



April 30, 2020

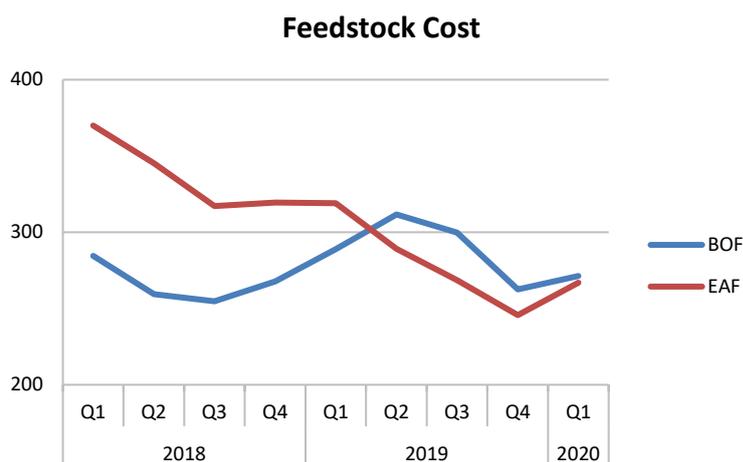
Q1 2020 - Management Discussion and Analysis

The first quarter of 2020 marked a decline in steel demand. The European Union (EU28) production contracted by 10.0% as compared to Q1 2019, while Poland did even worse with its 18.6% decrease. All major steel producing regions saw their production outputs down with the exception of – unsurprisingly – China, where the steel manufacturing went up by 1.2%. That is particularly staggering as China was actually under severe distress throughout the whole of Q1 2020 resulting from the Covid-19 crisis, while all other parts of the world were affected for a limited period of between one and a couple of months. Irrespective of the Chinese dynamics, the world's total output went down by 1.4%. On the occasion of our previous reports we had numerous opportunities to comment on the European Commission's failure to protect the European producers against the unfair trade practices. Regrettably, we can only reiterate that diagnosis as the decrease of the EU28 steel production was again the most profound of all.

At this backdrop Cognor Holding S.A. (Cognor, the Company, the Group) did quite well as our crude steel production fell by just 2.3%, while our combined shipments of scrap metal, billets and finished products were actually higher by 4.8%. 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 11.5%.

Profitability was not that bad either. Our EBITDA improved to PLN 30.5 million, which was the result of the high shipments of our finished products and the increasing price environment as compared to the previous quarter, which resulted in significant FIFO gains. However, the overall market sentiment was negative with our average billet conversion spread weakening by PLN 140 per tonne and the average product spread decreased by as much as PLN 307 per tonne. The conversion spreads worsened due to the faster pace of the decrease of prices for billets and finished products compared with the scrap metal price decline. A counterbalancing effect brought the reduction of certain production costs both due to the decrease of the underlying material prices, as well as due to their lower consumption, following the recent finalization of investment projects.

The feedstock cost position of the electric arc furnace (EAF) producers vis-à-vis the blast oxygen furnace (BOF) mills has remained positive, however our feedstock cost model continues to indicate gradual deterioration in that regard. If the current trend which manifests itself with a faster increase of scrap metal price as compared to the increase of the mix of main input materials used by BOF manufacturers continues, Cognor is about to lose its competitive advantage in the next quarter, which may result in a decline of sales of our billets.



Although, the previous quarter's results seem apparently unaffected by the COVID-19, we have in fact been faced with numerous problems including the necessity to divert our activity from the automotive business towards the less profitable sales areas. We also had to implement various organizational changes in order to protect our employees from the virus infection, while making sure that our production facilities are run without major disruptions amid the increased staff absence. Had the coronavirus situation not occurred, we would have been able to achieve substantially better results. Furthermore, we expect that the difficulties caused by SARS-cov-2 will continue into the next quarters which may result in the a need to adjust our production output to the available quantity of profitable sales and which may in turn result in the a necessity to appropriately reduce our staff's working hours.

In summary, in the recent quarter we were faced with numerous challenges. Due to our flexibility and the diversification of products and customers, we were able to continue at full production capacities, while applying a more disciplined approach to working capital management. We achieved a higher EBITDA of PLN 30.5 million and, in spite of the unrealized FX losses related to our indebtedness, our net result was a profit of PLN 2.8 million.

I. Reported Statement

1. Income Statement

The Group's revenues decreased by PLN 59.6 million and 11.5% due to a decrease of prices by the following: (i) PLN 137 per tonne and 13.2% for scrap metal, (ii) PLN 303 per tonne and 13.0% for billets and (iii) PLN 470 per tonne and 17.2% for finished products. The negative contribution of prices was to a certain extent counterbalanced by higher shipments of finished products to the tune of 14.3 thousand tonnes and 11.7% which was partially offset by lower shipments of: (i) scrap metal by 1.9 thousand tonnes and 4.8% and (ii) billets by 2.7 thousand tonnes and 6.9%.

Our conversion spreads for billets and finished products fell sharply by PLN 140 per tonne and 307 per tonne, respectively. That was partially amortized by lower prices for certain production components, as well as by a lower consumption of various production materials resulting from the finalization of numerous efficiency-pro capital expenditures, which we have undertaken in the past few years.

The influence of the very price dynamics on our EBITDA was strongly positive as Cognor has been selling its products amid the increasing price environment during the last couple of quarters. In Q1 2020, we estimate the total support related to inventories at PLN 8.8 million compared to PLN 0.6 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 2019	Q1 2020				Q4 2018	Q1 2019		
	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	939	27 259	1 026	2 373	1 182	36 416	1 181	-8	
FERR billets & products	822	66 876	918	6 421	1 039	65 415	1 048	598	
TOTAL				8 794				589	

In the results of Q1 2020 we accounted an amount of PLN 2.5 million, which we expect to receive in 2021 within the framework of the act adopted by the Polish Parliament last year based on which, a number of large carbon dioxide emitting companies will benefit from compensations intended to partially amortize the increase of prices of CO2 emission rights. We will continue recognizing the amount of PLN 2.5 million in each of the following quarters of 2020 as we expect to be eligible for a total of PLN 10.0 million of compensation for the full financial year. The final amount may differ from PLN 10.0 million depending on: (i) the quotation of CO2 emission rights in the whole of 2020 and (ii) the degree of a pro-rata reduction applied should the total value of compensation demands exceed the limit of PLN 1.0 billion. When calculating the expected compensation for Cognor at the amount of PLN 10.0 million we assumed: (i) the average price of PLN 90 per tonne of CO2 emission rights and (ii) the pro-rata reduction of ca 40%. In our opinion, these assumptions form a conservative approach to estimating the actual compensation amount. It is worth noting that last year, no such amount supported the Group's results.

EBIT and EBITDA both increased by PLN 4.0 million and PLN 3.7 million respectively. The EBITDA margin improved from 5.2% up to 6.6%. The FX development had some positive effect on our operations with the average EUR/PLN exchange rate of 0.5% higher and the USD/PLN exchange rate of 3.5% stronger as compared to Q1 2019. The impact on our net financial costs was strongly negative though - the net FX losses related to the Company's indebtedness accounted for as much as PLN 7.3 million as the EUR/PLN exchange rate quoted 4.55 as of March 31, 2020 and 4.26 as of December 31, 2019.

AVERAGE EXCHANGE RATES	Q1 2020	Q1 2019
PLN		
EUR/PLN	4.32	4.30
% change	0.5%	
USD/PLN	3.92	3.79
% change	3.5%	

EXCHANGE RATES	31-Mar-2020	31-Dec-2019	31-Mar-2019
PLN			
EUR/PLN	4.55	4.26	4.30
% change (Mar 20 / Dec 2019)	6.9%		
USD/PLN	4.15	3.80	3.84
% change (Mar 20 / Dec 2019)	9.2%		

Thus, our operational profitability was supported by FX income to the tune of PLN 2.2 million. Our financial expenses stood at PLN 16.7 million and included PLN 7.3 million of FX losses related to our indebtedness and PLN 1.9 million of costs related to the valuation of financial instruments. Therefore, they were significantly higher as compared to Q1 2019 when the Company had just PLN 6.3 million of financial costs, in which the FX result related to indebtedness with the result under financial instruments contributing to the amount of PLN 0.6 million.

Billet and product spreads decreased for both Ferrostal and HSJ mills as follows.

PRICES AND SPREADS	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019
<i>(pln/ tonne)</i>					
FERROSTAL					
SCRAP METAL - all purchases	934	849	932	982	1 079
BILLETS - sales to external customers	1 767	1 630	2 056	1 980	2 128
BILLET SPREAD	833	781	1 124	998	1 049
FINISHED PRODUCTS - sales to external customers	1 961	1 937	2 131	2 220	2 270
PRODUCT SPREAD	1 027	1 088	1 199	1 238	1 191

HSJ					
SCRAP METAL - all purchases	1 018	927	1 049	1 113	1 193
BILLETS - sales to external customers	2 019	1 985	2 069	2 302	2 521
BILLET SPREAD	1 001	1 058	1 020	1 189	1 328
FINISHED PRODUCTS - sales to external customers	2 893	2 938	3 280	3 352	3 442
PRODUCT SPREAD	1 875	2 011	2 231	2 239	2 249

INCOME STATEMENT	Q1 2020	Q4 2019	Q1 2019
<i>'000 PLN</i>			
Revenue	460 111	466 074	519 694
Cost of sales	-414 572	-440 360	-473 076
Gross profit	45 539	25 714	46 618
Other income	3 781	2 714	2 367
Distribution expenses	-19 409	-13 246	-20 218
Administrative expenses	-11 846	-11 705	-12 450
Other gains/(losses) – net	2 466	156	-64
Other expenses	-1 463	-1 079	-1 137
EBIT	19 068	2 554	15 116
Financial income	0	423	1 452
Financial expenses	-16 662	-7 891	-6 309
Net financing costs	-16 662	-7 468	-4 857
Share of profits of associates	17	-1 398	38
Excess in the net fair value of acquired assets over cost	0	0	0
Profit before tax	2 423	-6 312	10 297
Income tax expense	333	3 022	-1 169
Profit/loss for the period from discontinued operations	0	-2 242	0
Profit for the period	2 756	-5 532	9 128
Depreciation and amortization	-11 438	-11 617	-11 698
EBITDA	30 506	14 171	26 814

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

ITEMS	Q1 2020	Q4 2019	Q1 2019
	<i>'000 PLN</i>		
Reported EBITDA	30 506	14 171	26 814
Non-recurring items including:	2 491	462	-3 538
- costs of sales	-689	-1 751	-5 212
- other income	1 241	2 601	2 298
- distribution expenses	118	11	76
- administrative expenses	0	0	0
- other gains/losses	289	1 080	115
- operational FX result	2 179	- 1 067	-179
- other impairments	-645	-412	-636
Adjusted EBITDA	28 015	13 709	30 352
Reported net result	2 756	- 5 532	9 128
Non-recurring items including:	-7 661	1 157	-2 005
- EBITDA adjustments	2 491	462	-3 538
- FX result on debt	-7 322	3 102	-81
- financial instruments result	-1 877	990	-548
- interest result & abolition tax	-497	-2 241	1 452
- share of associate result	17	-1 398	38
- pro-forma income tax adjustment	-473	242	672
Adjusted net result	10 417	-6 689	11 133

According to the above, the Q1 2020 adjusted EBITDA stood at PLN 28.0 million and the adjusted net profit was to the tune of PLN 10.4 million. They were very similar to the adjusted results of Q1 2019 where the Group had PLN 30.4 million of EBITDA and PLN 11.1 million of net profit.

2. Balance Sheet

During the last twelve months, the value of non-current assets increased by PLN 45.9 million due to the increase of the value of property, plant and equipment and perpetual usufruct of land to the tune of PLN 40.7 million. That was primarily the effect of the acquisition of property, plant and equipment (exclusive of IFRS 16) at the amount of PLN 82.6 million, in which PLN 4.5 million related to the acquisitions conducted in Q1 2020. That was partially offset by disposals to the tune of PLN 1.2 million, in which PLN 0.1 million were carried out in Q1 2020. 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 0.1 million was designated for this purpose in Q1 2020. A further increase came from the increase in the amount of long-term receivables by PLN 5.4 million. The counterbalancing effect had the following elements: (i) amortization and depreciation charges at the amount of PLN 46.0 million and (ii) utilization of a "tax shield" which resulted in the reduction of deferred assets by PLN 2.0 million.

Current assets decreased by PLN 47.7 million primarily due to the decrease of inventories by PLN 103.8 million. That was offset by the following: (i) an increase of receivables by 30.6 million and (ii) our cash balance by PLN 25.5 million. The decrease of inventories was primarily caused by the decrease of volume of finished and semi-finished products kept in stock and secondly due to the decrease of their cost, resulting primarily from lower scrap metal prices. The increase of receivables resulted from the intensified sales by the end of the discussed quarter, as well as from the lower amounts of receivables sold under the non-recourse factoring arrangements. At the end of Q1 2020, the net amount of receivables disposed accounted for PLN 113.8 million, while a year ago it was PLN 116.3 million.

As a result of the afore mentioned changes, our total assets saw a decrease of PLN 1.8 million and 0.2%.

ASSETS	Q1 2020	Q4 2019	Q1 2019
	<i>'000 PLN</i>		
A. TOTAL NON-CURRENT ASSETS	483 451	487 249	437 508
I. Intangible assets	22 150	22 296	18 661
II. Property, plant and equipment	369 871	375 581	331 741
III. Other receivables	5 708	4 293	350
IV. Investment property and other investments	1 272	1 255	2 805
V. Prepaid perpetual usufruct of land	36 769	36 618	34 222
VI. Deferred tax assets	47 681	47 206	49 729
B. TOTAL CURRENT ASSETS	582 480	564 482	630 228
I. Inventories	287 452	297 001	391 279
II. Receivables	242 701	188 525	212 147
1. Trade receivables	242 528	188 342	203 705
2. Current income tax receivable	28	38	8 430
3. Other investments	145	145	12
III. Cash and cash equivalents	52 327	78 956	26 802
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	1 065 931	1 051 731	1 067 736

Cognor's equity in Q1 2020 decreased by PLN 24.6 million primarily as a result of the following: (i) 2018 dividend and (ii) the exchangeable notes coupon payments at the total amount of PLN 38.3 million. That was counterbalanced by the positive net result of the last 12 months of PLN 13.4 million. Our net debt stood at 260.0 million – reduced by PLN 72.0 million as compared to Q1 2019.

EQUITY AND LIABILITIES	Q1 2020	Q4 2019	Q1 2019
	<i>'000 PLN</i>		
A. EQUITY	278 131	277 191	302 989
I. Issued share capital	185 911	185 911	182 041
II. Reserves and retained earnings	73 990	72 897	102 855
III. Minority interest	18 230	18 383	18 093
B. LIABILITIES	787 800	774 540	764 747
I. Non-current liabilities	278 870	279 916	295 488
1. <i>Employee benefits obligation</i>	<i>11 699</i>	<i>11 071</i>	<i>10 971</i>
2. <i>Interest-bearing loans and borrowings</i>	<i>247 530</i>	<i>249 669</i>	<i>265 961</i>
3. <i>Other</i>	<i>19 641</i>	<i>19 176</i>	<i>18 556</i>
II. Current liabilities	508 930	494 624	469 259
1. <i>Interest-bearing loans and borrowings</i>	<i>55 833</i>	<i>55 170</i>	<i>58 952</i>
2. <i>Bank overdraft</i>	<i>8 928</i>	<i>0</i>	<i>33 804</i>
3. <i>Trade and other payables</i>	<i>426 934</i>	<i>424 370</i>	<i>365 202</i>
4. <i>Deferred government grants</i>	<i>9 462</i>	<i>9 324</i>	<i>6 166</i>
5. <i>Liability under financial instruments</i>	<i>4 796</i>	<i>2 869</i>	<i>1 830</i>
6. <i>Employee benefits obligation</i>	<i>2 471</i>	<i>2 346</i>	<i>3 079</i>
7. <i>Current income tax payable</i>	<i>280</i>	<i>319</i>	<i>0</i>
8. <i>Provisions for payables</i>	<i>226</i>	<i>226</i>	<i>226</i>
TOTAL EQUITY AND LIABILITIES	1 065 931	1 051 731	1 067 736

3. Cash flow

The Group had a positive operating cash flow in Q1 2020 due to positive EBITDA 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 20.8 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 the following: (i) the repayment of indebtedness under loans and leasing arrangements at the amount of PLN 14.3 million, (ii) payment of interest charges and fees at the amount of PLN 5.0 million and (iii) payment of 2018 dividend and coupon under the exchangeable notes to the tune of PLN 36.4 million. This was partially offset by the receipt of grants at the amount of PN 0.3 million.

CASH FLOW	Q1 2020	Q4 2019	Q1 2019
	<i>'000 PLN</i>		
A. OPERATING ACTIVITIES	40 332	81 530	-48 856
B. INVESTING ACTIVITIES	-20 389	-13 949	-11 979
C. FINANCING ACTIVITIES	-55 500	-13 031	-22 626
NET INCREASE IN CASH	-35 557	54 550	-83 461

II. Main Metrics

Liquidity metrics stayed broadly the same and their levels are acceptable. Efficiency ratios remained good; inventory turnover improved, while receivable collection worsened. The EBITDA margin improved while net profit margin deteriorated. Equity was slightly down, while net indebtedness decreased very substantially due to the strong EBITDA of the last twelve months and the positive net result, as well as the related repayment of a significant portion of the Group's debt.

MAIN METRICS	Q1 2020	Q4 2019	Q1 2019
Liquidity ratio	1.14	1.14	1.34
Quick ratio	0.58	0.54	0.51
Inventories turnover (days)	62	63	74
Receivables turnover (days)	47	36	35
EBITDA margin	6.6%	5.3%	5.2%
Net profit margin	0.6%	1.0%	1.8%
Equity	278 131	277 191	302 989
Net debt	259 964	225 883	331 915
Net debt / LTM EBITDA	2.5	2.2	2.0

III. Earnings call

The conference call on our Q1 2020 results will be held in English language on Monday, May 4, 2020, at 16:00 CET (15:00 London). On that day, a presentation discussing the 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 the call start time and
- provide the operator with the conference ID: **8194028**.

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, April 30, 2020

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