



Introduction

Group
Overview

Market

Financials

Capex

Outlook

Annexes



Q2 2023 Business and Financial Performance

AUGUST 21, 2023

Speaker

Group
Overview

Market

Financials

Capex

Outlook

Annexes



KRZYSZTOF ZOŁA

Board Member, CFO

Key Macro Trends

Introduction

Group
Overview

Market

Financials

Capex

Outlook

Annexes



Increased geopolitical risk
military spending



De-globalisation
onshoring, reshoring,



Protectionism
reindustrialisation of the EU



Supply chain shortening
friendshoring



**Long-term underinvestment
in energy sector**
the end of commodity abundance and
cheap energy



CO2 emission costs
the end of BOF/BF in the EU



Green deal
sustainable economy



Inflation, debt crisis
the end of cheap money decade



Value investing
growing interest in fundamentally
healthy and dividend paying at the
expense of growth stocks

Cognor – Modern EU Steelmaker

Introduction

Group
Overview

Market

Financials

Capex

Outlook

Annexes

30 years
of industry experience

**Exposure on mid
European market:**

PL, DE, CZ, SK, HU, RO, LT, LV,
ES

**Track record of
resilience:**

crisis in the Polish steel industry
in the 90s; hostile EU policy and
VAT evasion practices in Poland
in the 10s

**Energy efficient and
environmentally
friendly**

steel melting method in
electric arc furnace (EAF)

**Modern and efficient
production assets;**

finalized and well advanced
modernization projects

Product elasticity;

no sectorial dependence,
diversification of clients

Cognor – Modern EU Steelmaker

Introduction

Group
Overview

Market

Financials

Capex

Outlook

Annexes

**Strong presence on
Polish scrap market**
vertical integration stabilising
raw material supplies

Low debt
very strong balance sheet
structure

**Rational and
consequent CAPEX**
aimed at volume expansion
and cost saving including of
energy and feedstock

**Completion
of Gliwice project**
advanced modernisation in
Kraków; construction works
in Siemianowice Śląskie

Dividend policy
attractive valuation ratios

Q2 2023 Highlights

Introduction

Group
Overview

Market

Recession or weak GPD growth

-0,5% Poland and 0.3% EU YoY

Falling billet and finished product prices

compared to both Q2 2022
and Q1 2023

Spreads shrinking for almost all billets and products

compared to both Q2 2022
and Q1 2023

Financials

Capex

Rebar market in deep crisis

prices and spreads lower
QoQ and YoY; no production
due to Cracow stoppage and
very low sales resulting in
overall shipments decline

Low capacity utilisation

Cracow investment stoppage;
limited additional billet sales
to support steel melting

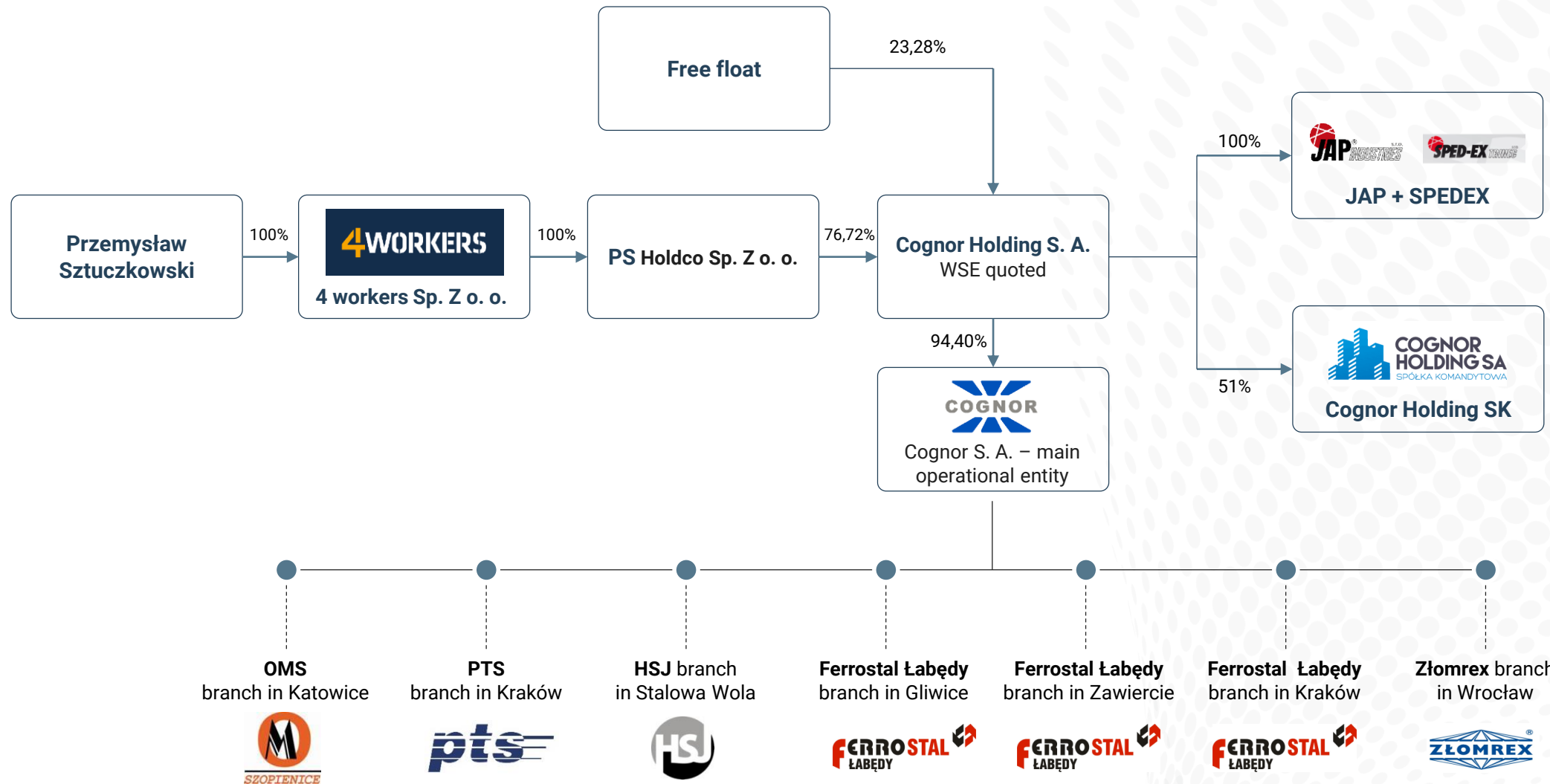
Signing with general contractor

for building of new 450k
LSM in Simianowice
Śląskie to replace old mill
in Zawiercie

Outlook

Annexes

Group Overview - Group Structure & Shareholders



History [1]



1990

Przemysław Sztuczkowski starts up Złomrex which trades in non-ferrous scrap metals

1991

Privatisation of the state owned enterprise

1997

IPO of Centrostal on the Warsaw Stock Exchange

2000

Acquisition of ZW-WB, a rolling mill in Zawiercie



2004

Acquisition of 82,6% of Ferrostal, a melting shop in Gliwice



2005

Acquisition of 100% of HSJ, a melting shop and rolling mills in Stalowa Wola



2006

Złomrex acquires 64,4% of shares of Centrostal



Acquisition of numerous distribution assets in Poland and abroad

History [2]

Introduction

Group Overview

Market

Financials

Capex

Outlook

Annexes



Złomrex acquires 64,4% of shares of Centrostal



Acquisition of numerous distribution assets in Poland and abroad

2006

2007



Centrostal changes its name into Cognor, integration of distribution assets

2013

Acquisition of 95% of Profil, a rolling mill in Kraków

2011

Cognor sells all distribution assets and acquires Zlomrex, its mother company. It becomes the controlling entity of the whole Group which concentrates on steel production

2016

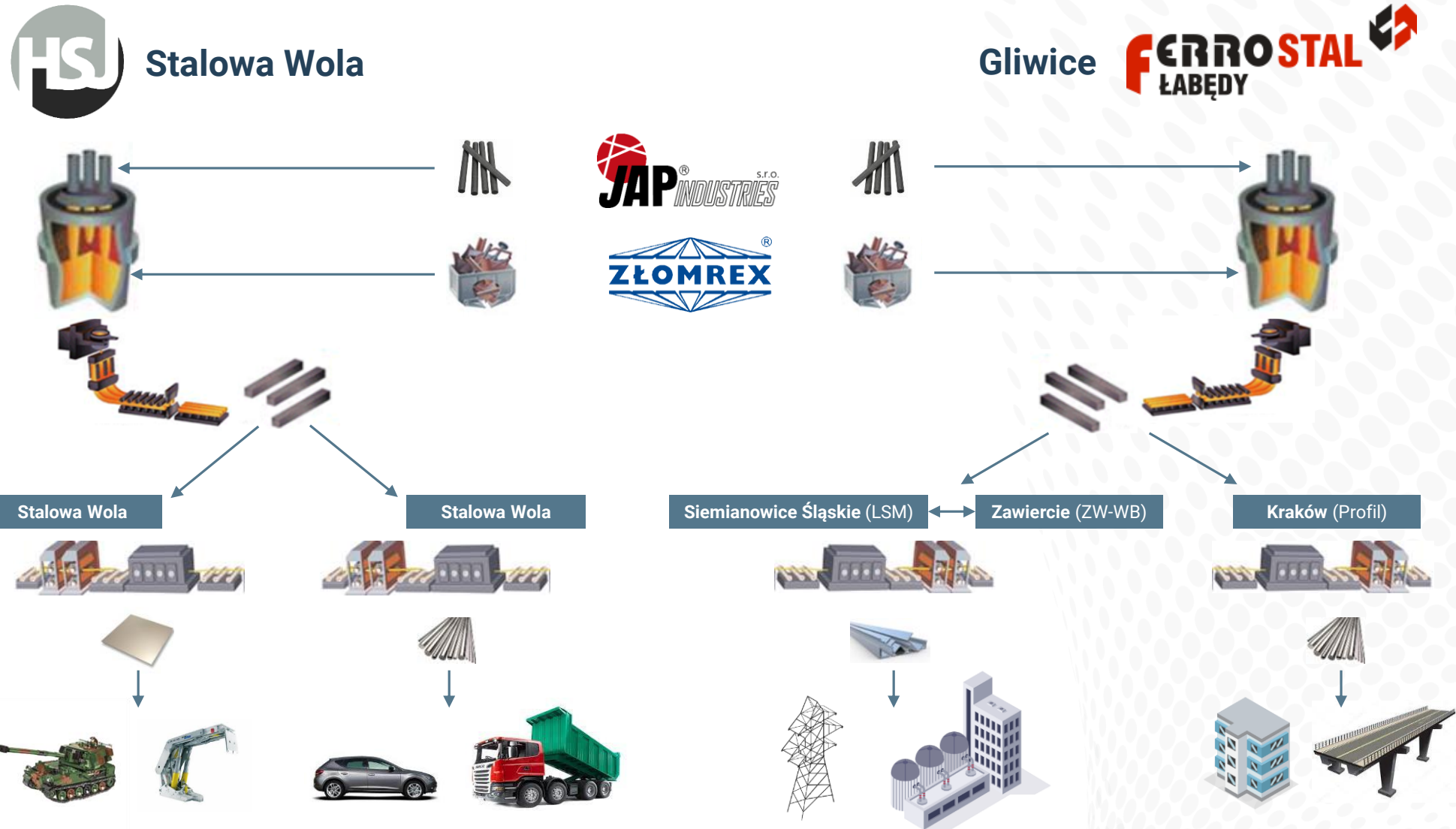
Simplification of group structure and change of name into Cognor Holding

2022

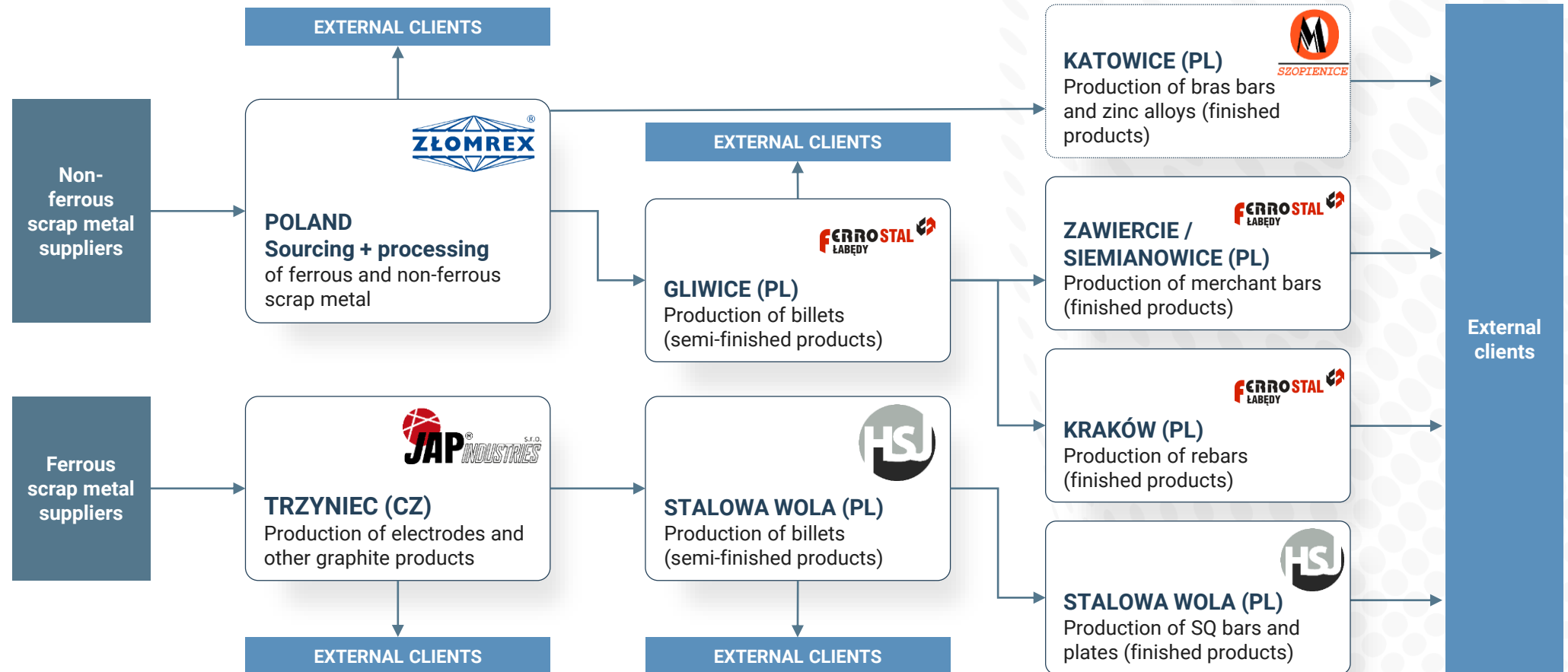


JAP acquisition

Structure



Vertically Integrated Business Model



Cognor is vertically integrated which allows to control the production process starting from scrap metal sourced through our own scrap collecting sites network, production of electrodes, through melting of scrap metal, refining it in order to get the desired chemical composition of steel, then casting steel into a form of billets (semi-finished products) to finally arrive at the stage of billets being rolled into finished products, mostly bars (long products). This provides much greater security in terms of feedstock availability and allows to achieve the whole margin along the value chain

2022 Circular Economy & Sustainable Steelmaking

802 115

tonnes of scrap metal sourced



673 579

tonnes of scrap metal used internally

598 817

tonnes of semi-finished products (billets) production

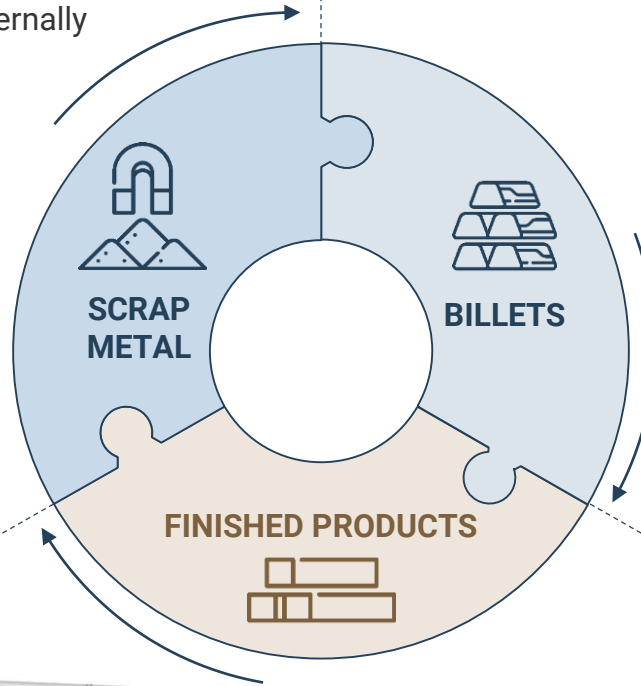
468 502

tonnes of billets processed internally



136 615

tonnes of scrap metal sold to external customers



163 857

tonnes of billets sold to external customers



433 931

tonnes of finished products production

412 975

tonnes of finished products sold to external customers

Company Facilities

Introduction

Group Overview

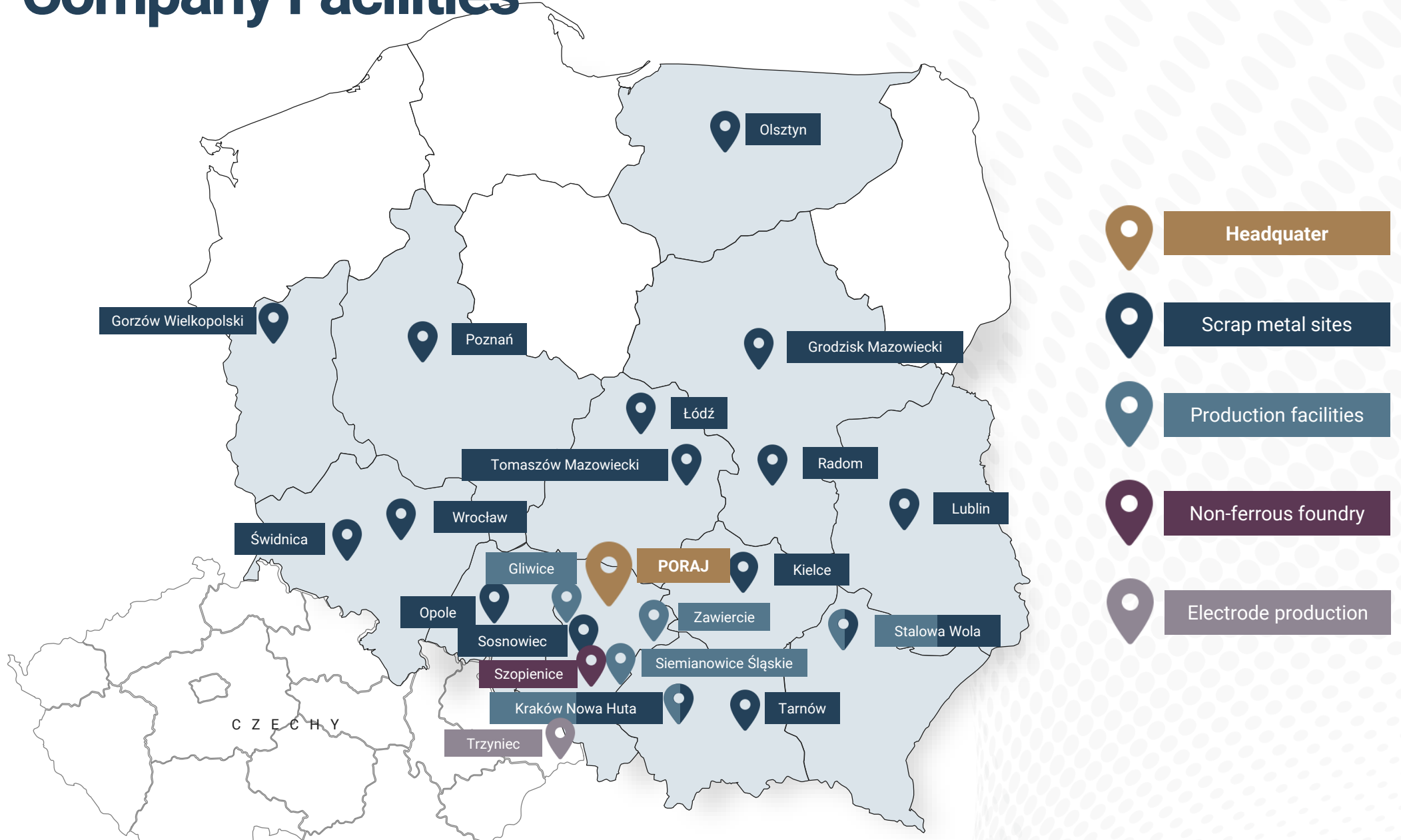
Market

Financials

Capex

Outlook

Annexes



Steel Production Facilities

Melting shops & rolling mills

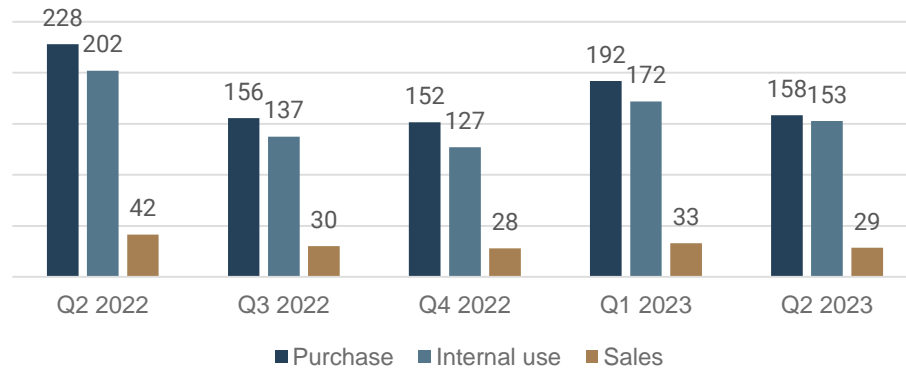


		Location	Product portfolio	Production capacities	Technology	Employment
Market		Stalowa Wola	Billets, Bars, Plates	<ul style="list-style-type: none"> Billets: 300k tonnes Plates: 101k tonnes Bars: 178k tonnes 	<ul style="list-style-type: none"> 1 EAF, 1 LF, 1CCM & 1 VD 1 furnace + 1 long products line & 2 flat products lines 	ca 800 people
Financials		Gliwice	Billets	Billets: 300k tonnes +155	<ul style="list-style-type: none"> 1 EAF, 1 LF & 1CCM 	ca 350 people
Capex		Kraków (Q3 2023)	Rebars	Bars: 240k tonnes +160	<ul style="list-style-type: none"> 1 furnace 1 long product lines 	ca 250 people
Outlook		Zawiercie	Merchant bars	Bars: 198k tonnes	<ul style="list-style-type: none"> 1 furnace 3 long product lines 	ca 30 + 300 people outsourced
		Siemianowice (2024)	Merchant bars	Bars: 450k tonnes		ca 150 people
Annexes						

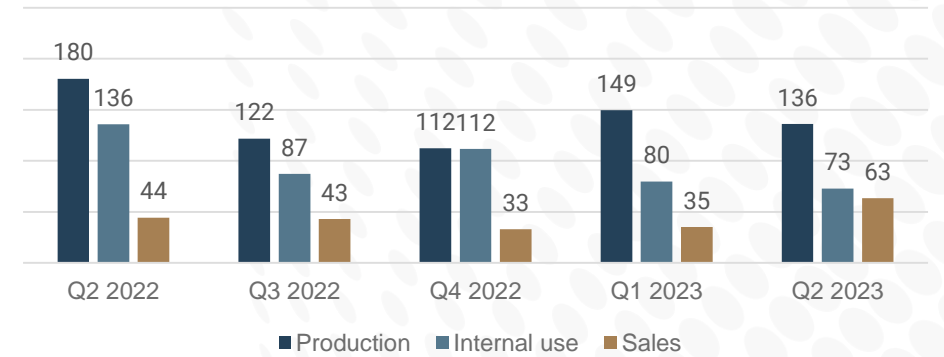
Segments Performance

Quantities per business segments

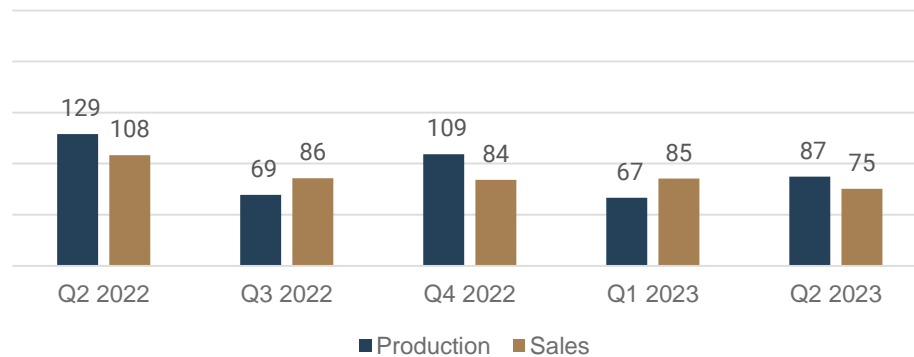
Scrap metal (thousands of tonnes)



Billets (thousands of tonnes)



Finished products (thousands of tonnes)



World and the EU

Introduction

Group Overview

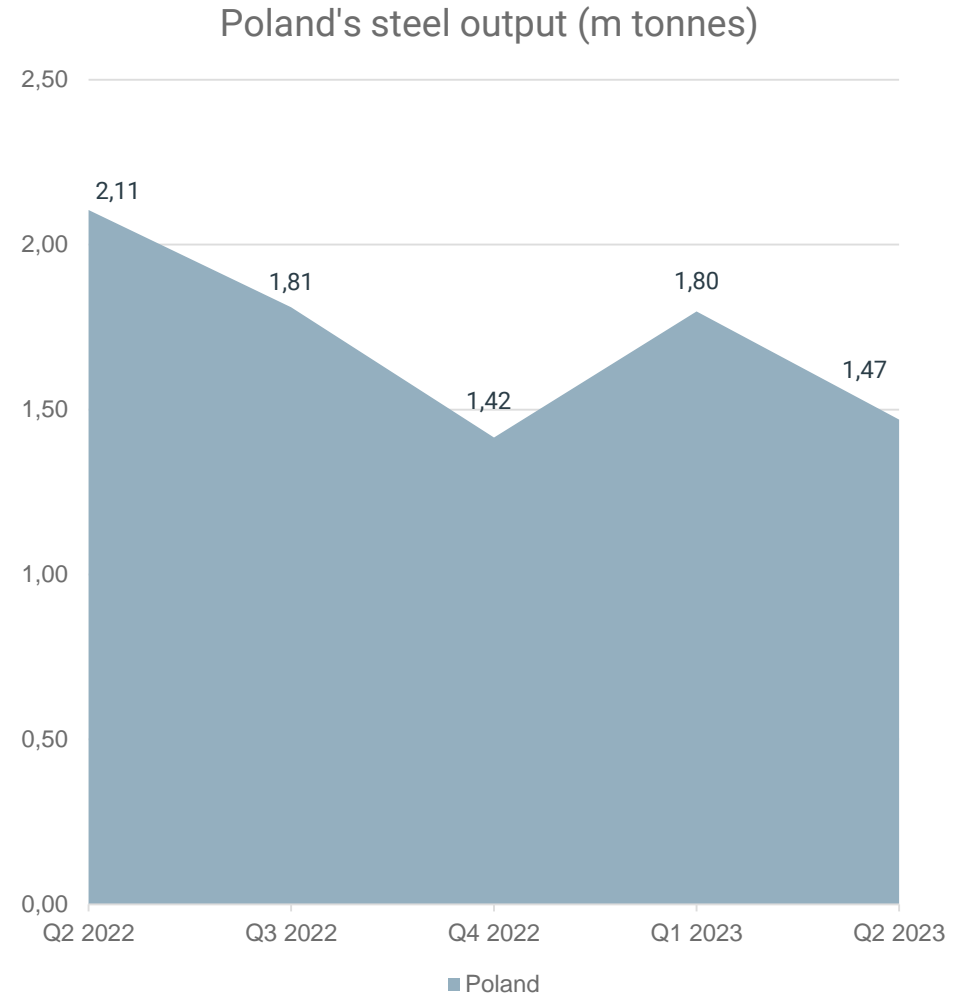
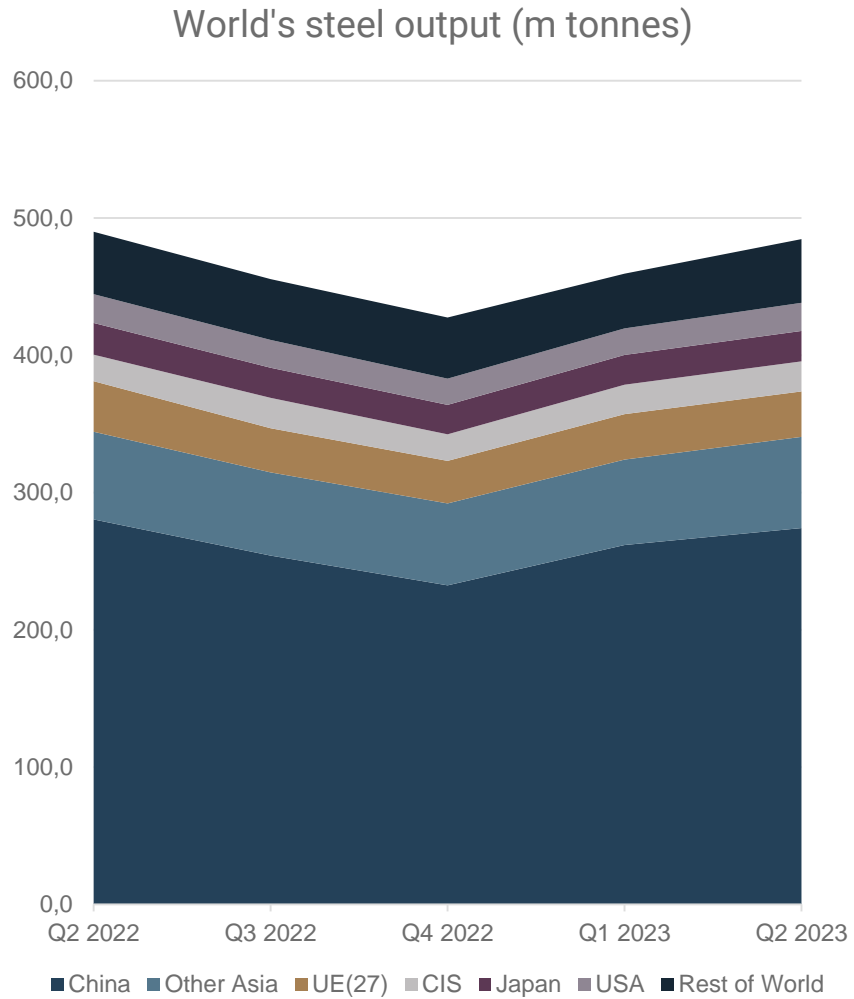
Market

Financials

Capex

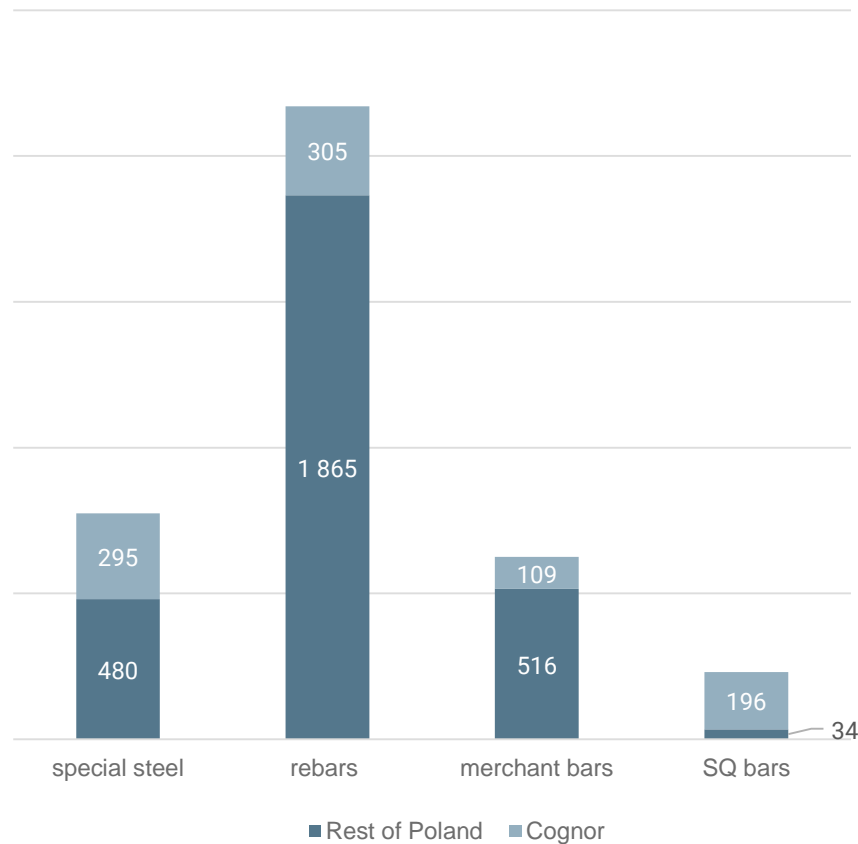
Outlook

Annexes

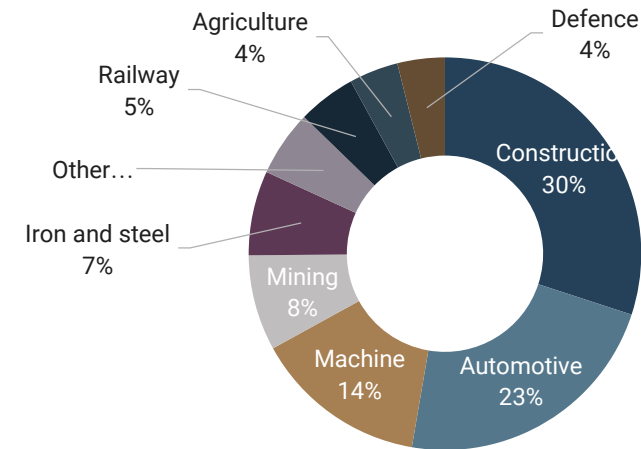


Billets and Finished Products Cognor's Share and Position in 2022

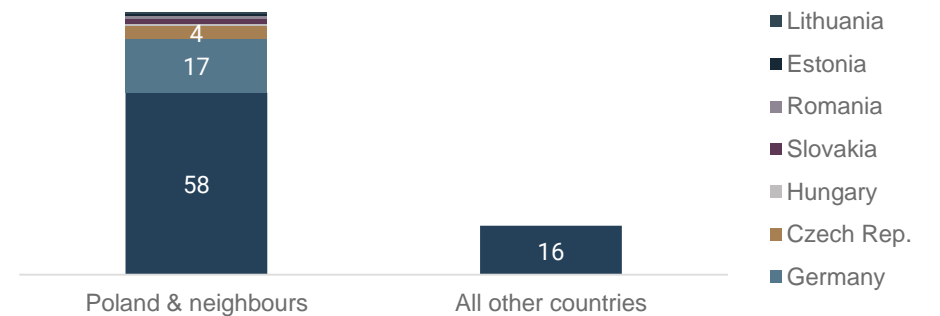
**Producer market share
(thousands of tonnes)**



Revenue split by business segments



Geographical breakdown (%)



Market - EAF vs BOF technology

- Introduction
- Group Overview
- Market**
- Financials
- Capex
- Outlook
- Annexes
- 18

Electric Arc Furnace (EAF)

Feedstock applied to produce 1000 kg of crude steel



Commentary

- Approximately 1/3 of global steel production
- Scrap metal is melted by a heat generated by an electric arch

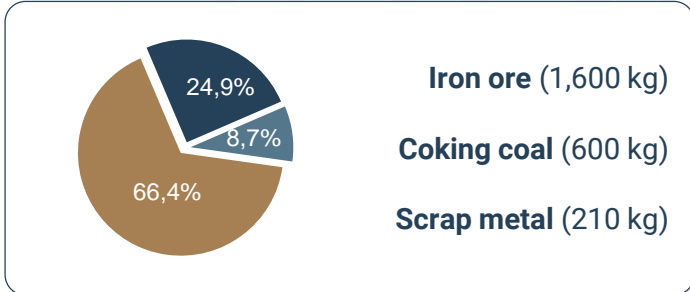
Pros

- Flexible, can be switched on and off
- Lower CAPEX & maintenance
- Lower environmental impact

Cons

- High cost sensitivity to scrap and electricity

Basic Oxygen Furnace (BOF)



- Approximately 2/3 of global steel production
- Reduction of iron oxides (iron ore) by burning coke (produced from coking coal) generates huge CO2 emissions
- Scrap metal input is low and technologically reduced to max 30% of overall feedstock material

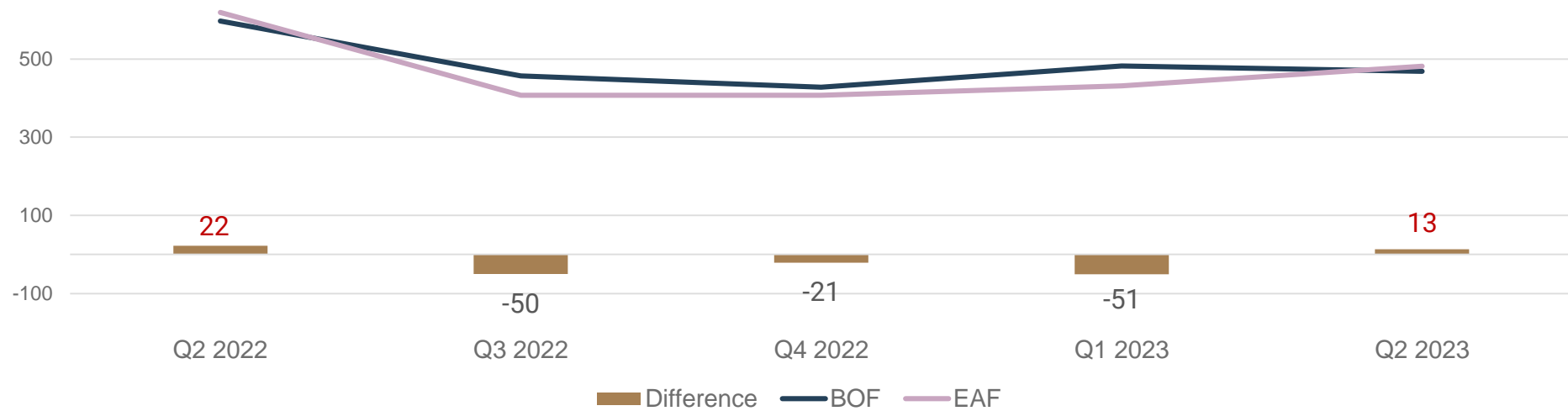
CASTING

- Lower electric power consumption
- Easier to obtain high steel purity

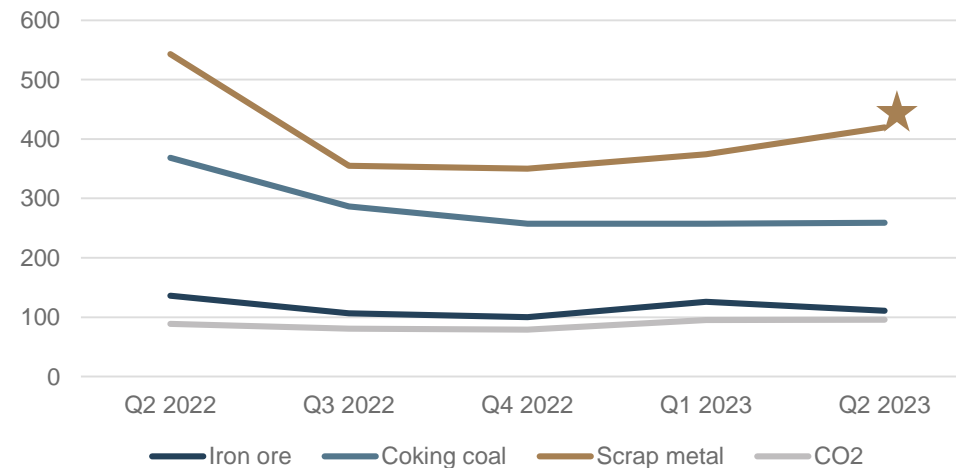
- High cost sensitivity to iron ore and coking coal
- Economical at large scale only; low flexibility
- 4x higher CO2 emission (incl. power plant gen.)

BOF / EAF Feedstock Cost (USD / tonne)

Feedstock costs EAF vs BOF



Raw material costs (USD / tonne)



Feedstock Cost Model	BOF	EAF
tonne / tonne of crude steel		
scrap metal	0.21	1.12
coking coal	0.60	
iron ore	1.60	
CO2 emission rights	0.50	0.13

source: IMF - iron ore,
EIA - coking coal
Cognor - scrap metal,
PSE - CO2 emission rights
(25% due to approx.75% allowances available for free)

EU market protection tools

Introduction

Group Overview

Market

Financials

Capex

Outlook

Annexes



Anti Dumping

Since 2016 the EU has been determined on market protection. The anti dumping measures are numerous and financially severe.



Safeguard

A quota tool introduced in 2018 to last through mid 2024 aimed to limit tax free imports. Below an example of its utilisation in Q1 and Q2 2023



Carbon Tax

Aimed at preventing carbon leakage. It will start in 01.10.2023 and be fully effective from 01.01.2026. It will impose entry fees on steel importers equal to the level of CO2 emission costs which are born by the producers in the EU.

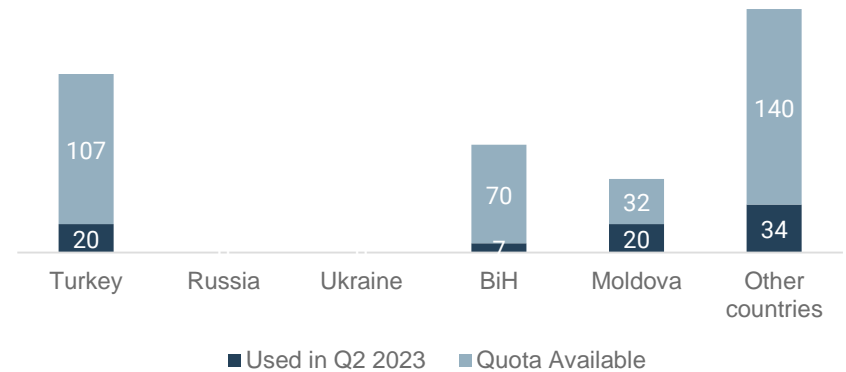
Rebars Q1 2023

(million tonnes)



Rebars Q2 2023 as of 22.06.2023

(millions tonnes)

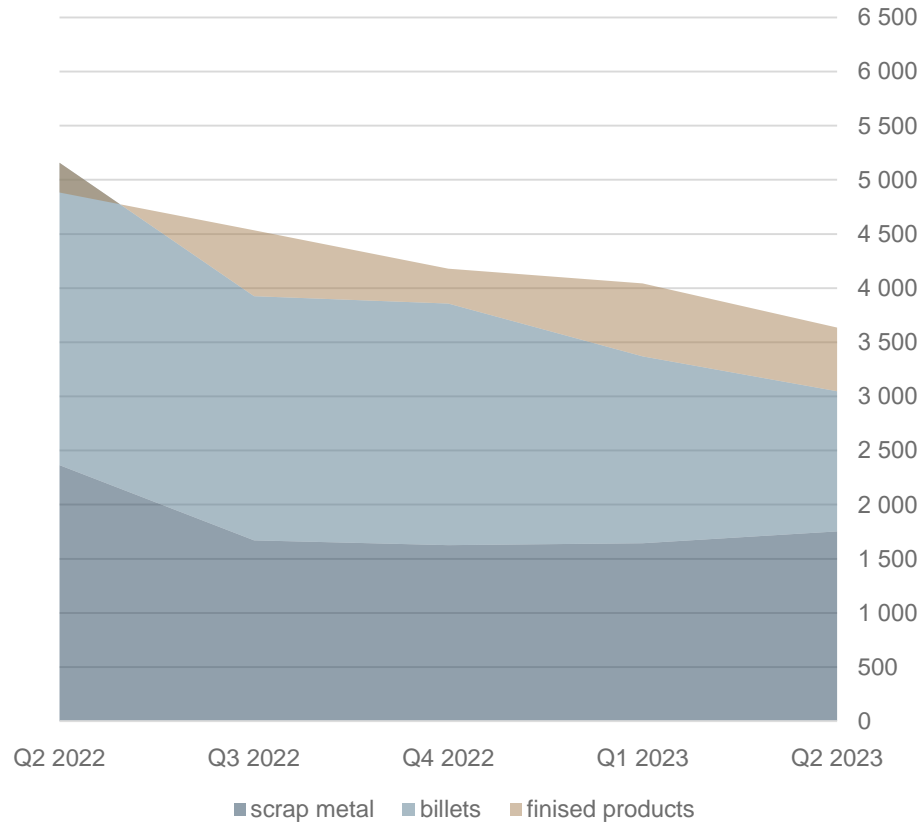


Russia - import suspended; Ukraine - unlimited

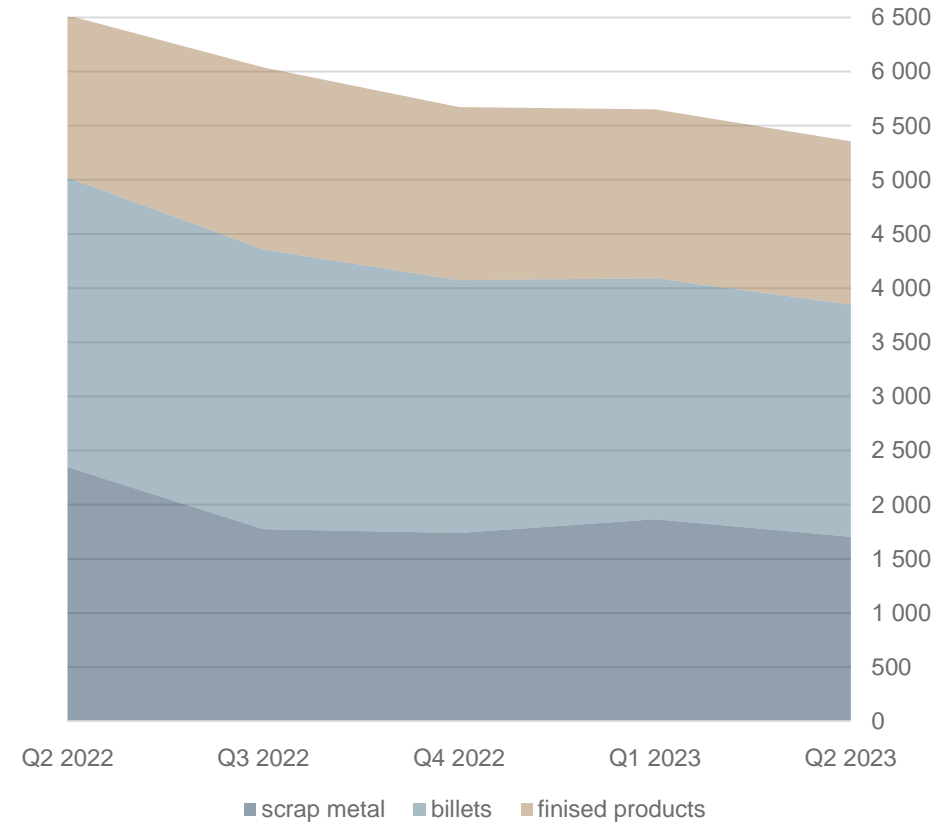
Prices and conversion premiums (PLN / tonne)

- Introduction
- Group Overview
- Market
- Financials**
- Capex
- Outlook
- Annexes

Ferrostal



HSJ



EBIT Generation Breakdown (PLN thousands)

Introduction

Group Overview

Market

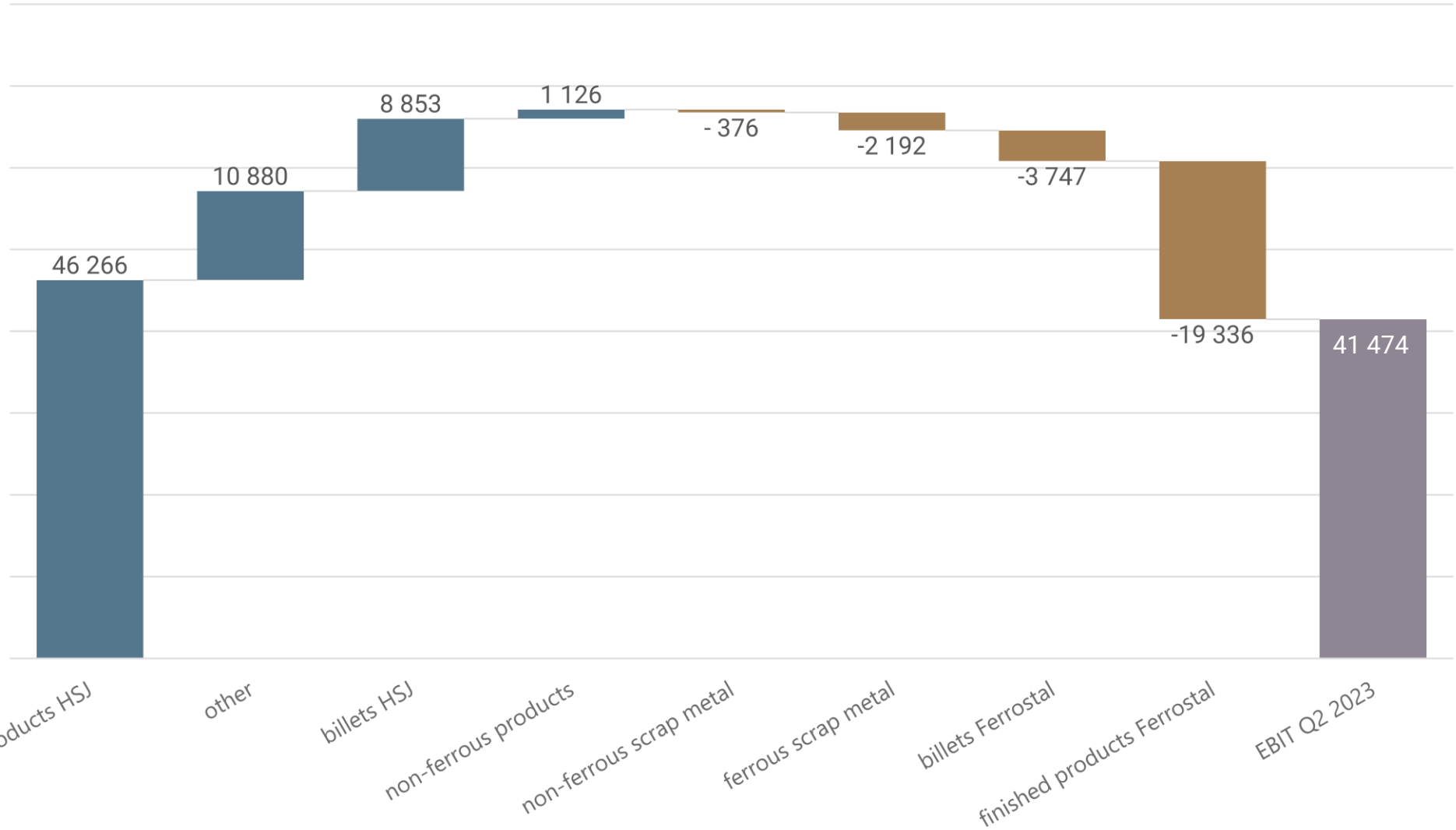
Financials

Capex

Outlook

Annexes

22



EBIT Bridge (PLN thousands)

Introduction

Group Overview

Market

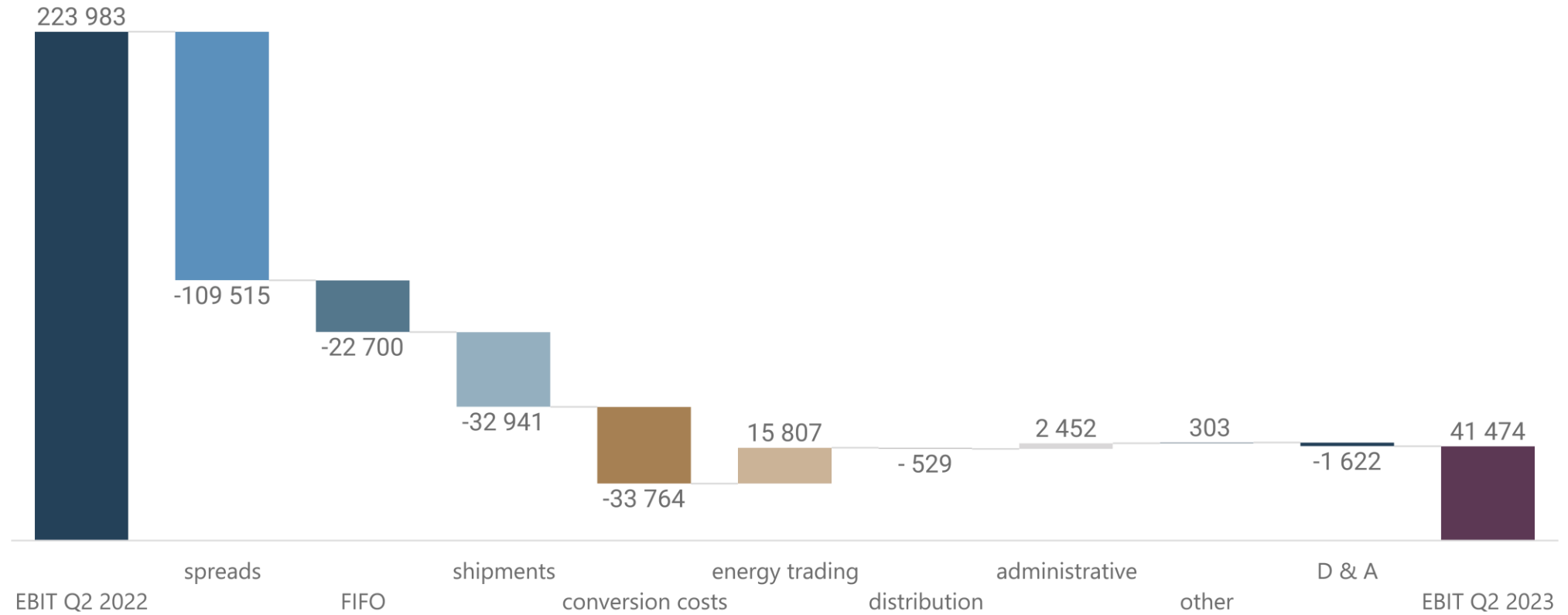
Financials

Capex

Outlook

Annexes

23





Q2 2023 P&L Waterfall (PLN thousands)

Introduction

Group Overview

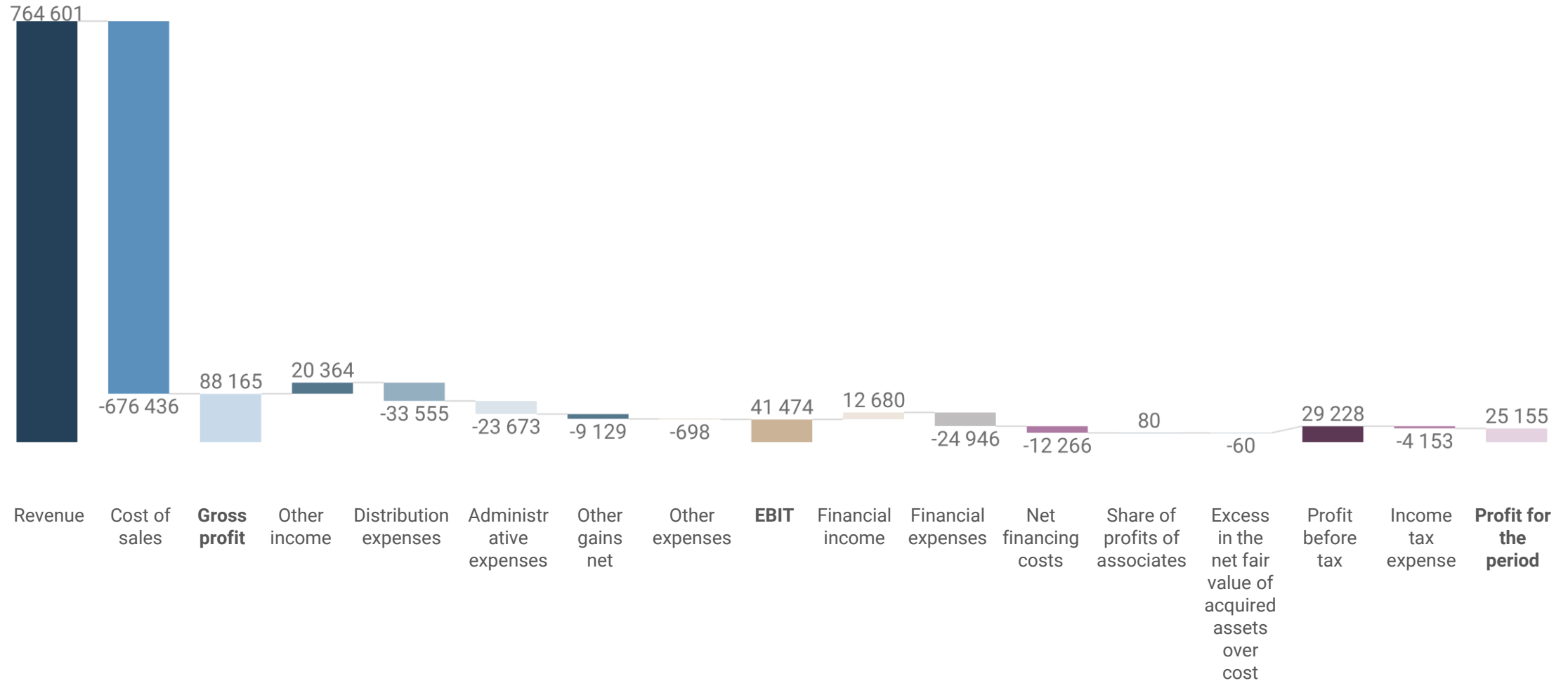
Market

Financials

Capex

Outlook

Annexes



Balance Sheet (PLN thousands)

Introduction

Group Overview

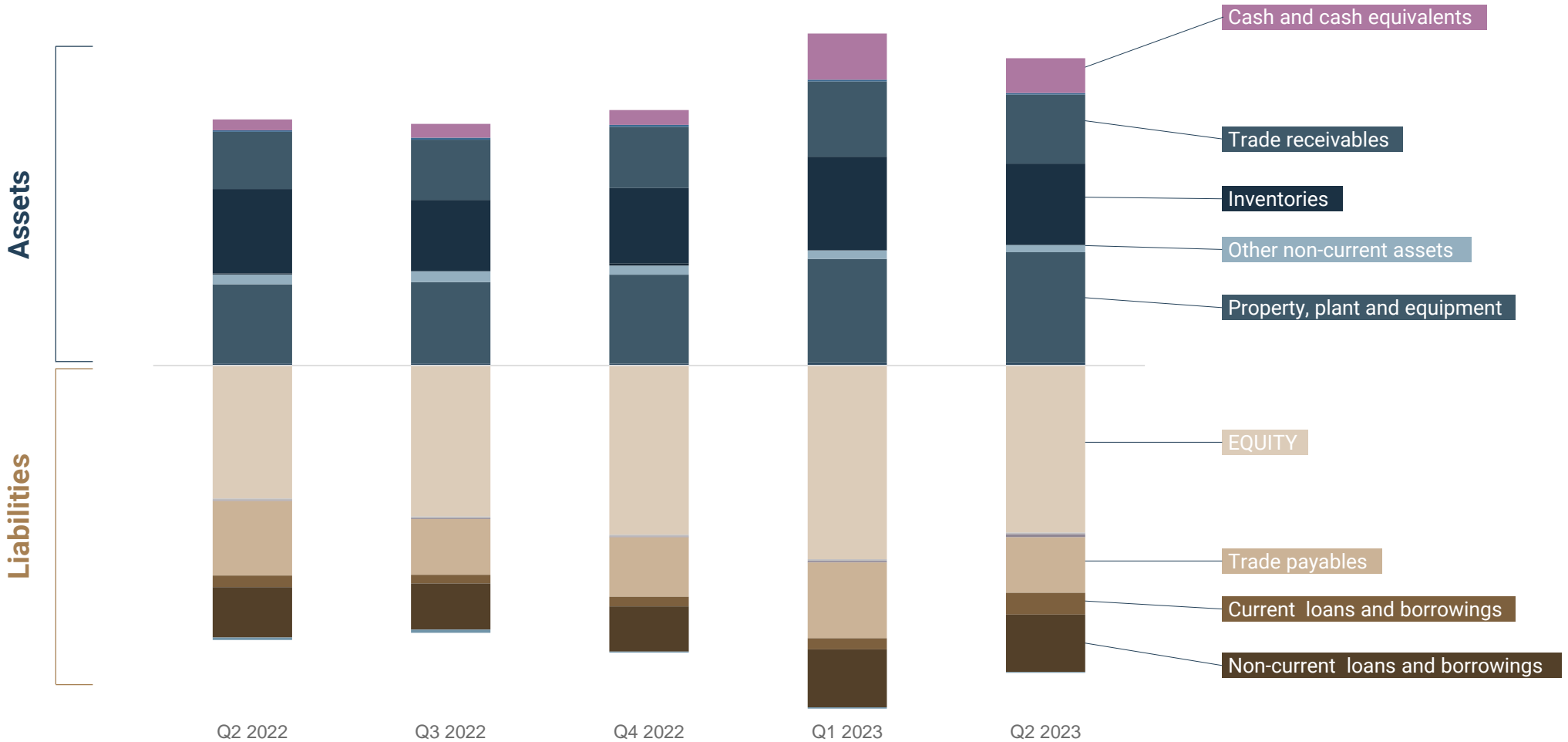
Market

Financials

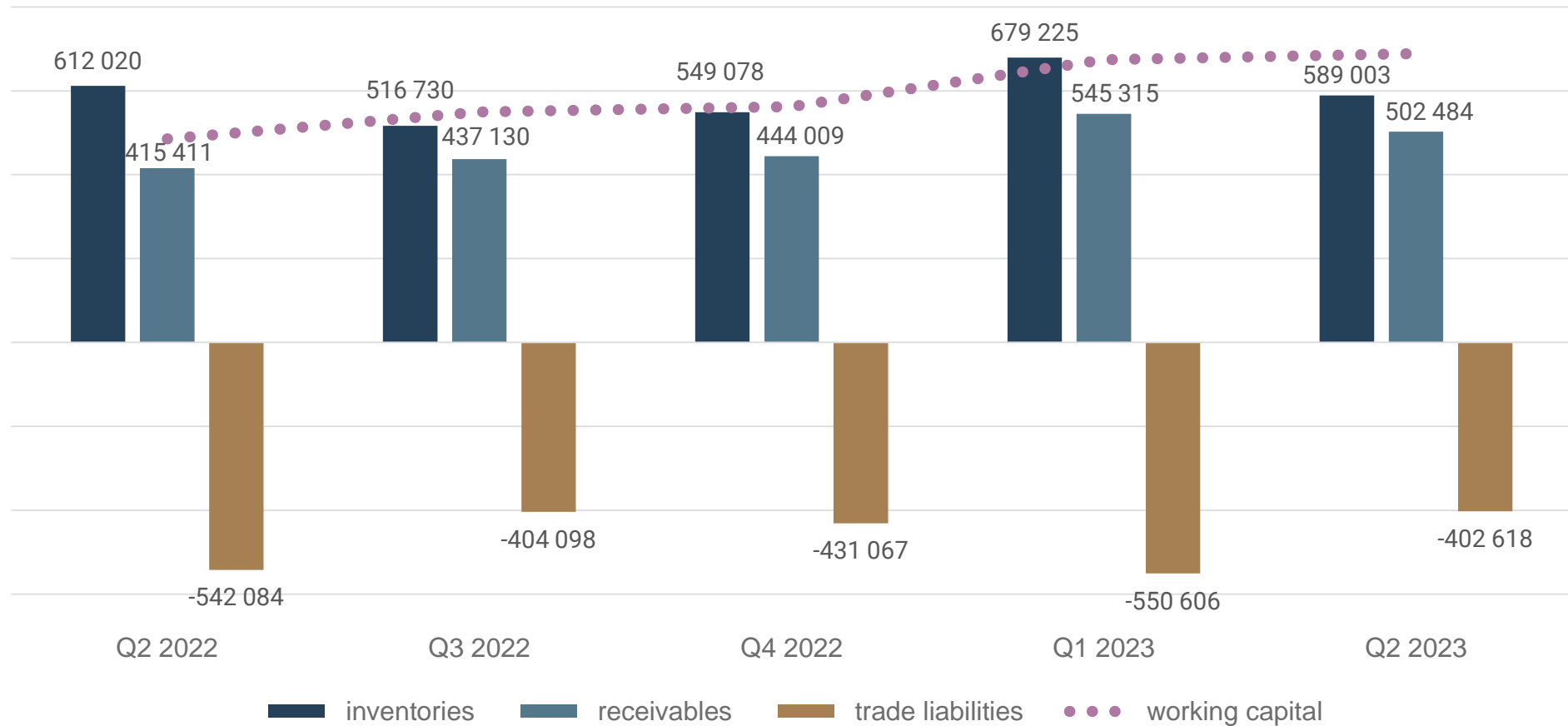
Capex

Outlook

Annexes

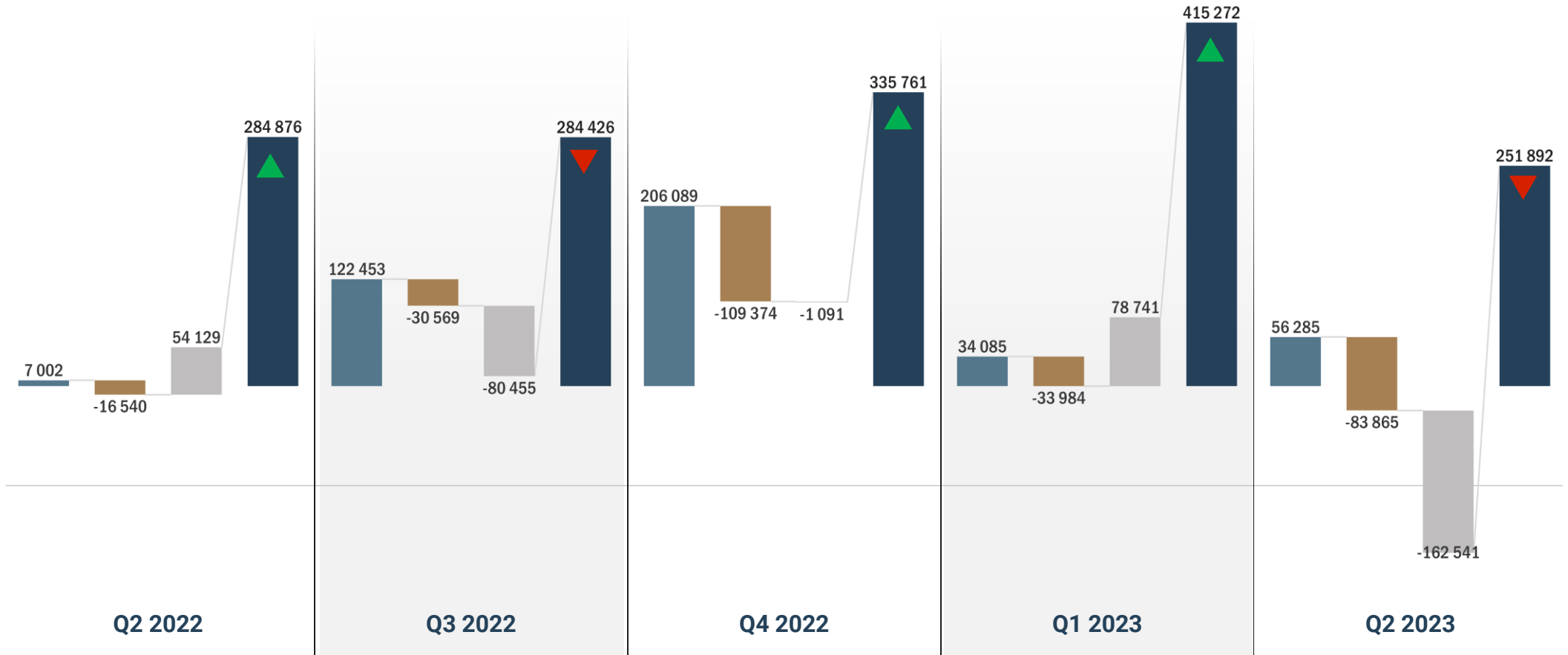


Balance Sheet Working Capital (PLN thousands)



Cash Flows (PLN thousands)

■ Operational
 ■ CAPEX
 ■ Financial
 ■ Cash balance
 ▲ Increase
 ▼ Decrease



Net Debt (PLN thousands) & Leverage

Introduction

Group Overview

Market

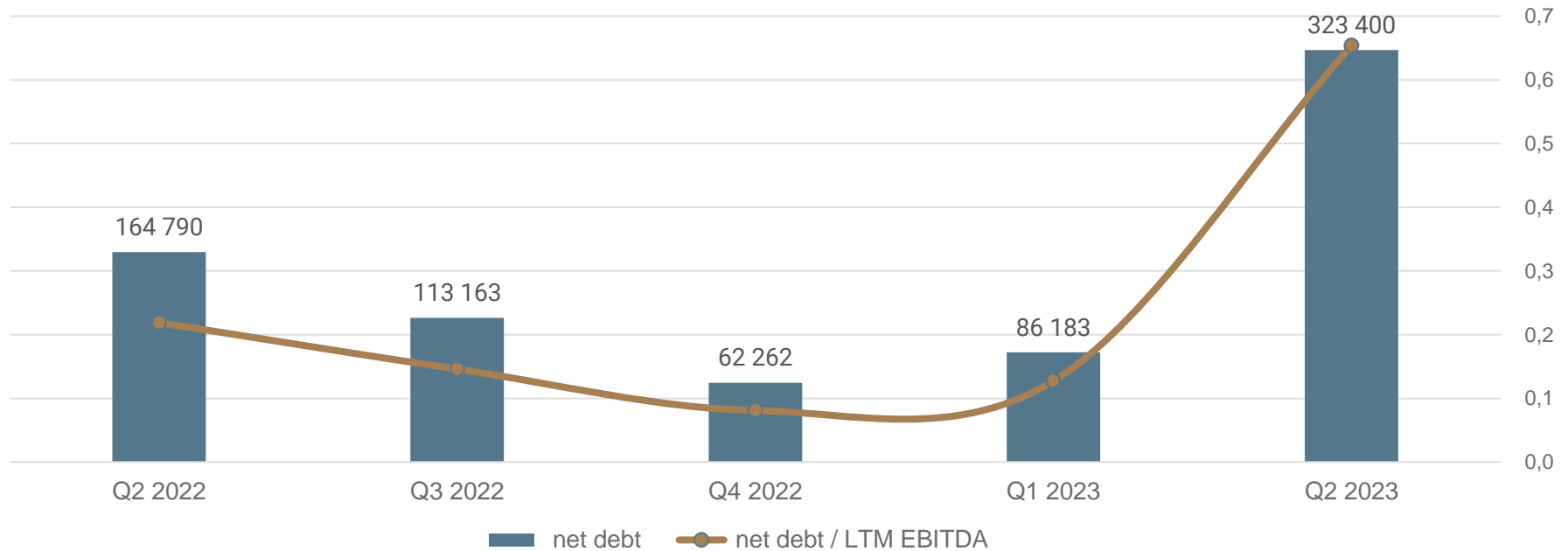
Financials

Capex

Outlook

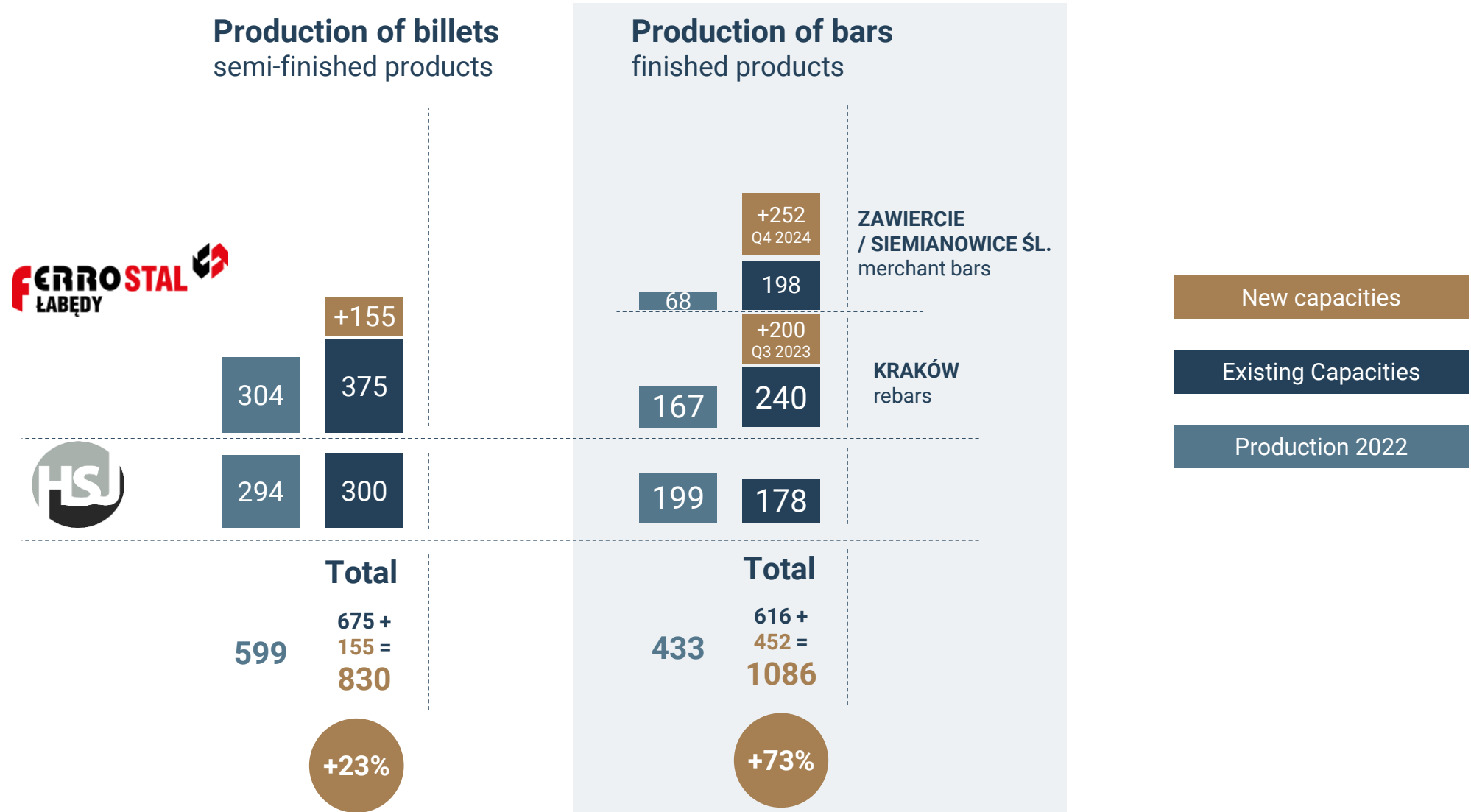
Annexes

Debt ratios



Cognor in new scale (thousand tonnes)

- Introduction
- Group Overview
- Market
- Financials
- Capex**
- Outlook
- Annexes
- 29



Capex- Costs, Financing and Effects

Introduction

Group
Overview

Market

Financials

Capex

Outlook

Annexes

30

Gliwice

replacement of EAF and ancillary items
(Completed)

Cost – approximately PLN 80 million, all expenditures covered by 2022

Financing - equity

Effects – increase of crude steel capacities by at least 155 thousand tonnes of billets per annum

Kraków

entire mill modernisation plus spooling line (Q3 2023; Q3 2024 for spooling line)

Cost – approximately PLN 200 million of which PLN 150 million expected in 2023

Financing - equity

Effects – (i) debottlenecking of 200 thousand tonnes of capacity, (ii) savings of variable costs and emissions inter alia by way of natural gas consumption reduction, (iii) savings of fixed costs by lower labour requirements; (iv) introduction of new product type – rebar coils and (v) improvement of quality

Siemianowice Śląskie

most modern LSM mill in Europe
(Q4 2024)

Cost – approximately PLN 800 million, of which approximately 200 million advanced in 2022, approximately 400 million to be spent in 2023 and approximately 200 million in 2024.

Financing - PLN 240 million and EUR 30.5 million in a 10-year fixed rate bank loan; all loan equity advanced in 2022

Effects – 450 thousand tonnes of new capacities to replace 198 thousand in Zawiercie of which just ca 80 thousand was capable of being utilized due to uncompetitive product mix and high manufacturing cost. A profound reduction of fixed and variable production costs and ultimate product and service quality

Outlook – Q3 2023

Introduction

Group
Overview

Market

Financials

Capex

Outlook

Annexes

Macro trends

(slide 3) unchanged

Prices of

scrap, billets and finished
products expected to stabilize
QoQ

Spreads

stable QoQ

Rebar

market in crisis. Little chance
for meaningful rebound

Low capacity utilisation

due to weak construction
industry demand and
continuation of Cracow
investment project resulting in
stoppage time

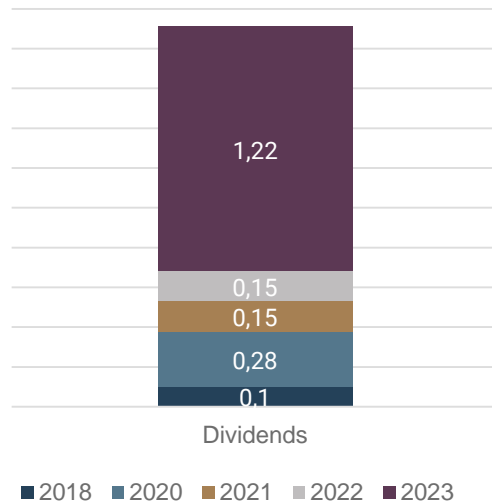
EBITDA

headline similar to Q2 2023
and adjusted EBITDA slightly
weaker

Dividends and Share Quoting

Dividend policy 25% of consolidated net profit

Q2 2022	
LTM net profit	461 190
Equity	1 211 444
Number of shares	171 420 663
30.06.2023	
Share price (PLN)	7,54
P / E	2,80
P / BV	1,07



Trading of Cognor shares on Warsaw Stock Exchange



P&L (PLN thousands)

Introduction

Group Overview

Market

Financials

Capex

Outlook

Annexes

33

STATEMENT OF PROFIT OR LOSS	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023
'000 PLN					
Sales revenue	1 032 055	749 424	923 175	887 447	764 601
Cost of sales	-759 155	-525 130	-752 424	-783 884	-676 436
Gross profit	272 900	224 294	170 751	103 563	88 165
Other income	10 051	9 506	27 155	33 044	20 364
Distribution expenses	-33 026	-33 005	-31 264	-33 255	-33 555
Administrative expenses	-26 125	-22 526	-20 659	-14 740	-23 673
Other gains/(losses) – net	1 318	10 470	-11 503	2 953	-9 129
Other expenses	-1 135	-16 440	10 689	-2 997	-698
EBIT	223 983	172 299	145 169	88 568	41 474
Financial income	26 487	8 403	-6 753	640	12 680
Financial expenses	-11 959	-14 810	-7 711	-16 622	-24 946
Net financing costs	14 528	-6 407	-14 464	-15 982	-12 266
Share of profits of associates	150	0	116	-85	85
Excess in fair value of acquired assets over cost	0	0	0	112 136	-60
Profit before tax	238 661	165 892	130 821	184 637	29 229
Income tax expense	-48 905	-35 549	2 673	-12 359	-4 153
Profit/loss from discontinued operations	0	0	0	0	0
Profit for the period	189 756	130 343	133 494	172 278	25 075
Depreciation and amortization	-10 944	-11 001	-11 179	-12 241	-12 566
EBITDA	234 927	183 300	156 348	100 809	54 040

Revenues down by 268m & 26%
 - shipments down by 14%
 - energy sales: 53m

Gross profit down by 185m & 68%
 - contraction of spreads: 110m
 - increase of production costs: 34m
 - lower shipments: 33m
 - FIFO gain change: 23m
 - energy sale profit (no in Q2 2022): 16m

EBIT down by 183m & 81%
 - CO2 subsidy increase: 11m

Financial income down by 14m & 52%
 Financial costs up by 13m & 109%
 - IRS valuation loss at 10m

Net result down by 165m & 87%
 adjusted net result 51m (v. 167m in Q2 2022)

EBITDA down by 181m & 77%
 adjusted EBITDA 89m (v. 232m in Q2 2022)
 - Cracow stoppage time cost: (-)16m
 - inventory provisions: (-)11m
 - operational FX: (-)10m

Assets (PLN thousands)

Introduction

Group Overview

Market

Financials

Capex

Outlook

Annexes

ASSETS	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023
'000 PLN					
A. TOTAL NON-CURRENT ASSETS	668 823	685 776	740 355	837 426	876 842
I. Intangible assets	14 815	14 558	12 851	20 427	19 448
II. Property, plant and equipment	574 729	592 286	647 439	753 343	803 431
III. Other receivables	12 715	13 658	13 971	14 308	14 643
IV. Investment property and other investments	1 239	1 238	1 204	1 118	1 198
V. Financial instruments assets	58 918	64 036	50 551	46 018	37 679
VI. Prepaid perpetual usufruct of land	0	0	0	0	0
VII. Deferred tax assets	6 407	0	14 339	2 212	443
B. TOTAL CURRENT ASSETS	1 323 212	1 252 873	1 342 661	1 652 219	1 353 599
I. Inventories	612 020	516 730	549 078	679 225	589 003
II. Receivables	415 411	437 130	444 009	545 315	502 484
1. Trade and other receivables	415 296	437 017	427 760	529 048	483 961
2. Current income tax receivable	38	38	16 172	16 187	18 510
3. Other investments	77	75	77	80	13
III. Financial instruments assets	3 922	7 610	6 842	5 441	3 260
IV. Cash and cash equivalents	284 876	284 426	335 761	415 272	251 892
V. Prepayments	0	0	0	0	0
VI. Assets classified as held for sale	6 983	6 977	6 971	6 966	6 966
Total	1 992 035	1 938 649	2 083 016	2 489 645	2 230 441

Fixed assets up by 208m & 31%
 - CAPEX: 278m (inc. PLN 39m of JAP)
 - D&A: 47m
 - financial instruments valuation: 21m
 - utylization of tax shield: 6m

Current assets up by 30m & 2%
 - receivables up by 87m
 trade receivables sold: 185m
 in Q2 2022: 314m
 - cash down by 33m
 includes PLN 72m under L/Cs
 - inventories down by 23m

Equity and Liabilities

Introduction

Group Overview

Market

Financials

Capex

Outlook

Annexes

EQUITY AND LIABILITIES	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023
	'000 PLN				
A. EQUITY	964 602	1 094 938	1 228 431	1 405 164	1 405 164
I. Issued share capital	257 131	257 131	257 131	257 131	257 131
II. Reserves and retained earnings	649 005	772 227	898 965	1 072 209	1 072 209
III. Minority interest	58 466	65 580	72 335	75 824	75 824
B. LIABILITIES	1 027 433	843 711	854 585	1 084 481	1 084 481
I. Non-current liabilities	384 065	353 779	346 112	444 399	444 399
1. Employee benefits obligation	13 144	13 104	11 878	12 272	12 272
2. Interest-bearing loans and borrowings	366 104	334 483	327 536	420 619	420 619
3. Other	4 817	6 192	6 698	11 508	11 508
II. Current liabilities	641 866	488 409	506 928	638 604	638 604
1. Interest-bearing loans and borrowings	70 588	62 011	70 441	80 828	80 828
2. Bank overdraft	12 974	1 095	46	8	8
3. Trade and other payables	542 084	404 098	431 067	550 606	550 606
4. Deferred government grants	4 468	4 575	1 398	1 398	1 398
5. Liability under financial instruments	0	0	0	0	0
6. Employee benefits obligation	2 364	2 143	1 863	1 713	1 713
7. Current income tax payable	8 088	13 187	783	2 721	2 721
8. Provisions for payables	1 300	1 300	1 330	1 330	1 330
III. Liabilities of disposal group	1 502	1 523	1 545	1 478	1 478
Total	1 992 035	1 938 649	2 083 016	2 489 645	2 489 645

Equity up by PLN 246m & 26%
- net result 461m
- dividend 235m

Gross debt up by PLN 126m & 28%
Net debt up by PLN 159m & 96%

Cash Flows & Metrics

Introduction

CASH FLOW	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023
'000 PLN					
A. OPERATING ACTIVITIES	7 002	122 453	162 849	34 085	56 285
B. INVESTING ACTIVITIES	-16 540	-30 569	-109 374	-33 984	-83 865
C. FINANCING ACTIVITIES	54 129	-80 455	-1 091	78 741	-162 541
Net increase in cash	44 591	11 429	52 384	78 842	-190 121

Group Overview

- working capital inflow: 7m
- CAPEX outflow 86m
- debt incurrence: 51m
- debt repayment: 7m
- dividend outflow: PLN 209m
- interest service: 5m

Market

Financials

MAIN METRICS	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023
Liquidity ratio	2.06	2.56	2.64	2.58	2.39
Quick ratio	1.11	1.50	1.56	1.52	1.35
Inventories turnover days	73	89	72	78	78
Receivables turnover days	36	52	43	54	57
EBITDA margin	22.8%	24.5%	20.9%	11.4%	7.1%
Net profit margin	18.4%	17.4%	16.6%	19.4%	3.3%
Equity '000 PLN	964 602	1 094 938	1 228 431	1 405 164	1 211 444
Net debt '000 PLN	164 790	113 163	62 262	86 183	323 400
Net debt / LTM EBITDA	0.2	0.1	0.1	0.1	0.7

liquidity metrics excellent

Inventory ratio up by 4 days and poor
Receivable ratio up by 21 days and fair

Profitability ratios very good

Net leverage up to 0.7 but still very low (good)

Annexes



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