



Press release

October 30, 2020

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### **Q3 2020 - Management Discussion and Analysis**

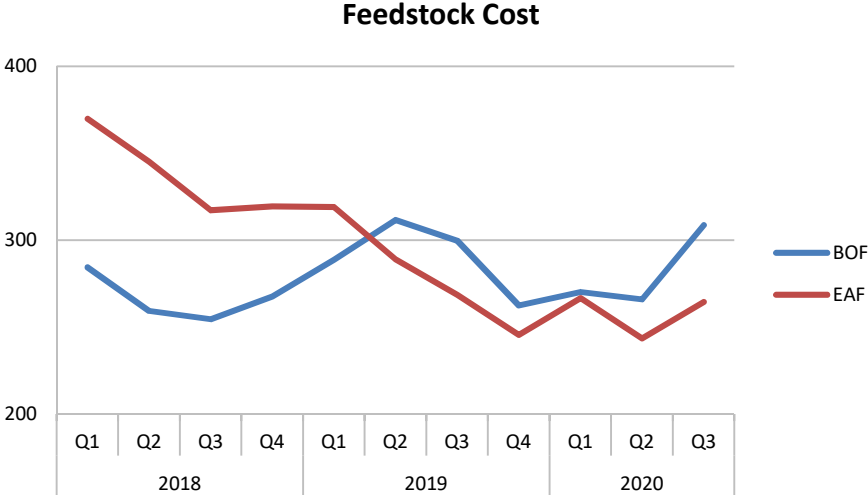
The third quarter of 2020 was a continuation of severe troubles for the steel industry with the exception of China where the production output grew by 10.3% as compared to Q3 2019. The country is heading to exceed one billion tonnes of crude steel this year, at the same time becoming a net importer. Everywhere else the situation has been looking completely different, especially for the mature economies. While China was able to combat the COVID-19 outbreak very quickly, other countries struggle to tame peaking numbers of the infected. The pandemic has forced steelmakers to radically reduce their output along with the diminishing demand. The European Union (EU28) production contracted by 16.2% as compared to Q3 2019. Poland did even worse with 18.9% of the decrease.

At this backdrop the production dynamics of Cognor Holding S.A. (Cognor, the Company, the Group) proved quite good with a growth of 7.1%. This was primarily associated with the longer availability of our melting facilities due to the shorter time used up for major maintenance works which usually occur in a third quarter. Last year the stoppage time at the melting shop in Stalowa Wola (HSJ) was prolonged due to certain CAPEX works that were taking place concurrently. Our shipments were also higher by 5.8% which did not allow us however to achieve a positive revenues dynamics because of the decreasing prices. Therefore, our sales value-wise dropped by 6.8% year on year.

Difficult market conditions put a lot of stress on our capability to generate profit. Nevertheless, our EBITDA increased to PLN 21.2 million irrespective of the weakening conversion spreads which fell by PLN 29 per tonne for billets and by as much as PLN 222 per tonne for our finished products. 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 some further pressure on our profitability and resulted in PLN 1.3 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 their lower consumption, owing to 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 3.4 million was granted to support our operations in Q3 2020.

Since 2019 we have changed our policy in terms of accounting for overhaul costs. Before 2019 major yearly maintenance costs, which are usually undertaken in a third quarter, were evenly charging the results of all quarters in a financial year through booking of special provisions. Currently, major yearly maintenance costs are being recognized on a one-off basis entirely in a quarter when actually incurred. This is why one can expect our profitability in any third quarter to be significantly weaker than in remaining quarters. In Q3 2020 we spent the amount of PLN 10.3 million in connection with these costs while a year ago it was PLN 18.0 million.

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 the EAF manufacturers, allowing them to be more successful on the billet market. Our feedstock cost model indicated even a further improvement to that regard as compared to both Q3 2019 and to the previous quarter. Since iron ore price remains high, it is likely that Cognor is going to maintain its competitive advantage into Q4 2020, which should partially allow to offset the drop of demand for finished products, in particular from the automotive industry clients.



While our results in 2020 have been comparable to the ones achieved in 2019 so far, and in Q3 2020 they actually proved even better, 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. Had the governmental COVID-19 support not been granted, our profitability would have suffered considerably.

After some stabilization in the third quarter the pandemic crisis is gaining strength again. In the light of growing number of people infected by SARS-cov-2, including our employees, we've decided to reintroduce the strictest control measures in order to protect our crew and make sure that we have enough staff available to keep our production facilities operating undisrupted. Unfortunately, the number of absences due to COVID-19 has been increasing lately and caused the rate of sick-leaves to surge by approximately 50% from its recurring levels.

In spite of the above we hope that the lockdown restrictions in Europe during the next couple of quarters will not repeat to the extent that were seen in March and April. So far, we have been able to deliver results that fit within the budgeted numbers and which are not much different to the ones of 2019. We have also remained in compliance with all the financial covenants contained in our credit documentation. Bearing that all in mind, we still don't consider entering of any COVID-19 related provisions in our books as necessary.

In summary, in Q3 2020 all the difficulties and challenges caused by the coronavirus crisis remained a key issue and a concern for us. Only our unique flexibility in terms of product and customer diversification as well as the contribution of special state aid, allowed us to achieve EBITDA of PLN 21.2 million. We recorded a net profit of PLN 1.5 million in spite of the negative influence from the hedge instruments as well as from the unrealized FX losses associated with our indebtedness to the tune of PLN 2.7 million in total.

## I. Reported Statement

### 1. Income Statement

The Group's revenues decreased by PLN 27.2 million and 6.8% due to a decrease of prices as follows: (i) PLN 25 per tonne and 2.8% for scrap metal, (ii) PLN 88 per tonne and 4.2% for billets and (iii) PLN 270 per tonne and 10.8% for finished products. The negative contribution of prices was partially offset by higher shipments of: (i) billets by 0.2 thousand tonnes and 0.8% and (ii) finished products by 7.0 thousand tonnes and 6.5% which was partially offset by lower shipments of scrap metal by 3.5 thousand tonnes and 9.6%.

Our conversion spreads for billets and finished products fell by PLN 29 per tonne and 222 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 over the course of the past few years.

The influence of the very price dynamics on our EBITDA was slightly negative as Cognor has been selling its products amid the decreasing price environment in the last couple of quarters. In Q3 2020, we estimate the total loss related to inventories at PLN 1.3 million compared to a loss of PLN 6.8 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> )	Q2 2020	Q3 2020			Q2 2019	Q3 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	995	24 996	980	-386	1 100	28 972	1 021	-2 297
FERR billets & products	872	43 722	851	-916	964	86 039	912	-4 499
<b>TOTAL</b>				<b>-1 302</b>				<b>-6 796</b>

Due to the damages suffered from 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 Q3 2020 we accounted an amount of PLN 3.4 million which has partially helped us 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 as a state aid dedicated for the largest carbon dioxide emitting companies and intended to partially amortize the increase of prices of CO2 emission rights. In Q4 2020 we will continue recognizing of that amount as we expect to be eligible to receive at least 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 for 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 for CO2 emission rights in 2020 at PLN 90 per tonne 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 kind of compensation. Instead, the Group's results were supported in Q3 2019 by an amount of PLN 7.9 million resulting from a one-off state subsidy under the so called "electricity act" which resulted in the appropriate reduction of our costs of goods sold.

EBIT and EBITDA both increased by PLN 3.7 million and PLN 4.3 million respectively. The EBITDA margin improved from 4.2% up to 5.7%. The FX development had a slight positive effect on our operations with the average EUR/PLN exchange rate of 2.8% higher while the USD/PLN exchange rate of 2.3% weaker as compared to Q3 2019. The impact on our net financial costs was negative - the net FX loss related to the Company's indebtedness accounted for PLN 1.3 million as the EUR/PLN exchange rate quoted 4.53 as of September 30, 2020 and 4.47 as of June 30, 2020.

AVERAGE EXCHANGE RATES		Q3 2020	Q3 2019
	PLN		
EUR/PLN		4.44	4.32
	% change	2.8%	
USD/PLN		3.80	3.89
	% change	-2.3%	

EXCHANGE RATES	30-Sep-2020	30-Jun-2020	30-Sep-2019
	PLN		
EUR/PLN	4.53	4.47	4.37
	% change (Sep 20 / Jun 20)	1.4%	
USD/PLN	3.87	3.98	4.00
	% change (Sep 20 / Jun 20)	-2.9%	

Our financial expenses stood at PLN 7.5 million in which the FX loss and the costs related to the valuation of financial instruments accounted for PLN 1.3 million and PLN 1.4 million respectively. Financial expenses were lower as compared to PLN 9.8 million in Q3 2019 when, on top of the usual debt service costs, the Company suffered: (i) the FX loss related to its indebtedness at the amount of PLN 3.4 million and (ii) the negative result under financial instruments at the amount of PLN 0.3 million.

Finished products spreads decreased for both Ferrostal and HSJ mills. For billets, only HSJ plant managed to improve the spread, albeit just slightly.

PRICES AND SPREADS	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019
<i>(pln/ tonne)</i>					
<b>FERROSTAL</b>					
SCRAP METAL - all purchases	898	891	934	849	932
BILLETS - sales to external customers	1 797	1 747	1 767	1 630	2 056
<b>BILLET SPREAD</b>	<b>899</b>	<b>856</b>	<b>833</b>	<b>781</b>	<b>1 124</b>
FINISHED PRODUCTS - sales to external customers	1 921	1 978	1 961	1 937	2 131
<b>PRODUCT SPREAD</b>	<b>1 023</b>	<b>1 087</b>	<b>1 027</b>	<b>1 088</b>	<b>1 199</b>
<b>HSJ</b>					
SCRAP METAL - all purchases	967	976	1 018	927	1 049
BILLETS - sales to external customers	2 044	2 191	2 019	1 985	2 069
<b>BILLET SPREAD</b>	<b>1 077</b>	<b>1 215</b>	<b>1 291</b>	<b>1 058</b>	<b>1 020</b>
FINISHED PRODUCTS - sales to external customers	2 849	2 917	2 893	2 938	3 280
<b>PRODUCT SPREAD</b>	<b>1 882</b>	<b>1 941</b>	<b>1 875</b>	<b>2 011</b>	<b>2 231</b>

INCOME STATEMENT		Q3 2020	Q2 2020	Q3 2019
	'000 PLN			
Revenue		372 293	455 955	399 511
Cost of sales		-348 656	-408 559	-364 456
<b>Gross profit</b>		<b>23 637</b>	<b>47 396</b>	<b>35 055</b>
Other income		16 598	14 375	3 518
Distribution expenses		-19 120	-20 722	-22 193
Administrative expenses		-10 955	-10 477	-11 171
Other gains/(losses) – net		344	-1 204	1 415
Other expenses		-1 476	-2 226	-1 252
<b>EBIT</b>		<b>9 028</b>	<b>27 142</b>	<b>5 372</b>
Financial income		0	0	-1 741
Financial expenses		-7 470	-4 112	-8 069
<b>Net financing costs</b>		<b>-7 470</b>	<b>-4 112</b>	<b>-9 810</b>
Share of profits of associates		43	0	7
Excess in the net fair value of acquired assets over cost		0	0	0
<b>Profit before tax</b>		<b>1 601</b>	<b>23 030</b>	<b>-4 431</b>
Income tax expense		-61	-1 156	3 475
Profit/loss for the period from discontinued operations		0	0	0
<b>Profit for the period</b>		<b>1 540</b>	<b>21 874</b>	<b>-956</b>
Depreciation and amortization		-12 211	-11 823	-11 528
<b>EBITDA</b>		<b>21 239</b>	<b>38 965</b>	<b>16 900</b>

The non-recurring items had a 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		Q3 2020	Q2 2020	Q3 2019
	'000 PLN			
<b>Reported EBITDA</b>		<b>21 239</b>	<b>38 965</b>	<b>16 902</b>
Non-recurring items including:		9 713	10 039	4 033
- costs of sales		1 591	742	0
- other income		7 466	11 715	3 420
- distribution expenses		1 124	-495	-9
- administrative expenses		0	0	0
- other gains/losses		101	198	394
- operational FX result		233	-1 392	1 021
- other impairments		-802	-729	-793
<b>Adjusted EBITDA</b>		<b>11 526</b>	<b>28 926</b>	<b>12 869</b>
<b>Reported net result</b>		<b>1 540</b>	<b>21 874</b>	<b>-956</b>
Non-recurring items including:		4 665	9 541	-924
- EBITDA adjustments		9 713	10 039	4 033
- FX result on debt		-1 294	2 200	-3 425
- financial instruments result		-1 407	-282	-282
- interest result & abolition tax		-545	-509	-491
- share of associate result		43	0	7
- pro-forma income tax adjustment		-1 845	-1 907	-766
<b>Adjusted net result</b>		<b>-3 125</b>	<b>12 333</b>	<b>-32</b>

According to the above, the Q3 2020 adjusted EBITDA stood at PLN 11.5 million and the adjusted net result was a loss to the tune of PLN 3.1 million. Last year the Group had PLN 12.9 million of adjusted EBITDA and PLN 0.0 million of net result.

## 2. Balance Sheet

During the last twelve months, the value of non-current assets increased by PLN 47.3 million. That was primarily the effect of the acquisition of property, plant and equipment at the amount of PLN 85.4 million, in which PLN 36.5 million related to the acquisitions conducted in Q3 2020. That was partially offset by disposals to the tune of PLN 0.8 million, in which PLN 0.2 million were carried out in Q3 2020. A further support came from the increase of: (i) long-term receivables by PLN 6.9 million, (ii) investment property and other investments by PLN 5.7 million and (iii) deferred assets by PLN 0.6 million. The counterbalancing effect had amortization and depreciation charges at the amount of PLN 47.1 million.

Current assets decreased by PLN 69.1 million primarily due to the decrease of inventories by PLN 93.4 million and receivables by PLN 15.3 million. That was partially 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 mainly from the weaker sales prices which was partially counterbalanced by the lower amount of receivables sold under the non-recourse factoring arrangements. At the end of Q3 2020, the net amount of receivables disposed accounted for PLN 75.4 million, while a year ago it was PLN 99.9 million.

As a result of the afore mentioned changes, our total assets saw a decrease of PLN 21.8 million and 2.2%.

ASSETS	Q3 2020	Q2 2020	Q3 2019
	<i>'000 PLN</i>		
<b>A. TOTAL NON-CURRENT ASSETS</b>	<b>492 502</b>	<b>495 308</b>	<b>445 177</b>
I. Intangible assets	17 637	24 642	20 533
II. Property, plant and equipment	386 665	382 816	342 465
III. Other receivables	6 981	6 357	122
IV. Investment property and other investments	8 336	8 299	2 587
V. Prepaid perpetual usufruct of land	26 140	26 253	33 362
VI. Deferred tax assets	46 743	46 941	46 108
<b>B. TOTAL CURRENT ASSETS</b>	<b>488 501</b>	<b>498 999</b>	<b>557 577</b>
I. Inventories	252 697	239 935	346 072
II. Receivables	166 552	189 111	181 889
1. Trade receivables	166 247	188 946	181 740
2. Current income tax receivable	183	38	11
3. Other investments	122	127	138
III. Cash and cash equivalents	69 252	69 953	29 616
IV. Prepayments	0	0	0
V. Assets classified as held for sale	0	0	0
VI. Assets of disposal groups	0	0	0
<b>TOTAL ASSETS</b>	<b>981 003</b>	<b>994 307</b>	<b>1 002 754</b>

Cognor's equity in Q3 2020 increased by PLN 16.9 million primarily as a result of the positive net result of the last 12 months at the amount of PLN 20.6 million. That was to some extent counterbalanced by the exchangeable notes coupon payments at the total amount of PLN 3.7 million. Our net debt stood at 218.3 million – a reduction by PLN 67.7 million as compared to Q3 2019.

<b>EQUITY AND LIABILITIES</b>	<b>Q3 2020</b>	<b>Q2 2020</b>	<b>Q3 2019</b>
<i>'000 PLN</i>			
<b>A. EQUITY</b>	<b>299 629</b>	<b>299 992</b>	<b>282 736</b>
I. Issued share capital	185 911	185 911	184 605
II. Reserves and retained earnings	94 774	94 900	79 324
III. Minority interest	18 944	19 181	18 807
<b>B. LIABILITIES</b>	<b>681 374</b>	<b>694 315</b>	<b>720 018</b>
I. Non-current liabilities	241 652	264 725	279 977
1. <i>Employee benefits obligation</i>	<i>12 655</i>	<i>11 796</i>	<i>11 613</i>
2. <i>Interest-bearing loans and borrowings</i>	<i>208 341</i>	<i>232 798</i>	<i>250 230</i>
3. <i>Other</i>	<i>20 656</i>	<i>20 131</i>	<i>18 134</i>
II. Current liabilities	439 722	429 590	440 041
1. <i>Interest-bearing loans and borrowings</i>	<i>69 722</i>	<i>55 981</i>	<i>59 823</i>
2. <i>Bank overdraft</i>	<i>9 459</i>	<i>7 178</i>	<i>5 210</i>
3. <i>Trade and other payables</i>	<i>347 141</i>	<i>348 770</i>	<i>361 100</i>
4. <i>Deferred government grants</i>	<i>4 833</i>	<i>10 360</i>	<i>7 979</i>
5. <i>Liability under financial instruments</i>	<i>6 436</i>	<i>5 028</i>	<i>3 859</i>
6. <i>Employee benefits obligation</i>	<i>2 106</i>	<i>2 107</i>	<i>1 844</i>
7. <i>Current income tax payable</i>	<i>0</i>	<i>141</i>	<i>0</i>
8. <i>Provisions for payables</i>	<i>25</i>	<i>25</i>	<i>226</i>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>981 003</b>	<b>994 307</b>	<b>1 002 754</b>

### 3. Cash flow

The Group had a positive operating cash flow in Q3 2020 due to positive EBITDA and the inflow of cash from working capital at the amount of PLN 6.0 million. Investment activities proved negative with CAPEX outflows amounting to PLN 10.2 million which was partially counterbalanced by the proceeds from the disposition of redundant properties, machinery and equipment to the tune of PLN 0.3 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 14.1 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 0.7 million.

<b>CASH FLOW</b>	<b>Q3 2020</b>	<b>Q2 2020</b>	<b>Q3 2019</b>
<i>'000 PLN</i>			
A. OPERATING ACTIVITIES	26 683	53 947	28 902
B. INVESTING ACTIVITIES	-9 928	-16 956	-13 848
C. FINANCING ACTIVITIES	-19 737	-17 612	-23 945
<b>NET INCREASE IN CASH</b>	<b>-2 982</b>	<b>19 376</b>	<b>-8 891</b>

## II. Main Metrics

Liquidity metrics stayed broadly similar and their levels are acceptable. Inventory turnover and receivable collection both improved and are good. The EBITDA and net profit margins improved. Equity was up, 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	Q3 2020	Q2 2020	Q3 2019
Liquidity ratio	1.11	1.16	1.27
Quick ratio	0.54	0.60	0.48
Inventories turnover (days)	65	53	85
Receivables turnover (days)	40	37	41
EBITDA margin	5.7%	8.5%	4.2%
Net profit margin	0.4%	4.8%	-0.2%
Equity	299 629	299 992	282 736
Net debt	218 270	226 004	285 647
Net debt / LTM EBITDA	2.1	2.2	2.6

## III. Earnings call

The conference call on our Q3 2020 results will be held in English language on Monday, November 02, 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](http://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: **8480607**.

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*

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*Krzysztof Zoła*

*Member of the Executive Board*

.....

*Dominik Barszcz*

*Member of the Executive Board*

*Poraj, October 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