

# STANDING WITH UKRAINE

**Interim Financial Results 2022**

3 August 2022



# FERREXPO HUMANITARIAN FUND

*PROVIDING SUPPORT TO THE PEOPLE AND COMMUNITIES OF UKRAINE*



**US\$15 MILLION**

APPROVED FUNDING  
FOR THE FERREXPO  
HUMANITARIAN FUND

**7 REGIONS**

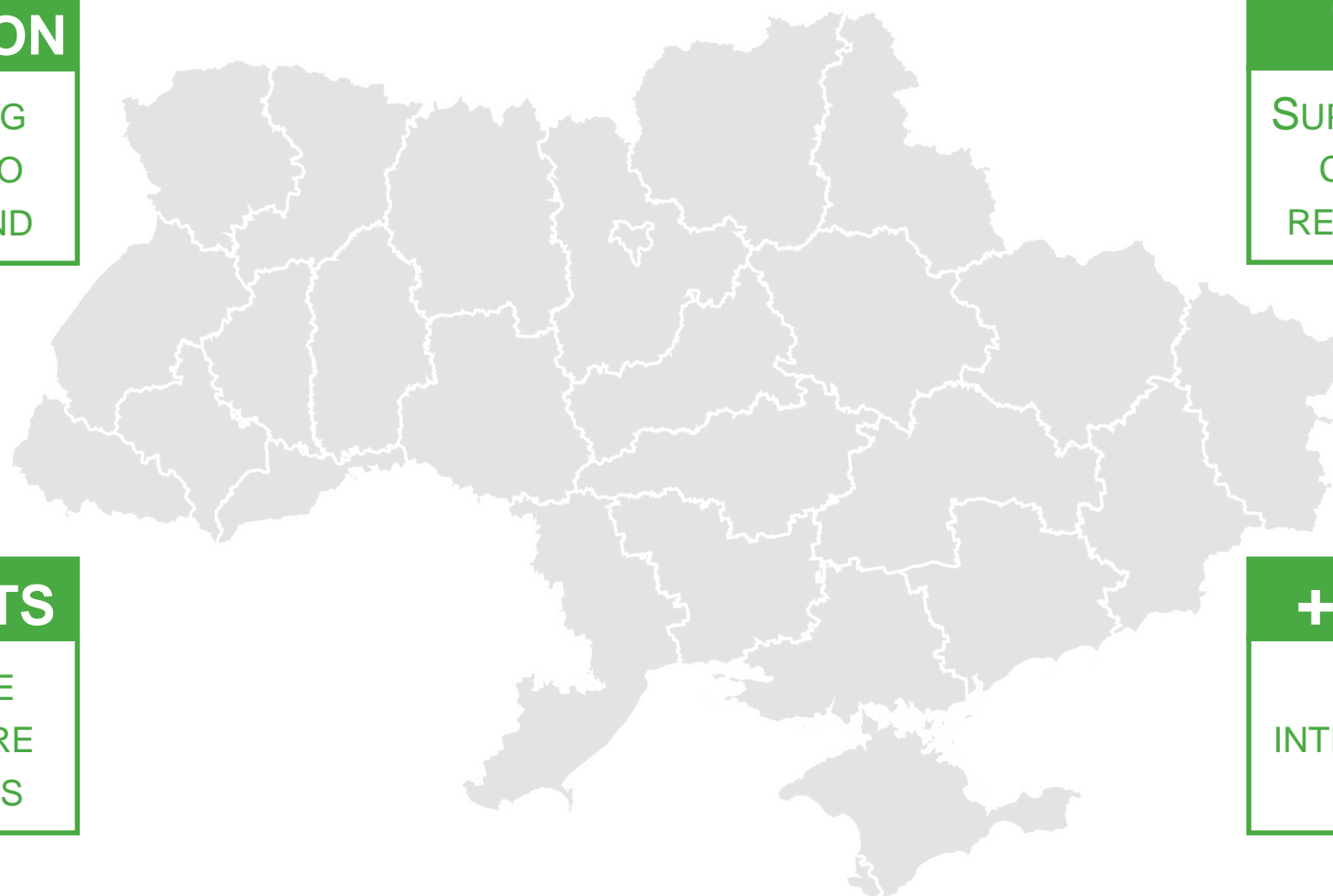
SUPPORT PROVIDED TO  
COMMUNITIES IN 7  
REGIONS OF UKRAINE

**70+ PROJECTS**

HSEC COMMITTEE  
APPROVAL FOR MORE  
THAN 70 INITIATIVES

**+2,000 IDPs**

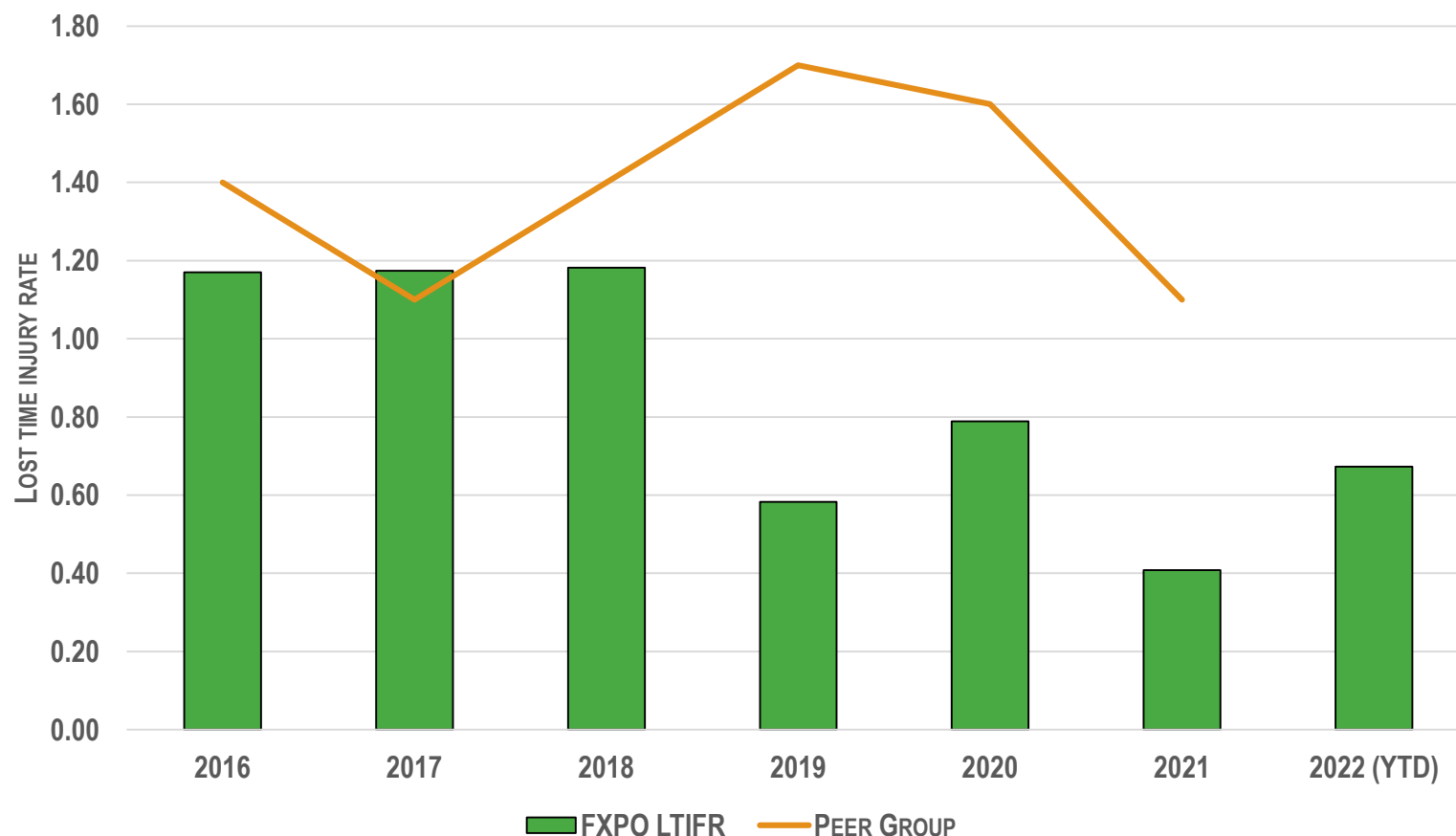
OVER 2,000  
INTERNALLY DISPLACED  
PEOPLE HOUSED



# HEALTH AND SAFETY PERFORMANCE

*SAFETY REMAINS FIRST PRIORITY*

**CHART: FERREXPO SAFETY PERFORMANCE AGAINST PEER GROUP**



Footnote/ Source:

1. Peer group reflects performance of iron ore mining in Western Australia, source: government of Western Australia. Statistics provided in years to June of each year shown.

## SAFETY PERFORMANCE 1H 2022

- Group lost time injury frequency rate continues below the Group's historic full year average (0.83) and peers.
- Total injury frequency rate at Ukrainian operations of 0.72 in 1H 2022 (1H 2021: 0.39).
- External assurance process on 2021 safety statistics (LTIFR and TRIFR) completed.

## FOCUS ON WELLBEING

- Increased activities to monitor wellbeing of workforce and provide support during conflict in Ukraine.

# 1H 2022: FINANCIAL HIGHLIGHTS

CONTINUING TO DELIVER STRONG PERFORMANCE



**Revenue** of US\$936 million, 31% lower as a result of reduced logistics availability and tighter market environment.



**C1 cash cost of production<sup>A</sup>** of US\$85 per tonne, reflecting 14% lower pellet production volumes and high energy costs.



**Underlying EBITDA<sup>A</sup>** decreased by 44% to US\$486 million, reflecting above factors.



**Capital investment<sup>A</sup>** of US\$102M includes investment in future growth despite the conflict.<sup>1</sup>

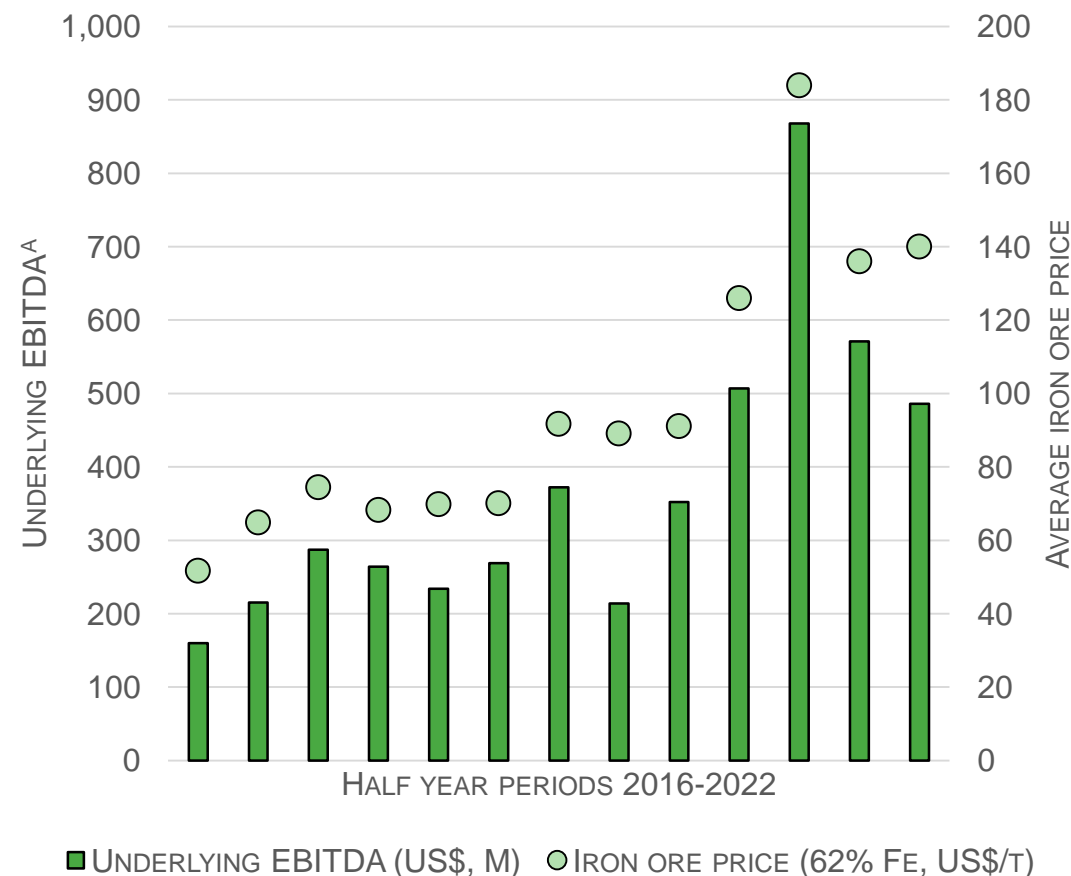


**Profit after tax** of US\$82M, despite impairment of US\$254m on the Group's non-current operating assets caused by lower cash flow generation due to the war.



**Net Cash position** of US\$172 million, with minimal gross debt.

## INVESTMENTS DELIVER CONSISTENT PERFORMANCE



Footnote:

1. Capital investment includes US\$35 million of sustaining and modernisation capital expenditure. Please see the Group's Interim Results press release dated 3 August 2022 for details of ongoing growth projects.

# FINANCIAL REVIEW

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Nikolay Kladiev, Chief Financial Officer

# FINANCIAL PERFORMANCE IN 1H 2022

FOCUS ON HIGH QUALITY, HIGH GRADE PRODUCTS CONTINUES

(USD million, unless stated)	1H 2022	1H 2021	%
Pellet production (Mt)	4,797	5,563	(14%)
Sales volumes (Mt)	4,374	5,567	(21%)
Average iron ore price (65% Fe, US\$/T)	165	212	(22%)
<b>Revenue</b>	<b>936</b>	<b>1,353</b>	<b>(31%)</b>
Average C1 Costs <sup>A</sup> (US\$/T)	85.3	46.6	+83%
<b>Underlying EBITDA<sup>A</sup></b>	<b>486</b>	<b>868</b>	<b>(44%)</b>
Underlying EBITDA <sup>A</sup> Margin	52%	64%	(12pp)
<b>Profit after tax for the period</b>	<b>82</b>	<b>661</b>	<b>(88%)</b>
<b>Net cash flow from operating activities</b>	<b>233</b>	<b>661</b>	<b>(65%)</b>
Capital Investment	102	142	(28%)
<b>Net cash position</b>	<b>172</b>	<b>213</b>	<b>(19%)</b>

## PRODUCTION SERVING AVAILABLE MARKETS

- 14% lower pellet production as a consequence of restricted access to markets following onset of conflict in Ukraine.
- 21% lower sales volume reflects the Group's enforced pivot away from seaborne markets due to Russian naval blockade.

## TIGHTENING IRON ORE MARKET CONDITIONS

- 22% lower iron ore prices reflect slowdown of global economy, with a particular focus on China, and rising global inflation.

## MARGINS MAINTAINED DESPITE ONGOING CONFLICT

- Focus on high grade production helps Underlying EBITDA<sup>A</sup> margin remain above 50%.

## IMPACT OF CONFLICT ON ASSET VALUATION

- US\$254 million impairment recorded as a result of lower cash flow generation.

## FOCUS ON BALANCE SHEET STRENGTH

- Net cash position continues despite lower cash flow generation, including distribution of shareholder returns during period.



# REVIEW OF CASH FLOW IN 1H 2022

*BENEFITING FROM LOW DEBT LEVELS AND BALANCE SHEET STRENGTH*

(USD million, unless stated)	1H 2022	1H 2021	%
<b>Underlying EBITDA<sup>A</sup></b>	<b>486</b>	<b>868</b>	<b>(44%)</b>
Working capital movements	(112)	(126)	(11%)
Interest paid	(1)	(6)	(91%)
Tax paid	(60)	(107)	(44%)
Other (incl. non-cash operating forex)	(80)	32	(350%)
<b>Net cash flow from operations</b>	<b>233</b>	<b>661</b>	<b>(65%)</b>
Capital investment	(102)	(142)	(28%)
Shareholder returns (US cents) <sup>1</sup>	(19.8)	(52.8)	(63%)
Net debt repayments	(46)	(245)	(82%)
<b>Cash and cash equivalents at end of period</b>	<b>177</b>	<b>235</b>	<b>(25%)</b>
<b>Net Cash at end of period</b>	<b>172</b>	<b>213</b>	<b>(19%)</b>

Footnote:

1. Shareholder returns in the form of total interim and final dividends per Ordinary Share paid during the period.

## FACTORS AFFECTING UNDERLYING EBITDA<sup>A</sup>

- Profitability impacted by lower sales volumes, rising energy costs and reduced commodity pricing.

## WORKING CAPITAL MOVEMENTS

- US\$112 million outflow primarily reflects an increase in inventories (increase in finished goods inventory caused by logistics constraints) and VAT receivable, offset by positive impact of trade receivables.

## IMPAIRMENT RECORDED

- US\$254 million impairment loss relates to the impact of Russian invasion of Ukraine on the Group's carrying value of non-current assets.

## CONTINUING TO CONTRIBUTE

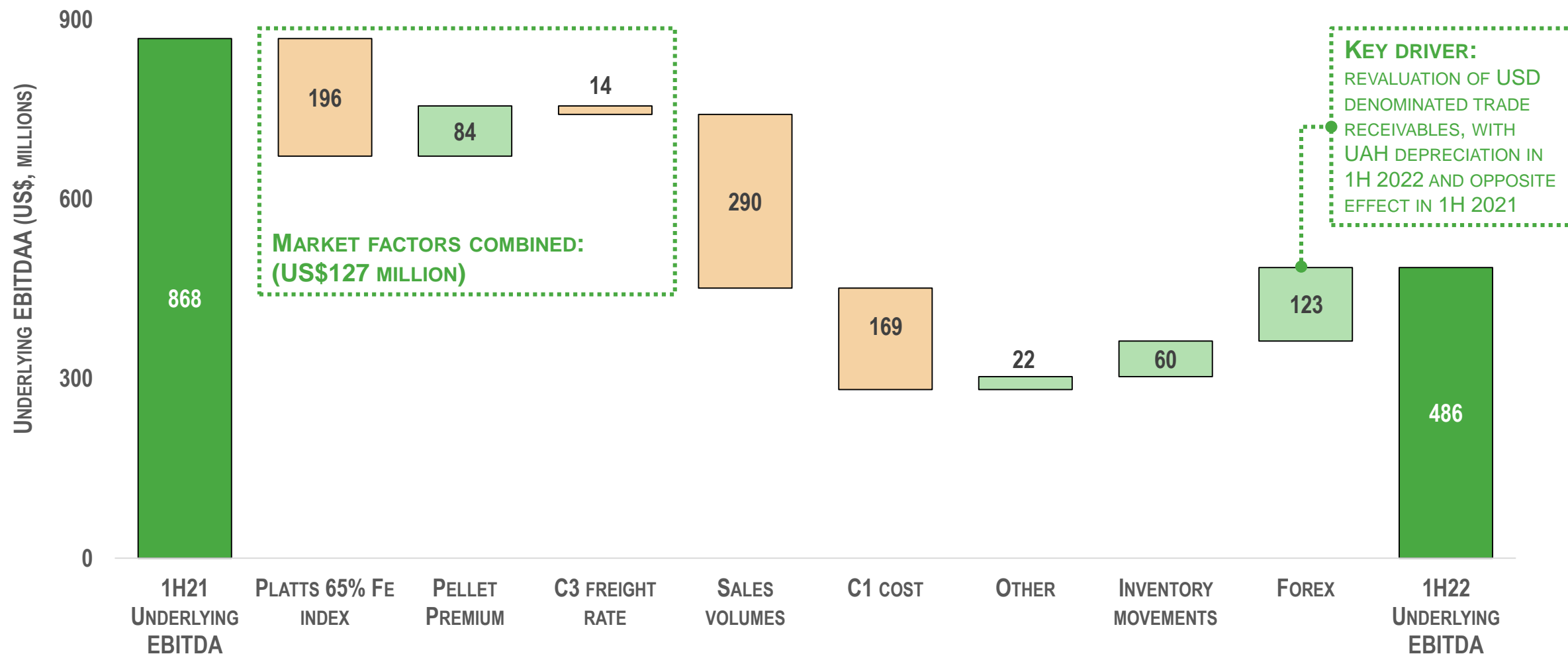
- First financial period incorporating updated royalty regime.
- Royalty payments increase by US\$26 million in 1H 2022 to US\$43 million, in addition to corporate profit tax payments of US\$60 million.

## BENEFITING FROM LOW DEBT LEVELS

- Gross debt of US\$5 million (US\$50 million as at 31.12.21).

# RECONCILIATION OF UNDERLYING EBITDA<sup>A</sup>

KEY FACTORS: SALES VOLUMES, MARKET FACTORS AND C1 COSTS

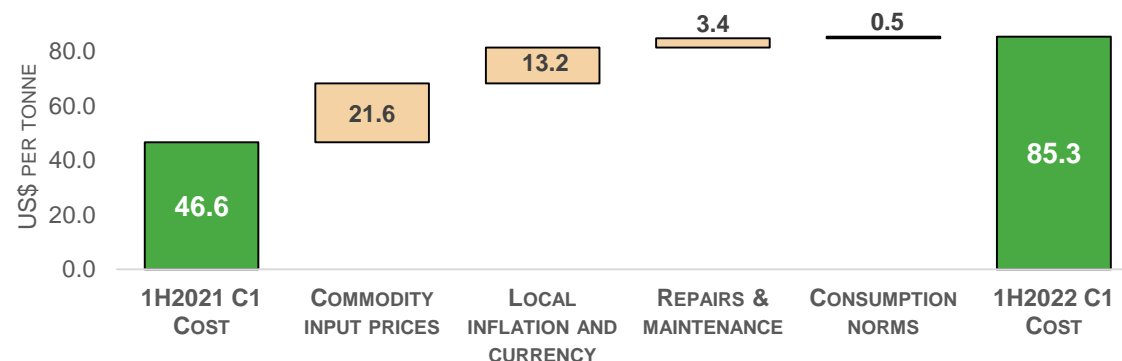




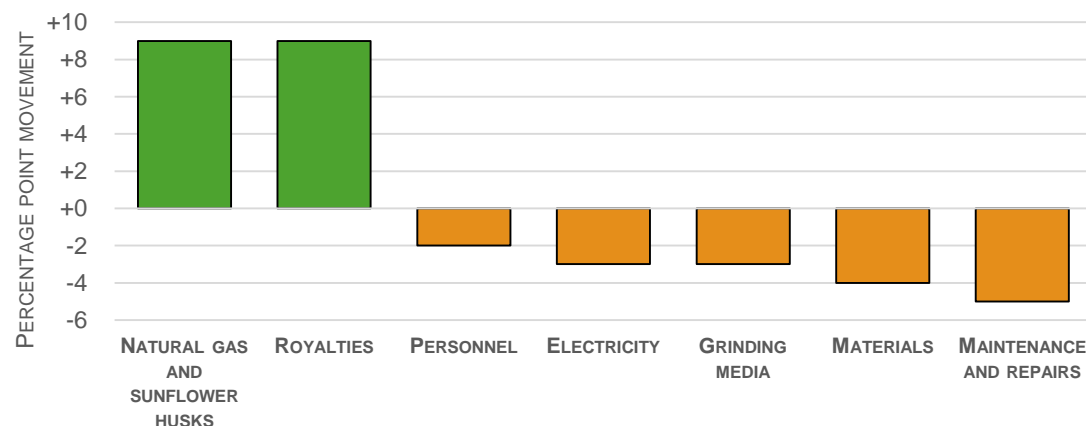
# REVIEW OF C1 COSTS<sup>A</sup>

ENERGY PRICES AND NEW ROYALTIES REGIME<sup>1</sup> KEY FACTORS IN 1H 2022

## WATERFALL CHART: C1 COSTS<sup>A</sup>



## C1 COSTS<sup>A</sup> – YEAR ON YEAR MOVEMENT<sup>2</sup>



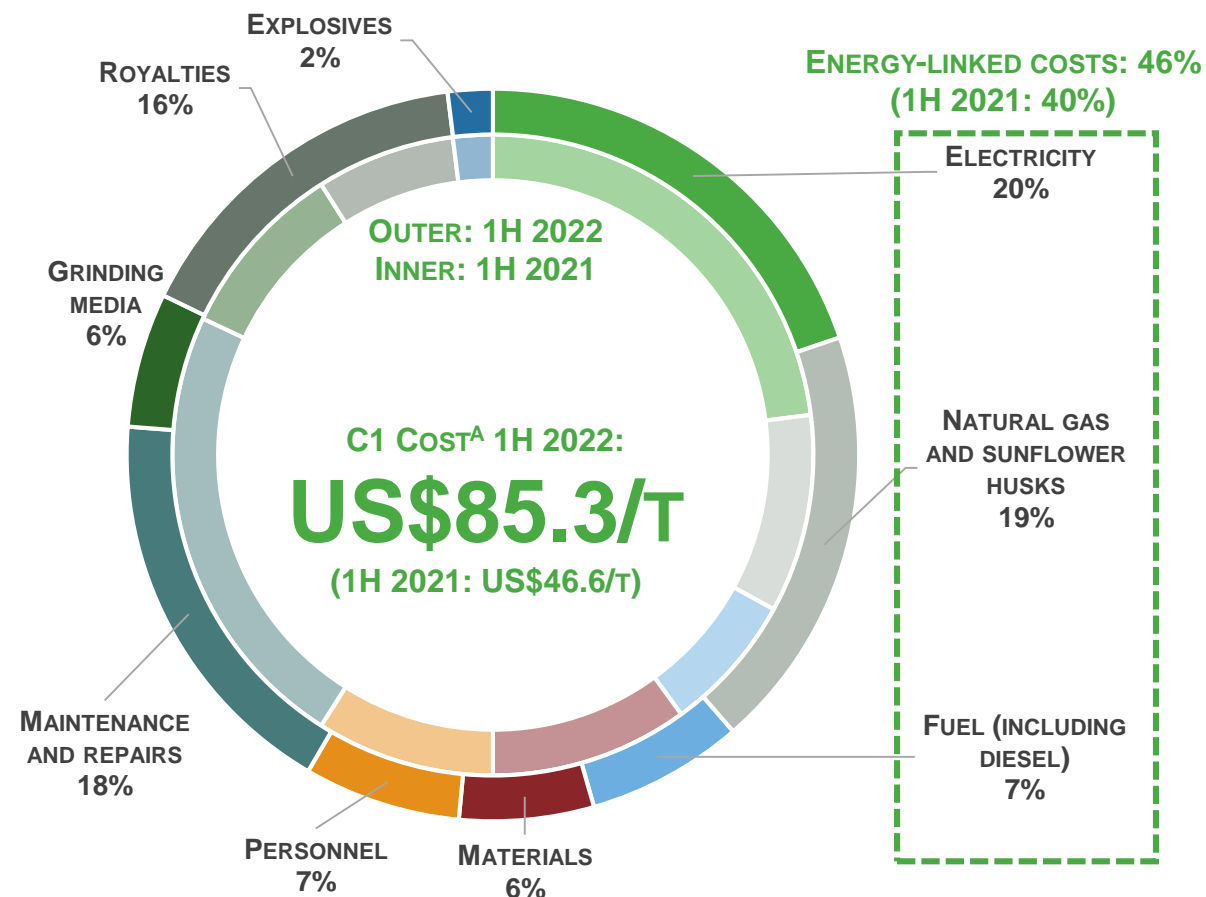
Footnote:

1. Ukraine introduced a new royalty regime for iron ore producers in 2022; please see Ferrexpo's Interim Results 2022 for more information.

2. Not shown: fuel (including diesel) and explosives, since these did not change year on year (percentage terms).

Note that figures in charts may not add up due to rounding.

## C1 Cost<sup>A</sup> COMPOSITION



# MARKET REVIEW

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Brett Salt, Chief Marketing Officer

# MARKET SNAPSHOT

## GLOBAL ENERGY COSTS AND INFLATION TAKING EFFECT

### MARKET FACTORS (1H 2022)



### IRON ORE PRICE (65% Fe)<sup>1</sup>

- 1H 2022: 22% decrease overall.
- Comprising:
  - 1Q 2022: 31% increase.
  - 2Q 2022: 26% decrease.
- Key drivers emerging in 2Q 2022:
  - War in Ukraine & global energy prices;
  - Chinese Covid restrictions; and
  - Concerns over global economy.

### PELLET PREMIUMS

- Resilient throughout 1H 2022.
- Reflection of demand for premium materials and restricted supply due to Russia's invasion of Ukraine.

### C3 FREIGHT RATES<sup>2</sup>

- Rising 20% in 1H 2022
- Primarily reflecting global energy costs.

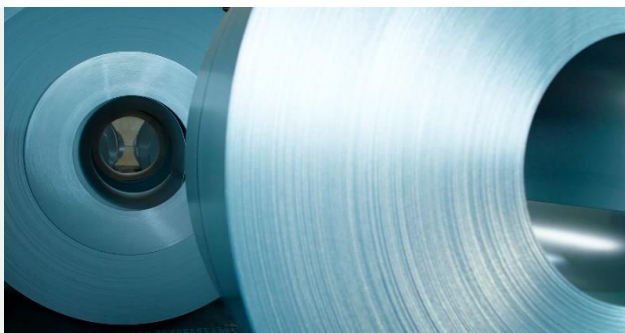
#### Footnotes:

1. Source: S&P Global.
2. Source: Baltic Exchange.



# MARKET OUTLOOK

## KEY FACTORS TO CONSIDER IN 2H 2022



### STEEL PRICES

# (14%)

*YTD price for European hot rolled coil<sup>1</sup>*

**Review:** Rise in 1Q 2022 as increased raw materials costs were absorbed and reduced supply of Russian steel into global markets, but markets have since cooled.

**Outlook:** European economic outlook is slowing due to limited energy supplies and cost inflation. Supply side response in light of lower margins, mitigating pricing decrease.



### Energy Costs

# +233%

*YoY European natural gas prices<sup>2</sup>*

**Review:** The ongoing war in Ukraine has restricted natural gas supply into Europe, which is key for the region's economic outlook and industrial activity.

**Outlook:** expectation is that natural gas supplies will continue to remain restricted, and therefore prices high, whilst the war continues.



### Iron ore prices

# (30%)

*Change in iron ore prices since March 2022*

**Review:** Rising industry costs and lower steel margins, particularly in China, have resulted in prices declining since 1Q 2022.

**Outlook:** futures contracts indicate flat pricing for the remainder of the year, with 62 Index remaining around US\$110-115/t<sup>4</sup>, with this heavily dependent on steel margins and energy pricing in 2H 2022.

#### Footnotes:

1. Source: Bloomberg. Latest available data as of 29 July 2022.
2. Source: World Bank. Comparing 30 June 2022 and 30 June 2021.

3. Source: S&P Platts. Data as of 28 July 2022.
4. Source: CME Group. Data as of 28 July 2022.



# OPERATIONS REVIEW

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Jim North, Chief Executive Officer



# OPERATIONAL UPDATE

## ADAPTING OPERATIONS TO MEET ACCESSIBLE MARKETS



### MINING ACTIVITIES

- Continuing at a reduced rate, reflecting lower production requirement for iron ore.
- Investments in the future have also continued, such as development stripping at the Belanovo Mine, the third mine in the Group's portfolio.



### PELLET PRODUCTION

- Focus on producing volumes for accessible markets.
- Currently operating with one pelletiser line (out of four), alongside drawdown of existing stockpiles at site.
- Maintained high product quality despite conflict (100% high grade products).



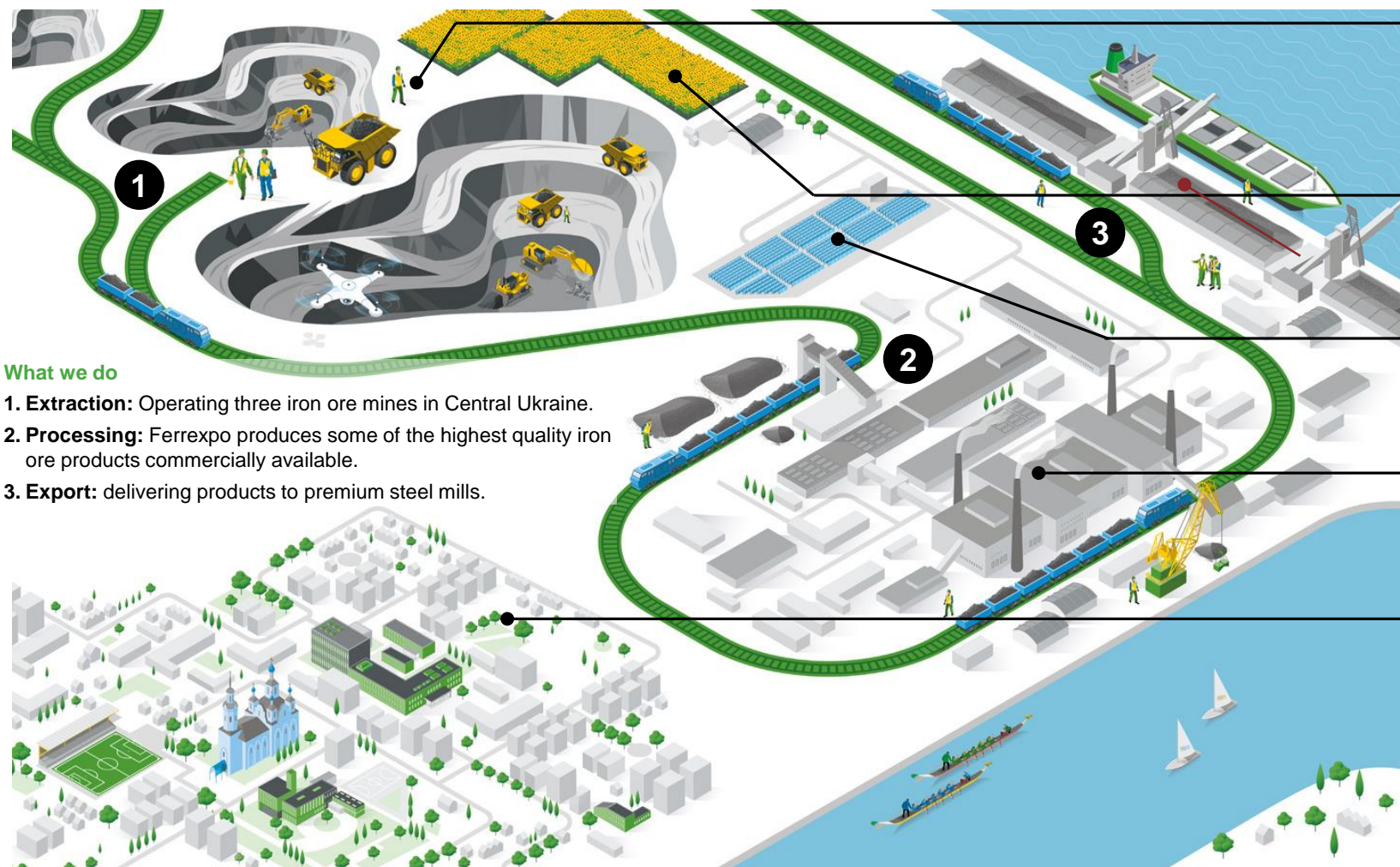
### LOGISTICS

- Remains greatest constraint on Ferrexpo business today.
- Group is in advanced discussions to recommence seaborne deliveries via ports on Black Sea and Baltic Sea, with small shipments to date.



# SUSTAINABILITY OVERVIEW

CONTINUED PROGRESS ON SUSTAINABILITY, DESPITE WAR IN UKRAINE



## What we do

1. **Extraction:** Operating three iron ore mines in Central Ukraine.
2. **Processing:** Ferrexpo produces some of the highest quality iron ore products commercially available.
3. **Export:** delivering products to premium steel mills.

## SAFETY

External assurance process (ISAE 3000) now completed on safety and greenhouse gas emissions data for 2021.

## BIOFUELS

22% of pelletiser energy sourced from sunflower husks in 1H 2022 (FY 2021: 18%).

## SUSTAINABLE ENERGY

Successfully sourcing 100% clean electricity of Ferrexpo's main operating entity in June 2022.

## EMISSIONS REDUCTION

Cutting greenhouse gas emissions by 10% in 1H 2022<sup>1</sup>.

## COMMUNITY SUPPORT

US\$15M Humanitarian Fund along with work carried out by Ferrexpo Charity Fund.

## SUSTAINABILITY REPORTING

Responsible Business Report covering 2021 published today at [www.ferrexpo.com](http://www.ferrexpo.com).

Footnote/ Source:

1. Combined Scope 1 and Scope 2 emissions, per tonne unit basis.



THANK YOU.

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