



October 28, 2022

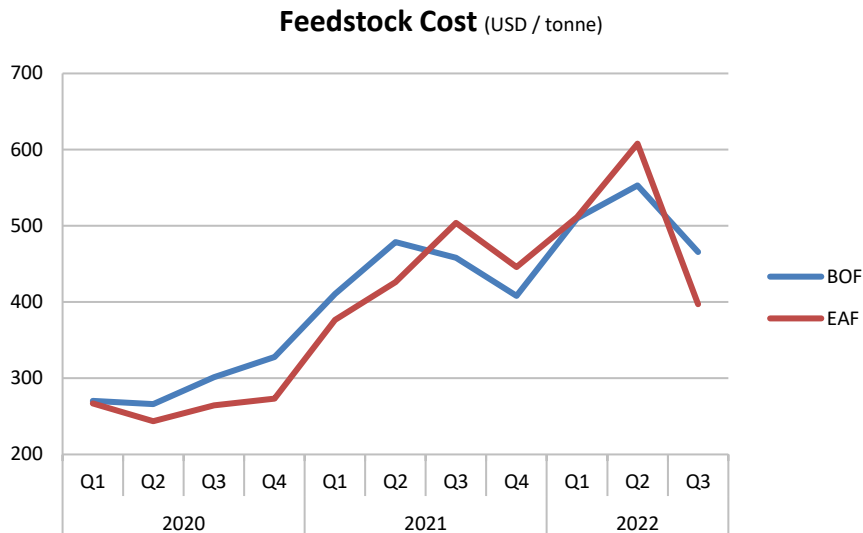
Q3 2022 - Management Discussion and Analysis

In the third quarter of 2022 the demand for steel weakened. In the European Union (EU27) crude steel production fell very sharply by 13.5% as compared to Q3 2021. This includes a similar deterioration of Poland's output which was down by 14.1%. The only exceptions were Africa plus Middle East and Asia where the outputs grew by 37.7% and 2.3% respectively, with the latter being particularly supported by a healthy increase in China by as much as 4.7%. Nevertheless, the world's crude steel production contracted to 455.8 million tonnes which accounts for a decline of 0.3%.

At this backdrop, the crude steel (billets) output of Cognor Holding S.A. (Cognor, the Company, the Group) proved even worse because it dropped by as much as 25.1% due to longer than usual maintenance breaks. However, our combined shipments of scrap metal, billets and finished products fell more moderately below those of Q3 2021, namely by 11.6%. In spite of that decrease, our revenues grew by 6.6% at the back of the strong price increases of semi-finished products (billets) and finished products.

Despite the much weaker shipments, the Group's profitability improved. Our EBITDA reached PLN 183.3 million albeit the downward scrap price trend was very steep during the period of Q3 2022 which resulted in massive FIFO losses of PLN 62.9 million. This was counterbalanced by the improvement of our conversion spreads of PLN 600 per tonne for billets and PLN 1,238 per tonne for finished products. The conversion spreads enhanced due to the increase of prices for billets and finished products while scrap metal price fell slightly. That was somewhat offset by the rise of certain production costs due to the increase of the underlying prices for materials, energy and labor. Another burden on our results was caused by the prolonged outages at some of our production facilities. Although summertime is a customary season for machinery and equipment repairs, we decided to make use of the weak market conditions and carried out certain minor capital investment works on top of the maintenance. Lastly, a very significant and positive contribution came from one-off items, in particular from transactions on energy. Our combined gain from the open market sales of electricity and natural gas amounted to PLN 95.1 million.

The feedstock cost position of the electric arc furnace (EAF) producers vis-à-vis the blast oxygen furnace (BOF) mills enhanced unexpectedly and proved more advantageous. This was due to the sharp drop of scrap metal price while the price movements of the main input materials used by BOF manufacturers resulted in their much moderate feedstock cost decrease. The favorable position of Cognor as an EAF producer has helped to improve billet shipments and sales. By the same token, a negative feedstock cost position of EAF producers would worsen the competitiveness of Cognor and would suppress our semi-finished product sales 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.

High energy prices resulting from the war fueled supply disruptions allowed us to forward sell a portion of our electricity and natural gas deliveries at a profit and hence we entirely offset the losses suffered from outages. Consequently, we had to introduce a flexible work scheme in the case of one of our steel melting shops and started purchasing part of the energy day-by-day from the open market and on the spot (next day quotations). That proved to be a good arbitrage approach that allowed us to secure relatively low energy prices during the power grid off-peak hours with a limited damage to our crude steel capacities. We will continue that mode in Q4 2022 and Q1 2023 however the result from our energy arbitrage is subject to a very high degree of uncertainty because of the various ongoing legislation ideas which may charge extra costs on these transactions as well as due to the unknown direction of the energy spot market over the upcoming couple of quarters.

In summary, the last quarter was a turbulent time geopolitically and in the economy, marked by a weak market sentiment, especially with respect to our basic steel products consumed within the construction industry. Nonetheless, we managed to achieve a very strong EBITDA of PLN 183.3 million and a net result of PLN 130.3 million. Our equity grew over PLN 1 billion while net debt and leverage fell to the historically lowest levels.

I. Reported Statement

1. Income Statement

The Group's revenues increased by PLN 46.2 million and 6.6% due to increases of prices by the following: (i) PLN 526 per tonne and 14.4% for billets and (ii) PLN 1,149 per tonne and 27.9% for finished products which was slightly offset by a decrease of PLN 159 per tonne and 9.2% for scrap metal, The overall positive contribution of prices was largely offset by the lower shipments of: (i) scrap metal by 7.1 thousand tonnes and 19.0% and (ii) finished products which fell by as much as 24.0 thousand tonnes and 21.9%. Some counterbalancing effect came from billet shipments which increased by 10.2 thousand tonnes and 30.9%. The shipments decrease of finished products was caused primarily by the plunging demand for reinforcement steel (rebars) that started by the end of Q2 2022 and weakened way more in Q3 2022.

Our combined conversion spreads for billets and finished products grew by PLN 600 per tonne and 1,238 per tonne, respectively. Profit-wise, that was partially counterbalanced by the higher prices for certain production components, energy and labor. Our longer than usual maintenance breaks added further pressure on our profitability.

The influence of the very price dynamics on our EBITDA was strongly negative as Cognor has been selling its products during the decreasing price environment over the last couple of quarters. In Q3 2023, we estimate the total loss related to inventories at PLN 62.9 million compared to a gain of PLN 13.8 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 2022		Q3 2022		Q2 2021		Q3 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	2 355	20 746	1 856	-10 355	1 652	18 925	1 897	4 634
FERR billets & products	2 331	81 450	1 685	-52 594	1 492	41 137	1 714	9 155
TOTAL				-62 950				13 788

In the results of Q3 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 Q3 2021, the amount of PLN 10.5 million was accounted in respect of the said compensation scheme.

EBIT and EBITDA both increased by PLN 23.4 million and PLN 21.8 million respectively. The EBITDA margin improved from 23.0% up to 24.5%. The FX development had a positive effect on our operations with the average EUR/PLN exchange rate 3.9% higher and the USD/PLN exchange rate as much as 21.5% stronger as compared to Q3 2021. The impact on our net financial costs was negative - the net FX loss related to the Company's indebtedness denominated in EUR accounted for PLN 3.4 million while the EUR/PLN exchange rate quoted 4.87 as of September 30, 2022 and 4.68 as of June 30, 2022.

AVERAGE EXCHANGE RATES		Q3 2022	Q3 2021
	<i>PLN</i>		
EUR/PLN		4.74	4.57
	% change	3.9%	
USD/PLN		4.71	3.87
	% change	21.5%	

EXCHANGE RATES		30-Sep-2022	30-Jun-2022	30-Sep-2021
	<i>PLN</i>			
EUR/PLN		4.87	4.68	4.63
	% change (Jun 22 / Mar 22)	4.0%		
USD/PLN		4.95	4.48	3.99
	% change (Jun 22 / Mar 22)	10.5%		

The supportive currency trends resulted also in our operational FX result to be a gain of PLN 10.3 million.

The valuation of our financial instruments brought PLN 8.8 million of income. Our financial expenses stood at PLN 14.8 million and were higher compared to the amount of PLN 13.2 million in Q3 2021.

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

PRICES AND SPREADS	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021
<i>(pln/ tonne)</i>					
FERROSTAL					
SCRAP METAL - all purchases	1 669	2 366	1 883	1 608	1 743
BILLETS - sales to external customers	3 924	5 157	4 325	3 800	3 595
BILLET SPREAD	2 255	2 792	2 442	2 192	1 853
FINISHED PRODUCTS - sales to external customers	4 536	4 884	4 037	3 685	3 880
PRODUCT SPREAD	2 866	2 518	2 153	2 077	2 137
HSJ					
SCRAP METAL - all purchases	1 775	2 348	2 278	1 875	1 912
BILLETS - sales to external customers	4 357	5 021	4 036	3 633	3 742
BILLET SPREAD	2 582	2 673	1 758	1 758	1 830
FINISHED PRODUCTS - sales to external customers	6 038	6 521	5 344	4 843	4 479
PRODUCT SPREAD	4 263	4 173	3 066	2 968	2 567

INCOME STATEMENT	Q3 2022	Q2 2022	Q3 2021
	<i>'000 PLN</i>		
Revenue	749 424	1 032 055	703 199
Cost of sales	-525 130	-759 155	-542 335
Gross profit	224 294	272 900	160 864
Other income	9 506	10 051	25 070
Distribution expenses	-33 005	-33 026	-22 673
Administrative expenses	-22 526	-26 125	-17 157
Other gains/(losses) – net	10 470	1 318	3 823
Other expenses	-16 440	-1 135	-1 005
EBIT	172 299	223 983	148 922
Financial income	8 403	26 487	3 467
Financial expenses	-14 810	-11 959	-13 171
Net financing costs	-6 407	14 528	-9 704
Share of profits of associates	0	150	117
Excess in the net fair value of acquired assets over cost	0	0	0
Profit before tax	165 892	238 661	139 335
Income tax expense	-35 549	-48 905	-25 855
Profit/loss for the period from discontinued operations	0	0	0
Profit for the period	130 343	189 756	113 480
Depreciation and amortization	-11 001	-10 944	-12 624
EBITDA	183 300	234 927	161 546

The non-recurring items had a significant 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 2022	Q2 2022	Q3 2021
	<i>'000 PLN</i>		
Reported EBITDA	183 300	234 927	161 546
Non-recurring items including:	91 481	2 940	15 723
- costs of sales	95 096	27	-2
- other income	1 318	2 207	12 509
- distribution expenses	-26	427	-13
- administrative expenses	0	0	0
- other gains/losses	181	420	3 337
- operational FX result	10 289	898	486
- other impairments	-15 377	-1 039	-594
Adjusted EBITDA	91 819	231 987	145 823
Reported net result	130 343	189 756	113 496
Non-recurring items including:	77 804	22 258	12 783
- EBITDA adjustments	91 481	2 940	15 723
- FX result on debt	-3 428	-607	-180
- financial instruments result	8 806	25 103	2 337
- interest result & abolition tax	0	0	-2 227
- share of associate result	0	150	117
- pro-forma income tax adjustment	-19 055	-5 328	-2 987
Adjusted net result	52 539	167 498	100 713

According to the above, the Q3 2022 adjusted EBITDA stood at PLN 91.8 million and the adjusted net profit was to the tune of PLN 52.5 million. They proved quite strong yet much weaker compared to the adjusted results of Q3 2021 where the Group had PLN 145.8 million of recurring EBITDA and PLN 100.7 million of adjusted net profit.

2. Balance Sheet

During the last twelve months, the value of non-current assets increased by PLN 155.0 million due to the increase of the value of property, plant and equipment and perpetual usufruct of land to the tune of PLN 119.3 million. That was primarily the effect of the acquisition of property, plant and equipment at the amount of PLN 164.3 million, in which PLN 28.4 million related to the acquisitions conducted in Q3 2023. That was partially offset by disposals to the tune of PLN 1.7 million, in which PLN 0.1 million were carried out in Q3 2022. Positive valuation of our financial instruments resulted in further increase of the value of non-current assets by PLN 64.0 million. The counterbalancing effect had the following elements: (i) amortization and depreciation charges at the amount of PLN 45.9 million and (ii) utilization of a "tax shield" which resulted in the reduction of deferred assets by PLN 28.8 million.

Current assets increased by PLN 425.0 million primarily due to an increase of: (i) cash balance by PLN 186.6 million, (ii) inventories by PLN 130.3 million and (iii) receivables by PLN 101.0 million. The higher cash position was predominantly due to the build-up of cash at the amount of PLN 138.3 million which serves as a security for a letter of credit issued in connection with one of the pending investment projects. The increase of inventories was caused by a higher stockpile volume and higher production cost. The value of receivables grew in spite of the contraction in overall steel shipments by 11.6% thanks to the increase of prices for billets and finished products. For the purpose of working capital management Cognor uses factoring arrangements on a non-recourse basis. At the end of Q3 2022, the net amount of receivables disposed (accounts receivable transferred, reduced by the amount owed by factors) accounted for PLN 230.0 million, while a year ago it was PLN 205.4 million. The higher amount of receivables sold through factoring had a counterbalancing influence on the increase of receivables to the tune of PLN 24.6 million.

As a result of the afore mentioned changes, our total assets saw an increase of PLN 580.6 million and 42.7%.

ASSETS	Q3 2022	Q2 2022	Q3 2021
	<i>'000 PLN</i>		
A. TOTAL NON-CURRENT ASSETS	685 776	668 823	530 752
I. Intangible assets	14 558	14 815	15 550
II. Property, plant and equipment	592 286	574 729	472 995
III. Other receivables	13 658	12 715	12 409
IV. Investment property and other investments	1 238	1 239	1 036
V. Financial instruments assets	64 036	58 918	0
VI. Prepaid perpetual usufruct of land	0	0	0
VII. Deferred tax assets	0	6 407	28 762
B. TOTAL CURRENT ASSETS	1 252 873	1 323 212	827 341
I. Inventories	516 730	612 020	415 694
II. Receivables	437 130	415 411	306 821
1. Trade and other receivables	437 017	415 296	306 679
2. Current income tax receivable	38	38	38
3. Other investments	75	77	104
III. Financial instruments assets	7 610	3 922	0
IV. Cash and cash equivalents	284 426	284 876	97 826
V. Prepayments	0	0	0
VI. Assets classified as held for sale	6 977	6 983	7 000
VII. Assets of disposal groups	0	0	0
TOTAL ASSETS	1 938 649	1 992 035	1 358 093

Cognor's equity in Q3 2022 increased by PLN 575.6 million primarily as a result of the net profit over the last 12 months at the amount of PLN 602.2 million which was slightly offset by the adoption and payment of a dividend at the amount of PLN 25.7 million during that period. Our net debt stood at PLN 113.2 million – less by PLN 92.9 million as compared to Q3 2021.

EQUITY AND LIABILITIES	Q3 2022	Q2 2022	Q3 2021
	<i>'000 PLN</i>		
A. EQUITY	1 094 938	964 602	519 302
I. Issued share capital	257 131	257 131	257 131
II. Reserves and retained earnings	772 227	649 005	229 188
III. Minority interest	65 580	58 466	32 983
B. LIABILITIES	843 711	1 027 433	838 791
I. Non-current liabilities	353 779	384 065	254 408
1. <i>Employee benefits obligation</i>	<i>13 104</i>	<i>13 144</i>	<i>12 189</i>
2. <i>Interest-bearing loans and borrowings</i>	<i>334 483</i>	<i>366 104</i>	<i>238 979</i>
3. <i>Other</i>	<i>6 192</i>	<i>4 817</i>	<i>3 240</i>
II. Current liabilities	488 409	641 866	582 857
1. <i>Interest-bearing loans and borrowings</i>	<i>62 011</i>	<i>70 588</i>	<i>64 863</i>
2. <i>Bank overdraft</i>	<i>1 095</i>	<i>12 974</i>	<i>0</i>
3. <i>Trade and other payables</i>	<i>404 098</i>	<i>542 084</i>	<i>507 274</i>
4. <i>Deferred government grants</i>	<i>4 575</i>	<i>4 468</i>	<i>3 897</i>
5. <i>Liability under financial instruments</i>	<i>0</i>	<i>0</i>	<i>184</i>
6. <i>Employee benefits obligation</i>	<i>2 143</i>	<i>2 364</i>	<i>1 295</i>
7. <i>Current income tax payable</i>	<i>13 187</i>	<i>8 088</i>	<i>5 319</i>
8. <i>Provisions for payables</i>	<i>1 300</i>	<i>1 300</i>	<i>25</i>
III. Liabilities of disposal group	1 523	1 502	1 526
TOTAL EQUITY AND LIABILITIES	1 938 649	1 992 035	1 358 093

3. Cash flow

The Group had a positive operating cash flow in Q3 2022 due to positive EBITDA which was partially offset by the outflow of cash from working capital at the amount of PLN 49.9 million primarily due to: (i) the reduction of trade payables at the amount of 116.9 million and (ii) the increase of trade receivables by PLN 28.2 million. The decrease of inventories at the amount of PLN 95.3 million was partially a counterbalancing factor. Investment activities proved negative with CAPEX outflows amounting to PLN 30.7 million. Financing activities were overall cash-flow negative due to: (i) the repayment of debt under loans and leasing arrangements at the amount of PLN 54.9 million, (ii) payment of interest charges and fees at the amount of PLN 9.9 million and (iii) payment of a dividend at the amount of PLN 25.7 million. This was partially counterbalanced by the incurrence of new indebtedness at the amount of PLN 10.0 million.

CASH FLOW	Q3 2022	Q2 2022	Q3 2021
	<i>'000 PLN</i>		
A. OPERATING ACTIVITIES	122 453	7 219	24 330
B. INVESTING ACTIVITIES	-30 569	-16 757	-28 722
C. FINANCING ACTIVITIES	-80 455	54 129	32 483
NET INCREASE IN CASH	11 429	44 591	28 091

II. Main Metrics

Liquidity metrics improved and they are excellent. Efficiency ratios worsened with inventories metric poor. The EBITDA and net profit margins have showed outstanding prints. Due to the exceptionally strong LTM EBITDA equity went up greatly while net indebtedness fell to historically lowest level which is also the case when looking at our leverage.

MAIN METRICS	Q3 2022	Q2 2022	Q2 2021
Liquidity ratio	2.56	2.06	1.42
Quick ratio	1.50	1.11	0.70
Inventories turnover (days)	89	73	69
Receivables turnover (days)	52	36	39
EBITDA margin	24.5%	22.8%	23.0%
Net profit margin	17.4%	18.4%	16.1%
Equity	1 094 938	964 602	519 302
Net debt	113 163	164 790	206 016
Net debt / LTM EBITDA	0.1	0.2	0.5

III. Communication with Media and Investors

Our Q3 2022 results will be presented on Thursday, **November 3, 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.

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, mob.: +48 735 959 581 or

Przemysław Małoszyc: 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_Mjk3ZTVjYzUtZWNhNS00MzVlTk50DUtYzc1ZDdlNmZlMwU1%40thead.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>

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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, October 28, 2022