



Q2 2021 - Management Discussion and Analysis

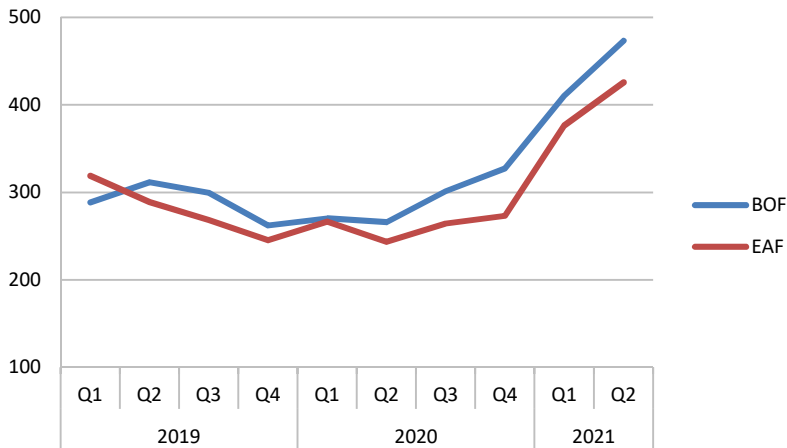
The second quarter of 2021 was a time of further surge in steel demand. The European Union (EU27) saw unprecedented rise in crude steel production - by as much as 33.4% in comparison to Q2 2020. This includes a positive contribution of Poland at 12.7%. All major steel producing regions saw their production outputs sharply up. This time China failed to lead the trend with their relatively modest growth of 10.5%. Consequently, the world's crude steel production managed to reach 517.0 million tonnes which accounts for an increase of 20.2%.

Cognor Holding S.A. (Cognor, the Company, the Group) blended in the general trend and increased the output of crude steel (billets) by 9.5%. Our combined shipments of scrap metal, billets and finished products exceeded those of Q2 2020 by 4.3%. In addition, the prices for scrap metal, semi-finished products (billets) and finished products saw large increases and helped to grow our revenues by as much as 57.1%.

In line with revenues, the Group's profitability improved greatly. Our EBITDA reached PLN 114.1 million primarily due to the improvement of our conversion spreads with some support coming from the FIFO gains as well as. The spreads rose by PLN 361 per tonne for billets and PLN 444 per tonne for finished products at the back of 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 primarily due to their lower consumption, following the recent finalization of certain 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. Our feedstock model has continued to indicate the relatively stable and positive cost difference, from our point of view. However, should the price of scrap metal relative to the price of main input materials used by BOF manufacturers increase, Cognor might lose its competitive advantage at some point in time, which could lead to a decline of profitability and revenues from our billet segment.

Feedstock Cost



Similar to many other businesses we have been faced with numerous problems resulting from COVID-19. Although, the level of infections and deaths has been decreasing considerably along with the increasing share of vaccinated population, there exist a fear of new virus mutations. This requires us to remain alerted and to keep an adequate level of scrutiny and maintain most of the preventive measures. We hope to be able to keep our business operations uninterrupted while reducing the risk of virus infections amongst our personnel.

In summary, the last quarter brought excellent results, even higher than the record breaking ones of Q1 2021. We strived to make the most from the booming steel market and achieved all time high EBITDA of PLN 114.1 million and the best ever net result of PLN 78.8 million.

I. Reported Statement

1. Income Statement

The Group's revenues increased by PLN 260.2 million and 57.1% due to increases of prices by the following: (i) PLN 609 per tonne and 70.1% for scrap metal, (ii) PLN 964 per tonne and 50.8% for billets and (iii) PLN 1,049 per tonne and 46.4% for finished products. The strongly positive contribution of prices was supported by higher shipments of: (i) scrap metal by 11.7 thousand tonnes and 38.3% and (ii) finished products by 16.8 thousand tonnes and 13.5%. That was partially offset by a decrease of billet shipments by 19.3 thousand tonnes and 32.6%.

Our conversion spreads for billets and finished products grew by PLN 361 per tonne and 444 per tonne, respectively. That was further supported by lower costs of certain 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 positive as Cognor has been selling its products during the increasing price environment in the last couple of quarters. In Q2 2021, we estimate the total support related to inventories at PLN 9.8 million compared to a loss of PLN 3.7 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>)	Q1 2021		Q2 2021		Q1 2020		Q2 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	1 370	16 723	1 655	4 772	1 026	26 685	995	-808
FERR billets & products	1 383	45 991	1 492	5 002	918	63 471	872	-2 890
TOTAL				9 774				-3 698

In the results of Q2 2021 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 Q2 2020, the amount of PLN 2.5 million was accounted in respect of the said compensation scheme.

EBIT and EBITDA both increased by PLN 73.9 million (almost threefold) and PLN 75.2 million (almost twofold) respectively. The EBITDA margin improved from 8.5% up to 15.9%. The FX development had negative effect on our operations with the average EUR/PLN exchange rate of 0.6% higher while the USD/PLN exchange rate of 8.1% weaker as compared to Q2 2020. The impact on our net financial costs was positive though - the net FX gain related to the Company's indebtedness accounted for PLN 3.3 million as the EUR/PLN exchange rate quoted 4.52 as of Jun 30, 2021 and 4.66 as of March 31, 2021.

AVERAGE EXCHANGE RATES		Q2 2021	Q2 2020
	PLN		
EUR/PLN		4.53	4.51
	% change	0.6%	
USD/PLN		3.76	4.10
	% change	-8.1%	

EXCHANGE RATES		30-Jun-2021	31-Mar-2021	30-Jun-2020
	PLN			
EUR/PLN		4.52	4.66	4.47
	% change (Jun 21 / Mar 21)	-3.0%		
USD/PLN		3.80	3.97	3.98
	% change (Jun 21 / Mar 21)	-4.1%		

Consequently, our operational profitability was weakened by FX loss to the tune of PLN 2.3 million.

The valuation of our financial instruments brought PLN 0.7 million of income. Our financial expenses in total stood at PLN 4.9 million and they were comparable to Q2 2020 when the Company had PLN 4.1 million of financial costs in which the valuation of financial instruments brought PLN 0.3 million of losses.

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

PRICES AND SPREADS	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020
<i>(pln/ tonne)</i>					
FERROSTAL					
SCRAP METAL - all purchases	1 431	1 269	922	898	891
BILLETS - sales to external customers	2 656	2 362	1 765	1 797	1 747
BILLET SPREAD	1 224	1 093	843	899	856
FINISHED PRODUCTS - sales to external customers	2 073	2 624	2 017	1 921	1 978
PRODUCT SPREAD	1 641	1 355	1 095	1 023	1 087
HSJ					
SCRAP METAL - all purchases	1 623	1 438	1 051	967	976
BILLETS - sales to external customers	3 084	2 640	2 105	2 044	2 191
BILLET SPREAD	1 461	1 202	1 054	1 077	1 215
FINISHED PRODUCTS - sales to external customers	3 734	3 214	2 781	2 849	2 917
PRODUCT SPREAD	2 111	1 776	1 730	1 882	1 941

INCOME STATEMENT	Q2 2021	Q1 2021	Q2 2020
	<i>'000 PLN</i>		
Revenue	716 127	584 076	455 955
Cost of sales	-576 216	-487 108	-408 559
Gross profit	139 911	96 968	47 396
Other income	5 928	6 173	14 375
Distribution expenses	-26 628	-25 223	-20 722
Administrative expenses	-15 238	-14 365	-10 477
Other gains/(losses) – net	-2 106	4 194	-1 204
Other expenses	-819	-975	-2 226
EBIT	101 048	66 772	27 142
Financial income	2 529	827	0
Financial expenses	-4 939	-8 931	-4 112
Net financing costs	-2 410	-8 104	-4 112
Share of profits of associates	-172	-53	0
Excess in the net fair value of acquired assets over cost	0	0	0
Profit before tax	98 466	58 615	23 030
Income tax expense	-19 629	-12 758	-1 156
Profit/loss for the period from discontinued operations	0	0	0
Profit for the period	78 837	45 857	21 874
Depreciation and amortization	-13 043	-13 312	-11 823
EBITDA	114 091	80 084	38 965

The non-recurring items had a negative effect on our EBITDA and positive 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 2021	Q1 2021	Q1 2020
	<i>'000 PLN</i>		
Reported EBITDA	114 091	80 084	38 965
Non-recurring items including:	-2 128	4 641	8 623
- costs of sales	9	131	742
- other income	179	494	10 299
- distribution expenses	-7	63	-495
- administrative expenses	0	0	0
- other gains/losses	226	3 038	198
- operational FX result	-2 332	1 156	-1 392
- other impairments	-203	-241	-729
Adjusted EBITDA	116 219	75 443	30 342
Reported net result	78 837	45 857	21 874
Non-recurring items including:	1 334	851	8 394
- EBITDA adjustments	-2 128	4 641	8 623
- FX result on debt	3 310	-1 444	2 200
- financial instruments result	663	827	-282
- interest result & abolition tax	-831	-2 238	-509
- share of associate result	-172	-53	0
- pro-forma income tax adjustment	492	-882	-1 638
Adjusted net result	77 503	45 006	13 480

According to the above, the Q2 2021 adjusted EBITDA stood at PLN 116.2 million and the adjusted net profit was to the tune of PLN 77.5 million. They were much higher compared to the adjusted results of Q2 2020 where the Group had PLN 30.3 million of EBITDA and PLN 13.5 million of net profit.

2. Balance Sheet

During the last twelve months, the value of non-current assets increased by PLN 4.8 million due to the increase of the value of property, plant and equipment and perpetual usufruct of land to the tune of PLN 29.8 million. That was primarily the effect of the acquisition of property, plant and equipment (exclusive of IFRS 16) at the amount of PLN 72.0 million, in which PLN 21.9 million related to the acquisitions conducted in Q2 2021. That was partially offset by disposals to the tune of PLN 1.7 million, in which PLN 0.1 million were carried out in Q2 2021. The counterbalancing effect had the following elements: (i) amortization and depreciation charges at the amount of PLN 50.8 million and (ii) utilization of a "tax shield" which resulted in the reduction of deferred assets by PLN 12.5 million.

Current assets increased by PLN 175.2 million primarily due to an increase of: (i) inventories by PLN 103.8 million, (ii) receivables by PLN 56.4 million and (iii) cash balance by PLN 8.0 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 sales prices and volumes which was partially offset by an increase in the value receivables sold under the non-recourse factoring arrangements. At the end of Q2 2021, the net amount of receivables disposed accounted for PLN 149.3 million, while a year ago it was PLN 125.9 million.

As a result of the afore mentioned changes, our total assets saw an increase of PLN 180.0 million and 18.1%.

ASSETS	Q2 2021	Q1 2021	Q2 2020
	<i>'000 PLN</i>		
A. TOTAL NON-CURRENT ASSETS	500 115	508 846	495 308
I. Intangible assets	15 917	18 096	24 642
II. Property, plant and equipment	407 966	398 563	382 816
III. Other receivables	10 083	9 405	6 357
IV. Investment property and other investments	1 089	8 271	8 299
V. Prepaid perpetual usufruct of land	30 574	31 010	26 253
VI. Deferred tax assets	34 486	43 501	46 941
B. TOTAL CURRENT ASSETS	674 215	686 890	498 999
I. Inventories	343 692	331 236	239 935
II. Receivables	245 556	226 562	189 111
1. Trade receivables	245 397	226 403	188 946
2. Current income tax receivable	38	38	38
3. Other investments	121	121	127
III. Cash and cash equivalents	77 962	129 092	69 953
IV. Prepayments	0	0	0
V. Assets classified as held for sale	7 005	0	0
VI. Assets of disposal groups	0	0	0
TOTAL ASSETS	1 174 330	1 195 736	994 307

Cognor's equity of Q2 2021 increased by PLN 107.0 million primarily as a result of the positive net result of the last 12 months at PLN 133.6 million. The counterbalancing effect had a decision of the ordinary shareholders meeting adopting a dividend at PLN 25.7 million. Our net debt stood at 176.7 million – reduced by PLN 49.3 million as compared to Q2 2020.

EQUITY AND LIABILITIES	Q2 2021	Q1 2021	Q2 2020
<i>'000 PLN</i>			
A. EQUITY	406 990	354 661	299 992
I. Issued share capital	257 131	254 431	185 911
II. Reserves and retained earnings	123 404	78 156	94 900
III. Minority interest	26 455	22 074	19 181
B. LIABILITIES	767 340	841 075	694 315
I. Non-current liabilities	196 344	223 965	264 725
1. <i>Employee benefits obligation</i>	<i>11 963</i>	<i>12 580</i>	<i>11 796</i>
2. <i>Interest-bearing loans and borrowings</i>	<i>181 348</i>	<i>198 430</i>	<i>232 798</i>
3. <i>Other</i>	<i>3 033</i>	<i>12 955</i>	<i>20 131</i>
II. Current liabilities	569 449	617 110	429 590
1. <i>Interest-bearing loans and borrowings</i>	<i>65 102</i>	<i>56 885</i>	<i>55 981</i>
2. <i>Bank overdraft</i>	<i>8 227</i>	<i>0</i>	<i>7 178</i>
3. <i>Trade and other payables</i>	<i>480 451</i>	<i>544 001</i>	<i>348 770</i>
4. <i>Deferred government grants</i>	<i>6 173</i>	<i>5 056</i>	<i>10 360</i>
5. <i>Liability under financial instruments</i>	<i>2 521</i>	<i>3 183</i>	<i>5 028</i>
6. <i>Employee benefits obligation</i>	<i>1 352</i>	<i>1 330</i>	<i>2 107</i>
7. <i>Current income tax payable</i>	<i>5 598</i>	<i>6 630</i>	<i>141</i>
8. <i>Provisions for payables</i>	<i>25</i>	<i>25</i>	<i>25</i>
III. Liabilities of disposal items	1 547	0	0
TOTAL EQUITY AND LIABILITIES	1 174 330	1 195 736	994 307

3. Cash flow

The Group had a negative operating cash flow in Q2 2021 primarily due to the outflow of cash from working capital at the amount of PLN 129.8 million. Investment activities proved negative with CAPEX outflows amounting to PLN 19.5 million, 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 16.2 million and (ii) payment of interest charges and fees at the amount of PLN 2.4 million.

CASH FLOW	Q2 2021	Q1 2021	Q2 2020
<i>'000 PLN</i>			
A. OPERATING ACTIVITIES	-24 064	53 245	53 947
B. INVESTING ACTIVITIES	-18 244	-7 994	-16 959
C. FINANCING ACTIVITIES	-17 049	-16 714	-17 612
NET INCREASE IN CASH	-59 357	28 537	19 376

II. Main Metrics

Liquidity metrics stayed broadly the same and their levels are acceptable. Efficiency ratios remained good; inventory turnover worsened by 1 day while receivable collection improved by 6 days. The EBITDA and net profit margins showed much higher levels and they are very good. 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	Q2 2021	Q1 2021	Q2 2020
Liquidity ratio	1.18	1.11	1.16
Quick ratio	0.58	0.58	0.60
Inventories turnover (days)	54	61	53
Receivables turnover (days)	31	35	37
EBITDA margin	15.9%	13.7%	8.5%
Net profit margin	11.0%	7.9%	4.8%
Equity	406 990	354 661	299 992
Net debt	176 715	126 223	226 004
Net debt / LTM EBITDA	0.7	0.8	2.2

III. Communication with Media and Investors

Our Q2 2021 results will be presented next Monday, **on August 16, 2021**. On that day, a presentation discussing the operational and financial details will be made available on the Company's website at: www.cognor.eu.

1.

The **press conference** will be organized at Westin Hotel in Warsaw **at 9:30 CET**, in Polish language.

The **conference for investors** will follow at the same venue **at 11:00 CET**, also in Polish language.

To take part in either of the two meetings the participants are kindly asked to contact:

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Przemysław Małoszyc: pmałoszyc@cognor.eu, mob,: +48 508 032 813

2.

The **videoconference for investors** will be held at **16:00 CET** (15:00 LND, 10:00 NY, 07:00 LA) in English language. Participants who wish to join the videoconference are kindly asked to use either of the two MS Teams links:

https://teams.microsoft.com/l/meetup-join/19%3ameeting_MzJiNzVjYmQtZTljYi00Yzc0LWJiMTMtOGU0NGFmMzc2ODdj%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

[Kliknij tutaj, aby dołączyć do spotkania](#)

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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, August 13, 2021