CONCORDE CAPITAL

Ukraine
Basic Materials | Iron / Steel
Fixed Income Update

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Fending off Chinese zombies

Ukrainian metals & mining firms are more resilient than what the market thinks

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We recommend buying the Eurobonds of Metinvest (METINV) and Ferrexpo (FXPOLN), viewing as fair their prices of 78 and 79 cents per dollar, respectively. The recent rally in steel prices, still going on, and recovery in iron ore prices bode well for both names. Steep Ukrainian currency devaluation (-69% since early 2014) has granted local producers one of the best places on the global cost curve. As a result, the debt of both companies doesn't need haircuts, rather maturity extensions. The current bond prices of Metinvest and Ferrexpo of 50 and 67 cents per dollar, respectively, don't fully reflect these developments yet.

Solid positive cash flows are back. Steel prices have soared 32-55% from January to April to USD 323-395/t. Steel prices are set to advance further in the nearest weeks as producers are indicating increases in April and May. In January-April, iron ore prices have bounced 23% (USD 10/t) to USD 55/t. We expect solid free cash flows for Metinvest and Ferrexpo in 2016 and onwards. Metinvest will be able to repay all its debt by 2022, which increases its chances for a smooth restructuring in May. Ferrexpo doesn't face an immediate need to reprofile its debt, but would need a maturity extension of two years if iron ore prices slide as we project.

1H16 financials to trigger price recovery in both notes. Metinvest's negative EBITDA in 4Q15 (minus USD 33 mln), caused by decade-low prices, has beaten down the Eurobond prices of both names. We project Metinvest to report minus USD 25 mln in EBITDA for 1Q16, as the effect of rising prices would be felt just partially. The projected EBITDA of USD 289 mln in 2Q16 (to be published by October) should trigger Metinvest's Eurobonds recovery. Ferrexpo reports 1H16 earnings in August. We expect to see its semi-annual EBITDA of USD 174 mln on par with last year's, which will prove the company's capability to service its debt this year.

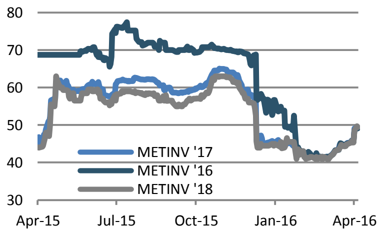
Return to capital markets visible. The expected FCFs could enable Metinvest and Ferrexpo to cut their total debt/EBITDA ratio to below 2x by 2019. Should that happen, and general macro conditions allow for it, both companies could re-enter capital markets and refinance their credits, not necessarily paying them down fully.

A set of positive surprises available. Once oil prices and sea freight rates recover substantially, global pressure from Chinese steel will decline somewhat. Market coordination between major iron ore miners would support prices in metals & mining across the board. There are also company-specific upside drivers: Metinvest, facing logistical constraints now, could increase the capacity load of its steel mills in Mariupol and Yenakiyeve if real peace is re-established in Donbas.

CapEx of Metinvest, Ferrexpo minimized, dividends on hold. Both companies have rationalized CapEx to cover maintenance needs mainly. Shareholders have abstained from claiming dividends, until stable financial position of companies is restored. Such streamlining of capital distribution is a clearly prudent and creditor-friendly step.

Bloomberg ticker	**METINV**
Outstanding, USD mln	87.2
Maturity	27 May 2016*
Coupon	S/A, 10.25%*
Fitch / Moody's / S&P	C/Caa3/na
Outstanding, USD mln	296.2
Maturity	28 Nov. 2017*
Coupon	S/A, 10.50%*
Fitch / Moody's / S&P	C/Caa3/na
Outstanding, USD mln	777.2
Maturity	14 Feb.2018*
Coupon	S/A, 8.75%*
Fitch / Moody's / S&P	C /Caa3/na

Mid-price, METINV, cents per USD

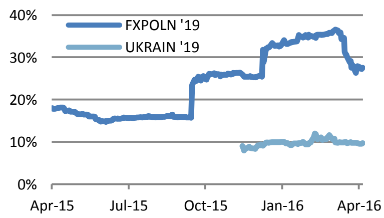


Source: Bloomberg

**Exact maturity, coupons will be subject to restructuring talks*

Bloomberg ticker	**FXPOLN**
Outstanding, USD mln	346
Maturity	7 April 2019
Coupon	S/A, 10.375%
Fitch / Moody's / S&P	CC / Caa3 / CCC

Mid-YTM, FXPOLN, %



Source: Bloomberg

Selected financials and ratios

	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Metinvest											
FCF, USD mln	52	1202	930	308	328	411	401	452	492	550	549
Total debt, USD mln	4,278	4,308	3,232	2,950	2,642	2,250	1,865	1,418	926	661	661
Total debt/EBITDA	2.16	1.88	1.20	3.79	3.42	2.55	2.21	1.59	0.99	0.68	0.66
Ferrexpo											
FCF, USD mln	-301	-124	64	-76	226	148	139	148	160	173	185
Total debt, USD mln	1,020	1,029	1,305	904	700	577	456	336	163	0	0
Total debt/EBITDA	2.54	2.03	2.63	2.89	2.24	2.53	2.09	1.48	0.70	0.00	0.00

Source: Company data, Concorde Capital estimates

Contents

Investment thesis

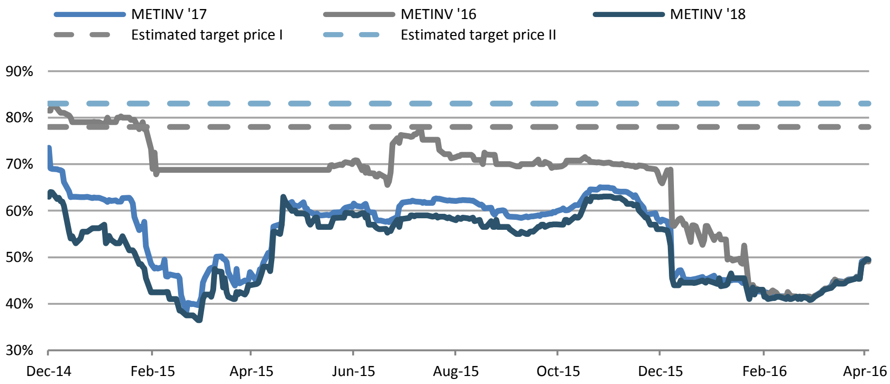
We argue that low cash costs enable Metinvest and Ferrexpo to earn positive FCFs in the mid- to long-term. Both credits don't need a haircut, rather maturity extension, which is supported by the recent rebound of prices for steel and iron ore.

A lucrative entry option for METINV notes emerged after the company reported in early December 2015 almost zero EBITDA for October, or USD 2 mln. Currently, Metinvest notes trade at a level of 50 cents, which the company's management estimates as justified in the case of bankruptcy. The latter is far off the table now, we believe. We see target prices for Metinvest bonds around 78-83 cents per USD (at a coupon that's the weighted average of the current coupons for the three METINV issues).

Risks for METINV notes include:

- A drastic escalation of the warfare in Donbas and new areas occupied;
- Holdouts among banks that reject total debt restructuring.

Market and target prices of Metinvest Eurobonds, as % of par



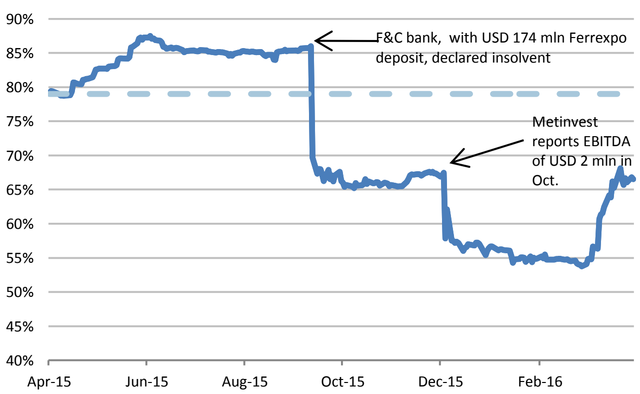
Source: Bloomberg, Concorde Capital estimates

Ferrexpo's notes were beaten down twice in 2015: 1) in September, after a cash deposit of USD 174 mln was frozen in F&C Bank, which was declared insolvent by the National Bank of Ukraine; 2) in early December, after Metinvest's weak monthly financial report.

Despite the market anxiety, Ferrexpo managed to service its PXF loans, having the lowest production costs globally and stable pellet premiums. We expect the company to meet its repayment schedule in 2016. In 2017, once our price forecast proves correct, the company might need to extend its debt, including Eurobonds, by two years. We evaluate the target price of Ferrexpo's bonds at 79 cents per dollar (at the current coupon).

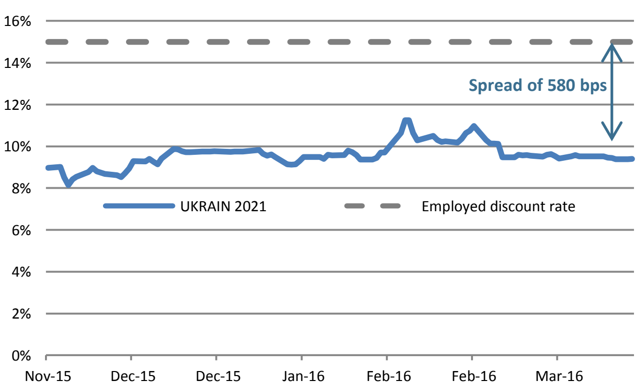
The main risk for FXPOLN is abstention of banks from extending loan maturities in 2017.

Market and target price of Ferrexpo Eurobonds, as % of par



Source: Bloomberg, Concorde Capital estimates

YTM of UKRAIN 2021 notes and employed discount rate, %



Source: Concorde Capital estimates

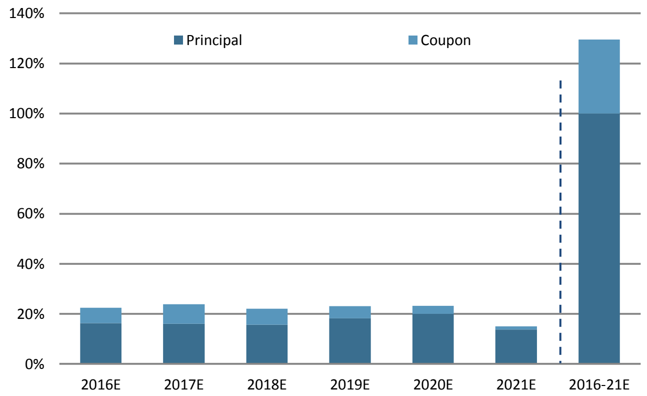
Once our price targets are met, an attractive spread of around 580 bps to the sovereign benchmark, maturing in 2021, will remain.

Valuation of Metinvest Eurobonds

Metinvest is currently negotiating the restructuring of its debt with its creditors. We have modelled two scenarios, according to which Metinvest notes would provide cash flows:

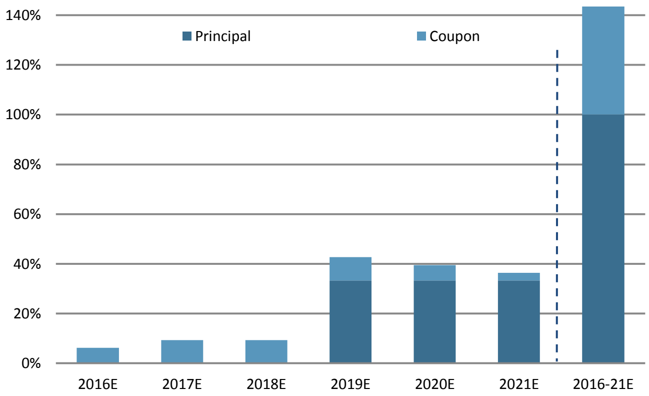
1) proportionately distributing available free cash flow to bondholders;
2) an amortization schedule of three equal instalments from 2019 to 2021.

Assumed cash flows on Metinvest bonds, scenario 1, as % of par



Source: Concorde Capital estimates

Assumed cash flows on Metinvest bonds, scenario 2, as % of par



Source: Concorde Capital estimates

We estimate the target price of the notes in the range of 78-83 cents per dollar (at a weighted average coupon of 9.31%), compared to the current 50 cents. An exact target will depend on the final maturity schedule agreed upon with creditors.

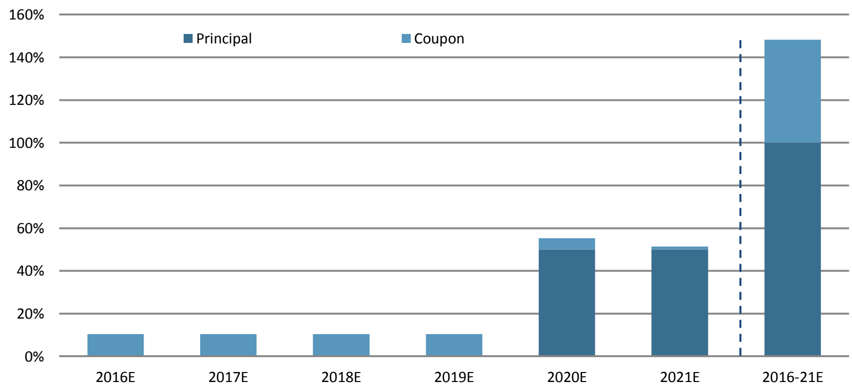
Valuation of Metinvest Eurobonds

		2016E	2017E	2018E	2019E	2020E	2021E
Coupon interest rate (weighted average)	*9.31%*						
Discount rate	*15.0%*						
Discount factor		0.87	0.76	0.66	0.57	0.50	0.43
Scenario 1							
Coupon payment		5.4	7.8	6.2	4.7	2.9	1.0
Principal payment		16.7	16.5	16.3	18.9	20.8	10.9
Principal remaining outstanding, eop		83.3	66.8	50.5	31.7	10.9	0.0
Total cash flows		22.1	24.3	22.5	23.6	23.7	11.9
Discounted CF		19.2	18.4	14.8	13.5	11.8	5.2
NPV of Eurobonds' cash flows	***83% of par***						
Scenario 2							
Coupon payment		5.4	9.3	9.3	9.3	6.2	3.1
Principal payment		0.0	0.0	0.0	33.3	33.3	33.3
Principal remaining outstanding, eop		100.0	100.0	100.0	66.7	33.3	0.0
Total cash flows		5.4	9.3	9.3	42.6	39.5	36.4
Discounted CF		4.7	7.0	6.1	24.4	19.7	15.8
NPV of Eurobonds' cash flows	***78% of par***						

Valuation of Ferrexpo Eurobonds

Once our forecast of decreasing iron ore prices (by 14% yoy in 2017, and by 5% yoy in 2018) is fulfilled, Ferrexpo might face the need to extend the maturity of its Eurobonds by two years, we estimate. We have projected a set of cash flows from Ferrexpo Eurobonds, in this case.

Assumed coupon and principal payments on Ferrexpo bonds, as % of par



Source: Concorde Capital estimates

We estimate the target price of Ferrexpo notes at 79 cents per dollar, compared to the current 67 cents (at a coupon of 10.375%).

Valuation of Ferrexpo Eurobonds

		2016E	2017E	2018E	2019E	2020E	2021E
Coupon interest rate	*10.4%*						
Discount rate	*15.0%*						
Discount factor		0.87	0.76	0.66	0.57	0.50	0.43
Cash flows, as % of par							
Coupon payment		10.4	10.4	10.4	10.4	5.3	1.4
Principal payment		0	0	0	0	50	50
Principal remaining outstanding, eop		100	100	100	100	50	0
Total cash flows		10.4	10.4	10.4	10.4	55.3	51.4
Discounted CF		9	8	7	6	28	22
NPV of Eurobonds' cash flows	***79% of par***						

CHINA'S IMPACT ON STEEL AND IRON ORE

Oversupply to continue to pressure steel and iron ore prices

The recent sharp rebounds in spot steel and iron ore prices in January-March caused sighs of relief. Just before that, prices hit decade lows in November-December 2015 and brought Ukrainian producers to losses or marginal profits. At current prices, we estimate steelmakers and iron ore miners in Ukraine have gotten their solid cash flows back.

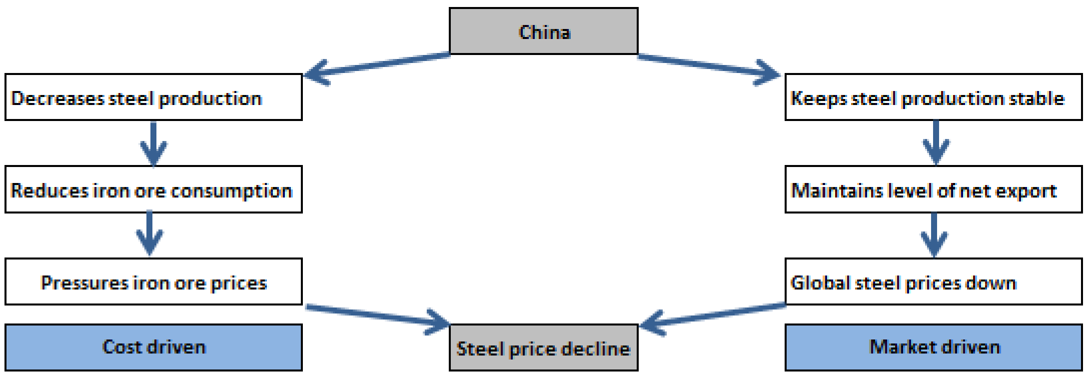
However, it's too early to proclaim that the worst is over:

- Oversupply in global steelmaking and iron ore mining will persist during next four to five years;
- China will be at constant risk of a large-scale credit crunch, impacting the global economy and steel consumption. This risk grows as the country continues to increase its leverage, artificially propping up demand that led to the recent rally in prices.

We assume the second risk can be contained for a certain period, which is hard to predict.

Analysing the first factor has led us to conclude that average annual steel prices will continue to creep down during the next three years should China reduce its excess steel output or try to keep it stable for the sake of jobs. The first way will be cost-driven, the second – impacted by supply & demand relations.

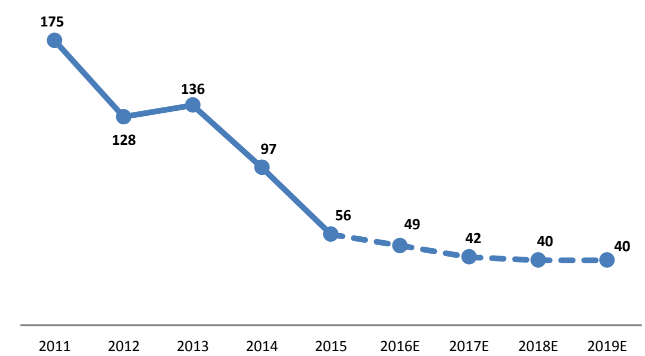
Framework for steel price forecast



Source: Concorde Capital estimates

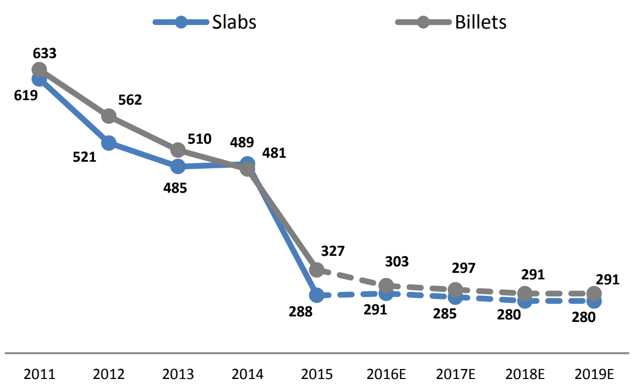
We project iron ore prices will decline 13% yoy in 2016 to USD 49/t, by 14% yoy in 2017 and by another 5% yoy, landing at USD 40/t in 2018. Despite the recent advance of spot prices, annual prices for steel billets would still average 7% yoy lower in 2016, and decrease another 2% per year in 2017-18. Naturally, compared to sharp declines in 2014 and 2015, these decreases indicate some relative stability.

Iron ore price forecast, CFR, China port, USD/t



Source: Bloomberg, Concorde Capital estimates

Steel slab and billet price forecast, FOB, Black Sea, USD/t



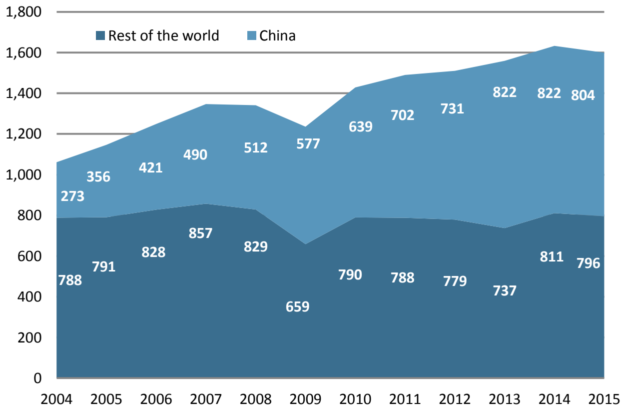
Source: Metal Expert, Concorde Capital estimates

Chinese property boom has been the key driver of the global steel market during the last decade

Between 2005 and 2015, global steel production grew 40% yoy to 1,599 mmt (having peaked at 1,633 mmt in 2014). China contributed the most to this growth as steel production there doubled during the last ten years. The Chinese portion in global steel output grew from 31% in 2005 to 50% in 2015. Interestingly, already in 2005, the Chinese government declared its steel industry an overheated sector and announced measures to curb growth and reduce capacity.

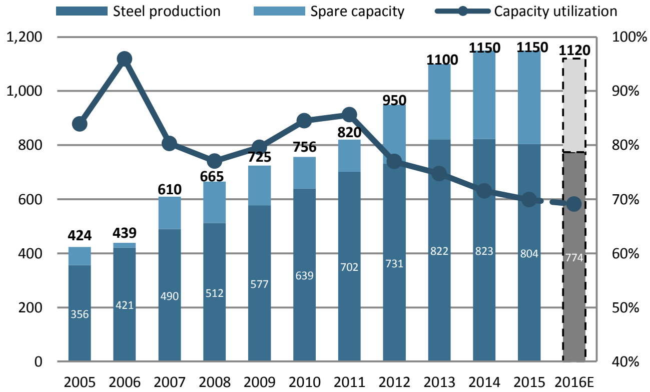
Global steel production outside of China hasn't changed much throughout the last decade. It was 791 mmt in 2005, and it inched up to just 796 mmt in 2015.

Global steel production, including China, mmt



Source: World Steel Association, Concorde Capital estimates

Evolution of total steelmaking capacity, steel production and idle capacity in China, mmt

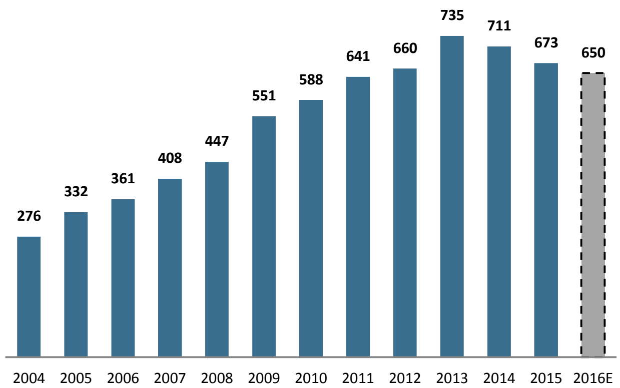


Source: OECD, Concorde Capital estimates

What has driven the Chinese steelmaking capacity expansion by 2.7x times in a decade to 1,150 mmt currently (at a CAGR of 10.5%), and what has caused corresponding growth in steel production, was mainly local demand. Apparent steel product consumption in China advanced also at a strong CAGR of 10.5%, reaching 735 mmt in 2013. It doubled compared to 2005.

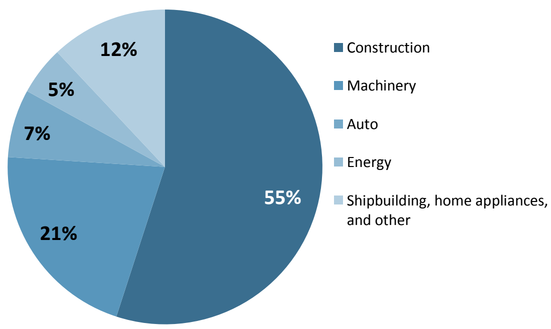
The structure of steel demand in China remained unchanged during the last ten years. Construction (residential, non-residential and infrastructure) has been the key steel-consuming segment in the country (55% of total demand). More than a third of that amount, or one-fifth of total demand (~150-170 mmt, we estimate), has stemmed from residential real estate. Heavy machinery has been in second place, having consumed around 21% in 2013. The rest has been split between automotive production, energy equipment, shipbuilding, home appliances and less significant sectors.

Apparent historical and projected steel product consumption in China, mmt



Source: World Steel Association, Concorde Capital estimates

Per segment breakdown of steel consumption in China in 2013, %*

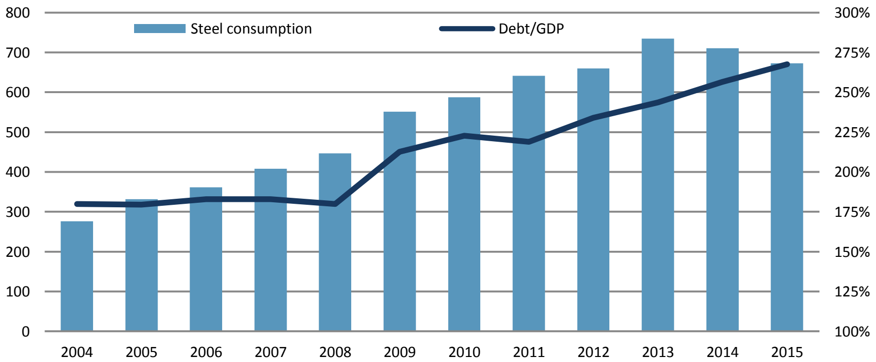


Source: China India Institute, Ministry of Industry and Information Technology of China
**Most recent publicly available breakdown of steel consumption in China*

Property boom fuelled by debt

The roots of the "Chinese miracle", in which Chinese GDP grew at a brisk pace of 7.7-10.6% yoy in 2009-13 after the 2008 global crash, are seen below. The development of the Chinese economy (and of steel consumption as its important indicator) in 2004-08 against the stable debt-to-GDP ratio (~180%) appears to have evolved naturally. What is often characterized as a Chinese "credit boom" artificially boosted demand for steel products in 2009-13, thereby inflating national debt that led to a debt-to-GDP ratio of 268% in 2015.

Chinese apparent steel consumption vs. nation's leverage

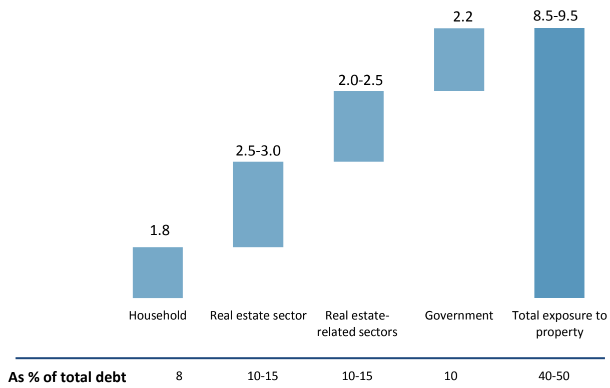


Source: Bloomberg Intelligence (corporate, households, bank debt), IMF (government debt), World Steel Association

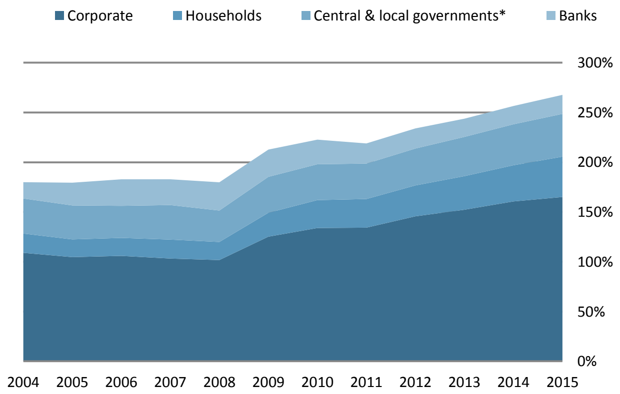
China is not the sole country with double-digit numbers of debt-to-GDP (McKinsey Global Institute ranked China 22nd). However, we haven't encountered countries with entire residential ghost towns, having been built on a large scale for the sole purpose of construction and reigniting economic growth.

Around USD 8.5-9.5 trillion, or 40-50% of the debt of households, corporations and central and local government in China, is directly or indirectly associated with real estate, according to the paper "Debt and (not much) deleveraging" published by the McKinsey Global Institute (published in February 2015). The institute estimated that the largest Chinese debtors are corporations, which is confirmed by Bloomberg data.

Debt exposure to property of different borrower classes in China, USD trillion, as of end-2Q14



Chinese total public and private debt, as % of GDP



Source: McKinsey Global Institute, Bloomberg Intelligence (corporate, households, bank debt), IMF (government debt), World Steel Association

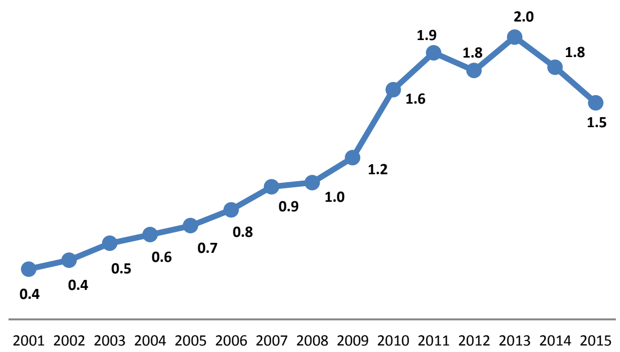
Credit-driven engine exhausted by 2014, followed by current attempts to reignite it

In 2012-13, signs emerged that the Chinese construction boom was coming to an end. High prices made real estate unaffordable to average citizens, while many acquisitions turned out to have investment purposes. As a result, authorities imposed measures to limit mortgages.

Meanwhile, for the first time in the last decade, Chinese steel demand declined in 2014 to 711 mmt (-3% yoy), and by another 5% yoy to 673 mmt in 2015, or a drop of 62 mmt.

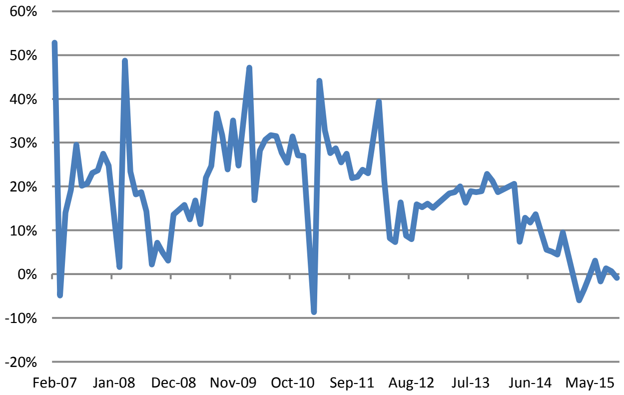
Construction and real-estate indicators have confirmed this decline. Home starts in China fell 11% yoy to 1.8 bln sq m in 2014, and by another 14% yoy to 1.5 bln sq m in 2015. Output growth of commercial concrete in the country has been slowing since February 2012 and has been hovering around zero since March 2015.

Floor space of new housing starts in China, bln sq m



Source: Bloomberg, National Bureau of Statistics of China

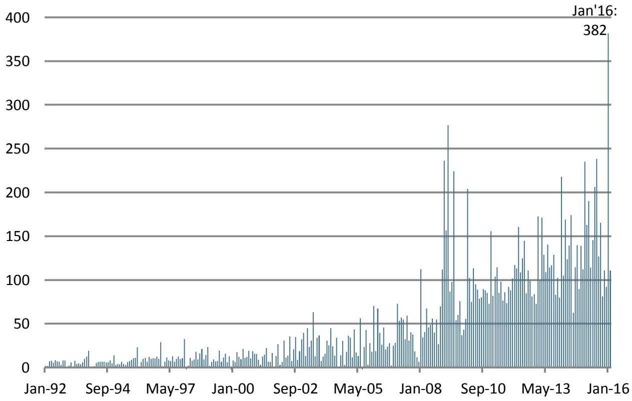
China commercial concrete output, change yoy



Source: Bloomberg, National Bureau of Statistics of China

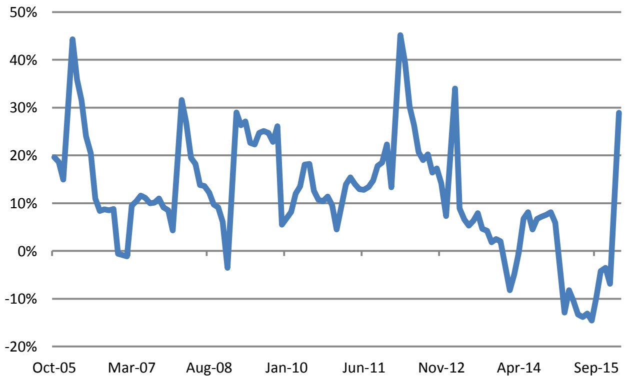
Building completions have been on an uninterrupted monthly decline since February 2015 until recently. In February 2016, building completions unexpectedly spiked 29% yoy. We doubt this brisk movement is the beginning of a sustainable trend. In January 2016, a record of new loans worth USD 382 bln was disbursed in China, the highest in a quarter-century. It might have spurred business activity, primarily in construction, but already in February 2016 the amount of new loans calmed to a normalized level of USD 111 bln.

New monthly loans in China, USD bln



Source: Bloomberg, National Bureau of Statistics of China

Change in floor space of buildings completed in China, % yoy

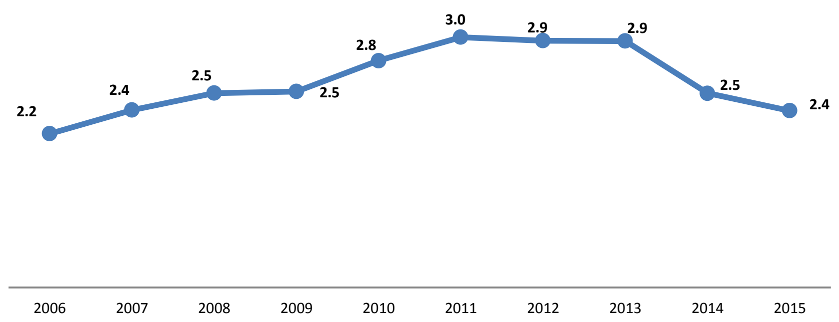


Source: Bloomberg, National Bureau of Statistics of China

These data indicate that the Chinese government is more inclined to raise the stakes in the macroeconomic game by injecting new debt, rather than implementing tough measures to reduce supply.

Other sectors don't show an ability to counterbalance the negative trend in steel demand. The litmus paper of China's industrial condition, railway cargo transportation, fell 14% yoy in 2014 and landed at 2.4 bln t/km in 2015 (-5% yoy).

China railway freight traffic turnover, bln t km

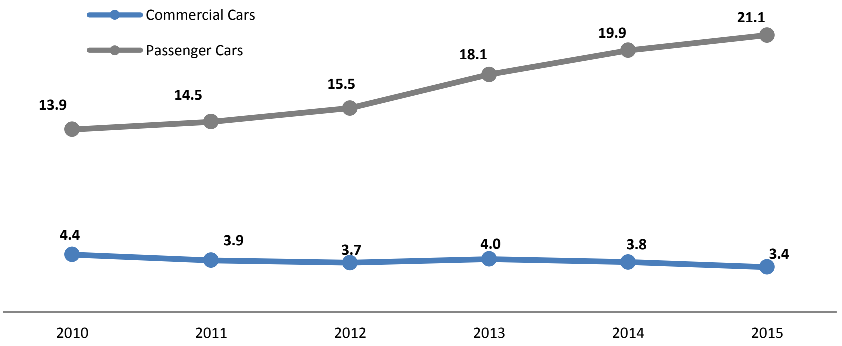


Source: Bloomberg, The Ministry of Railways of The People's Republic of China

Output by the automobile industry – also an important indicator of economic health, though not the largest steel consumer – fell 10% yoy to 3.4 mmt units in 2015.

Passenger car output proved to be among the few bright spots in the steel-consuming segments, increasing 3% yoy to 21.1 mln units in 2015. Unfortunately, the subsector's steel demand is relatively small (~ 3% of total) in offsetting negative developments in other segments.

Car production in China, mln units



Source: Statista

Performance indicators in some other steel-consuming sectors for the most recent available periods point to continuing declines as well. In 1H15, Chinese shipyards received orders for only for 2.56 mln of compensated gross tonnage (the indicator estimating the amount of work necessary to build a ship, comparable across different types of ships), which is a 80% yoy plunge.

From time to time, Chinese authorities announce additional investments into infrastructure, as if trying to spur growth. We think announcements of such ad hoc CapEx projects into railways, roads and other infrastructure are intended to have more of a psychological impact on investors, aimed at gaining their confidence and halting the ongoing capital flight. Infrastructure projects have usually consumed 80-90 mmt of steel products annually, or around 10% of the total.

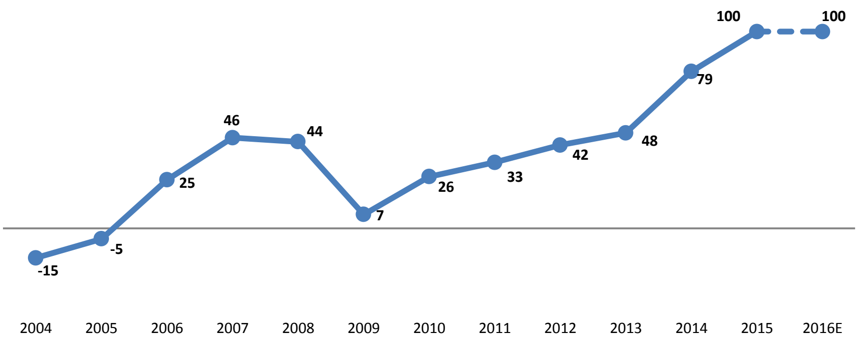
End of property boom pushed steel abroad, propelled by cheap oil

As steel output and demand progressed in China through 2013, domestic consumers absorbed two-thirds of the additional supply of steel products. The remaining one-third of materials was exported.

In 2014, steel consumption in China fell 3% yoy, and by another 5% yoy in 2015. The steel industry has continued to operate at historically high levels, as if nothing happened. Steel output remained flat in 2014, then slid by just 18 mmt in 2015 (-2% yoy). As a result, the metal unsold domestically was dumped abroad.

Through the years, China evolved from a net importer of steel, purchasing abroad 5 mmt of steel products net in 2005, to the largest net exporter globally in 2015. In 2M16, net exports remained stable yoy at 16 mmt. This year, we expect the country to export the same 100 mmt of finished steel as the year before.

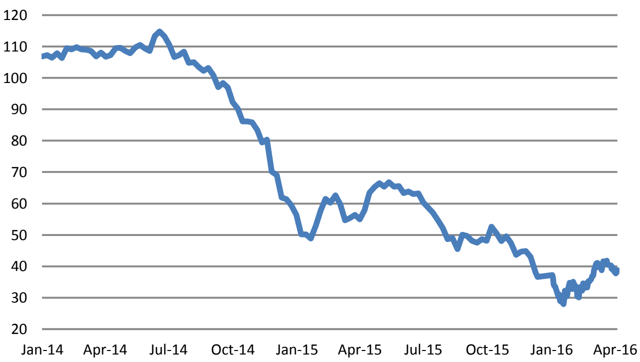
Net annual steel exports from China, mmt



Source: Bloomberg, Concorde Capital estimates

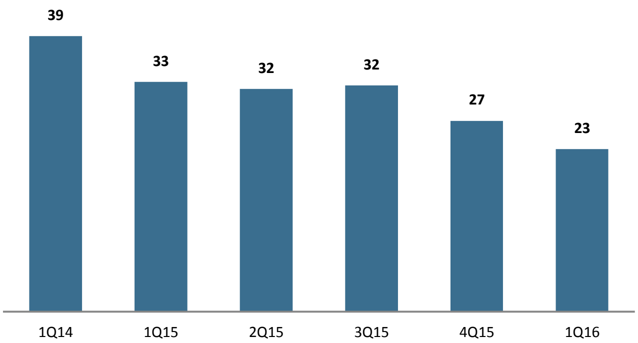
Oil prices, which have fallen to a third of their value in since mid-2014, have respectively caused sea freight rates to plunge. The example below shows how transporting one ton of steel slabs becomes cheaper by USD 16/t in 1Q16 compared to 1Q14.

Oil prices, Brent, USD/bbl



Source: Bloomberg

Sea freight rate for 25-30 kt of slabs, Odesa – Persian Gulf, average quarterly, USD/t

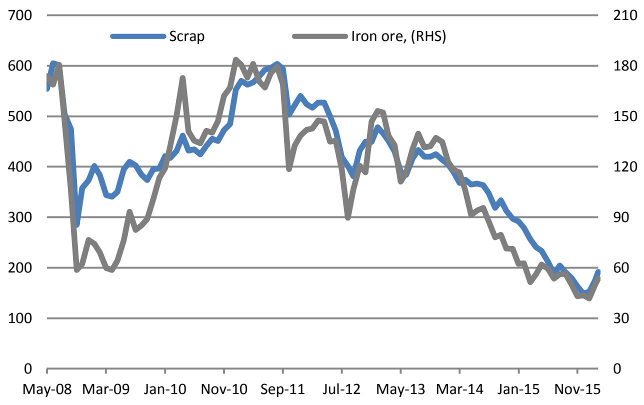


Source: Metal Expert

Cheap oil has effectively narrowed distances to markets, which could have been previously deemed as distant. Chinese steelmakers have made use of this by continuously offering price discounts by USD 10-15/t at a time, compared to the prices of competitors.

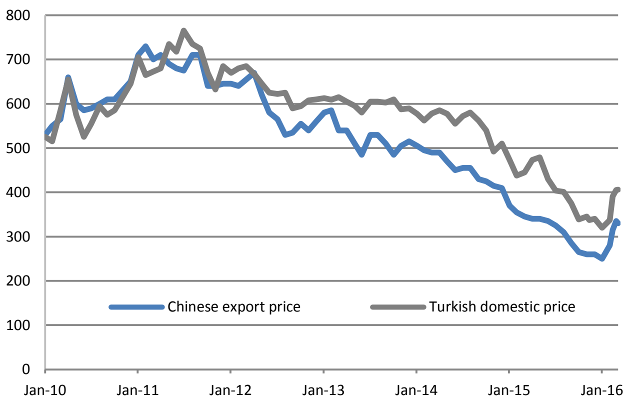
Such dumping helped them win the Middle East, one of the key markets for Ukrainian producers. Previously, local customers had prejudices regarding Chinese steel due to quality issues and extended delivery time. The chart on the below right demonstrates the widening spread between Chinese exports and other prices (Turkish domestic, in this example), which have induced customers to neglect previous concerns. As raw materials prices dwindled for iron ore and steel scrap, paving the way for a freefall, Chinese export prices for rebar plunged accordingly to a trough of USD 260/t in November-December 2015 from USD 485-530/t in 2013. Prices for other steel products performed similarly.

Iron ore vs. domestic China steel scrap prices, USD/t



Source: Bloomberg

Shanghai export price for China steel rebar, 25 mm, vs. Turkish domestic steel rebar, USD/t



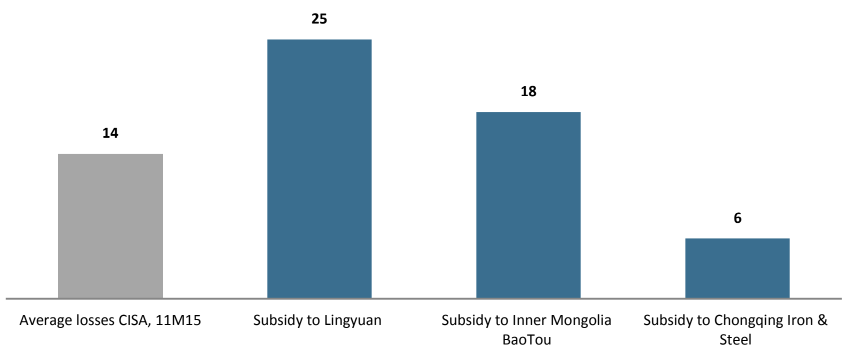
Source: Bloomberg

Heavy price dumping brought Chinese steelmakers to losses, covered by subsidies

Such Chinese export growth disrupted the fragile balance established on the global steel market, which has been digesting the aftermath of 2008-09. Moreover, it has pushed market prices below production costs for themselves. China's medium- and large-sized steel mills suffered losses of USD 8.18 bln in 11M15, according to the China Iron and Steel Association (CISA), or around USD 14/t of steel on average.

Beginning January 2016, Reuters has published announcements from a number of Chinese steelmakers – citing China Business News – acknowledging they had received government subsidies. Our estimates show that state subsidies in China could have covered losses (or provided additional income) in the range of USD 6-25/t of steel products.

Average loss per ton of CISA association member, publicly disclosed state subsidies to steelmakers, USD/t



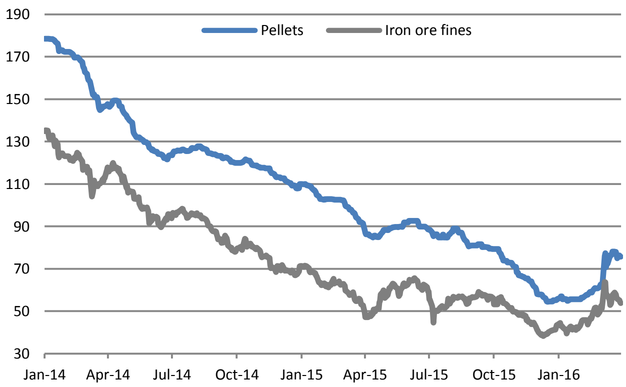
Source: CISA, Reuters, China Business News

With the recent rebound in steel prices, we estimate Chinese producers have returned to earning profits. Should markets reverse themselves, the producers may continue to get state subsidies, in case of losses.

Steel price bounced back at the start of 2016, having bottomed out and refuelled by fresh debt

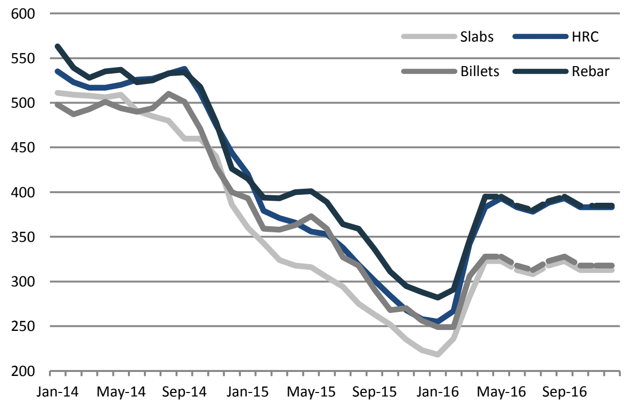
Since the beginning of 2016, prices started to rebound, with the steepest advance occurring in March. Steelmakers, many being in losses or breaking even, refused to accept further price cuts and started to fight back. By April, the average iron ore price grew USD 10/t, or 23% compared to early January. Steel products prices advanced USD 32-55% to USD 323-395/t during the period. Generally, prices returned to where they had been in summer 2015.

Spot iron ore, pellet prices, CFR, China, USD/t



Source: Bloomberg

Spot steel product prices, FOB, Black Sea ports, USD/t



Source: Metal Expert

We see a number of factors that possibly caused this rebound:

1) Chinese steelmakers have been incurring losses from the prices established at the year end. The People's Bank of China has stood firm in defending the ForEx rate of the yuan and avoided significant depreciation so far, which could have improved the economics of its steel exports. Price increases would have been and were a natural outcome under such circumstances;

2) A record amount of new loans was disbursed in January 2016 in China – USD 382 bln, or the highest during the last 25 years. This has spurred business activity, primarily in construction, as building completions spiked in February;

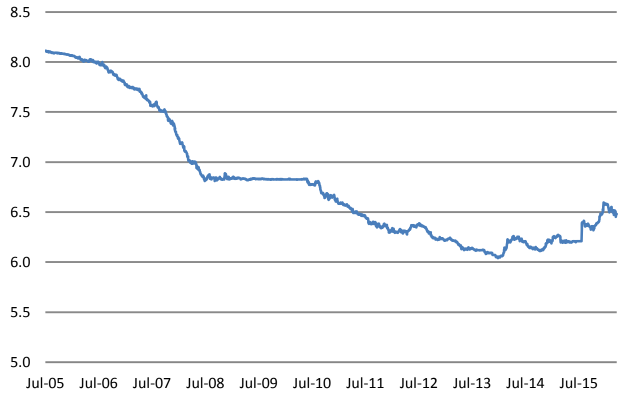
3) Among the world's largest iron ore miners, Brazil's Vale and Australia's Fortescue – both of whom have the highest costs – announced a JV alliance beginning in March. The partners will blend Vale's high Fe grade ore with Fortescue's lower grade ore to achieve optimum quality. Such cooperation means that suppliers of 42% of seaborne iron ore will have to coordinate their pricing policy. The announcement coincided with iron ore prices flying to USD 64/t (and retreated to USD 55/t). After this spike, steel prices caught up in 1-2 weeks.

The relative stability of the yuan and elevated loans to Chinese economy are key factors that could wane during the next couple of years.

Yuan devaluation could be negative driver for domestic Chinese steel demand

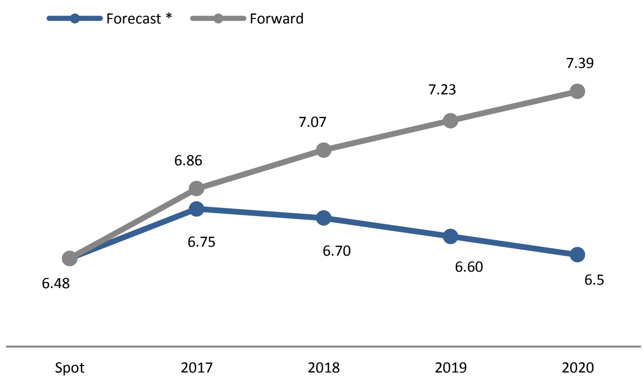
The yuan devalued 4-5% since July 2015 after being relatively stable for three years, which followed almost a decade of appreciation. Current forward prices for the yuan assume a 6% devaluation in 2017 and another 3% yoy in 2018.

Spot ForEx rate of onshore yuan, CNY/USD



Source: Bloomberg

Consensus forecast and forward of onshore yuan, CNY/USD

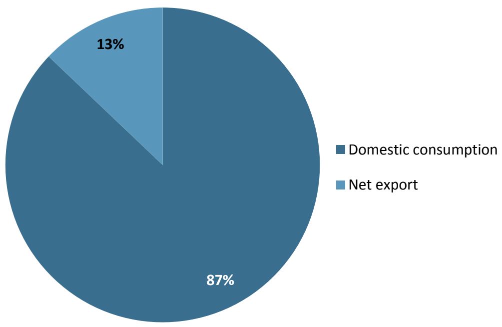


Source: Bloomberg

**Median of consensus forecast by 46 analysts*

Further steep depreciation of the yuan is among the significant risks for the global markets, as it will disrupt global prices. It would make Chinese exports cheaper (in USD terms) and stimulate their activity. It would also hamper domestic Chinese demand, particularly for steel products. 87% of the country's produced steel was consumed domestically in 2015.

Portions of net export and domestic consumption of steel products in China in 2015, %



Source: World Steel Association, Concorde Capital estimates

Steady decline of steel consumption and production in China projected

Since early 2016, Chinese officials have stated that loss-making “zombie” companies, in many sectors that face overcapacity such as metallurgy, should exit the market. China plans to cut steel capacity by 100-150 mmt in the next five years (by 9-13%). After prices rebounded recently, the global focus on capacity reduction in the country became less intense. However, the problem is still on the table. The announced reduction would just bring capacity load to a bit healthier level of 75% from the current level of 70%. Net export and the negative impact of markets overseas would stay the same.

The artificially inflated steel demand in China has to come down to reality. The China Metallurgical Industry Planning and Research Institute (MPI) sees steel consumption at 490 mmt in 2030 (down from 673 mmt in 2015). This is how much China consumed annually before 2008, and could be a “normalized” level towards which demand could be trending in the next five-ten years.

We assume a 3% yoy decline in steel demand and output in 2016-22. This assumption implies that net steel exports from China will remain flat yoy at about 100 mmt in 2016, and decline to 83 mmt by 2022. The math behind the number has fundamental grounds as we expect trade cases against China across the globe to result in new duties.

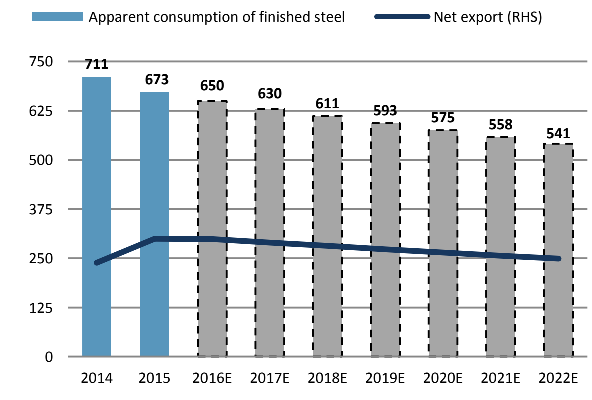
China steel market model: annual production, consumption and net exports, mmt

	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E	2021E	2022E
China steel production	639	702	731	822	823	804	780	757	734	712	691	670	650
Estimated amount of finished steel output	608	669	696	783	790	772	749	727	705	684	663	643	624
Apparent consumption of finished steel, mmt	588	641	660	735	711	673	650	630	611	593	575	558	541
Net export	26	33	42	48	79	100	100	97	94	91	88	86	83

Source: World Steel Association, Bloomberg, Concorde Capital estimates

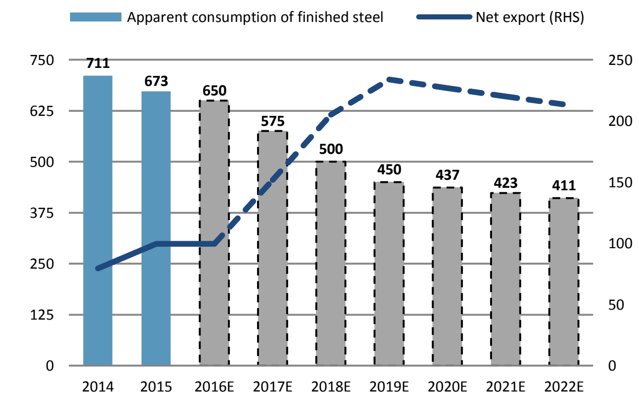
China’s steel supply to the global market (net export) can more than double to above 234 mmt in a time period of two-three years, in case of a hard landing. This implies that instant pressure to close 100-150 mmt of steelmaking capacities immediately will spill over the Chinese border. The ones ending up having to reduce their excess capacities – Chinese producers or steelmakers in other countries - will depend on whose government has less effective protective measures.

Chinese steel demand vs. net export in a “muddling through” scenario, mmt



Source: Concorde Capital estimates, World Steel Association, Bloomberg

Chinese steel demand vs. potential net export in a “hard landing” scenario, mmt



Source: Concorde Capital estimates, World Steel Association, Bloomberg

As the experts of McKinsey Global Institute have posited, “the overextended country’s property sector could trigger a wave of defaults, damaging China’s banking system and economy in general.”

We base our estimates on a “no hard landing so-far” assumption for China. We assume that the country will continue to muddle through, aiming to avoid a sharp devaluation of the yuan or to make it as gradual as possible.

Iron ore market to remain oversupplied too

The gradual declining steel production in China, demonstrated above, implies weakening demand for iron ore in the country and globally. We project that Chinese consumption of iron ore (62% grade equivalent), which stood around 1.1 bln tons per year in 2012-15, will decline by 145 mmt in 2019.

China iron ore market model: consumption, estimated production and imports, mmt

	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E	2021E	2022E
China steel production	639	702	731	822	823	804	780	757	734	712	691	670	650
China pig iron production*	596	645	670	709	712	705	673	652	633	614	595	578	560
Estimated iron ore consumption (62% grade)	953	1033	1072	1134	1139	1127	1076	1044	1013	982	953	924	896
Reported iron ore production	1002	1241	1329	1436	1498	1375	-	-	-	-	-	-	-
Estimated domestic iron ore production (62% grade)	334	346	327	314	205	174	169	164	159	154	149	145	141
Estimated iron ore imports to China (62% grade)	**619**	**687**	**745**	**820**	**933**	**953**	**908**	**880**	**854**	**828**	**803**	**779**	**756**
Annual change of iron ore consumption in China	43	80	39	62	4	-11	-51	-32	-31	-30	-29	-29	-28
Cumulative change in iron ore consumption, after 2015	**-**	**-**	**-**	**-**	**-**	**-**	**-51**	**-83**	**-115**	**-145**	**-174**	**-203**	**-231**

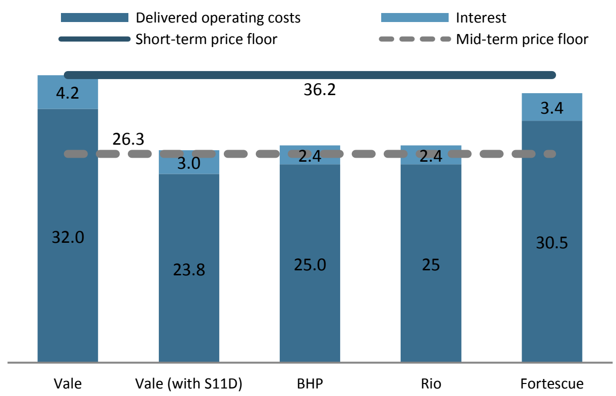
Source: World Steel Association, Concorde Capital estimates

**Projections for 2016-22E are based on a 0.86x ratio pig iron/steel, reached in 2015*

Australia and Brazil, where ore could be mined at the lowest cost, contributed the most to the 781 mmt growth of global seaborne exports to 1,328 mmt between 2005 and 2015. Despite shrinking demand, fresh mining capacities from both countries continue to arrive on the market. Global major miners (Vale, BHP, Rio Tinto and Fortescue) have only somewhat reduced their expansion plans and haven't discussed their options to cut mining volumes to support iron ore prices. The majors will remain profitable, even if iron ore prices drop below the current level of USD 54/t, China port to above USD 35/t.

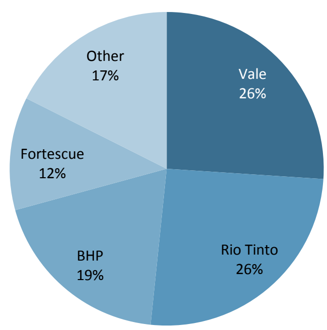
We see the level of Vale's current delivered cost to China, plus its cost of debt per ton (about USD 36/t), as a short-term floor for prices. The floor might go down as Vale launches and ramps up its S11D project, expectedly by 2018. Once prices break these "floor" levels and remain below them, the majors will tend towards reducing supply in order to respond, we think. The recent announcement of the Vale/Fortescue JV, having the largest cost of delivered iron ore to China and together controlling 38% of seaborne supply, indicates the majors are ready for such cooperation.

Estimated floor of benchmark iron ore price, USD/t



Source: Company data, Concorde Capital estimates

Portion of iron ore majors in seaborne exports in 2015, %



Source: Bloomberg, Concorde Capital estimates

Bloomberg Intelligence has estimated that up to 272 mmt of new iron ore financed capacities will be commissioned during 2016-19. This number, when adjusted for assumptions on possible disruptions and depletions, could turn into at least 102 mmt of new supply by 2019.

New iron ore supply (capacity increase) projections by Bloomberg Intelligence

Bloomberg Intelligence Estimates	2014	2015E	2016E	2017E	2018E	2019E
Global seaborne iron ore supply, mmt	1334	1463	1521	1567	1606	1568
+ New mine financed supply (Bloomberg total estimate)		129	98	86	82	5
(Disruption Factor)		2%	2%	2%	2%	2%
- Disruption (assumption)		-29	-30	-31	-32	-31
- Depletion (assumption)		-10	-11	-11	-11	-11
Adj. Bloomberg global iron ore supply	1334	1423	1480	1524	1563	1526
Additional adjusted iron ore supply from 2014	**-**	**89**	**57**	**101**	**140**	**102**

Source: Bloomberg Intelligence

Vale will make the largest contribution to new capacities globally during next five years with its S11D project, which will have total design capacity of 90 mmt by 2018. There are no doubts that the company will launch and ramp up the project despite its scale, as it will enable Vale to substantially improve its cost position. Vale estimated that after S11D is fully ramped up, its average delivered cash cost to China port would improve to around USD 23.8/t in 2018, (a 30% decline from USD 34.2/t in 3Q15).

Selected projects (financed) on iron ore capacities to be launched and/or ramped up, mmt

Additional capacities

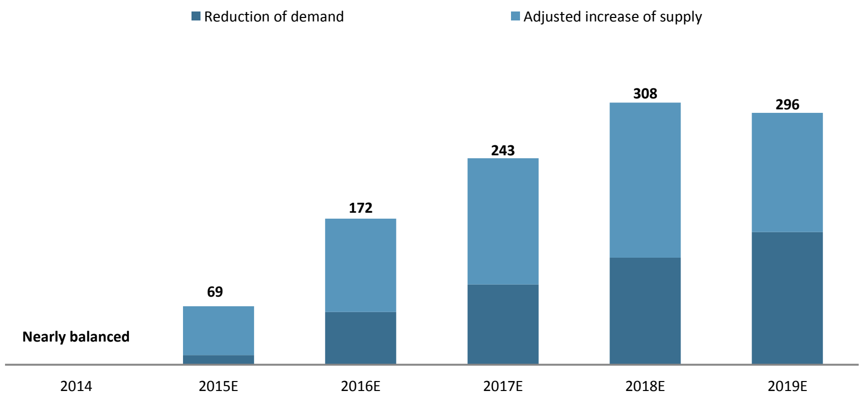
Company	Mine Asset	2014	2015E	2016E	2017E	2018E	2019E	Change 2015-19, mmt	Country
Vale	S11D	0	0	30	60	90	90	90	Brazil
Rio Tinto	Pilbara	30	70	98	113	123	123	53	Australia
Hancock Prospecting	Roy Hill	0	5	15	25	55	55	50	Australia
Anglo American	Minas Rio	1	14	25	27	27	27	13	Brazil
BHP Billiton	Rapid Growth Project 6	10	15	15	15	20	20	5	Australia
Total capacity of selected projects		**41**	**104**	**183**	**240**	**315**	**315**	**211**	

Source: Bloomberg Intelligence, Concorde Capital estimates

In 2016, Vale expects to produce 340-350 mmt of iron ore, compared to 333 mmt in 2015. The second-largest producer globally, Rio Tinto, projects to ship 350 mmt of iron ore in 2016 (+4% yoy). The company might also increase its capacity in the mid-term with its plans to expand its Pilbara Integrated System by 50 mmt to 350 mmt by 2017, thus increasing its total global capacity to 370 mmt (including its Canadian assets). BHP expects to produce 270 mmt of iron ore at Western Australia Iron Ore in its fiscal year ending in June 2016 (+6% yoy). The company sees that "further productivity improvements" may contribute to a capacity increase to 290 mmt "over time," not specifying the timing.

As a result, global overcapacity, which was close to 69 mmt in 2015, is set to widen to more than 296 mmt by 2019.

Estimated surplus of global iron ore market, mmt



Source: Concorde Capital estimates

STEEL AND IRON ORE PRICE FORECAST

Market prices projected to slide in 2017-18

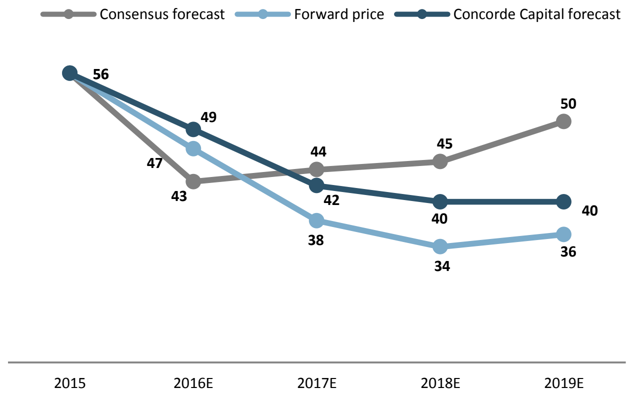
We have outlined our projections of anticipated developments at the steel and iron ore markets in order to substantiate our price forecasts.

Falling demand for iron ore (due to expected lowering steel production in China and globally) and the expected arrival of new supplies lead us to conclude that average annual iron ore prices will continue sliding. The main downward movement is over, but these factors will keep prices down. Spot prices could be rather volatile around these annual averages. We model iron ore prices in China to decrease to USD 40/t in 2018 from an average of USD 56/t in 2015, and remain stable thereafter.

Spot iron ore prices (62%, CFR, China port), USD/t

Source: Company data, Concorde Capital estimates

Iron ore price (62%, CFR, China port) outlook, USD/t



Source: Bloomberg, Concorde Capital estimates

We expect steel prices to follow suit. Our steel price forecast is a reflection of the anticipated weakness of the iron ore market. Steel prices in the Black Sea region, which is an export hub for CIS producers, have fallen 18-30% yoy in 2015. We project prices falling further by 13-24% yoy in 2016, and by 2% yoy annually in 2017-18.

Market steel products prices, USD/t, FOB, Black Sea port

	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Semi-products											
Pig iron, USD/t	423	404	383	249	222	217	213	213	213	213	213
change yoy, %	-	*-4%*	*-5%*	*-35%*	*-11%*	*-2%*	*-2%*	*0%*	*0%*	*0%*	*0%*
Slabs, USD/t	521	485	489	288	291	285	280	280	280	280	280
change yoy, %	-	-7%	1%	-41%	1%	-2%	-2%	0%	0%	0%	0%
Billets, USD/t	562	510	481	327	303	297	291	291	291	291	291
change yoy, %	-	-9%	-6%	-32%	-7%	-2%	-2%	0%	0%	0%	0%
Flat products											
HRC, USD/t	561	529	510	330	351	345	339	339	339	339	339
change yoy, %	-	-6%	-4%	-35%	6%	-2%	-2%	0%	0%	0%	0%
Plates, USD/t	598	544	550	386	366	360	354	354	354	354	354
change yoy, %	-	-9%	1%	-30%	-5%	-2%	-2%	0%	0%	0%	0%
CRC, USD/t	655	608	586	404	416	411	405	405	405	405	405
change yoy, %	-	-7%	-4%	-31%	3%	-1%	-1%	0%	0%	0%	0%
Long products											
Rebar, USD/t	621	578	520	362	360	354	348	348	348	348	348
change yoy, %	-	-7%	-10%	-30%	-1%	-2%	-2%	0%	0%	0%	0%
Wire rod, USD/t	631	581	531	372	369	363	357	357	357	357	357
change yoy, %	-	-8%	-9%	-30%	-1%	-2%	-2%	0%	0%	0%	0%

Source: Metal Expert, Concorde Capital estimates

Meanwhile, a number of upside factors or their combinations could bring positive surprises to our price projections:

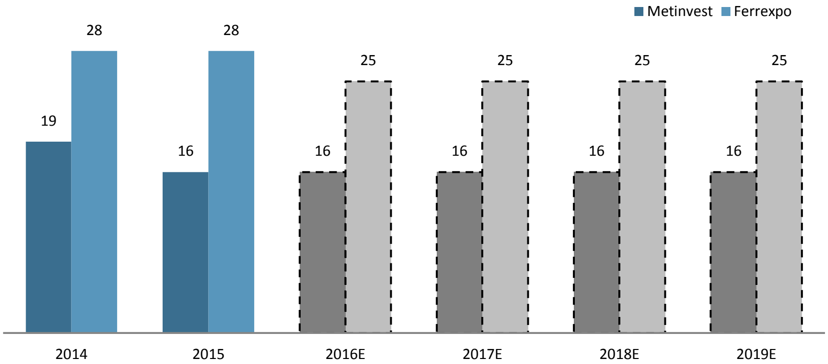
- Significant rebound of oil prices for an extended period of time → appreciation of sea freight rates → effective cut off of extensive Chinese steel supplies;
- Significant coordination of efforts between iron ore majors, leading to a reduction (rationalizing) in seaborne ore supplies;
- Turnaround of steel consumption in China due to implemented reforms or incentives (not likely).

Selling prices for Metinvest and Ferrexpo in line

We have translated our projections of steel and iron ore market prices into selling prices for Metinvest and Ferrexpo.

For 2016-19, we model the average pellet premium at USD 25/t for Ferrexpo (allowing for some possible decline owing to market pressure) and at USD 16/t for Metinvest.

Pellet premiums of Metinvest, Ferrexpo, USD/t



Source: Concorde Capital estimates

Metinvest's realized selling prices were higher than the market average on an FOB, Black Sea basis due to a number of factors, including cost of delivery, quality adjustments, and agent fees. We have assumed these spreads to remain stable (though they bring little additional margins on the EBITDA level we think).

Average Metinvest realized prices and future projections

	2012	2013	2014	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Pig iron and steel products											
Semi-products											
Pig iron, USD/t	425	403	400	263	246	237	233	233	233	233	233
change, % yoy	-	*-5%*	*-1%*	*-34%*	*-7%*	*-4%*	*-2%*	*0%*	*0%*	*0%*	*0%*
Slabs, USD/t	569	506	527	380	329	323	317	317	317	317	317
change, % yoy	-	*-11%*	*4%*	*-28%*	*-13%*	*-2%*	*-2%*	*0%*	*0%*	*0%*	*0%*
Square billets, USD/t	580	528	513	360	327	321	315	315	315	315	315
change, % yoy	-	*-9%*	*-3%*	*-30%*	*-9%*	*-2%*	*-2%*	*0%*	*0%*	*0%*	*0%*
Rolled products											
Flat products, USD/t	678	607	600	456	473	468	462	462	462	462	462
change, % yoy	-	*-11%*	*-1%*	*-24%*	*4%*	*-1%*	*-1%*	*0%*	*0%*	*0%*	*0%*
Long products, USD/t	754	696	619	461	464	458	452	452	452	452	452
change, % yoy	-	*-8%*	*-11%*	*-26%*	*1%*	*-1%*	*-1%*	*0%*	*0%*	*0%*	*0%*
Tubular products, USD/t	1135	988	988	969	969	969	969	969	969	969	969
change, % yoy	-	*-13%*	*0%*	*-2%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Mining products											
Iron ore											
Iron ore concentrate, wmt, USD/t	106	109	85	48	43	38	36	36	36	36	36
change, % yoy	-	*2%*	*-22%*	*-43%*	*-10%*	*-13%*	*-5%*	*0%*	*0%*	*0%*	*0%*
Pellets, USD/t	138	138	116	72	65	58	56	56	56	56	56
change, % yoy	-	*0%*	*-16%*	*-38%*	*-10%*	*-11%*	*-3%*	*0%*	*0%*	*0%*	*0%*

Source: Company data, Concorde Capital estimates

Ferrexpo's level of disclosure enables modelling pellet selling prices more specifically. The estimated selling prices on FOB/DAF basis of USD 59/t in 2016, seen declining to USD 57/t in 2018, is a product of an assumed pellet premium of USD 25/t and average sea freight cost of USD 8/t.

Ferrexpo's selling price projections, USD/t

	2014	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Iron ore fines prices, China port, CFR, dmt	97	56	49	42	40	40	40	40	40
Ferrexpo's estimated average pellet premium	28	28	25	25	25	25	25	25	25
Implied pellet price, "as if in China"	125	84	74	67	65	65	65	65	65
Sea freight, from Ukraine to China port	21	11	8	8	8	8	8	8	8
Estimated Ferrexpo's selling price by price parity, FOB/DAF basis	**105**	**73**	**66**	**59**	**57**	**57**	**57**	**57**	**57**

Source: Bloomberg, Concorde Capital estimates

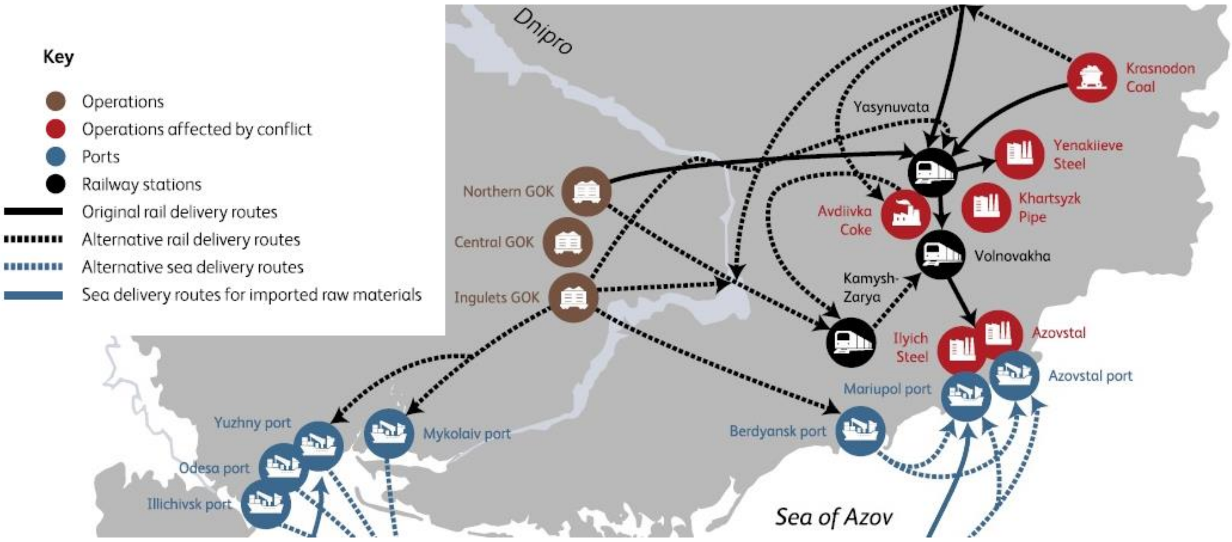
COMPANY PROFILE: METINVEST

Metinvest steelmakers constrained by warfare

The three steelmaking subsidiaries of Metinvest (Azovstal, Ilyich Steel and Yenakiyeve Steel), coke producer Avdiyivka Coke, coking coal miner Krasnodon Coal, and pipe producer Khartsyzk Pipe are all located in Donbas, both occupied and Ukrainian-controlled. After warfare erupted in summer 2014, three large railroad hubs (Volnovakha, Yasynuvata and Debaltseve) were severely damaged or destroyed. This caused Metinvest to seek alternative routes for delivering raw materials (iron ore, coking coal, coke) to its steelmakers, as well dispatching finished products.

Having been key railroad transhipment junctions in peaceful times, Yasynuvata and Volnovakha still remain hot spots of military conflict. Crossing the frontline by railway trains with cargo is time-consuming, due to additional security checks required. As a result, the throughput capacity of the alternative routes is a significant constraint on the full capacity load of Metinvest's steelmakers.

Impact of war on Metinvest's logistics (traditional and current alternative routes)

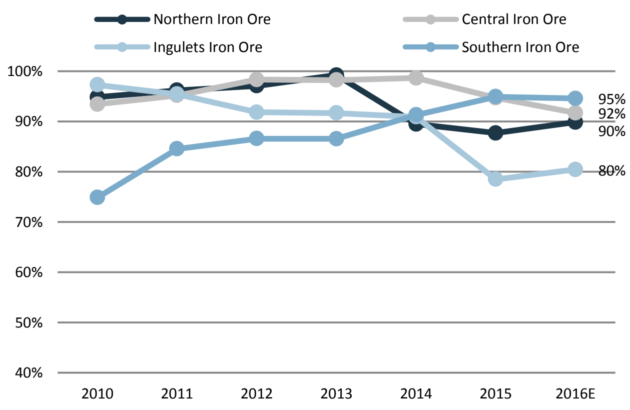


Source: Metinvest's presentation for 1H15

In 2015, Ilyich Steel, Azovstal and Yenakiyeve Steel operated at 54-61% load rates. We project the rate will remain almost unchanged for Azovstal at 59% in 2016 and grow for Yenakiyeve Steel to 63% from 55% (the enterprise stood idle in February 2015 compared to a 60% load in February 2016), though it would still be too low. A projected yoy improvement for Ilyich Steel to 73% from 54% in 2016 would be only partially related to boosted output (+8% yoy). The main reason will be the effect of the decommissioning open hearth furnaces in May 2015, as capacities shrunk 46% to 3.9 mmt.

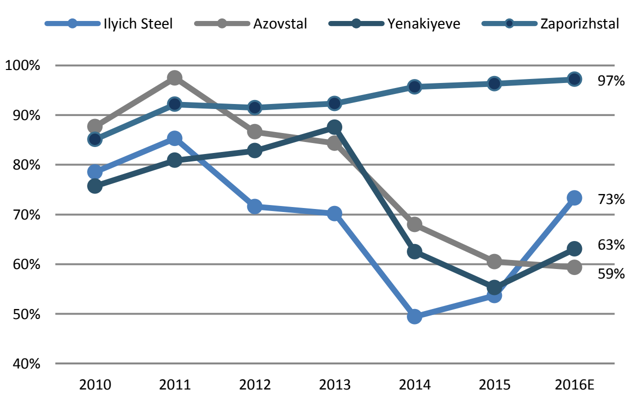
Metinvest's iron ore miners have operated at high and almost stable load rates. Decreased pellet output by Northern Ore, which lost local buyers after war broke out, is among the few negative factors for the operating results of Metinvest's mining division.

Annual iron ore concentrate capacity load at Metinvest's subsidiaries and at Southern Iron Ore, %



Source: Company data, Concorde Capital estimates

Annual steel capacity load at Metinvest's subsidiaries and Zaporizhstal, %



Source: Company data, Concorde Capital estimates

Output to remain stable, room for improvement

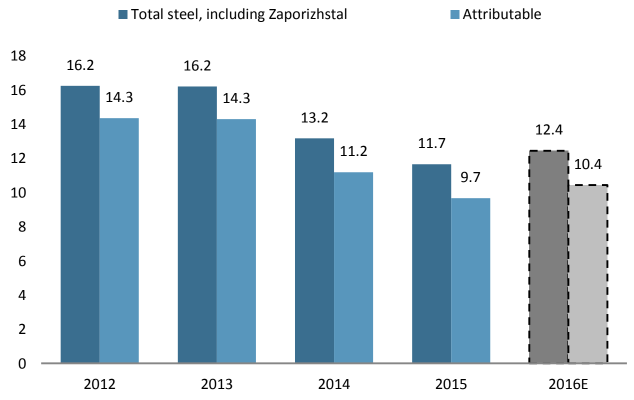
In 2015, steel output at Metinvest's three subsidiaries slid 17% yoy to 7.7 mmt. Together with the attributable portion of Zaporizhstal's production (49.9%), the company manufactured 9.7 mmt of steel last year (-14% yoy).

We don't see logistical constraints in Donbas being removed any time soon. Russian-backed fighters open fire daily across the frontline, inflicting casualties, while a time-consuming border regime to the occupied area remains in force.

We project Metinvest will produce 8.4 mmt in Mariupol and Yenakiyeve (+10% yoy). As a result, total steel output will grow 4% yoy to 10.4 mmt in 2016. Once real peace is re-established in the region, the company's upside consists of potentially producing another 4 mmt of steel (2 mmt at Azovstal, 1 mmt at Ilyich steel and 1 mmt at Yenakiyeve).

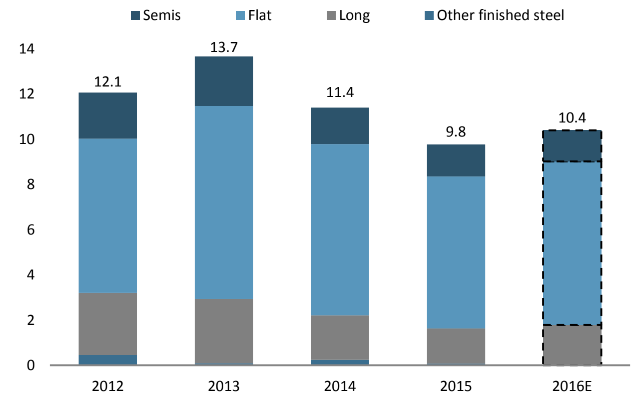
Metinvest's total sales of pig iron and steel products in 2015 were the lowest during last five years at 9.8 mmt (-14% yoy). We expect a modest improvement of 3% yoy to 10.4 mmt.

Total steel production at Metinvest's subsidiaries and Zaporizhstal and attributable to Metinvest, mmt



Source: Company data, Concorde Capital estimates

Semis and finished steel product sales by Metinvest*, mmt

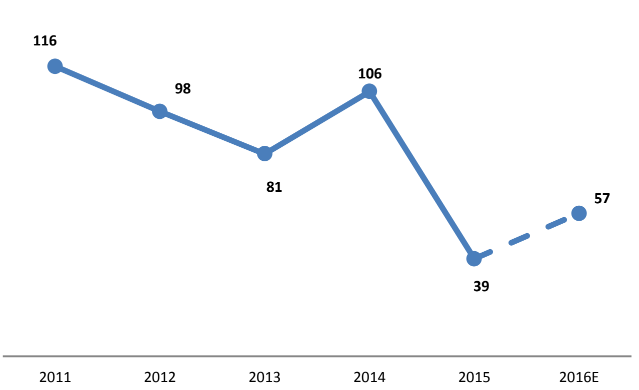


Source: Company data, Concorde Capital estimates
**Includes resales of non-attributable steel from Zaporizhstal*

Last year, Metinvest sold 1.5 mmt of pig iron (+20% yoy). The merchant product was mainly produced at Ilyich Steel and Zaporizhstal. Decade-low prices have squeezed premiums for steel products with higher value added. The average spread between slab and pig iron prices fell to USD 39/t in 2015 from USD 106/t in 2014. Lower spread and available orders induced Metinvest to increase sales of merchant pig iron by 20% yoy.

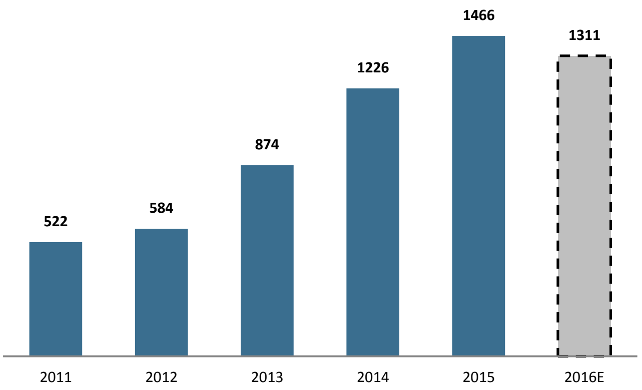
In March, the spread has improved somewhat (to USD 55/t). We model a 11% yoy decrease in pig iron sales to 1.3 mmt in 2016 on higher use of pig iron internally for manufacturing products with higher value added.

Spread of average annual slab price over pig iron, USD/t



Source: Company data, Concorde Capital estimates

Merchant pig iron sales by Metinvest, kt



Source: Company data, Concorde Capital estimates

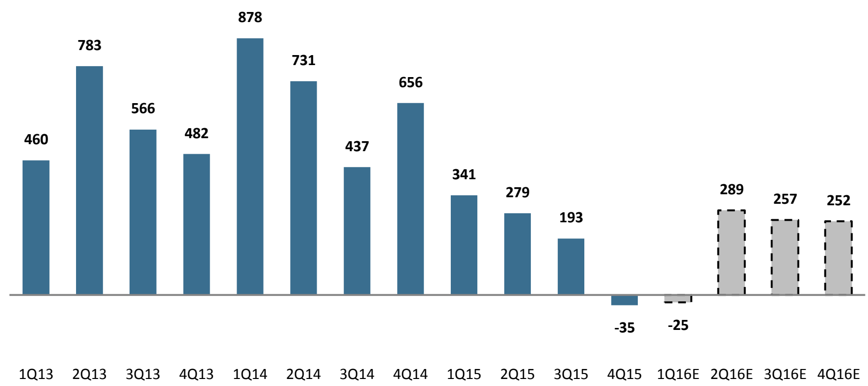
Quarterly EBITDA to recover in 2Q16

Metinvest's EBITDA plunged 71% yoy to USD 778 mln in 2015 (or by 81% yoy to USD 515 mln, if accounting for a non-cash charge for bad receivables). Most of this result was generated in 9M15, while 4Q15 EBITDA came in negative at USD 35 mln.

We expect the result for 1Q16 to be also around zero (minus USD 25 mln), though improvement was already apparent in January 2016, when negative monthly EBITDA declined to USD 15 mln, compared to negative USD 33 mln in December. We think this improvement was caused by a 3% m/m hryvnia depreciation in January. The hryvnia fell another 8% m/m in February, and steel prices started to rebound in late January. The largest positive impact of that would be felt in 2Q16, when we project quarterly EBITDA of USD 289 mln.

The sliding of quarterly EBITDA to USD 257 mln in 3Q16 (-11% qoq) and to USD 252 mln (-2%) is due to the modelled slide of iron ore prices by the end of 2016.

Quarterly EBITDA of Metinvest, mln USD

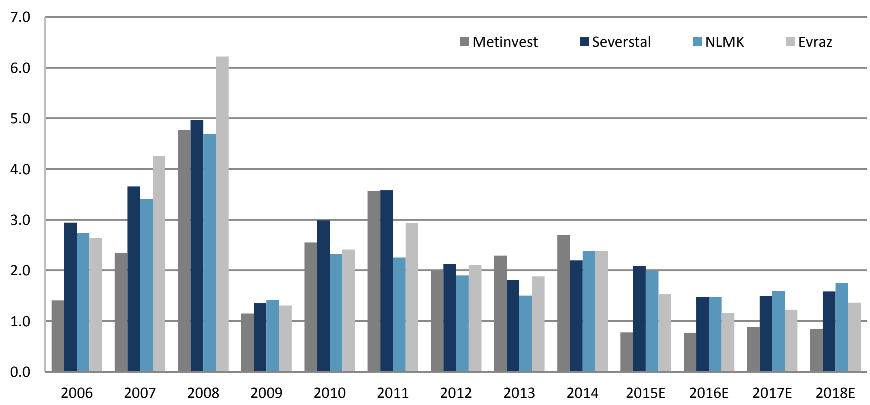


Source: Company data, Concorde Capital estimates

Given our projections of future market prices and capacity loads, we expect the company's EBITDA to further decline 1% yoy to USD 773 mln in 2016, and then to recover to USD 884 mln in 2017 (+14% yoy).

Historically, metals & mining producers in the CIS region have generated comparable EBITDA. In 2015, the company's EBITDA detached from the results of its peers, owing to constrained logistics and reduced capacity loads. Once real peace is established in Donbas, Metinvest's results will converge with the performance of peers.

EBITDA of Metinvest, Severstal, NLMK, Evraz, bln USD



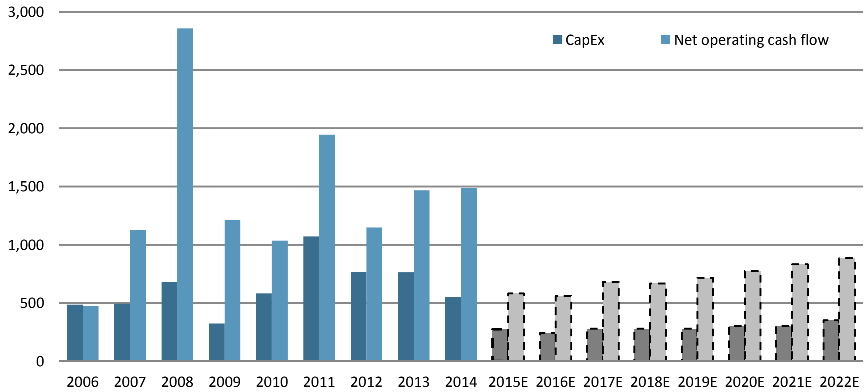
Source: Bloomberg, company data, Concorde Capital estimates

CapEx to be minimized, according to available operating cash flow

In 2015, Metinvest's CapEx slid 50% yoy to USD 273 mln on the sharp plunge in net operating cash flow (-61% yoy, to USD 581 mln) and free cash flow generation remained positive as a result. Roughly two-thirds of that was maintenance CapEx, while development projects were put on hold, except for a few. Among them was a PCI facility at Yenakiyeve Steel and a deep-quarry crusher and conveyor system at Northern Iron Ore and Ingulets Iron Ore.

Metinvest has been prudent in maintaining positive free cash flow since 2007 (marginally negative at USD 13 mln in 2006) and we expect it will maintain this approach going forward. The company will invest mainly in maintenance, and could return to expansion programs, but only once its financial stance recovers. We project CapEx of around USD 240-350 mln annually in 2016 to 2022.

Net operating cash flow vs. CapEx



Source: Bloomberg, company data, Concorde Capital estimates

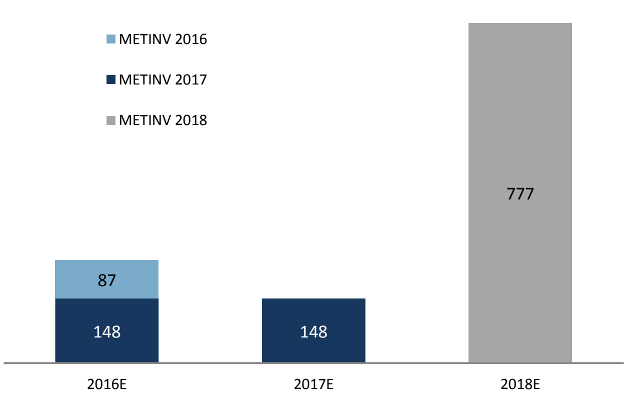
Reprofiling needed, haircut not discussed

Metinvest's total debt stood at USD 2,945 mln as of December 2015 (-9% yoy). The most secured debt is trade finance, with around USD 247 mln outstanding, which decreased by USD 169 mln during the year.

The largest chunk of the company's debt is represented by three issues of Eurobonds, with USD 1,125 mln outstanding, as of December 2015 (1,161 mln in March, after portion of interest was capitalized). Notes maturing in 2016 and 2017 (totalling USD 383 mln currently) are what is left from the extension and prepayment of USD 500 mln in 2015 Eurobonds, executed in two approaches. The USD 750 mln in Eurobonds, maturing in 2018, haven't been touched by any restructurings yet, but their outstanding principal was increased by the amount of capitalized interest to USD 777 mln.

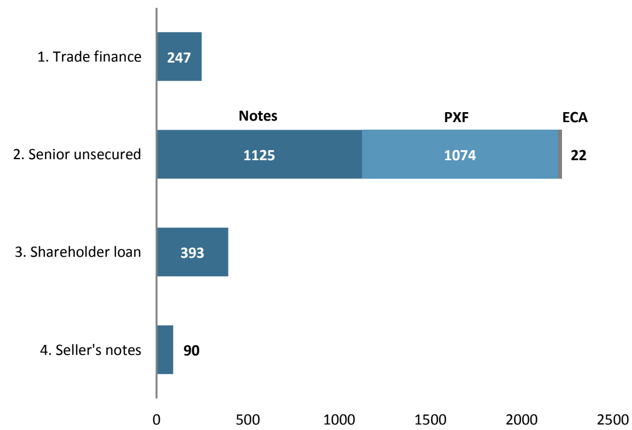
Banking debt stood at USD 1,074 mln as of the end of last year. Metinvest was in default on its banking loans of USD 637 mln, as of January 2016, and was scheduled to pay another USD 140 mln by May 27, 2016.

Metinvest's scheduled maturity of Eurobonds, USD mln



Source: Company data, Concorde Capital estimates

Metinvest's debt hierarchy, as of December 2015, USD mln



Source: Concorde Capital estimates

Currently, Metinvest is negotiating a restructuring of its total debt. In January 2016, an English court sanctioned and bondholders approved a moratorium on debt repayment until May 27, 2016. According to its conditions, Metinvest repays 30% of accrued interest every month and capitalizes the rest. If unrestricted cash exceeds USD 180 mln, the company may distribute the excess among creditors.

Metinvest estimated that recovery value to noteholders may reach 50 cents per dollar, if bankruptcy proceedings are triggered. Meanwhile, the company estimated that once restructuring is agreed upon with bondholders and banks, the current principal outstanding would be paid out. In other words, no haircut is being discussed.

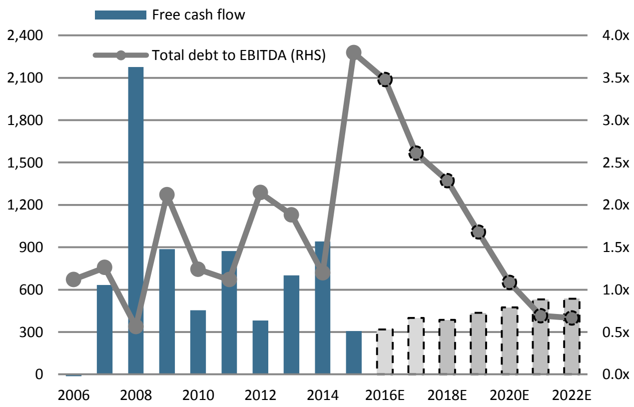
Leverage to normalize in six years

Based on our assumptions of market prices, relatively stable capacity loads, moderate maintenance CapEx, we see Metinvest as being able to generate stable free cash flow, which will be proportionately channelled into debt repayments between bondholders and banks.

By 2019, total debt-to-EBITDA would get below 2x, which would imply the restoration of financial health. That will be the moment when the issue of reinstating dividends could be raised again.

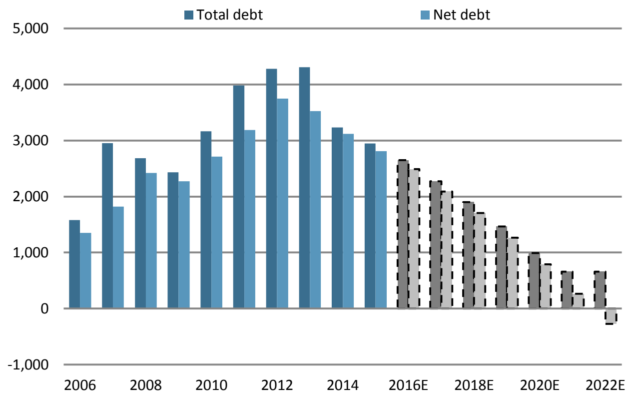
The more evenly developed the annual amortization payments in the new maturity schedule, the more protected Metinvest will be from possible liquidity events in the future.

Metinvest's free cash flow (FCF), USD mln



Source: Company data, Concorde Capital estimates

Metinvest's total and net debt, USD mln



Source: Concorde Capital estimates

We think a discussion of possible dividend payments is off the table since it would block negotiations with creditors. Metinvest shareholders could initially recover liquidity from the shareholder loan. Dividend payments could be reinstated after the company gets back on its feet.

Operating assumptions

Production, kt	**2012**	**2013**	**2014**	**2015**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**	**2021E**	**2022E**
Iron ore											
Total iron ore concentrate* (100% basis)	34534	34828	44234	42309	42680	42680	42680	42680	42680	42680	42680
Output at Southern Iron Ore (100% basis)	10386	10383	10952	11389	11346	11346	11346	11346	11346	11346	11346
Attributable iron ore concentrate	34534	34828	38309	36148	36541	36541	36541	36541	36541	36541	36541
Attributable merchant iron ore concentrate	20984	20387	25952	24832	24784	24784	24784	24784	24784	24784	24784
Pellets	12270	13069	10890	9995	10389	10389	10389	10389	10389	10389	10389
Attributable saleable IO products**	**33254**	**33456**	**36842**	**34827**	**35174**	**35174**	**35174**	**35174**	**35174**	**35174**	**35174**

**incl. Southern Iron Ore at 100%, since 2014*

***Concorde Capital's estimate*

Hot iron and steel											
Total hot iron, (100% basis)	14204	14706	12707	11842	12430	12430	12430	12430	12430	12430	12430
Attributable hot iron	12604	13094	10951	9935	10503	10503	10503	10503	10503	10503	10503
Attributable merchant hot iron	**0**	**655**	**1074**	**1352**	**1167**	**1169**	**1169**	**1169**	**1169**	**1169**	**1169**
Total steel, (100% basis)	16244	16211	13167	11663	12449	12503	12503	12503	12503	12503	12503
Attributable crude steel output	**14348**	**14297**	**11183**	**9666**	**10435**	**10489**	**10489**	**10489**	**10489**	**10489**	**10489**
Crude steel at subsidiaries	12459	12391	9208	7678	8429	8483	8483	8483	8483	8483	8483

Sales, kt											
Metallurgical division											
Pig iron	584	874	1226	1466	1311	1312	1312	1312	1312	1312	1312
Slabs	1211	1417	916	783	750	750	750	750	750	750	750
Square billets	827	773	684	632	632	632	632	632	632	632	632
Flat products	6822	8543	7583	6726	7227	7199	7199	7199	7199	7199	7199
Long products	2739	2846	1965	1562	1783	1819	1819	1819	1819	1819	1819
Large diameter tubes	458	82	240	65	0	0	0	0	0	0	0
Total sales of steel products	**12057**	**13661**	**11388**	**9768**	**10392**	**10400**	**10400**	**10400**	**10400**	**10400**	**10400**
Total sales of pig iron and steel products	**12641**	**14535**	**12614**	**11234**	**11703**	**11713**	**11713**	**11713**	**11713**	**11713**	**11713**
Mining division's external sales											
Iron ore concentrate	13276	13937	13571	13158	12765	12765	12765	12765	12765	12765	12765
Pellets	7056	7993	8390	6925	6718	6718	6718	6718	6718	6718	6718
Total	**20332**	**21930**	**21961**	**20083**	**19484**	**19484**	**19484**	**19484**	**19484**	**19484**	**19484**
Coking coal concentrate	2184	2153	1786	1933	1933	1933	1933	1933	1933	1933	1933

Pig iron and steel products prices, USD/t											
Semi-products											
Pig iron	425	403	400	263	246	237	233	233	233	233	233
change, % yoy	-	*-5%*	*-1%*	*-34%*	*-7%*	*-4%*	*-2%*	*0%*	*0%*	*0%*	*0%*
Slabs	569	506	527	380	329	323	317	317	317	317	317
change, % yoy	-	*-11%*	*4%*	*-28%*	*-13%*	*-2%*	*-2%*	*0%*	*0%*	*0%*	*0%*
Square billets	580	528	513	360	327	321	315	315	315	315	315
change, % yoy	-	*-9%*	*-3%*	*-30%*	*-9%*	*-2%*	*-2%*	*0%*	*0%*	*0%*	*0%*
Rolled products											
Flat products	678	607	600	456	473	468	462	462	462	462	462
change, % yoy	-	*-11%*	*-1%*	*-24%*	*4%*	*-1%*	*-1%*	*0%*	*0%*	*0%*	*0%*
Long products	754	696	619	461	464	458	452	452	452	452	452
change, % yoy	-	*-8%*	*-11%*	*-26%*	*1%*	*-1%*	*-1%*	*0%*	*0%*	*0%*	*0%*
Tubular products	1135	988	988	969	969	969	969	969	969	969	969
change, % yoy	-	*-13%*	*0%*	*-2%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*

Mining products, USD/t	-										
Iron ore											
Iron ore concentrate, wet	106	109	85	48	43	38	36	36	36	36	36
change, % yoy	-	*2%*	*-22%*	*-43%*	*-10%*	*-13%*	*-5%*	*0%*	*0%*	*0%*	*0%*
Pellets	138	138	116	72	65	58	56	56	56	56	56
change, % yoy	-	*0%*	*-16%*	*-38%*	*-10%*	*-11%*	*-3%*	*0%*	*0%*	*0%*	*0%*
Coal concentrate	-										
Coking coal concentrate	200	128	96	93	73	73	73	73	73	73	73
change, % yoy	-	*-36%*	*-25%*	*-4%*	*-22%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Hryvna FX rate	8.1	8.1	12.2	21.9	27.0	28.4	29.9	31.5	33.1	34.8	36.7

Financial projections

Revenue, USD mln	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Metallurgical division											
Semi-products											
Pig iron	248	352	490	379	322	311	305	305	305	305	305
Slabs	689	717	483	274	247	242	238	238	238	238	238
Square billets	480	408	351	227	207	203	199	199	199	199	199
Rolled products											
Flat products	4626	5182	4550	3084	3376	3321	3281	3281	3281	3281	3281
Long products	2064	1982	1216	711	827	833	822	822	822	822	822
Tubular products	520	81	237	63	0	0	0	0	0	0	0
Other	664	1004	839	669	623	623	623	623	623	623	623
Subtotal for met division	**9291**	**9726**	**8165**	**5407**	**5601**	**5533**	**5468**	**5468**	**5468**	**5468**	**5468**
Mining division											
Iron ore concentrate	1413	1518	1156	638	623	536	511	511	511	511	511
Pellets	973	1104	972	499	436	390	376	376	376	376	376
Coking coal concentrate	437	275	172	179	140	140	140	140	140	140	140
Other products and services	455	184	101	107	107	107	107	107	107	107	107
Subtotal for mining division	**3278**	**3080**	**2400**	**1422**	**1306**	**1173**	**1134**	**1134**	**1134**	**1134**	**1134**
Total	**12569**	**12806**	**10565**	**6832**	**6908**	**6706**	**6603**	**6603**	**6603**	**6603**	**6603**

P&L, USD mln											
Revenue	**12569**	**12806**	**10565**	**6832**	**6908**	**6706**	**6603**	**6603**	**6603**	**6603**	**6603**
Gross profit	**2499**	**2400**	**2325**	**848**	**1101**	**1256**	**1263**	**1331**	**1393**	**1450**	**1503**
Distribution costs	-1123	-1121	-1063	-952	-969	-969	-969	-969	-969	-969	-969
G&A	-394	-391	-287	-198	-198	-198	-198	-198	-198	-198	-198
Other operating	7	137	130	47	0	0	0	0	0	0	0
EBIT	**989**	**1025**	**1105**	**-255**	**-65**	**89**	**97**	**164**	**226**	**283**	**336**
Finance income	52	66	25	11	0	0	0	0	0	0	0
Finance costs	-321	-341	-902	-236	-218	-189	-152	-115	-72	-26	0
Associates, JV	-9	14	142	248	236	228	211	214	216	218	221
Other non-operating				-263	0	0	0	0	0	0	0
PBT	**711**	**764**	**370**	**-495**	**-48**	**128**	**156**	**262**	**370**	**476**	**557**
Income tax	-266	-373	-211	0	-7	-23	-28	-47	-67	-86	-100
Net income	**445**	**391**	**159**	**-495**	**-55**	**105**	**128**	**215**	**303**	**390**	**457**
EBITDA, USD mln											
Metallurgical division	-270	204	1123	501	525	646	669	709	747	782	817
Mining division	2269	2252	1754	335	344	334	272	277	281	285	289
Corporate expenses	-14	-165	-175	-61	-96	-96	-96	-96	-96	-96	-96
Total	**1985**	**2291**	**2702**	**778**	**773**	**884**	**845**	**889**	**931**	**971**	**1010**
Profitability margins, %											
Gross margin	*20%*	*19%*	*22%*	*12%*	*16%*	*19%*	*19%*	*20%*	*21%*	*22%*	*23%*
EBITDA margin	*16%*	*18%*	*26%*	*11%*	*11%*	*13%*	*13%*	*13%*	*14%*	*15%*	*15%*

Balance sheet, USD mln	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Assets											
PP&E	8152	8212	6538	6026	5664	5377	5120	4888	4699	4529	4426
Other non-current assets	3246	3117	2530	2530	2530	2530	2530	2530	2530	2530	2530
Total non-current assets	**11398**	**11329**	**9068**	**8556**	**8194**	**7907**	**7650**	**7418**	**7229**	**7059**	**6956**
Cash	530	783	114	140	160	180	195	200	200	485	1035
Inventories	2113	1863	1222	1212	1202	1192	1182	1182	1187	1197	1207
Receivables	3194	2738	2042	1542	1529	1519	1519	1524	1534	1544	1554
Other	250	193	110	110	110	110	110	110	110	110	110
Total current assets	**6087**	**5577**	**3488**	**3004**	**3001**	**3001**	**3006**	**3016**	**3031**	**3336**	**3906**
Total assets	**17485**	**16906**	**12556**	**11560**	**11194**	**10908**	**10655**	**10433**	**10260**	**10395**	**10862**
Equity											
Retained earnings	7052	6277	6372	5614	5560	5665	5792	6008	6311	6701	7158
Other equity	3383	3354	390	390	390	390	390	390	390	390	390
Total equity	**10435**	**9631**	**6762**	**6004**	**5950**	**6055**	**6182**	**6398**	**6701**	**7091**	**7548**
Liabilities											
Long-term debt	2804	2500	1878	10	2247	1859	1479	971	434	101	102
Other non-current liabilities	827	1058	1016	1016	1016	1016	1016	1016	1016	1016	1016
Total non-current liabilities	**3631**	**3558**	**2894**	**1026**	**3263**	**2875**	**2495**	**1987**	**1450**	**1117**	**1118**
Short-term debt	1474	1808	1354	2940	395	391	386	447	492	560	559
Payables	1945	1909	1546	1590	1587	1587	1592	1602	1617	1627	1637
Total current liabilities	**3419**	**3717**	**2900**	**4530**	**1982**	**1978**	**1978**	**2049**	**2109**	**2187**	**2196**
Total liabilities & equity	**17485**	**16906**	**12556**	**11560**	**11194**	**10908**	**10655**	**10433**	**10260**	**10395**	**10862**

Cash flow statement, USD mln	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E	2021E	2022E
PBT	**711**	**765**	**370**	**-495**	**-48**	**128**	**156**	**262**	**370**	**476**	**557**
Depreciation	900	1070	850	785	603	566	538	512	489	470	453
Other	49	107	640	0	0	0	0	0	0	0	0
Operating cash flow	1660	1942	1860	290	555	695	694	774	859	946	1010
Working capital investments/ (outflow)	108	-147	-18	291	20	20	15	5	0	-10	-10
Income tax paid	-622	-330	-353	0	-7	-23	-28	-47	-67	-86	-100
Cash flow from operations, net	**1146**	**1465**	**1489**	**581**	**568**	**691**	**681**	**732**	**792**	**850**	**899**
Cash flow from investments, net	**-1094**	**-263**	**-559**	**-273**	**-240**	**-280**	**-280**	**-280**	**-300**	**-300**	**-350**
Debt (repayment) / borrowing	221	-53	-595	-282	-308	-391	-386	-447	-492	-264	0
Dividends	-575	-544	-388	0	0	0	0	0	0	0	0
Other cash flow from financial activity	41	-879	-559	0	0	0	0	0	0	0	0
Financing cash flow	**-313**	**-1476**	**-1542**	**-282**	**-308**	**-391**	**-386**	**-447**	**-492**	**-264**	**0**
FX effect			**-57**								
Change in cash	**-261**	**-274**	**-669**	**26**	**20**	**20**	**15**	**5**	**0**	**286**	**549**
Cash, bop	792	531	257	114	140	160	180	195	200	200	485
Cash, eop	**531**	**257**	**114**	140	160	180	195	200	200	485	1035
FCF	**52**	**1202**	**930**	**308**	**328**	**411**	**401**	**452**	**492**	**550**	**549**
Total debt	4278	4308	3232	2950	2642	2250	1865	1418	926	661	661
Net debt	3748	3525	3118	2810	2482	2071	1670	1218	726	176	-373
Total debt to EBITDA	2.16	1.88	1.20	3.79	3.42	2.55	2.21	1.59	0.99	0.68	0.66
Net debt to EBITDA	1.89	1.54	1.15	3.61	3.21	2.34	1.98	1.37	0.78	0.18	-0.37

COMPANY PROFILE: FERREXPO

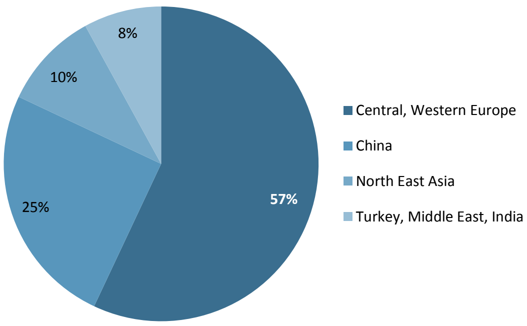
Anchor customers cover more than 60% of sales

The core of Ferrexpo's customer base consists of steel mills in Europe. Steelmakers in Austria, Slovakia, and the Czech Republic have been historically and technologically selective of pellets from Ferrexpo's Poltava Mine. Altogether, sales to European customers represented 60% of the total in 2015. Ferrexpo also has established long-term contracts with clients in Northeast Asia, primarily in Japan (for example, with JFE Steel).

The Chinese market, where competition has intensified recently and spot pellet premiums plunged, consumes just around a quarter of the company's products, and its portion in Ferrexpo's sales structure slid to 22% in 2015 from 25% in 2014.

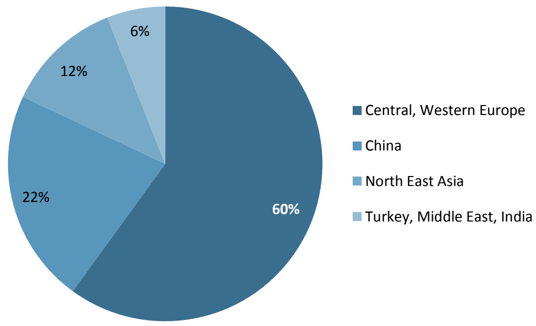
All in all, the company enjoys a stable client base that lets the company to fully load its 12 mmt pellet capacities.

Geographical revenue breakdown in 2014, %



Source: Company data

Geographical revenue breakdown in 2015, %



Source: Company data

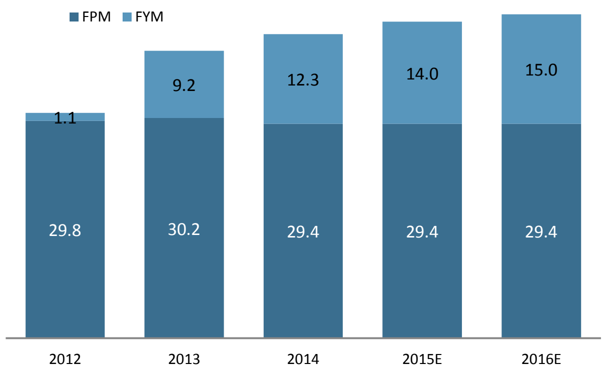
Yeristovo Mine invested in and ramped up

The key focus of the company's USD 600 mln investment program, which has been fully implemented already, was the launch of the Yeristovo Mine, located close to its primary operations, and to source additional raw ore from it, in order to reach 12 mmt pellet production per year. Before that, the main Poltava Mine provided Ferrexpo with just up to 30 mmt of iron ore, which could be processed into only 9 mmt of pellets annually.

By end-2012, Yeristovo Mine was launched and has been ramped up since then. In 2015, Ferrexpo produced 11.7 mmt of pellets (+6% yoy). We project a 2% yoy increase to 11.9 mmt in 2016 and stable output in the following years.

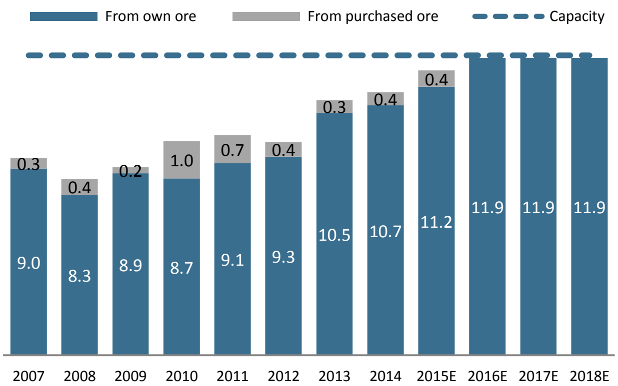
The costly construction of a 10 mmt concentrator at the Yeristovo Mine has been put on hold.

Crude ore mined at Poltava and Yeristovo mines, mmt



Source: Company data

Pellet production vs. capacity, mmt



Source: Company data, Concorde Capital estimates

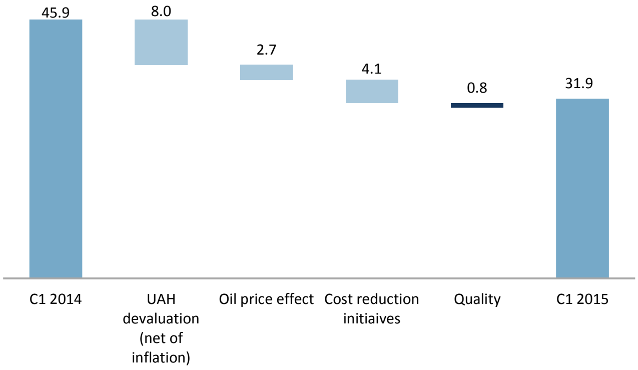
Costs at record low after hryvnia depreciation, cheaper oil and richer ore at Yeristovo

In 2015, the cash production costs of pellets decreased 30% yoy to USD 32/t. Hryvnia devaluation was the key driver, as around half of costs was denominated in the local currency. A drop in oil prices and efforts to improve costs contributed by USD 6.8/t. Ferrexpo has processed raw ore from Yeristovo Mine, which has higher content of iron compared to the primary pit of its Poltava Mine. Production of higher grade pellets in 2015 caused some additional costs per ton (USD 0.8/t), which was more than offset with higher selling prices.

Ferrexpo sees its current costs at around USD 24/t in February. The company had the lowest pellet production costs in 2015 and February 2016, having left behind Vale, Metalloinvest and ArcelorMittal, according to CRU data published by Ferrexpo.

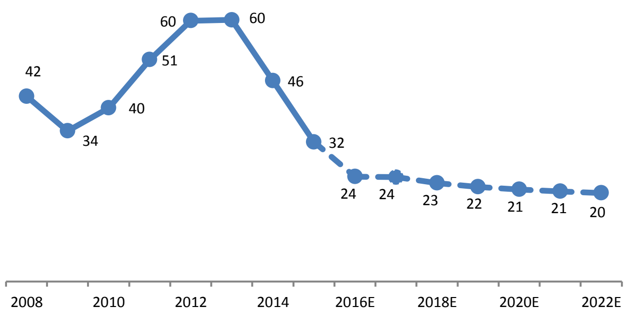
We project costs to decrease to USD 20/t along with our forecast of hryvnia devaluation by 2022, partially offset by cost inflation and assuming stable oil prices.

Bridge of C1 pellet cash production costs, USD/t



Source: Company data

Pellet cash costs, C1, USD/t



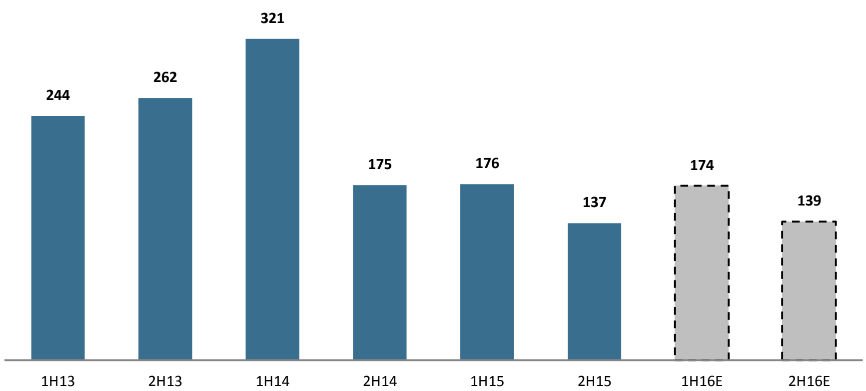
Source: Company data, Concorde Capital estimates

EBITDA to remain stable in 2016

In 2015, Ferrexpo's EBITDA fell 37%, affected by a 31% yoy decline in selling price to USD 73/t (FOB/DAF). We project the company's selling price will fall another 10%, or USD 7/t in 2016, and production costs to decrease by the same USD 7/t to USD 24/t. As a result, we see EBITDA flat yoy at USD 313 mln in 2016.

Ferrexpo will report its interim financials early August. We project around USD 174 mln for 1H16 EBITDA, almost on par with last year's.

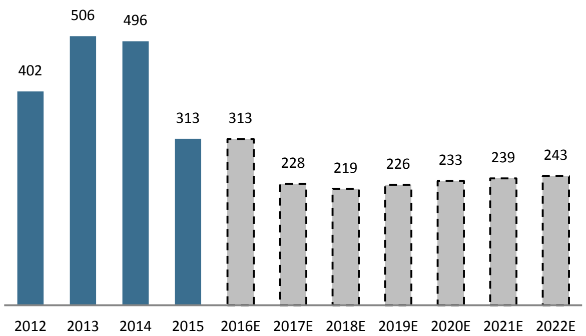
Semi-annual EBITDA of Ferrexpo, mln USD



Source: Company data, Concorde Capital estimates

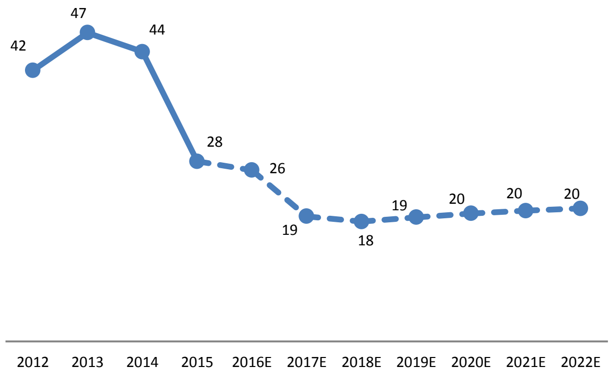
EBITDA will decline in 2017-18, as our iron ore price forecast becomes fulfilled, and then recover in future years, following hryvnia depreciation.

Ferrexpo EBITDA, USD mln



Source: Company data

Ferrexpo EBITDA, USD/t



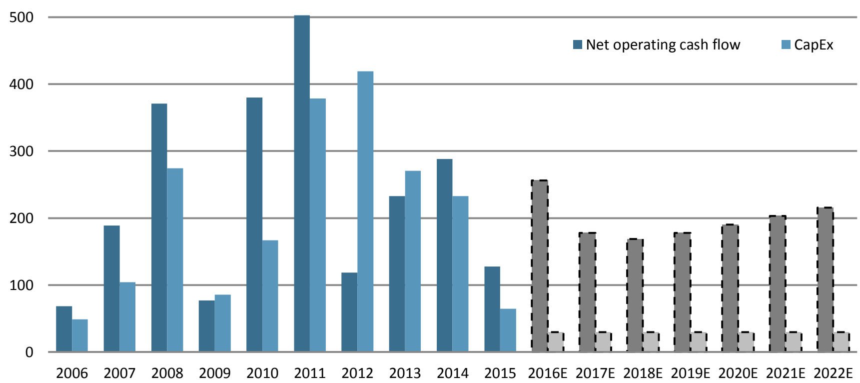
Source: Company data, Concorde Capital estimates

CapEx to be spent for maintenance projects

In addition to CapEx into the Yeristovo Mine, another investment project, worth USD 212 mln, was completed in early 2015. It involved the full production of 65% grade pellets, compared to the company's product mix that was equally split between 65% and 62% grade pellets. Last year, 88% of its pellets were 65% grade, compared to 53% in 2014. Ferrexpo said it sees a 92% portion of the 65% grade in its product mix in 2016.

Ferrexpo sees its annual CapEx in the range of USD 25-75 mln. The exact number will depend on the market's actual condition, the company has guided. We project CapEx at USD 30 mln annually in 2016-22, which would be well-covered by operating cash flows.

Ferrexpo's net operating cash flow, capital expenditures, USD mln



Source: Company data, Concorde Capital estimates

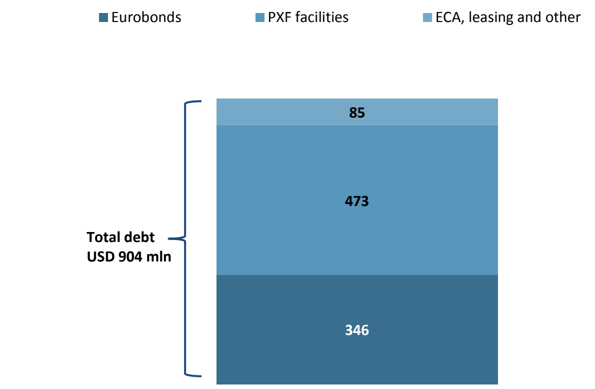
No immediate need to reclassify debt, possible need for extension in 2017

Ferrexpo's total debt stood at USD 904 mln as of end-2015 (-31% yoy). 38% of that was Eurobonds, which amortize evenly in 2018 and 2019. These notes are what's left from USD 500 mln in Eurobonds that were initially scheduled to mature in April 2016. Of that, USD 154 mln was successfully prepaid in 2015 and the rest was extended.

52% of its total debt was represented with two PXF facilities: one maturing in July 2016 (monthly instalments of around USD 17.6 mln), the other in August 2018 (quarterly instalments of USD 44 mln).

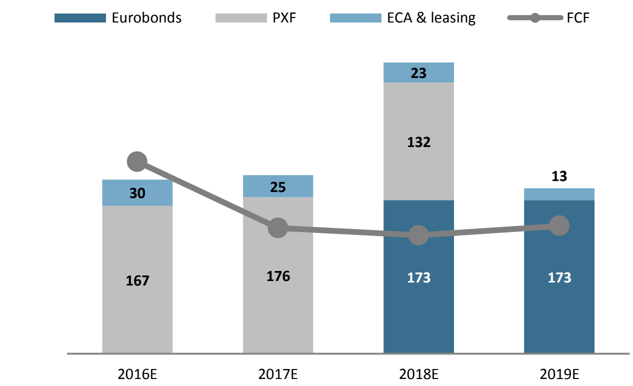
Based on our estimates, Ferrexpo might repay the debt scheduled for 2016. The projected 14% yoy drop in iron ore prices to USD 42/t in 2017 may require some extension of PXFs and notes by around two years.

Breakdown of total debt per class, as of Oct. 2015, USD mln



Source: Company data, Concorde Capital estimates

Maturity schedule, projected free cash flow, USD mln



Source: Company data, Concorde Capital estimates

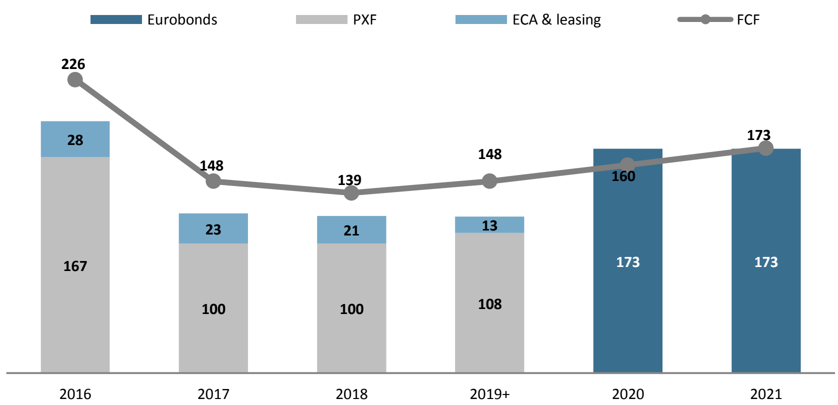
In March, Ferrexpo disclosed that it was discussing with lending banks possibly aligning "maturities with the changed cash flow generation profile".

We have modelled what could be the possible amortization schedule, given free cash flow of USD 148 mln in 2017, USD 139 mln in 2018, and free cash flow recovering to USD 173 mln by 2021. The result is extending PXFs by USD 108 mln to 2019, and shifting the principal of Eurobonds by two years forward each.

We think such new maturities could be negotiated with banks before February 2017, when a USD 44 mln instalment comes due.

The lack of a need to change interest payments is being observed currently.

Ferrexpo's possible extended maturity schedule, projected free cash flow, USD mln



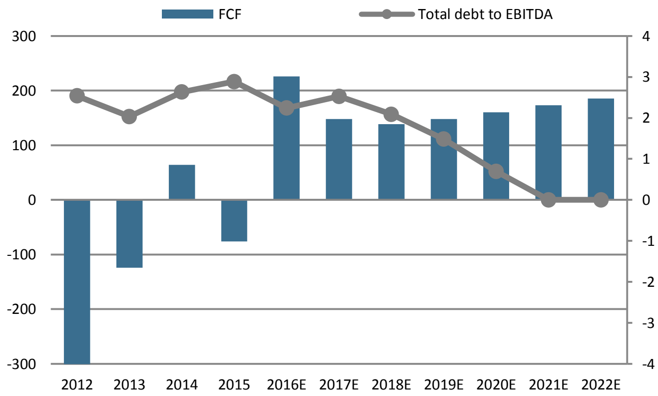
Source: Company data, Concorde Capital estimates

Debt seen repayable by 2021

We expect the total debt to be repaid by 2021 given our projections of free cash flow, assuming reduced capital expenditures and shareholders abstaining from claiming dividends from the company.

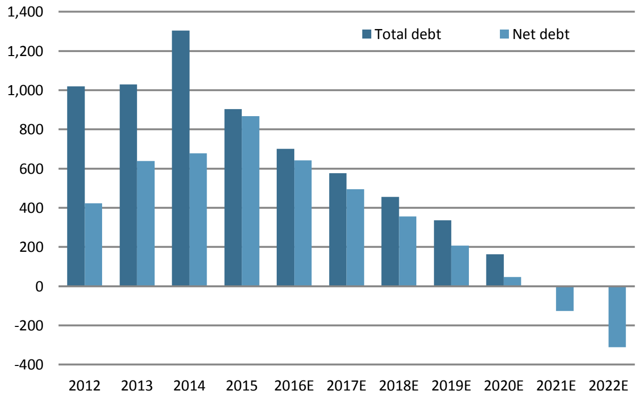
Once total debt-to-EBITDA falls below 2x in 2019, or below 1x in 2020, we expect the company will easily refinance its debt.

Ferrexpo's free cash flow (FCF), USD mln, total debt to EBITDA



Source: Company data, Concorde Capital estimates

Ferrexpo's total and net debt, USD mln



Source: Concorde Capital estimates

Full recovery of F&C Bank deposit isn't likely

Ukraine's central bank declared Finance & Credit Bank insolvent in September 2015. The State Deposit Guarantee Fund started bank's liquidation in December.

Ferrexpo held USD 174 mln in the bank out of a total USD 280 mln cash balance just before the announcement.

We estimate the chances of a full recovery of the deposit as negligible. Ferrexpo has said it's involved in litigation that could result in USD 9 mln being recovered. A Kyiv court ruled in December that this amount should be returned to Ferrexpo, while an appellate court will review the complaint in April.

Operating assumptions

Production & sales	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Total pellet production, mmt	9.7	10.8	11.0	11.7	11.9	11.9	11.9	11.9	11.9	11.9	11.9
Pellet sales, mmt	9.7	10.7	11.2	11.3	11.9	11.9	11.9	11.9	11.9	11.9	11.9
Average sea freight, USD/t	26.1	19.3	20.6	11.2	8.0	8.0	8.0	8.0	8.0	8.0	8.0
Selling pellet price for pellets (FOB/DAF), USD/t	135.5	129.2	104.6	72.6	66.0	59.0	57.0	57.0	57.0	57.0	57.0
Production costs C1, USD/t	59.6	59.8	45.9	31.9	24.0	23.9	22.5	21.6	21.0	20.6	20.3
Hryvnia FX rate	8.1	8.1	12.2	21.9	27.0	28.4	29.9	31.5	33.1	34.9	36.7

Financial projections

P&L	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Net revenue	**1,424**	**1,581**	**1388**	**961**	**900**	**817**	**793**	**793**	**793**	**793**	**793**
COGS	-691	-773	-693	-447	-399	-399	-384	-375	-367	-360	-355
Gross profit	**733**	**808**	**695**	**514**	**501**	**418**	**409**	**418**	**426**	**432**	**437**
Gross profit margin	*51%*	*51%*	*50%*	*54%*	*56%*	*51%*	*52%*	*53%*	*54%*	*55%*	*55%*
Selling and distribution expenses	-312	-336	-311	-226	-173	-173	-173	-173	-173	-173	-173
General and admin expenses	-56	-55	-48	-37	-37	-37	-37	-37	-37	-37	-37
Other operating income	11	7	6	7	7	7	7	7	7	7	7
Other operating expenses	-30	-23	-37	-33	-33	-33	-33	-33	-33	-33	-33
Operating FX gain	1	1	56	26							
EBIT before adjusted items	**347**	**401**	**361**	**251**	**264**	**181**	**173**	**182**	**190**	**196**	**201**
		25%	26%	26%	29%						
Adjusted items	-2	-42	-90	-139	0	0	0	0	0	0	0
Profit before tax and finance	**345**	**359**	**318**	**112**	**264**	**181**	**173**	**182**	**190**	**196**	**201**
EBIT margin		*23%*	*23%*	*12%*							
Finance income	3	2	19	2	0	0	0	0	1	0	1
Finance expence	-88	-66	-68	-72	-54	-42	-35	-27	-20	-10	0
Non-operating FX loss	7	10	-14	-18							
Profit before tax	**266**	**305**	**254**	**25**	**210**	**140**	**139**	**155**	**170**	**187**	**202**
Income tax expenses / benefits	-47	-42	-49	6	-29	-19	-19	-21	-23	-25	-27
Net income	**219**	**264**	**184**	**31**	**182**	**121**	**120**	**134**	**147**	**161**	**174**
Net margin	*15%*	*17%*	*13%*	*3%*	*20%*	*15%*	*15%*	*17%*	*19%*	*20%*	*22%*
EBITDA	**402**	**506**	**496**	**313**	**313**	**228**	**219**	**226**	**233**	**239**	**243**
EBITDA margin	*28%*	*32%*	*36%*	*33%*	*35%*	*28%*	*28%*	*29%*	*29%*	*30%*	*31%*
EBITDA per ton	42	47	44	28	26	19	18	19	20	20	20

Balance sheet	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E	2021E	2022E
PP&E, net	1,348	1534	926	654	636	619	603	589	575	563	551
Other non-current assets	315	483	277	275	275	275	275	275	275	275	275
Non-current assets	**1,663**	**2,017**	**1,203**	**929**	**911**	**894**	**878**	**863**	**850**	**837**	**826**
Inventories	134	181	125	96	66	66	66	66	66	66	66
Trade receivables & prepayments	117	102	87	83	88	78	73	73	73	73	73
Cash & equivalents	597	390	627	35	58	83	101	128	115	126	311
Other current assets	249	241	93	82	82	82	82	82	82	82	82
Current assets	**1,096**	**915**	**932**	**296**	**293**	**308**	**321**	**349**	**336**	**346**	**532**
Total assets	**2,758**	**2,932**	**2,135**	**1,226**	**1,204**	**1,202**	**1,199**	**1,212**	**1,186**	**1,184**	**1,358**
Retained earnings	1,568	1753	1856	1815	1996	2117	2236	2370	2517	2679	2853
Other equity	-21	-18	- 1,138	- 1,571	-1571	-1571	-1571	-1571	-1571	-1571	-1571
Total equity	**1,547**	**1,735**	**718**	**244**	**426**	**546**	**666**	**800**	**947**	**1108**	**1282**
LT interest bearing debt	993	928	1056	700	577	456	336	163	0	0	0
Other non-current liabilities	55	58	32	18	18	18	18	18	18	18	18
Non-current liabilities	**1,048**	**986**	**1088**	**719**	**596**	**475**	**354**	**181**	**18**	**18**	**18**
ST loans	27	101	248	203	123	121	121	173	163	0	0
Trade payables & prepayments	63	50	32	28	28	28	27	26	26	25	25
Other current liabilities	73	60	49	32	32	32	32	32	32	32	32
Current liabilities	**163**	**211**	**329**	**263**	**183**	**181**	**180**	**231**	**220**	**57**	**57**
Total liabilities & equity	**2,758**	**2,932**	**2135**	**1,226**	**1,204**	**1,202**	**1,199**	**1,212**	**1,186**	**1,184**	**1,358**

Cash flow statement	**2012**	**2013**	**2014**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**	**2021E**	**2022E**
Profit before tax	262	305	254	25	210	140	139	155	170	187	202
Depreciation	54	100	82	57	48	47	46	45	44	43	42
Interest expense	81	60	64	69	54	42	35	27	20	10	0
Interest income	-3	-2		-2							
Other	13	43		134							
CF before WC	**408**	**506**	**426**	**282**	**313**	**229**	**219**	**227**	**234**	**239**	**243**
Change in working capital	-128	-103	-15	-77	26	10	3	-1	0	-1	0
Interest paid	-56	-57	-61	-65	-54	-42	-35	-27	-20	-10	0
Income tax paid	-100	-108	-58	-11	-29	-19	-19	-21	-23	-25	-27
Post-employment benefits paid	-6	-5	-3	-2							
Net operating cash flow	**119**	**233**	**288**	**128**	**256**	**178**	**169**	**178**	**190**	**203**	**215**
Capital expenditures, net	-419	-271	-233	-65	-30	-30	-30	-30	-30	-30	-30
Other investments, net	0	-87	9	-139							
Investing cash flow	**-419**	**-357**	**-224**	**-204**	**-30**	**-30**	**-30**	**-30**	**-30**	**-30**	**-30**
Change in LT debt, net	42	-65	274	-394	-203	-123	-121	-121	-173	-163	0
Change in ST debt	8	74	0	0	0	0	0	0	0	0	0
Dividends paid	-38	-78	-77	-78	0	0	0	0	0	0	0
Other			-3.58	-15							
Financing cash flow	**7**	**-82**	**193**	**-487**	**-203**	**-123**	**-121**	**-121**	**-173**	**-163**	**0**
Net cash inflows/(outflows)	-294	**-206**	**257**	**-563**	**23**	**25**	**18**	**27**	**-13**	**11**	**185**
translation difference	0	0	-21	-28	0	0	0	0	0	0	0
Beginning cash balance	890	597	390	627	35	58	83	101	128	115	126
Ending cash balance	**597**	**390**	**627**	**35**	**58**	**83**	**101**	**128**	**115**	**126**	**311**
FCF	-301	-124	64	-76	226	148	139	148	160	173	185
FCF less divs	-339	-202	-13	-154	226	148	139	148	160	173	185
Total debt	**1,020**	**1,029**	**1,305**	**904**	**700**	**577**	**456**	**336**	**163**	**0**	**0**
Net debt	**423**	**639**	**678**	**868**	**642**	**494**	**356**	**208**	**48**	**-126**	**-311**

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