



Press release

August 29, 2014

Q2 2014 - Management Discussion and Analysis

The second quarter of 2014 brought a continuation of the improvement in steel production and demand both in Poland and in Europe however, the dynamics was significantly weaker than in the previous quarter. Polish production of crude steel rose as compared to Q2 2013 by 5% and the EU(28) saw just a 1% increase. China led the global increase again with a solid 6% growth. We are of the opinion that the visible slowdown in Europe was just a correction in the long term recovery that we have observed since the beginning of second half of 2013. In our opinion the trend should continue subject to the pace of GDP development in major EU economies.

In spite of the slowdown in the EU, we consider the market environment in Poland as quite favorable in Q2 2014 and that had its influence on our latest figures. Cognor S.A. (Cognor, the Company, the Group) managed to increase its revenues and profitability in comparison to Q2 2013 however, we were not able to achieve the previous quarter's profitability.

I. Reported Statement

1. Income Statement

The Group's revenues increased by PLN 30.3 million and 9.0% primarily due to the 15.0% increase in shipments of combined ferrous scrap metal, steel semi-finished and finished products. Gross profit rose by PLN 8.0 million and 27.9% as compared to Q2 2013, driven by higher sales of billets and finished products. EBIT increased by PLN 4.3 million and EBITDA by PLN 3.2 million. EBITDA margin increased from 6.5% up to 6.9%. The FX had some negative effect on our operations with the average EUR/PLN and USD/PLN declining as compared to Q2 2013 by (-)0.7% and (-)5.03% respectively. No significant impact it had on our net financial costs - the FX gains related to the Group's debt stood at just PLN 0.9 million driven by the strengthening zloty against the euro: EUR/PLN quoted at PLN 4.16 as of June 30, 2014 and at PLN 4.17 as of March 31, 2014.

AVERAGE EXCHANGE RATES		Q2 2014	Q2 2013
EUR/PLN	PLN	4.17	4.20
	% change	-0.7%	
USD/PLN		3.04	3.21
	% change	-5.3%	

EXCHANGE RATES		30-June-2014	31-Mar-2014	30-June-2013
	<i>PLN</i>			
EUR/PLN		4.16	4.17	4.33
	% change	-0.2%		
USD/PLN		3.05	3.03	3.32
	% change	0.7%		

The improvement of our operations was mostly driven by the increase in production and sales of our semi-finished and finished products. The overall finished product's margin remained unchanged - the product spread's increase of Ferrostal by PLN 73 per tonne was offset by the HSJ's decrease by PLN (-)75 per tonne. The Ferrostal's billet spread went down significantly by PLN (-)144 per tonne. When compared with the previous quarter, our profitability suffered primarily due to that decrease of the Ferrostal's billet spread, by pln (-)170 per tonne, with our combined product spreads increasing slightly. However, the magnitude of the increase was not sufficient to offset that negative influence. The contraction of the billet spread was mostly due to the lesser demand for higher alloy semi-finished products forcing us towards the production and sales of less profitable, carbon steel billets.

PRICES AND SPREADS	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013
<i>(pln/ tonne)</i>					
FERROSTAL					
SCRAP METAL - all purchases	972	1 052	1 073	1 045	1 102
BILLETS - sales to external customers	1 744	1 995	1 972	1 961	2 018
BILLET SPREAD	772	942	899	916	916
FINISHED PRODUCTS - sales to external customers	2 066	2 158	2 168	2 079	2 123
- plain bars	2 076	2 136	2 153	2 057	2 091
- flat bars	2 070	2 157	2 162	2 090	2 131
- squares	2 056	2 108	2 163	2 038	2 040
- rebars	1 938	2 138			
- angles	2 120	2 185	2 166	2 079	2 147
- other	3 475	2 370	2 404	2 787	2 759
PRODUCT SPREADS	1 094	1 105	1 095	1 034	1 021
- plain bars	1 104	1 084	1 080	1 012	989
- flat bars	1 098	1 105	1 089	1 045	1 029
- squares	1 084	1 056	1 090	993	938
- rebars	966	1 086			
- angles	1 148	1 133	1 093	1 034	1 045
- other	2 503	1 318	1 331	1 742	1 657
HSJ					
SCRAP METAL - all purchases	1 034	1 060	1 084	1 084	1 099
FINISHED PRODUCTS - sales to external customers	2 950	2 947	2 761	2 840	3 090
- big rounds	2 808	2 838	2 698	2 730	2 965
- thick sheets	6 420	4 723	2 855	3 536	4 278
- thin sheets	11 126	10 732	11 810	12 101	11 042
- other	25 941	24 004	21 878	13 569	24 254
PRODUCT SPREADS	1 916	1 886	1 677	1 756	1 991
- big rounds	1 774	1 778	1 614	1 646	1 866
- thick sheets	5 386	3 663	1 771	2 452	3 179
- thin sheets	10 092	9 672	10 726	11 017	9 943
- other	24 907	17 121	20 794	12 485	23 155

The increase in our operational profitability was improved slightly by FX gain related to the Group's indebtedness at PLN 0.9 million.

INCOME STATEMENT	Q2 2014	Q1 2014	Q2 2013
'000 PLN			
Revenue	367 938	351 336	337 687
Cost of sales	-331 361	-309 915	-309 084
Gross profit	36 577	41 421	28 603
Other income	2 551	3 957	1 831
Distribution expenses	-10 616	-10 392	-9 225
Administrative expenses	-7 189	-8 511	-8 851
Other gains/(losses) . net	659	-654	2 964
Other expenses	-5 375	-1 663	-2 999
EBIT	16 607	24 158	12 323
Financial income	0	0	333
Financial expenses	-14 666	-17 487	-33 945
Net financing costs	-14 666	-17 487	-33 612
Share of profits of associates	3 785	995	-33
Profit before tax	5 726	7 666	-21 322
Income tax expense	-1 096	-746	5 388
Profit/loss for the period from discontinued operations	0	0	0
Profit for the period	4 630	6 920	-15 934
Depreciation and amortization	-8 659	-8 442	-9 706
EBITDA	25 266	32 600	22 029

The non-recurring items had negligible effect on EBITDA and a 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	Q2 2014	Q1 2014	Q2 2013
€000 PLN			
Reported EBITDA	25 266	32 600	22 029
Non-recurring items including:	-589	590	3 855
<i>- costs of sales</i>	<i>19</i>	<i>-3</i>	<i>-1</i>
<i>- other income</i>	<i>288</i>	<i>1 800</i>	<i>287</i>
<i>- distribution expenses</i>	<i>55</i>	<i>-420</i>	<i>-77</i>
<i>- administrative expenses</i>	<i>0</i>	<i>0</i>	<i>0</i>
<i>- other gains/losses</i>	<i>861</i>	<i>-678</i>	<i>2 053</i>
<i>- operational FX result</i>	<i>-277</i>	<i>30</i>	<i>1 836</i>
<i>- other impairments</i>	<i>-1 535</i>	<i>-139</i>	<i>-243</i>
Adjusted EBITDA	25 855	32 010	18 174
Reported net result	4 630	6 920	-15 934
Non-recurring items including:	4 178	-2 829	-15 161
<i>- EBITDA adjustments</i>	<i>-589</i>	<i>590</i>	<i>3 855</i>
<i>- FX result on debt</i>	<i>870</i>	<i>-2 973</i>	<i>-18 251</i>
<i>- share of associate result</i>	<i>3 785</i>	<i>995</i>	<i>-33</i>
<i>- PIK coupon increase</i>	<i>-</i>	<i>-1 640</i>	<i>-</i>
<i>- pro-forma income tax adjustment</i>	<i>112</i>	<i>200</i>	<i>-732</i>
Adjusted net result	452	9 749	-773

According to the above, the Q2 2014 adjusted EBITDA stood at PLN 25.9 million and the adjusted net profit at PLN 0.5 million – a significant improvement compared to the figures of Q2 2013.

The main entities of the Group made the following contribution to the consolidated results for Q2 2014:

	FERR	ZW-WB	HSJ	ZLMET
ϕ00 PLN				
Revenues	178 408	6 447	131 980	116 943
- incl. Internal	231	6 283	369	74 372
EBIT	6 964	284	8 734	846
EBITDA	10 335	492	12 213	1548
Profit for the period	3 885	220	-4 334	488

2. Balance Sheet

The amount of total assets increased by 6.1% in comparison to Q2 2013 primarily due to the 16.2% increase in value of current assets. It was mostly fueled by higher level of accounts receivable - by 5.7% and inventories – by 35.4%. This was offset by a 43.0% decrease in our cash position. Similar relations, but to lesser extent, can be observed when compared with the end of Q1 2014 figures.

ASSETS	Q2 2014	Q1 2014	Q2 2013
'000 PLN			
A. TOTAL NON-CURRENT ASSETS	443 970	458 701	463 417
I. Intangible assets	11 762	11 944	13 366
II. Property, plant and equipment	294 874	284 850	303 855
III. Other receivables	41 647	41 714	43 331
IV. Investment property and other investments	2 212	22 958	5 769
V. Prepaid perpetual usufruct of land	24 623	18 430	18 744
VI. Deferred tax assets	68 852	78 805	78 352
B. TOTAL CURRENT ASSETS	552 311	511 276	475 449
I. Inventories	268 707	256 438	198 410
II. Receivables	247 672	227 004	217 883
1. Trade receivables	224 750	221 830	212 537
2. Current income tax receivable	33	36	86
3. Other investments	22 889	5 138	5 260
III. Cash and cash equivalents	27 260	19 178	47 792
IV. Prepayments	0	0	1 604
V. Assets classified as held for sale	8 672	8 656	9 760
VI. Assets of disposal groups	0	0	0
TOTAL ASSETS	996 281	969 977	938 866

In Q2 2014 the Group reduced its leverage with the gross debt amounting to PLN 495.8 million and the net indebtedness at 468.6 million - less by PLN 69.4 million as compared to Q2 2013 and more by PLN 12.8 million in comparison to Q1 2014. The main reason behind was the successful completion of the financial restructuring which resulted in the issuance of convertible bonds at the amount of EUR 25.1 million. These bonds are now accounted for as equity and no longer as indebtedness. Primarily for that reason our equity went up by PLN 92.5 million as compared Q2 2013. The restructuring also resulted in maturity extension of most of the Group's indebtedness. The new senior notes mature in 2020 hence the increase in the Company's long-term debt as compared to Q2 2013.

EQUITY AND LIABILITIES	Q2 2014	Q1 2014	Q2 2013
<i>'000 PLN</i>			
A. EQUITY	228 807	215 911	136 274
I. Issued share capital	132 444	132 444	132 444
II. Reserves and retained earnings	72 110	67 447	-9 362
III. Minority interest	24 253	16 020	13 192
B. LIABILITIES	767 474	754 066	802 592
I. Non-current liabilities	422 266	458 313	20 919
1. <i>Employee benefits obligation</i>	9 230	7 202	6 719
2. <i>Interest-bearing loans and borrowings</i>	407 504	406 864	5 462
3. <i>Other</i>	5 532	44 247	8 738
II. Current liabilities	345 208	295 753	781 673
1. <i>Interest-bearing loans and borrowings</i>	82 099	61 791	571 901
2. <i>Bank overdraft</i>	6 228	6 287	8 484
3. <i>Trade payables</i>	247 791	220 666	196 565
4. <i>Deferred government grants</i>	117	117	3 221
5. <i>Other financial liabilities</i>	0	6	0
5. <i>Employee benefits obligation</i>	1 760	4 050	1 000
6. <i>Current income tax payable</i>	0	0	165
7. <i>Provisions for payables</i>	7 213	2 836	337
TOTAL EQUITY AND LIABILITIES	996 281	969 977	938 866

3. Cash flow

The Group had a positive operating cash flow in Q2 2014 as a result net profit and depreciation charges. Working capital had a negative effect at PLN (-)10.6 million. Cash flows from investing and financial activities were slightly negative.

CASH FLOW	Q2 2014	Q1 2014	Q2 2013
<i>'000 PLN</i>			
A. OPERATING ACTIVITIES	10 135	10 562	25 071
B. INVESTING ACTIVITIES	-1 035	446	12
C. FINANCING ACTIVITIES	-948	-12 900	-16 398
NET INCREASE IN CASH	8 142	-1 892	8 685

II. Main Metrics

Liquidity metrics improved very substantially as a result of successful completion of the financial restructuring. Margins increased significantly as well due to better operating performance of the Group. Receivable collection saw a stabilization and inventory turnover went slightly up. Improving EBITDA and partial conversion of debt into equity helped to reduce our leverage down to 5.2 times multiple.

MAIN METRICS	Q2 2014	Q1 2014	Q2 2013
Liquidity ratio	1,60	1.73	0.61
Quick ratio	0,82	0.86	0.35
Inventories turnover (days)	73	74	58
Receivables turnover (days)	55	57	57
EBITDA margin	6,9%	9.3%	6.5%
Net profit margin	1,3%	2.0%	-4.7%
Equity	228 807	215 911	136 274
Net debt	468 571	455 764	538 055
Net debt / LTM EBITDA	5.2	5.3	10.3

III. Business development

The Company continues to work on its development plans which involve certain mid-term capital expenditures. We intend to carefully balance the necessity to upgrade and modernize our production units with the need to further reduce Cognor's leverage. More details will be provided in due course.

IV. Earnings call

The conference call on our Q2 2014 results will be held in English language on Wednesday, September 3, 2014 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=191086>