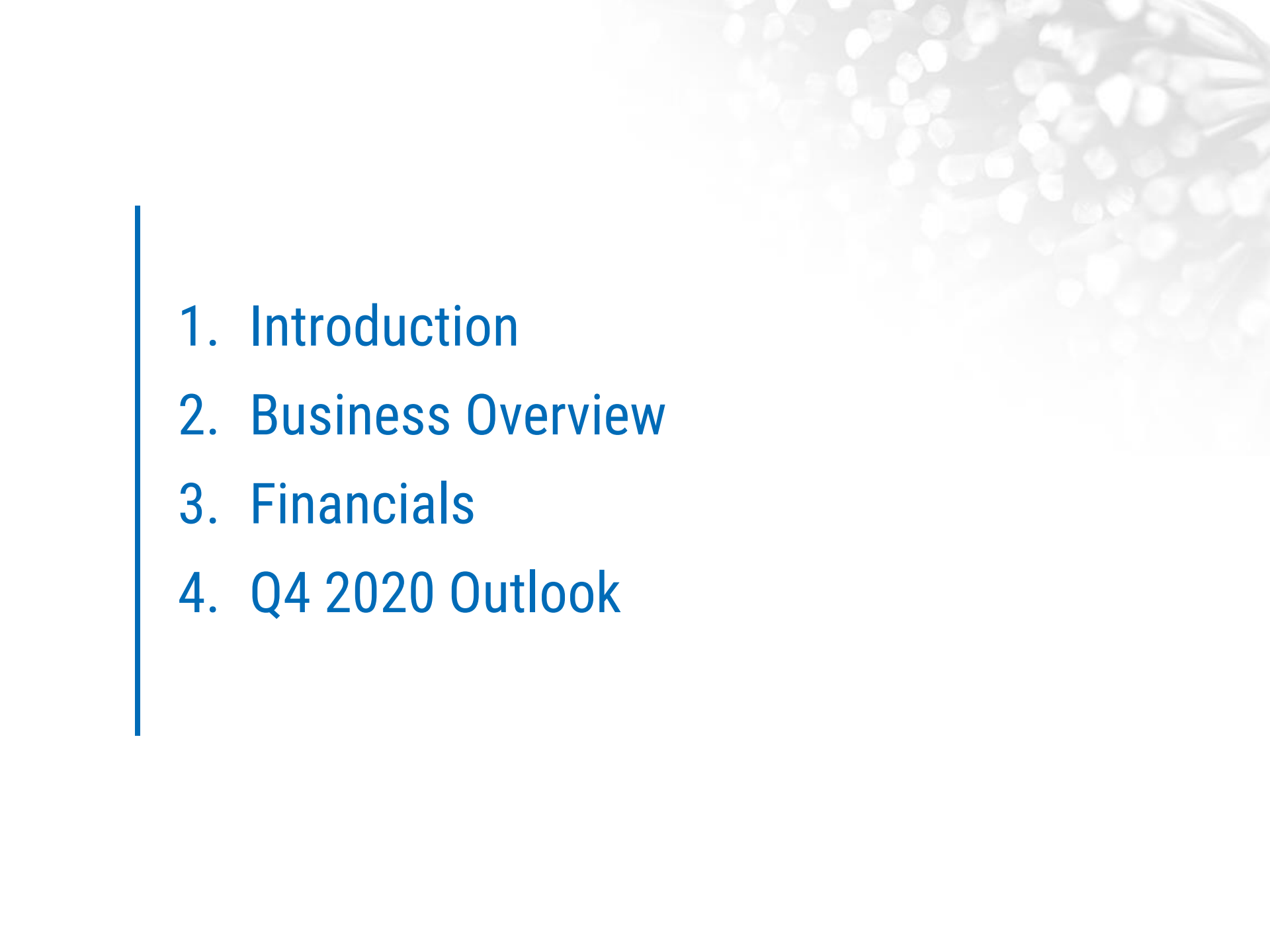




Q3 2020 Business and Financial Performance

November 02, 2020



- 
1. Introduction
 2. Business Overview
 3. Financials
 4. Q4 2020 Outlook



Krzysztof Zola
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 | Q3 2020 Highlights

- Polish GDP expected to be negative at between 2% and 4% compared to 3.9% growth in Q3 2019; -8.9% in Q2 2020 ; a strong rebound qoq;
- EU28 GDP negative at -3.9% (-4.3% Eurozone), compared to 1.4% (1.1% Eurozone) in Q3 2019; -13.9% in Q2 2020 (-14.8% Eurozone); a strong rebound compared to Q2 2020: 12.1% (12.7% Eurozone);
- Polish steel production decreased by 18.9%.; in the EU (28) it went down by 16.2%.
- The Q3 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 Q2 2020 scrap metal prices stable while iron ore prices rising sharply – EAF and BOF feedstock model positive and improving further
- 6.8% decrease in revenues while shipments grew by 5.8%
- Maintenance season. Major repairs at PLN 10.3 million increased Q3 2020 costs. PLN 18.0 million in Q3 2019
- Reported EBIT, EBITDA and net profit slightly higher although weaker when adjusted for one-off items
- Noticeably higher utilization of capacities though below 100%

ANNUAL CAPACITY		UTILIZATION RATE	
	Tonnes	Q3 2020	Q3 2019
FERROSTAL	375 000	90.8%	101.4%
HSJ	261 000	85.0%	55.4%
COMBINED	636 000	88.4%	82.5%

Business Overview | World's Steel Output

Crude steel production

CRUDE STEEL PRODUCTION		Q3 2020	% YoY	Q3 2019	
	<i>m tonnes</i>				
Europe		66.8	-6.6%	71.4	
	UE (28)	31.1	-16.2%	37.1	EU strongly down
	incl. Poland	2.0	-13.4%	2.3	Poland even worse
	CIS	25.4	0.5%	25.2	
North America		23.9	-19.6%	29.7	
	USA	17.3	-20.9%	21.8	Very deep plunge in the USA
South America		9.8	-0.6%	9.9	
Africa / Middle East		12.7	-5.2%	13.4	
Asia		359.7	6.4%	337.9	
	China	282.6	10.3%	256.2	China's growth staggering again
	Japan	19.0	-22.6%	24.5	
Oceania		1.5	-2.0%	1.5	
Total		474.3	2.3%	463.9	

source: World Steel Association

Anti Dumping

Anti dumping measures have always been an available trade control tool. However, only since 2016 there has been a growing number of cases where the European Commission was willing to impose double digit duties compared to rather symbolic levels beforehand. These measures are applied against certain countries, for a given type of product and for a certain period of time.

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 (to last until 30 June 2021). It introduced the quotas including the sub-limits 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. Country specific quotas and the general quota may get transferred over to the next quarterly period. The specific countries will only be able to make use of any remaining general quota during the last quarter (Mar-Jun 2021)

Carbon Tax

In 11 December 2019 the European Commission adopted the European Green Deal which includes the goal of climate neutrality by 2050 and of the decrease in greenhouse gasses emissions by 50-55% by 2030 from their levels of 1990. It also includes a proposal of a carbon border adjustment mechanism (CBA) to ensure that the price of imports reflect more accurately their carbon content.

The CBA is to be adopted in the second quarter of 2021 and is designed to be a carbon leakage prevention tool alternative to the measures being currently in place under the EU's Emissions Trading System (ETS) that are: (i) free CO2 allowances and (ii) subsidies for energy intensive industries.

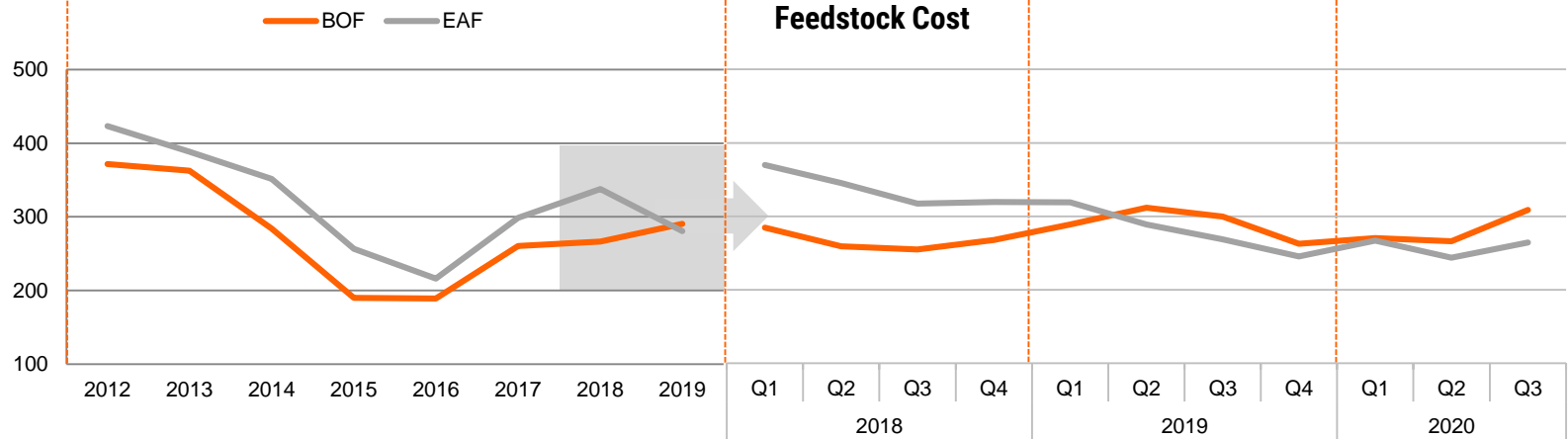
Business Overview | EU Safeguard

Q3 2020 - REBARS as of:	30.09.2020
period start	01.07.2020
period end	30.09.2020
period days	91
days remaining	0
period advancement	100%
quota utilisation	75%
ORIGINS	Initial Amount Quota Available
Turkey	76 792 970 0
Russia	61 630 080 0
Ukraine	40 963 470 544 089
BiH	25 780 310 21 888 417
Moldova	18 527 890 517 588
Other Jul - Sep 2020	142 654 350 69 856 707
TOTAL	366 349 070 92 806 801

Q4 2020 - REBARS as of:	30.10.2020
period start	01.10.2020
period end	31.12.2020
period days	91
days remaining	62
period advancement	32%
quota utilisation	27%
ORIGINS	Initial Amount Transferred Quota Available
Turkey	76 792 970 0 30 351 430
Russia	61 630 080 0 0
Ukraine	40 963 470 544 089 39 577 010
BiH	25 780 310 21 888 417 47 363 050
Moldova	18 527 890 517 588 14 092 673
Other Oct - Dec 2020	142 654 350 69 856 707 203 772 819
TOTAL	366 349 070 92 806 801 335 156 982

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	Q3
USD / Tonne																			
BOF	372	363	284	190	189	260	267	291	285	259	255	268	289	312	300	263	270	266	309
EAF	423	388	352	257	216	299	338	281	370	345	317	319	319	289	269	246	267	244	265
difference	-52	-26	-68	-67	-27	-38	-71	10	-85	-86	-63	-52	-30	23	31	17	4	22	44



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	120	218
Q3 2020	117	120*	236

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 Q3 2020 the favourable difference widened.

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

Prices & Spreads

	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019
(pln/ tonne)					
FERROSTAL					
SCRAP METAL - average purchase price	898	891	934	849	932
BILLETS - average price	1 797	1 747	1 767	1 630	2 056
<i>volume</i>	6 671	39 330	18 947	51 023	8 607
BILLET SPREAD	899	856	833	781	1 124
FINISHED PRODUCTS – average price	1 921	1 978	1 961	1 937	2 131
<i>total volume</i>	77 153	83 404	92 519	90 852	73 566
- plain bars	2 150	2 274	2 207	2 252	2 291
<i>volume</i>	7 295	6 825	6 048	6 483	6 293
- flat bars	2 123	2 196	2 195	2 183	2 305
<i>volume</i>	9 785	11 036	11 099	7 912	9 161
- squares	2 045	2 107	2 150	2 079	2 235
<i>volume</i>	3 029	1 802	1 904	1 732	1 882
- rebars	1 820	1 882	1 876	1 857	2 060
<i>volume</i>	51 605	56 352	68 202	69 959	51 356
- angles	2 130	2 166	2 184	2 171	2 304
<i>volume</i>	4 939	6 855	5 125	4 532	4 480
- other	2 256	2 286	3 426	3 426	2 388
<i>volume</i>	500	534	141	234	394
PRODUCT SPREAD	1 023	1 087	1 027	1 088	1 199
- plain bars	1 252	1 283	1 273	1 403	1 359
- flat bars	1 225	1 305	1 260	1 333	1 373
- squares	1 147	1 216	1 215	1 229	1 303
- rebars	922	991	942	1 008	1 128
- angles	1 232	1 275	1 250	1 321	1 372
- other	1 358	1 385	1 576	1 457	1 358

scrap metal price down by 34 & 3.6%
billet sales price down by 259 & 12.6%

billet spread down by 226 & 20.1%
finished product sales price down by 210 & 9.8%

product spread down by 176 & 14.7%

Prices & Spreads

	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019
(pln/ tonne)					
HSJ					
SCRAP METAL - average purchase price	967	976	1 018	927	1 049
BILLETS - average price	2 044	2 191	2 309	1 985	2 069
volume	17 744	19 797	17 560	20 745	15 615
BILLET SPREAD	1 077	1 215	1 291	1 058	1 020
FINISHED PRODUCTS – average price	2 849	2 917	2 893	2 938	3 280
total volume	37 361	40 183	44 489	32 934	33 995
- SQ bars	2 784	2 815	2 784	2 840	3 164
volume	36 201	39 768	43 728	32 446	32 249
- thick sheets	3 696	4 212	3 917	4 048	3 625
volume	841	137	359	194	1 481
- thin sheets	11 575	11 892	11 568	11 067	10 596
volume	112	180	191	125	159
-other	29 072	26 306	15 897	14 265	22 874
volume	72	98	211	169	106
PRODUCT SPREAD	1 882	1 941	1 875	2 011	2 231
- SQ bars	1 783	1 837	1 766	1 916	2 114
- thick sheets	2 930	4 006	3 070	3 157	2 623
- thin sheets	10 608	10 916	10 550	10 140	9 547
- other	28 105	25 330	14 879	13 338	21 825

scrap metal price down by 82 & 7.8%

billet sales price down by 25 & 1.2%

billet spread up by 57 & 5.6%

finished product sales price down by 431 & 13.1%

product spread down by 349 & 15.6%

Segments

SCRAP METAL		Q3 2020	Q2 2020	Q3 2019	
PURCHASES FROM EXTERNAL SUPPLIERS	<i>Tonnes</i>				
FERROSTAL		90 677	99 270	89 986	ZŁOMREX purchases up by 0.2%
ZŁOMREX		71 996	63 707	71 872	
HSJ		43 183	45 173	30 360	
INTERNAL USE	<i>Tonnes</i>				
FERROSRAL		95 934	120 694	105 846	
HSJ		62 984	69 891	41 174	
SALES TO EXTERNAL CUSTOMERS	<i>Tonnes</i>				
ZŁOMREX		33 192	30 167	36 737	
OTHER		0	0	0	
SALES	<i>'000 PLN</i>				
CONSOLIDATED		28 843	26 196	32 852	
TOTAL PURCHASES in TONNES		205 856	208 150	192 218	
TOTAL INTERNAL USE in TONNES		158 918	190 585	147 020	Internal use up by 8.1%
TOTAL SALES in TONNES		33 192	30 167	36 737	Shipments down by 9.6%
TOTAL SALES in '000 PLN		28 843	26 196	32 852	Sales down by 12.2%

Segments

BILLETS		Q3 2020	Q2 2020	Q3 2019
PURCHASES	<i>Tonnes</i>			
FERR		0	0	0
PRODUCTION	<i>Tonnes</i>			
FERR		73 384	107 956	84 674
HSJ		37 287	61 865	28 127
INTERNAL USE	<i>Tonnes</i>			
FERR		75 774	81 769	88 791
HSJ		44 526	46 272	26 679
SALES TO EXTERNAL CUSTOMERS	<i>Tonnes</i>			
FERR		12 387	43 534	14 761
HSJ		10 906	15 593	9 461
SALES	<i>'000 PLN</i>			
CONSOLIDATED		48 262	112 112	50 003
TOTAL PURCHASES in TONNES		0	0	0
TOTAL PRODUCTION in TONNES		140 554	169 821	131 230
TOTAL INTERNAL USE in TONNES		120 300	128 041	115 470
TOTAL SALES in TONNES		24 415	59 127	24 222
TOTAL SALES in '000 PLN		48 262	112 112	50 003

Production up by 7.1%
 Internal use up by 4.2%
 Shipments up by 0.8%
 Sales down by 3.5%

Business Overview | Finished Products

Segments

FINISHED PRODUCTS		Q3 2020	Q2 2020	Q3 2019
PURCHASES	<i>Tonnes</i>			
ALL ENTITES		0	0	0
PRODUCTION	<i>Tonnes</i>			
ZWWB		20 527	17 934	20 208
HSJ		37 287	41 238	28 127
PROFIL		51 857	60 207	64 466
SALES TO EXTERNAL CUSTOMERS	<i>Tonnes</i>			
FERROSTAL		65 968	71 143	66 200
HSJ		48 364	52 444	41 361
SALES	<i>'000 PLN</i>			
CONSOLIDATED		254 694	282 218	268 366
TOTAL PURCHASES in TONNES		0	0	0
TOTAL PRODUCTION in TONNES		109 671	119 389	112 801
TOTAL SALES TO EXTERNAL CUSTOMERS in TONNES		114 514	123 587	107 561
TOTAL SALES in '000 PLN		254 694	282 218	268 366

Production down by
Shipments up by
Sales down by

2.8%
6.5%
5.1%

Financials

STATEMENT OF PROFIT OR LOSS	Q3 2020	Q2 2020	Q3 2019	
	'000 PLN			
Sales revenue	372 293	455 955	399 511	Revenues down by 6.8%
Cost of sales	-348 656	-408 559	-364 456	- shipments up by 5.8%
Gross profit	23 637	47 396	35 055	Gross profit down by 25.6%
				- spreads compression loss of PLN 27.1m
Other income	16 598	14 375	3 518	- R&D costs of PLN 6.5m
Distribution expenses	-19 120	-20 722	-22 193	- shipments gain of PLN 0.5m
Administrative expenses	-10 955	-10 477	-11 171	- estimated FIFO loss of PLN 1.3m
Other gains/(losses) – net	344	-1 204	1 415	
Other expenses	-1 476	-2 226	-1 252	
EBIT	9 028	27 142	5 372	EBIT up by 68.1%
				- R&D revenues of PLN 6.5m
Financial income	0	0	-1 741	- COVID-19 aid of PLN 3.4m
Financial expenses	-7 470	-4 112	-8 069	- CO2 compensation of PLN 2.5m
Net financing costs	-7 470	-4 112	-9 810	Financial expenses down by 7.4%
				- FX loss of PLN 1.3m
Share of profits of associates	43	0	7	- financial instruments loss of PLN 1.4m
Excess in fair value of acquired assets over cost	0	0	0	
Profit before tax	1 601	23 030	-4 431	
Income tax expense	-61	-1 156	3 475	
Profit/loss for the period from discontinued operations	0	0	0	
Profit for the period	1 540	21 874	-956	Net result becoming a profit
				Adjusted net result PLN -3.1m
Depreciation and amortization	-12 211	-11 823	-11 528	
EBITDA	21 239	38 965	16 900	EBITDA up by 25.7%
				Adjusted EBITDA PLN 11.5m

Financials

ASSETS	Q3 2020	Q2 2020	Q3 2019	
	'000 PLN			
A. TOTAL NON-CURRENT ASSETS	492 502	495 308	445 177	Fixed assets up by 10.6%
I. Intangible assets	17 637	24 642	20 533	- CAPEX increase of PLN 85.4m
II. Property, plant and equipment	386 665	382 816	342 465	- D&A charges of PLN 47.1m
III. Other receivables	6 981	6 357	122	- disposition decrease of PLN 0.8m
IV. Investment property and other investments	8 336	8 299	2 587	- receivables increase of PLN 6.9m
V. Prepaid perpetual usufruct of land	26 140	26 253	33 362	- investment property increase of PLN 5.7m
VI. Deferred tax assets	46 743	46 941	46 108	- deferred tax increase of PLN 0.6m
B. TOTAL CURRENT ASSETS	488 501	498 999	557 577	
I. Inventories	252 697	239 935	346 072	Inventories down by 27.0%
II. Receivables	166 552	189 111	181 889	Receivables down by 8.4%
1. Trade receivables	166 247	188 946	181 740	Trade receivables sold (net) PLN 75.9m
2. Current income tax receivable	183	38	11	in Q3 2019 PLN 99.9m
3. Other investments	122	127	138	
III. Cash and cash equivalents	69 252	69 953	29 616	Cash up by 133.8%
IV. Prepayments	0	0	0	
V. Assets classified as held for sale	0	0	0	
Total	981 003	994 307	1 002 754	

Financials

EQUITY AND LIABILITIES	Q3 2020	Q2 2020	Q3 2019	
	'000 PLN			
A. EQUITY	299 629	299 992	282 736	Equity up by PLN 16.1m
I. Issued share capital	185 911	185 911	184 605	- LTM net result increase of PLN 20.6m
II. Reserves and retained earnings	94 774	94 900	79 324	- exchangeable notes coupon decrease of PLN 3.7m
III. Minority interest	18 944	19 181	18 807	
B. LIABILITIES	681 374	694 315	720 018	
I. Non-current liabilities	241 652	264 725	279 977	
1. Employee benefits obligation	12 655	11 796	11 613	Gross debt down by PLN 27.7m
2. Interest-bearing loans and borrowings	208 341	232 798	250 230	
3. Other	20 656	20 131	18 134	
II. Current liabilities	439 722	429 590	440 041	Net debt down by PLN 67.7m
1. Interest-bearing loans and borrowings	69 722	55 981	59 823	
2. Bank overdraft	9 459	7 178	5 210	
3. Trade payables	347 141	348 770	361 100	
4. Deferred government grants	4 833	10 360	7 979	
5. Liability under financial instruments	6 436	5 028	3 859	
6. Employee benefits obligation	2 106	2 107	1 844	
7. Current income tax payable	0	141	0	
8. Provisions for payables	25	25	226	
Total	981 003	994 307	1 002 754	

Financials

CASH FLOW	Q3 2020	Q2 2020	Q3 2019
'000 PLN			
A. OPERATING ACTIVITIES	26 683	53 947	28 902
B. INVESTING ACTIVITIES	-9 928	-16 959	-13 848
C. FINANCING ACTIVITIES	-19 737	-17 612	-23 945
Net increase in cash	-2 982	19 376	-8 891

- working capital inflow of PLN 6.0m
(decrease of receivables and increase of inventories, increase of trade liabilities as compared to Q2 2020)

- CAPEX outflow of PLN 10.2m
- asset dispositions inflow of PLN 0.3m
- net repayment outflow of PLN 14.1m
- interest service outflow of PLN 4.5m
- grants inflow of PLN 0.7m

MAIN METRICS	Q3 2020	Q2 2020	Q3 2019
Liquidity ratio	1.11	1.16	1.27
Quick ratio	0.54	0.60	0.48
Inventories turnover days	65	53	85
Receivables turnover days	40	37	41
EBITDA margin	5.7%	8.5%	4.2%
Net profit margin	0.4%	4.8%	-0.2%
Equity '000 PLN	299 629	299 992	282 736
Net debt '000 PLN	218 270	226 004	285 647
Net debt / LTM EBITDA	2.1	2.2	2.6

Current liquidity down; quick ratio up

Inventory ratio down by 20 days

Receivable ratio down by 1 day

Profitability ratios slightly improved

Net leverage down to 2.1 times



1

GDP declining and a drop qoq in Poland and in the EU (28) in the wake of the second wave of pandemics and lockdowns materializing in many countries

2

Demand picture mixed; fair for construction and weak for auto products; stable compared to Q3 2020

3

Poland's crude steel production under pressure due to BOF mills' diminishing output; EAF producers stable at high utilization rates. Polish steel consumption growth in negative territory due to the weak demand from the EU auto sector; overall expected stable as compared to Q3 2020

4

Compared to Q3 2020 prices of scrap metal billets and finished products expected stable. All up compared to Q4 2019; stabilisation of majority of spreads compared with Q3 2020 and Q4 2019 with selective increases likely compared to both periods

5

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

6

Q4 2020 to remain tough due to the second wave of COVID-19 crisis. Q4 2020 EBITDA expected higher than Q4 2019 and likely to exceed the one of Q3 2020

Together reach more



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