	87,402	9.3	562,906	61.8
Employee benefits obligation	4,867	0.6	4,588	0.5	3,250	0.4
Current income tax liabilities	5	0.0	105	0.0	152	0.0
Provisions for liabilities	3,697	0.4	6,535	0.7	516	0.1
Trade and other liabilities	164,768	19.5	183,717	19.5	188,763	20.7
Government grants and other deferred income	117	0.0	117	0.1	117	0.0
Total current liabilities	238,173	28.1	289,433	30.8	755,704	83.0
Total liabilities	677,620	80.0	753,231	80.1	781,331	85.8
TOTAL EQUITY AND LIABILITIES	846,311	100.0	940,517	100.0	910,465	100.0

2.1.2 Consolidated statement of profit or loss and other comprehensive income

	1.01.2015 - 31.12.2015	% of total sales	1.01.2014 - 31.12.2014	% of total sales	1.01.2013 - 31.12.2013	% of total sales
	PLN '000		PLN '000		PLN '000	
CONTINUING OPERATIONS						
Sales revenue	1,364,804	100.0	1,422,546	100.0	1,294,269	100.0
Costs of products, goods and materials sold	(1,268,982)	(93.0)	(1,275,863)	(89.7)	(1,191,124)	(0.9)
Gross profit	95,822	7.0	146,683	10.3	103,145	8.0
Other income	4,717	0.3	11,383	0.8	10,956	0.8
Distribution expenses	(47,791)	(3.5)	(43,033)	(3.0)	(39,518)	(3.1)
Administrative expenses	(34,640)	(2.5)	(38,496)	(2.7)	(34,964)	(2.7)
Other gains - net	2,952	0.2	647	0.0	1,979	0.2
Other expenses	(7,913)	(0.5)	(11,159)	(0.8)	(13,485)	(1.0)
Operating profit	13,147	1.0	66,025	4.6	26,134	2.2
Financial income	26,678	2.0	1,789	0.1	-	-
Financial expenses	(57,009)	(4.2)	(69,092)	(4.8)	(75,955)	(5.9)
Net financing costs	(30,331)	(2.2)	(67,303)	(4.7)	(75,955)	(5.9)
Share of (loss)/profit of associates	(85)	(0.0)	(626)	(0.0)	2,759	0.2
Gain on bargain purchase	-	-	5,859	0.4	-	-
(Loss)/profit before tax	(17,269)	(1.2)	3,955	0.3	(47,062)	(3.5)
Income tax expense	3,324	0.2	5,790	0.4	(2,619)	(0.2)
(Loss)/profit from continuing operations	(13,945)	(1.0)	9,745	0.7	(49,681)	(3.7)
DISCONTINUED OPERATION						
Loss from discontinued operation, net of tax	-	-	(4,047)	(0.3)	-	-
(Loss)/profit for the period	(13,945)	(1.0)	5,698	0.4	(49,681)	(3.7)
OTHER COMPREHENSIVE INCOME						
- that will be reclassified subsequently to profit or loss when specific conditions are met						
Foreign currency translation differences for foreign operations	572		(63)		(6)	
Other comprehensive income for the period, net of income tax	572		(63)		(6)	
Total comprehensive income for the period	(13,373)		5,635		(47,708)	
(Loss)/profit attributable to:						
Owners of the Company	(14,827)		34		(48,570)	
Non-controlling interest	882		5,664		868	
(Loss)/profit for the period	(13,945)		5,698		(47,702)	
Total comprehensive income attributable to:						
Owners of the Company	(14,255)		(29)		(29)	
Non-controlling interest	882		5,664		5,664	
Total comprehensive income for the period	(13,373)		5,635		5,635	
Basic earnings per share (PLN) attributable to the owners of the Parent Company						
- from continuing operations	(0.22)		0.00		(0.73)	
- from discontinued operations	(0.22)		0.06		(0.73)	
	-		(0.06)		-	
Diluted earnings per share (PLN) attributable to the owners of the Parent Company						
- from continuing operations	(0.13)		0.00		(0.73)	
- from discontinued operations	(0.13)		0.04		(0.73)	
	-		(0.04)		-	

2.2 Selected financial ratios

	2015	2014	2013
1. Return on sales			
$\frac{\text{net profit} \times 100\%}{\text{net revenue}}$	negative value	0.4%	negative value
2. Return on equity			
$\frac{\text{net profit} \times 100\%}{\text{equity} - \text{net profit}}$	negative value	3.1%	negative value
3. Debtors' turnover			
$\frac{\text{average trade receivables (gross)} \times 365 \text{ days}}{\text{net revenue}}$	38 days	46 days	51 days
4. Debt ratio			
$\frac{\text{liabilities} \times 100\%}{\text{equity and liabilities}}$	80.0%	80.1%	85.8%
5. Current ratio			
$\frac{\text{current assets}}{\text{current liabilities}}$	1.8	1.8	0.6

- Revenue includes revenue from sales of finished products, merchandise and raw materials.
- Average trade receivables represent the average of trade receivables at the beginning and at the end of the period, with no deduction made for allowances.

3 Detailed report

3.1 Accounting principles

The Parent Company maintains current documentation describing the accounting principles applied by the Group and adopted by the Management Board of the Parent Company.

The accounting principles are described in the notes to the consolidated financial statements to the extent required by International Financial Reporting Standards as adopted by the European Union.

In view of the fact that not all entities being part of the Group apply common accounting principles consistent with the accounting principles applied by the Parent Company, appropriate adjustments to the financial statements of those entities were made to ensure consistency with the accounting principles applied by the Parent Company.

The financial statements of the entities included in the consolidated financial statements were prepared at the end of the same reporting period as the financial statements of the Parent Company.

3.2 Basis of preparation of the consolidated financial statements

The consolidated financial statements of the Cognor S.A. Group were prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations.

The consolidated financial statements were prepared on the basis of the consolidation documentation prepared in accordance with the requirements the Decree of the Ministry of Finance dated 25 September 2009 on principles for the preparation of consolidated financial statements of a capital group by companies other than banks and insurance companies (Official Journal from 2009 No. 169, item 1327 with amendments).

3.3 Method of consolidation

The method of consolidation is described in note 2 of the notes to the consolidated financial statements.

3.4 Goodwill arising on consolidation

The method of calculating goodwill arising on consolidation is described in note 2 of the notes to the consolidated financial statements.

3.5 Consolidation of equity and calculation of non-controlling interest

The share capital of the Group is equal to the share capital of the Parent Company.

Other equity items of the Group are determined by adding the equity balances of subsidiaries included in the consolidated financial statements in the proportion reflecting the Parent Company's share in the subsidiaries' equity as at the end of the reporting period to the corresponding positions of the equity of the Parent Company.

Only equity of subsidiaries arising after the Parent Company obtained control of the subsidiary is included in the equity of the Group.

Non-controlling interests in subsidiaries included in the consolidated financial statements were determined based on the non-controlling interests' share in the subsidiaries' equity as at the end of the reporting period.

3.6 Consolidation eliminations

Intercompany balances within the Group were eliminated on consolidation.

Sales between entities and other intercompany operating revenues and expenses and financial revenues and expenses were eliminated on consolidation.

The consolidation eliminations were based on the accounting records of Cognor S.A. (or subsidiary entities) and agreed with information received from the subsidiaries.

3.7 Notes to the consolidated financial statements

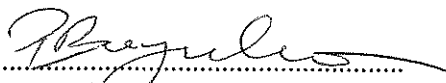
All information included in the notes to the consolidated financial statements, comprising a summary of significant accounting policies and other explanatory information, is, in all material respects, presented correctly and completely. This information should be read in conjunction with the consolidated financial statements.

3.8 Report of the Management Board of the Parent Company on the Group's activities

The report of the Management Board of the Parent Company on the Group's activities includes, in all material respects, the information required by Art. 49 of the Accounting Act and by the Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2014, item 133) and the information is consistent with the consolidated financial statements.

On behalf of KPMG Audyty Spółka z ograniczoną odpowiedzialnością sp.k.
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.....
Marcin Domagała
Member of the Management Board of
KPMG Audyty Sp. z o.o., entity which is
the General Partner of KPMG Audyty Spółka
z ograniczoną odpowiedzialnością sp.k.
Key Certified Auditor
Registration No. 90046


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Przemysław Boryczka
Certified Auditor
Registration No. 12664

21 March 2016