



November 14, 2017

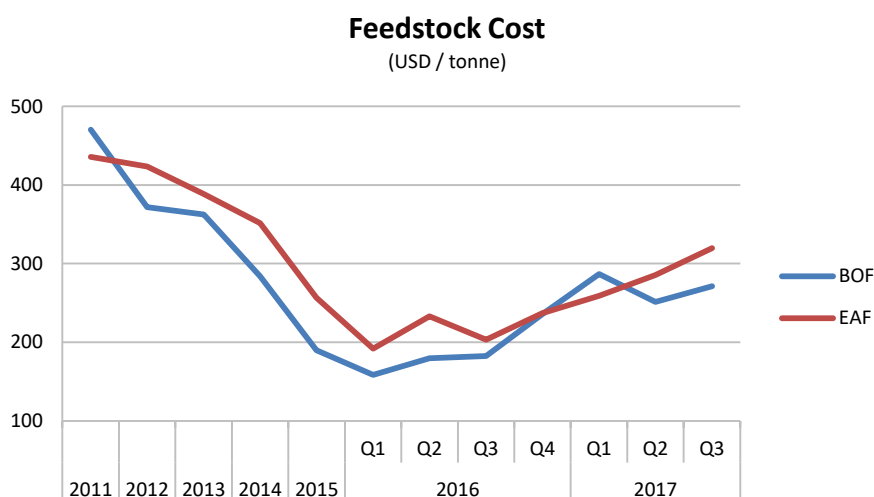
Q3 2017 - Management Discussion and Analysis

In the third quarter of 2017 the demand for steel has accelerated its dynamics and resulted in the increase of production in the European Union (EU) by 2.6% with the Poland's output up by 22.7% as compared to Q3 2016. The world's production saw an increase of 6.7% in the same period where China contributed to the growth with its 7.8% of the increment. The strength of the booming steel industry continues to surprise. For the EU countries crucial role play the anti-dumping measures, in China the increase was primarily contributed by a shift from the illegal and hence so far unreported production by the induction furnace (IF) mills to either the blast oxygen furnace (BOF) or the electric arc furnace (EAF) producers.

For Cognor Holding S.A. (Cognor, the Company, the Group) the buoyant market environment allowed to maintain the high level of capacity utilization with our crude steel production increasing by 6.3% and finished products output by as much as 9.6%. The shipments of combined ferrous scrap metal, billets and finished products rose even more - by a record breaking 46.5%. Along with larger shipments Q3 2017 saw prices higher by 11.0% which resulted in a 58.2% growth of our revenues.

Our EBITDA reached PLN 27.7 million, more as compared to Q3 2016 where it was PLN 25.0 million. However, our profitability worsened due to shrinking conversion spreads for our finished products which was not fully offset by better billet margins. While the price differential between the average sales price of billets and the average purchase price of scrap metal widened by PLN 35 per tone the same did not apply to our finished products spread and we saw its decline to the tune of PLN 104. Weakening of spreads was fully offset by the FIFO result bringing an estimated profit of PLN 9.5 million while last year it contributed a loss of approximately PLN 7.7 million. Finally, due to PLN 7.9 million of FX losses related to our indebtedness, our net result was unfortunately a loss at the amount of PLN 4.6 million.

In addition to the impact from the EU anti-dumping measures and the increasing steel consumption worldwide, the improvement of our profitability was supported by a favorable cost position of the EAF producers vis-à-vis the BOF ones. Although our feedstock cost model indicates that the disadvantage on the side of the EAF steelmakers continued in Q3 2017 however, the negative difference was significantly lower as compared to years 2014-2015 when the Group struggled to compete with the BOF producers who's basic input materials were much cheaper.



To summarize, we are satisfied to present fair results from our operations. Although the quarter closed with a negative net result that was entirely due to the unfavorable EUR/PLN exchange rate development related to our indebtedness.

I. Reported Statement

1. Income Statement

The Group's revenues increased by PLN 180.3 million and 58.2% primarily due to the increase of shipments of: (i) scrap metal by 14.4 thousand tonnes, (ii) billets by 18.4 thousand tonnes and (iii) finished products by 38.5 thousand tonnes. This was further magnified by the increase of prices of: (i) scrap metal by PLN 276 per tonne, (ii) billets by PLN 332 per tonne and (iii) finished products by PLN 191 per tonne.

In spite of higher sales prices our conversion spreads improved only for billets - by PLN 35 per tonne while for our finished products they shrunk by PLN 104 per tonne. This was due to the higher increase of scrap metal purchase price in comparison with the dynamics of the average sales price for our finished products.

Weaker margins were supported by the positive impact from the sales of inventories produced out of cheaper scrap metal in previous quarters. The estimated FIFO gain accounted for PLN 9.5 million while a year ago it was a loss of PLN 7.7 million.

EBIT and EBITDA both increased by PLN 1.9 million and PLN 2.8 million respectively while EBITDA margin decreased from 8.1% down to 5.7%. The FX development had some negative effect on our operations with the average EUR/PLN exchange rate 1.9% lower as compared to Q3 2016.

AVERAGE EXCHANGE RATES		Q3 2017	Q3 2016
	PLN		
EUR/PLN		4.26	4.34
	% change	-1.9%	
USD/PLN		3.62	3.89
	% change	-6.8%	

In Q3 2017 the semi-finished and finished products spreads improved for HSJ while for Ferrostal they deteriorated as compared to Q3 2016.

PRICES AND SPREADS	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016
<i>(pln/ tonne)</i>					
FERROSTAL					
SCRAP METAL - all purchases	1 036	979	949	781	752
BILLETS - sales to external customers	1 851	1 899	1 757	1 681	1 582
BILLET SPREAD	815	920	808	899	830
FINISHED PRODUCTS - sales to external customers	1 925	1 963	1 926	1 780	1 753
- plain bars	1 997	2 027	1 854	1 843	1 890
- flat bars	2 031	1 995	2 031	1 872	1 924
- squares	2 003	1 988	1 991	1 821	1 906
- rebars	1 871	1 923	1 887	1 701	1 629
- angles	2 037	2 024	2 058	1 922	1 949
- other	2 041	2 740	2 324	2 025	2 521
PRODUCT SPREADS	890	984	977	999	1 001
- plain bars	962	1 048	1 006	1 062	1 138
- flat bars	996	1 017	1 082	1 091	1 172
- squares	967	1 010	1 01	1 039	1 154
- rebars	835	945	937	921	877
- angles	1 002	1 045	1 109	1 141	1 197
- other	1 005	1 761	1 375	1 243	1 769

HSJ					
SCRAP METAL - all purchases	1 102	1 000	1 070	929	772
BILLETS - sales to external customers	2 273	2 193	2 120	1 910	1 784
BILLET SPREAD	1 171	1 193	1 050	923	981
FINISHED PRODUCTS - sales to external customers	2 895	2 815	2 708	2 462	2 555
- SQ bars	2 800	2 752	2 615	2 375	2 410
- thick sheets	3 749	2 713	2 595	3 428	2 606
- thin sheets	10 856	11 851	10 488	11 493	11 718
- other	26 708	29 603	24 973	28 051	34 203
PRODUCT SPREADS	1 793	1 815	1 636	1 533	1 783
- big rounds	1 698	1 752	1 545	1 446	1 638
- thick sheets	2 647	1 713	1 525	2 499	1 834
- thin sheets	9 754	10 851	9 418	10 564	10 946
- other	25 606	28 603	23 903	27 122	33 431

Fair operational profitability was offset by the FX loss related to the Group's indebtedness, increasing our financial costs by PLN 7.9 million and resulting in a negative net result for the period. EUR/PLN quoted at PLN 4.3091 as of September 30, 2017 and at PLN 4.2265 as of June 30, 2017.

EXCHANGE RATES	30-Sep-2017	30-Jun-2017	30-Sep-2016
EUR/PLN <i>PLN</i>	4.31	4.23	4.31
% change	2.0%		
USD/PLN	3.65	3.71	3.86
% change	-1.5%		

INCOME STATEMENT	Q3 2017	Q2 2017	Q3 2016
'000 PLN			
Revenue	490 044	404 312	309 745
Cost of sales	-443 892	-358 157	-273 480
Gross profit	46 152	46 155	36 265
Other income	1 652	1 503	1 939
Distribution expenses	-18 248	-14 777	-12 893
Administrative expenses	-10 882	-10 462	-8 322
Other gains/(losses) – net	930	756	-577
Other expenses	-2 411	-1 094	-1 070
EBIT	17 193	22 081	15 342
Financial income	3	-626	333
Financial expenses	-20 696	-13 045	-2 376
Net financing costs	-20 693	-13 671	-2 043
Share of profits of associates	47	29	47
Excess in the net fair value of acquired assets over cost	0	0	0
Profit before tax	-3 453	8 439	13 346
Income tax expense	-1 168	-2 004	-1 575
Profit/loss for the period from discontinued operations	0	0	0
Profit for the period	-4 621	6 435	11 771
Depreciation and amortization	-10 544	-9 947	-9 644
EBITDA	27 737	32 028	24 986

The non-recurring items had little effect on EBITDA and a significant impact on 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 2017	Q2 2017	Q3 2016
'000 PLN			
Reported EBITDA	27 737	32 028	24 986
Non-recurring items including:	165	805	-545
<i>- costs of sales</i>	<i>0</i>	<i>0</i>	<i>0</i>
<i>- other income</i>	<i>129</i>	<i>198</i>	<i>225</i>
<i>- distribution expenses</i>	<i>90</i>	<i>41</i>	<i>31</i>
<i>- administrative expenses</i>	<i>0</i>	<i>0</i>	<i>0</i>
<i>- other gains/losses</i>	<i>-423</i>	<i>306</i>	<i>675</i>
<i>- operational FX result</i>	<i>1 353</i>	<i>450</i>	<i>-1 252</i>
<i>- other impairments</i>	<i>-987</i>	<i>-190</i>	<i>-224</i>
Adjusted EBITDA	27 575	31 223	25 531
Reported net result	-4 621	6 435	11 771
Non-recurring items including:	-7 752	58	-10 609
<i>- EBITDA adjustments</i>	<i>162</i>	<i>805</i>	<i>-545</i>
<i>- FX result on debt</i>	<i>-7 883</i>	<i>-623</i>	<i>-11 040</i>
<i>- result on own debt repurchase</i>	<i>0</i>	<i>0</i>	<i>0</i>
<i>- result on cancellation of debt</i>	<i>0</i>	<i>0</i>	<i>0</i>
<i>- share of associate result</i>	<i>47</i>	<i>29</i>	<i>10</i>
<i>- pro-forma income tax adjustment</i>	<i>-31</i>	<i>-153</i>	<i>104</i>
Adjusted net result	3 084	6 377	1 162

According to the above, the Q3 2017 adjusted EBITDA stood at PLN 27.6 million and the adjusted net result was a profit of PLN 3.1 million.

2. Balance Sheet

The value of non-current assets decreased due to depreciation charges which were partially offset by CAPEX at the amount of PLN 4.3 million in Q3 2017, less disposals at the amount of PLN 0.3 million. In addition, we reclassified one item from assets held for sale up to non-current assets as we don't expect the transaction to happen in short-term. A more significant change occurred to current assets where we saw the increase of cash balance, to the tune of PLN 61.4 million and the increase of receivables by PLN 25.9 million. This was offset by the reduction of inventories by PLN 14.7 million. Increase of cash was a result of the Group's good profitability. The development of inventories as well as receivables was primarily caused by the strong sales of finished products. In consequence, the amount of total assets grew by PLN 51.8 million and 6.1%.

ASSETS	Q3 2017	Q2 2017	Q3 2016
	<i>'000 PLN</i>		
A. TOTAL NON-CURRENT ASSETS	402 490	412 104	417 363
I. Intangible assets	12 467	12 504	11 520
II. Property, plant and equipment	281 147	287 575	284 281
III. Other receivables	194	170	106
IV. Investment property and other investments	3 305	3 283	12 859
V. Prepaid perpetual usufruct of land	25 655	25 769	20 077
VI. Deferred tax assets	79 722	82 803	88 520
B. TOTAL CURRENT ASSETS	495 955	517 419	429 310
I. Inventories	226 300	317 008	240 958
II. Receivables	183 422	159 984	157 541
1. Trade receivables	181 489	158 780	153 029
2. Current income tax receivable	737	10	47
3. Other investments	1 196	1 194	4 465
III. Cash and cash equivalents	86 233	40 427	24 799
IV. Prepayments	0	0	0
V. Assets classified as held for sale	0	0	6 012
TOTAL ASSETS	898 445	929 523	846 673

Cognor's equity was greater in Q3 2017 due to the positive LTM net result. The Group's gross debt stood at PLN 453.8 million and the net indebtedness at 367.6 million – less by PLN 63.8 million as compared to Q3 2016. The net debt decrease was due to good financial results and lesser working capital requirements.

EQUITY AND LIABILITIES	Q3 2017	Q2 2017	Q3 2016
	<i>'000 PLN</i>		
A. EQUITY	179 291	186 213	169 214
I. Issued share capital	152 175	151 902	141 439
II. Reserves and retained earnings	11 072	18 256	7 035
III. Minority interest	16 044	16 055	20 740
B. LIABILITIES	719 154	743 310	677 459
I. Non-current liabilities	399 602	395 786	440 143
1. Employee benefits obligation	9 052	9 058	9 064
2. Interest-bearing loans and borrowings	368 165	362 206	391 997
3. Other	22 385	24 522	39 082
II. Current liabilities	319 552	347 524	237 316
1. Interest-bearing loans and borrowings	61 538	74 093	41 425
2. Bank overdraft	24 064	23 580	22 677
3. Trade payables	226 854	241 976	166 839
4. Deferred government grants	117	117	117
5. Employee benefits obligation	2 850	2 504	2 855
6. Current income tax payable	25	205	468
7. Provisions for payables	4 104	5 049	2 935
TOTAL EQUITY AND LIABILITIES	898 445	929 523	846 673

3. Cash flow

The Group had a positive operating cash flow in Q3 2017 due to positive EBITDA and the large inflow of cash from working capital at the amount of PLN 55.6 million. Investment cash flow was negative with CAPEX amounting to PLN 5.2 million partially offset by the proceeds from sales of redundant non-current assets at PLN 0.8 million. Financing activities used cash primarily because of repayment of debt at the amount of PLN 4.4 million and interest at the amount of PLN 25.0 million.

CASH FLOW	Q3 2017	Q2 2017	Q3 2016
'000 PLN			
A. OPERATING ACTIVITIES	78 982	31 678	17 227
B. INVESTING ACTIVITIES	-4 304	-1 459	-4 486
C. FINANCING ACTIVITIES	-29 356	-14 207	-23 255
NET INCREASE IN CASH	45 322	16 012	10 514

II. Main Metrics

Liquidity ratio worsened while quick ratio improved. Both remained at good levels. Inventory turnover and receivable collection periods improved considerably and they currently look very solid. EBITDA margin decreased due to the sharp increase of revenues. Net profit margin was negative. Strong last twelve months' EBITDA and the related cash generation resulted in the further decrease of net leverage down to 3.0 times multiple.

MAIN METRICS	Q3 2017	Q2 2017	Q3 2016
Liquidity ratio	1.55	1.49	1.81
Quick ratio	0.84	0.58	0.79
Inventories turnover (days)	46	80	79
Receivables turnover (days)	33	35	44
EBITDA margin	5.7%	7.9%	8.1%
Net profit margin	-0.9%	1.6%	3.8%
Equity	179 291	186 213	169 214
Net debt	367 534	419 452	431 300
Net debt / LTM EBITDA	3.0	3.5	5.6

III. Earnings call

The conference call on our Q3 2017 results will be held in English language on Tuesday, November 14, 2017 at 17:00 CET (16:00 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 invited to register in advance using the following link: <https://eventreg3.conferencing.com/inv/reg.html?Acc=833742&Conf=373302>