



Q3 2017 Financial results

14 November 2017



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Management team



Przemysław Sztuczkowski
Founder, CEO

Responsibility

- Strategic development
- Production management and planning
- Investment policy

Experience

- Founder of Złomrex in 1990
- Steel market consolidator and creator of the integrated Group in its current shape
- Steel market professional with 27-year of experience in various business undertakings
- President of the Board and CEO of Cognor Holding since 2012

Education

- Graduate of technical school



Przemysław Grzesiak
Deputy CEO

Responsibility

- Production management; planning
- Investment policy

Experience

- Co-founder of Złomrex in 1990
- With the Group since its beginning
- Steel market professional with 26-year of experience in various business undertakings
- Vice-President of the Board and Deputy CEO of Cognor Holding since 2012

Education

- Graduate of University of Technology in Częstochowa (master's degree in furnace construction)



Krzysztof Zoła
Board Member, CFO

Responsibility

- Cooperation with financial institutions
- Budgeting and controlling

Experience

- CFO and Board Member of Złomrex in 2002-2011
- CFO and Board Member of Cognor Holding since 2013
- Awarded the CFO of the year 2007 in Poland

Education

- Graduate of University of Technology in Częstochowa (master's degree in management and marketing in the machine industry)



Dominik Barszcz
Board Member

Responsibility

- Accounting
- IT

Experience

- With Złomrex since 2000; Senior Manager in 2003-2011
- Board Member of Cognor Holding since 2013
- Chief Accountant and IT Director for 8 years

Education

- Economic Academy in Katowice (master's degree in accounting; postgraduate studies in tax strategies)

Management with long lasting track record in the Company combining sector experience with experience in restructuring and development in challenging business environment

Today's presenters

Q3 2017 – Key highlights

- **high level of capacity utilization;** an increase of crude steel production by 6,3% and 9.6% of finished products. Total shipments up by 46.5%.
- **increase of prices by an average of 11.0%** and **total revenues growth by 58.2%**.
- **improvement of conversion spreads** for billets by **PLN 35 per tonne** but for finished products a decrease **by PLN 104 per tonne**
- EBITDA at **PLN 27.7 million** with **PLN 9.5 million** of FIFO support
- World's steel output up by 6.7%; China 7.8%; EU 2.6%; Poland 22.7%
- BOF feedstock model less costly compared to EAF

Cognor Holding | Key figures

Q3 2017	155k tons Production of crude steel in Q3 2017	PLN 490 mn Total sales revenue for Q3 2017	PLN 28 mn Q3 2017 EBITDA margin at 5.7%	11.0% qoq Stronger EBITDA compared to Q3 2016	PLN -4.6 mn Net loss in Q3 2017 at -0.9% margin; incl. 7.9 mn of FX losses
FY 2016	629k tons Production of crude steel in 2016 (c.a. 7% market share)	PLN 1,352 mn Total sales revenue for FY 2016	PLN 94.8 mn EBITDA for FY 2016 with 7.0% EBITDA margin	93.5% yoy EBITDA growth in 2016	PLN 1.5 mn Net profit for FY 2016

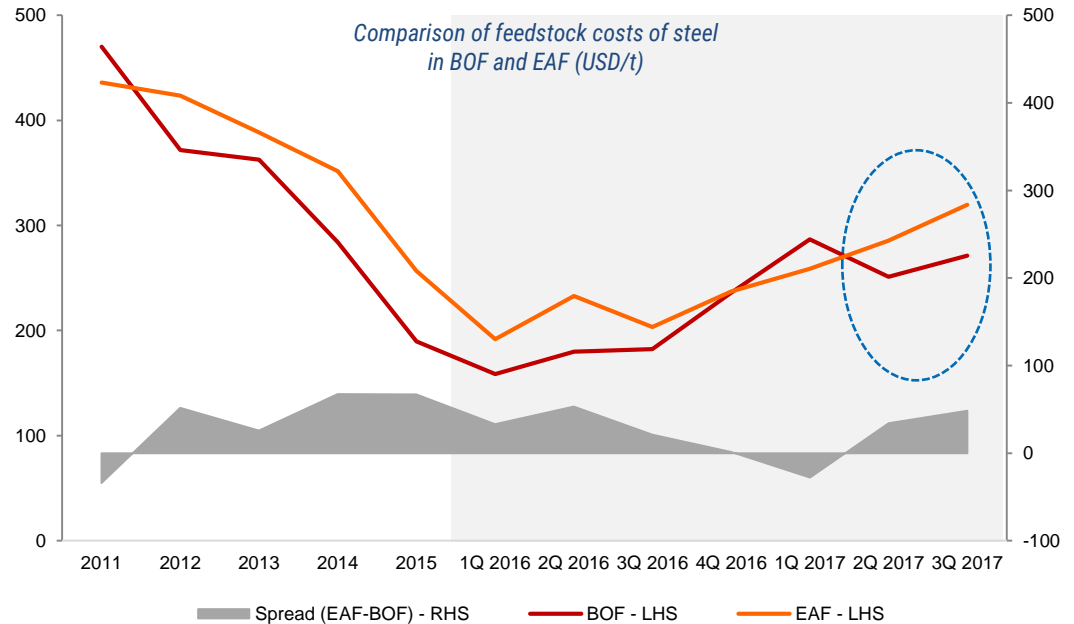
Attractive recent steel market developments are to support the Group's further growth...

EAF steel production process is more advanced and uses cost-effective technology (better energetic balance)...

Market prices	iron ore	coking coal	scrap metal
USD/tonne			
Q3 2017	72	161*	285
Q2 2017	63	161	255
Q1 2017	86	169	231
2016	59	92	193
2015	55	89	229
2014	97	105	314
2013	135	122	347
2012	129	145	378
2011	168	200	389

	BOF	EAF
tonne/tonne of crude steel		
iron ore	1.60	
coking coal	0.60	
scrap metal	0.21	1.12

- BOF cost model includes own coke and sinter plant
- BOF and EAF cost models and other cost estimates do not represent any particular plant nor Cognor cost structure



Feedstock costs	2011	2012	2013	2014	2015	Q1 '16	Q2 '16	Q3 '16	Q4 '16	2016	Q1 '17	Q2 '17	Q3 '17
USD/tonne													
BOF	470	372	363	284	190	159	180	182	236	188	287	251	271
EAF	436	423	388	352	257	192	233	203	237	216	259	285	320
Spread (EAF-BOF)	-34	52	26	68	67	33	53	21	1	28	-28	34	48

Group's key business segments – Q3 2017 operating results

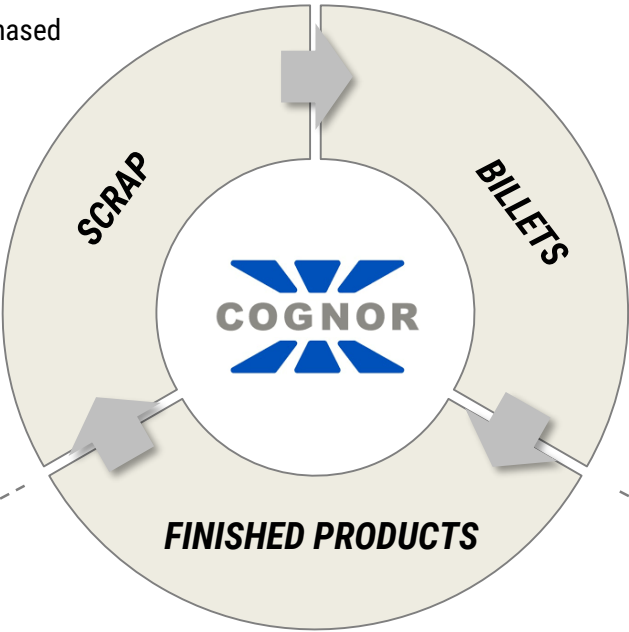


188 854 tons
total scrap purchased

154 823 tons
total billets production



175 352 tons
total scrap used internally



120 256 tons
total billets used internally

144 606 tons
total sales volume of finished products

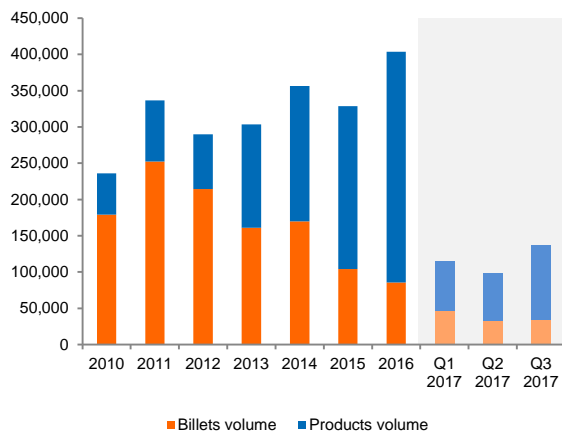


Ferrostal – volumes, prices and spreads

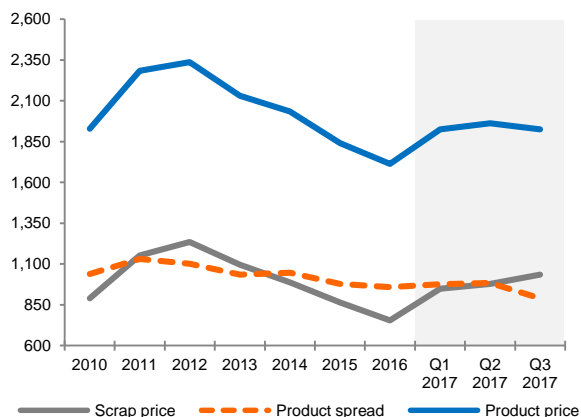


Ferrostal
Steel mill

Ferrostal: Billets and product volumes (tonnes)



Ferrostal: Prices and spreads (PLN/tonne)



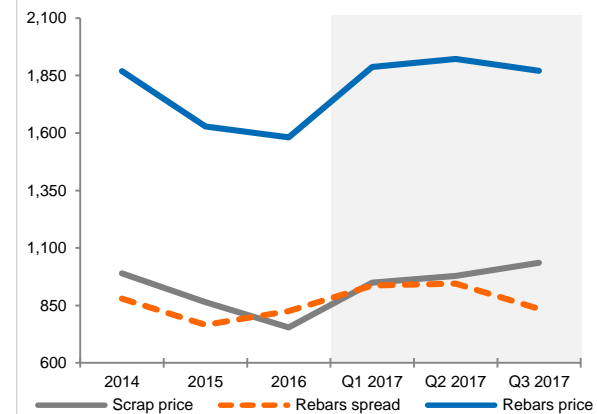
	2016	Q3 2016	Q3 2017
Scrap metal - average purchase price	755	752	1,036
Billets - average sales price	1,491	1,582	1,851
<i>Billets - volume</i>	85,337	20,401	33,362
Billets spreads	736	830	815

	2016	Q3 2016	Q3 2017
Finished products - average sales price	1,714	1,753	1,925
<i>Finished products - total volume</i>	318,095	71,926	103,207
plain bars	1,871	1,890	1,997
<i>volume</i>	29,304	6,343	9,758
flat bars	1,902	1,924	2,031
<i>volume</i>	61,409	13,406	17,683
squares	1,871	1,906	2,003
<i>volume</i>	7,726	2,021	2,905

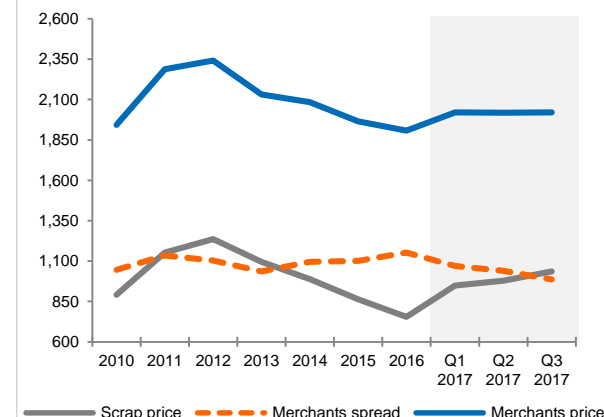
rebars	1,581	1,629	1,871
<i>volume</i>	188,134	43,562	65,855
angles	1,918	1,949	2,037
<i>volume</i>	24,895	5,437	6,448
other	2,108	2,521	2,041
<i>volume</i>	6,627	1,157	558

	2016	Q3 2016	Q3 2017
Product spreads	959	1,001	890
plain bars	1,116	1,138	962
flat bars	1,147	1,172	996
squares	1,116	1,154	967
rebars	826	877	835
angles	1,164	1,197	1,002
other	1,353	1,769	1,005

Ferrostal: Rebars prices and spreads (PLN/tonne)



Ferrostal: Merchant bars prices and spreads (PLN/tonne)¹⁾

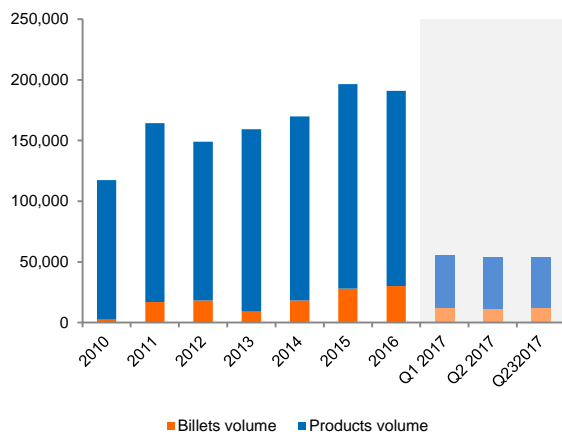


HSJ – volumes, prices and spreads

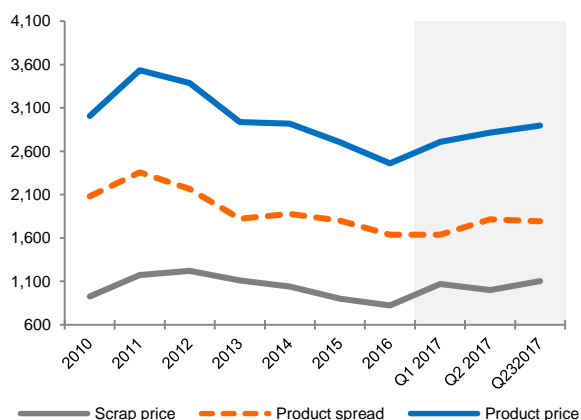


HSJ Steel mill

HSJ: Billets and product volumes (tonnes)



HSJ: Overall prices and spreads (PLN/tonne)

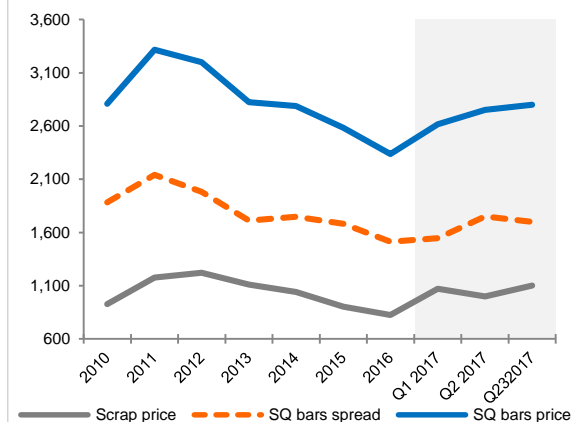


	2016	Q3 2016	Q3 2017
Scrap metal - average purchase price	823	772	1,102
Billets - average sales price	1,775	1,784	2,273
<i>Billets - volume</i>	30,159	6,825	12,308
Billets spreads	952	1,012	1,171

Finished products - average sales price	2,463	2,555	2,895
<i>Finished products - total volume</i>	160,708	34,150	41,399
SQ bars	2,337	2,410	2,800
<i>volume</i>	153,736	33,326	40,020
thick sheets	2,740	2,606	3,749
<i>volume</i>	5,696	627	1,165
thin sheets	11,147	11,718	10,856
<i>volume</i>	638	64	144
other	21,547	34,203	26,708
<i>volume</i>	638	133	70

Product spreads	1,640	1,783	1,793
SQ bars	1,514	1,638	1,698
thick sheets	1,917	1,834	2,647
thin sheets	10,324	10,946	9,754
other	20,724	33,431	25,606

HSJ: SQ bars prices and spreads (PLN/tonne)



Key business segments | Collection of metal scrap

1

MATERIALS: SCRAP

Mainly internal use



Application

- Materials used in further phases of steelmaking process

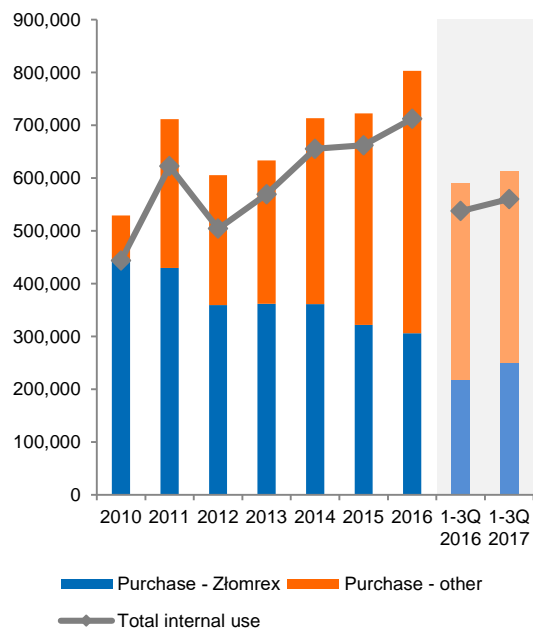
Form

- Ferrous scrap** (for internal use)
- Non-ferrous scrap**, wastepaper and other materials (for external sales)

Q3 2017 comments

- Scrap purchases in Q3 2017 increased by 9% yoy, with internal use 7% higher than in Q3 2016
- Scrap sales increased yoy by 71% and 136% volume-wise and money-wise respectively

Purchase and internal use (tonnes)



	2016	1-3Q 2016	1-3Q 2017	Q3 2016	Q3 2017
PURCHASE FROM EXTERNAL SUPPLIERS (TONNES)					
Ferrostal	358,383	271,905	243,707	77,169	63,566
Zlomrex	306,145	218,607	249,789	69,354	84,150
HSJ	138,704	100,336	118,607	26,561	41,138
INTERNAL USE (TONNES)					
Ferrostal	453,611	350,544	353,260	117,926	107,867
HSJ	258,680	186,951	207,006	46,178	67,485
SALES TO EXTERNAL CUSTOMERS (TONNES)					
Zlomrex	93,553	68,494	92,816	20,319	34,757
SALES ('000 PLN)					
CONSOLIDATED	70,275	50,015	90,391	14,678	34,694
TOTAL PURCHASE (TONNES)	803,232	590,848	612,103	173,084	188,854
TOTAL INTERNAL USE (TONNES)	712,291	537,495	560,266	164,104	175,352
TOTAL SALES (TONNES)	93,553	68,494	92,816	20,319	34,757
TOTAL SALES ('000 PLN)	70,275	50,015	90,391	14,678	34,694

Key business segments | Billets – production of semi-products

2

SEMI-FINISHED PRODUCTS: BILLETS

Internal use and external sales



Application

- **Semi-finished products** to be used in further manufacturing

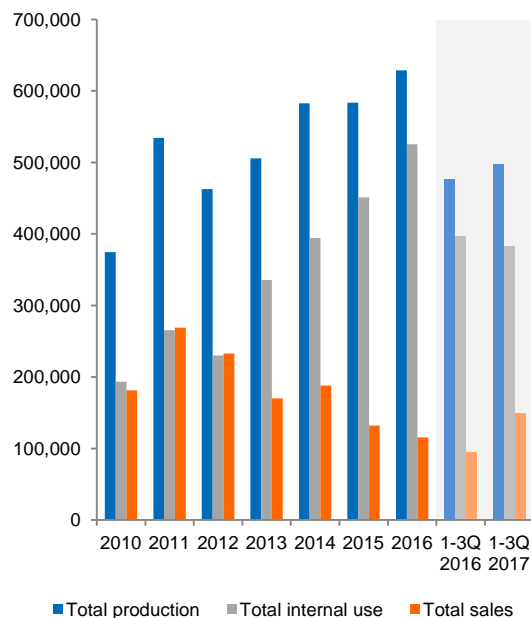
Form

- Square billets
- Rectangulars
- Circles

Q3 2017 comments

- Billet production in Q3 2017 up by 6% yoy
- EAF cost position allowed for higher billet sales (by 68% and 102% volume-wise and money-wise respectively) and a 7% yoy higher internal use of them

Production, internal use and sales (tonnes)



	2016	1-3Q 2016	1-3Q 2017	Q3 2016	Q3 2017
PURCHASE FROM EXTERNAL SUPPLIERS (TONNES)					
Ferrostal	-	-	-	-	-
PRODUCTION (TONNES)					
Ferrostal	402,676	312,137	316,505	105,457	96,112
HSJ	226,090	163,459	180,942	40,203	58,711
INTERNAL USE (TONNES)					
Ferrostal	329,371	254,573	237,573	78,748	73,853
HSJ	195,931	142,074	145,092	33,378	46,403
SALES TO EXTERNAL CUSTOMERS (TONNES)					
Ferrostal	85,337	72,892	113,017	20,401	33,362
HSJ	30,159	21,385	35,850	6,825	12,308
SALES ('000 PLN)					
CONSOLIDATED	180,764	143,091	285,011	44,451	89,720
TOTAL PURCHASE (TONNES)	-	-	-	-	-
TOTAL PRODUCTION (TONNES)	628,766	475,596	497,447	145,660	154,823
TOTAL INTERNAL USE (TONNES)	525,302	396,647	382,665	112,126	120,256
TOTAL SALES (TONNES)	115,496	94,277	148,867	27,226	45,670
TOTAL SALES ('000 PLN)	180,764	143,091	285,011	44,451	89,720

Key business segments | Finished products

3 FINISHED PRODUCTS: LONG AND FLAT PRODUCTS

External sales



Application

- Wide application in numerous industries (automotive, machine, mining, energy, railway)

Form

- Flat bars, square bars, plain bars, angles
- rebars
- SQ bars

Q3 2017 comments

- Sales volume of rebars increased respectively by 51% yoy and 71% qoq as a result of good market demand for finished products



Application

- Focus on specialized steels with high margins (for example defence industry)
- Confirmed deliveries for Polish Army (corpuses for Rosomak military vehicle)

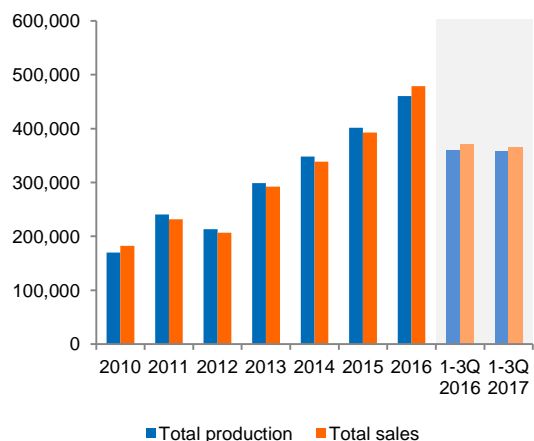
Form

- Construction sheets
- Armoured sheets (ARMSTAL)
- Heat-resistant sheets
- High strength sheets

Q3 2017 comments

- Sales volume of thick and thin sheets increased by 89% yoy and decreased by 61% qoq

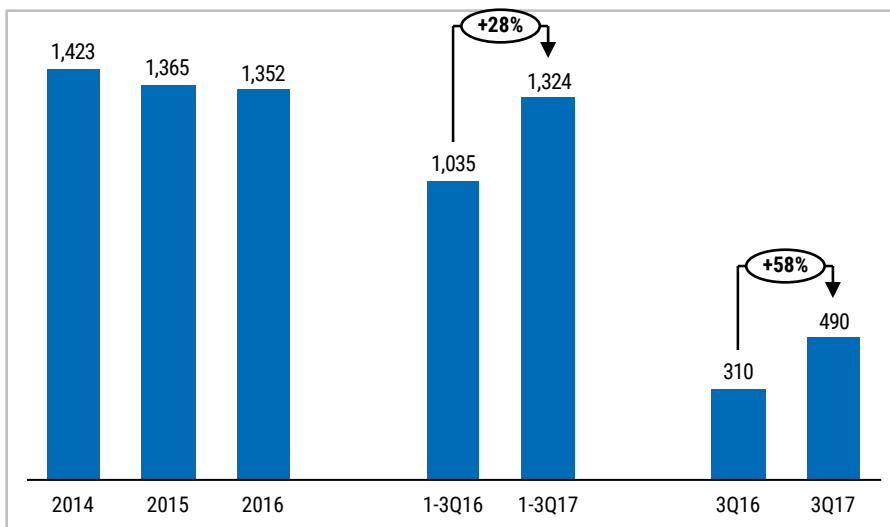
Production and sales (tonnes)



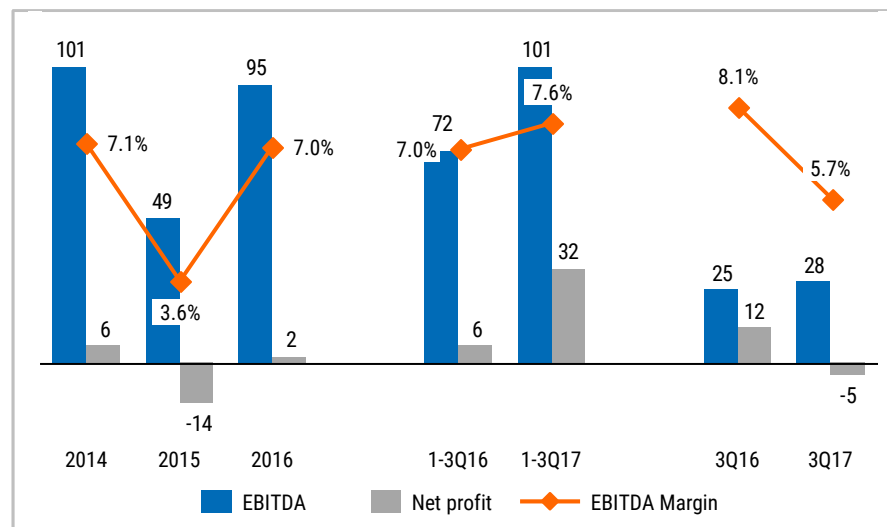
	2016	1-3Q 2016	1-3Q 2017	Q3 2016	Q3 2017
PURCHASE FROM EXTERNAL SUPPLIERS (TONNES)					
Ferrostal	132	92	-	36	-
PRODUCTION (TONNES)					
ZWWB	80,480	42,794	38,213	20,046	20,086
HSJ	156,858	88,380	86,135	31,512	45,864
Profil	223,029	121,814	117,602	54,467	50,211
SALES TO EXTERNAL CUSTOMERS (TONNES)					
Ferrostal	318,095	170,448	134,451	71,926	103,207
HSJ	160,708	93,580	86,054	34,150	41,399
SALES ('000 PLN)					
CONSOLIDATED	941,127	509,566	498,986	213,367	318,540
TOTAL PURCHASE (TONNES)	132	92	-	36	-
TOTAL PRODUCTION (TONNES)	460,367	252,988	241,950	106,025	116,161
TOTAL SALES (TONNES)	478,803	264,028	220,505	106,076	144,606
TOTAL SALES ('000 PLN)	941,127	509,566	498,986	213,367	318,540

Cognor's financial results

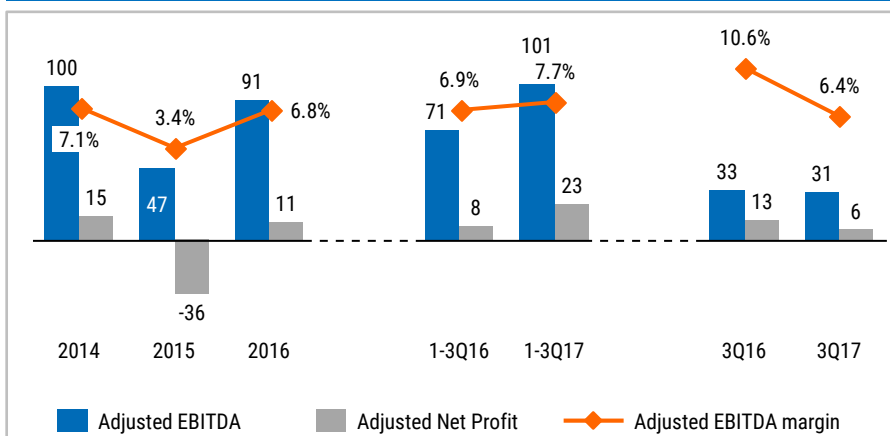
Revenue (PLN mn)



EBITDA, Net Profit (PLN mn)



Adjusted EBITDA and Net Profit (PLN mn)¹



Comments

Revenue:

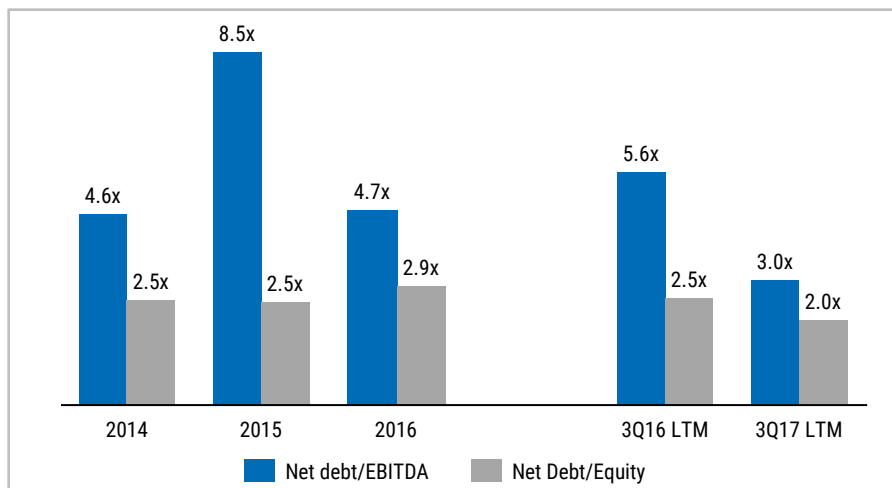
- In 3Q17 revenues were PLN 180 mn higher than in 3Q16, which was the effect of 46.5% shipments and 11.0% price increases. It was the best quarterly result in Company's history.

EBITDA, Net result:

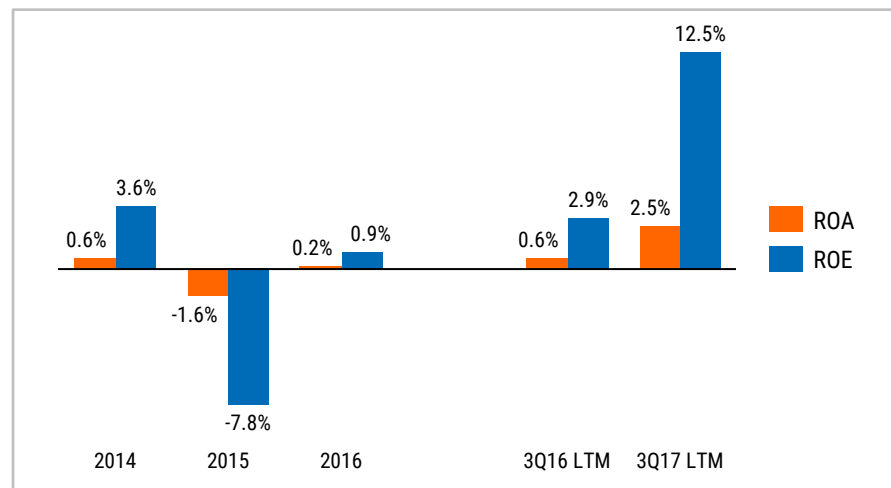
- EBITDA margin in 1-3Q17 at 7.6% though with FIFO gains of PLN 9.5 mn (PLN 13.9 mn loss in 3Q16)
- conversion spread – the key profitability driver improved by PLN 35 for billets and deteriorated by PLN 104 for finished products
- Net loss due to PLN 7.9 mn of FX losses related to debt

Cognor's leverage and profitability

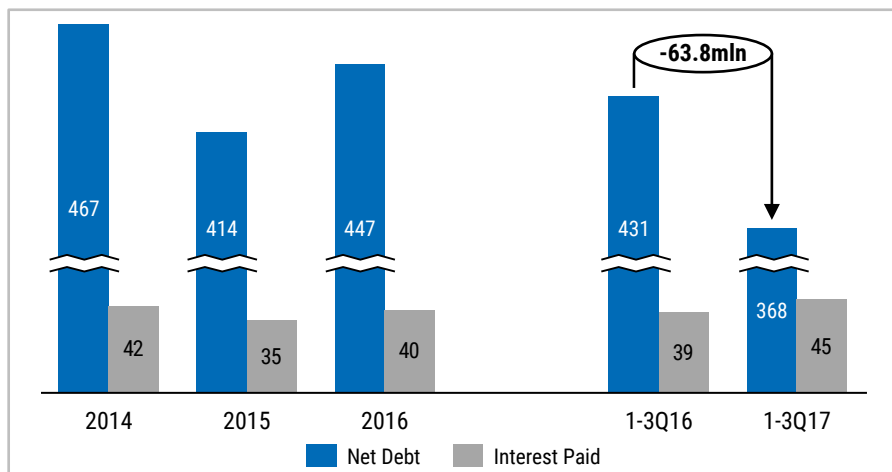
Cognor's Leverage Ratios



Cognor's Profitability Ratios



Cost of Cognor's debt [PLN mn]



Comments

Leverage:

- Cognor reduced its net debt in 3Q17 by PLN 63.8 mn compared to 3Q16,
- Increasing EBITDA and debt reduction resulted in net debt/EBITDA ratio coming back to „safe territory” of 3.0x
- Debt structure - **bonds accounted for ca 80% of total financial liabilities** in 3Q17

Cost of debt:

- It is dependent primarily on bonds' coupons currently cash-wise at **12.5%** and P&L-wise at **10.8%**

Cognor's working capital

Cognor's liquidity and efficiency ratios

	2014	2015	2016	3Q16	3Q17
Liquidity ratio	1.8x	1.8x	1.5x	1.8x	1.6x
Quick ratio	0.8x	0.7x	0.5x	0.8x	0.8x
Inventories turnover (days)	81	76	90	71	53
Receivables turnover (days)	48	34	37	41	38

Comments

Working Capital Requirement:

- WC has been decreasing gradually in the period of 2014-2017. PLN 55.6 mn of WC inflow in Q3 2017 due to inventory decrease

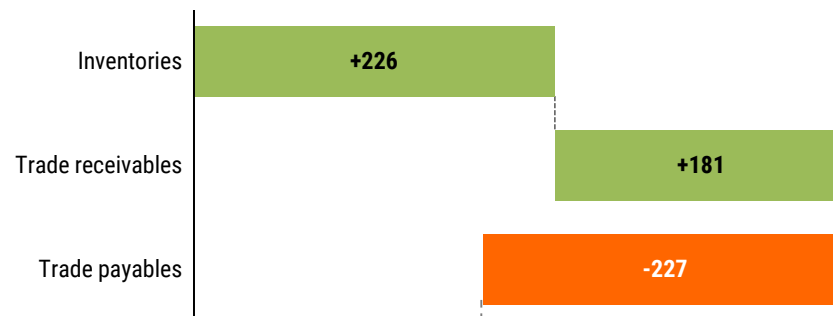
Liquidity ratio

- Fall of the index in 3Q17 was driven by PLN 60.0 mn growth of current trade payables and growth of current assets by PLN 66.6 mn

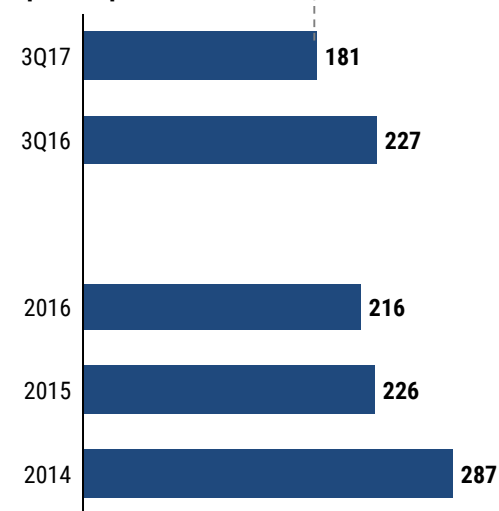
Inventories turnover:

- variations result from periodic mismatch between production and sales volumes, which is due to seasonal changes in demand. Fall in 3Q17 due to very strong shipments

Cognor's working capital requirement structure [PLN mn]



Working capital requirement



Consolidated income statement

'000 PLN	1-3Q 2016	1-3Q 2017	Q3 2016	Q3 2017
Revenue	1 034 924	1 323 885	309 745	490 044
Cost of sales	-929 325	-1 173 311	-273 480	-443 892
Gross profit	105 599	150 574	36 265	46 152
Other income	4 292	4 018	1 939	1 652
Distribution expenses	-37 835	-48 925	-12 893	-18 248
Administrative expenses	-25 297	-30 425	-8 322	-10 882
Other gains/(losses) – net	776	230	-577	930
Other expenses	-3 084	-4 578	-1 070	-2 411
EBIT	44 451	70 894	15 342	17 193
Financial income	2 498	9 667	333	3
Financial expenses	-45 947	-38 436	-2 376	-20 696
Net financing costs	-43 449	-28 769	-2 043	-20 693
Share of profits of associates	134	25	47	47
Excess in the net fair value of acquired assets over cost	0	0	0	0
Profit before tax	1 136	42 150	13 346	-3 453
Income tax expense	4 624	-9 988	-1 575	-1 168
Profit/loss for the period from discontinued operations	0	0	0	0
Profit for the period	5 760	32 162	11 771	-4 621
Depreciation and amortization	27 852	30 103	9 644	10 544
EBITDA	72 303	100 997	24 986	27 737

Revenue & Gross profit

- The best quarterly revenue figure in Group's history due to record breaking shipments (up by 46.5% yoy) and price increases (up by 11.0% yoy)
- Gross profit margin decreased from 11.7% to 9.4% in 3Q17 due to weaker spreads

EBIT ...

- at PLN 17.2 mn; significantly above 3Q 2016 but with PLN 9.5 mn FIFO support (PLN 7.7 mn loss in 3Q16)

Financial ...

- costs higher in 3Q17 due to PLN 7.9 mn of FX losses related to debt; (PLN 11.0 mn of FX gains in 3Q16).

EBT & Net profit

- Negative EBT & net results in 3Q17 entirely due to FX losses

Consolidated balance sheet

ASSETS [000 PLN]	
A. TOTAL NON-CURRENT ASSETS	
I. Intangible assets	
II. Property, plant and equipment	
III. Other receivables	
IV. Investm. property and other investments	
V. Prepaid perpetual usufruct of land	
VI. Deferred tax assets	
B. TOTAL CURRENT ASSETS	
I. Inventories	
II. Receivables	
1. Trade receivables	
2. Current income tax receivable	
3. Other investments	
III. Cash and cash equivalents	
IV. Prepayments	
V. Assets classified as held for sale	
TOTAL ASSETS	
EQUITY AND LIABILITIES [000 PLN]	
A. EQUITY	
I. Issued share capital	
II. Reserves and retained earnings	
III. Minority interest	
B. LIABILITIES	
I. Non-current liabilities	
1. Employee benefits obligation	
2. Interest-bearing loans and borrowings	
3. Other	
II. Current liabilities	
1. Interest-bearing loans and borrowings	
2. Bank overdraft	
3. Trade payables	
4. Deferred government grants	
5. Employee benefits obligation	
6. Current income tax payable	
7. Provisions for payables	
TOTAL EQUITY AND LIABILITIES	

	3Q 2016	3Q 2017
A. TOTAL NON-CURRENT ASSETS	417 363	402 490
I. Intangible assets	11 520	12 467
II. Property, plant and equipment	284 281	281 147
III. Other receivables	106	194
IV. Investm. property and other investments	12 859	3 305
V. Prepaid perpetual usufruct of land	20 077	25 655
VI. Deferred tax assets	88 520	79 722
B. TOTAL CURRENT ASSETS	429 310	495 955
I. Inventories	240 958	226 300
II. Receivables	157 541	183 422
1. Trade receivables	153 029	181 489
2. Current income tax receivable	47	737
3. Other investments	4 465	1 196
III. Cash and cash equivalents	24 799	86 233
IV. Prepayments	0	0
V. Assets classified as held for sale	6 012	0
TOTAL ASSETS	846 673	898 445
	3Q 2016	3Q 2017
A. EQUITY	169 214	179 291
I. Issued share capital	141 439	152 175
II. Reserves and retained earnings	7 035	11 023
III. Minority interest	20 740	16 044
B. LIABILITIES	677 459	719 154
I. Non-current liabilities	440 143	399 602
1. Employee benefits obligation	9 064	9 052
2. Interest-bearing loans and borrowings	391 997	368 165
3. Other	39 082	22 385
II. Current liabilities	237 316	319 552
1. Interest-bearing loans and borrowings	41 425	61 538
2. Bank overdraft	22 677	24 064
3. Trade payables	166 839	226 854
4. Deferred government grants	117	117
5. Employee benefits obligation	2 855	2 850
6. Current income tax payable	468	25
7. Provisions for payables	2 935	4 104
TOTAL EQUITY AND LIABILITIES	846 673	898 445

Non-current assets

- ...value decreased by PLN 14.9 mn primarily due to the depreciation charges offset by net CAPEX, decrease of deferred tax assets, invest. property and other investments. This was offset by reclassification of PLN 6 mn of assets held for sale and rise in Prepaid perpetual usufruct of land

Current assets

- ... PLN 66.6 mn growth was due to increase of receivables (PLN 25.8 mn) as well as cash and cash equivalents (PLN 61.4 mn)
- Company has strong cash position with PLN 86.2 mn in cash and cash equivalents

Equity

- ...increased by PLN 10.1 mn due to positive LTM net result.

Liabilities:

- liabilities grew primarily due to trade payables increase fuelled by increasing sales
- non-current interest-bearings loans and borrowings decreased by PLN 23.8 mn. Net debt lower by PLN 63.8 mn

Consolidated cash flow and key metrics

CASH FLOW ['000 PLN]	1-3Q 2016	1-3Q 2017	Q3 2016	Q3 2017
A. OPERATING ACTIVITIES	71 522	141 097	17 227	78 982
B. INVESTING ACTIVITIES	-19 263	-10 565	-4 486	-4 304
C. FINANCING ACTIVITIES	-71 219	-70 189	-23 255	-29 356
NET CHANGE IN CASH	-18 960	60 343	-10 514	45 322

KEY METRICS	3Q 2016	3Q 2017
Liquidity ratio	1,81	1,55
Quick ratio	0,79	0,84
Inventories turnover (days)	79	46
Receivables turnover (days)	44	33
EBITDA margin	8,1%	5,7%
Net profit margin	3,8%	-0,9%
Equity	169 214	179 291
Net debt	431 300	367 534
Net debt / LTM EBITDA	5,6x	3,0x

Cash flows

- Operating activities brought strong growth in cash inflows in 3Q17 due to good EBITDA and WC release
- Investing activities cash flows less negative due to lower CAPEX
- Financing activities saw a sizeable negative outflow due to debt and interest repayments at PLN 4.4 mn and PLN 25.0 mn respectively
- Company had a net increase in cash of PLN 45.3 mn

Cash flows

- Liquidity ratio decreased due to an increase of current assets and current trade liabilities. Still OK. Quick ratio slightly increased
- Company's net profit margin and EBITDA margin down
- Net debt/EBITDA ratio back within „safe territory” level of 3.0x. It was due to EBITDA increase and net debt decrease
- Inventory turnover lower due to higher sales while stocks decreased
- Receivables collection down due to higher non-recourse factoring utilization of PLN 90.7 mn; (3Q16 PLN 66.6 mn)

Consolidated EBITDA/Net Profit adjustments

DESCRIPTION	1-3Q 2016	1-3Q 2017	Q3 2016	Q3 2017
'000 PLN				
Reported EBITDA	72 303	100 997	24 986	27 737
Non-recurring items including:	877	-491	-545	162
- costs of sales	0	0	0	0
- other income	516	908	225	129
- distribution expenses	223	-434	31	90
- administrative expenses	0	0	0	0
- other gains/losses	663	-454	675	-423
- operational FX result	113	684	-1 252	1 353
- other impairments	-638	-1 195	-224	-987
Adjusted EBITDA	71 426	101 488	25 531	27 575
Reported net result	5 760	32 162	11 771	-4 621
Non-recurring items including:	-2 498	9 244	10 609	-7 752
- EBITDA adjustments	877	-491	-545	162
- FX result on debt	-5 096	9 664	11 040	-7 883
- result on own debt repurchase	2 165	0	0	0
- result on cancellation of debt	0	0	0	0
- share of associate result	134	-22	10	0
- pro-forma income tax adjustment	-578	93	104	-31
Adjusted net result	8 258	22 918	1 162	3 131

4Q 2017 – outlook (*as compared to 3Q 2017*)

- **Capacity utilization rates higher as** summer maintenance period is over
- **Good demand, high shipments and sales**
- **Product prices to stabilize after Q3 growth; scrap metal cost down**
- **Conversion spreads improvement** as Q3 product price increases become reflected in current sales
- **EAF feedstock cost still higher** as compared to BOF but improving