



May 16, 2016

Q1 2016 - Management Discussion and Analysis

The first quarter of 2016 saw a further deterioration of the steel market worldwide and resulted in the decrease of production in the European Union by 7% with the Poland's output practically unchanged as compared to Q1 2015. The world's production saw a decrease of 3% in the same period fuelled by the 3% decline in China. Thanks to the relative strength of the Polish market Cognor S.A. (Cognor, the Company, the Group) managed to increase its production of crude steel by 5.9% and shipments of scrap metal, billets and finished products by 15.3%. This was entirely offset by the dive of prices by 19.8% and resulted in our total revenues' drop by 4.1%.

Our profitability was also constrained due to narrow margins offered by the market. In Q1 2016 the billet and product conversion spreads deteriorated by PLN 227 per tonne and PLN 80 per tonne accordingly as compared to Q1 2015. We believe that the low profitability was caused by the weak demand for steel and the continued pressure from low prices of iron ore and coking coal resulting in preservation of the cost advantage of the blast oxygen furnace (BOF) producers over the electric arc furnace (EAF) ones. The BOF manufacturers have been able to offer cheaper products and caused the further decrease of prices and margin compression of the EAF mills. However, Q1 2016 saw some correction of scrap metal prices and the very weak competitive position of EAF manufacturers has improved to some extent.

In summary, we were not able to fully offset the negative impacts of the market which resulted in the contraction of our revenues and profitability. Consequently, we saw weaker operational performance and our net result was a loss.

I. Reported Statement

1. Income Statement

The Group's revenues decreased by PLN 15.1 million and 4.1% entirely due to the decrease of: (i) scrap metal prices by PLN 177 per tonne and 20%, (ii) billet prices by PLN 480 per tonne and 25% and (iii) finished products prices by PLN 419 per tonne and 18%. The combined 15.3% increase in shipments of ferrous scrap metal, billets and finished products was not enough to offset the negative influence of prices. Gross profit fell by PLN 8.3 million and 26.1% as compared to Q1 2015 primarily due to the compression of conversion spreads. EBIT and EBITDA both decreased by PLN 2.7 million. EBITDA margin decreased from 4.5% down to 3.9%. The FX development had some

positive effect on our operations with the average EUR/PLN exchange rate 3.9% higher as compared to Q1 2015. On the other hand it had a slight negative impact on our net financial costs - the net FX loss related to the Company's indebtedness accounted for PLN 1.5 million driven primarily by the weakening zloty against the euro: EUR/PLN quoted at PLN 4.27 as of March 31, 2016 and at PLN 4.26 as of December 31, 2015.

AVERAGE EXCHANGE RATES		Q1 2016	Q1 2015
	<i>PLN</i>		
EUR/PLN		4.36	4.20
	% change	3.9%	
USD/PLN		3.95	3.72
	% change	6.2%	

EXCHANGE RATES		31-Mar-2016	31-Dec-2015	31-Mar-2015
	<i>PLN</i>			
EUR/PLN		4.27	4.26	4.09
	% change	0.2%		
USD/PLN		3.76	3.90	3.81
	% change	-3.6%		

For both of our steel plants the spreads for semi-finished and finished product fell down in Q1 2016 as compared to Q1 2015.

PRICES AND SPREADS	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
<i>(pln/ tonne)</i>					
FERROSTAL					
SCRAP METAL - all purchases	676	667	861	961	938
BILLETS - sales to external customers	1 337	1 442	1 677	1 751	1 817
BILLET SPREAD	661	775	816	790	879
FINISHED PRODUCTS - sales to external customers	1 935	1 682	1 848	1 917	1 935
- plain bars	1 828	1 887	1 950	1 966	1 970
- flat bars	1 864	1 899	1 965	1 992	1 998
- squares	1 832	1 886	1 951	1 946	1 957
- rebars	1 408	1 439	1 657	1 749	1 802
- angles	1 860	1 905	1 963	1 946	1 973
- other	1 954	2 079	2 094	3 029	2 158
PRODUCT SPREADS	932	1 014	986	956	998
- plain bars	1 152	1 220	1 089	1 005	1 032
- flat bars	1 188	1 232	1 104	1 031	1 061
- squares	1 156	1 219	1 090	985	1 020
- rebars	732	772	796	788	864
- angles	1 183	1 237	1 102	985	1 035
- other	1 278	1 412	1 233	2 068	1 220

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SCRAP METAL - all purchases	722	712	881	1 000	995
BILLETS - sales to external customers	1 712	1 677	2 079	2 090	2 210
BILLET SPREAD	995	961	1 214	1 124	1 256
FINISHED PRODUCTS - sales to external customers	2 433	2 647	2 688	2 649	2 810
- <i>big rounds</i>	2 294	2 438	2 576	2 548	2 737
- <i>thick sheets</i>	2 765	2 765	2 218	2 376	2 573
- <i>thin sheets</i>	10 728	11 190	10 540	10 570	11 144
- <i>other</i>	17 557	26 841	20 052	25 271	22 924
PRODUCT SPREADS	1 711	1 935	1 807	1 649	1 815
- <i>big rounds</i>	1 572	1 726	1 695	1 548	1 742
- <i>thick sheets</i>	2 043	2 053	1 337	1 376	1 578
- <i>thin sheets</i>	10 006	10 478	9 659	9 570	10 149
- <i>other</i>	16 835	26 129	19 171	24 271	21 929

Weaker operational profitability was further depressed by the FX loss related to the Group's indebtedness, increasing our financial costs by PLN 1.5 million and resulting in a higher net loss for the period.

INCOME STATEMENT	Q1 2016	Q4 2015	Q1 2015
'000 PLN			
Revenue	355 672	299 087	370 782
Cost of sales	-332 065	-283 182	-338 837
Gross profit	23 607	15 905	31 945
Other income	1 105	1 328	1 358
Distribution expenses	-11 385	-13 419	-11 065
Administrative expenses	-8 401	-7 930	-10 046
Other gains/(losses) – net	798	2 403	-2 522
Other expenses	-817	-3 062	-2 067
EBIT	4 907	-4 775	7 603
Financial income	127	20 464	22 579
Financial expenses	-13 767	-16 456	-17 237
Net financing costs	-13 640	4 008	5 342
Share of profits of associates	37	37	10
Excess in the net fair value of acquired assets over cost	0	0	0
Profit before tax	-8 696	-730	12 955
Income tax expense	2 147	-95	-4 922
Profit/loss for the period from discontinued operations	0	0	0
Profit for the period	-6 549	-825	8 033
Depreciation and amortization	-8 892	-9 445	-8 945
EBITDA	13 799	4 670	16 548

The non-recurring items had a small positive effect on EBITDA and a negative 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 2016	Q4 2015	Q1 2015
	<i>'000 PLN</i>		
Reported EBITDA	13 799	4 576	16 642
Non-recurring items including:	930	1 626	-2 272
- costs of sales	0	1 337	0
- other income	203	522	139
- distribution expenses	131	-1 557	1 321
- administrative expenses	0	0	-1 016
- other gains/losses	572	1 922	-1 142
- operational FX result	226	481	-1 380
- other impairments	-202	-1 079	-194
Adjusted EBITDA	12 869	2 950	18 914
Reported net result	-6 549	-825	8 033
Non-recurring items including:	-681	16 545	16 219
- EBITDA adjustments	930	1 626	-2 272
- FX result on debt	-1 471	-1 556	18 049
- result on own debt repurchase	0	21 187	0
- share of associate result	37	37	10
- pro-forma income tax adjustment	-177	-4 749	432
Adjusted net result	-5 868	-17 370	- 8 186

According to the above, the Q1 2016 adjusted EBITDA stood at PLN 12.9 million and the adjusted net result at PLN (-) 5.9 million.

2. Balance Sheet

There was little change with respect to the value of non-current assets and a significant decrease of current assets as compared to Q1 2015. The most of that, at the amount of PLN 84.5 million and 32.4%, came from receivables primarily due to the sale of PLN 75.9 million of those under the non-recourse factoring arrangements. The inventories fell by PLN 44.0 million and 16.0% as a result of the increased demand for selected products. The amount of total assets saw a decrease of PLN 128.4 million and (-) 13.2%.

ASSETS	Q1 2016	Q4 2015	Q1 2015
	<i>'000 PLN</i>		
A. TOTAL NON-CURRENT ASSETS	411 257	408 497	412 457
I. Intangible assets	11 011	10 834	11 044
II. Property, plant and equipment	278 946	278 043	283 706
III. Other receivables	42	49	29
IV. Investment property and other investments	16 762	16 725	16 924
V. Prepaid perpetual usufruct of land	20 294	20 828	22 654
VI. Deferred tax assets	84 202	82 018	78 100
B. TOTAL CURRENT ASSETS	435 737	437 814	562 887
I. Inventories	230 447	263 476	274 436
II. Receivables	176 680	131 904	261 181
1. Trade receivables	172 070	127 378	255 231
2. Current income tax receivable	299	290	10
3. Other investments	4 311	4 236	5 940
III. Cash and cash equivalents	23 104	36 928	20 160
IV. Prepayments	0	0	0
V. Assets classified as held for sale	5 506	5 506	7 110
VI. Assets of disposal groups	0	0	0
TOTAL ASSETS	846 994	846 311	975 344

In Q1 2016 the Group had the gross debt amounting to PLN 436.4 million and the net indebtedness at 413.3 million - less by PLN 0.9 million as compared to the yearend 2015 and by PLN 59.4 million in comparison to Q1 2015. The net debt was decreased by the amount of PLN 75.9 million due to the replacement of recourse factoring arrangements by non-recourse ones. This was offset by the Polish zloty 4.4% weakening against the euro which resulted in the debt increment by PLN 16.5 million. Absent of those two factors our net indebtedness would have been unchanged.

EQUITY AND LIABILITIES	Q1 2016	Q4 2015	Q1 2015
	<i>'000 PLN</i>		
A. EQUITY	159 677	168 691	193 707
I. Issued share capital	139 702	139 702	132 444
II. Reserves and retained earnings	-327	7 420	39 703
III. Minority interest	20 302	21 569	21 560
B. LIABILITIES	687 317	677 620	781 637
I. Non-current liabilities	443 937	439 447	447 169
1. Employee benefits obligation	9 102	9 113	9 597
2. Interest-bearing loans and borrowings	390 570	386 446	391 782
3. Other	44 265	43 888	45 790
II. Current liabilities	243 380	238 173	334 468
1. Interest-bearing loans and borrowings	41 601	48 873	94 010
2. Bank overdraft	4 251	15 846	7 082
3. Trade payables	188 684	164 768	222 728
4. Deferred government grants	117	117	117
5. Employee benefits obligation	5 321	4 867	5 369
6. Current income tax payable	0	5	57
7. Provisions for payables	3 406	3 697	5 105
TOTAL EQUITY AND LIABILITIES	846 994	846 311	975 344

3. Cash flow

The Group had a positive operating cash flow in Q1 2016 due to positive EBITDA and the inflow of cash from working capital at the amount of PLN 16.0 million. Investment cash flow was negative due to acquisition of property plant and equipment at the amount of PLN 16.1 million. This was partially offset by the proceeds from sales of such assets at the amount of PLN 7.7 million. Financing activities used cash primarily because of repayment of interest at the amount of PLN 18.3 million.

CASH FLOW	Q1 2016	Q4 2015	Q1 2015
'000 PLN			
A. OPERATING ACTIVITIES	29 016	84 613	- 3 953
B. INVESTING ACTIVITIES	- 8 042	4 330	3 482
C. FINANCING ACTIVITIES	-23 202	-58 469	-8 135
NET INCREASE IN CASH	-2 228	30 474	-15 570

II. Main Metrics

Liquidity metrics remained at very solid levels. Receivable collection saw an improvement and inventory turnover went significantly down. Margins decreased in line with lower profitability. Weak last twelve months' EBITDA resulted in the increase of leverage up to 8.9 times multiple.

MAIN METRICS	Q1 2016	Q4 2015	Q1 2015
Liquidity ratio	1,79	1,84	1,68
Quick ratio	0,84	0,73	0,86
Inventories turnover (days)	62	76	73
Receivables turnover (days)	44	34	62
EBITDA margin	3,9%	3,6%	4,5%
Net profit margin	-1,8%	-1,0%	2,2%
Equity	159 677	168 691	193 707
Net debt	413 318	414 237	472 714
Net debt / LTM EBITDA	8,9	8,5	5,6

III. Earnings call

The conference call on our Q1 2016 results will be held in English language on Tuesday, May 17, 2016 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://eventreg2.conferencing.com/webportal3/reg.html?Acc=018047&Conf=222088>