




Q2 2019 Business and Financial Performance

August 20, 2019



- 
1. Introduction
 2. Business Overview
 3. Financials
 4. Q3 2019 Outlook
 5. CAPEX



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 | Q2 2019 Highlights

- Polish GDP growth estimated at 4.2% down from 5.0% in Q2 2018.; 4.7% in Q1 2019;
- EU28 GDP growth at 1.3% (1,1% Eurozone), compared to 2,2% in Q2 2018; 1.6% in Q1 2019 (1,2% Eurozone)
- Polish steel production decreased by 4.5%.; in the EU (28) it went down by 3.1%.
- Bankruptcy filing of ISD HCZ, a 1m crude steel output Polish EAF producer; Mittal announcing idling a of its BF furnace in Kraków from September,
- 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 in spite of demand growth
- Scrap metal prices going down while iron ore and coking coal prices holding strong - BOF feedstock cost has become higher v. EAF mills for the first time since Q1 2017
- 3.6% decrease in revenues; though shipments up by 1.4%
- Decrease of gross profit, EBIT and EBITDA but net profit broadly unchanged
- Very high utilization of capacities

	ANNUAL CAPACITY Tonnes	UTILIZATION RATE	
		Q2 2019	Q2 2018
FERROSTAL	375 000	123.1%	117.0%
HSJ	261 000	105.2%	104.8%
COMBINED	636 000	115.8%	112.0%

Crude steel production

CRUDE STEEL PRODUCTION		Q2 2019	% YoY	Q2 2018	
	<i>m tonnes</i>				
Europe		78.5	-1.2%	79.4	
	UE (28)	42.4	-3.1%	43.8	EU down
	Poland	2.4	-4.5%	2.5	Poland down
	CIS	26.2	2.7%	25.5	
North America		29.4	-1.2%	29.8	
	USA	22.1	4.1%	21.2	USA strong
South America		11.0	-2.0%	11.2	
Africa / Middle East		13.1	3.1%	12.7	
Asia		347.3	7.8%	322.1	
	China	261.1	9.9%	237.6	China very strong
	Japan	26.1	-1.7%	26.6	
Oceania		1.6	-4.4%	1.7	
Total		480.9	5.3%	456.9	

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 quarterly quotas and sublimits dedicated for major exporting countries. For rebars those are: Turkey, Russia, Ukraine, BiH and Moldova.

With respect to rebars the current quota balance seems adequate; previous quotas were insufficient.

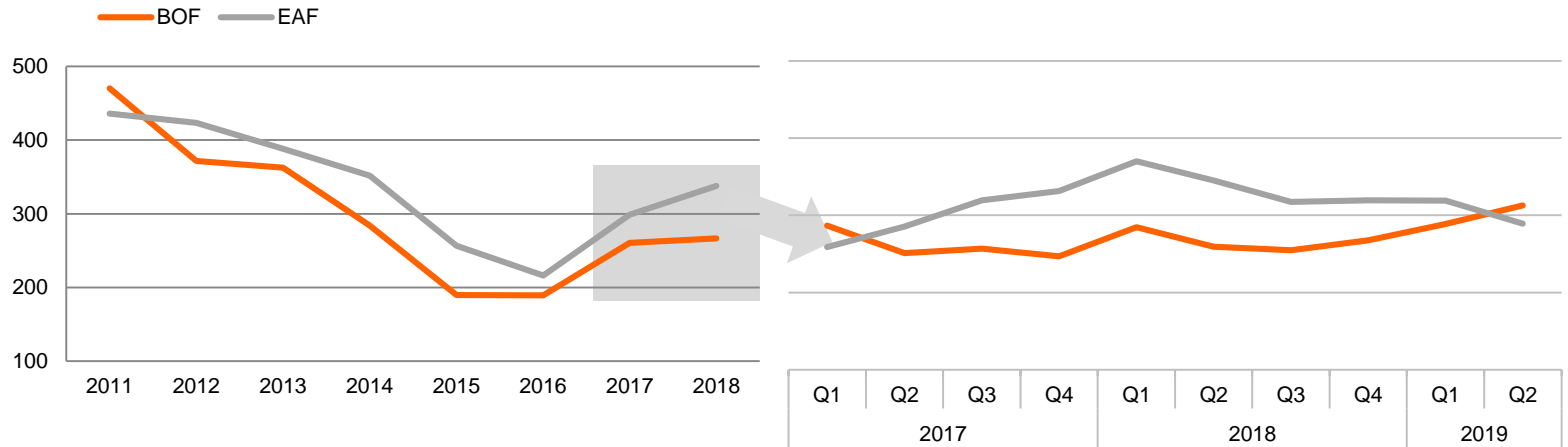
REBARS as of:	16.08.2019
period start	01.07.2019
period end	30.09.2019
period days	91
days remaining	45
days remaining as a % of period days	49%
remaining quota as a % of Initial Amount	49%

ORIGINS	Initial Amount	Quota Balance	Transferred
Turkey	301 537 500	55 666 359	
Russia	241 998 460	149 005 350	
Ukraine	160 848 360	97 093 324	
BiH	101 229 710	85 984 221	
Moldova	72 752 140	60 344 295	
Other Feb - Mar 2019	84 771 670	0	19 703 964
Other Apr - Jun 2019	133 003 830	0	
Other Jul - Sep 2019	140 802 920	51 134 260	
TOTAL	1 019 169 090	499 227 809	

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	Q2	
<i>USD / Tonne</i>																			
BOF	470	372	363	284	190	189	260	267	287	251	249	242	285	259	255	268	289	313	
EAF	436	423	388	352	257	216	299	338	259	285	320	331	370	345	317	319	319	289	
difference	34	-52	-26	-68	-67	-27	-38	-71	28	-34	-62	-84	-85	-86	-63	-52	-30	24	



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	160*	258			

- 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 has become positive

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

Prices & Spreads

	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018
(pln/ tonne)					
FERROSTAL					
SCRAP METAL - average purchase price	982	1 079	1 075	1 049	1 102
BILLETS - average price	1 980	2 128	2 097	2 103	2 183
<i>volume</i>	31 623	19 010	15 287	19 664	18 139
BILLET SPREAD	998	1 049	1 022	1 053	1 080
FINISHED PRODUCTS – average price	2 220	2 270	2 354	2 276	2 321
<i>total volume</i>	75 063	74 180	74 563	92 610	75 452
<i>- plain bars</i>	2 379	2 391	2 447	2 427	2 450
<i>volume</i>	9 799	8 345	6 086	9 346	8 044
<i>- flat bars</i>	2 364	2 417	2 478	2 456	2 482
<i>volume</i>	9 945	12 416	10 993	11 298	11 805
<i>-squares</i>	2 292	2 365	2 467	2 399	2 414
<i>volume</i>	2 262	2 876	1 598	2 913	2 238
<i>-rebars</i>	2 134	2 169	2 289	2 194	2 234
<i>volume</i>	46 802	42 948	50 503	61 988	47 808
<i>-angles</i>	2 365	2 424	2 503	2 455	2 494
<i>volume</i>	5 733	7 354	5 150	6 794	5 302
<i>-other</i>	2 340	2 457	4 048	2 529	2 619
<i>volume</i>	522	311	233	271	255
PRODUCT SPREAD	1 238	1 191	1 279	1 227	1 218
<i>- plain bars</i>	1 397	1 312	1 372	1 378	1 348
<i>- flat bars</i>	1 382	1 338	1 404	1 407	1 379
<i>- squares</i>	1 310	1 286	1 393	1 350	1 312
<i>- rebars</i>	1 152	1 090	1 214	1 145	1 131
<i>- angles</i>	1 383	1 345	1 429	1 406	1 391
<i>- other</i>	1 358	1 378	2 973	1 480	1 517

scrap metal price down by 121 & 10.9%

billet sales price down by 203 & 9.3%

billet spread down by 83 & 7.7%

finished product sales price down by 100 & 4.3%

product spread up by 20 & 1.6%

Prices & Spreads

	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018
(pln/ tonne)					
HSJ					
SCRAP METAL - average purchase price	1 113	1 193	1 180	1 191	1 229
BILLETS - average price	2 302	2 521	2 674	2 652	2 733
<i>volume</i>	18 092	20 204	16 463	12 228	14 036
BILLET SPREAD	1 189	1 328	1 494	1 461	1 504
FINISHED PRODUCTS – average price	3 353	3 443	3 549	3 592	3 533
total volume	46 435	48 365	37 009	46 960	49 434
- SQ bars	3 289	3 365	3 453	3 493	3 433
<i>volume</i>	44 507	47 838	36 613	46 348	48 499
- thick sheets	3 623	3 926	5 652	5 988	4 005
<i>volume</i>	1 776	248	136	311	553
- thin sheets	10 745	11 686	11 547	11 873	11 434
<i>volume</i>	86	151	117	209	240
- other	29 965	21 877	19 511	26 412	22 669
<i>volume</i>	66	128	143	92	142
PRODUCT SPREAD	2 240	2 250	2 369	2 401	2 304
- SQ bars	2 176	2 172	2 273	2 302	2 204
- thick sheets	2 510	2 733	4 472	4 797	2 776
- thin sheets	9 632	10 493	10 367	10 682	10 205
- other	28 852	20 684	18 331	25 221	21 440

scrap metal price down by **116 & 9.4%**
 billet sales price down by **431 & 18.8%**
billet spread down by 315 & 21.0%
 finished product sales price down by **180 & 5.1%**

product spread down by 64 & 2.8%

Segments

SCRAP METAL		Q2 2019	Q1 2019	Q2 2018	
PURCHASES FROM EXTERNAL SUPPLIERS	<i>Tonnes</i>				
FERROSTAL		127 961	106 400	86 927	
ZŁOMREX		70 629	86 178	87 989	ZŁOMREX purchases down by 19.7%
HSJ		50 815	54 740	48 767	
INTERNAL USE	<i>Tonnes</i>				
FERROSRAL		128 950	127 670	122 148	
HSJ		78 431	82 618	78 044	
SALES TO EXTERNAL CUSTOMERS	<i>Tonnes</i>				
ZŁOMREX		35 566	39 516	46 798	
OTHER		0	0	0	
SALES	<i>'000 PLN</i>				
CONSOLIDATED		33 881	41 083	51 931	
TOTAL PURCHASES in TONNES		249 405	247 318	223 683	
TOTAL INTERNAL USE in TONNES		207 381	210 288	200 192	
TOTAL SALES in TONNES		35 566	39 516	46 798	Shipments down by 24.0%
TOTAL SALES in '000 PLN		33 881	41 083	51 931	Sales down by 34.8%

Segments

BILLETS		Q2 2019	Q1 2019	Q2 2018
PURCHASES	<i>Tonnes</i>			
FERR		0	0	0
PRODUCTION	<i>Tonnes</i>			
FERR		115 377	113 134	109 658
HSJ		68 671	72 281	68 393
INTERNAL USE	<i>Tonnes</i>			
FERR		80 390	62 085	77 255
HSJ		53 695	56 292	55 880
SALES TO EXTERNAL CUSTOMERS	<i>Tonnes</i>			
FERR		34 739	23 225	19 662
HSJ		14 976	15 989	12 513
SALES	<i>'000 PLN</i>			
CONSOLIDATED		104 248	91 394	77 960
TOTAL PURCHASES in TONNES		0	0	0
TOTAL PRODUCTION in TONNES		184 048	185 415	178 051
TOTAL INTERNAL USE in TONNES		134 085	118 377	133 135
TOTAL SALES in TONNES		49 715	39 214	32 175
TOTAL SALES in '000 PLN		104 248	91 394	77 960

Production up by 3.4%

Shipments up by 54.5%
Sales up by 33.7%

Segments

FINISHED PRODUCTS		Q2 2019	Q1 2019	Q2 2018
PURCHASES	<i>Tonnes</i>			
ALL ENTITES		368	148	0
PRODUCTION	<i>Tonnes</i>			
ZWWB		18 888	21 692	17 124
HSJ		50 325	45 337	52 171
PROFIL		57 648	45 553	56 414
SALES TO EXTERNAL CUSTOMERS	<i>Tonnes</i>			
FERROSTAL		70 891	68 478	69 338
HSJ		50 607	54 067	55 548
SALES	<i>'000 PLN</i>			
CONSOLIDATED		322 654	335 048	349 921
TOTAL PURCHASES in TONNES		368	148	0
TOTAL PRODUCTION in TONNES		126 861	112 582	125 709
TOTAL SALES TO EXTERNAL CUSTOMERS in TONNES		121 498	122 545	124 886
TOTAL SALES in '000 PLN		322 654	335 048	349 921

Production up by 0.9%

Shipments down by 2.7%
Sales down by 7.8%

Financials

STATEMENT OF PROFIT OR LOSS	Q2 2019	Q1 2019	Q2 2018		
	'000 PLN				
Sales revenue	516 325	519 694	535 702	Revenues down by	3.6%
Cost of sales	-452 662	-473 076	-453 760	„Electricity act” compensation	14.0m
Gross profit	63 663	46 618	81 942	Repair costs provision release	5.2m
				Gross profit down by	22.3%
Other income	4 461	2 367	3 536		
Distribution expenses	-19 604	-20 218	-14 403		
Administrative expenses	-12 814	-12 450	-13 276		
Other gains/(losses) – net	-590	-64	1 159		
Other expenses	-3 566	-1 137	-5 000		
EBIT	31 550	15 116	50 955	EBIT down by	38.1%
Financial income	793	1 452	0	FX gain	1.3m
Financial expenses	-9 462	-6 309	-32 716	WT flat rate charge	3.3m
Net financing costs	-8 669	-4 857	-32 716	Financial instruments loss	0.5m
Share of profits of associates	-102	38	-32		
Excess in fair value of acquired assets over cost	0	0	0		
Profit before tax	22 779	10 297	18 209		
Income tax expense	-5 647	-1 169	-1 480		
Profit/loss for the period from discontinued operations	0	0	0		
Profit for the period	17 132	9 128	16 729	net result up by	2.4%
				Adjusted net result	13.9m
Depreciation and amortization	-11 393	-11 698	-11 107		
EBITDA	42 943	26 814	62 065	EBITDA down by	30.8 %
				Adjusted EBITDA	36.0m

Financials

ASSETS	Q2 2019	Q1 2019	Q2 2018
	'000 PLN		
A. TOTAL NON-CURRENT ASSETS	445 442	437 508	392 853
I. Intangible assets	20 432	18 661	19 670
II. Property, plant and equipment	343 813	331 741	280 947
III. Other receivables	376	350	272
IV. Investment property and other investments	2 702	2 805	3 402
V. Prepaid perpetual usufruct of land	34 074	34 222	23 218
VI. Deferred tax assets	44 045	49 729	65 344
B. TOTAL CURRENT ASSETS	591 805	630 228	622 414
I. Inventories	434 654	391 279	334 527
II. Receivables	208 772	212 147	186 474
1. Trade receivables	200 009	203 705	185 714
2. Current income tax receivable	661	8 430	748
3. Other investments	102	12	12
III. Cash and cash equivalents	39 379	26 802	101 443
IV. Prepayments	0	0	0
V. Assets classified as held for sale	0	0	0
Total	1 037 247	1 067 736	1 015 297

Increase of II & V by a total of 52.3m due to IFRS 16
 CAPEX 23.2m (LTM 68.8)
 Disposals 0.4m (LTM 2.2)

Utilization of tax shield by 21.3m

Increase of billet stock

Increase by 14m due to claims under „electricity act“
 Receivables sold (net) 148.7m
 Receivables sold (net) in Q2 2018 147.6m

Cash balance reduced due to the repayment of debt and CAPEX

Financials

EQUITY AND LIABILITIES	Q2 2019	Q1 2019	Q2 2018
<i>'000 PLN</i>			
A. EQUITY	320 108	302 989	270 944
I. Issued share capital	182 483	182 041	177 923
II. Reserves and retained earnings	118 545	102 855	75 270
III. Minority interest	19 080	18 093	17 751
B. LIABILITIES	717 139	764 747	744 353
I. Non-current liabilities	288 675	295 488	404 617
1. <i>Employee benefits obligation</i>	<i>11 178</i>	<i>10 971</i>	<i>11 273</i>
2. <i>Interest-bearing loans and borrowings</i>	<i>258 520</i>	<i>265 961</i>	<i>375 286</i>
3. <i>Other</i>	<i>18 977</i>	<i>18 556</i>	<i>18 058</i>
II. Current liabilities	428 464	469 259	339 736
1. <i>Interest-bearing loans and borrowings</i>	<i>60 755</i>	<i>58 952</i>	<i>16 282</i>
2. <i>Bank overdraft</i>	<i>6 082</i>	<i>33 804</i>	<i>2 048</i>
3. <i>Trade payables</i>	<i>348 366</i>	<i>365 202</i>	<i>269 181</i>
4. <i>Deferred government grants</i>	<i>7 804</i>	<i>6 166</i>	<i>117</i>
5. <i>Liability under financial instruments</i>	<i>3 578</i>	<i>3 079</i>	<i>0</i>
6. <i>Employee benefits obligation</i>	<i>1 683</i>	<i>1 830</i>	<i>5 594</i>
7. <i>Current income tax payable</i>	<i>0</i>	<i>0</i>	<i>117</i>
8. <i>Provisions for payables</i>	<i>226</i>	<i>226</i>	<i>4 397</i>
Total	1 037 247	1 067 736	1 015 297

Equity up by 49.2m
(LTM net profit)

Net indebtedness down by 51.2m
(LTM net profit, 53.1m under 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	80 904	-48 856	29 838
B. INVESTING ACTIVITIES	-16 377	-11 979	461
C. FINANCING ACTIVITIES	-24 228	-22 626	-12 978
Net increase in cash	40 299	-83 461	17 321

MAIN METRICS	Q2 2019 *	Q1 2019 *	Q2 2018
Liquidity ratio	1.58	1.52	1.83
Quick ratio	0.66	0.58	0.85
Inventories turnover <i>days</i>	68	74	66
Receivables turnover <i>days</i>	36	35	31
EBITDA margin	8.3%	5.2%	11.6%
Net profit margin	3.3%	1.8%	3.1%
Equity <i>'000 PLN</i>	320 108	302 989	270 944
Net debt <i>'000 PLN</i>	232 881	277 106	337 173
Net debt / LTM EBITDA	1.6	1.6	1.8

* adjusted for IFRS 16

Working capital inflow 31.0m
(decrease of inventories & receivables, decrease of trade liabilities)

CAPEX (-) 16.7m
asset dispositions 0.4m

Debt repayment (-) 15.1m
Interest service (-) 12.2m
(includes 3.3m WT flat rate payment)

EU grants 2.5m

Liquidity ratios worsened but remain acceptable

Inventory ratio up to 68 days
Receivable ratio slightly up to 36 days

EBITDA profitability ratio decreased, net profit margin up

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

Stabilisation of prices of scrap metal; billets and finished products prices under further pressure; conversion spreads lower compared both with Q2 2019 and Q3 2018

5

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

6

Q3 2019 still challenging due to weak macro and decreasing prices. FIFO loss not expected. Further PLN 5m of „electricity act” gains; maintenance and holiday season in Europe; improvement of certain production costs. Q3 2019 EBITDA expected similar to Q1 2019:

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 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
Commissioning status water circuit closing commissioned August 2019; rolling line modernization - no delay expected; furnace renovation – 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
Commissioning 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
Commissioning status no delays

Together reach more



COGNOR SA

ul. Zielona 26, 42 - 360 Poraj

tel. +48 34 316 01 10, fax +48 34 316 01 12

cognor@cognor.eu, www.cognor.pl