

Eurasian Natural Resources Corporation



Transforming Resources

# An Introduction to Ferrochrome

Edinburgh, United Kingdom  
8 May, 2008

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All industry data is sourced from Heinz H. Pariser (2008).

# Agenda



- Introduction Jim Cochrane
- Overview
- Q&A
- Demand - key markets: stainless and alloy steels Mark Midgley
- Q&A
- Supply - high carbon ferrochrome / charge chrome
- Q&A
- Nickel / Chrome substitution
- Refined ferrochrome
- Q&A
- Supply - chrome ore Abdumalik Mirakhmedov
- Regional focus - China
- Q&A
- Summary Jim Cochrane

# Today's participants



**Jim Cochrane**  
*Head of Marketing*

- Extensive experience in marketing and business development in the mining industry
- Previously worked for Samancor Chrome, Billiton, Impala Platinum and Schlumberger
- With ENRC since 2001
- Led the expansion of the Group's customer base and negotiation of key contracts



**Mark Midgley**  
*Marketing Director*

- Worked in Africa for Anglo American and Rennies Shipping 1980-1982, and later marketed ferroalloys and metals as agent for BHP Billiton, Anglo American and Rio Tinto
- Was appointed to the board of NiMag in South Africa; was Deputy Chairman of Marantha Ferro Chrome and a director of FeSil, the Ferrosilicon and Silioccon Metal producer in Norway
- With ENRC since 2002



**Eric Roskam**  
*Product Manager*  
*Refined Alloys*

- Director of sales of refined alloys in the Dubai office of ENRC
- Started his business career in 1978 at a Dutch shipping company specialising in the transportation, handling and warehousing of dry bulk commodities, including ferroalloys
- Worked as Commercial Director of the Kermas Group, specialising in low- and medium-carbon ferrochrome, managing global sales and marketing



**Abdumalik Mirakhmedov**  
*General Manager Beijing,*  
*ENRC Marketing*

- Product manager for iron ore responsible for the global strategy, sales and marketing
- Responsible for marketing of iron, chrome and manganese ores in China
- With ENRC since 2000
- Degree in Economics from the University of Essex, UK

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# ENRC: a leading diversified mining company



		ENRC				Sales & Marketing							
		Ferroalloys		Iron ore		Alumina & Aluminium		Energy		Logistics		Total Group <sup>(a)</sup>	
		2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Revenue <sup>(b)</sup> (US\$m)		2,178	1,473	991	829	607	602	181	154	149	198	4,106	3,256
EBITDA <sup>(c)</sup> (US\$m)		1,138	547	448	323	220	277	107	77	44	54	1,906	1,256
Margin <sup>(c)</sup> (%)		52%	37%	45%	39%	36%	46%	59%	50%	30%	27%	46%	39%
Products		<ul style="list-style-type: none"> <li>Ferroalloys</li> <li>Chrome ore</li> <li>Manganese ore</li> </ul>		<ul style="list-style-type: none"> <li>Iron ore concentrate</li> <li>Iron ore pellets</li> <li>DRI (from 2011)</li> </ul>		<ul style="list-style-type: none"> <li>Alumina</li> <li>Aluminium (from 2007)</li> <li>Gallium</li> </ul>		<ul style="list-style-type: none"> <li>Electric Power</li> <li>Coal</li> </ul>		<ul style="list-style-type: none"> <li>Freight forwarding</li> <li>Railway track construction and repair</li> <li>Wagons and locomotives repair</li> </ul>			
		<b>World's largest and lowest cost ferrochrome producer<sup>(d)</sup></b>		<b>Large scale production with long life reserves</b>		<b>Low cost producer with long life reserves</b>		<b>Low cost, captive energy supply with growth potential</b>		<b>Comprehensive reliable network to support divisions</b>			

- (a) Total group EBITDA includes corporate and unallocated items of US\$(22)m for 2006 and US\$(51)m for 2007  
 (b) Revenue net of inter-segment revenues; margins based on total revenue (includes inter-segment and external revenue)  
 (c) Before exceptional items of US\$(6)m for 2006 and US\$(182)m for 2007  
 (d) Heinz H. Pariser, based on chrome content, 2006 data.

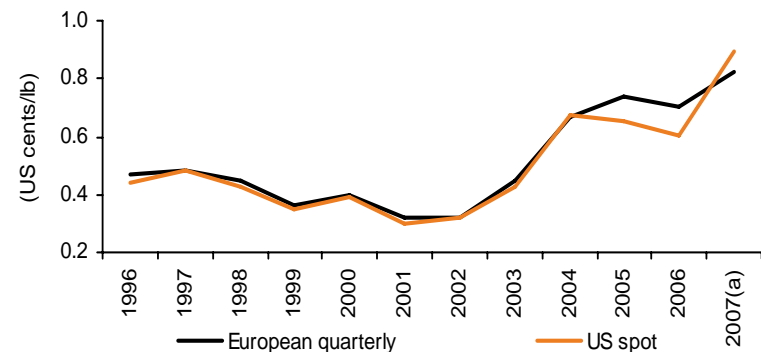
# ENRC Ferroalloy division



## Highlights

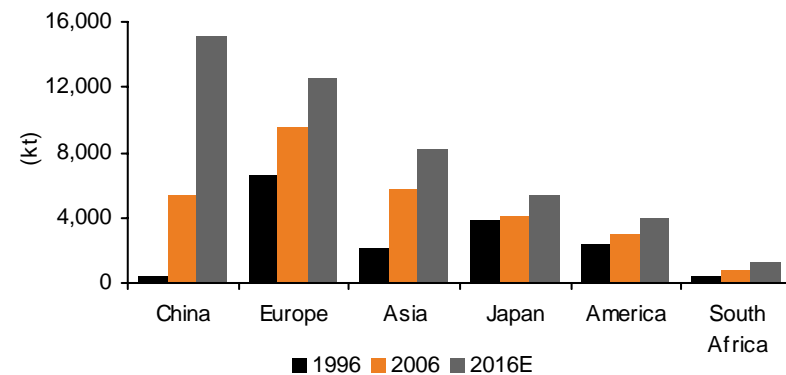
- World's largest chrome producer by chrome content in 2006
- World's lowest cost ferrochrome producer (Heinz H. Pariser)
- Large reserve base >40 years mine life
- Integrated business from mining to sales and marketing
- Positioned to realise premium pricing to a diversified customer base
- Location provides efficient, low cost access to growing Chinese market
- Diverse product range including special ferroalloys grades

## HC ferrochrome price



Source: Heinz H. Pariser, 2007  
 Note: (a): To June 2007

## Stainless steel melting production



Source: Heinz H. Pariser, 2007

**The combination of scale, location and quality provides the Ferroalloy division sustainable competitive advantage**

# 2007: ENRC Ferroalloy Division

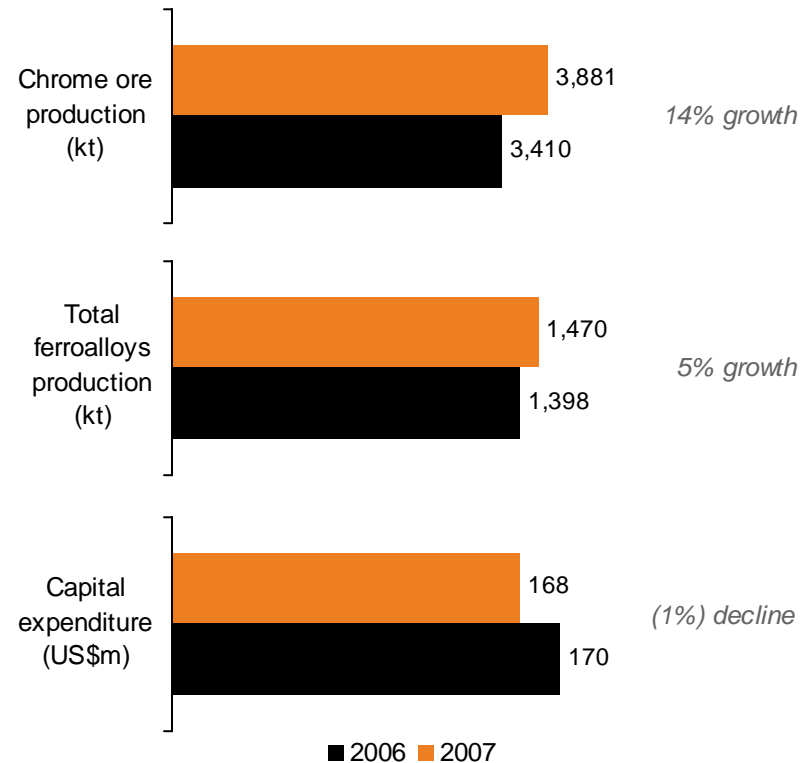


## Commentary highlights

- Volumes of both chrome ore and ferroalloys increased in 2007
- 53% of Group revenues in 2007. c60% of ferroalloy sales exc Russia / China
- Revenue ahead 48% – mainly due to higher ferroalloy prices. 8% growth in ferroalloy and chrome ore sales
- Strength of ferrochrome market sustained by continued growth in stainless steel demand and industry near capacity.

## Approved projects

- Construction of new furnaces
- Construction of second pelletiser plant
- A new agglomeration plant to improve recoveries
- Acquisition of Serov for US\$210m adding 200ktpa incremental sales.



**The combination of scale, location and quality provides the Ferroalloy Division with a sustainable competitive advantage**

## Seminar goals



- A wider understanding of the ferrochrome industry
- Analysts are able to model our business better
- Generalists can put what they read into context

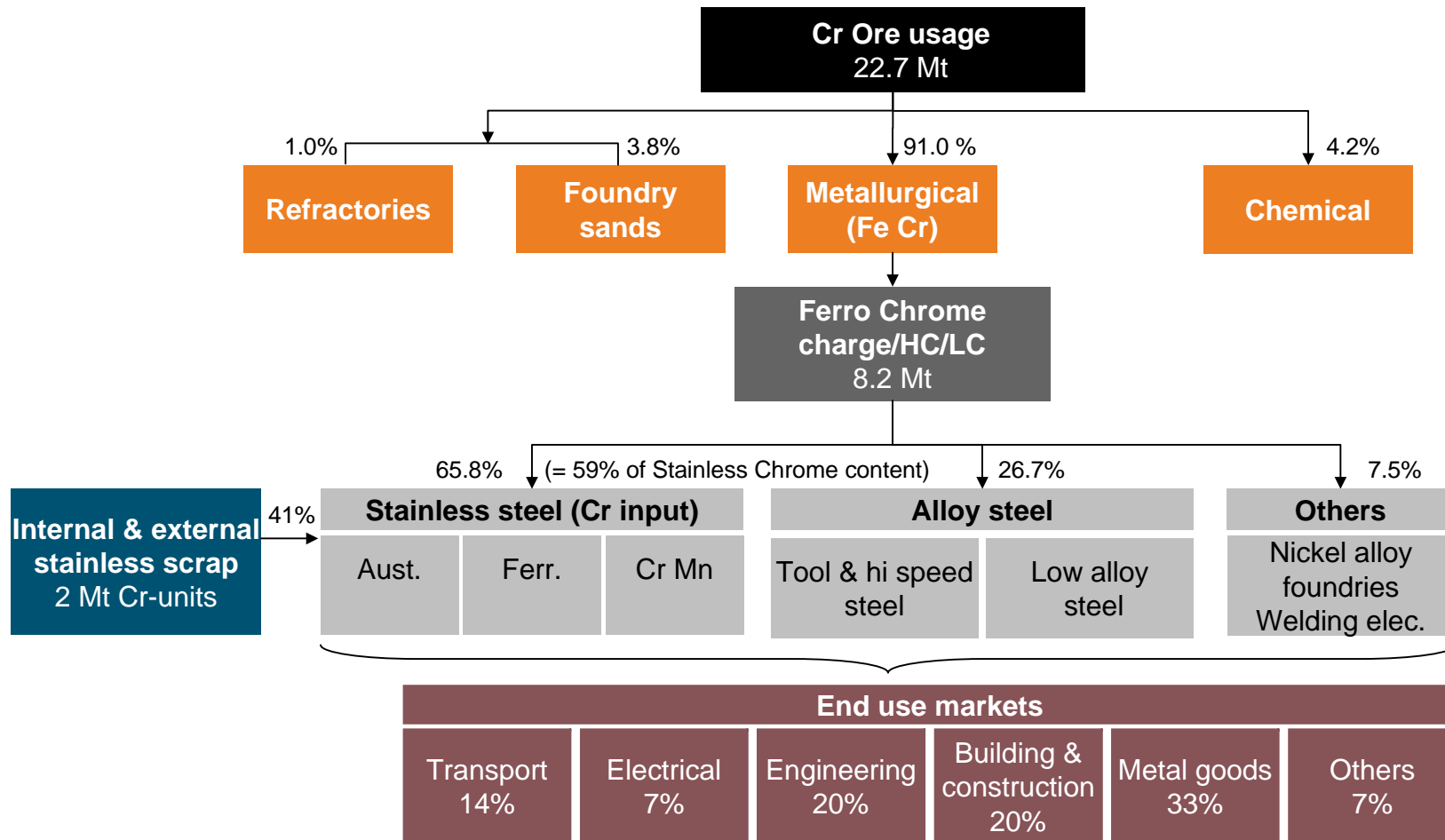
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# Overview

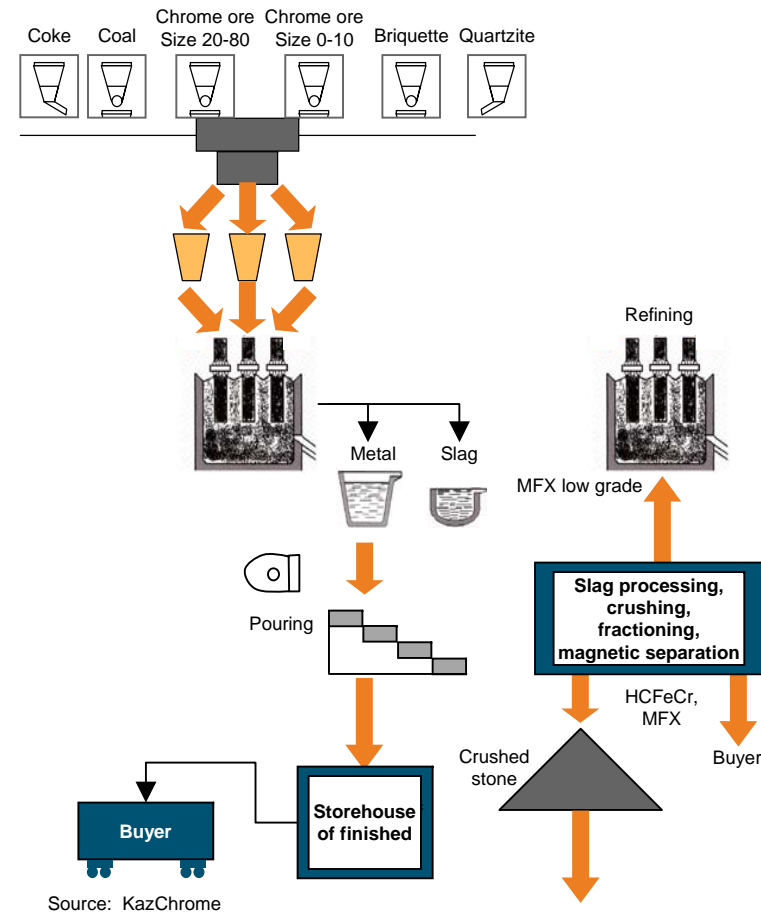
# Chrome market material flow



# HCFeCr production flowchart



- Ferrochrome is produced mainly in AC electric furnace
- Consumption norms:
  - ENRC 2.5 tonnes of ore per tonne of ferrochrome
  - Ore consumption depends on ore quality
  - Electricity 4,500KWhrs/tonne
  - Coke 0.6 tonnes/tonne of alloy produced
- Charge chrome 50% Cr content
- ENRC typically 69% Cr content
- Typical ferrochrome spec; 70%Cr, 8%C, 0.5% Si, 0.05%S, 0.03%Phos, balance Fe and impurities
- Typical ENRC chrome ore spec 50% Cr<sub>2</sub>O<sub>3</sub>
  - Cr atomic weight 52, O atomic weight 16
  - $2 \cdot 52 / (2 \cdot 52 + 3 \cdot 16) = 104 / 152 = 68.4\%$
  - Cr is 68.4% of quoted quality % in Cr<sub>2</sub>O<sub>3</sub>



# Characteristics of HCFeCr / charge Cr



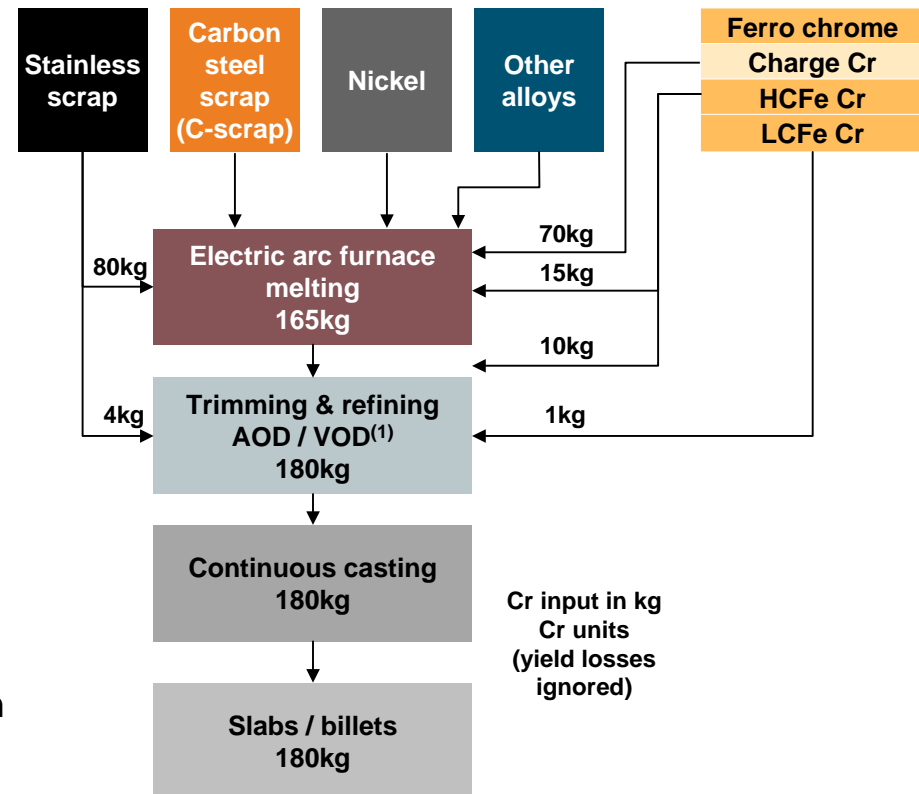
	HCFeCr	Charge Cr
Application	<ul style="list-style-type: none"><li>Wide range of usage in Alloy Steels, the Foundry Industry as well as for other materials – but also in Stainless Steels.</li></ul>	<ul style="list-style-type: none"><li>Almost exclusively for Stainless Steel melting.</li></ul>
Benefits	<ul style="list-style-type: none"><li>High Cr Content (typically 58%–70%). Advantages when limited Cr input is required, where specific constraints exist for certain special steels – in particular with regard to trace elements such as Ti, V, P, Si, etc.</li><li>Cr:C ratio 9:1</li><li>Cr:Si ratio &gt;100:1</li></ul>	<ul style="list-style-type: none"><li>Low Cr Content (48%–58%), High (free) Iron Content. Typically high Si Content (2%– 6%). Competitive bulk product for mass production.</li><li>Cr:C ratio 6.5:1</li><li>Cr:Si ratio 12:1</li></ul>

- HCFeCr has a more diverse range of application than charge chrome and is less prone to volume risk in any stainless steel downturn

# Principal material flow sheet Crude stainless steel (Europe)

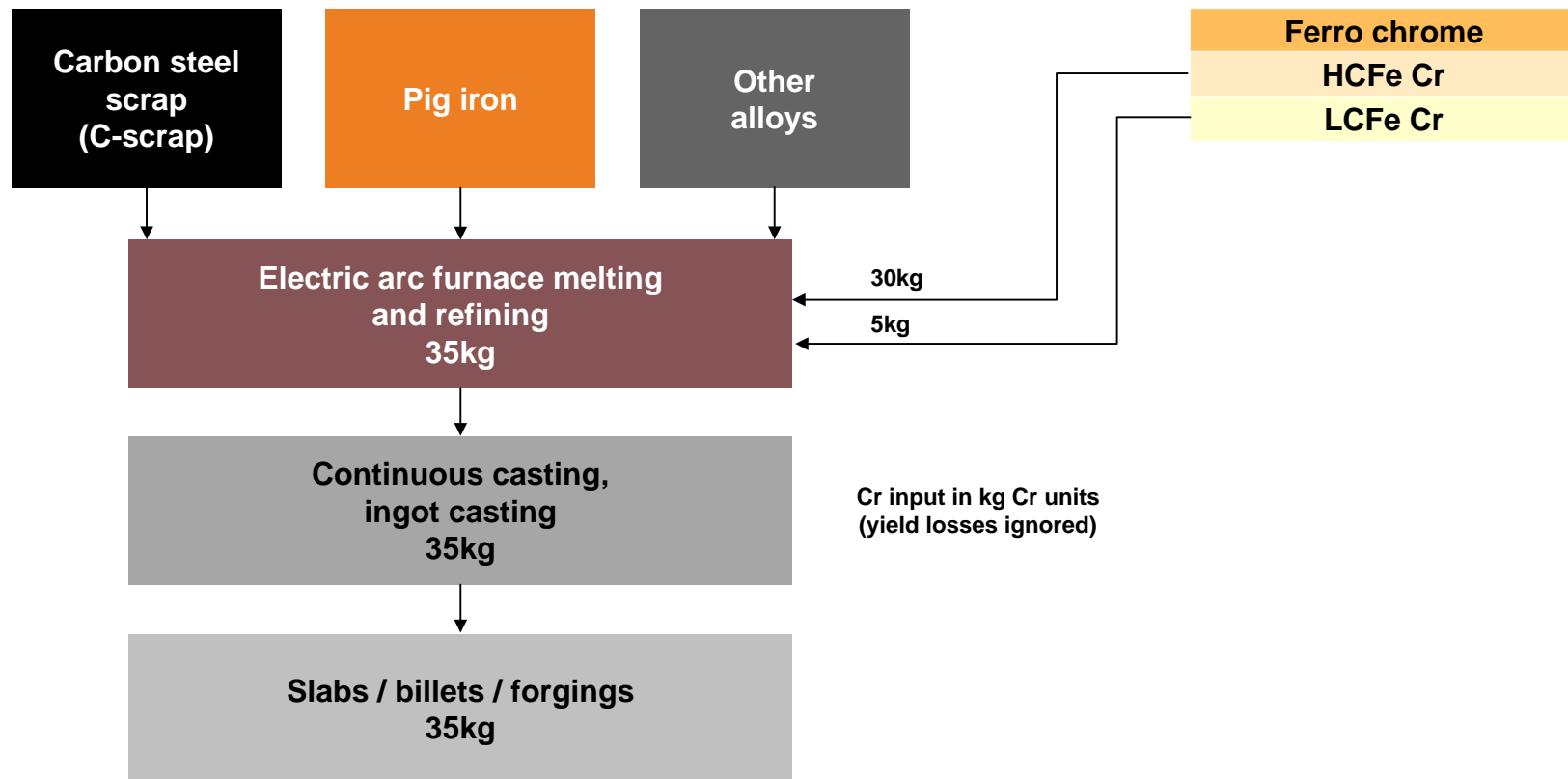


- Majority of ferrochrome consumed in electric furnace
- Charge chrome preferred in Electric Arc Furnace (EAF) for its free iron and silicon
- Argon Oxygen Decarburiser (AOD) is used for refining and removal of carbon
- HCFeCr has a higher Cr/Carbon ratio and is preferred in AOD
- Scrap is preferred raw material in austenitic production
- In a downturn the stainless scrap ratio in EAF stainless steel production increases and EAF ferrochrome consumption decreases. AOD consumption not impacted to same extent.



(1) Vacuum oxygen decarburiser

# Principal material flow sheet Engineering alloy steels (Europe)



## Pricing



- HCFeCr / Charge Chrome – 90% contract.
- Large portion of contract due to strategic nature of purchasing in Stainless Steel.
- Contract price based on delivered Europe of CIF Japan
- Contracts almost entirely quarterly negotiated
- US pricing related to published indices
- Spot market is largely HCFeCr. Main consumers being Alloy Steel – smaller cost component
- LC/MC mainly contracts with quarterly pricing
- Cr Ore historically annual pricing – today, quarterly or six monthly pricing

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**Any Questions?**

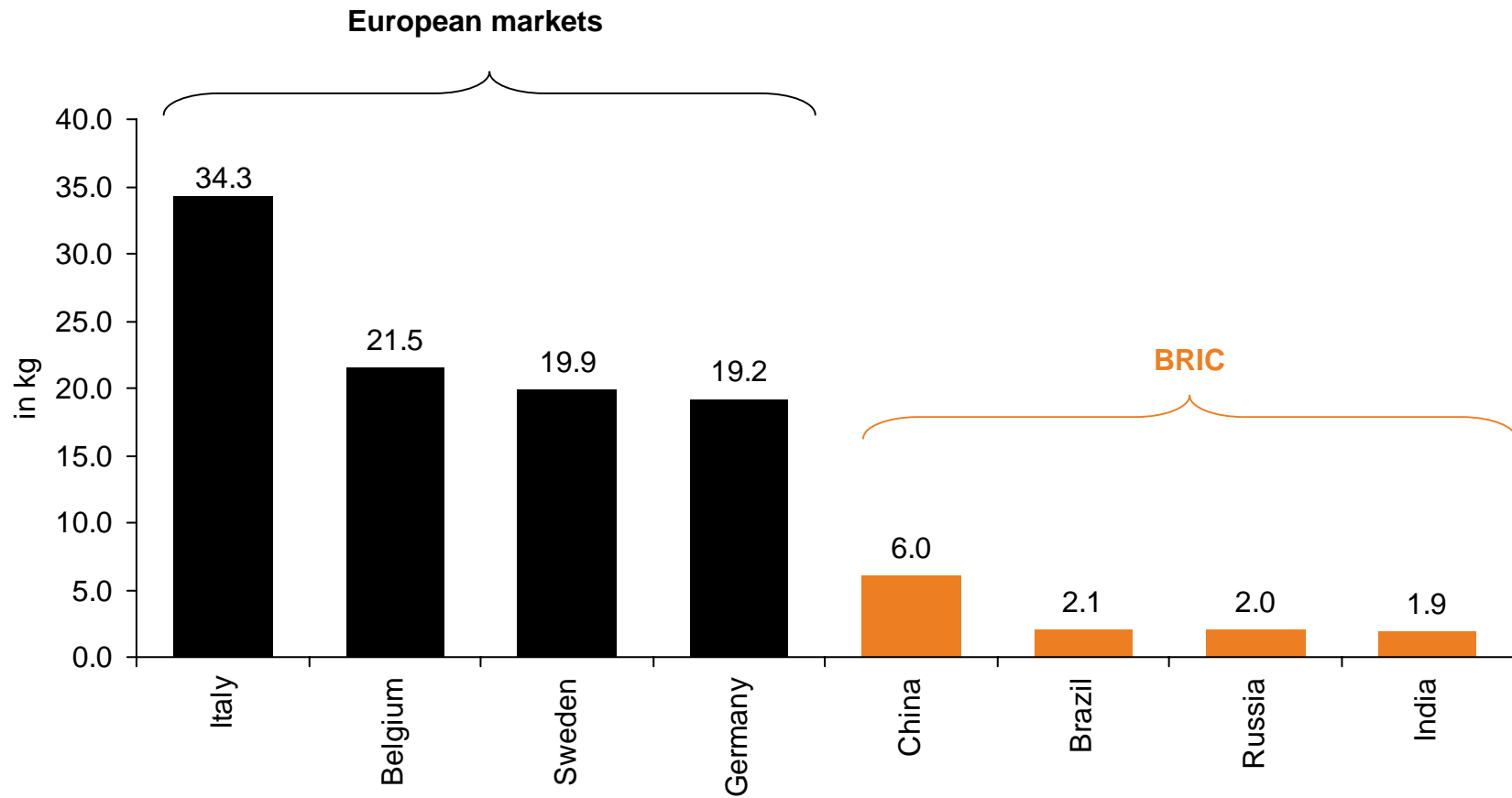
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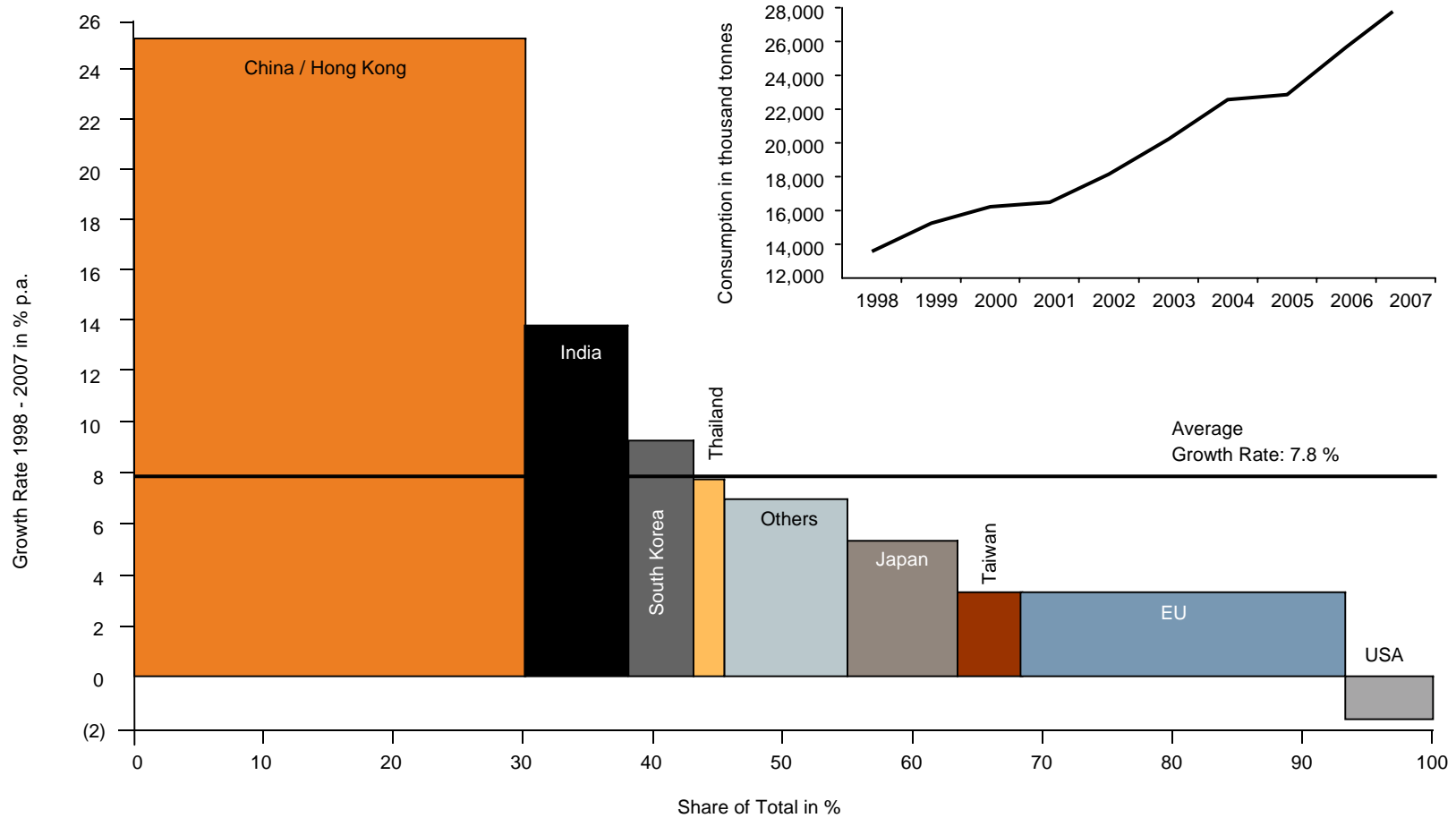
**Demand - key markets: stainless and alloy steels**

# Stainless steel consumption per capita 2007 selected



# Stainless steel consumption

## Flat & long products 2007



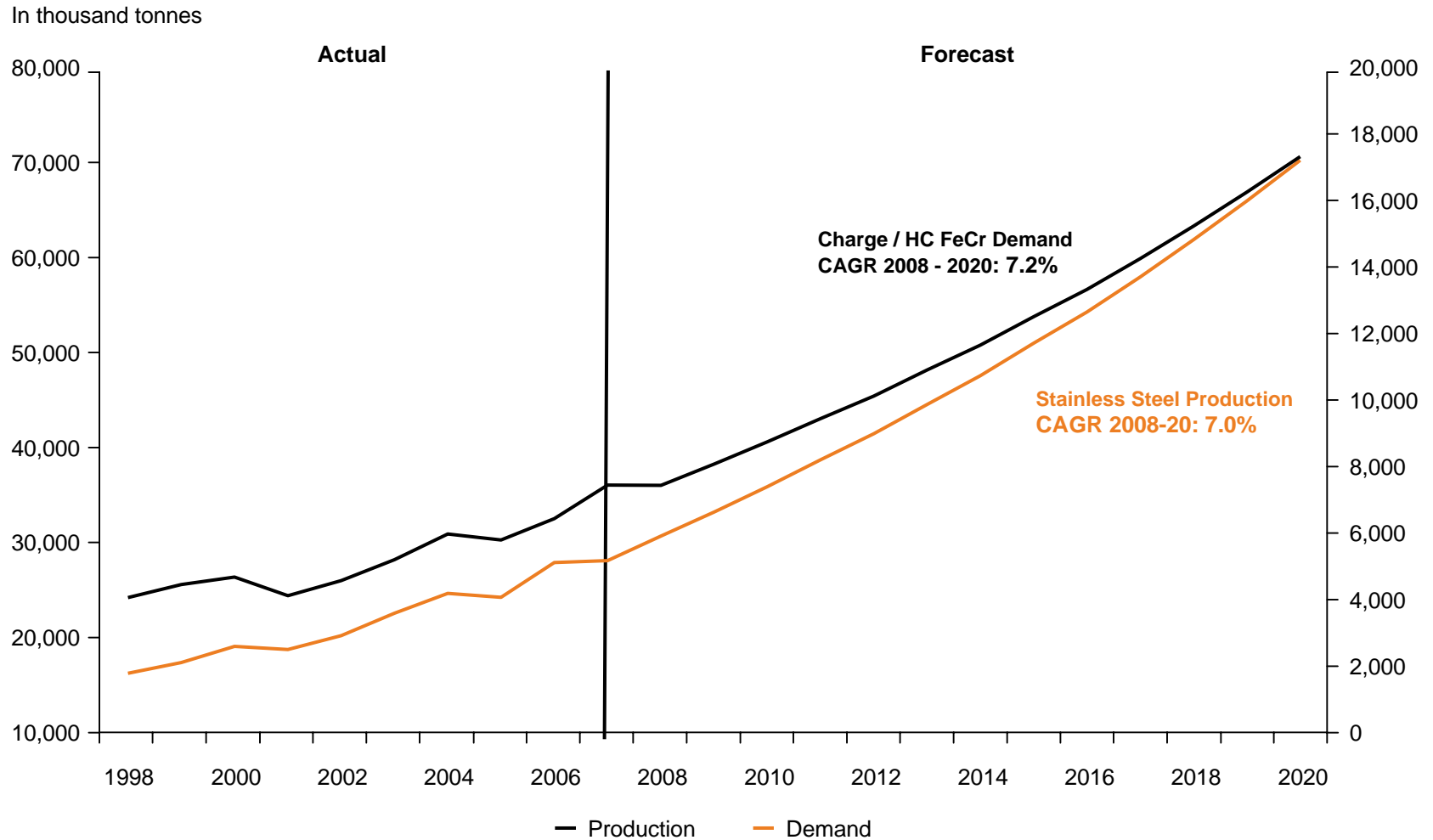
# Stainless steel melting production



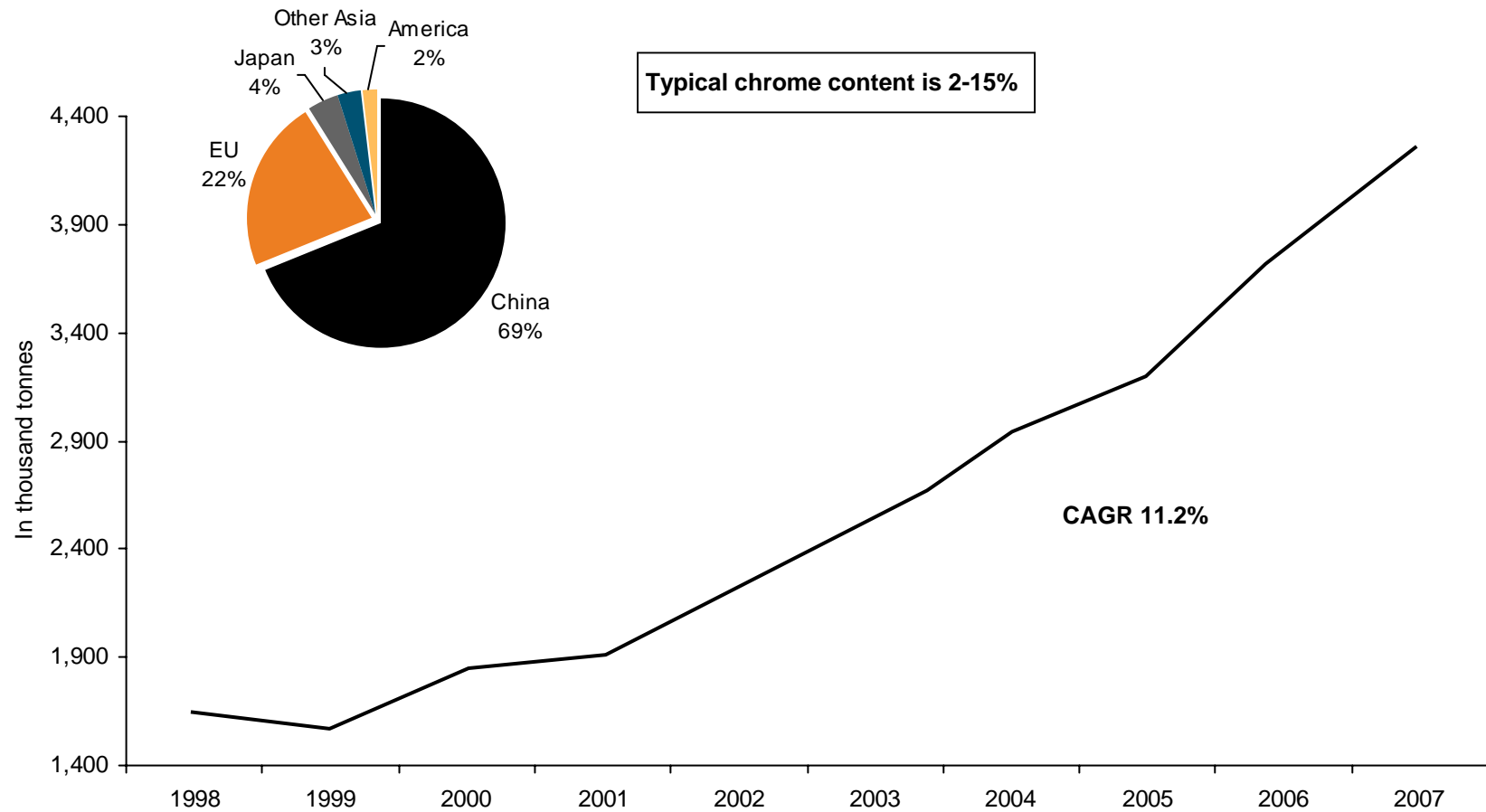
(In thousand tonnes)

	America	EU	Other Europe	Japan	China	Asia	South Africa	Total
1998	2,218	7,201	280	3,447	277	2,793	451	16,667
1999	2,525	7,452	310	3,385	394	3,258	482	17,805
2000	2,585	8,001	320	3,841	573	3,651	532	19,503
2001	2,210	7,729	235	3,856	730	3,905	516	19,181
2002	2,636	8,138	177	3,835	1,150	4,153	566	20,655
2003	2,731	8,452	220	4,113	2,000	4,852	643	23,011
2004	2,983	8,781	213	4,187	2,805	5,441	718	25,128
2005	2,764	8,336	204	3,983	3,350	5,504	565	24,706
2006	2,998	9,302	230	4,087	5,364	5,703	690	28,374
2007	2,778	7,866	242	4,050	7,520	5,458	671	28,584
2008	2,961	8,158	261	4,208	9,098	5,756	733	31,176
2009	3,361	8,426	276	4,294	10,437	6,119	807	33,720
2010	3,776	8,636	307	4,316	11,871	6,563	922	36,390
2011	4,160	9,030	341	4,479	13,403	6,855	946	39,213
2012	4,579	9,267	380	4,607	15,030	7,101	1,000	41,964
2013	5,061	9,665	426	4,760	16,753	7,359	1,058	45,082
2014	5,557	9,895	475	4,903	18,573	7,583	1,116	48,101
2015	6,126	10,308	531	5,073	20,488	7,820	1,178	51,524
2016	6,709	10,529	590	5,231	22,500	8,020	1,240	54,819
2017	7,376	10,957	657	5,417	24,608	8,236	1,306	58,557
2018	8,100	11,402	729	5,611	26,812	8,441	1,375	62,470
2019	8,884	11,862	807	5,814	29,112	8,636	1,447	66,562
2020	9,232	12,842	890	6,027	31,508	8,820	1,520	70,840
<b>Growth rate in % 2008-2020</b>	10.0	3.6	11.2	3.1	10.8	3.4	5.9	7.0

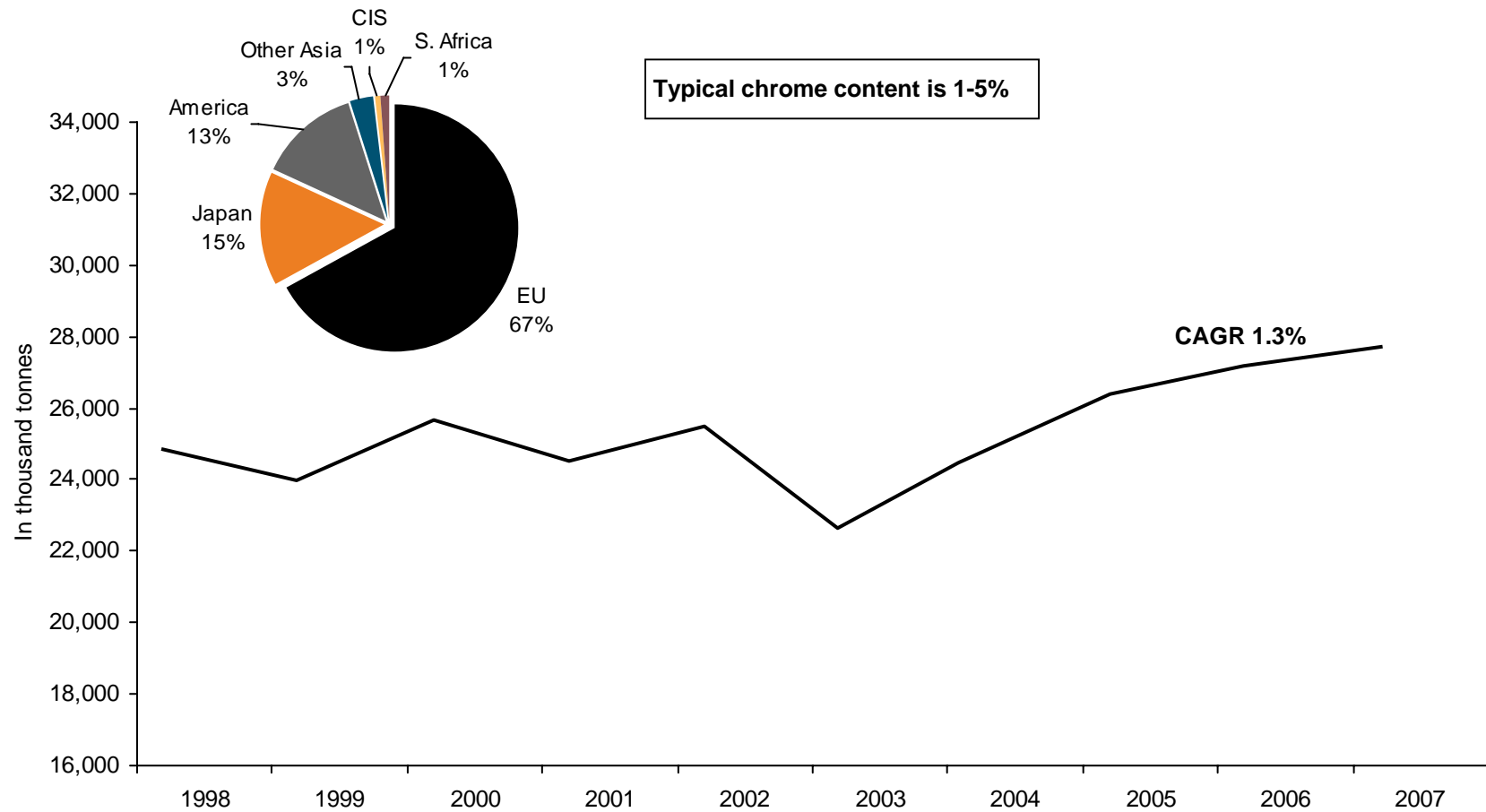
# Charge chrome/ HC FeCr demand vs Stainless steel melting production



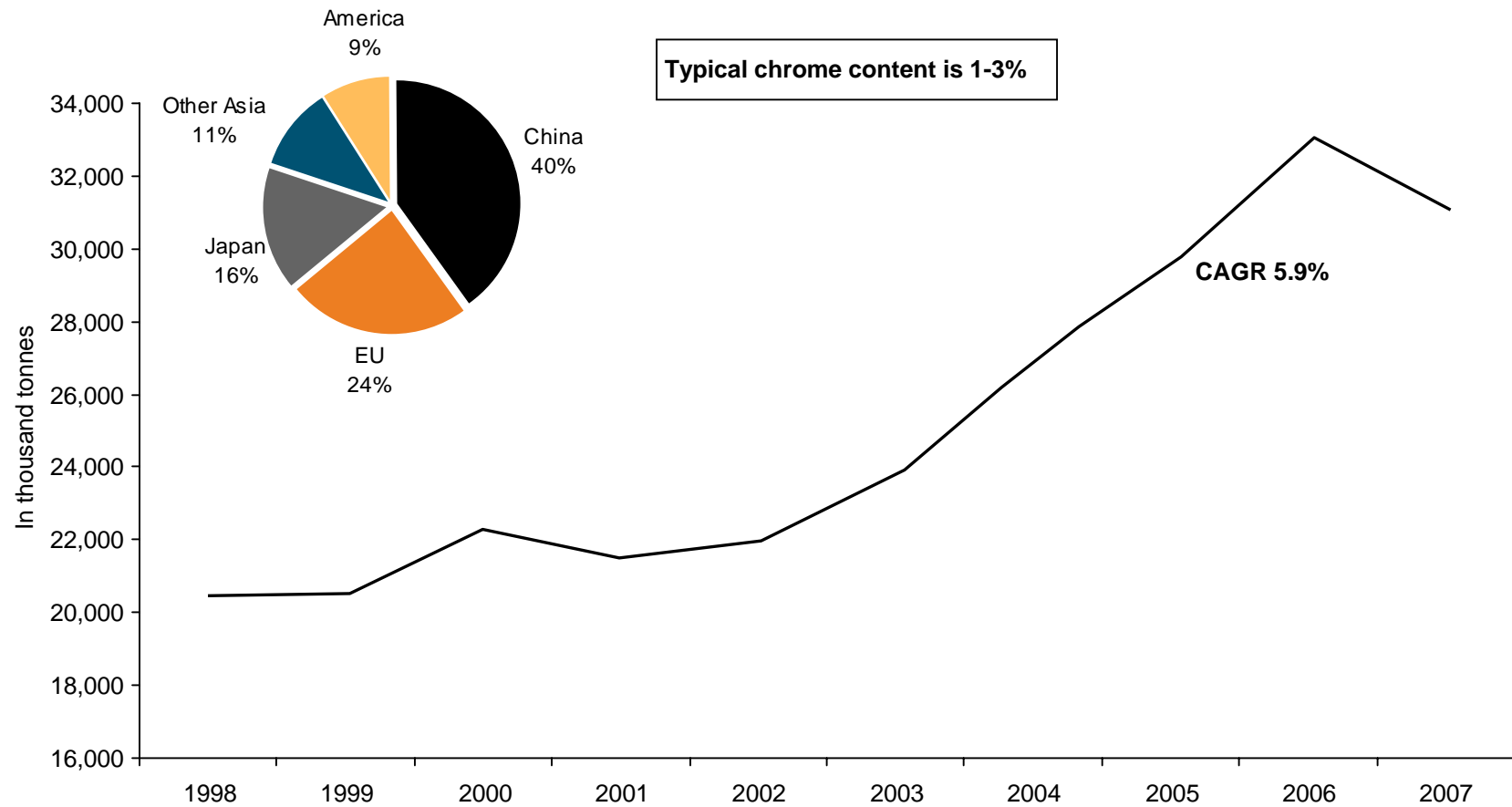
# Tool and high speed steels demand



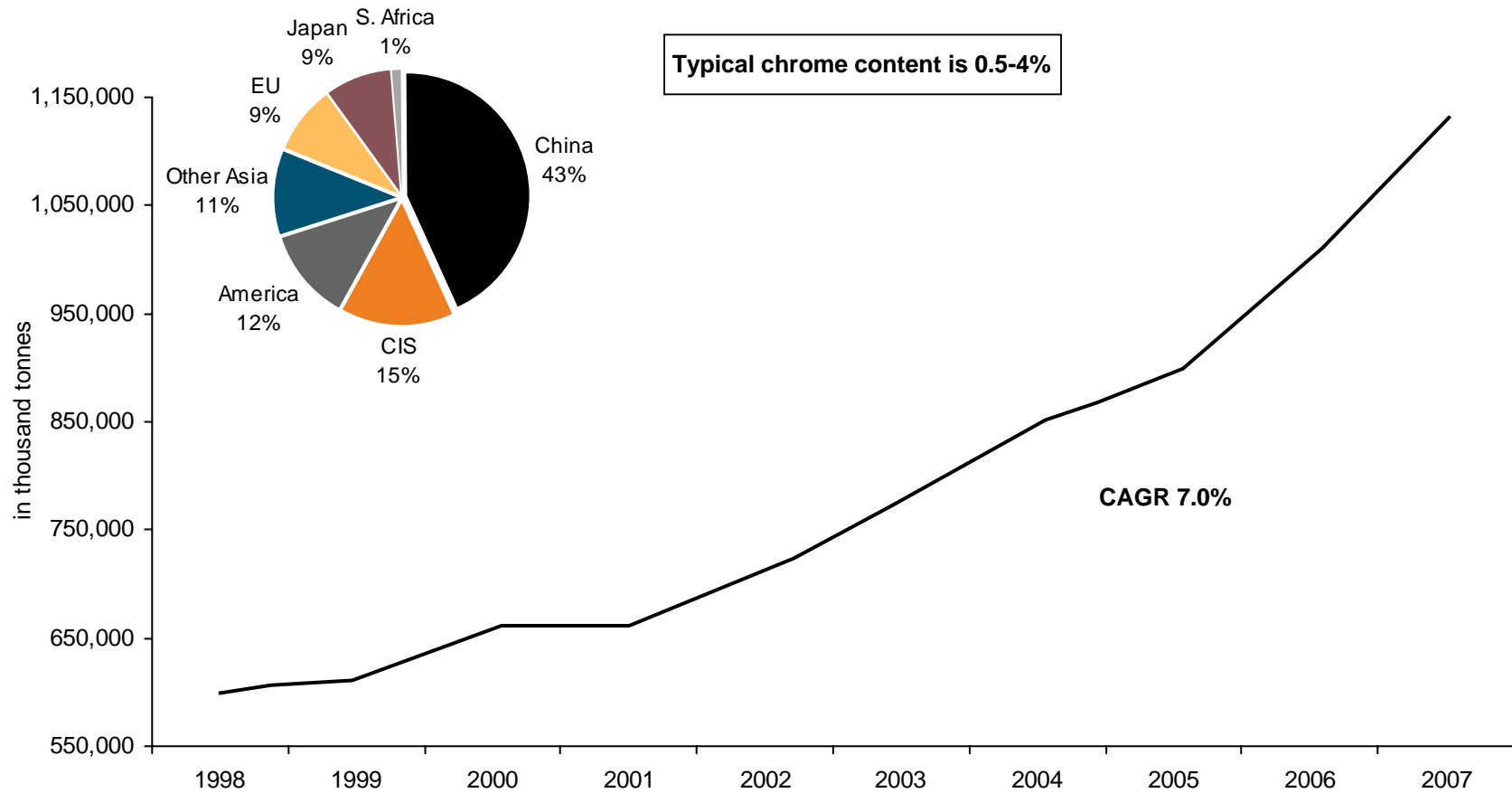
# Engineering steels demand



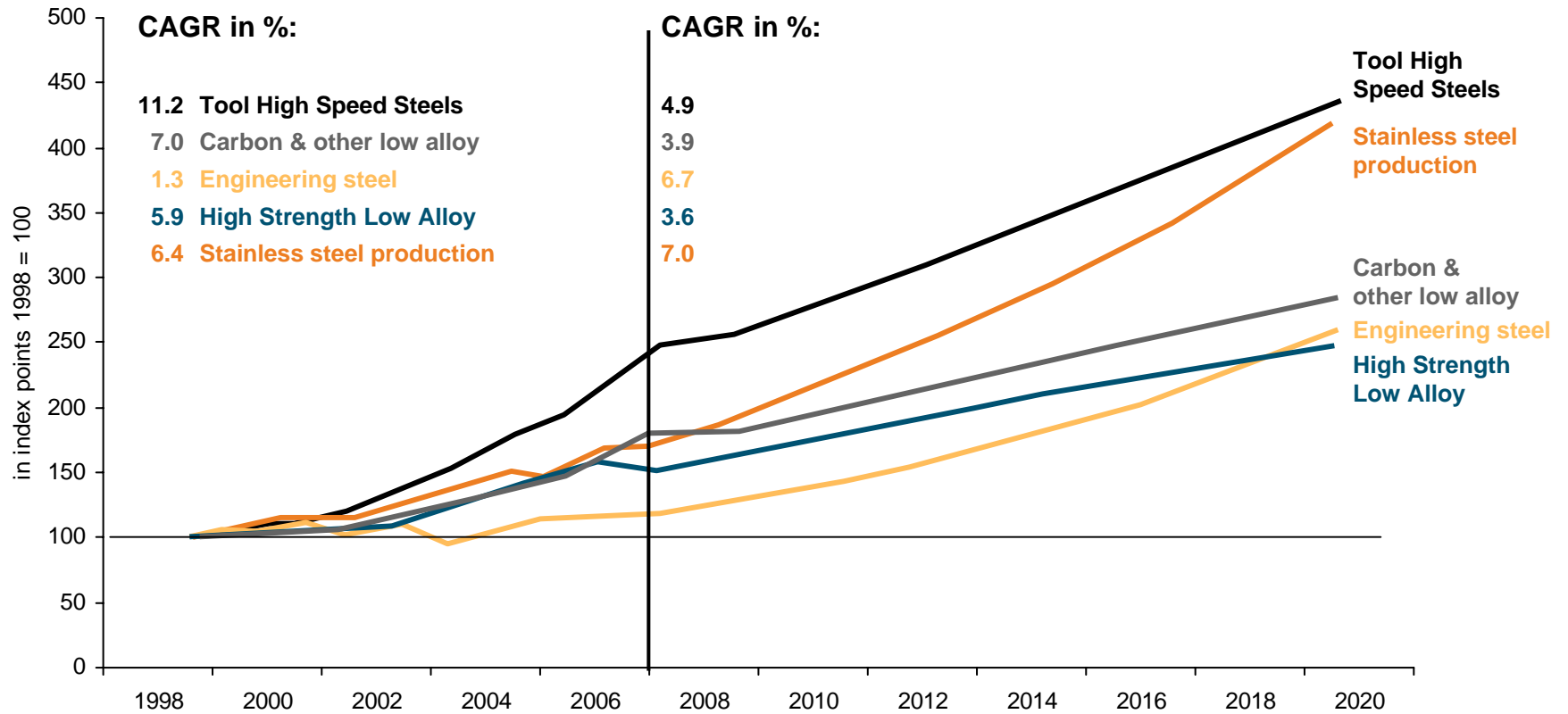
# High strength low alloy steels demand



# Carbon and other alloy steels



# Stainless and alloy steel growth



## Summary: Demand – key markets: steels



- Consumption per capita remains significantly lower in the developing world than in the mature economies
- Tremendous growth potential, particularly in China, India, Russia and Brazil
- Forecast growth remains strong: stainless steel 7% pa, alloy steel 4% pa
- At these levels the world needs more than 500,000mt of ferrochrome additionally every year

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**Any Questions?**

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**Supply - high-carbon ferrochrome / charge chrome**

# Producers of HCFeCr / Charge Chrome

## Estimated output 2007

in thousand tonnes of Cr units (rounded)

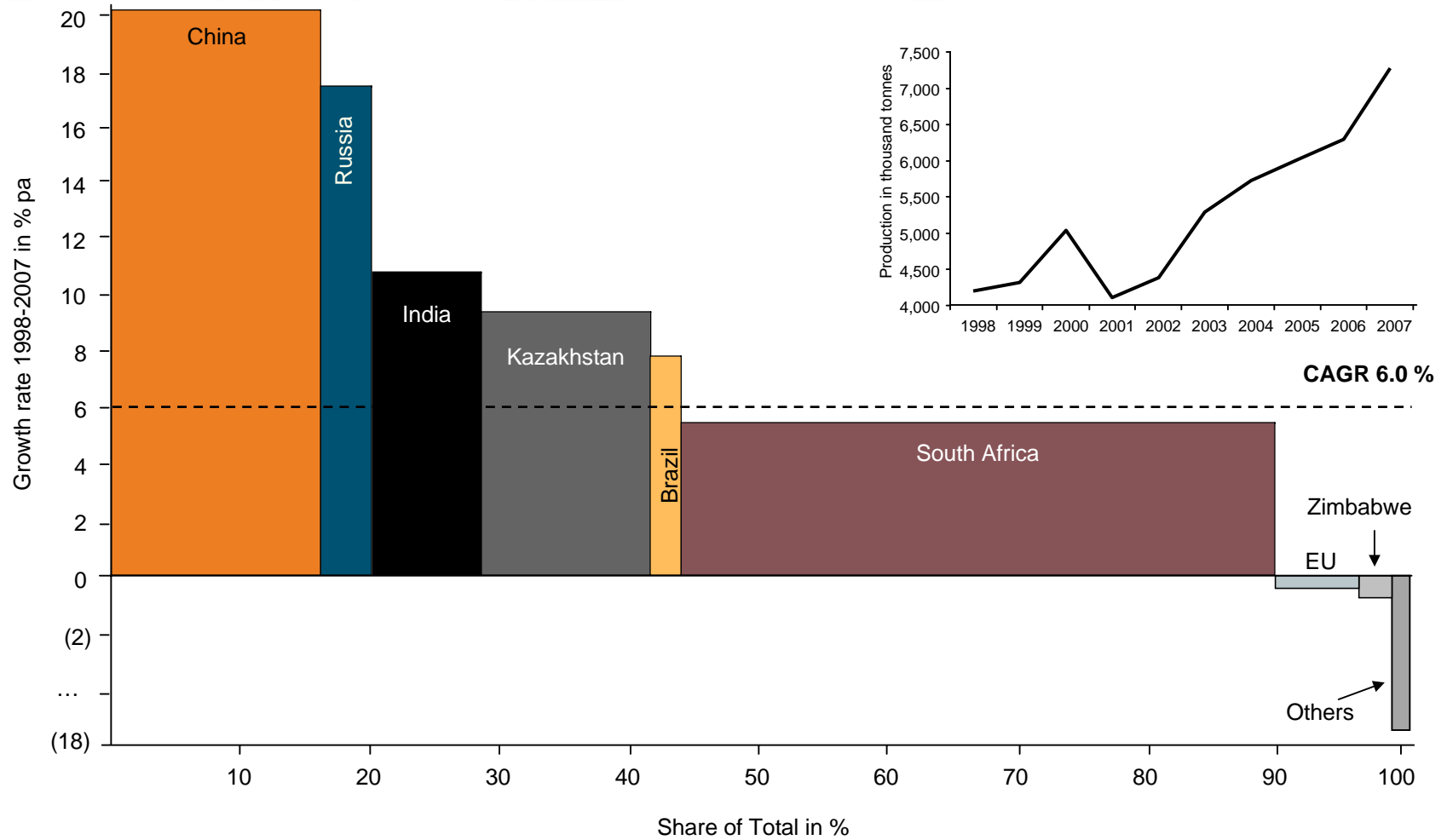


	Company	Country	'000 t
Low Grade HCFeCr	Various	China	775
	<b>Serov</b>	<b>Russia</b>	<b>50</b>
	Darfo	Albania	10
	IMFA	India	120
	Jindal	India	40
	FACOR	India	35
	Various	India	205
	Zimasco	Zimbabwe	125
	Abadan	Iran	10
	<b>Total</b>		<b>1,370</b>

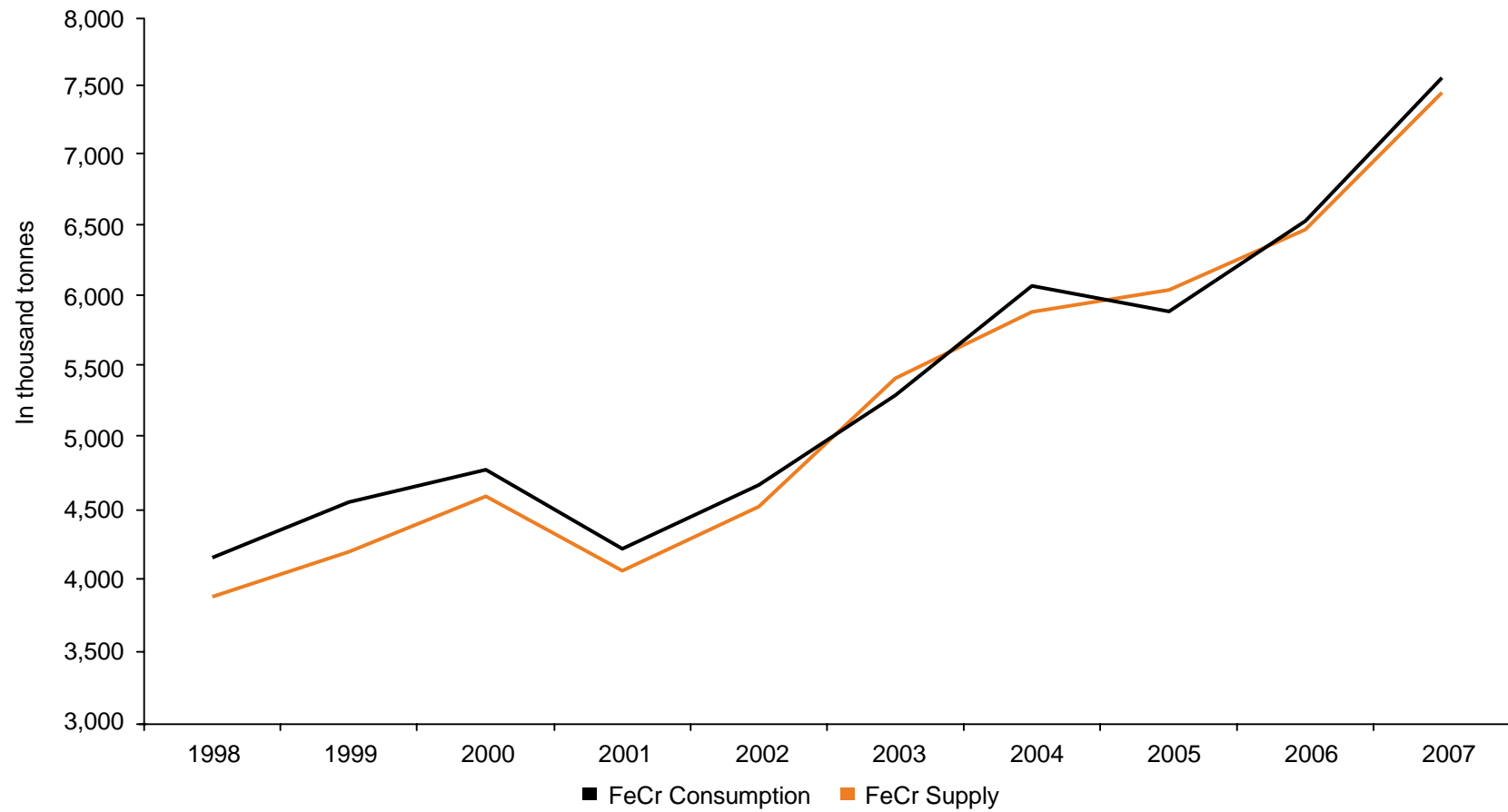
	Company	Country	'000 t
Charge Chrome	Ferbasa	Brazil	100
	Outokumpu	Finland	125
	Vargön	Sweden	50
	Xstrata	S. Africa	580
	Samancor	S. Africa	500
	Hernic	S. Africa	240
	Feralloys	S. Africa	165
	Merafe	S. Africa	125
	ASA Metals	S. Africa	55
	IFM	S. Africa	40
<b>Total</b>		<b>1,980</b>	

	Company	Country	'000 t
High Grade HCFeCr	<b>KazChrome (ENRC)</b>	<b>Kazakhstan</b>	<b>680</b>
	Cheliabinsk	Russia	75
	Yildirim	Turkey	43
	Vargön	Sweden	27
	<b>Total</b>		<b>825</b>

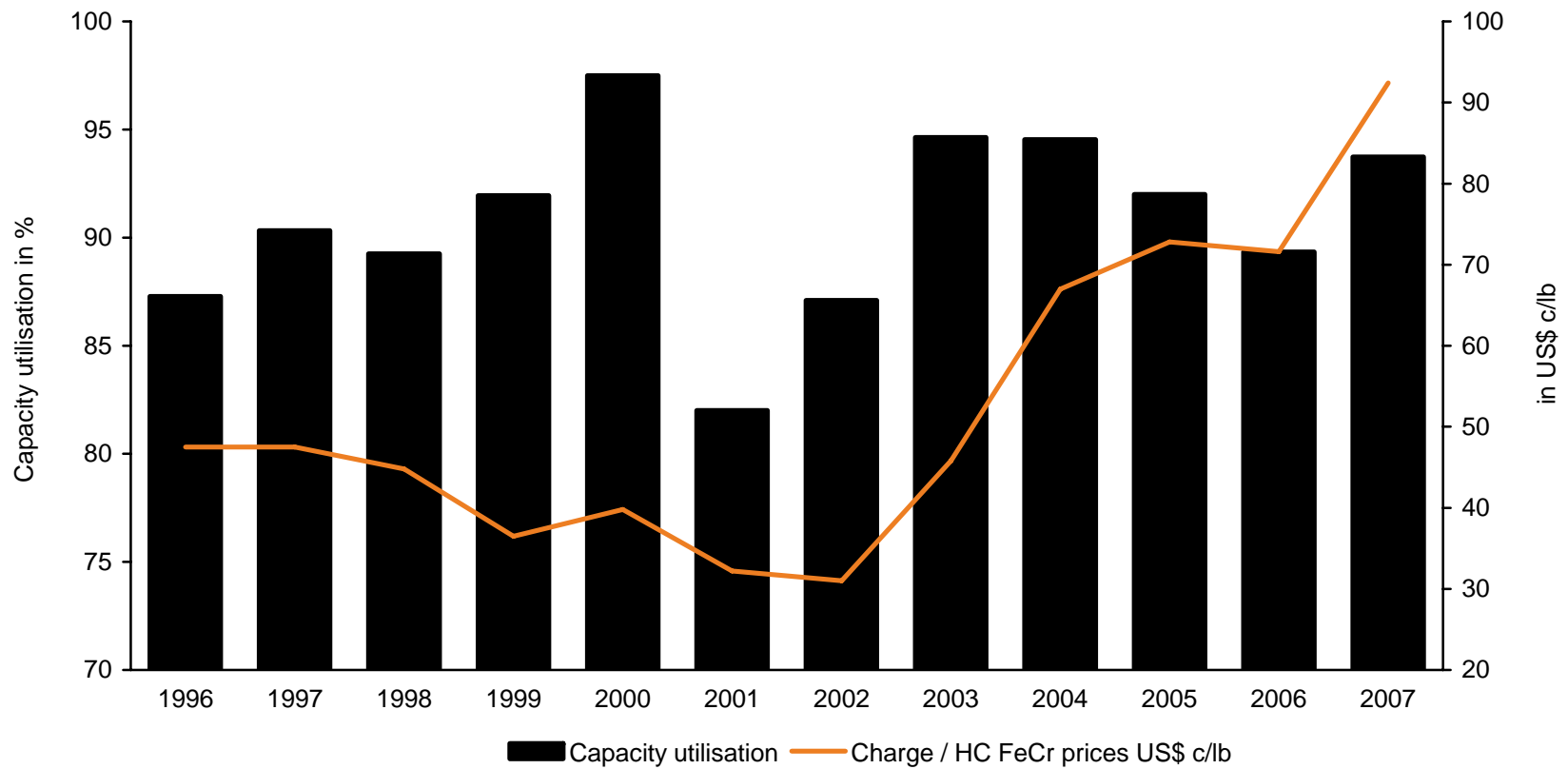
# Production – charge / HC ferrochrome 2007



# Charge / HCFeCr supply – demand 1998 – 2007



# Charge / HCFeCr price vs capacity utilisation



# Capacity changes 2007 – 2012

## Charge / HCFeCr



Country	Prel. 2007	(Forecast in thousand tonnes)		Forecast		
		2008	2009	2010	2011	2012
<b>Subtotal Europe</b>	<b>845</b>	<b>865</b>	<b>935</b>	<b>940</b>	<b>945</b>	<b>905</b>
South Africa	3,800	4,200	4,800	6,000	6,000	6,300
Zimbabwe	250	250	250	250	250	250
<b>Subtotal Africa</b>	<b>4,050</b>	<b>4,450</b>	<b>5,050</b>	<b>6,250</b>	<b>6,250</b>	<b>6,550</b>
Brazil	190	190	190	200	210	210
<b>Subtotal Americas</b>	<b>190</b>	<b>190</b>	<b>190</b>	<b>200</b>	<b>210</b>	<b>210</b>
<b>China</b>	<b>1,100</b>	<b>1,200</b>	<b>800</b>	<b>800</b>	<b>700</b>	<b>600</b>
India	700	750	750	800	800	850
Iran	20	50	50	70	70	70
<b>Kazakhstan</b>	<b>1,020</b>	<b>1,020</b>	<b>1,100</b>	<b>1,150</b>	<b>1,200</b>	<b>1,200</b>
<b>Subtotal Asia &amp; M. East</b>	<b>1,740</b>	<b>1,820</b>	<b>1,900</b>	<b>2,020</b>	<b>2,070</b>	<b>2,120</b>
<b>Total Capacity</b>	<b>7,925</b>	<b>8,525</b>	<b>8,875</b>	<b>10,210</b>	<b>10,175</b>	<b>10,385</b>
Demand	7,266	8,483	8,857	9,336	9,750	10,029
Utilisation (%)	91.7	99.5	99.5	91.4	95.8	96.6

## Summary: Supply - high-carbon ferrochrome / charge chrome



- China has been the fastest growing producer but producers are not integrated
- ENRC dominates high grade High Carbon Ferrochrome production
- High capacity utilisation expected for 2008 and 2009
- Majority of new ferrochrome projects in South Africa - electricity?
- These indicators are Heinz Pariser's and are based on positive forecasts for the global economy ....

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**Nickel / Chrome substitution**

# Substitution potential between Chrome and Nickel 2007



	Chrome in %	Chrome substitution potential	Nickel in %	Nickel substitution potential
<b>Stainless steel</b>	<b>64.8</b>		<b>59.2</b>	
Austenitic	28.6	Irreplaceable	56.0	Downgrading, Duplex, Rising Scrap Input
Ferritic	24.4	Irreplaceable	0.0	
CrMn	11.8	Irreplaceable	3.2	Mn replaces Ni
<b>Alloy steel</b>	<b>29.8</b>	<b>Limited substitution</b>	<b>7.4</b>	<b>Limited substitution</b>
<b>Ni-Base alloys</b>	<b>0.9</b>	<b>Irreplaceable</b>	<b>11.9</b>	<b>Wide Range of Substitutes incl. Cu-Alloys, Ceramics, High Grade Stainless Steels</b>
<b>Cu-Base alloys</b>	<b>0.0</b>		<b>1.4</b>	<b>Not relevant</b>
<b>Plating</b>	<b>0.0</b>		<b>11.3</b>	<b>High substitution risk! Decorative usage</b>
<b>Foundry</b>	<b>3.4</b>	<b>Limited substitution</b>	<b>3.1</b>	<b>Stainless scrap</b>
<b>Others</b>	<b>1.1</b>		<b>5.7</b>	
<b>Total</b>	<b>100.0</b>		<b>100.0</b>	
<b>Mill t units</b>	<b>4.7</b>		<b>1.3</b>	

# Austenitic / duplex stainless steels



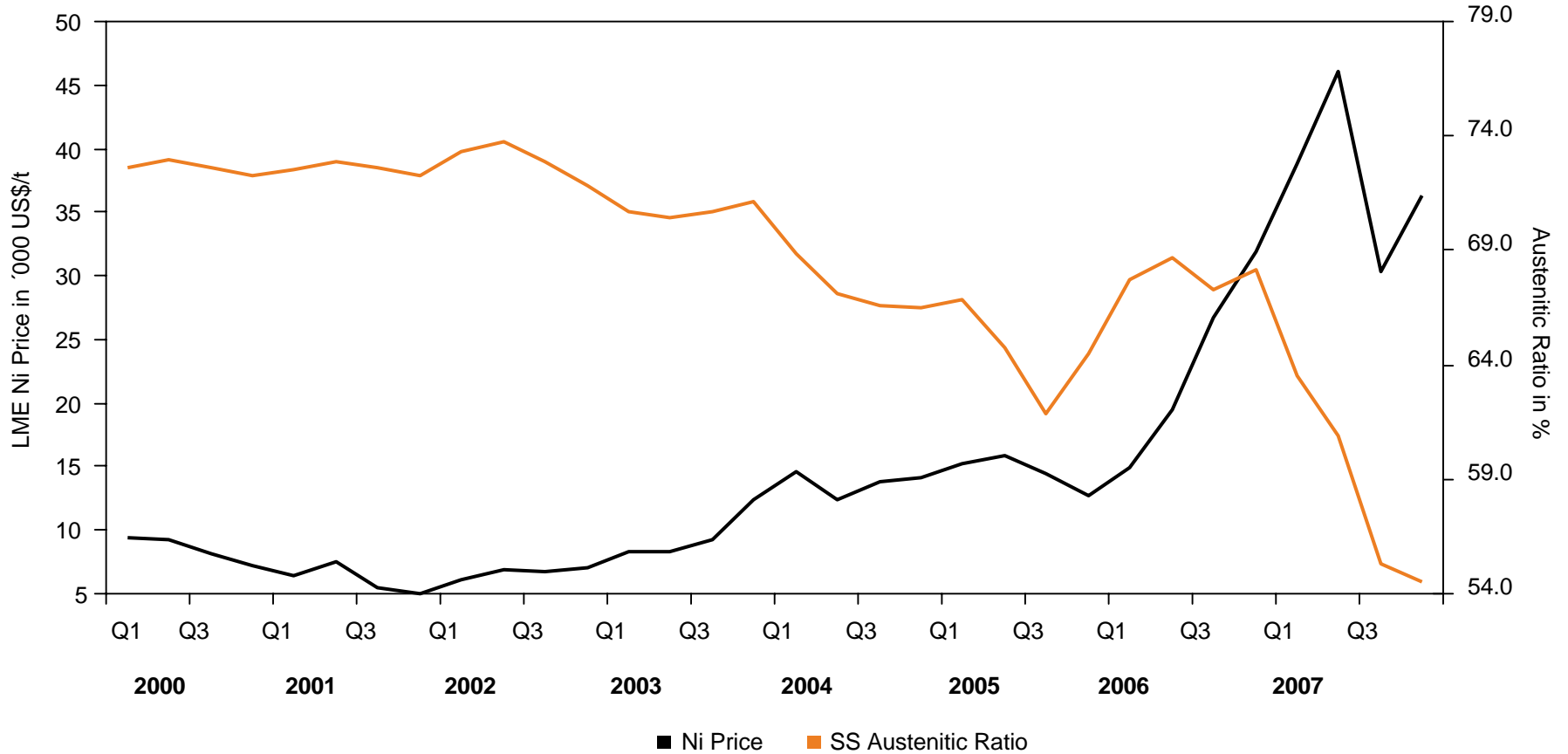
	Austenitics	Duplex
<b>Steel grade</b>	<b>304</b>	<b>2,201</b>
Cr	18.0	21.5
Ni	8.0	1.5
Mo	-	0.3
<b>Steel grade</b>	<b>316</b>	<b>2,205</b>
Cr	18.0	23.0
Ni	12.0	4.8
Mo	2.0	0.3
<b>Steel grade</b>	<b>904L (superaustenitic)</b>	<b>1.4462</b>
Cr	20.0	22.0
Ni	25.0	5.7
Mo	4.5	3.1

# The substitution trigger



**Ratios of:**

<b>Ferritics</b>	23.8	22.7	22.0	22.5	23.0	24.6	22.7	26.6
<b>CrMn</b>	3.6	4.7	5.0	6.8	9.8	10.8	9.3	14.6



## Summary: Nickel / Chrome substitution



- No substitution for Cr in stainless: no Cr no stainless
- High Ni prices trigger substitution
- Switching to high Cr duplex / ferritic grades added c. 175,000mt to ferrochrome demand in 2007
- Lower scrap in ferritic also aids high carbon ferrochrome demand
- Not clear at this point how much of the switching is here to stay

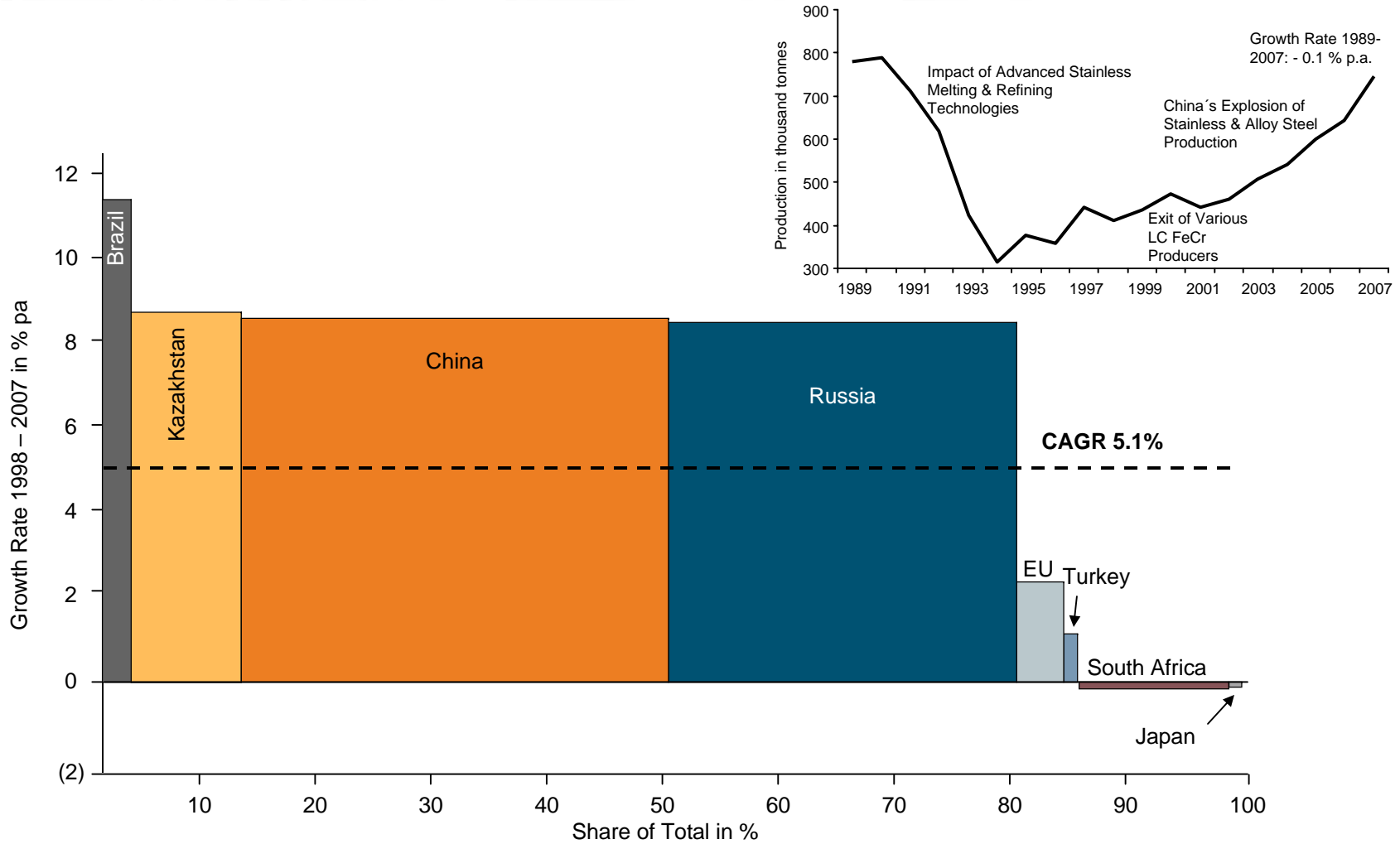
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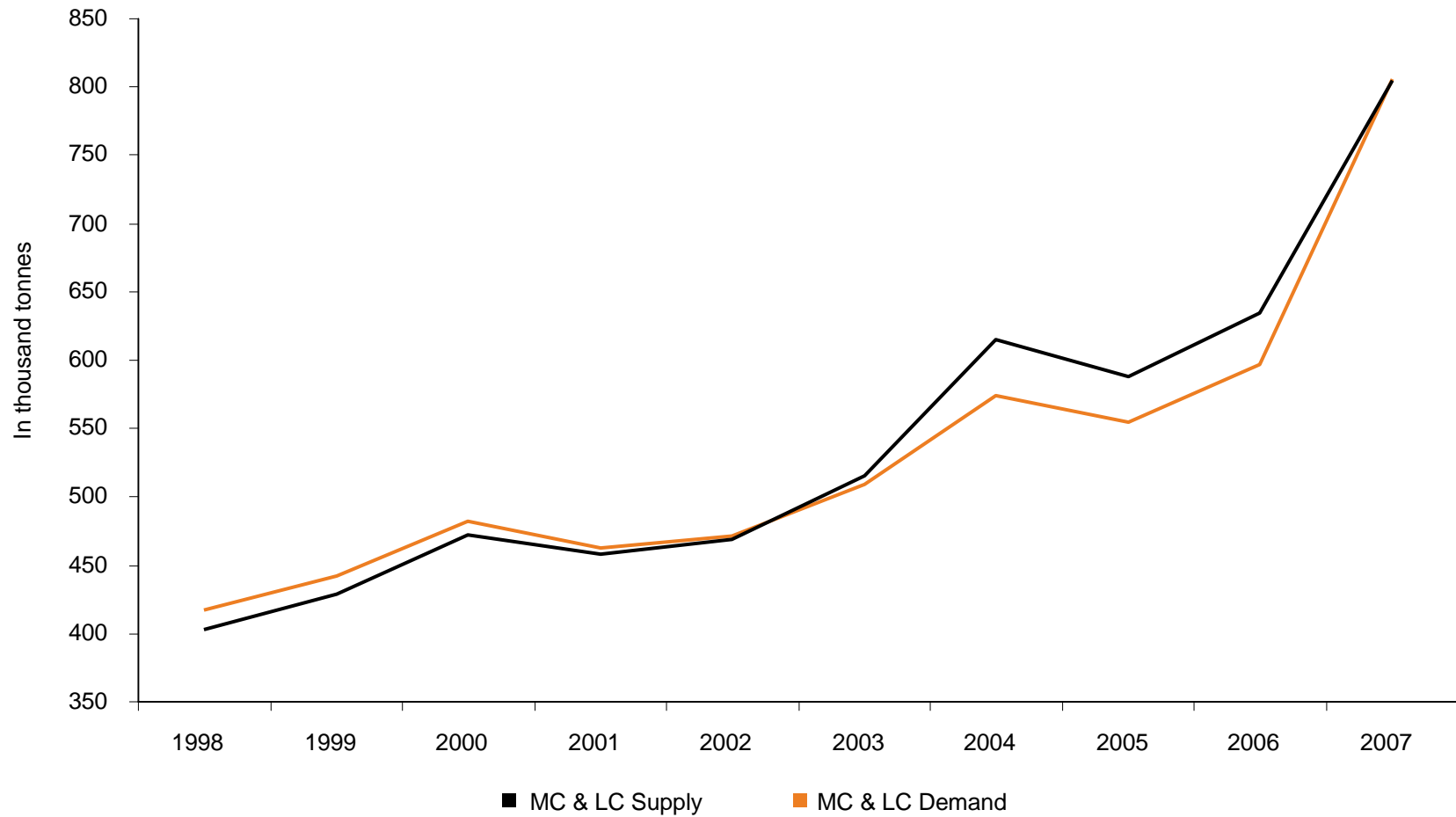
**Refined ferrochrome**

# Refined ferro chromium production 2007

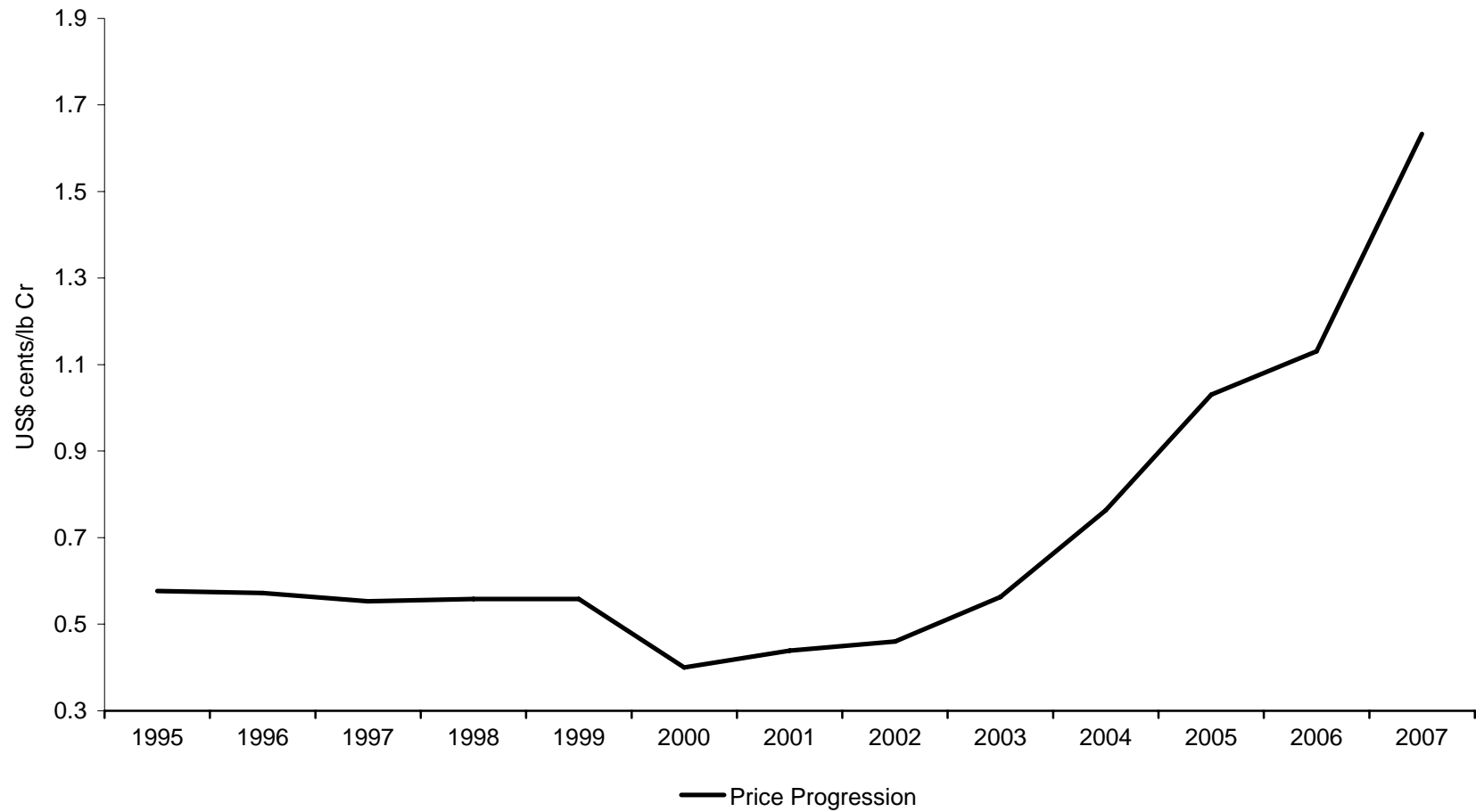


Note: USA DLA also supplies c40,000mt pa; 2 years of stock

# MC and LC FeCr supply – demand 1998 – 2007



# Average price progression



## Summary: Refined ferrochrome



- Technology switch to AOD devastated industry
- Last 10 years significant overcapacity
- Technology upgrade mainly complete ... market now growing at c4% per annum
- DLA stockpile gone in an estimated 2 years

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**Any Questions?**

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**Supply - chrome ore**

# World Chromite Ore Reserve / Mine Production



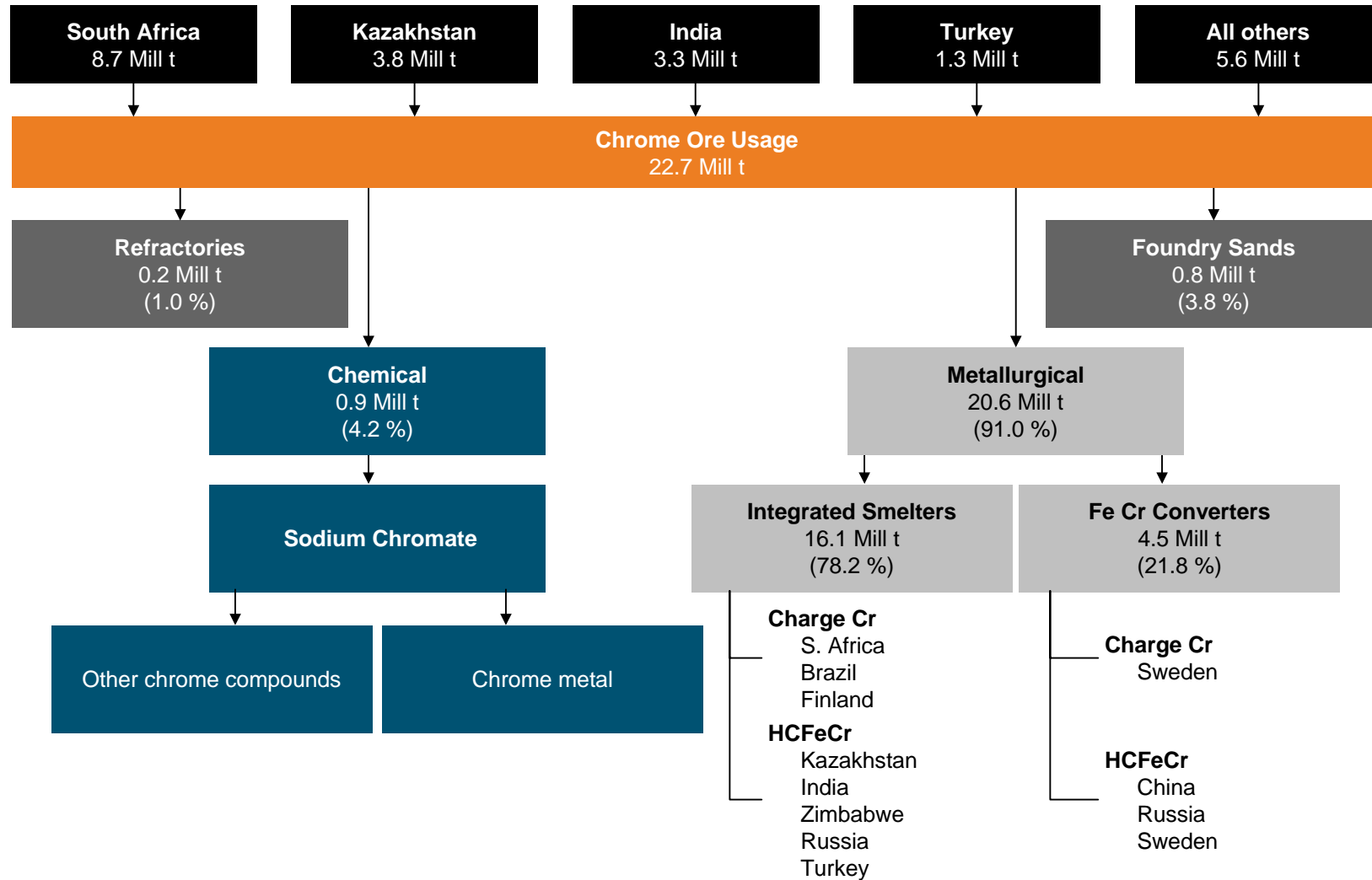
Million mt	Chromite ore reserve			Chromite ore output 2007		
	in mt	in %	Rank	in mt	in %	Rank
S. Africa	5,500	72.4	1	8.7	40.0	1
Zimbabwe	930	12.2	2	0.9	3.9	6
<b>Kazakhstan</b>	<b>320</b>	<b>4.2</b>	<b>3</b>	<b>3.8</b>	<b>17.7</b>	<b>2</b>
Finland	120	1.6	4	0.6	2.7	7
India	67	0.9	5	3.3	15.2	3
Turkey	20	0.3	6	1.3	5.9	5
Brazil	17	0.2	7	0.6	2.6	8
Others	626	8.2	8	2.6	12.2	4
<b>Total</b>	<b>7,600</b>	<b>100.0</b>		<b>21.8</b>	<b>100.0</b>	

Source: Heinz H. Pariser

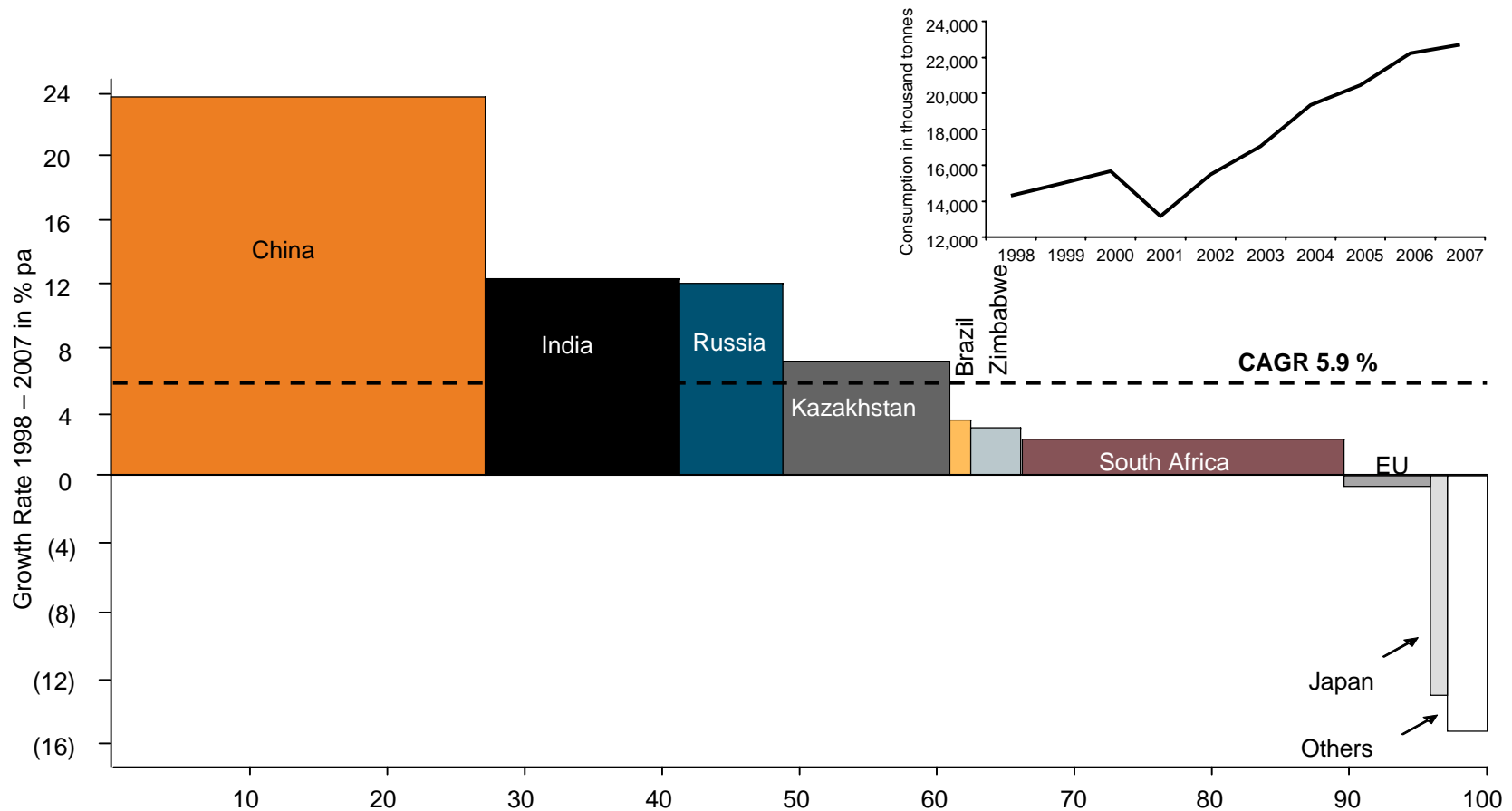
'000 m tonnes	Reserves	Reserve Base
USA	110	120
India	25,000	57,000
<b>Kazakhstan</b>	<b>290,000</b>	<b>470,000</b>
South Africa	160,000	270,000

Source: United States Geological Survey

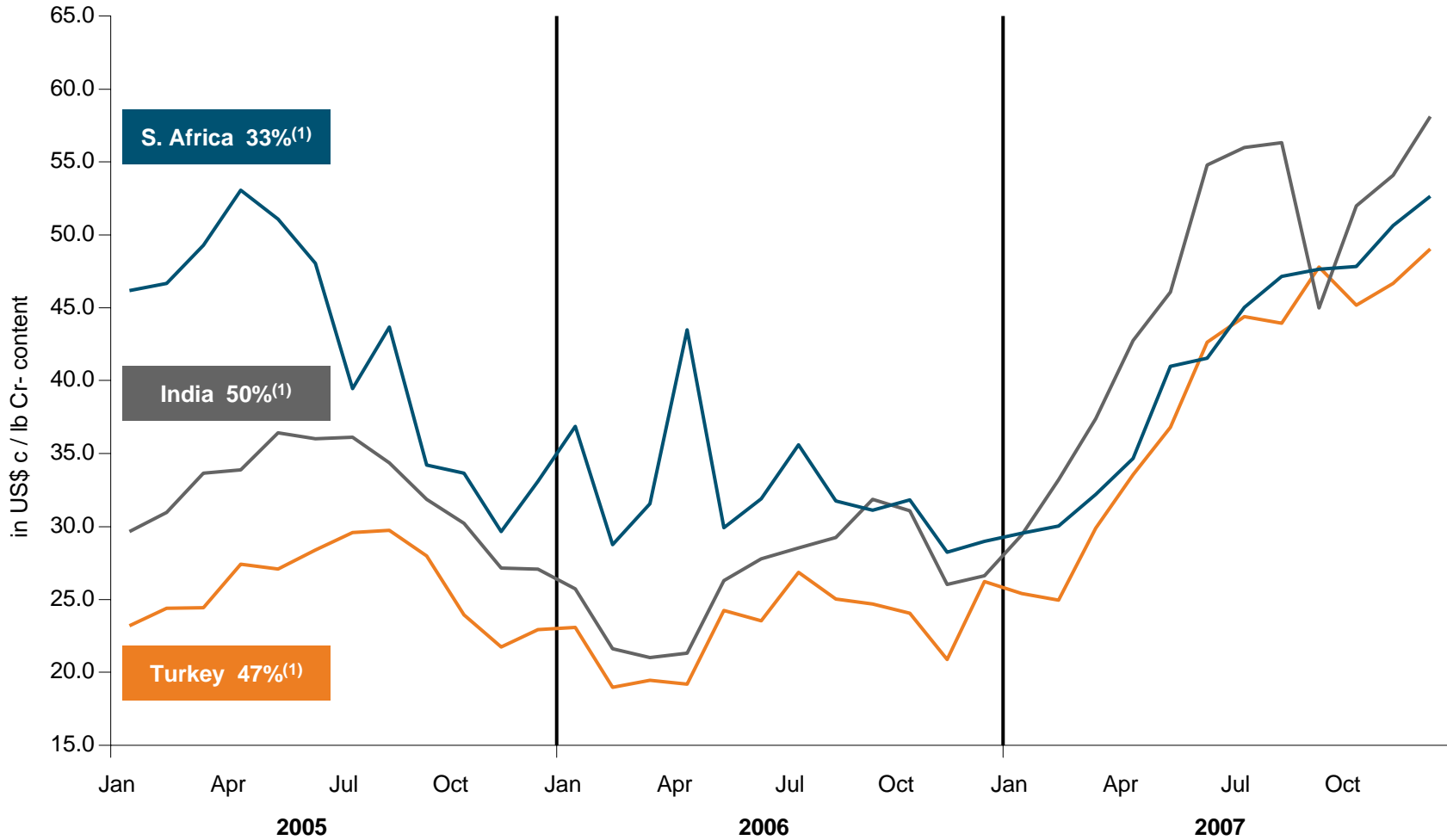
# Global material flow chrome ore & concentrates 2007



# World apparent consumption of chromite ore 2007



# China – chrome ore import prices



(1) Average Cr<sub>2</sub>O<sub>3</sub> content

## Summary: Supply - chrome ore



- Not easy to find comparable reserve estimates
- Majority of ore consumed by integrated producers – expansion designed for internal consumption
- Tightness in ore related to India's desire to curb exports
- China likely to remain the largest importer of ore
- South African situation may alter dynamics
- Ore prices at historically high levels

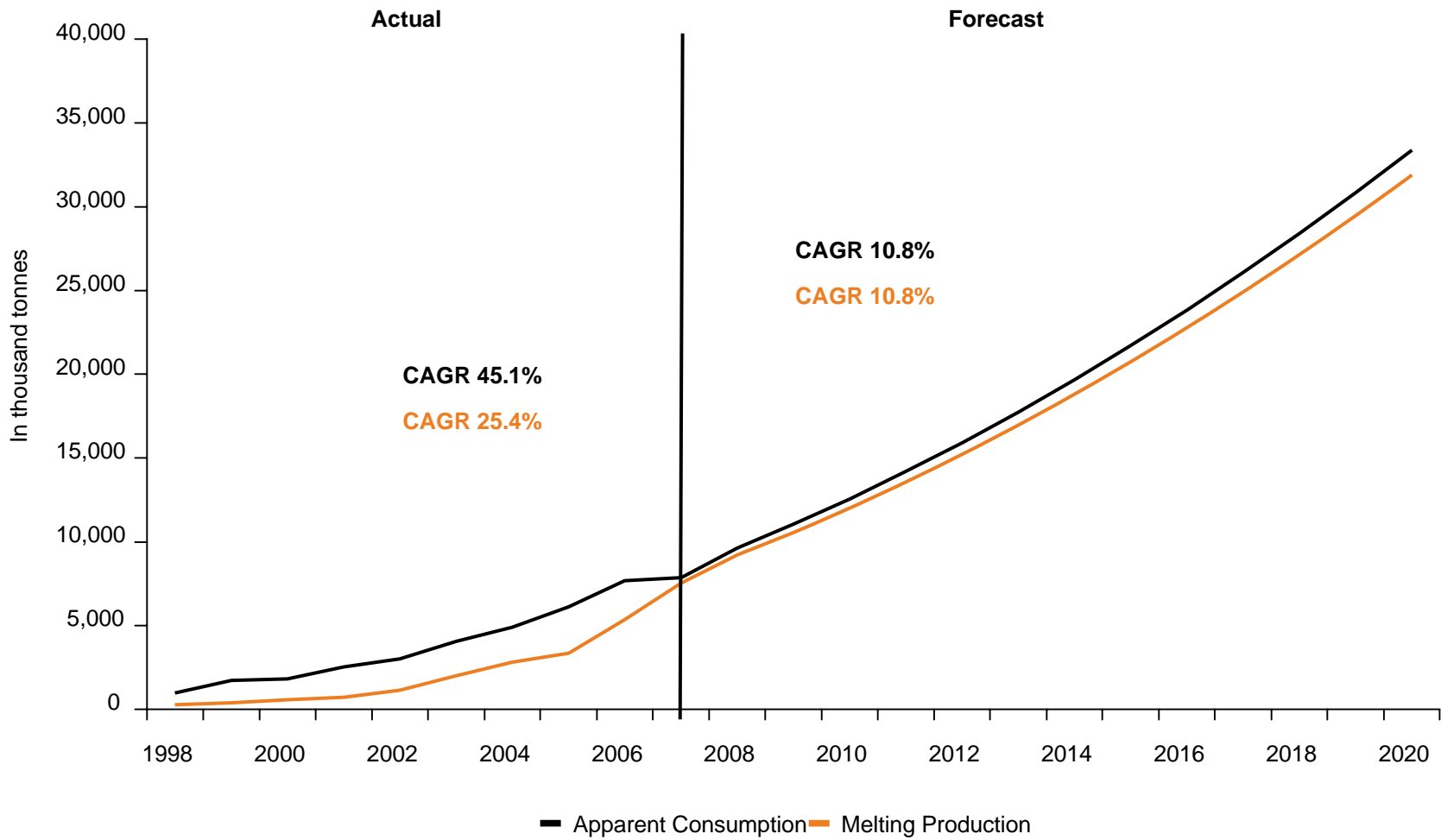
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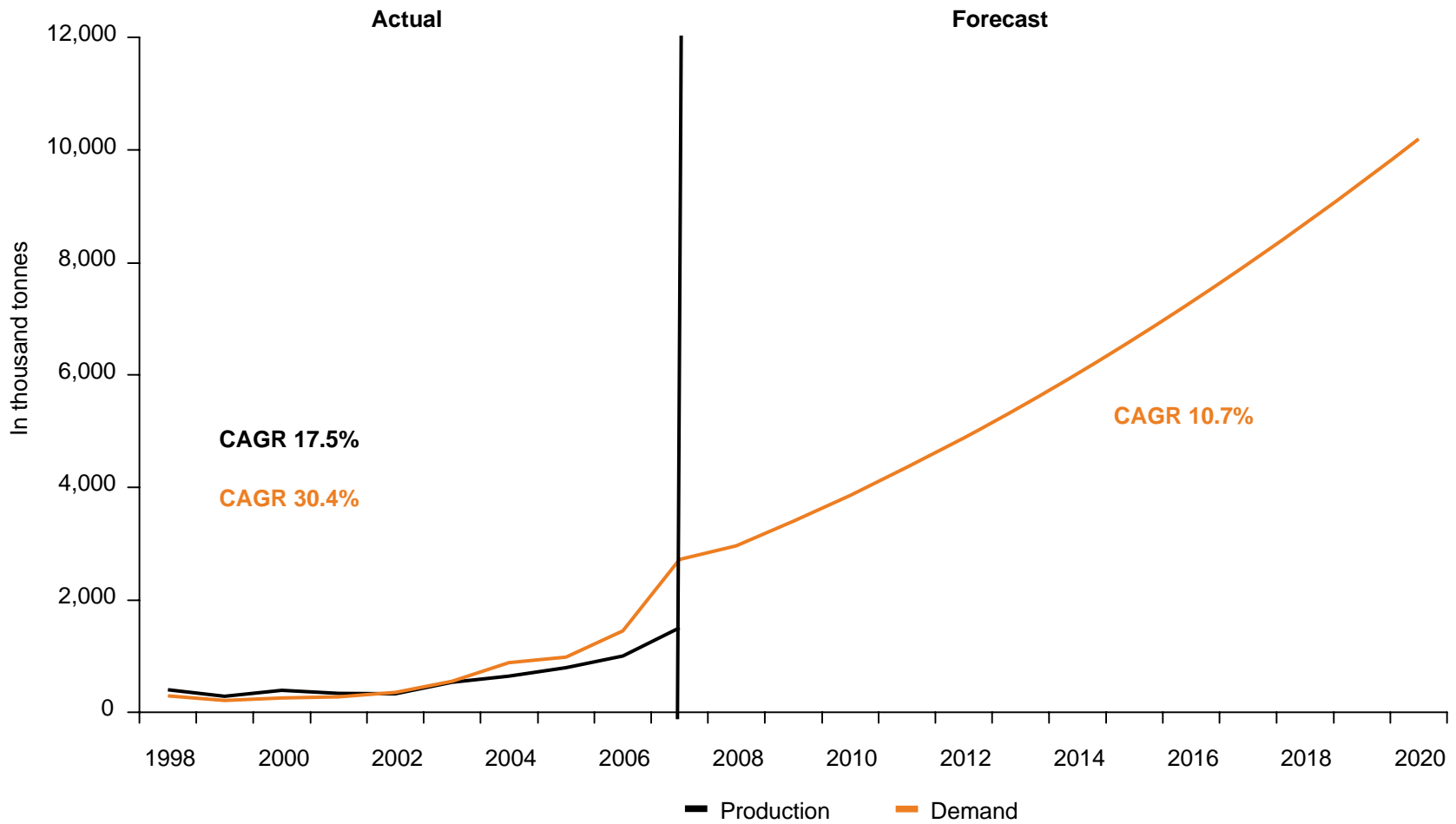
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**Regional focus - China**

# China – stainless steel market



# China – FeCr market

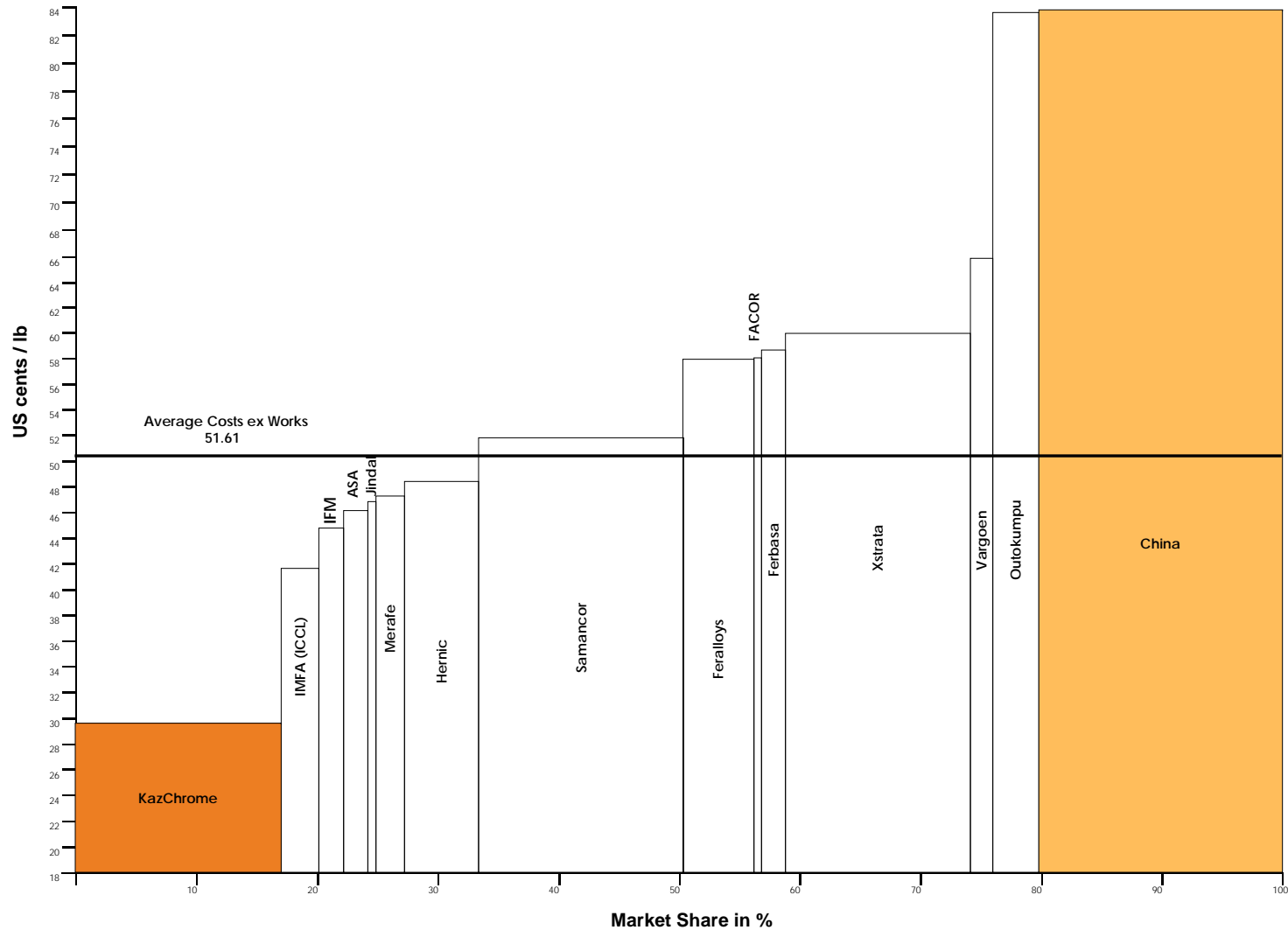


# Breakdown of FeCr Production Cash



	South Africa					China				
	2007		08/07 Change In %	2008		2007		08/07 Change In %	2008	
	US\$ c/lb	Structure In %		US\$ c/lb	Structure In %	US\$ c/lb	Structure In %		US\$ c/lb	Structure In %
<b>Cr Ore</b>	13.60	28.0	+ 5.0	14.30	25.7	53.12	63.8	+ 32.2	70.20	65.9
<b>Reduction</b>	10.20	21.0	+30.0	13.30	23.9	6.73	8.1	+ 108.0	14.00	13.1
<b>Energy</b>	9.20	18.9	+20.0	11.05	19.9	12.39	14.9	- 4.8	11.80	11.1
<b>Labour</b>	11.65	24.0	+ 9.0	12.70	22.8	5.34	6.4	+ 16.1	6.20	5.8
<b>Internal Cost / Transport</b>	3.90	8.0	+10.0	4.30	7.7	5.65	6.8	- 23.9	4.30	4.0
<b>Total Cash Cost</b>	48.55	100.0	+14.6	55.65	100.00	83.23	100.0	+ 28.0	106.50	100.00

# Comparison of Costs ex Works 2006/2007



## Summary: Regional focus - China



- The main demand driver – stainless production forecast looks realistic
- Fastest growing chrome producer – fine in strong market, long term integration
- High cost ferrochrome producer – higher floor price on ferrochrome

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Any questions?

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# Summary