




Q1 2019 Business and Financial Performance

May 07, 2019



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Krzysztof Zoła
Board Member, CFO

Responsibility

- Cooperation with financial institutions
- Budgeting and controlling
- IR
- M&A and major CAPEX projects

Experience

- with Cognor since 2002
- Board Member of Cognor Holding since 2013
- CFO for 12 years

Introduction | Q1 2019 Highlights

- Polish GDP growth estimated at 4.2% down from 5.1% in Q1 2018.; 4.9% in Q4 2018;
- EU28 GDP growth at 1.5% (1,2% Eurozone), compared to 2,2% in Q1 2018; 1.5% in Q4 2018 (1,2% Eurozone)
- Polish steel production decreased by 7.3%.; in the EU (28) it went down by 2.0%
- Decrease of prices of scrap metal and billets; a slight increase of finished products. Stabilisation of conversion spreads for billets; a slight improvement for finished products. Fair demand; EU protectionist measures in place but not able to prevent increase of imports and decrease of local production in spite of demand growth
- Scrap metal prices going down while iron ore and coking coal increasing - BOF v EAF feedstock cost improving for EAF mills and close to break even point
- 0.9% decrease in revenues; shipments up by 0.8%
- Large decrease of gross profit, EBIT and EBITDA
- Another record in utilization of capacities

ANNUAL CAPACITY		UTILIZATION RATE	
	Tonnes	Q1 2019	Q1 2018
FERROSTAL	375 000	120.7%	123.2%
HSJ	261 000	110.8%	99.3%
COMBINED	636 000	116.6%	113.4%

Crude steel production

CRUDE STEEL PRODUCTION		Q1 2019	% YoY	Q1 2018	
	<i>m tonnes</i>				
Europe		75.7	-3.7%	78.6	
	UE (28)	42.3	-2.0%	43.2	EU down
	Poland	2.48	-7.3%	2.68	Poland down
	CIS	24.3	-2.7%	25.0	
North America		30.7	4.0%	29.5	
	USA	22.2	6.8%	20.8	USA strong
South America		10.5	-4.1%	10.9	
Africa / Middle East		12.9	7.5%	12.0	
Asia		312.9	7.0%	292.4	
	China	231.1	9.9%	210.2	China very strong
	Japan	24.0	-5.4%	26.4	
Oceania		1.4	-7.8%	1.6	
Total		444.1	4.5%	425.1	

source: World Steel Association

In July 2018 the European Commission introduced a temporary measure aimed at safeguarding the EU market against the potential increase of imports of steel products resulting from the introduction of US section 232 (25% tax for steel import). Twenty nine product groups, including rebars and merchant bars, were made subject to the regulation.

In February 2019 a definitive safeguard has been put in place for a period of 2,5 years starting from 02.02.2019. It introduced quarterly quotas and sublimits dedicated for major exporting countries. For rebars those are: Turkey, Russia, Ukraine, BiH and Moldova.

With respect to rebars the 25% tax is likely to become applicable as the quota balance is soon to be fully utilised

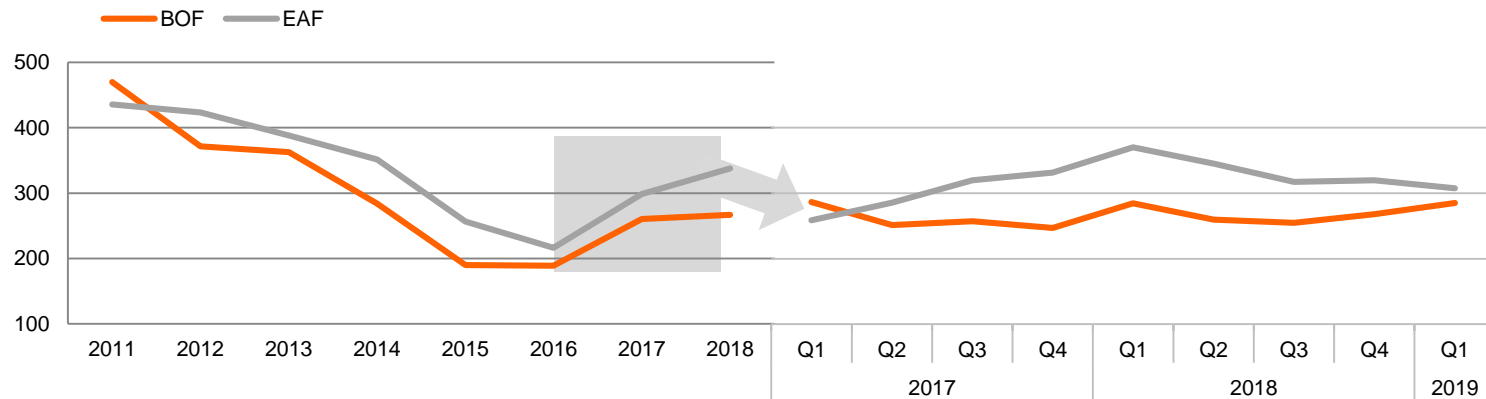
REBARS as of:	06.05.2019
period start	02.02.2019
period end	30.06.2019
period days	148
days remaining	55
days remaining as a % of period days	37%
quota balance as a % of initial amount	10%

ORIGINS	Initial Amount	Quota Balance	Transferred
Turkey	117 231 800	0	
Russia	94 084 200	0	
Ukraine	62 534 650	10 351 817	
BiH	39 356 100	21 346 446	
Moldova	28 284 590	3 613 382	
Other Feb - Mar 2019	84 771 670	0	19 703 964
Other Apr - Jun 2019	133 003 830	19 704 064	
TOTAL	559 266 840	55 015 709	

source: EC

BOF & EAF Feedstock Costs

Feedstock Cost	2011	2012	2013	2014	2015	2016	2017	2018	2017				2018				2019	
									Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	
<i>USD / Tonne</i>																		
BOF	470	372	363	284	190	189	260	267	287	251	249	242	285	259	255	268	285	
EAF	436	423	388	352	257	216	299	338	259	285	320	331	370	345	317	319	307	
difference	34	-52	-26	-68	-67	-27	-38	-71	28	-34	-62	-84	-85	-86	-63	-52	-22	



Prices	Iron ore	Coking coal	Steel scrap	Prices	Iron ore	Coking coal	Steel scrap	Feedstock Cost Model	BOF	EAF
<i>(USD / Tonne)</i>				<i>(USD / Tonne)</i>				<i>Tonne / Tonne of crude steel</i>		
2011	168	200	389	Q1 2017	86	169	231	iron ore	1.60	
2012	129	145	378	Q2 2017	63	161	255	coking coal	0.60	
2013	135	122	347	Q3 2017	72	137	285	scrap metal	0.21	1.12
2014	97	105	314	Q4 2017	66	132	296			
2015	55	89	229	Q1 2018	75	159	330			
2016	59	92	193	Q2 2018	66	149	308			
2017	72	145	267	Q3 2018	67	147	283			
2018	70	153	302	Q4 2018	71	157	302			
				Q1 2019	83	157*	274			

- EAF steel producers compete with BOF steelmakers to some extent (semi-finished products)
- Due to the strong steel output growth in 2017 and 2018 scrap metal prices increased more as compared to BOF feedstock,
- Lately, scrap metal price has been falling while iron ore and coking coal increasing
- The cost position of EAF producers remains negative however getting closer to break even point

source: IMF - iron ore, EIA - coking coal, Cognor - scrap metal

*Cognor estimate

Prices & Spreads

	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
(pln/ tonne)					
FERROSTAL					
SCRAP METAL - average purchase price	1 079	1 075	1 049	1 102	1 123
BILLETS - average price	2 128	2 097	2 103	2 183	2 157
<i>volume</i>	19 010	15 287	19 664	18 139	28 685
BILLET SPREAD	1 049	1 022	1 053	1 080	1 034
FINISHED PRODUCTS – average price	2 276	2 321	2 276	2 321	2 342
<i>total volume</i>	79 968	74 563	92 610	75 452	77 058
<i>- plain bars</i>	2 391	2 447	2 427	2 450	2 513
<i>volume</i>	8 367	6 086	9 346	8 044	6 792
<i>- flat bars</i>	2 417	2 478	2 456	2 482	2 500
<i>volume</i>	12 451	10 993	11 298	11 805	9 955
<i>-squares</i>	2 365	2 467	2 399	2 414	2 494
<i>volume</i>	2 876	1 598	2 913	2 238	1 580
<i>-rebars</i>	2 170	2 289	2 194	2 234	2 267
<i>volume</i>	48 462	50 503	61 988	47 808	53 382
<i>-angles</i>	2 424	2 503	2 455	2 494	2 517
<i>volume</i>	7 354	5 150	6 794	5 302	5 008
<i>-other</i>	2 734	4 048	2 529	2 619	2 889
<i>volume</i>	458	233	271	255	341
PRODUCT SPREAD	1 186	1 279	1 227	1 218	1 219
<i>- plain bars</i>	1 312	1 372	1 378	1 348	1 390
<i>- flat bars</i>	1 338	1 404	1 407	1 379	1 377
<i>- squares</i>	1 286	1 393	1 350	1 312	1 371
<i>- rebars</i>	1 091	1 214	1 145	1 131	1 144
<i>- angles</i>	1 345	1 429	1 406	1 391	1 394
<i>- other</i>	1 655	2 973	1 480	1 517	1 766

scrap metal price down by **44 & 3.9%**

billet sales price down by **28 & 1.3%**

billet spread up by 16 & 0.7%

finished product sales price down by **77 & 3.3%**

product spread down by 33 & 2.7%

Prices & Spreads

	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
(pln/ tonne)					
HSJ					
SCRAP METAL - average purchase price	1 193	1 180	1 191	1 229	1 223
BILLETS - average price	2 521	2 674	2 652	2 733	2 705
<i>volume</i>	20 204	16 463	12 228	14 036	15 948
BILLET SPREAD	1 328	1 494	1 461	1 504	1 482
FINISHED PRODUCTS – average price	3 443	3 549	3 592	3 533	3 310
total volume	48 365	37 009	46 960	49 434	44 998
- SQ bars	3 365	3 453	3 493	3 433	3 213
<i>volume</i>	47 838	36 613	46 348	48 499	44 157
- thick sheets	3 926	5 652	5 988	4 005	4 323
<i>volume</i>	248	136	311	553	593
- thin sheets	11 686	11 547	11 873	11 434	11 067
<i>volume</i>	151	117	209	240	135
-other	21 877	19 511	26 412	22 669	26 756
<i>volume</i>	128	143	92	142	113
PRODUCT SPREAD	2 250	2 369	2 401	2 304	2 087
- SQ bars	2 172	2 273	2 302	2 204	1 990
- thick sheets	2 733	4 472	4 797	2 776	3 100
- thin sheets	10 493	10 367	10 682	10 205	9 844
- other	20 684	18 331	25 221	21 440	25 533

scrap metal price down by 30 & 2.5%
 billet sales price down by 184 & 6.8%

billet spread down by 154 & 10.4%
 finished product sales price up by 133 & 4.0%

product spread up by 163 & 7.8%

Segments

SCRAP METAL		Q1 2019	Q4 2018	Q1 2018	
PURCHASES FROM EXTERNAL SUPPLIERS	<i>Tonnes</i>				
FERROSTAL		106 400	115 769	112 347	
ZŁOMREX		86 178	85 378	90 022	ZŁOMREX purchases down by 4.3%
HSJ		54 740	48 366	46 519	
INTERNAL USE	<i>Tonnes</i>				
FERROSRAL		127 670	126 753	129 616	
HSJ		82 618	82 217	74 261	
SALES TO EXTERNAL CUSTOMERS	<i>Tonnes</i>				
ZŁOMREX		39 516	42 621	38 645	
OTHER		0	0	0	
SALES	<i>'000 PLN</i>				
CONSOLIDATED		41 083	44 535	43 059	
TOTAL PURCHASES in TONNES		247 318	249 513	248 888	
TOTAL INTERNAL USE in TONNES		210 288	208 970	203 877	
TOTAL SALES in TONNES		39 516	42 621	38 645	Shipments up by 2.3%
TOTAL SALES in '000 PLN		41 083	44 535	43 059	Sales down by 4.6%

Segments

BILLETS		Q1 2019	Q4 2018	Q1 2018
PURCHASES	<i>Tonnes</i>			
FERR		0	0	0
PRODUCTION	<i>Tonnes</i>			
FERR		113 134	112 528	115 529
HSJ		72 281	72 367	64 803
INTERNAL USE	<i>Tonnes</i>			
FERR		62 085	92 387	89 637
HSJ		56 292	61 526	54 156
SALES TO EXTERNAL CUSTOMERS	<i>Tonnes</i>			
FERR		23 225	20 909	33 986
HSJ		15 989	10 841	10 647
SALES	<i>'000 PLN</i>			
CONSOLIDATED		91 394	76 076	104 996
TOTAL PURCHASES in TONNES		0	0	0
TOTAL PRODUCTION in TONNES		185 415	184 895	180 332
TOTAL INTERNAL USE in TONNES		118 377	153 913	143 793
TOTAL SALES in TONNES		39 214	31 750	44 633
TOTAL SALES in '000 PLN		91 394	76 076	104 996

Production up by 2.8%

Shipments down by 12.1%
Sales down by 13.0%

Segments

FINISHED PRODUCTS		Q3 2018	Q2 2018	Q3 2017
PURCHASES	<i>Tonnes</i>			
ALL ENTITES		0	0	0
PRODUCTION	<i>Tonnes</i>			
ZWWB		21 692	22 489	21 870
HSJ		45 337	41 542	48 191
PROFIL		45 553	65 533	63 610
SALES TO EXTERNAL CUSTOMERS	<i>Tonnes</i>			
FERROSTAL		74 266	68 083	68 688
HSJ		54 067	43 489	53 368
SALES	<i>'000 PLN</i>			
CONSOLIDATED		347 837	307 344	329 435
TOTAL PURCHASES in TONNES		0	0	0
TOTAL PRODUCTION in TONNES		112 582	129 564	133 671
TOTAL SALES TO EXTERNAL CUSTOMERS in TONNES		128 333	111 572	122 056
TOTAL SALES in '000 PLN		347 837	307 344	329 435

Production down by 15.8%

Shipments up by 5.1%
Sales up by 5.6%

Financials

STATEMENT OF PROFIT OR LOSS	Q1 2019	Q4 2018	Q1 2018		
	'000 PLN				
Sales revenue	519 694	471 242	524 231	Revenues down by	0.9%
Cost of sales	-473 076	-427 178	-450 267	Gross profit down by	37.0%
Gross profit	46 618	44 064	73 964		
Other income	2 367	3 917	660		
Distribution expenses	-20 218	-20 840	-16 811		
Administrative expenses	-12 450	-12 603	-10 826		
Other gains/(losses) – net	-64	740	1 064		
Other expenses	-1 137	-2 242	-1 146		
EBIT	15 116	13 036	46 905	EBIT down by	67.8%
Financial income	1 452	0	0	Interest gain	1.5m
Financial expenses	-6 309	-12 714	-15 322	FX loss	0.1m
Net financing costs	-4 857	-12 714	-15 322	Financial instruments loss	0.5m
Share of profits of associates	38	-674	4		
Excess in fair value of acquired assets over cost	0	0	0		
Profit before tax	10 297	-352	31 587		
Income tax expense	-1 169	-5 312	-4 949		
Profit/loss for the period from discontinued operations	0	0	0		
Profit for the period	9 128	-5 664	26 638	Adjusted net result	7.2m
Depreciation and amortization	-11 698	-11 005	-10 902	EBITDA down by	53.6 %
EBITDA	26 814	24 041	57 807	Adjusted EBITDA	25.1m

Financials

ASSETS	Q1 2019	Q4 2018	Q1 2018
	'000 PLN		
A. TOTAL NON-CURRENT ASSETS	437 508	379 296	389 353
I. Intangible assets	18 661	17 965	12 884
II. Property, plant and equipment	331 741	284 617	284 099
III. Other receivables	350	324	247
IV. Investment property and other investments	2 805	2 767	3 434
V. Prepaid perpetual usufruct of land	34 222	23 013	23 323
VI. Deferred tax assets	49 729	50 610	65 366
B. TOTAL CURRENT ASSETS	630 228	622 082	611 770
I. Inventories	391 279	376 969	322 821
II. Receivables	212 147	168 654	192 069
1. Trade receivables	203 705	167 982	191 279
2. Current income tax receivable	8 430	660	778
3. Other investments	12	12	12
III. Cash and cash equivalents	26 802	76 459	96 880
IV. Prepayments	0	0	0
V. Assets classified as held for sale	0	0	0
Total	1 067 736	1 001 378	1 001 123

Increase of intangible assets due to R&D costs:

Acquisitions 0.9m (LTM 6.8)

Disposals 0.0m (LTM 0.0)

Increase of II & V by 54.8m due to IFRS 16 and

CAPEX 15.5m (LTM 54.2)

Disposals 0.9m (LTM 2.8)

Utilization of tax shield

Receivables sold (net) 142.4m

Receivables sold (net) in Q1 2018 151.1m

Cash balance reduced due to the repayment of debt, CAPEX and 2017 dividend payment

Financials

EQUITY AND LIABILITIES	Q1 2019	Q4 2018	Q1 2018
	'000 PLN		
A. EQUITY	302 989	295 885	254 233
I. Issued share capital	182 041	180 626	177 923
II. Reserves and retained earnings	102 855	97 538	59 201
III. Minority interest	18 093	17 721	17 109
B. LIABILITIES	764 747	705 493	746 890
I. Non-current liabilities	295 488	259 585	392 816
1. Employee benefits obligation	10 971	10 677	11 282
2. Interest-bearing loans and borrowings	265 961	229 188	361 523
3. Other	18 556	19 720	20 011
II. Current liabilities	469 259	445 908	354 074
1. Interest-bearing loans and borrowings	58 952	54 161	50 554
2. Bank overdraft	33 804	0	2 120
3. Trade payables	365 202	371 911	289 943
4. Deferred government grants	6 166	5 653	117
5. Liability under financial instruments	3 079	2 531	0
6. Employee benefits obligation	1 830	7 258	5 636
7. Current income tax payable	0	0	68
8. Provisions for payables	226	4 394	5 636
Total	1 067 736	1 001 378	1 001 123

Equity up by 48.8m
(LTM net profit, dividend PLN11.9)

Net indebtedness up by 14.6m
(54.8m due to IFRS 16; repayment of debt offset by reduction of cash balance)

Financials

CASH FLOW	Q1 2019	Q4 2018	Q1 2018
	<i>'000 PLN</i>		
A. OPERATING ACTIVITIES	-48 856	117 501	29 838
B. INVESTING ACTIVITIES	-11 979	-20 339	461
C. FINANCING ACTIVITIES	-22 626	-61 362	-12 978
Net increase in cash	-83 461	35 800	17 321

MAIN METRICS	Q1 2019 *	Q4 2018	Q1 2018
Liquidity ratio	1.52	1.40	1.73
Quick ratio	0.58	0.55	0.82
Inventories turnover <i>days</i>	74	76	65
Receivables turnover <i>days</i>	35	29	33
EBITDA margin	5.2%	9.6%	11.0%
Net profit margin	1.8%	3.5%	5.1%
Equity <i>'000 PLN</i>	302 989	295 885	189 342
Net debt <i>'000 PLN</i>	277 106	206 890	428 890
Net debt / LTM EBITDA	1.6	1.0	3.4

* adjusted for IFRS 16

Working capital outflow 58.8m
(increase of inventories & receivables, decrease of trade liabilities)

CF CAPEX (-) 12.7m

CF asset dispositions 0.7m

Debt repayment (-) 15.9m

Interest service (-) 7.6m

EU grants 1.5m

Liquidity ratios worsened but still acceptable

Inventory ratio up to 74 days

Receivable ratio slightly up to 35 days

Profitability ratios decreased

Leverage down to 1.6 times



1

Further weakening of GDP growth for Poland and in the EU (28)

2

Demand picture mixed; better for billets and weaker for finished products, in particular from the auto industry

3

Poland's EAF crude steel production under pressure due to BOF mills; EAF producers stable at high utilization rates. Polish steel consumption growth slowing yet positive due to consumption of long products incl. rebars at the back of intensive infrastructural spending; export softening due to the weak demand from the EU auto sector

4

Decrease of scrap metal price by PLN 50-100 per tonne, billets and finished products prices to follow; conversion spreads similar to Q1 2019 and lower compared to Q2 2018

5

EAF feedstock cost improving (lower) versus BOF cost at the back of further increase of iron ore and coking coal prices

6

Q2 2019 challenging due to the decreasing price environment. FIFO loss expected. Electricity price subsidies uncertain. Q2 2019 EBITDA expected much lower as compared to Q2 2018 and probably also lower compared to Q1 2019 (assuming no electricity price subsidies are put in place)

1. Gliwice melting shop (Ferrostal):

increase of capacities by 550 k tonnes
reduction of variable cost by PLN 4.0 / tonne
Planned commissioning Q4 2019
Status likely to delay to Q2 2020

2. Kraków rolling mill (Profil):

reduction of variable cost by PLN 20.0 / tonne
reduction of fixed cost by PLN 6.0 m / yr
broadening of product portfolio
Planned commissioning water circuit closing - Q2 2019; furnace renovation - Q4 2019; rolling line modernization - Q2 2020
Status water circuit closing and rolling line modernization - no delays; furnace renovation - likely to delay into Q1 2020

3. Stalowa Wola melting shop (HSJ):

increase of capacities 300 k tonnes
reduction of variable cost by PLN 13.0 / tonne
broadening of product portfolio.
Planned commissioning modernisation of LF - Q4 2019; modernisation of CCM – Q2 2020
Status no delays

4. Stalowa Wola SQ bars rolling mill (HSJ):

increase of capacities 210 k tonnes,
reduction of variable cost by PLN 51.0 / tonne
reduction of fixed cost by PLN 6.0 m / yr
Planned commissioning Q3 2019
Status no delays

Together reach more



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