

Together reach more



2019 Business and Financial Performance

April 1, 2020

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Speakers



Krzysztof Zola
Board Member, CFO

Responsibility

- Cooperation with financial institutions
- Budgeting and controlling

Experience

- with Cognor since 2002
- Board Member of Cognor Holding since 2013
- CFO for 14 years

2019 Highlights

- Polish GDP growth at 4.0% down from 5.1% in 2018; EU(28) GDP down to 1.5% from 2.0% in 2018
- Polish steel production decreased by 10.8%. In the EU (28) it went down by 4.9%
- Decrease of prices of scrap metal, billets and finished products. Compression of all conversion spreads. Weak demand; although the EU anti-dumping measures in place and working they fail to protect the EU market
- Faster pace of scrap metal prices. BOF v EAF cost advantage increased
- 8.7% drop in revenues; shipments down by 1.1%
- Significant deterioration of gross profit, EBIT and EBITDA
- High capacity utilization:

ANNUAL CAPACITY		Tonnes	UTYLIZATION RATE				
			2019	2018	2017	2016	2015
FERROSTAL	375 000		115%	115%	115%	107%	97%
HSJ	261 000		102%	102%	94%	87%	84%
COMBINED	636 000		109%	109%	107%	99%	92%

Crude steel production and finished products demand

CRUDE STEEL PRODUCTION	2019	% YoY	2018	2017
<i>m tonnes</i>				
Europe	297	-4.0	309	310
UE (28)	9.1	-4.9	10.2	10.3
Poland	159	-10.8	168	169
CIS	100	-0.6	101	101
North America	120	-0.8	121	116
USA	88	1.5	87	82
South America	41	-8.4	45	44
Africa / Middle East	56	12.6	50	46
Asia	1 330	5.9	1 255	1 191
China	996	8.3	920	871
Japan	99	-4.8	104	105
Oceania	6	-2.9	6	6
Total	1 849	3.5	1 786	1 712

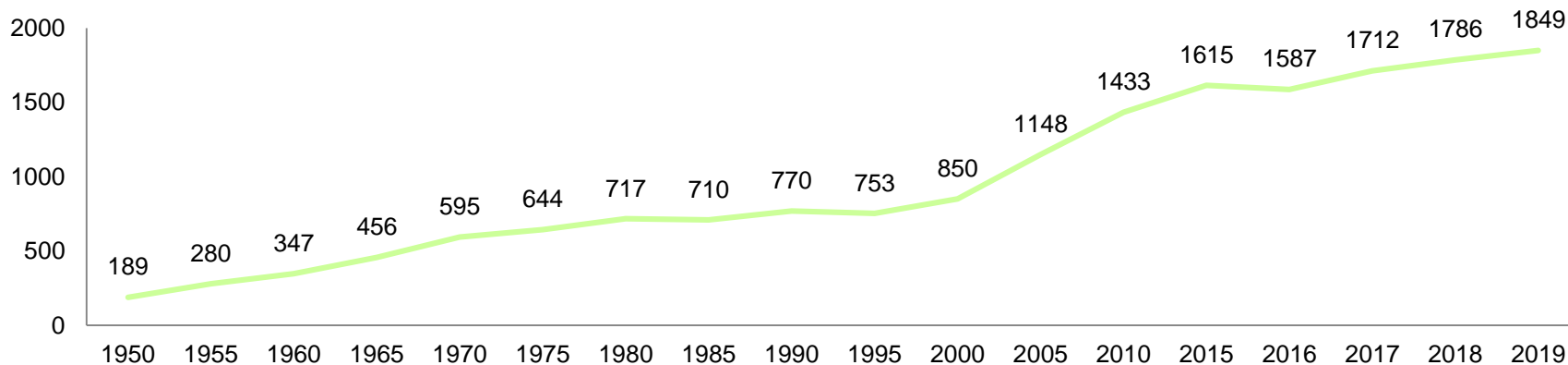
Poland with 10.8% production and 7.9% demand decreases

USA with 1.5% production and 1.1% demand increases

China with 8.3% production and 7.0% demand increases

PRODUCT DEMAND	2019	% YoY	2018	2017
<i>mln tonnes</i>				
Europe	257	-1.7	261	258
UE (28)	165	-3.2	170	163
Poland	14	-7.9	16	14
CIS	51	2.2	49	48
North America	148	0.1	148	146
USA	101	1.1	100	99
South America	41	0.7	40	38
Africa / Middle East	89	1.0	88	89
Asia / Oceania	1218	5.8	1151	1 084
China	877	7.0	819	755
Japan	63	-1.6	64	65
Total	1 759	3.8	1 694	1 614

Global steel output (million of tonnes)



Top 20 Exporters (million tonnes, billets & products)						
Rank	Country	2015	2016	2017	2018	2019
1	China	111,6	108,1	74,8	68,6	65,0
2	Japan	40,8	40,5	37,5	35,8	34,4
3	Russia	29,9	31,3	31,3	33,5	30,4
4	South Korea	31,1	30,6	31,3	30,0	29,4
5	Germany	25,4	25,5	27,1	26,3	25,5
6	Turkey	14,9	15,1	16,3	19,9	20,6
7	Italy	16,5	18,1	18,3	18,2	18,9
8	Belgium	15,3	17,0	18,0	18,3	18,0
9	Ukraine	17,8	18,3	15,4	15,2	16,1
10	Brazil	13,7	13,4	15,3	13,9	13,8
11	France	14,1	13,8	14,9	14,4	13,8
12	India	7,6	10,3	16,3	11,1	12,0
13	Taiwan	11,2	12,3	12,2	12,3	11,4
14	Netherlands	11,1	11,1	11,5	11,1	10,7
15	Spain	9,8	9,5	9,0	9,4	9,5
16	Iran	3,8	5,7	7,5	9,3	9,1
17	United States	10,0	9,3	10,5	8,8	7,7
18	Austria	7,0	7,4	7,9	7,5	7,0
19	Canada	6,3	6,1	6,7	6,6	6,1
20	Poland	5,1	5,5	6,3	6,1	5,7

Top 20 Importers (million tonnes, billets & products)						
Rank	Country	2015	2016	2017	2018	2019
1	United States	36,6	30,9	35,5	32,0	28,8
2	Germany	25,9	26,6	28,3	27,8	24,6
3	Italy	20,0	19,6	20,2	21,2	21,9
4	Thailand	14,7	17,6	14,3	15,1	16,7
5	South Korea	21,7	23,2	19,2	14,9	16,2
6	France	14,4	14,9	15,3	15,2	15,1
7	Belgium	12,1	13,4	14,1	15,1	14,9
8	China	13,2	13,6	13,9	14,4	13,9
9	Vietnam	16,4	19,5	16,2	14,2	13,8
10	Indonesia	11,4	12,6	11,5	11,7	11,7
11	Turkey	20,6	20,0	15,9	11,4	11,5
12	Mexico	12,4	10,0	11,1	11,3	11,3
13	Poland	9,4	10,3	10,9	12,2	10,9
14	Spain	9,1	9,5	10,0	10,9	10,5
15	Netherlands	8,0	10,4	10,0	10,4	10,3
16	India	13,4	9,9	8,9	9,0	9,5
17	Canada	8,1	7,9	8,9	9,3	9,4
18	UK	7,2	7,7	7,7	7,9	7,5
19	Russia	4,6	4,5	6,6	6,5	6,9
20	Malaysia	7,8	9,1	7,7	8,0	6,8

Top 10 net importers 2019				
Rank	Country	Volume Mt	Population M	Net imports kg per capita
1	Thailand	15,0	67,0	223
2	Malaysia	4,6	32,1	144
3	Poland	5,2	38,4	134
4	Vietnam	8,2	93,6	88
5	Canada	3,3	37,8	87
6	United States	21,1	325,0	65
7	Italy	3,1	60,3	51
8	Mexico	6,4	126,6	50
9	UK	3,3	66,0	50
10	Indonesia	6,4	237,4	27

source: World Steel Association, Wood McKenzie, HIPH

Prices & Spreads

	2019	2018	2017	2016	2015	2014	2013	2012		
(pln/ tonne)										
FERROSTAL										
SCRAP METAL - average purchase price	930	1 092	1 014	755	864	989	1 096	1 236	scrap metal price down by	146 & 14%
BILLETS - average price	1 850	2 138	1 834	1 455	1 660	1 858	2 015	2 121	billet sales price down by	289 & 14%
<i>volume</i>	110 263	81 775	119 211	75 014	104 113	169 904	160 898	214 489		
BILLET SPREADS	884	1 046	821	700	796	869	919	885	billet spread down by	162
FINISHED PRODUCTS – average price	2 129	2 321	1 997	1 714	1 842	2 036	2 131	2 337	finished product price down by	191 & 8%
<i>total volume</i>	313 661	319 683	315 828	319 149	224 491	186 571	142 425	75 155		
<i>- plain bars</i>	2 338	2 457	2 084	1 872	1 945	2 070	2 116	2 310		
<i>volume</i>	30 920	30 268	30 411	29 498	32 331	35 714	36 557	25 562		
<i>- flat bars</i>	2 331	2 478	2 089	1 902	1 967	2 073	2 131	2 315		
<i>volume</i>	39 434	44 051	48 088	61 409	60 155	64 241	57 565	39 894		
<i>-squares</i>	2 261	2 434	2 062	1 871	1 939	2 057	2 071	2 265		
<i>volume</i>	8 743	8 329	6 534	7 726	11 029	13 709	16 823	5 724		
<i>-rebars</i>	2 031	2 243	1 951	1 582	1 629	1 867				
<i>volume</i>	211 065	213 681	211 832	188 994	82 461	41 642				
<i>-angles</i>	2 333	2 489	2 064	1 918	1 951	2 111	2 132			
<i>volume</i>	22 038	22 254	17 927	24 895	32 171	30 107	28 209			
<i>-other</i>	2 573	2 984	2 933	2 108	2 180	2 721	2 619	2 906		
<i>volume</i>	1 461	1 100	1 036	6 627	6 346	1 159	3 271	3 975		
PRODUCT SPREADS	1 164	1 229	983	960	978	1 047	1 036	1 101	product spread down by	65
<i>- plain bars</i>	1 327	1 365	1 070	1 117	1 081	1 081	1 020	1 073		
<i>- flat bars</i>	1 365	1 387	1 075	1 147	1 104	1 084	1 035	1 078		
<i>-squares</i>	1 296	1 342	1 048	1 116	1 076	1 068	975	1 029		
<i>-rebars</i>	1 066	1 152	938	827	766	880				
<i>- angles</i>	1 367	1 397	1 050	1 164	1 087	1 122	1 036			
<i>- other</i>	1 608	1 892	1 919	1 353	1 317	1 732	1 523	1 670		

Prices & Spreads

	2019	2018	2017	2016	2015	2014	2013	2012		
<i>(pln/ tonne)</i>										
HSJ										
SCRAP METAL - average purchase price	1 079	1 206	1 076	823	902	1 041	1 109	1 229	scrap metal price down by	127 & 11%
BILLETS - average price	2 224	2 692	2 235	1 769	1 968	2 472	2 450		billet sales price down by	468 & 17%
<i>volume</i>	74 656	58 675	66 213	40 482	28 148	18 149	9 120			
BILLET SPREADS	1 145	1 486	1 159	946	1 066	1 431	1 341		billet spread up by	341
FINISHED PRODUCTS – average price	3 280	3 496	2 858	2 463	2 703	2 920	2 937	3 386	finished product price down by	216 & 6%
<i>total volume</i>	162 244	178 401	165 082	160 593	168 397	151 788	150 099	130 716		
<i>- SQ bars</i>	3 194	3 398	2 785	2 337	2 584	2 788	2 825	3 201		
<i>volume</i>	157 555	175 617	156 519	153 621	150 311	144 605	145 236	117 074		
<i>- thick sheets</i>	3 668	4 652	2 818	2 740	2 427	2 954	3 942	3 503		
<i>volume</i>	3 699	1 593	7 699	5 696	16 362	5 787	3 672	11 943		
<i>- thin sheets</i>	11 049	11 513	10 973	11 147	10 820	11 090	11 593	11 177		
<i>volume</i>	521	701	536	638	1 069	865	935	1 285		
<i>-other</i>	20 515	23 379	25 154	21 547	23 529	25 277	20 586	28 412		
<i>volume</i>	469	490	328	638	655	531	256	414		
PRODUCT SPREADS	2 201	2 290	1 782	1 640	1 801	1 879	1 829	2 157	product spread up by	89
<i>- SQ bars</i>	2 166	2 192	1 709	1 514	1 682	1 747	1 716	1 971		
<i>- thick sheets</i>	3 610	3 446	1 742	1 917	1 525	1 913	2 833	2 274		
<i>- thin sheets</i>	9 970	10 307	9 897	10 324	9 918	10 049	10 484	9 948		
<i>- other</i>	19 436	22 173	24 078	20 724	22 627	24 236	19 477	27 183		

Segments

SCRAP METAL		2019	2018	2017	
PURCHASES FROM EXTERNAL SUPPLIERS	<i>Tonnes</i>				
FERROSTAL		378 144	380 904	329 931	
ZŁOMREX		297 976	345 308	331 912	ZŁOMREX purchases down by 13.7%
HSJ		180 809	191 072	161 244	
INTERNAL USE	<i>Tonnes</i>				
FERROSRAL		493 125	481 737	483 225	
HSJ		286 514	302 974	281 624	
SALES TO EXTERNAL CUSTOMERS	<i>Tonnes</i>				
ZŁOMREX		141 847	172 762	130 883	
OTHER		0	0	7 982	
SALES	<i>'000 PLN</i>				
CONSOLIDATED		131 952	185 997	136 902	
TOTAL PURCHASES in TONNES		856 929	917 284	823 087	
TOTAL INTERNAL USE in TONNES		779 639	784 711	764 849	Internal use down by 0,6%
TOTAL SALES in TONNES		141 847	172 762	138 865	Shipments down by 17.9%
TOTAL SALES in '000 PLN		131 952	185 997	136 902	Sales down by 29.1%

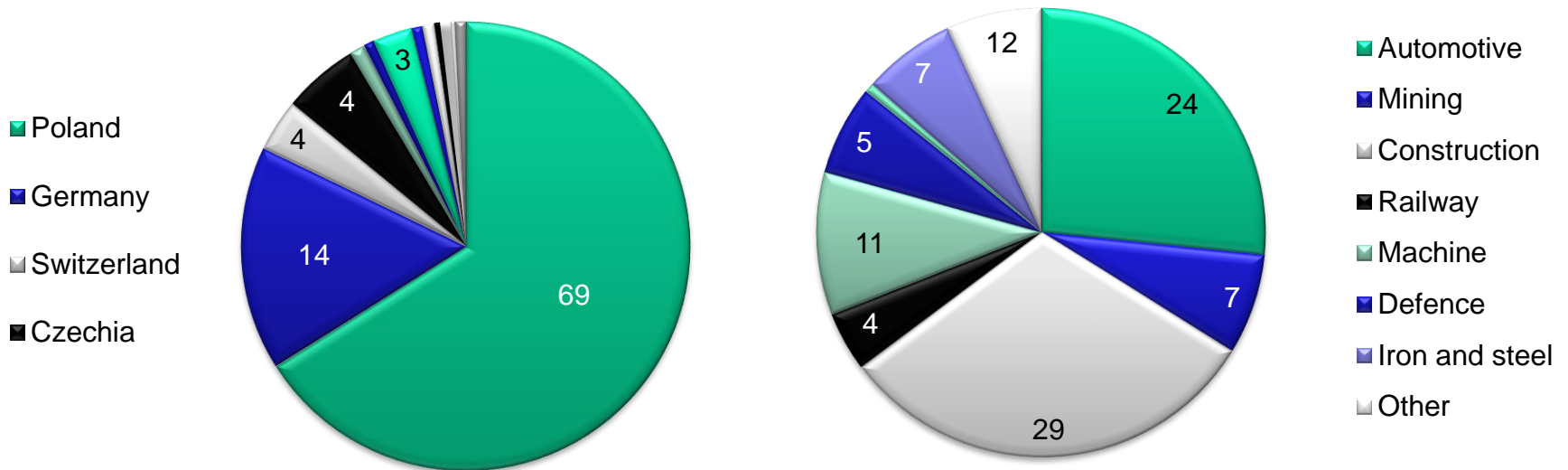
Segments

BILLETS		2019	2018	2017	
PURCHASES	<i>Tonnes</i>				
FERR		0	0	0	
PRODUCTION	<i>Tonnes</i>				
FERR		440 672	429 687	431 731	
HSJ		251 539	265 693	246 189	
INTERNAL USE	<i>Tonnes</i>				
FERR		333 017	348 404	320 796	
HSJ		197 548	222 250	202 091	
SALES TO EXTERNAL CUSTOMERS	<i>Tonnes</i>				
FERR		130 928	97 007	141 326	
HSJ		53 991	43 443	44 098	
SALES	<i>'000 PLN</i>				
CONSOLIDATED		370 012	332 800	366 629	
TOTAL PURCHASES in TONNES		0	0	0	
TOTAL PRODUCTION in TONNES		692 211	677 920	677 920	Production down by 0.5%
TOTAL INTERNAL USE in TONNES		530 565	570 654	522 887	Internal use down by 7.0%
TOTAL SALES in TONNES		184 919	140 450	185 424	Shipments up by 31.7%
TOTAL SALES in '000 PLN		370 012	366 629	366 629	Sales up by 11.2%

Segments

FINISHED PRODUCTS		2019	2018	2017	
PURCHASES	<i>Tonnes</i>				
ALL ENTITES		0	19	132	
PRODUCTION	<i>Tonnes</i>				
ZWWB		76 655	79 835	78 729	
HSJ		167 131	188 966	171 697	
PROFIL		240 909	252 415	226 647	
SALES TO EXTERNAL CUSTOMERS	<i>Tonnes</i>				
FERROSTAL		291 267	293 564	307 607	
HSJ		184 638	204 520	165 082	
SALES	<i>'000 PLN</i>				
CONSOLIDATED		1 200 657	1 366 281	1 085 773	
TOTAL PURCHASES in TONNES		0	0	19	
TOTAL PRODUCTION in TONNES		484 695	521 216	477 073	Production down by 7.0%
TOTAL SALES TO EXTERNAL CUSTOMERS in TONNES		475 905	498 084	472 689	Shipments down by 4.5%
TOTAL SALES in '000 PLN		1 200 657	1 366 281	1 085 773	Sales down by 12.1%

Geographical & Industry Breakdowns *(billets and finished products segment)*



STATEMENT OF PROFIT OR LOSS	2019	2018	2017
	'000 PLN		
Sales revenue	1 901 604	2 081 841	1 789 280
Cost of sales	-1 730 554	-1 805 528	-1 573 044
Gross profit	171 050	276 313	216 236
Other income	13 060	10 542	10 126
Distribution expenses	-75 261	-76 700	-65 792
Administrative expenses	-48 140	-46 041	-50 528
Other gains/(losses) – net	917	1 977	-2 644
Other expenses	-7 034	-9 883	-8 188
EBIT	54 592	156 208	99 210
Financial income	927	4 460	22 131
Financial expenses	-31 731	-67 230	-53 339
Net financing costs	-30 804	-62 770	-31 208
Share of profits of associates	-1 455	-662	51
Excess in fair value of acquired assets over cost	0	0	0
Profit before tax	22 333	92 776	68 053
Income tax expense	-319	-20 730	-18 148
Profit/loss for the period from discontinued operations	-2 242	0	0
Profit for the period	19 772	72 046	49 905
Depreciation and amortization	-46 236	-43 861	-41 328
EBITDA	100 828	200 069	140 538

Revenues down by	8.7%
- shipments down by just 1.1%	
Gross profit down by	38.1%
- spreads compression loss of PLN 88.0m	
- shipments loss of PLN 3.1m	
- fixed costs loss of PLN 3.4m	
- variable costs loss of PLN 3.6m	
- estimated FIFO loss of PLN 25.6m	
- electricity refund gain of PLN 21.9m	
EBIT down by	65.1%
Financial costs down by	52.8%
- WT abolition tax loss of PLN 5.0m	
Adjusted net result PLN	18.3m
EBITDA down by	49.6 %
Adjusted EBITDA PLN	92.9m

ASSETS	2019	2018	2017	
	'000 PLN			
A. TOTAL NON-CURRENT ASSETS	487 249	379 296	398 470	Fixed assets up by 28.5%
I. Intangible assets	22 296	17 965	13 005	- MSSF 16 increase of PLN 50.0m
II. Property, plant and equipment	375 581	284 617	285 862	- CPEX increase of PLN 102.5m
III. Other receivables	4 293	324	223	- D&A decrease of PLN 46.2m
IV. Investment property and other investments	1 255	2 767	3 431	- disposition decrease of PLN 4.3m
V. Prepaid perpetual usufruct of land	36 618	23 013	25 771	- tax shield decrease of PLN 3.4m
VI. Deferred tax assets	47 206	50 610	70 178	
B. TOTAL CURRENT ASSETS	564 482	622 082	552 219	Inventories down by 21.2%
I. Inventories	297 001	376 969	277 494	
II. Receivables	188 525	168 654	172 679	Trade receivables sold (net) PLN 101.7m
1. Trade receivables	188 342	167 982	171 889	in 2017 PLN 101.5m
2. Current income tax receivable	38	660	778	
3. Other investments	145	12	12	
III. Cash and cash equivalents	78 956	76 459	102 046	
IV. Prepayments	0	0	0	
V. Assets classified as held for sale	0	0	0	
Total	1 051 731	1 001 378	950 689	

EQUITY AND LIABILITIES	2019	2018	2017	
'000 PLN				
A. EQUITY	277 191	295 885	241 834	
I. Issued share capital	185 911	180 626	177 923	Equity down by PLN 18.7m
II. Reserves and retained earnings	72 897	97 538	47 426	- Net result increase of PLN 19.8m
III. Minority interest	18 383	17 721	16 485	- 2018 dividend decrease of PLN 34.6m
B. LIABILITIES	774 540	705 493	708 855	
I. Non-current liabilities	279 916	259 585	388 800	Gross debt up by PLN 21.5m
1. Employee benefits obligation	11 071	10 677	11 282	- MSSF 16 increase of PLN 52.2m
2. Interest-bearing loans and borrowings	249 669	229 188	358 003	- other lease increase of PLN 10.8m
3. Other	19 176	19 720	19 515	- repayment decrease of PLN 36.9m
II. Current liabilities	494 624	445 908	320 055	
1. Interest-bearing loans and borrowings	55 170	56 692	44 523	
2. Bank overdraft	0	0	24 607	
3. Other financial liabilities	2 869	2 531	0	Net debt down by PLN 33.2m
4. Trade payables	424 370	371 911	242 324	(adjusted for MSSF 16)
5. Deferred government grants	9 324	5 653	117	
6. Employee benefits obligation	2 346	7 258	5 122	
7. Current income tax payable	319	0	0	
8. Provisions for payables	226	4 394	3 362	
Total	1 051 731	1 001 378	950 689	

CASH FLOW	2019	2018	2017
	'000 PLN		
A. OPERATING ACTIVITIES	142 480	232 195	145 440
B. INVESTING ACTIVITIES	-56 153	-37 603	-15 402
C. FINANCING ACTIVITIES	-83 830	-195 572	-52 379
Net increase in cash	2 497	-980	77 659

- working capital inflow of PLN 61.2m
(decrease of inventories, increase of trade liabilities)

- CAPEX outflow of PLN 59.7m
- asset dispositions inflow of PLN 3.5m

- net repayment outflow of PLN 59.4m
- interest service outflow of PLN 17.6m
- ex. notes coupon outflow of PLN 3.9m
- WT abolition tax outflow of PLN 10.1m
- grants inflow of PLN 7.2m

MAIN METRICS	2019	2018	2017
Liquidity ratio	1.28	1.40	1.73
Quick ratio	0.60	0.55	0.86
Inventories turnover	days	63	76
Receivables turnover	days	36	29
EBITDA margin	5.3%	9.6%	7.9%
Net profit margin	1.0%	3.5%	2.8%
Equity	'000 PLN	277 191	295 885
Net debt*	'000 PLN	173 705	209 421
Net debt* / EBITDA	1.7	1.0	2.3

Liquidity ratios deteriorated

Inventory ratio down by 13 days

Receivable ratio up by 7 days

Profitability ratios decreased

Net leverage up to 1.7 times

* In 2019 (adjusted for MSSF 16)

Main factors

- COVID-19 pandemics; negative GDP dynamics in Q2 and in the whole of 2020 very likely both for Poland and the EU
- Possible temporary demand improvement for construction steels in Poland in Q2 due to import interruptions
- Increased sick leaves, clients closures or bankruptcies, problems with supplies or administrative measures may result in reduction or even halting of our production operations. Time to be the major risk factor.
- EU anti-dumping and safeguard need sealing up
- Polish crude steel production expected to slightly improve subject to potential administrative COVID-19 measures; Polish rebar market to be the only with positive growth in 2019; in 2020 we expect decreases in all market segments with rebar being the least hit.
- Prices of scrap metal, billets and finished products more volatile; expected a stabilisation throughout the whole year.
- Deterioration of EAF cost model versus BOF; electricity cost likely to contract at the back of macro slowdown
- Remaining major CAPEX projects to complete by 2020 / 2021
- Q1 EBITDA stable. No guidance for the whole of 2020

Financing

In February 2014 Cognor has closed refinancing transaction by issuing:

- EUR 100m of senior notes maturing February 2020; coupon 7,5% years 1-2; 10% year 3; 12,5% years 4-6
- EUR 25m of exchangeable notes February 2021; coupon 5%. The notes are exchanged mandatorily into Cognor's shares at maturity or earlier at the demand of a holder. Conversion price is PLN 1.61 per share. These notes form part of our equity.

In 2018 the senior notes have been refinanced with new bank debt incurred at much lower cost (approximately PLN 25m of savings per year) Due to conversion of the exchangeable notes the actual outstanding amount of them is EUR 17.4m; notes are due February 2021; coupon 5%.

With the existing short-term facilities we regard the access to short-term financing as adequate and sustainable.

CAPEX

In 2020 and 2021 we intend to finalize a number of capital investment projects. As compared to 2019, on an annualized basis, we should incur less in 2020 and expect to spend under PLN 31m on a cash-flow basis.

The projects are on various stages of advancement. They should bring significant positive effect on our operations including costs saving.

Projects finalized in 2019 – HSJ SQ bar furnace

Together reach more



Projects finalized in 2019 – Profil water circuit closure

Together reach more



Together reach more



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