



Press release

October 29, 2021

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### **Q3 2021 - Management Discussion and Analysis**

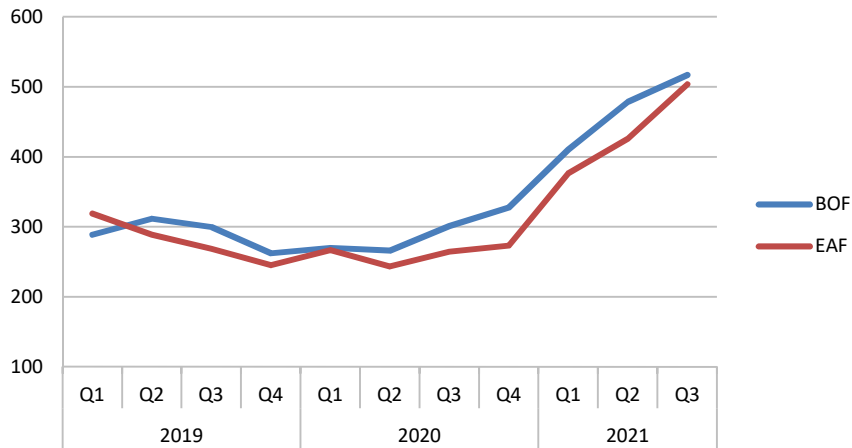
The third quarter of 2021 marked a favorable time for steelmakers in Europe. The European Union (EU27) saw its crude steel production rising by 13.1% in comparison to Q3 2020. This includes a positive contribution of Poland at 17.1%. Most of major steel producing regions increased their production with the exception of China, where the dynamics proved negative at 14.1%. As this country accounts for more than a half of the global output, the world's crude steel production fell down to 457.3 million tonnes, which means a decrease of 3.7%.

Cognor Holding S.A. (Cognor, the Company, the Group) managed to increase its crude steel (billets) output by 15.6%. Our combined shipments of scrap metal, billets and finished products exceeded those of Q3 2020 by 4.5%. In addition, the prices for scrap metal, semi-finished products (billets) and finished products saw unprecedented increases resulting in growth of our revenues by as much as 92.6%.

In line with revenues, the Group's profitability improved outstandingly. Our EBITDA reached the record breaking PLN 161.5 million primarily due to the improvement of our conversion spreads coupled with a sizeable contribution from non-recurring items and FIFO effect, jointly to the tune of PLN 29.5 million. Our conversion spreads rose by the staggering PLN 816 per tonne for billets and PLN 1,003 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.

Due to the fact that the data for Q3 2021 are not yet available, we had to make our own assumption in respect of coking coal prices during that period. While this represents no change to the hitherto methodology of calculating the feedstock cost position of the electric arc furnace (EAF) producers vis-à-vis the blast oxygen furnace (BOF) mills, it needs to be noted that since the spot price volatility observed in Q3 2021 has been exceptionally high, our coking coal cost assessment might have proved less accurate compared with the actual data to come. Nevertheless, we assume that the positive for the EAF mills cost difference could have started leveling up and might potentially reverse to the negative side soon. If that happens, Cognor may lose its competitive advantage at the feedstock cost level, 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 has decreased considerably along with the increasing share of vaccinated population, there exist a fear of new virus mutations and of the arrival of the so-called "fourth wave" by the yearend. We shall remain alerted, keep on with the adequate level of scrutiny and maintain all necessary preventive measures to make sure that our business operations are run undisrupted.

In summary, the last quarter brought superb results and outperformed Q2 2021 which had been the best ever, so far. In light of the prosperous business environment we decided to postpone the earlier planned downtime necessary to finalize a couple of major investment projects. It allowed us to make the most from the booming steel market and hence we achieved the all-time high EBITDA of PLN 161.5 million and the highest ever net result of PLN 113.5 million.

## I. Reported Statement

### 1. Income Statement

The Group's revenues increased by PLN 344.6 million and 92.6% due to increases of prices by the following: (i) PLN 853 per tonne and 98.2% for scrap metal, (ii) PLN 1,673 per tonne and 84.6% for billets and (iii) PLN 1,894 per tonne and 85.2% for finished products. The strongly positive contribution of prices was supported by the higher shipments of: (i) scrap metal by 4.1 thousand tonnes and 12.3% and (ii) billets by 8.6 thousand tonnes and 35.3%. That was partially offset by a decrease of finished products shipments by 5.0 thousand tonnes and 4.4%.

Our conversion spreads for billets and finished products grew by PLN 816 per tonne and 1,003 per tonne, respectively.

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 Q3 2021, we estimate the total support related to inventories at PLN 13.8 million compared to a loss of PLN 1.3 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 2021		Q3 2021		Q2 2020		Q3 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	1 652	18 925	1 897	4 634	995	24 996	980	-386
FERR billets & products	1 492	41 137	1 714	9 155	872	43 722	851	-916
<b>TOTAL</b>				<b>13 788</b>				<b>-1 302</b>

In the results of Q3 2021 we accounted an amount of PLN 10.5 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 energy intensive companies, including Cognor, could benefit from compensations aimed to partially amortize the increase of prices of CO2 emission rights. In H1 2021 we already recognized an amount of PLN 7.6 million and will further recognize an amount of PLN 6.0 million in Q4 2021 as we expect to be eligible to receive at least an amount of PLN 24.1 million for the full financial year. The actual amount to be granted may differ from PLN 24.1 million depending on: (i) the quotation of CO2 emission rights during the whole of 2021 and (ii) the degree of a pro-rata reduction applied should the total value of compensation demands from all entitled companies exceed the country's limit of PLN 1.8 billion. In Q3 2020, we accounted an amount of PLN 3.0 million in respect of the said compensation scheme and PLN 12.0 million over the whole of 2020. For the year 2020 the discussed subsidy has just recently been communicated to Cognor at the amount of PLN 24.1 million. Therefore, in Q3 2021 we accounted the amount of PLN 12.1 million, it being the difference between the finally granted subsidy and the previously provisioned estimate. This incremental amount has been qualified as a non-recurring item in the following calculation of adjusted EBITDA and adjusted net result.

EBIT and EBITDA increased several times, by PLN 139.9 million and PLN 140.3 million respectively. The EBITDA margin improved from 5.7% up to 22.5%. The FX development had some positive effect on our operations with the average EUR/PLN exchange rate of 2.8% and the USD/PLN exchange rate of 1.9% higher as compared to Q3 2020. The impact on our net financial costs was negligible - the net FX loss related to the Company's indebtedness accounted for PLN 0.2 million as the EUR/PLN exchange rate quoted 4.63 as of Sep 30, 2021 and 4.52 as of Jun 30, 2021.

AVERAGE EXCHANGE RATES		Q3 2021	Q3 2020
	PLN		
EUR/PLN		4.57	4.44
	% change	2.8%	
USD/PLN		3.87	3.80
	% change	1.9%	

EXCHANGE RATES	30-Sep-2021	30-Jun-2021	30-Sep-2020
PLN			
EUR/PLN	4.63	4.52	4.53
	% change (Sep 21 / Jun 21)	2.5%	
USD/PLN	3.99	3.80	3.87
	% change (Sep 21 / Jun 21)	5.0%	

Consequently, our operational profitability was weakened by a FX loss to the tune of PLN 0.2 million. On the other hand, the valuation of our financial instruments brought PLN 2.3 million of income. Our financial expenses stood at PLN 13.2 million while in Q3 2020 the Company had PLN 7.5 million of financial costs in which the valuation of financial instruments brought PLN 1.4 million of losses. The increase of financial costs in Q3 2021 was primarily due to additional bank fees born in relation to the premature repayment of a loan.

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

PRICES AND SPREADS	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020
<i>(pln/ tonne)</i>					
<b>FERROSTAL</b>					
SCRAP METAL - all purchases	1 743	1 431	1 269	922	898
BILLETS - sales to external customers	3 595	2 656	2 362	1 765	1 797
<b>BILLET SPREAD</b>	<b>1 853</b>	<b>1 224</b>	<b>1 093</b>	<b>843</b>	<b>899</b>
FINISHED PRODUCTS - sales to external customers	3 880	2 073	2 624	2 017	1 921
<b>PRODUCT SPREAD</b>	<b>2 137</b>	<b>1 641</b>	<b>1 355</b>	<b>1 095</b>	<b>1 023</b>
<b>HSJ</b>					
SCRAP METAL - all purchases	1 912	1 623	1 438	1 051	967
BILLETS - sales to external customers	3 742	3 084	2 640	2 105	2 044
<b>BILLET SPREAD</b>	<b>1 830</b>	<b>1 461</b>	<b>1 202</b>	<b>1 054</b>	<b>1 077</b>
FINISHED PRODUCTS - sales to external customers	4 479	3 734	3 214	2 781	2 849
<b>PRODUCT SPREAD</b>	<b>2 567</b>	<b>2 111</b>	<b>1 776</b>	<b>1 730</b>	<b>1 882</b>

INCOME STATEMENT	Q3 2021	Q2 2021	Q3 2020
	<i>'000 PLN</i>		
Revenue	716 900	716 127	372 293
Cost of sales	-556 036	-576 216	-348 656
<b>Gross profit</b>	<b>160 864</b>	<b>139 911</b>	<b>23 637</b>
Other income	25 070	5 928	16 598
Distribution expenses	-22 673	-26 628	-19 120
Administrative expenses	-17 157	-15 238	-10 955
Other gains/(losses) – net	3 823	-2 106	344
Other expenses	-1 005	-819	-1 476
<b>EBIT</b>	<b>148 922</b>	<b>101 048</b>	<b>9 028</b>
Financial income	3 467	2 529	0
Financial expenses	-13 171	-4 939	-7 470
<b>Net financing costs</b>	<b>-9 704</b>	<b>-2 410</b>	<b>-7 470</b>
Share of profits of associates	117	-172	43
Excess in the net fair value of acquired assets over cost	0	0	0
<b>Profit before tax</b>	<b>139 335</b>	<b>98 466</b>	<b>1 601</b>
Income tax expense	-25 855	-19 629	-61
Profit/loss for the period from discontinued operations	0	0	0
<b>Profit for the period</b>	<b>113 480</b>	<b>78 837</b>	<b>1 540</b>
Depreciation and amortization	-12 624	-13 043	-12 211
<b>EBITDA</b>	<b>161 546</b>	<b>114 091</b>	<b>21 239</b>

The non-recurring items had a positive effect on our EBITDA as well as 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 2021	Q2 2021	Q3 2020
	<i>'000 PLN</i>		
<b>Reported EBITDA</b>	<b>161 546</b>	<b>114 091</b>	<b>21 239</b>
Non-recurring items including:	15 723	-2 128	8 135
- costs of sales	-2	9	1 591
- other income	12 509	179	5 888
- distribution expenses	-13	-7	1 124
- administrative expenses	0	0	0
- other gains/losses	3 337	226	101
- operational FX result	486	-2 332	233
- other impairments	-594	-203	-802
<b>Adjusted EBITDA</b>	<b>145 823</b>	<b>116 219</b>	<b>13 104</b>
<b>Reported net result</b>	<b>113 496</b>	<b>78 837</b>	<b>1 540</b>
Non-recurring items including:	12 783	1 334	3 386
- EBITDA adjustments	15 723	-2 128	8 135
- FX result on debt	-180	3 310	-1 294
- financial instruments result	2 337	663	-1 407
- interest result & abolition tax	-2 227	-831	-545
- share of associate result	117	-172	43
- pro-forma income tax adjustment	-2 987	492	-1 546
<b>Adjusted net result</b>	<b>100 713</b>	<b>77 503</b>	<b>- 1 846</b>

According to the above, the Q3 2021 adjusted EBITDA stood at PLN 145.8 million and the adjusted net profit was to the tune of PLN 100.7 million. They were much higher compared to the adjusted results of Q3 2020 where the Group had just PLN 13.1 million of EBITDA and PLN 1.8 million of a net loss.

## 2. Balance Sheet

During the last twelve months, the value of non-current assets increased by PLN 38.3 million due to the increase of the value of property, plant and equipment and perpetual usufruct of land to the tune of PLN 60.2 million. That was primarily the effect of the acquisition of property, plant and equipment (exclusive of IFRS 16) at the amount of PLN 103.1 million, in which PLN 46.7 million related to the acquisitions conducted in Q3 2021. That was partially offset by disposals to the tune of PLN 1.5 million, in which PLN 0.0 million were carried out in Q3 2021. The counterbalancing effect had the following elements: (i) amortization and depreciation charges at the amount of PLN 51.2 million and (ii) utilization of a "tax shield" which resulted in the reduction of deferred tax assets by PLN 18.0 million.

Current assets increased by PLN 338.9 million primarily due to an increase of: (i) inventories by PLN 163.0 million, (ii) receivables by PLN 140.4 million and (iii) cash balance by PLN 28.6 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 increase of receivables resulted from the higher sales prices and sales volumes. It was to a certain extent offset by an increase in the value of receivables sold under the non-recourse factoring arrangements. At the end of Q3 2021, the net amount of receivables disposed accounted for PLN 165.4 million, while a year ago it was just PLN 75.4 million.

As a result of the afore mentioned changes, our total assets saw an increase of PLN 377.2 million and 38.4%.

ASSETS	Q3 2021	Q2 2021	Q3 2020
	<i>'000 PLN</i>		
<b>A. TOTAL NON-CURRENT ASSETS</b>	<b>530 752</b>	<b>500 115</b>	<b>492 502</b>
I. Intangible assets	15 550	15 917	17 637
II. Property, plant and equipment	442 581	407 966	386 665
III. Other receivables	12 409	10 083	6 981
IV. Investment property and other investments	1 036	1 089	8 336
V. Prepaid perpetual usufruct of land	30 414	30 574	26 140
VI. Deferred tax assets	28 762	34 486	46 743
<b>B. TOTAL CURRENT ASSETS</b>	<b>827 435</b>	<b>674 215</b>	<b>488 501</b>
I. Inventories	415 694	343 692	252 697
II. Receivables	306 915	245 556	166 552
1. Trade receivables	306 773	245 397	166 247
2. Current income tax receivable	38	38	183
3. Other investments	104	121	122
III. Cash and cash equivalents	97 826	77 962	69 252
IV. Prepayments	0	0	0
V. Assets classified as held for sale	7 000	7 005	0
VI. Assets of disposal groups	0	0	0
<b>TOTAL ASSETS</b>	<b>1 358 187</b>	<b>1 174 330</b>	<b>981 003</b>

Cognor's equity of Q3 2021 increased by PLN 219.7 million primarily as a result of the positive net result of the last 12 months at PLN 245.6 million. The counterbalancing effect had a decision of the ordinary shareholders meeting adopting a dividend at the amount of PLN 25.7 million. Our net debt stood at PLN 206.0 million – reduced by PLN 12.3 million as compared to Q3 2020.

<b>EQUITY AND LIABILITIES</b>	<b>Q3 2021</b>	<b>Q2 2021</b>	<b>Q3 2020</b>
<i>'000 PLN</i>			
<b>A. EQUITY</b>	<b>519 302</b>	<b>406 990</b>	<b>299 629</b>
I. Issued share capital	257 131	257 131	185 911
II. Reserves and retained earnings	229 188	123 404	94 774
III. Minority interest	32 983	26 455	18 944
<b>B. LIABILITIES</b>	<b>838 885</b>	<b>767 340</b>	<b>681 374</b>
I. Non-current liabilities	254 408	196 344	241 652
1. <i>Employee benefits obligation</i>	<i>12 189</i>	<i>11 963</i>	<i>12 655</i>
2. <i>Interest-bearing loans and borrowings</i>	<i>238 979</i>	<i>181 348</i>	<i>208 341</i>
3. <i>Other</i>	<i>3 240</i>	<i>3 033</i>	<i>20 656</i>
II. Current liabilities	582 951	569 449	439 722
1. <i>Interest-bearing loans and borrowings</i>	<i>64 863</i>	<i>65 102</i>	<i>69 722</i>
2. <i>Bank overdraft</i>	<i>0</i>	<i>8 227</i>	<i>9 459</i>
3. <i>Trade and other payables</i>	<i>507 368</i>	<i>480 451</i>	<i>347 141</i>
4. <i>Deferred government grants</i>	<i>3 897</i>	<i>6 173</i>	<i>4 833</i>
5. <i>Liability under financial instruments</i>	<i>184</i>	<i>2 521</i>	<i>6 436</i>
6. <i>Employee benefits obligation</i>	<i>1 295</i>	<i>1 352</i>	<i>2 106</i>
7. <i>Current income tax payable</i>	<i>5 319</i>	<i>5 598</i>	<i>0</i>
8. <i>Provisions for payables</i>	<i>25</i>	<i>25</i>	<i>25</i>
III. Liabilities of disposal items	1 526	1 547	0
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>1 358 187</b>	<b>1 174 330</b>	<b>981 003</b>

### 3. Cash flow

The Group had a positive operating cash flow in Q3 2021 primarily due to the strongly positive EBITDA which was partially counterbalanced by an outflow of cash to working capital at the amount of PLN 108.5 million. Investment activities proved negative with CAPEX outflows amounting to PLN 29.5 million, just slightly offset by the proceeds from the disposition of redundant properties, machinery and equipment to the tune of PLN 0.4 million. Financing activities generated cash because of the incurrence of new debt under the notes offered on the local market at the amount of PLN 200.0 million. This was partially offset by: (i) repayment of principal under bank loans and leasing arrangements at the amount of PLN 145.3 million and (ii) payment of interest charges, fees and other items at the total amount of PLN 19.9 million.

<b>CASH FLOW</b>	<b>Q3 2021</b>	<b>Q2 2021</b>	<b>Q3 2020</b>
<i>'000 PLN</i>			
A. OPERATING ACTIVITIES	22 050	-24 064	26 683
B. INVESTING ACTIVITIES	-28 722	-18 244	-9 928
C. FINANCING ACTIVITIES	34 763	-17 049	-19 737
<b>NET INCREASE IN CASH</b>	<b>28 091</b>	<b>-59 357</b>	<b>-2 982</b>

## II. Main Metrics

Liquidity metrics improved and their levels are good. Efficiency ratios remained good as well; inventory turnover worsened by 2 days while receivable collection improved by 1 day. The EBITDA and net profit margins showed much higher levels and they could be described as excellent. Equity went significantly up while net indebtedness decreased somewhat due to the strong EBITDA and the positive net result of the last twelve months, as well as the related repayment of a portion of the Group's debt.

MAIN METRICS	Q3 2021	Q2 2021	Q3 2020
Liquidity ratio	1.42	1.18	1.11
Quick ratio	0.70	0.58	0.54
Inventories turnover (days)	67	54	65
Receivables turnover (days)	39	31	40
EBITDA margin	22.5%	15.9%	5.7%
Net profit margin	15.8%	11.0%	0.4%
Equity	519 302	406 990	299 629
Net debt	206 016	176 715	218 270
Net debt / LTM EBITDA	0.5	0.7	2.1

### III. Communication with Media and Investors

Our Q3 2021 results will be presented next Tuesday, **on November 2, 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](http://www.cognor.eu).

1.

The **press conference** will be organized at the Westin Hotel, #21 Jana Pawła II, Warsaw, Poland **at 10:00 CET**, in Polish language. The **conference for investors** will follow at the same venue **at 12:00 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: [pmaloszyc@cognor.eu](mailto:pmaloszyc@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 the following MS Teams link:

<https://teams.microsoft.com/l/meetup-join/19%3ameetingM2ZINDZmNDUtMDJiMy00NGE5LTg4OGUtMjE1MWM0MjQwY2U1%40t%20hread.v2/0?context=%7b%22id%22%3a%223a21715a-f704-47ef-8af4-00d851929cbb%22%2c%22oid%22%3a%2206c42cc8-f9e0-41ef-8b1a-b9927ff77804%22%7d>

To take part you can connect through your Internet browser or download the app at:

<https://play.google.com/store/apps/details?id=com.microsoft.teams&hl=pl>

or at Apple App Store:

<https://apps.apple.com/app/id1113153706?cmpid=downloadiOSGetApp&lm=deeplink&msrc=downloadPage>

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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, October 29, 2021*