



# Q2 2020 Business and Financial Performance

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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 13 years

# Introduction | Q2 2020 Highlights

- Polish GDP growth strongly negative at -8,2% – down from 4.2% in Q2 2019.; 2,0% in Q1 2020;
- EU28 GDP negative at -11.7% (-12.1% Eurozone), compared to 1.3% (1.1% Eurozone) in Q2 2019; -3.2% in Q1 2020 (-3.6% Eurozone)
- Polish steel production decreased by 13.4%.; in the EU (28) it went down by 27.5%.
- The Q2 2019 Polish data included 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 Q1 2020 scrap metal prices gaining at a slower pace than iron ore and coking coal – EAF and BOF feedstock model positive and improving
- 11.7% decrease in revenues while shipments grew by 2.8%
- Reported EBIT and EBITDA weaker while net profit higher. Adjusted profits slightly weaker compared to Q2 2019
- Noticeably lower utilization of capacities though still very high

ANNUAL CAPACITY		UTILIZATION RATE	
	Tonnes	Q2 2020	Q2 2019
FERROSTAL	375 000	115.2%	123.1%
HSJ	261 000	94.8%	105,2%
<b>COMBINED</b>	<b>636 000</b>	<b>106.8%</b>	<b>115.8%</b>

## Crude steel production

CRUDE STEEL PRODUCTION		Q2 2020	% YoY	Q2 2019	
	<i>m tonnes</i>				
<b>Europe</b>		<b>61.7</b>	<b>-19.7%</b>	<b>76.8</b>	
	UE (28)	30.0	-27.5%	41.4	EU strongly down
	incl. Poland	2.0	-13.4%	2.3	Poland relatively better
	CIS	23.8	-7.5%	25.7	
<b>North America</b>		<b>20.7</b>	<b>-31.5%</b>	<b>30.1</b>	
	USA	14.3	-35.7%	22.2	Very deep plunge in the USA
<b>South America</b>		<b>7.5</b>	<b>-32.2%</b>	<b>11.1</b>	
<b>Africa / Middle East</b>		<b>11.7</b>	<b>-14.6%</b>	<b>13.9</b>	
<b>Asia</b>		<b>326.8</b>	<b>-5.4%</b>	<b>345.6</b>	
	China	264.6	1.7%	260.3	China still positive
	Japan	17.8	-31.7%	26.1	
<b>Oceania</b>		<b>1.5</b>	<b>-4.8%</b>	<b>1.6</b>	
<b>Total</b>		<b>430.1</b>	<b>-10.2%</b>	<b>479.2</b>	

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 (Mar-Jun). Lately, there has been another modification introduced whereby the quotas for specific countries limit the imports on quarterly basis

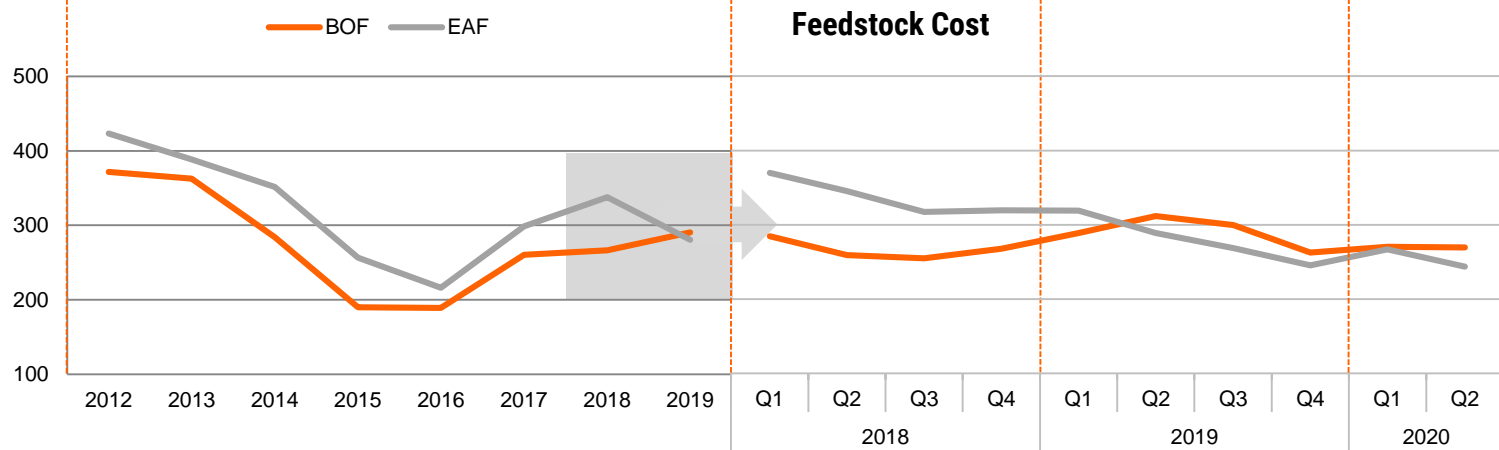
<b>REBARS as of:</b>	<b>17.08.2020</b>
period start	01.07.2020
period end	30.09.2020
period days	91
days remaining	44
<b>period advancement</b>	<b>52%</b>
<b>quota utilisation</b>	<b>55%</b>

With respect to rebars the largest quotas for Turkey and Russia have quickly been exhausted to zero. Ukraine and Moldova limits are likely to be fully utilised by the end of the current period. BiH and the general limits may get transferred over to the next quarterly period. The specific countries will only be able to make use of any remaining general limit during the last quarter (Mar-Jun 2021)

<b>ORIGINS</b>	<b>Initial Amount</b>	<b>Quota Available</b>	<b>Transferred</b>
Turkey	76 792 970	0	n/a
Russia	61 630 080	0	n/a
Ukraine	40 963 470	20 441 982	n/a
BiH	25 780 310	23 299 983	n/a
Moldova	18 527 890	10 112 604	n/a
Other Jul - Sep 2020	142 654 350	111 283 795	n/a
<b>TOTAL</b>	<b>366 349 070</b>	<b>165 138 364</b>	

## 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	Q2	
USD / Tonne																			
BOF	372	363	284	190	189	260	267	291	285	259	255	268	289	312	300	263	270	270	
EAF	423	388	352	257	216	299	338	281	370	345	317	319	319	289	269	246	267	244	
<b>difference</b>	<b>-52</b>	<b>-26</b>	<b>-68</b>	<b>-67</b>	<b>-27</b>	<b>-38</b>	<b>-71</b>	<b>10</b>	<b>-85</b>	<b>-86</b>	<b>-63</b>	<b>-52</b>	<b>-30</b>	<b>23</b>	<b>31</b>	<b>17</b>	<b>4</b>	<b>26</b>	



Prices	Iron ore	Coking coal	Steel scrap
(USD / Tonne)			
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
(USD / Tonne)			
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	126	238
Q2 2020	93	126*	218

Feedstock Cost Model	BOF	EAF
Tonne / Tonne of crude steel		
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 Q2 2020 the favourable difference widened.

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

## Prices & Spreads

	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019
(pln/ tonne)					
<b>FERROSTAL</b>					
<b>SCRAP METAL</b> - average purchase price	891	934	849	932	982
<b>BILLETS</b> - average price	1 747	1 767	1 630	2 056	1 980
<i>volume</i>	39 330	18 947	51 023	8 607	31 623
<b>BILLET SPREAD</b>	<b>856</b>	<b>833</b>	<b>781</b>	<b>1 124</b>	<b>998</b>
<b>FINISHED PRODUCTS</b> – average price	1 978	1 961	1 937	2 131	2 220
<i>total volume</i>	83 404	92 519	90 852	73 566	75 063
<i>- plain bars</i>	2 274	2 207	2 252	2 291	2 379
<i>volume</i>	6 825	6 048	6 483	6 293	9 799
<i>- flat bars</i>	2 196	2 195	2 183	2 305	2 364
<i>volume</i>	11 036	11 099	7 912	9 161	9 945
<i>-squares</i>	2 107	2 150	2 079	2 235	2 292
<i>volume</i>	1 802	1 904	1 732	1 882	2 262
<i>-rebars</i>	1 882	1 876	1 857	2 060	2 134
<i>volume</i>	56 352	68 202	69 959	51 356	46 802
<i>-angles</i>	2 166	2 184	2 171	2 304	2 365
<i>volume</i>	6 855	5 125	4 532	4 480	5 733
<i>-other</i>	2 286	3 426	3 426	2 388	2 340
<i>volume</i>	534	141	234	394	522
<b>PRODUCT SPREAD</b>	<b>1 087</b>	<b>1 027</b>	<b>1 088</b>	<b>1 199</b>	<b>1 238</b>
<i>- plain bars</i>	1 283	1 273	1 403	1 359	1 397
<i>- flat bars</i>	1 305	1 260	1 333	1 373	1 382
<i>- squares</i>	1 216	1 215	1 229	1 303	1 310
<i>- rebars</i>	991	942	1 008	1 128	1 152
<i>- angles</i>	1 275	1 250	1 321	1 372	1 383
<i>- other</i>	1 385	1 576	1 457	1 358	1 378

scrap metal price down by **91 & 9.3%**  
 billet sales price down by **232 & 11.7%**  
 billet spread down by **141 & 14.2%**  
 finished product sales price down by **242 & 10.9%**

product spread down by **151 & 12.2%**



## Prices & Spreads

	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019
(pln/ tonne)					
<b>HSJ</b>					
<b>SCRAP METAL</b> - average purchase price	976	1 018	927	1 049	1 113
<b>BILLETS</b> - average price	2 191	2 309	1 985	2 069	2 302
<i>volume</i>	19 797	17 560	20 745	15 615	18 092
<b>BILLET SPREAD</b>	<b>1 215</b>	<b>1 291</b>	<b>1 058</b>	<b>1 020</b>	<b>1 189</b>
<b>FINISHED PRODUCTS</b> – average price	2 917	2 893	2 938	3 280	3 353
total volume	40 183	44 489	32 934	33 995	46 435
- SQ bars	2 815	2 784	2 840	3 164	3 289
<i>volume</i>	39 768	43 728	32 446	32 249	44 507
- thick sheets	4 212	3 917	4 048	3 625	3 623
<i>volume</i>	137	359	194	1 481	1 776
- thin sheets	11 892	11 568	11 067	10 596	10 745
<i>volume</i>	180	191	125	159	86
-other	26 306	15 897	14 265	22 874	29 965
<i>volume</i>	98	211	169	106	66
<b>PRODUCT SPREAD</b>	<b>1 941</b>	<b>1 875</b>	<b>2 011</b>	<b>2 231</b>	<b>2 240</b>
- SQ bars	1 837	1 766	1 916	2 114	2 176
- thick sheets	4 006	3 070	3 157	2 623	2 510
- thin sheets	10 916	10 550	10 140	9 547	9 632
- other	25 330	14 879	13 338	21 825	28 852

scrap metal price down by **137 & 12.3%**

billet sales price down by **111 & 4.8%**

**billet spread up by 26 & 2.2%**

finished product sales price down by **435 & 13.0%**

**product spread down by 298 & 13.3%**

## Segments

SCRAP METAL		Q2 2020	Q1 2020	Q2 2019		
<b>PURCHASES FROM EXTERNAL SUPPLIERS</b>	<i>Tonnes</i>					
FERROSTAL		99 270	100 754	127 961		
ZŁOMREX		63 707	77 910	70 629	ZŁOMREX purchases down by	11.1%
HSJ		45 173	52 870	50 815		
<b>INTERNAL USE</b>	<i>Tonnes</i>					
FERROSRAL		120 694	125 363	128 950		
HSJ		69 891	78 298	78 431		
<b>SALES TO EXTERNAL CUSTOMERS</b>	<i>Tonnes</i>					
ZŁOMREX		30 167	37 621	35 566		
OTHER		0	0	0		
<b>SALES</b>	<i>'000 PLN</i>					
CONSOLIDATED		26 196	33 960	33 881		
<b>TOTAL PURCHASES in TONNES</b>		<b>208 150</b>	<b>231 534</b>	<b>249 405</b>		
<b>TOTAL INTERNAL USE in TONNES</b>		<b>190 585</b>	<b>203 661</b>	<b>207 381</b>	Internal use down by	8.1%
<b>TOTAL SALES in TONNES</b>		<b>30 167</b>	<b>37 621</b>	<b>35 566</b>	Shipments down by	15.2%
<b>TOTAL SALES in '000 PLN</b>		<b>26 196</b>	<b>33 960</b>	<b>33 881</b>	Sales down by	22.7%

## Segments

BILLETS		Q2 2020	Q1 2020	Q2 2019
<b>PURCHASES</b>	<i>Tonnes</i>			
FERR		0	0	0
<b>PRODUCTION</b>	<i>Tonnes</i>			
FERR		107 956	111 950	115 377
HSJ		61 865	69 199	68 671
<b>INTERNAL USE</b>	<i>Tonnes</i>			
FERR		81 769	83 721	80 390
HSJ		46 272	59 274	53 695
<b>SALES TO EXTERNAL CUSTOMERS</b>	<i>Tonnes</i>			
FERR		43 534	26 583	34 739
HSJ		15 593	9 925	14 976
<b>SALES</b>	<i>'000 PLN</i>			
CONSOLIDATED		112 112	74 016	104 248
<b>TOTAL PURCHASES in TONNES</b>		<b>0</b>	<b>0</b>	<b>0</b>
<b>TOTAL PRODUCTION in TONNES</b>		<b>169 821</b>	<b>181 149</b>	<b>184 048</b>
<b>TOTAL INTERNAL USE in TONNES</b>		<b>128 041</b>	<b>142 995</b>	<b>134 085</b>
<b>TOTAL SALES in TONNES</b>		<b>59 127</b>	<b>36 508</b>	<b>49 715</b>
<b>TOTAL SALES in '000 PLN</b>		<b>112 112</b>	<b>74 016</b>	<b>104 248</b>

Production down by 7.7%  
 Internal use down by 4.5%  
 Shipments up by 18.9%  
 Sales up by 7.5%

## Segments

FINISHED PRODUCTS		Q2 2020	Q1 2020	Q2 2019
<b>PURCHASES</b>	<i>Tonnes</i>			
ALL ENTITES		0	0	0
<b>PRODUCTION</b>	<i>Tonnes</i>			
ZWWB		17 934	12 771	18 888
HSJ		41 238	45 788	50 325
PROFIL		60 207	67 583	57 648
<b>SALES TO EXTERNAL CUSTOMERS</b>	<i>Tonnes</i>			
FERROSTAL		71 143	86 188	71 259
HSJ		52 444	50 820	50 607
<b>SALES</b>	<i>'000 PLN</i>			
CONSOLIDATED		282 218	310 145	323 812
<b>TOTAL PURCHASES in TONNES</b>		<b>0</b>	<b>0</b>	<b>0</b>
<b>TOTAL PRODUCTION in TONNES</b>		<b>119 389</b>	<b>126 142</b>	<b>126 861</b>
<b>TOTAL SALES TO EXTERNAL CUSTOMERS in TONNES</b>		<b>123 587</b>	<b>137 008</b>	<b>121 866</b>
<b>TOTAL SALES in '000 PLN</b>		<b>282 218</b>	<b>310 145</b>	<b>323 812</b>

Production down by  
Shipments up by  
Sales down by

5.9%  
1.4%  
12.8%

# Financials

STATEMENT OF PROFIT OR LOSS	Q2 2020	Q1 2020	Q2 2019		
	'000 PLN				
Sales revenue	455 955	460 111	516 325	Revenues down by	11.7%
Cost of sales	-408 559	-414 572	-452 662	- shipments up by	2.8%
<b>Gross profit</b>	<b>47 396</b>	<b>45 539</b>	<b>63 663</b>	Gross profit down by	25.6%
				- spreads compression loss of PLN 29.6m	
Other income	14 375	3 781	4 461	- shipments loss of PLN 0.2m	
Distribution expenses	-20 722	-19 409	-19 604	- estimated FIFO loss of PLN 3.7m	
Administrative expenses	-10 477	-11 846	-12 814		
Other gains/(losses) – net	-1 204	2 466	-590		
Other expenses	-2 226	-1 463	-3 566		
<b>EBIT</b>	<b>27 142</b>	<b>19 068</b>	<b>31 550</b>	EBIT down by	14.0%
Financial income	0	0	793		
Financial expenses	-4 112	-16 662	-9 462	Financial expenses down by	56.5%
<b>Net financing costs</b>	<b>-4 112</b>	<b>-16 662</b>	<b>-8 669</b>	- FX gain of PLN 2.2m	
				- financial instruments loss of PLN 0.3m	
Share of profits of associates	0	17	-102		
Excess in fair value of acquired assets over cost	0	0	0		
<b>Profit before tax</b>	<b>23 030</b>	<b>2 423</b>	<b>22 779</b>		
Income tax expense	-1 156	333	-5 647		
Profit/loss for the period from discontinued operations	0	0	0		
<b>Profit for the period</b>	<b>21 874</b>	<b>2 756</b>	<b>17 132</b>	Net result up by	27.7%
				Adjusted net result PLN	12.3m
Depreciation and amortization	-11 823	-11 438	-11 393		
<b>EBITDA</b>	<b>38 965</b>	<b>30 506</b>	<b>42 943</b>	EBITDA down by	9.3%
				Adjusted EBITDA PLN	28.9m

# Financials

ASSETS	Q2 2020	Q1 2020	Q2 2019	
	'000 PLN			
<b>A. TOTAL NON-CURRENT ASSETS</b>	<b>495 308</b>	<b>483 451</b>	<b>445 442</b>	Fixed assets up by <b>11.2%</b>
I. Intangible assets	24 642	22 150	20 432	- CPEX increase of PLN 81.4m
II. Property, plant and equipment	382 816	369 871	343 813	- D&A decrease of PLN 46.4m
III. Other receivables	6 357	5 708	376	- disposition decrease of PLN 0.8m
IV. Investment property and other investments	8 299	1 272	2 702	- tax shield increase of PLN 2.9m
V. Prepaid perpetual usufruct of land	26 253	36 769	34 074	
VI. Deferred tax assets	46 941	47 681	44 045	
<b>B. TOTAL CURRENT ASSETS</b>	<b>498 999</b>	<b>582 480</b>	<b>591 805</b>	
I. Inventories	239 935	287 452	343 654	Inventories down by <b>30.2%</b>
II. Receivables	189 111	242 701	208 772	Receivables down by <b>9.4%</b>
1. Trade receivables	188 946	242 528	208 009	Trade receivables sold (net) PLN 125.9m
2. Current income tax receivable	38	28	661	in Q2 2019 PLN 115.8m
3. Other investments	127	145	102	
III. Cash and cash equivalents	69 953	52 327	39 379	Cash up by <b>77.6%</b>
IV. Prepayments	0	0	0	
V. Assets classified as held for sale	0	0	0	
<b>Total</b>	<b>994 307</b>	<b>1 065 931</b>	<b>1 037 247</b>	

# Financials

EQUITY AND LIABILITIES	Q2 2020	Q1 2020	Q2 2019	
	'000 PLN			
<b>A. EQUITY</b>	<b>299 992</b>	<b>278 131</b>	<b>320 108</b>	Equity down by PLN <b>20.1m</b>
I. Issued share capital	185 911	185 911	182 483	- LTM net result increase of PLN 18.1m
II. Reserves and retained earnings	94 900	73 990	118 545	- 2018 dividend decrease of PLN 34.6m
III. Minority interest	19 181	18 230	19 080	- Exchangeable notes coupon decrease of PLN 3.7m
<b>B. LIABILITIES</b>	<b>694 315</b>	<b>787 800</b>	<b>717 139</b>	
I. Non-current liabilities	264 725	278 870	288 675	
1. Employee benefits obligation	11 796	11 699	11 178	
2. Interest-bearing loans and borrowings	232 798	247 530	258 520	Gross debt down by PLN <b>29.4m</b>
3. Other	20 131	19 641	18 977	
II. Current liabilities	429 590	508 930	428 464	Net debt down by PLN <b>60.0m</b>
1. Interest-bearing loans and borrowings	55 981	55 833	60 755	
2. Bank overdraft	7 178	8 928	6 082	
3. Trade payables	348 770	426 934	348 336	
4. Deferred government grants	10 360	9 462	7 804	
5. Liability under financial instruments	5 028	4 796	3 578	
6. Employee benefits obligation	2 107	2 471	1 683	
7. Current income tax payable	141	280	0	
8. Provisions for payables	25	226	226	
<b>Total</b>	<b>994 307</b>	<b>1 065 931</b>	<b>1 037 247</b>	

# Financials

CASH FLOW	Q2 2020	Q1 2020	Q2 2019
	<i>'000 PLN</i>		
A. OPERATING ACTIVITIES	40 332	40 332	80 904
B. INVESTING ACTIVITIES	-20 389	-20 389	-16 377
C. FINANCING ACTIVITIES	-55 500	-55 500	-24 228
<b>Net increase in cash</b>	<b>-35 557</b>	<b>-35 557</b>	<b>40 299</b>

- working capital inflow of PLN 18.0m  
(decrease of inventories and receivables, decrease of trade liabilities)

- CAPEX outflow of PLN 17.1m

- asset dispositions inflow of PLN 0.5m

- net repayment outflow of PLN 14.8m

- interest service outflow of PLN 4.5m

- grants inflow of PLN 1.7m

MAIN METRICS	Q2 2020	Q1 2020	Q2 2019
Liquidity ratio	1.16	1.14	1.38
Quick ratio	0.60	0.58	0.58
Inventories turnover <i>days</i>	53	62	68
Receivables turnover <i>days</i>	37	47	36
EBITDA margin	8.5%	6.6%	8.3%
Net profit margin	4.8%	0.6%	3.3%
Equity <i>'000 PLN</i>	299 992	278 131	320 108
Net debt <i>'000 PLN</i>	226 004	259 964	285 978
Net debt / LTM EBITDA	2.2	2.5	1.9

Current liquidity ratio down; quick ratio stable

Inventory ratio down by 15 days

Receivable ratio up by 1 day

Profitability ratios slightly improved

Net leverage up to 2.2 times





1

**Gradual rebound of GDP in Poland and in the EU (28)**

2

**Demand picture mixed; good for construction and weak for auto products although improving compared to Q2 2020**

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 although increasing compared to Q2 2020**

4

**Compared to Q2 2020 scrap metal likely to increase billets and finished products expected stable. All lower compared to Q3 2019; conversion spreads much compressed compared with Q3 2019 and slightly weaker compared to Q2 2020**

5

**EAF feedstock cost position versus BOF staying positive for EAFs at the back of strong iron ore prices**

6

**Q3 2020 still challenging due to COVID-19 crisis. Q3 2020 EBITDA expected lower than Q2 2020 while above the one of Q3 2019**

*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