August 17, 2020

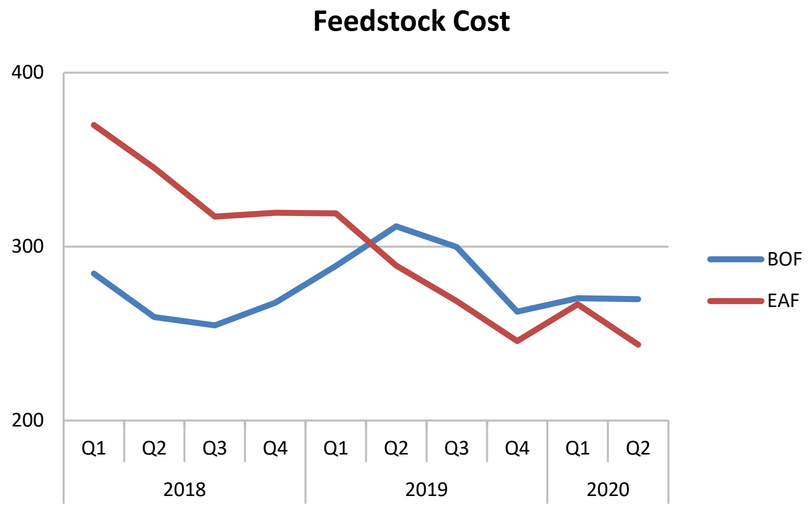
Q2 2020 - Management Discussion and Analysis

The second quarter of 2020 was a time of severe distress for the steel industry. The COVID-19 pandemics forced steelmakers to radically reduce their output. The European Union (EU28) production contracted by 27.5% as compared to Q2 2019 and at this backdrop Poland did noticeably better with 13.4% of the decrease. While all major steel producing regions saw double digit drops, the Chinese steel manufacturing actually increased by 1.7%. It is worth noting that neither in Q1, when the coronavirus crisis broke out in Wuhan, nor later in Q2 when it spread across the whole world, China reported negative steel dynamics. However, that did not prevent the overall world's output from falling by as much as 10,2% in the last quarter. We hope, that such catastrophic circumstances will urge the European Union policymakers to introduce appropriate measures to effectively protect local manufacturers. The announcement of works over implementation of the so-called UE carbon tax might potentially be a game changer, bringing real optimism as regards the future of the European steel industry.

The steel production dynamics of Cognor Holding S.A. (Cognor, the Company, the Group) was relatively fair, although negative at 7.7%. In the light of market disruption we had to adjust the scale of our output appropriately to the falling demand while trying to build additional liquidity through intensification of sales, even at the expense of margins. This resulted in a positive dynamics of our shipments which were actually higher by 1.4% year on year. 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 contraction by 11.7%.

Difficult market environment had its negative impact on our operational profitability. Our EBITDA declined to PLN 39.0 million, which was primarily the result of weakening conversion spreads. Our billet spread fell by PLN 91 per tonne and for our finished products it decreased by as much as PLN 258 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. The decreasing price environment as compared to the previous quarter, brought further pressure on our profitability and resulted in PLN 3.7 million of FIFO losses. A counterbalancing effect had 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 certain investment projects. Another positive contribution came from the governmental Covid-19 special purpose fund of which the amount of PLN 8.4 million was granted to support our operations in Q2 2020. Thanks to that help the Group was able to sustain the level of employment despite the much lower production output amid the unprecedented distress for the steel industry.

The feedstock cost position of the electric arc furnace (EAF) producers vis-à-vis the blast oxygen furnace (BOF) mills has remained positive, which is favorable for EAF manufacturers, allowing them to be more successful on the billet market. Our feedstock cost model indicated even a slight improvement to that regard as compared to both Q2 2019 and to the previous quarter. Since iron ore price continues to remain high, it is likely that Cognor is going to maintain its competitive advantage into Q3 2020, which should partially allow to offset the drop of demand for finished products, in particular from the automotive industry clients.



Similar to Q1 2020, the last quarter's results look little affected by COVID-19. In fact, we had to cope with numerous problems including the necessity to divert our activity from the automotive business towards the less profitable sales areas. Further, we had to introduce new and strengthen the existing security measures in order to protect our staff, while trying to keep our production facilities at maximal output possible. However, the weakness of demand and the disruptions in supplies of certain input materials caused by SARS-cov-2 forced us to temporarily cut down the level of production as well as limit working hours of our employees. Luckily, the coronavirus situation looks to be normalizing and the reintroduction of strict lockdown scenario seems less probable in the coming months. Bearing in mind how we have been able to manage through the crisis so far as well as anticipating the gradual coming back of the business that we know from the past, we currently don't consider creating of any special provisions in our books as necessary.

In summary, in Q2 2020 all the difficulties and challenges that emerged in Q1 2020 have intensified. Our flexibility and the diversification of products and customers as well as the contribution of special state aid, allowed us to limit damages and to achieve EBITDA of 39.0 million. We recorded a net profit of PLN 21.9 which was supported by the unrealized FX gains related to our indebtedness at the amount of PLN 2.2 million. While we had to significantly cut our production output, we succeeded in working capital management and have built a comfortable liquidity cushion.

I. Reported Statement

1. Income Statement

The Group's revenues decreased by PLN 60.4 million and 11.7% due to a decrease of prices as follows: (i) PLN 84 per tonne and 8.8% for scrap metal, (ii) PLN 201 per tonne and 9.6% for billets and (iii) PLN 371 per tonne and 14.0% for finished products. The negative contribution of prices was to a certain extent counterbalanced by higher shipments of: billets by 9.4 thousand tonnes and 18.9% which was partially offset by lower shipments of: (i) scrap metal by 5.4 thousand tonnes and 15.2% and (ii) finished products by 1.2 thousand tonnes and 0.9%.

Our conversion spreads for billets and finished products fell sharply by PLN 91 per tonne and 258 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 during the past few years.

The influence of the very price dynamics on our EBITDA was negative as Cognor has been selling its products amid the decreasing price environment in the last couple of quarters. In Q2 2020, we estimate the total loss related to inventories at PLN 3.7 million compared to a loss of PLN 9.4 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)*	**Q1 2020**	**Q2 2020**			**Q1 2019**	**Q2 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	1 026	26 685	995	-808	1 181	32 384	1 100	-2 633
FERR								
billets & products	918	63 471	872	-2 890	1 048	81 209	964	-6 804
TOTAL				**-3 698**				**-9 437**

Due to the damages suffered from the coronavirus we became entitled to apply for a special governmental aid intended to sustain the level of employment during the crisis and to compensate for revenue losses born in connection with the pandemics. For the period of Q2 2020 we received and accounted for an amount of PLN 8.4 million which has partially helped to offset the negative influence of SARS-cov-2.

In the results of the last quarter we also 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: (ii) 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 0.9 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 Cognor was not eligible to receive such compensations. Instead, the Group's results were supported by an amount of PLN 14.0 million resulting from a one-off state subsidy under the so called "electricity act" which then resulted in the appropriate reduction of our costs of goods sold. The costs of Q2 2019 were also reduced by an amount of PLN 5.2 million following the change of our accounting policy relating to major maintenance costs.

EBIT and EBITDA both decreased by PLN 4.4 million and PLN 4.0 million respectively. However, the EBITDA margin improved from 8.3% up to 8.5%. The FX development had positive effect on our operations with the average EUR/PLN exchange rate of 5.3% higher and the USD/PLN exchange rate of 7.5% stronger as compared to Q2 2019. The impact on our net financial costs was also positive - the net FX gains related to the Company's indebtedness accounted for PLN 2.2 million as the EUR/PLN exchange rate quoted 4.47 as of June 30, 2020 and 4.55 as of March 31, 2020.

AVERAGE EXCHANGE RATES	Q2 2020	Q2 2019
PLN		
EUR/PLN	4.51	4.28
% change	5.3%	
USD/PLN	4.10	3.81
% change	7.5%	

EXCHANGE RATES	30-Jun-2020	31-Mar-2020	30-Jun-2019
PLN			
EUR/PLN	4.47	4.55	4.25
% change (Jun 20 / Mar 20)	-1.8%		
USD/PLN	3.98	4.15	3.73
% change (Jun 20 / Mar 20)	-4.1%		

Our financial expenses stood at just PLN 4.1 million supported by the FX income to the tune of PLN 2.2 million which was partially amortized by PLN 0.3 million of costs related to the valuation of financial instruments. Financial expenses were significantly lower as compared to Q2 2019 when the Company had as much as PLN 9.5 million of financial costs, in which: (i) the FX gain related to indebtedness stood at PLN 1.3 million, (ii) the result under financial instruments was a loss of PLN 0.5 million and (iii) we had an extra cost of PLN 3.3 million under the WT abolition charge.

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

PRICES AND SPREADS	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019
(pln/ tonne)					
FERROSTAL					
SCRAP METAL - all purchases	891	934	849	932	982
BILLETS - sales to external customers	1 747	1 767	1 630	2 056	1 980
BILLET SPREAD	**856**	**833**	**781**	**1 124**	**998**
FINISHED PRODUCTS - sales to external customers	1 978	1 961	1 937	2 131	2 220
PRODUCT SPREAD	**1 087**	**1 027**	**1 088**	**1 199**	**1 238**
HSJ					
SCRAP METAL - all purchases	976	1 018	927	1 049	1 113
BILLETS - sales to external customers	2 191	2 019	1 985	2 069	2 302
BILLET SPREAD	**1 215**	**1 291**	**1 058**	**1 020**	**1 189**
FINISHED PRODUCTS - sales to external customers	2 917	2 893	2 938	3 280	3 352
PRODUCT SPREAD	**1 941**	**1 875**	**2 011**	**2 231**	**2 239**

INCOME STATEMENT	Q2 2020	Q1 2020	Q2 2019
'000 PLN			
Revenue	455 955	460 111	516 325
Cost of sales	-408 559	-414 572	-452 662
Gross profit	**47 396**	**45 539**	**63 663**
Other income	14 375	3 781	4 461
Distribution expenses	-20 722	-19 409	-19 604
Administrative expenses	-10 477	-11 846	-12 814
Other gains/(losses) – net	-1 204	2 466	-590
Other expenses	-2 226	-1 463	-3 566
EBIT	**27 142**	**19 068**	**31 550**
Financial income	0	0	793
Financial expenses	-4 112	-16 662	-9 462
Net financing costs	**-4 112**	**-16 662**	**-8 669**
Share of profits of associates	0	17	-102
Excess in the net fair value of acquired assets over cost	0	0	0
Profit before tax	**23 030**	**2 423**	**22 779**
Income tax expense	-1 156	333	-5 647
Profit/loss for the period from discontinued operations	0	0	0
Profit for the period	**21 874**	**2 756**	**17 132**
Depreciation and amortization	-11 823	-11 438	-11 393
EBITDA	**38 965**	**30 506**	**42 943**

The non-recurring items had a strongly positive effect on our EBITDA and 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	Q2 2020	Q1 2020	Q2 2019
'000 PLN			
Reported EBITDA	**38 965**	**30 506**	**42 943**
Non-recurring items including:	10 039	2 491	6 932
- costs of sales	*742*	*-689*	*5 212*
- other income	*11 715*	*1 241*	*4 426*
- distribution expenses	*-495*	*118*	*33*
- administrative expenses	*0*	*0*	*0*
- other gains/losses	*198*	*289*	*-35*
- operational FX result	*-1 392*	*2 179*	*-555*
- other impairments	*-729*	*-645*	*-2 149*
Adjusted EBITDA	**28 926**	**28 015**	**36 011**
Reported net result	**21 874**	**2 756**	**17 132**
Non-recurring items including:	9 541	-7 661	3 212
- EBITDA adjustments	*10 039*	*2 491*	*6 932*
- FX result on debt	*2 200*	*-7 322*	*1 331*
- financial instruments result	*-282*	*-1 877*	*-498*
- interest result & abolition tax	*-509*	*-497*	*-3 762*
- share of associate result	*0*	*17*	*-102*
- pro-forma income tax adjustment	*-1 907*	*-473*	*-689*
Adjusted net result	**12 333**	**10 417**	**13 920**

According to the above, the Q2 2020 adjusted EBITDA stood at PLN 28.9 million and the adjusted net profit was to the tune of PLN 12.3 million. Last year the Group had PLN 36.0 million of EBITDA and PLN 13.9 million of net profit.

2. Balance Sheet

During the last twelve months, the value of non-current assets increased by PLN 49.9 million. That was primarily the effect of the acquisition of property, plant and equipment at the amount of PLN 81.4 million, in which PLN 20.7 million related to the acquisitions conducted in Q2 2020. That was partially offset by disposals to the tune of PLN 0.8 million, in which PLN 0.7 million were carried out in Q2 2020. A further increase came from: (i) the increase in the amount of long-term receivables by PLN 6.0 million and (ii) the increase of deferred assets by PLN 2.9 million. The counterbalancing effect had amortization and depreciation charges at the amount of PLN 46.4 million.

Current assets decreased by PLN 92.8 million primarily due to the decrease of inventories by PLN 103.7 million and receivables by PLN 19.7 million. That was offset by an increase of our cash balance by PLN 30.6 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 decrease of receivables resulted primarily from the lower sales prices, as well as from the higher amount of receivables sold under the non-recourse factoring arrangements. At the end of Q2 2020, the net amount of receivables disposed accounted for PLN 125.9 million, while a year ago it was PLN 115.8 million.

As a result of the afore mentioned changes, our total assets saw a decrease of PLN 42.9 million and 4.1%.

ASSETS	Q2 2020	Q1 2020	Q2 2019
'000 PLN			
A. TOTAL NON-CURRENT ASSETS	**495 308**	**483 451**	**445 442**
I. Intangible assets	24 642	22 150	20 432
II. Property, plant and equipment	382 816	369 871	343 813
III. Other receivables	6 357	5 708	376
IV. Investment property and other investments	8 299	1 272	2 702
V. Prepaid perpetual usufruct of land	26 253	36 769	34 074
VI. Deferred tax assets	46 941	47 681	44 045
B. TOTAL CURRENT ASSETS	**498 999**	**582 480**	**591 805**
I. Inventories	239 935	287 452	343 654
II. Receivables	189 111	242 701	208 772
1. Trade receivables	*188 946*	*242 528*	*208 009*
2. Current income tax receivable	*38*	*28*	*661*
3. Other investments	*127*	*145*	*102*
III. Cash and cash equivalents	69 953	52 327	39 379
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	**994 307**	**1 065 931**	**1 037 247**

Cognor's equity in Q2 2020 decreased by PLN 20.1 million primarily as a result of the following: (i) 2018 dividend paid out in Q1 2020 and (ii) the exchangeable notes coupon payments at the combined amount of PLN 38.3 million. That was to some extent counterbalanced by the positive net result of the last 12 months of PLN 18.1 million. Our net debt stood at 226.0 million – a reduction by PLN 60.0 million as compared to Q2 2019.

EQUITY AND LIABILITIES	Q2 2020	Q1 2020	Q2 2019
'000 PLN			
A. EQUITY	**299 992**	**278 131**	**320 108**
I. Issued share capital	185 911	185 911	182 483
II. Reserves and retained earnings	94 900	73 990	118 545
III. Minority interest	19 181	18 230	19 080
B. LIABILITIES	**694 315**	**787 800**	**717 139**
I. Non-current liabilities	264 725	278 870	288 675
1. Employee benefits obligation	*11 796*	*11 699*	*11 178*
2. Interest-bearing loans and borrowings	*232 798*	*247 530*	*258 520*
3. Other	*20 131*	*19 641*	*18 977*
II. Current liabilities	429 590	508 930	428 464
1. Interest-bearing loans and borrowings	*55 981*	*55 833*	*60 755*
2. Bank overdraft	*7 178*	*8 928*	*6 082*
3. Trade and other payables	*348 770*	*426 934*	*348 336*
4. Deferred government grants	*10 360*	*9 462*	*7 804*
5. Liability under financial instruments	*5 028*	*4 796*	*3 578*
6. Employee benefits obligation	*2 107*	*2 471*	*1 683*
7. Current income tax payable	*141*	*280*	*0*
8. Provisions for payables	*25*	*226*	*226*
TOTAL EQUITY AND LIABILITIES	**994 307**	**1 065 931**	**1 037 247**

3. Cash flow

The Group had a positive operating cash flow in Q2 2020 due to positive EBITDA and the inflow of cash from working capital at the amount of PLN 18.0 million. Investment activities proved negative with CAPEX outflows amounting to PLN 17.1 million partially counterbalanced by the proceeds from the disposition of redundant properties, machinery and equipment to the tune of PLN 0.5 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 14.8 million and (ii) payment of interest charges and fees at the amount of PLN 4.5 million. This was partially offset by the receipt of grants at the amount of PN 1.7 million.

CASH FLOW	Q2 2020	Q1 2020	Q2 2019
'000 PLN			
A. OPERATING ACTIVITIES	53 947	40 332	80 904
B. INVESTING ACTIVITIES	-16 956	-20 389	-16 377
C. FINANCING ACTIVITIES	-17 612	-55 500	-24 228
NET INCREASE IN CASH	**19 376**	**-35 557**	**40 299**

II. Main Metrics

Liquidity metrics stayed broadly similar and their levels are acceptable. Inventory turnover and receivable collection both improved. The EBITDA and net profit margins improved. 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	Q2 2020	Q1 2020	Q2 2019
Liquidity ratio	1.16	1.14	1,38
Quick ratio	0.60	0.58	0,58
Inventories turnover (days)	53	62	68
Receivables turnover (days)	37	47	36
EBITDA margin	8.5%	6.6%	8,3%
Net profit margin	4.8%	0.6%	3,3%
Equity	299 992	278 131	320 108
Net debt	226 004	259 964	285 978
Net debt / LTM EBITDA	2.2	2.5	1,9

III. Earnings call

The conference call on our Q2 2020 results will be held in English language on Tuesday, August 18, 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: **3181867**.

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, August 17, 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