



CONCORDE CAPITAL

Ukraine / Iron ore

Ferrexpo

Strategy and management changes

October 29, 2008

Current price: USD 0.68
12M Target: U/R

BUY

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- **This morning, Ferrexpo announced the resignation of two top executives, the company's CEO and executive director of business development**
- **Ferrexpo's board appointed Konstantin Zhevago CEO, and proposed two new independent director posts for representatives of Czech NWR, which recently acquired a 25%+1 stake in FXPO**
- **The company announced strategy changes: focus on existing operations in Ukraine, postpone attraction of a strategic partner**
- **We regard FXPO's current 75% discount to its peers unjustified, given the viability of the company's existing operations. Our long-term production forecasts were always more than 2x below the management's targets**
- **For the moment, we keep our price target under review, awaiting hard numbers on the management's short and long-term plans**

Strategy and management changes

Earlier today, Ferrexpo announced that its Board of Directors revised the group's expansion strategy, postponing all strategic initiatives in the medium term, including attraction of a strategic investor, and strengthening its existing operations in Ukraine.

In addition, Ferrexpo said that its board accepted the resignations of CEO Mike Oppenheimer and Executive Director of Business Development Dennis McShane; both have agreed to stay on through a transition period. Ferrexpo's board appointed Konstantin Zhevago, primary beneficiary, to the post of CEO. The Ferrexpo board proposed to seat two non-executive directors on the board as a consequence of the 25% stake acquisition by RPG Industries, Miklos Salamon, executive chairman of NWR, and Marek Jelinek, CFO of NWR. Salamon was previously an executive director of BHP Billiton.

Our view: Whereas the old management team had been hired to oversee growth projects, the new market reality has demanded Ferrexpo refocus on its current business. Zhevago, as CEO, will oversee this process and will seek to build more bridges with NWR. We believe the NWR representatives will accept the board seats.

As both entities are raw material suppliers to steel makers, a closer relationship implies synergies for Ferrexpo and, versus the asset-level strategic investor program, implies less risks for FXPO minorities (see our March 2008 industry report). For now, we stick to our forecast that Ferrexpo will increase production to 16 mln mt of pellets by 2014 (vs. the company's previous estimate of about 20 mln mt by 2014).

Trading update

In a second press release, Ferrexpo said that since its Interim Management Statement on October 15, 2008, the company has been notified of reduced demand for iron ore pellets by a number of its export contract customers for the remainder of the year. As a result, these customers have requested deferral of some 4Q08 deliveries into 2009.

This will lead to a significant increase in unallocated production in the current year. Ferrexpo estimates that this slowdown in demand will have a negative impact of around 5% to 10% on its expected sales for 2008.

Our view: We agree with Ferrexpo that effect could be around 5-10% on sales in 2008. Though, in our view, demand risks in 2009 are high, we estimate that the company will be able to sell around 9.2-9.5 mln mt of pellets (in line with our forecasts). We stick to our cost assumption for 2008 of USD 34/mt of pellets. Export-oriented (around 80% of total pellet sales) Ferrexpo, whose contracts are nominated in US dollars, should benefit from the hryvnya's depreciation.

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Appendix - Disclosures

Analyst certification

I, Eugene Cherviachenko, 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.

FXPO ratings history

Date	12M target price, USD	Market price, USD	Rating	Action
12-Mar-08	6.62	6.85	HOLD	Initiate
31-Mar-08	6.62	6.95	HOLD	Maintain
11-Apr-08	7.10	6.87	HOLD	Maintain
19-Jun-08	7.10	8.40	HOLD	Maintain
09-Jul-08	7.10	7.31	HOLD	Maintain
28-Aug-08	7.10	4.48	BUY	Upgrade
09-Oct-08	U/R	1.61	BUY	Maintain
16-Oct-08	U/R	1.41	BUY	Maintain
20-Oct-08	U/R	1.33	BUY	Maintain
29-Oct-08	U/R	0.68	BUY	Maintain

FXPO target price history, USD per share



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