



August 16, 2024

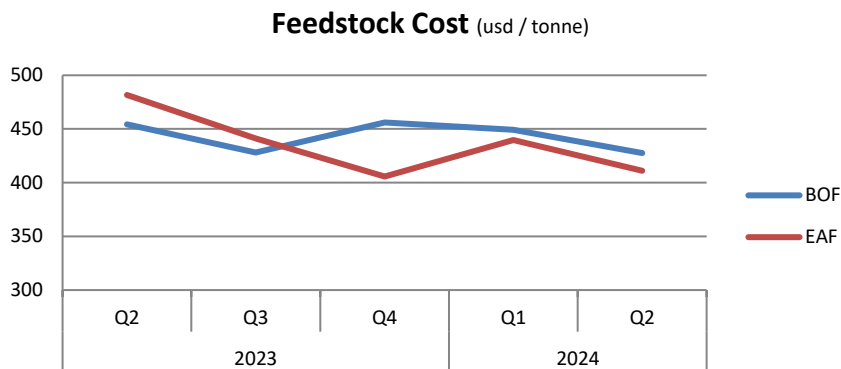
Q2 2024 - Management Discussion and Analysis

The second quarter of 2024 saw steel demand contracting further although in some of the steel producing regions outputs surprised on the upside. For instance, in the European Union (the EU) the crude steel production increased by 3.3% as compared to Q2 2023, which included a spike of Poland's manufacturing by as much as 22.1%. Another example was the region comprising Africa and the Middle East, where production grew even more robustly - by as much as 7.3%. Everywhere else though it either remained unchanged, as in the case of China, or fell by 2.0% as in the USA or by 4.3% as in Japan. In total, the world's crude steel production dropped to 485.5 million tonnes, which accounts for a decrease of 0.4%.

At this backdrop, Cognor Holding S.A. (Cognor, the Company, the Group) did poorly having produced 15.8% less of crude steel (billets). This was primarily driven by much lower shipments of semi-finished products (billets), namely by 55.9%. Secondly, the production volumes at the mill in Cracow, which was completely idled in Q2 2023 due to modernization, have been progressing too slowly and hence required relatively small quantities of crude steel. Sluggishly rising sales of finished products did not manage to offset weaker sales of scrap metal and billets and hence our combined shipments of scrap metal, billets and finished products fell 22.6% below those of Q2 2023. To add insult to injury, the price environment was very unfavourable with scrap metal, billets and finished products falling. Furthermore, our revenues from the sale of energy were also much lower and thus, our overall sales contracted by 28.0%.

In line with the revenues, the Group's profitability measured with EBITDA suffered and decreased to PLN 26.6 million driven by the lower shipments and the negative input from inventories with PLN 6.1 million of FIFO losses. An even more negative factor was the development of spreads which weighted heavily on our profitability with the average billet spread weaker by PLN 315 per tonne and the combined spread for finished products lower by PLN 700 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. As mentioned, the less sizeable trading on energy resulted in no gains from that source, while a year ago we accounted substantial profits from that source. To a certain degree, some counterbalancing effects brought the state subsidies aimed at amortizing the increased costs of CO₂ and energy as well as lower production costs.

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, including the cost of CO₂ allowances. The more competitive position of Cognor as an EAF producer was however not enough to help us increase billet sales, which is the market area where both production methods compete with each other.



In Q2 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 had 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 second quarter of last year due to the construction industry demand remaining weak 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 yet been able to achieve satisfactory levels of capacity utilization with just 6.2 thousand tonnes of bars produced in February and March 2024 and 29.9 thousand tonnes produced in Q2 2024, while the nominal quarterly capacity of the mill stands at 100.0 thousand tonnes. The following have been preventing us from reaching a higher output more quickly: (i) technology failures and malfunctioning of certain elements of the new production line, (ii) ongoing learning process of our crew and (iii) implementation of various types and sizes of products and testing of the line's performance metrics in each case. Given the progress we've made so far in the handling of the line, we expect to be able to reach the designed output levels by the end of the year. On a positive note, we enjoyed fair demand from the automotive sector, although the upcoming quarters might prove more challenging for our quality steel business. Overall, the negative phenomena prevailed significantly, thus affecting our EBITDA level, which we consider as unsatisfactory yet positive at the amount of PLN 26.6 million. Albeit, our net result proved much below our ambitions too, it was a profit of PLN 2.2 million. We would also like to mention that in Q2 2024 Cognor accounted the amount of PLN 3.9 million (PLN 12.2 million in H1 2024) under the state aid dedicated to energy intensive industries, which we expect to receive in the second half of the year. Here, we are in dissent with our auditors who expressed a qualification in their opinion from the review of this semi-annual financial statement. While we believe there exist sufficient arguments in favour of including such an income item as soon as in the recent couple of quarters, the auditors remain of the contrary opinion. More details substantiating our standpoint can be found in our public disclosure, namely the management and supervisory board statements specific to this issue.

I. Reported Statement

1. Income Statement

a) The Group's revenues decreased by PLN 213.7 million and 28.0% due to lower prices of: (i) scrap metal by PLN 225 per tonne and 14.1%, (ii) billets by 391 per tonne and 11.8% and (iii) finished products by 1,074 per tonne and 22.3%. That was further worsened by lower shipments of: (x) scrap metal by 5.3 thousand tonnes and 18.8% and (y) billets by 35.5 thousand tonnes and 55.9%. The sale of energy did not support our revenues either, as it barely reached the amount of PLN 18.5 million compared to as much as PLN 52.6 million in Q2 2023.

A slight offset came from finished products sales which were higher by 3.1 thousand tonnes and 4.1%.

PRICES AND VOLUMES		Q2 2024	Q1 2024	Q4 2023	Q3 2023	Q2 2023
FERROSTAL (Gliwice, Cracow, Zawiercie)						
Billets	price (pln/ tonne)	2 587	2 394	2 490	2 856	3 047
	quantity (tonnes)	12 941	79 254	27 597	12 627	41 425
Finished products	price (pln/ tonne)	2 826	3 134	3 283	3 553	3 637
	quantity (tonnes)	31 777	24 624	23 019	12 507	23 747

HSJ (Stalowa Wola)						
Billets	price (pln/ tonne)	3 231	3 252	3 131	3 473	3 847
	quantity (tonnes)	15 080	14 491	15 371	10 972	22 069
Finished products	price (pln/ tonne)	4 362	4 222	4 488	5 021	5 355
	quantity (tonnes)	46 680	57 961	46 355	37 400	51 632

The FX development had a negative effect on the size of our operations with the average EUR/PLN exchange rate 5.4% lower and the USD/PLN exchange rate 4.3% weaker as compared to Q2 2023.

AVERAGE EXCHANGE RATES		Q2 2024	Q2 2023
	(pln)		
EUR / PLN		4.30	4.55
	% change	-5.4%	
USD / PLN		4.00	4.18
	% change	-4.3%	

b) As regards the main factors responsible for the decrease of our gross profit by PLN 64.5 million and 73.2%, we would like to first and foremost point out the conversion spreads, which fell by PLN 315 per tonne in the case of billets and for our finished products, which worsened by PLN 700 per tonne. Their combined contribution to our gross profit was therefore negative to the tune of PLN 71.2 million.

SPREADS		Q2 2024	Q1 2024	Q4 2023	Q3 2023	Q2 2023
FERROSTAL (Gliwice, Cracow, Zawiercie)						
Scrap metal						
	purchase price (pln/ tonne)	1 436	1 538	1 450	1 587	1 752
Billets						
	conversion spread (pln/ tonne)	1 151	856	1 040	1 269	1 295
Finished products						
	conversion spread (pln/ tonne)	1 391	1 596	1 833	1 966	1 885
HSJ (Stalowa Wola)						
Scrap metal						
	purchase price (pln/ tonne)	1 549	1 609	1 560	1 513	1 703
Billets						
	conversion spread (pln/ tonne)	1 682	1 643	1 571	1 960	2 144
Finished products						
	conversion spread (pln/ tonne)	2 813	2 613	2 928	3 508	3 652

A further negative contribution - at the amount of 47.3 million - came from the lower shipments, in particular of billets. Other factors that reduced our gross profit as compared to Q2 2023 were: (i) the very price dynamics as Cognor has been selling its products during the falling price environment in the last couple of quarters; in Q2 2024, we estimate the FIFO inventory effect to be a loss of PLN 6.1 million, while a year ago it was a gain of PLN 4.8 million, (ii) costs of stoppage time at the amount of PLN 21.8 million – increased by PLN 5.3 million and (iii) lower result by PLN 1.2 million in other segments (other than billets and finished products), although it remained a solid profit of PLN 44.3 million. As regards the latter, we did not see any support from energy sales, while in Q2 2023 we had a gain from that source at the amount of PLN 15.8 million.

Those components were somewhat counterbalanced by the cheaper production costs resulting from the decreases of prices for certain production materials and components at the total amount of PLN 54.6 million. Secondly, our inventory valuation contributed positively with a gain at the amount of PLN 5.9 million unlike a year ago when we suffered write-offs to the tune of PLN 10.6 million.

- c) Our EBIT contracted by PLN 27.1 million and 65.3% and EBITDA by PLN 27.4 million and 50.8% which marked a lesser decline than our gross profit reduction which was due to the positive participation from: (i) lower distribution costs by PLN 4.7 million, (ii) lower administrative expenses by PLN 3.8 million and (iii) better income in other areas by PLN 29.0 million. As regards the latter, in the results of Q2 2024 we accounted the amount of PLN 13.2 million, which we expect to receive in 2025 within the compensation scheme aimed to partially alleviate the increased costs of CO2 emission rights. In Q2 2023, the amount of PLN 16.7 million was accounted for under that compensation program. In addition, we also accounted the amount of PLN 3.9 million, which we expect to receive under another state aid regulation bill designed to partially amortize high energy costs with no such gains recognized last year. Similarly, we accounted an additional amount of PLN 17.7 million resulting from supplementary CO2 aid, which we have become eligible to receive due to our weak EBITDA for the year 2023 relative to 2021. Overall, the amounts under the two types of subsidies resulted in an income of PLN 34.8 million which was higher by PLN 18.1 million as compared to Q2 2023. What also improved other income balance were foreign exchange gains regarding our current operational assets at the amount of PLN 1.6 million, while a year ago we had a loss of PLN 10.1 million.

d) Our net result was reduced to an even lesser extent compared to the decreases of EBIT and EBITDA, namely by PLN 22.9 million, which marked a decline of 91.3%. Although our financial income proved to be lower by PLN 10.2 million as compared to Q2 2023, but on the other hand, our financial costs were reduced even more - by PLN 11.0 million primarily due to the losses we suffered back in Q2 2023 at the amount of PLN 10.2 million in respect of the valuation of our hedging instruments, while in the last quarter we saw a valuation gain of PLN 2.6 million, which was however partially offset by FX losses regarding our financial indebtedness, namely to the tune of PLN 1.1 million. These FX losses were driven by the weakening of the PLN against the EUR with the exchange rate quoted 4.31 as of Jun 30, 2024 and 4.30 as of March 31, 2024.

EXCHANGE RATES	30-Jun-2024	31-Mar-2024	30-Jun-2023
(pln)			
EUR / PLN	4.31	4.30	4.45
% change (Jun 24 / Mar 2024)	0.2%		
USD / PLN	4.03	3.99	4.11
% change (Jun 24 / Mar 2023)	1.1%		

Finally, some additional support to our net profit came from the balance of income tax payable, which was by PLN 3.3 million lower as compared to Q2 2023.

The aforementioned components resulted in the following development of our results in Q2 2024 as compared to Q2 2023.

INCOME STATEMENT	Q2 2024	Q1 2024	Q2 2023
'000 pln			
Revenue	550 864	686 280	764 601
Cost of sales	-527 233	-660 813	-676 436
Gross profit	23 631	25 467	88 165
Other income	38 778	39 812	20 364
Distribution expenses	-28 878	-34 831	-33 555
Administrative expenses	-19 848	-17 415	-23 673
Other gains/(losses) – net	1 539	2 216	-9 129
Other expenses	-820	-573	-698
EBIT	14 402	14 676	41 474
Financial income	2 460	9 124	12 680
Financial expenses	-13 928	-15 232	-24 946
Net financing costs	-11 468	-6 108	-12 266
Share of profits of associates	69	42	80
Excess in the net fair value of acquired assets over cost	0	0	-60
Profit before tax	3 003	8 610	29 228
Income tax expense	-833	-2 415	-4 153
Profit/loss for the period from discontinued operations	0	0	0
Profit for the period	2 170	6 195	25 075
Depreciation and amortization	-12 203	-11 981	-12 566
EBITDA	26 605	26 657	54 040

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	Q2 2024	Q1 2024	Q2 2023
	<i>'000 pln</i>		
Reported EBITDA	26 605	26 657	54 040
Non-recurring items including:	- 8 301	4 865	- 34 703
- revenues & costs of sales	- 15 880	- 7 213	- 27 105
- other income	6 265	9 365	1 939
- distribution expenses	- 122	602	- 7
- administrative expenses	0	0	0
- other gains/losses	- 45	4 081	1 019
- operational FX result	1 584	-1 865	-10 148
- other impairments	- 103	- 105	- 401
Adjusted EBITDA	34 906	21 792	88 743
Reported net result	2 170	6 195	25 075
Non-recurring items including:	- 5 656	11 286	- 31 616
- EBITDA adjustments	- 8 301	4 865	- 34 703
- FX result on debt	- 1 144	1 235	4 697
- financial instruments result	2 646	7 492	- 10 152
- gain on bargain purchase	0	0	- 60
- share of associate result	69	42	80
- pro-forma income tax adjustment	1 074	- 2 348	8 522
Adjusted net result	7 826	- 5 091	56 691

According to the above, the Q2 2024 adjusted EBITDA stood at PLN 34.9 million and the adjusted net result was a profit of PLN 7.8 million. They were much lower compared to the adjusted results of Q2 2023 where the Group had PLN 88.7 million of recurring EBITDA and PLN 56.7 million of adjusted net profit.

2. Balance Sheet

During the last twelve months, the value of non-current assets increased by PLN 506.5 million due to the increase of the value of property, plant and equipment to the tune of PLN 527.9 million, which was primarily the effect of the acquisition of property, plant and equipment at the amount of PLN 591.5 million, in which PLN 106.3 million related to Q2 2024. The counterbalancing effect had: (i) amortization and depreciation charges which amounted to PLN 48.4 million and (ii) assets disposals to the tune of PLN 14.0 million, in which PLN 10.9 million were carried out in Q2 2024. The valuation of our financial instruments resulted in a further decrease of the value of non-current assets by the amount of PLN 6.3 million.

Current assets decreased by PLN 3.3 million primarily due to reductions of: (i) receivables by PLN 143.1 million and (ii) inventories by PLN 84.9 million. Those were almost entirely offset by an increase of cash balance by the amount of PLN 231.5 million. The lower value of receivables was primarily caused by the weaker sales and a higher utilization of non-recourse factoring arrangements. At the end of Q2 2024, the net amount of receivables disposed (accounts receivable transferred, reduced by the amount owed to us by factors) accounted for PLN 254.8 million, while a year ago it was PLN 184.6 million. Our inventories were reduced due to the lower stockpile of finished products and the lower balance of production in progress. The reasons that have caused our cash balance to grow are discussed in detail under the following cashflow section of this report.

As a result of the afore-mentioned changes, our total assets saw an increase of PLN 503.2 million and 22.6%.

ASSETS	Q2 2024	Q1 2024	Q2 2023
	<i>'000 pln</i>		
A. TOTAL NON-CURRENT ASSETS	1 383 322	1 318 025	876 842
I. Intangible assets	17 194	17 532	19 448
II. Property, plant and equipment	1 331 353	1 239 216	803 431
III. Other receivables	8 308	22 117	14 643
IV. Investment property and other investments	1 216	1 148	1 198
V. Financial instruments assets	22 415	35 652	37 679
VI. Prepaid perpetual usufruct of land	0	0	0
VII. Deferred tax assets	2 836	2 360	443
B. TOTAL CURRENT ASSETS	1 350 306	1 268 116	1 353 599
I. Inventories	504 089	524 682	589 003
II. Receivables	359 415	589 145	502 484
1. Trade receivables	353 877	573 310	483 961
2. Current income tax receivable	5 520	15 815	18 510
3. Other investments	18	20	13
III. Financial instruments assets	3 375	3 302	3 260
IV. Cash and cash equivalents	483 427	150 987	251 892
V. Prepayments	0	0	0
VI. Assets classified as held for sale	0	0	6 960
VII. Assets of disposal groups	0	0	0
TOTAL ASSETS	2 733 628	2 586 141	2 230 441

Cognor's equity of Q2 2024 increased by PLN 35.7 million primarily as a result of the positive net result of the last 12 months to the tune of PLN 46.8 million, which was partially offset by the exchange rate loss related to our foreign entity at the amount of PLN 11.1 million. Our gross debt stood at PLN 833.4 million – more by PLN 258.2 million and 44.9% while our net indebtedness amounted to PLN 350.0 million – more by PLN 26.6 million and 8.2%, as compared to Q2 2023.

EQUITY AND LIABILITIES	Q2 2024	Q1 2024	Q2 2023
	<i>'000 pln</i>		
A. EQUITY	1 247 170	1 242 996	1 211 444
I. Issued share capital	257 131	257 131	257 131
II. Reserves and retained earnings	910 441	906 541	876 991
III. Minority interest	79 598	79 324	77 322
B. LIABILITIES	1 486 458	1 343 145	1 018 997
I. Non-current liabilities	722 430	512 410	451 535
1. <i>Employee benefits obligation</i>	<i>13 456</i>	<i>12 728</i>	<i>13 076</i>
2. <i>Interest-bearing loans and borrowings</i>	<i>696 239</i>	<i>487 521</i>	<i>416 754</i>
3. <i>Other</i>	<i>12 735</i>	<i>12 161</i>	<i>21 705</i>
II. Current liabilities	764 028	830 735	565 963
1. <i>Interest-bearing loans and borrowings</i>	<i>137 209</i>	<i>95 493</i>	<i>130 538</i>
2. <i>Bank overdraft</i>	<i>0</i>	<i>130 578</i>	<i>28 000</i>
3. <i>Trade and other payables</i>	<i>621 677</i>	<i>599 791</i>	<i>402 618</i>
4. <i>Deferred government grants</i>	<i>1 481</i>	<i>1 512</i>	<i>1 537</i>
5. <i>Liability under financial instruments</i>	<i>0</i>	<i>0</i>	<i>0</i>
6. <i>Employee benefits obligation</i>	<i>2 361</i>	<i>2 061</i>	<i>1 826</i>
7. <i>Current income tax payable</i>	<i>0</i>	<i>0</i>	<i>114</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	0	1 499
TOTAL EQUITY AND LIABILITIES	2 733 628	2 586 141	2 230 441

3. Cash flow

The Group had a positive operating cash flow in Q2 2024 due to positive EBITDA which was further supported by: (i) the inflow from working capital at the amount of PLN 294.8 million and (ii) income tax remittance at the amount of PLN 10.0 million.

Investment activities proved negative with CAPEX outflows amounting to PLN 97.3 million slightly offset by the sale of redundant assets at PLN 3.2 million.

Financing activities were overall cash-flow positive due to: (i) the incurrence of new indebtedness at PLN 269.6 million and (ii) the inflow from our hedging instruments (IRS) at the amount of PLN 15.8 million. Those were partially counterbalanced by: (i) the repayment of debt under loans and leasing arrangements at the amount of PLN 32.0 million and (ii) payment of interest charges and fees at the amount of PLN 7.6 million.

CASH FLOW	Q2 2024	Q1 2024	Q2 2023
	<i>'000 pln</i>		
A. OPERATING ACTIVITIES	310 940	3 699	56 285
B. INVESTING ACTIVITIES	-94 071	-137 367	-83 865
C. FINANCING ACTIVITIES	245 803	10 681	-162 541
NET INCREASE IN CASH	462 672	-122 987	-190 121

II. Main Metrics

Liquidity metrics worsened, yet they remain at very good levels. In terms of efficiency ratios, our inventory cycle worsened while receivable collection stayed broadly the same. The EBITDA and the net profit margins deteriorated and their prints have become low. Equity and net debt went slightly up. Leverage increased more significantly primarily as a result of the weaker (LTM) EBITDA of last twelve months, yet it remains comfortably below the thresholds set out by our financing agreements.

MAIN METRICS	Q2 2024	Q1 2024	Q2 2023
Liquidity ratio	1.77	1.53	2.39
Quick ratio	1.11	0.89	1.35
Inventories turnover (days)	86	71	78
Receivables turnover (days)	58	75	57
EBITDA margin	4.8%	3.9%	7.1%
Net profit margin	0.4%	0.9%	3.3%
Equity	1 247 170	1 242 996	1 211 444
Net debt	350 021	562 605	323 400
Net debt / LTM EBITDA	2.3	3.2	0.7

III. Communication with Media and Investors

Our Q2 2024 results will be presented on Tuesday, **August 20, 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_NWZkMTUzYzMtZmEzYi00YTE1LTkzOGUtNzM0ZWwZTU00DAw%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>

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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

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Dominik Barszcz

Member of the Executive Board

Poraj, August 16, 2024