



# Ferrexpo Group

Proactive Investors Presentation

H1 2009



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# Ferrexpo – Corporate Outline

- > UK-incorporated plc
- > Full Main Board LSE listing since June 2007 - FTSE 250 member
- > UK Corporate Governance in place - independent Board
- > Swiss headquarters (marketing & finance) – Swiss tax domicile
- > Ukrainian mining operations
- > Primarily an export business
- > Supplies customers in Central and Eastern Europe and Asia
  - > Well established rail network to customers, plus barging capability
  - > 49% owner of the only private bulk commodity port terminal on the Black Sea

# Key facts - operations

- > **Producing** - exclusively iron ore pellets
- > 44% of production is high-quality 65% Fe pellets – remainder is 62% Fe pellets
- > Produced 9.0mt in both 2007 & 2008
- > Processing plant capacity of 12mtpa
- > Approximately 6.5 billion tonnes of JORC resources
- > Average ore grade c. 30% Fe
- > Further c. 14 billion tonnes of resources classified under Soviet GKZ Code

# Competitive advantages

- > Operating for many decades
- > Very large iron ore resource – largest in Europe
- > Location ‘on the doorstep of Europe’ - proximity to key customers
  - Continuous rail ‘just in time’ delivery service to many customers
  - Lowest cost of supply to key customers
- > Very strong customer relationships in Traditional (Europe) and Growth (Asia) markets
- > Strong growth prospects:
  - > Major capital projects on hold due to downturn
  - > Plans to double then quadruple production remain a priority
  - > Focus now on efficiency of existing operations and product quality

# The iron ore market and our place within it

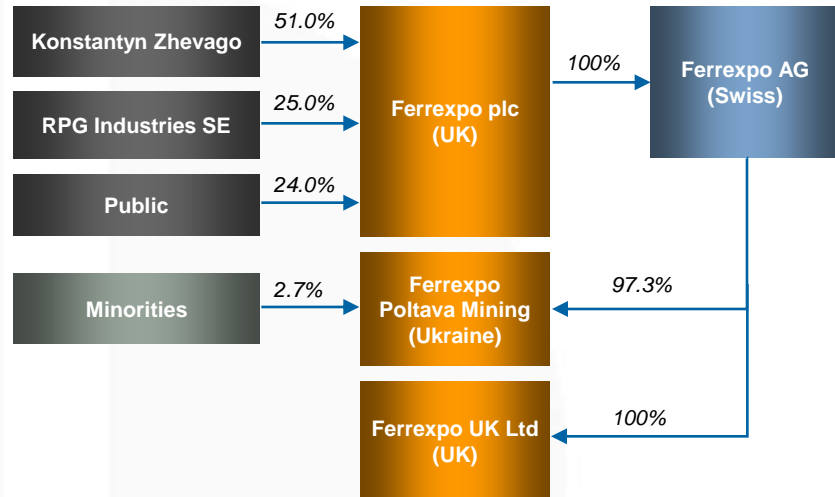
- > The most abundant commodity on Earth
- > Largest consumer of iron ore in the world is China – and, ironically, China has almost no quality iron ore deposits
- > Transport is key from both a cost and logistics perspective
- > Three basic types of commercial iron ore:
  - > Fines (70%-80% of world production)
  - > Lump
  - > Pellets
- > Lump and pellets are ‘direct charge’ materials - trade at a premium to fines
- > Ferrexpo produces solely pellets
- > We about the 12<sup>th</sup> largest iron ore producer in the world

# History and Structure

## History and development

<b>Dec 2008</b>	DCM minority bought out of operating asset
<b>Oct 2008</b>	RPG Industries SE buys 25% of Ferrexpo
<b>June 2007</b>	Ferrexpo plc lists on the Main Board of the LSE with pre-IPO market capitalisation of US\$1,671m at 140p per share
<b>2004/05</b>	New international management team appointed to list the Company and initiate Business Improvement Programme
<b>2001</b>	Kostyantyn Zhevago buys out business partners
<b>1996 - 2000</b>	Kostyantyn Zhevago and business partners acquire majority of shares in Poltava GOK, Ferrexpo's operating asset, in a series of transactions
<b>1995</b>	Privatisation process commences
<b>1977</b>	Soviet era production of iron ore pellets
<b>1970</b>	Soviet-era mining and iron ore concentrate production
<b>1960s</b>	Mining operations commence at Poltava at current FPM site

## Current shareholdings



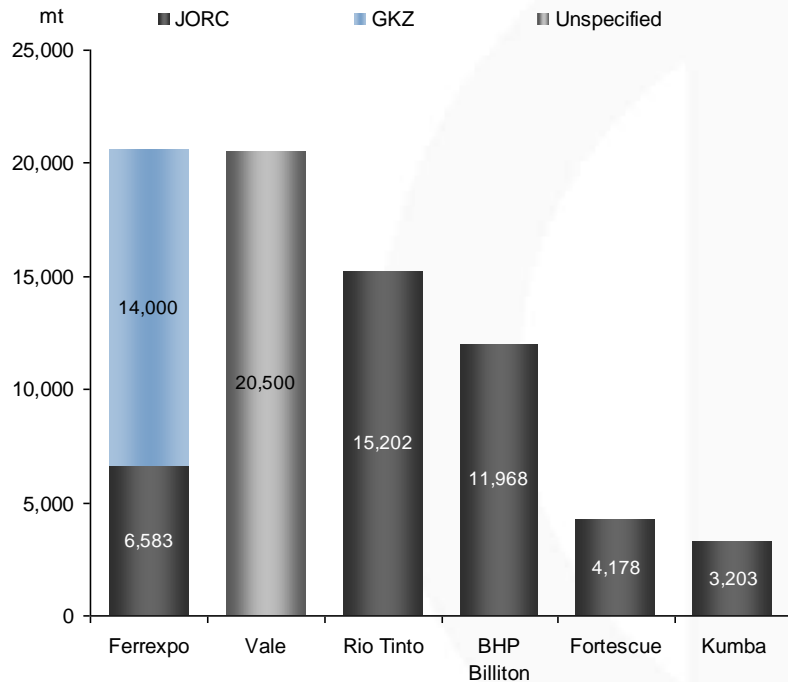
## JORC reserves and resources

	Reserves		Resources (incl. Reserves)			
	Proved and probable		Measured and indicated		Inferred	
	million tonnes	Fe grade (%)	million tonnes	Fe grade (%)	million tonnes	Fe grade (%)
Gorishne-Plavninskoye	798	29	1,443	30	1,275	31
Lavrikovskoye	157	32	812	30	174	29
<b>Total producing assets</b>	<b>955</b>	<b>30</b>	<b>2,255</b>	<b>30</b>	<b>1,449</b>	<b>31</b>
Yeristovskoye	632	34	765	27	96	17
Belanovskoye			1,627	31	37	30
Galeshinskoye			325	59	29	59
<b>Total projects</b>	<b>632</b>	<b>34</b>	<b>2,717</b>	<b>33</b>	<b>162</b>	<b>27</b>
<b>Total assets</b>	<b>1,587</b>	<b>32</b>	<b>4,972</b>	<b>32</b>	<b>1,611</b>	<b>30</b>

Source: SRK, Turgis Consulting

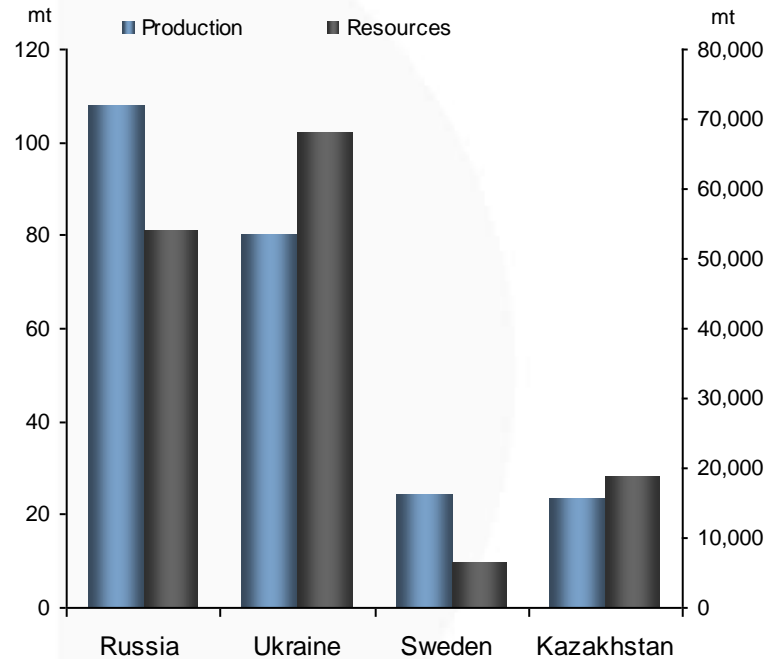
# Ferrexpo has World Class Resources

## Iron ore mining companies – resource comparison



- 1) *RioTinto, Fortescue & Kumba: Total attributable resources, Annual Report 2007*
- 2) *BHPBilliton: Total resources, Annual Report 2008*
- 3) *Vale: Approximation based on information on company website*

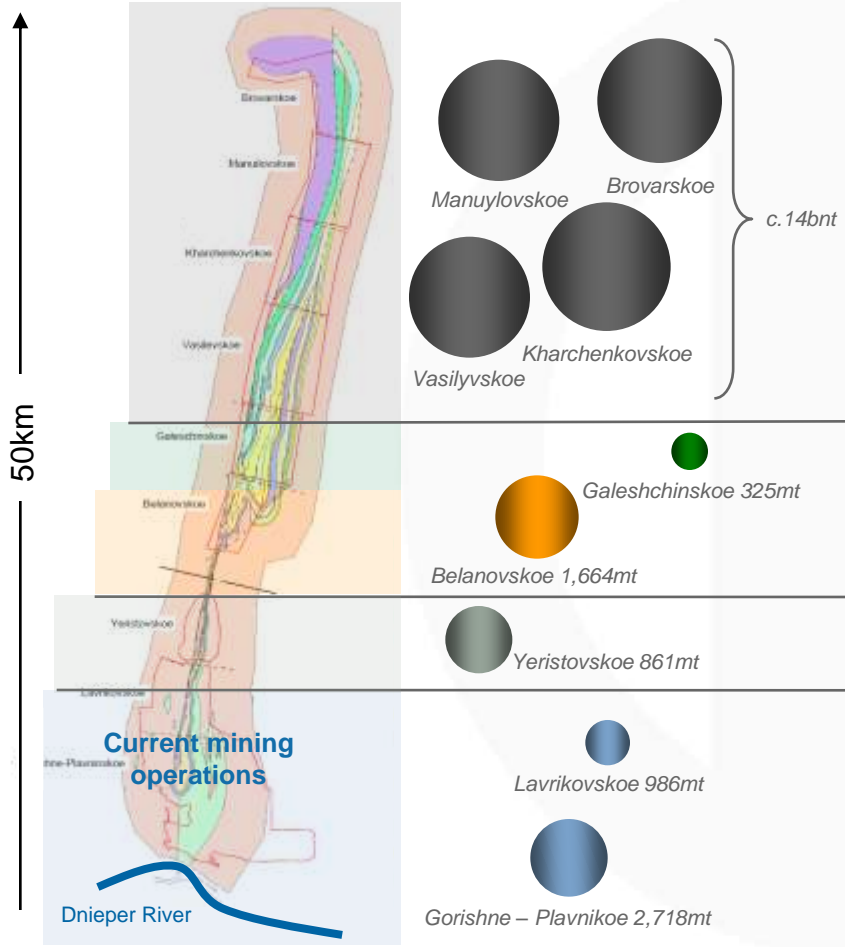
## Production and resources in and near Europe



*U.S. Geological Survey, Mineral Commodity Summaries, January 2009*

# Status of Growth Projects

Growth projects remain a priority but will remain on hold until markets improve



## Northern Resources Exploration & Appraisal

- > Complying with exploration licence requirements

## Galeschina Development

- > Alternatives for development explored in 2008

## Belanovskoye Development

- > **On hold**
- > Preliminary feasibility study completed in Sept 08

## Yeristovskoye Development

- > **On hold**
- > Definitive feasibility study completed in Sept 08
- > Limited stripping works continue to preserve development schedule and option-value
- > Strategic Investor Programme **on hold**

## GPL Expansion & Upgrades

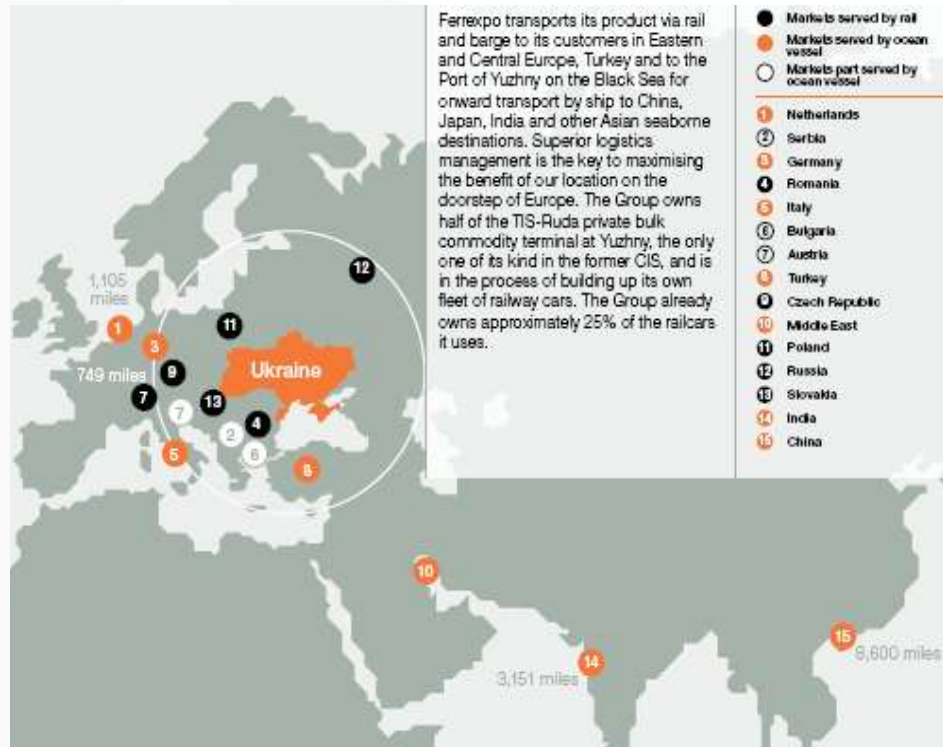
- > **On hold**
- > Definitive feasibility study for upgrades completed in Sept 08
- > US\$100m of US\$158m spent on expansion - limited stripping works continue to preserve development schedule and option-value

Growth Pipeline

# Our marketing differentiates us

- > Focus on long term contract business
- > Strong customer relationships have paid off in downturn
  - Loyalty – supply often reduced less/last
  - Small-parcel rail delivery service – effective inventory management
  - Relatively environmentally friendly
  - Potential to GAIN market share in Traditional and Natural markets
- > Able to compensate reduced Traditional market demand with additional sales in seaborne markets
  - Asian demand more resilient
  - Ferrexpo has established presence and reputation there

## Position of operations – location is KEY



# Record results for 2008

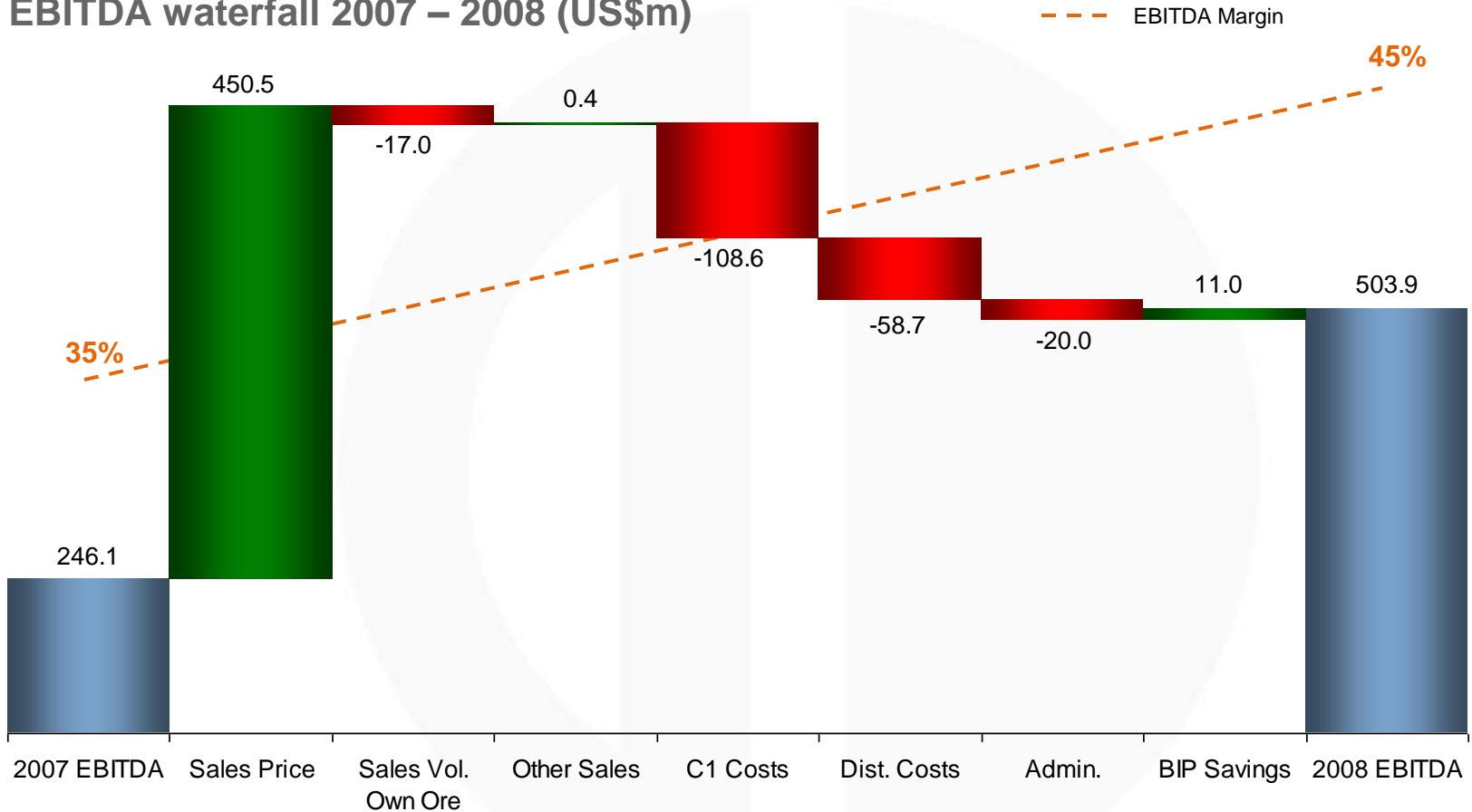
- > Revenue increased by 60.0% to US\$1,116.9m
- > EBITDA up by 104.8% to US\$503.9m
- > Underlying earnings<sup>1</sup> up by 129.0% to US\$347.4m
- > Average achieved price for calendar year 2008 increased by 72.3%
- > 8.5% increase in production of high quality (65% Fe) pellets
- > December C1 cash costs of production 18.0% below 2008 average of US\$42.3/t
- > Sufficient headroom: US\$87.8m of cash available at year end
- > No near-term refinancing required
- > Dividend maintained – final 2008 dividend of 3.3 US cents per share declared

<sup>1</sup> 'Underlying earnings' is an alternative earnings measure, which the directors believe provides a clearer picture of the underlying financial performance of the Group's operations. Underlying earnings is presented after minority interests and excludes adjusted items.

Adjusted items are those items of financial performance that the Group believes should be separately disclosed on the face of the income statement to assist in the understanding of the underlying financial performance achieved by the Group. Adjusted items that relate to the operating performance of the Group include impairment charges and reversals and other exceptional items. Non-operating adjusting items include profits and losses on disposal of investments and businesses.

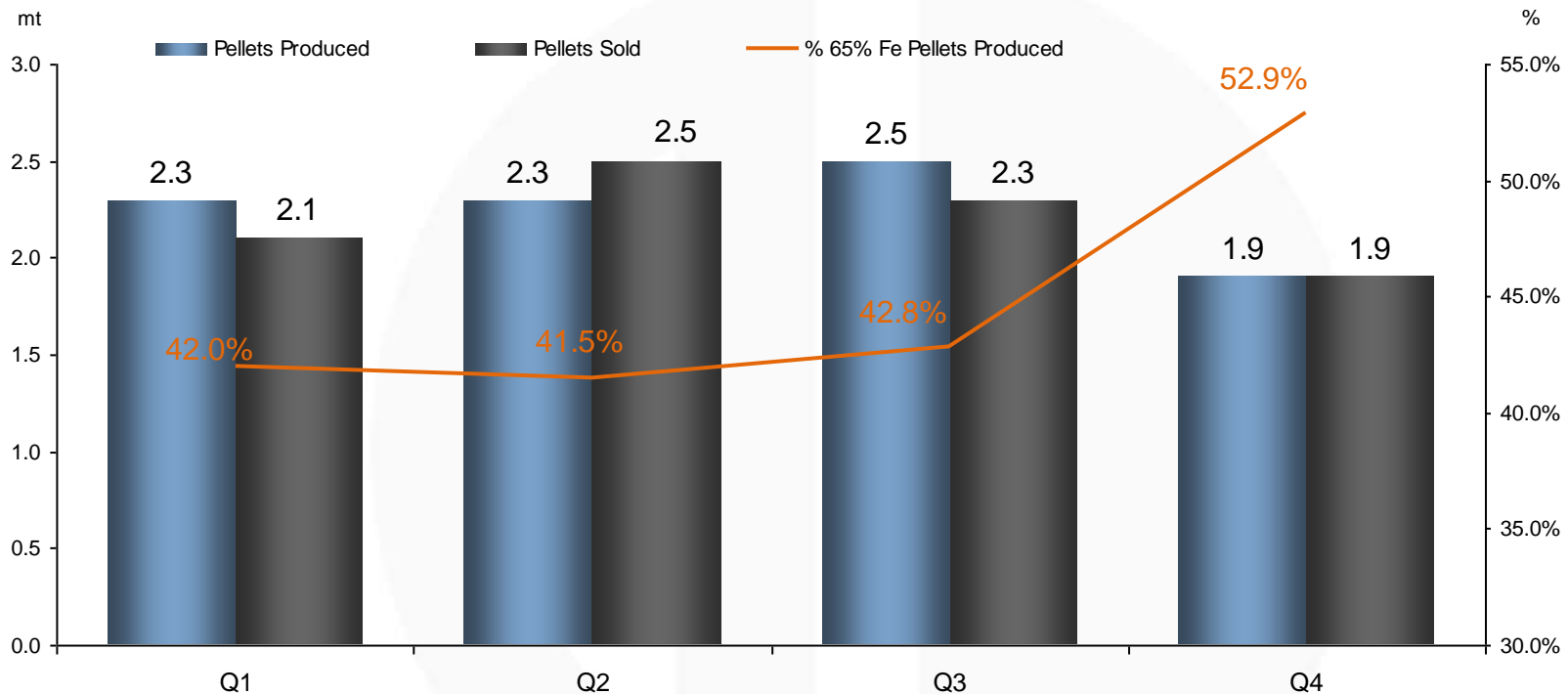
# EBITDA and influencing factors

EBITDA waterfall 2007 – 2008 (US\$m)



# Strong Production and Sales Performance

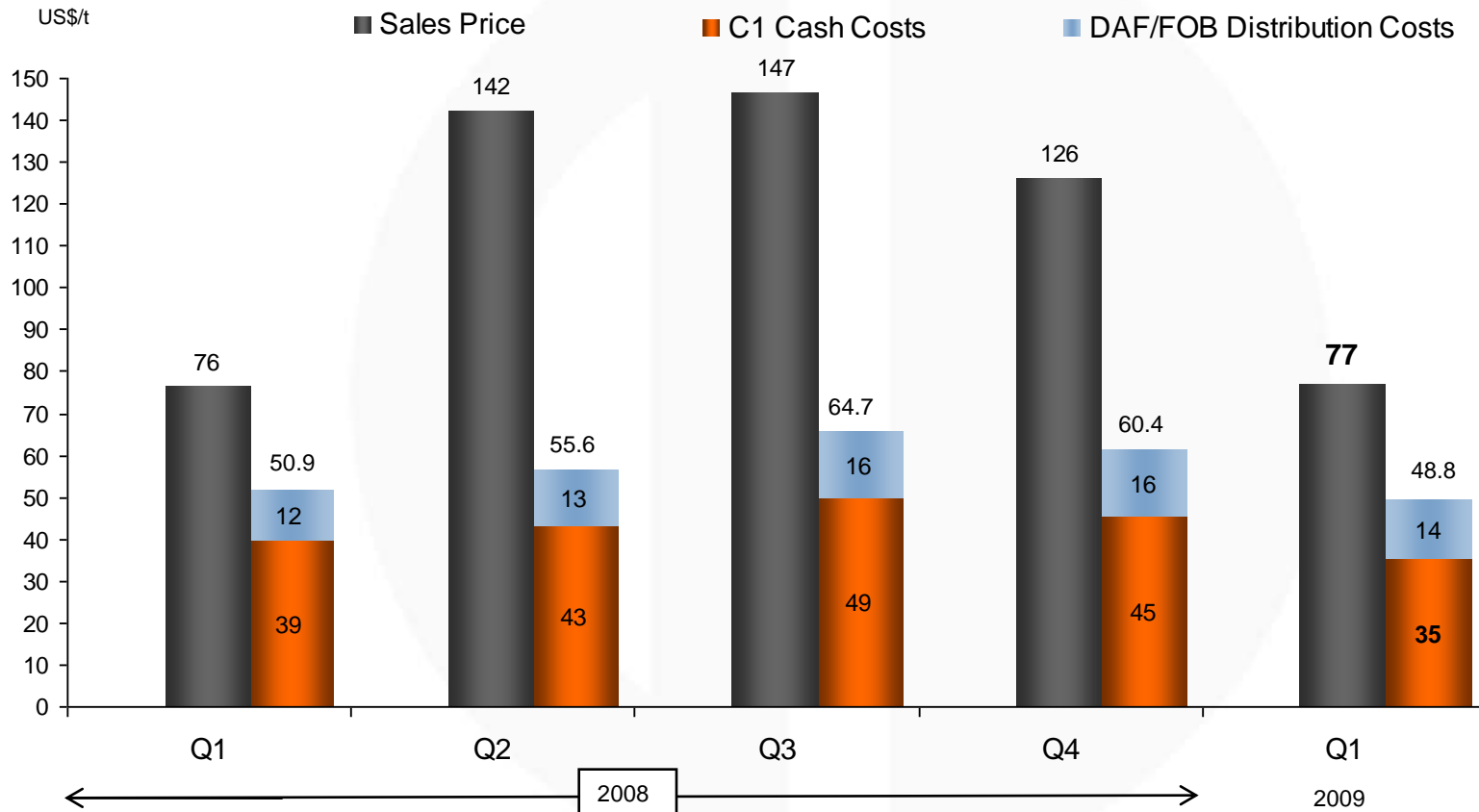
## Production stable and quality improved in 2008



- > Continuing operational improvement
  - Record production in the first 10 months of 2008 – deliberate decrease thereafter
  - 8.5% increase in production of 65% Fe pellets over the year
- > Record price settlements (in excess of the Benchmark) for the 2008/2009 contract year
- > Substantially all 2008 production sold

# Results drivers – costs and prices

## Dollar per tonne statistics by quarter<sup>1,2</sup>

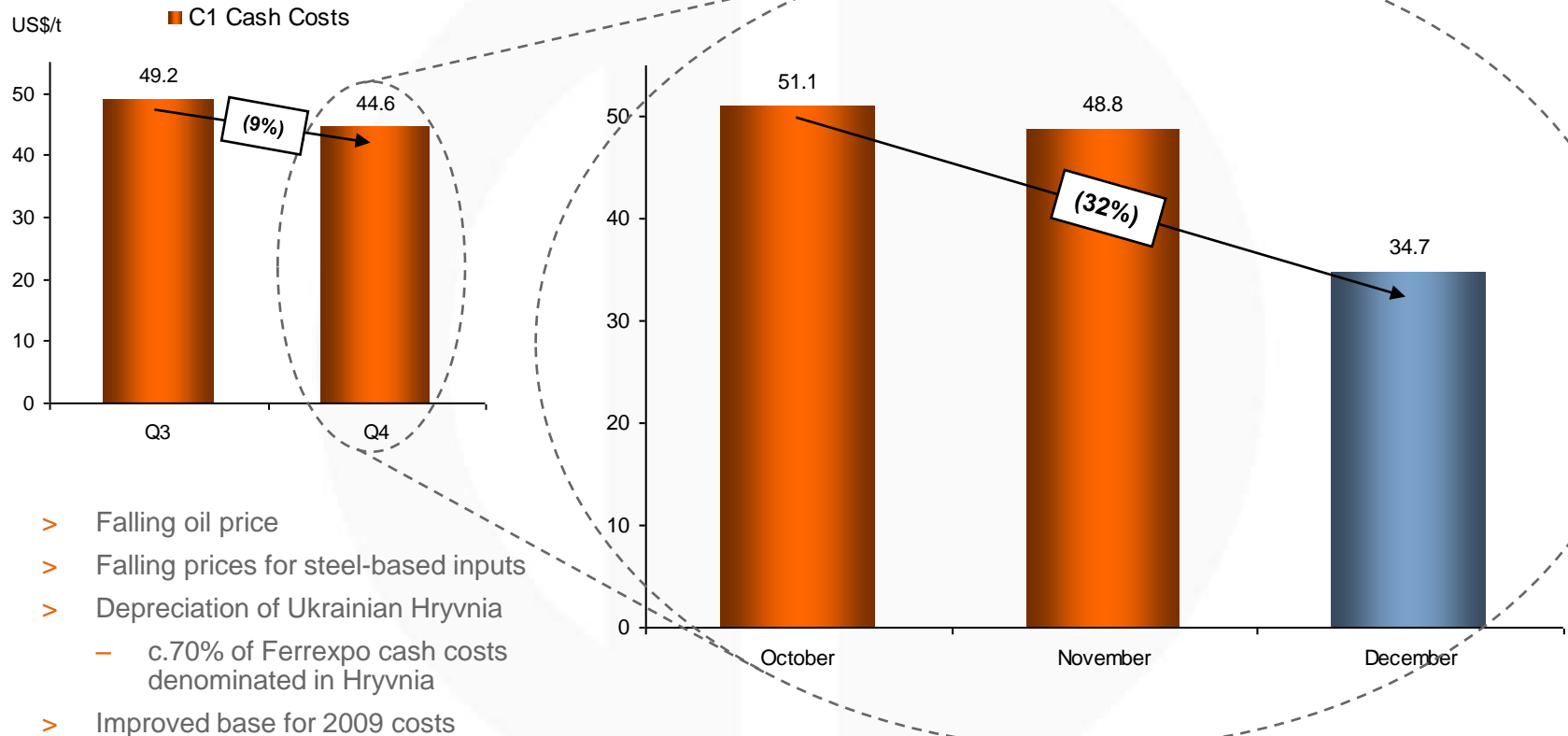


<sup>1</sup> C1 costs are total cash costs of production of pellets from produced concentrate, ex-works

<sup>2</sup> Does not reflect administrative and other cash costs

# C1 Costs came down rapidly in Q4 '08

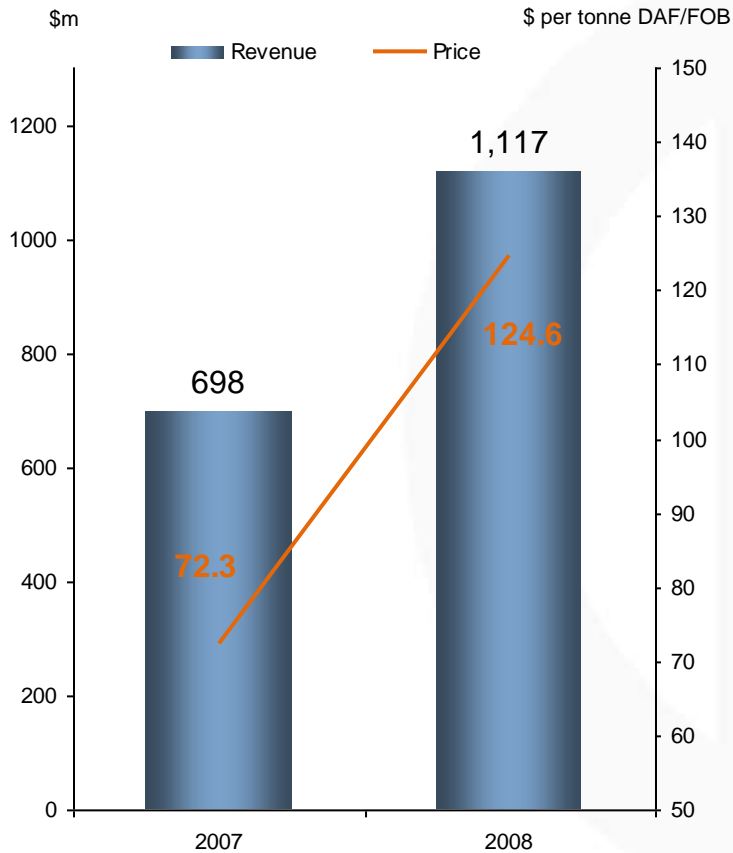
## C1 Cash Costs of Production per tonne by month for Q4 2008



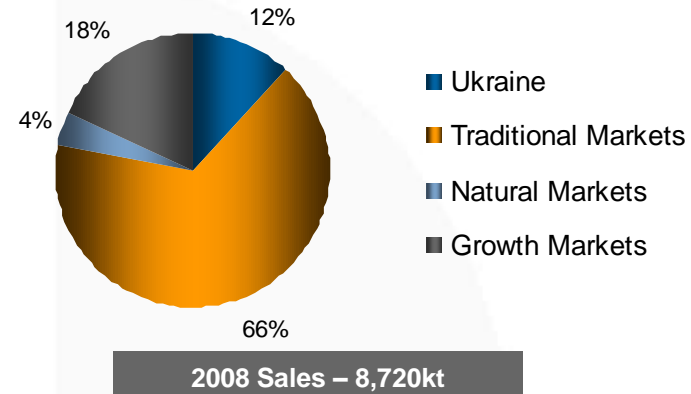
Cash costs of production have stayed low in 2009

# Market Performance in 2008 & Q1 2009

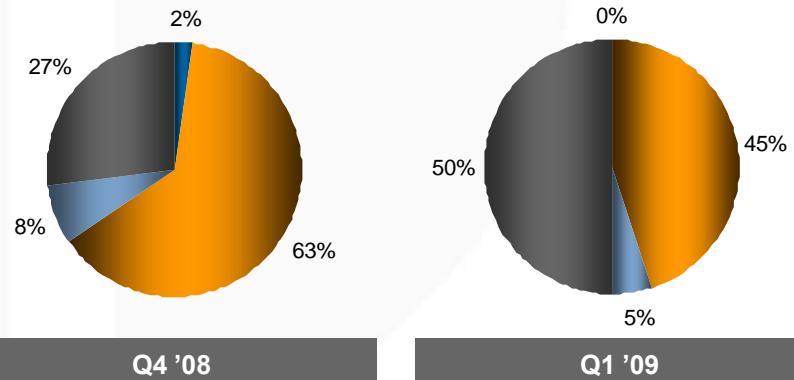
## Revenue and average pellet price



## Market mix<sup>1</sup> in 2008



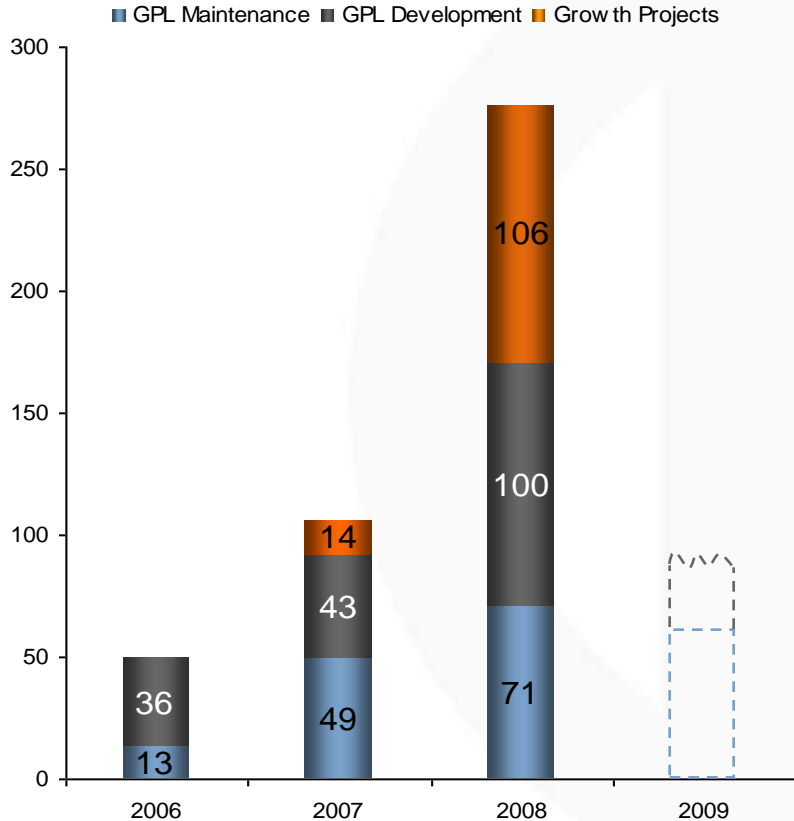
## Market mix<sup>1</sup> in Q4 '08 and Q1 '09



<sup>1</sup> by Sales volume

# Capital Expenditure

## Capital Expenditure Split



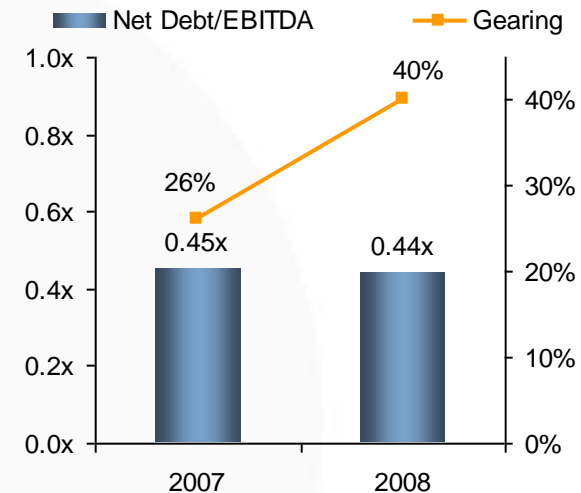
## Investment planning

- > Development capex on hold since October 2008
  - Flexible in 2009
  - Some limited stripping works continue at GPL and Yeristovskoye
    - Preserve schedules and option value
    - Low expenditure
- > Sustaining capex to be reduced to minimum in 2009
- > Focus is on strict cash conservation

# Debt Facilities and Funding

- > Ferrexpo's principal debt facility is a US\$335 million pre-export financing facility
  - Priced at LIBOR + 235bps
  - Repayments of c. US\$6.1 million per month commenced in April 2008
  - Facility fully repaid by December 2010
  - Facility is fully drawn down
  - Net debt at 31 December 2008 was US\$220.1 million
  - Cash headroom of US\$88 million on balance sheet as at year end
- > Ferrexpo is in cash conservation mode
  - Development capital expenditure on hold, sustaining capital expenditure reduced to minimum
  - Focus on cost reduction, sales maximisation
- > Ferrexpo is operating comfortably within its existing facilities

## Strong balance sheet



<sup>1</sup> Net debt calculated as current interest bearing loans & borrowings + non-current interest bearing loans & borrowings + non-current trade & other payables – cash & cash equivalents and short term deposits

<sup>2</sup> EBITDA is calculated as profit from continuing operations before tax and finance less foreign exchange (loss)/gain plus depreciation (included in both cost of sales and administrative expenses) and non-recurring cash items included in other income, non-recurring cash items included in other costs plus disposal of subsidiaries and associates. EBITDA is not a measure of financial performance under IFRS

<sup>3</sup> Total debt for the purposes of gearing is all interest-bearing debt, i.e. current interest bearing loans & borrowings + non-current interest bearing loans & borrowings. Gearing is Total Debt / (Total Debt + Total Equity)

# Ferrexpo - doing business in Ukraine

- > Ukraine remains a beneficial place to conduct business
- > Ferrexpo has operated there continuously for over 30 years
- > Unlike in other CIS countries, politicians tend not to interfere directly in Ukrainian business
- > Ukraine's political processes remain peaceful and democratic despite 'instability'
- > Intention to join EU as soon as it is able to do so
- > Ukraine's economy is heavily reliant on the steel industry
  - Growth and high inflation in H1 '08 - contraction and severe downturn in H2 '08
- > IMF loan - US\$16.4 billion to Ukraine in late 2008 in response to effects of crisis on its economy
  - Conditional on increased fiscal and economic discipline in Ukraine
- > Ukrainian Hryvnia informally pegged to the US dollar at c.UAH5.05/USD until early 2008
  - Since weakened to c.UAH7.70/USD as a result of continuing high inflation
  - Strongly positive effect on Ferrexpo's cost base
- > Since the crisis manifested in Ukraine in October, Ferrexpo has not supplied local steel mills

**Ferrexpo produces in Ukraine at lower cost, and sells internationally in US dollars**

# 2009 YTD Trading and Outlook

## Current Trading

- > We have traded profitably and maintained margins to date in 2009
- > Demand weakness in Ukraine and Traditional markets continues
  - > Some European and Ukrainian customers accepting cargoes again, however
- > Continued to successfully leverage presence and reputation in Asia to increase seaborne spot sales in compensation
- > Increased sales to China substantially
- > Market conditions change constantly – and we continue to monitor this and adapt

## Outlook

- > Short-term outlook for global economy and iron ore markets likely to be volatile for some time
- > Little visibility on timing or level of contract price settlements – despite Rio Tinto settlements
- > Ferrexpo remains flexible, resilient and efficient and is well placed to benefit from any upturn
- > We believe we are well placed to increase market share and continue to trade profitably in 2009