

Together reach more



Q2 2014 Business and Financial Performance

September 3, 2014

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Introduction

Speaker



Krzysztof Zoła

CFO

Age . 42

12 years with the Company

Q2 2014 Highlights

- “ Lower prices of scrap metal, billets and finished products. Spread improvement for selected products. Better demand.
- “ 9.0% increase in revenues; shipments up by 15.0%
- “ Increase of gross profit, EBIT and EBITDA

- “ Close to full capacities utilization:

	ANNUAL CAPACITY Tonnes	UTYLIZATION RATE	
		Q2 2014	Q2 2013
FERR	375 000	108%	85%
HSJ	261 000	79%	72%
COMBINED	636 000	97%	79%

- “ Polish GDP growth at 3.2% (yoy) - much stronger as compared to just 0.8% in Q2 2013. Combined 0.7% growth in the euro area [Germany 1.2%] and 1.2% the EU(28)
- “ Polish steel production increased by 5% and in the EU(28) by 1%



Business Overview

Environment

WORLD STEEL PRODUCTION (1)	Q2 2014	% YoY	Q2 2013	2013
<i>mln tones</i>				
Europe	53	2%	52	311
UE (28)	43	1%	43	166
CIS	28	0%	28	109
North America	30	3%	29	119
USA	22	0%	22	87
South America	11	-8%	12	46
Africa / Middle East	11	10%	10	42
Asia	281	1%	278	1059
China	209	6%	197	779
Japan	28	0%	28	111
Oceania	1	0%	1	6
TOTAL	415	4%	400	1582

AVERAGE EXCHANGE RATES (2)	Q2 2014	Q2 2013	EXCHANGE RATES (2)	30-June-2014	31-Mar-2014	30-June-2013
EUR/PLN	4.17	4.20	EUR/PLN	4.16	4.17	4.33
% change	-0.7%		% change	-0.2%		
USD/PLN	3.04	3.21	USD/PLN	3.05	3.03	3.32
% change	-5.3%		% change	0.7%		

(1) Source: World Steel Association

(2) Polish National Bank

Prices

PRICES AND SPREADS	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013
(pln/ tonne)						
FERROSTAL						
SCRAP METAL - all purchases	972	1 052	1 073	1 045	1 102	1 165
BILLETS - sales to external customers	1 744	1 995	1 972	1 961	2 018	2 132
BILLET SPREAD	772	942	899	916	916	967
FINISHED PRODUCTS - sales to external customers	2 066	2 158	2 168	2 079	2 123	2 186
- plain bars	2 076	2 136	2 153	2 057	2 091	2 204
- flat bars	2 070	2 157	2 162	2 090	2 131	2 179
- squares	2 056	2 108	2 163	2 038	2 040	2 137
- rebars	1 938	2 138				
- angles	2 120	2 185	2 166	2 079	2 147	2 111
- other	3 475	2 370	2 404	2 787	2 759	2 411
PRODUCT SPREADS	1 094	1 105	1 095	1 034	1 021	1 021
- plain bars	1 104	1 084	1 080	1 012	989	1 039
- flat bars	1 098	1 105	1 089	1 045	1 029	1 014
- squares	1 084	1 056	1 090	993	938	972
- rebars	966	1 086				
- angles	1 148	1 133	1 093	1 034	1 045	946
- other	2 503	1 318	1 331	1 742	1 657	1 246
HSJ						
SCRAP METAL - all purchases	1 034	1 060	1 084	1 084	1 099	1 157
FINISHED PRODUCTS - sales to external customers	2 950	2 921	2 761	2 840	3 090	3 079
- big rounds	2 808	2 838	2 698	2 730	2 965	2 922
- thick sheets	6 420	4 723	2 855	3 536	4 278	5 902
- thin sheets	11 126	10 732	11 810	12 101	11 042	11 517
- other	25 941	18 181	21 878	13 569	24 254	18 181
PRODUCT SPREADS	1 916	1 861	1 677	1 756	1 991	1 922
- big rounds	1 774	1 778	1 614	1 646	1 866	1 765
- thick sheets	5 386	3 663	1 771	2 452	3 179	4 745
- thin sheets	10 092	9 672	10 726	11 017	9 943	10 360
- other	24 907	17 121	20 794	12 485	23 155	17 024

Segments

SCRAP METAL		Q2 2014	Q1 2014	Q2 2013
PURCHASES FROM EXTERNAL SUPPLIERS	<i>Tonnes</i>			
FERR		65 053	58 859	44 684
ZLMET		97 532	85 551	93 874
HSJ		25 154	26 504	22 534
INTERNAL USE	<i>Tonnes</i>			
FERR		112 626	116 974	88 721
HSJ		59 060	57 085	53 543
SALES TO EXTERNAL CUSTOMERS	<i>Tonnes</i>			
ZLMET		25 086	16 564	21 474
SALES	<i>'000 PLN</i>			
CONSOLIDATED		23 591	16 462	21 449
TOTAL PURCHASES in TONNES		187 739	170 914	161 092
TOTAL INTERNAL USE in TONNES		171 686	174 059	142 264
TOTAL SALES in TONNES		25 086	16 564	21 474
TOTAL SALES in '000 PLN		23 591	16 462	21 449

ZLMET purchases up by 3.9%

Shipments up by 16.8%

Sales up by 10.0%

Internal use up by 20.7%

Segments

BILLETS		Q2 2014	Q1 2014	Q2 2013	
PRODUCTION	<i>Tonnes</i>				Production up by 21.5%
FERR		101 596	105 393	79 241	
HSJ		51 768	49 779	47 028	
INTERNAL USE	<i>Tonnes</i>				
FERR		52 230	56 723	36 972	
HSJ		45 679	46 873	42 790	
SALES TO EXTERNAL CUSTOMERS	<i>Tonnes</i>				Shipments up by 19.2%
FERR		49 366	48 670	42 269	
HSJ		6 089	2 906	4 238	
SALES	<i>'000 PLN</i>				Sales up by 6.7%
CONSOLIDATED		101 158	104 931	94 796	
TOTAL PRODUCTION in TONNES		153 364	155 172	126 269	
TOTAL INTERNAL USE in TONNES		97 909	103 596	79 762	Internal use up by 22.8%
TOTAL SALES in TONNES		55 455	51 576	46 507	
TOTAL SALES in '000 PLN		101 158	104 931	94 796	

Segments

FINISHED PRODUCTS		Q2 2014	Q1 2014	Q2 2013	
PRODUCTION	<i>Tonnes</i>				Production up by 23.6%
ZWWB		19 728	17 997	14 752	
HSJ		40 676	41 114	40 566	
PROFIL		24 818	20 613	13 606	
SALES TO EXTERNAL CUSTOMERS	<i>Tonnes</i>				Shipments up by 11.8%
FERR		44 236	36 305	37 875	
HSJ		39 382	42 259	36 945	
SALES	<i>'000 PLN</i>				Sales up by 6.7%
CONSOLIDATED		207 642	202 663	194 553	
TOTAL PRODUCTION in TONNES		85 222	79 724	68 924	
TOTAL BULK PRODUCT SALES in TONNES		83 618	78 564	74 820	
TOTAL SALES in '000 PLN		207 642	202 663	194 553	



Financials

INCOME STATEMENT	Q2 2014	Q1 2014	Q2 2013
	'000 PLN		
Revenue	367 938	351 336	337 687
Cost of sales	-331 361	-309 915	-309 084
Gross profit	36 577	41 421	28 603
Other income	2 551	3 957	1 831
Distribution expenses	-10 616	-10 392	-9 225
Administrative expenses	-7 189	-8 511	-8 851
Other gains/(losses) - net	659	-654	2 964
Other expenses	-5 375	-1 663	-2 999
EBIT	16 607	24 158	12 323
Financial income	0	0	333
Financial expenses	-14 666	-17 487	-33 945
Net financing costs	-14 666	-17 487	-33 612
Share of profits of associates	3 785	995	-33
Profit before tax	5 726	7 666	-21 322
Income tax expense	-1 096	-746	5 388
Profit for the period	4 630	6 920	-15 934
Depreciation and amortization	-8 659	-8 442	-9 706
EBITDA	25 266	32 600	22 029

Revenues up by 9.0%

Gross profit up by 27.9%

EBIT up by PLN 34.8%

Net result adjusted for non-recurring items: PLN 0.5 m. PLN(-) 0.8 in Q2 2013

EBITDA up by PLN 14.7%

EBITDA adjusted for non-recurring items: PLN 25.9 m. PLN 18.2 in Q2 2013

ASSETS	Q2 2014	Q1 2014	Q2 2013
<i>'000 PLN</i>			
A. TOTAL NON-CURRENT ASSETS	443 970	458 701	463 417
I. Intangible assets	11 762	11 944	13 366
II. Property, plant and equipment	294 874	284 850	303 855
III. Other receivables	41 647	41 714	43 331
IV. Investment property and other investments	2 212	22 958	5 769
V. Prepaid perpetual usufruct of land	24 623	18 430	18 744
VI. Deferred tax assets	68 852	78 805	78 352
B. TOTAL CURRENT ASSETS	552 311	511 276	475 449
I. Inventories	268 707	256 438	198 410
II. Receivables	247 672	227 004	217 883
1. Trade receivables	224 750	221 830	212 537
2. Current income tax receivable	33	36	86
3. Other investments	22 889	5 138	5 260
III. Cash and cash equivalents	27 260	19 178	47 792
IV. Prepayments	0	0	1 604
V. Assets classified as held for sale	8 672	8 656	9 760
VI. Assets of disposal groups	0	0	0
TOTAL ASSETS	996 281	969 977	938 866

A.III. includes PLN 41.6m of the Croatian Claim

B. Current assets increased by 16.2% with 35.4% increase of inventories and 5.7 % of receivables

B.III. Significant decrease of cash position

EQUITY AND LIABILITIES	Q2 2014	Q1 2014	Q2 2013
<i>'000 PLN</i>			
A. EQUITY	228 807	215 911	136 274
I. Issued share capital	132 444	132 444	132 444
II. Reserves and retained earnings	72 110	67 447	-9 362
III. Minority interest	24 253	16 020	13 192
B. LIABILITIES	767 474	754 066	802 592
I. Non-current liabilities	422 266	458 313	20 919
1. <i>Employee benefits obligation</i>	<i>9 230</i>	<i>7 202</i>	<i>6 719</i>
2. <i>Interest-bearing loans and borrowings</i>	<i>407 504</i>	<i>406 864</i>	<i>5 462</i>
3. <i>Other</i>	<i>5 532</i>	<i>44 247</i>	<i>8 738</i>
II. Current liabilities	345 208	295 753	781 673
1. <i>Interest-bearing loans and borrowings</i>	<i>82 099</i>	<i>61 791</i>	<i>571 901</i>
2. <i>Bank overdraft</i>	<i>6 228</i>	<i>6 287</i>	<i>8 484</i>
3. <i>Trade payables</i>	<i>247 791</i>	<i>220 666</i>	<i>196 565</i>
4. <i>Defferd government grants</i>	<i>117</i>	<i>117</i>	<i>3 221</i>
5. <i>Other financial liabilities</i>	<i>6</i>	<i>6</i>	<i>0</i>
6. <i>Employee benefits obligation</i>	<i>1 760</i>	<i>4 050</i>	<i>1 000</i>
7. <i>Current income tax payable</i>	<i>0</i>	<i>0</i>	<i>165</i>
8. <i>Provisions for payables</i>	<i>7 213</i>	<i>2 836</i>	<i>337</i>
TOTAL EQUITY AND LIABILITIES	996 281	969 977	938 866

B.I.2. + B.II.1. + B.II.2 Indebtedness net of cash down by PLN 69.5m due to: EUR 25.1m convertible bond issue

B.II.1. + B.II.2. Short-term debt down due to closing of the restructuring

CASH FLOW	Q2 2014	Q1 2014	Q2 2013
	<i>'000 PLN</i>		
A. OPERATING ACTIVITIES	10 135	10 562	25 071
B. INVESTING ACTIVITIES	-1 035	446	12
C. FINANCING ACTIVITIES	-948	-12 900	-16 398
NET INCREASE IN CASH	8 142	-1 892	8 685

A. Working capital outflow of PLN (-) 10.3m due to the increased production and sales

MAIN METRICS	Q2 2014	Q1 2014	Q2 2013
Liquidity ratio	1.60	1,73	0.61
Quick ratio	0.82	0,86	0.35
Inventories turnover (days)	73	74	58
Receivables turnover (days)	55	57	57
EBITDA margin	6.9%	9.3%	6.5%
Net profit margin	1.3%	2.0%	-4.7%
Equity	228 807	215 911	136 274
Net debt	468 571	455 764	538 055
Net debt / EBITDA	5.2	5.3	10.3

Liquidity ratios good

Turnover ratios fair

Profitability improved

Leverage decreased down to 5.2 times



Q3 2014 Outlook

Main factors

- “ Continuation of positive GPD trends in Poland and in the EU
- “ EU(28) and Polish crude steel production likely to continue the increase
- “ August maintenance in both of our steel melting shops
- “ Good domestic demand despite summer holiday season
- “ Sales and EBITDA profit expected to reach the Q2 2014 levels



Business Development

Cognor's approach to business development assumes the continuous effort aimed at development of new products, increase of product quality and shifting of our steelmaking further towards the higher end of steel grades. One of the key elements is CAPEX.

Some of the necessary expenditures have already been initiated, mainly at HSJ. They include:

- upgrade of the CCM,
- modernization of the big rounds rolling mill,
- new defect scoping line,
- new straightening line.

The above expansionary CAPEX will be spent in H2 2014 and Y 2015 and it will amount to approximately PLN 25 million.

The Ferrostal's expansionary CAPEX is intended to commence in 2015. This will include the upgrade of the CCM together with the ancillary equipment. The scope and the timing of the expenditures will be adjusted in order to facilitate the continuous reduction of the Group's indebtedness and the leverage. Details of the program will be provided in due course.



Q & A

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