

 **FERREXPO**

40 Years **FERREXPO**
IRON ORE
PELLETS

10 Years **FERREXPO**
THE LONDON
STOCK EXCHANGE



FTSE4Good



**2018 HALF YEAR RESULTS PRESENTATION
AUGUST 2018**

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 **FERREXPO** **Steve Lucas**
Chairman



1H 2018 FINANCIAL PERFORMANCE

Chris Mawe, CFO

STRONG MARKET ENVIRONMENT FOR PELLETS

HIGHER COSTS DRIVEN BY COMMODITY COST INFLATION

Summary Financials

\$M (unless otherwise stated)	1H 18	1H 17	Change	2017
Pellet production (kt)	5,096	5,160	-1.2	10,444
Pellet sales volumes (kt)	4,798	5,065	-5.3	10,467
Avg CFR 62% fines price (US\$/t)	69.7	74.4	-6.2	71.3
Avg C1 cost (US/t)	41.6	31.7	31.2	32.3
Revenue	617	591	4.4	1,197
EBITDA	234	287	-18.5	551
EBITDA margin	38.1%	48.5%	-10.4ppt	46.0%
Profit after tax	152	216	-29.6	394
Diluted earnings per share (cents)	25.79	36.60	-29.5	66.85
Interim dividend per share (cents)	3.3	3.3	-	16.5
Net cash flow from operating activities	156	194	-19.6	353
Capital investment	56	45	24.4	103
Cash	82	93	-11.8	98
Net debt	369	472	-21.8	394
Net debt to EBITDA ¹ (x)	0.74	0.96	-22.9	0.73

¹ Last twelve month EBITDA \$514M

Market

- Strong market environment for high grade product
- Record pellet premium
- 5% increase in realised price despite lower fines price & higher freight

Operations

- Slightly lower pellet production due to planned line refurbishment
- Increase in stocks due to delayed railings
- C1 cost of \$41.6 per tonne reflects
 - Cost inflation – oil, local inflation, strong local currency

Net operating cash flow

- Working capital reflects lower grade ore and pellet stock increase

Capital investment

- Increase spend on modernisation & concentrator expansion programme

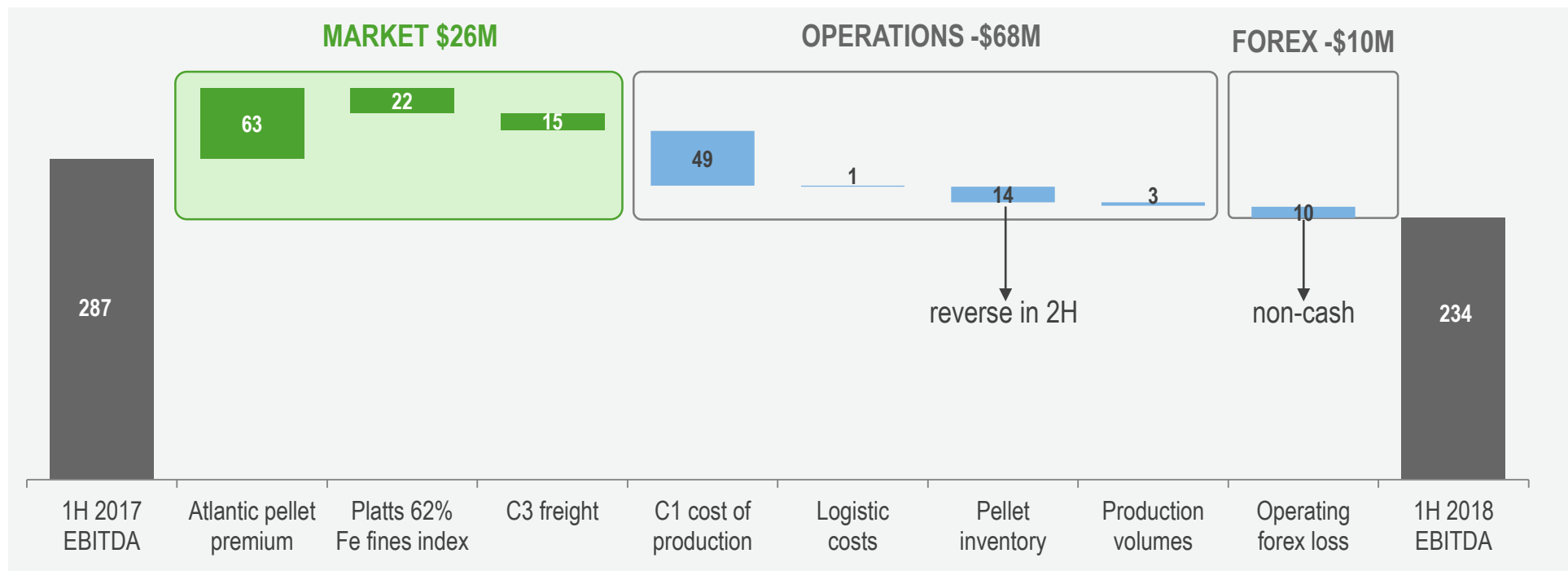
Dividends

- Paid out \$74M of dividends in 1H 2018 vs. \$39M in 1H 2017
- Declared interim dividend per share of 3.3 US cents (1H 2017: 3.3 US cents) to be paid in September 2018

Balance sheet

- Continued deleveraging
- Net debt to EBITDA comfortably below 1x
- 2H 2018 debt repayments remaining \$11M

EBITDA 1H 2018 VS. 1H 2017



MARKET

62% Fe fines price

-6%

Pellet premiums

+32%

Freight

+37%

OPERATIONS

- Higher commodity costs & local inflation
- Increase in pellet stocks of 300kt (rail shipments)
- Planned refurbishment of pellet line #1

FOREX

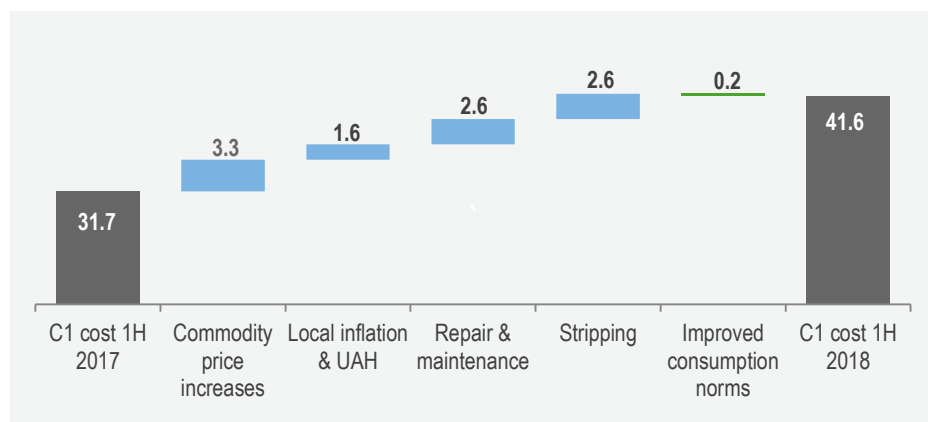
UAH appreciated

7% from 1/1/18 to 30/6/18

COMPETITIVE COST BASE THROUGH THE CYCLE, C1 COST VARIES WITH COMMODITY PRICES, LOCAL INFLATION, UAH

C1 cost 1H 2018 vs. 1H 2017

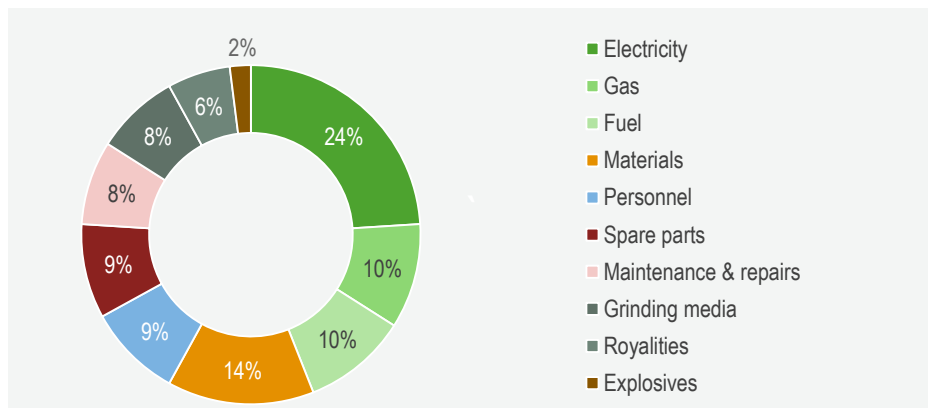
\$ per tonne



Costs reflect:

- Commodity price inflation: higher diesel, gas, steel prices, coal
- Local inflation
- UAH appreciated 7% against \$ from 1.1.18 to 30.6.18
 - Half of operating costs in UAH
- Higher level of repair & maintenance costs
- FPM mine plan reflects increased stripping levels
- Planned pelletiser maintenance marginally reduced production volumes

Structure of C1 cash costs – over 60% commodity related



Increase in prices 1H 2018 vs 1H 2017

Avg increase

Oil	37%
Grinding media	23%
Diesel	21%
Salaries	20%
Gas	17%
Electricity	15%
Rail tariffs	15%
Real UAH appreciation vs. Dollar (adj for local inflation)	10%

CASH GENERATION SUPPORTING BALANCE SHEET

Cash flow 1H 2018 VS. 1H 2017

\$M (unless otherwise stated)	1H 18	1H 17	Change %	2017
EBITDA	234	287	-18.5	551
Working capital movements	-11	-37	-70.2	-57
Working capital – stockpile ore	-24	-26	-7.7	-53
Interest paid	-26	-26	-	-49
Tax paid	-26	-6	n/a	-14
Other (incl. non-cash operating FX)	10	2	n/a	-25
Net cash flow from operating activities	156	194	-19.6	353
Capex	-56	-45	24.4	-103
Dividend paid	-74	-39	89.7	-58
Other	-	4	n/a	-
Net cash flow	27	114	-76.3	192
Proceeds from new borrowings	211	-	n/a	-
Repayment of borrowings	-254	-163	55.8	-239
Cash balance at end of period	82	93	-11.8	98
Net debt	-369	-472¹	-21.8	-394¹

¹Note: accrued interest has been re-classified from borrowings to accrued liabilities and re-presented for comparative periods. This has reduced net debt from \$403M as of 31 December 2017 to \$394M and from \$481M as of 30 June 2017 to \$472M.

EBITDA

- Higher pellet premiums offset by cost inflation

Working capital reflects

- Higher pellet stocks of 300kt
- Lower grade ore build up: \$4.8 per tonne
- Higher spare parts for maintenance programme for fleet refurbishment

Tax

- Normalised level as previous tax assets consumed

Higher capex

- Largely reflects sustaining capital & construction of MFC1

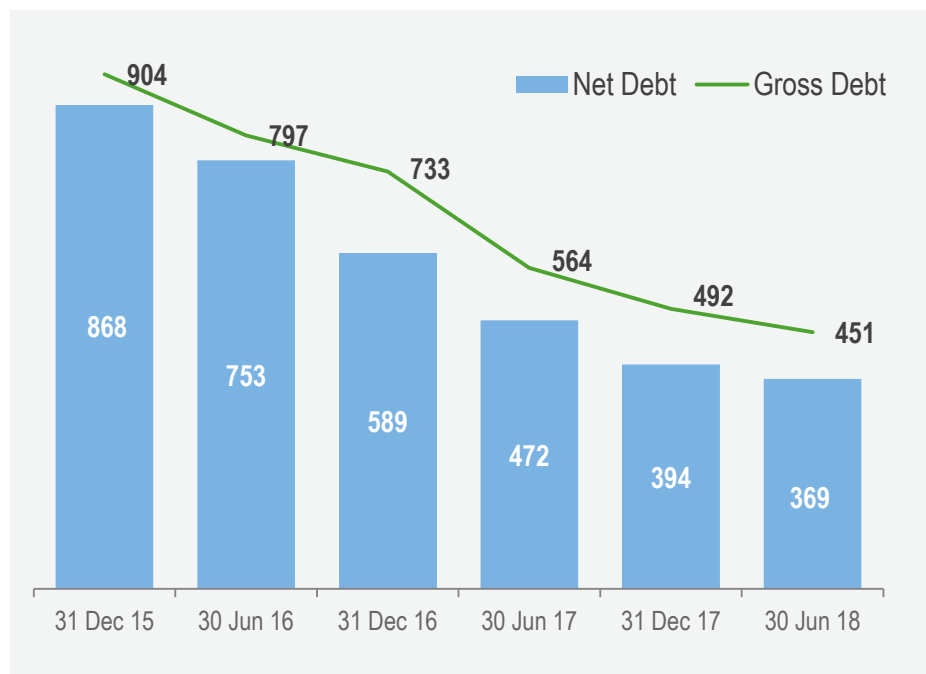
\$74M of dividends paid to shareholders in 1H 2018

Reduced debt and maintained liquidity

- Drew down new \$195M PXF facility + \$16M of trade finance
- \$254M of debt repaid
- Cash balance of \$82M
- Strong credit metrics

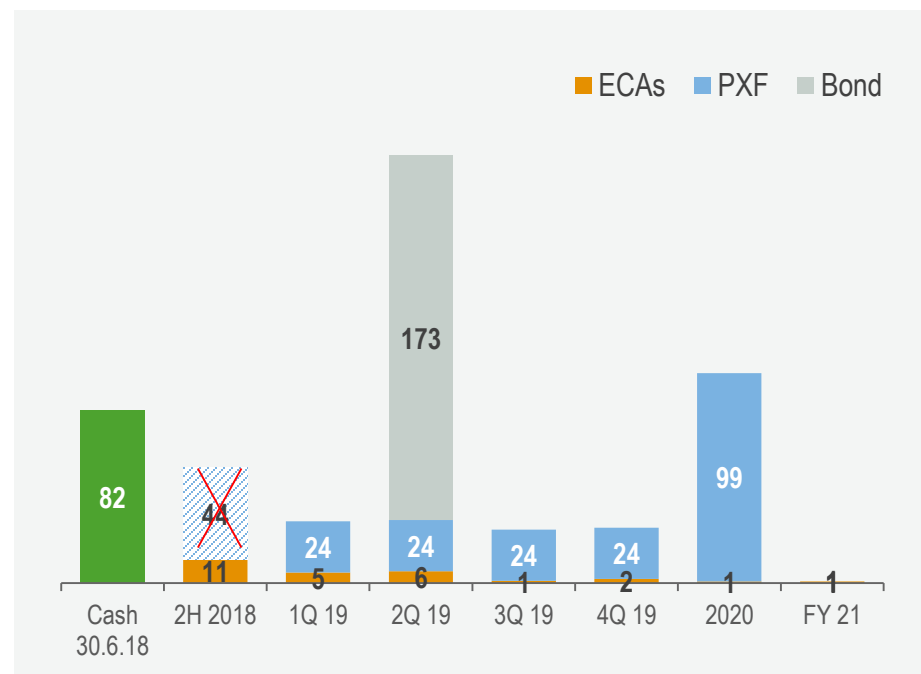
STRONG BALANCE SHEET

Excellent debt reduction (\$M)



- Since 31 Dec 2015 net debt has reduced by \$500M
- Secured \$195M PXF facility in Nov 2017
- Repaid \$254M in 1H 2018
- Available trade finance facilities of \$70M as of 30 June 2018

Amortisation profile as of 30 June 2018 (\$M)



- On 27 July repaid final amortisation of \$44M of 2013 \$350M PXF
- \$11M of debt amortisations remaining in 2018
- 2019 debt amortisations to be paid from cash generation
- Financing options available
- LTM net debt to EBTIDA 0.74x

CONCLUSION TO FINANCIAL REVIEW

FINANCIAL RESULTS

- High quality product realising significant price premiums
- Cost growth should moderate with lower local inflation assuming stable UAH
- Increase in capex to support maintenance and volume growth
- Strong balance sheet with low gearing
- Dividend maintained

BUSINESS PROSPECTS

- Long term market dynamics underpin pellet demand
- High barriers to entry into the pellet market
- Competitive cost base through the cycle



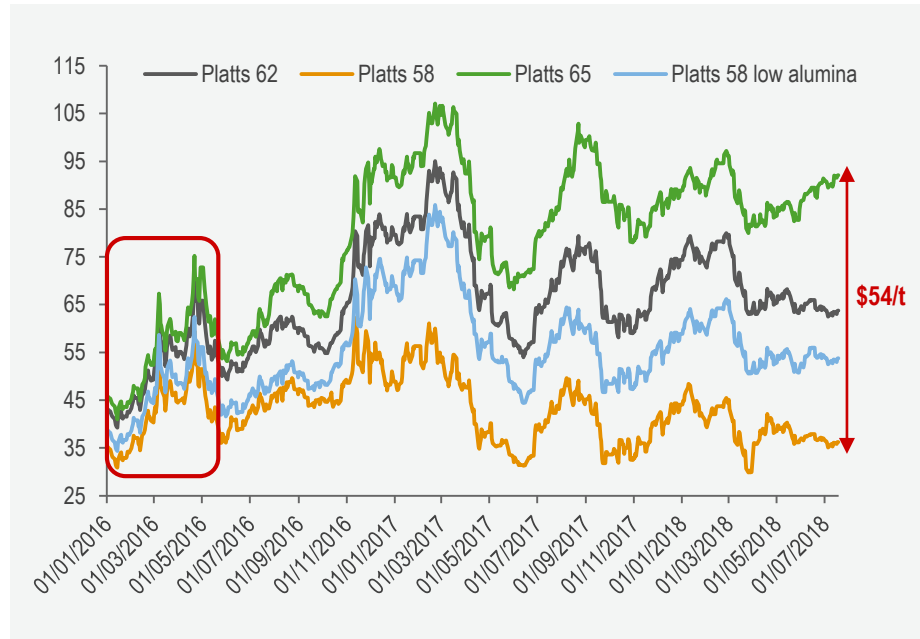
OPERATIONAL REVIEW & STRATEGY

KOSTYANTIN ZHEVAGO, CEO

IRON ORE MARKET DYNAMICS: RELATIVELY STABLE 62% FE PRICE WHILE PREMIUMS & DISCOUNTS WIDEN

Premiums for high quality ore have increased significantly

\$ per tonne

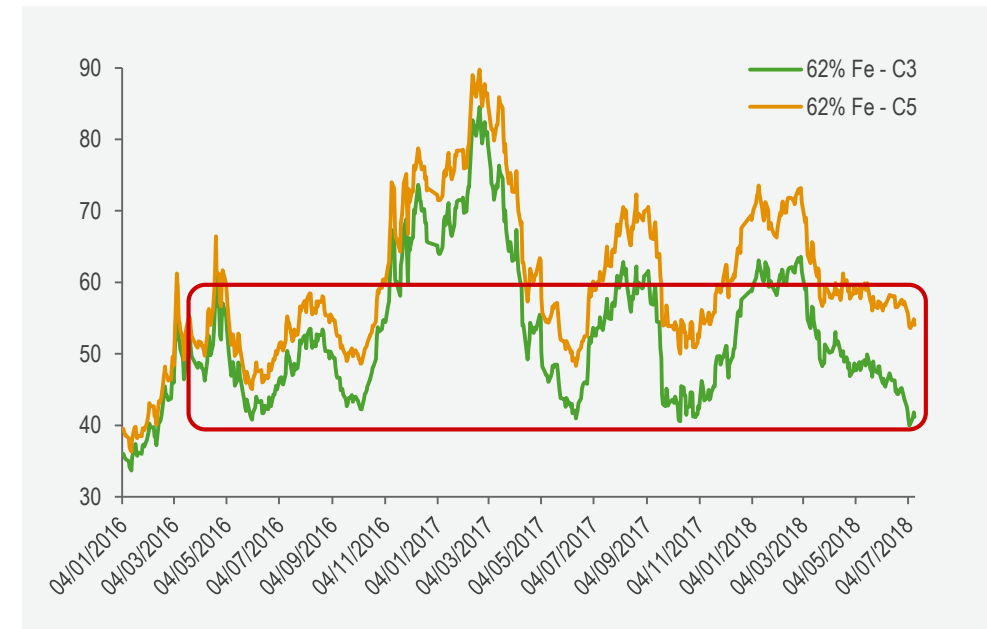


Source: Platts

- In July 2018 avg price difference of \$54/t between 65% Fe & 58% Fe
- Discounts widening for producers of high alumina product

Higher freight rates are reducing net prices to 2016 levels for 62% Fe

\$ per tonne

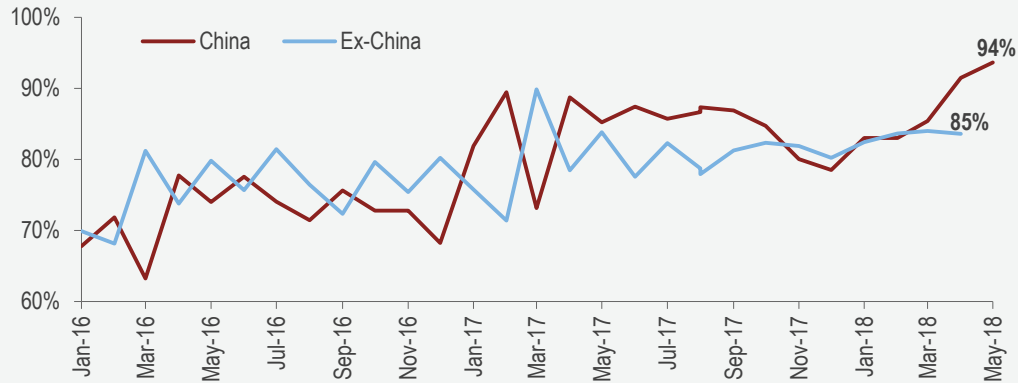


Source: Platts, Baltic Exchange, C3: Brazil – China; C5: Australia to China

- Average C3 increased 37% to \$17/t in 1H 2018 (1H 2017: \$13/t)
- Current C3 in July approximately \$22/tonne
- Current C5 in July approximately \$8.5/ tonne (1H 2018: \$6.8/ vs. \$5.7/t)

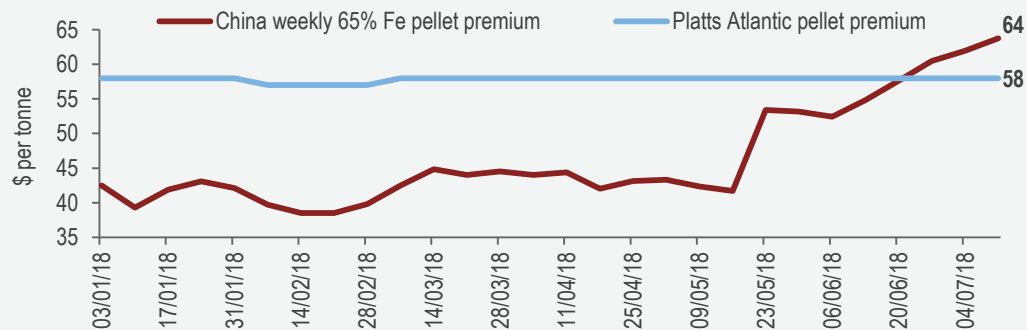
STRONG DEMAND FOR PELLETS WHILE SUPPLY REMAINS IN DEFICIT

Crude steel capacity utilisation %



Source: HIS, WSA, Macquarie June 2018

Shortage of supply increasing Chinese pellet premium



Source: Platts

Pellet supply in 1H 2018

- Impacted by 10 week strike at IOC
- Suspension of operations at Minas Rio (pellet feed)
- Market leader bought back higher cost marginal supply of c.1MT in 1H 2018
- Overall export market expected to remain at similar level to 2017 c. 120-1250MT

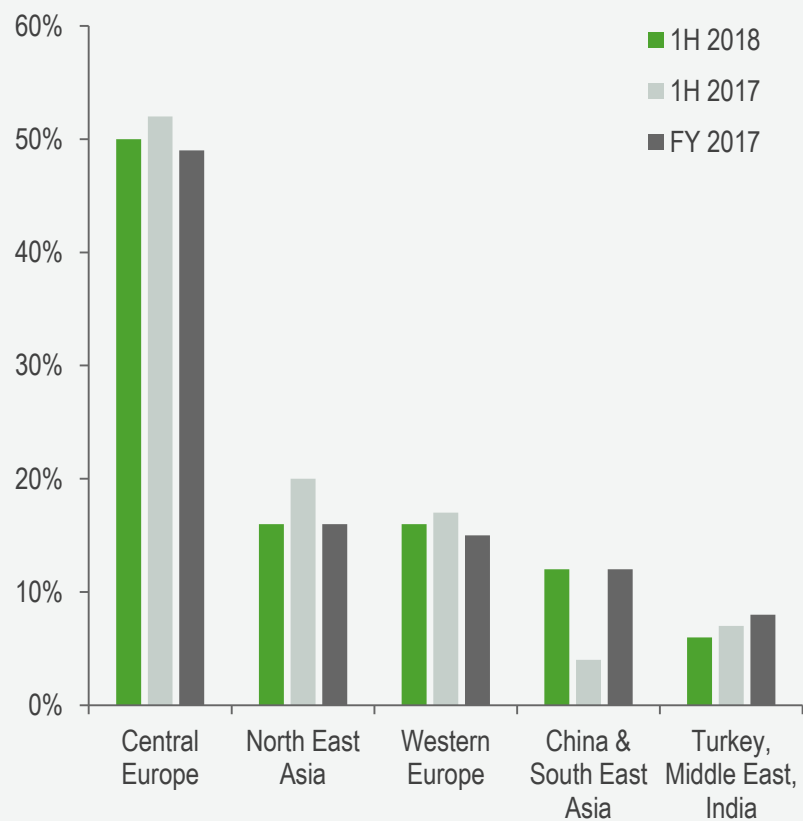
Chinese mill requirements for high grade ore converging with developed country requirements

Ferrexpo to benefit from increasing demand for pellets

Incumbent pellet producers enjoy high barriers to entry

MARKETING – STRONG CUSTOMER DEMAND

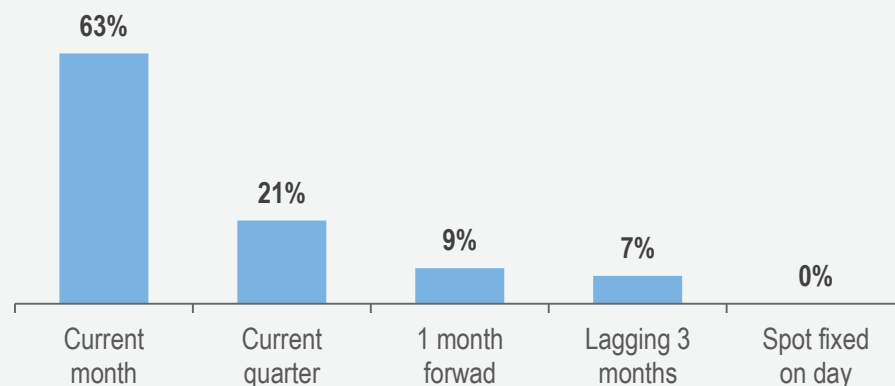
Geographic split of sales volume %



- Strong demand from long term target customers
- No sales to spot customers during the period
- China & SE Asia includes sales to Vietnam and Taiwan
- 300kt increase in pellet stocks to be reduced in 2H 2018
- Higher freight prices during the period reduced received price

Pricing terms

- Average reference period for 62% Fe iron ore fines in price formula



MINING AND PROCESSING OPERATIONS

SAFETY FIRST

- No fatalities (2017: one)
- 1H 2018 LTIFR 0.97 (in line with 1H 2017)

MINING

- Increased stripping at FPM to access high grade ore
- Increased fleet maintenance compared to 2015 & 2016
- Ongoing efficiency improvements at FPM & FYM

PROCESSING

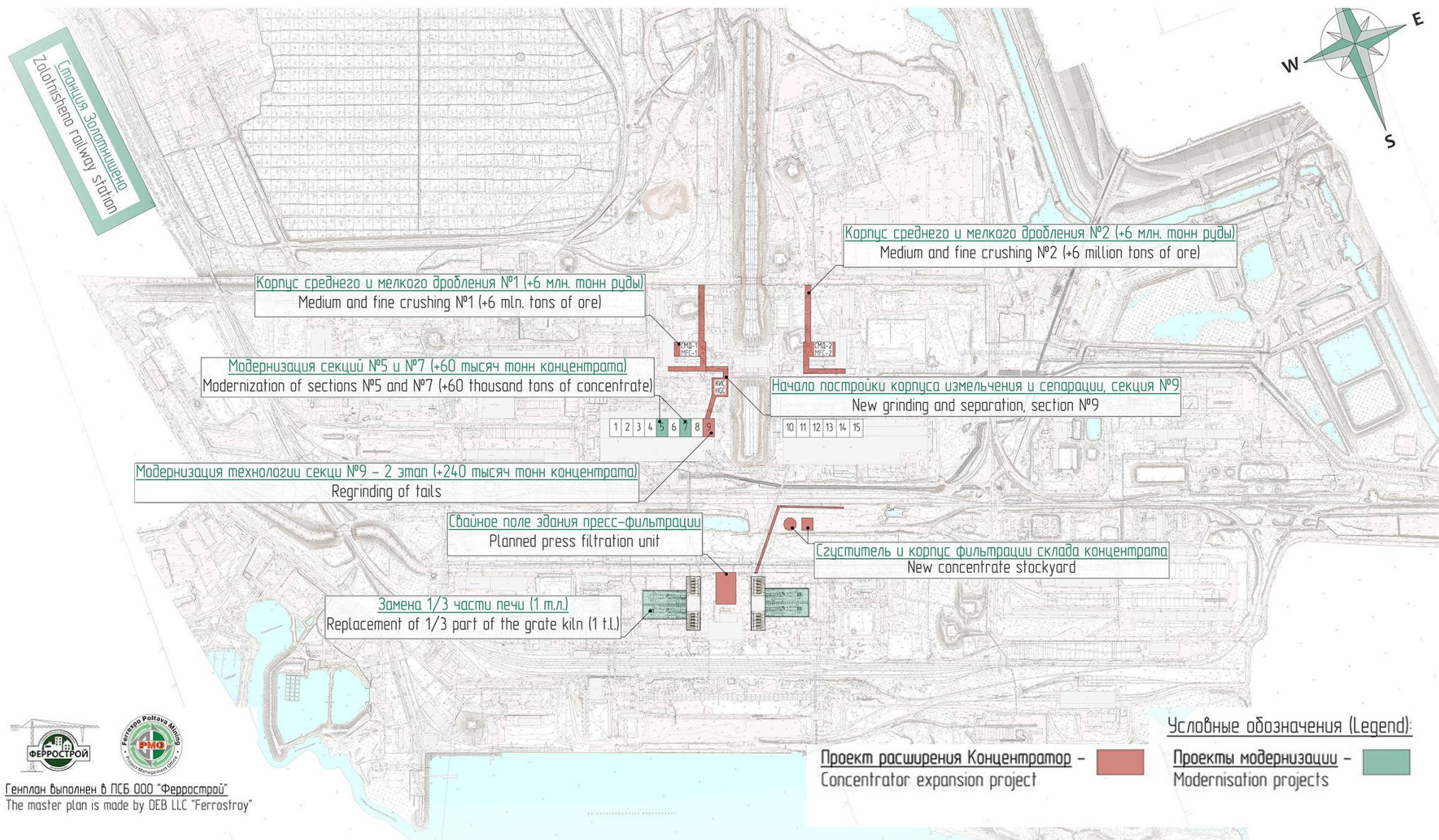
- Construction of MFC1 near completion
- Reconstruction of 2 grinding sections in concentrator
- Increase in maintenance compared to 2015 and 2016 levels

PELLETISING

- 1H 2018 production in line with 1H 2017 at 5.1MT (-64kt)
- High quality output maintained at average 94% FPP
- 1H 2018: 65 day refurbishment to pellet line # 1
- 3 out 4 lines now refurbished (2014 & 2017)
- Final pellet line to be refurbished most likely 2H 2019



2018 CAPEX PROJECTS



STRATEGY AND OUTLOOK

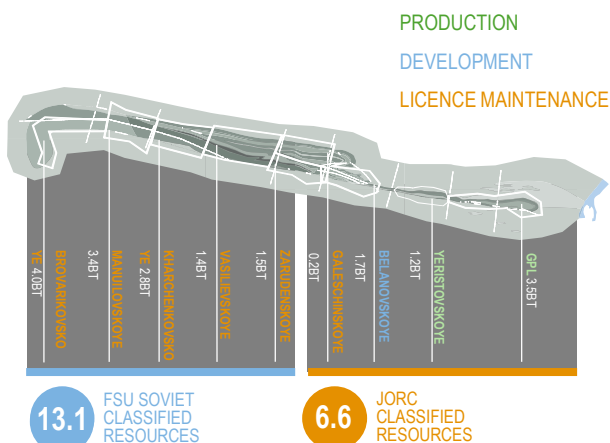
- Demand for high quality iron ore expected to remain strong, especially pellet
- Capital allocation: balancing debt reduction, growth capex & dividends
- Pellet output to increase 1.5MT to 12MT after completion of concentrator expansion in 2020
- Ferrexpo one of few pellet exporters able to increase brownfield volumes significantly
- Engineering studies for volume growth from 12MT to over 20MT to be completed by end 2019
- Ferrexpo to maintain:
 - High quality pellet production
 - Strong customer relationships with best steel mills in the world
 - A competitive cost position relative to majority of peers on pellet cost curve



 **FERREXPO** Thank you

FERREXPO HAS A LARGE RESOURCE AND WELL INVESTED ASSET BASE PRODUCING A HIGH QUALITY PRODUCT

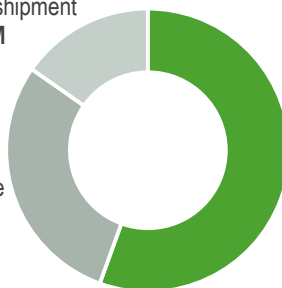
Significant resource base



World class asset – over US\$2.15bn invested since IPO

Logistics: barging, rail cars, port/transshipment
c.\$300M

FYM: new mine & infrastructure
c.\$600M



FPM: modernisation & quality upgrade
c.\$1.1BN

Premium iron ore product: 65% Fe pellets



Established logistics



High quality sales portfolio

