Press release August 29, 2017

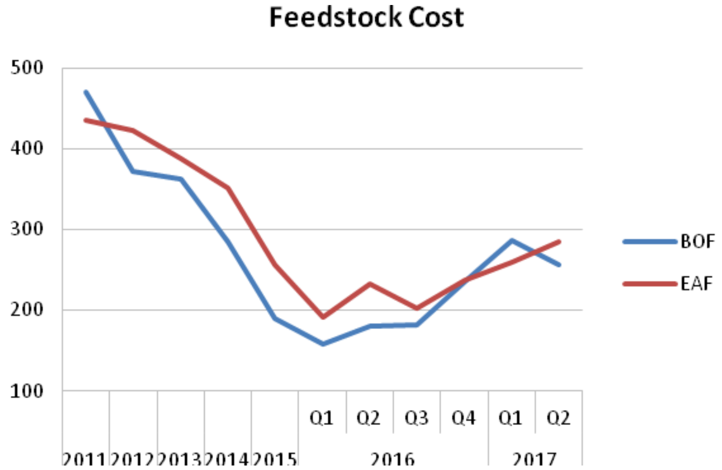
Q2 2017 - Management Discussion and Analysis

The second quarter of 2017 brought a further improvement in demand for steel and resulted in the increase of production in the European Union by 4.2% with the Poland's output up by 24.4% as compared to Q2 2016. The world's production saw an increase of 3.4% in the same period where China contributed positively to the growth with its 4.1% of the increment. To many it came as a surprise especially because of the degree of the improvement. Although barely noticeable, for the first time since many years we have seen the positive difference between the EU production growth and that in China. We attribute that phenomenon to the effect of the application of the recent anti-dumping measures. In addition, we note that the Chinese growth in previous quarters in part might have been illusory due to the implementation of closures of the induction furnaces (IF) capacity which resulted in the reduction of an estimated 30-50 million tonnes of steel production per annum. IF steel production has been illegal in China nevertheless continued unrecorded in official statistics.

The buoyant market environment allowed Cognor Holding S.A. (Cognor, the Company, the Group) to maintain the high level of capacity utilization with just a slight decrease of 0.6% in terms of crude steel production and 4.0% decrease with respect to shipments of combined ferrous scrap metal, billets and finished products. Good demand resulted in the increase of prices by an average of 15.1% and allowed for the total revenues growth by 9.4%.

The profitability of Cognor remained good. Our EBITDA accounted for PLN 32.0 million and was just under that of a year ago when it hit PLN 33.4 million. Our profitability benefited from 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 252 per tonne and by PLN 171 per tonne respectively. FIFO result was negligible this time while last year it brought approximately PLN 13.9 million of gains.

Apart from the impact form the EU anti-dumping measures and the increase of the world's steel consumption the improvement of our profitability was also caused by the favorable cost position of the electric arc furnace (EAF) producers vis-à-vis the blast oxygen furnace (BOF) ones. Our feedstock cost model indicated a slight disadvantage on the side of EAF steelmakers in Q2 2017 however to much lesser extent in comparison to years 2014-2015. Besides, our BOF calculation was based on the last available coking coal price source which was as of Q1 2017. The actual Q2 2017 price is expected to have been higher and that would have resulted in a more expensive BOF feedstock cost in that quarter as compared to our model assumptions below.



To summarize, we are pleased to present good results from our operations. With little influence from the EUR/PLN exchange rate development we also achieved a net profit for the period.

I. Reported Statement

1. Income Statement

The Group's revenues increased by PLN 34.8 million and 9.4% primarily due to the increase of prices of: (i) scrap metal by PLN 170 per tonne, (ii) billets by PLN 422 per tonne and (iii) finished products by PLN 341 per tonne. This was partially offset by a decrease in shipments of finished products by 29.1 thousand tonnes and 21.1% and that was in part counterbalanced by an increase of scrap metal shipments by 6.2 thousand tones and 25.8% as well as of billets by 15.2 thousand tonnes and 53.6%. The increase of sales of billets was caused by the more attractive billet margins offered by the market which is why we decided to limit production and sales of the least profitable finished products. Our conversion spreads for billets improved by PLN 252 per tonne and PLN 171 per tonne for finished products. We saw no significant FIFO gains last quarter unlike a year ago where the positive impact from inventories accounted for PLN 13.9 million.

EBIT and EBITDA both decreased slightly by PLN 2.0 million and PLN 1.4 million respectively. EBITDA margin decreased from 9.0% down to 7.9%. The FX development had some negative effect on our operations with the average EUR/PLN exchange rate 3.4% lower as compared to Q2 2016.

AVERAGE EXCHANGE RATES	Q2 2017	Q2 2016
PLN		
EUR/PLN	4.22	4.37
% change	-3.4%	
USD/PLN	3.84	3.87
% change	-0.8%	

For both of our steel plants the spreads for semi-finished and finished products increased in Q2 2017 as compared to Q2 2016.

PRICES AND SPREADS	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016
(pln/ tonne)					
FERROSTAL					
SCRAP METAL - all purchases	979	949	781	752	805
BILLETS - sales to external customers	1 899	1 757	1 681	1 582	1 516
BILLET SPREAD	**920**	**808**	**899**	**830**	**710**
FINISHED PRODUCTS - sales to external customers	1 963	1 926	1 780	1 753	1 720
- plain bars	*2 027*	*1 854*	*1 843*	*1 890*	*1 927*
- flat bars	*1 995*	*2 031*	*1 872*	*1 924*	*1 950*
- squares	*1 988*	*1 991*	*1 821*	*1 906*	*1 919*
- rebars	*1 923*	*1 887*	*1 701*	*1 629*	*1 588*
- angles	*2 024*	*2 058*	*1 922*	*1 949*	*1 954*
- other	*2 740*	*2 324*	*2 025*	*2 521*	*2 119*
PRODUCT SPREADS	**984**	**977**	**999**	**1 001**	**915**
- plain bars	*1 048*	*1 006*	*1 062*	*1 138*	*1 122*
- flat bars	*1 017*	*1 082*	*1 091*	*1 172*	*1 145*
- squares	*1 010*	*1 01*	*1 039*	*1 154*	*1 113*
- rebars	*945*	*937*	*921*	*877*	*783*
- angles	*1 045*	*1 109*	*1 141*	*1 197*	*1 149*
- other	*1 761*	*1 375*	*1 243*	*1 769*	*1 314*
HSJ					
SCRAP METAL - all purchases	1 000	1 070	929	772	841
BILLETS - sales to external customers	2 193	2 120	1 910	1 784	1 663
BILLET SPREAD	**1 193**	**1 050**	**923**	**981**	**822**
FINISHED PRODUCTS - sales to external customers	2 815	2 708	2 462	2 555	2 426
- SQ bars	*2 752*	*2 615*	*2 375*	*2 410*	*2 298*
- thick sheets	*2 713*	*2 595*	*3 428*	*2 606*	*2 663*
- thin sheets	*11 851*	*10 488*	*11 493*	*11 718*	*11 318*
- other	*29 603*	*24 973*	*28 051*	*34 203*	*15 567*
PRODUCT SPREADS	**1 815**	**1 636**	**1 533**	**1 783**	**1 585**
- big rounds	*1 752*	*1 545*	*1 446*	*1 638*	*1 457*
- thick sheets	*1 713*	*1 525*	*2 499*	*1 834*	*1 822*
- thin sheets	*10 851*	*9 418*	*10 564*	*10 946*	*10 477*
- other	*28 603*	*23 903*	*27 122*	*33 431*	*14 726*

Good operational profitability was slightly offset by the FX losses related to the Group's indebtedness, increasing our financial costs by PLN 0.6 million and resulting in a lower net profit for the period. EUR/PLN quoted at PLN 4.2265 as of June 30, 2017 and at PLN 4.2198 as of March 31, 2017.

EXCHANGE RATES	30-Jun-2017	31-Mar-2017	30-Jun-2016
PLN			
EUR/PLN	4.22	4.22	4.43
% change	0.2%		
USD/PLN	3.71	3.95	3.76
% change	-6.1%		

INCOME STATEMENT	Q2 2017	Q1 2017	Q2 2016
'000 PLN			
Revenue	404 312	429 529	369 507
Cost of sales	-358 157	-371 262	-323 780
Gross profit	**46 155**	**58 267**	**45 727**
Other income	1 503	863	1 148
Distribution expenses	-14 777	-15 900	-13 557
Administrative expenses	-10 462	-9 081	-8 574
Other gains/(losses) ï net	756	-1 456	555
Other expenses	-1 094	-1 073	-1 197
EBIT	**22 081**	**31 620**	**24 102**
Financial income	-626	18 318	2 138
Financial expenses	-13 045	-12 723	-29 804
Net financing costs	**-13 671**	**5 595**	**-27 666**
Share of profits of associates	29	-51	50
Excess in the net fair value of acquired assets over cost	0	0	0
Profit before tax	**8 439**	**37 164**	**-3 514**
Income tax expense	-2 004	-6 816	4 052
Profit/loss for the period from discontinued operations	0	0	0
Profit for the period	**6 435**	**30 348**	**538**
Depreciation and amortization	-9 947	-9 612	-9 316
EBITDA	**32 028**	**41 232**	**33 418**

The non-recurring items had little effects on EBITDA and 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 2017	Q1 2017	Q2 2016
'000 PLN			
Reported EBITDA	**32 028**	**41 232**	**33 418**
Non-recurring items including:	805	-1 458	492
- costs of sales	*0*	*0*	*0*
- other income	*198*	*581*	*88*
- distribution expenses	*41*	*-565*	*61*
- administrative expenses	*0*	*0*	*0*
- other gains/losses	*306*	*-337*	*-584*
- operational FX result	*450*	*-1119*	*1139*
- other impairments	*-190*	*-18*	*-212*
Adjusted EBITDA	**31 223**	**42 690**	**32 926**
Reported net result	**6 435**	**30 348**	**538**
Non-recurring items including:	58	16 938	-12 426
- EBITDA adjustments	*805*	*-1 458*	*429*
- FX result on debt	*-623*	*18 170*	*-14 665*
- result on own debt repurchase	*0*	*0*	*2 165*
- result on cancellation of debt	*0*	*0*	*0*
- share of associate result	*29*	*-51*	*87*
- pro-forma income tax adjustment	*-153*	*277*	*-505*
Adjusted net result	**6 377**	**13 410**	**12 964**

According to the above, the Q2 2017 adjusted EBITDA stood at PLN 31.2 million and the adjusted net profit at PLN 6.4 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 10.4 million, compared to PLN 19.5 million in Q2 2016. In addition, we reclassified one asset from held for sale current assets up to fixed assets as we don't expect the transaction to happen in short-term. A more significant change occurred with respect to current assets. The most of that came from the increase of inventories, to the tune of PLN 68.9 million and 27.8%, which was primarily caused by the increase of scrap metal cost. Consequently, the amount of total assets saw an increase of PLN 56.8 million and 6.5%.

ASSETS	Q2 2017	Q1 2017	Q2 2016
'000 PLN			
A. TOTAL NON-CURRENT ASSETS	**412 104**	**409 637**	**411 257**
I. Intangible assets	12 504	12 359	11 011
II. Property, plant and equipment	287 575	284 841	278 946
III. Other receivables	170	147	42
IV. Investment property and other investments	3 283	8 004	16 762
V. Prepaid perpetual usufruct of land	25 769	19 851	20 294
VI. Deferred tax assets	82 803	84 435	84 202
B. TOTAL CURRENT ASSETS	**517 419**	**545 693**	**450 944**
I. Inventories	317 008	299 300	248 099
II. Receivables	159 984	214 841	176 128
1. Trade receivables	*158 780*	*211 287*	*171 686*
2. Current income tax receivable	*10*	*1 869*	*47*
3. Other investments	*1 194*	*1 685*	*4 395*
III. Cash and cash equivalents	40 427	25 540	20 705
IV. Prepayments	0	0	0
V. Assets classified as held for sale	0	6 012	6 012
VI. Assets of disposal groups	0	0	0
TOTAL ASSETS	**929 523**	**955 330**	**872 773**

Cognor's equity in Q2 2017 increased as a result of strong LTM net result. The Group had the gross debt amounting to PLN 459.9 million and the net indebtedness at 419.5 million – less by PLN 4.0 million as compared to Q1 2017 and by PLN 10.2 million in comparison to Q2 2016. The net debt decrease was due to good financial results and the lack of any significant FX impact on our indebtedness.

EQUITY AND LIABILITIES	Q2 2017	Q1 2017	Q2 2016
'000 PLN			
A. EQUITY	**186 213**	**184 040**	**159 967**
I. Issued share capital	151 902	150 532	139 702
II. Reserves and retained earnings	18 256	17 921	240
III. Minority interest	16 055	15 587	20 025
B. LIABILITIES	**743 310**	**771 290**	**712 806**
I. Non-current liabilities	395 786	391 178	446 089
1. Employee benefits obligation	*9 058*	*9 058*	*9 079*
2. Interest-bearing loans and borrowings	*362 206*	*357 904*	*399 551*
3. Other	*24 522*	*24 216*	*37 459*
II. Current liabilities	347 524	380 112	266 717
1. Interest-bearing loans and borrowings	*74 093*	*66 359*	*42 745*
2. Bank overdraft	*23 580*	*24 705*	*8 069*
3. Trade payables	*241 976*	*277 764*	*210 464*
4. Deferred government grants	*117*	*117*	*117*
5. Employee benefits obligation	*2 504*	*5 363*	*2 613*
6. Current income tax payable	*205*	*116*	*0*
7. Provisions for payables	*5 049*	*5 688*	*2 709*
TOTAL EQUITY AND LIABILITIES	**929 523**	**955 330**	**872 773**

3. Cash flow

The Group had a positive operating cash flow in Q2 2017 due to positive EBITDA. This was slightly supported by the inflow of cash from working capital at the amount of PLN 1.2 million. Investment cash flow was negative with insignificant flows related to CAPEX and the proceeds from sales of redundant assets. Financing activities used cash primarily because of repayment of debt at the amount of PLN 7.6 million and interest at the amount of PLN 6.6 million.

CASH FLOW	Q2 2017	Q1 2017	Q2 2016
'000 PLN			
A. OPERATING ACTIVITIES	31 678	31 004	25 279
B. INVESTING ACTIVITIES	-1 459	-4 802	-6 735
C. FINANCING ACTIVITIES	-14 207	-27 193	-24 762
NET INCREASE IN CASH	**16 012**	**-991**	**-6 218**

II. Main Metrics

Liquidity metrics worsened but still remained at good levels. Inventory turnover deteriorated and receivable collection period saw an improvement. EBITDA margin decreased and net profit increased. Strong last twelve months' EBITDA resulted in the significant decrease of leverage down to 3.5 times multiple.

MAIN METRICS	Q2 2017	Q1 2017	Q2 2016
Liquidity ratio	1.49	1.44	1.69
Quick ratio	0.58	0.65	0.76
Inventories turnover (days)	80	73	69
Receivables turnover (days)	35	44	42
EBITDA margin	7.9%	9.6%	9.0%
Net profit margin	1.6%	7.1%	0.1%
Equity	186 213	184 040	159 967
Net debt	419 452	423 428	429 660
Net debt / LTM EBITDA	3.5	3.5	7.1

III. Earnings call

The conference call on our Q2 2017 results will be held in English language on Wednesday, August 30, 2017 at 16:00 CET (15:00 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/inv/reg.html?Acc=833742&Conf=372318