Press release August 14, 2019

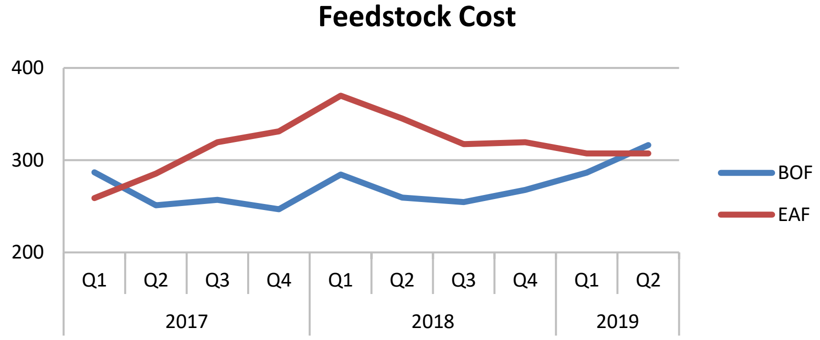
Q2 2019 - Management Discussion and Analysis

The second quarter of 2019 saw the world's steel output growing by 5.3% primarily due to the contribution of the Chinese steel manufacturing that managed to rise by a staggering 9.9% as compared to Q2 2018. In contrast, for European Union (EU28) producers, including Polish steelmakers, the recent quarter was actually a period of production cuts by 3.1% and 4.5% respectively. For other major regions the production dynamics was rather negative with the exception of the USA where it grew by as much as 4.1%.

Cognor Holding S.A. (Cognor, the Company, the Group) did quite well amid that unfavorable environment in Europe with our crude steel production growing by 3.4%. We also shipped more by 1.4% 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 3.6%.

The negative price dynamics caused the reduction of our conversion spreads and together with rising production costs resulted in the decrease of earnings. The reported EBITDA of PLN 42.9 million proved relatively good supported by a few non-recurring items and primarily because the Company was able to finally account for the energy cost compensation under the so-called "electricity act" adopted by the Polish Parliament by the end of 2018. The new law was expected to partially counterbalance the negative influence of the increase of energy prices in the period of H1 2019 under which Cognor has become eligible to claim compensations from its electricity suppliers of which the amount to the tune of PLN 14.0 million has been accounted for in our income statement in Q2 2019.

As expected, Q2 2019 was a turning point in terms of the feedstock cost position of the electric arc furnace (EAF) producers vis-à-vis the blast oxygen furnace (BOF) mills. The decreasing prices of scrap metal while the mix of main input materials used by BOF manufacturers remained at high levels, have led to the improvement of competitive position of electric mills and allowed Cognor to increase its shipments of semi-finished products (billets).



A sizeable effect on our assets and indebtedness as of June 30, 2019 had implementation of a new international financial reporting standard (IFRS 16). 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 the weaker conversion spreads and the higher production costs while market demand and our business activity remained good. In spite of the decrease of EBITDA by PLN 19.1 million our net result improved by PLN 0.4 million and amounted to PLN 17.1 million primarily thanks to the amount of PLN 14.0 million under electricity compensation and the replacement of the expensive bond financing with a much less costly bank loan which occurred in Q3 2018 and which reduced our financial costs significantly.

I. Reported Statement

1. Income Statement

The Group's revenues decreased by PLN 19.4 million and 3.6% due to a decrease of prices by: (i) PLN 157 per tonne and 14.2% for scrap metal, (ii) PLN 326 per tonne and 13.5% for billets and (iii) PLN 146 per tonne and 5.2% for finished products. The negative contribution of prices was to a certain extent counterbalanced by the higher shipments of billets by 17.5 thousand tonnes and 54.5% which was partially offset by a decrease in shipments of: (i) scrap metal by 11.2 thousand tonnes and 24.0% and (ii) finished products by 3.4 thousand tonnes and 2.7%. Our total shipments improved by 3.3 thousand tonnes and 1.4%.

Our conversion spread for billets fell by as much as PLN 198 per tonne (a decrease both for Ferrostal and HSJ) and for finished products by PLN 27 per tonne (an increase for Ferrostal and a decrease for HSJ).

PRICES AND SPREADS	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018
(pln/ tonne)					
FERROSTAL					
SCRAP METAL - all purchases	982	1 040	1 045	1 040	1 110
BILLETS - sales to external customers	1 980	2 128	2 097	2 103	2 183
BILLET SPREAD	**998**	**1 049**	**1 022**	**1 053**	**1 080**
FINISHED PRODUCTS - sales to external customers	2 220	2 265	2 354	2 276	2 321
PRODUCT SPREAD	**1 238**	**1 186**	**1 279**	**1 227**	**1 218**
HSJ					
SCRAP METAL - all purchases	1 113	1 193	1 180	1 191	1 229
BILLETS - sales to external customers	2 302	2 521	2 674	2 652	2 733
BILLET SPREAD	**1 189**	**1 328**	**1 494**	**1 461**	**1 504**
FINISHED PRODUCTS - sales to external customers	3 353	3 443	3 549	3 592	3 533
PRODUCT SPREAD	**2 240**	**2 250**	**2 369**	**2 401**	**2 304**

Weaker spreads were coupled with increases of several conversion costs including electricity price in particular. This was partially offset by the amount of PLN 14.0 million of electricity price compensation under the so called "electricity act" which resulted in the appropriate reduction of our costs of goods sold.

The influence of the very price dynamics on our EBITDA was negative as Cognor was selling its products amid the falling price environment during the last couple of quarters. In Q2 2019 we estimate the total loss related to inventories at PLN 9.4 million compared to the loss of PLN 0.7 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 *(billet equivalent)*	**Q1 2019**	**Q2 2019**			**Q1 2018**	**Q2 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	32 384	1 100	-2 633	1 203	27 709	1 202	-36
FERR								
billets & products	1 048	81 209	964	-6 804	1 092	59 077	1 081	-661
TOTAL				**-9 437**				**-697**

During the current reporting period we decided we would no longer be continuing with our hitherto approach in terms of accounting for major maintenance costs. In 2018 and in previous years the Group was making quarterly provisions against future annual maintenance works that were usually undertaken in each year's third and fourth quarters. From Q2 2019 onwards those provisions will no longer be accounted for and all repair costs including major annual maintenance will be recognized on a one-off basis in a period when actually incurred. This resulted in an additional income of PLN 5.2 million recognized in Q2 2019 due to the release of the maintenance reserve created in Q1 2019. To ensure the adequate comparison, the results of Q2 2018 should be increased by PLN 2.9 million which corresponds to the amount under the maintenance provision created in that quarter. The change in the accounting of annual maintenance will have no impact on the full year's numbers, just on the interim figures.

As a result of the above factors EBIT and EBITDA both decreased by PLN 19.4 million and PLN 19.1 million respectively. EBITDA margin fell from 11.6% down to 8.3%. The FX development had some positive effect on our operations with the average EUR/PLN exchange rate 0.5% higher and the USD/PLN exchange rate 6.6% stronger as compared to Q2 2018. The impact on our net financial costs was also positive - the net FX gains related to the Company's indebtedness accounted for PLN 1.3 million as the EUR/PLN exchange rate quoted 4.25 as of June 30, 2019 and 4.30 as of March 31, 2019.

AVERAGE EXCHANGE RATES	**Q2 2019**	**Q2 2018**
PLN		
EUR/PLN	4.28	4.26
% change	0.5%	
USD/PLN	3.81	3.57
% change	6.6%	

EXCHANGE RATES	**30-Jun-2019**	**31-Mar-2019**	**30-Jun-2018**
PLN			
EUR/PLN	4.25	4.30	4.36
% change (Jun 19 / Mar 19)	-1.1%		
USD/PLN	3.73	3.84	3.74
% change (Jun 19 / Mar 19)	-2.7%		

Operational profitability was supported by the FX gains of PLN 1.3 million while a year ago we had FX losses to the tune 12.9 million. In the last quarter our financial costs were further increased by an amount of PLN 3.3 million which corresponds to 50% of an expense amounting to PLN 6.6 million which we decided to effect in Q2 2019 following the amendment of the Polish corporate income tax (CIT) law. The CIT act, which took effect from January 1, 2019 might potentially result in an additional 20% withholding tax (WT) charge in respect of the past coupon payments effected by Cognor for the benefit of its noteholders under: (i) the senior secured notes which were fully repaid in Q3 2018 and (ii) the 5% exchangeable notes due in 2021 which remain outstanding at the amount of EUR 17.7 million. While we believe that the Group should not be subject to any incremental WT charge resulting from the amended CIT, we nevertheless decided to take advantage of the 3% flat rate option provided for by the new CIT act and have paid the said amount in order to remain free from any risk of being charged with as much as 20% of WT in the future. In Q3 2019 we followed with yet another payment of PLN 2.0 million which together with the first PLN 6.6 million covers the whole risk of potential WT charges. After having paid the 3% flat rate charge Cognor has approached the tax office with a demand that the amounts be returned as inapplicable. Unfortunately, we expect to be having to continue with the legal actions against the tax authorities as their initial response to our demand has been negative. Based on our assessment of chances to win the court proceedings we decided to recognize half of the amount of PLN 6.6 million as a financial expense in our income statement in the current period and the other half as an account receivable in our balance sheet as of June 30, 2019.

Irrespective of the above and in spite of some other non-recurring items, including PLN 0.5 million of costs related to valuation of financial instruments, our financial expenses were significantly lower as compared to Q2 2018 when the Group had PLN 32.7 million of costs of which PLN 12.9 million related to FX losses. This was possible primarily thanks to the replacement of the expensive bond financing with a much cheaper bank loan that occurred in Q3 2018.

INCOME STATEMENT	Q2 2019	Q1 2019	Q2 2018
'000 PLN			
Revenue	516 325	519 694	535 702
Cost of sales	-452 662	-473 076	-453 760
Gross profit	**63 663**	**46 618**	**81 942**
Other income	4 461	2 367	3 536
Distribution expenses	-19 604	-20 218	-17 403
Administrative expenses	-12 814	-12 450	-13 276
Other gains/(losses) – net	-590	-64	1 159
Other expenses	-3 566	-1 137	-5 000
EBIT	**31 550**	**15 116**	**50 958**
Financial income	793	1 452	0
Financial expenses	-9 462	-6 309	-32 717
Net financing costs	**-8 669**	**-4 857**	**-32 717**
Share of profits of associates	-102	38	-32
Excess in the net fair value of acquired assets over cost	0	0	0
Profit before tax	**22 779**	**10 297**	**18 209**
Income tax expense	-5 647	-1 169	-1 480
Profit/loss for the period from discontinued operations	0	0	0
Profit for the period	**17 132**	**9 128**	**16 729**
Depreciation and amortization	-11 393	-11 698	-11 107
EBITDA	**42 943**	**26 814**	**62 065**

The non-recurring items had a 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	Q2 2019	Q1 2019	Q2 2018
'000 PLN			
Reported EBITDA	**42 943**	**26 816**	**62 065**
Non-recurring items including:	6 932	1 674	4 267
- costs of sales	*5 212*	*0*	*4 087*
- other income	*4 426*	*2 298*	*2 776*
- distribution expenses	*33*	*76*	*904*
- administrative expenses	*0*	*0*	*0*
- other gains/losses	*-35*	*115*	*-641*
- operational FX result	*-555*	*-179*	*1 800*
- other impairments	*-1 572*	*-636*	*-4 659*
- other expenses	*-577*	*0*	*0*
Adjusted EBITDA	**36 011**	**25 142**	**57 798**
Reported net result	**17 132**	**9 128**	**16 729**
Non-recurring items including:	3 212	1 941	-9 481
- EBITDA adjustments	*6 932*	*1 674*	*4 267*
- FX result on debt	*1 331*	*-81*	*-12 905*
- WT charge	*-3 305*	*0*	*0*
- financial instruments result	*-498*	*-548*	*0*
- interest gain	*-457*	*1 452*	*0*
- share of associate result	*102*	*38*	*-32*
- pro-forma income tax adjustment	*-689*	*-594*	*-811*
Adjusted net result	**13 920**	**7 187**	**26 210**

According to the above, the Q2 2019 adjusted EBITDA stood at PLN 36.0 million and the adjusted net profit at PLN 13.9 million.

2. Balance Sheet

During the last twelve months the value of non-current assets increased by PLN 52.6 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 41.1 million and PLN 11.2 million respectively. Acquisition of property, plant and equipment (exclusive of IFRS 16) amounted to PLN 68.8 million in which PLN 23.2 million related to the acquisitions conducted in Q2 2019. Those were partially offset by disposals to the tune of PLN 2.2 million in which PLN 0.4 million were carried out in Q2 2019. Intangible assets also added to the increase of non-current assets as Cognor made acquisitions of those to the tune of PLN 2.0 million in Q2 2019. The counterbalancing effect had: (i) amortization and depreciation charges at the amount of PLN 44.9 million and (ii) utilization of "tax shield" which resulted in the reduction of deferred assets by PLN 21.3 million.

Current assets decreased by PLN 30.6 million primarily due to a decrease of cash balance by PLN 62.0 million. That was partially offset by an increase of inventories by PLN 9.1 million and receivables by PLN 22.3 million. The increase of our stocks was caused by the increase of volume of semi-finished products while the higher value of receivables was caused by a longer collection ratio. 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 22.0 million and 2.2%.

ASSETS	Q2 2019	Q1 2019	Q2 2018
'000 PLN			
A. TOTAL NON-CURRENT ASSETS	**445 442**	**437 508**	**392 853**
I. Intangible assets	20 432	18 661	19 670
II. Property, plant and equipment	343 813	331 741	280 947
III. Other receivables	376	350	272
IV. Investment property and other investments	2 702	2 805	3 402
V. Prepaid perpetual usufruct of land	34 074	34 222	23 218
VI. Deferred tax assets	44 045	49 729	65 344
B. TOTAL CURRENT ASSETS	**591 805**	**630 228**	**622 444**
I. Inventories	343 654	391 279	334 527
II. Receivables	208 772	212 147	186 474
1. Trade receivables	*208 009*	*203 705*	*185 714*
2. Current income tax receivable	*661*	*8 430*	*748*
3. Other investments	*102*	*12*	*12*
III. Cash and cash equivalents	39 379	26 802	101 443
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	**1 037 247**	**1 067 736**	**1 015 297**

Cognor's equity in Q2 2019 increased by PLN 49.2 million as a result of good net results in the last 12 months. The Group had the gross debt amounting to PLN 325.4 million in which PLN 53.1 million appeared entirely due to the adoption of IFRS 16. Our net debt stood at 286.0 million – less by PLN 52.1 million as compared to Q2 2018 in spite of the counterbalancing effect of the said implementation of IFRS 16. Note, that the debt figures of Q2 2018 are presented without factoring in IFRS 16.

EQUITY AND LIABILITIES	Q2 2019	Q1 2019	Q1 2018
'000 PLN			
A. EQUITY	**320 108**	**302 989**	**270 944**
I. Issued share capital	182 483	182 041	177 923
II. Reserves and retained earnings	118 545	102 855	75 270
III. Minority interest	19 080	18 093	17 751
B. LIABILITIES	**717 139**	**764 747**	**744 353**
I. Non-current liabilities	288 675	295 488	404 617
1. Employee benefits obligation	*11 178*	*10 971*	*11 273*
2. Interest-bearing loans and borrowings	*258 520*	*265 961*	*375 286*
3. Other	*18 977*	*18 556*	*18 058*
II. Current liabilities	428 464	469 259	339 736
1. Interest-bearing loans and borrowings	*60 755*	*58 952*	*61 282*
2. Bank overdraft	*6 082*	*33 804*	*2 048*
3. Trade and other payables	*348 336*	*365 202*	*269 181*
4. Deferred government grants	*7 804*	*6 166*	*117*
5. Lability under financial instruments	*1 683*	*1 830*	*0*
6. Employee benefits obligation	*3 578*	*3 079*	*2 594*
7. Current income tax payable	*0*	*0*	*117*
8. Provisions for payables	*226*	*226*	*4 397*
TOTAL EQUITY AND LIABILITIES	**1 037 247**	**1 067 736**	**1 015 297**

3. Cash flow

The Group had a positive operating cash flow in Q2 2019 due to good EBITDA performance and the inflow of cash from working capital at the amount of PLN 31.0 million. Investment activities proved negative with CAPEX outflows amounting to PLN 16.7 million partially counterbalanced by the proceeds from the disposition of redundant properties, machinery and equipment to the tune of PLN 0.4 million. Financing activities used cash primarily because of: (i) the repayment of indebtedness under loans and leasing arrangements at the amount of PLN 15.1 million and (ii) payment of interest charges and fees at the amount of PLN 12.2 million. This was partially offset by the receipt of grants at the amount of PLN 2.5 million.

CASH FLOW	Q2 2019	Q1 2019	Q2 2018
'000 PLN			
A. OPERATING ACTIVITIES	80 904	-48 856	33 026
B. INVESTING ACTIVITIES	-16 377	-11 979	-4 008
C. FINANCING ACTIVITIES	-24 228	-22 626	-24 383
NET INCREASE IN CASH	**40 299**	**-83 461**	**4 635**

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. EBITDA margin was lower due to the weaker EBIDTA performance while the net profit margin improved slightly in Q2 2019 as compared to the same period of a year ago. Equity and net indebtedness improved very significantly due to the 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, calculations of certain metrics in Q1 2019 and Q2 2019 have been adjusted for the influence of IFRS 16.

MAIN METRICS	Q2 2019 *	Q1 2019 *	Q2 2018
Liquidity ratio	1.58	1.52	1.83
Quick ratio	0.66	0.58	0.85
Inventories turnover (days)	68	74	66
Receivables turnover (days)	36	35	31
EBITDA margin	8.3%	5.2%	11.6%
Net profit margin	3.3%	1.8%	3.1%
Equity	320 108	302 989	270 944
Net debt	232 881	277 106	337 173
Net debt / LTM EBITDA	1.6	1.6	1.8

* adjusted for IFRS 16

III. Earnings call

The conference call on our Q2 2019 results will be held in English language on Tuesday, August 20, 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: 6679988.

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

....

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, 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