



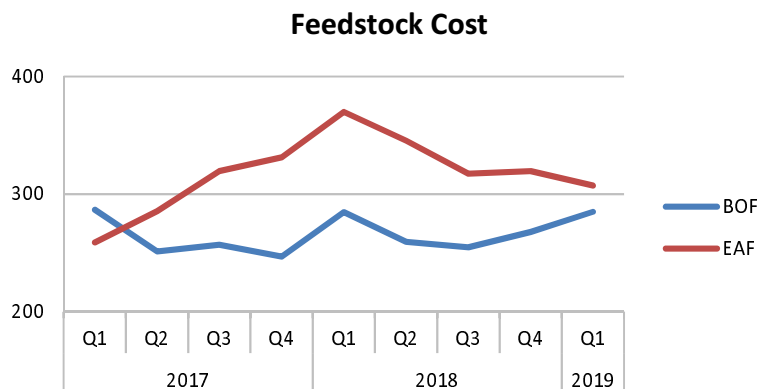
Q1 2019 - Management Discussion and Analysis

The first quarter of 2019 was another growth period for steel demand. Unfortunately, the European Union (EU28) failed to benefit from that trend as its production fell by 2.0% as compared to Q1 2018 with Poland’s output decreasing by as much as 7.3%. The key contributors to the world’s production increase were China - as usual and the USA - as recently. Production of these countries grew by 9.9% and 6.8% respectively. World output dynamics of 4.5% continues to surprise. The EU28 negative statistics disappoint again.

At this backdrop Cognor Holding S.A. (Cognor, the Company, the Group) did relatively well as we managed to produce more crude steel by 2.8% and shipped more by 0.8% of combined scrap metal, billets and finished products. At the same time, the prices for scrap metal, semi-finished products (billets) and most of our finished products saw decreases, which resulted in our revenues falling by 0.9%.

In spite of good production and sales figures our profitability suffered a lot. Our EBITDA fell down to PLN 26.8 million which resulted primarily from increasing production costs, in particular with respect to electricity price while our conversion spreads stayed broadly flat for billets and improved by PLN 48 per tonne in case of products. The conversion spreads improved due to the faster pace of scrap metal price decrease compared to the decrease of prices for billets and for most of our finished products.

The feedstock cost position of the electric arc furnace (EAF) producers vis-à-vis the blast oxygen furnace (BOF) mills has been unfavorable for many quarters although our feedstock model continues to indicate another quarter in a row of improvement to that regard. This is a result of the decreasing prices of scrap metal while the mix of main input materials used by BOF manufacturers is becoming more and more expensive at the back of iron ore and coking coal hikes. If that continues, we might be able to return to billet market at some point in time pushing out BOF competitors.



A sizeable effect on our assets and indebtedness as of March 31, 2019 had implementation of a new international financial reporting standard. The IFRS 16 unified treatment of leasing arrangements and resulted in an inclusion into our balance sheet of the assets and liabilities under operational leases. We'd like to underline, that the financial effects of the adoption of IFRS 16 are of non-cash and non-recurring nature.

In summary, the recent quarter brought a deterioration of our profitability due to higher production costs while market demand and our business activity remained good. In spite of the decrease of EBITDA by as much as PLN 30.1 million our net result was a profit of PLN 9.1 million thanks to replacement of the expensive bond financing with a much less costly bank loan which occurred in Q3 2018. Consequently, we spent much less for interest service and had much lesser FX exposure.

I. Reported Statement

1. Income Statement

The Group's revenues decreased by PLN 4.5 million and 0.9% due to a decrease of prices by: (i) PLN 75 per tonne and 6.7% for scrap metal and (ii) PLN 22 per tonne and 0.9% for billets which was partially offset by an increase of finished products' prices by PLN 11 per tonne and 0.4%. The negative contribution of prices was to a certain extent counterbalanced by the higher shipments of: (i) scrap metal by 0.9 thousand tonnes and 2.3% and (ii) finished products by 6.3 thousand tonnes and 5.1% while our billets sales fell by 5.4 thousand tonnes and 12.1%.

Our conversion spread for billets fell insignificantly by just PLN 1 per tonne and for finished products it improved by PLN 48 per tonne. That did not offset however the negative contribution of the increase of conversion costs with electricity price being the most harmful element weakening our profitability.

The influence of the very price dynamics on our EBITDA was negligible as Cognor was selling its products amid the stable price environment during the last couple of quarters. In Q1 2019 we estimate the total support related to inventories at just PLN 0.6 million compared to PLN 5.6 million a year ago. 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>)	Q4 2018	Q1 2019			Q4 2017	Q1 2018		
	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	1 182	36 416	1 181	-8	1 124	31 683	1 203	2 502
FERR								
billets & products	1 039	65 415	1 048	598	1 035	52 991	1 092	3 052
TOTAL				589				5 554

EBIT and EBITDA both decreased by PLN 35.8 million and PLN 30.1 million respectively. EBITDA margin fell from 11.0% up to 5.2%. The FX development had some positive effect on our operations with the average EUR/PLN exchange rate 2.9% higher and the USD/PLN exchange rate 11.5% stronger as compared to Q1 2018. The impact on our net financial costs was negligible though - the net FX losses related to the Company's indebtedness accounted for just PLN 0.1 million as the EUR/PLN exchange rate quoted 4.30 both as of March 31, 2019 and December 31, 2018.

AVERAGE EXCHANGE RATES		Q1 2019	Q1 2018
	<i>PLN</i>		
EUR/PLN		4.30	4.18
	% change	2.9%	
USD/PLN		3.79	3.40
	% change	11.5%	

EXCHANGE RATES	31-Mar-2019	31-Dec-2018	31-Mar-2018
<i>PLN</i>			
EUR/PLN	4.30	4.30	4.21
	% change (Mar 19 / Dec 2018)	0.0%	
USD/PLN	3.84	3.76	3.41
	% change (Mar 19 / Dec 2018)	2.0%	

Billet spreads increased for Ferrostal and decreased for HSJ. A reverse development took place with respect to spreads for finished products.

PRICES AND SPREADS	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
<i>(pln/ tonne)</i>					
FERROSTAL					
SCRAP METAL - all purchases	1 040	1 045	1 040	1 110	1 114
BILLETS - sales to external customers	2 128	2 097	2 103	2 183	2 157
BILLET SPREAD	1 049	1 022	1 053	1 080	1 034
FINISHED PRODUCTS - sales to external customers	2 265	2 354	2 276	2 321	2 342
PRODUCT SPREADS	1 186	1 279	1 227	1 218	1 219
HSJ					
SCRAP METAL - all purchases	1 193	1 180	1 191	1 229	1 223
BILLETS - sales to external customers	2 521	2 674	2 652	2 733	2 705
BILLET SPREAD	1 328	1 494	1 461	1 504	1 482
FINISHED PRODUCTS - sales to external customers	3 443	3 549	3 592	3 533	3 310
PRODUCT SPREADS	2 250	2 369	2 401	2 304	2 087

Operational profitability was supported by interest income to the tune of PLN 1.5 million. Our financial expenses stood at PLN 6.3 million which included PLN 0.5 million of costs related to valuation of financial instruments and PLN 0.1 million of FX losses related to our indebtedness. Nevertheless, they were significantly lower as compared to Q1 2018 when the Company had PLN 15.3 million of financial costs which included PLN 3.1 of FX losses. Thus, our interest charges (including the related fees) amounted to PLN 5.7 million in Q1 2019 while in Q1 2018 we spent as much as PLN 12.2 million for interest service.

INCOME STATEMENT	Q1 2019	Q4 2018	Q1 2018
	'000 PLN		
Revenue	519 694	471 242	524 231
Cost of sales	-473 076	-427 178	-450 267
Gross profit	46 618	44 064	73 964
Other income	2 367	3 917	660
Distribution expenses	-20 218	-20 840	-16 811
Administrative expenses	-12 450	-12 603	-10 826
Other gains/(losses) – net	-64	740	1 064
Other expenses	-1 137	-2 242	-1 146
EBIT	15 116	13 036	46 905
Financial income	1 452	0	0
Financial expenses	-6 309	-12 714	-15 322
Net financing costs	-4 857	-12 714	-15 322
Share of profits of associates	38	-674	4
Excess in the net fair value of acquired assets over cost	0	0	0
Profit before tax	10 297	-352	31 587
Income tax expense	-1 169	-5 312	-4 949
Profit/loss for the period from discontinued operations	0	0	0
Profit for the period	9 128	-5 664	26 638
Depreciation and amortization	-11 698	-11 005	-10 902
EBITDA	26 814	24 041	57 807

The non-recurring items had a slight positive effect on our EBITDA and 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:

ITEMS	Q1 2019	Q4 2018	Q1 2018
	'000 PLN		
Reported EBITDA	26 816	24 042	57 807
Non-recurring items including:	1 674	-8 586	843
- costs of sales	0	-10 466	0
- other income	2 298	4 470	382
- distribution expenses	76	-1 558	-138
- administrative expenses	0	0	0
- other gains/losses	115	353	814
- operational FX result	-179	387	250
- other impairments	-636	-1 772	-465
Adjusted EBITDA	25 142	32 628	56 964
Reported net result	9 128	- 5 664	26 638
Non-recurring items including:	1 941	-11 313	-2 408
- EBITDA adjustments	1 674	-8 586	843
- FX result on debt	-81	-879	-3 095
- financial instruments result	-548	-2 805	0
- interest gain	1 452	0	0
- share of associate result	38	-674	4
- pro-forma income tax adjustment	-594	1 631	-160
Adjusted net result	7 187	5 649	29 046

According to the above, the Q1 2019 adjusted EBITDA stood at PLN 25.1 million and the adjusted net profit at PLN 7.2 million.

2. Balance Sheet

During the last twelve months the value of non-current assets increased by PLN 48.2 million almost entirely due to the increase of the value of: (i) property, plant and equipment and (ii) perpetual usufruct of land. That was primarily the effect of implementation of IFRS 16 which resulted in the non-cash increment of PLN 43.5 million and PLN 11.6 million respectively. Acquisition of property, plant and equipment (exclusive of IFRS 16) amounted to PLN 54.2 million in which PLN 15.5 million related to the acquisitions conducted in Q1 2019. Those were partially offset by disposals to the tune of PLN 2.8 million in which PLN 0.9 million were carried out in Q1 2019. Intangible assets also added to the increase of non-current assets as Cognor made acquisitions of them to the tune of PLN 6.8 million in which PLN 0.9 million occurred in Q1 2019. The counterbalancing effect had: (i) amortization and depreciation charges at the amount of PLN 44.7 million and (ii) utilization of "tax shield" which resulted in the reduction of deferred assets by PLN 15.6 million.

Current assets increased by PLN 18.5 million primarily due to an increase of inventories by PLN 68.5 million and receivables by PLN 20.1 million. That was offset by a decrease of cash balance by 70.1 million. The increase of stocks was caused by the increase of volume of semi-finished products while the higher value of receivables was primarily caused by lower utilization of factoring lines. At the end of Q1 2019 the net amount of receivables disposed under the non-recourse factoring arrangements accounted for PLN 142.4 million while a year ago it was PLN 151.1 million. Our cash was used for various purposes including capital expenditures, debt reduction and payment of dividend.

As a result of the above changes our total assets saw an increase of PLN 66.6 million and 6.7%.

ASSETS	Q1 2019	Q4 2018	Q1 2018
	<i>'000 PLN</i>		
A. TOTAL NON-CURRENT ASSETS	437 508	379 296	389 353
I. Intangible assets	18 661	17 965	12 884
II. Property, plant and equipment	331 741	284 617	284 099
III. Other receivables	350	324	247
IV. Investment property and other investments	2 805	2 767	3 434
V. Prepaid perpetual usufruct of land	34 222	23 013	23 323
VI. Deferred tax assets	49 729	50 610	65 366
B. TOTAL CURRENT ASSETS	630 228	622 082	611 770
I. Inventories	391 279	376 969	322 821
II. Receivables	212 147	168 654	192 069
1. Trade receivables	203 705	167 982	191 279
2. Current income tax receivable	8 430	660	778
3. Other investments	12	12	12
III. Cash and cash equivalents	26 802	76 459	96 880
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	1 067 736	1 001 378	1 001 123

Cognor's equity in Q1 2019 increased by PLN 48.8 million as a result of good net results in the last 12 months. The Group had the gross debt amounting to PLN 358.7 million in which PLN 54.8 million appeared in Q1 2019 due to the adoption of IFRS 16. Our net debt stood at 331.9 million – more by PLN 14.6 million as compared to Q1 2018 however the whole of the increase came from the said implementation of IFRS 16. Note, that the debt figures of Q1 2018 as well as Q4 2018 are presented without factoring in IFRS 16.

EQUITY AND LIABILITIES	Q1 2019	Q4 2018	Q1 2018
<i>'000 PLN</i>		<i>restated</i>	
A. EQUITY	302 989	295 885	254 233
I. Issued share capital	182 041	180 626	177 923
II. Reserves and retained earnings	102 855	97 538	59 201
III. Minority interest	18 093	17 721	17 109
B. LIABILITIES	764 747	705 493	746 890
I. Non-current liabilities	295 488	259 585	392 816
1. <i>Employee benefits obligation</i>	<i>10 971</i>	<i>10 677</i>	<i>11 282</i>
2. <i>Interest-bearing loans and borrowings</i>	<i>265 961</i>	<i>229 188</i>	<i>361 523</i>
3. <i>Other</i>	<i>18 556</i>	<i>19 720</i>	<i>20 011</i>
II. Current liabilities	469 259	445 908	354 074
1. <i>Interest-bearing loans and borrowings</i>	<i>58 952</i>	<i>54 161</i>	<i>50 554</i>
2. <i>Bank overdraft</i>	<i>33 804</i>	<i>0</i>	<i>2 120</i>
3. <i>Trade and other payables</i>	<i>365 202</i>	<i>371 911</i>	<i>289 943</i>
4. <i>Deferred government grants</i>	<i>6 166</i>	<i>5 653</i>	<i>117</i>
5. <i>Liability under financial instruments</i>	<i>1 830</i>	<i>2 531</i>	<i>0</i>
6. <i>Employee benefits obligation</i>	<i>3 079</i>	<i>7 258</i>	<i>5 636</i>
7. <i>Current income tax payable</i>	<i>0</i>	<i>0</i>	<i>68</i>
8. <i>Provisions for payables</i>	<i>226</i>	<i>4 394</i>	<i>5 636</i>
TOTAL EQUITY AND LIABILITIES	1 067 736	950 689	1 001 123

3. Cash flow

The Group had a negative operating cash flow in Q1 2019 due to the outflow of cash to working capital at the amount of PLN 58.8 million. Investment activities proved negative as well with CAPEX outflows amounting to PLN 12.7 million partially counterbalanced by the proceeds from the disposition of redundant properties, machinery and equipment to the tune of PLN 0.7 million. Financing activities used cash primarily because of: (i) the repayment of indebtedness under loans and leasing arrangements at the amount of PLN 15.9 million, (ii) payment of interest charges and fees at the amount of PLN 5.6 million and (iii) payment of coupon under exchangeable notes to the tune of PLN 2.0 million. This was partially offset by the receipt of grants at the amount of PN 1.5 million.

CASH FLOW	Q1 2019	Q4 2018	Q1 2018
<i>'000 PLN</i>			
A. OPERATING ACTIVITIES	-48 856	117 501	29 838
B. INVESTING ACTIVITIES	-11 979	-20 339	461
C. FINANCING ACTIVITIES	-22 626	-61 362	-12 978
NET INCREASE IN CASH	-83 461	35 800	17 321

II. Main Metrics

Liquidity metrics deteriorated as a result of incurrence of the new amortized bank loan which replaced the bullet-type bond financing, yet they remain at acceptable levels. Similarly, inventory turnover and receivable collection ratios worsened slightly. Margins were significantly lower due to much weaker EBIDTA and net profit figures in Q1 2019. Equity and net indebtedness improved substantially due to strong last twelve months' EBITDA and net profit as well as the related repayment of significant portion of the Group's debt. In order to facilitate comparison all calculations of Q1 2019 metrics are adjusted for the influence of IFRS 16.

MAIN METRICS	Q1 2019 *	Q4 2018	Q1 2018
Liquidity ratio	1.52	1.40	1.73
Quick ratio	0.58	0.55	0.82
Inventories turnover (days)	74	76	65
Receivables turnover (days)	35	29	33
EBITDA margin	5.2%	9.6%	11.0%
Net profit margin	1.8%	3.5%	5.1%
Equity	302 989	295 885	189 342
Net debt	277 106	206 890	428 890
Net debt / LTM EBITDA	1.6	1.0	3.4

* adjusted for IFRS 16

III. Earnings call

The conference call on our Q1 2019 results will be held in English language on Tuesday, May 7, 2019, 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: 7788668.

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, 2019

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