



April 30, 2018

Q1 2018 - Management Discussion and Analysis

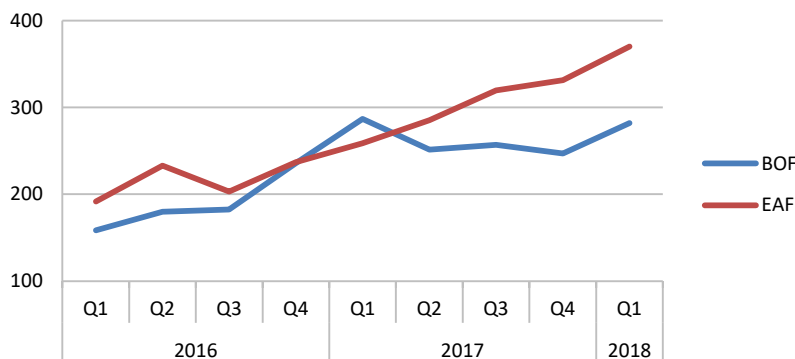
The first quarter of 2018 brought a further improvement in demand for steel however the increase of production in the European Union was just 0.9% with Poland's output being one of the most significant contributors having increased by 5.8% as compared to Q1 2017. The world's production saw an increment of 4.1% in the same period where China contributed positively to the growth with as much as 6.1%. World steel production dynamics has maintained its surprisingly swift pace for another quarter since the beginning of the cycle in Q4 2016.

The buoyant market environment allowed Cognor Holding S.A. (Cognor, the Company, the Group) to increase its production of crude steel by 3.6% and shipments of scrap metal, billets and finished products by 2.2%. The prices for scrap metal, semi-finished products (billets) and finished products saw also increases, supporting the improvement of total revenues by 19.5%.

Alongside with strong sales we had very good profitability. Our EBITDA hit PLN 57.8 million which was our best quarterly performance in a period subsequent to the 2008-2010 crisis years. This was primarily due to 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 349 per tonne and by PLN 345 per tonne respectively. The improvement of spreads was possible thanks to the faster pace of price increases for billets and finished products as compared to scrap metal price dynamics.

Our strong results were achieved in spite of unfavorable cost position of the electric arc furnace (EAF) producers vis-à-vis the blast oxygen furnace (BOF) mills. Our feedstock model indicated further deterioration between the cost of scrap metal compared to the mix of main input materials used by BOF manufacturers.

Feedstock Cost



In summary, we are very pleased to have been able to report the record breaking operational results. Our net profit was also very good although slightly weaker as compared to Q1 2017. This was due to the negative FX result regarding our indebtedness which brought PLN 3.1 million of losses as compared to PLN 18.3 million of gains a year ago.

I. Reported Statement

1. Income Statement

The Group's revenues increased by PLN 85.5 million and 19.5% due to the increase in shipments of: (i) scrap metal by 10.8 thousand tonnes and 38.8% and (ii) finished products by 8.6 thousand tonnes and 7.6%. This was partially offset by a decrease in sales of billets by 15.0 thousand tonnes and 25.1%. The combined 2.2% increase in shipments of ferrous scrap metal, billets and finished products was supported by an increase in their prices to the tune of: (i) PLN 140 per tonne and 14.3% for scrap metal, (ii) PLN 519 per tonne and 28.3% for billets and (iii) PLN 474 per tonne and 21.3% for finished products. Our conversion spreads for billets improved by PLN 349 per tonne and PLN 345 per tonne for finished products. A further profitability support came from the very price dynamics where Cognor was selling its products from stock according to the FIFO method in the increasing price environment. In Q1 2018 we estimate the total support related to inventories at PLN 5.6 million which was significantly lower than a year ago, though. The following table illustrates the numbers and the method used to estimate the contribution of FIFO:

implied result related to change of scrap metal cost contained in inventories (<i>billet equivalent</i>)	Q4 2017	Q1 2018			Q4 2016	Q1 2017		
	scrap metal cost	opening volume of stock	scrap metal cost	FIFO result	scrap metal cost	opening volume of stock	scrap metal cost	FIFO result
	PLN/T	T	PLN/T	000 PLN	PLN/T	T	PLN/T	000 PLN
HSJ billets & products	1 124	31 683	1 203	2 502	934	31 141	1 073	4 329
FERR billets & products	1 035	52 991	1 092	3 052	771	72 070	914	10 335
TOTAL				5 554				14 663

EBIT and EBITDA both increased by PLN 14.3 million and PLN 15.4 million respectively. EBITDA margin increased from 9.7% up to 11.0%. The FX development had a negative effect on our operations with the average EUR/PLN exchange rate 3.2% lower as compared to Q1 2017. Similarly, it had some negative impact on our net financial costs - the net FX losses related to the Company's indebtedness accounted for PLN 3.1 million driven primarily by the weakening zloty against the euro: EUR/PLN quoted at PLN 4.21 as of March 31, 2017 and at PLN 4.17 as of December 31, 2017.

AVERAGE EXCHANGE RATES	Q1 2018	Q1 2017
EUR/PLN <i>PLN</i>	4.18	4.32
<i>% change</i>	<i>-3.2%</i>	
USD/PLN	3.40	4.06
<i>% change</i>	<i>-16.2%</i>	

EXCHANGE RATES	31-Mar-2018	31-Dec-2017	31-Mar-2017
EUR/PLN	4.21	4.17	4.22
% change	0.9%		
USD/PLN	3.41	3.48	3.95
% change	-1.9%		

For both of our steel plants all the spreads increased in Q1 2018.

PRICES AND SPREADS	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
<i>(pln/ tonne)</i>					
FERROSTAL					
SCRAP METAL - all purchases	1 123	1 063	1 036	965	989
BILLETS - sales to external customers	2 157	2 079	1 796	1 854	1 728
BILLET SPREAD	1 034	1 016	760	889	739
FINISHED PRODUCTS - sales to external customers	2 342	2 210	1 923	1 962	1 925
PRODUCT SPREADS	1 219	1 147	887	997	936

HSJ					
SCRAP METAL - all purchases	1 223	1 126	1 102	1 000	1 070
BILLETS - sales to external customers	2 705	2 448	2 279	2 135	2 106
BILLET SPREAD	1 482	1 322	1 177	1 135	1 036
FINISHED PRODUCTS - sales to external customers	3 310	3 037	2 895	2 815	2 708
PRODUCT SPREADS	2 087	1 911	1 793	1 815	1 638

Operational profitability was weakened by the FX loss related to the Group's debt, increasing our financial costs by PLN 3.1 million and resulting in a lower net profit.

INCOME STATEMENT	Q1 2018	Q4 2017	Q1 2017
	<i>'000 PLN</i>		<i>restated</i>
Revenue	524 231	456 198	438 726
Cost of sales	-450 267	-392 194	-378 801
Gross profit	73 964	64 004	59 925
Other income	660	5 829	1 142
Distribution expenses	-16 811	-16 426	-16 341
Administrative expenses	-10 826	-19 706	-9 478
Other gains/(losses) – net	1 064	-2 769	-1 561
Other expenses	-1 146	-3 589	-1 094
EBIT	46 905	27 343	32 593
Financial income	0	4 436	18 318
Financial expenses	-15 322	-6 816	-12 782
Net financing costs	-15 322	-2 380	5 536
Share of profits of associates	4	26	-51
Excess in the net fair value of acquired assets over cost	0	0	0
Profit before tax	31 587	24 989	38 078
Income tax expense	-4 949	-8 151	-6 825
Profit/loss for the period from discontinued operations	0	0	0
Profit for the period	26 638	16 838	31 253
Depreciation and amortization	-10 902	-11 011	-9 826
EBITDA	57 807	38 354	42 419

The non-recurring items had a slight positive effect on EBITDA and a negative 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	Q1 2018	Q4 2017	Q1 2017
	<i>'000 PLN</i>		
Reported EBITDA	57 807	38 354	42 419
Non-recurring items including:	984	-4 701	-1 458
- costs of sales	0		0
- other income	185	4 203	581
- distribution expenses	-138	-160	-565
- administrative expenses	0	-3 978	0
- other gains/losses	814	-1 452	-337
- operational FX result	250	-1 422	-1119
- other impairments	-127	-1 892	-18
Adjusted EBITDA	56 823	43 055	43 887
Reported net result	26 638	16 838	31 253
Non-recurring items including:	-2 294	8 732	16 938
- EBITDA adjustments	984	-4 701	-1 458
- FX result on debt	-3 095	12 467	18 170
- result on own debt repurchase	0	0	0
- result on cancellation of debt	0	0	0
- share of associate result	4	73	-51
- pro-forma income tax adjustment	-187	893	277
Adjusted net result	28 932	8 106	14 315

According to the above, the Q1 2018 adjusted EBITDA stood at PLN 56.8 million and the adjusted net profit at PLN 28.9 million.

2. Balance Sheet

During the last twelve months the value of non-current assets decreased primarily due to the reduction of deferred assets related to the utilization of "tax shield" by PLN 20.4 million and due to depreciation and amortization charges to the tune of PLN 42.4 million. This was partially offset by acquisition of property, plant and equipment at the amount of PLN 29.7 million in which PLN 9.7 million related to the acquisitions conducted in Q1 2018. A significant increase occurred with respect to current assets. The most of that came from the increase of cash and inventories, to the tune of PLN 69.8 million and 257.7% as well as PLN 19.9 and 6.6% respectively. The latter was entirely caused by the increase of prices while the increase of cash was due to the strong operational performance and the cash proceeds from equity offering completed in Q4 2017 at the amount of PLN 39.8 million (SPO). Consequently, total assets saw an increase of PLN 30.9 million and 3.2%.

ASSETS	Q1 2018	Q4 2017	Q1 2017
			<i>restated</i>
	<i>'000 PLN</i>		
A. TOTAL NON-CURRENT ASSETS	389 353	398 470	418 628
I. Intangible assets	12 884	13 005	12 359
II. Property, plant and equipment	284 099	285 862	292 127
III. Other receivables	247	223	269
IV. Investment property and other investments	3 434	3 431	8 004
V. Prepaid perpetual usufruct of land	23 323	25 771	20 125
VI. Deferred tax assets	65 366	70 178	85 744
B. TOTAL CURRENT ASSETS	611 770	552 219	551 568
I. Inventories	322 821	277 494	302 951
II. Receivables	192 069	172 679	215 520
1. Trade receivables	191 279	171 889	213 510
2. Current income tax receivable	778	778	1 869
3. Other investments	12	12	141
III. Cash and cash equivalents	96 880	102 046	27 085
IV. Prepayments	0	0	0
V. Assets classified as held for sale	0	0	0
VI. Assets of disposal groups	0	0	0
TOTAL ASSETS	1 001 123	950 689	970 196

Cognor's equity in Q1 2018 increased as a result of good net results as well as the proceeds from SPO. This was partially offset by the payment of dividend at the amount of PLN 11.8 million approved by the Company's ordinary general shareholders' meeting which was held in Q1 2018. The Group had the gross debt amounting to PLN 414.2 million and the net indebtedness at 317.3 million – less by PLN 41.8 million and PLN 111.6 million respectively as compared to Q1 2017. The reduction of gross debt was due to good operational performance allowing Cognor to repay a portion of its short-term bank debt. Our net debt decreased further in line with the increased cash balance.

EQUITY AND LIABILITIES	Q1 2018	Q4 2017	Q1 2017
'000 PLN			<i>restated</i>
A. EQUITY	254 233	241 834	189 342
I. Issued share capital	177 923	177 923	150 532
II. Reserves and retained earnings	59 201	47 426	23 223
III. Minority interest	17 109	16 485	15 587
B. LIABILITIES	746 890	708 855	780 854
I. Non-current liabilities	392 816	388 800	393 195
1. <i>Employee benefits obligation</i>	<i>11 282</i>	<i>11 282</i>	<i>9 202</i>
2. <i>Interest-bearing loans and borrowings</i>	<i>361 523</i>	<i>358 003</i>	<i>359 777</i>
3. <i>Other</i>	<i>20 011</i>	<i>19 515</i>	<i>24 216</i>
II. Current liabilities	354 074	320 055	387 659
1. <i>Interest-bearing loans and borrowings</i>	<i>50 554</i>	<i>44 523</i>	<i>69 349</i>
2. <i>Bank overdraft</i>	<i>2 120</i>	<i>24 607</i>	<i>26 849</i>
3. <i>Trade and other payables</i>	<i>289 943</i>	<i>242 324</i>	<i>280 152</i>
4. <i>Deferred government grants</i>	<i>117</i>	<i>117</i>	<i>117</i>
5. <i>Employee benefits obligation</i>	<i>5 636</i>	<i>5 122</i>	<i>5 388</i>
6. <i>Current income tax payable</i>	<i>68</i>	<i>0</i>	<i>116</i>
7. <i>Provisions for payables</i>	<i>5 636</i>	<i>3 362</i>	<i>5 688</i>
TOTAL EQUITY AND LIABILITIES	1 001 123	950 689	970 196

3. Cash flow

The Group had a positive operating cash flow in Q1 2018 due to positive EBITDA. This was partially offset by the outflow of cash from working capital at the amount of PLN 29.1 million. Investment cash flow was positive with CAPEX outflows entirely counterbalanced by the proceeds from the disposition of redundant properties, machinery and equipment. Financing activities used cash because of repayment of interest at the amount of PLN 27.6 million which was partially offset by the net incurrence of indebtedness at the amount of PLN 14.6 million.

CASH FLOW	Q1 2018	Q4 2017	Q1 2017
'000 PLN			<i>restated</i>
A. OPERATING ACTIVITIES	29 838	2 415	32 365
B. INVESTING ACTIVITIES	461	-3 683	-5 956
C. FINANCING ACTIVITIES	-12 978	-17 137	-25 953
NET INCREASE IN CASH	17 321	15 869	456

II. Main Metrics

Liquidity metrics improved further and have remained at very good levels. Inventory turnover and receivable collection showed better figures as well. Margins increased in line with higher profitability. Strong last twelve months' EBITDA and the SPO proceeds resulted in the significant decrease of net leverage down to just 2.0 times multiple.

MAIN METRICS	Q1 2018	Q4 2017	Q1 2017
Liquidity ratio	1.73	1.73	1.42
Quick ratio	0.82	0.86	0.64
Inventories turnover (days)	65	64	72
Receivables turnover (days)	33	35	44
EBITDA margin	11.0%	7.9%	9.7%
Net profit margin	5.1%	2.8%	7.1%
Equity	254 233	241 834	189 342
Net debt	317 317	325 087	428 890
Net debt / LTM EBITDA	2.0	2.3	3.4

III. Earnings call

The conference call on our Q1 2018 results will be held in English language on Wednesday, May 2, 2018, at 16:00 CET (15:00 London). On that day a presentation discussing operational and financial details will also be made available on the Company's website at: www.cognor.eu.

All participants are invited to review the presentation and are kindly asked to:

- call the appropriate dial-in number listed below 10 minutes prior to call start time and
- provide the operator with the conference ID: 8298127.

You will find the dial-in numbers in the appendix.

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Przemysław Sztuczkowski

Chairman of the Executive Board

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Przemysław Grzesiak

Vice-chairman of the Executive Board

.....

Krzysztof Zoła

Member of the Executive Board

.....

Dominik Barszcz

Member of the Executive Board

Poraj, April 30, 2018

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APPENDIX – the conference call dial-in numbers:

Participant Std International Dial-In: +44 (0) 2071 928000

United Kingdom

Participant UK FreeCall Dial-In Number: 08003767922

Participant UK LocalCall Dial-In Number: 08445718892

Participant FreeCall Dial in numbers:

Argentina	08004446755
Australia	1800092439
Austria	0800111950
Belgium	080048740
Brazil	08008914643
Bulgaria	0080013795
Canada	18669926802
China	8008703576
Colombia	018009157416
Cyprus	80094491
Czech Republic	800700917
Denmark	80718097
Egypt	08000000798
Estonia	8000111690
Finland	0800773496
France	0805103028
Germany	08007234866
Greece	8008481044
Hong Kong	800966027
Hungary	0680015520
India	180030104023
Indonesia	00180304411381
Ireland	1800936148
Israel	1809203624
Italy	800682772
Japan	006633812274
Latvia	80004605
Luxembourg	80024782
Mexico	0018669664109
Norway	80051874
Poland	008001214106
Romania	0800896138
Russian Federation	81080023575011
Singapore	8008526250
Slovak Republic	0800001436
Slovenia	080080368
South Africa	0800014553
Spain	800098826
Sweden	0200125581
Switzerland	0800740377
Taiwan	0809090322
Thailand	001800442166
Turkey	0080044631146
United Arab Emirates	800035703493
United States	18669661396

Participant Local Call Dial-In Numbers:

Australia, Sydney	0286078541
Austria, Vienna	019286559
Belgium, Brussels	024009874
Bulgaria, Sofia	024917756
China, All Cities	4006225517
Czech Republic, Prague	228881424
Denmark, Copenhagen	32728042
Finland, Helsinki	0942450806
France, Paris	0176700794
Germany, Berlin	030221531802
Germany, Frankfurt	06924437351
Hungary, Budapest	0614088064
India, Bangalore	08033572625
Ireland, Dublin	014319615
Italy, Rome	0687502026
Latvia, Riga	66163046
Luxembourg, Luxembourg	27860515
Netherlands, Amsterdam	0207143545
Norway, Oslo	23960264
Poland, Warsaw	222120152
Slovak Republic, Bratislava	0233456582
Slovenia, Ljubljana	016009397
Spain, Madrid	914146280
Sweden, Stockholm	0850692180
Switzerland, Bern	0315800059
United States, New York	16315107495