

Independent Registered Auditor's Report

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

Report on the audit of annual consolidated financial statements

Our opinion

In our opinion, the attached annual consolidated financial statements of the group Cognor Holding ("the Group") in which Cognor Holding S.A. is the parent entity ("the Parent Company"):

- give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the applicable International Financial Reporting Standards as adopted by the European Union and the adopted accounting policies;
- comply, in terms of form and content, with the laws applicable to the Group and with the Parent Company's Articles of Association;

Our opinion is consistent with our additional report to the Audit Committee issued on the date of this report.

What we have audited

We have audited the annual consolidated financial statements of the group Cognor Holding S.A. which comprise:

- the consolidated statement of financial position as at 31 December 2019 and the following prepared for the financial year from 1 January to 31 December 2019:
- the consolidated statement of profit or loss and other comprehensive income;
- the consolidated statement of changes in equity
- the consolidated statement of cash flows, and
- the explanatory notes comprising a description of the adopted accounting policies and other explanations.

Basis for opinion

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing as adopted as National Standards on Auditing by the National Council of Statutory Auditors ("NSA") and pursuant to the Act of 11 May 2017 on Registered Auditors, Registered Audit Companies and Public Oversight ("the Act on Registered Auditors" – Journal of Laws of 2019, item 1421, as amended).and Regulation (EU) No. 537/2014 of 16 April 2014 on specific requirements regarding the statutory audit of public-interest entities ("the EU Regulation" – Journal of Laws EU L158. Our responsibilities under those NSA are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

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

Independence and ethics

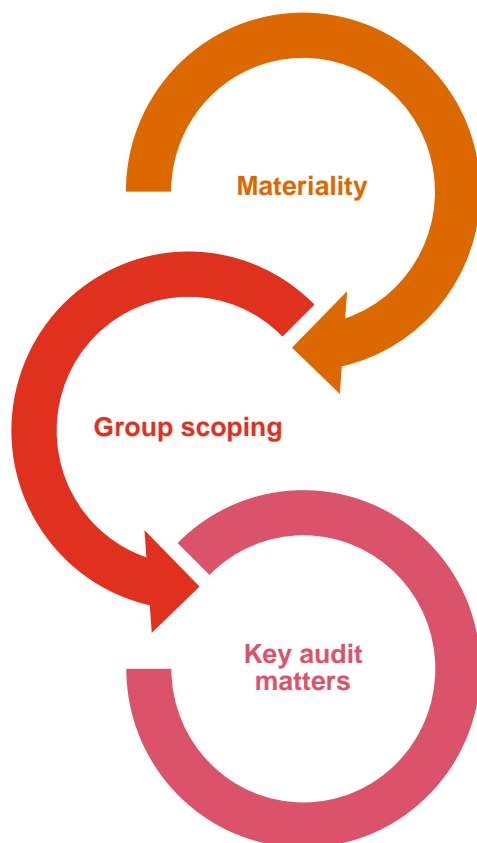
We are independent of the Group in accordance with the International Federation of Accountants' Code of Ethics for Professional Accountants ("the IFAC Code") as adopted by resolutions of the National Council of Statutory Auditors and other ethical requirements that are relevant to our audit of the financial statements in Poland. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IFAC's Code. During the audit, the key registered auditor and the registered audit firm remained independent of the Group in accordance with the

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independence requirements set out in the Act on Registered Auditors and in the EU Regulation.

Our audit approach

Overview



- The overall materiality threshold adopted for the purposes of our audit was set at PLN 15 million, which represents 0,8 % of the profit before tax.
- We have audited the annual stand-alone and the consolidated financial statements of Cognor Holding S.A.
- The audit team has also audited the financial statements of subsidiary - Cognor S.A. and performed selected other audit procedures with respect to financial statements of other subsidiaries.
- The scope of our audit covered 99 % of the Group's revenue and 99% of the Group's financial results before consolidation eliminations.

The key audit matters comprised:

- risk of fraud in revenue recognition.
- valuation and existence of inventories
- implementation of IFRS 16 "Leasing".

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the Company's Parent Company's Management Board made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the

Group, the accounting processes and controls, and the industry in which the Group operated.

Materiality

The scope of our audit was influenced by the adopted materiality level. Our audit was designed to obtain reasonable assurance that the consolidated financial statements as a whole are free from material misstatement. Misstatements may arise due to fraud or error.

They are considered 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 our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the consolidated financial statements as a whole, as

presented below. These thresholds, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

The concept of materiality is used by the registered auditor both in planning and conducting an audit, as well as in assessing the effect of the

misstatements identified during the audit and the unadjusted misstatements (if any), on the financial statements, and also when forming the registered auditor's report. Therefore, all opinions, assertions and statements contained in the registered auditor's report have been made taking into consideration the quantitative and qualitative materiality levels determined in accordance with the audit standards and the registered auditor's professional judgement.

Overall Group materiality PLN 15 million

How we determined it 0.8% of revenue from contracts with customers

Rationale for the materiality benchmark applied We have adopted revenue from contracts with the Group's customers as the basis for determining materiality due to the high volatility of the Group's financial results in recent years, resulting from both the restructuring process of the Group and factors beyond the Group's control, including mainly exchange rates and steel market prices. We assumed the materiality at the level of 0.8% because, based on our professional judgment, it is within the acceptable quantitative thresholds of materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above 0,75 million PLN, as well

as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. They include the most significant identified risks of material misstatements, including the identified risks of material misstatement resulting from fraud. These matters were addressed in the context of our audit

of the consolidated financial statements as a whole, and in forming our opinion thereon. We summarized our response to these risks and, when deemed appropriate, presented the most important observations relating to these risks. We do not provide a separate opinion on these matters.

Key audit matters	How our audit addressed the key audit matter
<p>Risk of fraud in the revenue recognition</p> <p>Revenue is one of the key figures indicating the results of the Group's operating activities, the degree of utilization of the production capacity, the coverage of the fixed costs of its operations, and market share.</p>	<p>Our audit procedures included in particular:</p> <ul style="list-style-type: none"> • understanding and evaluation the internal control system in the revenue process;

Due to the above there is a risk of misstatement as a result of an intentional overstatement of revenue in the financial statements by, e.g., recognizing fictitious sales transactions, recognizing transactions in incorrect amounts and in the wrong reporting period or through manual postings overstating revenue.

Given the above, we have concluded that this is a key matter for our audit.

Disclosures regarding the applied accounting policies are presented in note 3 r), and the values recognized in the income period - in note 6 to the consolidated financial statements

- analysis of the accounting policies for revenue recognition and Group's compliance with those policies;
- review of contracts with key customers;
- testing of selected sales transactions during the year,
- independently confirming existence and the amounts of selected trade receivable balances at the balance sheet date;
- testing of documents adjusting revenue during the audited financial year and after the year-end;
- testing all material manual journal entries affecting sales revenue during the year.

Valuation and existence of inventories

Inventories constitute a significant part of the Group's assets. Inventories are stored in dozens of locations that are subject to periodic inventories. Due to the characteristics of the stock (steel scrap and steel products), it is susceptible to a number of risks, including mainly the risk of misappropriation or theft, incorrect classification (scrap), or impairment due to fluctuations in market prices.

Given the said description of the inventories and a prudent valuation based on assumptions about the future net realizable values and a judgement as to the usefulness of the individual inventory items, we have concluded that the valuation and existence of inventories are a key matter for our audit.

Disclosures regarding inventories are presented in Notes 3 i) and 18 to the consolidated financial statements.

Our audit procedures included in particular:

- understanding and evaluation of internal controls, especially in the processes of: physical control over inventories, identification of slow-moving and impaired inventories, and the principles for determining inventory valuation allowances;
 - attending stock counts performed by the Group in various stock-taking locations and an independent counts of selected inventory items, including paying attention to the identification of impaired inventories;
 - verifying the correctness of the accounting for stock count results in the books of account;
 - testing the valuation of selected stocks of materials, work in progress and finished goods;
 - a critical assessment of the assumptions and estimates made by the Parent Company's Management Board, used to determine the value of inventory valuation allowances;
 - verifying the mathematical correctness and methodological consistency of the calculation of inventory valuation allowances and measuring inventories at a lower of cost and net realizable value.
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Implementation of IFRS 16 Leasing

From January 1, 2019, the Group applies the new accounting standard IFRS 16 Leasing. The impact of the implementation of IFRS 16 on the consolidated financial statements of the Group is described in the note 4. As a result of the implementation of IFRS 16, as at January 1, 2019, the Group recognized the right to use and lease liabilities in the amount of PLN 54.8 million.

Pursuant to the new standard, if the contract meets the criteria for recognition as a lease, the Group recognizes the right to use the asset together with an corresponding lease liability determined in the amount of discounted future payments for period of lease.

In the statement of financial position as at December 31, 2019, the Group recognized the right to use assets in the amount of PLN 121 million and the value of lease liabilities in the amount of PLN 97 million.

The implementation of IFRS 16 required certain estimates and calculations, including the identification of leasing and non-leasing components in the concluded contracts, that had an impact on the measurement of lease liabilities and rights to use of assets.

Given the significance of the position in the Group's financial statements, as well as the susceptibility of the position to the risk of misstatement, we have determined that this to be a key audit matter.

Our audit procedures included in particular:

- obtaining an assessment from the Parent Company's Management Board of the impact of the new standard and the accounting principles adopted by the Group in this respect,
- understanding of the internal control system and analysis of the principles adopted in the Group in identifying and ensuring the completeness of contracts covered by IFRS 16,
- analysis of significant contracts, based on which the Group uses assets,
- performing tests of details on a selected sample, the selection of which used quantitative and qualitative criteria, including a reconciliation of the data used to determine the right to use an asset and the lease liability to the contract with the supplier,
- verification and assessment, on a selected sample, of estimates and calculations affecting the value of lease liabilities and rights to use assets,
- assessment of the correctness and completeness of disclosures relating to leasing (including the impact of the first time adoption of IFRS 16) in the consolidated financial statements.

Responsibility of the Management and Supervisory Board for the consolidated financial statements

The Management Board of the Parent Company is responsible for the preparation of annual consolidated financial statements that give a true and fair view of the Group's financial position and results of operations, in accordance with the International Financial Reporting Standards as adopted by the European Union, the adopted accounting policies, the applicable laws and the Parent Company's Articles of Association, and for such internal control as the Management Board determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Parent Company's Management Board is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Board either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Parent Company's Management Board and members of its Supervisory Board are obliged to ensure that the consolidated financial statements comply with the requirements specified in the Accounting Act of 29 September 1994 ("the

Accounting Act” – Journal of Laws of 2019, item 351, as amended). Members of the Supervisory

Board are responsible for overseeing the financial reporting process.

Auditor’s responsibility for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the NSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence economic decisions of users taken on the basis of these consolidated financial statements.

The scope of the audit does not cover an assurance on the Company’s Group’s future profitability or the efficiency and effectiveness of the Parent Company’s Management Board conducting its affairs, now or in future.

As part of an audit in accordance with the NSA, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company’s Group’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent Company’s Management Board.

- Conclude on the appropriateness of the Parent Company’s Management Board’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards

From the matters communicated to the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated

financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances,

we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other information, including the Report on the operations

Other information

Other information comprises a report on the Group and Parent Company's operations for the financial year ended 31 December 2019 ("*the Report on the operations*") with corporate governance statement which is a separate part of the Report on the operations, and a separate report on non-financial information referred to in Article 55(2b) of the Accounting Act (together "Other Information").

Responsibility of the Management and Supervisory Board

The Management Board of the Parent Company is responsible for preparing Other Information in accordance with the law.

The Parent Company's Management Board and the members of the Supervisory Board are obliged to ensure that the Report on the operations including its separate parts and a separate report on non-financial information complies with the requirements of the Accounting Act.

Registered auditor's responsibility

Our opinion on the audit of the consolidated financial statements does not cover Other Information.

In connection with our audit of the consolidated financial statements, our responsibility is to read Other Information and, in doing so, consider whether it is materially inconsistent with the information in the consolidated financial statements, our knowledge obtained in our audit, or otherwise appears to be materially misstated. If, based on the work performed, we identified a material misstatement in Other Information, we are obliged to inform about it in our audit report. In accordance with the requirements of the Act on the Registered Auditors, we are also obliged to issue an opinion on whether the Report on the operations has been prepared in accordance with the law and is consistent with information included in annual consolidated financial statements.

Moreover, we are obliged to issue an opinion on whether the Parent Company and the Group provided the required information in its corporate

governance statement and to inform whether the Group prepared a statement on non-financial information.

Opinion on the Report on the operations

Based on the work we carried out during the audit, in our opinion, the Report on the operations:

- has been prepared in accordance with the requirements of Article 49 of the Accounting Act and para. 70 para. 71 – for the Group) of the Regulation of the Minister of Finance dated 29 March 2018 on current and periodical information submitted by issuers of securities and conditions for considering as equivalent the information required under the legislation of a non-Member State ("Regulation on current information" – Journal of Laws 2018, item 757)
- is consistent with the information in the stand alone and consolidated financial statements.

Moreover, based on the knowledge of the Parent Company and the Group and their environment obtained during our audit, we have not identified any material misstatements in the Report on the operations.

Opinion on the corporate governance statement

In our opinion, in its corporate governance statement, the Group included information set out in para. 70.6 (5) of the Regulation on current information. In addition, in our opinion, information specified in paragraph 70.6 (5)(c)–(f), (h) and (i) of the said Regulation included in the corporate governance statement are consistent with the applicable provisions of the law and with information included in the consolidated financial statements.

Information on non-financial information

In accordance with the requirements of the Act on the Registered Auditors, we confirm that the Group has included in the Report on the operations, information on the preparation of a separate report on non-financial information referred to in Article 55(2c) of the Accounting Act and that the Group has prepared such a separate report.

We have not performed any assurance work relating to the statement separate report on non-

financial information and we do not provide any assurance with regard to it.

Report on other legal and regulatory requirements

Statement on the provision of non-audit services

To the best of our knowledge and belief, we declare that the non-audit services we have provided to the Parent Company and its subsidiaries are in accordance with the laws and regulations applicable in Poland and that we have not provided any non-audit services prohibited under Article 5(1) of the EU regulation and Article 136 of the Act on Registered Auditors.

The non-audit services which we have provided to the Parent Company and its subsidiaries in the

audited period are disclosed in the Report on the Company's operations note 33 to the consolidated financial statements.

Appointment

We have been appointed to audit the annual consolidated financial statements of the Group by the resolution of the General Shareholders' Meeting dated 20 March 2019. We have been auditing the Group's financial statements without interruption since the financial year ended 31 December 2016, i.e. for 4 consecutive years.

The Key Registered Auditor responsible for the audit on behalf of PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k., a company entered on the list of Registered Audit Companies with the number 144., is Tomasz Reinfuss.

Tomasz Reinfuss
Key Registered Auditor
No. 90038

Katowice, 30 March 2020