



Q1 2020 Business and Financial Performance

May 04, 2020



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Krzysztof Zola
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 13 years

Introduction | Q1 2020 Highlights

- Polish GDP growth likely negative – down from 4.2% in Q1 2019.; 3.7% in Q4 2019;
- EU28 GDP negative at -2.7% (-3.3% Eurozone), compared to 1.5% (1.2% Eurozone) in Q1 2019; 1.3% in Q4 2019 (1.0% Eurozone)
- Polish steel production decreased by 18.6%.; in the EU (28) it went down by 10.0%.
- The Q1 2019 Polish data included output of ISD HCZ which went then bankrupt in Q2 2019 and Mittal's BF furnace in Kraków which was later idled in Q4 2019
- Decrease of prices of scrap metal, billets and finished products. Weakening of conversion spreads for billets and finished products;. Softening demand especially from the automotive industry; EU protectionist measures inadequate to prevent the decrease of local production
- Compared to Q4 2019 scrap metal prices gaining at a faster pace than iron ore and coking coal – EAF and BOF feedstock costs almost levelled up
- 11.5% decrease in revenues while shipments grew by 4.8%
- Reported EBIT and EBITDA stronger while net profit lower due to high FX losses. Adjusted profits similar to Q1 2019
- Slightly lower utilization of capacities though still very high

ANNUAL CAPACITY		UTILIZATION RATE	
	Tonnes	Q1 2020	Q1 2019
FERROSTAL	375 000	119.4%	120.7%
HSJ	261 000	106.1%	110.8%
COMBINED	636 000	113.9%	116.6%

Crude steel production

CRUDE STEEL PRODUCTION		Q1 2020	% YoY	Q1 2019	
	<i>m tonnes</i>				
Europe		73.2	-4.9%	77.0	
	UE (28)	38.3	-10.0%	42.6	EU strongly down
	incl. Poland	2.1	-18.6%	2.5	Poland very strongly down
	CIS	25.2	-0.6%	25.3	
North America		29.5	-4.0%	30.7	
	USA	21.9	-1.0%	22.2	USA slightly down
South America		10.0	-7.1%	10.7	
Africa / Middle East		13.7	3.0%	13.3	
Asia		315.2	-0.3%	316.0	
	China	234.5	1.2%	231.7	China still positive
	Japan	24.4	-2.4%	25.0	
Oceania		1.4	-1.7%	1.4	
Total		443.0	-1.4%	449.2	

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 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 the quotas including the sublimits for specified countries. For rebars those are: Turkey, Russia, Ukraine, BiH and Moldova. In July 2019 the measure has been revised and the quotas have been reduced for the periods Jul 2019–Jun 2020 and Jul 2020–Jun 2021 which translates to a reduction of the annual quota increase from 5% to 3%. Secondly, for rebars, wire rod and HRC, the utilisation of the general quota has been limited for the specified countries to 30% and only in the last quarter of the annual quota period (Jul-Jun).

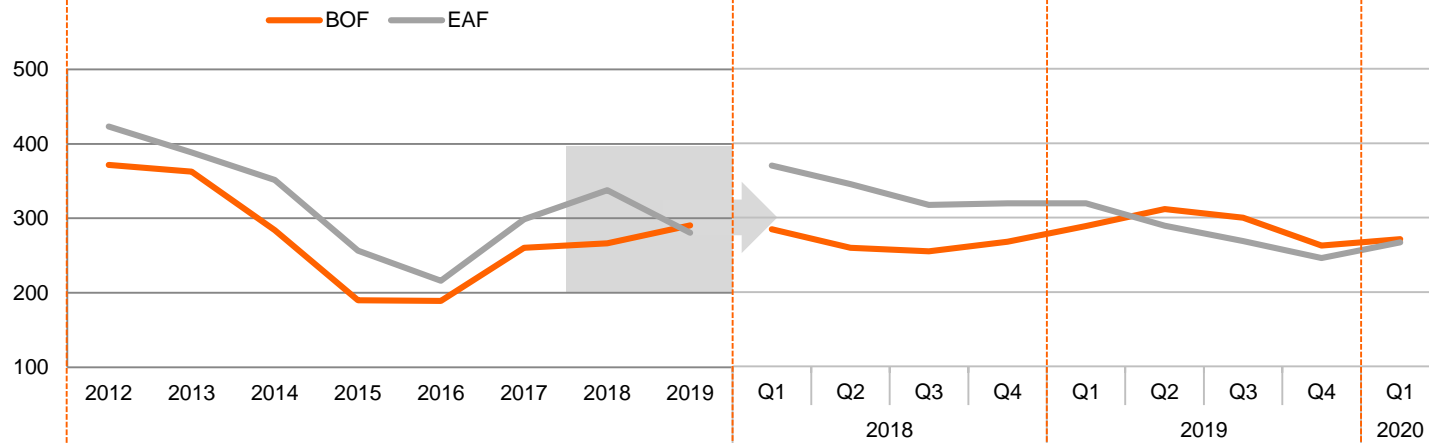
REBARS as of:	30.04.2020
period start	01.07.2019
period end	30.06.2020
period days	365
days remaining	61
period advancement	83%
quota utilisation	89%

With respect to rebars the current annual quota balances for specified countries have been exhausted almost to zero. Q2 2020 is the last quarter of the annual quota period which allows the specific countries to use up to 30% of the available quota for „Other“ origins.

ORIGINS	Initial Amount	Quota Available	Transferred
Turkey	316 614 370	11 946 630	n/a
Russia	254 098 380	9 587 750	n/a
Ukraine	168 890 770	6 372 660	n/a
BiH	106 291 200	4 010 630	n/a
Moldova	76 389 740	2 882 370	n/a
Other Jul - Sep 2019	142 654 350	0	11 184 666
Other Oct - Dec 2019	142 654 350	0	60 424 543
Other Jan - Mar 2020	135 728 920	69 143 761	pending
Other Apr - Jun 2020	135 728 920	92 214 678	pending
TOTAL	1 479 051 000	196 158 479	

BOF & EAF Feedstock Costs

Feedstock Cost	2012	2013	2014	2015	2016	2017	2018	2019	2018				2019				2020
									Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
BOF <i>USD / Tonne</i>	372	363	284	190	189	260	267	291	285	259	255	268	289	312	306	263	271
EAF	423	388	352	257	216	299	338	281	370	345	317	319	319	289	261	346	267
difference	-52	-26	-68	-67	-27	-38	-71	10	-85	-86	-63	-52	-30	23	45	17	4



Prices	Iron ore	Coking coal	Steel scrap
<i>(USD / Tonne)</i>			
2012	129	145	378
2013	135	122	347
2014	97	105	314
2015	55	89	229
2016	59	92	193
2017	72	145	267
2018	70	153	302
2019	94	151	251

Prices	Iron ore	Coking coal	Steel scrap
<i>(USD / Tonne)</i>			
Q1 2018	75	159	330
Q2 2018	66	149	308
Q3 2018	67	147	283
Q4 2018	71	157	302
Q1 2019	83	160	285
Q2 2019	102	157	258
Q3 2019	102	144	240
Q4 2019	88	127	219
Q1 2020	91	127*	238

Feedstock Cost Model	BOF	EAF
<i>Tonne / Tonne of crude steel</i>		
iron ore	1.60	
coking coal	0.60	
scrap metal	0.21	1.12

- 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,
- In 2019 scrap metal price has been falling at a much faster pace compared to iron ore and coking coal
- The cost position of EAF producers was more favourable over the whole of 2019. In Q1 2020 it almost levelled up with BOF manufacturers

source: IMF - iron ore, EIA - coking coal,

Cognor - scrap metal

*Cognor estimate

Prices & Spreads

	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019
(pln/ tonne)					
FERROSTAL					
SCRAP METAL - average purchase price	934	849	932	982	1 079
BILLETS - average price	1 767	1 630	2 056	1 980	2 128
<i>volume</i>	18 947	51 023	8 607	31 623	19 010
BILLET SPREAD	833	781	1 124	998	1 049
FINISHED PRODUCTS – average price	1 961	1 937	2 131	2 220	2 270
<i>total volume</i>	92 519	90 852	73 566	75 063	74 180
- <i>plain bars</i>	2 207	2 252	2 291	2 379	2 391
<i>volume</i>	6 048	6 483	6 293	9 799	8 345
- <i>flat bars</i>	2 195	2 183	2 305	2 364	2 417
<i>volume</i>	11 099	7 912	9 161	9 945	12 416
- <i>squares</i>	2 150	2 079	2 235	2 292	2 365
<i>volume</i>	1 904	1 732	1 882	2 262	2 876
- <i>rebars</i>	2 876	1 857	2 060	2 134	2 169
<i>volume</i>	68 202	69 959	51 356	46 802	42 948
- <i>angles</i>	2 184	2 171	2 304	2 365	2 424
<i>volume</i>	5 125	4 532	4 480	5 733	7 354
- <i>other</i>	3 426	3 426	2 388	2 340	2 457
<i>volume</i>	141	234	394	522	311
PRODUCT SPREAD	1 027	1 088	1 199	1 238	1 191
- <i>plain bars</i>	1 273	1 403	1 359	1 397	1 312
- <i>flat bars</i>	1 260	1 333	1 373	1 382	1 338
- <i>squares</i>	1 215	1 229	1 303	1 310	1 286
- <i>rebars</i>	942	1 008	1 128	1 152	1 090
- <i>angles</i>	1 250	1 321	1 372	1 383	1 345
- <i>other</i>	1 492	1 576	1 457	1 358	1 378

scrap metal price down by 145 & 13.4%
billet sales price down by 361 & 17.0%

billet spread down by 217 & 20.7%
finished product sales price down by 308 & 13.6%

product spread down by 164 & 13.8%

Prices & Spreads

	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019
(pln/ tonne)					
HSJ					
SCRAP METAL - average purchase price	1 018	927	1 049	1 113	1 193
BILLETS - average price	2 309	1 985	2 069	2 302	2 521
volume	17 560	20 745	15 615	18 092	20 204
BILLET SPREAD	1 291	1 058	1 020	1 189	1 328
FINISHED PRODUCTS – average price	2 893	2 938	3 280	3 353	3 443
total volume	44 489	32 934	33 995	46 435	48 365
- SQ bars	2 784	2 840	3 164	3 289	3 365
volume	43 728	32 446	32 249	44 507	47 838
- thick sheets	3 917	4 048	3 625	3 623	3 926
volume	359	194	1 481	1 776	248
- thin sheets	11 568	11 067	10 596	10 745	11 686
volume	191	125	159	86	151
-other	15 897	14 265	22 874	29 965	21 877
volume	211	169	106	66	128
PRODUCT SPREAD	1 875	2 011	2 231	2 240	2 250
- SQ bars	1 766	1 916	2 114	2 176	2 172
- thick sheets	3 070	3 157	2 623	2 510	2 733
- thin sheets	10 550	10 140	9 547	9 632	10 493
- other	14 879	13 338	21 825	28 852	20 684

scrap metal price down by 175 & 14.7%

billet sales price down by 213 & 8.4%

billet spread down by 38 & 2.8%

finished product sales price down by 549 & 16.0%

product spread down by 374 & 16.6%

Business Overview | Scrap Metal

Segments

SCRAP METAL		Q1 2020	Q4 2019	Q1 2019		
PURCHASES FROM EXTERNAL SUPPLIERS	<i>Tonnes</i>					
FERROSTAL		100 754	53 797	106 400	ZŁOMREX purchases down by	9.6%
ZŁOMREX		77 910	69 297	86 178		
HSJ		52 870	44 894	54 740		
INTERNAL USE	<i>Tonnes</i>					
FERROSRAL		125 363	130 659	127 670		
HSJ		78 298	84 291	82 618		
SALES TO EXTERNAL CUSTOMERS	<i>Tonnes</i>					
ZŁOMREX		37 621	30 028	39 516		
OTHER		0	0	0		
SALES	<i>'000 PLN</i>					
CONSOLIDATED		33 960	24 136	41 083		
TOTAL PURCHASES in TONNES		231 534	167 988	247 318		
TOTAL INTERNAL USE in TONNES		203 661	214 950	210 288	Internal use down by	3.2%
TOTAL SALES in TONNES		37 621	30 028	39 516	Shipments down by	4.8%
TOTAL SALES in '000 PLN		33 960	24 136	41 083	Sales down by	17.3%

Segments

BILLETS		Q1 2020	Q4 2019	Q1 2019
PURCHASES	<i>Tonnes</i>			
FERR		0	0	0
PRODUCTION	<i>Tonnes</i>			
FERR		111 950	117 071	113 134
HSJ		69 199	74 447	72 281
INTERNAL USE	<i>Tonnes</i>			
FERR		83 721	101 751	62 085
HSJ		59 274	60 882	56 292
SALES TO EXTERNAL CUSTOMERS	<i>Tonnes</i>			
FERR		26 583	58 203	23 225
HSJ		9 925	13 565	15 989
SALES	<i>'000 PLN</i>			
CONSOLIDATED		74 016	124 367	91 394
TOTAL PURCHASES in TONNES		0	0	0
TOTAL PRODUCTION in TONNES		181 149	191 518	185 415
TOTAL INTERNAL USE in TONNES		142 995	162 633	118 377
TOTAL SALES in TONNES		36 508	71 768	39 214
TOTAL SALES in '000 PLN		74 016	124 367	91 394

Production down by **2.3%**
 Internal use up by **20.8%**
 Shipments down by **2.7%**
 Sales down by **19.0%**

Business Overview | Finished Products

Segments

FINISHED PRODUCTS		Q1 2020	Q4 2019	Q1 2019
PURCHASES	<i>Tonnes</i>			
ALL ENTITES		0	0	0
PRODUCTION	<i>Tonnes</i>			
ZWWB		12 771	15 867	21 692
HSJ		45 788	43 342	45 337
PROFIL		67 583	73 242	45 553
SALES TO EXTERNAL CUSTOMERS	<i>Tonnes</i>			
FERROSTAL		86 188	85 183	68 625
HSJ		50 820	38 603	54 067
SALES	<i>'000 PLN</i>			
CONSOLIDATED		310 145	272 942	335 537
TOTAL PURCHASES in TONNES		0	0	0
TOTAL PRODUCTION in TONNES		126 142	132 451	112 582
TOTAL SALES TO EXTERNAL CUSTOMERS in TONNES		137 008	123 786	122 692
TOTAL SALES in '000 PLN		310 145	272 942	335 537

Production up by
Shipments up by
Sales down by

12.0%
11.7%
7.6%

Financials

STATEMENT OF PROFIT OR LOSS	Q1 2020	Q4 2019	Q1 2019	
	'000 PLN			
Sales revenue	460 111	466 074	519 694	Revenues down by 11.5%
Cost of sales	-414 572	-440 360	-473 076	- shipments up by 4.8%
Gross profit	45 539	25 714	46 618	Gross profit down by 2.3%
				- spreads compression loss of PLN 36.6m
Other income	3 781	2 714	2 367	- shipments gain of PLN 0.2m
Distribution expenses	-19 409	-13 246	-20 218	- estimated FIFO gain of PLN 8.8m
Administrative expenses	-11 846	-11 705	-12 450	
Other gains/(losses) – net	2 466	156	-64	
Other expenses	-1 463	-1 079	-1 137	
EBIT	19 068	2 554	15 116	EBIT up by 26.1%
Financial income	0	423	1 452	
Financial expenses	-16 662	-7 891	-6 309	Financial costs up by 164.1%
Net financing costs	-16 662	-7 468	-4 857	- FX loss of PLN 7.3m
				- Financial instruments loss of PLN 1.9m
Share of profits of associates	17	-1 398	38	
Excess in fair value of acquired assets over cost	0	0	0	
Profit before tax	2 423	-6 312	10 297	
Income tax expense	333	3 022	-1 169	
Profit/loss for the period from discontinued operations	0	-2 242	0	Net result down by 69.8 %
Profit for the period	2 756	-5 532	9 128	Adjusted net result PLN 10.4m
Depreciation and amortization	-11 438	-11 617	-11 698	
EBITDA	30 506	14 171	26 814	EBITDA up by 13.8 %
				Adjusted EBITDA PLN 28.0m

Financials

ASSETS	Q1 2020	Q4 2019	Q1 2019	
	'000 PLN			
A. TOTAL NON-CURRENT ASSETS	483 451	487 249	437 508	Fixed assets up by 10.5%
I. Intangible assets	22 150	22 296	18 661	- CPEX increase of PLN 82.6m
II. Property, plant and equipment	369 871	375 581	331 741	- D&A decrease of PLN 46.0m
III. Other receivables	5 708	4 293	350	- disposition decrease of PLN 1.2m
IV. Investment property and other investments	1 272	1 255	2 805	- tax shield decrease of PLN 2.0m
V. Prepaid perpetual usufruct of land	36 769	36 618	34 222	
VI. Deferred tax assets	47 681	47 206	49 729	
B. TOTAL CURRENT ASSETS	582 480	564 482	630 228	
I. Inventories	287 452	297 001	391 279	Inventories down by 21.2%
II. Receivables	242 701	188 525	212 147	
1. Trade receivables	242 528	188 342	203 705	Trade receivables sold (net) PLN 113.8m
2. Current income tax receivable	28	38	8 430	in Q1 2019 PLN 116.3m
3. Other investments	145	145	12	
III. Cash and cash equivalents	52 327	78 956	26 802	
IV. Prepayments	0	0	0	
V. Assets classified as held for sale	0	0	0	
Total	1 065 931	1 051 731	1 067 736	

Financials

EQUITY AND LIABILITIES	Q1 2020	Q4 2019	Q1 2019	
	'000 PLN			
A. EQUITY	282 736	320 108	303 049	Equity down by PLN 24.6m
I. Issued share capital	184 605	182 483	178 066	- Net result increase of PLN 13.4m
II. Reserves and retained earnings	79 324	118 545	104 863	- 2018 dividend decrease of PLN 34.6m
III. Minority interest	18 807	19 080	20 120	- Exchangeable notes coupon decrease of PLN 3.7m
B. LIABILITIES	720 018	717 139	611 596	
I. Non-current liabilities	279 977	288 675	302 500	
1. Employee benefits obligation	11 613	11 178	11 206	
2. Interest-bearing loans and borrowings	250 230	258 520	275 431	Gross debt down by PLN 46.4m
3. Other	18 134	18 977	15 863	- repayment decrease of PLN 40.1m
II. Current liabilities	440 041	428 464	309 096	Net debt down by PLN 72.0m
1. Interest-bearing loans and borrowings	59 823	60 755	56 049	
2. Bank overdraft	5 210	6 082	0	
3. Trade payables	361 100	348 366	246 103	
4. Deferred government grants	7 979	7 804	117	
5. Liability under financial instruments	3 859	3 578	0	
6. Employee benefits obligation	1 844	1 683	3 110	
7. Current income tax payable	0	0	36	
8. Provisions for payables	226	226	3 681	
Total	1 002 754	1 037 247	914 645	

Financials

CASH FLOW	Q1 2020	Q4 2019	Q1 2019
'000 PLN			
A. OPERATING ACTIVITIES	40 332	81 530	-48 856
B. INVESTING ACTIVITIES	-20 389	-13 949	-11 979
C. FINANCING ACTIVITIES	-55 500	-13 031	-22 626
Net increase in cash	-35 557	54 550	-83 461

- working capital inflow of PLN 11.4m
(decrease of inventories, increase of trade liabilities, increase of trade receivables)

- CAPEX outflow of PLN 20.8m

- asset dispositions inflow of PLN 0.4m

- net repayment outflow of PLN 10.1m

- interest service outflow of PLN 4.1m

- ex. notes coupon & dividend outflow of PLN 36.4m

- grants inflow of PLN 0.3m

MAIN METRICS	Q1 2020	Q4 2019	Q1 2019
Liquidity ratio	1.14	1.14	1.34
Quick ratio	0.58	0.54	0.51
Inventories turnover <i>days</i>	62	63	74
Receivables turnover <i>days</i>	47	36	35
EBITDA margin	6.6%	5.3%	5.2%
Net profit margin	0.6%	1.0%	1.8%
Equity '000 PLN	278 131	277 191	302 989
Net debt '000 PLN	259 964	225 883	331 915
Net debt / LTM EBITDA	2.5	2.2	2.0

Liquidity ratios deteriorated

Inventory ratio down by 12 days

Receivable ratio up by 12 days

Profitability ratios mixed

Net leverage up to 2.5 times



1

Deeper recession in Poland and in the EU (28)

2

Demand picture mixed; good for construction and weak for auto products

3

Poland's EAF crude steel production under pressure due to BOF mills; EAF producers stable at high utilization rates. Polish steel consumption growth in negative territory due to the weak demand from the EU auto sector

4

Compared to Q1 2020 scrap metal billets and finished products expected stable. All lower compared to Q2 2019; conversion spreads compressed compared with Q2 2019 and similar compared to Q1 2020

5

EAF feedstock cost position versus BOF becoming negative at the back of relative increase of scrap metal prices versus iron ore and coking coal

6

Q2 2020 challenging due to decreasing prices & COVID-19 crisis. Q2 2020 EBITDA expected similar to Q1 2020 and lower than Q2 2019 EBITDA

Together reach more



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