

Ferrexpo

Riding into headwind (HOLD)



August 7, 2012

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INVESTMENT CASE

We reinitiate coverage of Ferrexpo with a HOLD recommendation and 12M target price of USD 3.79 per share which implies a 29% upside. Our valuation of Ferrexpo is more conservative than consensus mainly because we place a higher emphasis on political risks related to Ferrexpo's major shareholder which might be reflected in suspension of the company's largest project of recent years.

The stock declined 31% YTD, and an even better entry point might appear in August on continuing weakness of the global iron ore market and possible negative developments in a conflict with previous owner of Ferrexpo's key asset. On the other hand, we believe there is a high possibility of the iron ore market rebounding in 2H12, which can serve as a strong stock driver: Ferrexpo's beta is larger than peers' one. Moreover, we see the company remaining a solid business, operating at full mining capacity and holding its market positions.

Fit for global competition

Ferrexpo is increasingly better prepared for international competition in the current challenging market. The company is cooperating with top-notch iron ore consumers, transitioning to selling its products in ports-of-destination, switching sea transportation to lower-cost capesize vessels and seeking to upgrade the quality of its pellets.

Projected prices and costs will squeeze margins in the mid-term

Though the company's sales efforts will allow it to maintain its high capacity load, we estimate its EBITDA margin will squeeze from 45% in 2011 to 23% in 2016. We anticipate global iron ore prices will decrease in the mid to long-term, while Ferrexpo's production costs will advance.

No license for Yeristovo so far

Ferrexpo's key growth project is the launch of the Yeristovo pit which will increase annual pellet output by 10-15% yoy in 2013. However, the license for this deposit expires in August 2012 and the company has not yet obtained a license extension. The risk of an extension delay is high, as Ferrexpo's majority shareholder, Kostyantyn Zhevago, is member of the main opposition party in Ukraine. Without a valid license, preliminary works at Yeristovo will grind to a halt; a similar case with five other licenses previously held by Ferrexpo suggests the uncertainty can last for years. We do not account for the project in our model.

Dispute over subsidiary stake still in courts

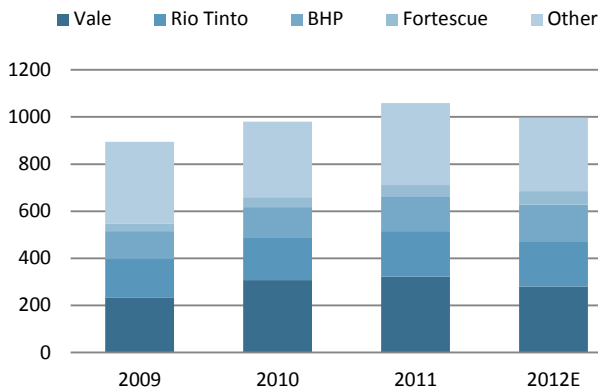
A legal dispute over a 40% stake in Ferrexpo's key production asset, Ferrexpo Poltava Mining, is another concern. The case was initiated by the stake's former owner, Alexander Babakov, who sold it back in 2002, and now wants to cancel the deal. Babakov won an interim victory in Ukrainian courts, but the legal battle looks set to continue for quite a long time. We account for the risk of a ruling in Babakov's favor by adding a company-specific risk premium in our calculation for cost of equity.

ORE PRICING OUTLOOK

Market power to shift from miners in MT

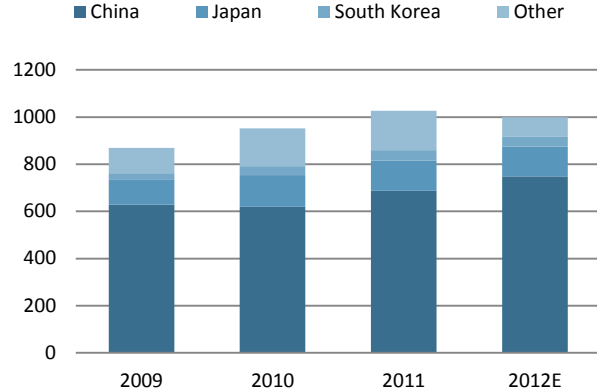
The global iron ore benchmark price is set in contracts between key consumers, mainly Chinese steelmakers, and the largest iron ore suppliers: Vale, BHP, Rio Tinto and Fortescue.

Iron ore supply to seaborne market, by company, mmt



Source: Company data, Concorde Capital estimates

Iron ore import, by country, mmt

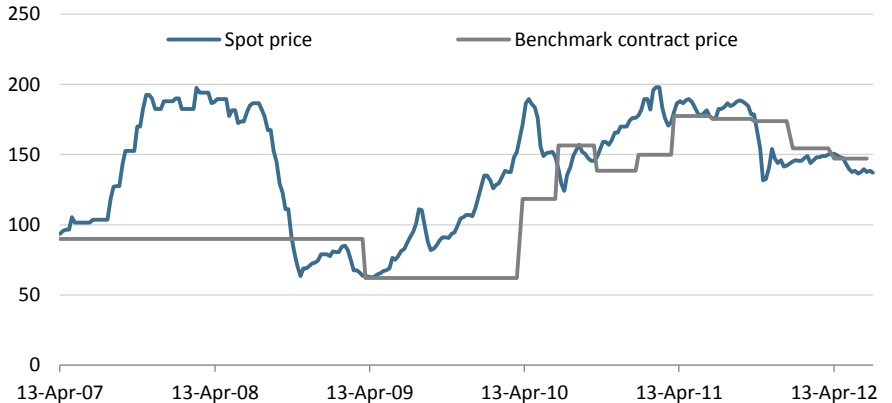


Source: Bloomberg, Concorde Capital estimates

The four largest iron ore suppliers accounted for 67% of the seaborne market in 2011 (711 mmt of iron ore). High market concentration, combined with growing iron ore demand from China, have allowed miners to keep iron ore prices high since 2010.

While iron ore producers' market power has supported the high price levels, seasonal fluctuations have been determined mainly by Chinese demand. The on-going Chinese economic slowdown impacted a wide range of commodity prices, including iron ore.

Prices for iron ore fines in China, 62% Fe grade, USD/t



Source: Bloomberg

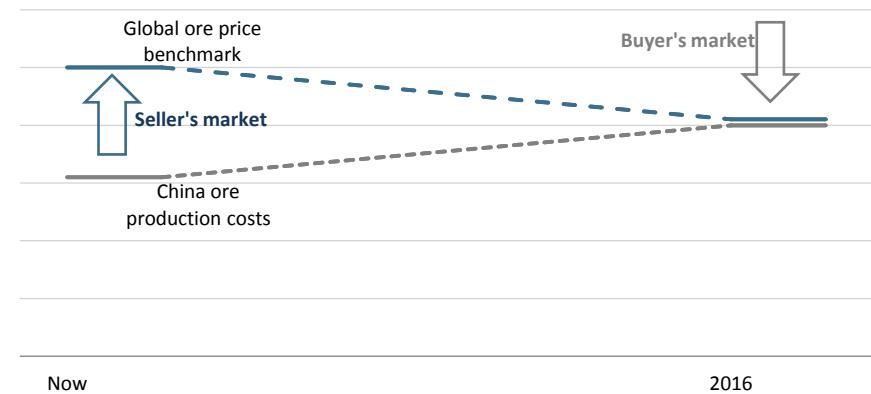
Steelmakers to regain bargaining power

The dominance of iron ore suppliers in price-setting is going to deteriorate in the mid-term. We believe Chinese iron ore consumers are likely to become major price settlers on the market in years to come. We base this conclusion on already visible trends:

- the supply of iron ore is forecasted to grow faster than demand
- China's position on the iron ore market is strengthening due to the integration of national steel makers into the ore extraction business. China is targeting to cover 40-50% of its need for iron ore from overseas subsidiaries vs. 15% currently
- the Chinese steel sector will be increasingly consolidated in the future – the government plans to have the ten largest steelmakers produce 60% of steel in the country by 2015 (vs. 41% in 2011)

Downward pressure on the benchmark iron ore price will be limited by the ore production costs of Chinese miners.

Iron ore pricing outlook

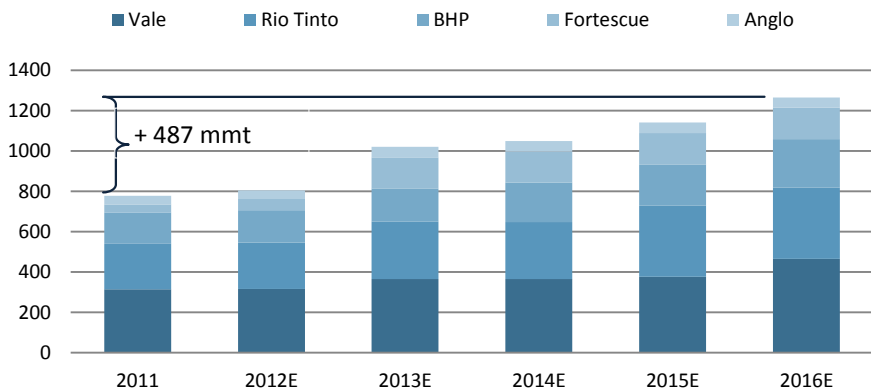


Source: Concorde Capital

Overcapacity looming by 2015

We estimate the expansion projects of the world's five largest mining companies can alone result in up to 487 mmt of additional ore mining capacity (above 62% Fe grade) by 2016, which is 1.6x more than their current capacity. Moreover, supply on the market is getting more diversified every year due to the entrance of new junior producers attracted by the business' high profits.

Top producers' announced iron ore capacity growth, mmt

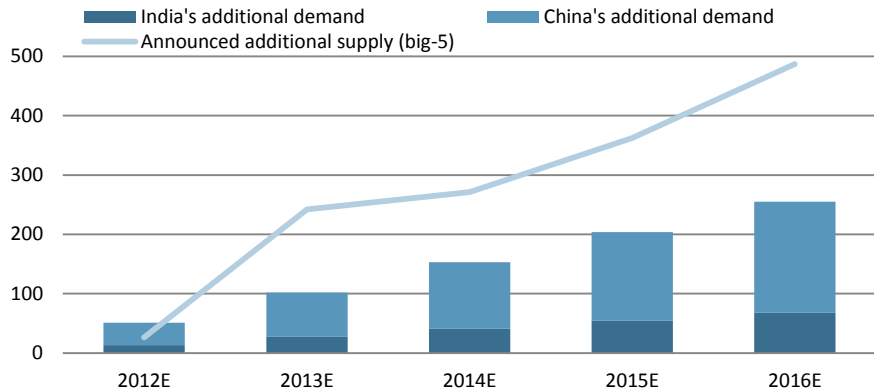


Source: Company data

The plans of the Chinese steel industry, the world's key driver of iron ore demand, appear to be lagging. According to China's 12th five-year plan, steel consumption in the country may reach 750 mmt in 2015 (up 20% from 2011). Chinese officials project it will grow further to 770-820 mmt by 2020.

We estimate that Chinese steel industry growth till 2015 (according to the plan) will result in demand for an additional 187 mmt of imported iron ore. If we take into account the projected 15% increase in domestic low-grade ore mining in China to 1.5 bln tons, importers will deal with 135 mmt in incremental demand (above 62% Fe grade). This is almost 3.6x less than new capacity coming to the market from the world's five largest miners. Some support for iron ore demand will come from India, which plans to increase its steel production capacity from 80 mmt to 130 mmt by 2016, implying a potential increase in ore consumption by 73 mmt.

Additional iron ore supply and demand vs. 2011, mmt



Source: Concorde Capital estimates

All in, we expect a critical shift in bargaining power from ore suppliers to consumers in 2015 or 2016.

Iron ore oversupply can be potentially mitigated by the postponement of the global majors' expansion plans once the market and price outlook weakens significantly. Vale and BHP have already indicated they are reconsidering their CapEx programs, though exact postponements are yet to be announced. Fortescue stated it will delay launching extra capacity, previously scheduled for 2017 (included in our estimate of additional capacity above), until better times.

ST: Waiting for Chinese growth to recover

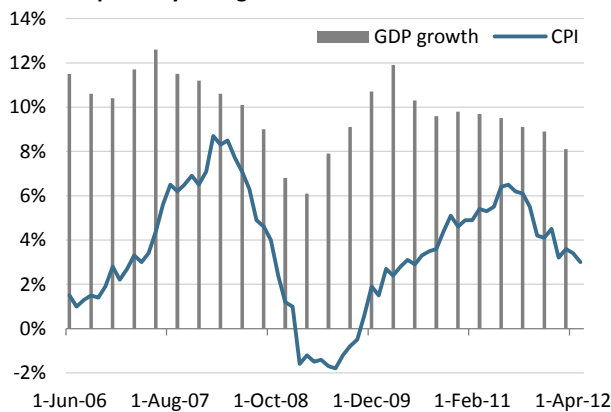
Short to mid-term forecasts for the iron ore market involve tracking the state of the Chinese economy.

Chinese government moves to spur its economy

The Chinese government took steps in 2010-11 to restrict lending in order to prevent its economy from overheating and curb inflation. Since consumer price growth has abated, the Chinese government has been working to reverse its actions and stoke the economy to achieve its target GDP growth of 7.5% in 2012.

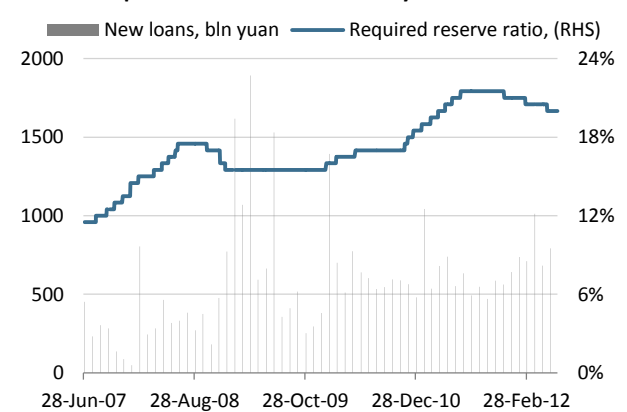
The People's Bank of China slashed its required reserve ratio in May for the third time since November 2011. Further cuts may happen by yearend. Other monetary easing initiatives include consecutive lending rate cuts by the People's Bank of China (from 6.6% at end-2011 to 6.0% in July) to boost corporate lending and spur growth in key sectors.

Chinese quarterly GDP growth and inflation



Source: Bloomberg

Chinese required reserve ratio vs. new yuan loans

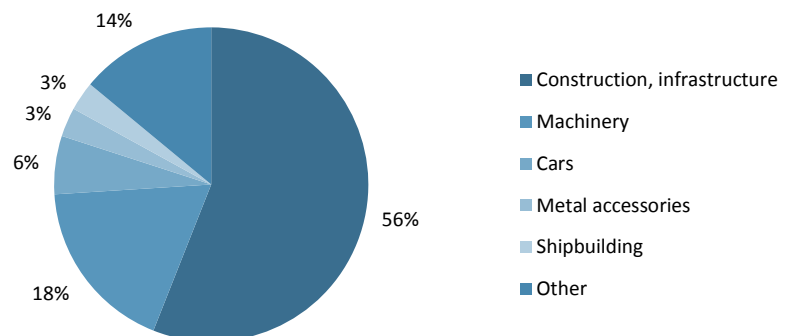


Source: Bloomberg

Credit easing aimed at boosting construction

We believe the primary goal of monetary easing is to reignite growth in China's real estate and construction sectors, which consume most Chinese steel (56%) and significantly contribute to GDP growth. At the same time, Chinese officials have been limited in what they can do and have been forced to move ahead cautiously in order to avoid driving up real estate prices again.

Chinese steel consumption breakdown, 2010

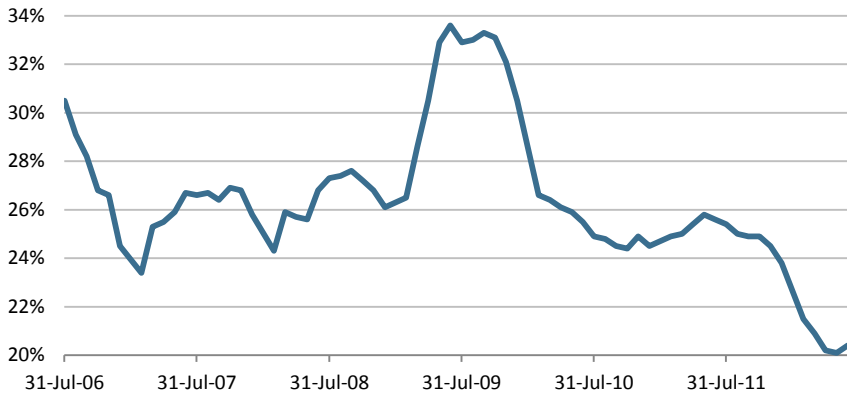


Source: KPMG

Stimulus has had little effect so far

Problems in China's overleveraged real estate sector are so complex that a decrease in the cost of debt is not a quick fix. One of the important indicators to follow, fixed assets investment growth in China (investments represent almost half of Chinese GDP), has been sliding, though it bounced somewhat recently.

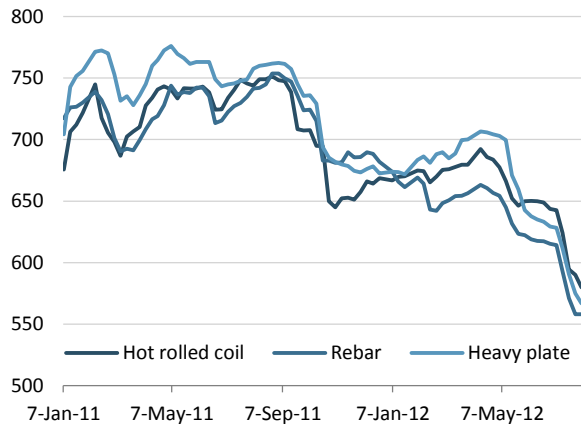
Fixed asset investment growth in China, yoy



Source: Bloomberg

Moderating investment activity is reflected in the sluggish Chinese market for metals products, which influences the price benchmarks for steel and iron ore.

Prices for finished products on the Chinese market, USD/t



Source: Bloomberg

Iron ore fines (63.5%) in Chinese ports, USD/t, spot CFR



Source: Bloomberg

Spot iron ore prices in China touched a low at the end of July that was last seen in July 2010 – USD 150/t for pellets and USD 123/t for fines (63.5% Fe). This occurred because, amid dwindling steel prices, small iron ore traders lost hope for a quick rebound in the Chinese economy and tried to cash out at any price. Though, according to local media, this reduced the price level that could attract Chinese steelmakers, which can cause iron ore prices to rebound. Market participants do not expect steep jumps in price because of the prevailing weakness of the Chinese economy and therefore demand for steel products.

Iron ore prices have resisted descending below USD 130/t (Fe 63.5% fines) for longer than three weeks in 2011-12. The USD 120/t level for iron ore is currently a threshold below which a large number of high-cost Chinese miners become loss-making, according to market participants, reducing supply and triggering support for import prices. More than 1/3 of Chinese pig iron is being smelted from locally mined iron ore.

Ferrexpo’s pricing follows global trends

Prices sliding since 2011

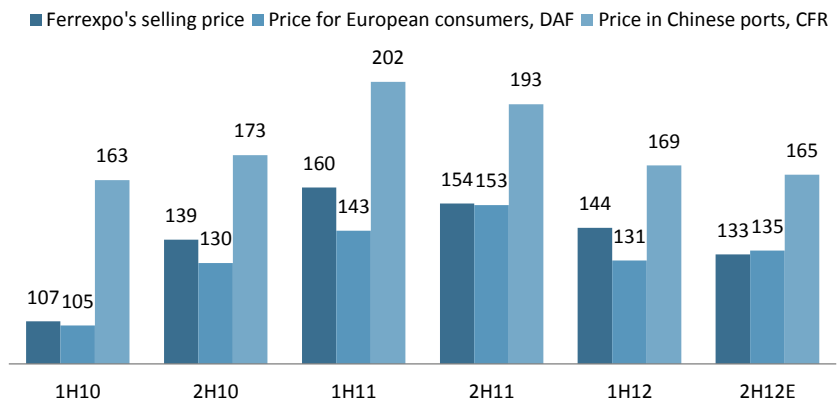
Our forecast for the benchmark (Chinese) iron ore price, which we subsequently use to project Ferrexpo’s financials, is for a decrease at a 3% CAGR in 2011-2020.

Ferrexpo’s selling price is a mixture of two prices: the first is for European consumers, which is reviewed on a quarterly or biannual basis. The second is for shipments to Asia and the Middle East, which fluctuates depending on monthly or spot quotations of ore in Chinese ports minus the shipping cost to Ukraine.

Ferrexpo’s selling price grew 25% yoy to USD 157/t in 2011. In 4M12, according to the company, the selling price declined 9% yoy (to USD 146/t, we estimate).

Since prices in both Asia and Europe continued sliding throughout 1H12 (by 16% yoy to USD 169/t, China, CFR, and by 7% yoy to USD 131/t, Ukraine’s Western border, DAF), we expect Ferrexpo will post an average selling pellet price of USD 144/t in the first half of 2012 (-11% yoy).

Ferrexpo’s selling price vs. prices at the EU’s border and in Chinese ports, USD/t



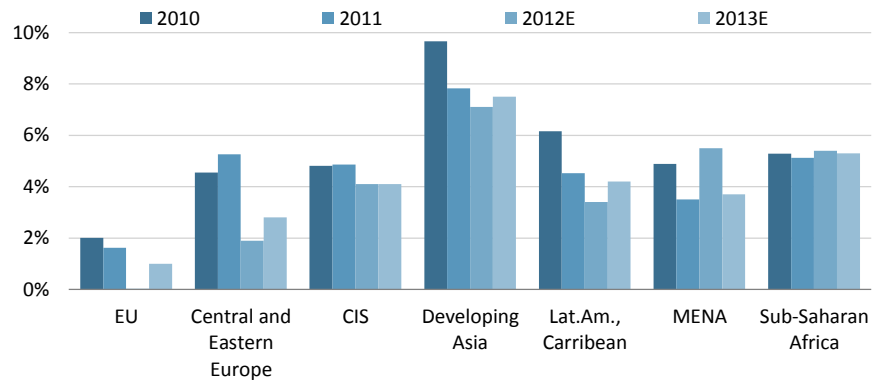
Source: Concorde Capital estimates, Metal Courier, Bloomberg

We model USD 133/t as the average selling price for Ferrexpo in 2H12, which returns a yearly price of USD 138/t (-12% yoy). We expect a slight improvement in average prices to USD 141/t in 2013 (+2% yoy).

Bounce in 2013 on global economic upturn

We model a 5% yoy rebound in average iron ore prices in China in 2013, driven by an overall global economic recovery. According to the IMF's July forecast, key global economic regions will recover in 2013, in terms of GDP growth. Middle Eastern and African countries, saddled with political upheaval of late, seem to be the sole exception.

GDP growth in selected regions

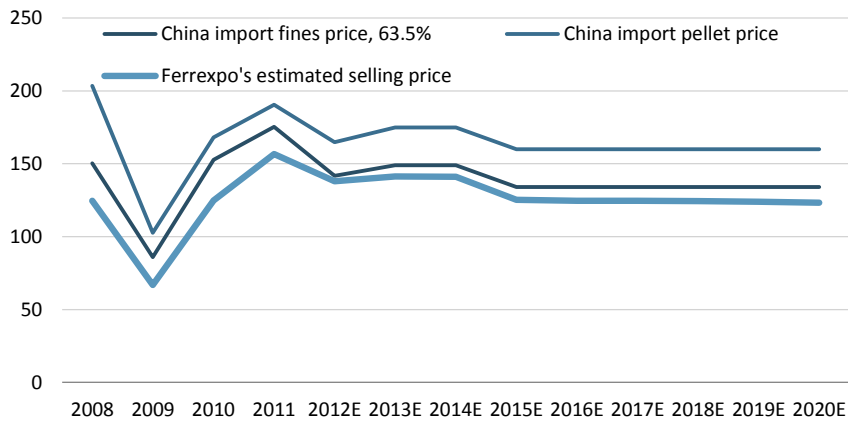


Source: IMF

In 2015, we project a 10% yoy drop in prices to USD 134/t (63.5% Fe grade, CFR, Chinese port) on additional supply coming to the market and thereafter see prices stabilizing, supported by inflation of the production costs of Chinese miners.

We model a pellet premium of around USD 26/t to arrive at our forecasted price for Ferrexpo's products.

Average prices for iron ore fines and pellets, USD/t



Source: Bloomberg, Concorde Capital estimates

COMPANY PROFILE

Ferrexpo

FXPO LN	Current: USD 2.93	HOLD
	Target: USD 3.79	

Ferrexpo plc is Ukraine's #2 largest iron ore pellet producer and the world's #10 largest. It controls Poltava Mining, which has been operating an open pit in Central Ukraine since 1970. The company manufactured 9.8 mmt pellets (-2% yoy) in 2011. The company owns 50% of the TIS-Ruda terminal (annual export capacity of 5 mmt of pellets) located in the Black Sea port of Yuzhny, and a railcar fleet capable to transport more than 7 mmt of pellets p.a. The company sold 55% of its pellets in Europe, 40% in Asia and 5% in the Middle East in 2011.

Selected financials and ratios

	2011	2012E	Chg.yoy	2013E	Chg.yoy
Net revenue, mln	1,788	1,555	-13%	1,529	-2%
Gross margin, %	64%	56%	-8pp	58%	+2pp
EBITDA, mln	800	513	-36%	550	7%
EBITDA margin, %	45%	33%	-12pp	36%	+3pp
Net income, mln	575	325	-43%	347	7%
Net margin, %	32%	21%	-11pp	23%	+2pp
PP&E, net	925	1,121	21%	1,236	10%
Shareholder equity	1,393	1,679	21%	1,988	18%
LT debt	951	944	-1%	938	-1%
ST debt	19	21	11%	26	24%
Total liabilities & equity	2,364	2,645	12%	2,952	12%
Operating Cash Flow	503	351	-30%	347	-1%
CapEx	383	245	-36%	173	-29%
Interest coverage ratio	11.12	6.18	-44%	6.56	6%
Net debt/EBITDA	0.10	0.03	n.a.	-0.22	n.a.
ROA	23%	12%	-11pp	11%	-1pp
ROE	41%	19%	-22pp	17%	-2pp
ROIC	25%	14%	-11pp	13%	-1pp

Source: Company Data, Concorde Capital estimates

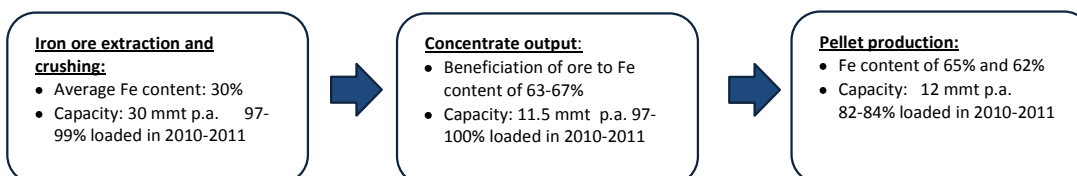
Operations

	2011	2012E	Chg.yoy	2013E	Chg.yoy
Iron ore extraction, mmt	29.6	29.6	0%	29.6	0%
Iron ore concentrate output, mmt	11.5	11.5	0%	11.5	0%
Iron ore pellets output, mmt	9.8	9.5	-3%	9.1	-5%

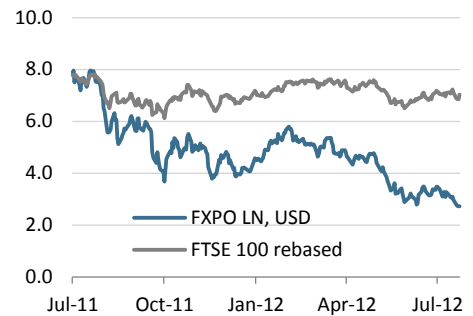
Source: Company data, Concorde Capital estimates

Production process

Ferrexpo Poltava Mining has three principal stages of pellet production. A single open pit and concentrator are now operating at full load, and Ferrexpo has been investing to boost capacity. The company has 3 mmt of free capacity for pellet production, which has been partly loaded with reprocessing of third-party iron ore concentrate.



12M price performance



Source: Bloomberg

Market data

Bloomberg	FXPO LN
Reuters	FXPO.L
Current price, USD*	2.93
12M target price, USD	3.79
Upside	29%
Implied annual dividend yield, 2012E	2%
MCap, USD mln	1,727
Net Debt 2011, USD mln	80
EV, USD mln	1,807
Free float, %	22.96%
Free float, USD mln	396
Common shares outstanding, mln	589
Change from 52W low, %	12%
Change from 52W high, %	-52%
1M change, %	-14%
3M change, %	-31%
12M change, %	-52%

*Current share price, as of August 6, 2012

Source: Bloomberg

Ownership structure

Kostyantyn Zhevago	51.00%
BXR Group Limited	13.02%
Wigmore Street	13.02%
Minorities	22.96%

Source: Company data, Concorde Capital estimates

Multiples and per-share data

	2011	2012E	2013E
EV/Capacity (pellets), USD/t	150.6	150.6	150.6
EV/Output (pellets), USD/t	184.2	190.4	199.4
EV/EBITDA	2.3	3.4	2.9
P/E	3.0	5.3	5.0
EPS, USD	0.98	0.55	0.59
DPS, USD	0.066	0.066	0.066

Source: Bloomberg, Concorde Capital estimates

Sales efforts keep mining at full capacity

Ferrexpo is well positioned to maintain high mining capacity load in the years to come, although it faces the same market risks as other sector players: a potential hard landing for the Chinese economy and economic turmoil in Europe. Over the last couple of years, the company has efficiently responded to market challenges and even was able to prepare to strengthen its position on global markets via the development of its own logistics channels and refocusing on faster growing markets.

In our base case, we expect the company will maintain 100% utilization of mining capacity in 2012-13, which corresponds to pellet production of 9.1 mmt.

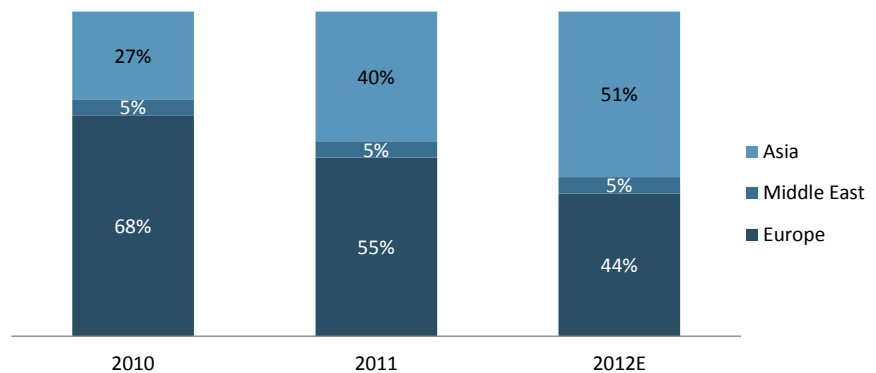
Ferrexpo is developing a number of new projects which may add 5-10 mmt in extra iron ore (corresponds to 1.5-3.0 mmt of pellets) over the next two years. Although there is a risk that some projects will be postponed (actually, related to license extension), we believe Ferrexpo will be able to sell additional pellets due to the efforts it is taking on the marketing side:

1. Sales portfolio balanced between Europe and Asia

While previously the company was focusing on European markets, now it is rebalancing its sales portfolio toward Asia. Its share of sales to China, Japan and India grew to 40% of total in 2011, up from 27% a year earlier. Its portion of sales to the EU (down 11 pp yoy from 55% in 2011) will contract further in 2012, on the stoppage of deliveries to Serbian Smederevo Steel Works and the general economic downturn in the region.

On the other side, Ferrexpo's minimum future sales to the EU are secured at 2.7 mmt (33% of sales in 2011) due to a long-term agreement with Austria's Voest-Alpine that expires in 2020.

Geographical breakdown of Ferrexpo's sales (in tons)



Source: Company data, Concorde Capital estimates

2. Upgrading quality to broaden market penetration

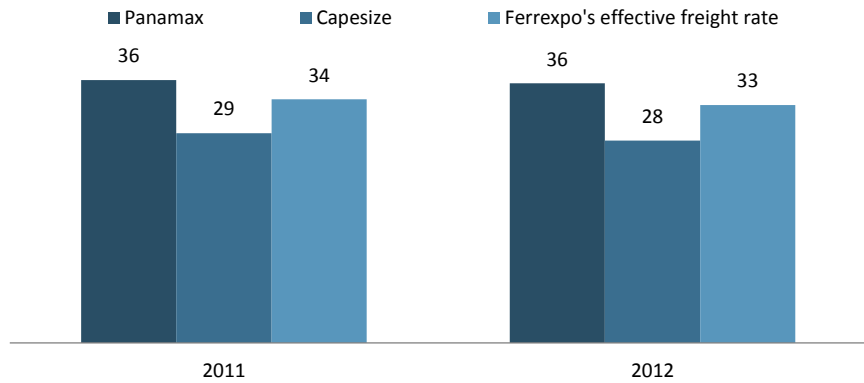
Pellets with higher iron content are preferable for steelmakers as a way to facilitate more efficient transportation and production. Ferrexpo began a USD 212 mln project to increase the Fe content in its pellets (including construction of new grinding and flotation facilities) in 2010. The project's goal is to allow for the production of 65% Fe pellets on its entire 12 mmt pellet capacity as of 2014 (vs. ~30% currently, with the rest 62% grade). The company believes the quality upgrade will enable it to penetrate new markets in Europe, Asia, and the Middle East.

3. Focusing on logistics

Having relied on panamax vessels before, Ferrexpo loaded nine capesize vessels in 2011, carrying 170 kt each (to ship 1.5 mmt of pellets), and intends to fill 12 such ships (2.0 mmt) this year. Transportation via capesize boats results in cost savings of USD 7/t vs. panamaxes.

Assuming all of Ferrexpo's projected 5.2 mmt of pellet sales to Asian and Middle Eastern customers in 2012 are carried by capesizes, Ferrexpo could save a total of up to USD 36 mln for its customers, according to our estimates.

Freight cost by vessel type, port Yuzhny – Northern Chinese ports, USD/t



Source: PG-online, Concorde Capital estimates

3rd party ore: on the brink of breaking even

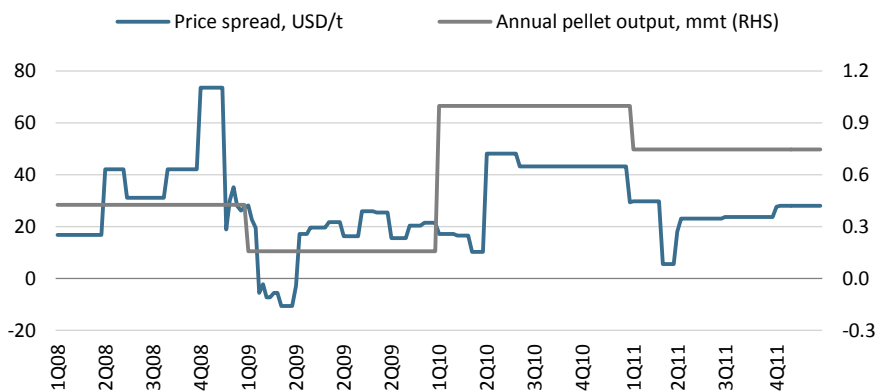
Although Ferrexpo has a 12 mmt annual pelletizing capacity, it is only able to produce 9.1 mmt of pellets from its own iron ore – the bottleneck is in mining. The company is processing third party ore concentrate on idle pelletizing capacity, though this business is cyclical and low-profit. We project Ferrexpo will produce 9.5 mmt of pellets in 2012 (-3% yoy) - on a decline in the third party ore segment - with just a minor impact on EBITDA.

Lower production from purchased ore might persist until yearend

Ferrexpo produced 4.7 mmt of pellets in 1H12 (-1% yoy), having cut output from purchased ore 59% yoy to 162 kt. We explain the decrease by the lower spread between pellet and concentrate prices on the market, which has made pellet production from purchased ore even less profitable than it was before. We expect the company will keep operations in this business segment limited until yearend.

The spread between the price of domestic concentrate and that one for pellet exports, which defines the profitability of purchased concentrate processing, fell to USD 30/t. At this level, it only covers processing costs and does not justify the production effort. Historically, Ferrexpo’s high output from purchased ore coincided with spreads of more than USD 40/t, which allowed the segment to earn USD 9-10/t.

Spread of pellet price to concentrate* vs. Ferrexpo’s pellet output from 3rd party ore



* Spread between pellet export price (DAF) and domestic concentrate price (FCA)
Source: Concorde Capital estimates, Metal Courier

Only processing of internally mined concentrate pays off

The impact of the production decline in 2012 on Ferrexpo’s bottom line and EBITDA will be marginal - the company earned a 65% gross margin on processing its own ore pellets versus 4% on purchased ore in 2011, according to our estimates.

Expansion of ore mining projects in focus

Ferrexpo is running or planning to initiate a number of expansion projects that could, over the next 10 years, increase its own mining capacity from 30 mmt to more than 64 mmt and pellet production capacity from 12 mmt to 21 mmt .

Key Ferrexpo's investment projects

Index	Project	Purpose	Planned CapEx, Spent (mid-2012), USD mln	Spent (mid-2012), USD mln	Stage of the project	Included in our model
Ferrexpo Poltava Mining (FPM)						
1	Northern Pushback project extension (GPL deposits)	Increase iron ore mining by 5 mmt p.a. since 2014 (+1.5 mmt in pellets), and lengthen the mine's operating life to 2038	168	> 100	Ongoing	Yes
2	Crusher and concentrator upgrade	Enable production of 15 mmt of iron concentrate (+3.5 mmt) by the end of 2013, for the production of 12 mmt of pellets	134	n/a	Ongoing	Yes
3	Pellet quality upgrade	Enable full production of pellets with 65% Fe content	212	n/a	Ongoing	Yes
4	Pelletizer upgrade	Increase existing pelletizer's capacity by 1.2 mmt to 13.2 mmt, 1-1.5 year project	5	Minor *	Feasibility study	No
Ferrexpo Yeristovo Mining (FYM)						
5	Yeristovo Mine development	Mining of 5 mmt p.a. since 2013 (+1.5 mmt in pellets at FPM)	267	> 170	Ongoing	No
6	10 mmt concentrator installation	Reprocess expected increased iron ore output into a higher value-added product, since 2015-16	700-1060	Minor *	Approval of authorities	No
7	8 mmt pelletizer installation	Reprocess increased iron ore concentrate output into a higher value-added product	~1000	Minor *	Feasibility study	No
Other						
8	Belanovo Mine development	Potential mining capacity of more than 20 mmt p.a.	Total CapEx NA, USD 50 mln for 2012	8	Initial stripping works	No
9	Railcar fleet expansion	Fully provide for pellet transportation needs with company-owned rolling stock	107	45	Ongoing	Yes

*Minor investments means the company has spent some initial costs for designing the project or running the feasibility study (or pre-feasibility).

Source: Company data, Concorde Capital estimates

Most of the projects are conditional on launching of Yeristovo pit, the company's key output-driving program. Due to the uncertainty over the license extension for the Yeristovo deposit, we do not account for these projects in our model. We price-in only the Northern Pushback project, crusher and concentrator upgrade, pellet quality upgrade and railcar fleet expansion (projects 1, 2, 3 and 9). This scenario foresees an increase in Ferrexpo's mining capacity to 35 mmt by 2014 and ensures pellet production of 10.5 mmt from its own ore.

Railcar fleet secured

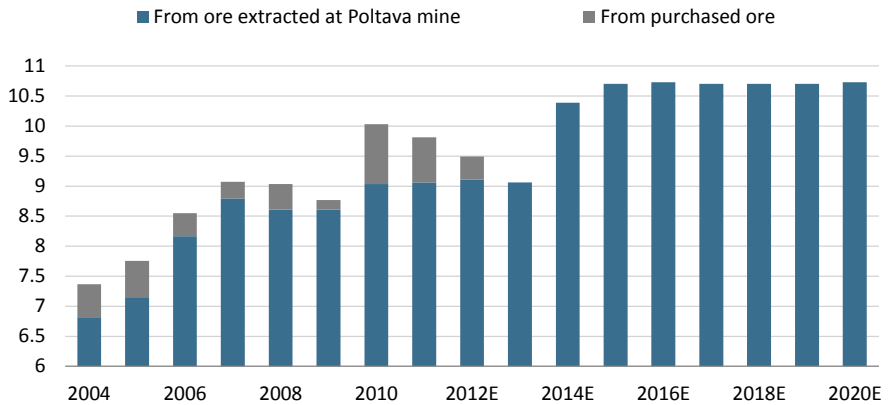
Ferrexpo’s railcar fleet will expand from 1,495 units as of end-May to 1,933 units by August 2012 following purchases from Stakhaniv Wagon, which is owned by Ferrexpo’s majority shareholder, Kostyantyn Zhevago. This fleet allows for the transportation of 10 mmt of pellets to ports and to the border. The company’s rolling stock inventory could increase to 2,433 units, enough to carry 12 mmt of pellets, according to preliminarily contracts with Stakhaniv approved at Ferrexpo’s AGM.

Ferrexpo’s own railcars help prevent possible disruptions in shipping due to the use of worn out third-party rolling stock. In addition, if Ferrexpo transports 12 mmt of pellets with its own railcars, it will save USD 3-4 mln per year, based on current railcar tariffs.

Northern Pushback Project: output driver that we can rely on

One of Ferrexpo’s ongoing projects is extension of the currently operating open pit at the Gorishne-Plavninskoe and Lavrikovskoe deposit (GPL). The aim of a total plan of USD 168 mln in investments is to increase the mine’s capacity by 5 mmt p.a. to 35 mmt in 2014. The license for GPL expires in 2017, which makes operations at the deposit certain, from a legal perspective, unlike the Yeristovo project.

Ferrexpo pellets production by source, mmt



Source: Company data, Concorde Capital estimates

Yeristovo license extension at risk

Ferrexpo Yeristovo Mining (FYM) is another project, implementing which the company is targeting to fully load its current pellet capacity - by 2014. According to current plans, FYM should start producing 5 mmt of ore already in 2013 to load half of the idling pelletizing capacities. More than 2/3 of the company’s USD 267 mln in budgeted CapEx for the project has already been spent. However, we see a risk that the Yeristovo license, which expires in August 2012, not being renewed. The reason is political – Ferrexpo’s largest shareholder, Kostyantyn Zhevago is a member of Ukraine’s major opposition political party. Ferrexpo already obtained preliminary approval for the license extension from an Intergovernmental Working Group, in March 2012, but still has not received the extended licence itself.

There was a similar situation involving some of Ferrexpo’s five Northern deposits (altogether 14.2 bln tons of iron ore resources). The licenses to these deposits expired in 2009, were approved for extension by an Intergovernmental Working Group in that same year, and the extensions were even supported by the Ministry of Environmental Protection (see Appendix 4). Nevertheless, as of end-May 2012, according to media reports, the licenses have not been prolonged.

Hence, we do not include possible cash flows from FYM in our model for Ferrexpo until the license for Yeristovo is extended.

Processing capacity expansion will depend on Yeristovo

There are a number of potential projects that can be pursued by Ferrexpo in coming years, subject to the Yeristovo deposit license validity and favorable market conditions. Though, we left the projects described below outside of our model.

Planned initial iron ore extraction of 5 mmt per year at Yeristovo represents just 17% of the mine's 28 mmt potential. Therefore, the company is considering the construction of additional facilities necessary for the beneficiation of ore from Ferrexpo Yeristovo Mining.

The first facility is a 10 mmt concentrator, with an estimated cost of more than USD 700 mln. Ferrexpo's board planned to approve the project in 1Q12, but postponed the decision until later in 2012, referring to the necessity of receiving permits from local authorities. We estimate that the Yeristovo license extension is a significant factor for the board in consideration of this project.

If this project is approved, the facility, which could be launched in 2015-16, would reach full capacity as of 2019. Under these conditions, the project's estimated cost of USD 700 mln would be recovered in five years by additional EBITDA, generated starting from 2015.

The next step in the development of the Yeristovo Mine could be the installation of a 8 mmt pelletizer to reprocess the concentrate. Ferrexpo has an option to sequentially increase the capacity of existing pelletizers by 1.2 mmt in much less time (1.5-2.0 years). The company is currently conducting a feasibility study for the upgrade.

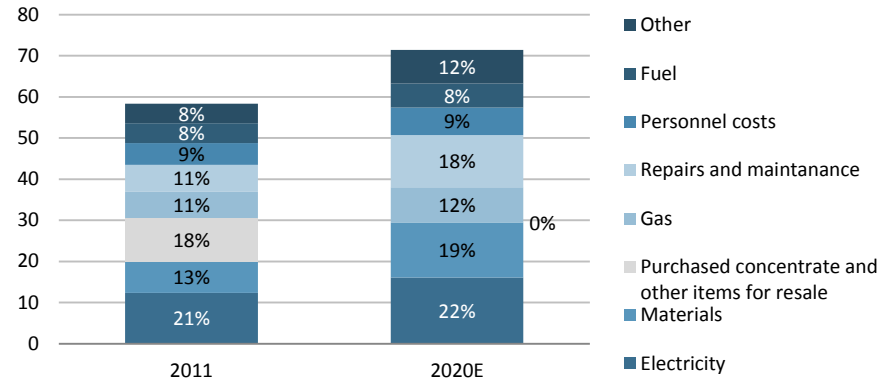
Belanovo as a strong alternative to Yeristovo

Ferrexpo has an option to intensify operations at the Belanovo mine if its license for Yeristovo is not renewed in a timely fashion. The Belanovo license is valid for 12 years (by 2024). An indirect confirmation that Ferrexpo is seriously considering this option is the USD 50 mln scheduled for stripping and preparation works at Belanovo in 2012, even though the company said it is not willing to develop both projects simultaneously. However, we did not include CapEx for Belanovo in our valuation of the company, since there is no guidance from the company regarding its commitment to launch full-fledged development in 2012 or 2013.

Production costs are growing

Energy is a key component of Ferrexpo’s production costs (41% combined in 2011) and is driving inflation in this area. Natural gas appreciated in Ukraine 25% yoy in 2011 to USD 385/tcm, diesel fuel added 36% yoy to USD 1039/t and electricity jumped 20% yoy to USD 79/MWh.

Ferrexpo’s production costs, USD/t



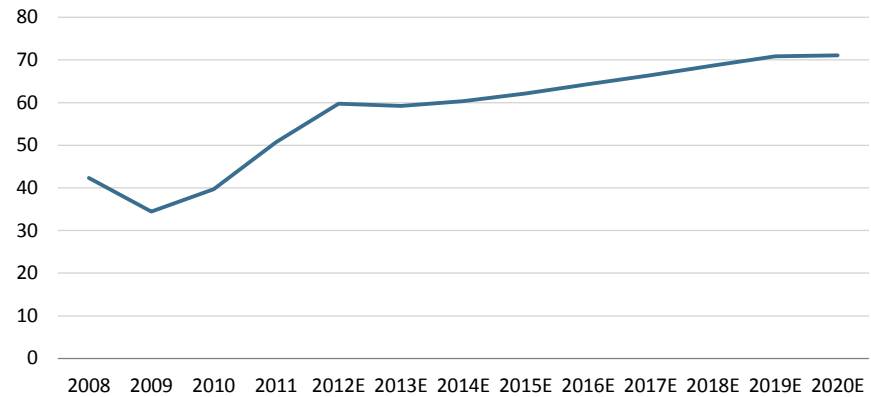
Source: Company data, Concorde Capital estimates

We model the natural gas price for Ferrexpo will rise 26% yoy to USD 487/tcm in 2012, taking into account appreciation that already occurred in 1H12, and assuming that the price will remain stable until yearend. Electricity tariffs have already grown 18% yoy in 7M12 to USD90/MWh in Ukraine, and we expect a 18% yoy increase to USD 92/MWh in the full year of 2012. The diesel fuel price will increase 3% yoy.

Another important factor influencing USD nominated cash costs is the hryvnya exchange rate, because more than 40% of costs are generated in Ukraine’s local currency (labor, electricity, repairs, etc.). We anticipate modest hryvnya depreciation (-1% yoy) in 2012. All assumptions included, C1 cash costs in 2012 will grow by 18% yoy in 2012 to USD 59.7/t.

Our forecast of production costs until 2020 foresees growth to USD 71/t (+4% CAGR) - see Appendix 2 for a detailed breakdown.

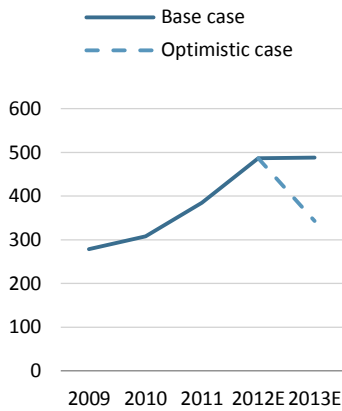
Ferrexpo’s C1 cash costs, USD/t



Source: Company data, Concorde Capital estimates

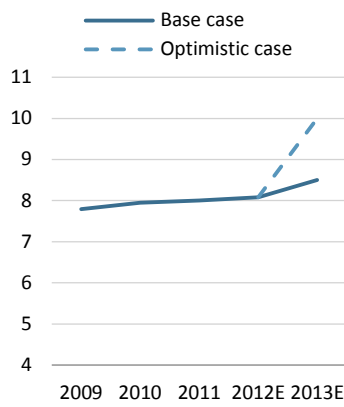
Hypothetically, a 30% cut in the natural gas price, combined with steeper (25%) hryvnya devaluation in 2013 (to UAH 10/USD), would increase Ferrexpo's EBITDA 13% to USD 620 mln next year.

Natural gas price, USD/tcm



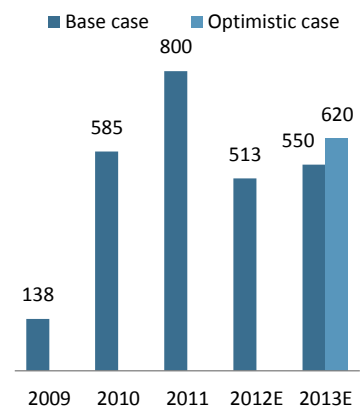
Source: Concorde Capital estimates

UAH/USD exchange rate, in 2009-13E



Source: Concorde Capital estimates

Ferrexpo's EBITDA, USD mln



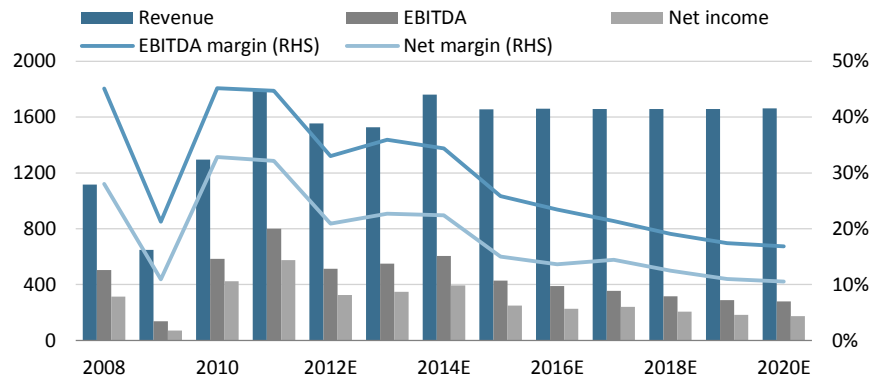
Source: Company data, Concorde Capital estimates

Cash abundant despite margins squeezing in LT

Decrease in profitability expected

According to our forecasts, Ferrexpo's EBITDA will decline 26% yoy to USD 296 mln in 1H12, and decrease 36% yoy to USD 513 mln in full year 2012. Its EBITDA margin might decline to 37% in 1H12 and to 33% on lower prices and higher costs in full year 2012 (vs. 45% in 2011). Ferrexpo's margins will squeeze in the long run, with its EBITDA margin sliding from 45% in 2011 to 23% in 2016, and to 17% in 2020.

Ferrexpo's selected financial items, USD mln, and margins



Source: Company data, Concorde Capital estimates

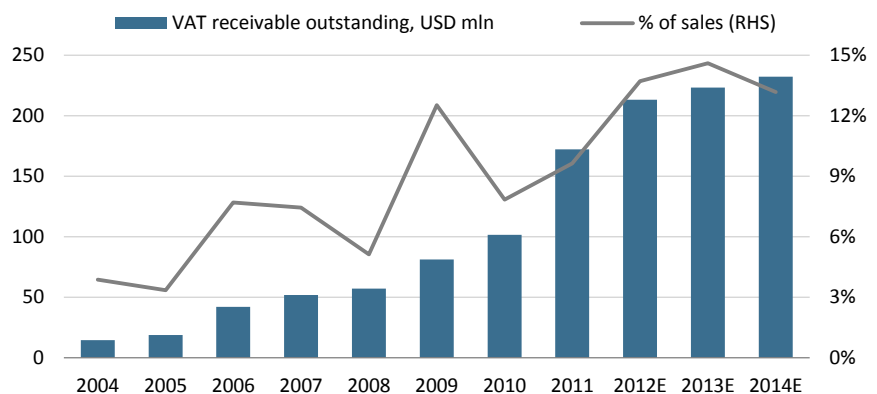
Low-cost debt supports bottom line

Of Ferrexpo's total loans, 97% are long-term and more than 80% mature in 2015-16. Half of long-term debt is Eurobonds issued in April 2011 at record low YTM of 7.6% among Ukrainian issues at placement. The other half is a pre-export facility, issued at 225 bps above LIBOR. The company's effective pre-tax cost of debt, according to 2011 financial statements, was 7.75%.

VAT receivables accumulation absorbs some cash

Ferrexpo has had difficulty with reimbursement of VAT, which is generated from export activities, though it should officially be redeemed automatically from the state budget, following checks by tax authorities. VAT receivables on Ferrexpo's balance sheet have been building up since 2004 (the oldest available financial reports for Ferrexpo). As of end-April 2012, the balance of VAT receivables had grown to USD 195 mln, up 13% YTD. We project VAT receivables increasing to USD 232 mln in 2014, and remaining stable thereafter.

Ferrexpo's VAT receivables



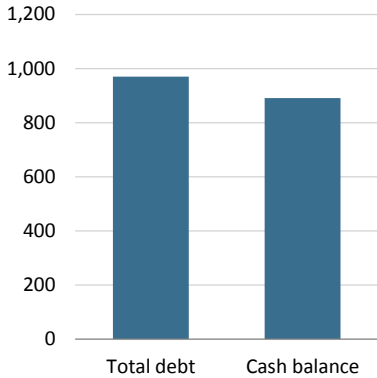
Source: Company data, Concorde Capital estimates

Any progress in VAT receivables redemption will be a positive surprise.

Cautious investment policy

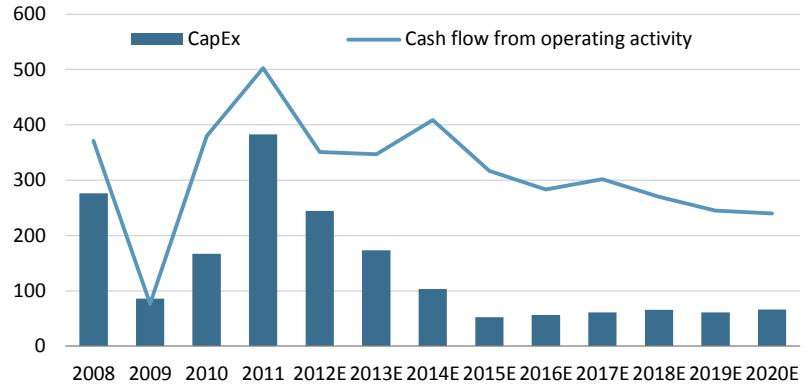
Ferrexpo pursues expansion in a cautious way and has not used its debt facilities yet. The company is fully covering CapEx by operating cash flow, and pledges to continue this policy going forward.

Total debt and cash on Ferrexpo's balance sheet, as of end 2011, USD mln



Source: Company data

Ferrexpo's coverage of CapEx by cash flow from operating activity, USD mln



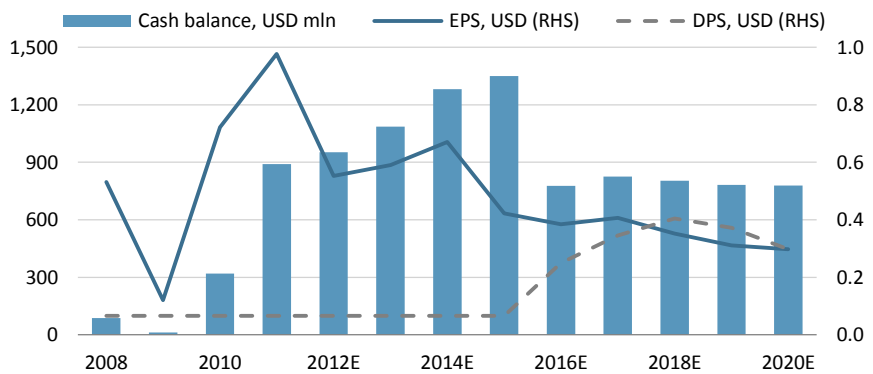
Source: Company data, Concorde Capital estimates

Higher dividend payout without new expansion projects

Since going public, Ferrexpo has been following a policy of moderate, but stable semi-annual dividends of USD 0.033 per share. With a dividend payout ratio of 7-12% annually, the absolute majority of profits were reinvested, which is consistent with Ferrexpo's growth stage and scheduled investment program.

The company may be piling up cash on its balance sheet unless it runs new expansion projects or executes acquisitions. We therefore model a change in dividend policy toward 3-5x higher payouts since 2016 (to 65-120% from annual net income).

Ferrexpo's EPS, DPS vs. cash balance



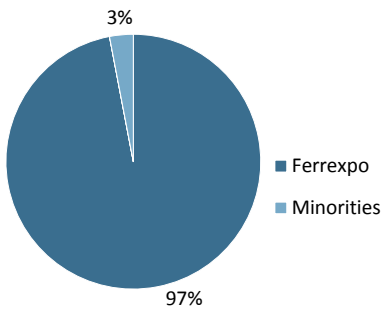
Source: Concorde Capital estimates

Poltava Mining lawsuit

The former shareholders of Ferrexpo’s key subsidiary Poltava Mining (FPM), entities related to Russian businessman Alexandr Babakov and his partners, filed a lawsuit against companies related to Kostyantyn Zhevago in 2005, demanding the cancellation of a sales-purchase agreement for 40% of FPM’s shares, which was signed between the two parties in 2002. After winning the case in local courts in 2011, Babakov is now seeking the cancellation of statutory fund increases at FPM that diluted his stake from 40% to 14%.

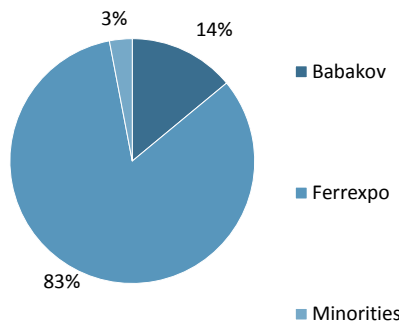
The next court hearing is scheduled for August 14, 2012. Given the current political situation in the country, we do not expect the court will rule in favor of Zhevago, a member of Ukraine’s major opposition political party. After more than seven years in different courts at various levels of the Ukrainian judicial system, Ferrexpo’s major beneficiary has started losing his positions since President Viktor Yanukovich came to power in 2010 (see Appendix 6 for key milestones of the case).

Current shareholder structure of FPM



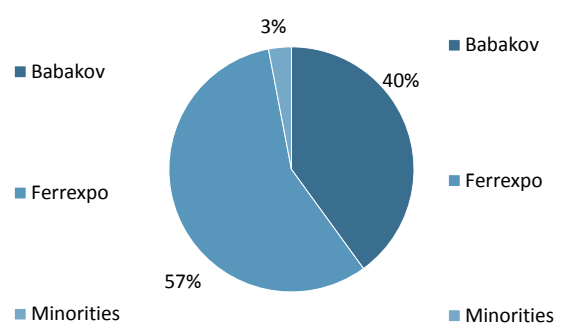
Source: Company data

Structure if SPA is cancelled



Source: Concorde Capital estimates

Structure if SPA and additional shares issues are cancelled



Source: Concorde Capital estimates

On the bright side, there are several factors that might mitigate the effect of possible negative news flow related to the court case:

- **No quick resolution.** Ukraine has four levels of courts to process the case, which may take years, assuming all legal formalities are kept. In this case, time could work in favour of Kostyantyn Zhevago and Ferrexpo.
- **Unclear enforcement mechanisms.** It is still an open question even for legal practitioners whether the cancellation of statutory fund increase could be practically implemented.
- **Ferrexpo would still retain control in Poltava Mining.** Even in the worst case (if Babakov wins back the right to 40.2% of shares) Ferrexpo will still own a controlling interest of 57% in Poltava Mining. Ferrexpo will continue to control operations and will consolidate revenues generated by the subsidiary. The only P&L item likely to be influenced is minority interest if Poltava Mining recognizes any profit.

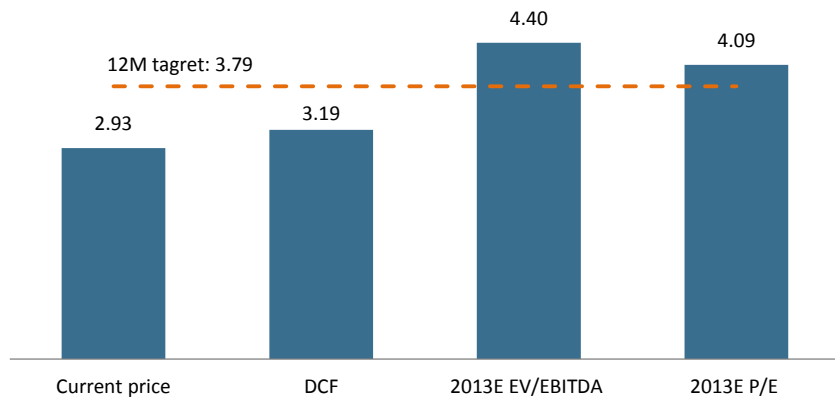
VALUATION

Valuation Summary

Our 12M target price of USD 3.79 per share (GBP 244) implies 29% upside - we reinitiate coverage of Ferrexpo with a HOLD recommendation.

Our target for Ferrexpo is a 50/50 blend of prices implied by DCF valuation and benchmarking to peers on 2013E EV/EBITDA.

Valuation summary, USD/share



Source: Concorde Capital estimates

DCF valuation

Assumptions for DCF model

Key assumptions we made for the DCF model are rather conservative:

- Selling prices for Ferrexpo's iron ore will decrease from USD 157/t in 2011 to USD 123/t in 2020
- Launch of the Ferrexpo Yeristovo Mining (FYM) and a respective increase in production are not included in the model
- Extension of the currently operating GPL pit (the project will be finished in 2014) will result in an additional 4.4 mmt of iron ore extraction, adding 1.3 mmt of pellet output in 2014
- Total CapEx for 2012-20E will amount to USD 884 mln
- C1 cost will grow at a 4% CAGR in 2011-2020 to USD 71/t
- The operating life and cash flow projections for the company are limited by 2038, the year when operations at the FPM's pit are likely to be suspended due to the exhaustion of economically minable resources
- VAT receivables will build up to USD 232 mln in 2014 and remain stable thereafter
- Hryvnya weakens from UAH/USD 8.08 in 2012 to 9.90 in 2020

Key assumptions summary

	2008	2009	2010	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Total pellets production, mmt	9.0	8.8	10.0	9.8	9.5	9.1	10.4	10.7	10.7	10.7	10.7	10.7	10.7
Selling price of pellets, USD/t	125	67	125	157	138	141	141	125	125	125	124	124	123
C1 cash costs, USD/t	42.3	34.4	39.7	50.7	59.7	59.2	60.3	62.1	64.3	66.5	68.6	70.9	71.1
Total CapEx, USD mln	276	86	167	383	245	173	103	52	56	61	66	61	66
PPI, %	36%	7%	21%	12%	12%	12%	11%	11%	10%	10%	9%	9%	8%
CPI, %	25%	16%	9%	5%	9%	9%	8%	8%	8%	7%	7%	7%	6%
USD / UAH exchange rate	5.27	7.79	7.95	8.00	8.08	8.50	8.70	8.90	9.10	9.30	9.50	9.70	9.90

Source: Company data, Concorde Capital estimates

Detailed valuation assumptions are summarized in Appendices 2-3 on pages 35-36.

DCF model summary

Our DCF model suggests an implied price of USD 3.19/share (GBP 205/share), which is 8% higher than the market.

Since we assume Ferrexpo will terminate operations in 2038, we limit our terminal value calculation to 2021-38

Our WACC calculation includes company-specific risk premium of 1%, which we assign due to the legal proceedings on the sales-purchase agreement of a 40% interest in Ferrexpo Poltava Mining.

Discounted cash flow model, USD mln (unless other specified)

	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
EBIT	465	491	542	362	323	289	252	224	215
- Tax expense on EBIT	-79	-84	-87	-58	-52	-46	-40	-36	-34
<i>effective tax rate</i>	17%	17%	16%	16%	16%	16%	16%	16%	16%
+ D&A	48	59	65	67	66	65	65	65	65
- CapEx	-245	-173	-103	-52	-56	-61	-66	-61	-66
- Change in working capital	-23	-59	-51	1	-9	-3	-3	-3	0
FCFF	166	233	366	320	271	245	208	189	180
WACC		12.6%	13.1%	13.5%	15.2%	15.2%	14.7%	14.6%	14.6%
Discount factor		0.95	0.84	0.74	0.64	0.56	0.49	0.43	0.37
Discounted FCFF for 2013-20E @ August-07-2013		222.7	308.4	237.7	175.1	137.0	101.7	80.5	66.9
FCFF for 2021-38E		3556							
Discounted FCFF for 2021-38E		425							
Sum of discounted FCF		1754							
Less net debt 2013E		-122							
Fair equity value		1876							
Implied price		3.19							
Current share price		2.93							
Upside to the implied share price		8%							

WACC calculation

	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Gov't eurobond yield	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.0%	9.0%	9.0%
Equity premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Company-specific risk premium	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Cost of equity	14.5%	14.5%	14.5%	14.5%	14.5%	14.5%	14.0%	14.0%	14.0%
Cost of debt (after tax)	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%
D/E	0.57	0.49	0.38	0.29	0.03	0.04	0.04	0.05	0.05
WACC	12.2%	12.6%	13.1%	13.5%	15.2%	15.2%	14.7%	14.6%	14.6%

Source: Concorde Capital estimates

Our sensitivity analysis on WACC produces a value range of USD 3.08-3.34 per share.

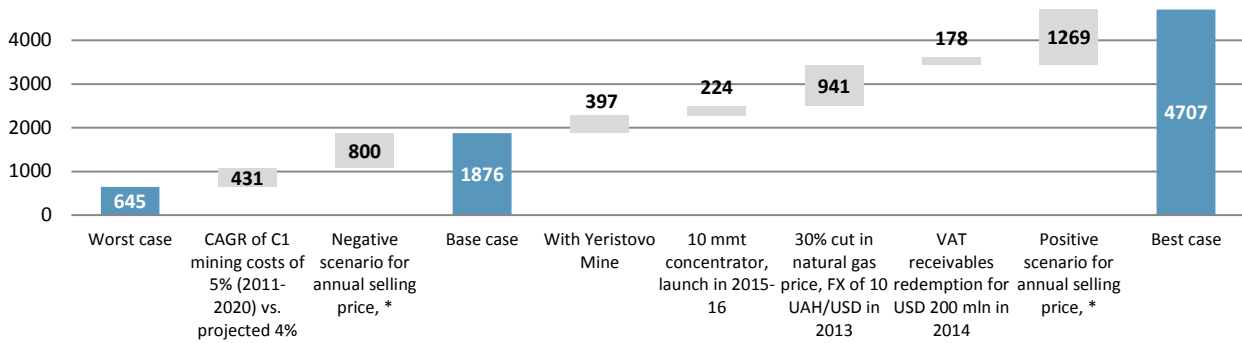
Sensitivity of DCF-implied price per share, USD per share

	WACC 2013E-2020E					
	-1.0%	-0.50%	0.0%	+0.5%	+1.0%	
	13.6%	3.34	3.31	3.27	3.24	3.24
	14.1%	3.29	3.26	3.23	3.20	3.20
WACC in 2021E-2038E	14.6%	3.25	3.22	3.19	3.16	3.16
	15.1%	3.21	3.18	3.15	3.12	3.12
	15.6%	3.18	3.15	3.11	3.08	3.08

Source: Concorde Capital estimates

Below we present the possible change in valuation, depending on model assumptions employed.

Ferrexpo's equity value sensitivity to change in key assumptions, USD mln

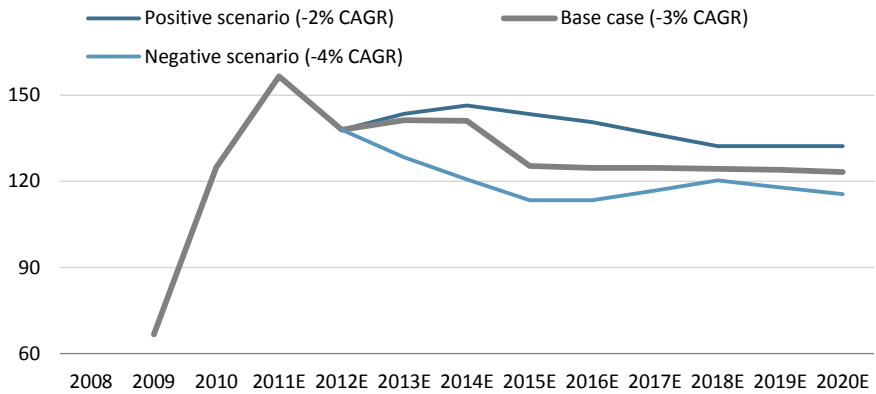


*See price scenarios below

Source: Company data, Concorde Capital estimates

The most sensitive item of the equity value is a change in the projected selling price.

Ferrexpo's pellet price scenarios, USD/t



Source: Concorde Capital estimates

Peer comparison

Ferrexpo is currently trading at 2.9x EV/EBITDA and 5.0x P/E multiples on our projections for 2013, which implies discounts to peer medians of 35% and 28%, respectively.

Relative valuation returns implied prices in the range of USD 4.1-4.4/share, which indicates upsides of 39-50% respectively.

Peer valuation of Ferrexpo

Company	MCap, USD mln	EV / EBITDA				P / E				2011 EBITDA margin
		2010	2011	2012E	2013E	2010	2011	2012E	2013E	
Vale	98,786	7.9	3.4	4.5	4.1	10.0	4.0	6.0	5.9	56%
BHP Billiton	172,919	4.8	5.4	5.6	5.3	8.2	8.9	10.3	9.6	52%
Rio Tinto	93,353	6.5	4.0	4.9	4.1	9.0	6.0	8.1	6.9	44%
Kumba Iron Ore	20,906	6.0	4.9	5.6	5.0	8.3	9.0	10.9	9.7	65%
Fortescue	14,020	10.3	6.3	6.0	4.4	18.7	8.6	9.1	6.7	51%
Cliffs Natural Resources	6,164	6.8	4.1	5.8	4.5	10.4	3.9	6.8	5.5	42%
Mmx Mineracao	1,975	32.0	21.2	19.0	6.7	87.0	neg.	135	19.2	19%
Median		6.8	4.9	5.6	4.5	10.0	7.3	9.1	6.9	51%
Ferrexpo	1,727	6.9	3.2	3.4	2.9	9.0	4.3	5.3	5.0	45%
<i>Premium (discount) to peer median</i>		2%	-35%	-40%	-35%	-10%	-42%	-41%	-28%	
Peer-implied FXPO price					4.4				4.1	
<i>Implied upside (downside)</i>					50%				39%	

Source: Bloomberg, Concorde Capital estimates

Comparison to consensus estimates

A comparison to peers' median multiples on consensus projections of Ferrexpo's financials gives out higher implied prices. This is a consequence of more aggressive forecasts suggested by consensus.

Comparison of Ferrexpo's discounts to peers' median

	EV / EBITDA		P / E	
	2012E	2013E	2012E	2013E
Peers' median multiple	5.6	4.5	9.1	6.9
Ferrexpo multiple (based on Concorde Capital forecasts)	3.4	2.9	5.3	5.0
Peer-implied price, USD		4.4		4.1
<i>Implied upside</i>		50%		39%
Ferrexpo multiple (based on consensus forecast)	3.0	2.7	4.1	3.6
Peer-implied price, USD		5.5		5.7
<i>Implied upside</i>		86%		95%

Source: Bloomberg, Concorde Capital estimates

Ferrexpo's selected financials outlook, USD mln

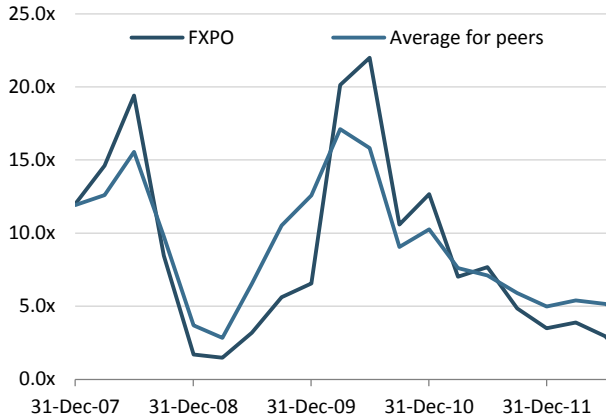
	2012E			2013E		
	Concorde Capital	Consensus,	Difference	Concorde Capital	Consensus	Difference
EBITDA	513	622	-18%	550	691	-20%
Net income	325	435	-25%	347	486	-29%

Source: Bloomberg, Concorde Capital estimates

Discount to peers: punishing for risks or just a higher beta?

Ferrexpo currently trades with a 49% discount to peers on EV/EBITDA (based on quarterly average EV to 12M trailing EBITDA) – a phenomenon that has been already observed in late 2008-2009.

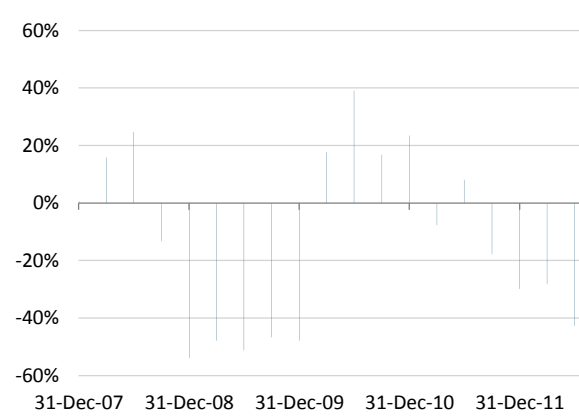
Avg. EV to 12M trailing EBITDA: Ferrexpo vs. peer average*



*Average multiple is calculated for BHP, Rio Tinto, Vale, Fortescue, Cliff Natural Resources

Source: Concorde Capital estimates, Bloomberg

FXPO's premium to peers on avg. EV to 12M trailing EBITDA

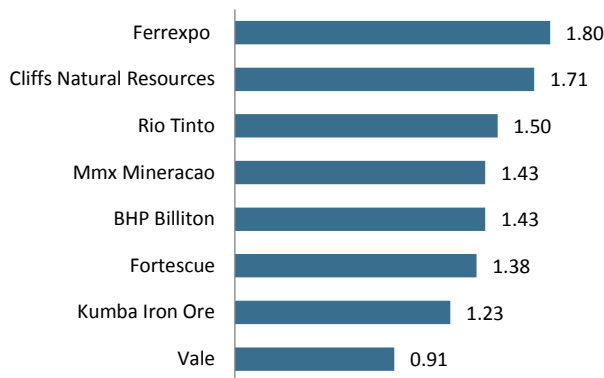


* Based on quarterly data for average EV and 12M trailing EBITDA, for 2007-2012

Source: Concorde Capital estimates

While we see some reasons for the market to punish the company individually (risks related to license for Yeristovo mine, claims of Poltava Mining's former stakeholder), we relate this discount rather to Ferrexpo's larger beta.

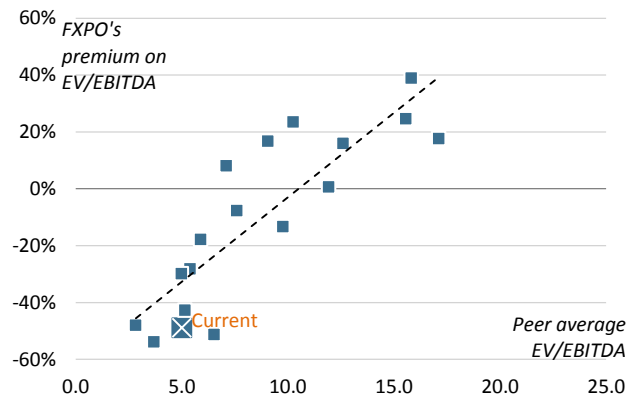
Beta comparison *



*Levered 2-year adjusted beta based on weekly data

Source: Bloomberg

Peers' average EV/EBITDA vs. Ferrexpo premium (discount)*



* Based on quarterly data for average EV and 12M trailing EBITDA, for 2007-2012

Source: Concorde Capital estimates

As can be seen from the chart above, Ferrexpo trades with discount to peers when peers' trailing EV/EBITDA is below 10x, and trades with a premium when peers' multiples are stronger than 10x. Two implications from this finding are:

- A good growth potential for Ferrexpo shares as soon as iron ore market rebounds
- This suggests the market does not fully accounts for company-specific risks: in case of negative news on the licence or suitcase against Babakov, the reaction of the market could be deeply negative.

APPENDICES

Appendix 1: Financial statements, IFRS

Income statement, USD mln (unless other stated)

	2008	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Net revenue	1,117	649	1,295	1,788	1,555	1,529	1,762	1,656	1,660	1,657	1,658	1,659	1,664
COGS	-434	-341	-482	-650	-684	-640	-741	-786	-816	-840	-866	-893	-899
Gross profit	683	308	813	1138	870	889	1020	869	844	818	793	766	764
Gross margin, %	61%	47%	63%	64%	56%	58%	58%	53%	51%	49%	48%	46%	46%
SG&A	-220	-205	-261	-370	-397	-389	-469	-498	-512	-519	-532	-533	-539
Other op. inc./exp.	-32	1	-1	-10	-9	-9	-10	-9	-9	-9	-9	-9	-9
EBITDA	503.9	138.1	585	800	513	550	606	428	389	355	317	289	280
EBITDA margin, %	45%	21%	45%	45%	33%	36%	34%	26%	23%	21%	19%	17%	17%
D&A	-34	-28	-30	-41	-48	-59	-65	-67	-66	-65	-65	-65	-65
EBIT	467	104	542	759	465	491	542	362	323	289	252	224	215
EBIT margin, %	42%	16%	42%	42%	30%	32%	31%	22%	19%	17%	15%	13%	13%
Financial expenses	-21	-24	-43	-68	-75	-75	-75	-69	-57	-6	-7	-8	-9
Non-op. income/expenses	-70	0	-1	1	3	3	3	4	4	2	2	2	2
PBT	376	81	498	691	392	419	470	296	270	285	247	218	208
Tax	-63	-10	-73	-116	-67	-72	-75	-47	-43	-46	-39	-35	-33
Effective tax rate, %	-17%	-12%	-15%	-17%	-17%	-17%	-16%	-16%	-16%	-16%	-16%	-16%	-16%
Net income	313	71	425	575	325	347	395	249	227	239	207	183	175
Net margin, %	28%	11%	33%	32%	21%	23%	22%	15%	14%	14%	12%	11%	11%
EPS, USD/share	0.53	0.12	0.72	0.98	0.55	0.59	0.67	0.42	0.38	0.41	0.35	0.31	0.30
DPS, USD/share	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.25	0.35	0.40	0.37	0.30
Dividend payout ratio, %	12%	55%	9%	7%	12%	11%	10%	16%	65%	85%	115%	120%	100%

Balance sheet, USD mln

	2008	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Non-current assets	563	599	816	1,165	1,361	1,476	1,515	1,500	1,491	1,486	1,487	1,483	1,484
Net PP&E	412	452	647	925	1,121	1,236	1,274	1,260	1,250	1,246	1,246	1,242	1,243
Other	151	147	169	241	241	241	241	241	241	241	241	241	241
Current assets	291	221	662	1,334	1,423	1,612	1,869	1,942	1,382	1,436	1,420	1,403	1,402
Cash & equivalents	88	12	319	890	953	1,086	1,281	1,350	777	826	804	781	779
Receivables & prepayments	78	58	131	152	132	172	203	195	199	200	200	200	204
Taxes prepaid	63	91	104	173	213	223	232	232	232	232	232	232	232
Inventories	61	60	105	117	123	129	152	163	171	177	182	188	184
Other	1	1	3	2	2	2	2	2	2	2	2	2	2
Total assets	854	820	1,478	2,499	2,784	3,088	3,384	3,442	2,873	2,923	2,906	2,886	2,885
Shareholder equity	458	471	861	1,393	1,679	1,988	2,344	2,554	2,633	2,669	2,638	2,601	2,601
Share capital	122	122	122	122	122	122	122	122	122	122	122	122	122
Reserves and other	-134	-151	-146	-143	-143	-143	-143	-143	-143	-143	-143	-143	-143
Retained earnings	470	501	885	1,415	1,701	2,009	2,365	2,575	2,654	2,690	2,659	2,623	2,623
Non-current liabilities	251	38	424	970	963	957	882	732	82	92	102	112	122
LT interest bearing debt	231	18	401	951	944	938	863	713	63	73	83	93	103
Other	20	20	23	19	19	19	19	19	19	19	19	19	19
Current liabilities	145	310	192	136	142	144	158	156	158	162	167	173	162
ST interest bearing debt	75	251	23	19	21	26	29	22	20	21	23	26	15
Payables & prepayments	35	28	88	72	76	73	85	90	93	96	99	102	102
Other	35	31	81	45	45	45	45	45	45	45	45	45	45
Total liabilities & equity	854	820	1,478	2,499	2,784	3,088	3,384	3,442	2,873	2,923	2,906	2,886	2,885

Cash flow statement, USD mln

	2008	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Profit before tax	376	81	498	691	392	419	470	296	270	285	247	218	208
Depreciation	34	28	30	41	48	59	65	67	66	65	65	65	65
Changes in working capital	-34	-14	-137	-111	-23	-59	-51	1	-9	-3	-3	-3	0
Income tax paid	-67	-19	-38	-132	-67	-72	-75	-47	-43	-46	-39	-35	-33
Other	62	1	26	14	0	0	0	0	0	0	0	0	0
Operating cash flow	371	77	380	503	351	347	409	317	283	302	270	245	240
Capital expenditures	-274	-86	-167	-378	-245	-173	-103	-52	-56	-61	-66	-61	-66
Other	-3	8	-8	0	0	0	0	0	0	0	0	0	0
Investing cash flow	-278	-78	-175	-414	-245	-173	-103	-52	-56	-61	-66	-61	-66
Borrowings/repayments	103	-38	163	542	-7	-6	-75	-150	-650	10	10	10	10
Dividends paid	-40	-37	-42	-39	-39	-39	-39	-39	-147	-203	-238	-219	-175
Other	-86	0	-21	-22	0	0	0	0	0	0	0	0	0
Financing cash flow	-24	-74	101	482	-44	-40	-111	-196	-799	-192	-226	-206	-176
Net cash flow	70	-75	305	571	62	134	195	69	-572	49	-22	-22	-2

Source: Company data, Concorde Capital estimates

Appendix 2. Ferrexpo operating model assumptions

	2008	2009	2010	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Production assumptions, mmt													
Ore extraction	27.6	27.7	29.1	29.6	29.6	29.6	34.0	35.0	35.1	35.0	35.0	35.0	35.1
Concentrate production	10.5	10.6	11.2	11.5	11.5	11.5	13.2	13.6	13.6	13.6	13.6	13.6	13.6
Third-party concentrate purchases	0.4	0.2	1.1	0.9	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total pellet production	9.0	8.8	10.0	9.8	9.5	9.1	10.4	10.7	10.7	10.7	10.7	10.7	10.7
<i>Pellet production from own ore</i>	8.6	8.6	9.0	9.1	9.1	9.1	10.4	10.7	10.7	10.7	10.7	10.7	10.7
Pelletizing capacity	12	12	12	12	12	12	12	12	12	12	12	12	12
Pelletizing capacity utilization	75%	73%	84%	82%	79%	75%	87%	89%	89%	89%	89%	89%	89%
Total pellet sales	8.7	9.0	9.7	9.9	9.3	9.1	10.4	10.7	10.7	10.7	10.7	10.7	10.7
<i>yoy</i>	-	3%	8%	2%	-6%	-3%	15%	3%	0%	0%	0%	0%	0%
Pellet selling price calculation, USD/t													
China import fines 63.5% price, CFR	150	86	153	175	142	149	149	134	134	134	134	134	134
<i>yoy</i>	-	-43%	78%	15%	-19%	5%	0%	-10%	0%	0%	0%	0%	0%
Pellet premium	53	17	15	15	23	26	26	26	26	26	26	26	26
<i>yoy</i>	-	-69%	-8%	-2%	52%	13%	0%	0%	0%	0%	0%	0%	0%
China import pellet price, CFR	204	103	168	191	165	175	175	160	160	160	160	160	160
<i>yoy</i>	-	-50%	64%	13%	-14%	6%	0%	-9%	0%	0%	0%	0%	0%
Freight from China to Ukraine	79	36	43	34	33	33	33	34	35	35	35	35	36
<i>yoy</i>	-	-55%	20%	-21%	-3%	0%	1%	2%	2%	0%	1%	1%	2%
Ukraine's implied FOB price for pellets	125	67	125	157	132	142	142	126	125	125	125	125	124
<i>yoy</i>	-	-46%	87%	25%	-16%	8%	0%	-11%	-1%	0%	0%	0%	-1%
Ukraine's DAF price for pellets	129	64	119	148	133	140	140	124	123	123	123	123	122
<i>yoy</i>	-	-50%	85%	25%	-10%	5%	0%	-11%	-1%	0%	0%	0%	-1%
Portion of Asian (FOB) sales	21%	50%	34%	46%	56%	55%	60%	62%	62%	62%	62%	62%	62%
Selling price of pellets	125	67	125	157	138	141	141	125	125	125	124	124	123
<i>yoy</i>	-	-46%	87%	25%	-12%	2%	0%	-11%	-1%	0%	0%	0%	-1%
Total revenue, USD mln, including:													
Revenue from sales of pellets	1108	647	1289	1700	1466	1442	1674	1565	1567	1563	1561	1560	1561
Revenue from services	1	1	1	4	6	6	6	6	6	6	6	6	6
Other sales	8	1	5	11	11	11	11	11	11	11	11	11	11
Logistics and bunker business	0	0	0	73	72	69	71	73	75	78	80	82	85
Key cost components													
Natural gas price (at the plant), USD/tcm	243.4	278.3	307.8	385.2	487.0	487.7	488.5	489.2	490.0	490.8	491.6	492.5	493.3
<i>yoy</i>	-	14%	11%	25%	26%	0%	0%	0%	0%	0%	0%	0%	0%
Electricity tariff, USD/KWh	0.060	0.049	0.060	0.069	0.092	0.090	0.091	0.092	0.093	0.092	0.092	0.092	0.092
<i>Change, yoy</i>	-	-18%	21%	15%	33%	-2%	2%	1%	1%	0%	0%	0%	0%
Diesel fuel, USD/t	1059	566	767	1231	1267	1267	1267	1293	1319	1345	1372	1399	
<i>Change, yoy</i>	-	-47%	36%	61%	3%	0%	0%	2%	2%	2%	2%	2%	
C1 cash costs, USD/t	42.3	34.4	39.7	50.7	59.7	59.2	60.3	62.1	64.3	66.5	68.6	70.9	71.1
<i>Change, yoy</i>	-	-19%	15%	28%	18%	-1%	2%	3%	4%	3%	3%	3%	0%
Total production costs, USD/t, including:													
Materials	9.9	7.0	7.0	7.7	8.9	9.5	10.0	10.6	11.3	11.9	12.6	13.4	13.6
Purchased concentrate & other for resale	5.5	1.0	10.4	10.5	4.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Electricity	10.6	9.0	10.4	12.4	16.5	16.1	16.4	16.5	16.6	16.6	16.6	16.6	16.6
Personnel costs	7.9	4.6	4.9	5.3	6.7	7.0	6.2	6.1	6.2	6.3	6.4	6.6	6.7
Spare parts and consumables	2.0	1.4	1.7	2.1	2.4	2.7	3.0	3.3	3.6	3.9	4.3	4.7	4.7
Fuel	4.8	2.7	3.2	4.8	5.2	5.2	5.2	5.2	5.3	5.4	5.5	5.6	5.7
Gas	3.9	3.2	5.0	6.5	8.5	8.5	8.5	8.5	8.5	8.5	8.6	8.6	8.6
Repairs and maintenance	3.8	4.3	4.7	6.5	7.2	7.9	8.6	9.4	10.3	11.1	12.0	12.9	12.8
Royalties and levies	0.8	0.7	0.9	1.1	1.1	1.0	1.0	1.0	0.9	0.9	0.9	0.9	0.9
Depreciation	3.3	2.6	2.5	2.9	3.8	5.2	5.4	5.6	5.7	5.7	5.7	5.7	5.7
Other	0.5	0.4	0.8	1.6	1.7	1.8	2.0	2.1	2.3	2.5	2.6	2.8	2.8
COGS, USD mln, including:													
Cost of pellets sold	434	341	482	601	634	588	688	731	759	781	806	831	836
Costs of logistics and bunker business	-	-	-	49	50	52	53	55	57	58	60	62	64
Capital expenditures, USD mln, including:													
Yeristovo mine	-	-	-	-	35	0	-	-	-	-	-	-	-
North Pushback (GPL mine extension)	-	-	-	-	9	9	9	9	9	9	9	9	9
Pellets quality upgrade (to Fe 65%)	-	-	-	-	54	54	54	-	-	-	-	-	-
Concentrator and crusher upgrade	-	-	-	-	67	40	-	-	-	-	-	-	-
Sustaining CapEx (mining machinery etc.)	-	-	-	-	40	30	-	-	-	-	-	-	-
Maintenance CapEx	-	-	-	-	40	40	40	43	47	52	56	61	66
Pre-tax cost of debt	-6.8%	-8.8%	-10.1%	-7.7%	-7.7%	-7.7%	-7.7%	-7.7%	-7.7%	-7.7%	-7.7%	-7.7%	-7.7%
Effective tax rate	-16.6%	-12.2%	-14.7%	-17.1%	-17.1%	-17.1%	-16.0%	-16.0%	-16.0%	-16.0%	-16.0%	-16.0%	-16.0%

Source: Company data, Concorde Capital estimates

Appendix 3. Key macro assumptions

	2008	2009	2010	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
PPI	36%	7%	21%	12%	12%	12%	11%	11%	10%	10%	9%	9%	8%
CPI	25%	16%	9%	5%	9%	9%	8%	8%	8%	7%	7%	7%	6%
Average UAH / USD exchange rate	5.27	7.79	7.95	8.00	8.08	8.50	8.70	8.90	9.10	9.30	9.50	9.70	9.90

Source: Concorde Capital estimates

Appendix 4. Extract from Ferrexpo Eurobond prospectus on mining permits

We hold a number of mining and exploration licences as described below.

Gorishne-Plavninskoe and Lavrikovskoe deposits. FPM currently holds licences for the extraction of iron ore from the GPL deposits, which were issued by the then subsoil licensing authority (the State Committee for Geology and Use of Natural Resources of Ukraine) on 29 July 1997. These licences expire in July 2017 (unless extended). The licences are subject to conditions that FPM complies with the requirements of the State environmental agency of the Poltava region; makes mandatory payment for geological works; and prepares annual reports on its deposits in the prescribed form. The Lavrikovskoe deposit is also used to store overburden, which may contravene the terms of its existing licence.

Yeristovskoe deposit. FPM obtained a licence for the extraction of iron ore from the Yeristovskoe deposit, which was issued by the Ministry of Ecology and Natural Resources of Ukraine on 27 August 2002. This licence expires in August 2012. It contains similar conditions to the licences for the GPL deposits and also requires annual monitoring of radiation to be carried out. This licence was re-issued in the name of FYM in 2009.

Other deposits. On 20 December 2004, FPM obtained a further two licences for the extraction of iron ore from the Belanovskoye and Galeschinskoye deposits which expire in December 2024 and 2016, respectively. These licences were re-issued in the name of Ferrexpo Belanovo Mining in 2009.

FPM holds licenses for exploration of the five Northern deposits, which are along the strike from the current pit. These are Vasilyevskoye, Zarudenskoye, Brovarkovskoye, Kharchenkovskoye and Manuylovskoye deposits. The licenses were issued on 28 December 2004 and were due to expire in December 2009. On 7 October 2009, however, the Ministry for Environmental Protection of Ukraine adopted a decision on extension of the licenses for a further five years, until December 2014.

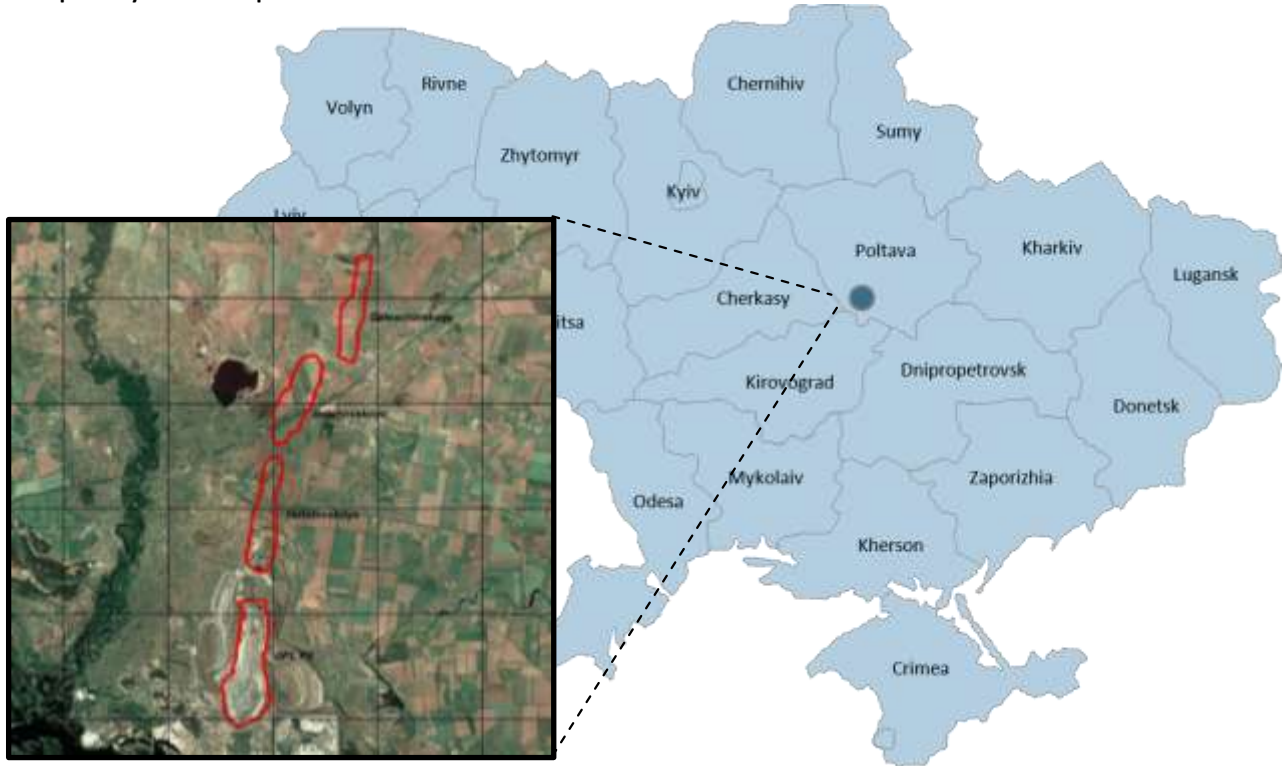
On 12 January 2010, the State Geological Service of Ukraine issued a letter imposing an obligation on FPM to make certain mandatory payments for the extension of the Northern deposits licences and to duly execute the Agreement on Terms and Conditions of Use of Subsoil as conditions precedent to issue the extended licences. Although FPM has made the required payments, these licences have not yet been issued.

Source: Company data

Appendix 5. Location of Ferrexpo’s key iron ore deposits

Ferrexpo’s resource base is located on the so-called Kremenchuk magnetic anomaly, a 50 km long iron ore deposit, in Poltava region.

Ferrexpo’s key iron ore deposits



Source: Company data

Reserves and resources base of Ferrexpo

	Proved and probable reserves, mmt	Measured, indicated and inferred resources, mmt	GKZ resources, mmt	License issued	Expiration date
Gorishne-Plavninskoye and Lavrikovskoye (GPL)	859	3,589	-	July 1997	July 2017
Yeristovo	632	1,192	-	August 2002	August 2012
Belanovo	-	1,702	-	December 2004	December 2024
Galeschinskoye	-	326	-	December 2004	December 2016
Zarudenskoye, Vasilyevskoe, Kharchenkovskoye, Manuylovskoye and Brovarskoye	-	-	14,200	December 2004	December 2009, not extended
Total	1,491	6,809	14,200	-	-

Source: Company data

Appendix 6. Babakov vs. Zhevago case history

Date	Event
18 November 2002	Kostyantyn Zhevago (represented by Statex, Eastcoast, Newport, and Sayers companies (hereafter Statex & Co.)) signed a sales-purchase agreement (SPA) with Alexander Babakov (represented by Gilson, Emsworth, Calefort, and Trimcroft companies (hereafter Gilson & Co.)) to acquire a 40% interest in Poltava Mining (FPM) for USD 27 mln.
+2 days	Ferrexpo Poltava Mining held an EGM. Shareholders voted to increase share capital 39.8x via an increase in the par value of shares from UAH 0.25 to UAH 9.96.
November 2002 - October 2008	A number of share capital increases took place at FPM, increasing the statutory fund by another 3x. As a result, the sold 40% interest to Statex & Co. was diluted to 14%
2002 – 2005	The price of the 40% interest in FPM grew from USD 27 mln to USD 262 mln (based on market capitalization of PGOK UZ in November 2005).
Legal process	
Case 1. Challenging the SPA	
November 2005	Gilson filed a lawsuit to Commercial Court of Donetsk Region, requesting the 2002 sales-purchase agreement on 40% to be declared illegal.
2005-2008	Series of court hearings without any substantial progress for either party.
August 2009	Economic Court of Poltava Region ruled against Gilson & Co.
August 2010	High Economic Court of Ukraine cancelled the decision of the Economic Court of Poltava Region and ruled in favor of Gilson & Co., acknowledging the SPA is illegal.
April 2011	High Economic Court of Ukraine reviewed an appeal from a Zhevago representative and denied forwarding the appeal to the Supreme Court of Ukraine. The SPA has been successfully challenged.
Case 2. Challenging FPM's statutory fund increase	
November 2011	Gilson & Co. filed a lawsuit in the Economic Court of Poltava Region to cancel Ferrexpo Poltava Mining's additional share issues and book value increase, and to reinstate its shareholdings in the company. The court announced a recess until June 2012.
December 2011	Ferrexpo filed a lawsuit in the High Court of the United Kingdom to switch hearing venue to an independent, international court. In April 2012, the High Court of the UK refused to begin proceedings until the legal process is completed in Ukraine.
June 2012	Economic Court of Poltava Region resumed hearings into the lawsuit filed by Gilson & Co.
August 14, 2012	Next scheduled hearing in the Economic Court of Poltava Region.

Source: State Register of Court Decisions of Ukraine, High Court of UK

Analyst certification

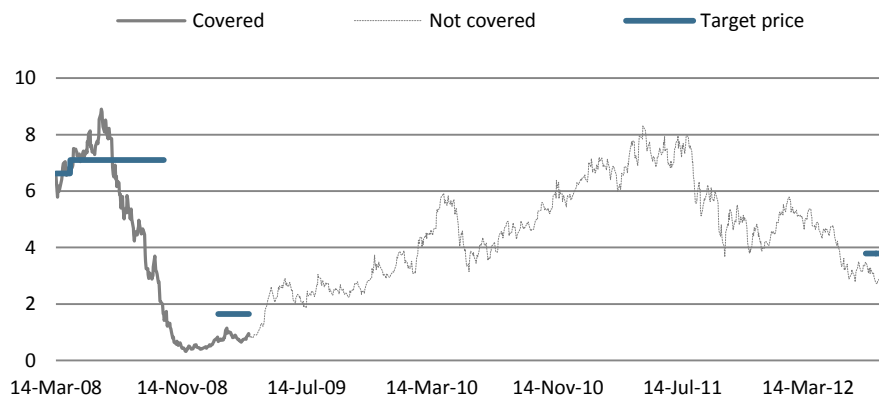
I, Roman Topolyuk, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

Ferrexpo: Rating history

Date	12M target price, USD	Market price, USD	Rating	Action
14-03-2008	6.62	6.85	HOLD	Initiate
31-03-2008	6.62	6.93	HOLD	Maintain
11-04-2008	7.10	6.87	HOLD	Maintain
19-06-2008	7.10	8.40	HOLD	Maintain
28-08-2008	7.10	4.48	BUY	Upgrade
09-10-2008	U/R	1.61	BUY	Maintain
16-10-2008	U/R	1.41	BUY	Maintain
20-10-2008	U/R	1.13	BUY	Maintain
29-10-2008	U/R	0.68	BUY	Maintain
23-01-2009	1.65	0.78	BUY	Maintain
03-02-2009	1.65	0.95	BUY	Maintain
24-03-2009	1.65	0.95	BUY	Maintain
07-08-2012	3.79	2.93	HOLD	Reinitiate

Source: Concorde Capital

Company: Target price vs. share performance, USD per share



Covered by Roman Topolyuk since 7 August, 2012

Source: Bloomberg, Concorde Capital

Investment ratings

The time horizon for target prices in Concorde Capital's research is 12 months unless otherwise stated. Concorde Capital employs three basic investment ratings: Buy, Hold and Sell. Typically, Buy recommendation is associated with an upside of 20% or more from the current market price; Sell is prompted by downside from the current market price (upside <0%); Hold recommendation is generally for limited upside within 20%. Though investment ratings are generally induced by the magnitude of upside, they are not derived on this basis alone. In certain cases, an analyst may have reasons to establish a recommendation where the associated range given above does not correspond. Temporary discrepancies between an investment rating and its upside at a specific point in time due to price movement and/or volatility will be permitted; Concorde Capital may revise an investment rating at its discretion. A recommendation and/or target price might be placed Under Review when impelled by corporate events, changes in finances or operations. Investors should base decisions to Buy, Hold or Sell a stock on the complete information regarding the analyst's views in the research report and on their individual investment objectives and circumstances.

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