



May 15, 2024

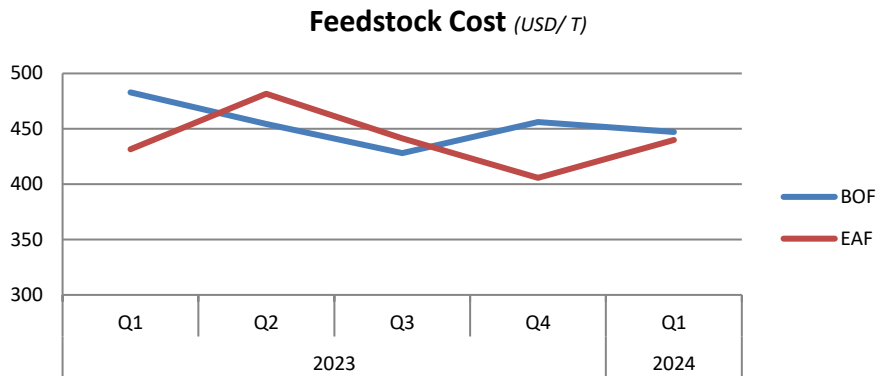
Q1 2024 - Management Discussion and Analysis

The first quarter of 2024 saw a slight uptick in steel demand. This did not pertain to the European Union (EU27) though, where crude steel production fell by 1.4% as compared to Q1 2023, which included a deterioration of Poland's output by 3.5%. The USA too produced less by 1.6% and even China, the world's largest producer, had their output trending down by 1.9%. The offset came from South America and Africa plus Middle East with their positive prints of 3.2% and as much as 10.9% accordingly. In total, the world's crude steel production rose to 469.1 million tonnes which accounts for an increase of 0.5%.

At this backdrop, Cognor Holding S.A. (Cognor, the Company, the Group) did relatively well having produced 7.7% more of crude steel (billets). This was entirely thanks to much larger shipments of semi-finished products (billets), namely by 167.1%. In spite of lower sales of scrap metal and finished products volume-wise, our combined shipments of scrap metal, billets and finished products rose 27.4% above those in Q1 2023. On the other hand, the price environment was very unfavourable with scrap metal, billets and finished products falling. Unlike in Q1 2023, when we had PLN 151.4 million of revenues from the sale of energy, we did not enjoy such a big support and thus our overall sales contracted by 22.7%.

In line with the revenues, the Group's profitability measured with EBITDA suffered and decreased to PLN 26.7 million. Although, the contribution from inventories proved supportive thanks to PLN 8.9 million of FIFO gains, yet the development of spreads weighted much heavier on our profitability with the average billet spread weaker by PLN 824 per tonne and the combined spread for finished products lower by PLN 1,063 per tonne. The spreads worsened due to the faster pace of decreases regarding billets and finished products compared to the decrease of scrap metal price. Some counterbalancing effects had higher shipments and overall lower production costs. As mentioned, the lack of sizeable trading on energy resulted in almost no gains from that source. The state subsidies aimed at amortizing the increased costs of CO₂ and energy have remained significant positive contributors to our profitability bringing the amount of PLN 25.5 million of gains.

The feedstock cost position of the electric arc furnace (EAF) producers vis-à-vis the blast oxygen furnace (BOF) mills proved positive according to our feedstock cost model. This was due to the cheaper price of scrap metal relative to the mix of main input materials used by BOF manufacturers. The more competitive position of Cognor as an EAF producer has helped us to increase billet sales, which is the market area where both production methods compete with each other.



In Q1 2024, the Russian war in Ukraine no longer had any meaningful impact on our operations. We do not rely on sales either to Russia or Ukraine and any supplies of raw materials or other production components were quickly supplemented by us 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 and to some extent in 2023 thanks to the low energy cost of ours which we had secured earlier in 2020 by way of long-term supply contracts. That was no longer the case in the last quarter 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 last quarter was by far worse for our operations than the first quarter of last year due to the weak construction industry demand and the ongoing commissioning of our largest rolling mill in Cracow, following the extensive modernization project that had been undertaken there. Unfortunately, we have not been able to quickly achieve satisfactory levels of capacity utilization with just 1.1 thousand tonnes of bars produced in February, 5.0 thousand tonnes in March and 11.1 thousand tonnes in April, which resulted in further stoppage time costs. During commissioning stage it is usual that numerous technical and organisational issues occur which prevent the line from being fully operational from day one. Given the progress we've made so far in handling of the line, we expect being able to reach the designed output levels by the middle of the year. On a positive note, we continue seeing fair demand by the automotive industry. Overall, the negative phenomena prevailed significantly affecting our EBITDA level which we consider as unsatisfactory yet positive at the amount of PLN 26.7 million. Albeit, our net result proved much below our ambitions too, it was a profit of PLN 6.2 million.

I. Reported Statement

1. Income Statement

The Group's revenues decreased by PLN 201.2 million and 22.7% due to lower prices of: (i) scrap metal by PLN 267 per tonne and 15.6%, (ii) billets by 1,220 per tonne and 32.6% and (iii) finished products by 1,167 per tonne and 23.0%. That was partially offset by higher shipments of billets by 58.6 thousand tonnes and 167.1% while our shipments of scrap metal and finished products weighted negatively and their sales volume-wise fell by 13.9 thousand tonnes and 42.0% as well as by 2.8 thousand tonnes and 3.2% accordingly. The sale of energy did not support our revenues as it reached the amount of just PLN 4.2 million compared to as much as PLN 151.1 million in Q1 2023.

Our conversion spread for billets fell by PLN 824 per tonne and for our finished products it decreased by PLN 1,063 per tonne and hence their combined contribution to our profitability was strongly negative. That was somewhat counterbalanced by the lower production costs resulting from the decreases of prices for certain production materials and components.

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 Q1 2024, we estimate the total support related to inventories at PLN 8.9 million compared to PLN 4.3 million a year ago.

In the results of Q1 2024 we accounted an amount of PLN 17.3 million, which we expect to receive in 2025 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 Q1 2023, the amount of PLN 13.0 million was accounted in respect of the said compensation scheme. In addition, we also accounted the amount of PLN 8.2 million which we expect to receive under another state aid program which is designed to partially amortize the increased energy costs. Last year, we accounted the amount of PLN 16.9 million under that subsidy.

EBIT and EBITDA both decreased by PLN 73.9 million and 83.4% and PLN 74.2 million and 73.6% respectively. The EBITDA margin fell from 11.4% down to 3.9%. The FX development had a negative effect on our operations with the average EUR/PLN exchange rate 8.3% lower and the USD/PLN exchange rate 9.1% weaker as compared to Q1 2023. The impact on our net financial costs was negligible - the net FX gain related to the Company's indebtedness accounted for PLN 1.2 million while the EUR/PLN exchange rate quoted 4.30 as of March 31, 2024 and 4.35 as of December 31, 2023. In Q1 2023 it was even a smaller amount - a gain of just PLN 0.3 million.

AVERAGE EXCHANGE RATES		Q1 2024	Q1 2023
	<i>LN</i>		
EUR/PLN		4.32	4.71
	% change	-8.3%	
USD/PLN		3.99	4.39
	% change	-9.1%	

EXCHANGE RATES	31-Mar-2024	31-Dec-2023	31-Mar-2023
<i>PLN</i>			
EUR/PLN	4.30	4.35	4.68
% change (Mar 24 / Dec 2023)	-1.1%		
USD/PLN	3.99	3.94	4.29
% change (Mar 24 / Dec 2023)	1.4%		

Due to the currency development in Q1 2024, our operational FX result was negative at PLN 1.9 million and a year ago it was also a loss of PLN 3.0 million.

The valuation of our financial instruments (IRS) brought a gain of PLN 7.5 million due to the increase of long-term PLN interest rates in Q1 2024. In Q1 2023 we had a loss of PLN 6.3 from that source. Our total financial income was therefore higher by PLN 8.5 million as compared to Q1 2023 and stood at PLN 9.1 million. Our financial costs were lower by 1.4 million and reached the amount of PLN 15.2 million.

Our spreads worsened for billets and for products in the case of both of our melting shops. The spreads for Ferrostal and HSJ plants were as follows.

PRICES AND SPREADS	Q1 2024	Q4 2023	Q3 2023	Q2 2023	Q1 2023
<i>(pln/ tonne)</i>					
FERROSTAL					
SCRAP METAL - all purchases	1 538	1 450	1 587	1 752	1 645
BILLETS - sales to external customers	2 394	2 490	2 856	3 047	3 369
BILLET SPREAD	856	1 040	1 269	1 295	1 724
FINISHED PRODUCTS - sales to external customers	3 134	3 283	3 553	3 637	4 045
PRODUCT SPREAD	1 596	1 833	1 966	1 885	2 400
HSJ					
SCRAP METAL - all purchases	1 609	1 560	1 513	1 703	1 866
BILLETS - sales to external customers	3 252	3 131	3 473	3 847	4 090
BILLET SPREAD	1 643	1 571	1 960	2 144	2 224
FINISHED PRODUCTS - sales to external customers	4 222	4 488	5 021	5 355	5 652
PRODUCT SPREAD	2 613	2 928	3 508	3 652	3 786

INCOME STATEMENT	Q1 2024	Q4 2023	Q1 2023
	<i>'000 PLN</i>		
Revenue	686 280	569 979	887 447
Cost of sales	-660 813	-523 303	-783 884
Gross profit	25 467	46 676	103 563
Other income	39 812	18 202	33 044
Distribution expenses	-34 831	-26 765	-33 255
Administrative expenses	-17 415	-19 122	-14 740
Other gains/(losses) – net	2 216	-5 555	2 953
Other expenses	-573	-172	-2 997
EBIT	14 676	13 264	88 568
Financial income	9 124	901	640
Financial expenses	-15 232	-3 794	-16 622
Net financing costs	-6 108	-2 893	-15 982
Share of profits of associates	42	37	-85
Excess in the net fair value of acquired assets over cost	0	0	112 136
Profit before tax	8 610	10 408	184 637
Income tax expense	-2 415	-2 030	-12 359
Profit/loss for the period from discontinued operations	0	0	0
Profit for the period	6 195	8 378	172 278
Depreciation and amortization	-11 981	-12 356	-12 241
EBITDA	26 657	25 620	100 809

The non-recurring items had positive 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	Q1 2024	Q4 2023	Q1 2023
	<i>'000 PLN</i>		
Reported EBITDA	26 657	25 620	100 809
Non-recurring items including:	4 865	931	40 198
- revenues & costs of sales	- 7 213	5 125	20 692
- other income	9 365	1 271	19 246
- distribution expenses	602	-379	-3
- administrative expenses	0	0	0
- other gains/losses	4 081	357	5 970
- operational FX result	-1 865	-5 909	-3 017
- other impairments	-105	463	-2 690
Adjusted EBITDA	21 792	24 689	60 611
Reported net result	6 195	8 378	172 278
Non-recurring items including:	11 286	11 212	139 787
- EBITDA adjustments	4 865	931	40 198
- FX result on debt	1 235	7 057	280
- financial instruments result	7 492	4 153	-6 302
- gain on bargain purchase	0	0	112 136
- share of associate result	42	37	-85
- pro-forma income tax adjustment	-2 348	-966	-6 440
Adjusted net result	-5 091	-2 834	32 491

According to the above, the Q1 2024 adjusted EBITDA stood at PLN 21.8 million and the adjusted net result was a loss of PLN 5.1 million. They were much lower compared to the adjusted results of Q1 2023 where the Group had PLN 60.6 million of recurring EBITDA and PLN 32.5 million of adjusted net profit.

2. Balance Sheet

During the last twelve months, the value of non-current assets increased by PLN 480.6 million due to the increase of the value of property, plant and equipment to the tune of PLN 485.9 million. That was primarily the effect of the acquisition of property, plant and equipment at the amount of PLN 550.7 million in which PLN 143.3 million related to Q1 2024. That was partially offset by disposals to the tune of PLN 12.3 million, in which PLN 8.1 million were carried out in Q1 2024. The valuation of our financial instruments resulted in a further decrease of the value of non-current assets by PLN 10.4 million. The effect counterbalancing the overall increase in non-current assets had also amortization and depreciation charges at the amount of PLN 48.8 million.

Current assets decreased by PLN 384.1 million primarily due to reductions of: (i) cash balance by PLN 264.3 million and (ii) inventories by PLN 154.5 million which were partially offset by an increase of receivables by PLN 43.8 million. The lower cash position was predominantly due to payments in relation to capital expenditures while inventories decreased as a result of lower stock levels and lower scrap and certain other production components' costs. The increase of receivables was caused by: (i) the higher balance of tax and subvention receivables to the tune of PLN 41.8 million, (ii) increased factoring receivables by PLN 18.1 million and (iii) larger balance of advance payments related to capital spending by the amount of PLN 15.0 million. This was partially offset by the lower balance of trade receivables to the tune of PLN 37.8 million. The level of receivables was furthermore influenced by the value of receivables sold under the non-recourse factoring arrangements. At the end of Q1 2024, the net amount of receivables disposed (accounts receivable transferred, reduced by the amount owed by factors) accounted for PLN 200.8 million, while a year ago it was PLN 218.8 million.

As a result of the afore-mentioned changes, our total assets saw an increase of PLN 96.5 million and 3.9%.

ASSETS	Q1 2024	Q4 2023	Q1 2023
	<i>'000 PLN</i>		
A. TOTAL NON-CURRENT ASSETS	1 318 025	1 181 785	837 426
I. Intangible assets	17 532	18 196	20 427
II. Property, plant and equipment	1 239 216	1 116 622	753 343
III. Other receivables	22 117	15 417	14 308
IV. Investment property and other investments	1 148	1 106	1 118
V. Financial instruments assets	35 652	28 645	46 018
VI. Prepaid perpetual usufruct of land	0	0	0
VII. Deferred tax assets	2 360	1 799	2 212
B. TOTAL CURRENT ASSETS	1 268 116	1 092 139	1 652 219
I. Inventories	524 682	523 859	679 225
II. Receivables	589 145	414 245	545 315
1. Trade receivables	573 310	403 933	529 048
2. Current income tax receivable	15 815	10 299	16 187
3. Other investments	20	13	80
III. Financial instruments assets	3 302	2 817	5 441
IV. Cash and cash equivalents	150 987	144 269	415 272
V. Prepayments	0	0	0
VI. Assets classified as held for sale	0	6 949	6 966
VII. Assets of disposal groups	0	0	0
TOTAL ASSETS	2 586 141	2 273 924	2 489 645

Cognor's equity of Q1 2024 decreased by PLN 162.2 million primarily as a result of: (i) payment of a dividend at the amount of PLN 209.2 million and (ii) exchange rate loss related to foreign entity at the amount of PLN 13.9 million. That was partially counterbalanced by the positive net result of the last 12 months at PLN 69.7 million. Our net debt stood at PLN 562.6 million – more by PLN 476.4 million as compared to Q1 2023.

EQUITY AND LIABILITIES	Q1 2024	Q4 2023	Q1 2023
	<i>'000 PLN</i>		
A. EQUITY	1 242 996	1 241 210	1 405 164
I. Issued share capital	257 131	257 131	257 131
II. Reserves and retained earnings	906 541	904 817	1 072 209
III. Minority interest	79 324	79 262	75 824
B. LIABILITIES	1 343 145	1 032 714	1 084 481
I. Non-current liabilities	512 410	412 335	444 399
1. <i>Employee benefits obligation</i>	<i>12 728</i>	<i>13 126</i>	<i>12 272</i>
2. <i>Interest-bearing loans and borrowings</i>	<i>487 521</i>	<i>389 351</i>	<i>420 619</i>
3. <i>Other</i>	<i>12 161</i>	<i>9 858</i>	<i>11 508</i>
II. Current liabilities	830 735	618 838	638 604
1. <i>Interest-bearing loans and borrowings</i>	<i>95 493</i>	<i>153 289</i>	<i>80 828</i>
2. <i>Bank overdraft</i>	<i>130 578</i>	<i>0</i>	<i>8</i>
3. <i>Trade and other payables</i>	<i>599 791</i>	<i>461 129</i>	<i>550 606</i>
4. <i>Deferred government grants</i>	<i>1 512</i>	<i>1 365</i>	<i>1 398</i>
5. <i>Liability under financial instruments</i>	<i>0</i>	<i>0</i>	<i>0</i>
6. <i>Employee benefits obligation</i>	<i>2 061</i>	<i>1 755</i>	<i>1 713</i>
7. <i>Current income tax payable</i>	<i>0</i>	<i>0</i>	<i>2 721</i>
8. <i>Provisions for payables</i>	<i>1 300</i>	<i>1 300</i>	<i>1 330</i>
III. Liabilities of disposal group	0	1 541	1 478
TOTAL EQUITY AND LIABILITIES	2 586 141	2 273 924	2 489 645

3. Cash flow

The Group had a positive operating cash flow in Q1 2024 due to positive EBITDA which was reduced by: (i) the outflow of cash to working capital at the amount of PLN 21.0 million and (ii) payment of income tax at the amount of PLN 6.5 million.

Investment activities proved negative with CAPEX outflows amounting to PLN 154.1 million slightly offset by the sale of redundant assets at PLN 16.7 million.

Financing activities were overall cash-flow positive due to the incurrence of new indebtedness at PLN 225.3 million which was counterbalanced by the following: (i) the repayment of debt under loans and leasing arrangements at the amount of PLN 193.2 million and (ii) payment of interest charges and fees at the amount of PLN 21.4 million.

CASH FLOW	Q1 2024	Q4 2023	Q1 2023
	<i>'000 PLN</i>		
A. OPERATING ACTIVITIES	3 699	172 483	34 085
B. INVESTING ACTIVITIES	-137 367	-163 011	-33 948
C. FINANCING ACTIVITIES	10 681	1 972	78 741
NET INCREASE IN CASH	-122 987	11 444	78 842

II. Main Metrics

Liquidity metrics worsened yet they remain at very good levels. In terms of efficiency ratios our inventory cycle improved while receivable collection deteriorated. As regards the latter, that does not indicate quality issues as the amount of trade receivables was actually lower than a year ago; it were other items which have caused our receivables balance and hence the turnover to increase – see explained under section 2 above. The EBITDA and the net profit margins deteriorated and their prints are low. Equity went down following dividend payment while net indebtedness increased as a result of capex financing. Leverage went up as a result of the weaker last twelve months (LTM) EBITDA as well as the higher net indebtedness. Thus, our leverage metric went up but it remains below the thresholds set out in our financing agreements.

MAIN METRICS	Q1 2024	Q4 2023	Q1 2023
Liquidity ratio	1.53	1.76	2.58
Quick ratio	0.89	0.92	1.52
Inventories turnover (days)	71	78	78
Receivables turnover (days)	75	54	54
EBITDA margin	3.9%	9.3%	11.4%
Net profit margin	0.9%	8.7%	19.4%
Equity	1 242 996	1 241 210	1 405 164
Net debt	562 605	398 371	86 183
Net debt / LTM EBITDA	3.2	1.6	0.1

III. Communication with Media and Investors

Our Q1 2024 results will be presented on Friday, **May 17, 2024**. 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_ZTQyMjYwZGIY2UxYi00ZGM5LWE4YTgtYjEYnU2NDE1ZDIz%40thread.v2/0?context=%7b%22Tid%22%3a%22d509b1a0-bbd1-4ee1-ab17-b888cff6aefe%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>

Technical support – Kamil Więckowski: k.wieckowski@makmedia.pl, mob.:+48 735 959 581.

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Przemysław Sztuczkowski

Chairman of the Executive Board

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Krzysztof Zoła

Member of the Executive Board

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Przemysław Grzesiak

Vice-chairman of the Executive Board

.....

Dominik Barszcz

Member of the Executive Board

Poraj, May 15, 2024