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TRANSCRIPT

NWR.L - Q2 2012 New World Resources Plc Earnings Conference Call

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PRESENTATION

Radek Nemecek - ***New World Resources plc - IR***

Good morning, ladies and gentlemen, and welcome to the presentation of New World Resources 2012 interim results. This morning we have with us Mike Salamon, the Executive Chairman; Marek Jelinek, Executive Director and Chief Financial Officer; and Jan Fabian, the Chief Operating Officer.

The gentlemen will walk you through the presentation slides, as always, and then we will open for your questions. I would also like to welcome Mr. Gareth Penny, who will be joining the Company as new Executive Chairman in September, and today he's with us in the audience.

So without any further delay let me now hand over to Mike.

Mike Salamon - ***New World Resources plc - Executive Chairman***

Thank you, Radek; and welcome, everybody.

Firstly and, I guess, in summary, we believe we've had a pretty sound set of results under fairly challenging circumstances. Revenue was down 17% from EUR840 million to EUR694 million. This was due to a combination of factors, the principal one of which was coking coal price which was down 26% in the half from EUR180 to EUR134. This was partially offset by a greater proportion of coking coal but, on the other hand, we had lower sales of thermal coal, albeit at a higher price.

I guess the real standout in the results was the management of costs in the Mining business, where we had good cost control in all elements of the cost spectrum and, consequently, we had unit costs down 2% to EUR80 a tonne. And I hardly need to remind you that in an industry where double-digit percentage increases in costs are the norm, this is really an excellent result and says a great deal about the quality of our operation and our people.

That came round to a reduction in EBITDA of 37% from EUR250 million to EUR158 million. Net profit of EUR35 million and basic earnings per share of EUR0.12.

Consistent with our dividend policy the Board approved a dividend of EUR0.06 per share which will be paid out in September.

Net debt well controlled at EUR472 million and, importantly, no significant maturity 'til 2015.

On the operational side, coal production essentially flat at 5.8 million tonnes; external sales of 4.8 million tonnes. Two important associated numbers, one the proportion of coking coal was 55%, but then an 11% reduction in absolute volume. The former underpins our guidance of 48% coking coal and 52% thermal coal for the whole year. The latter resulted in a build-up of stocks, which we anticipate setting down as a greater proportion of sales will be thermal coal in the second half, and as the onset of autumn and winter comes, we will sell a lot more of thermal coal.

Coke production was 349,000 tonnes and external sales 303,000 tonnes. And, as we have already previously indicated, the blended coking coal price for quarter 3 was EUR129 per tonne, which is a touch higher than that of quarter 2, which is a pretty good result under difficult steel market circumstances and a falling spot coal price.

Long-term -- lost-time injury frequency rate down 1% to 7.56; our target is less than 5 by 2015. And a particular focus, of course, is to reduce those accidents causing serious injury, in other words -- and in particular fatalities.

Expansion projects at the Karvina Mine progressing in accord with schedule. These will unlock some 30 million tonnes of coking coal reserves within the footprint of our mining, and are very important in terms of the long -- achieving a long-run relationship between coking coal and thermal coal in our resource base, which is, of course, greater than 60% coking coal.

Now that we have some greater visibility for the balance of the year, we have slightly upped our guidance on coal production to 11 million tonnes to 11.1 million tonnes with the external sales 10.3 million tonnes to 10.4 million tonnes and unchanged targets in coke of 700,000 tonnes of coke production and 600,000 tonnes of external sales.

With that I'll hand over to Marek --Jan, sorry.

Jan Fabian ***- New World Resources plc - COO***

Thank you, Mike. Good morning, everybody. Let me start the business review with a view on safety performance of our Company. As NWR is mining in some of the most challenging geological conditions globally, safety is of a highest importance at our operations. The main measure of overall safety, the lost-time injury frequency rate, has been heading down in the first half of 2012, as Mike mentioned, 7.56. So we will, definitely, continue to focus on safety via specialized training, and via capital expenditures into equipment, to get to a number that Mike was mentioning, below 5 by 2015.

Further on, I would like to concentrate on our market. This is a rather condensed view on our sales position, with a more focused view on the steel industry; that is very important for us. The year started off promising, with signs of modest pick-up. But as the year progressed, the market has become more and more challenging.

Looking at the steel production in our market, we see the Q2 steel production flat versus Q1. However, 5% decrease year on year. The steel utilization ratio in our customer market, the steel mills is somewhere around 80%. However, since June, it's on a declining trend. So it's possible to see further slowdown in European steel production, with maybe some blast furnace closures in the coming months.

At the same time, our target region is demonstrating somewhat more resilience to the European structural problems. New World Resources revenue exposure to the end sector, as you can see, was split in favor of the high-end steel products. 42% of our commodities go to the sectors as automotive and railways, and mechanical engineering. And Voestalpine is a very good example here; the Austrian steelmaker is a good example of one of our more specialized steel customers.

Looking at our market share in the coking coal business, 25% market share for NWR is a very good solid position in our region, in Central Europe. Polish producers have 57%, and United States imports are around 15%. However, these imports have been coming into the region for quality purposes over the years anyhow.

In the foundry -- in the Coke business, the coke market is experiencing ongoing stagnation. So the high percentage of our more stable foundry coke sales is a positive for NWR. We are actually the market leader in terms of capacity for foundry coke in Europe; followed by Poland and Italy; and Spain with 13%.

So to sum up the market situation, despite the challenging situation in Europe, the medium to long-term fundamentals of the regional steel sector remain intact. As a good example here is the automotive industry; that is doing very well in our region, in comparison, for example, to Western Europe. So the steel sector doing pretty well in our region. And NWR well positioned, due to long-term customer relationships, and high exposure to high-end steel products. Therefore, we stay optimistic.

In terms of pricing, since June price settlement global spot prices have been steadily decreasing. In addition, the oversupply of semi-soft coking coal in the region has made the usual reference to the international premium hard coking coal benchmark less relevant, during our recent negotiations.

However, against the backdrop of current EU macroeconomic climate, achieving Q3 coking coal price at EUR129 per tonne, a slight increase since Q1, is a good result.

However, what we have seen in pricing negotiation is something that might change structurally the coking coal pricing dynamics. And this is a move slowly away from the quarterly premium hard coking coal benchmark, towards more relevant spot prices for the respective qualities of our coking coal.

And here on the slide, you'll see some of the Platts numbers for semi-soft coking coal. And here is the premium hard coking coal, the grey line above. Our price, just want to remember you, is a blended price of various qualities that we do produce. And as you can see, the 64 mid-vol. HCC is actually the dark green line, is something that is correlating very closely to our blended price of coking coal.

In coke, flat coke price in a stagnating coke environment is also a result of our move towards higher proportion of foundry coke; which brings more stability into our revenues. And thermal coal has been priced at EUR74, and this will not change until the end of the year.

And with this, I would like to hand over to Marek.

Marek Jelinek - ***New World Resources plc - Executive Director & CFO***

Thank you, Jan. And good morning, everyone, welcome. I'd like to reiterate some of the key numbers, before talking about some of the trends in a little bit more detail.

So worth highlighting, EUR694 million of revenues, which is 17% down on the previous period; the single most important factor there is the weakness in coking coal prices, which has been partially offset by the improved product mix. And again, 55% of the tonnage of coal sold to us was coking coal, which is a substantial improvement, relative to last year.

EBITDA of EUR158 million. Again, the principal driver of the EBITDA decline is a weakness in coking coal price. However, this was again partially offset by a very successful cost control that Mike mentioned in the beginning. We have achieved flat unit costs in the mining segment. I think, in the current environment and against the backdrop of the wider mining industry, I think this is a pretty impressive result.

Net financial expenses declined, mainly driven by the foreign exchange fluctuation. Those of you who follow us know that the euro/koruna exchange rate is the decisive one.

The effective income tax rate remained flat year on year, for a net income of EUR35 million. That translates to EUR0.12 of earnings per share. And in line with our policy, we have declared a dividend of EUR0.06; so half of our net income will be paid out as an interim dividend.

CapEx stood at EUR123 million. This includes maintenance CapEx in both the Coking and Mining business; as well as development in the Mining business, and the relatively minor EUR5 million of CapEx that we spent in the Debiensko project this year.

You may have seen an announcement earlier this year about a temporary suspension of all CapEx spending on the Debiensko project pending a comprehensive review of the project. We expect that the review will conclude around the turn of the year, at which point we will have the information necessary to make a decision about the future of the project. With this CapEx suspension at Debiensko, we now expect that the full-year 2012 CapEx will be in the range of EUR210 million to

EUR220 million.

Let's look at the Coal segment in more detail. Two different trends have been shown in the coking and thermal coal parts of the business. In coking coal we have seen a weaker pricing environment, which was partially offset by an improvement in coking coal tonnages. Again, 55% of the overall tonnage is coking coal in the first half of the year.

The almost reverse is true in thermal coal, where we have actually seen an improvement in the pricing environment. Thermal coal prices are up 12% this year, but this positive effect is more than offset by a relatively substantial decline in thermal coal tonnages. This is to a large extent seasonal development, and we do expect a very substantial sell-down in thermal coal inventories between now and the end of the year, where we expect that the inventory -- total coal inventory at the end of the year should be at about 600,000 tonnes.

We have, as I mentioned earlier, continued to focus on efficiencies and cost control. We have delivered a flat unit cost performance in the coal segment. Again, I think that's an outstanding performance in today's environment. Overall the coal segment delivered EUR158 million of EBITDA.

Moving onto Coke, the Coke business continues to suffer from a weak coke demand in Europe. We have seen a decline in both prices and sales volumes. The contribution to the overall EBITDA of the Coke segment is relatively minor; EUR6 million in the first half of the year. Conversion costs are essentially flat; as you can see there is a small uptick. This, however, is entirely attributable to the decline in production as almost all of the conversion costs are fixed costs in nature.

The key factors influencing the EBITDA development in the first six months of the year, again the single largest driver is the weak coking coal prices, and this is only partially offset by an improvement in thermal coal prices. The lower sales volumes have taken out about EUR67 million of EBITDA. This however was almost entirely offset by the improved product mix.

Again, I'll repeat the number; 55% of tonnage is coking coal in the first half of this year; and a positive impact in maintaining the flat cost guidance, so that added about EUR34 million to EBITDA in the first six months.

Moving onto our financial position; net debt was at EUR472 million at the end of June. This translates to a trailing net debt to EBITDA of about 1.3 times. I believe this is a very conservative level of leverage, and it is well below our self-imposed cap of 2 times net debt to EBITDA. There is no dramatic change in the profile of the debt. The first significant debt maturity still is in the May of 2015 when one of our bonds comes due. This is about EUR260 million that's due in 2015.

With that I'd like to hand back over to Mike for his final remarks. Thank you.

Mike Salamon - ***New World Resources plc - Executive Chairman***

Thanks, Marek. Right then, just to look at our outlook for the rest of the year, as we indicated, the slight increase in coal production target from to 11 million tonnes to 11.1 million tonnes. Coke production unchanged at 700,000 tonnes, and expected year-end coal inventories of 0.5 million to 600,000.

In terms of external sales, 10.3 million tonnes to 10.4 million tonnes, 52% thermal, 48% coking coal; so clearly, higher thermal coal sales volumes in half 2 relative to half 1. And coke sales target is unchanged at 600,000.

In terms of prices, thermal coal it's EUR74 per tonne for the calendar year; expected mix of 82% thermal coal and 18% middlings. In terms of coking coal, the quarter 3 agreement was EUR129 per tonne, a touch up on quarter 2, with a mix of 48% hard coking coal, 46% soft coking coal -- semi-soft coking coal, and 7% PCI.

The coke market does remain subdued at best, and so the flat -- the rollover pricing in quarter 3 was a pretty good result, which was clearly benefited by the mix, which is 67% foundry coke, 13% blast furnace coke, and 20% other.

In terms of cost, we intend to maintain flat unit costs on a constant FX basis. And in terms of coke conversion, really we'll move in line with production. CapEx for the year expected EUR210 million to EUR220 million.

Summing up, as I started out by saying, we're actually pleased with a good result under challenging circumstances. In the commodity business one knows that the really hard work is done when times are tough, not when times are good. So with an excellent cost result, a reasonable safety performance, which we hope to build on, and a pleasing outcome in terms of quarter 3 pricing in a world of falling spot prices.

With our near-term reasonably solid visibility, we can now -- we essentially reiterated our production and sale mix guidance. For the six months we passed -- we maintained distributions in line with our dividend policy. The Karvina project carries on, on schedule. Debiensko, we expect to complete the review by year end, and we'll report then.

And in terms of the overall situation, it would appear I think that the -- as Jan indicated, that in Central Europe the situation in terms of our market and the market for our customers is not nowhere near as bad as the overall European situation. And we expect that to underpin our strategy going forward.

With that, I'm open to questions. Radek, how are we going to take them; from the floor first, and then --? Are there any questions here from the floor?

QUESTION AND ANSWER

Jason Fairclough - ***BofA Merrill Lynch - Analyst***

Just a quick one on unit costs. If I look at your slide 24, the drop down from EUR97 down to EUR68 is pretty dramatic. Could you talk a little bit? I'm sorry if you addressed this at the beginning; I was just in the other Company's presentation there. But from EUR97 down to EUR68, how do you do that in one quarter?

Mike Salamon - ***New World Resources plc - Executive Chairman***

Jan or Marek, do you want to --?

Marek Jelinek - ***New World Resources plc - Executive Director & CFO***

If you look at all the cost categories have actually gone down. As you know, the largest item is labor; well, payroll plus contractors that has gone down. We are basing our expectation of flat labor costs for the full year on the fact that we actually have a labor agreement that calls for exactly that. There is a marginal increase in the wages per employee, which is offset by increased efficiency.

The other important aspect is maintenance, where -- you're asking why there is such a big change quarter on quarter; the thing is that many maintenance activities are very bulky, and so they not evenly spread across the year, or across quarters.

But overall, every cost category has actually seen a decline, and we continue to aim for flat unit costs in the core business for the full year.

Jason Fairclough - ***BofA Merrill Lynch - Analyst***

I'm just going to push you on this a little bit if that's okay, Marek, because if I look at this, if I look at the trend, EUR75, EUR82, EUR87, EUR97, and then gaps down to EUR68. It just doesn't look credible; it looks almost like you guys have shutdown maintenance; or something like that.

Marek Jelinek - ***New World Resources plc - Executive Director & CFO***

No, no. You want to comment on that?

Mike Salamon - ***New World Resources plc - Executive Chairman***

Take on board what he said about the lumpiness. What we budget -- we budgeted for a flat cost performance, and that's what we expect to deliver. So don't -- one of the disadvantages of quarterly reporting is that people have more numbers to analyze than really what's good for them.

It really -- I think it's important to look at the six months and really the 12-month trend, and what the mines are delivering, which, quite frankly, when we did the budget we thought was -- we questioned the credibility of a flat cost budget because -- partly because of what we see broadly in the industry. But they are actually delivering on their budget.

Any more questions here? If not, Radek, do you want to move to --?

Operator

(Operator Instructions) Sergey Bolshakov, Investec.

Sergey Bolshakov - ***Investec - Analyst***

Pretty good results; two questions. What are your plans on refinancing 2015 bond?

And the second question is about supply dynamics on the coking coal side. If you can comment on that please.

Mike Salamon - ***New World Resources plc - Executive Chairman***

Maybe Marek, the refinancing of the 2015 bond, do you want to comment on that?

Marek Jelinek - ***New World Resources plc - Executive Director & CFO***

Yes, thank you. We don't feel under any significant pressure since the bond comes due in 2015, so we feel like we have ample time to address that. However, we do like to be opportunistic and so we do follow the market very closely. And should the high-yield market reopen after the summer, we will be ready to take advantage of that. We would only do a transaction if we perceived the terms advantageous to us, because, as the maturity is still more than one year away, we don't think we need to rush into any refinancing.

Mike Salamon - ***New World Resources plc - Executive Chairman***

The supply dynamics within the region, I think, important to recognize that if coking coal continues to be imported into the region, so clearly not every quality is supplied in adequate quantities within the region. Jan, maybe you just want to add a few thoughts about supply and demand within the region.

Jan Fabian - ***New World Resources plc - COO***

Yes. We will be heading into the winter season. So the thermal coal sales will definitely go up. And, therefore, we are going to decrease also our stocks. In terms of coking coal sales and coke sales linked to the steel industry, we don't see any substantial worries on the side of our customers at the moment. However, we are still ahead of our price negotiations for the fourth quarter.

But as we showed before on the slides, the structure of the industry in our region is pretty solid. And the specialized steel customers are very well-established in the region. So I don't see any big changes there. However, everybody will be watching what will be happening also globally for the fourth quarter pricing.

Sergey Bolshakov - ***Investec - Analyst***

So how do you contract volumes?

Mike Salamon - ***New World Resources plc - Executive Chairman***

Pardon.

Sergey Bolshakov - ***Investec - Analyst***

How do you guys contract volumes? Do you have volumes contracted for a quarter, or for a year?

Jan Fabian - ***New World Resources plc - COO***

We have a framework agreement basically over the year, and we do agree then prices for the quarter. However, sometimes it might happen that there might be also some volume shifts within a quarter.

Mike Salamon - ***New World Resources plc - Executive Chairman***

I think one has to recognize that, technically speaking, a contract requires one to sell something at a specified article at a specified price. So everybody who talk about long-term contracts these days is not actually technically accurate, because a quarter is actually what is a contract; the rest is just a framework agreement.

Sergey Bolshakov - ***Investec - Analyst***

Okay, thank you.

Mike Salamon - ***New World Resources plc - Executive Chairman***

Next?

Operator

There are no further questions from the phone.

Mike Salamon - ***New World Resources plc - Executive Chairman***

We can take another one from the floor.

Jason Fairclough - ***BofA Merrill Lynch - Analyst***

Just a question on mix. And again what I'm looking at here is your slide 25. If you look at coking coal volumes over the last four years, they've basically trended down. At what point is this going to stabilize?

Mike Salamon - ***New World Resources plc - Executive Chairman***

If you look at our resource base, it's over 60% coking coal. So, ultimately, that's what we're going to mine and sell. In the near term, we're not able to do that. And one of the key reasons for the project at Karvina is, in fact, to unlock a block of 30 million tonnes of coking coal, which, around 2016, '17, will start to cause us to go back towards the mix in our resource base.

Jan, is there anything you want to add to that? Does that answer your question?

Unidentified Audience Member

So over the next couple of years though mix as this year, or it's going to continue to trend down?

Mike Salamon - ***New World Resources plc - Executive Chairman***

Jan?

Jan Fabian - ***New World Resources plc - COO***

As we will be announcing half a year ago, mid-term, meaning the next three years to five years, we will see a slight increase to get somewhere to 50/50.

Jason Fairclough - ***BofA Merrill Lynch - Analyst***

Thank you.

Mike Salamon - ***New World Resources plc - Executive Chairman***

But, ultimately, we're going to mine the resource base. So it will rise way beyond that thereafter.

Brandon Fried - ***JPMorgan - Analyst***

Brandon Fried, JPMorgan. I was wondering with the European steel industry set to decline by perhaps as much as 20 million tonnes to 30 million tonnes in the coming decade, are you doing anything to find some customers outside of your traditional area, outside of Europe?

Mike Salamon - ***New World Resources plc - Executive Chairman***

I'm not going to take that number as a given. I don't know where it comes from. But essentially if you look at our business, the raison d'etre around the business is very much the fact that it is land-locked. And it's a long way from deep water. And what that means is two things. One is it's expensive to bring product in. But it also means it's expensive to take product out.

And, hence, our business is very much driven around customers who are near us. Some are in Ostrava, and some are not that far -- none of them are that far away. And most of our business is continuous supply of not-such-significant quantity. We don't talk about Capesize vessel and things; we talk about trains.

And, on our customer side, likewise, most of our customers are designed -- have designed their business to take trains of different qualities of coal and blend them. Nobody is in the same situation as, for example, the Korean or the Japanese steel mill, which is on deepwater and are bringing in Capesize vessels of different types of product.

So our desire is not to export. And our customers' desire is not to import. And really I think our focus is very much on making sure that what we produce and our cost structure is such that we don't have to export, because if you look at the net backs associated with exporting, just because of logistical costs, it really isn't a good economic outcome. Now, in that regard, I think what we're doing, in terms of the quality of our mining operations etc., is going in the right direction.

And also if we look at our customers, I would say that Central Europe is probably a lot more robust in the medium to long term than, perhaps, the totality of Europe, in terms of heavy industry, car plants, etc., etc. They seem to be doing better than, for example, some of the ones in Western Europe.

But it really isn't a good outcome for us to focus on exports out of the region, because whatever we do it's going to be a much less favorable net back for us.

Jan Fabian - ***New World Resources plc - COO***

May I add something to that.

Mike Salamon - ***New World Resources plc - Executive Chairman***

Please, Jan.

Jan Fabian - ***New World Resources plc - COO***

Very important thing that you have to note is that once you stay competitive -- cost competitive in the region, you will sell everything that you produce. And we have seen it with some of our customers even if ArcelorMittal was doing some restructuring.

Even in broader Europe, not only in Central and Eastern Europe, we have been able to deliver all the volumes that we have been delivering historically, because we deal with central purchasing in Luxembourg. And they are able to send a train somewhere to other plants. But you have to stay cost competitive, that's the most important thing.

Mike Salamon - ***New World Resources plc - Executive Chairman***

Any more on the line?

Operator

Oliver Harker-Smith, Babson Capital.

Oliver Harker-Smith - ***Babson Capital - Analyst***

Just a quick on, just trying to reconcile your net debt figure with, I guess, the numbers on slide 15. It looks like cash on balance sheet is EUR452 million, versus what looks like EUR842 million of debt, versus your net debt number of EUR472 million. Correct me if I'm wrong. Has the RCF been drawn? Or is that fully paid down? Or what's the difference between what I'm making out about EUR390 million of net debt versus your EUR472 million number?

Marek Jelinek - ***New World Resources plc - Executive Director & CFO***

You have the right answer. The RCF is fully drawn at the moment.

Oliver Harker-Smith - ***Babson Capital - Analyst***

And is there any particular reason for that? I know previously you said that was to stay prudence, given the broader economical outlook. Is that still the case? Or is there a broader reason why the RCF continues to be drawn, given you've got sizeable cash on balance sheet?

Marek Jelinek - ***New World Resources plc - Executive Director & CFO***

Yes, broadly, this is very much the reason we have actually, in the course of the first half of the year, fully repaid, and then fully redrawn the RCF. And this, I guess, reflects our view of the risk level of the credit market in Europe at the moment.

Oliver Harker-Smith - ***Babson Capital - Analyst***

Okay, super, thanks guys, I appreciate that.

Mike Salamon - ***New World Resources plc - Executive Chairman***

Any more?

Operator

There are no further questions from the phone.

Mike Salamon - ***New World Resources plc - Executive Chairman***

Well, thank you very, very, much for taking the interest in us; thank you.