



May 15, 2015

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## **Q1 2015 - Management Discussion and Analysis**

The first quarter of 2015 saw a continuation of good market demand in Poland and in Europe. In spite of the decrease in Poland by 4%, the production of crude steel increased in 28 European Union countries (EU[28]) by 1% as compared to Q1 2014. The world's output rose by 3% in the same period fuelled by the 4% growth in China. While the steel market dynamics had a clear positive impact on our shipments and revenues we are not content with how our profitability has been developing over the past few quarters. In our opinion this results from the very low prices of iron ore and coking coal which in turn have given a significant cost advantage to the blast oxygen furnace (BOF) producers. The BOF producers are now able to offer cheaper products which leads to the decrease of prices and margin compression for the electric arc furnace (EAF) produces as the prices of scrap metal fell down to much lesser extent in comparison with the BOF feedstock components.

The current development of the market had its influence on our latest performance. Cognor S.A. (Cognor, the Company, the Group) managed to increase revenues as compared to Q1 2014 and also Q4 2014 despite the falling prices. Our profitability however was much weaker comparing with both of the quarters and only the net result proved stronger yet this was possible primarily due to the exchange rates gain related to our indebtedness.

### **I. Reported Statement**

#### **1. Income Statement**

The Group's revenues increased by PLN 19.4 million and 5.5% primarily due to the 11.9% increase in shipments of combined ferrous scrap metal, steel semi-finished and finished products. Gross profit fell by PLN 9.5 million and 22.9% as compared to Q1 2014, driven primarily by: (i) the compression of spreads and (ii) the decrease of prices of semi-finished and finished products. The temporary loss originating from the decrease of prices in Q1 2015 resulted from the FIFO method applied in our accounts where the costs of sales are determined by the earliest manufactured products. As our current inventory turnover is around 73 days one may assume that the costs of sales in Q1 2015 were mostly accrued in Q4 2014 when our production costs and appropriately our sales prices, were significantly higher. Thus, we estimate that the negative spread development brought the loss of PLN (-) 11.1 million and the decrease of prices the further PLN (-) 8.3 million.

	volume	spreads		influence	prices		influence
	Q1 2015	Q1 2015	Q1 2014	Q1 2015	Q1 2015	Q4 2014	Q1 2015
<i>'000 PLN</i>							
Ferrostal - billets	28 184	879	942	-1 778	1 817	1 929	-3 157
Ferrostal - products	55 297	998	1 105	-5 955	1 935	1 971	-1 997
HSJ - products	47 207	1 815	1 886	-3 367	2 810	2 876	-3 121
<b>TOTAL</b>				<b>-11 101</b>			<b>-8 275</b>

EBIT decreased by PLN 16.5 million and EBITDA by PLN 16.0 million. EBITDA margin decreased from 9.3% down to 4.5%. The FX development had negligible effect on our operations with the average EUR/PLN practically unchanged as compared to Q1 2014. A significant impact it had on our net financial costs - the net FX gain related to the Company's indebtedness stood at PLN 18.0 million driven primarily by the strengthening zloty against the euro: EUR/PLN quoted at PLN 4.26 as of December 31, 2014 and at PLN 4.06 as of March 31, 2015.

AVERAGE EXCHANGE RATES	Q1 2015	Q1 2014
<i>PLN</i>		
EUR/PLN	4.14	4.19
% change	-1.2%	
USD/PLN	3.72	3.06
% change	21.6%	

EXCHANGE RATES	31-Mar-2015	31-Dec-2014	31-Mar-2014
<i>PLN</i>			
EUR/PLN	4.06	4.26	4.17
% change	-4.7%		
USD/PLN	3.57	3.50	3.03
% change	2.0%		

For both of our steel plants the spreads for semi-finished and finished product fell down in Q1 2015 as compared to Q1 2014.

PRICES AND SPREADS	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014
<i>(pln/ tonne)</i>					
<b>FERROSTAL</b>					
<b>SCRAP METAL</b> - all purchases	938	966	966	972	1 052
<b>BILLETS</b> - sales to external customers	1 817	1 929	1 784	1 744	1 995
<b>BILLET SPREAD</b>	<b>879</b>	<b>963</b>	<b>818</b>	<b>772</b>	<b>942</b>
<b>FINISHED PRODUCTS</b> - sales to external customers	1 935	1 971	1 989	2 067	2 158
- plain bars	1 970	2 015	2 051	2 077	2 136
- flat bars	1 998	2 022	2 040	2 072	2 157
- squares	1 957	2 014	2 034	2 059	2 108
- rebars	1 802	1 870	1 846	1 938	2 138
- angles	1 973	2 052	2 083	2 120	2 185
- other	2 158		3 971	3 474	2 370
<b>PRODUCT SPREADS</b>	<b>998</b>	<b>1 006</b>	<b>1 023</b>	<b>1 095</b>	<b>1 105</b>
- plain bars	1 032	1 049	1 085	1 105	1 084
- flat bars	1 061	1 057	1 074	1 099	1 105
- squares	1 020	1 048	1 068	1 087	1 056
- rebars	864		880	966	1 086
- angles	1 035	1 086	1 117	1 148	1 133
- other	1 220		3 005	2 502	1 318

HSJ

<b>SCRAP METAL</b> - all purchases	995	1 024	1 048	1 034	1 060
<b>FINISHED PRODUCTS</b> - sales to external customers	2 810	2 876	2 900	2 950	2 947
- <i>big rounds</i>	2 737	2 726	2 761	2 808	2 838
- <i>thick sheets</i>	2 573	2 649	2 912	6 420	4 723
- <i>thin sheets</i>	11 144	11 247	11 379	11 126	10 732
- <i>other</i>	22 924	23 514	29 635	25 941	24 004
<b>PRODUCT SPREADS</b>	<b>1 815</b>	<b>1 852</b>	<b>1 852</b>	<b>1 916</b>	<b>1 886</b>
- <i>big rounds</i>	1 742	1 702	1 713	1 774	1 778
- <i>thick sheets</i>	1 578	1 625	1 864	5 386	3 663
- <i>thin sheets</i>	10 149	10 223	10 331	10 092	9 672
- <i>other</i>	21 929	22 490	28 587	24 907	22 944

Weaker operational profitability was offset by the FX gain related to the Group's indebtedness, decreasing financial costs by PLN (-) 18.0 million and resulting in higher net profit for the period.

INCOME STATEMENT		Q1 2015	Q4 2014	Q1 2014
	'000 PLN			
Revenue		370 782	336 305	351 336
Cost of sales		-338 837	-302 257	-309 915
<b>Gross profit</b>		<b>31 945</b>	<b>34 048</b>	<b>41 421</b>
Other income		1 452	5 706	3 957
Distribution expenses		-11 065	-10 923	-10 392
Administrative expenses		-10 046	-11 732	-8 511
Other gains/(losses) . net		-2 522	404	-654
Other expenses		-2 067	-230	-1 663
<b>EBIT</b>		<b>7 697</b>	<b>17 273</b>	<b>24 158</b>
Financial income		22 485	-10	0
Financial expenses		-17 237	-21 189	-17 487
<b>Net financing costs</b>		<b>5 248</b>	<b>-21 199</b>	<b>-17 487</b>
Share of profits of associates		10	-69	-527
Excess in the net fair value of acquired assets over cost		0	489	1 522
<b>Profit before Tax</b>		<b>12 955</b>	<b>-3 506</b>	<b>7 666</b>
Income tax expense		-4 922	6 598	-746
Profit/loss for the period from discontinued operations		0	-4047	0
<b>Profit for the period</b>		<b>8 033</b>	<b>-955</b>	<b>6 920</b>
Depreciation and amortization		-8 945	-8 685	-8 442
<b>EBITDA</b>		<b>16 642</b>	<b>25 958</b>	<b>32 600</b>

The non-recurring items had some negative effect on EBITDA and a significant positive impact 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	Q1 2015	Q4 2014	Q1 2014
	<i>€000 PLN</i>		
<b>Reported EBITDA</b>	<b>16 642</b>	<b>25 958</b>	<b>32 600</b>
Non-recurring items including:	-2 032	2 851	1 296
- costs of sales	0	-26	-3
- other income	379	2 955	2 506
- distribution expenses	1 321	146	-420
- administrative expenses	-1 016	-1 008	0
- other gains/losses	-1 142	-89	-678
- operational FX result	-1 380	743	30
- other impairments	-194	130	-139
<b>Adjusted EBITDA</b>	<b>18 674</b>	<b>23 107</b>	<b>31 304</b>
<b>Reported net result</b>	<b>8 033</b>	<b>-955</b>	<b>6 920</b>
Non-recurring items including:	16 335	-8 078	-2 257
- EBITDA adjustments	-2 032	2 851	1 296
- FX result on debt	17 981	-8 955	-2 973
- result on own debt repurchase	0	1 386	0
- share of associate result	0	-5 455	995
- PIK coupon increase	-1 640	-26	-1 640
- result of discontinued operations	0	-4 047	0
- excess in fair value of acquired assets over cost	0	5 859	0
- pro-forma income tax adjustment	386	309	65
<b>Adjusted net result</b>	<b>-8 302</b>	<b>7 123</b>	<b>9 177</b>

According to the above, the Q1 2015 adjusted EBITDA stood at PLN 18.7 million and the adjusted net result at PLN (-) 8.3 million.

The main entities of the Group made the following contribution to the consolidated results in Q1 2015:

	FERR	ZW-WB	PROFIL	HSJ	ZLMET
	<i>€000 PLN</i>				
Revenues	159 780	5 219	11 375	148 751	109 835
- incl. Internal	735	5 102	11 357	553	61 354
EBIT	3 497	-506	295	3 933	79
EBITDA	6 092	-290	725	7 344	710
<b>Profit for the period</b>	<b>1 837</b>	<b>-530</b>	<b>273</b>	<b>6 672</b>	<b>-243</b>

## 2. Balance Sheet

The amount of non-current assets decreased primarily due to the reduction in the value of other receivables resulting from the decision to provision the whole amount of the claim owed by the Republic of Croatia at the amount of EUR 10.0 million. This was offset by the increase of current assets fuelled by the higher value of inventories and receivables. The increased level of inventories was caused by higher production of finished products and our trade receivables rose as a result of higher revenues. The amount of total assets saw an increase of just 0.6% as compared to Q1 2014.

ASSETS	Q1 2015	Y 2014	Q1 2014
<i>'000 PLN</i>			
<b>A. TOTAL NON-CURRENT ASSETS</b>	<b>412 457</b>	<b>422 663</b>	<b>458 701</b>
I. Intangible assets	11 044	11 338	11 944
II. Property, plant and equipment	283 706	289 565	284 850
III. Other receivables	29	34	41 714
IV. Investment property and other investments	16 924	17 000	22 958
V. Prepaid perpetual usufruct of land	22 654	22 794	18 430
VI. Deferred tax assets	78 100	81 932	78 805
<b>B. TOTAL CURRENT ASSETS</b>	<b>562 887</b>	<b>517 854</b>	<b>511 276</b>
I. Inventories	274 436	283 058	256 438
II. Receivables	261 181	192 038	227 004
1. Trade receivables	255 231	187 421	221 830
2. Current income tax receivable	10	10	36
3. Other investments	5 940	4 607	5 138
III. Cash and cash equivalents	20 160	35 648	19 178
IV. Prepayments	0	0	0
V. Assets classified as held for sale	7 110	7 110	8 656
VI. Assets of disposal groups	0	0	0
<b>TOTAL ASSETS</b>	<b>975 344</b>	<b>940 517</b>	<b>969 977</b>

In Q1 2015 the Group had the gross debt amounting to PLN 492.9 million and the net indebtedness at 472.7 million - more by PLN 5.1 million as compared to the yearend 2014 and by PLN 17.0 million in comparison to Q1 2014. The main reason behind was the increase of current assets and the related increase of working capital by PLN 19.5 million.

EQUITY AND LIABILITIES	Q1 2015	Y 2014	Q1 2014
<i>'000 PLN</i>			
<b>A. EQUITY</b>	<b>193 707</b>	<b>187 286</b>	<b>215 911</b>
I. Issued share capital	132 444	132 444	132 444
II. Reserves and retained earnings	39 703	33 579	67 447
III. Minority interest	21 560	21 263	16 020
<b>B. LIABILITIES</b>	<b>781 637</b>	<b>753 231</b>	<b>754 066</b>
I. Non-current liabilities	447 169	463 798	458 313
1. Employee benefits obligation	9 597	9 597	7 202
2. Interest-bearing loans and borrowings	391 782	408 896	406 864
3. Other	45 790	45 305	44 247
II. Current liabilities	334 468	289 433	295 753
1. Interest-bearing loans and borrowings	94 010	87 402	61 791
2. Bank overdraft	7 082	6 969	6 287
3. Trade payables	222 728	183 717	220 666
4. Deferred government grants	117	117	117
5. Other financial liabilities	0	0	0
5. Employee benefits obligation	5 369	4 588	5 369
6. Current income tax payable	57	105	57
7. Provisions for payables	5 105	6 535	5 105
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>975 344</b>	<b>940 517</b>	<b>969 977</b>

### 3. Cash flow

The Group had a negative operating cash flow in Q1 2015 due to relatively weak profitability and the increase of working capital by PLN 19.5 million. Cash from investing activities was negative as a result of acquisition of property and equipment. Financing

activities contributed negatively with the payments of interest and transaction costs being only partially offset by the proceeds from factoring and other loans.

CASH FLOW	Q1 2015	Q4 2014	Q1 2014
	<i>'000 PLN</i>		
A. OPERATING ACTIVITIES	- 3 953	-6 082	10 562
B. INVESTING ACTIVITIES	- 3 482	6 720	446
C. FINANCING ACTIVITIES	-8 135	-342	-12 900
<b>NET INCREASE IN CASH</b>	<b>-15 570</b>	<b>296</b>	<b>-1 892</b>

## II. Main Metrics

Liquidity metrics deteriorated slightly yet they remain at very solid levels. Receivable collection saw an increase and inventory turnover went significantly down. Margins decreased in line with lower profitability. Weak EBITDA and the slight increase of net debt resulted in the increase of leverage up to 5.6 times multiple.

MAIN METRICS	Q1 2015	Y 2014	Q1 2014
Liquidity ratio	1.68	1.79	1.73
Quick ratio	0.86	0.81	0.86
Inventories turnover (days)	73	81	74
Receivables turnover (days)	62	48	57
EBITDA margin	4.5%	7.1%	9.3%
Net profit margin	2.2%	0.4%	2.0%
Equity	193 707	187 286	215 911
Net debt	472 714	467 619	455 764
Net debt / LTM EBITDA	5.6	4.6	5.3

## III. Earnings call

The conference call on our Q1 2015 results will be held in English language on Wednesday, May 20, 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](http://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=192673>