October 31, 2019

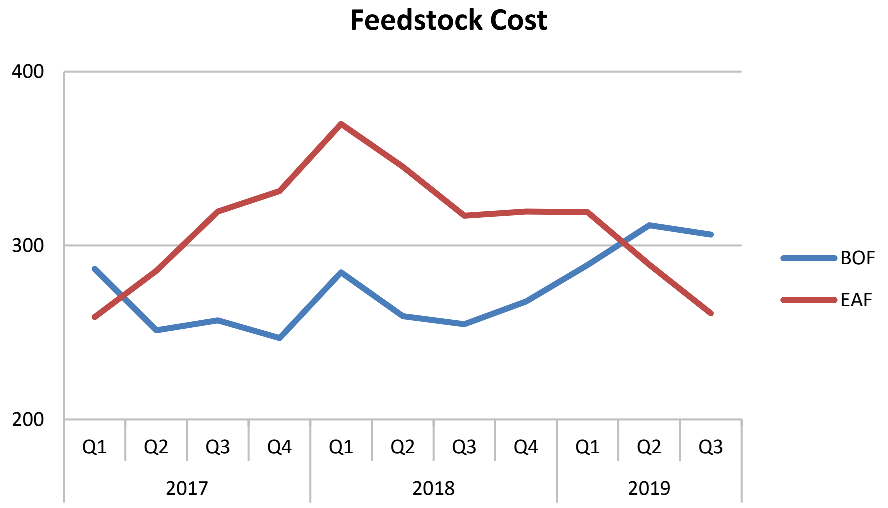
Q3 2019 - Management Discussion and Analysis

The third quarter of 2019 saw the world's steel output growing at a much slower pace of just 1.9%. Moreover, the overall positive reading resulted entirely from Chinese dynamics where steel manufacturing managed to rise by 5.5% as compared to Q3 2018. Traditionally, the European Union (EU28) producers, including Polish steelmakers, suffered production cuts, by 3.3% and 13.8% respectively. Yet, all other major steel regions saw their production trends negative, including the USA where production fell by 1.2%.

Cognor Holding S.A. (Cognor, the Company, the Group) performed in line with the decrease in Poland however the primary reason behind the lower production was a prolonged maintenance break at one of our steel plants due to the much greater than usual scope of overhaul works. Consequently, we shipped less by 22.0% of combined scrap metal, billets and finished products. At the same time, the prices for scrap metal, semi-finished products (billets) and all of our finished products saw decreases, which resulted in our revenues contracting by 27.4%.

The negative price dynamics caused the reduction of our conversion spreads but the main impact for our profitability came from maintenance costs which grew by as much as PLN 14.6 million. The increasing amounts under overhaul works had been planned as part of our 2018-2020 organic growth program which we discussed in more detail in the management discussions and analysis section of our 2018 annual report. One of the milestones of the said plan - modernization of the HSJ SQ bar mill - was fully completed during August and September of 2019. The central element of that project was the commissioning of a completely new rotary furnace which since then has been successfully put into everyday operations. Concurrently, a vital part of the other plan milestone, namely the modernization of the EAF furnace at the HSJ melting shop, has also been achieved. A portion of the effected spending under the two mentioned projects has been qualified within maintenance costs hence its abnormally high negative impact on Q3 2019 results, especially that we've recently changed our cost recognition practice whereby any maintenance expenditures are accounted for when incurred, without being subject to any provisions. Although, the widespread modernization at HSJ seriously affected our production output, sales and profits in the last quarter, we are extremely happy to have completed that effort as it has resulted in the expansion of our capacities and should substantially reduce our SQ bar production costs going forward. Equally important are the related environmental benefits and improvement of the employees safety.

Last quarter continued to be positive in terms of feedstock cost position of electric arc furnace (EAF) producers vis-à-vis blast oxygen furnace (BOF) mills. The faster pace of scrap metal decrease compared to the mix of main input materials used by BOF manufacturers, enhanced further the competitive position of electric mills. Nevertheless, Cognor was unable to expand its shipments of semi-finished products amid increasingly difficult market environment.



A sizeable effect on our assets and indebtedness as of September 30, 2019 had implementation of a new international financial reporting standard (IFRS 16). The IFRS 16 has 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 the IFRS 16 are of non-cash and non-recurring nature. Another item which impacted our balance sheet was the adoption of 2018 dividend at PLN 0.28 per share. That resulted in the increase of labilities at the expense of equity.

In summary, the recent quarter brought a deterioration of our profitability primarily due to higher maintenance costs, falling prices, thinner conversion spreads, lower production, shipments and sales as well as FX losses relating to indebtedness. Although the demand for most of our finished products has remained quite fair in Poland the overall market situation can now be described as increasingly challenging, especially with respect to the automotive market. Consequently, EBITDA decreased by PLN 39.3 million and our net result was a loss PLN 1.0 million. The replacement of the expensive bond financing with a much less costly bank loan, which was finalized by the end of Q3 2018 and which has led to a reduction of financial costs, was not sufficient to offset the influence of the aforementioned negative factors.

The results of Q3 2019 are certainly far from satisfactory yet, we believe a number of important factors should be considered which allow to perceive the last quarter's performance in a different light. Above all, the amount of PLN 14.6 million of incremental repair costs, which to a predominant extent were associated with commissioning of major CAPEX projects at HSJ mill in Stalowa Wola. With the other specific or non-recurring factors including FIFO damage, electricity compensation and FX losses broadly offsetting one another, it is fair to note that the last year's third quarter was a record breaking one in terms of sales, shipments and net result in the history of our Company.

I. Reported Statement

1. Income Statement

The Group's revenues decreased by PLN 151.2 million and 27.4% primarily due to a decrease in shipments of: (i) scrap metal by 8.0 thousand tonnes and 17.8%, (ii) billets by PLN 7.7 thousand tonnes and 24.0% and (iii) finished products by 32.0 thousand tonnes and 22.9%. Our total shipments worsened by 47.6 thousand tonnes and 22.0%. Additional pressure came from pricing environment where we saw decreases of: (i) PLN 145 per tonne and 14.0% for scrap metal, (ii) PLN 249 per tonne and 10.8% for billets and (iii) PLN 225 per tonne and 8.3% for finished products.

Our combined conversion spread for billets fell by PLN 153 per tonne and for finished products by PLN 99 per tonne.

PRICES AND SPREADS	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018
(pln/ tonne)					
FERROSTAL					
SCRAP METAL - all purchases	932	982	1 040	1 045	1 040
BILLETS - sales to external customers	2 056	1 980	2 128	2 097	2 103
BILLET SPREAD	**1 124**	**998**	**1 049**	**1 022**	**1 053**
FINISHED PRODUCTS - sales to external customers	2 131	2 220	2 265	2 354	2 276
PRODUCT SPREAD	**1 199**	**1 238**	**1 186**	**1 279**	**1 227**
HSJ					
SCRAP METAL - all purchases	1 049	1 113	1 193	1 180	1 191
BILLETS - sales to external customers	2 069	2 302	2 521	2 674	2 652
BILLET SPREAD	**1 020**	**1 189**	**1 328**	**1 494**	**1 461**
FINISHED PRODUCTS - sales to external customers	3 280	3 353	3 443	3 549	3 592
PRODUCT SPREAD	**2 231**	**2 240**	**2 250**	**2 369**	**2 401**

Weaker spreads were coupled with increases of various components of our conversion cost, including electricity price hike. This was partially offset by the amount of PLN 7.9 million of electricity price compensation under the so called "electricity act" which we were able to recognize in Q3 2019 within 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 Q3 2019 we estimate the total loss related to inventories at PLN 6.8 million compared to the loss of PLN 3.4 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)*	**Q2 2019**	**Q3 2019**			**Q2 2018**	**Q3 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	1 100	28 972	1 021	-2 297	1 202	26 209	1 206	104
FERR								
billets & products	964	86 039	912	-4 499	1 081	71 337	1 031	-3 533
TOTAL				**-6 796**				**-3 428**

In Q2 2019 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. Those provisions will no longer be created and all repair costs including major annual maintenance were in Q3 2019 and will be going forward recognized on a one-off basis in a period when actually incurred. The change in the accounting of annual maintenance works will have no impact on the full year's numbers, just on the interim figures. On top of that, the completion of several development projects in Q3 2019, increased the absolute amount of repair costs much over average. In Q3 2019 the total maintenance costs amounted to PLN 24.2 million while in Q3 2018 such expenditures reached PLN 9.7 million. In those numbers the annual overhauls amounted to as much as PLN 18.0 in Q3 2019 and to just PLN 4.8 in Q3 2018.

As a result of the above factors EBIT decreased by PLN 40.0 million and EBITDA by PLN 39.3 million. EBITDA margin fell from 10.2% down to 4.2%. The FX development had some positive effect on our operations with the average EUR/PLN exchange rate 0.3% higher and the USD/PLN exchange rate 4.9% stronger as compared to Q3 2018 whereas the impact on our net financial costs was negative - the net FX losses related to the Company's indebtedness accounted for PLN 3.4 million as the EUR/PLN exchange rate quoted 4.37 as of September 30, 2019 and 4.25 as of June 30, 2019.

AVERAGE EXCHANGE RATES	Q3 2019	Q3 2018
PLN		
EUR/PLN	4.32	4.31
% change	0.3%	
USD/PLN	3.89	3.70
% change	4.9%	

EXCHANGE RATES	30-Sep-2019	30-Jun-2019	30-Sep-2018
PLN			
EUR/PLN	4.37	4.25	4.27
% change (Sep 19 / Jun 19)	2.9%		
USD/PLN	4.00	3.73	3.68
% change (Sep 19 / Jun 19)	7.1%		

Our operational profitability was weakened by FX losses of PLN 3.4 million while a year ago we had a FX gain to the tune 4.8 million. On top of that we also suffered a loss of PLN 0.3 million related to valuation of financial instruments. Our total financial expenses were therefore higher as compared to Q3 2018 in spite of the replacement of the expensive bond financing with a much cheaper bank loan that was finalized by the end of Q3 2018.

INCOME STATEMENT	Q3 2019	Q2 2019	Q3 2018
'000 PLN			
Revenue	399 511	516 325	550 666
Cost of sales	-364 456	-452 662	-474 323
Gross profit	**35 055**	**63 663**	**76 343**
Other income	3 518	4 461	2 429
Distribution expenses	-22 193	-19 604	-21 646
Administrative expenses	-11 171	-12 814	-9 336
Other gains/(losses) – net	1 415	-590	-986
Other expenses	-1 252	-3 566	-1 495
EBIT	**5 372**	**31 550**	**45 309**
Financial income	-1 741	793	4 460
Financial expenses	-8 069	-9 462	-6 477
Net financing costs	**-9 810**	**-8 669**	**-2 017**
Share of profits of associates	7	-102	40
Excess in the net fair value of acquired assets over cost	0	0	0
Profit before tax	**-4 431**	**22 779**	**43 332**
Income tax expense	3 475	-5 647	-8 989
Profit/loss for the period from discontinued operations	0	0	0
Profit for the period	**-956**	**17 132**	**34 343**
Depreciation and amortization	-11 528	-11 393	-10 847
EBITDA	**16 900**	**42 943**	**56 156**

The non-recurring items had a positive effect on our EBITDA and a negative on 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	Q3 2019	Q2 2019	Q3 2018
'000 PLN			
Reported EBITDA	**16 902**	**42 943**	**56 156**
Non-recurring items including:	4 033	6 932	3 507
- costs of sales	*0*	*5 212*	*3 414*
- other income	*3 420*	*4 426*	*1 985*
- distribution expenses	*-9*	*33*	*-27*
- administrative expenses	*0*	*0*	*0*
- other gains/losses	*394*	*-35*	*196*
- operational FX result	*1 021*	*-555*	*-1 182*
- other impairments	*-793*	*-1 572*	*-879*
- other expenses	*0*	*-577*	*0*
Adjusted EBITDA	**12 869**	**36 011**	**52 649**
Reported net result	**-956**	**17 132**	**34 343**
Non-recurring items including:	-924	3 212	11 342
- EBITDA adjustments	*4 033*	*6 932*	*3 507*
- FX result on debt	*-3 425*	*1 331*	*4 849*
- WT charge / other	*0*	*-3 305*	*4 460*
- financial instruments result	*-282*	*-498*	*0*
- interest gain	*-491*	*-457*	*0*
- share of associate result	*7*	*102*	*40*
- pro-forma income tax adjustment	*-766*	*-689*	*-1 514*
Adjusted net result	**-32**	**13 920**	**23 001**

According to the above, the Q3 2019 adjusted EBITDA stood at PLN 12.9 million and the adjusted net loss at PLN 0.0 million.

2. Balance Sheet

During the last twelve months the value of non-current assets increased by PLN 59.9 million due to the increase of the value of: (i) property, plant and equipment at the amount of PLN 61.8 million and (ii) perpetual usufruct of land to the tune of PLN 10.2 million. That was primarily the effect of implementation of the IFRS 16 which resulted in the non-cash increment of PLN 39.9 million and PLN 11.2 million respectively. Acquisition of property, plant and equipment including perpetual usufruct of land (all exclusive of the IFRS 16 contribution) amounted to PLN 68.8 million in which PLN 10.5 million related to the acquisitions conducted in Q3 2019. Those were partially offset by disposals to the tune of PLN 3.3 million in which PLN 1.4 million were carried out in Q3 2019. The counterbalancing effect had: (i) amortization and depreciation charges at the amount of PLN 45.6 million and (ii) utilization of "tax shield" which resulted in the reduction of deferred assets by PLN 10.4 million.

Current assets increased by PLN 28.3 million primarily due to an increase of inventories by PLN 70.2 million caused by higher quantities of steel products and billets held in stock. That was partially offset by a decrease of receivables by PLN 30.9 million and cash by PLN 11.0 million. The increase of our stock volumes was caused by the weaker demand and lower shipments. Similarly, the fall in value of receivables was caused by worsening sales. Our cash was used for various purposes including capital expenditures and debt service.

As a result of the above changes our total assets saw an increase of PLN 88.1 million and 9.6%.

ASSETS	Q3 2019	Q2 2019	Q3 2018
'000 PLN			
A. TOTAL NON-CURRENT ASSETS	**445 177**	**445 442**	**385 320**
I. Intangible assets	20 533	20 432	21 283
II. Property, plant and equipment	342 465	343 813	280 631
III. Other receivables	122	376	297
IV. Investment property and other investments	2 587	2 702	3 442
V. Prepaid perpetual usufruct of land	33 362	34 074	23 117
VI. Deferred tax assets	46 108	44 045	56 550
B. TOTAL CURRENT ASSETS	**557 577**	**591 805**	**529 325**
I. Inventories	346 072	343 654	275 898
II. Receivables	181 889	208 772	212 768
1. Trade receivables	*181 740*	*208 009*	*212 019*
2. Current income tax receivable	*11*	*661*	*737*
3. Other investments	*138*	*102*	*12*
III. Cash and cash equivalents	29 616	39 379	40 659
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	**1 002 754**	**1 037 247**	**914 645**

Cognor's equity in Q3 2019 decreased by PLN 20.3 million due to a decision of the ordinary general shareholders' meeting to adopt a 2018 dividend at the amount of PLN 34.6 million which was partially counterbalanced by a net profit during the last 12 months to the tune of PLN 19.6 million. The Group had the gross debt amounting to PLN 315.3 million in which PLN 52.0 million appeared entirely due to the adoption of the IFRS 16. Our net debt stood at 285.6 million – less by PLN 5.2 million as compared to Q3 2018 in spite of the counterbalancing effect of the said implementation of the IFRS 16. Please note, the debt figures of Q3 2018 are presented without factoring in the IFRS 16.

EQUITY AND LIABILITIES	Q3 2019	Q2 2019	Q3 2018
'000 PLN			
A. EQUITY	**282 736**	**320 108**	**303 049**
I. Issued share capital	184 605	182 483	178 066
II. Reserves and retained earnings	79 324	118 545	104 863
III. Minority interest	18 807	19 080	20 120
B. LIABILITIES	**720 018**	**717 139**	**611 596**
I. Non-current liabilities	279 977	288 675	302 500
1. Employee benefits obligation	*11 613*	*11 178*	*11 206*
2. Interest-bearing loans and borrowings	*250 230*	*258 520*	*275 431*
3. Other	*18 134*	*18 977*	*15 863*
II. Current liabilities	440 041	428 464	309 096
1. Interest-bearing loans and borrowings	*59 823*	*60 755*	*56 049*
2. Bank overdraft	*5 210*	*6 082*	*0*
3. Trade and other payables	*361 100*	*348 336*	*246 103*
4. Deferred government grants	*7 979*	*7 804*	*117*
5. Lability under financial instruments	*3 859*	*3 578*	*0*
6. Employee benefits obligation	*1 844*	*1 683*	*3 110*
7. Current income tax payable	*0*	*0*	*36*
8. Provisions for payables	*226*	*226*	*3 681*
TOTAL EQUITY AND LIABILITIES	**1 002 754**	**1 037 247**	**914 645**

3. Cash flow

The Group had a positive operating cash flow in Q3 2019 due to positive EBITDA performance and the inflow of cash from working capital at the amount of PLN 11.4 million. Investment activities proved negative with CAPEX outflows amounting to PLN 15.6 million partially counterbalanced by the proceeds from the disposition of redundant properties, machinery and equipment to the tune of PLN 1.8 million. Financing activities used cash primarily because of: (i) the repayment of indebtedness under loans and leasing arrangements at the amount of PLN 14.7 million and (ii) payment of interest charges and fees at the amount of PLN 9.4 million. This was partially offset by the receipt of grants at the amount of PLN 0.1 million.

CASH FLOW	Q3 2019	Q2 2019	Q3 2018
'000 PLN			
A. OPERATING ACTIVITIES	28 902	80 904	51 830
B. INVESTING ACTIVITIES	-13 848	-16 377	-13 717
C. FINANCING ACTIVITIES	-23 945	-24 228	-96 849
NET INCREASE IN CASH	**-8 891**	**40 299**	**58 736**

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. Inventory turnover worsened to high levels while receivable collection remained good. EBITDA margin was lower due to the weaker EBIDTA performance while the net result margin fell below zero due to net loss in Q3 2019. Equity decreased slightly whereas 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 that period. In order to facilitate comparison, calculations of net debt metrics in Q3 2019 and Q2 2019 have been adjusted for the influence of the IFRS 16.

MAIN METRICS	Q3 2019 *	Q2 2019 *	Q3 2018
Liquidity ratio	1.44	1.58	1.71
Quick ratio	0.55	0.66	0.82
Inventories turnover (days)	85	68	52
Receivables turnover (days)	41	36	35
EBITDA margin	4.2%	8.3%	10.2%
Net profit margin	-0.2%	3.3%	6.2%
Equity	282 736	320 108	303 049
Net debt	234 467	231 169	290 821
Net debt / LTM EBITDA	2.1	1.5	1.4

* adjusted for the IFRS 16

III. Earnings call

The conference call on our Q3 2019 results will be held in English language on Tuesday, November 5, 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: 8017518.

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, October 31, 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