

# Ukrainian Mining Industry

## *Iron Ore*



CONCORDE CAPITAL

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# Executive Summary

Ukraine, with the **world's largest crude iron ore reserves** is in a position to uniquely benefit from the global supply/demand misbalance caused by Chinese steel production.

Global iron ore prices are soaring. Although a steel correction is expected next year, iron ore **prices are expected to remain higher than 2004 levels** and cost inflation is not expected to be fast enough to depress margins. Insufficient worldwide iron ore capacities entail stable demand in the mid-term.

The Ukrainian iron ore industry is represented by eight mining and enrichment companies. SCM and Privat business groups own five out of eight plants (GOKs) – Poltavsky, Inguletsky and Zaporizhya Iron Ore are independent.

¾ of Ukrainian iron-ore output is consumed domestically. Close proximity to Eastern and Central Europe neutralizes Australian and Brazilian mining cost advantages and makes Ukrainian iron ore a major player in the CEE (Poltavsky GOK is the major exporter). **The higher cost of Ukrainian iron ore (due to low iron content) is offset by transportation cost advantages.**

For independent GOKs, not included in domestic production chains, export is a better option, however the state controls the export aspirations of Ukrainian GOKs through **export licensing**.

A lack of raw materials forces major **Russian steel producers to look at acquiring Ukrainian GOKs**. Recently this interest has materialized, both officially and unofficially and boosted stock prices. Illiquid (**free float restricted**, trading non-existent), the industry is in the process of *skupka* – in the field buy out from employees to provide sizable blocks to the market.

Five of eight GOKs are subject to post-election **re-privatization fears**. This is a threat for major shareholders (but NOT minorities) who are perceived to have acquired industry assets very cheaply and in a non-competitive way. We expect that a compensation payment will be the most realistic conclusion.

**Corporate governance is mixed in this industry:** while some GOKs engage in transfer pricing, others distribute income in a fair manner to equity holders.

# In a Nutshell:

Buy Ukrainian GOKs now, if you can find stock and are not frightened by illiquidity. Target prices (USD):

Company*	Target Price	Target Adj *
CGOK	1.00	0.50
SGOK	0.90	0.40
PGOK	9.00	6.70
YGOK	0.25	0.09
KRIO	0.45	0.17
SUBA	0.10	0.10

*\* Prices are shown before and after additional share issues ... which have yet to be approved by company EGMs.*

## Why BUY?

- Very inexpensive
- Exposure to a market with uniquely favorable conditions
- Signs of improvement in corporate culture
- Eventual decrease in transfer pricing
- Targets for Russian steel groups

## Major Risks:

- Re-privatization "fever"
- Illiquidity
- Peaked market
- Transfer pricing schemes

# Financial Statement Guidance

## **SGOK and CGOK: trust their bottom, not top line**

Both companies are involved in tax-optimized steel trading within System Capital Management's (SCM) business group. Thus, 21% of SGOK's and 35% of CGOK's revenues come from non-core operations, moderating the companies' apparently astonishing top-line growth and at the same time improving their real profitability (slide 35).

Both GOKs post high profitability, on par with international peers, which is abnormal for Ukrainian business. We believe margins of these two companies may be used as a proxy to evaluate the scope of financial manipulations by other GOKs.

## **Most other GOKs practice transfer pricing**

According to our estimates, PGOK keeps ~30% of revenues off its P&L, collecting market mark-up through an affiliated trader. With this GOK, however, we are prepared for consolidation good news

## **Smart Group & Privat: aggressive bottom line "optimizers"**

YGOK and SUBA appear to be in the red, despite a booming industry and IGOK's net margin is only slightly higher than the gross outside its mines

# What is Iron Ore?



**Crude Iron Ore**

The primary ore extracted from mines. It requires further processing to be made suitable for pig iron production.

**Iron content:**

More than 60% - Rich ore  
Less than 60% - Poor ore

The average iron content in Ukraine is 30%



**Lump**

After the crude ore is crushed, the ore with a high Fe content does not require any further significant processing and may be immediately used for pig iron production. Iron ore of this quality is mostly produced in Australia and Brazil.

**Fine**

Fine is a byproduct of crushing crude iron ore. Despite its high iron content, fine cannot be used directly in pig iron production due to its small size. As a result, it must be agglomerated before it is suitable for pig iron production.

**Concentrate**

Concentrate is a product of enriching of poor iron ore to raise its iron content to more than 60%, and is a common process. Ukraine and Russia. To be used in pig iron production, it must be processed into either sinter or pellets.



**DRI/HBI**

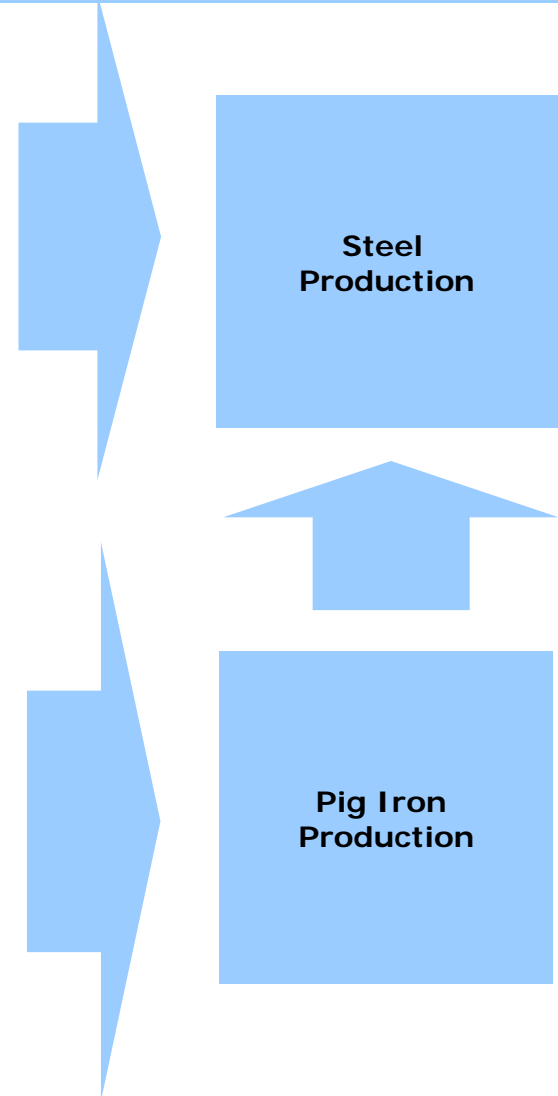
This is a processed iron ore with an iron content of 90-95%, which is high enough to be used as a scrap substitute to scrap in electric furnace steelmaking.

**Pellets**

Pellets are a high quality product manufactured from concentrate or fine. The material is refined from detrimental impurities and contains additives needed in pig iron production (which are absent in sinter). Pellets are used for sponge iron (DRI), or pig iron production.

**Sinter**

This is an enlarged form of fine and concentrate, less expensive than pellets.

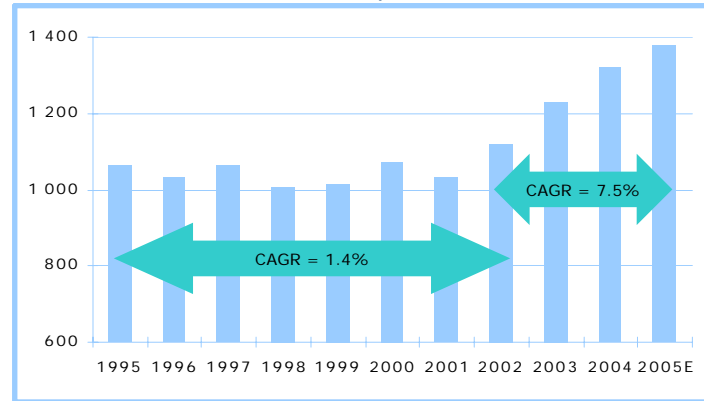


*\*Fine and concentrate require agglomeration – the process of collecting small iron ore particles into a larger mass – making them suitable for pig iron production*

# Market Conditions

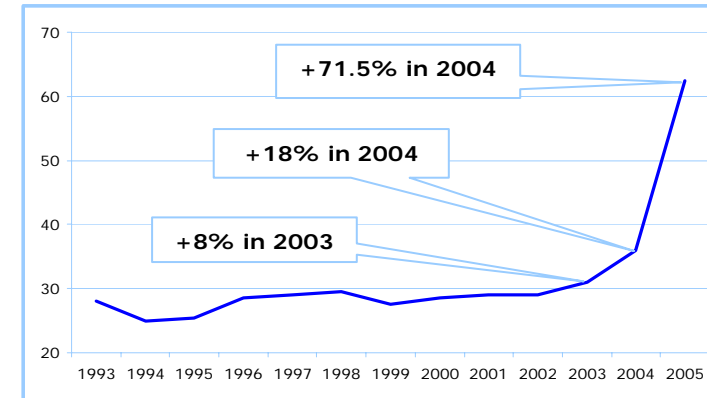
# Spectacular Price Growth

Global Iron Ore Production, mn mt



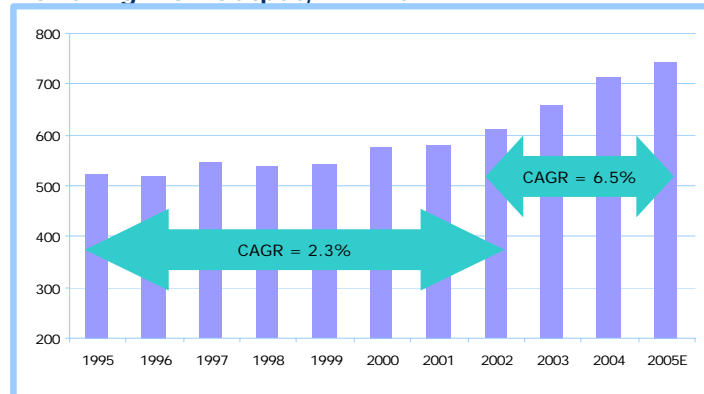
Source: IISI

Prices (FOB) For Brazilian Fine, USD/mt



Source: Iron and Steel Statistics Bureau

World Pig Iron Output, mn mt



Source: IISI

The Chinese steel production boom pushed world prices for both steel and iron ore to all-time highs.

Global suppliers failed to respond quickly to soaring demand for iron ore, which resulted in tight supply/demand conditions.

Since 2002, iron ore prices have been growing. The compound growth rate has increased five times compared to the 1990's. A correction is expected in the mid-term (slide 23).



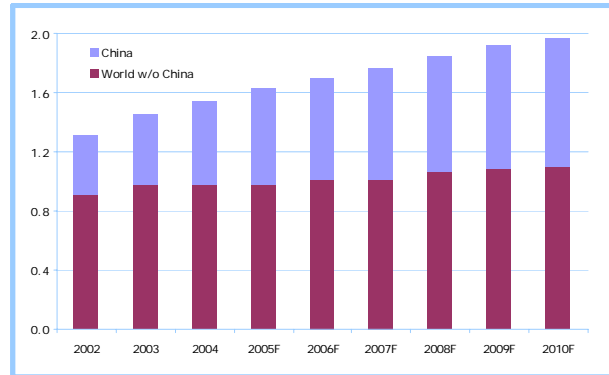
# China Drives Demand

Global steel output growth was mainly due to the expansion of Chinese steel capacities over the last five years.

China's iron ore production lags its steel production growth, due to limited iron ore capacities

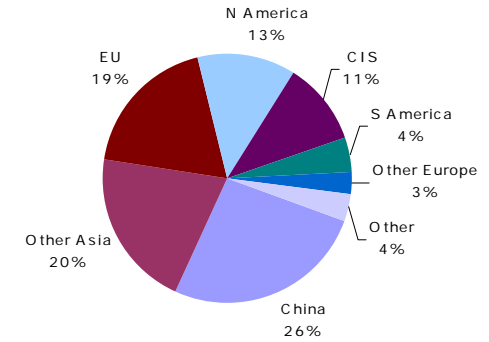
China has steadily increased iron ore imports (mainly from Australia and Brazil) since the late 90's, and this has become the key factor behind growing prices

World Crude Steel Production, bn mt



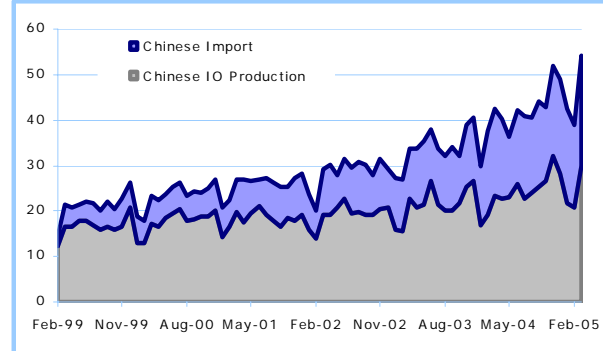
Source: IISI, Concorde Capital Forecast

Chinese Share in Global Steel Output, 2004



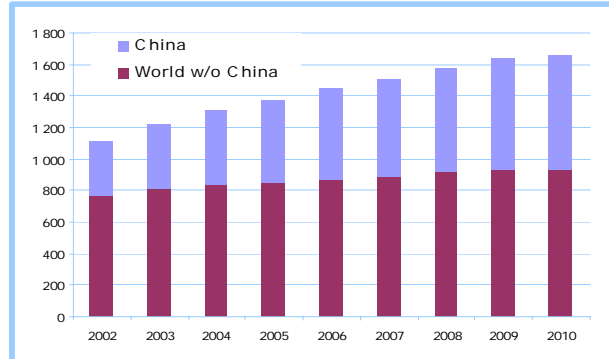
Source: IISI

Monthly Chinese IO Consumption, mn mt



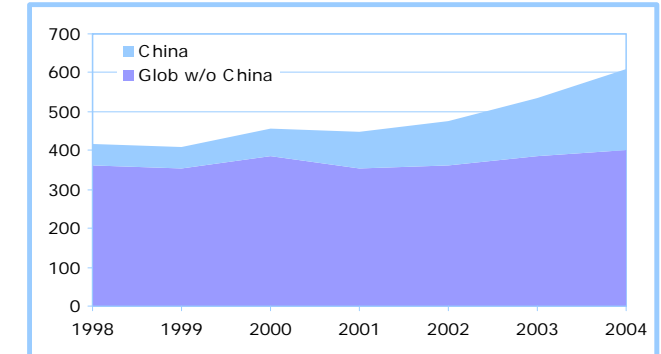
Source: Bloomberg

Iron Ore Consumption, mn mt



Source: AME, Concorde Capital Calculations

World Seaborne Iron Ore Demand, mn mt



Source: IISI

**Ukraine ...**

# Ukraine – World's Largest Reserves

World Iron Ore Reserves, mn mt

	Crude Ore		Iron	
	Reserves	Reserve Base	Reserves	Reserve Base
<b>Ukraine</b>	<b>30 000</b>	<b>68 000</b>	<b>9 000</b>	<b>20 000</b>
Russia	25 000	56 000	14 000	31 000
China	21 000	46 000	7 000	15 000
Australia	18 000	40 000	11 000	25 000
Kazakhstan	8 300	19 000	3 300	7 400
Brazil	7 600	19 000	4 800	12 000
USA	6 900	15 000	2 100	4 600
India	6 600	9 800	4 200	6 200
Venezuela	4 000	6 000	2 400	3 600
Sweden	3 500	7 800	2 200	5 000
Iran	1 800	2 500	1 000	1 500
Canada	1 700	3 900	1 100	2 500
S Africa	1 000	2 300	650	1 500
Mauritania	700	1 500	400	1 000
Other	11 000	30 000	6 600	18 000

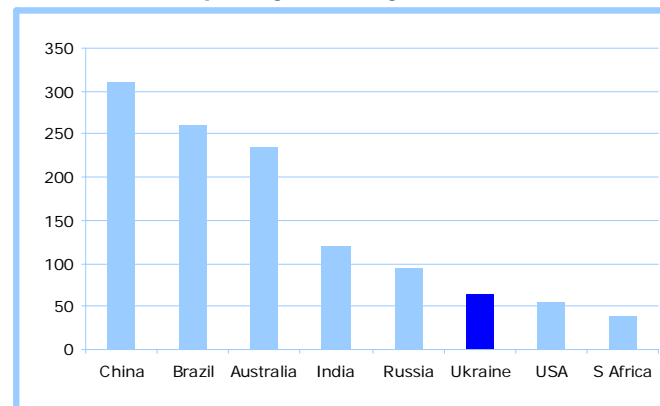
Source: USGS

Accounting for only 5% of the global iron ore market, Ukraine possesses the world's largest brutto iron ore reserves (third largest in terms of iron content).

At current extraction rates, Ukraine can continue to exploit its reserves for more than 200 years -- revealing an enormous potential for increasing output.

*Reserve base* represents total reserves, including those economically unfeasible to process under current technological and economic conditions.

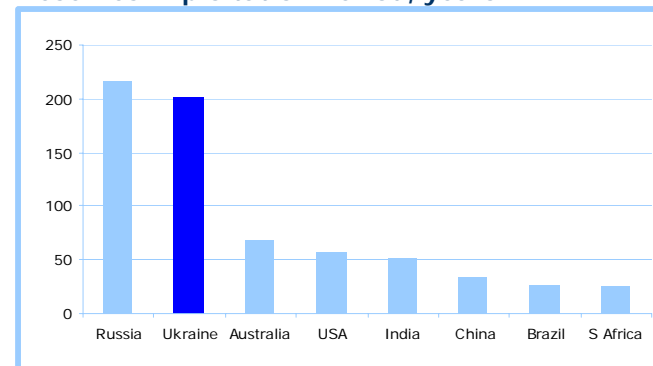
Iron Ore\* Output by Country 2004, mn mt



Source: USGS, IISI

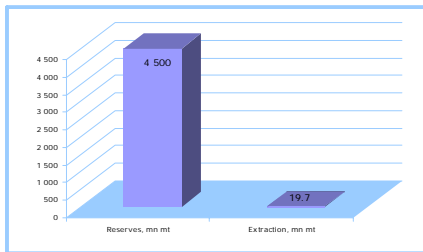
\* *Concentrate* for Ukraine and Russia; *Fine or Lump* for Brazil and Australia

Reserves Exploitation Period, years



Source: USGS, Concorde Capital Estimates

# Ukrainian Iron Ore Centers

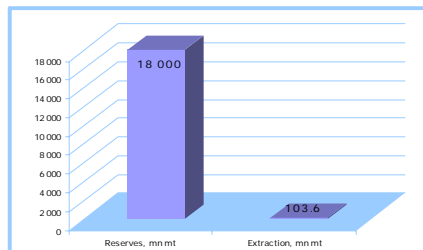


## Kremenchug Basin:

**Fe content: 27-40%**

**Companies:**

Poltavsky GOK (PGOK)

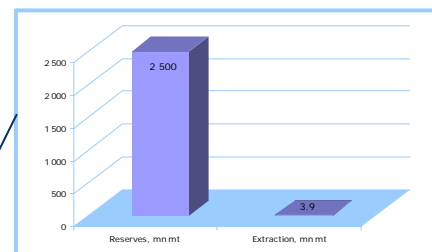
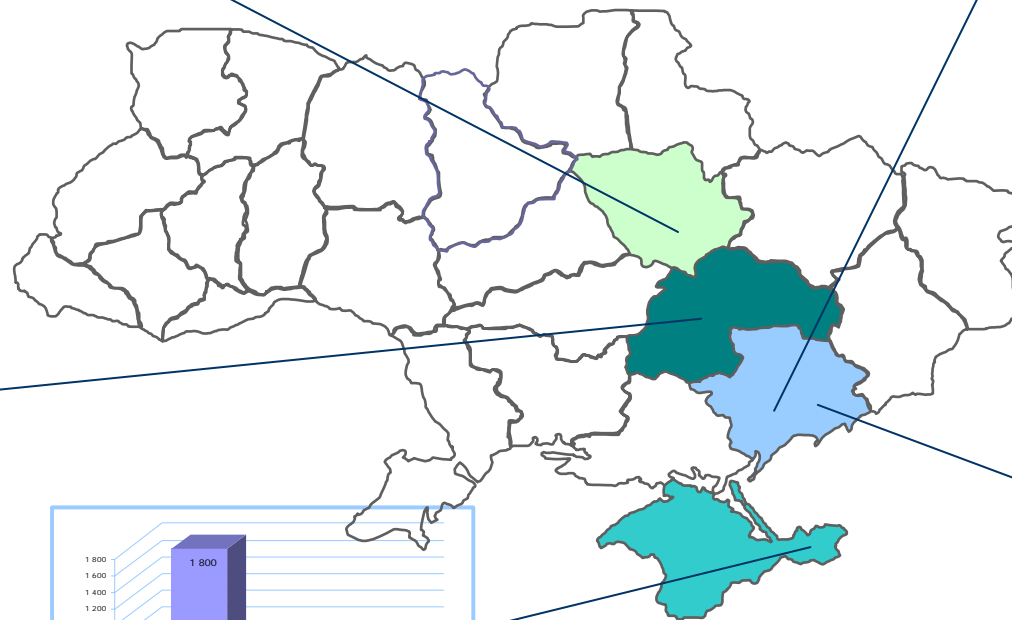


## Kryvyi Rig Basin:

**Fe content: 25-35% (open pit)  
55-70% (underground)**

**Companies:**

Kryvyi Rig Iron Ore (KRIO)  
Sukha Balka (SUBA)  
Inguletsky GOK (InGOK)  
Centralny GOK (CGOK)  
Pivnichny GOK (PivnGOK)  
Pivdeny GOK (PivdGOK)  
Kryvorizhstal (KRST)

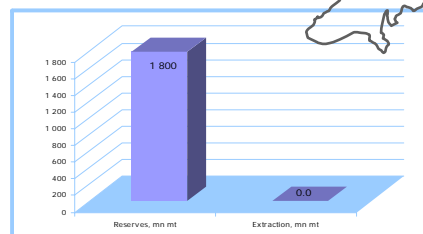


## Bilozersk Basin:

**Fe content: 58-61%**

**Companies:**

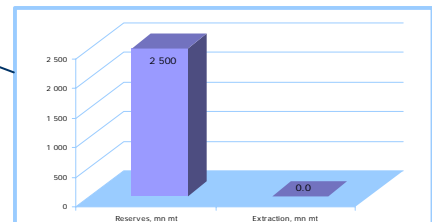
Zaporizhya Iron Ore (ZIO)



## Kerch Basin:

**Fe content: 40%**

Industrial exploration is economically inefficient at present



## Priazovsk Region:

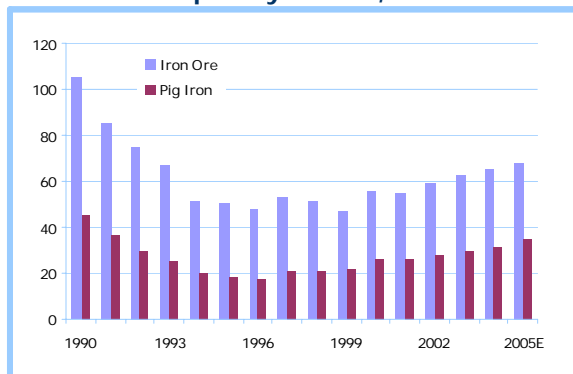
**Fe content: 27-31%**

**Companies:**

Mariupol Ilicha & Zaporizhstal and the Industrial Union of Donbass plan to construct extraction and enrichment plants

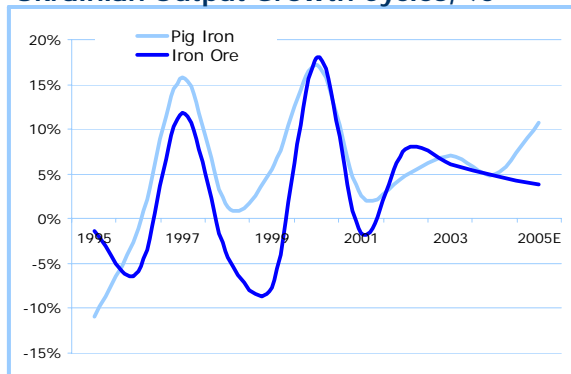
# Iron Ore/Steel Symbiosis

Ukrainian Output Dynamics, mn mt



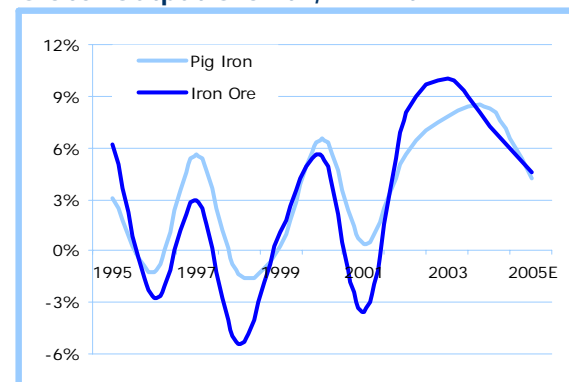
Source: IISI, Derzhzovnishinform

Ukrainian Output Growth Cycles, %



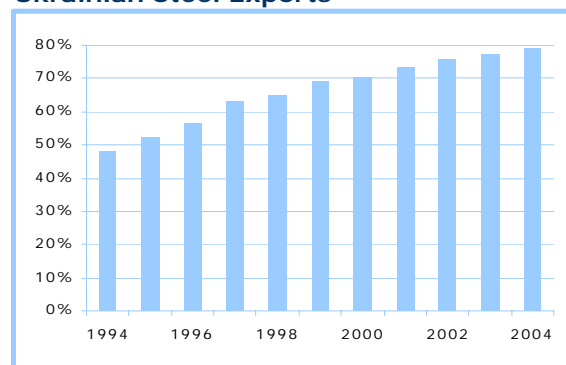
Source: IISI, Ministry of Industrial Policy of Ukraine

Global Output Growth, mn mt



Source: IISI, Concorde Capital Estimates

Ukrainian Steel Exports



Source: IISI, Derzhzovnishinform

After three subsequent years of growth, the iron ore industry may face difficulties to maintain its growth. Though Ukrainian steel mills are ready to enhance pig iron output in 2005 by 10%, the high utilization loads of iron ore production facilities and the lack of new capacity can limit pig iron output growth this year. In order for steel producers to accomplish their plans, they may even need to import iron ore, as domestic extraction is expected to grow by only 5%.

Without Soviet demand, the Ukrainian steel industry has become increasingly export-oriented. Exposure to global markets has resulted in the Ukrainian market replicating global cycles, but with higher volatility (magnitude of changes for Ukraine ranging -10%...+17% versus -6%..+12% globally).

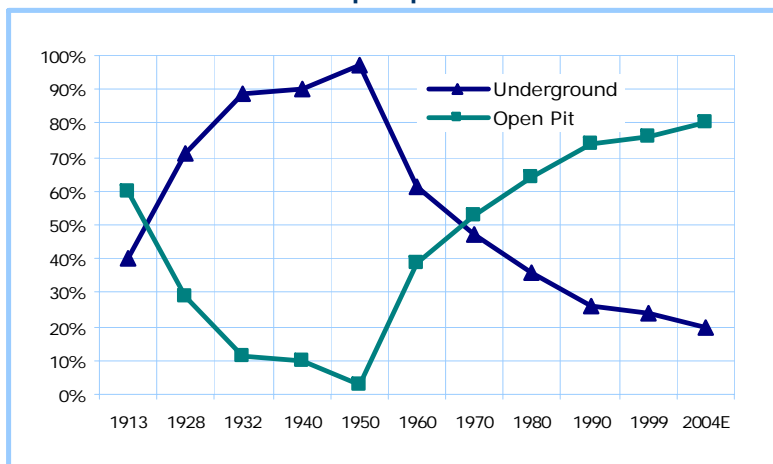
As with the global trend, the Ukrainian iron ore industry is more volatile than the Ukrainian steel industry which drives it.

# Ukrainian Market Players

Company	Crude Ore Extraction, mn mt			Concentrate Output, mn mt			Sinter Output, mn mt			Pellets Output, mn mt			Major Shareholder	Ownership %
	Fe Content	Open Pit	Underground	2004	% YoY	Market Share	2004	% YoY	Market Share	2004	% YoY	Market Share		
IGOK	27%	34.7	-	13.8	0.3%	21%	-	-	-	-	-	-	Smart Group	63%
SGOK	33%	17.9	-	8.8	16.6%	13%	-	-	-	6.9	15.8%	42%	SCM	91%
KRST	30%	15.7	1.3	8.5	2.0%	13%	10.1	3.4%	22%	-	-	-	SCM/Interpipe	95%
YGOK	30%	16.9	-	8.3	6.2%	13%	3.9	16.4%	8%	-	-	-	Privat	92%
PGOK	26%	19.7	-	7.9	4.7%	12%	-	-	-	7.4	4.9%	45%	Finance & Credit	75%
KRIO	52%	-	7.4	6.5	2.3%	10%	-	-	-	-	-	-	Privat	95%
CGOK	30-33%	6.1	-	4.8	14.7%	7%	-	-	-	2.2	6.4%	13%	SCM	97%
ZIO	62%	-	3.9	3.9	0.7%	6%	-	-	-	-	-	-	Minerfin	51%
SUBA	56-59%	-	3.6	3.1	-2.7%	5%	-	-	-	-	-	-	Privat	75%
Other*	-	-	-	-	-	-	32.7	6.4%	70%	-	-	-	-	-
<b>Total</b>		<b>111</b>	<b>16.2</b>	<b>65.5</b>	<b>4.8%</b>	<b>100%</b>	<b>46.7</b>	<b>6.5%</b>	<b>100%</b>	<b>16.4</b>	<b>9.4%</b>	<b>100%</b>		

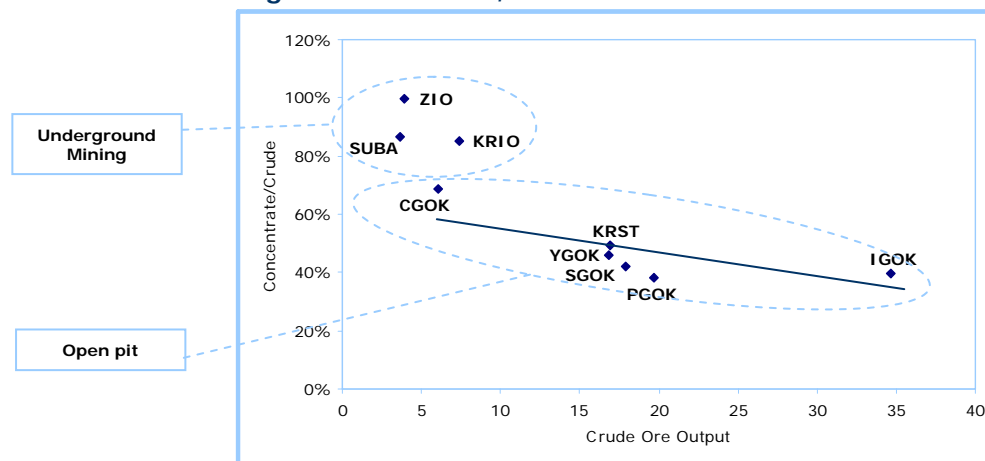
\*Other includes MMKI, ZPST, ALMK, DMK Dzerzhynskogo, Yenakievo and AZST steel mills

## Switch to cost effective open pit



Source: Y. P. Kaplenko et. al, Underground Mines Processing, Concorde Capital Estimates

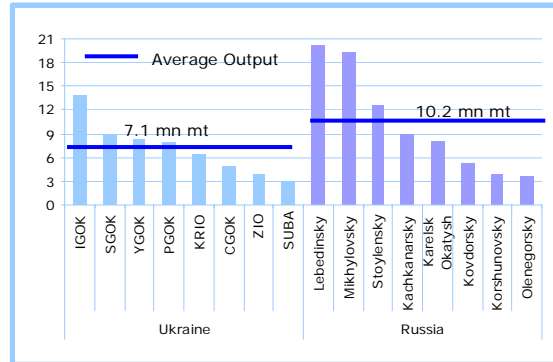
## Higher concentrate, lower extraction ...



Source: Company Data, Concorde Capital Estimates

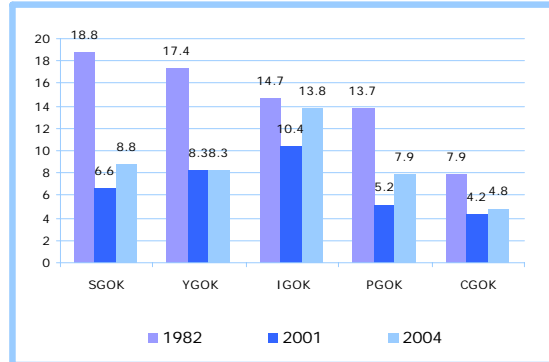
# Industry Dynamics

Ukraine vs. Russia 2004, mn mt



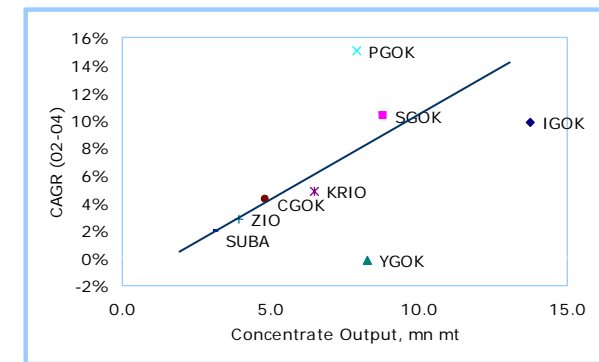
Source: Company Data, Concorde Capital Estimates

Iron Ore Output by Company, mn mt



Source: Y. P. Kaplenko et. al, Underground Mines Processing, Concorde Capital Estimates

Ukrainian Iron Ore Producers



Source: Company Data, Concorde Capital Estimates

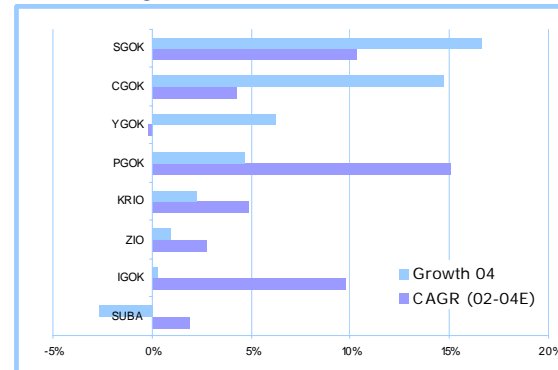
The collapse of the USSR resulted in a plunge in demand for Ukrainian steel, and iron ore production was cut in half. In addition, following a decade of no investment, iron ore capacities have shrunk.

In 2004, capacity utilization improved to 91%.

KRIO, SUBA & ZIO, which operate underground mines, have few possibilities to expand production.

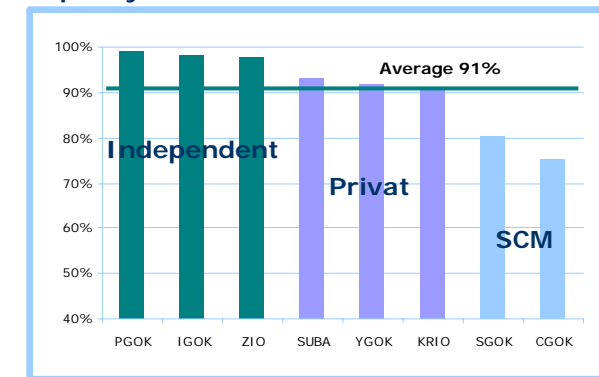
SCM-Controlled CGOK will eventually increase utilization, as the company wants to double output by 2010.

Growth Dynamics, mn mt



Source: Company Data, Concorde Capital Estimates

Capacity Utilization



Source: Company Data, Concorde Capital Estimates

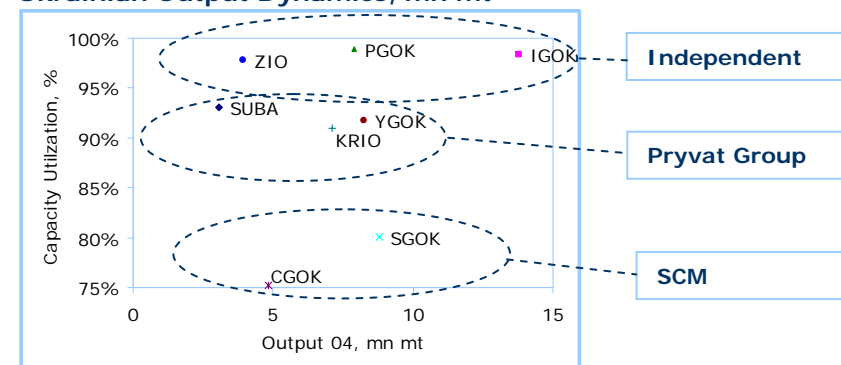
# Investment to Increase Capacity

## Capital Expenditures

Company	CapEx'05* USD mn	Output 2004 mn mt	CapEx/Output USD/mt
PGOK	100	7.9	12.7
KRIO	11.3	6.5	1.7
CGOK	72	4.8	15.0
SGOK	113	8.8	12.8
<b>Average Ukraine</b>			<b>10.6</b>
Company	CapEx'04	Output 2004	CapEx/Output
CVRD	**1 700	218.0	7.8
Cleveland-Cliffs	54	36.9	1.5
Rio Tinto	2 169	143.0	15.2
BHP Billiton	3 043	105.0	29.0
Portman	5	5.5	0.9
<b>Average Global</b>			<b>10.9</b>

Source: Company data, Bloomberg. \* Investment into capacity extension. \*\* CapEx 2005 for CVRD

## Ukrainian Output Dynamics, mn mt



Source: Company Data, Concorde Capital Estimates

## New Construction

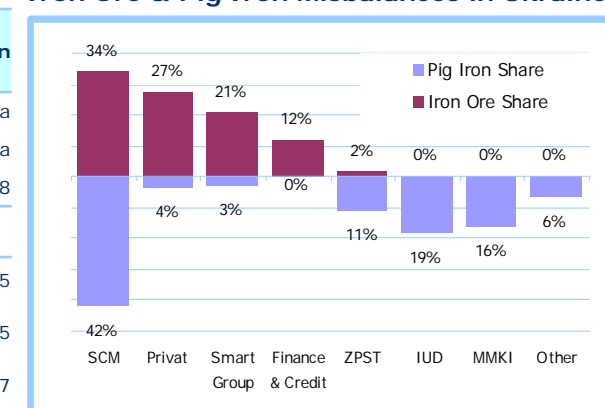
Company	Deposit/Mine	Type	Status	Capacity mn mt	Fe Content	Investment USD mn	Investment/ Capacity USD/ mt	Comission
IUD	Gulyapolskoye	Underground/Open		n/a	27-31%	n/a	n/a	n/a
KGOKOR*		Open	construction frozen	10	60%	2 200	220	n/a
ZPST & MMKI	Kuksungurskoye	Open		8	30%	150-180	19-23	2008

## Revival of Idle Capacity

PGOK	Skhid-Ruda		Acquisition of the state's 49% stake	n/a	n/a	n/a	n/a	2005
CGOK	Ordzhonikidze mine	Underground	Earlier stopped due to unprofitability	1.6	n/a	n/a	n/a	2005
CGOK	Gigant-Glubokaya	Underground	Lease	5.0	n/a	100	20	2007
SGOK, PGOK, MMKI	Pervomayska	Underground	Tender	5.0	52%	100	20	2007

\***KGOKOR's** (Kryvy Rih Iron Ore Okyslenykh Rud) began construction during the Soviet period, with the participation of Warsaw block countries (Romania and Slovakia). USD 1.8 bn was invested into the project, which was suspended after the USSR split. Currently, IGOK, PGOK, Mittal Steel and others are interested in acquiring the company. The terms of construction call for the delivery of 30 mn mt and 17 mn mt pellets to Romania and Slovakia, respectively, over 10 years.

## Iron Ore & Pig Iron Misbalances in Ukraine



Source: Concorde Capital Estimates

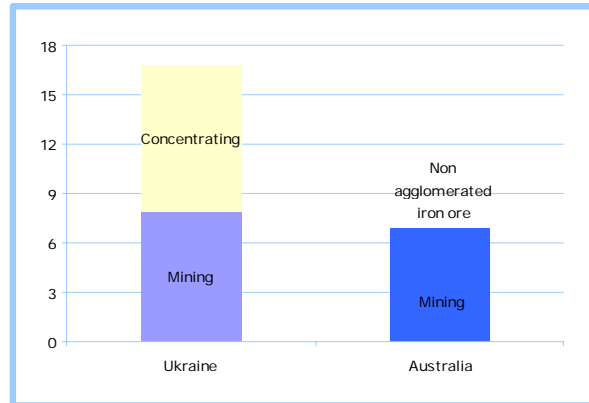
\*Share of Total Ukrainian Production, 2004

Several Ukrainian steel producers have insufficient iron ore supplies (IUD, MMKI and ZPST) and suffered from unstable inputs of iron ore in 2004, which forced them to consider acquiring their own mines.



# Costs & Efficiency

Cost Structure, USD/mt

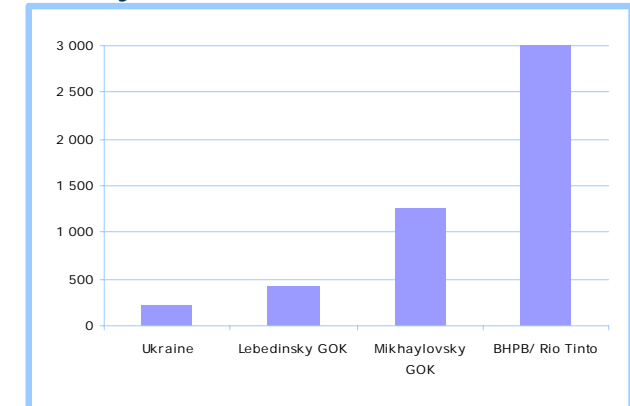


Source: PGOK, AME.

Labor Efficiency

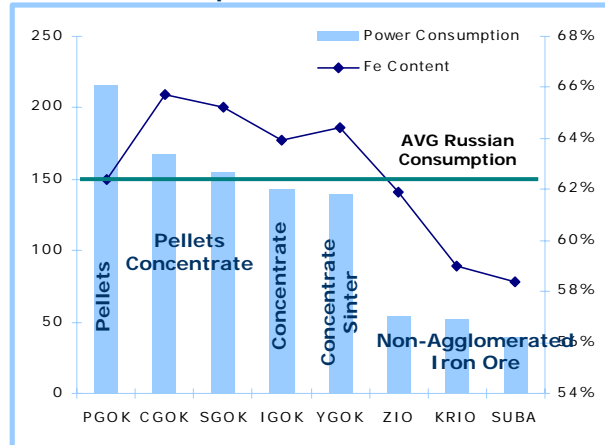
	Number of Employees	Output, mn mt	000' mt/employee
IGOK	11 800	13.8	1.2
YGOK	9 950	8.3	1.2
PGOK	9 900	7.9	0.8
SGOK	10 950	8.8	0.8
CGOK	7 400	4.8	0.6
SUBA	5 000	3.1	0.6
KRIO	11 900	6.5	0.5
ZIO	n/a	3.9	n/a

Monthly Salaries, USD



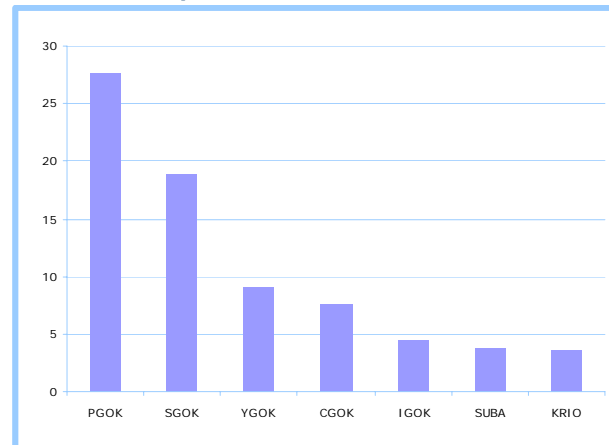
Source: Company Data, Concorde Capital Calculations

Power Consumption, KWh/mt of Concentrate



Source: Ukrainian Metal, Mining Magazine

Gas Consumption, m3/mt



Source: Ukrainian Metal

While mining costs of Ukrainian plants is only slightly higher than Australian, the need to enrich iron ore more than doubles these costs.

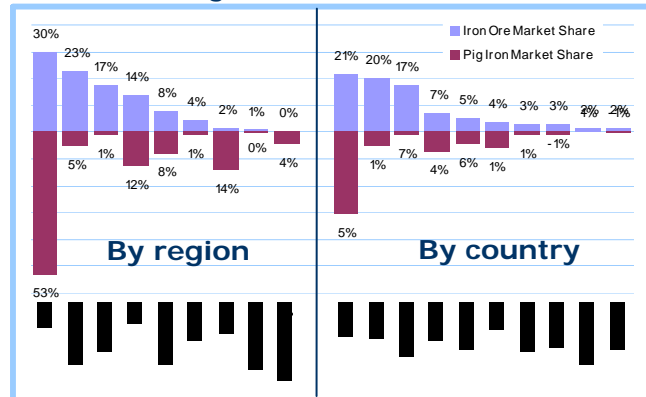
Although labor accounts for up to 45% of total costs internationally, Ukraine ranges from 14%-18%, giving it a significant advantage over Australian and Russian producers. Although salary growth is inevitable, a hypothetical doubling of salaries will lead to a mere 15% increase in costs on average *ceteris paribus*.

The higher costs for energy hungry GOKs have been compensated by higher markups for their more value-added products. However, exposure to natural gas price volatility may represent a risk in the long term.

# Global Pricing & Transportation

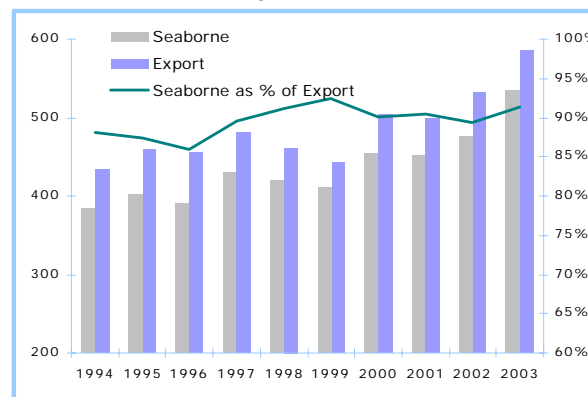
# Global Iron Ore Trade

## Iron Ore vs. Pig Iron Mis-Balance



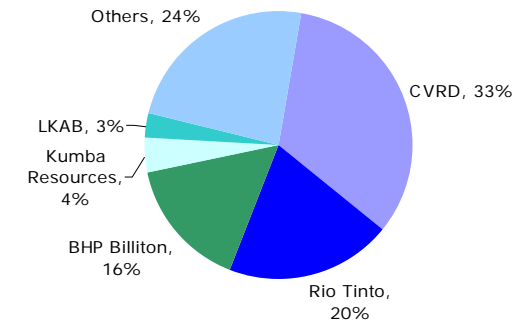
Source: IISI, Concorde Capital Calculations

## World Iron Ore Exports, mn mt



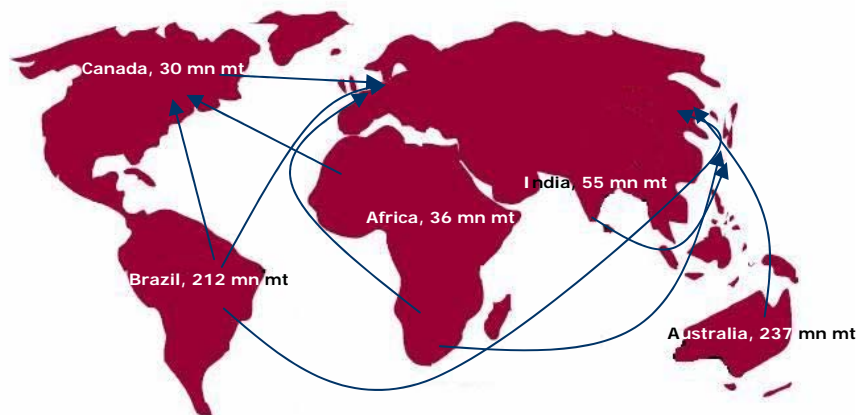
Source: IISI, Concorde Capital Calculations

## Global Seaborne Market Participants, 2003



Source: IISI

## Seaborne Iron Ore Exports 2004, mn mt

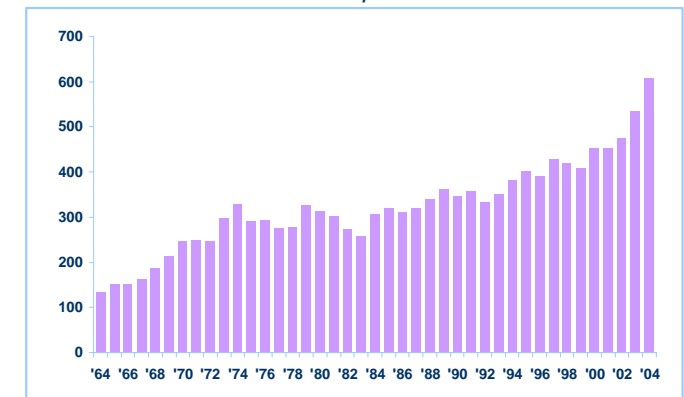


Source: IISI

As a rule, the largest steel producing nations are not self sufficient in iron ore, importing it mainly by sea from Brazil and Australia.

The growing mismatch between iron ore production and steel/pig iron capacity has boosted the seaborne iron ore market, which sets the benchmark for global iron ore prices.

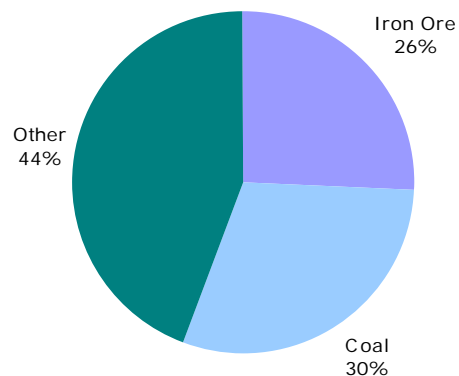
## Seaborne Iron Ore Trade, mn mt



Source: Fearnleys World Bulk Trades, 2003

# Seaborne Transportation Costs

World Dry Bulk Cargo, 2004, mn mt



Source: R. S. Platou Group

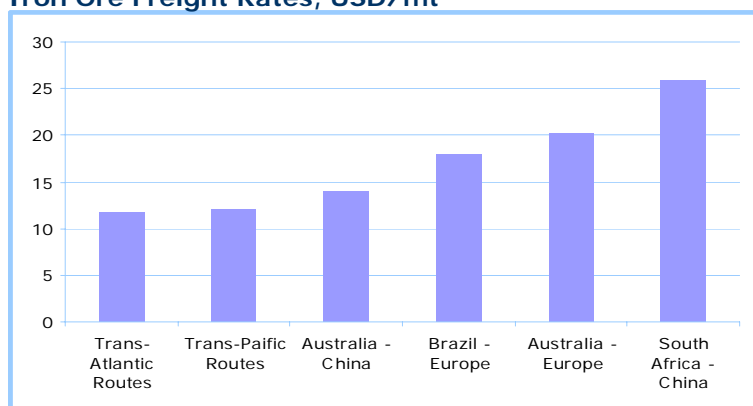
Baltic Exchange Capesize Index\*



\***Baltic Exchange Capesize Index** (a benchmark for cargo freight rates) is a general dry freight market indicator, based on an average of indices for shipping routes.

Source: Metal Bulletin

Iron Ore Freight Rates, USD/mt



Source: UGMK.info, MEPS

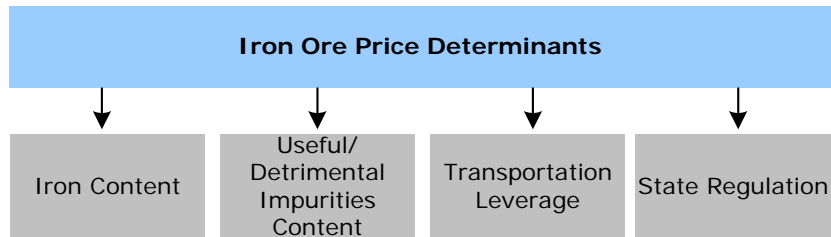
\*Effective 28.02.2005

For the last two years, growth in seaborne iron ore traffic, combined with growth in coking coal shipments, substantially increased shipping tariffs and pushed iron ore prices even higher.

Deliveries by long-distance ocean routes constitute 1/4 of end-user prices.

Inland countries (i.e. Central Europe and Ukraine) are exposed to even more expensive railway transportation costs.

# Price Determinants



Due to different Fe-contents, prices for iron ore are calculated in US cents per 1% of iron content per metric ton (**DMTU**).

In addition to iron content, prices are also determined by the content of impurities, which may be either useful in pig iron production and improve quality (manganese, aluminum), or detrimental and thus decrease quality (SiO<sub>2</sub>, S, P).

Mechanical characteristics such as solidity and shortness also influence price levels, Although they are less crucial than iron content.

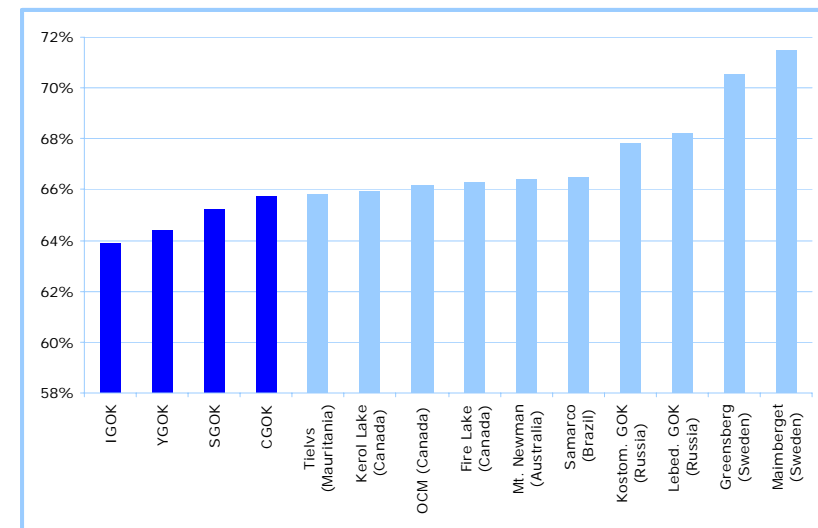
## Final Product Content

Company	Product	Fe	SiO <sub>2</sub> *	S*	P*
KRIO	Sintered Ore	59.0%	<b>13.6%</b>	0.02%	0.07%
SUBA	Sintered Ore	58.4%	<b>13.7%</b>	0.08%	0.06%
ZIO	Sintered Ore	61.9%	9.3%	0.01%	0.03%
CGOK	Pellets	59.8%	8.0%	0.04%	0.01%
	Concentrate	65.7%	7.9%	0.04%	0.01%
SGOK	Pellets	59.6%	9.1%	0.03%	0.01%
	Concentrate	65.2%	8.4%	0.04%	0.00%
IGOK	Concentrate	63.9%	9.5%	0.19%	0.02%
PGOK	Pellets	62.4%	9.4%	0.00%	0.00%
YGOK	Concentrate	64.4%	9.4%	0.02%	0.01%
	Sinter	n/a	n/a	n/a	n/a
<b>AVG Sintered Ore</b>		<b>59.8%</b>	<b>12.2%</b>	<b>0.04%</b>	<b>0.05%</b>
<b>AVG Concentrate</b>		<b>64.8%</b>	<b>8.8%</b>	<b>0.07%</b>	<b>0.01%</b>
<b>AVG Pellets</b>		<b>60.6%</b>	<b>8.8%</b>	<b>0.02%</b>	<b>0.01%</b>
<b>AVG Total</b>		<b>62.0%</b>	<b>9.8%</b>	<b>0.05%</b>	<b>0.02%</b>
Australia		63.8%	3.7%	0.02%	0.06%
Sweden		66.5%	3.9%	0.00%	0.01%
Venezuela		63.8%	2.2%	0.00%	0.06%
Brazil		68.0%	1.4%	3.90%	0.03%
S Africa		64.2%	5.0%	0.01%	0.04%
<b>Maximum Permissible Content</b>			<b>10.0%</b>	<b>0.80%</b>	<b>0.17%</b>

Source: UPE, Metal & Mining Industry

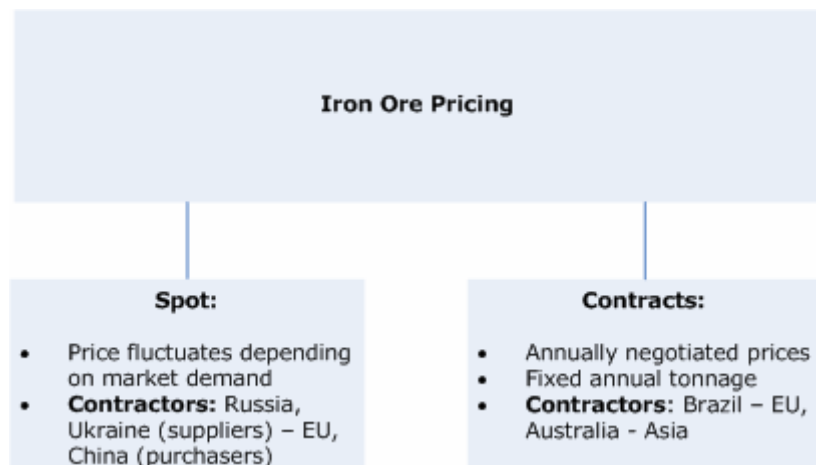
\*SiO<sub>2</sub>, S and P refer to detrimental elements

## Fe Content Final Product, %

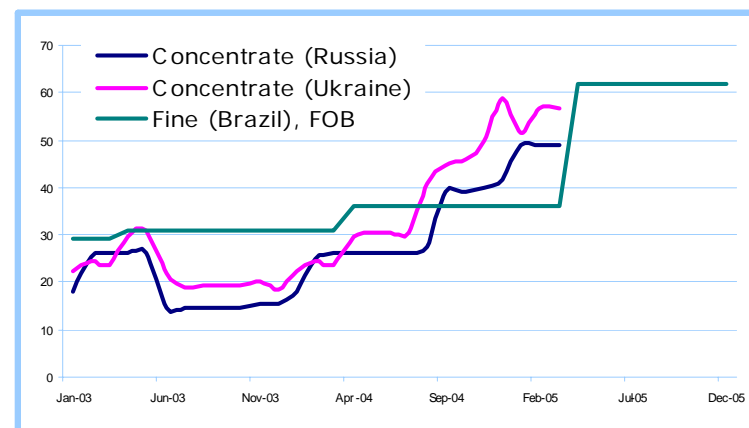


Source: Mining Magazine

# Ukrainian vs. Global Prices



**Iron Ore Prices, USD/mt**



Source: Ukrainian Metal. Internal for Russia and Ukraine, FOB Brazil

**Iron Ore Prices, Mar 2005**

	Ukraine		Russia		Brazil	
	USD/mt	USD/DMTU	USD/mt	USD/DMTU	USD/mt	USD/DMTU
Sintered Ore	16.6-17.0	0.24-0.34	13.1-18.4	0.25-0.35	n/a	n/a
Concentrate	56.6-64.1	0.86-0.98	56.0-76.5	0.86-1.15	n/a	n/a
Pellets	83.0-84.9	1.23-1.29	83.7-89.9	1.28-1.32	n/a	1.17
Sinter	77.4	1.46	65.5-69.2	1.19-1.32	n/a	0.64

Source: Iron and Steel Statistics Bureau

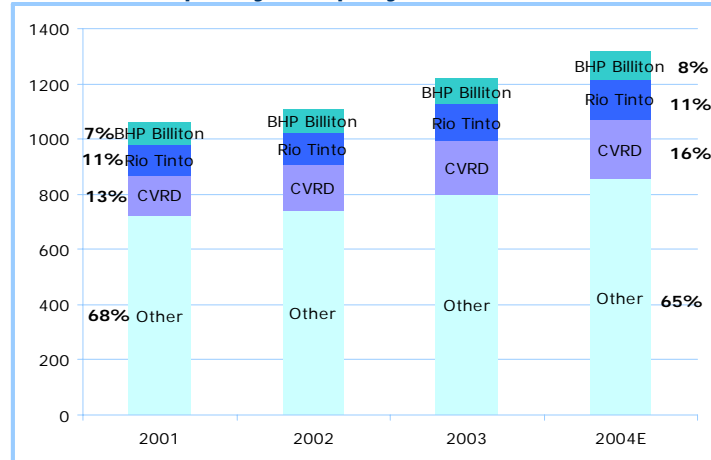
The spot market accounts for 1/3 of global trading, while the remaining 2/3 is according to mid and long-term contracts.

Global contract prices are set in agreements between Chinese, Japanese and European steel makers on one side, and Australian and Brazilian iron ore producers on the other. These prices serve as global benchmarks and, as a rule, are effective for twelve months.

Ukrainian local prices are determined on the basis of short-term contracts and fluctuate around global benchmark levels. Significant price revisions can be observed every 3-5 months on average.

# Price Outlook

Iron Ore Output by Company, mn mt



Source: Company Data

Chinese demand for steel has had a profound effect on the traditional supply and demand balance for iron ore across the world. Even with new capacity coming on line, traditional suppliers cannot fill market demand in the short term.

As three global producers, Brazil's CVRD, Australia's BHP Billiton and Rio Tinto (which together account for ~35% of global production), will introduce new capacity in the coming years, they will gradually restore the supply-demand balance and place downward pressure on prices.

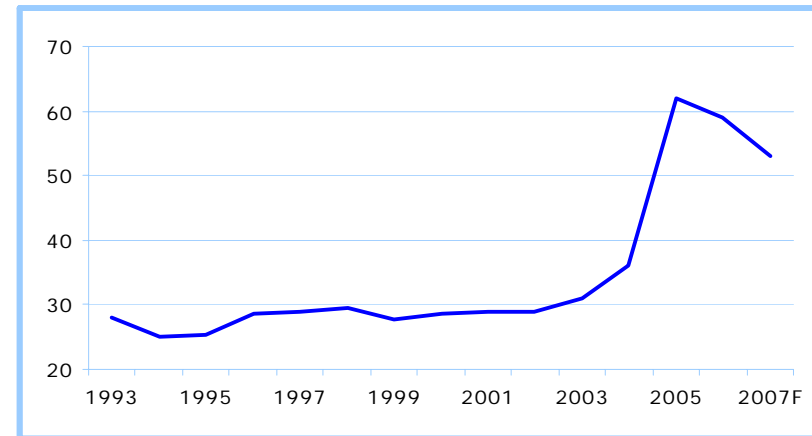
We expect iron ore prices to slowly decrease beginning in 2006 after new installed capacities take effect.

Expected Capacity Expansion, mn mt

Company	Country	Capacity	Date
BHP Billiton	Australia	25	2005-10
Rio Tinto	Australia	24	2005-07
CVRD	Brazil	90	2005-10
Kumba Resources	S. Africa	19	2005-09
<b>Total</b>		<b>158</b>	

Source: AME

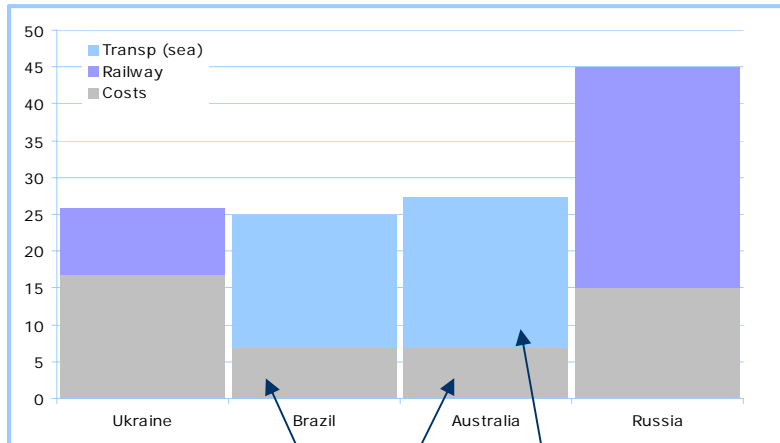
Iron Ore Price Outlook, USD/mt



Source: Iron and Steel Statistics Bureau, Concorde Capital

# Transportation vs. Production Costs

Costs CIF\*

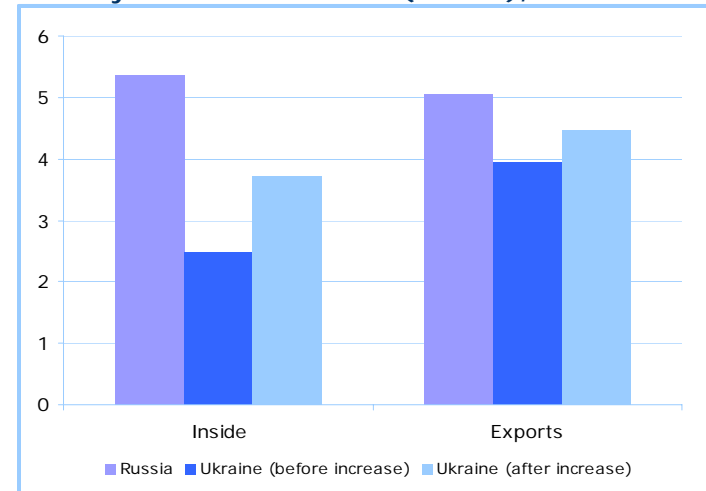


\*Delivery to EU border

Lower production costs of Brazilian and Australian producers are **offset** by transportation costs

USD/mt	Production	Transportation	Total
Brazil	7	18	25
<b>Ukraine</b>	<b>17</b>	9	26
Australia	7	20	27
Russia	15	30	45

Railway Tariffs for Iron Ore (500km), USD/mt



Source: Ukrainian News

Ukrainian railway tariffs, which were held at a significant discount to other countries, were adjusted closer to Russian levels.

The cost of Ukrainian iron ore to Eastern Europe (without trade markups) is on par with Australian and Brazilian ore to ports in Western Europe. Higher railway transportation costs for Australian & Brazilian ore to Central Europe makes Ukrainian iron ore the most efficient option for the CEE region.

Additional transportation costs for Russian GOKs effectively excludes them from the competing in the CEE.



# Ukrainian Export Destinations

About ¾ of Ukraine's iron ore output is used domestically, while 28% of concentrate is exported to Central and Eastern Europe.

Ukraine's total consumption amounted to 49.9 mn mt in 2004, with 6% (2.9 mn mt) imported from Russia.

MMKI and DOMZ are the major importers. They buy from Russia about 15%-25% of their iron ore needs to take advantage of the lowest available price.

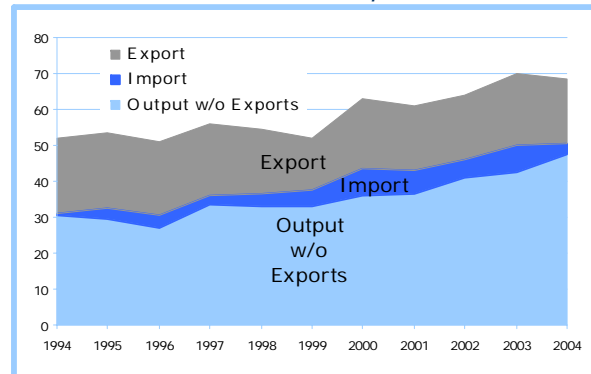
Geography of Export/Import, 2004



Country	Ukraine's Exports mn mt	Exports, %	Apparent Consumption mn mt	Ukrainian Market Share, %
Czech Rep	4.8	26.8%	8.2	58%
Poland	4.6	25.9%	8.7	53%
Slovakia	3.2	18.2%	6.0	54%
Serbia & Montenegro	0.9	5.0%	n/a	n/a
Hungary	0.5	2.6%	1.8	26%
Austria	2.3	12.8%	7.8	29%
Romania	1.1	5.9%	7.2	15%
Bulgaria	0.3	1.8%	2.0	16%
Italy	0.1	0.7%	15.2	1%
<b>Total</b>	<b>17.8</b>	<b>100.0%</b>	<b>167.4</b>	<b>11%</b>

Source: IISI

Ukrainian Iron Ore Market, mn tn

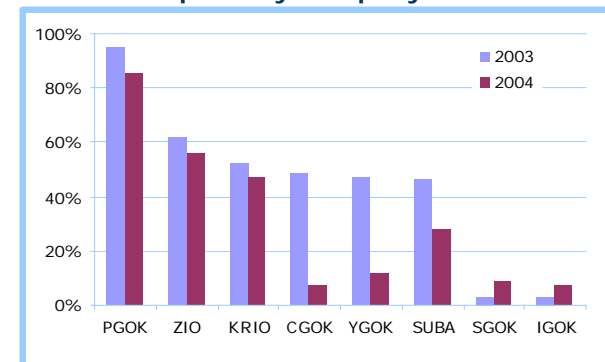


Source: IISI, State Statistic Committee

CEE is the only feasible export market for Ukrainian iron ore producers and exports shrank by 10% in 2004 due to Government supply regulations.

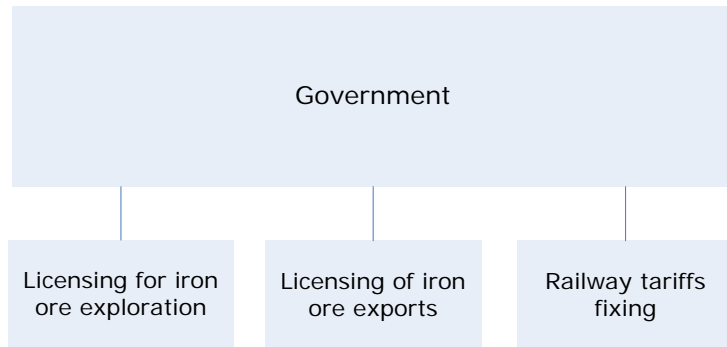
However, overall demand will not be impacted due to the fact that export sales will remain at 2004 levels and imports will continue to fall from increasing Russian ore prices.

Share of Exports by Company



Source: State Statistic Committee

# State Regulation



## Exploration:

Ukrainian iron ore producers are obliged to pay a charge of USD 0.13 for the extraction of poor iron ore and USD 0.48 for rich iron ore from national iron ore reserves. These expenses account for only 1% of company production costs, compared with 7% for international peers.

Extraction rates are expected to increase by 43% in the near future to USD 0.19 for poor iron ore, and by 60% (USD 0.76) for rich iron ore.

## Transportation Tariffs:

Ukrzaliznytsia is state owned and the government controls pricing for railway transportation. A 50% tariff hike for local shipments and a 12% hike for export deliveries of iron ore was levied in April 2005.

## Export Controls:

Higher prices in foreign markets have pushed Ukrainian iron ore companies to export.

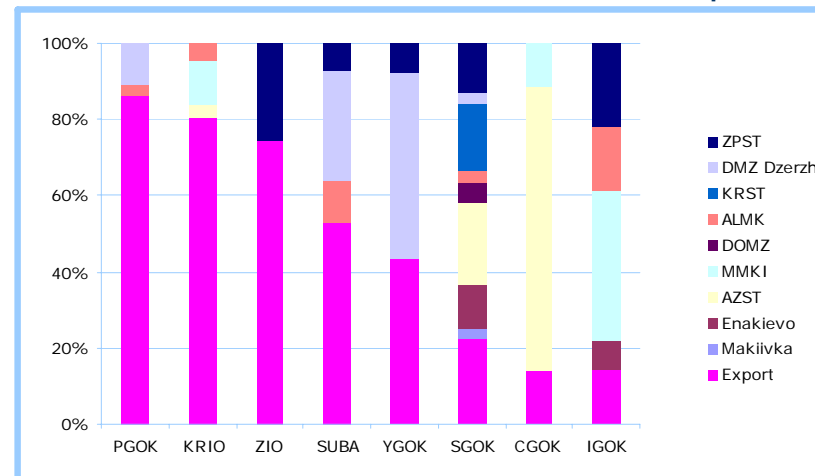
In order to support national steel producers, the government controls iron ore export deliveries through issuing export licenses and so-called "Balance Distribution".

*Balance Distribution* is a monthly recommendation by the Ministry of Industrial Policy (MIP) for steel and iron ore producers.

*Export licenses* are issued by MIP after a company fulfills their domestic requirements (Balance Distribution).

These measure have resulted in ...

## B.D. Recommendations, as of Mar 2005, % of Output



Source: Ukrudprom, Concorde Capital Estimates

# Substitutes – Not a Current Threat

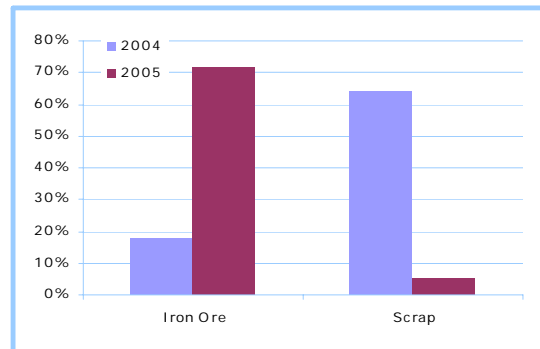
# Scrap – The Main Iron Ore Substitute

Steel Scrap HMS 1 FOB Rotterdam, USD/mt



Source: Metal Bulletin, Bloomberg

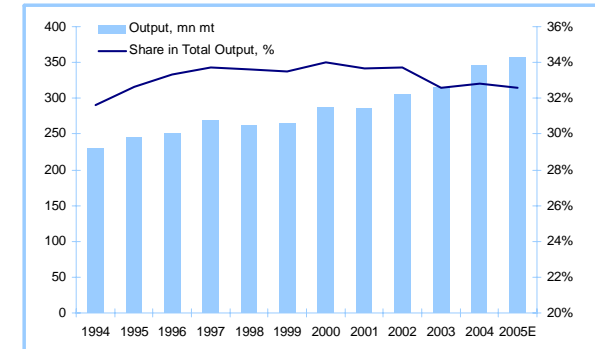
Average Price\* Increase 2004



Source: Bloomberg, Concorde Capital Estimates

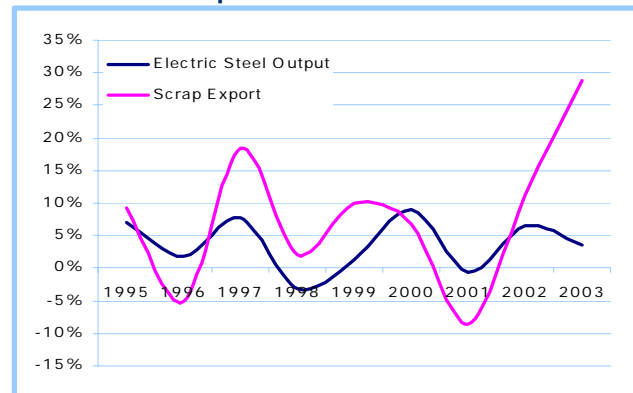
\* Calculations are based on contract prices for iron ore and export prices for HMS-1 scrap in Rotterdam.

Global Electric Steel Output



Source: IISI

EAF Steel/Scrap



Source: IISI

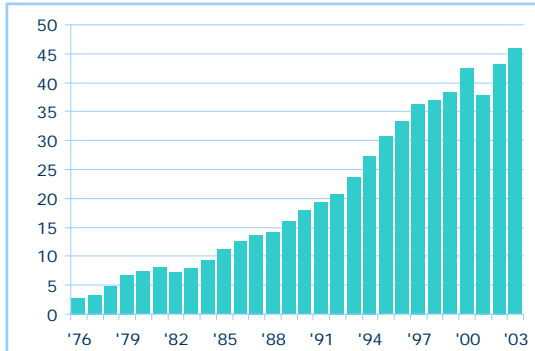
Globally, 1/3 of steel is produced in electric arc furnaces (EAF). An insufficiency of scrap metal in countries using EAF boosts import volume and prices.

Scrap prices during the last few years have made iron ore a more price-attractive input into steel production, on a relative basis, than scrap.

While scrap prices are believed to have peaked in 2004, they will persist at this new high level, meaning that the cost of feedstock to blast oxygen furnace (BOF) steel production will remain lower in comparable terms than to electric arc furnaces (EAF). We expect a 5% growth in scrap prices in 2005. A 71% price hike for iron ore eliminated its enormous cost advantage against scrap recently, though iron ore still remains less expensive than scrap on a relative basis, having grown roughly 120% since the 2002, compared to the 140% price growth of scrap.

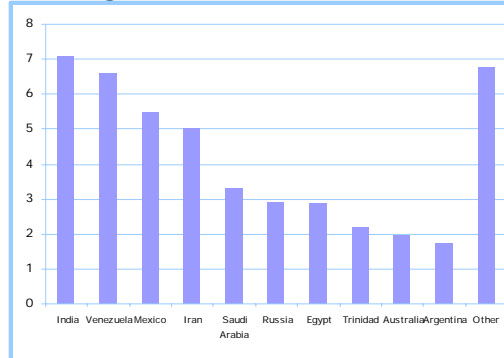
# DRI – Substitute For Scrap

**DRI Production, mn mt**



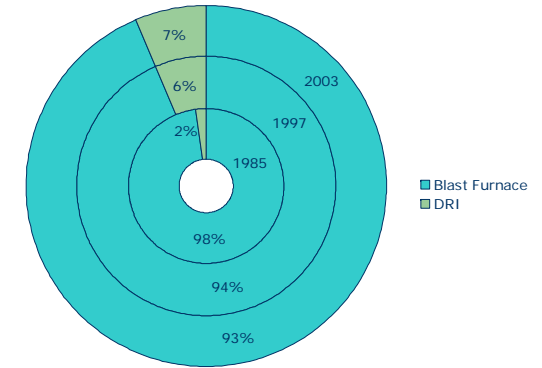
Source: IISI

**Leading DRI Producers**



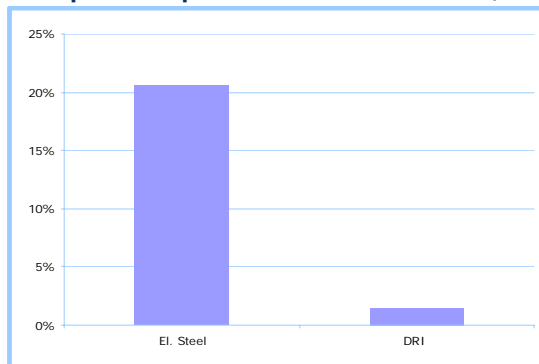
Source: IISI

**Blast Furnace vs DRI Production**



Source: IISI

**Europe's Output Market Share 2003, %**



Source: IISI

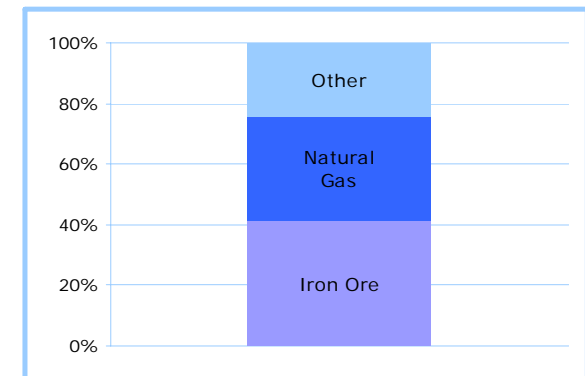
Scrap may be substituted by “sponge iron” – direct reduced iron (DRI) and hot briquette iron (HBI) – manufactured from iron ore materials with 90-95% iron content, which can be used in electric furnaces instead of scrap.

Typical prices for DRI are 2.5 times that of iron ore, and are currently lower than the price for high-grade scrap, DRI/HBI also yields higher quality steel than scrap-based production.

Ukraine is currently not exposed to the DRI/HBI market, although CGOK and SGOK intend to utilize this technology. Also, IGOK plans to develop its own electric steel production furnaces.

These projects can export to Europe, due to the absence of significant DRI/HBI production capacities, high levels of EAF production and scrap shortages.

**Indicative Operating Costs of DRI Production**



Source: Chemlink

# Valuations

# Competitive Map

## Ukrainian Companies

	Iron Content in Crude Ore	Extraction Method	Labor Efficiency	Potential Production Increment	Product Value Added	Market Share	Real Profits	Final Score
SGOK	4	3	6	7	7	5	8	40
PGOK	2	3	6	6	8	5	6	36
CGOK	5	3	3	8	6	2	8	35
YGOK	4	3	8	4	5	5	3	32
IGOK	3	3	8	2	4	8	4	32
KRIO	6	2	2	4	2	4	5	25
ZIO	8	1	1	3	3	1	4	21
SUBA	7	2	3	4	1	1	2	20

## International

	Crude Reserves	Iron Content	Global Market Share	Transportation	Production Costs	Final Score
Australia	4	7	6	3	7	27
Brazil	3	7	5	3	7	25
<b>Ukraine</b>	<b>7</b>	<b>3</b>	<b>2</b>	<b>7</b>	<b>3</b>	<b>22</b>
Russia	6	4	3	4	4	21
India	1	5	4	5	5	20
China	5	1	7	4	2	19
USA	2	3	1	6	3	15

Source: Concorde Capital estimates.

Higher numbers reflect higher competitiveness

# Multiples

Company	Target Price, USD		Par Value USD	Peers	P/S			P/E			EV/EBITDA			MCap/ Output	
					2003	2004	2005	2003	2004	2005	2003	2004	2005	2003	2004
PGOK	9.00	Current # Shares	1.92	Int	6.95	8.21	10.99	0.67	1.30	17.11	neg	3.38	6.23	10.43	10.09
	6.67	After Additional Share Issue	1.92	Russ	13.93	9.35	10.99	5.94	0.82	17.11	1.72	2.19	4.94	10.76	10.83
SUBA	0.10	Current # Shares	0.01	Int*	5.15	6.09	8.15	0.50	0.96	12.68	neg	2.50	4.62	7.73	7.48
	0.09	After Additional Share Issue	0.01	Russ*	10.32	6.93	8.15	4.40	0.61	12.68	1.27	1.62	3.66	7.98	8.02
CGOK	1.00	Current # Shares	0.05	Int	0.12	0.09	0.09	0.02	neg	0.03	0.11	0.01	0.03	0.46	0.41
	0.50	After Additional Share Issue	0.05	Russ	0.24	0.10	0.09	0.21	neg	0.03	0.38	0.00	0.03	0.47	0.44
SGOK	0.90	Current # Shares	0.05	Int*	0.11	0.08	0.09	0.02	neg	0.03	0.10	0.00	0.03	0.43	0.39
	0.40	After Additional Share Issue	0.05	Russ*	0.22	0.09	0.09	0.19	neg	0.03	0.36	0.00	0.03	0.44	0.41
YGOK	0.25	Current # Shares	0.05	Int	0.51	0.88	0.99	neg	1.70	2.56	0.48	1.54	1.15	0.85	0.91
	0.09	After Additional Share Issue	0.05	Russ	1.03	1.01	0.99	neg	1.08	2.56	1.72	1.17	1.18	0.88	0.97
KRIO	0.45	Current # Shares	0.19	Int*	0.26	0.44	0.49	neg	0.84	1.27	0.24	0.76	0.57	0.42	0.45
	0.17	After Additional Share Issue	0.19	Russ*	0.51	0.50	0.49	neg	0.53	1.27	0.85	0.58	0.59	0.44	0.48

## Ratios

International Peers	Mcap, USD mn	P/S			P/E			EV/EBITDA			MCap/ Output	
		2003	2004	2005	2003	2004	2005	2003	2004	**2005	2003	2004
BHP Billiton	54 396	2.4	2.2	1.8	29.2	16.0	8.6	12.7	9.0	4.8	n/m	n/m
CVRD	36 742	6.9	5.3	3.4	25.0	14.7	8.5	16.8	n/a	6.2	187.5	168.5
Rio Tinto	18 806	1.7	1.3	1.1	12.5	6.7	4.4	9.2	n/a	2.4	n/m	n/m
Kumba Resources	3 301	1.7	2.2	1.7	41.5	22.6	8.9	19.1	n/a	4.8	110.0	106.5
Cleveland-Cliffs	1 661	1.4	1.2	0.9	-50.8	5.1	5.0	351.8	8.0	3.1	53.6	44.9
Portman	533	3.7	2.6	2.0	48.5	22.1	5.9	24.6	12.2	3.9	96.8	96.8
Assmang	503	1.6	n/a	n/a	21.9	15.7	n/a	8.1	7.3	n/a	n/m	n/m
<b>AVG</b>		2.8	2.4	1.8	18.3	14.7	6.9	15.1	9.1	4.2	112.0	104.2
<b>Median</b>		1.7	2.2	1.8	25.0	15.7	7.2	17.9	8.5	4.3	103.4	101.7
<b>AVG w/o BHPB, CVRD, RT</b>		2.1	2.0	1.5	15.3	16.4	6.6	17.3	9.2	3.9	86.8	82.7
<b>Median w/o BHPB, CVRD,</b>		1.6	2.2	1.7	31.7	18.9	5.9	21.9	8.0	3.9	96.8	96.8
<b>Russian Peers**</b>												
Mikhaylovsky GOK	2 266.0	5.6	3.0	1.7	281.7	10.3	4.0	63.9	7.5	3.1	126.6	118.0
Lebedinsky GOK	2 618.0	8.3	3.6	2.1	170.3	9.9	4.2	36.6	7.0	4.4	137.1	130.2
Stoilensky GOK	1 191.0	6.4	3.1	2.3	225.4	7.7	5.0	64.3	5.5	3.7	92.3	94.5
Kachkanarsky GOK	1 088.0	4.8	2.8	2.0	89.1	11.9	6.3	38.5	7.7	6.2	126.5	120.9
Vysokogorsky GOK	124.0	2.5	1.4	1.0	41.3	6.9	3.8	n/a	n/a	n/a	95.4	95.4
<b>AVG</b>		5.5	2.8	1.8	161.6	9.3	4.6	50.8	6.9	4.3	115.6	111.8
<b>Median</b>		5.6	3.0	2.0	170.3	9.9	4.2	51.2	7.3	4.0	126.5	118.0

\*Real Prices if the additional share issue is approved

\*\*P/EBITDA 05 stated for international peers

Source: Bloomberg, IBES Estimates, Concorde Capital Estimates.



# Financials Per Mt of Iron Ore Produced

		IGOK	PGOK	SUBA	YGOK	KRIO	SGOK	CGOK	ZIO	AVG Ukr	AVG Russian	AVG International	Mikhaylovsky GOK	Lebedinsky GOK	Stoylensky GOK	Kachkanarsky GOK	CVRD	Cleveland-Cliffs	Kumba Resources	Portman
Sales	2003	16.4	27.5	10.8	21.2	14.1	19.3	24.5	11.5	18.2	19.8	26.0	22.1	16.4	14.4	26.2	32.3	27.0	27.5	17.1
	2004	19.6	34.6	9.2	19.4	20.4	53.3	41.5	13.9	26.5	37.2	40.9	40.0	35.9	30.1	43.0	43.2	32.7	63.1	24.7
COGS	2003	12.7	18.0	6.6	13.5	9.4	15.9	14.3	7.9	12.3	15.8	18.7	19.9	11.6	n/a	n/a	18.2	26.9	18.5	11.0
	2004	14.7	22.3	7.2	19.4	12.8	33.5	20.9	10.1	17.6	19.2	24.3	23.6	14.9	n/a	n/a	22.2	28.6	44.8	1.5
Gross Profit	2003	3.7	9.5	4.1	7.8	4.9	3.4	10.2	3.6	5.9	3.4	7.3	2.1	4.8	n/a	n/a	14.0	0.0	9.0	6.1
	2004	4.9	12.3	2.0	0.1	7.6	19.7	20.6	3.7	8.9	18.7	17.7	16.5	21.0	n/a	n/a	23.4	5.2	18.9	23.3
Gross Margin, %	2003	23%	34%	38%	37%	35%	18%	42%	31%	32%	19%	28%	9%	29%	n/a	n/a	43%	0%	33%	36%
	2004	25%	36%	21%	0%	37%	37%	50%	27%	29%	50%	54%	41%	59%	n/a	n/a	n/a	13%	n/a	94%
EBITDA	2003	2.2	4.7	1.9	5.3	1.7	2.4	4.5	2.1	3.1	2.7	5.6	2.0	4.0	1.4	3.3	12.4	0.1	6.3	3.7
	2004	2.6	5.6	0.1	-2.6	2.9	17.3	19.3	2.0	5.9	17.2	11.2	16.0	19.9	16.5	16.3	19.8	4.3	13.4	7.3
EBITDA Margin, %	2003	13%	17%	18%	25%	12%	12%	18%	18%	17%	14%	21%	9%	24%	10%	12%	38%	1%	23%	22%
	2004	13%	16%	2%	-13%	14%	32%	47%	14%	16%	47%	27%	40%	55%	56%	36%	46%	13%	21%	30%
EBIT	2003	0.9	2.8	0.9	3.3	0.5	1.1	3.1	1.3	1.7	2.3	4.1	1.6	3.4	1.2	2.9	10.3	-0.8	4.4	2.7
	2004	0.8	4.2	-0.6	-4.3	1.6	16.0	17.9	1.1	4.6	16.6	8.9	15.6	19.2	16.5	15.3	17.0	3.5	8.8	6.1
EBIT Margin, %	2003	6%	10%	9%	16%	3%	5%	13%	11%	9%	12%	15%	7%	21%	8%	11%	32%	-3%	16%	16%
	2004	4%	12%	-6%	-22%	8%	30%	43%	8%	10%	46%	22%	39%	54%	55%	36%	39%	11%	14%	25%
Net Income	2003	0.2	0.4	0.3	1.5	0.2	0.4	-0.2	0.5	0.4	0.6	2.8	0.4	0.8	0.4	1.4	7.5	-1.1	2.6	2.0
	2004	0.2	0.9	-0.9	-6.5	1.1	11.6	13.2	0.4	2.5	11.8	6.9	11.4	13.2	12.4	10.3	10.1	8.8	4.7	4.2
Net Margin, %	2003	1%	1%	3%	7%	1%	2%	-1%	4%	2%	4%	10%	2%	5%	3%	5%	23%	-4%	10%	12%
	2004	1%	3%	-10%	-33%	5%	22%	32%	3%	3%	33%	17%	29%	37%	41%	24%	n/a	27%	7%	17%
Gross Fixed Assets	2003	15.2	22.0	11.4	24.7	22.5	20.5	24.0	12.1	19.1	n/a	35.3	n/a	n/a	n/a	n/a	60.4	13.2	53.0	14.7
	2004	13.6	23.2	13.1	23.2	21.8	18.0	23.4	12.1	18.5	n/a	42.6	n/a	n/a	n/a	n/a	66.8	11.8	72.8	19.0
Depreciation	2003	1.2	1.9	0.9	1.9	1.3	1.5	1.4	0.8	1.4	0.4	1.3	0.4	0.6	0.2	0.3	1.8	0.9	2.0	0.5
	2004	1.8	1.4	0.7	1.7	1.3	1.3	1.4	0.9	1.3	0.4	2.4	0.4	0.6	0.3	0.3	2.8	0.8	4.6	1.2
CapEx	2003	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	3.7	n/a	n/a	n/a	n/a	8.3	0.7	5.1	0.6
	2004	n/a	12.7	n/a	n/a	1.7	12.8	15.0	n/a	10.6	n/a	4.3	n/a	n/a	n/a	n/a	7.8	1.5	7.0	0.9
Net D/Equity	2003	17%	102%	10%	3%	2%	20%	128%	6%	36%	n/a	16%	n/a	n/a	n/a	n/a	73%	-17%	39%	-29%
	2004	16%	95%	0%	12%	0%	-11%	-1%	5%	15%	n/a	-1%	n/a	n/a	n/a	n/a	40%	-64%	30%	-10%
Working Capital	2003	-2.4	-3.6	6.6	6.4	0.2	-8.7	-18.6	1.0	-2.4	n/a	5.1	n/a	n/a	n/a	n/a	1.7	2.8	9.3	6.5
	2004	-2.1	1.5	4.5	2.6	1.2	2.2	-6.3	1.1	0.6	n/a	8.4	n/a	n/a	n/a	n/a	4.5	12.9	10.8	5.2
Total Debt	2003	11.0	17.9	3.5	22.4	1.9	29.5	29.0	2.6	14.7	n/a	10.0	n/a	n/a	n/a	n/a	24.2	0.8	14.9	0.1
	2004	9.2	21.5	4.6	24.9	2.3	24.3	35.1	2.6	15.6	n/a	9.7	n/a	n/a	n/a	n/a	20.9	0.0	18.0	0.0
Net Debt	2003	2.0	15.2	1.6	0.9	0.5	2.4	4.8	0.8	3.5	n/a	5.9	n/a	n/a	n/a	n/a	20.5	-1.4	10.6	-5.9
	2004	1.6	15.9	0.0	2.6	0.0	-2.3	-0.2	0.7	2.3	n/a	2.9	n/a	n/a	n/a	n/a	14.1	-10.8	10.9	-2.4
ROE	2003	2%	3%	3%	6%	1%	3%	-7%	5%	2%	n/a	9%	n/a	n/a	n/a	n/a	33%	-21%	15%	12%
	2004	1%	1%	-1%	-7%	1%	18%	33%	1%	6%	n/a	44%	n/a	n/a	n/a	n/a	39%	98%	18%	20%
ROA	2003	1%	1%	2%	3%	1%	1%	-1%	4%	2%	n/a	6%	n/a	n/a	n/a	n/a	13%	-4%	6%	8%
	2004	0%	1%	-1%	-3%	1%	8%	8%	1%	2%	n/a	17%	n/a	n/a	n/a	n/a	16%	31%	7%	14%

\*SGOK and CGOK figures should be adjusted, see page 35 for comments

# Ukrainian Financial Data

Income Statement Summary, USD mn	IGOK				PGOK				SUBA				YGOK				KRIO				SGOK				CGOK				ZIO				
	2001	2002	2003	2004	2001	2002	2003	2004	2001	2002	2003	2004	2001	2002	2003	2004	2001	2002	2003	2004	2001	2002	2003*	2004*	2001	2002	2003*	2004*	2001	2002	2003	2004E	
Net Revenues	148	166	213	271	160	164	206	273	34	34	34	28	164	156	165	160	n/a	68	89	132	126	134	146	469	84	82	103	199	39	41	45	54	
Change y-o-y	N/M	12%	28%	27%	N/M	3%	25%	33%	N/M	-3%	1%	-16%	N/M	-5%	6%	-3%	n/a	N/M	31%	47%	N/M	7%	9%	227%	N/M	-3%	27%	92%	N/M	5%	10%	20%	
Cost Of Sales	(111)	(128)	(165)	(203)	(126)	(110)	(135)	(176)	(21)	(19)	(21)	(22)	(112)	(103)	(105)	(160)	n/a	(47)	(59)	(82)	(105)	(104)	(120)	(295)	(56)	(52)	(60)	(100)	(27)	(27)	(31)	(40)	
Change y-o-y	N/M	15%	29%	23%	N/M	12%	22%	30%	N/M	-9%	8%	7%	N/M	-7%	2%	52%	n/a	N/M	25%	41%	N/M	-1%	16%	146%	N/M	-8%	16%	66%	N/M	-1%	18%	26%	
% of Net Revenues	75%	77%	77%	75%	79%	67%	66%	64%	62%	57%	61%	79%	68%	66%	63%	100%	n/a	69%	66%	63%	83%	77%	82%	63%	67%	64%	58%	50%	69%	66%	70%	73%	
Gross Profit	37	39	48	68	34	54	71	97	13	14	13	6	52	52	61	0	n/a	21	31	49	21	31	26	174	28	30	43	99	12	14	14	15	
Change y-o-y	N/M	4%	25%	40%	N/M	57%	32%	38%	N/M	7.8%	-9.0%	-54%	N/M	0.1%	15.3%	-99%	n/a	N/M	44.6%	60%	N/M	45.5%	-15.0%	568%	N/M	7%	45.6%	129%	N/M	18.5%	-3.4%	8%	
% of Net Revenues	25%	23%	23%	25%	21%	33%	34%	36%	38%	43%	39%	21%	32%	34%	37%	0%	n/a	31%	34%	37%	17%	23%	18%	37%	33%	36%	42%	50%	31%	34%	30%	27%	
Other Operating Income/Costs, net	(8)	(8)	(13)	(21)	9	(1)	(2)	(3)	(1)	(2)	(2)	(1)	30	(3)	(1)	(2)	n/a	(2)	(2)	(2)	2	(0)	(1)	(8)	(9)	(7)	(13)	13	(1)	(1)	(2)	(2)	
Change y-o-y	N/M	4%	53%	69%	N/M	-113%	65%	49%	N/M	121%	-15%	-63%	N/M	-112%	-61%	57%	n/a	N/M	8%	18%	N/M	-112%	388%	615%	N/M	-26%	92%	-201%	N/M	40%	72%	12%	
% of Net Revenues	-5%	-5%	-6%	-8%	6%	-1%	-1%	-1%	-3%	-6%	-5%	-2%	18%	-2%	-1%	-1%	n/a	-3%	-2%	-2%	2%	0%	-1%	-2%	-11%	-8%	-12%	7%	-2%	-2%	-4%	-4%	
SG&A	(5)	(6)	(8)	(10)	(22)	(26)	(34)	(50)	(7)	(7)	(6)	(5)	(12)	(10)	(18)	(20)	n/a	(6)	(18)	(28)	(7)	(10)	(7)	(14)	(12)	(12)	(11)	(19)	(3)	(3)	(4)	(5)	
Change y-o-y	N/M	13%	34%	30%	N/M	15%	31%	47%	N/M	2%	-22%	-12%	N/M	-18%	76%	10%	n/a	N/M	195%	59%	N/M	40%	-36%	116%	N/M	1%	-4%	68%	N/M	-4%	17%	26%	
% of Net Revenues	4%	4%	4%	4%	14%	16%	16%	18%	21%	22%	17%	18%	8%	7%	11%	12%	n/a	9%	20%	22%	6%	8%	4%	3%	14%	14%	17%	10%	9%	8%	9%	9%	
EBITDA	24	25	28	36	21	27	35	44	5	5	6	0.4	70	39	41	(21)	n/a	14	11	18.6	16	20	18	151.9	7	11	19	92.8	8	10	8	8	
Change y-o-y	N/M	2%	14%	30%	N/M	28%	31%	27%	N/M	-3%	12%	-92%	N/M	-44%	6%	-152%	n/a	N/M	-18%	68%	N/M	29%	-9%	724%	N/M	60%	70%	390%	N/M	27%	-18%	-3%	
EBITDA margin, %	16%	15%	13%	13%	13.0%	16.2%	16.9%	16.1%	15.2%	15.1%	16.8%	1.6%	42.5%	24.9%	24.9%	-13%	n/a	19.8%	12.4%	14.1%	12.4%	15.0%	12.6%	32.4%	8%	13.7%	18.3%	46.6%	19.7%	23.7%	17.5%	14%	
Depreciation	(16)	(16)	(16)	(25)	(12)	(13)	(14)	(11)	(3)	(3)	(3)	(2)	(17)	(16)	(15)	(14)	n/a	(11)	(8)	(8)	(13)	(11)	(11)	(11)	(9)	(7)	(6)	(7)	(3)	(3)	(3)	(4)	
Change y-o-y	N/M	-3%	3%	55%	N/M	8%	10%	-22%	N/M	-5%	4%	-28%	N/M	-5%	-6%	-3%	n/a	N/M	-25%	-3%	N/M	-16%	-2%	7%	N/M	-23%	-5%	8%	N/M	10%	4%	15%	
% of Net Revenues	11%	9%	8%	9%	7%	7.8%	6.8%	4%	9%	8%	9%	8%	10%	10.0%	8.9%	9%	n/a	16%	9.4%	6%	10%	8.1%	7.3%	2%	10%	8.2%	6.1%	3%	7%	7.3%	6.8%	7%	
EBIT	8	9	12	11	9	14	21	33	2	2	3	(2)	53	23	26	(36)	n/a	2	3	10	3	9	8	141	(2)	4	13	86	5	7	5	4	
Change y-o-y	N/M	13%	33%	-5%	N/M	54%	50%	59%	N/M	0%	22%	-170%	N/M	-56%	14%	-235%	n/a	N/M	14%	289%	N/M	241%	-17%	1715%	N/M	-366%	181%	581%	N/M	36%	-28%	-14%	
EBIT margin, %	5%	5%	5%	4%	6%	8%	10%	72%	6.1%	6.2%	7.6%	-6%	32%	15%	16%	-22%	n/a	3.5%	3.0%	8%	2.2%	6.9%	5.3%	30%	-2.0%	5.5%	12.2%	43%	12.8%	16.5%	10.7%	8%	
Interest Expense	(2)	(3)	(5)	(4)	(9)	(11)	(11)	(14)	(0)	(0)	(1)	(2)	(2)	(2)	(2)	(1)	n/a	(1)	(1)	(0)	(5)	(4)	(1)	(1)	(5)	(3)	(13)	(1)	(0)	(0)	(0)	(0)	
Financial Income	0	0	0	0	0	0	0	1	0	0	0	1	-	-	-	-	n/a	0	0	0	5	0	1	1	0	0	1	0	0	0	0	0	
Other Income/(expense)	29	1	2	2	1	(2)	(2)	(3)	0	0	(0)	(0)	0	0	0	(17)	n/a	(0)	(0)	0	30	(4)	(2)	(0)	7	(1)	(1)	(2)	(0)	(0)	(0)	(1)	
PBT	34	6	9	9	2	2	7	17	(5)	2	2	(3)	(5)	21	24	(54)	n/a	2	2	10	32	2	4	140	1	1	(1)	84	5	6	4	3	
Tax	(2)	(4)	(7)	(6)	(0)	(1)	(4)	(9)	(0)	(2)	(0)	-	(2)	(11)	(12)	-	n/a	(2)	(1)	(3)	-	-	(1)	(38)	-	(0)	(0)	(21)	(1)	(2)	(2)	(1)	
Effective tax rate	5%	62%	71%	65%	13%	44%	51%	53%	19%	96%	23%	0%	5%	53%	50%	0%	n/a	100%	62%	27%	0%	0%	34%	27%	0%	0%	0%	25%	39%	27%	46%	52%	
Minority Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	n/a	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Extraordinary Income/(loss)	-	-	-	-	(0.0)	-	-	-	(0.0)	-	-	-	-	-	-	-	n/a	-	-	-	(0.0)	-	-	0.0	-	-	-	-	-	-	-	-	-
Net Income	32.4	2	3	3	1.4	1.0	3.4	7.1	1.7	0.1	1.4	(2.8)	48.3	10	12	(54)	n/a	0.0	1	7	32.0	2	3	102	0.9	1	(1)	63	3.2	5	2	1	
Change y-o-y	N/M	-92%	11%	10%	N/M	-29%	250%	110%	N/M	-96%	1729%	-303%	N/M	-80%	24%	-542%	n/a	N/M	87385%	728%	N/M	-95%	80%	3391%	N/M	32%	-191%	-5987%	N/M	43%	-49%	-41%	
Net Margin, %	22%	1.5%	1.3%	1.1%	1%	0.6%	1.7%	2.6%	5%	0.2%	4.1%	-10.1%	29%	6.3%	7.3%	-33.4%	n/a	0.0%	0.9%	5.2%	25%	1.2%	2.0%	21.8%	1%	1.5%	-1.0%	31.8%	8%	11.4%	5.3%	2.6%	
Dividend Declared	-	-	-	-	-	-	0.7	0.9	-	-	-	-	-	-	-	-	n/a	-	-	-	-	-	-	97	-	-	-	38	-	-	-	-	-

Balance Sheet Summary, USD mn	IGOK				PGOK				SUBA				YGOK				KRIO				SGOK				CGOK				ZIO			
	2001	2002	2003	2004	2001	2002	2003	2004	2001	2002	2003	2004	2001	2002	2003	2004	2001	2002	2003	2004	2001	2002	2003	2004	2001	2002	2003	2004	2001	2002	2003	2004E
Current Assets	71	65	99	76	77	65	80	120	26	27	30	26	99	157	201	184	n/a	17	12	22	108	118	116	233	33	25	36	135	11	13	14	14
Cash & Equivalents	0	0	0	1	2	0	5	19	4	0	0	0	0	1	1	1	n/a	0	0	0	0	0	0	28	0	0	1	9	1	1	1	0
Trade Receivables	41	31	68	29	33	22	12	10	11	11	7	5	36	51	38	33	n/a	1	1	3	75	88	82	127	13	8	13	96	2	2	1	3
Inventories	22	26	24	36	16	17	18	34	6	3	4	8	36	29	35	33	n/a	11	7	14	23	24	28	73	13	11	12	19	7	8	8	8
Other current assets	9	8	6	10	26	25	44	57	5	13	19	13	27	76	128	118	n/a	5	4	5	10	6	6	6	7	6	10	12	2	2	4	3
Fixed Assets	165	169	197	188	160	165	165	183	32	34	36	40	207	193	193	191	n/a	139	142	141	159	159	155	168	107	104	101	112	43	44	47	47
PP&E, net	155	149	172	137	139	149	147	165	24	22	22	27	190	176	177	166	n/a	123	120	125	139	135	131	139	103	99	94	93	40	40	43	43
Other Fixed Assets	10	21	26	51	21	16	18	18	8	12	14	13	17	18	17	26	n/a	16	22	16	21	25	24	28	4	5	7	20	3	4	4	5
Total Assets	237	235	296	264	237	230	245	303	58	62	66	66	306	350	395	376	n/a	156	153	163	267	277	271	401	140	128	137	248	55	57	61	62
Shareholders' Equity	142	141	153	137	109	108	112	133	53	52	54	52	198	207	220	170	n/a	141	141	147	90	87	90	187	26	16	15	79	44	48	50	51
Share Capital	26	26	34	44	3	124	123	137	0	0	0	0	1	101	101	101	n/a	139	139	139	46	170	169	46	26	27	27	26	14	14	14	14
Reserves and Other	116	116	119	93	106	(15)	(11)	(5)	52	52	53	51	197	106	119	70	n/a	2	2	9	45	(82)	(79)	142	(0)	(11)	(12)	54	30	34	36	37
Translation Adjustment	-	(0)	0	(0)	-	(1)	0	1	-	(0)	0	0	-	(1)	0	(0)	n/a	0	0	(0)	-	(1)	0	(0)	0	-	(0)	0	(0)	0	(0)	(0)
Current Liabilities	89	79	130	105	95	88	107	108	5	7	9	12	106	131	151	163	n/a	15	11	14	157	190	182	213	98	96	114	165	9	9	10	10
ST Interest Bearing Debt	6	12	25	18	55	67	93	83	3	4	5	0	7	3	8	22	n/a	3	3	-												

# Comments On Financial Data

PGOK's higher sales per ton can be explained by the higher price of its value-added products

The ROE & ROA of Ukrainian GOKs is artificially low, due to widespread transfer pricing. Particularly, Privat's companies are known for their lack of transparency. Two of Privat's three GOKs (YGOK, SUBA & KRIO) have managed to post net losses, in the midst of their best-ever year.

SGOK's and CGOK's profitability can be compared with those of their international peers and may be taken as a benchmark for the entire Ukrainian iron ore industry.

At the same time, CGOK and SGOK's rolled steel export operations distort their results in two ways: the real top-line is less than it appears and profitability margins should be higher.

Both companies resell steel from another SCM company, Azovstal, for tax optimization purposes. The companies earn, according to our estimates, only a marginal profit on resold steel. If restated on an iron-ore only basis, EBITDA margins (quite respectable even now at 32% and 46%) would increase to 40%-55%; in line with their Russian peers. This hints to the scope of manipulation at other Ukrainian enrichment plants.

Revenues from their core business should be adjusted downwards: by 16% in 2004 for SGOK -- from USD 469 mn to USD 390 mn (from USD 146 to USD 121 mn in 2003) and 35% in 2004 for CGOK: from USD 199 mn to USD 128 and from USD (103 mn to USD 98 mn in 2003).

Fixed asset valuations of Ukrainian GOKs are significantly below those of their international peers, reflecting a serious deterioration in productive assets during the 90s.

To restore asset quality and capacity, significant investment has been undertaken. On average, CapEx per ton of Ukrainian GOK is twice that of similarly sized comparables.

# Privatization

## Ukrudprom Privatization

Company	Buyer	Stake Sold	Sale Price USD mn	Implied Mcap, USD mn	Sales 03 USD mn	P/S 03	Sales 04 USD mn	P/S 04
SGOK	SCM	50%	39	78	146	0.53	347	0.22
IGOK	Smart Group	37.57%	31	83	213	0.39	271	0.30
CGOK	SCM	50%+1	20	40	102	0.39	200	0.20
SUBA	Privatbank	25.00%	3.4	13.7	34	0.40	31	0.44
YGOK	Privatbank	25.78%	11	43	165	0.26	170	0.25
KRIO	Privatbank	93.07%	130	139.7	90	1.55	131	1.07

About 80% of Ukrainian iron ore output was concentrated in companies belonging to the former state-owned holding Ukrudprom, which consisted of six iron ore companies and several other assets.

In mid-2004, the Ukrainian iron ore sector was completely privatized (excluding some unprofitable mines) by selling the remaining government stakes. Previously, only PGOK and ZIO, which did not belong to Ukrudprom, were 100% privately owned.

Privatization conditions, for state stakes, gave companies that already possessed large stakes in GOKs priority rights. However, the new government claims the conditions for the tender were unfair, meaning it would be justifiable to re-privatize Ukrudprom companies. In the Government's list of 29 companies subject to revision of privatization results are five GOKs: CGOK, SGOK, IGOK, SUBA, KRIO. In our view, IGOK faces the highest risk of re-privatization, as the state's stake was diluted through a controversial additional share issue. However, the argument with the Government will most probably end up in a compensation payment by the major shareholder and not re-privatization.

# Trading & Illiquidity

Company	FF	Listing	Bid	Ask	Spread	Main Shareholder	Stake, %
PGOK	4.0%	PFTS	4.0	5.7	42%	Finance and Credit	75.0%
IGOK	7.0%	PFTS	0.04	n/a	n/m	Smart Group	62.6%
CGOK	3.0%	Not Listed	n/m	n/m	n/m	SCM	97.0%
SGOK	2.0%	Not Listed	n/m	n/m	n/m	SCM	90.7%
YGOK	2.8%	Not Listed	n/m	n/m	n/m	Privat Group	92.3%
KRIO	5.0%	Not Listed	n/m	n/m	n/m	Privat Group	95.0%
SUBA	1.5%	Not Listed	n/m	n/m	n/m	Privat Group	75.1%
ZIO (Close JSC)	n/a	Not Listed	n/m	n/m	n/m	Minerfin/ZPST	n/a

The shares of Ukrainian iron ore companies are **illiquid**, as the shares are closely held and there is little trading to determine their price. Shares are consolidated into tradable blocks through employee buy-outs in a process known as “skupka”. As the fair price is definitely above “skupka” levels, we suggest using this opportunity to build up positions before the market becomes efficient.

Uncertainty comes from the fact that seven companies at recent AGMs decided to increase capital through **new share issues**. Ex-dates for all companies except PGOK have passed, however, the results of the subscriptions must be approved at EGMs. As such, it is hard to determine the number of shares these companies have.

Most Ukrainian GOKs are potential **acquisition targets**, particularly by Russian steel majors.

Magnitogorsk, Severstal, Evrazholding are in discussions to acquire SGOK, CGOK. Russian investor Alisher Usmanov, who controls the largest Russian iron ore companies Lebedinsky and Mikhaylovsky GOK, has stated that they want to consolidate iron ore assets in the CIS. YGOK and IGOK are his targets in Ukraine.

# Company Profiles

# Centralny GOK (CGOK)

## BUY

Target Price 1.00  
Target Price\* 0.50

### Market Information

Bloomberg Ticker CGOK UZ  
No of Shares, mn 551.3  
No of Shares, mn\* 1 111.2  
Current Price, USD 0.12  
MCap, USD mn 66  
Par Value, USD 0.047  
Free Float, % 3%

### Stock Ownership

SCM 97%  
Other 3%

\*After additional share issue

**Profile:** A medium-sized Ukrainian producer of iron ore concentrate, Centralny GOK is one of three domestic producers of pellets. The company's output accounts for 13% of pellets and 9% of concentrate in Ukraine. CGOK possesses four deposits of iron ore, but only three of them are processed. Ore from the Petrovsk mine is 68% iron content – the highest among all Ukrainian producers.

CGOK is a part of the System Capital Management group. Similar to SGOK, CGOK mostly delivers to steel mills owned by its holding company, such as AZST, Yenakievo/Metalen and KRST.

In April, CGOK decided to issue additional shares, increasing its charter fund by 98% to USD 53 mn.

**Financials:** The most profitable iron ore producer in 2004, CGOK, along with SGOK, showed similar results which, in our view, may serve as a benchmark for the Ukrainian iron ore industry. CGOK also exported rolled steel during 2004, which accounts for 36% of total sales. As with SGOK, we expect a significant contraction in non-core operations in 2005. Given growing iron ore prices, we believe that CGOK is likely to further improve its profitability in 2005, despite higher railway tariffs.

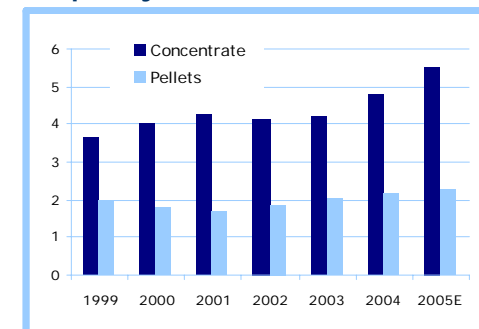
CGOK decided to direct 60% of its 2004 net income for dividends, paying USD 38 mn (DPS = USD 0.068) to shareholders.

**CapEx:** CGOK intends to invest USD 71.9 mn in capacity modernization in 2005, including the purchase of transportation and processing equipment. The latter is to be used to increase its iron ore content to 69-70%. CGOK also plans to introduce reduced direct iron technology in 2.5-3 years. Long-term plans include a USD 400mn investment to increase concentrate production more than two fold by 2015.

	P/S	P/E	EV/EBITDA
2003	0.64	neg	4.5
2004	0.33	1.0	0.7
2005E	0.22	0.7	0.4

	Net Revenues		EBITDA		Net Income	
	USD mn	USD mn	margin %	USD mn	margin %	USD mn
2003	103.5	19.0	18.3%	-1.1	-1.0%	
2004	199.0	92.8	46.6%	63.7	31.8%	
2005E	300.0	150.0	50.0%	96.0	32.0%	

## Output dynamics, mn mt



## Production Capacities, mn mt

Crude Iron Ore	15.0
Concentrate	6.4
Pellets	4.5

Export Share: 7%

# Poltavsky GOK (PGOK)

## BUY

Target Price 9.00  
Target Price\* 6.70

### Market Information

Bloomberg Ticker PGOK UZ  
No of Shares, mn 81.6  
No of Shares, mn\* 110.1  
Current Price, USD 5.5  
MCap, USD mn 449  
ADR/Ord Ratio 1:50  
Par Value, USD 1.9  
Free Float, % 4%

### Stock Ownership

Finance and Credit 75%  
Deco Metal 15%  
Other 10%

\*After additional share issue

**Profile:** Ukraine's second-largest producer of iron ore pellets, Poltava GOK accounts for 45% of total Ukrainian pellet output. PGOK possesses licenses for processing five deposits with total reserves of 4.5 bn mt of iron ore and a geological survey of four other deposits with reserves of 11.8 bn mt of iron ore. At the current extraction rate of 24 mn mt, the company has more than 600 years to process its reserves in full.

The company exports most of its output to Central European countries. PGOK delivers pellets to export markets via long-term contracts which were concluded with Voest-Alpine (Austria), Ispat (Romania and Poland), US Steel Kosice (Slovakia and Serbia).

PGOK will increase its charter fund by USD 53.4 mn to increase investment in plant modernization. The subscription is planned for June 8-24, 2005.

**Financials:** Similar to most other Ukrainian iron ore producers, PGOK does not post 'real' financials. As the company exports most of its output, its main profit center is affiliated with Finance and Credit and PGOK's trader, the Ferrexpo company. We estimate Ferrexpo's selling prices are 30% higher than PGOK's.

**CapEx:** In 2005, PGOK intends to invest over USD 100 mn in developing its current and new deposits and modernizing equipment.

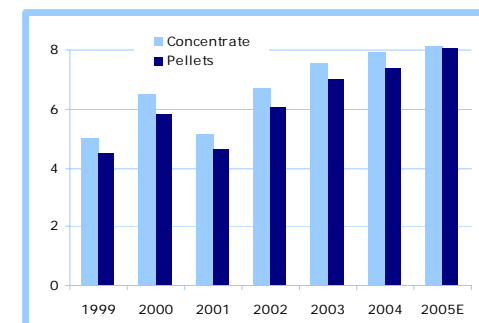
Similar to IGOK, PGOK's shareholders also plan to start their own steel production, but the new steel mill will operate as a separate company and PGOK's share in it will be insignificant. The mill's preliminary capacity will amount to 2.6 mn mt of slab at an estimated cost of about USD 600 mn. Financing is expected to come from European banks, or through the issuance of Eurobonds.

PGOK decided to manufacture its own reserve railway cars, as it lacks a significant supply of its own, causing delays in foreign deliveries.

	P/S	P/E	EV/EBITDA
2003	2.18	132.0	16.2
2004	1.64	62.9	13.1
2005E	0.918	4.7	4.7

	Net Revenues		EBITDA		Net Income	
	USD mn	margin %	USD mn	margin %	USD mn	margin %
2003	205.7	16.9%	34.8	16.9%	3.4	1.7%
2004E	273.3	16.1%	44.0	16.1%	7.1	2.6%
2005E	493.0	24.5%	120.6	24.5%	95.0	19.3%

## Output Dynamics, mn mt

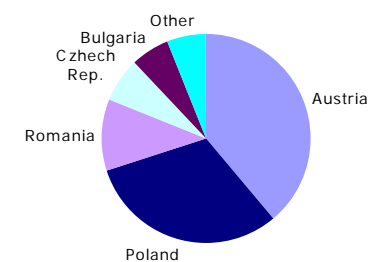


## Production Capacities, mn mt

Crude Iron Ore	24.0
Concentrate	7.8
Pellets	7.5

## Export Share: 85%

## Exports Structure





# Severny GOK (SGOK)

## BUY

Target Price 0.90  
Target Price\* 0.40

### Market Information

Bloomberg Ticker SGOK UZ  
No of Shares, mn 971.5  
No of Shares, mn\* 2 195.5  
Current Price, USD 0.05  
MCap, USD mn 49  
Par Value, USD 0.047  
Free Float, % 2%

### Stock Ownership

SCM 91%  
Other 9%

\*After additional share issue

**Profile:** The second largest Ukrainian producer of iron concentrate and pellets, Severny GOK, accounts for 43% of the pellet market and 17% of the concentrate market. The company processes two deposits with an average iron ore content of 33%.

SGOK belongs to one of Ukraine's most powerful business groups, System Capital Management, which also operates several large steel making facilities: KRST, AZST and Yenakievo/Metalen. Thus, most of SGOK's iron ore is used by these mills.

In mid April, the company increased its charter fund almost two fold to USD 103 mn.

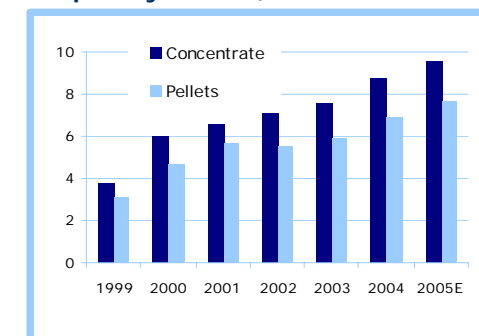
**Financials:** Unlike YGOK, Severny GOK demonstrated one of the sector's most impressive financial results for 2004. We believe that SCM decided to make SGOK (and CGOK) the "good boys," by allowing them to post real profitability and protect themselves from the possible re-privatization aspirations of the new Government. With ~1/4 of revenues coming from resells of AZST's steel, SGOK's profitability margins from its core iron ore business are even higher. We expect the downsizing of non-core operations this year as government authorities have begun investigating suspicious steel operations. According to management, SGOK plans an even more amazing net income of more than USD 90 mn in 1Q05. SGOK decided to pay 95% of net income in 2004 as dividends (DPS = USD 0.099).

**CapEx:** In 2005, SGOK intends to invest USD 113.2 mn in the modernization of equipment. This includes constructing a cyclic-flow complex for ore mining at the Pervomayskaya mine (if they win the tender) to decrease transportation costs. Also, YGOK plans to introduce technology to produce direct reduced iron, which will likely be exported to European markets.

	P/S	P/E	EV/EBITDA
2003	0.33	16.8	3.6
2004	0.10	0.5	0.2
2005E	0.10	0.3	0.1

	Net Revenues USD mn	EBITDA USD mn	margin %	Net Income USD mn	margin %
2003	145.9	18.4	12.6%	2.9	2.0%
2004	468.8	151.9	32.4%	102.3	21.8%
2005E	500.0	175.0	35.0%	150.0	30.0%

## Output Dynamics, mn mt



## Production Capacities, mn mt

Crude Iron Ore	25.0
Concentrate	11.0
Pellets	9.6

Export Share: 9%

# Sukha Balka (SUBA)

## BUY

Target Price 0.10  
Target Price\* 0.10

### Market Information

Bloomberg Ticker	SUBA UZ
No of Shares, mn	780.3
No of Shares, mn*	837.2
Current Price, USD	0.015
MCap, USD mn	12
Par Value, USD	0.009
Free Float, %	1.5%

### Stock Ownership

Privat Bank	75%
Other	25%

\*after additional shares issuance

**Profile:** SUBA is the smallest Ukrainian iron ore producer in terms of iron ore output and is one of three Ukrainian iron ore producers that specializes in underground mining. SUBA operates two mines with 2.25 mn mt and 1.05 mn mt capacities, with iron contents of 56-59%. Mine depth reaches 1,500–2,000 m.

The company's major exports markets include Austria, Bulgaria, Hungary, Poland, Romania, Slovakia and the Czech Republic.

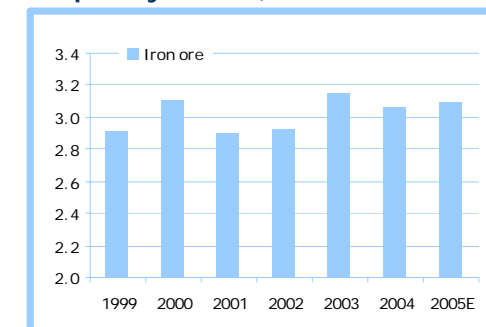
Though the company has stable demand from their major domestic consumers, MMKI & ALMK who do not have their own iron ore supplies, SUBA was the only Ukrainian company to lower output in 2004.

In 2005, SUBA increased its charter fund two times, with a January share issue raising the fund 16 fold to 7.3 mn. In April, a second share issue in increased the charter fund by a mere 7% to USD 7.7 mn.

**Financials:** According to company management, losses in 2004 were the result of an accident at one of SUBA's mines and a shortage of railway cars. However, poor financial results are typical for many Privat-controlled companies, due to non-transparent practices.

**CapEx:** The company plans to invest 35% of the January share issue into the purchase of equipment for bunker complexes. A total of 35% will be used to increase working capital, 10% will be invested in the reconstruction of ventilation equipment, and 2% will be spent on the purchase of mining equipment.

## Output Dynamics, mn mt



## Production Capacities, mn mt

Iron ore	3.3
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**Export Share: 28%**

	P/S	P/E	EV/EBITDA
2003	0.35	8.4	2.9
2004	0.42	neg	26.0
2005E	0.29	7.3	2.1

	Net Revenues USD mn	EBITDA USD mn	margin %	Net Income USD mn	margin %
2003	33.7	5.7	16.8%	1.4	4.1%
2004E	28.1	0.4	1.6%	-2.8	-10.1%
2005E	40.0	6.4	16.0%	1.6	4.0%

# Yuzhny GOK (YGOK)

## BUY

Target Price 0.25  
Target Price\* 0.09

### Market Information

Bloomberg Ticker n/a  
No of Shares, mn 2 143.6  
No of Shares, mn\* 6 431.0  
Current Price, USD 0.035  
MCap, USD mn 75.0  
Par Value, USD 0.047  
Free Float, % 2.8%

### Stock Ownership

Privat Bank 92%  
Other 8%

\*After additional share issue

**Profile:** Yuzhny GOK is the third-largest producer of iron ore concentrate in Ukraine. The company accounts for 20% of Ukraine's total iron ore capacity and 10% of concentrate output. YGOK is the only producer of sinter among Ukrainian GOKs, with a ~8% share in domestic sinter production, (the remainder of sinter production is concentrated at seven Ukrainian steel mills: MMK1, KRST, ZPST, ALMK, DMK Dzerzhynskogo, Yeankievo and AZST).

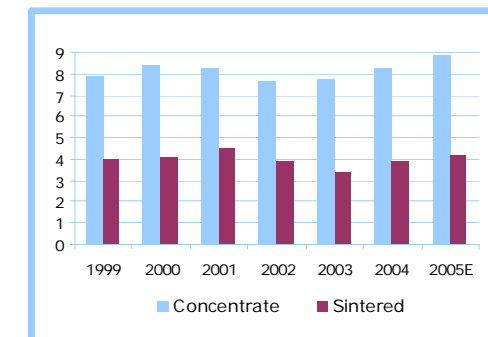
Focusing on sinter, which is very sensitive to transportation conditions, complicates their distribution on both the export and domestic market. Thus, the company's focus on sinter may be a comparative disadvantage.

Privat Bank, YGOK's major shareholder, operates only one steel mill (DMZ Petrovskogo), which capacities are too low to be the single consumer for YGOK. Therefore, YGOK sells a major part of its products to other Ukrainian steel companies: AZST, Makiyivka, DOMZ, DMK Dzerzhynskogo, as well as exports to Austria, Hungary, Poland, Romania, Slovakia and Czech Republic. YGOK plans to increase its charter fund three-fold to USD 307 mn in order to finance its modernization program.

**Financials:** A surprisingly high net loss of USD 50 mn is indicative of the company's wide-scale transfer pricing and accounting manipulation in our opinion. Management plans to run profitable operations in 2005, with an expected net income of about USD 7 mn.

**CapEx:** The company plans to invest USD 23mn in capacity increases in 2005. By 2015, YGOK intends to increase crude ore mining to 31 mn mt and concentrate output to 14.5 mn mt annually.

## Output Dynamics, mn mt



## Production Capacities, mn mt

Concentrate 9.0  
Sinter 5.0

Export Share: 12%

	P/S	P/E	EV/EBITDA	Net Revenues		EBITDA		Net Income	
				USD mn	margin %	USD mn	margin %	USD mn	margin %
2003	0.45	6.2	2.0	165.5	24.9%	41.2	24.9%	12.1	7.3%
2004	0.47	neg	neg	160.0	-13.4%	-21.5	-13.4%	-53.6	-33.4%
2005E	0.31	10.7	2.2	240.0	17.0%	40.0	17.0%	7.0	2.9%

# Inguletsky GOK (IGOK)

## Market Information

Bloomberg Ticker	IGOK UZ
No of Shares, mn	724.1
Current Price, USD	0.10
MCap, USD mn	72
Par Value, USD	0.047
Free Float, %	7.0%

## Stock Ownership

Smart Group	63%
Other	37%

**Profile:** Inguletsky GOK is Ukraine's largest producer of iron ore concentrate and uses cost-efficient, open-pit mines. The company is located in Ukraine's largest iron ore basin – Kryvy Rig. However, iron ore quality is rather low, with an iron content of about 30%, and therefore requires further enrichment.

IGOK's designed capacity is 34 mn mt of crude ore and 14 mn mt of concentrate. Capacities are loaded at almost 100%. The company has no pelletizing or agglomerating capacities and mostly delivers its concentrate to Ukrainian steel mills with their own agglomerating factories (MMKI, AZST, ZPST).

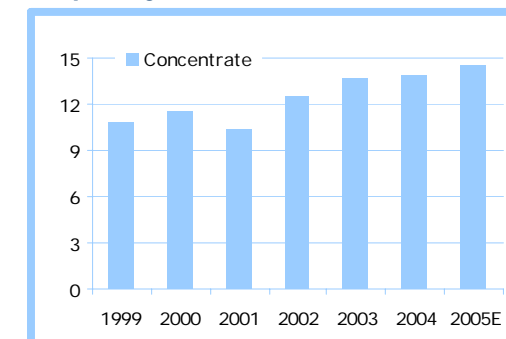
**Corporate Governance:** At the April's AGM, it was decided to transform IGOK into a Limited Liability company, ending public trading. We do not rate the company

**Financials:** Despite growing prices for iron ore, IGOK did not improve its profitability. In our view, the company heavily engages in transfer pricing, significantly distorting its actual profitability.

**CapEx:** The company invested USD 41.8 mn in 2004 and plans to increase its capital expenditures to USD 56.5 mn in 2005. In 2003, IGOK started its first production line for finishing iron ore concentrate, with a capacity of 3 mn mt, enabling it to increase iron content to 69-70%. The introduction of a second production line with similar a capacity is planned for 2006.

The company is considering installing its own electric arc furnaces for steel production. IGOK also plans to produce direct reduced iron, which will be used as a feedstock for its electric furnaces.

## Output Dynamics, mn mt



## Production Capacities, mn mt

Crude Iron Ore	34
Concentrate	14

**Export Share: 7.1%**

	P/S	P/E	EV/EBITDA
<b>2003</b>	0.34	26.8	3.5
<b>2004</b>	0.27	24.1	2.6
<b>2005E</b>	0.19	3.8	1.4

	Net Revenues		EBITDA		Net Income	
	USD mn	margin %	USD mn	margin %	USD mn	margin %
<b>2003</b>	213.0	13.1%	28.0	13.1%	2.7	1.3%
<b>2004E</b>	270.8	13.4%	36.4	13.4%	3.0	1.1%
<b>2005E</b>	380.0	18.0%	68.4	18.0%	19.0	5.0%

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