February 28, 2019

2018 Annual Report and Management Discussion & Analysis

The Management Board of Cognor Holding S.A. (Cognor, the Company, the Group) has the pleasure to present the following deliberations over the key facts and figures contained in the consolidated financial report for the year ended December 31, 2018.

I. INTRODUCTION

Last year proved particularly positive for the global steel industry. The production increased by as much as 4.5% as compared to 2017 and amounted to 1,790 million tonnes according to the World Steel Association. It was the highest output of all time; prior to 2018 and 2017 the largest production was recorded in 2014 – 1,647 million tonnes. Based on Wood McKenzie's estimates, the growth of demand for finished steel products is assessed at 1,681 million tonnes in 2018, which translates into 4.2% growth.

The dominant share in world production is maintained by China – 51.1% – followed by 9.4% of the EU(28) which chunk actually shrank from 10.0% in 2017. The nominal production grew in China by 6.6% and reached 928.3 million tonnes while it decreased in the EU by 0.3% down to 168.1 million tonnes. At this backdrop Poland did even worse with a decrease of 1.6% and 10.2 million tonnes. The decreasing production remained in sharp contrast with the growth of consumption of finished products estimated to have risen by 2.0% for the EU and as much as 10.0% for Poland. In nominal terms, the consumption reached 165.8 million tonnes and 15.0 million tonnes respectively.

The divergence of the steel output figures between the EU and the rest of the world, including China in particular, amid the positive consumption figures, demonstrate very clearly the importance of adequate import policies. We appreciate the anti-dumping measures that have been introduced by the European Commission since 2016 and the safeguard instrument against new import flows that was put in place in 2018 and which has just been prolonged for the next 2.5 years. We believe however that those actions require immediate strengthening as steel manufacturing continues to be moved to other regions where environmental standards are far less strict. Thus, any increase of steel imports into the EU not only acts to the detriment of the local industry and its employees, but it also promotes ecological harm and adds to carbon dioxide emissions.

In general however, the buoyant demand conditions, together with the spread of trade wars resulted in further improvement of manufacturing margins. This had a positive effect on Cognor's profitability last year with record breaking EBITDA and very high cash generation resulting in the lowest net leverage in the history of our Company.

The only counterbalancing effect brought the issue of cost difference between scrap metal used in the electric arc furnace (EAF) steelmaking and the cost of feedstock materials used by producers using basic oxygen furnace (BOF) technology. In 2018 that relation much deteriorated from our point of view and the EAF producers, including Cognor had difficulties competing vis-à-vis BOF steelmakers, particularly on the semi-finished products (billets) market.

In summary, last year Cognor, a European Union EAF steel producer, capitalized on the positive business environment. Along with the increasing demand and higher prices we continued to operate our facilities at maximum melting capacities and shipments of our finished steel products further increased. Our operational profits grew thanks to improving conversion spreads.

We consider last year's results to have been excellent. The Group improved its EBITDA and our net result was a strong profit thanks to the good operational performance reduced however by FX losses related to our indebtedness. It is also worthwhile mentioning that last year the Group completed refinancing of its high cost bond indebtedness. We also continued as well as started important new capital investment and R&D projects. In our judgment, those elements shall form a solid foundation for the wellbeing of our business in the upcoming years.

II. MACRO BACKGROUND

1. Market & Regulatory Drivers

The steel business cyclicality is determined primarily by the demand from the construction and the automotive sectors. Last year building activity was strong in particular in China which continued expansion of its infrastructural spending. Production and sales of personal and commercial vehicles is estimated to have stayed broadly flat. In the EU the demand for steel was good in spite of some slowdown in the auto industry here. With the exception of the manufacturing of personal vehicles the strong increase of demand in Poland came from all of the steel intensive industries, including construction.

Demand patterns across major consumption sectors are important, yet it seems that certain regulatory and development policies applied by particular countries or organizations of countries weigh more on steelmaking profitability.

In the past decade, the sharp development of Chinese steel industry destroyed production margins across the whole world. New facilities were built much ahead of the pace of the internal demand. In 2015, the production capacities in China accounted for as much as 1,407 million tonnes while the production of crude steel amounted to 799 million tonnes with the domestic demand being even lower - at just 656 million tonnes of finished products. The imbalance resulted in a huge outburst of Chinese exports which accounted for a record breaking (net) 99 million tonnes in 2015, causing steel prices and margins to drop sharply everywhere. That was very harmful for the Chinese steel industry too with many steel facilities suffered losses or even went bankrupt.

In 2016, the authorities in China announced a five year program aimed at cutting 150 million tonnes of capacities by 2020. Official announcements claim the vast majority of cuts have been achieved already. In 2018, capacities went down to 1,282 million tonnes while production stood at 928 million tonnes and finished products consumption at as much as 807 million tonnes. In consequence, the country's net exports fell to just 57 million tonnes. Currently China runs at over 70% of its output capabilities which accounts for a much healthier utilisation ratio compared to 57% just three years ago.

In the recent past, the EU was following a policy aimed at discouraging the local production and promoting exporting of steelmaking activity elsewhere. It opened its borders wide to imports giving very little attention to the fairness of trade practices. The industry was banned from any support programmes while new environmental burdens were imposed, including the reductions of carbon dioxide emission allowances. Unfortunately, it took much time before the EU policymakers appreciated the importance of having a modern and financially healthy local steel industry. Since 2016, the European Commission has been imposing serious anti-dumping measures against numerous countries. It also changed its approach and started supporting the modernization of local steel assets as well as research and development projects. Contrary to the EU, the USA have been quick to impose stringent protectionist measures for the benefit of its steelmakers. Last year a common and, with few exceptions, universal 25% import tax was added to that picture. This time around the EU was quick to implement a recourse action by way of the so-called temporary safeguard instrument. It has just been extended in a definite form to last into 2021. In spite of that, the EU belonged to the very few markets last year where steel output decreased despite the supportive demand dynamics. In our view, it proves the need to revise and reconsider the scope and the mechanisms of the existing and potentially further protectionist instruments.

Cognor places most of its sales on the Polish market, particularly with respect to construction steels. Therefore, we've been operating on the market that suffered from the unfriendly atmosphere in the EU before 2016. On top of that, Polish steelmakers had to cope with specific issues, namely quite common VAT evasion practices by some steel importing firms. The effect of those fraudulent activities for steel producers in Poland was similar to regular product dumping. Manufacturers had a hard time competing with criminal market participants and were forced to lower prices and shrink their margins. In 2011, a reverse VAT charge solution was introduced for scrap metal and in 2013 for steel products, which helped the steel plants in Poland achieve better margins and fair results in the following year.

CRUDE STEEL PRODUCTION	2018	% YoY	2017	2016	2015	2014	2013	2012
m tonnes								
Europe	**310**	**0.0**	**310**	**303**	**304**	**311**	**311**	**318**
Poland	10.2	-1.6	10.3	9.0	9.2	8.6	8.0	8.4
EU (28)	168	-0.3	169	162	166	169	166	169
CIS	101	0.3	101	102	102	109	109	111
North America	**121**	**4.5**	**116**	**111**	**111**	**121**	**119**	**122**
USA	87	6.2	82	79	79	88	87	89
South America	**44**	**1.3**	**44**	**39**	**44**	**45**	**46**	**47**
Africa / Middle East	**51**	**10.9**	**46**	**41**	**43**	**44**	**42**	**34**
Asia	**1 258**	**5.6**	**1 191**	**1 090**	**1 108**	**1 111**	**1 059**	**983**
China	928	6.6	871	787	799	823	779	709
Japan	104	-0.3	105	105	105	111	111	107
Oceania	**6**	**5.9**	**6**	**6**	**6**	**5**	**6**	**6**
Total	**1 790**	**4.5**	**1 712**	**1 587**	**1 615**	**1 647**	**1 582**	**1 510**

Source: World Steel Association

The demand for steel products increased across the whole world, in particular in Asia but also pretty strongly in the EU and the US. Poland belonged to the fastest growing markets with the demand for steel products much exceeding local production output, which placed Poland among the top ten net importers of steel. The Polish steel market has again performed much stronger as compared to the rest of the EU due to the larger GDP growth – of 5.1% in Poland and around 2% in the EU. Judging on the first three quarters of 2018, all the key industries using steel saw increases in Poland, including 18% in construction and 3.5% in the automotive sector, though the output of passenger cars decreased last year. The German economy, the second largest market for Cognor, was doing fine last year, however the PMIs have signalled some weakening by the end of 2018.

FINISHED STEEL USE	2018	% YoY	2017	2016	2015	2014	2013	2012
m tonnes								
Europe	**257**	**-0.1**	**258**	**249**	**245**	**242**	**238**	**232**
UE (28), incl:	166	2.0	163	158	154	149	142	141
Poland	15	10.0	14	13	13	12	12	12
CIS	47	-0.8	48	46	48	52	53	51
North America	**149**	**2.1**	**146**	**137**	**139**	**151**	**135**	**136**
USA	101	2.4	99	92	96	107	96	96
South America	**40**	**5.9**	**38**	**36**	**42**	**45**	**48**	**46**
Africa / Middle East	**89**	**-0.2**	**89**	**91**	**93**	**92**	**89**	**84**
Asia / Oceania	**1 146**	**5.8**	**1 084**	**988**	**967**	**1 001**	**1 009**	**933**
China	807	6.8	755	664	656	694	717	645
Japan	66	1.8	65	62	63	68	65	64
Total	**1 681**	**4.2**	**1 614**	**1 499**	**1 484**	**1 530**	**1 519**	**1 431**

Source: Wood McKenzie, HIPH

The short-term prospects for the world's construction industry are viewed generally positively, including the EU and Poland in particular. The manufacturing of passenger vehicles is expected to gain speed in 2019. Although the EU anti-dumping measures have not been 100% hermetic, the threat of significant product dumping seems pretty unlikely which is also due to the much healthier state of the Chinese market. In Poland the public deficit and indebtedness have been low compared to the rest of the EU and the banking sector has looked healthy too. Fortunately, the Government's new social initiatives have not led to any problems with the country's budget for now. On the contrary, last year's fiscal deficit was one of the lowest in the past couple of decades thanks to the tightening of tax control and collection mechanisms, as well as due to the very favourable external macro environment. The new EU financial perspective (2014-2020) will continue fuelling investment spending in Poland. Finally, we expect that the European Commission will continue its commitment to preventing subsidised products from entering the EU market.

Nevertheless, the overall imbalance between the supply and the demand in the steel business persists as the average world's capacity utilization ratio in 2018 was under 72%. This has led to product dumping in the past and now it is resulting in the trade wars outburst. From our perspective, they have had a positive effect on the EU steel industry so far, hence the Polish steel business should benefit as well. However, longer term effects could be negative if the escalation of trade wars resulted in a slowdown or a recession in the global economy, which presents a risk to a significant degree. Another danger for the producers using electric furnaces is posed by the increasing prices of energy and certain other input materials, in particular those used exclusively by EAF producers. EAF plants are already less competitive due to more expensive feedstock cost and now their position could deteriorate further compared to BOF producers. The most prominent examples of such cost increases were the multifold increases of the price for electrodes that occurred in 2017, as well as the hike of electricity prices in the second half of 2018. We are afraid not the entire effect of these costs increases can be passed on to our customers in 2019 and in the next periods. Therefore, we have to be ready to react adequately by staying focused on cost cutting and carrying out the adequate capital investment projects aimed at energy saving and efficiency improvements to offset the negative trends with respect to production costs.

In summary, in spite of various threats and risks we are optimistic in terms of the near future for the steel business and believe that many interesting opportunities exist here.

2. EAF v. BOF Cost Position

Between 2011 and 2015 we saw a steady decrease of prices of iron ore and coking coal and a much more moderate decrease of ferrous scrap metal prices. The larger scale of iron ore and coking coal decrease resulted in the relative improvement of the cost position of non-integrated (with no mining operations) BOF producers as compared to EAF producers. In 2016, the trend reversed and for the first time in the analysed period our competitive position improved vis-à-vis the manufacturers that use iron ore and coking coal, according to the following cost model and the following prices of basic raw materials. Unfortunately, in 2017 the situation started deteriorating again and last year the cost divergence deepened even further.

Feedstock Cost Model	BOF	EAF
Tonne / Tonne of crude steel		
iron ore	1.60	
coking coal	0.60	
scrap metal	0.21	1.12

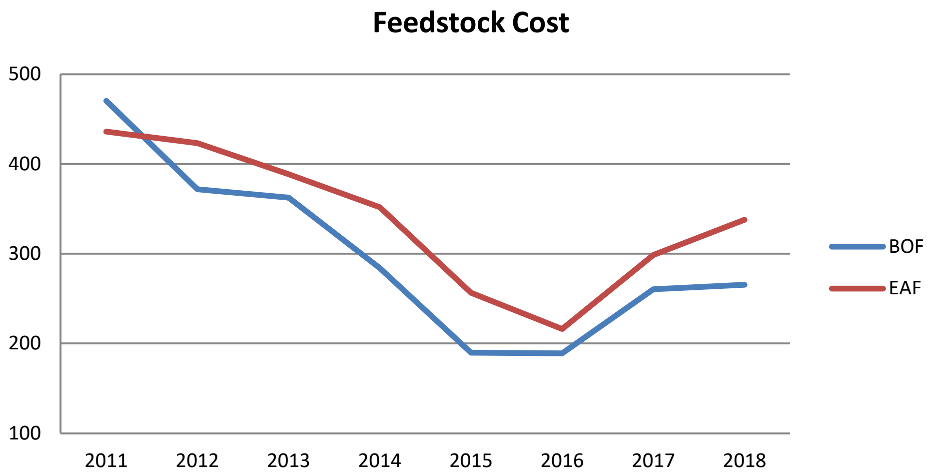
Source: OECD, Steelonthenet, Cognor

Market Prices	iron ore	coking coal	scrap metal
USD / tonne			
2011	168	200	389
2012	129	145	378
2013	135	122	347
2014	97	105	314
2015	55	89	229
2016	59	89	193
2017	72	145	267
2018	70	151	302

Source: IMF (iron ore, 62% Fe spot, CFR Tianjin), EIA (coking coal, export USA), the Company (scrap metal, Ferrostal all qualities mix, mill delivered)

The above translates into the following feedstock costs for BOF and EAF mills.

Feedstock Cost	2011	2012	2013	2014	2015	2016	2017	2018
USD / Tonne								
BOF	470	372	363	284	190	188	257	266
EAF	436	423	388	352	257	216	299	338
Difference	**34**	**-52**	**-26**	**-68**	**-67**	**-28**	**-41**	**-72**



In 2018 EAF producers' feedstock cost proved increasingly more expensive as compared to the one used by BOF manufacturers. That difference, which is unfavourable for Cognor as an EAF producer, rose from USD 41 per tonne in 2017 to USD 72 per tonne last year. We believe it is the rapid growth in steel production over the past couple of years that is to blame because it put a lot of pressure on scrap metal prices and that is due to the relatively inflexible nature of its supplies. Nevertheless, the vibrant market circumstances in 2018 fully offset the negative impact of the feedstock cost issue as we were not forced to compete directly with BOF mills on the billet market.

3. Prices & Spreads

The deterioration of our competitive position resulting from higher scrap metal prices relative to iron ore and coking coal had no squeezing effect on our conversion spreads, in particular with respect to the market of semi-finished products where we compete directly with BOF manufacturers. The negative behaviour of scrap metal prices was entirely counterbalanced by improving demand as well as by the progress we have made with respect to shifting our production further towards higher margin assortments. Our semi-finished product sales could therefore decrease and that allowed us to concentrate on the sales of the higher margin billets only. Consequently, our billet margin rose by PLN 268 per tonne and our finished product margin improved by PLN 340 per tonne. The following table presents the average scrap metal, billet and finished product prices as well as conversion spreads for both of our steel plants. The spreads are calculated by way of subtraction of the ferrous scrap metal prices from the billet and product prices.

PRICES AND SPREADS	2018	2017	2016	2015	2014	2013	2012
(pln/ tonne)							
FERROSTAL							
scrap metal price *(all qualities, mill delivered)*	1 089	1 014	755	864	989	1 096	1 236
billet price *(all qualities)*	2 138	1 834	1 455	1 660	1 858	2 014	2 121
billet spread	*1 046*	*821*	*700*	*796*	*869*	*919*	*885*
finished product price *(all categories)*	2 321	1 997	1 714	1 842	2 036	2 131	2 341
product spread	*1 229*	*983*	*960*	*978*	*1 047*	*1 036*	*1 104*
HSJ							
scrap metal price *(all qualities, mill dlivered)*	1 206	1 076	823	902	1 041	1 109	1 229
billet price *(all qualities)*	2 692	2 235	1 769	1 968	2 472	2 450	n/a
billet spread	*1 486*	*1 159*	*946*	*1 066*	*1 431*	*1 341*	*n/a*
finished product price *(all categories)*	3 496	2 858	2 463	2 703	2 920	2 937	3 386
product spread	*2 290*	*1 782*	*1 640*	*1 801*	*1 879*	*1 829*	*2 157*

4. Market Share

Our production and shipments in 2018 enabled us to achieve the following share in certain areas of the steel producers' market in Poland. We position ourselves as a niche market participant with significant shares in high alloy steels, merchant bars and special quality bars (SQ bars). Lately, a growing share in our product mix has been the sales of rebars. We aim to operate with maximum flexibility in order to be able to interchange between several grades of crude steel and different types of finished products, depending on the current demand and the profitability for various product groups. The table presented below shows details of our market share. Poland's output data relates to various years (as marked) since not all the statistics have yet been made available as of the date of this report and some of the data is no longer collected and announced.

	POLAND	COGNOR 2018	
	Tonnes	*Tonnes*	*%*
scrap metal procurement *(2017)*	6 174 000	345 308 *(1)*	6%
crude steel total *(2017)*	10 332 000	695 380	7%
carbon steel *(2016)*	8 295 442	429 687	5%
hi-alloy and stainless *(2016)*	902 586	265 693	29%
crude steel EAF *(2017)*	4 626 000	695 380	15%
crude steel BOF *(2017)*	5 320 780		
hot rolled products *(2017)*, incl:	9 039 000	472 689	5%
flat products *(2017)*	3 448 000	4 713	0%
long products *(2017)*, incl.:	5 462 000	516 503	9%
wire rod *(2017)*	1 203 000		
heavy sections *(2017)*	1 384 000		
light sections *(2015)*	36 433		
rails *(2017)*	379 000		
rebars *(2017)*	1 777 000	223 180	13%
merchant bars *(2015)*, incl.:	510 151	109 070	21%
plain bars	165 435	32 628	20%
flat bars, squares and shapes	344 716	76 442	22%
SQ bars *(2015)*	427 043	184 253	43%
seamless tubes *(2017)*	129 000		

(1) excludes direct mills' purchases
Source: CIBEH, HIPHGZ, World Steel Association

III. ACCOUNTS

1. Statements of Profit or Loss and Other Comprehensive Income

Further market improvement manifesting itself with higher demand and raising prices resulting in significantly higher consolidated revenues – by 16.4%. We managed to produce 2.6% more tonnes of crude steel and sold 0.8% more tonnes of combined scrap metal, billets and finished products as compared to 2017.

SALES	2018	% YoY	2017	2016	2015	2014	2013
'000 PLN							
Scrap metal	185 997	35.9%	136 902	70 275	100 051	94 186	88 737
Billets	332 800	-9.2%	366 629	180 764	228 178	360 524	346 415
Finished products	1 366 281	23.9%	1 102 463	942 670	868 672	823 098	745 598
Total	**1 885 078**	**17.4%**	**1 605 994**	**1 193 709**	**1 196 901**	**1 277 808**	**1 180 750**
Tonnes							
Scrap metal	172 762	24.4%	138 865	93 553	118 994	100 059	87 450
Billets	140 450	-24.3%	185 424	115 496	132 261	188 053	170 018
Finished products	498 084	3.6%	480 910	478 803	392 888	338 359	292 523
Total	**811 296**	**0.8%**	**805 199**	**688 791**	**644 143**	**626 471**	**549 991**

The price for our billets and finished products manufactured at Ferrostal mill went up by 16.6% and 16.2% respectively and the price for HSJ improved by 20.5% with respect to billets and 22.3% for finished products. Cognor saw a significant improvement of gross profit – by PLN 60.1 million and 27.8%, EBIT – by PLN 57.0 million and 57.5% and EBITDA – by PLN 59.5 million and 42.4%.

The development of steelmaking conversion spreads, which are the key driver for our profitability, was very supportive and resulted in an additional gross profit potential to the tune of PLN 210.1 million. This was offset by: (i) PLN 15.1 million related to the decrease of total shipments of billets and finished products, (ii) PLN 100.0 million related to the increase of variable costs of which the majority was caused by an increase of electrode cost by approximately PLN 80 per tonne of crude steel, as well as by other variable costs related to both steel melting and rolling and (iii) PLN 23.4 million related to the increase of fixed costs of which the majority was caused by increasing levels of employee wages and maintenance expenses. The contribution from the very price dynamics was slightly positive as Cognor was selling its products from stock according to the FIFO method in the increasing price environment for the most of 2018. W estimate the total gain related to inventories at PLN 1.9 million, while in 2017 it accounted for as much as PLN 24.2 million.

The exchange rate development of the EUR/PLN had no effect on the Company's revenues. The US Dollar did not act as a currency in our sales transactions yet, its strengthening against the Euro and Zloty provided some indirect support for our revenues.

YEARLY AVERAGE EXCHANGE RATES	2018	2017	2016	2015	2014	2013
PLN						
EUR/PLN	4.26	4.26	4.36	4.18	4.19	4.20
% change	0%	-2%	4%	0%	0%	0%
USD/PLN	3.61	3.38	3.94	3.77	3.18	3.16
% change	7%	-4%	5%	19%	1%	-3%

Source: Polish National Bank

In connection with the weakening Zloty against the Euro as of the end of 2018 compared to the end of 2017, the Group generated losses related to its indebtedness to the amount of PLN 12.0 million.

END OF PERIOD EXCHANGE RATES	2018	2017	2016	2015	2014	2013
PLN						
EUR/PLN	4.30	4.17	4.42	4.26	4.26	4.15
% change	3%	-6%	4%	0%	3%	1%
USD/PLN	3.76	3.48	4.18	3.90	3.51	3.01
% change	8%	-17%	7%	11%	17%	-3%

Source: Polish National Bank

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	2018	2017	2016	2015	2014
'000 PLN			*restated*	*restated*	
Sales revenue	2 081 841	1 789 280	1 377 352	1 365 761	1 422 546
Cost of sales	-1 805 528	-1 573 044	-1 228 812	-1 266 013	-1 275 863
Gross profit	**276 313**	**216 236**	**148 540**	**99 748**	**146 683**
Other income	10 542	10 126	5 558	4 545	11 383
Distribution expenses	-76 700	-65 792	-51 231	-48 725	-43 033
Administrative expenses	-46 041	-50 528	-39 343	-35 899	-38 496
Other gains/(losses) – net	1 977	-2 644	2 822	2 901	647
Other expenses	-9 883	-8 188	-6 951	-8 060	-11 159
EBIT	**156 208**	**99 210**	**59 395**	**14 510**	**66 025**
Financial income	4 460	22 131	5 216	26 676	1 789
Financial expenses	-67 230	-53 339	-68 412	-57 107	-69 092
Net financing costs	**-62 770**	**-31 208**	**-63 196**	**-30 431**	**-67 303**
Share of profits of associates	-662	51	103	-85	-626
Excess in fair value of acquired assets	0	0	0	0	5 859
Profit before tax	**92 776**	**68 053**	**-3 698**	**-16 006**	**3 955**
Income tax expense	-20 730	-18 148	7 770	3 331	5 790
Result from discontinued operations	0	0	0	0	-4 047
Profit for the period	**72 046**	**49 905**	**4 072**	**-12 675**	**5 698**
Depreciation and amortization	-43 861	-41 328	-39 022	-36 370	-35 072
EBITDA	**200 069**	**140 538**	**98 417**	**50 880**	**101 097**

When discussing our profitability, it needs to be noted that certain book entries affecting the overall level of EBITDA and net profit can be of a one-off nature. Last year they diverted the results in both positive and negative ways as follows:

	Q1	Q2	Q3	Q4	2018
'000 PLN					
Reported EBITDA	**57 807**	**62 064**	**56 156**	**24 042**	**200 069**
Non-recurring items including:	843	4 267	3 507	-8 586	31
- costs of sales	*0*	*4 087*	*3 414*	*-10 466*	*-2 965*
- other income	*382*	*2 776*	*1 085*	*4 470*	*9 613*
- distribution expenses	*-138*	*904*	*-27*	*-1 558*	*-819*
- administrative expenses	*0*	*0*	*0*	*0*	*0*
- other gains/losses	*814*	*-641*	*196*	*353*	*722*
- operational FX result	*250*	*1 800*	*-1 182*	*387*	*1 255*
- other impairments	*-465*	*-4 659*	*-879*	*-1 772*	*-7 775*
Adjusted EBITDA	**56 964**	**57 797**	**52 649**	**32 628**	**200 038**
Reported net result	**26 638**	**16 729**	**34 343**	**-5 664**	**72 046**
Non-recurring items including:	-2 408	-9 481	11 342	-11 313	-11 859
- EBITDA adjustments	*843*	*4 267*	*3 507*	*-8 586*	*31*
- FX result on debt	*-3 095*	*-12 905*	*4 849*	*-879*	*-12 030*
- result on note's refinancing	*0*	*0*	*4 460*	*0*	*4 460*
IRS result	*0*	*0*	*0*	*-2 805*	*-2 805*
- share of profits of associates	*4*	*-32*	*40*	*-674*	*-662*
- pro-forma income tax adjustment	*-160*	*-811*	*-1 511*	*1 631*	*-853*
Adjusted net result	**29 046**	**26 210**	**23 001**	**5 649**	**83 905**

In 2018, non-recurring items were negligible for EBITDA but had a significant negative effect on our net profit. Our adjusted EBITDA amounted to PLN 200.0 million and the adjusted net profit of PLN 83.9 million.

2. Statement of financial position

The level of fixed assets decreased primarily due to the reduction of deferred tax assets as a result of the utilization of our tax shield. Property plant and equipment and intangible assets went down due to depreciation charges at the amount of PLN 43.9 partially offset by CAPEX at the amount of PLN 54.4 million minus the dispositions at the amount of PLN 5.0. The current assets increased by PLN 69.9 million and 12.7% as a result of PLN 99.5 million and 35.8% of inventories increase. This was partially offset by PLN 4.0 million and 2.3% decrease of receivables and PLN 25.6 million and 25.1% reduction of cash balance.

ASSETS	2018	2017	2016	2015	2014
'000 PLN			*restated*	*restated*	
A. TOTAL NON-CURRENT ASSETS	**379 296**	**398 470**	**433 965**	**414 452**	**398 470**
I. Intangible assets	17 965	13 005	11 938	10 834	13 005
II. Property, plant and equipment	284 617	285 862	300 250	282 266	285 862
III. Other receivables	324	223	126	49	223
IV. Investment property and other	2 767	3 431	8 055	16 725	3 431
V. Prepaid perpetual usufruct of land	23 013	25 771	20 220	21 111	25 771
VI. Deferred tax assets	50 610	70 178	93 376	83 467	70 178
B. TOTAL CURRENT ASSETS	**622 082**	**552 219**	**474 444**	**438 736**	**552 219**
I. Inventories	376 969	277 494	303 938	269 735	277 494
II. Receivables	168 654	172 679	139 440	126 192	172 679
1. Trade receivables	*167 982*	*171 889*	*137 394*	*125 775*	*171 889*
2. Current income tax receivable	*660*	*778*	*1 908*	*290*	*778*
3. Other investments	*12*	*12*	*138*	*127*	*12*
III. Cash and cash equivalents	76 459	102 046	25 054	37 303	102 046
IV. Prepayments	0	0	6 012	5 506	0
V. Assets classified as held for sale	0	0	0	0	0
Total	**1 001 378**	**950 689**	**908 409**	**853 188**	**950 689**

Equity increased by PLN 54.1 million and 22.4% primarily due to the positive net result which was partially offset by PLN 11.9 million of dividend payment for 2017. Interest bearing loans and borrowings net of cash went down very considerably - by PLN 141.3 million and 33.1%. This resulted primarily from the repayment of indebtedness with the use of our cash generated from operations thanks to: (i) the high net profit, (ii) inflows from working capital due to the increase of trade liabilities – by PLN 135.1 million and 55.8% - which proved greater than the PLN 95.5 million increase of combined receivables and inventories and (iii) utilisation of tax shield. A counterbalancing effect had FX losses related to our indebtedness at the amount of PLN 12.0 million.

EQUITY AND LIABILITIES	2018	2017	2016	2015	2014
'000 PLN			*restated*	*restated*	
A. EQUITY	**295 885**	**241 834**	**160 300**	**170 542**	**187 286**
I. Issued share capital	180 626	177 923	150 532	139 702	132 444
II. Reserves and retained earnings	97 538	47 426	-4 007	9 271	33 579
III. Minority interest	17 721	16 485	13 775	21 569	21 263
B. LIABILITIES	**705 493**	**708 855**	**748 109**	**682 646**	**753 231**
I. Non-current liabilities	259 585	388 800	418 937	440 152	463 798
1. Employee benefits obligation	*10 677*	*11 282*	*9 202*	*9 230*	*9 597*
2. Interest-bearing loans and borrowings	*229 188*	*358 003*	*378 383*	*387 034*	*408 896*
3. Other	*19 720*	*19 515*	*31 352*	*43 888*	*45 305*
II. Current liabilities	445 908	320 055	329 172	242 494	289 433
1. Interest-bearing loans and borrowings	*56 692*	*44 523*	*74 656*	*48 882*	*87 402*
2. Bank overdraft	*0*	*24 607*	*25 274*	*18 767*	*6 969*
3. Trade payables	*371 911*	*242 324*	*221 051*	*166 067*	*183 717*
4. Deferred government grants	*5 653*	*117*	*117*	*117*	*4 588*
5. Employee benefits obligation	*7 258*	*5 122*	*4 939*	*4 884*	*105*
6. Current income tax payable	*0*	*0*	*0*	*5*	*6 535*
7. Provisions for payables	*4 394*	*3 362*	*3 135*	*3 772*	*4 588*
Total	**1 001 378**	**950 689**	**908 409**	**853 188**	**940 517**

3. Cash Flow Statement

The Company generated positive cash flow from its operating activities primarily due to the positive EBITDA and to the flow from working capital at the amount of PLN 43.6 million which was positive in spite of significant price increases related to scrap metal, billets and finished products.

Investment cash flow was negative with expenditures related to the acquisition of tangible and intangible assets at the amount of PLN 42.6 million which includes advances towards investments at the amount of PLN 10.7 million. This was partially offset by inflows from the dispositions at PLN 5.4 million.

Financing cash flow was negative due to: the repayment of the principal of our indebtedness at the amount of PLN 427.2 million, (ii) payment of dividend for 2017, together with the payments of coupons accrued on Exchangeable Notes at the total amount of PLN 16.0 million and (iii) interest and other costs at the amount of PLN 69.3 million. Those were partially offset by PLN 4.1 million under the grants received in connection with our research and development activities.

CASH FLOW	2018	2017	2016	2015	2014
'000 PLN			*restated*	*restated*	
A. OPERATING ACTIVITIES	232 195	145 440	94 097	98 260	51 795
B. INVESTING ACTIVITIES	-37 603	-15 402	-32 679	-3 427	628
C. FINANCING ACTIVITIES	-195 572	-52 379	-80 174	-106 423	-38 543
Net increase in cash	**-980**	**77 659**	**-18 756**	**-11 190**	**13 880**

4. Main Metrics

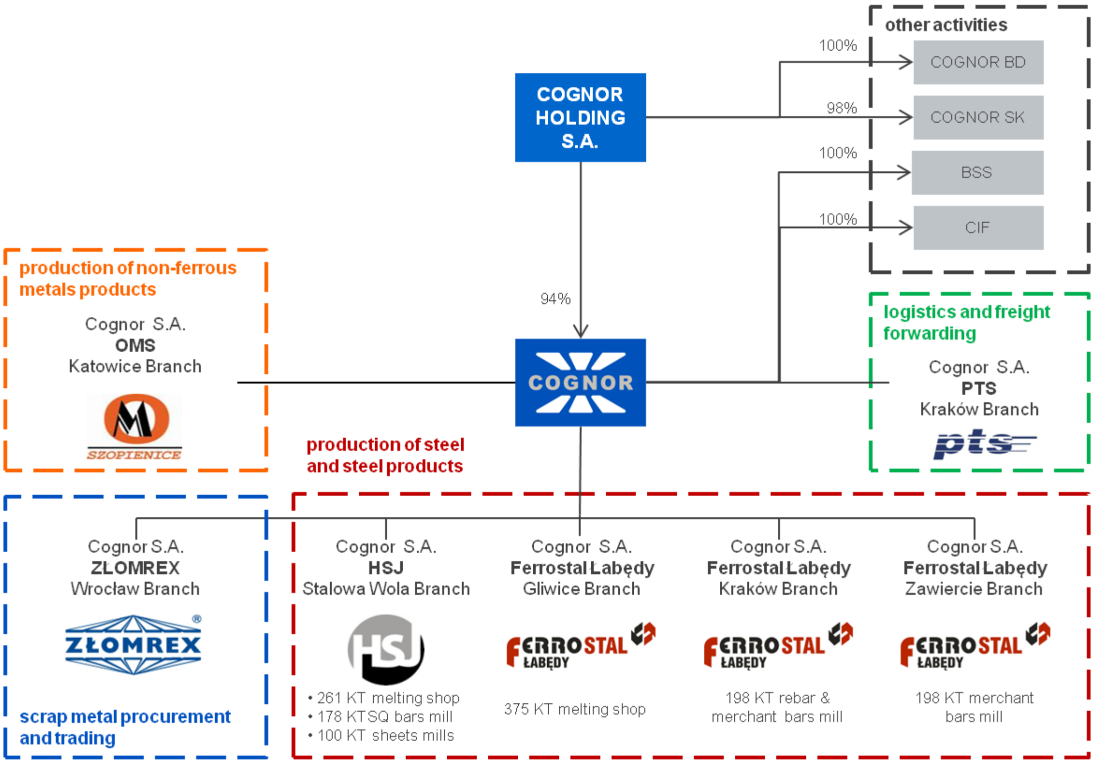
Following the refinancing of the Senior Notes last year and incurrence of the new amortized bank financing our liquidity metrics fell, though they remain at fair levels. The turnover of inventories deteriorated by 12 days and the receivables cycle improved by 6 days and they also maintain good reads. The profitability metrics improved significantly as a consequence of the improvement of our results. The Company's leverage went down to a historic low of 1.0 times as a consequence of a combination of higher EBITDA and lower net indebtedness.

MAIN METRICS		2018	2017	2016	2015	2014
Liquidity ratio		1.40	1.73	1.44	1.81	1.79
Quick ratio		0.55	0.86	0.52	0.7	0.81
Inventories turnover	*days*	76	64	90	78	81
Receivables turnover	*days*	29	35	36	34	48
EBITDA margin		9.6%	7.9%	7.1%	3.7%	7.1%
Net profit margin		3.5%	2.8%	0.3%	-0.9%	0.4%
Equity	*'000 PLN*	295 885	241 834	160 300	170 542	187 286
Net debt	*'000 PLN*	209 421	325 087	453 259	417 380	467 619
Net debt / EBITDA		1.0	2.3	4.6	8.2	4.6

IV. COGNOR GROUP STRUCTURE

1. Cognor Group Organisational Chart

The Group's structure simplified following the merger between all the key operational entities. We view the following structure as very close to final.



Description of Abbreviations

FULL COMPANY NAME	ABBREVIATIONS
Cognor S.A.	COGNOR
Cognor Blachy Dachowe S.A.	COGNOR BD
Business Support Services Sp. z o.o.	BSS
Cognor Holding S.A. Spółka komandytowa	COGNOR SK
Cognor International Finance PLC	CIF

2. Share Capital

Cognor's shares are listed on the Warsaw Stock Exchange. In addition to the existing shares, Cognor has issued 66,220,000 warrants series B of which majority was subscribed by PS HoldCo Sp. z o.o. (PSH), a majority shareholder in the Company both currently and at the time. Subject to minor exemptions, all of the holders of warrants series B are allowed to subscribe for one share per warrant during the period of the next 6 years at the current strike price of PLN 1.92.

In February 4, 2014 Cognor has issued senior notes (the Senior Notes) at the amount of EUR 100.348.109,00 and exchangeable notes at the amount of EUR 25,087,003.00 (the Exchangeable Notes) in exchange for the previously outstanding notes. In August and September of 2018 all of the Senior Notes then outstanding were prematurely redeemed. For that purpose Cognor entered into the new long-term bank financing at the amount of EUR 60.0 million which is subject to amortization and matures in December 31, 2022. The Exchangeable Notes have not been subject to any refinancing and they remain outstanding at the amount which has been decreasing following each conversion demand being filed by Exchangeable Notes' holders from time to time and the resultant delivery of the new capital shares.

In order to structure the Exchangeable Notes' issue, all of the warrants of series B held initially by PSH were transferred to Cognor International Finance PLC (CIF), a 100% London based subsidiary of the Group and a special purpose financial entity which acted as an issuer of both the Senior and the Exchangeable Notes programmes. CIF is holding warrants received from PSH on behalf of the Exchangeable Notes' holders who have the right to convert into Cognor's capital shares by presenting the warrants and converting their claim under the Exchangeable Notes at a fixed EUR/PLN rate of 4.3. Demands to exchange could be filed with CIF from April 1, 2015 until the Exchangeable Notes' maturity in 2021. At maturity the conversion becomes mandatory for all holders.

Concurrently with the closing of the bond exchange transaction in 2014, Cognor issued 200 warrants series C, all offered to PSH. PSH is allowed to subscribe for one share per warrant during the period of the next 8 years at the strike price of PLN 1,000,000.00.

Since 2015, a number of the Exchangeable Notes' holders have demanded conversion into Cognor's shares. In consequence, at the year end the nominal of the Exchangeable Notes outstanding accounted for EUR 18,891,279. Within that amount PSH held EUR 5,438,906. Due to the mandatorily exchangeable nature of that instrument the Exchangeable Notes are not accounted for as debt in Cognor's balance sheet, but as part of equity. The following table illustrates the holding structure of capital shares and warrants as of December 31, 2018:

HOLDERS	SHARES	%	WARRANTS B & C	%
PSH	92 430 239	76.8	200	0.0
CIF	0	0.0	49 193 521	90.2
Free-float	27 986 903	23.2	5 360 000	9.8
Total	**120 417 142**	**100.0**	**54 553 721**	**100.0**

As of the date of this report, the outstanding amount of the Exchangeable Notes went further down to EUR 18,470,117 following the conversion that has been processed in 2019 resulting in the delivery of 943,227 new shares. In any case, the ultimate share capital remains constant and comprises of the existing capital shares and new ones to be ever subscribed through the warrants B and C.

V. BUSINESS

According to our organizational chart, our business structure has been divided into two main divisions and other activities:

1. *scrap division* – includes activities of buying, processing, refining and selling of scrap metal and non-ferrous scrap;
2. *production division* – includes activities of processing scrap metal into steel billets, steel billets into finished products, and their sale;
3. *other* – this segment includes other activities such as: production of roofing sheets and distribution of steel products, financial activities and real property management and development.

However, in order to present our primary activities clearly and consistently, we are also analyzing our operations across the following segments:

a) *scrap metal segment* which includes sourcing and processing of ferrous scrap metal which is then used internally or sold to external customers,
b) *semi-finished products segment* including the production of steel billets which are partly used internally and partly sold to external customers,
c) *finished products segment* which includes production of finished steel products and sales of bulk products to external customers,
d) *other segments* primarily consist of non-ferrous activities of the Group including sourcing and trading in non-ferrous scrap metal, production and sales of non-ferrous products, production of roofing sheets and distribution of steel products, financial activities and real property management and development.

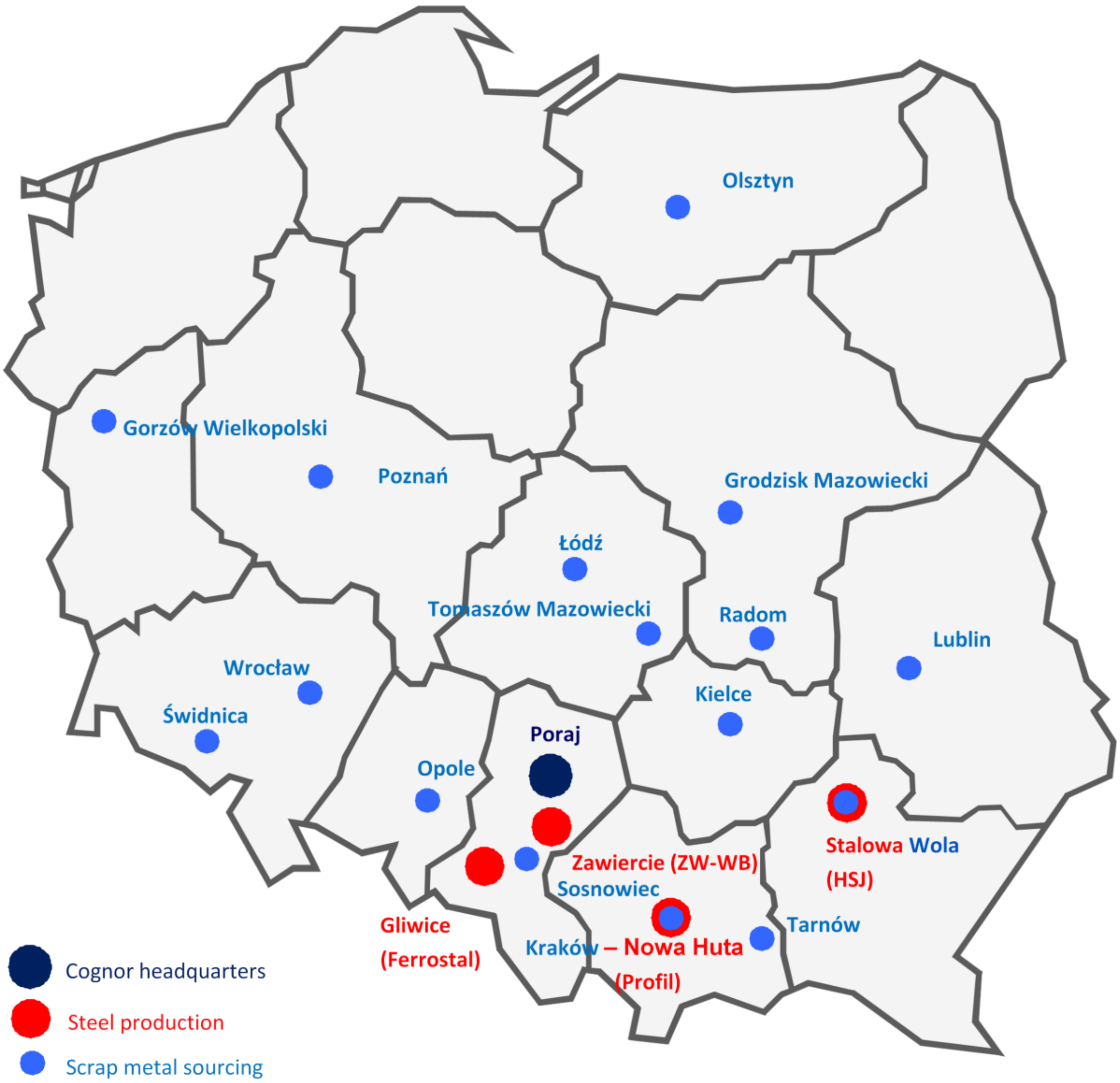
1. Scrap Metal Segment

   We are one of the leaders in scrap procurement and trading in Poland with our market share in scrap purchases (excluding direct mills' purchases by Ferrostal and HSJ) at approximately 6%. Scrap operations are conducted by Złomrex business unit. Scrap sourcing activities are also conducted individually by Ferrostal and HSJ entirely for the purpose of their own steel melting.

   We own a wide network of 16 scrap branches located close to sources of scrap metal in Poland. They are equipped with all the facilities necessary to collect, process and ship scrap metal.

   In 2018, we purchased 917,284 tonnes of scrap metal, out of which 172,762 tonnes were sold to external customers in Poland and abroad.

   The map provided below shows all the main scrap locations, together with our production sites and the headquarters of Cognor.



SCRAP METAL		2018	2017	2016	2015	2014
PURCHASES FROM EXTERNAL SUPPLIERS	*Tonnes*					
FERROSTAL		380 904	329 931	358 383	269 155	245 487
ZŁOMREX		345 308	331 912	306 145	321 631	361 078
HSJ		191 072	161 244	138 704	131 897	106 711
INTERNAL USE	*Tonnes*					
FERROSTAL		481 737	483 225	453 611	409 709	425 310
HSJ		302 974	281 624	258 680	252 364	230 046
SALES TO EXTERNAL CUSTOMERS	*Tonnes*					
ZŁOMREX		172 762	130 883	95 553	118 994	100 059
FERROSTAL		0	7 982	0	0	0
SALES	*'000 PLN*					
CONSOLIDATED		185 997	136 902	70 275	100 051	94 186
TOTAL PURCHASES in TONNES		**917 284**	**823 087**	**803 232**	**722 683**	**713 276**
TOTAL INTERNAL USE in TONNES		**784 711**	**764 849**	**712 291**	**662 073**	**655 356**
TOTAL SALES in TONNES		**172 762**	**138 865**	**93 553**	**118 994**	**100 059**
TOTAL SALES in '000 PLN		**185 997**	**136 902**	**70 275**	**100 051**	**94 186**

2. Semi-Finished Products Segment

With 695,380 tonnes of crude steel produced by the Group in 2018, we had a 7% share in the overall Polish steel production which reached 10.2 million tonnes last year[1]. Our market share in high-alloy steel grades is much greater – with 265,693 of high-alloy crude steel we had approximately 29% of this market segment in Poland[2]. Approximately four fifths of our production of semi-finished products is further rolled by our rolling mills. However, a considerable portion of our billets is sold to external customers in Poland and abroad, namely, 140,450 tonnes.

[1] *Source: World Steel Association*
[2] *Source: CIBEH*

We own two steel melting shops, both of which are located in Poland: in Gliwice (Ferrostal) and in Stalowa Wola (HSJ). In 2018, our combined capacities were utilized by up to 109.3%.

2014	CAPACITY	PRODUCTION	UTILIZATION
Tonnes			
FERROSTAL	375 000	381 477	101.7%
HSJ	261 000	201 072	77.0%
Total	**636 000**	**582 549**	**91.6%**

2015	CAPACITY	PRODUCTION	UTILIZATION
Tonnes			
FERROSTAL	375 000	363 492	96.9%
HSJ	261 000	219 962	84.3%
Total	**636 000**	**583 453**	**91.7%**

2016	CAPACITY	PRODUCTION	UTILIZATION
Tonnes			
FERROSTAL	375 000	402 676	107.4%
HSJ	261 000	226 090	86.6%
Total	**636 000**	**628 766**	**98.9%**

2017	CAPACITY	PRODUCTION	UTILIZATION
Tonnes			
FERROSTAL	375 000	431 731	115.1%
HSJ	261 000	246 189	94.3%
Total	**636 000**	**677 920**	**106.6%**

2018	CAPACITY	PRODUCTION	UTILIZATION
Tonnes			
FERROSTAL	375 000	429 687	114.6%
HSJ	261 000	265 693	101.8%
Total	**636 000**	**695 380**	**109.3%**

BILLETS		2018	2017	2016	2015	2014
PRODUCTION	*Tonnes*					
FERROSTAL		429 687	431 731	402 676	363 492	381 477
HSJ		265 693	246 189	226 090	219 962	201 072
INTERNAL USE	*Tonnes*					
FERROSTAL		348 404	320 796	311 048	259 379	211 573
HSJ		222 250	202 091	185 611	191 840	182 923
SALES TO EXTERNAL CUSTOMERS	*Tonnes*					
FERROSTAL		97 007	141 326	85 337	104 113	169 904
HSJ		43 443	44 098	40 479	28 148	18 149
SALES	*'000 PLN*					
CONSOLIDATED		332 800	366 629	198 790	228 178	360 524
TOTAL PURCHASES in TONNES		**0**	**0**	**0**	**26**	**0**
TOTAL PRODUCTION in TONNES		**695 380**	**677 920**	**628 766**	**583 454**	**582 549**
TOTAL INTERNAL USE in TONNES		**570 654**	**522 887**	**496 659**	**451 219**	**394 496**
TOTAL SALES in TONNES		**140 450**	**185 424**	**125 816**	**132 261**	**188 053**
TOTAL SALES in '000 PLN		**332 800**	**366 629**	**198 790**	**228 178**	**360 524**

3. Finished Products Segment

The finished products segment consists of production, purchasing and wholesale distribution of finished products. Currently the Group operates five rolling mills in three locations in Poland: Zawiercie (ZW-WB), Kraków (Profil) and Stalowa Wola (HSJ).

2014	CAPACITY	PRODUCTION	UTILIZATION
Tonnes			
ZW- WB - plain bars, flat bars, squares	198 000	79 627	40.2%
PROFIL - plain bars, flat bars, squares	132 000	108 656	82.3%
HSJ - bars	178 000	149 449	84.0%
HSJ - sheets	100 800	10 604	10.5%

2015	CAPACITY	PRODUCTION	UTILIZATION
Tonnes			
ZW- WB - plain bars, flat bars, squares	198 000	78 441	39.6%
PROFIL - plain bars, flat bars, squares	198 000	150 402	76.0%
HSJ - bars	178 000	150 311	84.4%
HSJ - sheets	100 800	18 087	17.9%

2016	CAPACITY	PRODUCTION	UTILIZATION
Tonnes			
ZW- WB - plain bars, flat bars, squares	198 000	80 480	40.6%
PROFIL - plain bars, flat bars, squares	198 000	223 029	112.6%
HSJ - bars	178 000	151 160	84.9%
HSJ - sheets	100 800	5 698	5.7%

2017	CAPACITY	PRODUCTION	UTILIZATION
Tonnes			
ZW- WB - plain bars, flat bars, squares	198 000	78 729	39.8%
PROFIL - plain bars, flat bars, squares	198 000	226 647	114.5%
HSJ - bars	178 000	161 905	91.0%
HSJ - sheets	100 800	5 698	9.7%

2018	CAPACITY	PRODUCTION	UTILIZATION
Tonnes			
ZW- WB - plain bars, flat bars, squares	198 000	79 835	40.3%
PROFIL - plain bars, flat bars, squares	198 000	252 415	127.5%
HSJ - bars	178 000	184 253	103.5%
HSJ - sheets	100 800	4 713	4.7%

FINISHED PRODUCTS	2018	2017	2016	2015	2014
PRODUCTION *Tonnes*					
ZW-WB	79 985	78 729	80 480	78 441	79 627
HSJ	188 966	171 697	156 858	172 937	160 053
PROFIL	252 415	226 647	223 029	150 402	108 656
SALES TO EXTERNAL CUSTOMERS *Tonnes*					
FERROSTAL	293 564	307 607	318 095	224 491	186 571
HSJ	204 520	165 082	160 708	168 397	151 788
SALES *'000 PLN*					
CONSOLIDATED	1 366 981	1 085 773	941 127	868 672	823 098
TOTAL PURCHASES in TONNES	**0**	**19**	**132**	**582**	**0**
TOTAL PRODUCTION in TONNES	**521 216**	**477 073**	**460 367**	**401 780**	**348 336**
TOTAL BULK PRODUCT SALES in TONNES	**498 084**	**472 689**	**478 803**	**392 888**	**338 359**
TOTAL SALES in '000 PLN	**1 366 281**	**1 085 773**	**941 127**	**868 672**	**823 098**

In 2018, the apparent use of finished products in Poland is estimated at 15.0 million tonnes[1]. The production of finished products in 2017 reached 9.0 million tonnes, of which 5.5 million tonnes consisted of long products, including seamless tubes[2]. Within long products, merchant bar production accounted for 0.5 million tonnes[3] in 2015. Our market share in the production of merchant bars is therefore approximately 21%. Production of SQ bars reached 0.4 million tonnes[3] and according to those figures we have reached circa 43% of market share. An increasingly important product line of ours has become rebar manufacturing. Our market share in the production of rebars reached approximately 13% with the Poland's total production in 2017 of 1.8 million tonnes[2].

[1] *Source: HIPH*
[2] *Source: World Steel Association*
[3] *Source: CIBEH*

4. Other Segments

This segment consists of sourcing and trading in non-ferrous scrap metal, production and sales of non-ferrous products, freight forwarding and logistics, management and development of real properties and others. We view the segment as peripheral, so we do not concentrate on its activities.

VI. BUSINESS DEVELOPMENT

The steel industry is a very competitive, cyclical and changeable business. The keys to success are: (i) cost efficiency, (ii) production flexibility which stands for the capability of shifting across various steel grades as well as types of semi-finished and finished products, (iii) product quality and (iv) industry and customer diversification. In order to address the above principles, a steel manufacturer should be able to define and apply adequate maintenance and capital expenditures policy and be active in research and development.

In the past years Cognor had to be very careful with respect to maintenance and CAPEX spending due to the limited access to internal and external financing means as well as due to the dedication to substantially reduce its indebtedness. In spite of that, the Company carried out a number of various investment projects with the most significant ones as follows (object; completion year or period):

a) acquisition of a rebar and merchant bar rolling mill in Kraków; 2016,
b) modernisation of the SQ bar rolling mill in Stalowa Wola, including the purchase of a new straightening line and a defects identification line which have led to the broadening of our product portfolio and the improvement of the quality check system; 2016-2017,
c) modernisation of the melting shop in Stalowa Wola, including the EAF and LF furnaces and the vacuum degassing facility which have led to higher capacity utilisation as well as variable and fixed costs reduction with improvement of quality; 2016-2017.

The total CAPEX in the period of 2015-2017 (excluding intangible CAPEX) accounted for PLN 113.7 million and maintenance spending (it being part of our current operational expenditures) across all of our steel production facilities reached PLN 77.8 million. The total amount spent in that period for the purpose of our steel production facilities amounted to 191.5 million. The investment cash outflow related to the acquisition of property, plant and equipment amounted to PLN 67.6 million and was lower than the CAPEX itself primarily because of partial financing by way of leasing arrangements. Our depreciation charges in the same period of time accounted for PLN 115.2 and were just slightly above CAPEX related to tangible assets.

Following the success in the reduction of our indebtedness as well as its cost and thanks to much better operational results in the last couple of years, we have decided to commence several new CAPEX, R&D and maintenance initiatives, of which all of them are currently at certain stages of advancement including (object; expected cost; planned commissioning):

1. Gliwice melting shop (Ferrostal):
    a) modernization of the EAF furnace; PLN 30.0 million; Q4 2019,
    b) new transformer; PLN 5.0 million; Q4 2019,
    c) new SVC station; PLN 12.0 million; Q4 2019

2. Kraków rolling mill (Profil):
    a) closing of water circuit; PLN 16.5 million; Q2 2019,
    b) modernisation of the roughing stands; PLN 7.0 million; Q3 2019
    c) modernisation of the reheating furnace; PLN 12.0 million; Q4 2019
    d) modernisation of the rolling stands and the finishing line; PLN 62.0 million; H1 2020

3. Stalowa Wola melting shop (HSJ):
    a) modernization of the CCM caster; PLN 12.8 million of which PLN 5.4 million is subject to subsidies from the EU funds; H1 2020,
    b) modernization of the LF furnace; PLN 6.4 million; Q4 2019

4. Stalowa Wola SQ bars rolling mill (HSJ):
    a) new rotary furnace; PLN 23.2 million of which PLN 8.4 million is subject to subsidies from the EU funds; Q3 2019,
    b) modernization of the cooling-bed; PLN 4.3 million; Q2 2019,
    c) modernization of the torch cutting; PLN 3.0 million; Q2 2019,

The amount under the afore-mentioned major development projects totals PLN 194.2 million. All of the planned maintenance and CAPEX development expenditures that have already been or will be completed in the period of 2018-2020 are estimated to reach approximately PLN 294.5 million (that amount corresponds to PLN 191.5 million in the period of 2015-2017). These development projects have already been partially advanced in 2018 to the value of PLN 0.8 million within maintenance expenditures and PLN 40.0 million under CAPEX regarding tangible assets (the total amounts of maintenance and of such CAPEX were lager in 2018 due to finalisation of developments that were approved before 2018). Thus, the combined value of the afore-mentioned projects that remain to be carried out in the next couple of years equals PLN 253.7 million (PLN 294.5 million minus PLN 0.8 million and minus PLN 40.0 million). Of that amount, PLN 90.6 million is expected to be qualified as maintenance works and the remaining PLN 163.1 million as CAPEX.

From the cash flow perspective we expect the 2019-2020 CAPEX being partially financed by way of:
- advances paid to the suppliers in 2018 at the amount of PLN 10.7 million,
- incurrence of debt under leasing arrangements at the amount of PLN 56.4 million,
- the EU grants at the amount of PLN 13.8 million,
- the increase of liabilities as of the end of 2020 at the amount of PLN 8.3 million.

In consequence, the cash flow expenditures in 2019-2020 related to CAPEX shall approximately equal PLN 74 million.

In summary, during the next couple of years we anticipate on an annualized basis:
- the cost of maintenance (a negative flow within operational activities) of PLN 45.3 million while in 2018 we spent PLN 32.7 million on that purpose,
- acquisition of property, plant and equipment at PLN 81.6 million while in 2018 we acquired such types of assets to the tune of PLN 48.4 million,
- negative investment cash flow related to acquisition of property, plant and equipment of PLN 37.0 million, while in 2018 such expenses stood at PLN 36.7 million.

On the other hand, the previously discussed development projects are expected to result in the following operational improvements:

1. Gliwice melting shop (Ferrostal):
    a) increase of production to approximately 550 thousand tonnes,
    b) reduction of variable cost by approximately PLN 4.0 per tonne of crude steel.

2. Kraków rolling mill (Profil):
   a) reduction of variable cost by PLN 20.0 per tonne of finished product,
   b) reduction of fixed costs by approximately PLN 6.0 million per annum,
   c) broadening of product portfolio.

3. Stalowa Wola melting shop (HSJ):
   a) increase of production to approximately 300 thousand tonnes,
   b) reduction of variable cost by approximately PLN 13.0 per tonne of crude steel,
   c) broadening of product portfolio.

4. Stalowa Wola SQ bars rolling mill (HSJ):
   a) increase of production to approximately 210 thousand tonnes,
   b) reduction of variable cost by PLN approximately 51.0 per tonne of crude steel,
   c) reduction of fixed costs by approximately PLN 6.0 million per annum.

In addition Cognor is engaged in a couple of research and development projects not related to maintenance and capital investments. They are being conducted at our melting shop in Gliwice (Ferrostal) and both of them are supported by the EU funds. They are expected to continue until 2020 and their maximal costs budget could reach up to PLN 32.6 million and the related EU grants up to PLN 13.8 million. The subjects of these research and development projects are: (i) recycling of scale in an electric arc furnace leading to a lesser waste generation and (ii) development of deep steel refining in a ladle furnace and in a tundish. For the purpose of those R&D projects, we have already spent PLN 12.4 million in 2018 under the costs of projects and have been entitled to receive PLN 5.5 million of grants as of the yearend while PLN 0.8 million of subsidies were recognized in 2018 as part of other income in our profit and losses statement.

VII. LIQUIDITY

Cognor is primarily financed by long-term bank and leasing facilities as well as its own cash resources. We have also access to a number of short-term liquidity lines including: overdrafts and factoring arrangements on a non-recourse basis. The existing diversification of the short-term facilities allows us to assume the ongoing access to financing means that are necessary to continue and develop our operations. We view the total amount of the facilities to be sufficient for the current needs of the Company as well as providing a comfortable cushion for any incremental cash requirements.

VIII. CORPORATE GOVERNANCE

There were no changes in the Supervisory Board nor the Management Board of the Company. No significant changes occurred at Cognor's subsidiaries either.

IX. 2018 SUMMARY AND OUTLOOK ON 2019

In 2018, the recovery for manufacturers in Europe continued and hit its peak, we reckon. The demand for steel was strong and margins for all our products got even better as compared to 2017, although the competitive position of EAF producers, including Cognor, vis-à-vis BOF ones, deteriorated due to more expensive scrap metal. The Chinese overcapacities were diminishing further and inflows of subsidized products from various countries into the EU were under scrutiny, yet not to the full satisfaction of the local producers. The USA adopted a much stricter approach against potential dumping of steel products which affected, with very few exemptions, all countries. Consequently, the EU had to combat the threat of redirecting the traditional exports into the USA and the European Commission was quite quick to introduce a safeguard instrument which we very much welcome and hope this will prove to be an effective tool.

Last year we managed to achieve all the key business objectives that we have been working over in the past few years. Those include: (i) refinancing of our indebtedness with significant (ca PLN 25.0 million per year) savings in terms of interest expenses, (ii) restructuring of our operations including selective capital investment projects to improve quality, to reduce production costs as well as to enter into new product assortments and (iii) defining mid-term development plan and signing several contracts for the delivery of the respective machinery and equipment. By way of consequence, we shall soon become fully able to capitalize on the potential continuation of a positive business environment in the steel industry and be more capable of getting through challenging market circumstances if and whenever they might come again.

Within the area of our business presence we expect the steel market environment to weaken somewhat in terms of margins owing to higher electric power prices and employees’ wages in particular. However, we anticipate the good demand figures to continue and therefore contribute to our profitability which we expect to be good in 2019 although lower than the last year’s EBITDA and net result.

X. EARNINGS CALL

The conference call on our 2019 results will be held in English language on Friday, March 1, 2019, at 16:00 CET (15:00 London). On that day a presentation discussing operational and financial details will also be made available on the Company’s website at: www.cognor.eu.

All participants are invited to review the presentation and are kindly asked to:
- call the appropriate dial-in number listed below 10 minutes prior to the call start time

and
- provide the operator with the conference ID: 2193135.

You will find the dial-in numbers in the appendix.

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Przemysław Sztuczkowski

Chairman of the Executive Board

....

Przemysław Grzesiak

Vice-chairman of the Executive Board

....

Krzysztof Zoła

Member of the Executive Board

....

Dominik Barszcz

Member of the Executive Board

Poraj, February 28, 2019

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APPENDIX – the conference call dial-in numbers:

Participant Std International Dial-In:	+44 (0) 2071 928000

United Kingdom

Participant UK FreeCall Dial-In Number:	08003767922
Participant UK LocalCall Dial-In Number:	08445718892

Participant FreeCall Dial in numbers:

Argentina	08004446755
Australia	1800092439
Austria	0800111950
Belgium	080048740
Brazil	08008914643
Bulgaria	0080013795
Canada	18669926802
China	8008703576
Colombia	018009157416
Cyprus	80094491
Czech Republic	800700917
Denmark	80718097
Egypt	08000000798
Estonia	8000111690
Finland	0800773496
France	0805103028
Germany	08007234866
Greece	8008481044
Hong Kong	800966027
Hungary	0680015520
India	180030104023
Indonesia	00180304411381
Ireland	1800936148
Israel	1809203624
Italy	800682772
Japan	006633812274
Latvia	80004605
Luxembourg	80024782
Mexico	0018669664109
Norway	80051874
Poland	008001214106
Romania	0800896138
Russian Federation	81080023575011
Singapore	8008526250
Slovak Republic	0800001436
Slovenia	080080368
South Africa	0800014553
Spain	800098826
Sweden	0200125581
Switzerland	0800740377
Taiwan	0809090322
Thailand	001800442166
Turkey	0080044631146
United Arab Emirates	800035703493
United States	18669661396

Participant Local Call Dial-In Numbers:

Australia, Sydney	0286078541
Austria, Vienna	019286559
Belgium, Brussels	024009874
Bulgaria, Sofia	024917756
China, All Cities	4006225517
Czech Republic, Prague	228881424
Denmark, Copenhagen	32728042
Finland, Helsinki	0942450806
France, Paris	0176700794
Germany, Berlin	030221531802
Germany, Frankfurt	06924437351
Hungary, Budapest	0614088064
India, Bangalore	08033572625
Ireland, Dublin	014319615
Italy, Rome	0687502026
Latvia, Riga	66163046
Luxembourg, Luxembourg	27860515
Netherlands, Amsterdam	0207143545
Norway, Oslo	23960264
Poland, Warsaw	222120152
Slovak Republic, Bratislava	0233456582
Slovenia, Ljubljana	016009397
Spain, Madrid	914146280
Sweden, Stockholm	0850692180
Switzerland, Bern	0315800059
United States, New York	16315107495