Press release August 29, 2013

Q2 2013 - Management Discussion and Analysis

In the second quarter of 2013 the demand for our semi-finished and finished products has improved considerably compared to the previous quarter. Consequently, Cognor S.A. (Cognor, the Company, the Group) managed to increase their operational profits. Our net result remained negative though, primarily due to unrealized foreign exchange losses related to the Group's financial liabilities.

In spite of the improvement, our results lagged behind the performance of Q2 2012 with our sales, revenues and profitability declining in line with the decrease of steel production output in Poland and the rest of the European Union.

On the positive side the Company have been observing an encouraging trend in the steel market throughout this year unlike in 2012 where the second half proved to be increasingly tough for steelmakers. While we maintain our relatively positive outlook with regards to the results for the year as a whole, a more significant uplift in Cognor's results will require the current trend to continue into 2014.

I. Reported Statements

1. Statement of profit or loss and other comprehensive income

The Group's revenues fell by PLN 91.1 million and 21.2%, while gross profit decreased by PLN 13.8 million and 32.5% as compared to Q2 2012. EBIT weakened by PLN 10.9 million and 46.9%. EBITDA performance was also negative with a drop of PLN 11.6 million and 34.5%. EBITDA margin decreased from 7.8% down to 6.5%. The FX development had some negative effect on our operations with average EUR/PLN and USD/PLN exchange rates declining in Q2 2013 by 1.5% and 3.3% respectively as compared to Q2 2012.

AVERAGE EXCHANGE RATES	Q2 2013	Q2 2012
PLN		
EUR/PLN	4.20	4.26
% change	-1.5%	
USD/PLN	3.21	3.33
% change	-3.3%	

EXCHANGE RATES	30-Jun-2013	31-Mar-2013	30-Jun-2012
PLN			
EUR/PLN	4.33	4.18	4.26
% change	3.6%		
USD/PLN	3.32	3.26	3.39
% change	1.8%		

The following table outlines average sales prices for semi-finished and finished products manufactured by both of our steel plants. Spreads are calculated by subtracting scrap metal costs from sales prices. The magnitude of those spreads is a major contributor to Cognor's profitability and therefore we perceive them as the main market strength indicators, similarly to sales volumes.

Billet spread suffered after reaching its peak in Q1 2013, yet it stayed above the Q2 2012 level. However, one should observe that the share of high alloy billets in our overall sales of semi-finished products is usually greater during the periods of weaker demand for billets and therefore their weighted average profitability becomes biased. Billet spreads become incomparable across the periods of significantly different sales in terms of evaluation of the sentiment of the steel market. Therefore, the higher level of the billet spread then in Q2 2012 does not necessarily indicate a stronger environment nor does the contraction compared to Q1 2013 show any deterioration of the market in real terms.

More reliable market metrics are spreads of finished products. Although the Q2 2013 spreads remained much below those of Q2 2012 they saw some partial improvement as compared to Q1 2013. The increase related to big rounds produced by HSJ whereas the spreads for Ferrostal's finished products stayed under pressure. This leads to the conclusion that while the demand for carbon steel products (low value added, used mainly in the construction industry) remained soft, the higher end of steel products enjoyed an increasingly positive market response.

PRICES AND SPREADS	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012
(pln/ tonne)					
FERROSTAL					
SCRAP METAL - all purchases	1 102	1 165	1 136	1 193	1 258
BILLETS - sales to external customers	2 131	2 132	2 009	2 049	2 141
BILLET SPREAD	**916**	**967**	**874**	**856**	**884**
FINISHED PRODUCTS - sales to external customers	2 123	2 222	2 243	2 312	2 412
- plain bars	*2 091*	*2 204*	*2 214*	*2 267*	*2 348*
- flat bars	*2 131*	*2 179*	*2 213*	*2 278*	*2 384*
- squares	*2 040*	*2 137*	*2 152*	*2 228*	*2 292*
- other	*2 198*	*2 411*	*2 682*	*3 019*	*3 274*
PRODUCT SPREADS	**1 021**	**1 066**	**1 107**	**1 119**	**1 154**
- plain bars	*989*	*1 039*	*1 078*	*1 074*	*1 091*
- flat bars	*1 029*	*1 014*	*1 077*	*1 084*	*1 126*
- squares	*938*	*972*	*1 017*	*1 035*	*1 035*
- other	*1 096*	*1 246*	*1 546*	*1 825*	*2 016*

HSJ					
SCRAP METAL - all purchases	1 099	1 157	1 116	1 176	1 231
FINISHED PRODUCTS - sales to external customers	3 079	3 079	3 224	3 318	3 461
- big rounds	*2 965*	*2 922*	*3 012*	*3 133*	*3 302*
- thick sheets	*4 278*	*5 902*	*4 223*	*3 379*	*3 204*
- thin sheets	*11 042*	*11 517*	*10 260*	*10 763*	*11 817*
- other	*24 254*	*18 181*	*28 059*	*29 027*	*26 951*
PRODUCT SPREADS	**1 991**	**1 922**	**2 108**	**2 142**	**2 231**
- big rounds	*1 866*	*1 765*	*1 896*	*1 957*	*2 071*
- thick sheets	*3 179*	*4 745*	*3 107*	*2 203*	*1 973*
- thin sheets	*9 943*	*10 360*	*9 144*	*9 587*	*10 586*
- other	*23 155*	*17 024*	*26 943*	*27 851*	*25 720*

The result of our financial activities was negative as usual, primarily due to interest costs. In addition to the recurring expenses relating to interests born on our financial liabilities, the overall amount of those was significantly increased by FX losses related to the Group’s indebtedness to the amount of PLN 18.2 million. They weighted heavily on the period’s net result which would have been positive absent of those losses.

INCOME STATEMENT	**Q2 2013**	**Q1 2013**	**Q2 2012**
'000 PLN			
Revenue	337 687	284 407	428 763
Cost of sales	-309 084	-270 345	-386 409
Gross profit	**28 603**	**14 062**	**42 354**
Other income	1 831	1 881	2 198
Distribution expenses	-9 225	-7 698	-10 833
Administrative expenses	-8 851	-7 607	-11 887
Other gains/(losses) ï net	2 964	3 522	2 865
Other expenses	-2 999	-2 336	-1 506
EBIT	**12 323**	**1 824**	**23 191**
Financial income	333	42	0
Financial expenses	-33 945	-25 603	-28 163
Net financing costs	**-33 612**	**-25 561**	**-28 163**
Share of profits of associates	-33	0	0
Profit before tax	**-21 322**	**-23 737**	**-4 972**
Income tax expense	5 388	-868	1 406
Profit for the period	**-15 934**	**-24 605**	**-3 566**
Depreciation and amortization	-9 706	-9 844	-10 434
EBITDA	**22 029**	**11 668**	**33 625**

The non-recurring items had some positive effect on EBITDA and a 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	Q2 2013	Q1 2013	Q2 2012
ӧ00 PLN			
Reported EBITDA	**22 029**	**11 668**	**33 625**
Non-recurring items including:	3 555	3 408	2 433
- costs of sales	*-1*	*-1*	*649*
- other income	*320*	*438*	*356*
- distribution expenses	*-77*	*144*	*-46*
- administrative expenses	*0*	*0*	*-950*
- other gains/losses	*2 053*	*2 828*	*2 576*
- operational FX result	*1 836*	*125*	*289*
- other impairments	*-576*	*-126*	*-441*
Adjusted EBITDA	**18 474**	**8 260**	**31 192**
Reported net result	**-15 934**	**-24 605**	**-3 566**
Non-recurring items including:	-15 371	-7 986	-10 104
- EBITDA adjustments	*3 555*	*3 408*	*2 433*
- FX result on debt minus the FX result on assets	*-18 251*	*-10 746*	*-12 075*
- result from discontinued operations	*0*	*0*	*0*
- cancellation of bonds	*0*	*0*	*0*
- pro-forma income tax adjustment	*-675*	*-648*	*-462*
Adjusted net result	**-563**	**-16 619**	**6 538**

According to the above adjustments, the Q1 2013 adjusted EBITDA stood at PLN 18.5 million and the adjusted net result at PLN (-) 0.6 million - less by PLN 12.7 and 7.0 million accordingly in comparison to the figures for Q2 2012.

The main entities of the Group made the following contributions to the consolidated results for Q2 2013:

	FERR	ZW-WB	HSJ	ZLMET
ӧ00 PLN				
Revenues	167 399	4 481	124 875	117 814
- incl. Internal	*1 036*	*4 372*	*695*	*76 002*
EBIT	5 747	-428	8482	-845
EBITDA	9 389	-217	12 782	-26
Profit for the period	**3 804**	**-525**	**-16 931**	**-711**

2. Statement of financial position

The amount of total assets decreased by 5.3% in comparison to Q2 2012 due to the decrease of value of both the non-current and the current assets. Those decreases were mostly fuelled by a 8.7% decrease in property plant and equipment value and a 43.4% decrease of our cash position. As compared to the end of Q1 2103, the Company's balance sheet saw stabilization within both non-current and current assets.

ASSETS	Q2 2013	Q1 2013	Q2 2012
'000 PLN			
A. TOTAL NON-CURRENT ASSETS	**463 417**	**464 906**	**485 835**
I. Intangible assets	13 366	14 727	15 339
II. Property, plant and equipment	303 855	311 275	332 848
III. Other receivables	43 331	41 838	42 870
IV. Investment property and other investments	5 769	5 802	4 363
V. Prepaid perpetual usufruct of land	18 744	18 849	19 164
VI. Deferred tax assets	78 352	72 415	71 251
B. TOTAL CURRENT ASSETS	**475 449**	**453 399**	**505 616**
I. Inventories	198 410	195 626	183 851
II. Receivables	217 883	202 078	224 746
1. Trade receivables	*212 537*	*197 284*	*221 005*
2. Current income tax receivable	*86*	*82*	*6*
3. Other investments	*5 260*	*4 712*	*3 735*
III. Cash and cash equivalents	47 792	44 481	84 475
IV. Assets classified as held for sale	9 760	11 214	12 544
V. Assets of disposal groups	0	0	0
VI. Other	1 604	0	0
TOTAL ASSETS	**938 866**	**918 305**	**991 451**

The Group's equity decreased as a result of negative profitability. In Q2 2013 this was primarily the result of the negative FX development which brought PLN 18.2 million of losses related to the Group's indebtedness in Q2 2013. This was also the main reason behind the increase of indebtedness. At the end of the quarter the gross debt stood at PLN 585.8 million and the net indebtedness amounted to 538.1 million, PLN 7.3 million more as compared to Q1 2013 and by PLN 34.7 million in comparison to Q2 2012. The current liabilities increased sharply compared to Q2 2013 in connection with the reclassification of the Company's senior secured notes of EUR 118 million (the Notes) from long-term into short-term liabilities.

EQUITY AND LIABILITIES	Q2 2013	Q1 2013	Q2 2012
'000 PLN			
A. EQUITY	**136 274**	**152 207**	**187 144**
I. Issued share capital	132 444	132 444	132 444
II. Reserves and retained earnings	-9 362	6 838	41 948
III. Minority interest	13 192	12 925	12 752
B. LIABILITIES	**802 592**	**766 098**	**804 307**
I. Non-current liabilities	**20 919**	**20 504**	**521 145**
1. Employee benefits obligation	*6 719*	*6 735*	*7 151*
2. Interest-bearing loans and borrowings	*5 462*	*5 600*	*505 130*
3. Other	*8 738*	*8 169*	*8 864*
II. Current liabilities	781 673	745 594	283 162
1. Interest-bearing loans and borrowings	*571 901*	*555 820*	*74 972*
2. Bank overdraft	*8 484*	*13 862*	*7 687*
3. Trade payables	*196 565*	*167 335*	*195 076*
4. Deferred government grants	*3 221*	*3 466*	*3 502*
5. Employee benefits obligation	*1 000*	*3 463*	*1 232*
6. Current income tax payable	*165*	*322*	*6*
7. Provisions for payables	*337*	*1 326*	*687*
TOTAL EQUITY AND LIABILITIES	**938 866**	**918 305**	**991 451**

3. Cash flow

The Group had a positive operating cash flow in Q2 2013 as a result of depreciation charges at PLN 9.7 million and the PLN 12.4 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 the sale of similar assets. Financing activities contributed negatively due to the repayment of financial liabilities at PLN 13.2 million and the interest costs paid at PLN 3.2 million.

CASH FLOW	Q2 2013	Q1 2013	Q2 2012
'000 PLN			
A. OPERATING ACTIVITIES	25 071	14 700	47 206
B. INVESTING ACTIVITIES	12	962	6 281
C. FINANCING ACTIVITIES	-16 398	-33 700	-26 572
NET INCREASE IN CASH	**8 685**	**-18 038**	**26 915**

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 10 times multiple. Rotation metrics remained at good levels.

MAIN METRICS	Q2 2013	Q1 2013	Q2 2012
Liquidity ratio	0,61	0,61	1,79
Quick ratio	0,35	0,35	1,14
Inventories turnover (days)	58	65	43
Receivables turnover (days)	57	62	46
EBITDA margin	6,5%	4,1%	7,8%
Net profit margin	-4,7%	-8,7%	-0,8%
Equity	136 274	152 207	187 144
Net debt	538 055	530 801	503 314
Net debt / LTM EBITDA	10,3	8,3	4,2

III. Future capital structure

During the past few quarters the Group has been analyzing the available options in terms of acquiring new long-term financing sources to address the upcoming maturity of the currently outstanding Notes. In the first half of 2013 the Company began preparations of a proposal to refinance the Notes ahead of their scheduled maturity. As part of this process, Cognor has sought to enter into direct dialogue with as many holders of the Notes as possible. A number of significant noteholders have signed non-disclosure agreements with the Company, which has allowed Cognor to provide them with additional information and to enter into productive discussions with those parties on the structure of the refinancing.

Cognor is pleased to report that it has made significant progress in addressing the refinancing of the Notes due in February 2014. With the assistance of our legal and financial advisors, the Company considers itself to be close to being in a position to make a further public announcement concerning the required elements of the refinancing, having taken legal, tax and accounting advice on the structure and content of the proposal.

IV. Business development

The Company intends to undertake the mid-term business development plans as discussed in previous reports. We expect that the terms of the currently discussed refinancing transaction will allow Cognor to facilitate the realization of the expansionary CAPX projects.

V. Earnings call

The conference call on our Q2 2013 results will be held in English language on Tuesday, September 3, 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=188345