THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

NWR.L - Q4 2015 New World Resources Plc Earnings Call

EVENT DATE/TIME: FEBRUARY 24, 2016 / 10:00AM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Radek Nemecek *New World Resources plc - IR*

Gareth Penny *New World Resources plc - Executive Chairman*

Boudewijn Wentink *New World Resources plc - Finance and Legal Director*

PRESENTATION

Operator

Good day, and welcome to the New World Resources full-year 2015 results conference call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Radek Nemecek. Please go ahead, sir.

Radek Nemecek - *New World Resources plc - IR*

Thank you, operator. A very nice morning to everyone, and thank you for joining us on this conference call to discuss our 2015 audited results.

My name is Radek Nemecek, I'm head of Investor Relations. Alongside me is Gareth Penny, our Executive Chairman; and Boudewijn Wentink, our Finance and Legal Director, who will present our results to you. At the end of the presentation, as usual, we will open the call for your questions for approximately 15 to 20 minutes.

Now, without any further delay, let me hand over to Gareth.

Gareth Penny - *New World Resources plc - Executive Chairman*

Thank you, Radek. Good morning, everyone on this call. If you turn to slide 3, you'll see what we intend covering this morning. We'll update you on the strategic review, developments on that, I will take those two items; and then, we will look at the performance of the Company, and give you a financial and operating update.

If we then move on to slide 5, we note on this slide three strategic initiatives, if you like, of the Company. It seems to me we've always had three, but we focused here on, firstly, how do we optimize the operations; what do we need to do to make, in particular, OKD fit-for-purpose in the current market environment?

Secondly, what steps do we need to take that may be of a structural nature, if you like, beyond just pure asset optimization?

And thirdly, what opportunities might there be in the region, and how could we take advantage of that?

This presentation, in fact, isn't going to look at that third area. As you all know, I think, on the call, we have a number of projects in Poland which we've continued to look at. But really, the main focus of management today, obviously, is focused on optimizing the operations, and then how we need to ensure that we create a viable long-term business. So it's really those first two that we want to focus on in terms of this conversation.

If we then go over on to slide 6, can I give you an update on where we've got to with that? We've been doing a considerable amount of work, as I think you're all aware, in terms of putting together a team, doing a very detailed analysis of the business, and OKD in particular; looking at it on a mine-by-mine basis, and even going down below each mine to look at it on, if you might call it, a shaft-by-shaft basis, to actually see which part of the business are viable for the Group, going forward.

We've also been looking at things like appropriate capital structures. We need to provide clarity for employees, and so on and so forth.

We've periodically informed the market, as we've gone on, as to how we've been getting on with that process, and we've given updates over a period of time.

I think today, there are three important developments in terms of progress from that strategic review that we want to update the market on. The first, obviously very significantly, is the return by CERCL, and its affiliates, of their shares to the Company.

Through the process, it was clear that CERCL, that's the BXR and the Bakala elements, did not want to continue on in terms of a further restructuring, as they had done in the previous one. And so it became evident that, as a consequence, exit from the business would be the outcome that I think most beneficial, and would facilitate the restructuring process.

As you've seen from our press release, once various conditions have been satisfied, which are of a regulatory nature, and that should happen pretty soon -- I know we've put a long stop date here of March 31, but it should be sooner than that. Once those have happened, those shares would be held in treasury by the Company and we will move forward from there.

What it, of course, means is that all the remaining shareholders, because the amount of, or the number of, issued shares will be halved, will effectively double their stake in the business, so actually the current bondholder group will become the major shareholders in this business. We can take further questions and discuss that in due course.

The second element that we talk about in our press release is, of course, the waiver that has been granted by the bonds. Again, I think an important milestone today, because it gives us the room to move over these months without the pressure of the covenants, and without concern that we would breach those.

Then, in turn, thirdly, obviously has allowed us to declare a going concern: again, very important.

I think these are three important elements that are now in place. And what they do is they give us the room to now focus in March, and in the second quarter, on getting the stakeholders together and really focusing on how we're going to implement the outcomes of the strategic review.

If we then move on to more operational matters, on slide 8, we continue to have very difficult market conditions. I think we're all aware of what has happened with both thermal and coking coal prices over this period of time. But I have to say that, even against the backdrop of a very difficult market that we find ourselves, management has continued to make significant progress.

Highlighted on slide 8 is the fact that lost-time injury frequency rate has improved by an astonishing 31%. And actually, we're now getting very close to that goal that we'd set ourselves of an LTIFR of 5, which would certainly be, I think, the best for our kind of mining in a European context.

We note, too, on that slide cash balances of EUR86 million at the end of the year.

If we look at slide 10, and some brief financial details, and Boudewijn will go in to this in more detail in a minute, but, obviously, revenues down, reflecting lower tonnage and, in particular, lower thermal prices.

Notable is the cost per tonne is once again down to, this time, EUR66 per tonne. It wasn't that long ago that we were producing at EUR82 per tonne.

Selling and administrative expenses, down 11% to EUR119 million.

And the overall EBITDA loss EUR4 million, down from, I think, EUR11 million the same period of the previous year.

Net debt, just under EUR300 million.

Cash, as I've said, at the end of last year of EUR86 million.

In turning to slide 11, on the operational side, I've talked already about lost-time injuries. You will have seen that our production was down 7% to 8 million tonnes.

The mix at 53%, 47%. We've guided the market to say that we generally are looking to produce 60%, 40% coking coal. It continues to be an objective, but sometimes, particularly given market circumstances, one's got to focus on which coal can be mined as profitably as possible, and that's really the outcome of this.

CapEx down 42% to EUR34 million; again, I think a necessary level of CapEx, given market circumstances.

A little bit of an uptick in coal inventory. We did say we'd mined 8 and sold 8, but actually it was rounding in that. If you take out the rounding, you find the coal inventories have gone up a little bit.

Our headcount including contractors, down 6%.

Then, just really a comment around the overall steel markets, which obviously continue to face significant challenges. Utilization of steel capacity at about 70%; and clearly, an industry that still faces a number of different challenges.

We'll return to some of these points later on, perhaps in the summary for today. But at that point, may I hand over to my colleague, Boudewijn.

Boudewijn Wentink - *New World Resources plc - Finance and Legal Director*

Thank you, Gareth. Good morning, everyone. Turning to the P&L on slide 13, and as already noted, our revenues were down year on year by 7% to EUR630 million, due to planned lower volumes sold and lower coal pricing.

Our total cost of sales was down 9%, with our selling and admin expenses down 11%. This is clearly testament to our disciplined focus on cost management.

We recorded a negative EBITDA of EUR4 million for the period, and an operating loss of EUR248 million. And we're reporting a net loss for the whole year of EUR223 million.

These results reflect an impairment loss on property, plant, and equipment of EUR199 million; and, as mentioned earlier, a non-cash gain of EUR67 million. That is related to the fair value revaluation of our mandatory convertible note.

Our net cash flow from operations was negative EUR7 million for the year.

Our CapEx in 2015 was EUR34 million; 42% lower than in 2014.

Then on to slide 14, and the coal prices. Despite our region being substantially short of coking coal, we continue to operate in a very low pricing environment. We, nevertheless, managed to achieve a reasonably stable price in 2014 (sic) for our coking coal, where our coking coal sold for an average of EUR90 per tonne. This is up 6% on 2014. But recent pricing suggests that the trend continues to drift downwards. For example, in the last quarter of 2015 our coking coal was selling for EUR86 per tonne.

Thermal coal prices are weak. Although Central Europe is short, it is oversupplied with thermal coal, and our Polish competitors are particularly aggressive in their pricing. Our average realized price of thermal coal in 2015 was EUR50 per tonne, down 7% from 2014.

Then turning to slide 15, with our EBITDA bridge, we see that positive coal prices were countered by the coal volume; the mix, due to the higher thermal coal sales as a percentage of the total, and a change in the inventory. The cost of sales improved by EUR26 million between 2014 and 2015. As a result, we went from EBITDA positive of EUR11 million in 2014 to EUR4 million negative last year.

Then on to slide 16, our operating review. The left side of the slide shows that our coking coal revenues of EUR384 million were down 5% year on year. That reflects an EUR11 million fall -- 11% fall in tonnage, which was only partially offset by a 6% rise in the average coking coal price year on year.

Thermal coal revenues fell by 4% to EUR185 million, the combination of a 7% drop in prices and a 4% increase in sales.

On the right-hand side of the page, we see that our cash mining unit costs fell by 1% to EUR66 per tonne; and fell by 2% if you strip out the exchange rate effect on, and that's important to note, 7% lower production. This is a good performance, and in line with our 2015 target of a cash mining unit cost of mid-EUR60-s per tonne.

Sales and admin costs were managed down by 11%.

Our inventories increased by 11% year on year to 742,000 tonnes, which was largely, as said, a result of aggressive pricing for Polish competitors. And we are currently addressing our inventory level.

Slide 17 gives an overview of our financial position. Our net debt stood at EUR298 million as of December 31, and this includes the cash of EUR86 million at year end.

Gross cash flow from operations after working capital changes was negative EUR1 million, and we paid EUR5 million in interest, and spent EUR34 million, as said, on CapEx.

As you can see from the chart on the bottom, net cash flow from operations was positive EUR36 million during Q4, mainly thanks to a positive working covered capital development during the period.

On to slide 18. The majority of lenders, and Gareth touched upon that under the SSCF, the senior secured credit facility, who are also share and note holders, have agreed to terms of a standstill and a temporary waiver agreement, which gives the Group breathing space to negotiate and implement its strategic options.

This agreement will remain in place until July 31, 2016, if certain milestones regarding the process of the negotiations and reaching an agreement are satisfied.

It's important to note that, given the present situation of the Company, we have decided not to update the market with an outlook until we have further clarity regarding the restructuring.

And that concludes our presentation. I now hand back to you, Radek, who will [host the question] (technical difficulty).

Radek Nemecek - *New World Resources plc - IR*

Thank you, Boudewijn. Operator, we are now ready to take any questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). There are currently no questions in the queue.

THOMSON REUTERS

Gareth Penny - *New World Resources plc - Executive Chairman*

If there are no questions from anyone, let me say a few words of summary. Clearly, you have seen all the results that are here. It continues to be a very challenging environment.

I think the teams on the ground, in OKD, in Karbonia, in Amsterdam, in London, have done an excellent job under the circumstances. They continue to take costs out of the business; continue to reduce overheads; and, most importantly, continue to improve safety. I think we're proud of the efforts that have been made in that regard.

What we know full well, and this is what we said at the end of last year, and earlier this year, is that operational improvements on their own will not be sufficient. And we, as a company, need to find ways to look at the structure of the operations and the structure of our Group in order to ensure that we can create a viable entity under current circumstances, because we're not expecting to change in the short term.

And that's really what the whole strategic review has been about. And the findings that we have, have shown that elements of the Company, mines and parts of mines, even at current prices are profitable. The big challenge now becomes how do we get from where we are today to that point in the future.

Three important steps have been taken, as we have discussed on this call, or three important elements are there. One, obviously, is the return of the CERCL shares, which we have discussed; secondly, the commitment of the bondholders, and soon to be majority shareholders, to the waiver, which is another important element; and thirdly, as we've said, the going concern.

All of which gives us the breathing room now to regroup with all the stakeholders of this business and decide exactly how to take things forward. And those stakeholders obviously include bondholders, and shareholders, and management, government, unions, suppliers, customers.

We all, I think, have a vested interest in finding an appropriate, sustainable structure for this business that would allow it to address the challenges of this current market.

We will continue to keep you briefed. There is a lot of ongoing work. And we thank you for your time this morning in listening in to this call.

So, from all of us here at NWR and OKD, many thanks. And enjoy the rest of your day.

Operator

Thank you. That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.
