RECOVERY PROJECT LIBERTY Ostrava a.s.

(English version)

<u>Entrepreneur:</u>

Liberty Ostrava a.s.

ID no. (IČO): 45193258
Vratimovská 689/117
719 00 Ostrava – Kunčice
Czech Republic

Ostrava, December 19, 2023

Content

1 INTRODUCTION

Dear business partners,

the Board of Directors of LIBERTY Ostrava approaches you with this Recovery Project at the time of economic hardship that continues to impact the company and the overall global steel market. Events of the last years such as rising energy prices, military conflict in Ukraine, rising interest rates and disruptions in supply chain caused challenges to our operation and delayed payments to you, our suppliers.

Our goal is to initiate by this step a process of preventive restructuring under the newly enacted Act no. 284/2023 Sb., on preventive restructuring ("**Preventive Restructuring Act**"), which allows to impose corrective measures to an entrepreneur facing difficulties. **We would like to emphasize that this is not an insolvency proceeding and LIBERTY Ostrava remains solvent and able to meet its obligations**.

Furthermore, we would like to assure that under the preventive restructuring no haircut of your receivables is expected and those will be paid to you in full, albeit later than originally agreed or expected.

Preventive restructuring is in no way a process in which LIBERTY Ostrava would act unilaterally. Decision on final outcome of the restructuring will be approved by the creditors of LIBERTY Ostrava with majority and in form required by the law. Your participation therefore will be necessary. For your better orientation please read the summary on page 4 to be acquainted with what is required from you and when. The process will be also supervised by an independent court to make sure that legal requirements are observed.

Finally, we would like to reiterate commitment of LIBERTY Steel Group towards steelworks in Ostrava and its suppliers and employees. Although the situation on steel market remains unfavourable to LIBERTY Ostrava, based on conclusion of our experts and external advisors we see potential for rising prices backed by demand in the coming months which would improve our cash-flow and allow repayment of debt towards the creditors from April 2024, as is described in more detail in this Recovery Project.

We believe that by preventive restructuring this company can continue as a going concern and provide business opportunities and employment in Ostrava region.

We thank you in advance for your participation in this process.

Ajay Kumar Aggarwal
Chairman of the Board of Directors

2 SUMMARY

For your better understanding of preventive restructuring LIBERTY Ostrava prepared this brief managerial summary:

- LIBERTY Ostrava and LIBERTY Steel Group remain committed to continued operation in Ostrava region;
- Economic hardship continues to impact LIBERTY Ostrava and the overall global steel market but LIBERTY Ostrava remains solvent with prospect of improvement of its business position in 2024 onwards, especially after restart of one blast furnace in Vratimov plant in January 2024 and after implementation of measures proposed in this Recovery Project.
- In order to achieve this goal LIBERTY Ostrava decided to involve its creditors in decision-making process and utilize newly enacted Preventive Restructuring Act which can be used by companies in financial strain to negotiate with its creditors.
- **This <u>is not an insolvency proceedings</u> and LIBERTY Ostrava does not intend to haircut any of the already existing receivables! It is not necessary to apply in any to participate in this preventive restructuring.**
- **Your existing receivables and receivable unaffected by this Recovery Project will be paid by LIBERTY Ostrava in full albeit in different time arrangement.**
- LIBERTY Ostrava intends to reach an agreement on postponement of its existing trade payables in order to repay those in 12 monthly instalments beginning preliminary in April 2024 when it is expected that financial position of the company will improve.
- LIBERTY Ostrava plans to renegotiate contracts with creditors to standard market terms. This is particularly relevant for long-term commodity linked contracts that were concluded under different conditions in the market and no longer correspond to current conditions, burdening the company's cash flows.
- **After reading this Recovery Project LIBERTY Ostrava asks the creditors to whom this Recovery Project was delivered to express their opinion on proposed corrective measures within 15 days after delivering this Recovery Project. LIBERTY Ostrava asks creditors specially to express their reservations that would prevent them to vote in favour of adopting the final restructuring plan. All communication towards LIBERTY Ostrava should be done via email: <u>creditorsinfo.ostrava@libertysteelgroup.com.</u>**
- After expiring of necessary legal deadlines and settlement of legal remedies available to the creditors, LIBERTY Ostrava will assess opinion of the creditors and propose final restructuring plan that will be put to approval by the creditors ("**Restructuring Plan**"). It is expected that Restructuring Plan will be available in March 2024.

- Voting will take either paper form with officially verified signature or electronically with valid electronic signature or via databox. Creditors will be informed well in advance that their vote is expected to be casted.
- Upon adoption of the Restructuring Plan by the Creditors and after approval of the restructuring court (if necessary) the Restructuring plan will become effective and legally binding for LIBERTY Ostrava and the creditors. Effective date of the Restructuring plan is expected around April/May 2024. However, if Effective date falls behind the planned start of the fulfilment of the Restructuring Plan, LIBERTY Ostrava will start fulfilment of the Restructuring Plan as originally intended in order to satisfy the creditors as soon as possible.
- Most of the corrective measures will be discharged approximately within one year after the effective date of the Restructuring Plan (May 2025) with some corrective measures in force for a longer period of time with regard to contracts affected by this preventive restructuring.

3 GENERAL PART

a) Initiation of preventive restructuring and timeline

This is a Recovery Project pursuant to § 9 of the Preventive Restructuring Act. This document is an annex to the invitation to negotiation on restructuring plan by which a preventive restructuring of LIBERTY Ostrava was initiated by delivering of the invitation to affected parties as defined below in this document.

This Recovery Project sets out conditions for preventive restructuring of LIBERTY Ostrava to allow it to continue in its business activities as a going concern.

Invitation to negotiation on restructuring plan was also notified to the Regional Court in Ostrava pursuant to § 6 paragraph 3 of the Preventive Restructuring Act.

LIBERTY Ostrava have entered this restructuring process in good faith with the intention to maintain or restore the business through adopted restructuring measures. While the economic environment remains challenging leading to an increased overdue obligation, the Board of Directors remain convinced, as evidenced in this proposal that with the implementation of necessary restructuring measures, the operation of the business will be maintained, and creditors' obligations will be met.

b) Timeline of the preventive restructuring

Timeline of this preventive restructuring is set with regard to expected development when considering legal prerequisites of the Preventive Restructuring Act:

(1) After reading this Recovery Project LIBERTY Ostrava asks the creditors to whom this Recovery Project was delivered **to express their opinion on proposed corrective measures within <u>15 days</u> after delivering this Recovery Project. LIBERTY Ostrava asks creditors specially to express their reservations that would prevent them to vote in favour of adopting the final restructuring plan. All communication towards LIBERTY Ostrava should be done via email: <u>creditorsinfo.ostrava@libertysteelgroup.com</u>**

(2) After expiring of necessary legal deadlines and settlement of legal remedies available to the creditors, LIBERTY Ostrava will assess opinion of the creditors and propose final restructuring plan that will be put to approval by the creditors ("**Restructuring Plan**"). It is expected that Restructuring Plan will be available in **<u>March 2024</u>**.

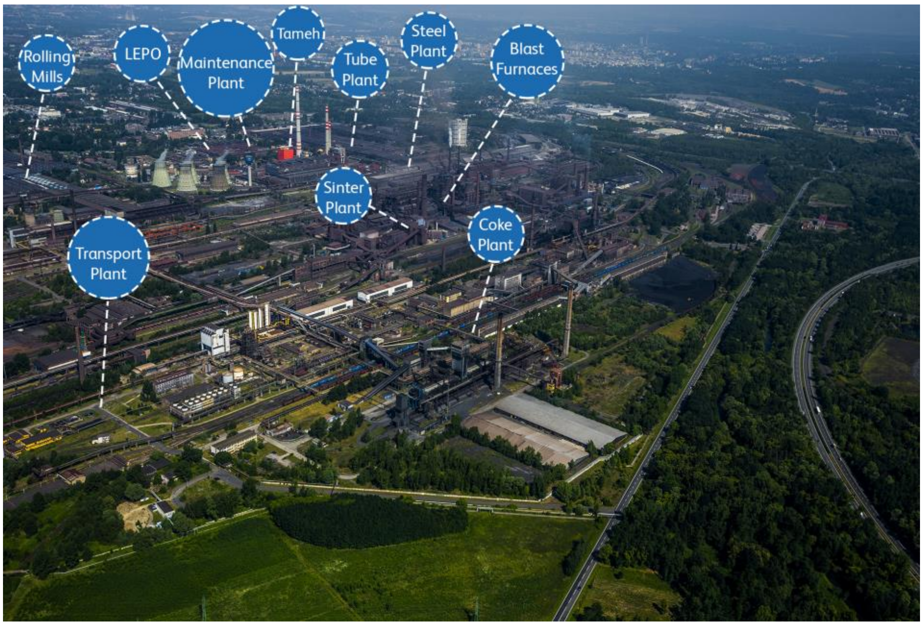
(3) Upon adoption of the Restructuring Plan by the Creditors and after approval of the restructuring court (if necessary) the Restructuring plan will become effective and legally binding for LIBERTY Ostrava and the creditors. **Effective date of the Restructuring plan is expected around <u>April/May 2024</u>.** However, if Effective date falls behind the planned start of the fulfilment of the Restructuring Plan, LIBERTY Ostrava will start fulfilment of the Restructuring Plan as originally intended in order to satisfy the creditors as soon as possible.

(4) **Most of the corrective measures will be discharged approximately within one year after the effective date of the Restructuring Plan (May 2025)** with some corrective

measures in force for a longer period of time with regard to contracts affected by this preventive restructuring.

c) Overview of activities of Liberty Ostrava

LIBERTY Ostrava has an annual production capacity of 2 million tonnes of steel. Besides the Czech market, the company sells its products to more than 40 countries around the world. LIBERTY Ostrava produces iron and steel in compliance with all environmental legislation. It conforms to the EU best available techniques (BAT) emission limits that came into force in 2016. LIBERTY Ostrava and its subsidiaries employ 6,000 people.



In the past three years, there have been numerous global events (COVID, war conflict in Ukraine, increase in interest rates, inflationary pressure) that have disrupted the steel industry. All steel companies have been globally affected by the lack of demand and exponentially rising energy costs. The steel industry specifically in Europe has faced challenges due to excessive imports from low cost / state subsidized countries.

d) Ownership structure

Single shareholder of LIBERTY Ostrava is LIBERTY OSTRAVA LIMITED, a company established in the United Kingdom of Great Britain and Northern Ireland, with registered seat at 40 Grosvenor Place, London, SW1X7GG, ID no.: 12055100. LIBERTY Ostrava issued bearer shares in book-entry form on owners with share capital being completely paid by the shareholder.

Real owner of Liberty Ostrava is Mr. Sanjeev Gupta, born on September 27, 1971 with permanent residence at W1J7SW London, Hertford Street 47, United Kingdom of Great Britain and Northern Ireland.

e) Restructuring court

Pursuant to § 44 and 45 of the Preventive Restructuring Act the Regional Court in Ostrava will serve as restructuring court throughout the preventive restructuring.

f) Relations with related parties

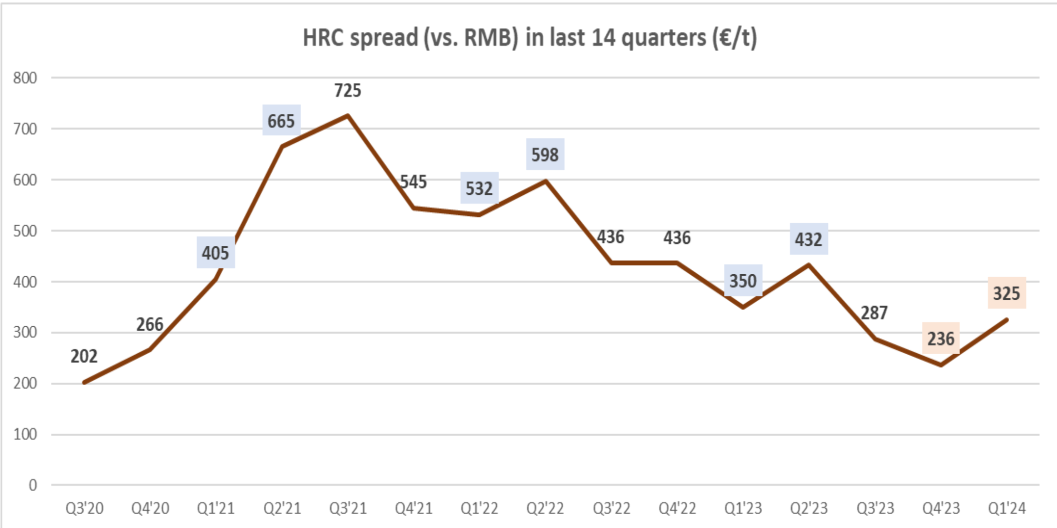
See Annex D of this document.

g) Approximate valuation of the enterprise of LIBERTY Ostrava

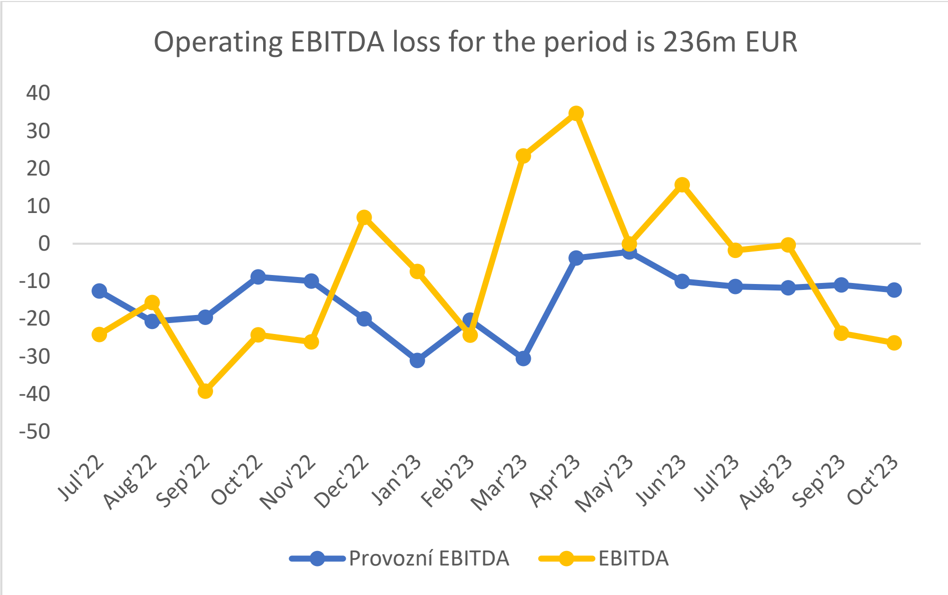
LIBERTY involved external experts to estimate the current value of the Enterprise of LIBERTY Ostrava. Based on their expert opinion it is estimated that current value is around 87.000.000 EUR. Valuation is based on income method and does not reflect valuation of movable and immovable property.

h) Recent business activities and challenges for LIBERTY Ostrava

In the past three years, there have been numerous global events (COVID, war conflict in Ukraine, increase in interest rates, inflationary pressure) that have disrupted the steel industry. All steel companies have been globally affected by the lack of demand and exponentially rising energy costs. The decrease in prices is evident from the graph below reflecting falling profitability of steel:



To adapt to macroeconomic changes, LIBERTY Ostrava shut down their blast furnace and operated subsequent units at a lower capacity. The negative trend in earnings before interest, taxes, depreciation, and amortization (EBITDA), predominantly in 2023, is demonstrated in the graph below:



	Jul'22	Aug'22	Sep'22	Oct'22	Nov'22	Dec'22	Jan'23	Feb'23	Mar'23	Apr'23	May'23	Jun'23	Jul'23	Aug'23	Sep'23	Oct'23	Total
Operational EBITDA	-13	-21	-20	-9	-10	-20	-31	-20	-31	-4	-2	-10	-11	-12	-11	-12	-236
CO2 cost (m€)	-12	-12	-14	-11	-11	-11	-11	-10	-11	-11	-11	-11	-11	-11	-11	-11	-183
CO2 sales (m€)	0	21	0	0	0	47	43	13	69	52	22	38	27	26	1	0	359
EBITDA	-24	-16	-39	-24	-26	7	-7	-24	23	35	0	16	-2	0	-24	-26	-133

Measures already taken to mitigate negative impact:

- On September 19, 2023, LIBERTY Ostrava shut down Coke Oven Battery No. 11. The Coke Oven, which was outdated and inefficient, was becoming increasingly unprofitable due to surplus capacity in the market. The complete shutdown process will take several months to ensure maximum safety and environmental considerations. All affected employees were offered positions in other parts of the company´s business.
- LIBERTY Ostrava shut down blast furnace no. 2 on 26 July'22 due to the lack of demand in the market, to reduce the cost of operations and prevent further loses.
- LIBERTY Ostrava has also temporarily idled Blast Furnace No. 3 from 24 Oct'23 (complete shutdown is not feasible due to irreversible equipment damage) with the current plan to restart it within next weeks. During this temporary inactivity, a short maintenance program will be conducted to enhance the furnace's stability and reliability. Full employment will be maintained during this period, and customer orders will continue to be fulfilled as rolling mills will remain operational using prepared stocks or semi-finished goods obtained from the market.
- The company has decided to cease the production of unprofitable products such as wire products. Therefore, the wire rod mill has been temporarily shut down. Market conditions will be continuously monitored, and once conditions improve, its restart will be reconsidered. Again, training opportunities have been offered to affected employees in other profitable units of the company´s operations.
- Currently, LIBERTY Ostrava is focusing on profitable products including pipes, threaded rods, mining and tunnel reinforcements, and safety road barriers, which are currently the typical products of the company. This will enable subsequent rolling

equipment to work with higher capacity and profitability. Liberty Ostrava continues to secure its orderbook slowly, with priority on high added value products with high margin over commodity steel products. Current orderbook in hand is circa 52 Kilo tons valued at 51,000,000 EUR. While potential prospective to book from our customer base is around 40 Kilo tons fetching around 29,000,000 EUR. Our loyal customers have paid us in advance 3,200,000 EUR to receive their ordered steel in next few weeks.

- To support the company's profitability recovery, an international team of steel industry specialists is currently stationed at the company´s premises, closely collaborating with the management. This team is conducting a comprehensive review of the company´s production strategy.
- The Entrepreneur is in regular contact with trade unions to ensure compliance with labour laws and collective agreements in terms of providing information.
- The Entrepreneur is also in continuous communication with creditors, informing them of the situation to gain support for the Entrepreneur's restructuring efforts and to negotiate more favourable terms for meeting its obligations outside the formal preventive restructuring process. A significant secured creditor with a claim of up to EUR 61,000,000 has already agreed to a temporary repayment schedule until February 29, 2024, with ongoing negotiations for a long-term repayment plan. Similar repayment schedules or deferments have been negotiated with other creditors.

4 INTENDED CORRECTIVE MEASURES

The measures implemented so far have improved the company's operations; however, it is evident that without further restructuring measures, it will not be possible to sustain the long-term operations of the company's facility, which could ultimately lead to the company's insolvency.

As part of the planned preventive restructuring, LIBERTY Ostrava intends to implement additional measures to support its operations, ultimately ensuring a gradual but comprehensive settlement of creditors' claims.

These measures are described below:

<u>Revised Business Plan:</u>

LIBERTY Ostrava continuously revises its business plan based on externally verified market forecasts for the prices of its significant products. These externally verified assumptions provide the basis for forecasting production volumes and prices for customers. Based on the market conditions the current business plan will see the facilities restarting in the middle of January 2024. Return to profitability is expected according to these plans in the 1st quarter of Financial Year 2024, enabling full repayment to creditors without the need for a proportional reduction of the outstanding principal.

The table below summarizes the expert price forecasts for significant metallurgical products for the upcoming period. It shows a positive turnover (increase) in product prices and a decrease in input prices in relation to the expected economic recovery, beginning in the first quarter of 2024.

Input Material	Benchmark Reference	Currency	Actual			Forecast MRF10												
			Q1'23	Q2'23	Q3'23	Oct	Nov	Dec	Jan'24	Feb'24	Mar'24	Q1 24/25	Q2 24/25	Q3 24/25	Q4 24/25	FY 24/25	FY 25/26	FY 26/27
SCRAP	GERMANY E3	€/MT	361	372	328	345	340	335	345	350	355	379	379	379	379	379	414	439
PH COKING COAL	AUS DBCT FOB	$/MT	344	242	263	309	309	306	290	290	290	285	285	285	285	285	275	265
IRON ORE 62%	N CHINA IMPORT CFR	$/MT	125	108	114	108	106	104	103	101	100	100	100	100	100	100	95	90
SLAB	BLACK SEA FOB	$/MT	590	548	453	449	439	449	469	489	509	537	537	537	537	537	547	557
BILLET	BLACK SEA FOB	$/MT	574	528	461	463	453	463	483	503	523	500	500	500	500	500	510	520
HRC	N EUR EXW	€/MT	783	780	649	625	615	625	655	695	735	734	734	734	734	734	784	859
MBQ	EUROPE DEL	€/MT	764	817	687	670	660	670	700	740	780	747	747	747	747	747	760	775
RMB	SCRAP GERMANY, PHCC AUS, IO CHINA	$/MT	464	377	393	413	409	403	394	391	390	391	391	391	391	391	383	373
SPREAD	HRC N EU Vs RMB	€/MT	345	424	279	235	229	245	284	326	367	365	365	365	365	365	423	507

The commodity prices for the business plan have been sourced from MEPS International, a leading international steel industry consultant, and overlaying factors specific to Ostrava. The prices have also been cross verified with forecasts from CRU Group (a commodity business intelligence firm). The management views these forecasts as aligned to the market intelligence received from customers and suppliers.

Key assumptions for the revised business plan are set out in Annex A.

<u>Agreement on Payment Terms Adjustment:</u>

LIBERTY Ostrava currently has not due and overdue payables owed to creditors with trade receivables as set out in Annex C.

The overall restructuring will require an agreement with creditors (Affected parties as set out in chapter 5) to defer the maturity of their claims (Affected rights as set out in chapter 5). At present, LIBERTY Ostrava expects a deferral period of around 6 months until the company's facility's operations improve sufficiently to generate enough income for repayment.

The current business plan shows a path to profitability and an ability to pay back creditors (Affected parties) without a significant injection of external capital. This is based on the best information we have at hand and there are risks (in any business) if not achieved. For these reasons, we are also considering the following options of external financing (as described below).

LIBERTY Ostrava intends to repay the remaining overdue amounts in full over 12 months starting April 2024 in a manner proportionate to all creditors. The Business Plan indicates the repayment plan starting in April 2024 and finishing in March 2025. The repayment plan will be managed proportionally with regard taken to the ageing of receivables. Interest on late payments will not be paid and legally will cease to exist.

Entry of a Strategic Partner:

On November 15, 2023, a memorandum outlining further steps with a strategic investor was concluded to obtain financing in the higher range up to 150.000.000 EUR. These funds will be provided to LIBERTY Ostrava in the form of purchasing inventory from the company and transferring the company’s claims to the strategic partner (factoring). Collaboration will commence within a few months, during which the strategic partner will utilize the company’s available production capacity at the Vratimov plant.

Sale of Part of the Facility:

On November 15, 2023, LIBERTY Ostrava concluded a memorandum outlining further steps with a strategic partner regarding the sale of coke ovens at the Vratimov location. Initial negotiations suggest very high value, and currently, LIBERTY Ostrava is actively working to secure a firm offer with a purchase agreement to be concluded by the end of 2023.

Sale of Surplus Land and Buildings:

The Company has received an unconditional offer for the sale of surplus land and buildings outside the production area in Vratimov, in the Frýdek-Místek and Ostrava-Rudná areas. The contract’s closure is expected no later than January 31, 2024, yielding a net realized cash amount of 10-11,000,000 EUR. There are also other unnecessary land parcels and assets identified at an overall value of around 15,000,000 EUR, although negotiations for these assets are not as advanced at this stage or subject to an unconditional offer. The sale of this property can also be expected within a few months.

Adjustment of unfavourable Contracts:

As part of any approved restructuring plan, the company plans to renegotiate contracts with creditors to standard market terms. This is particularly relevant for long-term contracts that were concluded under different conditions in the market and no longer correspond to current conditions, burdening the company’s cash flows. LIBERTY Ostrava estimates a monthly benefit of around 5,000,000 EUR. If this is not achieved, then the business plan will unfortunately not work in the current forecasted market conditions. At the same time, such a measure will prevent the company's insolvency, which is also in the interest of the company's creditors, as satisfying their claims in a potential insolvency proceeding would be fractional compared to the intended satisfaction in preventive restructuring.

After thorough analysis we have identified that supplies from Tameh Czech s.r.o. under the following contracts necessitate changes to transform those contracts to standard market terms:

- Framework Agreement of December 11, 2014 entered into between LIBERTY Ostrava and TAMEH Czech s.r.o. as amended by Amendment no. 1 and no. 2;
- Agreement on Delivery of Heat of December 11, 2014 entered into between LIBERTY Ostrava and TAMEH Czech s.r.o.;
- Agreement on Delivery of Electricity of December 11, 2014 entered into between LIBERTY Ostrava and TAMEH Czech s.r.o.

For the purposes of the revised financial plan forecast, it has been assumed that electricity provided by Tameh Czech s.r.o. will be purchased at the spot market prices (https://www.ote-cr.cz/en/short-term-markets/electricity/day-ahead-market?date=2023-12-13), in line with industry practice.

The Company's operations after the implementation of the intended cost-saving measures are apparent from the following table:

	Oct'23 Act	Nov'23 MRF11	Dec'23 MRF11	Jan'24 MRF11	Feb'24 MRF11	Mar'24 MRF11	Q1 24/25 MRF11	Q2 24/25 MRF11	Q3 24/25 MRF11	Q4 24/25 MRF11	FY 24/25 MRF11	FY 25/26 MRF11	FY 26/27 MRF11
EBITDA	**-26**	**-27**	**-22**	**-10**	**-6**	**0**	**17**	**19**	**19**	**19**	**74**	**150**	**238**
Receivable variation	6	11	11	-3	-14	-4	9	-4	0	0	4	-1	-2
Payable variation	32	-10	-9	1	17	1	26	9	0	0	34	-2	0
Inventory variation	16	25	22	-7	1	-12	-59	-1	-4	5	-59	-1	1
OWCR var. total	**54**	**26**	**24**	**-9**	**3**	**-15**	**-25**	**3**	**-4**	**5**	**-21**	**-4**	**-2**
Capex Net - Normative	-1	-2	-2	-2	-1	-3	-9	-9	-9	-9	-35	-35	-35
Capex Net - Strategic	-2	-3	-1	-2	-2								
Capex Net total	**-3**	**-5**	**-3**	**-4**	**-3**	**-3**	**-9**	**-9**	**-9**	**-9**	**-35**	**-35**	**-35**
CO2 sale/purchase	0	8											
EGAP loan repayment	-27	-3	-2	-2	-2	-2	-5	-5	-5	-5	-20	-20	-6
Repayment of Supplier overdues to support BF restart				-21									
Legal Cash Flow	**-2**	**-1**	**-2**	**-45**	**-8**	**-20**	**-22**	**9**	**1**	**10**	**-1**	**91**	**195**
Cash balance	**4**	**3**	**0**	**-45**	**-53**	**-72**	**-94**	**-85**	**-84**	**-74**	**-74**	**18**	**213**
Cash funding and Supplier overdue payment plan:													
Sale of surplus assets					11	8					0		
External funding											0		
Other lazy assets			1	1	1	2					0		
Inventory financing						5	7				7		
CO2 sale			8	16			25	13			38	-42	-54
Recovery from IC				20	10	15	20	10	29	15	74		
Repayment of Supplier overdues					-5	-15	-30	-30	-30	-10	-100		
Cash Flow	**0**	**0**	**9**	**37**	**17**	**15**	**22**	**-7**	**-1**	**5**	**18**	**-42**	**-54**
Cash balance	**4**	**3**	**9**	**1**	**10**	**5**	**5**	**7**	**7**	**22**	**22**	**71**	**213**

Detailed financial plan describing outlook of cash-flow for LIBERTY Ostrava for the period until the preventive restructuring is discharged around March 2025 is set out in Annex B.

5 AFFECTED PARTIES AND AFFECTED RIGHTS

Affected parties and Affected rights are set out in Annex C.

Affected party means a party (either a corporation or a natural person) whose legal claims (rights) will be directly affected by preventive restructuring, namely in the form of deferral of maturity or adjustment of contractual terms. Only Affected parties will participate in this preventive restructuring.

Other parties not set out in Annex C are considered Unaffected parties. Unaffected parties will not participate in preventive restructuring and any rights of those parties will not be affected in any way. Legal relationship between LIBERTY Ostrava and Unaffected parties will be governed by the original agreement between said parties.

Affected rights mean claims of the Affected Party that will be directly affected by the preventive restructuring. Affected rights arise from trade receivables from supplies of goods and services by suppliers of LIBERTY Ostrava. Details are set out in Annex C.

In addition to Affected rights set out in Annex C and for the purposes of this preventive restructuring the contractual obligations between LIBERTY Ostrava and TAMEH Czech s.r.o. when it comes to prices for the delivery of commodities as described in Chapter 4 will be also considered as Affected right and TAMEH Czech s.r.o. will be with regard to this issue considered as Affected party.

List of Affected Parties is created based on the list of creditors with outstanding trade receivables towards LIBERTY Ostrava as of December 11, 2023 with interest on late payments as of the same date. Receivables created after December 11, 2023 shall be excluded from this preventive restructuring pursuant to § 10 and 12 of the Preventive Restructuring Act.

6 LIST OF ANNEXES

Annex A – Business Plan of LIBERTY Ostrava (key assumptions)
Annex B – Detailed Financial Plan
Annex C – List of Affected Parties and Rights
Annex D – Report on Relations with Related Parties
Annex E – Annual Reports 2020, 2021, 2022
Annex F – Interim Financial Statement as of 30.11.2023

Annex A

Business Plan of LIBERTY Ostrava is based on these key assumptions:

A) **Steel Making Process**

The blast furnace is a crucial component in the process of making steel, and it has been a primary method of iron and steel production for centuries. The process involves the conversion of iron ore (usually iron oxide) into molten iron, which is then further refined to produce steel and processed in various mills to manufacture products that are used across industries.

Raw Materials:

Iron Ore: The primary raw material for the blast furnace is iron ore, which is usually a combination of iron oxides such as hematite (Fe_2O_3) and magnetite (Fe_3O_4).

Coke: This is a form of carbon derived from coal. Coke is used as a fuel and as a reducing agent, helping to extract oxygen from the iron ore.

Preparation of Charge: The iron ore is crushed and mixed with coke and limestone. Limestone is added to help remove impurities from the iron ore and to form a slag, which can be easily separated from the molten iron.

Charging the Furnace: The prepared charge is loaded into the top of the blast furnace. The furnace is a tall, cylindrical structure made of steel and lined with refractory materials to withstand high temperatures.

Blast of Hot Air: Air is blown into the bottom of the furnace at high temperatures (around 900°C to 1,200°C). This hot air, enriched with oxygen, reacts with the coke to generate carbon monoxide.

Reduction of Iron Ore: Carbon monoxide acts as a reducing agent, reacting with the iron oxides in the ore to produce molten iron.

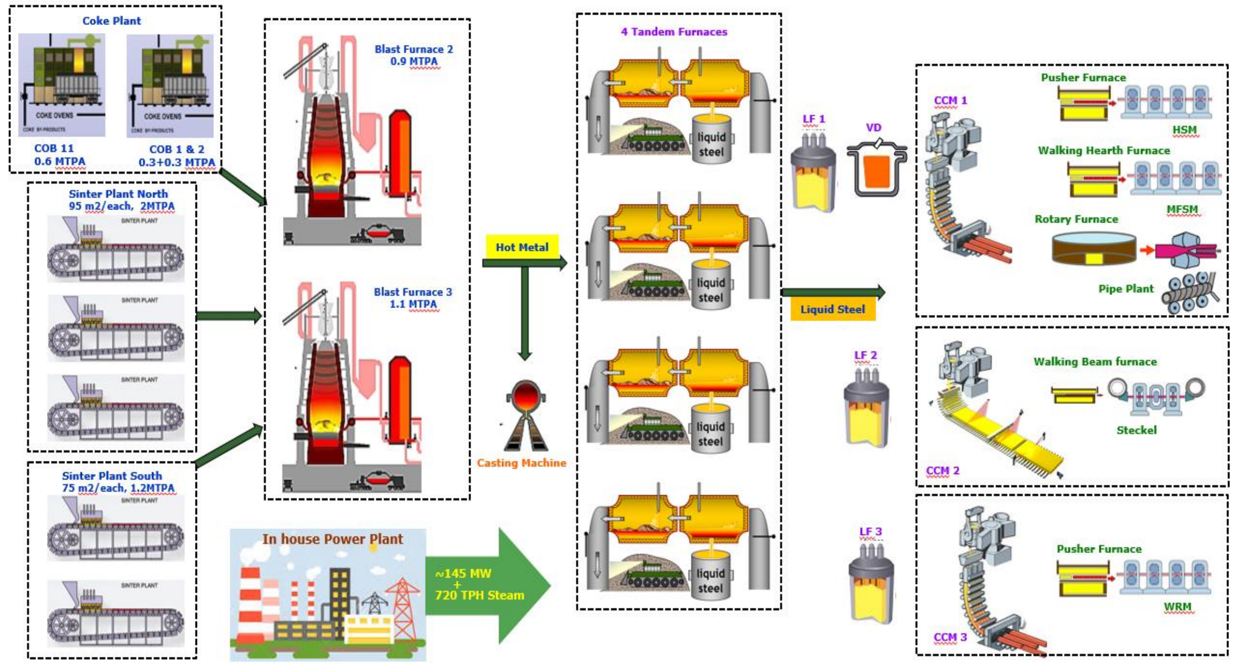
Formation of Slag: The limestone in the charge combines with impurities in the iron ore to form a molten slag.

Separation: The molten iron, being denser, sinks to the bottom of the furnace, while the molten slag floats on top. The slag is periodically tapped off, and the molten iron is periodically drawn off as pig iron.

Further Processing: The pig iron obtained from the blast furnace is then further processed in a basic oxygen furnace (BOF) to produce steel. This involves adjusting the carbon content, removing impurities, and adding alloying elements as necessary.

The blast furnace process is a traditional and well-established method for mass-producing iron and steel, though modern steelmaking processes, such as electric arc furnaces, are also widely used today.

Diagrammatic representation of the process in Liberty Ostrava



B) Raw Materials Assumptions

Iron Ore: It takes approximately 1.6tons of iron-ore to produce 1 ton of steel, along with the other raw materials. The Company used to procure iron-ore from Ukraine. As a result of the war, iron-ore is now sourced from other places including outside of Europe from Brazil and Australia. This change has resulted in significant increase in transportation and logistics costs, making the landed price of iron-ore expensive. Iron-ore is priced in US $/t based on the 62% Fe China Import CFR benchmark index. This is the grade most suitable for blast furnace operations at the Company. Iron-ore is processed through the Sinter Plant before being put in the Blast Furnace along with the other raw materials

Coal: It takes approximately 0.6tons of coal to produce 1 ton of steel, along with the other raw materials. The Company procures coal primarily from Poland. The coal is then converted to coke on site in the Coke Oven Battery. The coke is then fed into the Blast furnace along with the other raw materials including iron-ore and limestone. Coal is priced in US $/t based on the AUS DBCT index.

Scrap Steel: It takes approximately 0.15tons of scrap to produce 1 ton of steel, along with the other raw materials. The Company procures scrap steel from the domestic Czech Republic market and other neighbouring countries. Scrap steel is priced in €/t based on the Germany E3 index.

C) Products

The Company produces a wide range of flat and long steel products. The main products are listed below:

Hot Rolled Coil ('HRC'): a steel product in the form of coiled steel strip produced from the hot rolling process in the Hot Strip Mill facility. It is widely used for construction, the machine industry, car manufacturing, the production of general-purpose, construction, oil and gas and special-purpose pipes, and as a workpiece for the further production of cold-rolled products.

HRC is one of the most widely produced steel product and is priced using various indices based on the geography of production. For the Company, the most relevant benchmark is the HRC N Eur and is priced in €/t.

MBQ (Merchant Bar Quality):

Merchant Bar Quality refers to a category of steel bars that are produced to specific standards for use in various applications. These bars are often used in the construction industry for making different types of shapes such as angles, channels, and rounds. The term "Merchant Bar Quality" indicates that the bars meet certain quality and dimensional standards suitable for a variety of non-critical structural applications. For the Company, the most relevant benchmark is the MBQ Europe Delivery index and is priced in €/t.

Slabs:

Steel slabs are semi-finished products that are the result of the first stage of the steelmaking process. These are large, flat pieces of steel with a rectangular cross-section. Slabs are typically produced through processes like continuous casting or ingot casting. They serve as the starting material for the manufacturing of various downstream steel products, such as plates, sheets, and coils. For the Company, the most relevant benchmark is the Black Sea FOB index and is priced in $/t.

Billets:

Billets are small, usually square, or round, semi-finished pieces of steel that are further processed to produce other steel products. They are typically created through processes like continuous casting or extrusion. Billets serve as the raw material to produce items like bars, rods, and wire. For the Company, the most relevant benchmark is the Black Sea FOB index and is priced in $/t.

Wire Rods:

Wire rods are long, thin semi-finished metal rods with a circular cross-section. They are produced from billets and are used as a raw material in various industrial applications, including the manufacturing of wire, nails, and other products. Wire rods are drawn through a series of dies to achieve the desired diameter and mechanical properties. For the Company, the most relevant benchmark is the Black Sea FOB WR index and is priced in €/t.

The Company also produces a variety of specialized steel grades in varying quantities. Each of these steel products plays a specific role in the steel manufacturing process and serves as a precursor to a wide range of finished steel goods used in construction, manufacturing, and other industries.

The table below provides a summary of the assumptions included in the forecast.

PRODUCT	INCOTERM	Currency	Actual	Forecast MRF11											
			Oct	Nov	Dec	Jan'24	Feb'24	Mar'24	Q1 24/25	Q2 24/25	Q3 24/25	Q4 24/25	FY 24/25	FY 25/26	FY 26/27
SCRAP	GERMANY E3	€/MT	315	340	335	325	330	335	379	379	379	379	379	414	439
PH COKING COAL	AUS DBCT FOB	$/MT	353	320	306	290	290	290	285	285	285	285	285	275	265
IRON ORE 62%	N CHINA IMPORT CFR	$/MT	119	113	104	103	101	100	100	100	100	100	100	95	90
SLAB	BLACK SEA FOB	$/MT	450	435	430	450	470	490	537	537	537	537	537	547	557
BILLET	BLACK SEA FOB	$/MT	471	461	471	491	511	531	500	500	500	500	500	510	520
HRC	N EUR EXW	€/MT	612	615	620	660	700	740	734	734	734	734	734	784	859
MBQ	EUROPE DEL	€/MT	680	680	685	705	725	735	747	747	747	747	747	760	775
RMB	SCRAP GERMANY, PHCC AUS, IO CHINA	$/MT	451	427	403	390	388	387	391	391	391	391	391	383	373
SPREAD	HRC N EU Vs RMB	€/MT	186	212	240	292	334	375	365	365	365	365	365	423	507

D) <u>Fixed Costs</u>

Fixed costs in a steel plant refer to those expenses that do not vary with the level of production output or sales. These costs remain relatively constant regardless of the volume of steel produced. Fixed costs are incurred to maintain the plant's operational capacity and infrastructure. The key elements of the Company's fixed costs are described below:

Salaries and Wages:

The Company employees around 6,000 full time staff, salaries and wages form a major component of the fixed costs

Repair and Maintenance:

Routine maintenance expenses for the plant's infrastructure to ensure safety, asset integrity and continuous operations form a sizeable portion of the Company's fixed costs

Insurance Premiums:

Costs associated with insuring the plant, equipment, and employees against various risks and liabilities.

Property Taxes:

Taxes imposed on the plant's property, including land, buildings, and other assets.

Administrative and Office Expenses:

Overhead costs associated with administrative functions, such as office supplies, office space, and general administrative staff salaries.

Security Costs:

Expenses related to ensuring the security of the plant and its assets, including personnel and systems for safeguarding the facility.

The Company incurs approximately 25,000,000 EUR in fixed costs per month.

Management is now targeting a reduction in fixed costs by circa 10,000,000 EUR per month by implementing the following initiatives:

- Some of the production that cannot products at competitive prices will be temporarily or permanently shut,
- Optimizing Repairs and Maintenance spend: Shut down of some units will enable the Company to bring down its repair costs,
- Natural Attrition: Over 240 employees/ full time contractors are due to leave by the end of December'23. Internal resource allocations will be applied to ensure there is a reduction in headcount. A natural attrition of about 40 employees per month will also support the reduction of headcount,
- IT/Insurance/General Expenses: Review and reduction plan of certain IT contracts and other general expenses. The closing down of some units will provide an opportunity to reduce insurance costs. The Company will also reduce the use of external consultants.

E) Variable Costs

Variable costs in a steel plant are expenses that vary in direct proportion to the level of production or output. As the production volume increases or decreases, variable costs will likewise increase or decrease. These costs are directly tied to the manufacturing process and are incurred as materials are used and production activities take place. The Company incurs the following fixed costs:

Raw Materials:

The cost of raw materials, such as iron ore, coal, and other alloying elements, is a significant variable cost. As production increases, the consumption of these materials also rises. Raw Material costs are the biggest elements of variable cost. Pricing of each raw material has been described in the section above.

Energy Costs:

The energy required for the various processes in a steel plant, including electricity and fuel for heating furnaces, is a variable cost. It fluctuates with production levels and the intensity of energy usage during different stages of steel production. The Company procures electricity from TAMEH Czech s.r.o. through a contract running up to 2029 which was entered at the time of acquisition. This contract contains several elements that are non-standard to market practices. The pricing mechanism under this contract makes the Company uncompetitive.

Packaging Materials:

If the steel products require packaging for shipment, the cost of packaging materials is considered a variable cost, as it is directly related to the quantity of finished goods produced.

Freight and Shipping Costs:

The cost of transporting finished steel products to customers. This cost varies based on the volume of products shipped and the distance travelled.

Chemicals and Consumables:

Various chemicals and consumables used in the production process, such as lubricants, cleaning agents, and other supplies. The usage of these items is tied to production levels.

Quality Control and Testing:

Costs associated with testing and ensuring the quality of steel products. These costs can vary based on the number of tests conducted and the level of quality assurance required.

Variable costs are crucial for calculating the total cost of production and determining the profitability of each unit produced. Management in a steel plant must carefully monitor and manage these variable costs to optimize efficiency and maintain competitiveness in the market.

Management is now targeting a reduction in variable costs by circa EUR 30/t by implementing the following initiatives:

- <u>Blast Furnace and Tandem Furnace Changes:</u> The management team has decided to improve yields by using higher Fe ore and more concentrated sinter coupled with a combination of own coke and purchased coke will reduce conversion costs. These changes are expected to deliver a c. EUR 20/t reduction in variable cost.
- <u>Downstream Mills:</u> Opportunities to improve yield by maintaining a steady production threshold which optimizes electricity, gas, and steam consumption. This coupled with termination of external service contracts for these units and renegotiating payment terms for steam will improve variable cost by c. EUR 10/t.
- <u>Yield Parameters:</u> Operating plants close to the optimized defined parameters saves on consumption of gas, electricity, and scrap while adapting shift schedules will allow the Company to minimize waste and reduce inefficiencies.

Operational Unit Changes

- Coke Ovens: The Company is considering to shut down the remaining two coke ovens because the facilities are old and cannot compete with more modern facilities. Should this action be taken then the produced coke will be replaced with purchased coke. This will reduce the overall cost.
- Blast Furnace: The Company has shut temporarily shut down its Blast Furnace No.2 and idled Blast Furnace No.3 with a view on demand. The Company is currently servicing customer orders through its inventory or purchasing semi-finished products and utilizing its downstream mills for finishing. The business plan envisages a re-start of the blast furnace in the coming weeks as the outlook indicates stronger demand.
- Blast Furnace No.3 will be restarted in January 2024 provided market conditions continue their improving trajectory

Strategic Capital Expenditure Program

- The Company has previously stated its vision of transforming into a GreenSteel producer, which is in line with the EU's goals of reducing CO2 emissions.
- The Company has drawn out extensive plans to build Electric Arc Furnaces and eventually completely shut down the Blast Furnaces and coke over batteries.

- The Company has selected Danieli as the Original Equipment Manufacturer provider and work has commenced on site. So far over c. 35,000,000 EUR has been spent on the project.
- The total capital expenditure program is estimated to be over 500,000,000 EUR spread over the next 4-5 years.