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# Pressure on Zhevago mounts

## Ferrexpo is unlikely to face overt intimidation

- **Following more negative news involving assets owned by Konstantin Zhevago, we recommend caution toward businesses listed on the Ukrainian Exchange that are linked to political opposition parties**
- **Ferrexpo (FXPO LN) is unlikely to face overt intimidation, in our view. It is LSE-listed and its free float is USD 974 mln, the second largest minority stake of any publicly-traded Ukrainian company, with most of that internationally-held, implying greater legal protection and likelihood minorities will vigorously defend and lobby for their rights**

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**Pressure on Zhevago businesses is systematic.** Kommersant reported yesterday that the custodian for truck producer **AvtoKrAZ** (UX: KRAZ UK) had “disappeared”. Other companies controlled by businessman Konstantin Zhevago, who is a member of the opposition party BYuT in parliament, have been the subject of raids by the Security Service (SBU, Ukraine’s successor to the KGB), intrusive tax inspections and other forms of pressure by the authorities. Incidents have been rumored at most locally listed companies controlled by Zhevago: **Poltava Iron Ore** (UX: PGOK UK), **Stakhaniv Wagon** (UX: SVGZ UK), **Rosava** (UX: ROSA UK) and **Kyivmedpreparat** (UX: KMED UK) and at Eurobond issuer **Finance & Credit Bank**.

**Ferrexpo is unlikely to face overt intimidation.** So far there have not been reports involving **Ferrexpo** (FSE: FXPO LN), where Zhevago owns 51%. However, this summer Ferrexpo has been rumored to be both sold off or expand into other markets, but management claims these are independent business decisions with no link to Ukrainian politics. In our view, local officials will shy away from overt intimidation of Ferrexpo, which is LSE-listed and its free float is USD 974 mln, the second largest minority stake of any publicly-traded Ukrainian company, with most of that internationally-held, implying greater legal protection and likelihood they will vigorously defend and lobby for their rights.

**Agroton could also be targeted.** Among listed companies, we see only one case where increased caution might be warranted: **Agroton** (WSE: AGR PW). Co-owner & chairman Yuriy Zhuravlev was expelled from the Party of Regions in April 2010, allegedly for helping the opposition in last fall’s local elections. The beneficiaries of other business groups with listed assets are already allied with Regions, have switched allegiance or have stayed neutral.

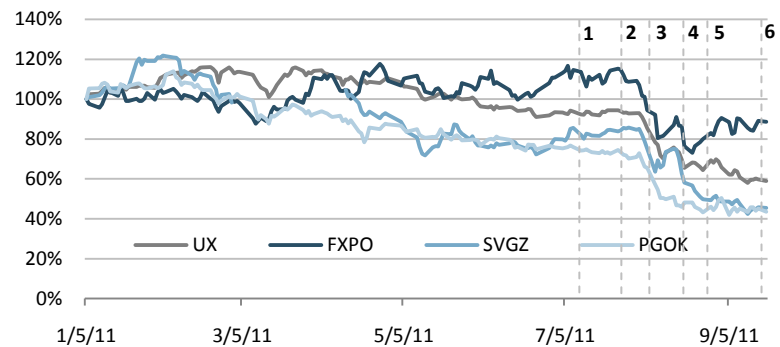
### Zhevago’s listed assets

Company	Ticker	Stake	Market Cap, USD mln	Free float, %	Free float, USD mln
Ferrexpo	FXPO LN	51%	3,609	27.0%	974.4
Kyivmedpreparat	KMED UK	80%	110	20.0%	22.0
Stakhaniv Wagon	SVGZ UK	92%	271	8.0%	21.7
Poltava Iron Ore	PGOK UK	96%	472	2.6%	12.3
Odesaoblenergo	ODEN UK	10%	61	9.4%	5.7
AvtoKrAZ	KRAZ UK	93%	52	7.0%	3.6
Zaliv Shipyard	SZLV UK	93%	23	7.0%	1.6

Source: Bloomberg, UX, Concorde Capital

## Timeline

Performance of Zhevago assets vs. UX, YTD and timeline of Zhevago news



Source: Bloomberg, UX

Date	Company	Event
1 July 11	Rosava (UX: ROSA UK), Finance & Credit Bank, Stakhaniv Wagon (UX: SVGZ UK), Arterium Corporation, Football Club Vorskla	Kommersant reported that SBU agents forcibly entered the production facility of Rosava and stopped production yesterday. The article claimed SBU agents also visited other Finance & Credit Bank, Stakhaniv Wagon, Arterium Corporation and FC Vorskla. The SBU said the actions were taken in connection with criminal investigations into a fictitious business and forgery, but refused to disclose further details.
2 July 26	Finance & Credit Bank	The National Bank of Ukraine appointed a supervisor to "monitor" day-to-day operations at the bank. F&C Bank confirmed a biannual NBU inspection was taking place. On July 27, F&C Bank said it was planning to increase its charter fund by 10% to UAH 2.2 bln. Concorde Capital sources told us the supervisor is still in place at the bank.
3 August 9	Ukrenergobit	Ukrainian police arrested an unnamed top manager of Ukrenergobit, which is controlled by Zhevago. He was released on bail after 15 days in detention. Kyiv Post reported on September 13 that he faces 5-10 years in prison for tax evasion.
4 August 16	Poltava Iron Ore (UX: PGOK UK)	News agency RBC reported ecological inspectors were checking compliance at Poltava Iron Ore. Chairman Viktor Lotous denied reports of a work stoppage, Interfax reported later the same day. Lotous said the company had no outstanding issues with the State Ecological Inspection Service and that it has not conducted an inspection at the plant in August.
5 August 31	Stakhaniv Wagon (UX: SVGZ UK)	Stakhaniv Wagon stopped production for four days from August 25-28, Kommersant reported. The company attributed the suspension to low input stocks, but rumors suggested intrusive government inspections could have played a role.
6 September 20	AvtoKRAZ	AvtoKRAZ' official custodian TK Brok "disappeared", Kommersant reported, citing sources at the Ukrainian Securities & Exchange Commission. As a result of the disappearance, AvtoKRAZ cannot complete converting its shares into non-documentary form (so-called dematerialization), which it started February 21, 2011. Trading in AvtoKRAZ shares has been suspended since February.

Source: Interfax, Kommersant, RBC, Kyiv Post, Delo.ua, Liga.net, Concorde Capital

## Finance & Credit Business Group Profile

### Overview

- Primary beneficiary: Konstantin Zhevago. He is among the youngest of Ukraine's oligarchs (37 years old) and one of the most market-friendly
- Politically closest to Yulia Tymoshenko Bloc. Zhevago is a member of parliament in the Tymoshenko Bloc
- Industry focus: Basic Materials, Industrial, Finance
- Ferrexpo was the first Ukrainian company to list on the main market of the London Stock Exchange, conducting the largest Ukrainian IPO to date, in 2008
- Other assets including AvtoKrAZ, Stakhaniv Wagon and Finance & Credit Bank have all at times been rumored to be IPO candidates
- Arterium Corporation confirmed in March 2011 it was bidding for Poland's Polfa Warszawa and intended to list on the Warsaw Stock Exchange if successful

### Primary beneficiaries

Individual	Net wealth estimates	
	Forbes	Focus
Konstantin Zhevago	USD 2.4 bln	USD 2.7 bln

Source: Forbes Magazine Ukraine (April 2011), Focus Magazine (March 2011)

### Listed assets

Company	Sector	Ticker	Stake
AvtoKrAZ	Industrial	KRAZ UK	93%
Ferrexpo	Basic materials	FXPO LN	51%
Kyivmedpreparat	Pharmaceuticals	KMED UK	80%
Poltava Iron Ore	Basic materials	PGOK UK	96%
Odesaoblenergo	Utilities	ODEN UK	10%
Stakhaniv Wagon	Industrial	SVGZ UK	92%
Zaliv Shipyard	Industrial	SZLV UK	93%

Source: Concorde Capital sources

### Other key assets

Sector	Assets
Basic materials	Vorskla Steel
Financial	Finance & Credit Bank
Pharmaceuticals	Arterium Corporation, Halychfarm, Hemoplast

Source: Concorde Capital sources

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