

Together reach more



Q1 2018 Business and Financial Performance

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Speaker



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Board Member, CFO

Responsibility

- Cooperation with financial institutions
- Budgeting and controlling

Experience

- with Cognor since 2002
- Board Member of Cognor Holding since 2013
- CFO for 12 years

Q1 2018 Highlights

- Polish GDP growth expected similar to 2017 (4.6%); EU28 growth weaker than then in 2017 (2.4%)
- Polish steel production increased by 5.8%. In the EU (28) it went up by just 0.9%
- Increase of prices of scrap metal, billets and finished products. Improvement of all conversion spreads. Good demand; EU protectionist measures in place and working
- Faster pace of scrap metal prices. BOF v EAF cost advantage increased further
- 19.5% increase in revenues; shipments up by 2.2%
- Further improvement of gross profit, EBIT and EBITDA
- Capacities' utilization – new record broken:

ANNUAL CAPACITY		UTYLIZATION RATE	
	Tonnes	Q1 2018	Q1 2017
FERROSTAL	375 000	123.2%	117.5%
HSJ	261 000	99.3%	98.1%
COMBINED	636 000	114.4%	109.5%

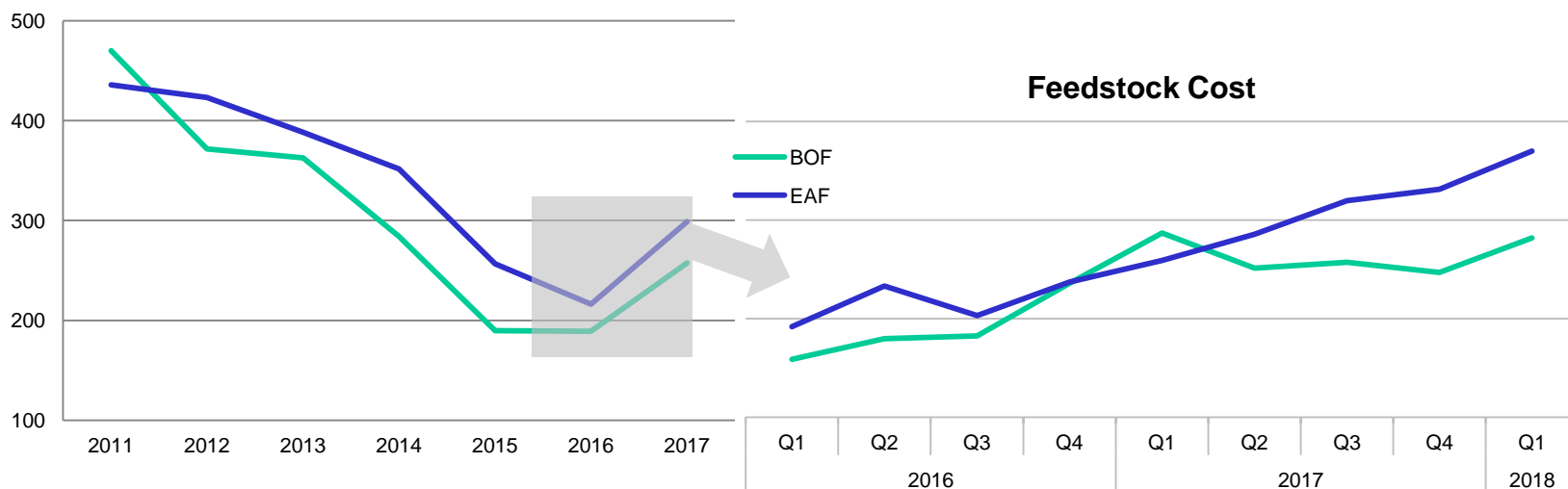
Crude steel production and finished products demand

CRUDE STEEL PRODUCTION	Q1 2018	% YoY	Q1 2017	
<i>m tonnes</i>				
Europe	77.3	0.2%	77.1	
UE (28)	43.1	0.9%	42.7	Weak EU dynamics
Poland	2.6	5.8%	2.5	Poland continues strong increases
CIS	23.8	-4.4%	24.9	
North America	29.5	1.9%	28.9	
USA	20.7	2.2%	20.3	
South America	11.1	6.8%	10.4	
Africa / Middle East	13.0	19.8%	10.9	
Asia	292.7	4.6%	279.8	
China	212.2	6.1%	200	China back on „usual” track?
Japan	26.4	0.7%	26.2	
Oceania	1.6	10.2%	1.4	
Total	425.2	4.1%	408.5	

source: World Steel Association

BOF & EAF Feedstock Costs

Feedstock Cost	2011	2012	2013	2014	2015	2016	2017	2016				2017				2018	
								Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	
<i>USD / Tonne</i>																	
BOF	470	372	363	284	190	189	257	159	180	182	236	287	251	249	242	282	
EAF	436	423	388	352	257	216	299	192	233	203	237	259	285	320	331	370	
difference	34	-52	-26	-68	-67	-27	-41	-33	-53	-21	-1	28	-34	-62	-84	-88	



Prices	Iron ore	Coking coal	Steel scrap	Prices	Iron ore	Coking coal	Steel scrap	Feedstock Cost Model	BOF	EAF
<i>(USD / Tonne)</i>				<i>(USD / Tonne)</i>				<i>Tonne / Tonne of crude steel</i>		
2011	168	200	389	Q1 2016	48	75	171	iron ore	1.60	
2012	129	145	378	Q2 2016	56	76	208	coking coal	0.60	
2013	135	122	347	Q3 2016	59	84	181	Scrap	0.21	1.12
2014	97	105	314	Q4 2016	71	130	212			
2015	55	89	229	Q1 2017	86	169	231			
2016	59	92	193	Q2 2017	63	161	255			
2017	72	145	267	Q3 2017	72	137	285			
				Q4 2017	66	132	296			
				Q1 2018	75	155*	330			

- EAF steel producers compete with BOF steelmakers to some extent (semi-finished products)
- Due to the strong steel output growth in 2017 and Q1 2018 scrap metal prices increased more as compared to BOF feedstock,
- The cost position of EAF producers is growingly negative, deteriorating their competitive position
- Strong demand for steel and the protectionist measures applied by the EU keep the margins of the European EAF steelmakers at fair levels

Prices & Spreads

	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
<i>(pln/ tonne)</i>					
FERROSTAL					
SCRAP METAL - average purchase price	1 123	1 063	1 036	965	989
BILLETS - average price	2 157	1 491	1 660	1 858	2 038
<i>volume</i>	28 685	21 314	29 705	25 161	43 031
BILLET SPREAD	1 034	1 016	760	889	739
FINISHED PRODUCTS – average price	2 342	2 210	1 923	1 962	1 925
<i>total volume</i>	77 058	72 075	106 735	66 998	70 020
<i>- plain bars</i>	2 513	2 375	1 996	2 026	1 958
<i>volume</i>	6 792	6 910	9 877	8 183	5 441
<i>- flat bars</i>	2 500	2 374	2 031	1 995	2 032
<i>volume</i>	9 955	9 434	17 718	12 160	8 776
<i>-squares</i>	2 494	2 355	2 003	1 988	1 991
<i>volume</i>	1 580	1 194	2 905	1 286	1 149
<i>-rebars</i>	2 267	2 143	1 868	1 923	1 886
<i>volume</i>	53 382	52 933	69 629	39 590	49 680
<i>-angles</i>	2 517	2 383	2 037	2 023	2 058
<i>volume</i>	5 008	1 323	6 450	5 482	4 672
<i>-other</i>	2 889	3 812	2 892	2 740	2 327
<i>volume</i>	341	281	156	297	302
PRODUCT SPREAD	1 219	1 147	887	997	936
<i>- plain bars</i>	1 390	1 313	961	1 061	968
<i>- flat bars</i>	1 377	1 311	995	1 030	1 042
<i>- squares</i>	1 371	1 292	967	1 023	1 001
<i>- rebars</i>	1 144	1 080	833	958	897
<i>- angles</i>	1 394	1 320	1 001	1 058	1 068
<i>- other</i>	1 766	2 750	1 856	1 775	1 338

scrap metal price up by **134 & 13.5%**
 billet sales price up by **428 & 24,8%**

billet spread up by 295 & 39.9%

finished product sales price up by **417 & 21.7%**

product spread up by 284 & 30.3%

Prices & Spreads

	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
(pln/ tonne)					
HSJ					
SCRAP METAL - average purchase price	1 223	1 126	1 102	1 000	1 070
BILLETS - average price	2 705	2 448	2 279	2 135	2 106
<i>volume</i>	15 948	15 243	15 965	18 421	16 584
BILLET SPREAD	1 482	1 322	1 177	1 135	1 036
FINISHED PRODUCTS – average price	3 310	3 037	2 895	2 815	2 708
total volume	44 998	37 629	41 399	42 639	43 415
<i>- SQ bars</i>	3 213	2 987	2 800	2 752	2 615
<i>volume</i>	44 157	37 231	40 020	39 179	40 089
<i>- thick sheets</i>	4 323	2 513	3 749	2 713	2 595
<i>volume</i>	593	228	1 165	3 297	3 009
<i>- thin sheets</i>	11 067	11 358	10 856	11 851	10 488
<i>volume</i>	135	98	144	89	205
<i>-Other</i>	26 756	19 319	26 708	29 603	24 973
<i>volume</i>	113	72	70	74	112
PRODUCT SPREAD	2 087	1 911	1 793	1 815	1 638
<i>- SQ bars</i>	1 990	1 861	1 698	1 752	1 545
<i>- thick sheets</i>	3 100	1 387	2 647	1 713	1 525
<i>- thin sheets</i>	9 844	10 232	9 754	10 851	9 418
<i>- other</i>	25 533	18 193	25 606	28 603	23 903

scrap metal price up by **153 & 14.3%**
 billet sales price up by **599 % 28.4%**

billet spread up by 446 & 43.0%
 finished product sales price up by **602 & 22.2%**

product spread up by 449 & 27.4%

Segments

SCRAP METAL		Q1 2018	Q4 2017	Q1 2017	
PURCHASES FROM EXTERNAL SUPPLIERS	<i>Tonnes</i>				
FERROSTAL		112 347	86 224	93 492	
ZŁOMREX		90 022	82 123	88 587	ZŁOMREX purchases up by 13.0%
HSJ		46 519	42 637	38 186	
INTERNAL USE	<i>Tonnes</i>				
FERROSRAL		129 616	129 965	123 254	
HSJ		74 261	74 618	73 149	
SALES TO EXTERNAL CUSTOMERS	<i>Tonnes</i>				
ZŁOMREX		38 645	38 067	27 848	
OTHER		0	7 982	0	
SALES	<i>'000 PLN</i>				
CONSOLIDATED		43 059	46 511	27 140	
TOTAL PURCHASES in TONNES		248 888	210 984	220 265	
TOTAL INTERNAL USE in TONNES		203 877	204 583	196 403	
TOTAL SALES in TONNES		38 645	46 049	27 848	Shipments up by 38.8%
TOTAL SALES in '000 PLN		43 059	46 511	27 140	Sales up by 58.7%

Segments

BILLETS		Q1 2018	Q4 2017	Q1 2017	
PURCHASES	<i>Tonnes</i>				
FERR		0	0	0	
PRODUCTION	<i>Tonnes</i>				
FERR		115 529	115 226	110 138	
HSJ		64 803	65 247	63 997	
INTERNAL USE	<i>Tonnes</i>				
FERR		89 637	83 223	82 295	
HSJ		54 156	56 999	51 434	
SALES TO EXTERNAL CUSTOMERS	<i>Tonnes</i>				
FERR		33 986	28 309	47 052	
HSJ		10 647	8 248	12 563	
SALES	<i>'000 PLN</i>				
CONSOLIDATED		104 996	81 618	109 299	
TOTAL PURCHASES in TONNES		0	0	0	
TOTAL PRODUCTION in TONNES		180 332	180 473	174 135	Production up by 3.6%
TOTAL INTERNAL USE in TONNES		143 793	140 222	133 729	
TOTAL SALES in TONNES		44 633	36 557	59 615	Shipments down by 25.1%
TOTAL SALES in '000 PLN		104 996	81 618	109 299	Sales down by 3.9%

Segments

FINISHED PRODUCTS		Q1 2018	Q4 2017	Q1 2017	
PURCHASES	<i>Tonnes</i>				
ALL ENTITES		0	19	0	
PRODUCTION	<i>Tonnes</i>				
ZWWB		21 870	20 430	17 844	
HSJ		48 191	39 698	43 392	
PROFIL		63 610	58 834	60 556	
SALES TO EXTERNAL CUSTOMERS	<i>Tonnes</i>				
FERROSTAL		68 688	68 315	68 588	
HSJ		53 368	41 389	44 847	
SALES	<i>'000 PLN</i>				
CONSOLIDATED		329 435	273 529	252 390	
TOTAL PURCHASES in TONNES		0	19	0	
TOTAL PRODUCTION in TONNES		133 671	118 962	121 792	Production up by 9.8%
TOTAL SALES TO EXTERNAL CUSTOMERS in TONNES		122 056	109 704	113 435	Shipments up by 7.6%
TOTAL SALES in '000 PLN		329 435	273 529	252 390	Sales up by 30.5%

STATEMENT OF PROFIT OR LOSS		Q1 2018	Q4 2017	Q1 2017		
	'000 PLN					
Sales revenue		524 231	456 198	438 726	Revenues up by	19.5%
Cost of sales		-450 267	-392 194	-378 801		
Gross profit		73 964	64 004	59 925	Gross profit up by	23.4%
Other income		660	5 829	1 142		
Distribution expenses		-16 811	-16 426	-16 341		
Administrative expenses		-10 826	-19 706	-9 478		
Other gains/(losses) – net		1 064	-2 769	-1 561		
Other expenses		-1 146	-3 589	-1 094		
EBIT		46 905	27 343	32 593	EBIT up by	43.9%
Financial income		0	4 436	18 318		
Financial expenses		-15 322	-6 816	-12 782	FX loss	3.1m
Net financing costs		-15 322	-2 380	5 536		
Share of profits of associates		4	26	-51		
Excess in fair value of acquired assets over cost		0	0	0		
Profit before tax		31 587	24 989	38 078		
Income tax expense		-4 949	-8 151	-6 825		
Profit/loss for the period from discontinued operations		0	0	0	Adjusted net result	28.9m
Profit for the period		26 638	16 838	31 253		
Depreciation and amortization		-10 902	-11 011	-9 826	EBITDA up by	36.3 %
EBITDA		57 807	38 354	42 419	Adjusted EBITDA	56.8m

ASSETS	Q1 2018	Q4 2017	Q1 2017	
	<i>'000 PLN</i>			
A. TOTAL NON-CURRENT ASSETS	389 353	398 470	418 628	
I. Intangible assets	12 884	13 005	12 359	CAPEX 9.7m (LTM 29.7)
II. Property, plant and equipment	284 099	285 862	292 127	Disposals 0.8m (LTM 2.3)
III. Other receivables	247	223	269	
IV. Investment property and other investments	3 434	3 431	8 004	
V. Prepaid perpetual usufruct of land	23 323	25 771	20 125	
VI. Deferred tax assets	65 366	70 178	85 744	Utilization of tax shield
B. TOTAL CURRENT ASSETS	611 770	552 219	551 568	
I. Inventories	322 821	277 494	302 951	
II. Receivables	192 069	172 679	215 520	Receivables sold (net) 151.1m
1. Trade receivables	191 279	171 889	213 510	Receivables sold (net) in Q1 2017 109.5m
2. Current income tax receivable	778	778	1 869	
3. Other investments	12	12	141	
III. Cash and cash equivalents	96 880	102 046	27 085	Cash balance includes PLN 39.8m of SPO cash proceeds
IV. Prepayments	0	6 012	0	
V. Assets classified as held for sale	0	0	6 012	
Total	1 001 123	950 689	970 196	

EQUITY AND LIABILITIES	Q1 2018	Q4 2017	Q1 2017	
<i>'000 PLN</i>				
A. EQUITY	254 233	241 834	189 342	Equity up by 64.9m <i>(net profit, SPO proceeds)</i>
I. Issued share capital	177 923	177 923	150 532	
II. Reserves and retained earnings	59 201	47 426	23 223	
III. Minority interest	17 109	16 485	15 587	
B. LIABILITIES	746 890	708 855	780 854	Net indebtedness down by 111.6m <i>(cash build-up, PLN 3.1m of FX loss)</i>
I. Non-current liabilities	392 816	388 800	393 195	
1. <i>Employee benefits obligation</i>	<i>11 282</i>	<i>11 282</i>	<i>9 202</i>	
2. <i>Interest-bearing loans and borrowings</i>	<i>361 523</i>	<i>358 003</i>	<i>359 777</i>	
3. <i>Other</i>	<i>20 011</i>	<i>19 515</i>	<i>24 216</i>	
II. Current liabilities	354 074	320 055	387 659	
1. <i>Interest-bearing loans and borrowings</i>	<i>50 554</i>	<i>44 523</i>	<i>69 349</i>	
2. <i>Bank overdraft</i>	<i>2 120</i>	<i>24 607</i>	<i>26 849</i>	
3. <i>Trade payables</i>	<i>289 943</i>	<i>242 324</i>	<i>280 152</i>	
4. <i>Deferred government grants</i>	<i>117</i>	<i>117</i>	<i>117</i>	
5. <i>Employee benefits obligation</i>	<i>5 636</i>	<i>5 122</i>	<i>5 388</i>	
6. <i>Current income tax payable</i>	<i>68</i>	<i>0</i>	<i>116</i>	
7. <i>Provisions for payables</i>	<i>5 636</i>	<i>3 362</i>	<i>5 688</i>	
Total	1 001 123	950 689	970 196	

CASH FLOW	Q1 2018	Q4 2017	Q1 2017
	<i>'000 PLN</i>		
A. OPERATING ACTIVITIES	29 838	2 415	32 365
B. INVESTING ACTIVITIES	461	-3 683	-3 956
C. FINANCING ACTIVITIES	-12 978	17 137	-25 953
Net increase in cash	17 321	15 869	456

Working capital outflow 29.1m
(increase of inventories; and receivables)

CF CAPEX (-) 3.7m
CF asset dispositions 4.0m

Net incurrence of principal 14.6m
Interest service (-) 27.6m

MAIN METRICS	Q1 2018	Q4 2017	Q1 2017
Liquidity ratio	1.73	1.73	1.42
Quick ratio	0.82	0.86	0.64
Inventories turnover <i>days</i>	65	64	72
Receivables turnover <i>days</i>	33	35	44
EBITDA margin	11.0%	7.9%	9.7%
Net profit margin	5.1%	2.8%	7.1%
Equity <i>'000 PLN</i>	254 233	241 834	189 342
Net debt <i>'000 PLN</i>	317 317	325 087	428 890
Net debt / EBITDA	2.0	2.3	3.4

Liquidity ratios improved and very good

Inventory ratio down to 65 days
Receivable ratio down to 33 days

Profitability ratios increased

Leverage down to 2.0 times

Main factors

- Strong GDP growth for Poland; weaker in the EU (28)
- Demand dynamics lower across the world
- Polish crude steel production higher as compared to Q2 2017 and stabilizing as compared to the previous quarter. Polish steel consumption further increasing including rebars
- Prices of scrap metal, billets and finished products and conversion spreads higher as compared to Q2 2017 and stabilizing as compared to the previous quarter
- EAF cost model still much more expensive versus BOF
- expected Q2 2018 EBITDA good but lower compared to Q1 2018

Financing

In February 2014 Cognor has closed the restructuring transaction by issuing:

- EUR 100m of senior notes maturing February 2020; coupon 7,5% years 1-2; 10% year 3; 12,5% years 4-6
- EUR 25m of exchangeable notes February 2021; coupon 5%. The notes are exchanged mandatorily into Cognor's shares at maturity or earlier at the demand of a holder. Amended by the SPO exchange price is PLN 2.05 per share. These notes form part of our equity.

Due to repurchases and cancellation of the senior notes as well the conversion of the exchangeable notes the actual outstanding amounts are the following:

- EUR 80.9m of senior notes maturing February 2020; coupon 7,5% years 1-2; 10% year 3; 12,5% years 4-6
- EUR 19.7m of exchangeable notes February 2021; coupon 5%.

In June 2017 we entered into a long-term loan agreement with a couple of relationship banks for the purpose of the entire senior notes repayment. In December 2017 we carried out the SPO through which we received PLN 39.8m of cash proceeds, less by PLN 50m to be able to satisfy the incurrence condition. Therefore, we sought to agree on the amendment of the loan's certain terms in order to be able to utilize it which together with our own cash would allow to redeem all the senior notes. Although we've received an approval to our request, it has been granted with some additional conditions, which in effect could significantly delay the refinancing. Since we believe that the similar financing could be relatively quickly arranged with participation of other lender or lenders, we've decided to terminate the bank loan prior to any utilization. Refinancing of the senior notes and the related financial cost's reduction remains the Cognor's primary strategic goal.

Together reach more



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