August 14, 2018

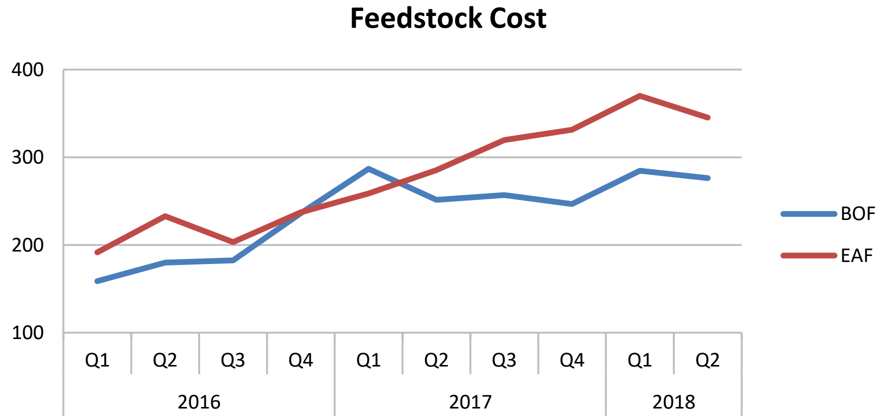
Q2 2018 - Management Discussion and Analysis

The second quarter of 2018 was a good time for steel of which production has grown significantly in the European Union - by 2.2% - in spite of the negative contribution of Poland's output decreasing by 1.9% as compared to Q2 2017. The world's production saw an increment of as much as 4.9% with Chinese producers gaining speed at 6.4%. The correction expected by some market followers has not materialized and the production dynamics improved again within the current cycle that has begun in Q4 2016.

At the backdrop of market optimism Cognor Holding S.A. (Cognor, the Company, the Group) managed to increase its production of crude steel by 5.7% and shipments of scrap metal, billets and finished products by as much as 11.1%. The prices for scrap metal, semi-finished products (billets) and finished products saw also increases, supporting the improvement of total revenues by 30.3%.

Our profitability was very good. EBITDA profit hit PLN 62.1 million and outperformed even the one of Q1 2018. Consequently, the best quarterly EBITDA performance in a period subsequent to the 2008-2010 crisis years was that of Q2 2018. The primary reason behind was an improvement of 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 269 per tonne and by PLN 328 per tonne respectively. The improvement of spreads was possible due 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 continuously unfavorable cost position of the electric arc furnace (EAF) producers vis-à-vis the blast oxygen furnace (BOF) mills though, our feedstock model has indicated some slight improvement between the cost of scrap metal compared to the mix of main input materials used by BOF manufacturers.



In summary, we have a pleasure again to post record breaking operational results. Our net profit was also better than the one of Q2 2017 in spite of the negative FX result regarding our indebtedness which brought PLN 12.9 million of losses with just a minor loss of PLN 0.6 million a year ago. Our financial costs were further increased by a one-off item of PLN 7.1 million owing to the termination of the loan agreement of June 30, 2017 before drawing of funds.

I. Reported Statement

1. Income Statement

The Group's revenues increased by PLN 124.5 million and 30.3% due to the increase in shipments of: (i) scrap metal by 16.6 thousand tonnes and 54.9% and (ii) finished products by 15.2 thousand tonnes and 13.9%. This was partially offset by a decrease in sales of billets by 11.0 thousand tonnes and 26.2%. The combined 11.1% 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 164 per tonne and 17.4% for scrap metal, (ii) PLN 450 per tonne and 22.8% for billets and (iii) PLN 508 per tonne and 22.2% for finished products. Our conversion spreads for billets improved by PLN 269 per tonne and PLN 328 per tonne for finished products. Our profitability did not enjoy any support related the very price dynamics. In Q2 2018 we actually suffered a slight loss of PLN 0.7 million compared to a gain of PLN 0.2 million a year ago. Such FIFO gains or losses result from the difference between the cost of scrap metal contained in inventories and the current scrap metal price. A gain occurs when selling products from stock manufactured with the use of historically cheaper scrap metal; loss is suffered when the current scrap metal price is lower than in a preceding quarter. The following table illustrates the numbers and the method used to estimate the FIFO contribution:

implied result related to change of scrap metal cost contained in inventories *(billet equivalent)*	**Q1 2018**	**Q2 2018**			**Q1 2017**	**Q2 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	1 203	27 709	1 202	-36	1 073	30 943	1 004	-2 135
FERROSTAL								
billets & products	1 092	59 077	1 081	-662	914	65 335	950	2 236
TOTAL				**-698**				**191**

EBIT and EBITDA both increased by PLN 28.3 million and PLN 29.3 million respectively. EBITDA margin jumped from 8.0% up to 11.6%. The FX development had some positive effect on our operations with the average EUR/PLN exchange rate 1.0% higher as compared to Q2 2017. It had significant negative impact though on our net financial costs - the FX losses related to the Company's indebtedness accounted for PLN 12.9 million driven primarily by the weakening zloty against the euro: EUR/PLN quoted at PLN 4.36 as of June 30, 2018 and at PLN 4.21 as of March 31, 2018.

AVERAGE EXCHANGE RATES	**Q2 2018**	**Q2 2017**
PLN		
EUR/PLN	4.26	4.22
% change	1.0%	
USD/PLN	3.57	3.84
% change	-6.9%	

EXCHANGE RATES	30-Jun-2018	31-Mar-2018	30-Jun-2017
PLN			
EUR/PLN	4.36	4.21	4.23
% change (Jun 2018 – Mar 2018)	3.6%		
USD/PLN	3.74	3.41	3.71
% change (Jun 2018 – Mar 2018)	9.7%		

The spreads increased in Q2 2018 across all of our steel plants.

PRICES AND SPREADS	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017
(pln/ tonne)					
FERROSTAL					
SCRAP METAL - all purchases	1 102	1 123	1 063	1 036	965
BILLETS - sales to external customers	2 183	2 157	2 079	1 796	1 854
BILLET SPREAD	**1 080**	**1 034**	**1 016**	**760**	**889**
FINISHED PRODUCTS - sales to external customers	2 321	2 342	2 210	1 923	1 962
PRODUCT SPREADS	**1 218**	**1 219**	**1 147**	**887**	**997**
HSJ					
SCRAP METAL - all purchases	1 229	1 223	1 126	1 102	1 000
BILLETS - sales to external customers	2 733	2 705	2 448	2 279	2 135
BILLET SPREAD	**1 504**	**1 482**	**1 322**	**1 177**	**1 135**
FINISHED PRODUCTS - sales to external customers	3 533	3 310	3 037	2 895	2 815
PRODUCT SPREADS	**2 304**	**2 087**	**1 911**	**1 793**	**1 815**

Operational profitability was weakened by the FX loss related to the Group's debt, increasing our financial costs by PLN 12.9 million. Further, we recognized a charge of PLN 7.1 million relating to the fees incurred in connection with the financing granted in Q2 2017 by a couple of local banks for the repayment of our bond debt (the Bonds) and the subsequent termination of it by Cognor in Q2 2018 prior to its utilization.

INCOME STATEMENT	Q2 2018	Q1 2018	Q2 2017
'000 PLN			*restated*
Revenue	535 702	524 231	411 215
Cost of sales	-453 760	-450 267	-363 681
Gross profit	**81 942**	**73 964**	**47 534**
Other income	3 536	660	1 531
Distribution expenses	-17 403	-16 811	-15 206
Administrative expenses	-13 276	-10 826	-10 874
Other gains/(losses) – net	1 159	1 064	744
Other expenses	-5 000	-1 146	-1 100
EBIT	**50 958**	**46 905**	**22 629**
Financial income	0	0	0
Financial expenses	-32 717	-15 322	-13 725
Net financing costs	**-32 717**	**-15 322**	**-13 725**
Share of profits of associates	-32	4	29
Excess in the net fair value of acquired assets over cost	0	0	0
Profit before tax	**18 209**	**31 587**	**8 933**
Income tax expense	-1 480	-4 949	-2 329
Profit/loss for the period from discontinued operations	0	0	0
Profit for the period	**16 729**	**26 638**	**6 604**
Depreciation and amortization	-11 107	-10 902	-10 162
EBITDA	**62 065**	**57 807**	**32 791**

The non-recurring items had a sizeable 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	Q2 2018	Q1 2018	Q2 2017
'000 PLN			*restated*
Reported EBITDA	**62 065**	**57 807**	**32 791**
Non-recurring items including:	4 953	1 181	1 069
- costs of sales	*0*	*0*	*0*
- other income	*6 863*	*382*	*588*
- distribution expenses	*904*	*-138*	*41*
- administrative expenses	*0*	*0*	*0*
- other gains/losses	*-641*	*814*	*407*
- operational FX result	*1 800*	*250*	*232*
- other impairments	*-3 973*	*-127*	*-199*
Adjusted EBITDA	**57 112**	**56 626**	**31 722**
Reported net result	**16 729**	**26 638**	**6 604**
Non-recurring items including:	-14 654	-2 134	272
- EBITDA adjustments	*4 953*	*1 181*	*1 069*
- FX result on debt	*-12 905*	*-3 095*	*-623*
- bank loan termination costs	*-7 073*	*0*	*0*
- share of associate result	*-32*	*4*	*29*
- pro-forma income tax adjustment	*403*	*-224*	*-203*
Adjusted net result	**31 383**	**28 772**	**6 332**

According to the above, the Q2 2018 adjusted EBITDA stood at PLN 57.1 million and the adjusted net profit at PLN 31.4 million.

2. Balance Sheet

During the last twelve months the value of non-current assets decreased by PLN 27.7 million primarily due to the reduction of deferred assets related to the utilization of "tax shield" by PLN 18.5 million and due to depreciation and amortization charges to the tune of PLN 43.3 million. This was partially offset by acquisition of property, plant and equipment at the amount of PLN 27.9 million in which PLN 8.7 million related to the acquisitions conducted in Q2 2018. A significant increase occurred with respect to current assets. The most of that came from the increase of cash and receivables, to the tune of PLN 60.3 million and 146.4% as well as PLN 25.7 and 16.0% respectively. The latter was entirely caused by the increase of revenues while the increase of cash was due to the strong operational performance during the last twelve months and the cash proceeds from equity offering completed in Q4 2017 at the amount of PLN 39.8 million (the SPO). Consequently, total assets saw an increase of PLN 72.1 million and 7.6%.

ASSETS	Q2 2018	Q1 2018	Q2 2017
'000 PLN			*restated*
A. TOTAL NON-CURRENT ASSETS	**392 853**	**389 353**	**420 574**
I. Intangible assets	19 670	12 884	12 504
II. Property, plant and equipment	280 947	284 099	294 759
III. Other receivables	272	247	170
IV. Investment property and other investments	3 402	3 434	3 283
V. Prepaid perpetual usufruct of land	23 218	23 323	26 042
VI. Deferred tax assets	65 344	65 366	83 816
B. TOTAL CURRENT ASSETS	**622 444**	**611 770**	**522 632**
I. Inventories	334 527	322 821	320 675
II. Receivables	186 474	192 069	160 787
1. Trade receivables	*185 714*	*191 279*	*160 694*
2. Current income tax receivable	*748*	*778*	*10*
3. Other investments	*12*	*12*	*83*
III. Cash and cash equivalents	101 443	96 880	41 170
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	**1 015 297**	**1 001 123**	**943 206**

Cognor's equity in Q2 2018 increased as a result of net results as well as the proceeds from the 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 and paid out in Q2 2018. The Group had the gross debt amounting to PLN 438.6 million and the net indebtedness at 337.2 million – less by PLN 26.9 million and PLN 87.2 million respectively as compared to Q2 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	Q2 2018	Q1 2018	Q1 2017
'000 PLN			*restated*
A. EQUITY	**270 944**	**254 233**	**191 684**
I. Issued share capital	177 923	177 923	151 902
II. Reserves and retained earnings	75 270	59 201	23 727
III. Minority interest	17 751	17 109	16 055
B. LIABILITIES	**744 353**	**746 890**	**751 522**
I. Non-current liabilities	404 617	392 816	397 694
1. Employee benefits obligation	*11 273*	*11 282*	*9 202*
2. Interest-bearing loans and borrowings	*375 286*	*361 523*	*363 970*
3. Other	*18 058*	*20 011*	*24 522*
II. Current liabilities	339 736	354 074	353 828
1. Interest-bearing loans and borrowings	*61 282*	*50 554*	*75 434*
2. Bank overdraft	*2 048*	*2 120*	*26 112*
3. Trade and other payables	*269 181*	*289 943*	*244 352*
4. Deferred government grants	*117*	*117*	*117*
5. Employee benefits obligation	*2 594*	*5 636*	*2 529*
6. Current income tax payable	*117*	*68*	*235*
7. Provisions for payables	*4 397*	*5 636*	*5 049*
TOTAL EQUITY AND LIABILITIES	**1 015 297**	**1 001 123**	**943 206**

3. Cash flow

The Group had a positive operating cash flow in Q2 2018 due to positive EBITDA. This was partially offset by the outflow of cash from working capital at the amount of PLN 25.1 million. Investment cash flow was negative with CAPEX outflows at PLN 4.4 million counterbalanced by the proceeds from the disposition of redundant properties, machinery and equipment at the amount of PLN 0.4 million. Financing activities used cash because of repayment of interest and payment of dividend at the amount of PLN 24.1 million in total.

CASH FLOW	Q2 2018	Q1 2018	Q1 2017
'000 PLN			*restated*
A. OPERATING ACTIVITIES	33 026	29 838	32 365
B. INVESTING ACTIVITIES	-4 008	461	-5 956
C. FINANCING ACTIVITIES	-24 383	-12 978	-25 953
NET INCREASE IN CASH	**4 635**	**17 321**	**456**

II. Main Metrics

Liquidity metrics saw a sizeable improvement from already fair 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 to just 1.8 times multiple.

MAIN METRICS	Q2 2018	Q1 2018	Q2 2017
Liquidity ratio	1.83	1.73	1.48
Quick ratio	0.85	0.82	0.57
Inventories turnover (days)	66	65	79
Receivables turnover (days)	31	33	35
EBITDA margin	11.6%	11.0%	8.0%
Net profit margin	3.1%	5.1%	1.6%
Equity	270 944	254 233	191 684
Net debt	337 173	317 317	424 346
Net debt / LTM EBITDA	1.8	2.0	3.4

III. New financing

On July 12, 2018 the Group has entered into the loan agreement with a consortium of four banks based on which Cognor received a long-term financing at the amount of (i) EUR 60.0 million for the full repayment of the Company's debt under the Bonds, of which outstanding notional as of the reporting date (June 30, 2018) was EUR 80.9 million and (ii) PLN 40.0 million for general corporate needs (the Loan). On August 6, 2018 Cognor carried out a partial redemption at par of the Bonds with the use of its own cash, bringing their outstanding notional as of the date of this report down to the amount of EUR 60.0 million. The partial redemption constituted one of the conditions precedent to the disbursement of funds under the Loan. Currently, we are awaiting a response from the banks with regards to the fulfillment of all of the other conditions precedent. Subject to the confirmation of that fact we would have expected utilization of the Loan to occur within the coming 5 business days.

IV. Earnings call

The conference call on our Q2 2018 results will be held in English language on Monday, August 20, 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: 2397648.

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

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Przemysław Sztuczkowski

Chairman of the Executive Board

……………………………

Przemysław Grzesiak

Vice-chairman of the Executive Board

……………………………

Krzysztof Zoła

Member of the Executive Board

……………………………

Dominik Barszcz

Member of the Executive Board

Poraj, August 14, 2018

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