Press release August 28, 2015

Q2 2015 - Management Discussion and Analysis

The second quarter of 2015 brought a continuation of strong demand for steel in Europe and in Poland in particular. Polish crude steel production was higher by 21% and the EU(28) output saw a 1% increase. The EU growth might not look particularly large however, it was positive unlike the situation on the Chinese market where a 1% decrease was noted. As a result Cognor S.A. (Cognor, the Company, the Group) managed to maintain the high level of production of crude steel and to increase sales of finished products as compared to both the previous quarter and Q2 2014.

In spite of the above the Group was not able to improve its profitability. While our EBITDA profit was slightly higher in comparison to Q1 2015 it stayed well below the one of Q2 2014. In our opinion the main reason was the further decrease of the feedstock cost for basic oxygen furnace (BOF) producers, which resulted in the continuation of pressure for prices of semi-finished and finished products. At the same time our production costs have even increased together with the rising price of scrap metal which represents largest cost component in an electric arc furnace (EAF) steelmaking process.

With the actual level of prices for iron ore and metallurgical coal we actually don’t see more room for any significant decrease of those. Consequently, further deterioration of competitive position of EAF producers vis-à-vis BOF manufacturers, seems unlikely. On the contrary, we expect EAF producers position to start recovering in line with the significant scrap metal price drops which have been observed since may and are expected to continue into H2 2015.

I. Reported Statement

1. Income Statement

As compared to Q2 2014 the Group’s revenues fell by PLN (-)14.8 million and (-)4.0% primarily due to the decrease of prices for semi-finished and finished products as well as to the (-)2,2% decrease of shipments of the combined ferrous scrap, steel semi-finished and finished products. Gross profit fell by PLN (-)6.1 million and (-)16.8% driven by lower profitability of sales of billets and finished products. EBIT and EBITDA decreased each by PLN (-)5.7 million. EBITDA margin fell down to 5,5% from 6.9%. The FX had negative effect on our operations with the average EUR/PLN lower by (-)1.9% as compared to Q2 2014. It also had significant impact on our net financial costs - the FX losses related to the Group’s debt stood at PLN (-)10.6 million driven by the weakening zloty against the euro: EUR/PLN quoted at PLN 4.19 as of June 30, 2015 and at PLN 4.09 as of March 31, 2015.

AVERAGE EXCHANGE RATES	Q2 2015	Q2 2014
PLN		
EUR/PLN	4.09	4.17
% change	-1.9%	
USD/PLN	3.70	3.04
% change	21.8%	

EXCHANGE RATES	30-June-2015	31-Mar-2015	30-June-2014
PLN			
EUR/PLN	4.19	4.09	4.16
% change	2.4%		
USD/PLN	3.76	3.81	3.05
% change	-1.3%		

The contraction of our profitability came mostly from the deterioration of spreads for our finished product. To a larger extent it was seen within the high alloy products (HSJ) and lesser within the basic quality steel types (Ferrostal). The combined product spread for Ferrostal went down by PLN (-)138 per tonne and for HSJ by PLN (-)267. The Ferrostal's billet spread went slightly up by PLN 19 per tonne but this was only caused by the concentration on production and sales of the higher margin steels while most of the billet grades sold in Q2 2014 proved unprofitable and were not produced in the last quarter at all. The negative spread development was partially offset by the higher efficiency of our steel plants resulting from the decrease of some of our production costs.

PRICES AND SPREADS	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014
(pln/ tonne)					
FERROSTAL					
SCRAP METAL - all purchases	961	938	966	966	972
BILLETS - sales to external customers	1 751	1 817	1 929	1 784	1 744
BILLET SPREAD	**790**	**879**	**963**	**818**	**772**
FINISHED PRODUCTS - sales to external customers	1 917	1 935	1 971	1 989	2 066
- plain bars	*1 966*	*1 970*	*2 015*	*2 051*	*2 076*
- flat bars	*1 992*	*1 998*	*2 022*	*2 040*	*2 070*
- squares	*1 946*	*1 957*	*2 014*	*2 034*	*2 056*
- rebars	*1 749*	*1 802*	*1 870*	*1 846*	*1 938*
- angles	*1 946*	*1 973*	*2 052*	*2 083*	*2 120*
- other	*3 029*	*2 158*		*3 971*	*3 475*
PRODUCT SPREADS	**956**	**998**	**1 006**	**1 023**	**1 094**
- plain bars	*1 005*	*1 032*	*1 049*	*1 085*	*1 104*
- flat bars	*1 031*	*1 061*	*1 057*	*1 074*	*1 098*
- squares	*985*	*1 020*	*1 048*	*1 068*	*1 084*
- rebars	*788*	*864*		*880*	*966*
- angles	*985*	*1 035*	*1 086*	*1 117*	*1 148*
- other	*2 068*	*1 220*		*3 005*	*2 503*
HSJ					
SCRAP METAL - all purchases	1 000	995	1 024	1 048	1 034
FINISHED PRODUCTS - sales to external customers	2 649	2 810	2 876	2 900	2 950
- big rounds	*2 548*	*2 737*	*2 726*	*2 761*	*2 808*
- thick sheets	*2 376*	*2 573*	*2 649*	*2 912*	*6 420*
- thin sheets	*10 570*	*11 144*	*11 247*	*11 379*	*11 126*
- other	*25 271*	*22 924*	*23 514*	*29 635*	*25 941*
PRODUCT SPREADS	**1 649**	**1 815**	**1 852**	**1 852**	**1 916**
- big rounds	*1 548*	*1 742*	*1 702*	*1 713*	*1 774*
- thick sheets	*1 376*	*1 578*	*1 625*	*1 864*	*5 386*
- thin sheets	*9 570*	*10 149*	*10 223*	*10 331*	*10 092*
- other	*24 271*	*21 929*	*22 490*	*28 587*	*24 907*

Our weaker operational profitability was further undermined by FX losses related to the Group's indebtedness at PLN (-)10.6 million and resulted in the net loss for the quarter.

INCOME STATEMENT	Q2 2015	Q1 2015	Q2 2014
'000 PLN			
Revenue	353 147	370 782	367 938
Cost of sales	-322 714	-338 837	-331 361
Gross profit	**30 433**	**31 945**	**36 577**
Other income	703	1 452	2 551
Distribution expenses	-11 881	-11 065	-10 616
Administrative expenses	-8 376	-10 046	-7 189
Other gains/(losses) ï net	1 426	-2 522	659
Other expenses	-1 409	-2 067	-5 375
EBIT	**10 896**	**7 697**	**16 607**
Financial income	-10 899	22 485	0
Financial expenses	-10 305	-17 237	-14 666
Net financing costs	**-21 204**	**5 248**	**-14 666**
Share of profits of associates	-46	10	3 785
Profit before tax	**-10 354**	**12 955**	**5 726**
Income tax expense	3 452	-4 922	-1 096
Profit for the period	**-6 902**	**8 033**	**4 630**
Depreciation and amortization	-8 649	-8 945	-8 659
EBITDA	**19 545**	**16 642**	**25 266**

The non-recurring items had some positive effect on EBITDA and negative on our net result. The following adjusted EBITDA and net profit figures facilitate an analogous assessment of the Group's results achieved from the ordinary course of business:

DESCRIPTION	Q2 2015	Q1 2015	Q2 2014
'000 PLN			
Reported EBITDA	**19 545**	**16 642**	**25 266**
Non-recurring items including:	1 444	-2 272	-1 606
- costs of sales			*19*
- other income	*72*	*139*	*288*
- distribution expenses	*132*	*1 321*	*55*
- administrative expenses	*-*	*-1 016*	*-1 017*
- other gains/losses	*882*	*-1 142*	*861*
- operational FX result	*544*	*-1 380*	*-277*
- other impairments	*-186*	*-194*	*-1 535*
Adjusted EBITDA	**18 101**	**18 914**	**26 872**
Reported net result	**-6 902**	**8 033**	**4 630**
Non-recurring items including:	-7 148	16 151	3 354
- EBITDA adjustments	*1 444*	*-2 272*	*-1 606*
- FX result on debt	*-10 640*	*17 981*	*870*
- share of associate result	*-46*	*10*	*3 785*
- result on own debt repurchase	*2 368*	*-*	*-*
- pro-forma income tax adjustment	*-274*	*432*	*305*
Adjusted net result	**246**	**-8 118**	**1 276**

According to the above, the Q2 2015 adjusted EBITDA stood at PLN 18.1 million and the adjusted net profit at PLN 0.2 million – a deterioration as compared to the figures of Q2 2014.

The main entities of the Group made the following contribution to the consolidated results for Q2 2015:

	FERR	ZW-WB	PROFIL	HSJ	ZLMET
'000 PLN					
Revenues	132 257	7 467	10 389	144 489	129 546
- incl. Internal	*462*	*7 365*	*10 375*	*670*	*70 988*
EBIT	3 066	652	-707	5 402	2 051
EBITDA	5 657	870	-277	8 816	2 663
Profit for the period	**1 058**	**627**	**-725**	**-18 158**	**1 465**

2. Balance Sheet

The amount of total assets increased by 1.3% in comparison to Q2 2014 primarily due to the 8.1% increase in value of current assets. It was mostly fueled by 18.5% higher level of inventories. Similar relations, but to a slightly lesser extent, can be observed when compared with the figures of Q1 2015.

ASSETS	Q2 2015	Q1 2015	Q2 2014
'000 PLN			
A. TOTAL NON-CURRENT ASSETS	**412 701**	**412 457**	**443 970**
I. Intangible assets	10 772	11 044	11 762
II. Property, plant and equipment	280 140	283 706	294 874
III. Other receivables	67	29	41 647
IV. Investment property and other investments	16 878	16 924	2 212
V. Prepaid perpetual usufruct of land	22 450	22 654	24 623
VI. Deferred tax assets	82 394	78 100	68 852
B. TOTAL CURRENT ASSETS	**596 815**	**562 887**	**552 311**
I. Inventories	318 455	274 436	268 707
II. Receivables	250 281	261 181	247 672
1. Trade receivables	*245 847*	*255 231*	*224 750*
2. Current income tax receivable	*10*	*10*	*33*
3. Other investments	*4 424*	*5 940*	*22 889*
III. Cash and cash equivalents	20 969	20 160	27 260
IV. Prepayments	0	0	0
V. Assets classified as held for sale	7 110	7 110	8 672
TOTAL ASSETS	**1 009 516**	**975 344**	**996 281**

In Q2 2015 the Group increased its leverage with the gross debt amounting to PLN 508.3 million and the net indebtedness at 487.3 million - more by PLN 18.7 million as compared to Q2 2014 and by PLN 14.6 million in comparison to Q1 2015. The main reason behind the enlargement of debt was the increase of the value of current assets – by PLN 44.5 million and PLN 33.9 million respectively.

EQUITY AND LIABILITIES	Q2 2014	Q1 2015	Q2 2014
'000 PLN			
A. EQUITY	**186 558**	**193 707**	**228 807**
I. Issued share capital	132 444	132 444	132 444
II. Reserves and retained earnings	32 568	39 703	72 110
III. Minority interest	21 546	21 560	24 253
B. LIABILITIES	**822 958**	**781 637**	**767 474**
I. Non-current liabilities	448 801	447 169	422 266
1. Employee benefits obligation	*9 597*	*9 597*	*9 230*
2. Interest-bearing loans and borrowings	*392 497*	*391 782*	*407 504*
3. Other	*46 707*	*45 790*	*5 532*
II. Current liabilities	374 157	334 468	345 208
1. Interest-bearing loans and borrowings	*110 193*	*94 010*	*82 099*
2. Bank overdraft	*5 574*	*7 082*	*6 228*
3. Trade payables	*251 936*	*222 728*	*247 791*
4. Deferred government grants	*117*	*117*	*117*
5. Other financial liabilities	*0*	*0*	*0*
6. Employee benefits obligation	*2 429*	*5 369*	*1 760*
7. Current income tax payable	*90*	*57*	*0*
8. Provisions for payables	*3 818*	*5 105*	*7 213*
TOTAL EQUITY AND LIABILITIES	**1 009 516**	**975 344**	**996 281**

3. Cash flow

In Q2 2015 the Group had a surplus in its operating cash flow primarily as a result of positive EBITDA. Working capital had a negative effect at PLN (-)4.0 million. Cash flow from investing activities was negative in connection with the acquisition of fixed assets at PLN (-)5.4 million. Financial activities were slightly positive with the interest expenses offset by the incurrence of financial liabilities.

CASH FLOW	Q2 2015	Q1 2015	Q2 2014
'000 PLN			
A. OPERATING ACTIVITIES	4 976	- 3 953	10 135
B. INVESTING ACTIVITIES	-2 690	3 482	-1 035
C. FINANCING ACTIVITIES	22	-8 135	-948
NET INCREASE IN CASH	**2 308**	**-15 570**	**8 142**

II. Main Metrics

Liquidity metrics remain good. EBITDA margins deteriorated due to weaker operating performance. Receivable collection and inventory turnover went up. Worsening EBITDA resulted in the increase our leverage up to 6.1.

MAIN METRICS	Q2 2015	Q1 2015	Q2 2014
Liquidity ratio	1,60	1,68	1.60
Quick ratio	0,74	0,86	0.82
Inventories turnover (days)	89	73	73
Receivables turnover (days)	63	62	55
EBITDA margin	5,5%	4,5%	6.9%
Net profit margin	-2,0%	2,2%	1.3%
Equity	186 558	193 707	228 807
Net debt	487 295	472 714	468 571
Net debt / LTM EBITDA	6,1	5,6	5.2

III. Liquidity and business development

In order to further broaden access to liquidity sources Cognor has recently entered into a number of new lines in the form of bank facilities and factoring arrangements on a non-recourse basis. Currently, the committed lines amount to the total of PLN 228 million which represents a significant increase from the amount of PLN 102 million of all of the working capital financings as of the end of Q1 2015.

In 2014 and 2015 the Company completed major part of its expansionary CAPEX plans, mostly related to HSJ. Those encompassed: modernization of the CCM, the VOD and the long products' rolling mill as well as the installation of new straightening and quality check lines. Cognor will continue its careful approach to capital expenditures in a way that they should secure the constant upgrade of our production facilities while allowing the Group to achieve further progress in reduction of its indebtedness.

IV. Earnings call

The conference call on our Q2 2015 results will be held in English language on Tuesday, September 1, 2015 at 16:00 CET (15:00 London). Also on that day a special presentation will be made available for a download on the Company's website at: www.cognor.eu.

All participants are kindly requested to register in advance using the following link:
https://eventreg1.conferencing.com/webportal3/reg.html?Acc=803090&Conf=193154