




Q3 2019 Business and Financial Performance

November 05, 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 | Q3 2019 Highlights

- Polish GDP growth estimated below 4.0% down from 4.5% in Q3 2018.; 4.2% in Q2 2019;
- EU28 GDP growth at 1.4% (1,1% Eurozone), compared to 1,9% (1,7% Eurozone) in Q3 2018; 1.4% in Q2 2019 (1,2% Eurozone)
- Polish steel production decreased by 13.8%.; in the EU (28) it went down by 3.3%.
- Bankruptcy of ISD HCZ, a 1m crude steel output Polish EAF producer; Mittal idling a of its BF furnace in Kraków delayed
- Decrease of prices of scrap metal, billets and finished products. Weakening of conversion spreads for billets and finished products;. Fair demand; EU protectionist measures inadequate to prevent the decrease of local production
- Scrap metal prices going down faster than iron ore and coking coal – further improvement regarding EAF feedstock cost v. BOF mills
- 27.4% decrease in revenues and 22.0% of shipments
- Decrease of gross profit, EBIT and EBITDA; net result becoming a loss
- Lowering of utilization of capacities

ANNUAL CAPACITY		UTILIZATION RATE	
	Tonnes	Q3 2019	Q3 2018
FERROSTAL	375 000	101.4%	98.1%
HSJ	261 000	55.4%	92,2%
COMBINED	636 000	82.5%	95.7%

Business Overview | World's Steel Output

Crude steel production

CRUDE STEEL PRODUCTION	Q3 2019	% YoY	Q3 2018	
<i>m tonnes</i>				
Europe	72.3	-3.2%	74.8	
UE (28)	37.8	-3.3%	39.1	EU down Poland strongly down
incl. Poland	2.1	-13.8%	2.4	
CIS	25.5	-0.5%	25.7	
North America	30.5	-1.8%	31.1	
USA	21.9	-1.2%	22.1	USA becoming negative
South America	9.8	-15.2%	11.6	
Africa / Middle East	12.0	-4.4%	12.6	
Asia	339.9	4.3%	325.9	
China	255.7	5.5%	242.3	China still positive
Japan	24.6	-4.2%	25.7	
Oceania	1.6	-3.7%	1.6	
Total	466.2	1.9%	457.5	

source: World Steel Association

Business Overview | EU Safeguard

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 and the sublimits for major exporting 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 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).

With respect to rebars the current annual quota balance for Turkey has been exhausted; the Russian and Ukrainian limits are much progressed as well. The annual quota is likely to be used up before the end of the quota period.

REBARS as of:	31.10.2019		
period start	01.07.2019		
period end	30.06.2020		
period days	365		
days remaining	243		
period advancement	33%		
quota utilisation	57%		

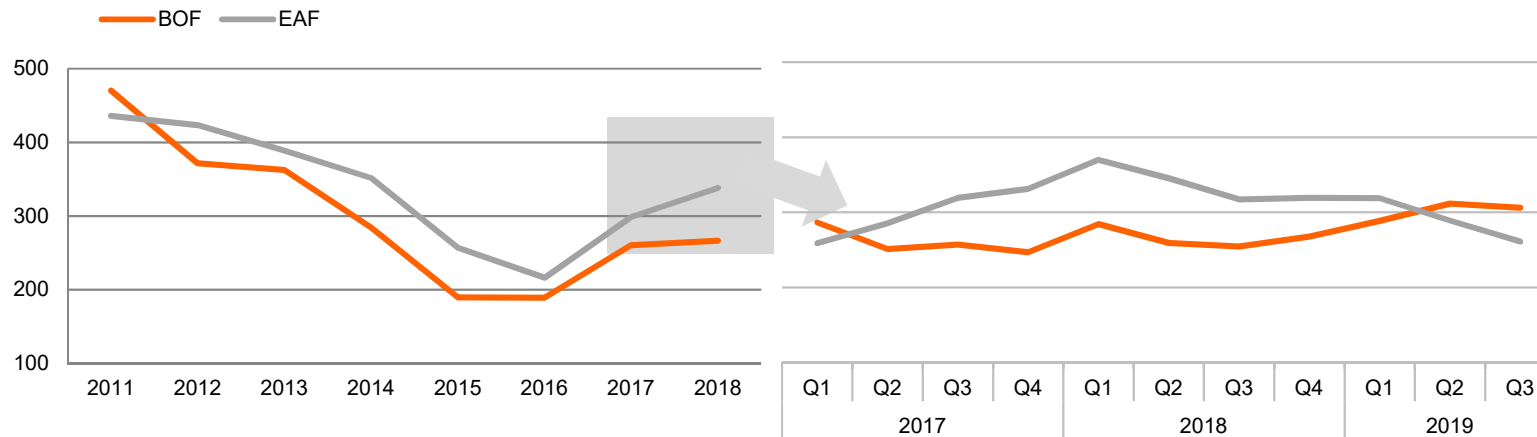
ORIGINS	Initial Amount	Quota Balance	Transferred over
Turkey	295 793 930	0	
Russia	237 388 960	71 281 055	
Ukraine	157 784 580	42 239 130	
BiH	99 301 530	70 477 871	
Moldova	71 366 380	42 729 674	
Other Jul - Sep 2019	137 370 300	0	11 842 660
Other Oct - Dec 2019	137 370 300	107 220 520	pending
Other Jan - Mar 2020	137 370 300	137 370 300	
Other Apr - Jun 2020	137 370 300	137 370 300	
TOTAL	1 411 116 580	608 688 849	

source: EC

Business Overview | BOF / EAF Feedstock Cost

BOF & EAF Feedstock Costs

Feedstock Cost									2017				2018				2019		
	2011	2012	2013	2014	2015	2016	2017	2018	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
<i>USD / Tonne</i>																			
BOF	470	372	363	284	190	189	260	267	287	251	249	242	285	259	255	268	289	312	306
EAF	436	423	388	352	257	216	299	338	259	285	320	331	370	345	317	319	319	289	261
difference	34	-52	-26	-68	-67	-27	-38	-71	28	-34	-62	-84	-85	-86	-63	-52	-30	23	45



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	160	285			
				Q2 2019	102	157	258			
				Q3 2019	102	157*	233			

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

- 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 has been improving over the whole of 2019 and became even more favourable in Q3 2019

Business Overview | Ferrostal

Prices & Spreads

	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018
(pln/ tonne)					
FERROSTAL					
SCRAP METAL - average purchase price	932	982	1 079	1 075	1 049
BILLETS - average price	2 056	1 980	2 128	2 097	2 103
<i>volume</i>	8 607	31 623	19 010	15 287	19 664
BILLET SPREAD	1 124	998	1 049	1 022	1 053
FINISHED PRODUCTS – average price	2 131	2 220	2 270	2 354	2 276
<i>total volume</i>	73 566	75 063	74 180	74 563	92 610
<i>- plain bars</i>	2 291	2 379	2 391	2 447	2 427
<i>volume</i>	6 293	9 799	8 345	6 086	9 346
<i>- flat bars</i>	2 305	2 364	2 417	2 478	2 456
<i>volume</i>	9 161	9 945	12 416	10 993	11 298
<i>-squares</i>	2 235	2 292	2 365	2 467	2 399
<i>volume</i>	1 882	2 262	2 876	1 598	2 913
<i>-rebars</i>	2 060	2 134	2 169	2 289	2 194
<i>volume</i>	51 356	46 802	42 948	50 503	61 988
<i>-angles</i>	2 304	2 365	2 424	2 503	2 455
<i>volume</i>	4 480	5 733	7 354	5 150	6 794
<i>-other</i>	2 388	2 340	2 457	4 048	2 529
<i>volume</i>	394	522	311	233	271
PRODUCT SPREAD	1 199	1 238	1 191	1 279	1 227
<i>- plain bars</i>	1 359	1 397	1 312	1 372	1 378
<i>- flat bars</i>	1 373	1 382	1 338	1 404	1 407
<i>- squares</i>	1 303	1 310	1 286	1 393	1 350
<i>- rebars</i>	1 128	1 152	1 090	1 214	1 145
<i>- angles</i>	1 372	1 383	1 345	1 429	1 406
<i>- other</i>	1 457	1 358	1 378	2 973	1 480

scrap metal price down by 117 & 11.2%

billet sales price down by 47 & 2.2%

billet spread up by 71 & 6.7%

finished product sales price down by 145 & 6.4%

product spread down by 28 & 2.2%

Business Overview | HSJ

Prices & Spreads

	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018
(pln/ tonne)					
HSJ					
SCRAP METAL - average purchase price	1 049	1 113	1 193	1 180	1 191
BILLETS - average price	2 069	2 302	2 521	2 674	2 652
<i>volume</i>	15 615	18 092	20 204	16 463	12 228
BILLET SPREAD	1 020	1 189	1 328	1 494	1 461
FINISHED PRODUCTS – average price	3 280	3 353	3 443	3 549	3 592
total volume	33 995	46 435	48 365	37 009	46 960
- SQ bars	3 164	3 289	3 365	3 453	3 493
<i>volume</i>	32 249	44 507	47 838	36 613	46 348
- thick sheets	3 625	3 623	3 926	5 652	5 988
<i>volume</i>	1 481	1 776	248	136	311
- thin sheets	10 596	10 745	11 686	11 547	11 873
<i>volume</i>	159	86	151	117	209
- other	22 874	29 965	21 877	19 511	26 412
<i>volume</i>	106	66	128	143	92
PRODUCT SPREAD	2 231	2 240	2 250	2 369	2 401
- SQ bars	2 114	2 176	2 172	2 273	2 302
- thick sheets	2 623	2 510	2 733	4 472	4 797
- thin sheets	9 547	9 632	10 493	10 367	10 682
- other	21 825	28 852	20 684	18 331	25 221

scrap metal price down by 142 & 11.9%

billet sales price down by 583 & 22.0%

billet spread down by 441 & 30.2%

finished product sales price down by 312 & 8.7%

product spread down by 170 & 7.1%

Business Overview | Scrap Metal

Segments

SCRAP METAL		Q3 2019	Q2 2019	Q3 2018		
PURCHASES FROM EXTERNAL SUPPLIERS	<i>Tonnes</i>					
FERROSTAL		89 986	127 961	65 861		
ZŁOMREX		71 872	70 629	81 919	ZŁOMREX purchases down by	12.3%
HSJ		30 360	50 815	47 420		
INTERNAL USE	<i>Tonnes</i>					
FERROSRAL		105 846	128 950	103 220		
HSJ		41 174	78 431	68 452		
SALES TO EXTERNAL CUSTOMERS	<i>Tonnes</i>					
ZŁOMREX		36 737	35 566	44 698		
OTHER		0	0	0		
SALES	<i>'000 PLN</i>					
CONSOLIDATED		32 852	33 881	46 472		
TOTAL PURCHASES in TONNES		192 218	249 405	195 200		
TOTAL INTERNAL USE in TONNES		147 020	207 381	171 672		
TOTAL SALES in TONNES		36 737	35 566	44 698	Shipments down by	17.8%
TOTAL SALES in '000 PLN		32 852	33 881	46 472	Sales down by	29.3%

Business Overview | Billets

Segments

BILLETS		Q3 2019	Q2 2019	Q3 2018		
PURCHASES	<i>Tonnes</i>					
FERR		0	0	0		
PRODUCTION	<i>Tonnes</i>					
FERR		95 090	115 377	91 972		
HSJ		36 140	68 671	60 130		
INTERNAL USE	<i>Tonnes</i>					
FERR		88 791	80 390	89 125		
HSJ		26 679	53 695	50 688		
SALES TO EXTERNAL CUSTOMERS	<i>Tonnes</i>					
FERR		14 761	34 739	22 450		
HSJ		9 461	14 976	9 442		
SALES	<i>'000 PLN</i>					
CONSOLIDATED		50 003	104 248	73 768		
TOTAL PURCHASES in TONNES		0	0	0		
TOTAL PRODUCTION in TONNES		131 230	184 048	152 102	Production down by	13.7%
TOTAL INTERNAL USE in TONNES		115 470	134 085	139 813		
TOTAL SALES in TONNES		24 222	49 715	31 892	Shipments down by	24.0%
TOTAL SALES in '000 PLN		50 003	104 248	73 768	Sales down by	32.2%

Business Overview | Finished Products

Segments

FINISHED PRODUCTS		Q3 2019	Q2 2019	Q3 2018
PURCHASES	<i>Tonnes</i>			
ALL ENTITES		0	0	0
PRODUCTION	<i>Tonnes</i>			
ZWWB		20 208	18 888	18 352
HSJ		28 127	50 325	47 062
PROFIL		64 466	57 648	66 858
SALES TO EXTERNAL CUSTOMERS	<i>Tonnes</i>			
FERROSTAL		66 200	71 259	87 455
HSJ		41 361	50 607	52 115
SALES	<i>'000 PLN</i>			
CONSOLIDATED		268 366	323 812	379 581
TOTAL PURCHASES in TONNES		0	0	0
TOTAL PRODUCTION in TONNES		112 801	126 861	132 272
TOTAL SALES TO EXTERNAL CUSTOMERS in TONNES		107 561	121 866	139 570
TOTAL SALES in '000 PLN		268 366	323 812	379 581

Production down by 14.7%

Shipments down by 22.9%
Sales down by 29.3%

Financials

STATEMENT OF PROFIT OR LOSS	Q3 2019	Q2 2019	Q3 2018		
	<i>'000 PLN</i>				
Sales revenue	399 511	516 325	550 666	Revenues down by	27.4%
Cost of sales	-364 456	-452 662	-474 323	„Electricity act” compensation *	7.9m
Gross profit	35 055	63 663	76 343	EBITDA one-offs	4.0m
				Repair costs increase *	14.6m
Other income	3 518	4 461	2 429	FIFO loss *	6.8m
Distribution expenses	-22 193	-19 604	-21 646	Gross profit down by	54.1%
Administrative expenses	-11 171	-12 814	-9 336		
Other gains/(losses) – net	1 415	-590	-986		
Other expenses	-1 252	-3 566	-1 495		
EBIT	5 372	31 550	45 309	EBIT down by	88.1%
Financial income	-1 741	793	4 460	FX loss	3.4m
Financial expenses	-8 069	-9 462	-6 477	Financial instruments loss	0.3m
Net financing costs	-9 810	-8 669	-2 017		
Share of profits of associates	7	-102	40		
Excess in fair value of acquired assets over cost	0	0	0		
Profit before tax	-4 431	22 779	43 332		
Income tax expense	3 475	-5 647	-8 989		
Profit/loss for the period from discontinued operations	0	0	0	net result negative	
Profit for the period	-956	17 132	34 343	Adjusted net result	0.0m
Depreciation and amortization	-11 528	-11 393	-10 847	EBITDA down by	69.9 %
EBITDA	16 900	42 943	56 156	Adjusted EBITDA	12.9m

* Green positions not included in EBITDA and net result adjustments

Financials

ASSETS	Q3 2019	Q2 2019	Q3 2018
	'000 PLN		
A. TOTAL NON-CURRENT ASSETS	445 177	445 442	385 320
I. Intangible assets	20 533	20 432	21 283
II. Property, plant and equipment	342 465	343 813	280 631
III. Other receivables	122	376	297
IV. Investment property and other investments	2 587	2 702	3 442
V. Prepaid perpetual usufruct of land	33 362	34 074	23 117
VI. Deferred tax assets	46 108	44 045	56 550
B. TOTAL CURRENT ASSETS	557 577	591 805	529 325
I. Inventories	346 072	343 654	275 898
II. Receivables	181 889	208 772	212 768
1. Trade receivables	181 740	200 009	212 019
2. Current income tax receivable	11	661	737
3. Other investments	138	102	12
III. Cash and cash equivalents	29 616	39 379	40 659
IV. Prepayments	0	0	0
V. Assets classified as held for sale	0	0	0
Total	1 002 754	1 037 247	914 645

Increase of II & V by a total of 51.1m due to IFRS 16
 CAPEX 10.5m (LTM 68.8)
 Disposals 1.4m (LTM 3.3)

Utilization of tax shield by 10.4m

Increase of billet & product stock

Receivables sold (net) 96.2m
 Receivables sold (net) in Q3 2018 119.4m

Cash balance reduced due to debt service and CAPEX

Financials

EQUITY AND LIABILITIES	Q3 2019	Q2 2019	Q3 2018
<i>'000 PLN</i>			
A. EQUITY	282 736	320 108	303 049
I. Issued share capital	184 605	182 483	178 066
II. Reserves and retained earnings	79 324	118 545	104 863
III. Minority interest	18 807	19 080	20 120
B. LIABILITIES	720 018	717 139	611 596
I. Non-current liabilities	279 977	288 675	302 500
1. <i>Employee benefits obligation</i>	<i>11 613</i>	<i>11 178</i>	<i>11 206</i>
2. <i>Interest-bearing loans and borrowings</i>	<i>250 230</i>	<i>258 520</i>	<i>275 431</i>
3. <i>Other</i>	<i>18 134</i>	<i>18 977</i>	<i>15 863</i>
II. Current liabilities	440 041	428 464	309 096
1. <i>Interest-bearing loans and borrowings</i>	<i>59 823</i>	<i>60 755</i>	<i>56 049</i>
2. <i>Bank overdraft</i>	<i>5 210</i>	<i>6 082</i>	<i>0</i>
3. <i>Trade payables</i>	<i>361 100</i>	<i>348 366</i>	<i>246 103</i>
4. <i>Deferred government grants</i>	<i>7 979</i>	<i>7 804</i>	<i>117</i>
5. <i>Liability under financial instruments</i>	<i>3 859</i>	<i>3 578</i>	<i>0</i>
6. <i>Employee benefits obligation</i>	<i>1 844</i>	<i>1 683</i>	<i>3 110</i>
7. <i>Current income tax payable</i>	<i>0</i>	<i>0</i>	<i>36</i>
8. <i>Provisions for payables</i>	<i>226</i>	<i>226</i>	<i>3 681</i>
Total	1 002 754	1 037 247	914 645

Equity down by 20.3m
(PLN 19.6m of LTM net profit less PLN 34.6m of dividend)

Net indebtedness down by 5.2m
(PLN 19.6m of LTM net profit, 52.0m under IFRS 16; repayment of debt offset by reduction of cash balance)

Financials

CASH FLOW	Q3 2019	Q2 2019	Q3 2018
	<i>'000 PLN</i>		
A. OPERATING ACTIVITIES	28 902	80 904	51 830
B. INVESTING ACTIVITIES	-13 848	-16 377	-13 717
C. FINANCING ACTIVITIES	-23 945	-24 228	-96 849
Net increase in cash	-8 891	40 299	-58 736

Working capital inflow	11.4m
CAPEX	(-) 15.6m
asset dispositions	1.8m
Debt repayment	(-) 14.7m
Interest service	(-) 9.4m
EU grants	0.1m

MAIN METRICS	Q3 2019 *	Q2 2019 *	Q3 2018
Liquidity ratio	1.44	1.58	1.71
Quick ratio	0.55	0.66	0.82
Inventories turnover	85	68	52
Receivables turnover	41	36	35
EBITDA margin	4.2%	8.3%	10.2%
Net profit margin	-0.2%	3.3%	6.2%
Equity	282 736	320 108	303 049
Net debt	233 666	231 169	290 821
Net debt / LTM EBITDA	2.1	1.5	1.4

Liquidity ratios worsened but remain acceptable

Inventory ratio up to 85 days

Receivable ratio slightly up to 41 days

EBITDA profitability ratio decreased, net result margin negative

Leverage up to 2.1 times

* adjusted for IFRS 16

Q4 2019 Outlook | Main Factors



1

Further weakening of GDP growth for 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

Decrease of prices of scrap metal, billets and finished products; conversion spreads lower compared both with Q3 2019 and Q4 2018

5

EAF feedstock cost position versus BOF to remain positive at the back of high iron ore and coking coal prices relative to scrap metal prices

6

Q4 2019 challenging due to weak macro and decreasing prices. FIFO loss expected. Improvement of certain production costs. Q4 2019 EBITDA expected in the range of Q3 2019 and Q4 2018 EBITDA:

CAPEX

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
Commissioning status	delayed to H2 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
Commissioning status	water circuit closing commissioned August 2019 ; rolling line modernization - no delay expected; furnace renovation – delay into H1 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 EAF - Q4 2019 ; modernisation of CCM – Q2 2020
Commissioning status	modernisation of EAF commissioned September 2019 modernisation of CCM - 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
Commissioning status	commissioned September 2019

Together reach more



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