



Press release

November 14, 2016

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## **Q3 2016 - Management Discussion and Analysis**

In the third quarter of 2016 the world's steel output increased by 1.8% as compared to Q3 2015. The European Union saw a stabilization and in Poland it decreased by 14.0%, due to major overhaul works at some of the local steel manufacturers. As compared to Q2 2016 the condition of the steel market worldwide weakened if measured by the level of production which was lower by 2.4%. However, our product prices and conversion spreads improved in comparison to the previous quarter.

In comparison to Q3 2015 the revenues of Cognor S.A. (Cognor, the Company, the Group) fell by 9.4% primarily due to the 4.3% decrease of combined shipments of scrap metal, billets and finished products. The other cause was the decrease of their prices.

In terms of profitability there was a positive development in terms of billet spread which increased by PLN 7 per tonne. At the same time our average product spread suffered by PLN 61 per tonne. In spite of that we were able to achieve significantly higher operational profit primarily as a result of further improvement of production costs. Our EBITDA was higher by PLN 16.7 million and 303.0% and our net result was a profit of PLN 11.8 million as compared to a loss of PLN 14.3 million a year ago. One should note however that our net profit was largely influenced by foreign exchange gains related to our indebtedness which generated the amount of PLN 11.0 million.

In summary, we consider the last quarter to have been fair given the constraints of the weakening market environment. Although our overall shipments were lower, we were able to produce and sell more of finished products as well as made further progress in terms of cost control. This allowed us to substantially improve our operational profitability. Our net result was also a profit even if adjusted for the foreign exchange gains related to our indebtedness.

### **I. Reported Statement**

#### **1. Income Statement**

The Group's revenues fell by PLN 32.0 million and 9.4% largely due to the decrease of shipments of scrap metal by 12.3 thousand tonnes which was partially offset by larger sales of finished products by 5.2 thousand tonnes while billet volume remained unchanged. The scale of revenue drop was magnified by falling prices of scrap metal - by PLN 124 per tonne and 14.6%, billets - by PLN 99 per tonne and 5.7% and finished products - by PLN 172 per tonne and 7.9%. Gross profit rose by PLN 18.7 million and

106.8% as compared to Q3 2015 primarily due to lower production costs. EBIT and EBITDA both increased by PLN 15.9 and PLN 16.7 million respectively. EBITDA margin increased from 2.4% up to 8.1%. The FX development had some positive effect on our operations with the average EUR/PLN exchange rate 3.6% higher as compared to Q3 2015. It also had a positive impact on our net financial costs - the net FX gains related to the Company's indebtedness accounted for PLN 11.0 million driven primarily by the strengthening zloty against the euro: EUR/PLN quoted at PLN 4.31 as of September 30, 2016 and at PLN 4.43 as of June 30, 2016.

AVERAGE EXCHANGE RATES		Q3 2016	Q3 2015
	PLN		
EUR/PLN		4.34	4.19
	% change	3.6%	
USD/PLN		3.89	3.77
	% change	3.2%	

EXCHANGE RATES		30-Sep-2016	30-Jun-2016	30-Sep-2015
	PLN			
EUR/PLN		4.31	4.43	4.24
	% change	-2.7%		
USD/PLN		3.86	3.98	3.78
	% change	-3.0%		

The development of the spreads for semi-finished and finished products varied between the two of our steel plants. On average we saw an improvement of semi-finished products' spread of PLN 7 per tonne and the deterioration of finished products' spread of PLN 61 per tonne in Q3 2016 as compared to Q3 2015.

PRICES AND SPREADS	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015
<i>(pln/ tonne)</i>					
<b>FERROSTAL</b>					
<b>SCRAP METAL</b> - all purchases	752	805	676	667	861
<b>BILLETS</b> - sales to external customers	1 582	1 516	1 337	1 442	1 677
<b>BILLET SPREAD</b>	<b>830</b>	<b>710</b>	<b>661</b>	<b>775</b>	<b>816</b>
<b>FINISHED PRODUCTS</b> - sales to external customers	1 753	1 720	1 609	1 682	1 848
- plain bars	1 890	1 927	1 828	1 887	1 950
- flat bars	1 924	1 950	1 864	1 899	1 965
- squares	1 906	1 919	1 832	1 886	1 951
- rebars	1 629	1 588	1 408	1 439	1 657
- angles	1 949	1 954	1 860	1 905	1 963
- other	2 521	2 119	1 954	2 079	2 094
<b>PRODUCT SPREADS</b>	<b>1 001</b>	<b>915</b>	<b>932</b>	<b>1 014</b>	<b>986</b>
- plain bars	1 138	1 122	1 152	1 220	1 089
- flat bars	1 172	1 145	1 188	1 232	1 104
- squares	1 154	1 113	1 156	1 219	1 090
- rebars	877	783	732	772	796
- angles	1 197	1 149	1 183	1 237	1 102
- other	1 769	1 314	1 278	1 412	1 233

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<b>SCRAP METAL</b> - all purchases	772	841	722	712	881
<b>BILLETS</b> - sales to external customers	1 759	1 712	1 712	1 677	2 079
<b>BILLET SPREAD</b>	<b>987</b>	<b>871</b>	<b>990</b>	<b>965</b>	<b>1 198</b>
<b>FINISHED PRODUCTS</b> - sales to external customers	2 555	2 426	2 433	2 647	2 688
- SQ bars	2 410	2 298	2 294	2 438	2 576
- thick sheets	2 606	2 663	2 765	2 765	2 218
- thin sheets	11 718	11 318	10 728	11 190	10 540
- other	34 203	15 567	17 557	26 841	20 052
<b>PRODUCT SPREADS</b>	<b>1 783</b>	<b>1 585</b>	<b>1 711</b>	<b>1 935</b>	<b>1 807</b>
- SQ bars	1 638	1 457	1 572	1 726	1 695
- thick sheets	1 834	1 822	2 043	2 053	1 337
- thin sheets	10 946	10 477	10 006	10 478	9 659
- other	33 431	14 726	16 835	26 129	19 171

Relatively good operational profitability was supported by the FX gain related to the Group's indebtedness, decreasing our financial costs by PLN 11.0 million and resulting in a higher net profit for the period.

INCOME STATEMENT	Q3 2016	Q2 2016	Q3 2015
	'000 PLN		
Revenue	309 745	369 507	341 788
Cost of sales	-273 480	-323 780	-324 249
<b>Gross profit</b>	<b>36 265</b>	<b>45 727</b>	<b>17 539</b>
Other income	1 939	1 148	1 328
Distribution expenses	-12 893	-13 557	-11 426
Administrative expenses	-8 322	-8 574	-8 288
Other gains/(losses) . net	-577	555	1 645
Other expenses	-1 070	-1 197	-1 375
<b>EBIT</b>	<b>15 342</b>	<b>24 102</b>	<b>-577</b>
Financial income	333	2 138	-5 466
Financial expenses	-2 376	-29 804	-13 011
<b>Net financing costs</b>	<b>-2 043</b>	<b>-27 666</b>	<b>-18 477</b>
Share of profits of associates	47	50	-86
Excess in the net fair value of acquired assets over cost	0	0	0
<b>Profit before tax</b>	<b>13 346</b>	<b>-3 514</b>	<b>-19 140</b>
Income tax expense	-1 575	4 052	4 889
Profit/loss for the period from discontinued operations	0	0	0
<b>Profit for the period</b>	<b>11 771</b>	<b>538</b>	<b>-14 251</b>
Depreciation and amortization	-9 644	-9 316	-8 824
<b>EBITDA</b>	<b>24 986</b>	<b>34 418</b>	<b>8 247</b>

The non-recurring items had a small positive effect on EBITDA and a significant 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	Q3 2016	Q2 2016	Q3 2015
<i>€000 PLN</i>			
<b>Reported EBITDA</b>	<b>24 986</b>	<b>34 023</b>	<b>7 893</b>
Non-recurring items including:	469	494	1 529
- costs of sales	0	0	0
- other income	1 239	90	219
- distribution expenses	31	61	(97)
- administrative expenses	0	-584	0
- other gains/losses	675	572	1 149
- operational FX result	-1 252	1 139	496
- other impairments	-224	-212	(238)
<b>Adjusted EBITDA</b>	<b>24 517</b>	<b>33 529</b>	<b>6 364</b>
<b>Reported net result</b>	<b>11 771</b>	<b>538</b>	<b>-14 251</b>
Non-recurring items including:	11 467	-14 228	-3 951
- EBITDA adjustments	469	494	1 529
- FX result on debt	11 040	-14 665	-5 577
- result on own debt repurchase	0	2 165	0
- share of associate result	47	37	-86
- pro-forma income tax adjustment	-89	-94	-291
<b>Adjusted net result</b>	<b>304</b>	<b>12 601</b>	<b>-10 300</b>

According to the above, the Q3 2016 adjusted EBITDA stood at PLN 24.5 million and the adjusted net result at PLN 0.3 million.

## 2. Balance Sheet

There was little change with respect to the value of non-current assets and a significant decrease of current assets as compared to Q3 2015. The most of that, at the amount of PLN 87.2 million and 35.6%, came from receivables primarily due to the sale of PLN 66.6 million of those under the non-recourse factoring arrangements. The inventories fell by PLN 36.9 million and 13.3% primarily as a result of lower prices. The amount of total assets saw a decrease of PLN 113.2 million and 11.8%.

ASSETS	Q3 2016	Q2 2016	Q3 2015
	'000 PLN		
<b>A. TOTAL NON-CURRENT ASSETS</b>	<b>417 363</b>	<b>421 829</b>	<b>417 572</b>
I. Intangible assets	11 520	11 051	10 826
II. Property, plant and equipment	284 281	288 308	280 856
III. Other receivables	106	33	85
IV. Investment property and other investments	12 859	12 812	16 683
V. Prepaid perpetual usufruct of land	20 077	20 180	22 314
VI. Deferred tax assets	88 520	89 445	86 808
<b>B. TOTAL CURRENT ASSETS</b>	<b>429 310</b>	<b>450 944</b>	<b>542 251</b>
I. Inventories	240 958	248 099	277 839
II. Receivables	157 541	176 128	244 767
1. Trade receivables	153 029	171 686	240 081
2. Current income tax receivable	47	47	10
3. Other investments	4 465	4 395	4 676
III. Cash and cash equivalents	24 799	20 705	14 097
IV. Assets classified as held for sale	6 012	6 012	5 548
<b>TOTAL ASSETS</b>	<b>846 673</b>	<b>872 773</b>	<b>959 823</b>

In Q3 2016 the Group had the gross debt amounting to PLN 456.1 million and the net indebtedness at 431.3 million - less by PLN 70.5 million as compared to Q3 2015 and more by PLN 1.6 million in comparison to Q2 2016. The PLN 66.6 million of that decrease came from the replacement of the recourse factoring arrangements by the new non-recourse ones. This was offset by the Polish zloty 1.7% weakening against the euro which resulted in the debt increment by approximately PLN 6.3 million.

EQUITY AND LIABILITIES	Q3 2016	Q2 2016	Q3 2015
	'000 PLN		
<b>A. EQUITY</b>	<b>169 214</b>	<b>159 967</b>	<b>169 356</b>
I. Issued share capital	141 439	139 702	133 542
II. Reserves and retained earnings	7 035	240	14 153
III. Minority interest	20 740	20 025	21 661
<b>B. LIABILITIES</b>	<b>677 459</b>	<b>712 806</b>	<b>790 467</b>
I. Non-current liabilities	440 143	446 089	454 968
1. Employee benefits obligation	9 064	9 079	9 597
2. Interest-bearing loans and borrowings	391 997	399 551	397 390
3. Other	39 082	37 459	47 981
II. Current liabilities	237 316	266 717	335 499
1. Interest-bearing loans and borrowings	41 425	42 745	94 997
2. Bank overdraft	22 677	8 069	23 493
3. Trade payables	166 839	210 464	209 682
4. Deferred government grants	117	117	117
5. Employee benefits obligation	2 855	2 613	3 244
6. Current income tax payable	468	0	89
7. Provisions for payables	2 935	2 709	3 877
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>846 673</b>	<b>872 773</b>	<b>959 823</b>

### 3. Cash flow

The Group had a positive operating cash flow in Q3 2016 due to positive EBITDA which was partially offset by the negative flow of cash related to working capital at the amount of PLN 7.0 million. Investment cash flow was negative due to acquisition of property plant, equipment and intangible assets at the amount of PLN 6.1 million. This was partially offset by the proceeds from sales of such assets at the amount of PLN 1.5 million. Financing activities used cash primarily because of payment of interest under various financial obligations at the amount of PLN 30.0 million which was partially offset by the net inflow of cash from the incurrence of debt at the amount of PLN 6.8.

CASH FLOW	Q3 2016	Q2 2016	Q3 2015
'000 PLN			
A. OPERATING ACTIVITIES	17 227	25 279	15 673
B. INVESTING ACTIVITIES	- 4 486	- 6 735	-1 304
C. FINANCING ACTIVITIES	-23 255	-24 762	-39 164
<b>NET INCREASE IN CASH</b>	<b>-10 514</b>	<b>-6 218</b>	<b>-24 795</b>

## II. Main Metrics

Liquidity metrics are at very solid levels. Receivable collection saw an improvement largely due to the sale of receivables under the non-recourse factoring arrangements while inventory turnover increased by 2 days. Margins increased in line with higher profitability. Stronger last twelve months' EBITDA resulted in the improvement of leverage down to 5.6 times multiple.

MAIN METRICS	Q3 2016	Q2 2016	Q3 2015
Liquidity ratio	1.81	1.69	1,62
Quick ratio	0.79	0.76	0,79
Inventories turnover (days)	79	69	77
Receivables turnover (days)	44	42	63
EBITDA margin	8.1%	9.0%	2.4%
Net profit margin	3.8%	0.1%	-4.2%
Equity	169 214	159 967	169 356
Net debt	431 300	429 660	501 783
Net debt / LTM EBITDA	5.6	7.1	7.1

## III. Earnings call

The conference call on our Q3 2016 results will be held in English language on Wednesday, November 16, 2016 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](http://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=195314>