



Press release

May 15, 2017

Q1 2017 - Management Discussion and Analysis

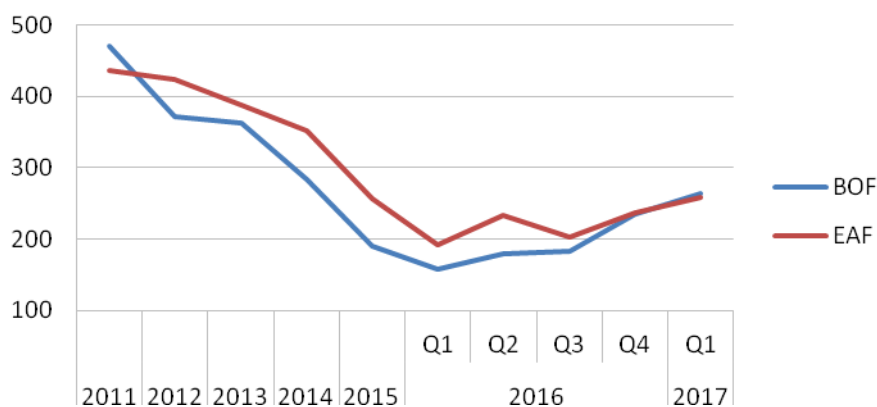
The first quarter of 2017 brought an improvement in demand for steel and resulted in the increase of production in the European Union by 3.8% with the Poland's output up by 9.5% as compared to Q1 2016. The world's production saw an increase of 5.6% in the same period where China contributed positively to the growth with its 4.4% of the increment. While there has been a consensus over the encouraging prospects for the industry in 2017, the magnitude of the strength in the past quarter was quite surprising.

The buoyant market environment allowed Cognor Holding S.A. (Cognor, the Company, the Group) to increase its production of crude steel by 8.6% and shipments of scrap metal, billets and finished products by 7.4%. The prices of those saw also an increase by an average 16.9%, supporting the improvement of total revenues by 20.8%.

The profitability of Cognor increased alongside with higher sales. Our EBITDA hit PLN 41.2 million and was the highest in the past five years. Apart from the higher shipments our profitability rose at the back of the improving conversion spreads. The price differential between the average sales price of billets as well as finished products and the average purchase price of scrap metal widened by PLN 128 per tonne and by PLN 5 per tonne respectively. On top of that we also saw significant FIFO gains related the increase of sales prices.

In our opinion the improvement of our results was primarily driven by the reversal of the cost position in favor of the electric arc furnace (EAF) producers with the feedstock cost model of the blast oxygen furnace (BOF) producers being more expensive, a situation unprecedented in the past five years.

Feedstock Cost



Steel prices continued their increase due to the increases of iron ore, coking coal and scrap metal cost. Fortunately for Cognor and other EAF producers, the latter rose to a much lesser extent. Finally, another vital element in the competitive landscape in Europe were the anti-dumping measures applied by the European Union (EU) that eliminated much of the unfair trade from China, Russia, Belarus and other countries.

In summary, we are very pleased to have been able to report very positive operational results. On top of those, the EUR/PLN exchange rate development added FX gains related to our indebtedness which increased further our net profit of the period.

I. Reported Statement

1. Income Statement

The Group's revenues increased by PLN 73.9 million and 20.8% due to the increase in shipments of: (i) scrap metal by 3.7 thousand tonnes and 15.3% and (ii) billets by 25 thousand tonnes and 64.5%. This was partially offset by a decrease in sales of finished products by 14.6 thousand tonnes and 11.5%. The combined 7.4% increase in shipments of ferrous scrap metal, billets and finished products was coupled by an increase in their prices to the tune of: (i) PLN 283 per tonne and 40.8% for scrap metal, (ii) PLN 453 per tonne and 30.8% for billets and (iii) PLN 313 per tonne and 16.3% for finished products. Our conversion spreads for billets improved by PLN 128 per tonne and PLN 5 per tonne for finished products. A further profitability support came from the very price dynamics where Cognor was selling its products from stock according to the FIFO method in the increasing price environment. We estimate the total gain related to inventories at PLN 14.7 million, according to the following table:

implied result related to change of scrap metal cost contained in inventories		Q4 2016	Q1 2017			Q4 2015	Q1 2016		
		scrap	opening volume	scrap	FIFO result	scrap	opening volume	scrap	FIFO result
		PLN/T	T	PLN/T	000 PLN	PLN/T	T	PLN/T	000 PLN
HSJ	billets & products	934	31 141	1 073	4 329	757	31 059	724	-1 034
FERR	billets & products	771	72 070	914	10 335	720	77 246	664	-4 344
TOTAL					14 663				-5 378

EBIT and EBITDA both increased by PLN 26.6 million and PLN 27.3 million respectively. EBITDA margin increased from 3.9% up to 9.6%. The FX development had some negative effect on our operations with the average EUR/PLN exchange rate 0.9% lower as compared to Q1 2016. On the other hand it had a significant positive impact on our net financial costs - the net FX gains related to the Company's indebtedness accounted for PLN 18.2 million driven primarily by the strengthening zloty against the euro: EUR/PLN quoted at PLN 4.22 as of March 31, 2017 and at PLN 4.42 as of December 31, 2016.

AVERAGE EXCHANGE RATES		Q1 2017	Q1 2016
	PLN		
EUR/PLN		4.32	4.36
	% change	-0.9%	
USD/PLN		4.06	3.95
	% change	2.8%	

EXCHANGE RATES		31-Mar-2017	31-Dec-2016	31-Mar-2016
PLN				
EUR/PLN		4.22	4.42	4.27
% change		-4.5%		
USD/PLN				
		3.95	4.18	3.76
% change		-5.5%		

For both of our steel plants the spreads for semi-finished products increased in Q1 2017 as compared to Q1 2016. Spreads of our finished-products' increased for Ferrostal and decreased for HSJ.

PRICES AND SPREADS	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
(pln/ tonne)					
FERROSTAL					
SCRAP METAL - all purchases	939	781	752	805	676
BILLETS - sales to external customers	1 757	1 681	1 582	1 516	1 337
BILLET SPREAD	818	899	830	710	661
FINISHED PRODUCTS - sales to external customers	1 926	1 780	1 753	1 720	1 609
- plain bars	1 854	1 843	1 890	1 927	1 828
- flat bars	2 031	1 872	1 924	1 950	1 864
- squares	1 991	1 821	1 906	1 919	1 832
- rebars	1 887	1 701	1 629	1 588	1 408
- angles	2 059	1 922	1 949	1 954	1 860
- other	2 327	2 025	2 521	2 119	1 954
PRODUCT SPREADS	987	999	1 001	915	932
- plain bars	1 015	1 062	1 138	1 122	1 152
- flat bars	1 093	1 091	1 172	1 145	1 188
- squares	1 052	1 039	1 154	1 113	1 156
- rebars	948	921	877	783	732
- angles	1 120	1 141	1 197	1 149	1 183
- other	1 389	1 243	1 769	1 314	1 278
HSJ					
SCRAP METAL - all purchases	1 070	929	772	841	722
BILLETS - sales to external customers	2 105	1 352	1 759	1 712	1 712
BILLET SPREAD	1 035	923	987	871	990
FINISHED PRODUCTS - sales to external customers	2 708	2 462	2 555	2 426	2 433
- SQ bars	2 615	2 375	2 410	2 298	2 294
- thick sheets	2 595	3 428	2 606	2 663	2 765
- thin sheets	10 488	11 493	11 718	11 318	10 728
- other	24 973	28 051	34 203	15 567	17 557
PRODUCT SPREADS	1 636	1 533	1 783	1 585	1 711
- big rounds	1 545	1 446	1 638	1 457	1 572
- thick sheets	1 525	2 499	1 834	1 822	2 043
- thin sheets	9 418	10 564	10 946	10 477	10 006
- other	23 903	27 122	33 431	14 726	16 835

Good operational profitability was further increased by the FX gains related to the Group's indebtedness, reducing our financial costs by PLN 18.2 million and resulting in a higher net profit for the period.

INCOME STATEMENT	Q1 2017	Q4 2016	Q1 2016
'000 PLN			
Revenue	429 529	317 469	355 672
Cost of sales	-371 262	-280 362	-332 065
Gross profit	58 267	37 107	23 607
Other income	863	1 435	1 205
Distribution expenses	-15 900	-12 135	-11 385
Administrative expenses	-9 081	-12 621	-8 401
Other gains/(losses) . net	-1 456	1 921	798
Other expenses	-1 073	-3 640	-817
EBIT	31 620	12 067	5 007
Financial income	18 318	2 718	27
Financial expenses	-12 723	-22 265	-13 767
Net financing costs	5 595	-19 547	-13 740
Share of profits of associates	-51	-31	37
Excess in the net fair value of acquired assets over cost	0	0	0
Profit before tax	37 164	-7 511	-8 696
Income tax expense	-6 816	3 277	2 147
Profit/loss for the period from discontinued operations	0	0	0
Profit for the period	30 348	-4 234	-6 549
Depreciation and amortization	-9 612	-10 468	-8 892
EBITDA	41 232	22 535	13 899

The non-recurring items had a slight negative effect on EBITDA and a strong 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 2017	Q4 2016	Q1 2016
00 PLN			
Reported EBITDA	41 232	22 535	13 899
Non-recurring items including:	-1 458	2 521	930
- costs of sales	0	0	0
- other income	581	1 288	203
- distribution expenses	-565	20	131
- administrative expenses	0	0	0
- other gains/losses	-337	1 064	572
- operational FX result	-1 119	857	226
- other impairments	-18	-708	-202
Adjusted EBITDA	42 690	20 014	12 969
Reported net result	30 348	-2 266	-6 549
Non-recurring items including:	16 938	-5 421	-681
- EBITDA adjustments	-1 458	2 521	930
- FX result on debt	18 170	-10 616	-1 471
- result on own debt repurchase	0	3 051	0
- result on cancellation of debt	0	712	0
- share of associate result	-51	-31	37
- pro-forma income tax adjustment	277	-1 057	-177
Adjusted net result	13 410	3 155	-5 868

According to the above, the Q1 2017 adjusted EBITDA stood at PLN 42.7 million and the adjusted net profit at PLN 13.4 million.

2. Balance Sheet

There was little change with respect to the value of non-current assets with acquisition of property plant and equipment at the amount of PLN 4.4 million compared to PLN 10.0 million in Q1 2016. A significant increase occurred with respect to current assets. The most of that came from inventories and receivables, to the tune of PLN 68.6 million and 29.9% as well as PLN 38.2 and 21.6% respectively. This as primarily caused by the increase of prices and shipments. Consequently, the amount of total assets saw an increase of PLN 108.3 million and 12.8%.

ASSETS	Q1 2017	Q4 2016	Q1 2016
'000 PLN			
A. TOTAL NON-CURRENT ASSETS	409 637	424 942	411 257
I. Intangible assets	12 359	11 938	11 011
II. Property, plant and equipment	284 841	292 821	278 946
III. Other receivables	147	126	42
IV. Investment property and other investments	8 004	8 055	16 762
V. Prepaid perpetual usufruct of land	19 851	19 944	20 294
VI. Deferred tax assets	84 435	92 058	84 202
B. TOTAL CURRENT ASSETS	545 693	470 359	435 737
I. Inventories	299 300	297 741	230 447
II. Receivables	214 841	141 626	176 680
1. Trade receivables	211 287	136 997	172 070
2. Current income tax receivable	1 869	1 908	299
3. Other investments	1 685	2 721	4 311
III. Cash and cash equivalents	25 540	24 980	23 104
IV. Prepayments	0	0	0
V. Assets classified as held for sale	6 012	6 012	5 506
VI. Assets of disposal groups	0	0	0
TOTAL ASSETS	955 330	895 301	846 994

Cognor's equity in Q1 2017 increased as a result of strong results. The Group had the gross debt amounting to PLN 449.0 million and the net indebtedness at 423.4 million – less by PLN 23.6 million as compared to the yearend 2016 and more by PLN 10.1 million in comparison to Q1 2016. The net debt increased in line with higher working capital requirements resulting from increasing prices and sales. This was partially offset by strengthening of the Polish zloty by 1.2% against the euro as compared to Q1 2016.

EQUITY AND LIABILITIES	Q1 2017	Q4 2015	Q1 2016
'000 PLN			
A. EQUITY	184 040	155 903	159 677
I. Issued share capital	150 532	150 532	139 702
II. Reserves and retained earnings	17 921	-8 404	-327
III. Minority interest	15 587	13 775	20 302
B. LIABILITIES	771 290	739 398	687 317
I. Non-current liabilities	391 178	416 808	443 937
1. Employee benefits obligation	9 058	9 058	9 102
2. Interest-bearing loans and borrowings	357 904	376 398	390 570
3. Other	24 216	31 352	44 265
II. Current liabilities	380 112	322 590	243 380
1. Interest-bearing loans and borrowings	66 359	72 451	41 601
2. Bank overdraft	24 705	23 154	4 251
3. Trade payables	277 764	218 824	188 684
4. Deferred government grants	117	117	117
5. Employee benefits obligation	5 363	4 914	5 321
6. Current income tax payable	116	0	0
7. Provisions for payables	5 688	3 130	3 406
TOTAL EQUITY AND LIABILITIES	955 330	895 301	846 994

3. Cash flow

The Group had a positive operating cash flow in Q1 2017 due to positive EBITDA. This was offset with the outflow of cash from working capital at the amount of PLN 13.6 million. Investment cash flow was negative due to CAPEX at the amount of PLN 8.4 million. This was partially offset by the proceeds from sales of such assets at the amount of PLN 2.5 million. Financing activities used cash primarily because of repayment of interest at the amount of PLN 27.4 million.

CASH FLOW	Q1 2017	Q4 2016	Q1 2016
'000 PLN			
A. OPERATING ACTIVITIES	30 437	20 110	29 016
B. INVESTING ACTIVITIES	-4 802	-7 858	-8 042
C. FINANCING ACTIVITIES	-26 626	-12 548	-23 202
NET INCREASE IN CASH	-991	-296	-2 228

II. Main Metrics

Liquidity metrics deteriorated but still remained at good levels. Inventory turnover deteriorated and receivable collection period saw a stabilization. Margins increased in line with higher profitability. Strong last twelve months' EBITDA resulted in the significant decrease of leverage down to 3.5 times multiple.

MAIN METRICS	Q1 2017	Q4 2016	Q1 2016
Liquidity ratio	1.44	1.46	1.79
Quick ratio	0.65	0.54	0.84
Inventories turnover (days)	73	90	62
Receivables turnover (days)	44	37	44
EBITDA margin	9.6%	7.0%	3.9%
Net profit margin	7.1%	0.1%	-1.8%
Equity	184 040	155 903	159 677
Net debt	423 428	447 923	413 318
Net debt / LTM EBITDA	3.5	4.7	8.9

III. Earnings call

The conference call on our Q1 2017 results will be held in English language on Thursday, May 18, 2017 at 17:30 CET (16:30 London). Earlier on 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://eventreg3.conferencing.com/webportal3/reg.html?Acc=833742&Conf=370979>