



Q2 2018 Business and Financial Performance

August 20, 2018



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Krzysztof Zoła
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

Introduction | Q2 2018 Highlights

- Polish GDP growth at 5.0% identical as Q1 2018 and stronger compared to Q2 2017 (4.2%); EU28 growth at 2.2%, 2.2% and 2.0% respectively
- Polish steel production decreased by 1.9%. In the EU (28) it went up by 2.2%
- Increase of prices of scrap metal, billets and finished products. Improvement of all conversion spreads. Good demand; In addition to the existing protectionist measures in July the EU have put in place a safeguard instrument aimed against the US tax driven second tier effects
- Some softening of scrap metal prices. BOF v EAF cost advantage slightly reduced
- 30.3% increase in revenues; shipments up by 11.1%
- Further improvement of gross profit, EBIT and EBITDA

Capacities' utilization

	ANNUAL CAPACITY	UTILIZATION RATE	
	Tonnes	Q2 2018	Q2 2017
FERROSTAL	375 000	117.4%	117.6%
HSJ	261 000	104.8%	89.2%
COMBINED	636 000	112.0%	106.0%

Crude steel production and finished products demand

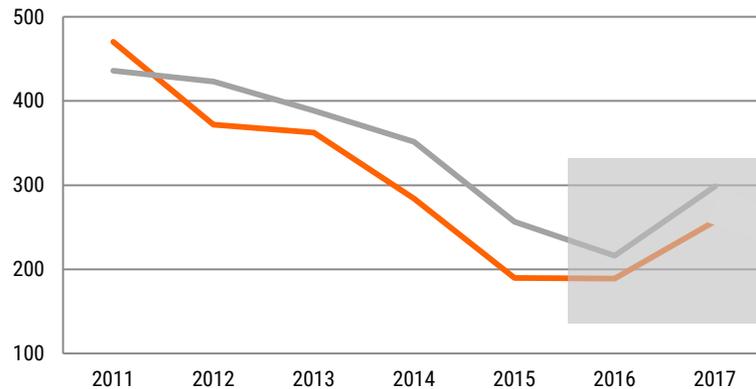
CRUDE STEEL PRODUCTION		Q2 2018	% YoY	Q2 2017	
	<i>m tonnes</i>				
Europe		81.1	4.3%	77.8	
	UE (28)	44.3	2.2%	43.3	EU gaining speed
	Poland	2.58	-1.9%	2.63	Poland's correction
	CIS	26.8	10.1%	24.3	
North America		29.5	2.8%	28.7	
	USA	21.1	3.5%	20.4	Is section 232 working?
South America		10.6	-1.7%	10.8	
Africa / Middle East		12.1	7.5%	11.2	
Asia		319.8	5.3%	303.8	
	China	239.0	6.0%	225.4	China repeating „good old” figures
	Japan	26.6	1.9%	26.1	
Oceania		1.7	15.7%	1.5	
	Total	454.9	4.9%	433.8	

source: World Steel Association

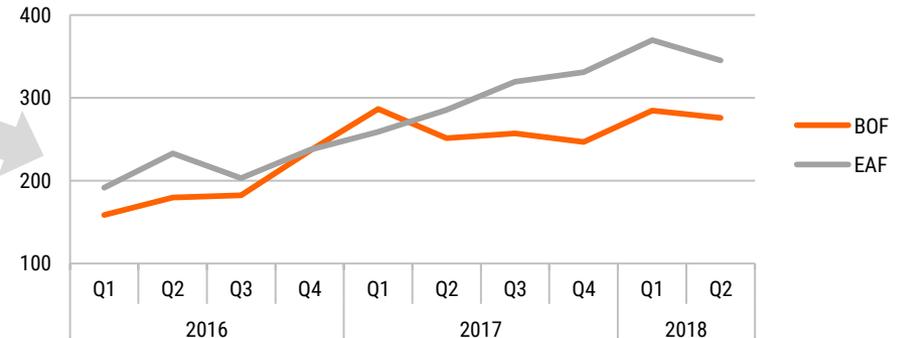
Business Overview

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	Q2	
<i>USD / Tonne</i>																		
BOF	470	372	363	284	190	189	257	159	180	182	236	287	251	249	242	282	276	
EAF	436	423	388	352	257	216	299	192	233	203	237	259	285	320	331	370	345	
difference	34	-52	-26	-68	-67	-27	-41	-33	-53	-21	-1	28	-34	-62	-84	-88	-69	



Feedstock Cost



Prices	Iron ore	Coking coal	Steel scrap
<i>(USD / Tonne)</i>			
2011	168	200	389
2012	129	145	378
2013	135	122	347
2014	97	105	314
2015	55	89	229
2016	59	92	193
2017	72	145	267

Prices	Iron ore	Coking coal	Steel scrap
<i>(USD / Tonne)</i>			
Q1 2016	48	75	171
Q2 2016	56	76	208
Q3 2016	59	84	181
Q4 2016	71	130	212
Q1 2017	86	169	231
Q2 2017	63	161	255
Q3 2017	72	137	285
Q4 2017	66	132	296
Q1 2018	75	159	330
Q2 2018	66*	176*	308

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

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

source: IMF - iron ore, EIA - coke, Cognor - scrap, *Cognor estimate

Business Overview

Prices & Spreads

	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017
(pln/ tonne)					
FERROSTAL					
SCRAP METAL - average purchase price	1 102	1 123	1 063	1 036	965
BILLETS - average price	2 183	2 157	1 491	1 660	1 858
<i>volume</i>	18 139	28 685	21 314	29 705	25 161
BILLET SPREAD	1 080	1 034	1 016	760	889
FINISHED PRODUCTS – average price	2 321	2 342	2 210	1 923	1 962
<i>total volume</i>	75 452	77 058	72 075	106 735	66 998
<i>- plain bars</i>	2 450	2 513	2 375	1 996	2 026
<i>volume</i>	8 044	6 792	6 910	9 877	8 183
<i>- flat bars</i>	2 482	2 500	2 374	2 031	1 995
<i>volume</i>	11 805	9 955	9 434	17 718	12 160
<i>-squares</i>	2 414	2 494	2 355	2 003	1 988
<i>volume</i>	2 238	1 580	1 194	2 905	1 286
<i>-rebars</i>	2 234	2 267	2 143	1 868	1 923
<i>volume</i>	47 808	53 382	52 933	69 629	39 590
<i>-angles</i>	2 494	2 517	2 383	2 037	2 023
<i>volume</i>	5 302	5 008	1 323	6 450	5 482
<i>-other</i>	2 619	2 889	3 812	2 892	2 740
<i>volume</i>	255	341	281	156	297
PRODUCT SPREAD	1 218	1 219	1 147	887	997
<i>- plain bars</i>	1 348	1 390	1 313	961	1 061
<i>- flat bars</i>	1 379	1 377	1 311	995	1 030
<i>- squares</i>	1 312	1 371	1 292	967	1 023
<i>- rebars</i>	1 131	1 144	1 080	833	958
<i>- angles</i>	1 391	1 394	1 320	1 001	1 058
<i>- other</i>	1 517	1 766	2 750	1 856	1 775

scrap metal price up by **137 & 14.2%**
 billet sales price up by **328 & 17.7%**

billet spread up by 192 & 21.5%
 finished product sales price up by **358 & 18.3%**

product spread up by 222 & 22.2%

Business Overview

Prices & Spreads

	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 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 **229 & 22.9%**
 billet sales price up by **598 & 28.0%**

billet spread up by 369 & 32.5%
 finished product sales price up by **719 & 25.5%**

product spread up by 490 & 27.0%

Business Overview

Segments

SCRAP METAL		Q2 2018	Q1 2018	Q2 2017		
PURCHASES FROM EXTERNAL SUPPLIERS	<i>Tonnes</i>					
FERROSTAL		86 927	112 347	86 649		
ZŁOMREX		87 989	90 022	77 052	ZŁOMREX purchases up by	14.2%
HSJ		48 767	46 519	39 283		
INTERNAL USE	<i>Tonnes</i>					
FERROSRAL		122 148	129 616	121 139		
HSJ		78 044	74 261	66 372		
SALES TO EXTERNAL CUSTOMERS	<i>Tonnes</i>					
ZŁOMREX		46 798	38 645	30 2011		
OTHER		0	0	0		
SALES	<i>'000 PLN</i>					
CONSOLIDATED		51 931	43 059	28 557		
TOTAL PURCHASES in TONNES		223 683	248 888	202 894		
TOTAL INTERNAL USE in TONNES		200 192	203 877	188 511		
TOTAL SALES in TONNES		46 798	38 645	30 211	Shipments up by	54.9%
TOTAL SALES in '000 PLN		51 931	43 059	28 557	Sales up by	81.9%

Business Overview

Segments

BILLETS		Q2 2018	Q1 2018	Q2 2017
PURCHASES	<i>Tonnes</i>			
FERR		0	0	0
PRODUCTION	<i>Tonnes</i>			
FERR		109 658	115 529	110 255
HSJ		68 393	64 803	58 234
INTERNAL USE	<i>Tonnes</i>			
FERR		77 255	89 637	81 425
HSJ		55 880	54 156	47 255
SALES TO EXTERNAL CUSTOMERS	<i>Tonnes</i>			
FERR		19 662	33 986	32 603
HSJ		12 513	10 647	10 979
SALES	<i>'000 PLN</i>			
CONSOLIDATED		77 960	104 996	85 992
TOTAL PURCHASES in TONNES		0	0	0
TOTAL PRODUCTION in TONNES		178 051	180 332	168 489
TOTAL INTERNAL USE in TONNES		133 135	143 793	128 680
TOTAL SALES in TONNES		32 175	44 633	43 582
TOTAL SALES in '000 PLN		77 960	104 996	85 992

Production up by 5.7%

Shipments down by 26.2%
Sales down by 9.3%

Business Overview

Segments

FINISHED PRODUCTS		Q2 2018	Q1 2018	Q2 2017
PURCHASES	<i>Tonnes</i>			
ALL ENTITES		0	0	0
PRODUCTION	<i>Tonnes</i>			
ZWWB		17 124	21 870	20 369
HSJ		52 171	48 191	42 743
PROFIL		56 414	63 610	57 046
SALES TO EXTERNAL CUSTOMERS	<i>Tonnes</i>			
FERROSTAL		69 338	68 688	65 863
HSJ		55 548	53 368	43 773
SALES	<i>'000 PLN</i>			
CONSOLIDATED		349 921	329 435	251 485
TOTAL PURCHASES in TONNES		0	0	0
TOTAL PRODUCTION in TONNES		125 709	133 671	120 158
TOTAL SALES TO EXTERNAL CUSTOMERS in TONNES		124 886	122 056	109 637
TOTAL SALES in '000 PLN		349 921	329 435	251 485

Production up by

4.6%

Shipments up by
Sales up by

13.9%
39.1%

Financials

STATEMENT OF PROFIT OR LOSS	Q2 2018	Q1 2018	Q2 2017		
	'000 PLN				
Sales revenue	535 702	524 231	411 215	Revenues up by	30.3%
Cost of sales	-453 760	-450 267	-363 681		
Gross profit	81 942	73 964	47 534	Gross profit up by	72.4%
Other income	3 563	660	1 531		
Distribution expenses	-17 403	-16 811	-15 206		
Administrative expenses	-13 276	-10 826	-10 874		
Other gains/(losses) – net	1 159	1 064	744		
Other expenses	-5 000	-1 146	-1 100		
EBIT	50 958	46 905	22 629	EBIT up by	125.2%
Financial income	0	0	0		
Financial expenses	-32 717	-15 322	-13 725	FX loss	12.9m
Net financing costs	-32 717	-15 322	-13 725	Loan termination cost	7.1m
Share of profits of associates	-32	4	29		
Excess in fair value of acquired assets over cost	0	0	0		
Profit before tax	18 209	31 587	8 933		
Income tax expense	-1 480	-4 949	-2 329		
Profit/loss for the period from discontinued operations	0	0	0		
Profit for the period	16 729	26 638	6 604	Adjusted net result	31.4m
Depreciation and amortization	-11 107	-10 902	-10 162		
EBITDA	62 065	57 807	32 791	EBITDA up by	89.3 %
				Adjusted EBITDA	57.1m

Financials

ASSETS	Q2 2018	Q1 2018	Q2 2017		
	'000 PLN				
A. TOTAL NON-CURRENT ASSETS	392 853	389 353	420 574		
I. Intangible assets	19 670	12 884	12 504	CAPEX	8.7m (LTM 27.9)
II. Property, plant and equipment	280 947	284 099	294 759	Disposals	1.0m (LTM 2.5)
III. Other receivables	272	247	170		
IV. Investment property and other investments	3 402	3 434	3 283		
V. Prepaid perpetual usufruct of land	23 218	23 323	26 042		
VI. Deferred tax assets	65 344	65 366	83 816	Utilization of tax shield	
B. TOTAL CURRENT ASSETS	622 444	611 770	522 632		
I. Inventories	334 527	322 821	320 675		
II. Receivables	186 474	192 069	160 787	Receivables sold (net)	150.4m
1. Trade receivables	185 714	191 279	160 694	Receivables sold (net) in Q2 2017	101.7m
2. Current income tax receivable	748	778	10		
3. Other investments	12	12	83		
III. Cash and cash equivalents	101 443	96 880	41 180	Cash balance includes PLN 39.8m of SPO cash proceeds	
IV. Prepayments	0	0	0		
V. Assets classified as held for sale	0	0	0		
Total	1 015 297	1 001 123	943 206		

Financials

EQUITY AND LIABILITIES	Q2 2018	Q1 2018	Q2 2017
	'000 PLN		
A. EQUITY	270 944	254 233	191 684
I. Issued share capital	177 923	177 923	151 902
II. Reserves and retained earnings	75 270	59 201	23 727
III. Minority interest	17 751	17 109	16 055
B. LIABILITIES	744 353	746 890	751 522
I. Non-current liabilities	404 617	392 816	397 694
1. Employee benefits obligation	11 273	11 282	9 202
2. Interest-bearing loans and borrowings	375 286	361 523	363 970
3. Other	18 058	20 011	24 522
II. Current liabilities	354 074	354 074	353 828
1. Interest-bearing loans and borrowings	61 282	50 554	75 434
2. Bank overdraft	2 048	2 120	26 112
3. Trade payables	269 181	289 943	244 352
4. Deferred government grants	117	117	117
5. Employee benefits obligation	2 594	5 636	2 529
6. Current income tax payable	117	68	235
7. Provisions for payables	4 397	5 636	5 049
Total	1 015 297	1 001 123	943 206

Equity up by 79.2m
(LTM net profit, SPO proceeds PLN 39.8, dividend PLN11.9)

Net indebtedness down by 87.2m
(cash build-up, PLN 12.9m of FX loss)

Financials

CASH FLOW	Q2 2018	Q1 2018	Q2 2017
	<i>'000 PLN</i>		
A. OPERATING ACTIVITIES	38 960	29 838	31 678
B. INVESTING ACTIVITIES	-9 942	461	-1 459
C. FINANCING ACTIVITIES	-24 383	-12 978	-14 207
Net increase in cash	4 635	17 321	16 012

Working capital outflow
(increase of inventories;
and receivables) 19.2m

CF CAPEX (-) 9.9m

CF asset dispositions 0.4m

Dividend payment (-) 11.9m

Interest service (-) 9.1m

MAIN METRICS	Q2 2018	Q1 2018	Q2 2017
Liquidity ratio	1.83	1.73	1.48
Quick ratio	0.85	0.82	0.57
Inventories turnover <i>days</i>	66	65	79
Receivables turnover <i>days</i>	31	33	35
EBITDA margin	11.6%	11.0%	8.0%
Net profit margin	3.1%	5.1%	1.6%
Equity <i>'000 PLN</i>	270 944	254 233	191 684
Net debt <i>'000 PLN</i>	337 173	317 317	424 346
Net debt / EBITDA	1.8	2.0	3.4

Liquidity ratios improved and very good

Inventory ratio down to 66 days

Receivable ratio down to 31 days

Profitability ratios increased

Leverage down to 1.8 times



1

Strong GDP growth for Poland; fair in the EU (28)

2

Demand dynamics lower as compared to Q2 2018; holiday and maintenance season

3

Polish crude steel production stable at a very high utilization rate. Polish steel consumption further increasing including rebars along with infrastructural spending

4

Possible softening of scrap metal prices, billets and finished products stable or increasing slightly; conversion spreads higher as compared to Q3 2017 and at least stable as compared to the previous quarter

5

EAF cost model still more expensive versus BOF but recovering at the back of possible softening of scrap metal price

6

expected Q3 2018 EBITDA good but lower compared to Q2 2018

In February 2014 Cognor has closed the financial 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. The exchange price is PLN 1.92 per share amended from the initial PLN 2.35 due to the SPO and the 2017 dividend. These notes form part of our equity.

Due to the so far repurchases and cancellations of the senior notes and a partial redemption of those carried out on August 8, 2018, as well as the up to date conversions of the exchangeable notes the actual outstanding notionals are as follows:

- EUR 60.m under the senior notes,
 - EUR 19.7m under the exchangeable notes.
- 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 an SPO through which we received PLN 39.8m of cash proceeds, less by PLN 50.2m to be able to satisfy the critical incurrence condition. Therefore, we sought to agree on an amendment of the loan's certain terms in order to be able to utilize it, which together with our own cash would have allowed to redeem all of the senior notes. Although we received an approval to our request, it was granted with some additional conditions, which in effect would significantly delay the refinancing. On April 30, 2018 we decided to terminate that loan prior to any utilization which resulted in a recognition of a financial charge related to the loan's fees at the total amount of PLN 7.1m in Q2 2018 .
- On July 12, 2018 we entered into a new bank loan extended by a consortium of 4 banks in an amount of EUR 60m for the repayment of all of the senior secured notes and PLN 40m for general corporate purposes. We are currently awaiting the banks' decision over the satisfaction of all of the conditions precedent to utilization and subject to the confirmation of that fact we expect to be able to draw the funds in the next 5 working days which most likely will result in the full redemption of all of the remaining seniors secured notes at par by the end of September.

Together reach more



COGNOR SA

ul. Zielona 26, 42 - 360 Poraj

tel. +48 34 316 01 10, fax +48 34 316 01 12

cognor@cognor.eu, www.cognor.pl