



August 19, 2022

---

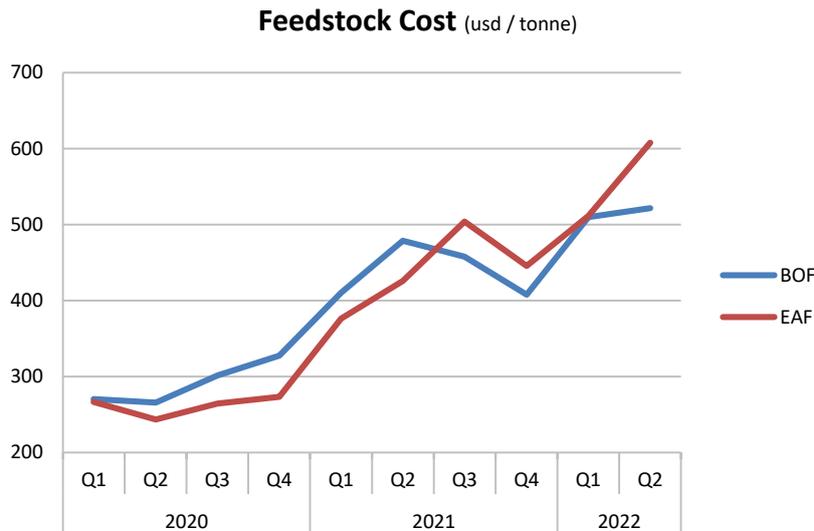
## **Q2 2022 - Management Discussion and Analysis**

In the second quarter of 2022 the demand for steel weakened across all major markets. In the European Union (EU27) crude steel production fell rather sharply by 6.5% as compared to Q2 2021. This includes a similar deterioration of Poland's output which was down by 5.1%. All major steel producing regions saw their production down including China with their drop by 2.6%. Consequently, the world's crude steel production contracted to 492.8 million tonnes which accounts for a decline of 4.1%.

At this backdrop, the crude steel (billets) output of Cognor Holding S.A. (Cognor, the Company, the Group) fell fairly moderately by 3.0%. However, our combined shipments of scrap metal, billets and finished products fell much below those of Q2 2021, namely by 13.1%. In spite of that, our revenues grew by as much as 46.9% at the back of the strong price increases of scrap metal, semi-finished products (billets) and finished products.

In line with revenues, the Group's profitability improved outstandingly. Our EBITDA reached PLN 234.9 million amid the increasing price environment, which resulted in significant FIFO gains of PLN 27.5 million as well as the improvement of our conversion spreads. The latter rose by PLN 1,413 per tonne for billets and PLN 1,531 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. To a certain extent, that was counterbalanced by the rise of certain production costs due to the increase of the underlying material and energy prices.

The feedstock cost position of the electric arc furnace (EAF) producers vis-à-vis the blast oxygen furnace (BOF) mills was negative and deteriorated further according to our feedstock cost model. This was due to the faster decrease of scrap metal price as compared to the price movements of the mix of main input materials used by BOF manufacturers. Worse competitive position of Cognor as an EAF producer did not impact the level of our billet sales though thanks to the already wide and further improving conversion spreads. Should the spreads normalize, the currently less favorable feedstock cost profile of Cognor compared to the BOF producers may result in a decline of our billet sales in the future as this is the market area where both production methods compete with each other.



Covid-19 pandemics that broke out in 2020 has not posed a real threat to continuation of our daily operations so far. In our view the invasion of Russia on Ukraine brings unfortunately a much higher risk potential. At the beginning, the severe sanctions imposed on the aggressor country by the democratic community added some extra space to our conversion spreads as the imports of steel into the EU from the East saw further obstacles. Now they've returned pretty much to the pre-war levels yet the energy crisis resulting from the Russian retaliatory measures, in particular manifesting itself with shortages of natural gas supplies to several European Union countries, has put a question mark on whether the energy intensive industries, including steelmaking, are going to get access to enough hydrocarbons during the coming winter season. In any case, we do hope that the warfare ends and the Ukrainian people no longer suffer from that barbarian attack.

In summary, the last quarter set a new record for our sales and profitability. Superb result prints occurred at the backdrop of utterly unstable circumstances in politics and the economy. We managed to achieve the all times high EBITDA of PLN 234.9 million and the best ever net result of PLN 189.8 million.

## I. Reported Statement

### 1. Income Statement

The Group's revenues increased by PLN 329.6 million and 46.9% due to increases of prices by the following: (i) PLN 800 per tonne and 54.1% for scrap metal, (ii) PLN 2,238 per tonne and 78.2% for billets and (iii) PLN 2,376 per tonne and 71.8% for finished products. The strongly positive contribution of prices was slightly supported by the higher shipments of billets by 4.5 thousand tonnes and 11.3% while the counterbalancing effect came from (i) scrap metal shipments which fell by 0.3 thousand tonnes and 0.8% and (ii) finished products which contracted by as much as 33.5 thousand tonnes and 23.6%. The shipment decrease of the latter was caused primarily by the weakening demand for basic grade steel products observed by the end of Q2 2022.

Our combined conversion spreads for billets and finished products grew by PLN 1,413 per tonne and 1,531 per tonne, respectively. That was partially counterbalanced by higher prices for certain production components and energy.

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 during the last couple of quarters. In Q2 2022, we estimate the total support related to inventories at PLN 27.5 million compared to PLN 9.7 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 2022		Q2 2022		Q1 2021	Q2 2021		
	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	2 318	19 714	2 355	722	1 370	16 723	1 652	4 716
FERR billets & products	1 857	58 749	2 331	26 774	1 383	45 991	1 492	5 002
<b>TOTAL</b>				<b>26 071</b>				<b>9 718</b>

In the results of Q2 2022 we accounted an amount of PLN 6.0 million, which we expect to receive in 2023 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 6.0 million in each of the following quarters of 2022 as we expect to be eligible for a total of PLN 24.1 million of compensation for the full financial year. The final amount may differ depending on: (i) the quotation of CO2 emission rights 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 2021, the amount of PLN 3.8 million was accounted in respect of the said compensation scheme.

EBIT and EBITDA both increased by PLN 122.9 million and PLN 120.1 million respectively. The EBITDA margin improved from 16.2% up to 22.8%. The FX development had some positive effect on our operations with the average EUR/PLN exchange rate 2.5% higher and the USD/PLN exchange rate as much as 15.8% stronger as compared to Q2 2021. The impact on our net financial costs was slightly negative - the net FX loss related to the Company's indebtedness denominated in EUR accounted for PLN 0.6 million while the EUR/PLN exchange rate quoted 4.68 as of June 30, 2022 and 4.65 as of March 31, 2022.

AVERAGE EXCHANGE RATES		Q2 2022	Q2 2021
	PLN		
EUR/PLN		4.65	4.53
	% change	2.5%	
USD/PLN		4.36	3.76
	% change	15.8%	

EXCHANGE RATES		30-Jun-2022	31-Mar-2022	30-Jun-2021
	PLN			
EUR/PLN		4.68	4.65	4.52
	% change (Jun 22 / Mar 22)	0.6%		
USD/PLN		4.48	4.18	3.80
	% change (Jun 22 / Mar 22)	7.2%		

The supportive currency trends resulted also in our operational FX result to be a gain of PLN 0.9 million.

The valuation of our financial instruments brought PLN 25.1 million of income. Our financial expenses stood at PLN 12.0 million and were higher compared to the amount of PLN 4.9 million in Q2 2021.

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

PRICES AND SPREADS	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021
<i>(pln/ tonne)</i>					
<b>FERROSTAL</b>					
SCRAP METAL - all purchases	2 366	1 883	1 608	1 743	1 431
BILLETS - sales to external customers	5 157	4 325	3 800	3 595	2 656
<b>BILLET SPREAD</b>	<b>2 792</b>	<b>2 442</b>	<b>2 192</b>	<b>1 853</b>	<b>1 224</b>
FINISHED PRODUCTS - sales to external customers	4 884	4 037	3 685	3 880	2 073
<b>PRODUCT SPREAD</b>	<b>2 518</b>	<b>2 153</b>	<b>2 077</b>	<b>2 137</b>	<b>1 641</b>
<b>HSJ</b>					
SCRAP METAL - all purchases	2 324	2 278	1 875	1 912	1 623
BILLETS - sales to external customers	5 021	4 036	3 633	3 742	3 084
<b>BILLET SPREAD</b>	<b>2 697</b>	<b>1 758</b>	<b>1 758</b>	<b>1 830</b>	<b>1 461</b>
FINISHED PRODUCTS - sales to external customers	6 521	5 344	4 843	4 479	3 734
<b>PRODUCT SPREAD</b>	<b>4 197</b>	<b>3 066</b>	<b>2 968</b>	<b>2 567</b>	<b>2 111</b>

INCOME STATEMENT	Q2 2022	Q1 2022	Q2 2021
	<i>'000 PLN</i>		
Revenue	1 032 055	962 036	702 411
Cost of sales	-759 155	-735 701	-562 500
<b>Gross profit</b>	<b>272 900</b>	<b>226 335</b>	<b>139 911</b>
Other income	10 051	8 040	5 928
Distribution expenses	-33 026	-31 483	-26 628
Administrative expenses	-26 125	-18 998	-15 238
Other gains/(losses) – net	1 318	-627	-2 106
Other expenses	-1 135	-1 992	-819
<b>EBIT</b>	<b>223 983</b>	<b>181 275</b>	<b>101 048</b>
Financial income	26 487	21 045	2 529
Financial expenses	-11 959	-8 946	-4 939
<b>Net financing costs</b>	<b>14 528</b>	<b>12 099</b>	<b>-2 410</b>
Share of profits of associates	150	-44	-172
Excess in the net fair value of acquired assets over cost	0	0	0
<b>Profit before tax</b>	<b>238 661</b>	<b>193 330</b>	<b>98 466</b>
Income tax expense	-48 905	-36 550	-19 629
Profit/loss for the period from discontinued operations	0	0	0
<b>Profit for the period</b>	<b>189 756</b>	<b>156 780</b>	<b>78 837</b>
Depreciation and amortization	-10 944	-11 127	-13 043
<b>EBITDA</b>	<b>234 927</b>	<b>192 402</b>	<b>114 091</b>

The non-recurring items had a slight positive effect on our EBITDA and significantly 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 2022	Q4 2020	Q2 2021
	<i>'000 PLN</i>		
<b>Reported EBITDA</b>	<b>234 927</b>	<b>192 402</b>	<b>114 091</b>
Non-recurring items including:	2 940	-1 573	-2 128
- costs of sales	27	4	9
- other income	2 207	341	179
- distribution expenses	427	-52	-7
- administrative expenses	0	0	0
- other gains/losses	420	196	226
- operational FX result	898	-823	-2 332
- other impairments	-1 039	-1 239	-203
<b>Adjusted EBITDA</b>	<b>231 987</b>	<b>193 975</b>	<b>116 219</b>
<b>Reported net result</b>	<b>189 756</b>	<b>156 780</b>	<b>78 814</b>
Non-recurring items including:	22 258	15 704	1 334
- EBITDA adjustments	2 940	-1 537	-2 128
- FX result on debt	-607	719	3 310
- financial instruments result	25 103	20 203	663
- interest result & abolition tax	0	-61	-831
- share of associate result	150	-44	-172
- pro-forma income tax adjustment	-5 328	-3 540	492
<b>Adjusted net result</b>	<b>167 498</b>	<b>141 076</b>	<b>77 480</b>

According to the above, the Q2 2022 adjusted EBITDA stood at PLN 232.0 million and the adjusted net profit was to the tune of PLN 167.5 million. They were much higher compared to the adjusted results of Q2 2021 where the Group had PLN 116.2 million of recurring EBITDA and PLN 77.5 million of adjusted net profit.

## 2. Balance Sheet

During the last twelve months, the value of non-current assets increased by PLN 168.7 million due to the increase of the value of property, plant and equipment and perpetual usufruct of land to the tune of PLN 136.2 million. That was primarily the effect of the acquisition of property, plant and equipment at the amount of PLN 182.6 million, in which PLN 21.6 million related to the acquisitions conducted in Q2 2022. That was partially offset by disposals to the tune of PLN 1.6 million, in which PLN 0.0 million were carried out in Q2 2022. Positive valuation of our financial instruments resulted in an increase of the value of non-current assets by further PLN 58.9 million. The counterbalancing effect had the following elements: (i) amortization and depreciation charges at the amount of PLN 47.5 million and (ii) utilization of a "tax shield" which resulted in the reduction of deferred assets by PLN 28.1 million.

Current assets increased by PLN 649.0 million primarily due to an increase of: (i) inventories by PLN 268.3 million, (ii) receivables by PLN 169.9 million and (iii) cash balance by PLN 206.9 million. The increase of receivables was primarily caused by the increase of cost of scrap metal, semi-finished and finished products kept in stock which was also the reason for inventories' growth in addition to the increase of the very stockpile quantity which resulted from the demand softening in the second half of the quarter. The higher cash position was predominantly due to the build-up of cash at the amount of PLN 134.4 million which serves as a security for a letter of credit issued in connection with one of the pending investment projects. The level of receivables was influenced by the value of receivables sold under the non-recourse factoring arrangements. At the end of Q2 2022, the net amount of receivables disposed (accounts receivable transferred, reduced by the amount owed by factors) accounted for PLN 314.2 million, while a year ago it was PLN 185.1 million.

As a result of the afore mentioned changes, our total assets saw an increase of PLN 817.7 million and 69.6%.

ASSETS	Q2 2022	Q1 2022	Q2 2021
	<i>'000 PLN</i>		
<b>A. TOTAL NON-CURRENT ASSETS</b>	<b>668 823</b>	<b>666 055</b>	<b>500 115</b>
I. Intangible assets	14 815	14 924	15 917
II. Property, plant and equipment	574 729	563 782	438 540
III. Other receivables	12 715	31 639	10 083
IV. Investment property and other investments	1 239	1 089	1 089
V. Financial instruments assets	58 918	34 843	0
VI. Prepaid perpetual usufruct of land	0	0	0
VII. Deferred tax assets	6 407	19 778	34 486
<b>B. TOTAL CURRENT ASSETS</b>	<b>1 323 212</b>	<b>1 337 280</b>	<b>674 215</b>
I. Inventories	612 020	546 481	343 692
II. Receivables	415 411	503 698	245 556
1. Trade receivables	415 296	503 587	245 397
2. Current income tax receivable	38	38	38
3. Other investments	77	73	121
III. Financial instruments assets	3 922	2 894	0
IV. Cash and cash equivalents	284 876	277 219	77 962
V. Prepayments	0	0	0
VI. Assets classified as held for sale	6 983	6 988	7 005
VII. Assets of disposal groups	0	0	0
<b>TOTAL ASSETS</b>	<b>1 992 035</b>	<b>2 003 335</b>	<b>1 174 330</b>

Cognor's equity of Q2 2022 increased by PLN 557.6 million primarily as a result of the positive net result of the last 12 months at PLN 485.4 million which was offset by the adoption and payment of a dividend at the amount of PLN 25.7 million. Our net debt stood at PLN 164.8 million – less by PLN 14.1 million as compared to Q2 2021.

<b>EQUITY AND LIABILITIES</b>	<b>Q2 2022</b>	<b>Q1 2022</b>	<b>Q2 2021</b>
	<i>'000 PLN</i>		
<b>A. EQUITY</b>	<b>964 602</b>	<b>800 561</b>	<b>406 990</b>
I. Issued share capital	257 131	257 131	257 131
II. Reserves and retained earnings	649 005	494 708	123 404
III. Minority interest	58 466	48 722	26 455
<b>B. LIABILITIES</b>	<b>1 027 433</b>	<b>1 202 774</b>	<b>767 340</b>
I. Non-current liabilities	384 065	326 564	196 344
1. <i>Employee benefits obligation</i>	<i>13 144</i>	<i>12 705</i>	<i>11 963</i>
2. <i>Interest-bearing loans and borrowings</i>	<i>366 104</i>	<i>308 800</i>	<i>183 464</i>
3. <i>Other</i>	<i>4 817</i>	<i>5 059</i>	<i>917</i>
II. Current liabilities	641 866	874 730	569 449
1. <i>Interest-bearing loans and borrowings</i>	<i>70 588</i>	<i>61 111</i>	<i>65 124</i>
2. <i>Bank overdraft</i>	<i>12 974</i>	<i>49 908</i>	<i>8 227</i>
3. <i>Trade and other payables</i>	<i>542 084</i>	<i>741 536</i>	<i>480 429</i>
4. <i>Deferred government grants</i>	<i>4 468</i>	<i>4 582</i>	<i>6 173</i>
5. <i>Liability under financial instruments</i>	<i>0</i>	<i>0</i>	<i>2 521</i>
6. <i>Employee benefits obligation</i>	<i>2 364</i>	<i>2 213</i>	<i>1 352</i>
7. <i>Current income tax payable</i>	<i>8 088</i>	<i>14 080</i>	<i>5 598</i>
8. <i>Provisions for payables</i>	<i>1 300</i>	<i>1 300</i>	<i>25</i>
III. Liabilities of disposal group	1 502	1 480	1 547
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>1 992 035</b>	<b>2 003 335</b>	<b>1 174 330</b>

### 3. Cash flow

The Group had a positive operating cash flow in Q2 2022 due to positive EBITDA which was almost entirely offset by the outflow of cash from working capital at the amount of PLN 207.7 million primarily due to: (i) the reduction of trade payables at the amount of 209.3 million and (ii) the increase of inventories by PLN 65.5 million. The decrease of receivables at the amount of PLN 67.2 million was partially a counterbalancing factor. Investment activities proved negative with CAPEX outflows amounting to PLN 16.8 million. Financing activities were overall cash-flow positive due to incurrence of new indebtedness at PLN 61.5 million which was counterbalanced by the following: (i) the repayment of debt under loans and leasing arrangements at the amount of PLN 6.7 million and (ii) payment of interest charges and fees at the amount of PLN 2.4 million which was partially counterbalanced by the inflow from IRS transactions.

<b>CASH FLOW</b>	<b>Q2 2022</b>	<b>Q1 2022</b>	<b>Q2 2021</b>
	<i>'000 PLN</i>		
A. OPERATING ACTIVITIES	7 219	193 897	-24 064
B. INVESTING ACTIVITIES	-16 757	-79 134	-18 244
C. FINANCING ACTIVITIES	54 129	21 938	-17 049
<b>NET INCREASE IN CASH</b>	<b>44 591</b>	<b>136 701</b>	<b>-59 357</b>

## II. Main Metrics

Liquidity metrics improved and they are excellent. Efficiency ratios worsened with inventories metric poor. The EBITDA and net profit margins showed outstanding prints. Equity went up greatly while net indebtedness fell slightly. Leverage is historically low due to exceptionally strong LTM EBITDA.

MAIN METRICS	Q2 2022	Q1 2022	Q2 2021
Liquidity ratio	2.06	1.53	1.18
Quick ratio	1.11	0.90	0.58
Inventories turnover (days)	73	67	55
Receivables turnover (days)	36	47	31
EBITDA margin	22.8%	20.0%	16.2%
Net profit margin	18.4%	16.3%	11.2%
Equity	964 602	800 561	406 990
Net debt	164 790	142 600	178 853
Net debt / LTM EBITDA	0.2	0.2	0.7

## III. Communication with Media and Investors

Our Q2 2022 results will be presented on Tuesday, **August 23, 2022**. 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 11:30 CET**, also in Polish language.

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

Kamil Więckowski: [k.wieckowski@makmedia.pl](mailto:k.wieckowski@makmedia.pl), mob.: +48 735 959 581 or

Przemysław Małoszyc: [pmaloszyc@cognor.eu](mailto:pmaloszyc@cognor.eu), mob.: +48 508 032 813.

2.

The **conference call 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 conference call are kindly asked to use the following MS Teams link:

[https://teams.microsoft.com/l/meetup-join/19%3ameeting\\_MjVjYzYyNjEtODdlZC00YWY4LTlkNzItMzkyYzY0NzViYjE0%40thread.v2/0?context=%7b%22Tid%22%3a%22d509b1a0-bbd1-4ee1-ab17-b888cff6aefe%22%2c%22Oid%22%3a%229a766f4b-3ca7-4b6e-a67a-7728929823c4%22%7d](https://teams.microsoft.com/l/meetup-join/19%3ameeting_MjVjYzYyNjEtODdlZC00YWY4LTlkNzItMzkyYzY0NzViYjE0%40thread.v2/0?context=%7b%22Tid%22%3a%22d509b1a0-bbd1-4ee1-ab17-b888cff6aefe%22%2c%22Oid%22%3a%229a766f4b-3ca7-4b6e-a67a-7728929823c4%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>

Technical support – Kamil Więckowski: [k.wieckowski@makmedia.pl](mailto:k.wieckowski@makmedia.pl), mob.: +48 735 959 581.

.....  
*Przemysław Sztuczowski*  
*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, August 19, 2022*