

Ukraine's Ferroalloy Industry

Capitalizing On Ukraine's Vast Resource Base

Andriy Gostik
ag@con-cap.com

+380 44 206 8370



CONCORDE CAPITAL

10 June, 2005

Contents

Executive Summary	3	Ferroalloys In Ukraine	20
Global Industry Portrait	4	Ukrainian Ferroalloy & Manganese Ore Centers	21
What Are Ferroalloys?	5	Ukraine's Ferroalloy Industry At A Glance	22
Specific Uses Of Ferroalloys	6	Stock Market & Valuations	23
The World's Major Manganese Players	7	Trading	24
Market Dynamics	8	Valuations	25
Supply & Demand Trends	9	Company Profiles	26
World Manganese Alloy Demand	10	Nikopol Ferroalloy (NFER)	27
World Manganese Alloy Supply	11	Zaporizhzhya Ferroalloy (ZFER)	29
World Manganese Alloy Capacity	12	Stakhanov Ferroalloy (SFER)	31
Global Demand/Capacity Imbalance	13		
Competitive Advantage	14		
Cost Factors For Ferroalloy Production	15		
Manganese Ore	16		
Energy	17		
Reductants & Labor	18		
How Competitive Is Ukraine?	19		

Executive Summary

Industry Synopsis

- The demand-supply side:

- Demand for steel drives the demand for ferroalloys.
- Ferroalloy price dynamics do not necessarily follow steel price dynamics; rather, they are determined by the balance of demand for and supply of alloys.
- An unprecedented surge in ferroalloy prices in 2004 was the result of a temporary mismatch in demand and supply, allowing alloy producers to reap abnormal profits.
- Structural overcapacity in the industry will prevent extremely high prices in the long run.
- Demand for ferroalloys will grow primarily due to China's steel industry expansion.
- Long term mid-cycle prices for ferroalloys will reach higher levels than before.

- The cost side:

- The key cost components in ferroalloy production are electricity, ore, coke, labor and transportation.
- Integration/ consolidation strategies are widely used in the industry to achieve cost efficiency.

Ferroalloy Sector In Ukraine

- Ukraine's competitive advantages:

- Ukraine has the world's second largest manganese reserves, making it a leading player in the manganese alloy market.
- The cost of labor is still among the cheapest in the world.
- Self-sufficient in coke supplies.
- Close proximity to Russia, one of the major ferroalloy markets.

- Industry specifics:

- Exports account for lion's share of revenues.
- Two powerful business groups, Privat and Interpipe, control key industry assets.
- Corporate governance, ownership issues and re-privatization are all problems for the sector.
- Transfer pricing and overstating costs have veiled the companies' true sales and earnings, but these practices will end in the medium term.

- Stocks:

- Low liquidity, but spreads are shrinking rapidly in 2005.
- No longer cheap, as prices have risen significantly since the beginning of the year.

Ticker	Company	Current Price, USD	Target Price, USD	Recommendation
NFER	Nikopol Ferroalloy	1.55	1.26	SELL
ZFER	Zaporizhzhya Ferroalloy	0.13	0.10	SELL
SFER	Stakhanov Ferroalloy	0.013	0.010	SELL

Global Industry Portrait

What Are Ferroalloys?

- Alloys are less than 50% composed of iron, and include one or more elements other than carbon.
- Ferroalloys are used to introduce or “carry” elements into molten metal during pig iron manufacture and steel making.
- The principal ferroalloys made with chromium, manganese and silicon.

Mn Alloy Unit Consumption In 2004 (kg/mt steel):

China	10.8
CIS & Central Europe	9.5
World average	9.5
W. Europe	8.7
N. America	8.1

Ferroalloys produced in Ukraine:

- Base alloys
 - ferromanganese
 - silicomanganese
 - ferrosilicon
- Small-volumes
 - ferronickel, ferromolybdenum, ferrotungsten and ferrovanadium

Specific Uses Of Ferroalloys

Manganese is used in steel and pig iron production to:

- Counteract the harmful effects of sulphur by removing it from molten metal.
- Remove oxygen (**deoxidation**) to improve the quality of metal.
- Impart additional properties, such as hardness, abrasion resistance, weldability and tensility.

High Carbon Ferromanganese (HCFeMn)

- Contains 65-79% of manganese and 6-8% of carbon.
- Can be produced by blast furnace or electric furnace method.
- Needs a high proportion of rich ore.
- The specific consumption of HCFeMn by steel-makers is falling due to substitution by MCFeMn, LCFeMn and SiMn.

Refined Ferromanganese

- Medium carbon ferromanganese (**MCFeMn**) contains 1.5% of carbon.
- Low carbon ferromanganese (**LCFeMn**) contains 0.5% of carbon.
- MCFeMn and LCFeMn are value-added products with solid growth potential used mainly for flat and special steels.

Silicon is used in steel and pig iron production for:

- Deoxidation.
- As an alloying agent to enhance hardness, corrosion resistance, castability, etc .

Silicomanganese (SiMn)

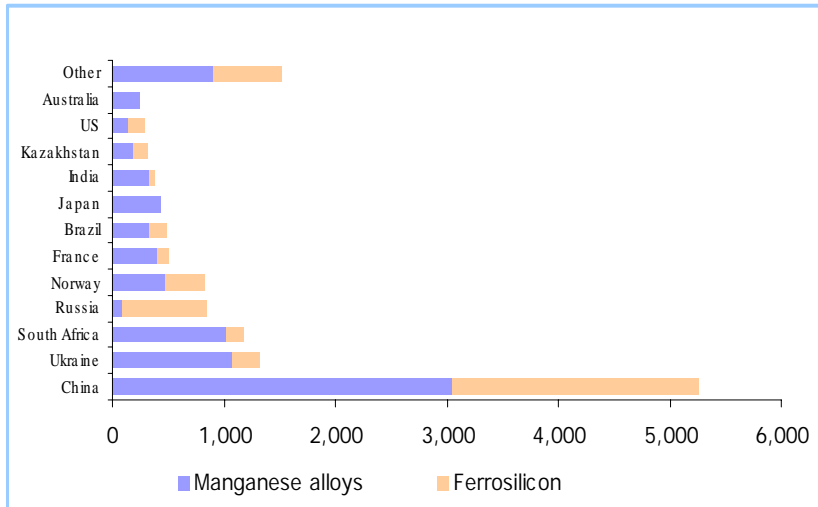
- Contains 60-77% of manganese.
- Can only be produced by the electric furnace method.
- Poor Mn ore can be used as feedstock.
- FeMn and SiMn are partially fungible commodities.
- Specific consumption of SiMn is rising due to the conversion of steel-makers in developing countries to BOF and electric furnace processes.

Nickel, molybdenum, tungsten and vanadium are used in steel production as:

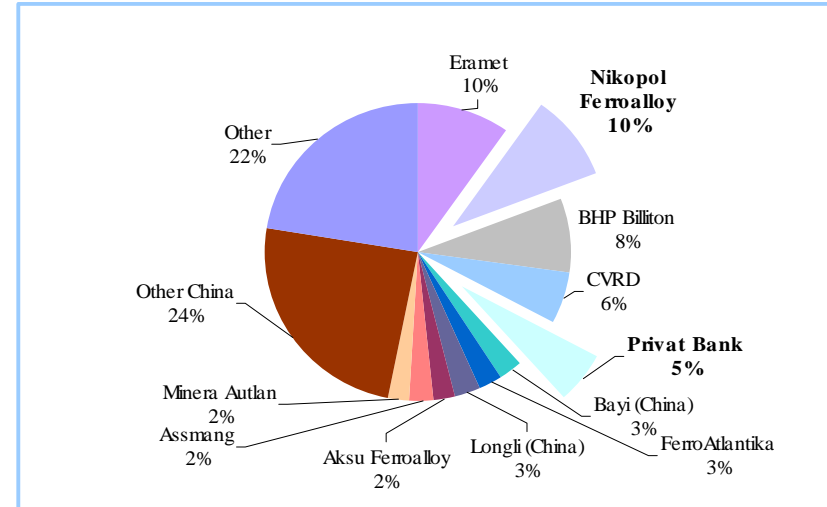
- Alloying agents for the manufacture of construction, tool and other alloyed steels to enhance heat, corrosion and wear resistance.

The World's Major Manganese Players

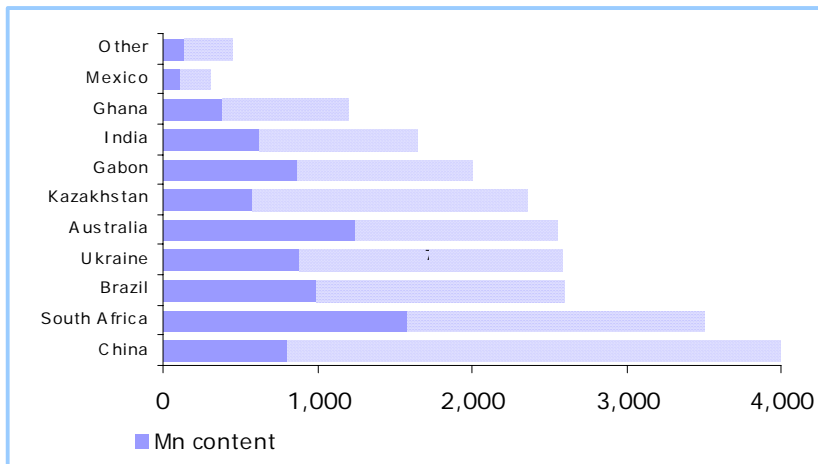
FeMn, SiMn, FeSi 2003 Production, '000 Mt



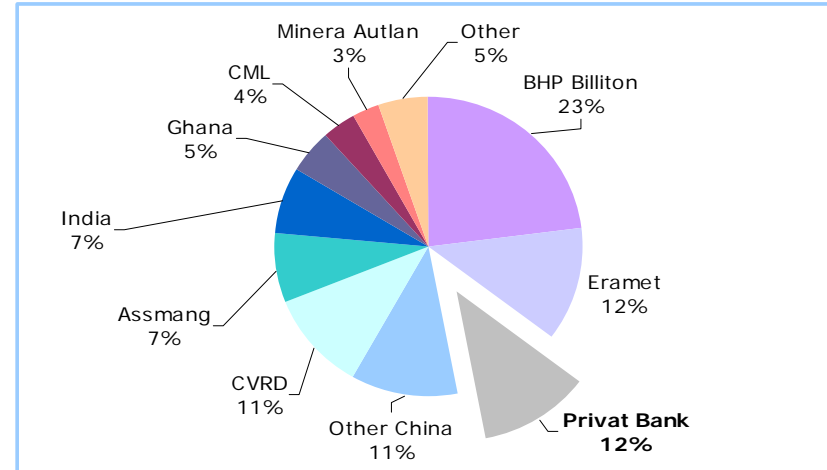
Global Mn Alloy Trade Totaled 9.1 mn mt in 2003*



Manganese Ore 2003 Production (Gross Weight), '000 Mt



Global Production In terms Of Mn Content Was 8.2 Mn Mt In 2003

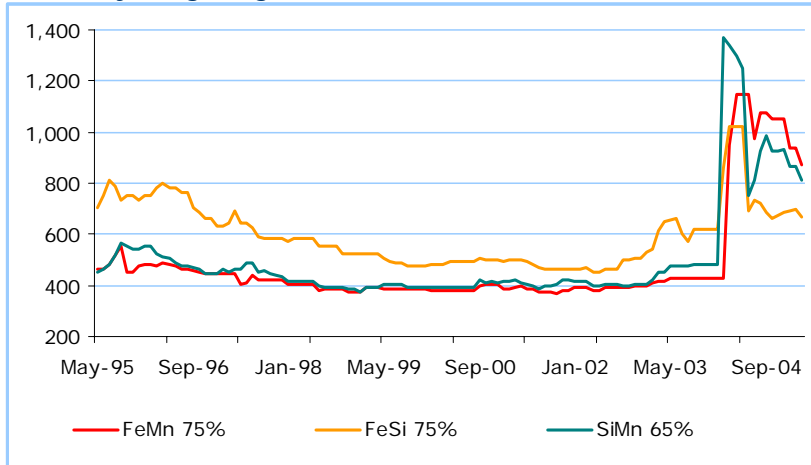


*Privat Bank group controls four ferroalloy assets (Zaporizhzhya and Stakhanov Ferroalloy plants in Ukraine, Ferom in Romania, Alapayevsk Steel Works in Russia) and two Mn ore miners (Marganets and Ordzhonikidze GOKs in Ukraine)

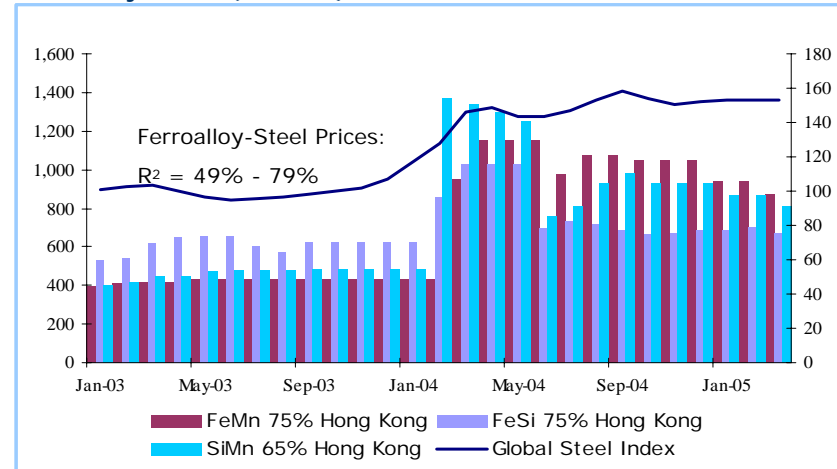
Source: US Geological Survey; BHP Billiton; Eramet; Concorde Capital calculations

Market Dynamics

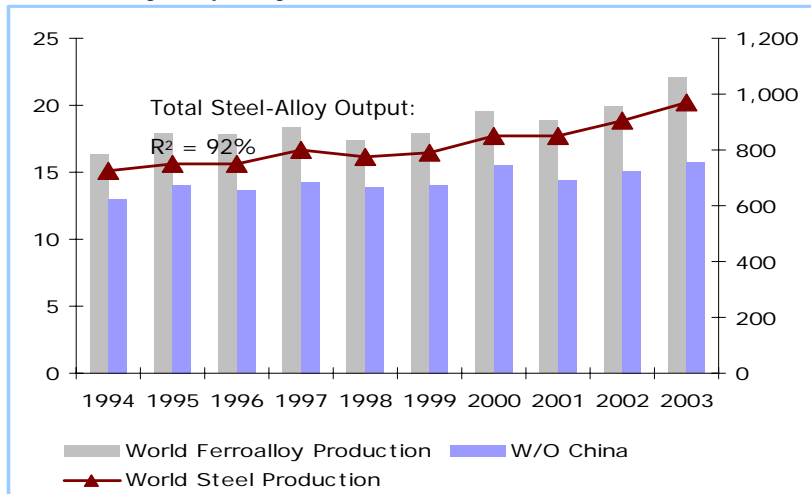
Ferroalloy Hong Kong FOB Prices, USD/mt



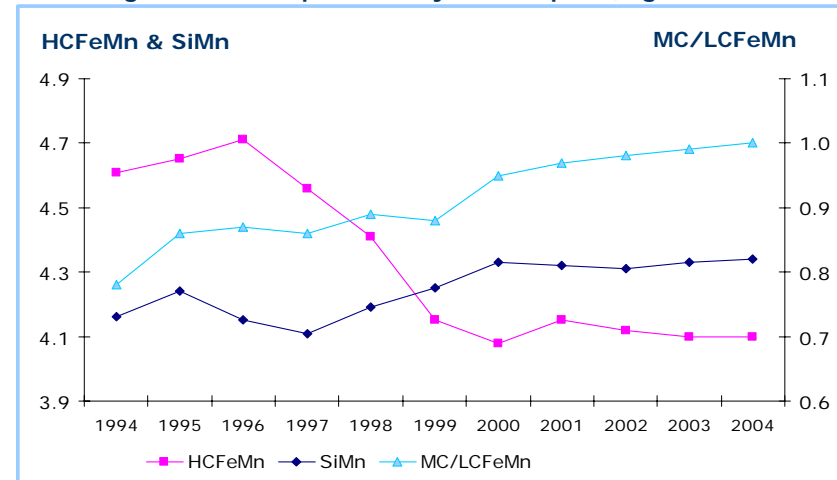
Ferroalloy Prices (USD/mt) vs Steel Index



Steel & Alloy Output Dynamics, mn mt



Technological Trends: Specific Alloy Consumption, kg/mt steel

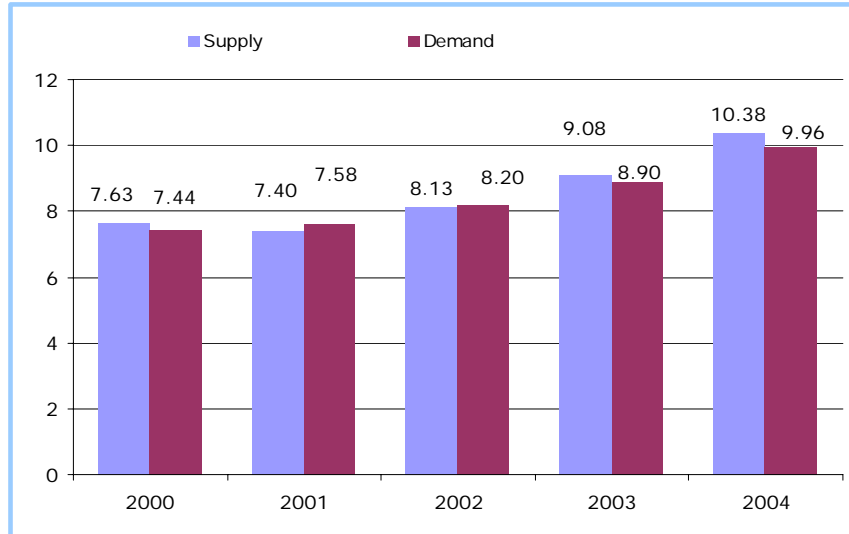


- Ferroalloy prices seem to have passed their peak in 2004 and are in decline.
- Mid-cycle prices going forward will be higher than in the past.

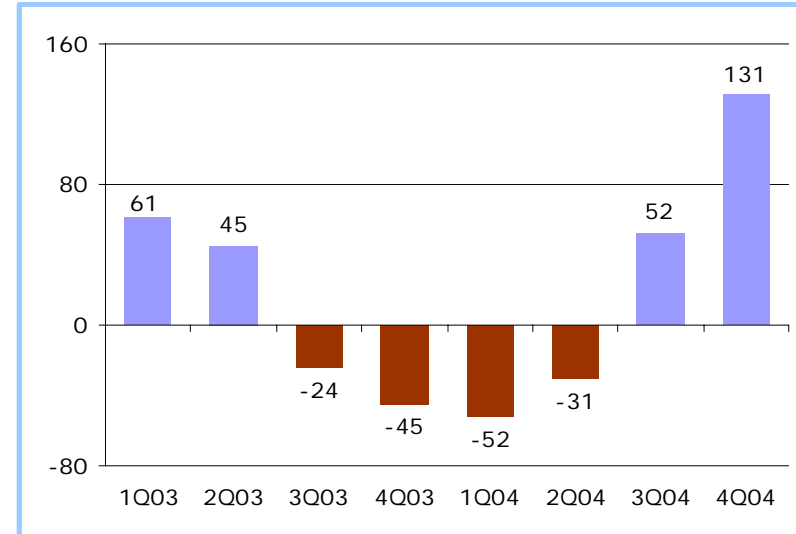
Source: Bloomberg; IISI; BHP Billiton; Concorde Capital calculations

Supply & Demand Trends

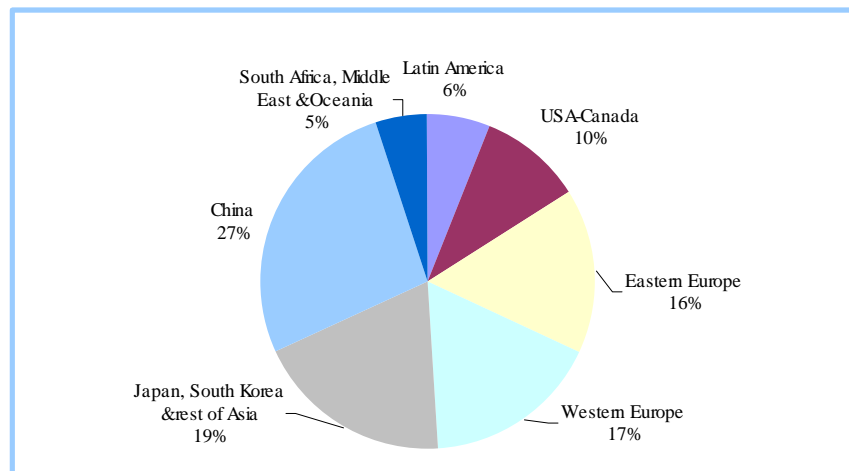
Mn Alloy Demand & Supply Dynamics, mn mt



Global Supply & Demand Balance In 2003-2004, '000 mt



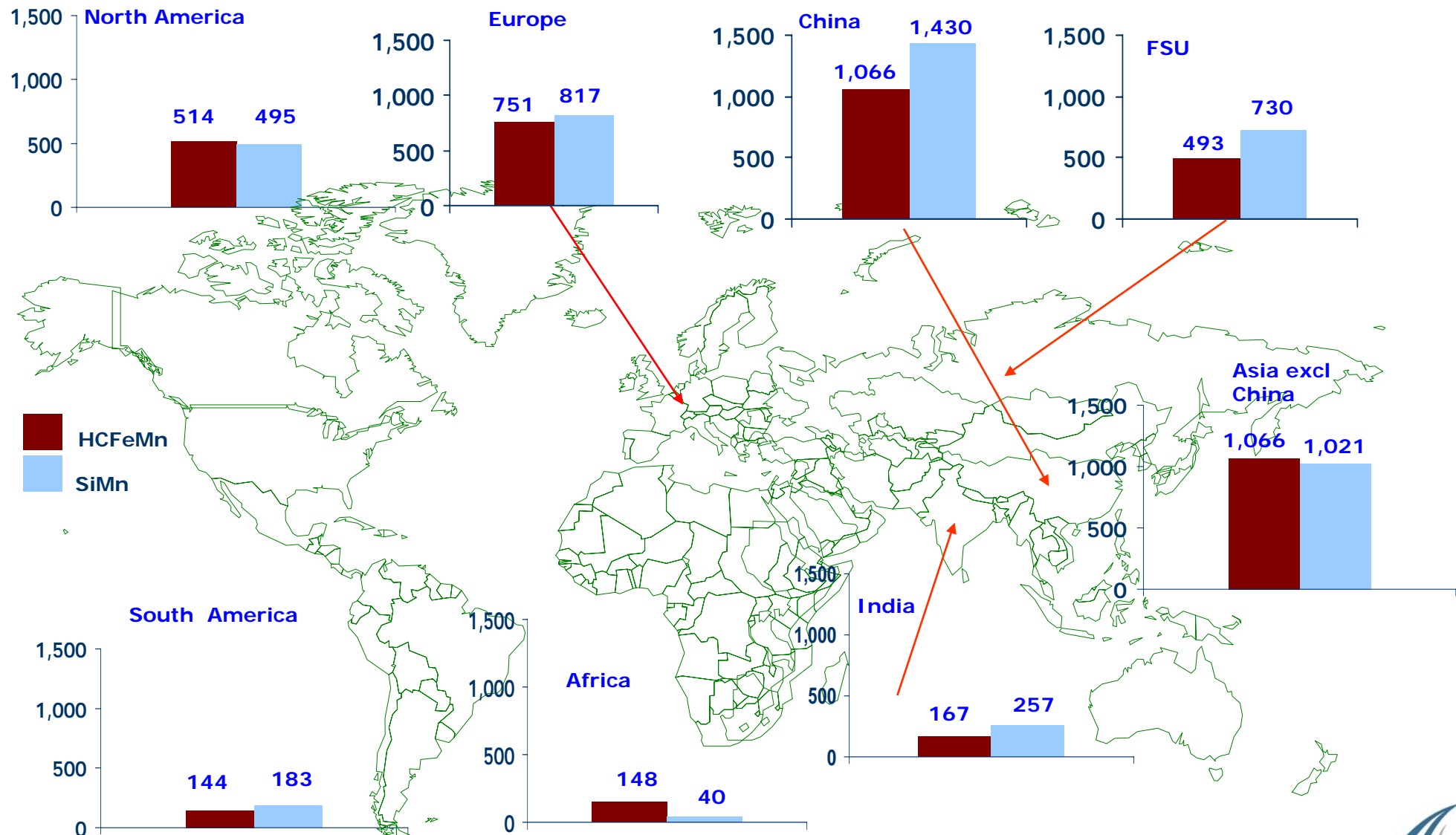
Mn Alloys Apparent Consumption, 2003



- The ferroalloy market is driven by the steel industry's needs.
- Manganese and silicon ferroalloys account for over 60% of total ferroalloy production due to significant raw material reserves worldwide.
- China is both the largest producer and the largest consumer of ferroalloys.
- An unprecedented price hike in 2004 resulted from an imbalance of supply and demand, as many Chinese producers suffered downtime due to electricity shortages.
- The demand for alloys has a positive outlook, despite declining prices and will grow in line with China's steel needs.

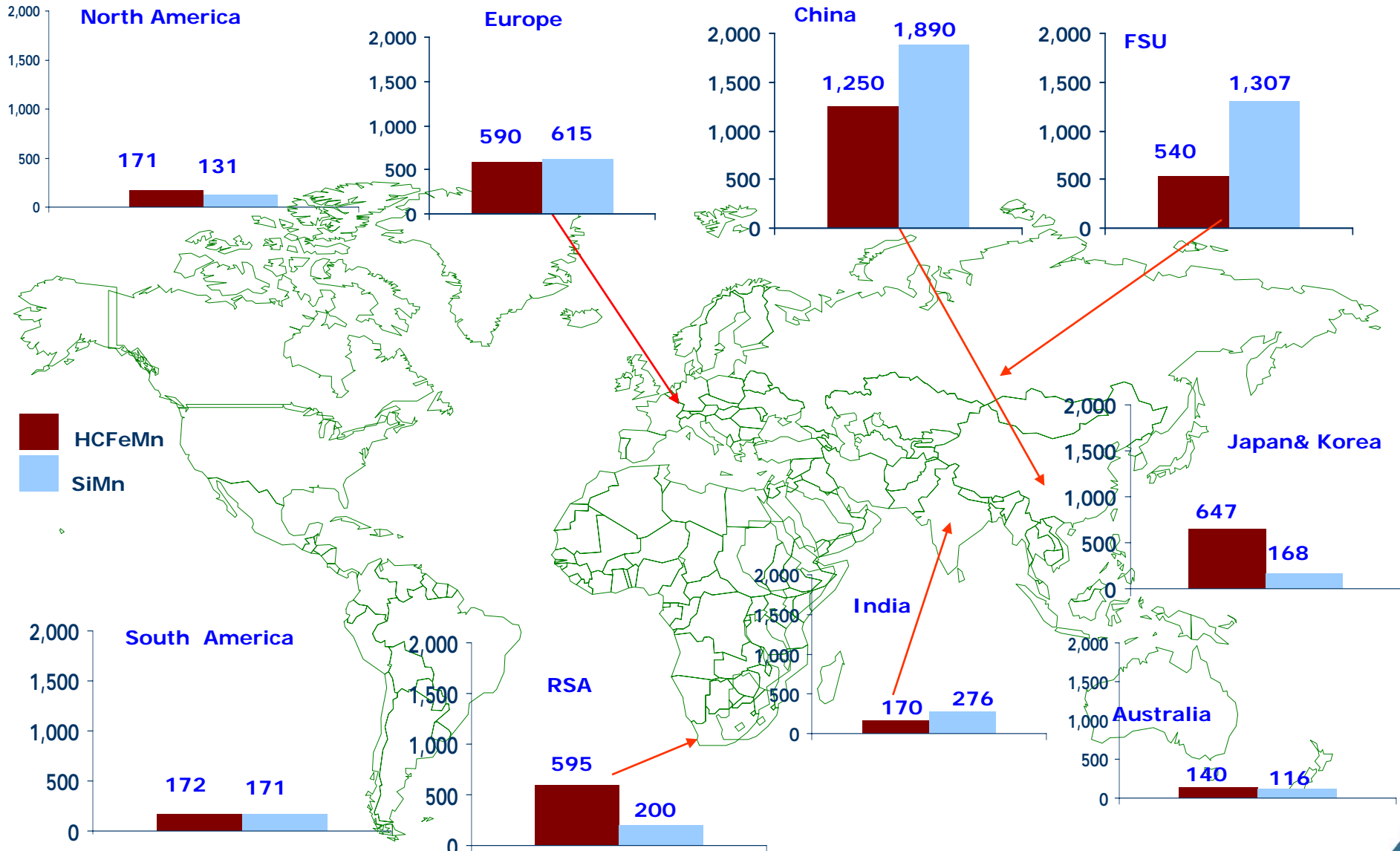
Source: International Manganese Institute; CVRD; BHP Billiton, Nippon Denko

World Manganese Alloy Demand – 2003, '000 Mt



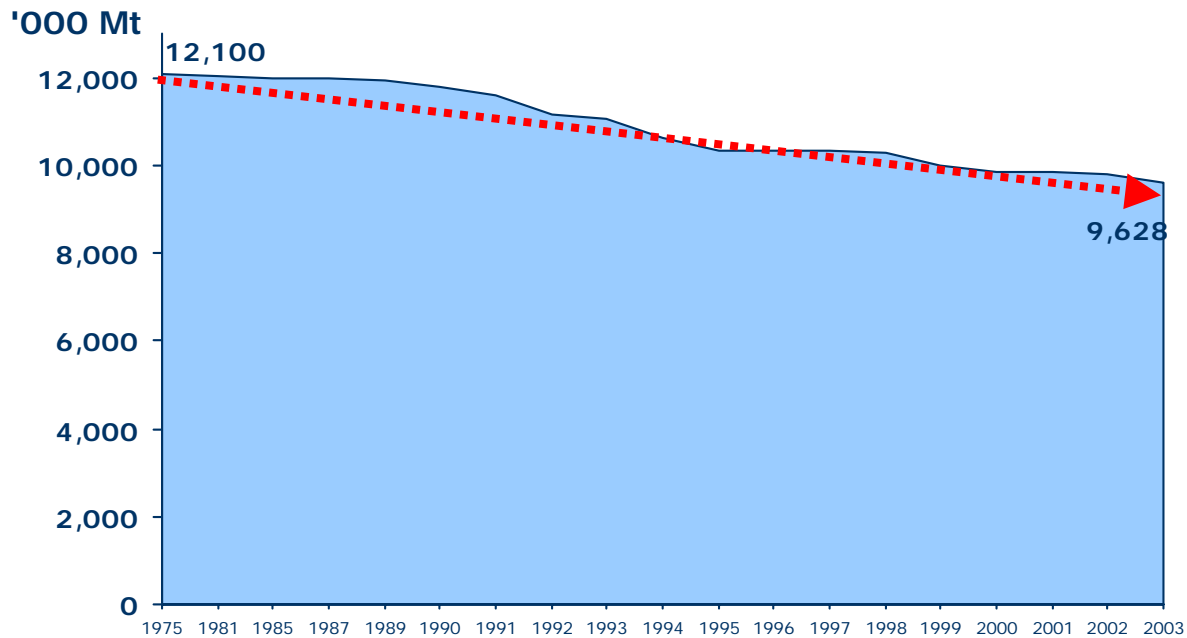
Source: CRU; Reuters; Interfax; BHP Billiton

World Manganese Alloy Supply – 2003, '000 Mt

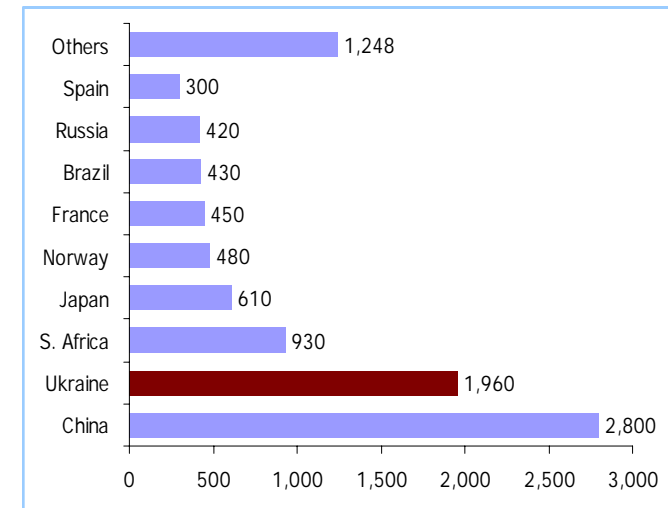


Source: International Manganese Institute; Reuters; Interfax; BHP Billiton

World Manganese Alloy Capacity

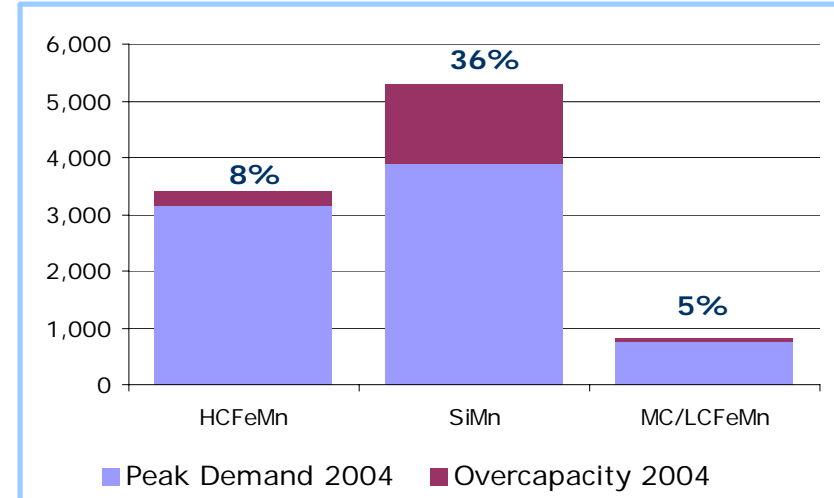
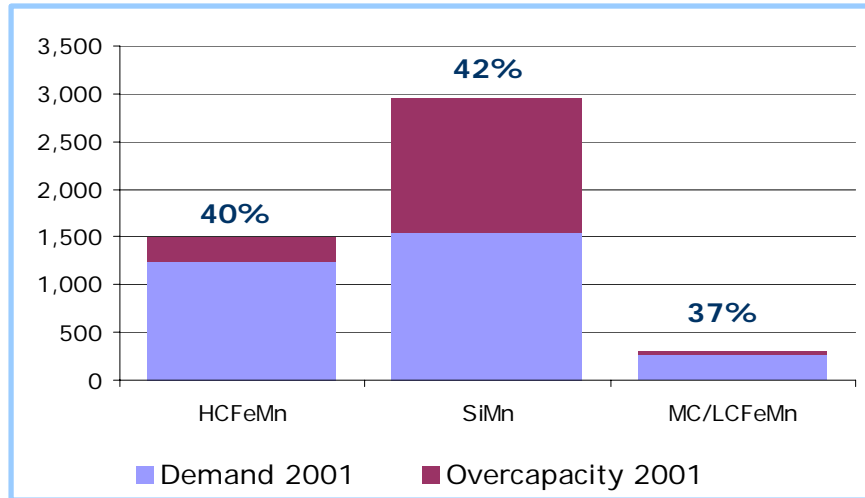


World Mn Ferroalloy Capacity In 2003 (Est.), '000 mt



- Capacity constraints cause an imbalance in demand and supply during times of peak demand, such as in 2004. Ukraine is among those countries well positioned to quickly adjust its Mn alloy output to meet excess demand.
- In times of decline in the steel making industry, Ukraine's ferroalloy capacity becomes redundant and has to be idled.

Global Demand/Capacity Imbalance, '000 Mt



Risk of Structural Overcapacity For Manganese Alloy Producers

- Many manganese smelters can increase production by resuming operations at idle furnaces.
- High alloy prices may induce investors to build new capacities and/or restart operations that were previously unprofitable.
- Chromium or silicon alloy production capacity can be converted to manganese.
- Power shortages that hampered Chinese SiMn producers in 2003–2004 may not be a hindrance in the future.
- Technology is not a barrier for new entrants.

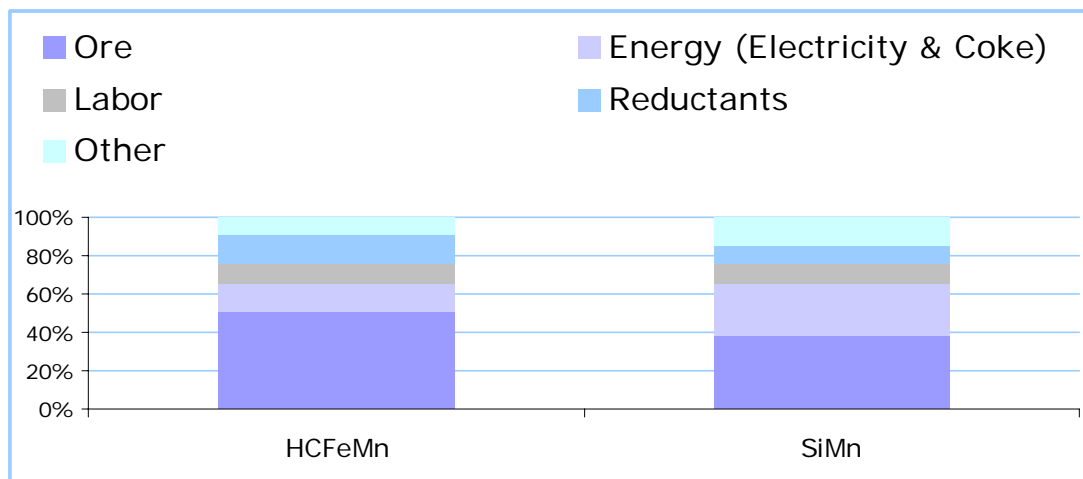
Source: CVRD; International Manganese Institute; Concorde Capital calculations

Competitive Advantage

Cost Factors For Ferroalloy Production

There are four key cost factors:

- Ore
- Electricity
- Reductants
- Labor



- Ore and electricity combined account for over 50% of total operating costs for most ferroalloy producers.
- Beneficiation of fine ore to pellets and sintering are increasingly used to reduce energy and labor costs.
- Cost efficiency is key to being competitive in the industry. The inability to achieve this will lead to business closure.

Competitive strategies used in the ferroalloy business:

- The integration of ore miners and ferroalloy producers into a single holding (BHP Billiton, Eramet, CVRD and Privat group).
- Integration with electricity producers (e.g., Ferroatlantica, Fesil, Elkem). This includes the construction of mini power plants by smaller ferroalloy producers, based near ore mines.
- Tolling schemes by ore producers with feedstock-strapped ferroalloy plants, such as South Africa ore miners and ferroalloy plants in Eastern Europe and China.
- JVs between steel makers and low cost ore & alloy producers, as with Japanese companies and South African ore and alloy producers.

Manganese Ore

Competitiveness in Mn ore depends on:

- Mining reserves: 47% of proven Mn reserves are located in South Africa and Ukraine, another 43% in Australia, China, India, Brazil, Kazakhstan, Gabon, Georgia and Bulgaria.
- Content of available Mn ore.
- Mining method: opencast is preferred over underground.
- Labor costs associated with Mn ore mining.
- Transportation advantages, if ore is exported.

There are two types of Mn ore by content:

- Poor quality local ore, such as in China, Ukraine and India.
 - Represents about 48% of world Mn supply.
 - Mn content less than 44%.
 - Cannot be transported economically.
- Rich/global ore (Australia, S. Africa, Gabon. Brazil).
 - Represents about 52% of world Mn supply.
 - Mn content above 44%.
 - Has a real export market (transportation is economical).

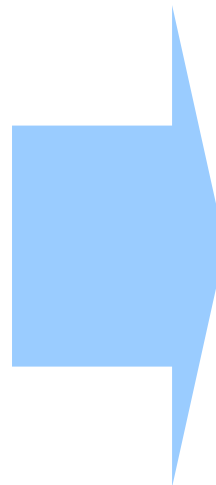
Ukraine's Mn reserves:

- ABC1 reserves of 2.2 bn mt represent 75% of the FSU's Mn reserves, ~25% of global reserves – world's second largest.
- Located in the Nikopol basin.
- The Ordzhonikidze sector (west Nikopol) accounts for 310 mn mt of reserves (opencast mining).
- The Marganets sector (east Nikopol) accounts for 280 mn mt of manganese reserves (predominantly underground mining).
- The Velykyi Tokmak deposit accounts for 1,582 mn mt of manganese reserves (undeveloped).
- Mn content is poor at 22-29%
- A high content of phosphor, which is undesirable and results in low quality alloys.
- Overall, Ukrainian ore is low-grade and is used primarily on the domestic market.
- Local ferroalloy makers have monopoly power over Mn ore producers.

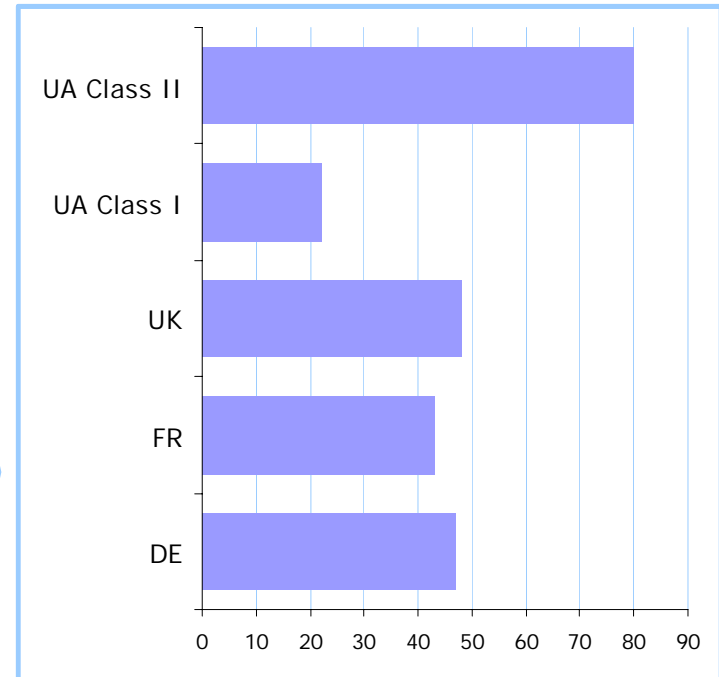
Energy

Energy

- There are two processes for alloy production:
 - 1) Electric furnaces (for all kinds of ferroalloys).
 - 2) Blast furnaces (are used mostly for high carbon FeMn, spiegeleisen, and rarely for low silicon FeSi).
- Electric furnace production is the most widely used technology and extremely energy intensive.
- Specific energy consumption is the highest for silicon-based alloys (7.5 – 11.5 MWh per tonne of FeSi) and somewhat lower for manganese alloys (up to 4.5 MWh per tonne of FeMn).
- Cheap energy costs are enjoyed by Norway and Spain (cheap hydroelectric power), South Africa (inexpensive thermal electric power), France (relatively cheap nuclear electric power).
- Ferroalloy producers in countries where electricity prices are not sufficiently cheap have two options:
 - 1) Acquire/construct electricity generators.
 - 2) Negotiate special pricing agreements with power producers. The pricing agreements are common and typically lack transparency.



El. Tariffs For Industrial Consumers, USD/MWh, 2003*



*El. Tariffs for Ukraine are as of April 2005

Ukraine's electricity costs for class I industrial consumers (class I includes ferroalloy makers) is lower than for major European economies, giving the country a comparative advantage in ferroalloy production.

Reductants & Labor

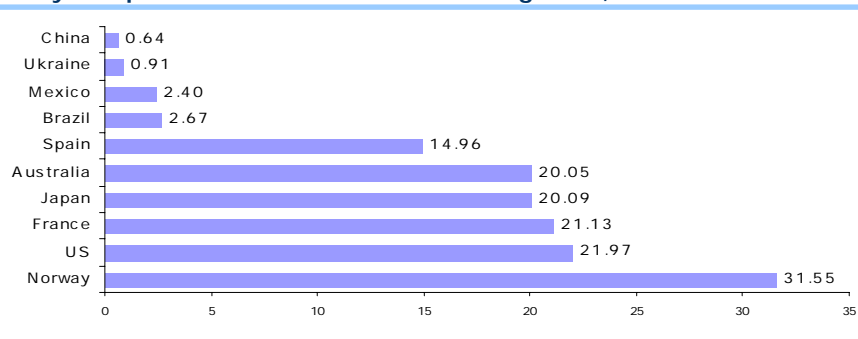
Reductants

- **Coke is a key reductant** in ferroalloy production and also used as fuel in the blast furnace process.
- Coke consumption depends largely on the process of ferroalloy production:
 - 1,800 kg of coke is used in the production of 1 mt of FeMn produced by the blast furnace method.
 - 500-550 kg of coke is required for production of 1 mt of FeMn by the electric furnace method.
- China is by far the world's largest coke supplier (~50% of global exports). Other major coke exporters are Poland, Japan and the CIS.
- A worldwide coke deficit made blast furnace ferroalloy production uncompetitive outside China, although marginal producers still exist in Japan and Eastern Europe.
- **Ukraine is a net exporter of coke**

Labor

- Ukrainian ferroalloy producers are **overmanned**, due to a low level of automation and social obligations.
- Regardless, Ukrainian alloy makers have a **labor cost advantage** (e.g., payroll per 1 mt of alloy is nearly 10 times lower than that of Eramet's Mn division).

Hourly Compensation Costs In Manufacturing 2003, USD



	Sales 2004, USD mn	Headcount	Per Capita Sales, '000 USD
Eramet (Mn division)	1,460	5,417	269.4
US*	883	2,454	360.0
Nippon Denko	551	424	1,299.5
Elkem (FeSi alloy division)	238	592	402.0
Fesil	224	282	794.3
Nikopol Ferroalloy	415	8,342	49.7
Zaporizhzhya Ferroalloy	328	3,775	86.9
Stakhanov Ferroalloy	61	1,577	38.6

*US statistics is as of 2002

How Competitive Is Ukraine?

The following chart ranks ferroalloy producing companies in terms of how competitive they are against one another.

	Ore	Power	Reductants	Labor	Transport/ Market Access	Total Score
Africa	3	3	2	3	1	12
Ukraine	3	2	2	3	2	12
CIS	2	2	2	3	2	11
Australia	3	2	2	1	2	10
Scandinavia	2	3	1	1	3	10
India	2	1	2	3	2	10
Latin America	2	2	2	2	2	10
China	1	1	3	3	2	10
Mainland Europe	1	2	1	1	3	8
USA	1	2	1	1	3	8
East Asia (Japan, Korea, Taiwan)	1	1	2	1	3	8

1 = Non-Advantageous Availability

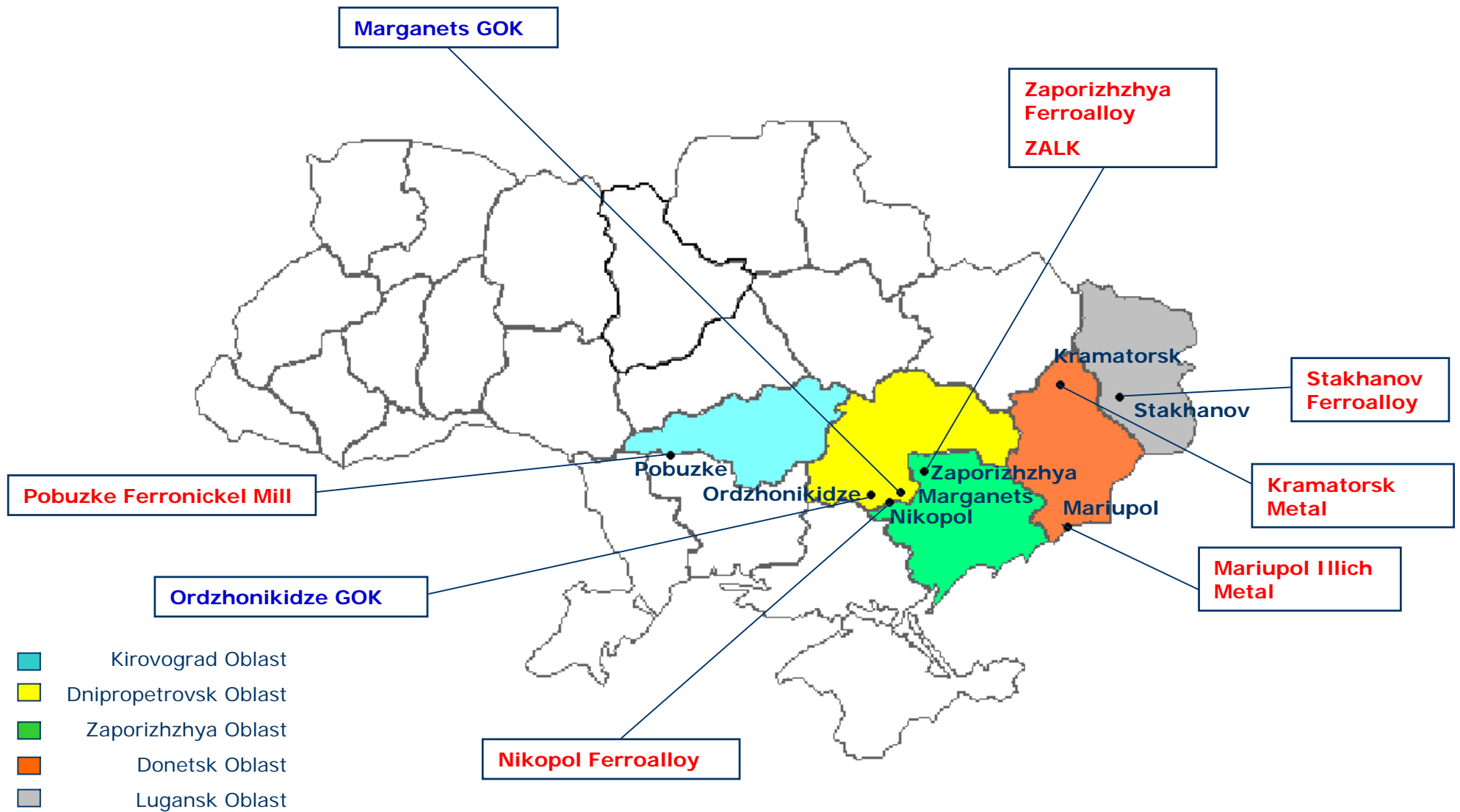
2 = Moderate Availability

3 = Advantageous Availability

Source: "The Ferroalloy Markets in the New Millennium", Andrew Jones, Resource-Net; Eramet; Concorde Capital calculations

Ferroalloys In Ukraine

Ukrainian Ferroalloy & Manganese Ore Centers



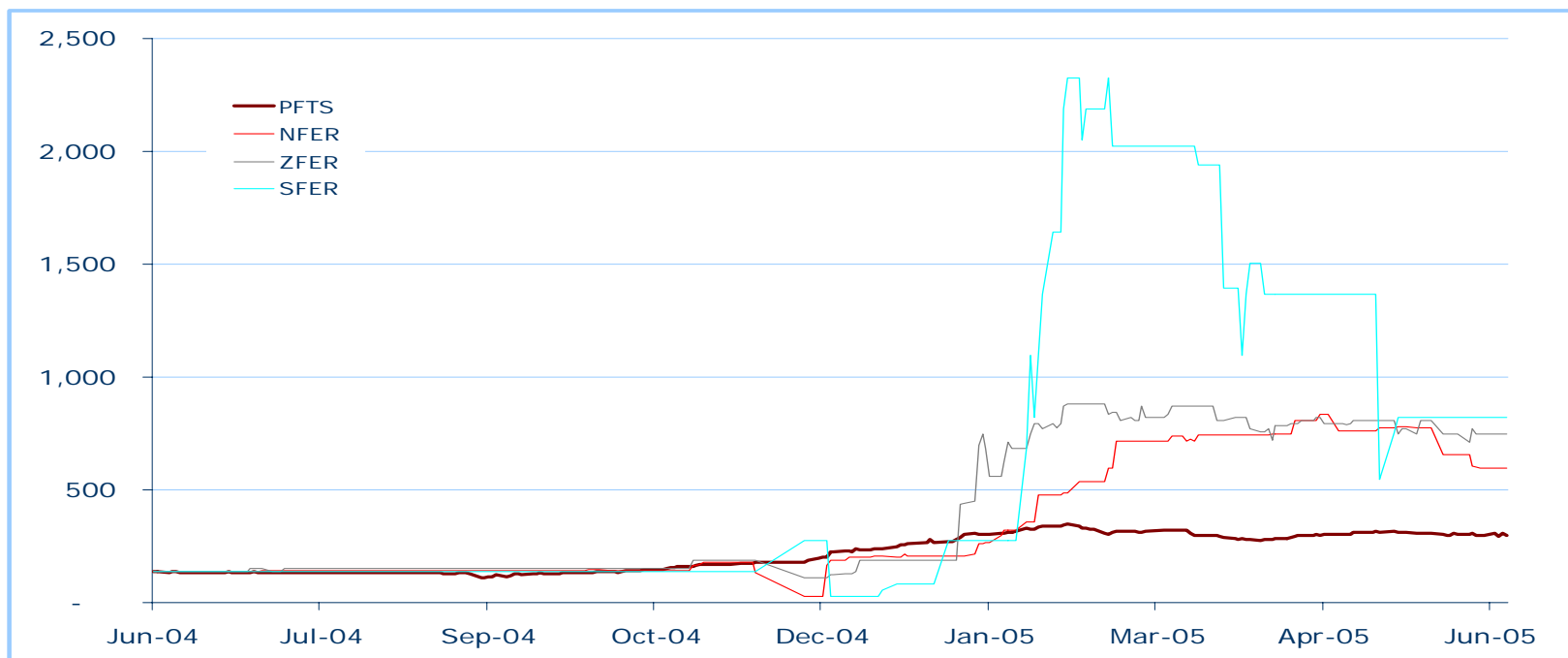
Ukraine's Ferroalloy Industry At A Glance

	Output '000 mt		YOY Chg	Share in total output	Capacity utilization (est)		Ownership/ Control
	2004	2003					
	Electric Furnace						
	Ukraine's Total Mn & Si Alloys						
	1,836.0	1,628.0	12.8%				
	- Silicomanganese	1,079.8	960.0	12.5%	58.8%		
	- Ferromanganese	469.0	376.0	24.7%	25.5%		
	- Ferrosilicon	287.2	289.6	-0.8%	15.6%		
	- Metal manganese	-	2.4	n/m			
	Nikopol Ferroalloy						
	Total	1,026.3	869.7	18.0%	55.9%	78.9%	Interpipe 68%
	- Silicomanganese (Mn 82%)	728.4	650.2	12.0%			
	- Ferromanganese (Mn >76%)	297.9	219.5	35.7%			
	Zaporizhzhya ferroalloy						
	Total	541.1	512.8	5.5%	29.5%	90.2%	Privat 55%
	- Silicomanganese (Mn 60-65%)	345.7	309.8	11.6%			
	- Ferrosilicon (45% Si equivalent)	103.5	114.5	-9.6%			
	- Ferromanganese (Mn 75-95%)	91.9	86.1	6.7%			
	- Metal manganese (Mn 87-95%)	-	2.4	n/m			
	Stakhanov Ferroalloy						
	Total	165.6	173.9	-4.8%	9.0%	55.2%	Privat 98%
	- Ferrosilicon (45% Si equivalent)	159.9	173.9	-8.1%			
	- Silicomanganese	5.7					
	ZALK*						
	Ferrosilicon	23.8	1.2		1.3%		SuAL/ Interpipe 98%
	*Tolling agreement with Nikopol Ferroalloy						
	Blast Furnace						
	Kramatorsk Iron & Steel						
	- Ferromanganese	79.2	70.4	12.4%	4.3%	30.5%	IUD 76%
	Small volume alloys						
	Pobuzke Ferronickel Mill						
	(Nickel content, '000 mt)	13.0	NA			NA	SuAL 100%
	Mariupol Illich Metal						
	Total	~0.3	~0.3			NA	Management 93%
	Ferromolybdenum	NA	NA				
	Ferrotungsten	NA	NA				
	Ferrovanadium	NA	NA				
	Mn ore						
	Ordzhonikidze GOK						
		993.8	1,107.8	-10.3%	Opencast mining		Privat 50%
	Marganets GOK						
		1,272.2	1,415.1	-10.1%	Opencast (20%); underground (80%)		Privat 76%

The Stock Market & Valuations

Trading

Performance Of Ferroalloy Stocks Relative to the PFTS (bid, re-based)



	Liquidity	Hist. Spread Avg.		Free Float	FF MCap USD mn	Avg. PFTS Monthly Trading		Annualized FF Turnover
		12-mo	2005			shares mn	USD mn	
NFER	low	101%	59%	2.0%	9.4	0.14	0.095	12%
ZFER	low	122%	26%	10.0%	29.6	8.52	1.017	38%
SFER	low	n/m	410%	29.9%	3.7	4.17	0.084	27%

Source: PFTS; Concorde Capital estimates

Valuations

DCF Valuation

For the purposes of forecasting local currency is used (UAH mn)

NFER	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
EBITDA	405	404	414	434	451	464	472	480	488	497
EBIT	371	369	376	392	404	412	418	423	429	435
Tax Rate	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Taxed EBIT	278	277	282	294	303	309	313	317	322	326
Plus D&A	34	35	38	42	47	52	54	57	59	62
Less CapEx	(44)	(58)	(119)	(156)	(162)	(167)	(102)	(104)	(106)	(107)
Less change in OWC	(153)	1	(11)	(23)	(18)	(15)	(9)	(9)	(9)	(9)
FCFF	115	255	190	157	170	179	257	262	267	272
WACC	20.6%	18.6%	17.2%	15.8%	15.2%	14.3%	14.0%	14.0%	14.0%	14.0%
WACC To Perpetuity										13.0%
Terminal Value										2,798
Firm value	1,698									41.5%
Less Net Debt	(38)									3%
Equity Value	1,659									5.6 x
										Portion due to TV
										Perpetuity Growth Rate
										Implied exit EBITDA Multiple
Fair Value Per Share	\$1.08									12 Mo Fair Value Per Share
										\$1.26

ZFER	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
EBITDA	294	291	297	308	317	326	331	336	341	346
EBIT	269	267	269	276	281	287	290	292	295	298
Tax Rate	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Taxed EBIT	202	200	201	207	211	215	217	219	221	223
Plus D&A	25	25	28	32	36	39	41	43	46	48
Less CapEx	(16)	(31)	(127)	(132)	(136)	(87)	(88)	(90)	(91)	(92)
Less change in OWC	(247)	(44)	(24)	(17)	(14)	(31)	(8)	(8)	(8)	(8)
FCFF	(37)	150	79	90	98	136	162	165	168	171
WACC	20.8%	18.6%	17.4%	15.9%	15.1%	14.2%	13.9%	13.8%	13.9%	13.9%
WACC To Perpetuity										13.0%
Terminal Value										1,760
Firm value	935									47.4%
Less Net Debt	(12)									3%
Equity Value	923									5.1 x
										Portion due to TV
										Perpetuity Growth Rate
										Implied exit EBITDA Multiple
Fair Value Per Share	\$0.080									12 Mo Fair Value Per Share
										\$0.103

SFER	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
EBITDA	164	164	167	168	168	172	173	173	174	175
EBIT	151	150	152	152	152	155	156	157	158	159
Tax Rate	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Taxed EBIT	113	112	114	114	114	117	117	118	119	120
Plus D&A	13	14	15	16	17	16	16	16	16	16
Less CapEx	(73)	(42)	(43)	(44)	(44)	(19)	(19)	(19)	(19)	(19)
Less change in OWC	(87)	(30)	(2)	(7)	(62)	(4)	(1)	(1)	(1)	(1)
FCFF	-	54	83	80	24	110	113	114	114	115
WACC	20.3%	18.3%	17.1%	15.8%	14.5%	13.8%	13.4%	13.5%	13.5%	13.6%
WACC To Perpetuity										13.0%
Terminal Value										967
Firm value	565									44.5%
Less Net Debt	(61)									1%
Equity Value	505									5.5 x
										Portion due to TV
										Perpetuity Growth Rate
										Implied exit EBITDA Multiple
Fair Value Per Share	\$0.0070									12 Mo Fair Value Per Share
										\$0.0096

Relative Valuation

	Country	Currency	2005				2005		
			Sales	EBITDA	Net Income	Mcaps	P/S	P/EBITDA	P/E
Eramet	FR	EUR mn	2,605	754	247	1,906.4	0.73	2.53	7.72
Minera Autlan	MX	MXN mn	2,307	688	331	1,417.9	0.61	2.06	4.28
Elkem	NO	NOK mn	21,640	2,811	1,020	11,580.8	0.54	4.12	11.35
Average							0.63	2.90	7.79
NFER	UA	USD mn	571.9	79.4	52.9	470.5	0.82	5.92	8.89
ZFER	UA	USD mn	307.9	57.6	38.7	296.3	0.96	5.15	7.66
SFER	UA	USD mn	119.2	32.2	20.8	186.6	1.57	5.80	8.97
									Implied price
NFER							1.182	0.760	1.357
ZFER							0.085	0.073	0.132
SFER							0.005	0.007	0.011

Summary

	Current Price, USD	Traget Price, USD	Recommendation
NFER	1.55	1.26	SELL
ZFER	0.13	0.10	SELL
SFER	0.013	0.010	SELL

In our valuation, we have relied more on DCF-based estimates of ferroalloy stock values, as the peers chosen for comparison have a different business structure than Ukrainian ferroalloy makers.

We intended to arrive at a fair value for Ukrainian alloy producers by assessing them as legitimate businesses. Therefore, we assume that transfer pricing will be eliminated in the future and that all relevant cash flows will be accounted for. The government is ready to begin a crackdown on transfer pricing, as in March 2005 it already reprimanded Ukrainian ferroalloy makers for using tolling and tax evasion schemes.

Our sales projections are based on mid-cycle alloy prices. We have assumed that future global mid-cycle prices will rise to USD 550/mt for FeMn, USD 600/mt for SiMn and USD 650/mt for FeSi.

Company Profiles

Nikopol Ferroalloy (NFER)

SELL

Target price **USD 1.26**

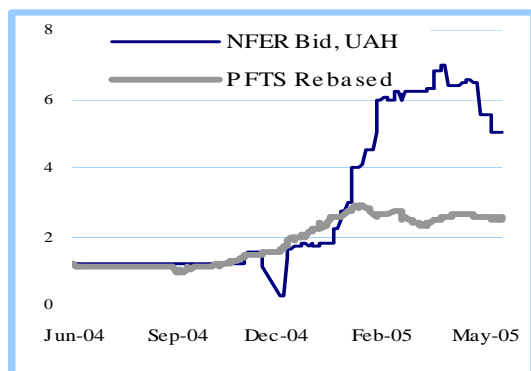
Market Information

No of Shares, mn	303.5
Par Value, USD	0.05
Market price, USD	1.55
MCap, USD mn	470.5
Free Float, %	2%
FF MCap, USD mn	9.4

Stock Ownership

Interpipe	71%
Privat group	27%
Minorities	2%

of employees **8,342**



	P/S	P/S Adj.	P/E	P/E Adj.	EV/EBITDA	EV/EBITDA Adj.
2004	1.1	0.4	35.5	1.1	18.5	0.8
2005E	0.8	0.8	8.8	8.8	5.9	5.9
2006E	0.8	0.8	8.7	8.7	5.8	5.8

Profile: The world's largest producer of Mn alloys in 2004 in terms of output and second largest by capacity (after Eramet). In 2003, the state sold its 50%+1 share stake in NFER to the Prydniprovya Consortium, a pool of Interpipe-related companies, via a tender for only USD 77 mn. Nikopol Ferroalloy possesses the most modern equipment among Ukrainian ferroalloy makers with 16 electric furnaces put into operation in the late 60s. The plant has to rely on imported Mn ore supplies, as domestic reserves are controlled by rival Privat Group and thus, domestic supplies are intermittent.

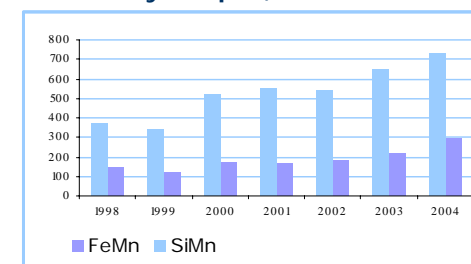
Products & Markets: The company enjoys an 11.5% share in the global Mn alloy market. Its market share in Ukraine surpasses 65% and exceeds 23% in other CIS countries. The plant supplies ferroalloys to 90% of Ukraine's steel mills. Nikopol Ferroalloy's equipment is designed for the production of FeMn and SiMn alloys. In 2003, NFER established a tolling agreement with Zaporizhzhya Aluminum mill (ZALK) for the production of FeSi using ZALK's facilities. In addition to alloys, NFER also produces sinter, fluxes and electrode mass, which are used as inputs in alloy production.

Transfer pricing: NFER's 2004 top-line, while benefiting from high manganese alloy prices, was reduced by a transfer pricing. An off-shore company, Stelex, allegedly associated with Interpipe's owners, operates with the plant under a tolling scheme. It supplies Mn ore imported from Gabon, Ghana and Australia to the plant, and sells finished ferroalloys. We have adjusted the company's financials to derive estimates of its real earnings. We estimate NFER's real average selling price in 2004 at USD 1,050 per tonne, as opposed to USD 404 as implied by its sales. We also forecast future sales under an assumption of arms-long transactions only.

Ownership issues: The state is now questioning how lawfully the company was privatized in 2003. In addition, Privat is pushing for privatization revision in the hope of gaining control over the plant. Uncertainty over a disputed 50%+1 stake raises corporate governance concerns over the company in the short run.

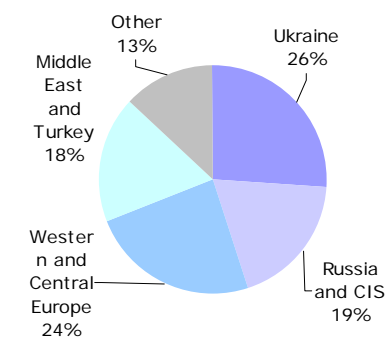
	Sales USD mn	Adj. Sales USD mn	EBITDA margin, % Reported	EBITDA margin, % Adj.	Net margin, % Reported	Net margin, % Adj.
2004	414.8	1,077.7	6.3%	55.7%	3.2%	41.4%
2005E	571.9	571.9	13.9%	13.9%	9.2%	9.2%
2006E	581.7	581.7	13.9%	13.9%	9.4%	9.4%

Ferroalloy Output, '000 mt



	Capacity, '000 mt	Utilization, %
FeMn	300	99%
SiMn	1,000	73%

Exports Share in 2003 **74%**



Nikopol Ferroalloy Fin. Statements

Balance Sheet Summary, USD mn

	2003	2004	2005E
Current Assets	74	92	149
Cash & Equivalents	0	2	9
Trade Receivables	25	49	76
Inventories	23	23	41
Other current assets	25	17	23
Fixed Assets	79	84	91
PP&E, net	76	77	83
Other Fixed Assets	2	7	9
Total Assets	153	175	240
Shareholders' Equity	104	117	179
Share Capital	14	14	15
Reserves and Other	89	103	163
Current Liabilities	41	50	60
ST Interest Bearing Debt	6	15	9
Trade Payables	25	29	41
Accrued Wages	0	1	1
Accrued Taxes	0	0	1
Other Current Liabilities	9	5	9
LT Liabilities	9	8	1
LT Interest Bearing Debt	0	0	0
Other LT	9	8	1
Total Liabilities & Equity	153	175	240

All results reported under Ukrainian Accounting Standards

Income Statement Summary, USD mn

	2003	2004	2005E
Net Revenues	288	415	572
<i>Change y-o-y</i>	-	44%	38%
Cost Of Sales	(238)	(364)	(473)
Gross Profit	50	51	99
Other Operating Income/Costs, net	(20)	(9)	0
SG&A	(15)	(15)	(20)
EBITDA	15	26	79
<i>EBITDA margin, %</i>	5.1%	6.3%	13.9%
Depreciation	(5)	(5)	(7)
EBIT	10	21	73
<i>EBIT margin, %</i>	3.3%	5.0%	12.7%
Interest Expense	(1)	(1)	(2)
Financial income	0	0	0-
Other income/(expense)	0	0	0)
PBT	8	20	71
Tax	(5)	(7)	(18)
<i>Effective tax rate</i>	54%	34%	25%
Extraordinary Income/(loss)	-	-	-
Net Income	4	13	53
<i>Net Margin, %</i>	1.4%	3.2%	9.2%

Zaporizhzhya Ferroalloy (ZFER)

SELL

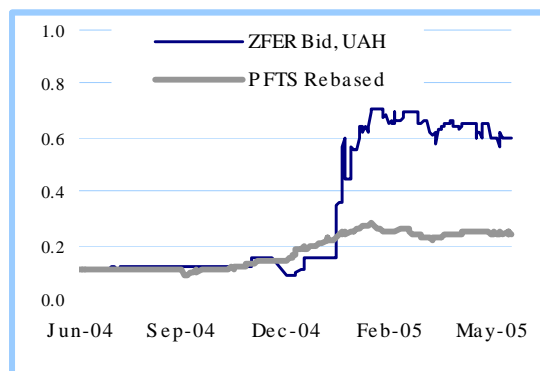
Target price **USD 0.10**

Market Information

No of Shares, mn	2,279.6
Par Value, USD	0.02
Market price, USD	0.13
MCap, USD mn	296.3
Free Float, %	10%
FF MCap, USD mn	29.6

Stock Ownership

Privat group	50%
Kyiv group	40%
Minorities	10%
# of employees	3,775



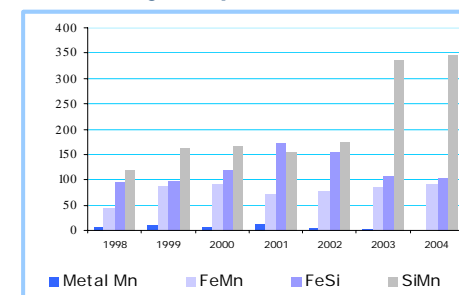
Profile: Ukraine's second and Europe's third largest ferroalloy manufacturer by capacity, located in a close proximity to both raw material suppliers and alloy consumers. Unlike Nikopol Ferroalloy, the plant is vertically integrated with Ukraine's manganese ore producers through a common shareholder, Privat group. ZFER's equipment was commissioned in the early 30s, but afterward underwent numerous reconstructions, the largest taking place in 1993–1999 and involving German Mannesmann Demag and Swiss ABB companies.

Products & Markets: The company's product range is the widest amongst its Ukrainian peers and includes SiMn, FeMn, FeSi and metal manganese. SiMn is the company's primary product, accounting for 63.5% of its output in 2004. The share of FeSi was 19.1%, with the balance made up mostly by FeMn. Exports account for the lion's share of the plant's sales (over 70%). Using domestic manganese ore results in a relatively high phosphorous content in ZFER's alloys, making them lower quality than NFER's alloys. Due to differences in quality, the company is geared more toward Russian and Asian markets, which are less technologically demanding than Europe.

Transfer pricing: The price per 1 mt of alloys implied by ZFER's 2004 sales is USD 606, while Hong Kong FOB prices for the period surged from USD 430 to USD 1,400 and were even higher in Europe and the U.S. We have concluded that ZFER engages in transfer pricing (most of its sales in fact are made to off-shore companies), and estimate its real average price per tonne of ferroalloy at USD 950 in 2004. In addition, the company tends to inflate its costs. It reported a negative gross profit in 2004, despite a 71% increase in sales and being profitable in 2003. The inflated COGS must have resulted from the purchase of Mn ore from related parties at above market prices. The company's balance sheet is plagued by dubious 'other' accounts. The assumption of arms-long transactions only is employed in our forecasts of ZFER's financials.

Share issue: In early 2005, ZFER increased its charter fund 2.15 times raising USD 23 mn. The proceeds will be used for reconstruction.

Ferroalloy Output, '000 mt



	Capacity, '000 mt	Utilization, %
Alloys & Mn	600	91%

Exports Share in 2004 >70%

	P/S	P/S Adj.	P/E	P/E Adj.	EV/EBITDA	EV/EBITDA Adj.
2004	0.9	0.6	Neg	1.5	Neg	1.1
2005E	1.0	1.0	7.7	7.7	5.1	5.1
2006E	1.0	1.0	7.5	7.5	5.1	5.1

	Sales USD mn	Adj. Sales USD mn	EBITDA margin, % Reported	EBITDA margin, % Adj.	Net margin, % Reported	Net margin, % Adj.
2004	328.2	514.0	-6.1%	53.2%	-9.0%	38.5%
2005E	307.9	307.9	18.7%	18.7%	12.6%	12.6%
2006E	311.6	311.6	18.7%	18.7%	12.7%	12.7%

Zaporizhzhya Ferroalloy Fin. Statements

Balance Sheet Summary, USD mn

	2003	2004	2005E
Current Assets	210	137	192
Cash & Equivalents	3	3	6
Trade Receivables	23	8	22
Inventories	17	32	38
Other current assets	166	94	126
Fixed Assets	80	80	85
PP&E, net	58	57	59
Other Fixed Assets	22	23	26
Total Assets	290	217	276
Shareholders' Equity	62	37	103
Share Capital	40	20	46
Reserves and Other	42	17	58
Current Liabilities	162	117	110
ST Interest Bearing Debt	35	10	3
Trade Payables	23	28	28
Accrued Wages	0	0	0
Accrued Taxes	0	0	0
Other Current Liabilities	105	79	79
LT Liabilities	66	63	63
LT Interest Bearing Debt	0	0	0
Other LT	66	63	63
Total Liabilities & Equity	290	217	276

All results reported under Ukrainian Accounting Standards

Income Statement Summary, USD mn

	2003	2004	2005E
Net Revenues	191	328	308
<i>Change y-o-y</i>	-	72%	-6%
Cost Of Sales	(170)	(339)	(241)
Gross Profit	21	(11)	67
Other Operating Income/Costs, net	1	(0)	(0)
SG&A	(8)	(9)	(9)
EBITDA	14	(20)	58
<i>EBITDA margin, %</i>	7.6%	Neg	18.7%
Depreciation	(4)	(4)	(5)
EBIT	11	(24)	53
<i>EBIT margin, %</i>	5.5%	Neg	17.1%
Interest Expense	(2)	(4)	(1)
Financial income	0	0	0
Other income/(expense)	(2)	(1)	0
PBT	6	(30)	52
Tax	(6)	0	(13)
<i>Effective tax rate</i>	97%	-	25%
Extraordinary Income/(loss)	0	0	0
Net Income	0	(30)	39
<i>Net Margin, %</i>	0.1%	Neg	12.6%

Stakhanov Ferroalloy (SFER)

SELL

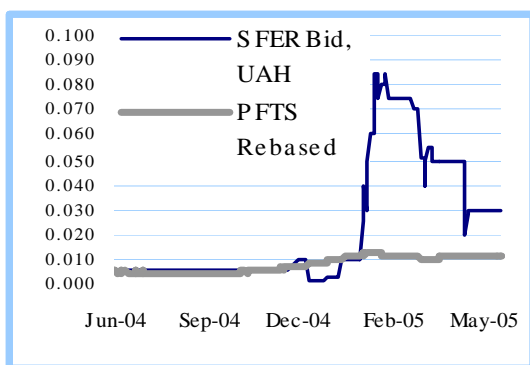
Target price **USD 0.0096**

Market Information

No of Shares, mn	14,356.9
Par Value, USD	0.01
Market price, USD	0.013
MCap, USD mn	186.6
Free Float, %	2%
FF MCap, USD mn	3.7

Stock Ownership

Privat group (est.)	98%
Minorities	2%
# of employees	1,577



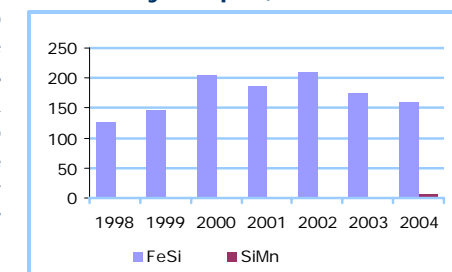
Profile: Ukraine's largest FeSi producer and third by total output. Located in the Lugansk oblast, close to Russia, as well as suppliers of coke and scrap. The key raw material, quartzite (containing silicon), is shipped to SFER's facilities from the Ovruch deposit in the Zhytomyr oblast, more than 430 km away. The plant was put into operation in the early 60s. Its 8 electric furnaces have a combined estimated annual capacity of 300K mt. SFER's operations depend on the availability of cheap electricity (up to 60% of COGS). In the late 2003 and early 2004, the plant had to idle its capacity due to a change in its electricity supplier, resulting in higher tariffs. Operations were resumed in March 2004 thanks to high alloy prices and negotiated preferential terms for electricity supply in 2004.

Products & Markets: The company specializes in smelting FeSi. In 2004, it converted two of its furnaces to SiMn. Manganese ore for SiMn production is supplied by Privat Group, the company's controlling shareholder. In 2005, SFER plans to convert two more furnaces to SiMn, as SiMn enjoyed higher prices in 2004 and is less energy-intensive than FeSi. The plant's products are inferior in quality to NFER's and ZFER's and are sold primarily to Russia.

Transfer pricing: We estimate SFER's average real ferroalloy price at USD 680 per tonne, as FeSi experienced a far smaller price rise than manganese alloys. This is still 85% higher than the price inferred from the company's reported sales. SFER's pricing policy is similar to those of NFER and ZFER and implies that some sales are hidden. Moreover, SFER apparently overstates costs, causing the company report losses in 2004. In our projections, we forecast true sales and earnings estimates.

CapEx plans: SFER will conduct a complete rejuvenation of its assets in 2005 with a focus on conversion to SiMn. The funds needed are USD 16 mn. In early 2004, SFER registered a 6.2 fold increase in its charter fund via a share issue, raising over USD 23 mn. In addition, the plant stated its intent to construct an in-house thermal power plant in 2005 – 2006 to become self-sufficient in electricity. The cost of this project is estimated at USD 187 mn. However, we doubt SFER's ability to raise the amount needed.

Ferroalloy Output, '000 mt



	Capacity, '000 mt	Utilization, %
FeSi & SiMn	300	55%

Exports Share >70%

	P/S	P/S Adj.	P/E	P/E Adj.	EV/EBITDA	EV/EBITDA Adj.
2004	3.1	1.7	Neg	7.8	127.2	5.2
2005E	1.6	1.6	9.0	9.0	5.9	5.9
2006E	1.5	1.6	8.6	8.6	5.8	5.8

	Sales USD mn	Adj. Sales USD mn	EBITDA margin, % Reported	EBITDA margin, % Adj.	Net margin, % Reported	Net margin, % Adj.
2004	61.0	599.0	2.6%	34.8%	-9.1%	21.3%
2005E	119.2	119.2	27.0%	27.0%	17.5%	17.5%
2006E	121.3	121.3	27.0%	27.0%	18.0%	18.0%

Stakhanov Ferroalloy Fin. Statements

Balance Sheet Summary, USD mn

	2003	2004	2005E
Current Assets	13	26	54
Cash & Equivalents	0	0	1
Trade Receivables	2	5	10
Inventories	4	15	29
Other current assets	8	6	15
Fixed Assets	16	20	34
PP&E, net	11	16	27
Other Fixed Assets	4	5	7
Total Assets	29	47	89
Shareholders' Equity	8	2	48
Share Capital	4	4	29
Reserves and Other	3	(2)	19
Current Liabilities	9	37	41
ST Interest Bearing Debt	5	10	4
Trade Payables	2	1	6
Accrued Wages	0	0	0
Accrued Taxes	0	0	0
Other Current Liabilities	2	26	30
LT Liabilities	12	8	0
LT Interest Bearing Debt	12	8	0
Other LT	0	0	0
Total Liabilities & Equity	29	47	89

All results reported under Ukrainian Accounting Standards

Income Statement Summary, USD mn

	2003	2004	2005E
Net Revenues	43	61	119
<i>Change y-o-y</i>	-	42%	96%
Cost Of Sales	(37)	(57)	(81)
Gross Profit	6	4	38
Other Operating Income/Costs, net	1	1	0
SG&A	(3)	(3)	(6)
EBITDA	4	2	32
<i>EBITDA margin, %</i>	8.5%	2.6%	27.0%
Depreciation	(2)	(2)	(3)
EBIT	2	(1)	30
<i>EBIT margin, %</i>	3.8%	Neg	24.8%
Interest Expense	(2)	(3)	(2)
Financial income	0	0	0
Other income/(expense)	(1)	(2)	0
PBT	(1)	(6)	28
Tax	0	0	(7)
<i>Effective tax rate</i>	0%	0%	25%
Extraordinary Income/(loss)	0	0	0
Net Income	(1)	(6)	21
<i>Net Margin, %</i>	Neg	Neg	17.5%

Concorde Capital

72 Chervonoarmiyska St,
2nd Entry, 6th Floor
Kiev 03150, UKRAINE
Tel: +380 44 206 8370

General Director

Igor Mazepa

im@con-cap.com

Managing Director

John Suggitt

js@con-cap.com

Chief Investment Officer

Steven Cheshire, CFA

steven.cheshire@con-cap.com

Corporate Finance

Maxim Bougriy

mb@con-cap.com

Equity Sales

Marina Martirosan

Lucas Romriell

mm@con-cap.com

lr@con-cap.com

Head Of Research, Strategy

Konstantin Fisun, CFA

kf@con-cap.com

Utilities (Telecommunications, Energy)

Alexander Paraschiy

ap@con-cap.com

Macroeconomics

Alexander Viktorov

av@con-cap.com

Oil&Gas, Pipes, Non-Ferrous Metals

Andriy Gostik

ag@con-cap.com

Ferrous Metals

Viktor Koval

vk@con-cap.com

Machine Building, Chemicals

Olga Pankiv

op@con-cap.com