



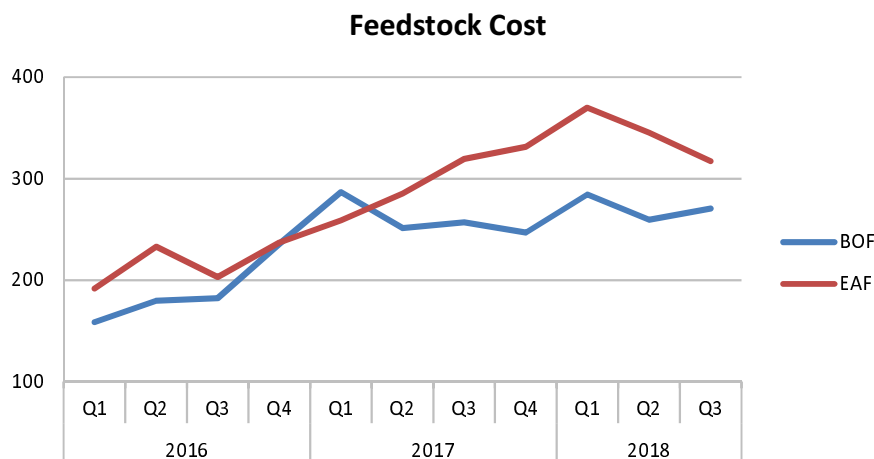
## Q3 2018 - Management Discussion and Analysis

The third quarter of 2018 was again a good time for our business although the steel production stayed broadly flat in the European Union – an increase by just 0.7% - while in Poland it even decreased by as much as 11.1% as compared to Q3 2017. The world's production saw an increment of 4.1% with Chinese producers adding as much as 5.8% to that.

The crude steel production of Cognor Holding S.A. (Cognor, the Company, the Group) decreased by 1.8% and shipments of scrap metal, billets and finished products by were also lower by 5.4%. Irrespective of that our revenues increased by 11.2% due to the increase of their prices.

Our profitability remained very good with EBITDA profit at PLN 56.2 million, much higher compared to PLN 27.7 in Q3 2017. The improvement came from the better 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 290 per tonne and by PLN 430 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.

The cost position of the electric arc furnace (EAF) producers vis-à-vis the blast oxygen furnace (BOF) mills remained constrained although there has been some positive development lately and our feedstock model indicates further improvement with respect to cost of scrap metal compared to the mix of main input materials used by BOF manufacturers.



In summary, we are pleased to deliver very satisfactory operational results. We managed to achieve a high net profit while in Q3 2017 we suffered a loss. This was possible due to the higher EBITDA, a positive FX result related to our indebtedness which brought PLN 4.8 million of profit and a positive effect of PLN 4.5 million resulting from the repayment of the entire indebtedness under the senior secured notes (the Bonds).

## I. Reported Statement

### 1. Income Statement

The Group's revenues increased by PLN 55.5 million and 11.2% due to the increase of prices for (i) scrap metal by PLN 42 per tonne and 4.2%, (ii) billets by PLN 349 per tonne and 17.7% and (iii) finished products by PLN 525 per tonne and 23.9%. This was partially offset by a decrease in shipments of: (i) billets by 13.8 thousand tonnes and 30.2% and (ii) finished products by 8.6 thousand tonnes and 5.8%. Those two were slightly counterbalanced by an increase in shipments of scrap metal by 9.9 thousand tonnes and 28.6%. The combined shipments of ferrous scrap metal, billets and finished products were lower by 12.4 thousand tonnes and 5.4%. Our conversion spreads for billets improved by PLN 290 per tonne and PLN 430 per tonne for finished products. Our profitability did not enjoy any support related the very price dynamics. In Q3 2018 we actually suffered a loss of PLN 4.7 million compared to a gain of PLN 9.5 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 ( <i>billet equivalent</i> )	Q2 2018		Q3 2018			Q2 2017		Q3 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	1 202	26 209	1 206	104	1 004	23 608	1 146	3 352	
FERROSTAL billets & products	1 081	71 337	1 013	-4 851	950	80 097	1 027	6 167	
<b>TOTAL</b>				<b>-4 747</b>				<b>9 520</b>	

EBIT and EBITDA both increased by PLN 28.4 million. EBITDA margin jumped from 5.6% up to 10.2%. The FX development had some positive effect on our operations with the average EUR/PLN exchange rate 1.1% higher as compared to Q3 2017. It had also a positive impact on our net financial costs - the FX gains related to the Company's indebtedness accounted for PLN 4.8 million driven primarily by the strengthening zloty against the euro: EUR/PLN quoted at PLN 4.27 as of September 30, 2018 and at PLN 4.36 as of June 30, 2018.

AVERAGE EXCHANGE RATES	Q3 2018	Q3 2017
EUR/PLN PLN	4.31	4.26
% change	1.1%	
USD/PLN	3.57	3.84
% change	2.2%	

EXCHANGE RATES	30-Sep-2018	30-Jun-2018	30-Sep-2017
EUR/PLN <i>PLN</i>	4.27	4.36	4.31
% change (Sep 2018 – Jun 2018)	-2.1%		
USD/PLN	3.68	3.74	3.65
% change (Sep 2018 – Jun 2018)	-1.8%		

The spreads increased in Q3 2018 across all of our plants.

PRICES AND SPREADS	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017
<i>(pln/ tonne)</i>					
<b>FERROSTAL</b>					
SCRAP METAL - all purchases	1 049	1 102	1 123	1 063	1 036
BILLETS - sales to external customers	2 103	2 183	2 157	2 079	1 796
<b>BILLET SPREAD</b>	<b>1 053</b>	<b>1 080</b>	<b>1 034</b>	<b>1 016</b>	<b>760</b>
FINISHED PRODUCTS - sales to external customers	2 276	2 321	2 342	2 210	1 923
<b>PRODUCT SPREADS</b>	<b>1 227</b>	<b>1 218</b>	<b>1 219</b>	<b>1 147</b>	<b>887</b>
<b>HSJ</b>					
SCRAP METAL - all purchases	1 191	1 229	1 223	1 126	1 102
BILLETS - sales to external customers	2 652	2 733	2 705	2 448	2 279
<b>BILLET SPREAD</b>	<b>1 461</b>	<b>1 504</b>	<b>1 482</b>	<b>1 322</b>	<b>1 177</b>
FINISHED PRODUCTS - sales to external customers	3 592	3 533	3 310	3 037	2 895
<b>PRODUCT SPREADS</b>	<b>2 401</b>	<b>2 304</b>	<b>2 087</b>	<b>1 911</b>	<b>1 793</b>

Operational profitability was supported by the FX gain related to the Group's debt of PLN 4.8 million. Another gain of PLN 4.5 million came from the full repayment of our Bonds. This was calculated as the difference between the coupon cost accounted for in the books as an expected average (10.9%) and the actual cash expenses (lower in 2014-2017). The partially offsetting effect had a recognition of unamortized Bonds' issuance costs.

INCOME STATEMENT	Q3 2018	Q2 2018	Q3 2017
<i>'000 PLN</i>			<i>restated</i>
Revenue	550 666	535 702	495 137
Cost of sales	-474 323	-453 760	-448 452
<b>Gross profit</b>	<b>76 343</b>	<b>81 942</b>	<b>46 685</b>
Other income	2 429	3 536	1 680
Distribution expenses	-21 646	-17 403	-18 580
Administrative expenses	-9 336	-13 276	-11 284
Other gains/(losses) – net	-986	1 159	981
Other expenses	-1 495	-5 000	-2 532
<b>EBIT</b>	<b>45 309</b>	<b>50 958</b>	<b>16 950</b>
Financial income	4 460	0	1
Financial expenses	-6 477	-32 717	-20 765
<b>Net financing costs</b>	<b>-2 017</b>	<b>-32 717</b>	<b>-20 764</b>
Share of profits of associates	40	-32	47
Excess in the net fair value of acquired assets over cost	0	0	0
<b>Profit before tax</b>	<b>43 332</b>	<b>18 209</b>	<b>-3 767</b>
Income tax expense	-8 989	-1 480	-1 178
Profit/loss for the period from discontinued operations	0	0	0
<b>Profit for the period</b>	<b>34 343</b>	<b>16 729</b>	<b>-4 945</b>
Depreciation and amortization	-10 847	-11 107	-10 762

<b>EBITDA</b>	<b>56 156</b>	<b>62 065</b>	<b>27 712</b>
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The non-recurring items had a sizeable positive effect on EBITDA and a 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:

<b>DESCRIPTION</b>	<b>Q3 2018</b>	<b>Q2 2018</b>	<b>Q3 2017</b>
			<i>restated</i>
<b>Reported EBITDA</b>	<b>56 156</b>	<b>62 065</b>	<b>27 712</b>
Non-recurring items including:	4 195	4 953	837
- costs of sales	3 414	4 087	0
- other income	1 985	2 776	753
- distribution expenses	-27	904	90
- administrative expenses	0	0	0
- other gains/losses	196	-641	40
- operational FX result	-1 182	1 800	941
- other impairments	-191	-3 973	-987
<b>Adjusted EBITDA</b>	<b>51 961</b>	<b>57 112</b>	<b>26 875</b>
<b>Reported net result</b>	<b>34 343</b>	<b>16 729</b>	<b>-4 945</b>
Non-recurring items including:	11 900	-14 654	-7 205
- EBITDA adjustments	4 195	4 953	837
- FX result on debt	4 849	-12 905	-7 883
result on the entire Bonds' redemption	4 460	0	0
- bank loan termination costs	0	-7 073	0
- share of associate result	40	-32	0
- pro-forma income tax adjustment	-1 644	403	-159
<b>Adjusted net result</b>	<b>22 443</b>	<b>31 383</b>	<b>2 260</b>

According to the above, the Q3 2018 adjusted EBITDA stood at PLN 52.0 million and the adjusted net profit at PLN 22.4 million.

## 2. Balance Sheet

During the last twelve months the value of non-current assets decreased by PLN 23.8 million primarily due to the reduction of deferred assets related to the utilization of "tax shield" by PLN 22.4 million and due to depreciation and amortization charges to the tune of PLN 43.4 million. This was partially offset by acquisition of property, plant and equipment at the amount of PLN 34.9 million in which PLN 10.5 million related to the acquisitions conducted in Q3 2018 as well as intangible assets acquired at the amount of PLN 8.8 million of which PLN 1.6 million in Q3 2018. Also an increase of PLN 28.2 million occurred with respect to current assets with majority of that in respect of inventories and receivables - to the tune of PLN 46.0 million and 20.0% as well as PLN 28.3 and 15.3% respectively. These increases were caused by higher volumes of steel billets and finished products in stock as well as by higher prices. Those two items were offset by the reduction of cash by PLN 46.1 million. Consequently, our total assets saw an increase of just PLN 4.5 million and 0.5%.

ASSETS	Q3 2018	Q2 2018	Q3 2017
<i>'000 PLN</i>			<i>restated</i>
<b>A. TOTAL NON-CURRENT ASSETS</b>	<b>385 320</b>	<b>392 853</b>	<b>409 075</b>
I. Intangible assets	21 283	19 670	12 467
II. Property, plant and equipment	280 631	280 947	288 196
III. Other receivables	297	272	194
IV. Investment property and other investments	3 442	3 402	3 305
V. Prepaid perpetual usufruct of land	23 117	23 218	25 926
VI. Deferred tax assets	56 550	65 344	78 987
<b>B. TOTAL CURRENT ASSETS</b>	<b>529 325</b>	<b>622 444</b>	<b>501 084</b>
I. Inventories	275 898	334 527	229 903
II. Receivables	212 768	186 474	184 455
1. Trade receivables	212 019	185 714	183 633
2. Current income tax receivable	737	748	737
3. Other investments	12	12	85
III. Cash and cash equivalents	40 659	101 443	86 726
IV. Prepayments	0	0	0
V. Assets classified as held for sale	0	0	0
VI. Assets of disposal groups	0	0	0
<b>TOTAL ASSETS</b>	<b>914 645</b>	<b>1 015 297</b>	<b>910 159</b>

Cognor's equity in Q3 2018 increased in consequence of last twelve month's net result as well as due to the proceeds from the share offering carried out in Q4 2017 (SPO). This was partially offset by the payment of dividend at the amount of PLN 11.8 million in Q2 2018. The Group had the gross debt amounting to PLN 331.5 million and the net indebtedness at 290.8 million – less by PLN 128.2 million and by PLN 82.1 million respectively as compared to Q3 2017. The reduction of gross debt was due to the good operational performance and thanks to the proceeds from the SPO allowing Cognor to repay a portion of its long-term and short-term bank debt. The decrease of our net debt was to a lesser extent due to the decrease of cash balance in Q3 2018.

EQUITY AND LIABILITIES	Q3 2018	Q2 2018	Q3 2017
<i>'000 PLN</i>			<i>restated</i>
<b>A. EQUITY</b>	<b>303 049</b>	<b>270 944</b>	<b>184 438</b>
I. Issued share capital	178 066	177 923	152 175
II. Reserves and retained earnings	104 863	75 270	16 219
III. Minority interest	20 120	17 751	16 044
<b>B. LIABILITIES</b>	<b>611 596</b>	<b>744 353</b>	<b>725 721</b>
I. Non-current liabilities	302 500	404 617	399 661
1. Employee benefits obligation	11 206	11 273	9 196
2. Interest-bearing loans and borrowings	275 431	375 286	369 819
3. Other	15 863	18 058	20 646
II. Current liabilities	309 096	339 736	326 060
1. Interest-bearing loans and borrowings	56 049	61 282	63 462
2. Bank overdraft	0	2 048	26 386
3. Trade and other payables	246 103	269 181	229 091
4. Deferred government grants	117	117	117
5. Employee benefits obligation	3 110	2 594	2 875
6. Current income tax payable	36	117	25
7. Provisions for payables	3 681	4 397	4 104
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>914 645</b>	<b>1 015 297</b>	<b>910 159</b>

### 3. Cash flow

The Group had a positive operating cash flow in Q3 2018 due to positive EBITDA. This was further supported by the inflow of cash from working capital at the amount of PLN 11.3 million. Investment cash flow was negative with CAPEX outflows at PLN 14.2 million counterbalanced by the proceeds from the disposition of redundant properties, machinery and equipment at the amount of PLN 0.8 million. Financing activities used cash for the repayment of debt at the amount of PLN 366.2 million (including primarily the full Bonds' redemption) and interest at the amount of PLN 30.9 million. This was offset by the incurrence of new indebtedness (including primarily the new bank financing) at the amount of PLN 298.0 million as well as by the received grants at the amount of PLN 2.6 million.

CASH FLOW	Q3 2018	Q2 2018	Q3 2017
'000 PLN			<i>restated</i>
A. OPERATING ACTIVITIES	51 830	33 026	78 738
B. INVESTING ACTIVITIES	-13 717	-4 008	-4 573
C. FINANCING ACTIVITIES	-96 849	-24 383	-28 883
<b>NET INCREASE IN CASH</b>	<b>-58 736</b>	<b>4 635</b>	<b>45 282</b>

## II. Main Metrics

Liquidity metrics saw an improvement from already good levels. Inventory turnover and receivable collection remained good. 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 1.4 times multiple. Net debt amount has turned lower than our equity figure.

MAIN METRICS	Q3 2018	Q1 2018	Q3 2017
Liquidity ratio	1.71	1.83	1.54
Quick ratio	0.82	0.85	0.83
Inventories turnover (days)	52	66	46
Receivables turnover (days)	35	31	33
EBITDA margin	10.2%	11.6%	5.6%
Net profit margin	6.2%	3.1%	-1.0%
Equity	303 049	270 944	184 438
Net debt	290 821	337 173	372 941
Net debt / LTM EBITDA	1.4	1.8	2.9

## 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 the outstanding notional was EUR 80.9 million as of June 30, 2018 and (ii) PLN 40.0 million for general corporate needs (the Loan). On August 6, 2018 Cognor carried out a partial redemption of the Bonds with the use of EUR 20.9 million of its own cash and on August 24, 2018 the remaining EUR 60.0 million have been redeemed following utilization of the Loan. In both cases the redemptions were carried out at par. Consequently, all indebtedness under the Bonds has been extinguished and Cognor bears no further obligations in respect of that.

#### **IV. Earnings call**

The conference call on our Q3 2018 results will be held in English language on Tuesday, November 6, 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](http://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: 9089798.

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

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*Przemysław Sztuczowski*

*Chairman of the Executive Board*

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*Przemysław Grzesiak*

*Vice-chairman of the Executive Board*

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*Krzysztof Zoła*

*Member of the Executive Board*

.....

*Dominik Barszcz*

*Member of the Executive Board*

*Poraj, October 31, 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