Press Release May 15, 2013

Q1 2013 - Management Discussion and Analysis

The first quarter of 2013 saw a continuation of very weak market conditions for the steel producers in Poland and in Europe. Polish production of crude steel fell sharply as compared to Q1 2012 and the similar trend occurred for the total production output in the whole of the European Union. Although we remain skeptical with regards to the possibility of a quick rebound in the demand for steel in Europe we believe the market conditions are no longer likely to deteriorate as our order books start showing gradual improvement since Q4 2012.

The significant deterioration of the demand has inevitably hit Cognor S.A. (Cognor, the Company, the Group) resulting in much lower revenues in Q1 2013 as compared to Q1 2012. In response we have been continuing our shift towards more sophisticated steel products in order to preserve margins. The Group consequently managed to maintain operational profitability. Relatively positive performance with regard to our profitability was also possible due to our continued and successful effort to further reduce costs with production and administrative expenses in particular.

I. Reported Statement

1. Income Statement

The Group's revenues fell by PLN 115.0 million and 28.8%, while gross profit decreased by PLN 13.4 million and 48.8% as compared to Q1 2012. EBIT weakened to a similar extend with the decline of PLN 2.1 million and 53.5%. EBITDA performance showed relative resistance with the drop of PLN 2.7 million and 19.2%. EBITDA margin increased from 3.6% up to 4.1%. The FX development had some negative effect on our operations with average EUR/PLN and USD/PLN exchange rates declining in Q1 2013 by 1,8% and 2,4% respectively as compared to Q1 2012. A more considerable negative impact to our net financial costs had the FX loss related to the Company's indebtedness at PLN 10.8 million driven primarily by the weakening zloty against the euro: EUR/PLN at 4.09 as of December 31, 2012 and 4.18 as of March 31, 2013.

AVERAGE EXCHANGE RATES	Q1 2013	Q1 2012
PLN		
EUR/PLN	4.16	4.23
% change	-1.8%	
USD/PLN	3.15	3.22
% change	-2.4%	

EXCHANGE RATES	31-Mar-2013	31-Dec-2013	31-Mar-2012
PLN			
EUR/PLN	4.18	4.09	4.16
% change	2.2%		
USD/PLN	3.26	3.10	3.12
% change	5.2%		

In Q1 2013 the margin compression persisted resulting in further deterioration of spreads between the prices of most of our main finished products and the prices of scrap metal. Billet spreads saw significant spread improvement which was caused by lower sales of least profitable and lower value added billets as well as by a slight market improvement for some of the billet types. Although the spreads in Q1 2013 were worse than the ones of Q4 2012 and Q1 2012 in particular, we are seeing some recovery symptoms for selected finished products.

PRICES AND SPREADS	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012
(pln/ tonne)					
FERROSTAL					
SCRAP METAL - all purchases	1 163	1 136	1 193	1 258	1 329
BILLETS - sales to external customers	2 131	2 009	2 049	2 141	2 162
BILLET SPREAD	**968**	**874**	**856**	**884**	**833**
FINISHED PRODUCTS - sales to external customers	2 229	2 243	2 312	2 412	2 420
- plain bars	*2 212*	*2 214*	*2 267*	*2 348*	*2 428*
- flat bars	*2 181*	*2 213*	*2 278*	*2 384*	*2 398*
- squares	*2 156*	*2 152*	*2 228*	*2 292*	*2 401*
- other	*2 448*	*2 682*	*3 019*	*3 274*	*2 819*
PRODUCT SPREADS	**1 066**	**1 107**	**1 119**	**1 154**	**1 091**
- plain bars	*1 049*	*1 078*	*1 074*	*1 091*	*1 099*
- flat bars	*1 018*	*1 077*	*1 084*	*1 126*	*1 070*
- squares	*993*	*1 017*	*1 035*	*1 035*	*1 072*
- other	*1 285*	*1 546*	*1 825*	*2 016*	*1 490*
HSJ					
SCRAP METAL - all purchases	1 157	1 116	1 176	1 231	1 293
FINISHED PRODUCTS - sales to external customers	3 079	3 224	3 318	3 461	3 445
- big rounds	*2 922*	*3 012*	*3 133*	*3 302*	*3 253*
- thick sheets	*5 902*	*4 223*	*3 379*	*3 204*	*3 556*
- thin sheets	*11 517*	*10 260*	*10 763*	*11 817*	*11 558*
- other	*18 181*	*28 059*	*29 027*	*26 951*	*30 046*
PRODUCT SPREADS	**1 922**	**2 108**	**2 142**	**2 231**	**2 152**
- big rounds	*1 765*	*1 896*	*1 957*	*2 071*	*1 960*
- thick sheets	*4 745*	*3 107*	*2 203*	*1 973*	*2 263*
- thin sheets	*10 360*	*9 144*	*9 587*	*10 586*	*10 265*
- other	*17 024*	*26 943*	*27 851*	*25 720*	*28 753*

The weak operational profitability was coupled with FX losses related to the Group's indebtedness, increasing financial expenses by PLN 10.8 million and resulting in higher net loss for the period.

INCOME STATEMENT	Q1 2013	Q4 2012	Q1 2012
'000 PLN			
Revenue	284 407	260 160	399 419
Cost of sales	-270 345	-254 926	-371 944
Gross profit	**14 062**	**5 234**	**27 475**
Other income	1 881	4 146	2 691
Distribution expenses	-7 698	-9 635	-7 972
Administrative expenses	-7 607	-2 100	-11 605
Other gains/(losses) – net	3 522	-1 532	-3 693
Other expenses	-2 336	-2 046	-2 976
EBIT	**1 824**	**-5 933**	**3 920**
Financial income	42	4 270	28 104
Financial expenses	-25 603	-14 515	-15 537
Net financing costs	**-25 561**	**-10 245**	**12 567**
Profit before tax	**-23 737**	**-16 178**	**16 487**
Income tax expense	-868	4 478	-2 405
Profit/loss for the period from discontinued operations	0	0	0
Profit for the period	**-24 605**	**-11 700**	**14 082**
Depreciation and amortization	-9 844	-10 130	-10 525
EBITDA	**11 668**	**4 197**	**14 445**

The non-recurring items had some positive effect on EBITDA and a more significant 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 2013	Q4 2012	Q1 2012
'000 PLN			
Reported EBITDA	**11 668**	**4 214**	**14 445**
Non-recurring items including:	3 977	1 819	-3 834
- costs of sales	*-1*	*3 080*	*0*
- other income	*438*	*839*	*904*
- distribution expenses	*144*	*-1 254*	*-12*
- administrative expenses	*0*		*-819*
- other gains/losses	*3 397*	*293*	*86*
- operational FX result	*125*	*-1 824*	*-3 779*
- other impairments	*-126*	*685*	*-214*
Adjusted EBITDA	**7 691**	**2 395**	**18 279**
Reported net result	**-24 605**	**-11 858**	**14 082**
Non-recurring items including:	-7 525	8 210	24 998
- EBITDA adjustments	*3 977*	*1 819*	*-3 834*
- FX result on debt minus the FX result on assets	*-10 746*	*5 536*	*28 104*
- result from discontinued operations	*0*	*0*	*0*
- cancellation of bonds	*0*	*1 482*	*0*
- pro-forma income tax adjustment	*-756*	*-627*	*728*
Adjusted net result	**-17 080**	**-20 068**	**-10 916**

According to the above adjustments, the Q1 2013 adjusted EBITDA stood at PLN 7.7 million and the adjusted net result at PLN (-) 17.0 million - less by PLN 10.5 and 6.2 million accordingly in comparison to the figures for Q1 2012.

The main entities of the Group made the following contribution to the consolidated results for Q1 2013:

	FERR	ZW-WB	HSJ	ZLMET
'000 PLN				
Revenues	119 001	4 835	112 111	111 592
- incl. Internal	*1 130*	*4 651*	*576*	*59 462*
EBIT	4 571	-830	-769	-1 160
EBITDA	8 173	-618	3 525	-315
Profit for the period	**2 271**	**-935**	**-23 159**	**-1 632**

2. Balance Sheet

The amount of total assets decreased by 10.4% in comparison to Q1 2012 primarily due to the 15.0% decrease of value in the current assets. The decrease was mostly fueled by a 19.0% decrease in the value of trade receivables and by a 17.4% decrease in our cash position. As compared to yearend 2012, the Company saw stabilization of both non-current and current assets.

ASSETS	Q1 2013	Y 2012	Q1 2012
'000 PLN			
A. TOTAL NON-CURRENT ASSETS	**464 906**	**472 467**	**491 110**
I. Intangible assets	14 727	15 435	16 257
II. Property, plant and equipment	311 275	317 671	341 225
III. Other receivables	41 838	40 943	41 888
IV. Investment property and other investments	5 802	7 720	4 371
V. Prepaid perpetual usufruct of land	18 849	18 954	19 744
VI. Deferred tax assets	72 415	71 744	67 625
B. TOTAL CURRENT ASSETS	**453 399**	**442 042**	**533 234**
I. Inventories	195 626	179 201	211 746
II. Receivables	202 078	186 904	255 264
1. Trade receivables	*197 284*	*181 691*	*243 417*
2. Current income tax receivable	*82*	*82*	*8 173*
3. Other investments	*4 712*	*5 131*	*3 674*
III. Cash and cash equivalents	44 481	64 151	53 836
IV. Assets classified as held for sale	11 214	11 786	12 388
V. Assets of disposal groups	0	0	0
TOTAL ASSETS	**918 305**	**914 509**	**1 024 344**

The negative FX development which brought PLN 10.8 million of losses related to the Group's indebtedness in Q1 2013 prevented the Company from reducing its indebtedness. At the end of the quarter the gross debt stood at PLN 575.3 million and the net indebtedness accounted for 530.8 million, more by PLN 17.1 million as compared to yearend 2012 and by PLN 7.1 million in comparison to Q1 2012.

The equity figure fell down by PLN 24.6 million as compared to the end of 2012 due to negative net result. The current liabilities increased sharply by PLN 508.3 million in connection with reclassification of the EUR 118.0 million of the Company's senior secured notes (the Notes) from long-term into short-term liabilities and by the increase in trade liabilities by PLN 25.1 million.

EQUITY AND LIABILITIES	Q1 2013	Y 2012	Q1 2012
'000 PLN			
A. EQUITY	**152 207**	**176 842**	**190 709**
I. Issued share capital	132 444	132 444	132 444
II. Reserves and retained earnings	6 838	31 567	46 349
III. Minority interest	12 925	12 831	11 916
B. LIABILITIES	**766 098**	**737 667**	**833 635**
I. Non-current liabilities	**20 504**	**500 373**	**516 402**
1. Employee benefits obligation	*6 735*	*6 735*	*7 970*
2. Interest-bearing loans and borrowings	*5 600*	*487 020*	*498 985*
3. Other	*8 169*	*6 618*	*9 447*
II. Current liabilities	745 594	237 294	317 233
1. Interest-bearing loans and borrowings	*555 820*	*75 333*	*74 621*
2. Bank overdraft	*13 862*	*15 495*	*3 963*
3. Trade payables	*167 335*	*142 170*	*228 844*
4. Defferd government grants	*3 466*	*736*	*4 561*
5. Employee benefits obligation	*3 463*	*2 815*	*4 366*
6. Current income tax payable	*322*	*315*	*0*
7. Provisions for payables	*1 326*	*430*	*878*
TOTAL EQUITY AND LIABILITIES	**918 305**	**914 509**	**1 024 344**

3. Cash flow (continued operations)

The Group had a positive operating cash flow in Q1 2013 as a result depreciation charges and PLN 4.6 inflow from working capital. Cash from investing activities was slightly positive with expenditures related to acquisitions of property, equipment and other assets being totally offset by the proceeds from sale of similar assets. Financing activities contributed negatively with interest expense payments as the major use of cash.

CASH FLOW	Q1 2013	Q4 2012	Q1 2012
'000 PLN			
A. OPERATING ACTIVITIES	**14 700**	**19 915**	**-5 989**
I. Continued operations	14 693	19 927	-5 368
II. Discontinued operations	0	0	0
B. INVESTING ACTIVITIES	**962**	**-4 303**	**21 141**
I. Continued operations	962	-4 303	21 141
II. Discontinued operations	0	0	0
C. FINANCING ACTIVITIES	**- 33 700**	**-2 320**	**12 792**
I. Continued operations	- 33 700	-2 320	12 792
II. Discontinued operations	0	0	0
NET INCREASE IN CASH	**-18 038**	**13 292**	**27 944**

II. Main Metrics

In light of the reclassification of the Notes maturing in February 2014 as short-term liabilities, the liquidity metrics suffered substantially. Due to deteriorating EBITDA and the FX driven increase in net indebtedness the leverage ratio exceeded 8 times multiple. Rotation metrics remained at good levels.

MAIN METRICS	Q1 2013	Y 2012	Q1 2012
Liquidity ratio	0,61	1,86	1,68
Quick ratio	0,35	1,11	1,01
Inventories turnover (days)	65	50	51
Receivables turnover (days)	62	47	55
EBITDA margin	4,1%	4,7%	3,6%
Net profit margin	-8,7%	0,0%	3,5%
Equity	152 207	176 842	190 709
Net debt	530 801	513 697	523 733
Net debt / LTM EBITDA	8,3	7,7	4,0

III. Future capital structure

For the past few quarters Cognor has been analyzing the available options in terms of acquiring new long-term financing sources for the needs of the existing business. The intended primary use of those funds shall address the upcoming maturity of the currently outstanding Notes. During that time Cognor has considered all potential opportunities and approached various debt and equity markets both domestically and abroad.

In the first half of 2013, the Group initiated a review of its strategic alternatives and has begun preparations of a proposal to refinance the Notes ahead of their scheduled maturity. In connection with that review, the Company initiated a formal bondholder identification process through the clearing systems on April 26, 2013. Many bondholders have identified themselves and their holdings and those who have not yet responded are encouraged to do so. Numerous bondholders, acting individually, have since been in contact with senior management of the Company on an informal and confidential basis to discuss various possibilities for a long-term sustainable capital structure. Those discussions are continuing. Although no formal agreement or arrangement has been reached with any bondholders, the Company is hopeful that a mutually acceptable capital structure can be agreed with certain investors holding some of the larger positions in the senior Notes and proposed more broadly to the Company's stakeholders in the near term.

IV. Business development

The company remains dedicated to implement the intended mid-term business development plans as discussed in earlier reports. We will endeavor to make sure that the future Company's long-term financing platform will facilitate realization of our expansionary CAPEX projects.

V. Earnings call

The conference call on our Q1 2013 results will be held in English language on Monday, May 20, 2013, 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=187607