



November 14, 2023

Q3 2023 - Management Discussion and Analysis

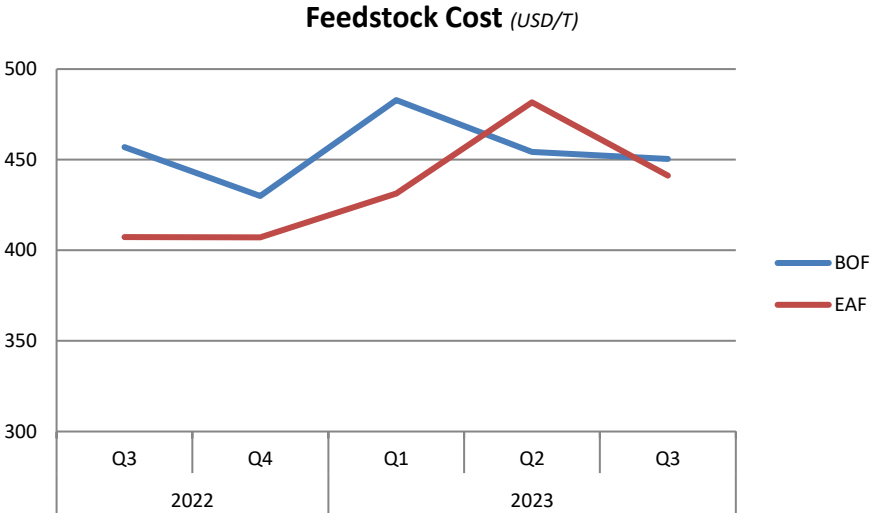
The third quarter of 2023 was again a tough time for the steel industry. In the European Union (EU27) crude steel production fell by 4.8% as compared to Q3 2022 which included a plunge of Poland's output by as much as 17.0%. All major steel producing regions saw their production outputs down with the exception of CIS and China which manufactured more, namely by 9.5% and 3.0% accordingly. The Chinese increase prevailed and hence the world's crude steel production grew to 462.5 million tonnes, which accounts for 2.6% of an increase.

Cognor Holding S.A. (Cognor, the Company, the Group) produced 38.1% less crude steel (billets). Similarly to other market players, we were affected by the very weak market conditions but the primary reason behind our steel output decline was a prolonged stoppage time at our rolling mill in Cracow due to the delay in the completion of the modernization project which has been pending there. Consequently, our melting shop in Gliwice had to limit its output to avoid semi-finished products (billets) stock build-up. Largely for the same reasons, our combined shipments of scrap metal, billets and finished products fell 38.9% below those of Q3 2022. Commensurate with the demand, the price environment was bad as well with scrap metal, billets and finished products falling. The revenues from energy and the excessive CO2 emission rights sales helped us partially amortize the declines and thus our overall sales contracted by 33.3%.

In line with revenues, the Group's profitability measured with EBITDA suffered and decreased to PLN 71.9 million. The main reason behind that were the lower shipments and much weaker spreads, with the average billet spread worse by PLN 817 per tonne and the combined spread for finished products reduced by PLN 791 per tonne. The conversion spreads contracted due to the faster pace of the decrease of prices for billets and finished products compared to the decline of scrap metal prices. The FIFO contribution added losses at the amount of PLN 7.1 million. We also had to recognize a further inventory write-off at the amount of PLN 10.6 million because market prices for some of our billets and finished products held in stock had fallen beneath their manufacturing cost. The Cracow and Gliwice downtime costs brought PLN 24.0 million of losses, which was partially offset by the gain on the sale of the CO2 emission rights to the tune of PLN 14.8 million. Our result on energy sales was also positive at the amount of PLN 14.0 million. An even higher contribution came from the state subsidy programme aimed at the partial amortization of natural gas and electricity costs that are borne by energy intensive industries. In the last quarter, the regulation has allowed us to recognize the amount of PLN 42.0 million, which relates to the period of the last three quarters of which PLN 6.6 million relates to Q3 2023. Another form of aid that we were entitled to was a subsidy designed to alleviate the increased cost of CO2 emission rights, which allowed us to account for a gain of PLN 8.2 million. Finally, our production costs fell as compared to Q3 2022 due to lower prices of various input materials

and components including scrap metal costs, which partially offset the negative influence of shipments and spreads.

The feedstock cost position of the electric arc furnace (EAF) producers vis-à-vis the blast oxygen furnace (BOF) mills has improved and became slightly positive according to our feedstock cost model. This was due to the decrease of scrap metal price relative to the mix of main input materials used by BOF manufacturers as compared to the previous quarter. The slight cost advantage of Cognor as an EAF producer amid the very weak market for commodity steels did not support our billet sales and hence profitability. The billet market is the area where both production methods compete with each other.



In Q3 2023, the Russian war in Ukraine did not harm our operations in any way. We do not rely on sales either to Russia or Ukraine and any supplies of raw materials or other production components have been quickly supplemented from other sources. The sharp and sudden increase of steel product prices, together with the subsequent energy crisis in Europe, boosted our profits in 2022 thanks to the low energy cost which we had secured earlier in 2020 by way of long-term supply contracts. This was no longer the case in Q3 2023 because prices, spreads and costs have broadly normalized in spite of the ongoing warfare. We hope that the Russian aggression ends soon and the Ukrainian people no longer suffer from that barbarian attack. As long as the war continues, a threat to our operations does exist, although we perceive the materialization of that risk as remote.

In summary, the third quarter of 2023 proved far worse for our operations than the third quarter of last year due to the weak construction industry demand and the delay in re-commissioning of our largest rolling mill in Cracow following the wide-ranging modernization works there. Given those circumstances, we perceive our EBITDA at PLN 71.9 million and net profit at PLN 30.1 million as fair. We believe that the steel market conditions have bottomed while the Cracow rolling mill is expected to recommence its production in December.

I. Reported Statement

1. Income Statement

The Group's revenues decreased by PLN 249.9 million (33.3%) due to lower shipments of: (i) scrap metal by 6.5 thousand tonnes (21.4%), (ii) billets by 19.6 thousand tonnes (45.4%) and (iii) finished products by 35.7 thousand tonnes (41.7%). This was partially counterbalanced by revenues from the sale of energy at PLN 47.6 million and the excessive CO2 rights at PLN 22.7 million. The contribution of prices was negative too because of the decreases of: (i) scrap metal - by PLN 200 per tonne (12.8%), (ii) billets - by PLN 1,033 per tonne (24.7%) and (iii) finished products - by PLN 616 per tonne (11.7%).

Our conversion spreads for billets fell by PLN 817 per tonne and for our finished products by PLN 791 per tonne and therefore their contribution to our profitability was negative. That was partially counterbalanced by lower production costs resulting from decreasing prices for most of our production materials and components including scrap metal.

The influence of the very price dynamics (FIFO contribution) on our EBITDA was negative as in the last couple of quarters Cognor has been selling its products during the decreasing price environment regarding scrap metal. In Q3 2023, we estimate the total loss related to inventories at PLN 7.1 million compared to a loss of PLN 63.0 million a year ago.

The significant factors impacting our results were: (i) idling of our rolling mill in Cracow due to modernization works which have been going on there since the beginning of 2023 and (ii) downtimes at our steel melting shop in Gliwice due to the delay in re-commissioning of the Cracow mill which is supplied with billets produced in Gliwice. These downtime costs amounted to PLN 55.6 million in the whole of 2023 and PLN 24.0 million in Q3 2023 alone. We expect these costs to reduce in Q4 2023 as the re-commissioning of the Cracow mill is finally scheduled by December 2023. A counterbalancing factor was the sales of the excessive CO2 rights which resulted in a gain of PLN 14.8 million. In 2022, no such costs and gains occurred.

The contribution from energy sales on our EBITDA was positive with a profit of PLN 14 million in Q3 2023, while a year ago there was also a profit of PLN 95.1 million.

In the results of Q3 2023, we accounted an amount of PLN 8.2 million, which we expect to receive in 2024 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. In the first three quarters of 2023 we recognized the total amount of PLN 38.0 million yet the final amount for the whole year and thus for the forthcoming quarter will depend on: (i) the quotation of CO2 emission rights, (ii) the actual production output and (iii) the degree of a pro-rata reduction, should the total value of compensation demands in Poland exceed the general limit. In Q3 2022, the amount of PLN 6.0 million was accounted in respect of the said compensation scheme.

Another supporting item was a subvention from legislation adopted in 2022 which is designed to help energy intensive industries in Poland to cope with the sudden cost increases of natural gas and electricity as compared to 2021. In our results of the last quarter we recognized the amount of PLN 42 million for the first three quarters of 2023 in which PLN 6.6 million pertains to Q3 2023 alone. In 2022, such a subsidy did not appear in our results at all; the 2022 aid was accounted for later in Q1 2023 when it was actually received.

EBIT and EBITDA both decreased by PLN 112.3 million and PLN 111.4 million respectively. The EBITDA margin fell from 24.5% down to 14.4%. The FX development had a negative

effect on our operations with the average EUR/PLN exchange rate by 5.1% lower and the USD/PLN exchange rate declined by as much as 12.1% as compared to Q3 2022. Similarly, the impact on our net financial costs was negative too - the net FX gain related to the Company's indebtedness accounted for PLN 3.9 million while the EUR/PLN exchange rate quoted 4.64 as of September 30, 2023 and 4.45 as of June 30, 2023.

AVERAGE EXCHANGE RATES		Q3 2023	Q3 2022
	PLN		
EUR/PLN		4.50	4.74
	% change	-5.1%	
USD/PLN		4.14	4.71
	% change	-12.1%	

EXCHANGE RATES	30-Sep-2023	30-Jun-2023	30-Sep-2022
PLN			
EUR/PLN	4.64	4.45	4.87
	% change (Jun 23 / Mar 23)	4.2%	
USD/PLN	4.37	4.12	4.95
	% change (Jun 23 / Mar 23)	6.0%	

Due to the currency development in Q3 2023, our operational FX result was positive at PLN 7.6 million.

Our financial income was negative at PLN 3.2 million primarily due to FX unrealized losses regarding our indebtedness at the amount of PLN 3.9 million. It was lower as compared to Q3 2022 when it was a gain of PLN 8.4 million in which the valuation of financial instruments (IRS) contributed positively to the tune of 8.8 million.

The valuation of our financial instruments (IRS) brought a loss of PLN 2.3 million due to the decrease of long-term PLN interest rates in Q3 2023. Our total financial costs stood at PLN 16.1 million and were higher by PLN 1.3 million as compared to Q3 2022 when they amounted to PLN 14.8 million.

Our spreads worsened for billets as well as for products in the case of both Ferrostal (Gliwice, Zawiercie and Cracow) HSJ (Stalowa Wola) and were as follows.

PRICES AND SPREADS	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022
<i>(pln/ tonne)</i>					
FERROSTAL					
SCRAP METAL - all purchases	1 587	1 752	1 645	1 625	1 669
BILLETS - sales to external customers	2 856	3 047	3 369	3 858	3 924
BILLET SPREAD	1 269	1 295	1 724	2 233	2 255
FINISHED PRODUCTS - sales to external customers	3 554	3 637	4 045	4 180	4 536
PRODUCT SPREAD	1 966	1 885	2 400	2 554	2 866
HSJ					
SCRAP METAL - all purchases	1 513	1 703	1 866	1 738	1 775
BILLETS - sales to external customers	3 473	3 847	4 090	4 072	4 357
BILLET SPREAD	1 960	2 144	2 224	2 334	2 582
FINISHED PRODUCTS - sales to external customers	5 021	5 355	5 652	5 672	6 038
PRODUCT SPREAD	3 508	3 652	3 786	3 934	4 263

INCOME STATEMENT	Q3 2023	Q2 2023	Q3 2022
	<i>'000 PLN</i>		
Revenue	499 497	764 601	749 424
Cost of sales	-457 697	-676 436	-525 130
Gross profit	41 800	88 165	224 294
Other income	52 252	20 364	9 506
Distribution expenses	-22 630	-33 555	-33 005
Administrative expenses	-17 181	-23 673	-22 526
Other gains/(losses) – net	8 156	-9 129	10 470
Other expenses	-2 397	-698	-16 440
EBIT	60 000	41 474	172 299
Financial income	-3 227	12 680	8 403
Financial expenses	-16 072	-24 946	-14 810
Net financing costs	-19 299	-12 266	-6 407
Share of profits of associates	22	80	0
Excess in the net fair value of acquired assets over cost	0	-60	0
Profit before tax	40 723	29 228	165 892
Income tax expense	-10 646	-4 153	-35 549
Profit/loss for the period from discontinued operations	0	0	0
Profit for the period	30 077	25 075	130 343
Depreciation and amortization	-11 897	-12 566	-11 001
EBITDA	71 897	54 040	183 300

The non-recurring items had negative effects 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 2023	Q2 2023	Q3 2022
	<i>'000 PLN</i>		
Reported EBITDA	71897	54 040	183 300
Non-recurring items including:	18 179	-34 703	-3 613
- revenues & costs of sales	-23941	27 105	2
- other income	36 420	1 939	1 318
- distribution expenses	-19	-7	-26
- administrative expenses	0	0	0
- other gains/losses	538	1 019	181
- operational FX result	7 618	-10 148	10 289
- other impairments	-2 429	-401	-15377
Adjusted EBITDA	53718	88 743	186 913
Reported net result	30 077	25 075	130 343
Non-recurring items including:	8 961	-26 299	778
- EBITDA adjustments	18 179	-34 703	-3 613
- FX result on debt	-3 905	4 697	-3 428
- financial instruments result	-2 329	-3 588	8 806
- gain on bargain purchase	0	-60	0
- share of associate result	22	80	0
- pro-forma income tax adjustment	-3 013	7 275	-987
Adjusted net result	21 116	51 374	129 565

According to the above, the Q3 2023 adjusted EBITDA stood at PLN 53.7 million and the adjusted net profit was to the tune of PLN 21.1 million. They were much lower compared to the adjusted results of Q3 2022 when the Group had PLN 186.9 million of recurring EBITDA and PLN 129.6 million of adjusted net profit.

2. Balance Sheet

During the last twelve months, the value of non-current assets increased by PLN 335.1 million due to the increase of the value of property, plant and equipment and perpetual usufruct of land to the tune of PLN 357.0 million in which PLN 39.1 million resulted from the acquisition of shares in JAP Industries s.r.o. and SPED-EX Trinec s.r.o. That was primarily the effect of the acquisition of property, plant and equipment at the amount of PLN 405.9 million, in which PLN 156.3 million related to the acquisitions conducted in Q3 2023. That was partially offset by disposals to the tune of PLN 3.1 million, in which PLN 1.8 million were carried out in Q3 2023. The counterbalancing effect also had the following elements: (i) amortization and depreciation charges at the amount of PLN 47.9 million and (ii) reduction in the value of financial instruments (IRS) by PLN 29.2 million.

Current assets decreased by PLN 10.4 million primarily due to a decrease of cash balance by PLN 116.2 million which was partially offset by increases in: (i) receivables by PLN 70.1 million and (ii) inventories by PLN 39.5 million. The decrease of cash balance was mainly related to payment for capital expenditures. The increase of receivables was largely driven, namely to the tune of PLN 127.4 million, by the increase of the value of tax refunds and state subsidies, including those under the CO2 and energy compensation schemes. The level of receivables was furthermore influenced by the value of receivables sold under the non-recourse factoring arrangements. At the end of Q3 2023, the net amount of receivables disposed (accounts receivable transferred, reduced by the amount owed by factors) accounted for PLN 105.1 million, while a year ago it was as much as PLN 230.0 million. Inventories grew as a result of higher volumes held in stock which was partially counterbalanced by the lower production cost driven by cheaper scrap metal as well as other materials and components.

As a result of the afore-mentioned changes, our total assets saw an increase of PLN 324.7 million and 16.7%.

ASSETS	Q3 2023	Q2 2023	Q3 2022
	<i>'000 PLN</i>		
A. TOTAL NON-CURRENT ASSETS	1 020 901	876 842	685 776
I. Intangible assets	19 094	19 448	14 558
II. Property, plant and equipment	949 323	803 431	592 286
III. Other receivables	15 076	14 643	13 658
IV. Investment property and other investments	1 120	1 198	1 238
V. Financial instruments assets	34 839	37 679	64 036
VI. Prepaid perpetual usufruct of land	0	0	0
VII. Deferred tax assets	1 449	443	0
B. TOTAL CURRENT ASSETS	1 242 436	1 353 599	1 252 873
I. Inventories	556 255	589 003	516 730
II. Receivables	507 220	502 484	437 130
1. Trade receivables	487 305	483 961	437 017
2. Current income tax receivable	19 900	18 510	38
3. Other investments	15	13	75
III. Financial instruments assets	3 828	3 260	7 610
IV. Cash and cash equivalents	168 178	251 892	284 426
V. Prepayments	0	0	0
VI. Assets classified as held for sale	6 955	6 960	6 977
VII. Assets of disposal groups	0	0	0
TOTAL ASSETS	2 263 337	2 230 441	1 938 649

Cognor's equity of Q3 2023 increased by PLN 148.5 million primarily as a result of the positive net result of the last 12 months at the amount of PLN 360.9 million which was partially offset by the adoption and payment of the 2022 dividend at the amount of 209.1. Our net debt stood at PLN 406.8 million – increased by PLN 293.6 million as compared to Q3 2022. The increase is related primarily to capital expenditures financing.

EQUITY AND LIABILITIES	Q3 2023	Q2 2023	Q3 2022
<i>'000 PLN</i>			
A. EQUITY	1 243 398	1 211 444	1 094 938
I. Issued share capital	257 131	257 131	257 131
II. Reserves and retained earnings	907 253	876 991	772 227
III. Minority interest	79 014	77 322	65 580
B. LIABILITIES	1 019 939	1 018 997	843 711
I. Non-current liabilities	434 222	451 535	353 779
1. <i>Employee benefits obligation</i>	<i>12 994</i>	<i>13 076</i>	<i>13 104</i>
2. <i>Interest-bearing loans and borrowings</i>	<i>390 714</i>	<i>416 754</i>	<i>334 483</i>
3. <i>Other</i>	<i>30 514</i>	<i>21 705</i>	<i>6 192</i>
II. Current liabilities	584 196	565 963	488 409
1. <i>Interest-bearing loans and borrowings</i>	<i>150 997</i>	<i>130 538</i>	<i>62 011</i>
2. <i>Bank overdraft</i>	<i>33 217</i>	<i>28 000</i>	<i>1 095</i>
3. <i>Trade and other payables</i>	<i>395 129</i>	<i>402 618</i>	<i>404 098</i>
4. <i>Deferred government grants</i>	<i>1 557</i>	<i>1 537</i>	<i>4 575</i>
5. <i>Liability under financial instruments</i>	<i>0</i>	<i>0</i>	<i>0</i>
6. <i>Employee benefits obligation</i>	<i>1 929</i>	<i>1 826</i>	<i>2 143</i>
7. <i>Current income tax payable</i>	<i>67</i>	<i>114</i>	<i>13 187</i>
8. <i>Provisions for payables</i>	<i>1 300</i>	<i>1 330</i>	<i>1 300</i>
III. Liabilities of disposal group	1 521	1 499	1 523
TOTAL EQUITY AND LIABILITIES	2 263 337	2 230 441	1 938 649

3. Cash flow

The Group had a positive operating cash flow in Q3 2023 due to the positive EBITDA which was partially offset by the outflow of cash from working capital at the amount of PLN 35.7 million. Investment activities proved negative with CAPEX outflows amounting to PLN 78.2 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 48.2 million and (ii) payment of interest charges and fees at the amount of PLN 17.1 million. This was counterbalanced by the incurrence of new debt at the amount of PLN 24.5 million.

CASH FLOW	Q3 2023	Q2 2023	Q3 2022
<i>'000 PLN</i>			
A. OPERATING ACTIVITIES	31692	56285	122 453
B. INVESTING ACTIVITIES	-78 204	-83 865	-30 569
C. FINANCING ACTIVITIES	-42 490	-162 541	-80 445
NET INCREASE IN CASH	-89 002	-190 121	11 429

II. Main Metrics

Liquidity metrics worsened but they remain very good. Efficiency ratios worsened with inventory and cycle poor and receivable collection weak. In both cases the underlying reasons were low revenues. The EBITDA and net profit margins deteriorated showing much lower prints. Equity and indebtedness went up. Although still low, our leverage increased due to the incurrence of debt and the weaker LTM EBITDA.

MAIN METRICS	Q3 2023	Q2 2023	Q3 2022
Liquidity ratio	2.12	2.39	2.56
Quick ratio	1.17	1.35	1.50
Inventories turnover (days)	109	78	89
Receivables turnover (days)	88	57	52
EBITDA margin	14.4%	7.1%	24.5%
Net profit margin	6.0%	3.3%	17.4%
Equity	1 243 398	1 211 444	1 094 938
Net debt	406 750	323 400	113 163
Net debt / LTM EBITDA	1.1	0.7	0.1

III. Communication with Media and Investors

Our Q3 2023 results will be presented on Thursday, **November 16, 2023**. 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_YzJmZDQwYTctMzBiY00YzUyLTNmMDMtYTQ1ZTg1NzMwOTVj%40thead.v2/0?context=%7b%22Tid%22%3a%22d509b1a0-bbd1-4ee1-ab17-b888cff6ae%22%2c%22Oid%22%3a%2285bdfde-c380-4418-8cbe-5cac4ee40069%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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Krzysztof Zoła

Member of the Executive Board

.....

Przemysław Grzesiak

Vice-chairman of the Executive Board

.....

Dominik Barszcz

Member of the Executive Board

Poraj, November 14, 2023