



Press release

April 30, 2021

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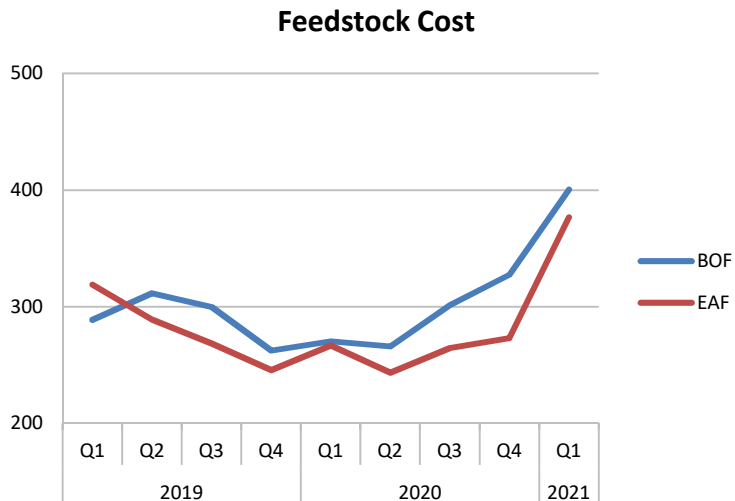
## **Q1 2021 - Management Discussion and Analysis**

The first quarter of 2021 saw a sharp increase in steel demand. Even in the European Union (EU27) crude steel production rose by 3.1% as compared to Q1 2020. This includes a positive contribution of Poland at just 1.4%, insignificant though. With the exception of North America all major steel producing regions saw their production outputs up with China setting the trend and adding its staggering 15.6% to the overall growth. Consequently, the world's crude steel production managed to reach 486.9 million tonnes which accounts for a 10.0% growth.

Contrary to the general tendency Cognor Holding S.A. (Cognor, the Company, the Group) produced less crude steel (billets) by 2.8%. This was because both of Cognor's melting shops have been running at full capacities already. Our combined shipments of scrap metal, billets and finished products were just under those of Q1 2020 with a decrease of 0.7%. At the same time, the prices for scrap metal, semi-finished products (billets) and finished products saw large increases, which resulted in our revenues growth by 26.9%.

In line with revenues, the Group's profitability improved greatly. Our EBITDA reached PLN 80.1 million amid the increasing price environment and good demand, which resulted in significant FIFO gains as well as the improvement of our conversion spreads. The latter rose by PLN 87 per tonne for billets and PLN 232 per tonne for finished products. The conversion spreads enhanced due to the faster pace of the increase of prices for billets and finished products compared with the scrap metal price increment. That was further supported by 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 has indicated a 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 may lose its competitive advantage at some point in time, which could result in a decline of sales of our billets.



Similar to many other businesses we have been faced with numerous problems resulting from COVID-19. Over the last quarter there has been an increase of infections by SARS-cov-2. Luckily, we did not observe any incremental pressure on our operations from the so called "third wave of pandemics". The situation has stayed broadly similar to previous quarters in which we 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. With the growing number of people vaccinated there appears a rapidly growing hope for a rebound in the economy of which the currently observed surge in steel prices is likely to be an early indicator.

In summary, the last quarter brought excellent results despite the ongoing pandemics and several challenges associated with it. Our flexibility as well as the diversification of products and customers has helped us to continue our operations at full production capacities so far while in Q1 2021 that allowed us to make the most of the rapidly improving market environment. We achieved all time high EBITDA of PLN 80.1 million and the best ever net result of PLN 45.9 million.

## I. Reported Statement

### 1. Income Statement

The Group's revenues increased by PLN 124.0 million and 26.9% due to increases of prices by the following: (i) PLN 408 per tonne and 42.5% for scrap metal, (ii) PLN 454 per tonne and 22.4% for billets and (iii) PLN 611 per tonne and 27.0% for finished products. The strongly positive contribution of prices was slightly counterbalanced by lower shipments of: (i) scrap metal by 2.4 thousand tonnes and 6.3% and (ii) finished products by 7.4 thousand tonnes and 5.4%. That was partially offset by an increase of billet shipments by 3.4 thousand tonnes and 9.4%.

Our conversion spreads for billets and finished products grew by PLN 87 per tonne and 232 per tonne, respectively. That was further supported 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 during the increasing price environment in the last couple of quarters. In Q1 2021, we estimate the total support related to inventories at PLN 26.5 million compared to PLN 8.8 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> )	Q4 2020		Q1 2021		Q4 2019	Q1 2020		
	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	1 052	24 660	1 370	7 831	939	27 259	1 026	2 373
FERR billets & products	933	41 547	1 383	18 677	822	66 876	918	6 421
<b>TOTAL</b>				<b>26 508</b>				<b>8 794</b>

In the results of Q1 2020 we accounted an amount of PLN 3.8 million, which we expect to receive in 2022 within the framework of the act adopted by the Polish Parliament in 2019 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 3.8 million in each of the following quarters of 2021 as we expect to be eligible for a total of PLN 15.2 million of compensation for the full financial year. The final amount may differ from PLN 15.2 million depending on: (i) the quotation of CO2 emission rights in the whole of 2021 and (ii) the degree of a pro-rata reduction applied should the total value of compensation demands exceed the limit of PLN 1.8 billion. In Q1 2020, the amount of PLN 2.5 million was accounted in respect of the said compensation scheme.

EBIT and EBITDA both increased by PLN 47.7 million and PLN 49.5 million respectively. The EBITDA margin improved from 6.6% up to 13.7%. The FX development had some positive effect on our operations with the average EUR/PLN exchange rate of 5.2% higher and the USD/PLN exchange rate of 3.7% weaker as compared to Q1 2020. The impact on our net financial costs was negative though - the net FX losses related to the Company's indebtedness accounted for PLN 1.4 million as the EUR/PLN exchange rate quoted 4.66 as of March 31, 2021 and 4.61 as of December 31, 2020.

AVERAGE EXCHANGE RATES		Q1 2021	Q1 2020
	PLN		
EUR/PLN		4.55	4.32
	% change	5.2%	
USD/PLN		3.77	3.92
	% change	-3.7%	

EXCHANGE RATES		31-Mar-2021	31-Dec-2020	31-Mar-2020
	PLN			
EUR/PLN		4.66	4.61	4.55
	% change (Mar 21 / Dec 2020)	1.0%		
USD/PLN		3.97	3.75	4.15
	% change (Mar 21 / Dec 2020)	5.6%		

Consequently, our operational profitability was supported by FX income to the tune of PLN 1.2 million.

The valuation of our financial instruments brought PLN 0.8 million of income. Our financial expenses stood at PLN 8.9 million and included PLN 1.4 million of FX losses related to our indebtedness. They were significantly lower as compared to Q1 2020 when the Company had as much as PLN 16.7 million of financial costs, in which the FX result related to indebtedness together with the result under financial instruments resulted in a loss of PLN 9.2 million.

Our combined billet and product spreads improved. For Ferrostal and HSJ mills they were as follows.

PRICES AND SPREADS	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020
<i>(pln/ tonne)</i>					
<b>FERROSTAL</b>					
SCRAP METAL - all purchases	1 269	922	898	891	934
BILLETS - sales to external customers	2 362	1 765	1 797	1 747	1 767
<b>BILLET SPREAD</b>	<b>1 093</b>	<b>843</b>	<b>899</b>	<b>856</b>	<b>833</b>
FINISHED PRODUCTS - sales to external customers	2 624	2 017	1 921	1 978	1 961
<b>PRODUCT SPREAD</b>	<b>1 355</b>	<b>1 095</b>	<b>1 023</b>	<b>1 087</b>	<b>1 027</b>
<b>HSJ</b>					
SCRAP METAL - all purchases	1 438	1 051	967	976	1 018
BILLETS - sales to external customers	2 640	2 105	2 044	2 191	2 309
<b>BILLET SPREAD</b>	<b>1 202</b>	<b>1 054</b>	<b>1 077</b>	<b>1 215</b>	<b>1 291</b>
FINISHED PRODUCTS - sales to external customers	3 214	2 781	2 849	2 917	2 893
<b>PRODUCT SPREAD</b>	<b>1 776</b>	<b>1 730</b>	<b>1 882</b>	<b>1 941</b>	<b>1 875</b>

INCOME STATEMENT	Q1 2021	Q4 2020	Q1 2020
	<i>'000 PLN</i>		
Revenue	584 076	444 862	460 111
Cost of sales	-487 108	-402 537	-414 572
<b>Gross profit</b>	<b>96 968</b>	<b>42 325</b>	<b>45 539</b>
Other income	6 173	6 439	3 781
Distribution expenses	-25 223	-22 502	-19 409
Administrative expenses	-14 365	-13 417	-11 846
Other gains/(losses) – net	4 194	-372	2 466
Other expenses	-975	-1 184	-1 463
<b>EBIT</b>	<b>66 772</b>	<b>11 289</b>	<b>19 068</b>
Financial income	827	0	0
Financial expenses	-8 931	-6 073	-16 662
<b>Net financing costs</b>	<b>-8 104</b>	<b>-6 073</b>	<b>-16 662</b>
Share of profits of associates	-53	0	17
Excess in the net fair value of acquired assets over cost	0	0	0
<b>Profit before tax</b>	<b>58 615</b>	<b>5 216</b>	<b>2 423</b>
Income tax expense	-12 758	2 160	333
Profit/loss for the period from discontinued operations	0	0	0
<b>Profit for the period</b>	<b>45 857</b>	<b>7 376</b>	<b>2 756</b>
Depreciation and amortization	-13 312	-12 236	-11 438
<b>EBITDA</b>	<b>80 084</b>	<b>23 525</b>	<b>30 506</b>

The non-recurring items had a positive effect on our EBITDA and a negligible 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 2021	Q4 2020	Q1 2020
	<i>'000 PLN</i>		
<b>Reported EBITDA</b>	<b>80 084</b>	<b>21 412</b>	<b>30 506</b>
Non-recurring items including:	4 641	351	2 491
- costs of sales	131	-63	-689
- other income	494	1 296	1 241
- distribution expenses	63	-33	118
- administrative expenses	0	0	0
- other gains/losses	3 038	-4	289
- operational FX result	1 156	- 368	2 179
- other impairments	-241	-477	-645
<b>Adjusted EBITDA</b>	<b>75 443</b>	<b>21 141</b>	<b>28 015</b>
<b>Reported net result</b>	<b>45 857</b>	<b>2 852</b>	<b>2 756</b>
Non-recurring items including:	851	493	-7 661
- EBITDA adjustments	4 641	351	2 491
- FX result on debt	-1 444	-1 656	-7 322
- financial instruments result	827	2 424	-1 877
- interest result & abolition tax	-2 238	-559	-497
- share of associate result	-53	0	17
- pro-forma income tax adjustment	-882	-67	-473
<b>Adjusted net result</b>	<b>45 006</b>	<b>2 359</b>	<b>10 417</b>

According to the above, the Q1 2021 adjusted EBITDA stood at PLN 75.4 million and the adjusted net profit was to the tune of PLN 45.0 million. They were much higher compared to the adjusted results of Q1 2020 where the Group had PLN 28.0 million of EBITDA and PLN 10.4 million of net profit.

## 2. Balance Sheet

During the last twelve months, the value of non-current assets increased by PLN 25.4 million due to the increase of the value of property, plant and equipment and perpetual usufruct of land to the tune of PLN 22.9 million. That was primarily the effect of the acquisition of property, plant and equipment (exclusive of IFRS 16) at the amount of PLN 70.9 million, in which PLN 13.9 million related to the acquisitions conducted in Q1 2021. That was partially offset by disposals to the tune of PLN 1.6 million, in which PLN 1.3 million were carried out in Q1 2021. The counterbalancing effect had the following elements: (i) amortization and depreciation charges at the amount of PLN 49.6 million and (ii) utilization of a "tax shield" which resulted in the reduction of deferred assets by PLN 4.2 million.

Current assets increased by PLN 104.4 million primarily due to an increase of: (i) cash balance by PLN 76.8 million and (ii) inventories by PLN 43.8 million. That was partially offset by a decrease of receivables by 16.1 million. The increase of inventories was primarily caused by the increase of cost of scrap metal, semi-finished and finished products kept in stock. The decrease of receivables resulted from the higher amounts of receivables sold under the non-recourse factoring arrangements. At the end of Q1 2021, the net amount of receivables disposed accounted for PLN 139.8 million, while a year ago it was PLN 113.8 million.

As a result of the afore mentioned changes, our total assets saw an increase of PLN 129.8 million and 12.2%.

ASSETS	Q1 2021	Q4 2020	Q1 2020
	<i>'000 PLN</i>		
<b>A. TOTAL NON-CURRENT ASSETS</b>	<b>508 846</b>	<b>514 518</b>	<b>483 451</b>
I. Intangible assets	18 096	18 100	22 150
II. Property, plant and equipment	398 563	397 398	369 871
III. Other receivables	9 405	8 938	5 708
IV. Investment property and other investments	8 271	8 331	1 272
V. Prepaid perpetual usufruct of land	31 010	32 371	36 769
VI. Deferred tax assets	43 501	49 380	47 681
<b>B. TOTAL CURRENT ASSETS</b>	<b>686 890</b>	<b>516 681</b>	<b>582 480</b>
I. Inventories	331 236	274 101	287 452
II. Receivables	226 562	142 025	242 701
1. Trade receivables	226 403	141 678	242 528
2. Current income tax receivable	38	226	28
3. Other investments	121	121	145
III. Cash and cash equivalents	129 092	100 555	52 327
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>1 195 736</b>	<b>1 031 199</b>	<b>1 065 931</b>

Cognor's equity of Q1 2021 increased by PLN 76.5 million primarily as a result of the positive net result of the last 12 months at PLN 76.6 million. Our net debt stood at 126.2 million – reduced by PLN 133.7 million as compared to Q1 2020.

<b>EQUITY AND LIABILITIES</b>	<b>Q1 2021</b>	<b>Q4 2020</b>	<b>Q1 2020</b>
	<i>'000 PLN</i>		
<b>A. EQUITY</b>	<b>354 661</b>	<b>307 014</b>	<b>278 131</b>
I. Issued share capital	254 431	185 911	185 911
II. Reserves and retained earnings	78 156	101 849	73 990
III. Minority interest	22 074	19 254	18 230
<b>B. LIABILITIES</b>	<b>841 075</b>	<b>724 185</b>	<b>787 800</b>
I. Non-current liabilities	223 965	244 437	278 870
1. <i>Employee benefits obligation</i>	<i>12 580</i>	<i>13 011</i>	<i>11 699</i>
2. <i>Interest-bearing loans and borrowings</i>	<i>198 430</i>	<i>207 658</i>	<i>247 530</i>
3. <i>Other</i>	<i>12 955</i>	<i>23 768</i>	<i>19 641</i>
II. Current liabilities	617 110	479 748	508 930
1. <i>Interest-bearing loans and borrowings</i>	<i>56 885</i>	<i>56 882</i>	<i>55 833</i>
2. <i>Bank overdraft</i>	<i>0</i>	<i>0</i>	<i>8 928</i>
3. <i>Trade and other payables</i>	<i>544 001</i>	<i>411 846</i>	<i>426 934</i>
4. <i>Deferred government grants</i>	<i>5 056</i>	<i>4 941</i>	<i>9 462</i>
5. <i>Liability under financial instruments</i>	<i>3 183</i>	<i>4 011</i>	<i>4 796</i>
6. <i>Employee benefits obligation</i>	<i>1 330</i>	<i>1 583</i>	<i>2 471</i>
7. <i>Current income tax payable</i>	<i>6 630</i>	<i>460</i>	<i>280</i>
8. <i>Provisions for payables</i>	<i>25</i>	<i>25</i>	<i>226</i>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>1 195 736</b>	<b>1 031 199</b>	<b>1 065 931</b>

### 3. Cash flow

The Group had a positive operating cash flow in Q1 2021 due to positive EBITDA which was partially offset by the outflow of cash from working capital at the amount of PLN 18.4 million. Investment activities proved negative with CAPEX outflows amounting to PLN 13.8 million, partially counterbalanced by the proceeds from the disposition of redundant properties, machinery and equipment to the tune of PLN 5.6 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 13.7 million and (ii) payment of interest charges and fees at the amount of PLN 5.9 million. This was partially offset by the proceeds from share issue at the amount of PLN 2.9 million.

<b>CASH FLOW</b>	<b>Q1 2021</b>	<b>Q4 2020</b>	<b>Q1 2020</b>
	<i>'000 PLN</i>		
A. OPERATING ACTIVITIES	53 245	83 548	40 332
B. INVESTING ACTIVITIES	-7 994	-12 323	-20 389
C. FINANCING ACTIVITIES	-16 714	-40 463	-55 500
<b>NET INCREASE IN CASH</b>	<b>28 537</b>	<b>40 762</b>	<b>-35 557</b>

## II. Main Metrics

Liquidity metrics stayed broadly the same and their levels are acceptable. Efficiency ratios remained good; inventory turnover and receivable collection improved further. The EBITDA and net profit margins showed much higher levels. Equity went significantly 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	Q1 2021	Q4 2020	Q1 2020
Liquidity ratio	1.11	1.14	1.14
Quick ratio	0.58	0.54	0.58
Inventories turnover (days)	61	63	62
Receivables turnover (days)	35	36	47
EBITDA margin	13.7%	5.3%	6.6%
Net profit margin	7.9%	1.0%	0.6%
Equity	354 661	277 191	278 131
Net debt	126 223	225 883	259 964
Net debt / LTM EBITDA	0.8	2.2	2.5

## III. Earnings call

The conference call on our Q1 2021 results will be held on Wednesday, May 5, 2021, at 16:00 CET (15:00 LND, 10:00 NY, 07:00 LA) in English and Polish languages. On that day, a presentation discussing the operational and financial details will 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 use the following MS Teams link:

[https://teams.microsoft.com/l/meetup-join/19%3ameeting\\_YmY0Mjg2NWYtMmFkNi00MjNhLTg5YWUtODIyZjY1YmM3NGFj%40tHread.v2/0?context=%7b%22Tid%22%3a%223a21715a-f704-47ef-8af4-00d851929cbb%22%2c%22Oid%22%3a%2206c42cc8-f9e0-41ef-8b1a-b9927ff77804%22%7d](https://teams.microsoft.com/l/meetup-join/19%3ameeting_YmY0Mjg2NWYtMmFkNi00MjNhLTg5YWUtODIyZjY1YmM3NGFj%40tHread.v2/0?context=%7b%22Tid%22%3a%223a21715a-f704-47ef-8af4-00d851929cbb%22%2c%22Oid%22%3a%2206c42cc8-f9e0-41ef-8b1a-b9927ff77804%22%7d)

.....  
*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, 2021*