

UKRAINE
Base Metals



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The Steel Market

Overpriced

Companies Covered:

Kryvorizhstal (KSTL)
Mariupol Illicha (MMKI)
Azovstal (AZST)
Zaporizhstal (ZPST)
Alchevsk Iron & Steel
(ALMK)

23 September, 2005

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Investment Summary

We covered the five most traded stocks from the Ukrainian steel sector:

- Kryvorizhstal (KSTL)
- Mariupol Iliche (MMKI)
- Azovstal (AZST)
- Zaporizhstal (ZPST)
- Alchevsk Iron & Steel (ALMK)

All of these stocks are listed on the PFTS. Though overvalued, KSTL and AZST are highly liquid: KSTL due to its upcoming privatization, and AZST due to its expected merger with coke producer Markokhim. Moreover, the awaited tender for KSTL's 1.7% stake will also boost the company's liquidity.

Company	Bloomberg	Liquidity	Current USD	12-mo DCF Price, USD	Multiples Implied Price, USD	12-mo Target, USD	Rec'
Kryvorizhstal	KSTL UZ	high	0.65	0.58	0.55	0.58	SELL
Mariupol Iliche	MMKI UZ	medium	0.58	0.56	0.60	0.56	SELL
Azovstal	AZST UZ	high	0.65	n/a	0.45	0.45	SELL
Zaporizhstal	ZPST UZ	medium	1.20	1.07	1.10	1.07	SELL
Alchevsk I&S	ALMK UZ	high	0.38	n/a	0.60	0.60	BUY

We used multiple comparisons for all the companies in our valuations and additionally used DCF modeling for KSTL, MMKI and ZPST.

We decided not to conduct valuations using DCF modeling for AZST and ALMK due to the following complexities:

- The Industrial Union of Donbass (IUD) consolidates most of its companies' profits. Therefore, ALMK's financials do not represent the company's full potential.
- As parts of the business groups System Capital Management (SCM) and IUD, AZST and ALMK, widely practice transfer pricing schemes.
- Both companies are involved in intra-group steel reselling that distorts their real top and bottom line financials. For example, about 30% of AZST's exported products are delivered outside the country by other companies affiliated with SCM.
- AZST's consolidation with Markokhim will eventually improve AZST's profitability. However, previous non-transparent relations between these companies do not allow us to correctly estimate the total effect of the consolidation.

KSTL, MMKI and ZPST, all had similar valuation results in DCF analysis and peer comparisons. Therefore, we believe peer comparison alone is an adequate method for evaluating AZST and ALMK.

The "Big-4" Ukrainian steel smelters were among the most actively traded stocks on the market in the first half of the year and have reached their peaks. This, coupled with the downsizing of our financial forecasts in the wake of an unexpected slump in steel prices, means all four are now rated as SELL.

ALMK, in our view is still undervalued, with a 58% upside. The planned 14-fold increase in share capital will dilute non-participating employees' stocks and dry out any additional free float. Nevertheless, we still estimate the upside after the issue at about 35%.

A Brief Industry Update

Last spring the **global steel market** radically changed. Prices reached a historical high in 2H04 and fluctuated near that level until May 2005. Then steel prices began to fall due to a correction, decreasing by more than 20% from May to August 2005. In August, the market began to show some signs of revival, growing by 5%. However, we doubt prices will return to the elevated levels of early 2005. In our opinion, they will not grow by more than 10% from the low July 2005 level by the year's end.

China's immense output was the main factor that made prices plummet in 2005. A 28% increase in production yoy for 8M05, caused a glut on the global market. However, the Chinese "Plan to Develop Ferrous Metallurgy by 2020," has prohibited the issuance of licenses for the construction of new capacities. This will put a cap on their industry growth. Though, we believe this program will not have an immediate impact, as another 150 mln mt of capacities are going to be installed over the next two years.

Following the steel boom, the **cost of production** for steel companies also went up more than 50% in 2004. In 2005, we estimate a 20% growth in COGS which will eventually decrease bottom lines as steel prices are expected to be 10% lower this year. The main input materials, coke and iron ore, were the main cost drivers, as Ukrainian prices for these materials followed world market trends.

In addition to the dramatic increase in prices for iron ore and coke, the Ukrainian government's decision to raise **railway transportation tariffs** 50% in April resulted in a 5% increase in costs.

Ukraine's goal of entering WTO will eventually threaten **scrap** supplies. The European Commission's requirement that the scrap export duty be reduced from €30 to €5 per mt until 2010 may cause prices to go up by 25%, to international levels. This would put more pressure on manufacturers as scrap makes up about 7% of the total production costs for Ukrainian steel mills. Two mills, Istil and Dnipropetsstal, would suffer more than the others if scrap prices increased, because they smelt steel using electricity, with scrap as a feedstock.

The growing prices for input materials are causing the global steel industry to consolidate. In Ukraine, Azovstal's upcoming merger with coke producer Markokhim is the first consolidation of a raw material producer and steelmaking company since the integration of coke and iron ore assets at Kryvorizhstal in 1999. The merger of Azovstal and Markokhim will improve transparency and lessen the amount of related party transactions at these companies.

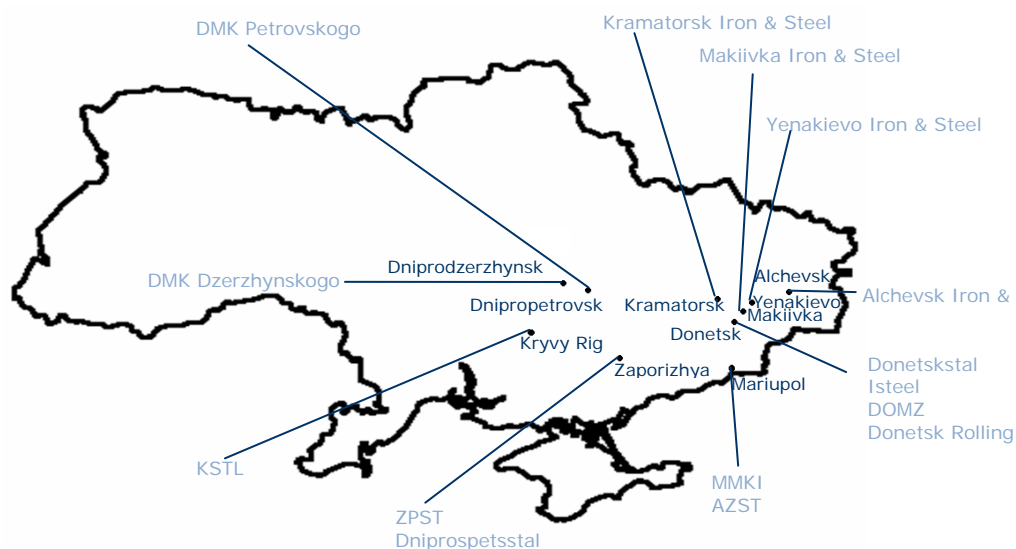
Ukrainian steel players have become more active on foreign markets by **acquiring new assets abroad**. The Industrial Union of Donbass, outbid the world's largest steel producer, Mittal Steel, to privatize two steel mills - first in 2004, for Dunaferr Steel (Hungary), then later, for Huta Czestochowa (Poland). The new capacities give IUD's Ukrainian steel mills (ALMK and DMK Dzerzhynskogo) more space to sell their products in Europe and allow them to avoid quota restrictions.

The companies connected to business groups (mainly SCM and IUD), significantly **understate revenues** by exporting their products through the group's other companies. However, we believe SCM will stop using this scheme in the mid-term in order to demonstrate more transparent activity. In contrast to SCM, IUD subsidiaries consolidate earnings with the parent company. Due to this, the company will further use various schemes to optimize their activity.

Earnings Revision

	Net Revenues, USD mln			EBITDA USD mln			EBITDA Margin %		Net Income USD mln			Net Margin, %	
	New	Previous	Chng. %	New	Previous	Chng. %	New	Previous	New	Previous	Chng. %	New	Previous
KSTL													
2005	1 838.0	1 866.6	-2%	459.7	466.7	-1%	25%	25%	283.0	205.3	38%	15%	11%
2006	1 953.0	1 679.9	16%	484.0	336.0	44%	25%	20%	289.0	151.2	91%	15%	9%
MMKI													
2005	2 655.0	3 116.1	-15%	464.6	560.9	-17%	17%	18%	267.0	311.6	-14%	10%	10%
2006	2 548.0	2 888.6	-12%	400.0	462.2	-13%	16%	16%	204.0	202.2	1%	8%	7%
AZST													
2005	2 187.0	1 939.0	13%	339.5	387.8	-12%	16%	20%	178.0	193.9	-8%	8%	10%
2006	2 236.0	1 813.0	23%	315.7	271.9	16%	14%	15%	185.0	126.9	46%	8%	7%
ZPST													
2005	1 471.0	1 659.6	-11%	254.0	331.9	-23%	17%	20%	139.0	132.7	5%	9%	8%
2006	1 411.0	1 463.5	-4%	202.0	256.1	-21%	14%	18%	94.0	117.1	-20%	7%	8%
ALMK													
2005	935.0	950.9	-2%	140.0	66.6	110%	15%	7%	84.0	28.5	195%	9%	3%
2006	1 071.0	838.7	28%	150.0	146.8	2%	14%	18%	86.0	67.1	28%	8%	8%

Valuation



Company	Price USD	MCap USD mln	EV/S			EV/EBITDA			P/E			MCap/ Output, USD/mt	
			2004	2005	2006	2004	2005	2006	2004	2005	2006	2003	2004
Ukraine													
KSTL	0.65	2509	1.21	1.25	1.20	4.2	5.0	4.9	6.6	8.9	8.7	353.3	353.3
MMKI	0.58	1944	0.69	0.67	0.71	3.1	3.8	4.5	5.1	7.3	9.5	300.7	281.9
AZST	0.65	2063	1.24	1.04	1.03	8.0	6.7	7.3	11.4	11.6	11.2	386.2	359.8
ZPST	1.20	1012	0.72	0.65	0.68	4.0	3.7	4.8	6.6	7.3	10.8	232.5	227.4
ALMK	0.38	295	0.37	0.35	0.48	7.3	2.3	3.4	34.8	3.5	3.4	84.5	78.2
Average			0.84	0.79	0.82	5.3	4.3	5.0	12.9	7.7	8.7	271.5	260.1
Median			0.72	0.67	0.71	4.2	3.8	4.8	6.6	7.3	9.5	300.7	281.9
Intern. Peers													
INI Steel	26.25	2 399	0.79	0.68	0.59	5.2	n/a	n/a	5.7	5.6	5.3	315.7	333.3
Bluescope Steel	7.49	5 307	1.34	0.94	0.90	7.8	0.4	5.6	12.8	6.5	9.5	816.5	792.1
Tangshan	0.47	920	0.46	n/a	n/a	3.0	n/a	n/a	5.7	5.4	6.5	278.9	230.1
Maanshan	0.37	1 769	n/a	0.62	0.63	n/a	2.5	3.8	4.1	4.7	5.1	290.0	221.2
Anyang	0.33	662	0.32	n/a	n/a	2.7	n/a	n/a	7.5	n/a	n/a	143.8	127.2
IPSCO	64.77	3 105	1.29	1.44	1.52	4.3	3.6	6.1	7.1	5.9	10.8	n/a	n/a
CSN	20.73	5 949	2.31	1.79	1.73	4.9	2.8	4.0	8.8	5.5	6.0	1122.4	1081.6
CST	63.68	1 994	1.36	0.84	0.81	2.9	1.8	2.0	3.6	3.5	3.5	524.7	415.4
SSAB	29.37	1 982	0.62	0.60	0.58	3.0	3.1	4.1	4.1	6.8	8.6	508.3	483.5
Average			1.06	0.99	0.96	4.2	2.4	3.9	6.6	5.5	6.4	500.0	460.5
Median			1.04	0.84	0.81	3.7	2.7	4.0	5.7	5.6	6.2	500.0	415.4
Russian Peers													
Severstal	8.17	4 508	0.67	0.53	0.54	1.8	2.1	3.4	10.3	4.0	9.3	441.0	356.1
NLMK	1.15	6 864	1.22	0.96	0.89	2.2	2.1	2.7	9.9	5.5	9.2	775.3	752.4
MMK	0.51	4 066	0.71	0.57	0.55	2.0	2.4	5.2	7.7	4.2	9.8	354.3	360.4
NTMK	1.40	1 834	0.74	0.50	0.55	1.9	1.8	3.0	11.9	5.2	15.2	334.5	312.6
ZSMK	131.00	1 675	0.80	0.48	0.48	2.6	2.1	4.1	4.5	4.4	12.0	282.2	298.9
Average			0.83	0.61	0.60	2.1	2.1	3.7	8.9	4.7	11.1	437.5	416.1
Median			0.74	0.53	0.55	2.0	2.1	3.4	9.9	4.4	9.8	354.3	356.1

Source: Company Data, Bloomberg, IBES, UFG

Peer Comparison

	EV/S			EV/EBITDA			P/E			MCap/ Output	
	2004	2005E	2006F	2004	2005E	2006F	2004	2005E	2006F	2003	2004
KSTL											
Premium/ (Discount) to Avg International	14%	27%	25%	-2%	113%	25%	0%	61%	36%	-29%	-23%
Premium/ (Discount) to Avg Russian	46%	107%	99%	96%	138%	32%	-25%	90%	-22%	-19%	-15%
Implied Price (Intern), USD	0.58	0.52	0.53	0.66	0.33	0.53	0.65	0.40	0.48	0.92	0.85
Implied Price (Russian), USD	0.46	0.34	0.35	0.36	0.30	0.50	0.87	0.34	0.83	0.80	0.77
MMKI											
Premium/ (Discount) to Avg International	-35%	-32%	-27%	-27%	63%	16%	-22%	32%	50%	-40%	-39%
Premium/ (Discount) to Avg Russian	-17%	11%	17%	46%	82%	22%	-42%	56%	-14%	-31%	-32%
Implied Price (Intern), USD	0.88	0.83	0.78	0.78	0.37	0.50	0.74	0.44	0.39	0.96	0.95
Implied Price (Russian), USD	0.69	0.53	0.50	0.41	0.34	0.48	1.00	0.37	0.68	0.84	0.86
AZST											
Premium/ (Discount) to Avg International	17%	5%	7%	89%	183%	89%	74%	111%	75%	-23%	-22%
Premium/ (Discount) to Avg Russian	51%	30%	36%	278%	216%	99%	29%	149%	0%	-12%	-14%
Implied Price (Intern), USD	0.55	0.62	0.60	0.33	0.19	0.31	0.37	0.31	0.37	0.84	0.83
Implied Price (Russian), USD	0.42	0.35	0.35	0.15	0.16	0.29	0.50	0.26	0.65	0.74	0.75
ZPST											
Premium/ (Discount) to Avg International	-33%	-34%	-29%	-5%	59%	24%	1%	33%	69%	-53%	-51%
Premium/ (Discount) to Avg Russian	-13%	7%	13%	90%	78%	30%	-25%	56%	-3%	-47%	-45%
Implied Price (Intern), USD	1.75	1.79	1.67	1.26	0.78	0.98	1.19	0.91	0.71	2.58	2.43
Implied Price (Russian), USD	1.38	1.13	1.07	0.66	0.71	0.94	1.61	0.77	1.24	2.26	2.20
ALMK											
Premium/ (Discount) to Avg International	-65%	-65%	-50%	71%	-2%	-11%	428%	-36%	-46%	-83%	-83%
Premium/ (Discount) to Avg Russian	-55%	-43%	-20%	242%	10%	-7%	293%	-25%	-69%	-81%	-81%
Implied Price (Intern), USD	1.10	1.15	1.05	0.22	0.39	0.46	0.07	0.60	0.71	2.25	2.24
Implied Price (Russian), USD	0.85	0.69	0.55	0.11	0.34	0.43	0.10	0.51	1.23	1.97	2.02

DCF
KSTL Discounted Cash Flow Valuation

 Valuation date **Sep 23 2005**
For the purposes of forecasting local currency is used (UAH mln)

	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
EBITDA	2 344	2 420	2 572	2 788	2 857	2 900	2 915	2 926	2 938	2 950
EBIT	2 066	2 071	2 172	2 339	2 368	2 381	2 371	2 363	2 356	2 349
Tax Rate	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%
Taxed EBIT	1 446	1 449	1 520	1 637	1 658	1 666	1 660	1 654	1 649	1 644
Plus D&A	278	349	401	449	488	520	544	563	582	600
Less CapEx	(1 000)	(1 300)	(1 272)	(1 200)	(1 000)	(850)	(710)	(620)	(620)	(620)
Less change in OWC	(869)	(112)	(192)	(233)	(398)	(83)	(43)	(27)	(16)	(8)
FCFF	-	387	457	653	748	1 253	1 451	1 571	1 595	1 617
WACC	16.5%	16.1%	15.1%	14.7%	13.9%	14.4%	14.3%	14.3%	13.9%	13.9%
WACC to Perpetuity		12%						Disc. Terminal Value		4 654
Firm Value		8 729						Portion due to TV		53.3%
Less Net Debt		1 037						Perpetuity Growth Rate		2.0%
Equity Value		9 766						Implied Exit EBITDA Multiple		5.6x
Fair Value per Share		USD 0.50						12-mo Fair Value per Share		USD 0.58

MMKI Discounted Cash Flow Valuation

 Valuation date **Sep 23 2005**
For the purposes of forecasting local currency is used (UAH mln)

	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
EBITDA	2 370	2 003	2 487	2 906	3 146	3 180	3 215	3 250	3 285	3 321
EBIT	2 097	1 575	1 973	2 319	2 497	2 475	2 457	2 441	2 426	2 411
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%
Taxed EBIT	1 363	1 024	1 283	1 507	1 623	1 609	1 597	1 587	1 577	1 567
Plus D&A	272	428	514	587	648	705	758	809	860	910
Less CapEx	(1 330)	(1 550)	(1 400)	(1 200)	(1 040)	(980)	(920)	(910)	(905)	(905)
Less change in OWC	(179)	105	(314)	(271)	(297)	(288)	(74)	(61)	(35)	(32)
FCFF	127	7	82	623	935	1 046	1 360	1 425	1 497	1 540
WACC	17.5%	16.8%	15.7%	15.6%	15.0%	15.2%	15.0%	15.0%	14.0%	14.0%
WACC to Perpetuity		12%						Disc. Terminal Value		
Firm Value		7 448						Portion due to TV		
Less Net Debt		773						Perpetuity Growth Rate		
Equity Value		8 221						Implied Exit EBITDA Multiple		4.5x
Fair Value per Share		USD 0.49						12-mo Fair Value per Share		USD 0.56

ZPST Discounted Cash Flow Valuation

 Valuation date **Sep 23 2005**
For the purposes of forecasting local currency is used (UAH mln)

	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
EBITDA	1 295	1 008	1 110	1 305	1 422	1 436	1 450	1 464	1 479	1 493
EBIT	1 109	741	803	960	1 041	1 022	1 007	994	983	973
Tax Rate	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Taxed EBIT	832	556	602	720	781	767	755	746	737	730
Plus D&A	186	267	307	345	381	414	443	470	495	520
Less CapEx	(600)	(750)	(725)	(685)	(650)	(600)	(550)	(525)	(495)	(495)
Less change in OWC	(225)	(9)	(57)	(106)	(103)	(49)	(89)	(91)	(52)	(12)
FCFF	193	63	127	275	408	531	559	600	686	743
WACC	16.6%	16.4%	15.3%	15.1%	14.6%	14.8%	14.5%	14.4%	13.9%	14.0%
WACC to Perpetuity		12%						Disc. Terminal Value		1 987
Firm Value		3 823						Portion due to TV		52.0%
Less Net Debt		260						Perpetuity Growth Rate		1.5%
Equity Value		4 083						Implied Exit EBITDA Multiple		4.8x
Fair Value per Share		USD 0.97						12-mo Fair Value per Share		USD 1.07

Financial Models

Kryvorizhstal

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
GDP growth	9.3%	12.1%	7.0%	6.0%	5.0%	4.5%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Industrial production growth	15.9%	12.5%	9.5%	6.5%	5.5%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Crude Steel Output, mln ton	7.1	7.1	6.8	7.0	7.1	7.1	7.2	7.2	7.2	7.2	7.2	7.2
Wire rod Output, mln ton	1.83	1.84	1.75	1.79	1.84	1.90	1.94	1.98	2.00	2.02	2.04	2.06
Rebar Output, mln ton	3.41	3.38	3.25	3.33	3.43	3.53	3.61	3.65	3.65	3.65	3.65	3.65
Billet Output, mln ton	0.67	0.50	0.47	0.48	0.50	0.51	0.52	0.53	0.54	0.54	0.54	0.54
Total Revenue Growth		34.1%	-7.2%	4.1%	4.0%	6.1%	4.3%	1.5%	0.5%	0.4%	0.4%	0.4%
Net revenues, UAH mln	7 533	10 100	9 376	9 764	10 158	10 777	11 245	11 409	11 461	11 505	11 550	11 595
Gross margin, %	29.8%	33.8%	30.0%	30.0%	31.0%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%
Gross profit, UAH mln	2 246	3 419	2 813	2 929	3 149	3 449	3 598	3 651	3 667	3 682	3 696	3 710
<i>EBITDA margin, %</i>	24.2%	29.1%	25.0%	24.8%	25.3%	25.9%	25.4%	25.4%	25.4%	25.4%	25.4%	25.4%
EBITDA, UAH mln	1 824	2 935	2 344	2 420	2 572	2 788	2 857	2 900	2 915	2 926	2 938	2 950
<i>EBIT margin, %</i>	21.9%	26.6%	22%	21%	21%	22%	21%	21%	21%	21%	20%	20%
EBIT, UAH mln	1 652	2 686	2 066	2 071	2 172	2 339	2 368	2 381	2 371	2 363	2 356	2 349
<i>NI margin, %</i>	11.6%	19.9%	15.4%	14.8%	14.8%	14.9%	14.4%	14.3%	14.3%	14.3%	14.2%	14.1%
Net Income, UAH mln	871	2 013	1 445	1 443	1 502	1 604	1 615	1 628	1 638	1 640	1 639	1 639
Dividend Declared, USD mln	-	704.0	578.1	577.2	751.2	802.2	807.7	814.0	1 146.3	1 475.9	1 474.8	1 474.7

Mariupol Iilicha

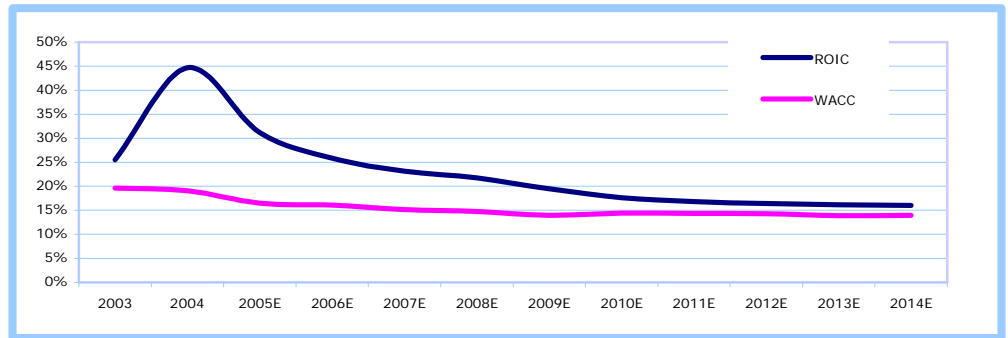
	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
GDP growth	9.3%	12.1%	6.0%	6.0%	5.0%	4.5%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Industrial production growth	15.9%	12.5%	9.5%	6.5%	5.5%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Crude Steel Output, mln ton	6.5	6.9	6.9	7.0	7.1	7.1	7.2	7.3	7.3	7.3	7.3	7.3
Plate Output, mln ton	2.19	1.98	1.98	2.00	2.04	2.08	2.10	2.12	2.14	2.17	2.19	2.21
CRC Output, mln ton	0.89	0.79	0.79	0.80	0.82	0.83	0.84	0.85	0.86	0.87	0.88	0.89
HRC Output, mln ton	1.99	2.6	2.60	2.63	2.68	2.73	2.76	2.79	2.81	2.84	2.87	2.90
Billet Output, mln ton	0.45	0.4	0.40	0.40	0.41	0.42	0.42	0.43	0.43	0.44	0.44	0.45
Total Revenue Growth		68.9%	-3.2%	-5.9%	4.0%	5.1%	3.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Net revenues, UAH mln	8 284	13 993	13 541	12 738	13 246	13 916	14 337	14 480	14 625	14 771	14 919	15 068
Gross margin, %	30.5%	30.4%	28.0%	24.0%	27.0%	29.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Gross profit, UAH mln	2 524	4 249	3 791	3 057	3 576	4 036	4 301	4 344	4 387	4 431	4 476	4 520
<i>EBITDA margin, %</i>	20.1%	22.2%	17.5%	15.7%	18.8%	20.9%	21.9%	22.0%	22.0%	22.0%	22.0%	22.0%
EBITDA, UAH mln	1 665	3 103	2 370	2 003	2 487	2 906	3 146	3 180	3 215	3 250	3 285	3 321
<i>EBIT margin, %</i>	17.8%	20.6%	15%	12%	15%	17%	17%	17%	17%	17%	16%	16%
EBIT, UAH mln	1 477	2 889	2 097	1 575	1 973	2 319	2 497	2 475	2 457	2 441	2 426	2 411
<i>NI margin, %</i>	9.9%	14.3%	10.1%	8.0%	9.7%	10.8%	11.3%	11.1%	10.9%	10.7%	10.6%	10.4%
Net Income, UAH mln	820	2 006	1 362	1 022	1 281	1 506	1 622	1 607	1 596	1 585	1 575	1 565
Dividend Declared, USD mln			-	-	-	602.4	810.8	964.4	1 117.0	1 268.2	1 417.7	1 408.9

Zaporizhstal

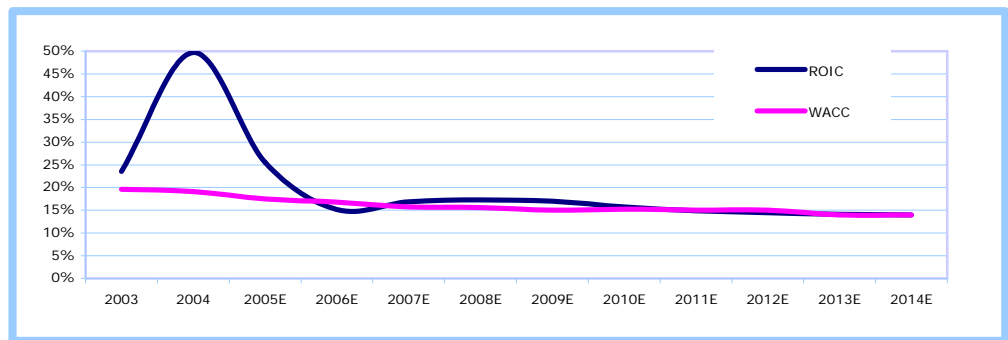
	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
GDP growth	9.3%	12.1%	7.0%	6.0%	5.0%	4.5%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Industrial production growth	15.9%	12.5%	9.5%	6.5%	5.5%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Crude Steel Output, mln ton	4.4	4.5	4.4	4.4	4.5	4.5	4.5	4.6	4.6	4.6	4.7	4.7
Plate Output, mln ton	0.51	0.8	0.75	0.76	0.77	0.77	0.78	0.79	0.80	0.80	0.81	0.82
CRC Output, mln ton	1.09	1.1	1.05	1.06	1.07	1.08	1.09	1.10	1.11	1.13	1.14	1.15
HRC Output, mln ton	1.84	1.64	1.64	1.66	1.68	1.69	1.71	1.73	1.75	1.76	1.78	1.80
Slab Output, mln ton	0.20	0.14	0.14	0.14	0.14	0.14	0.15	0.15	0.15	0.15	0.15	0.15
Total Revenue Growth		49.4%	6.2%	-5.9%	3.0%	4.0%	3.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Net revenues, UAH mln	4 726	7 062	7 500	7 056	7 266	7 559	7 788	7 865	7 944	8 024	8 104	8 185
Gross margin, %	30.6%	23.0%	23.0%	20.0%	21.0%	23.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%
Gross profit	1 447	1 626	1 725	1 411	1 526	1 739	1 869	1 888	1 907	1 926	1 945	1 964
<i>EBITDA margin, %</i>	23.3%	17.7%	17.3%	14.3%	15.3%	17.3%	18.3%	18.3%	18.3%	18.2%	18.2%	18.2%
EBITDA, UAH mln	1 100	1 253	1 295	1 008	1 110	1 305	1 422	1 436	1 450	1 464	1 479	1 493
<i>EBIT margin, %</i>	20.1%	15.5%	14.8%	10.5%	11.0%	12.7%	13.4%	13.0%	12.7%	12.4%	12.1%	11.9%
EBIT, UAH mln	952	1 094	1 109	741	803	960	1 041	1 022	1 007	994	983	973
<i>NI margin, %</i>	13.5%	11.5%	9.5%	6.7%	7.0%	8.1%	8.6%	8.4%	8.2%	8.0%	7.9%	7.7%
Net Income, UAH mln	639	810	710	470	511	612	668	658	651	644	637	630
Dividend Declared, USD mln	12.8	16.2	14.2	9.4	10.2	61.2	133.5	197.5	260.3	321.8	381.9	378.2

ROIC-WACC Analysis

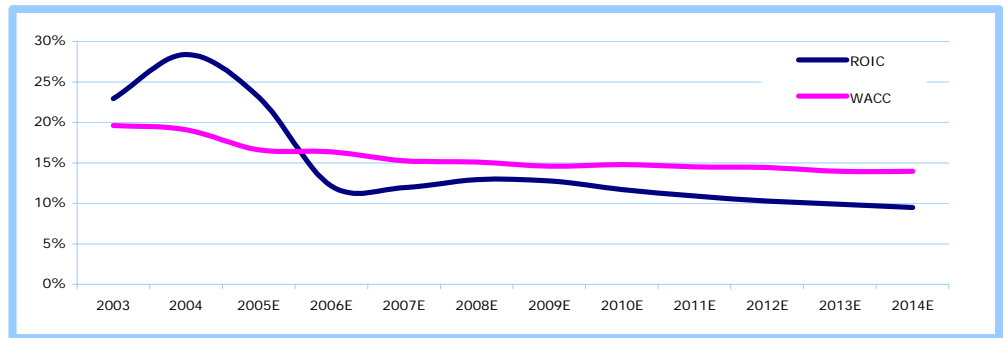
KSTL



MMKI



ZPST

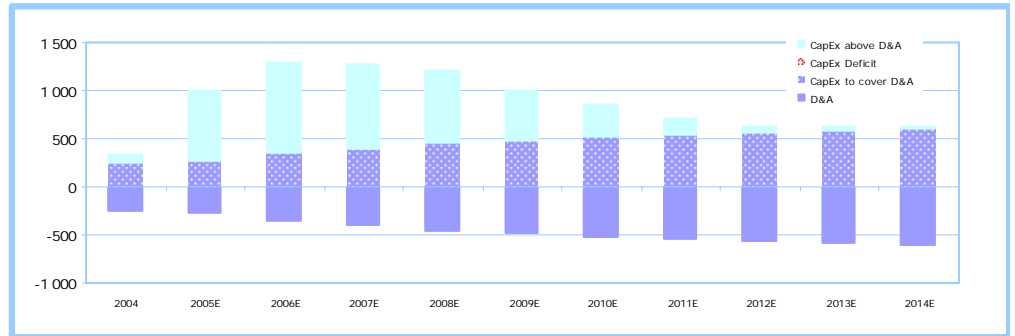


Source: Concorde Capital Estimates

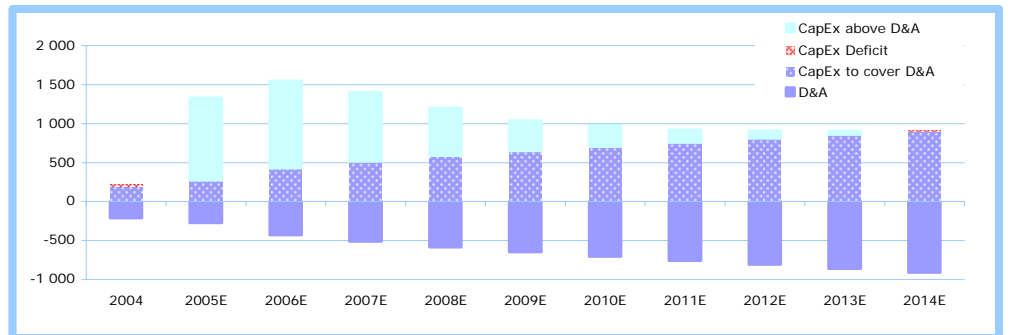
Note: ROIC is not directly comparable with international peers due to the understatement of fixed assets by Ukrainian companies (see table: Financials per mt of Crude Steel, p. 22)

Capital Expenditures

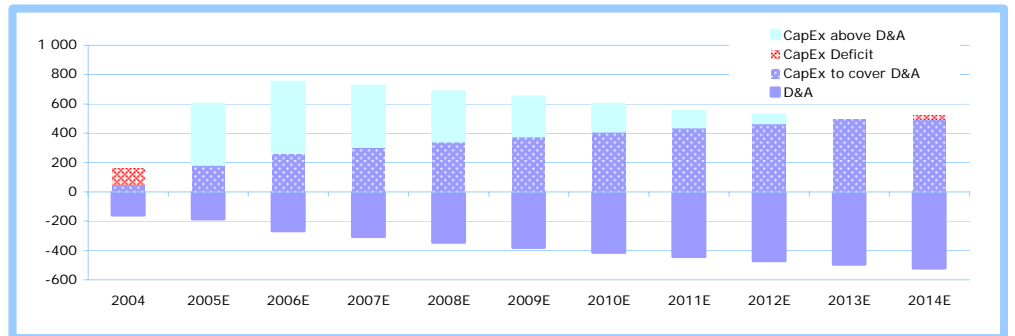
KSTL



MMKI



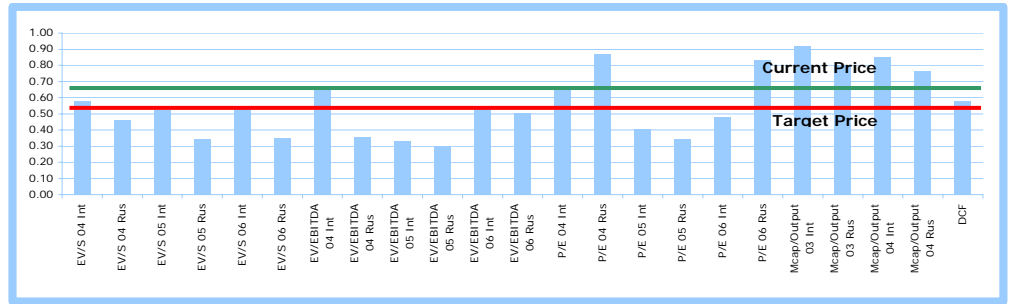
ZPST



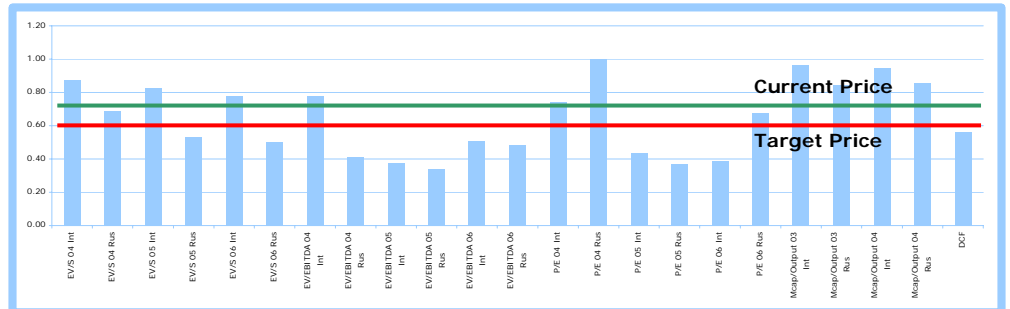
Source: Concorde Capital Estimates

Valuation Summary

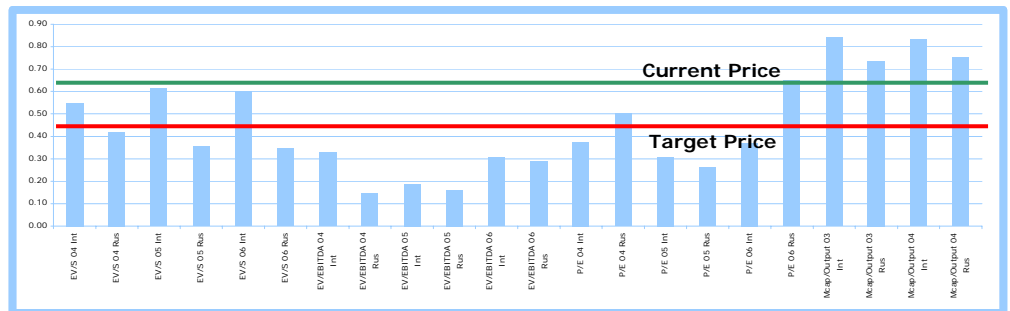
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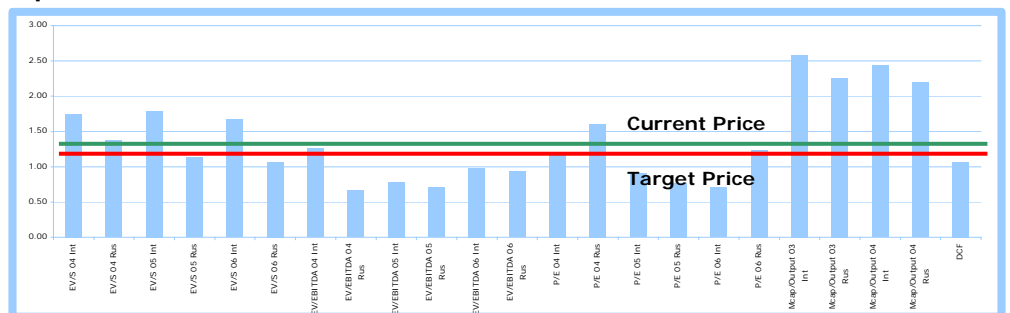
Mariupol Iilicha



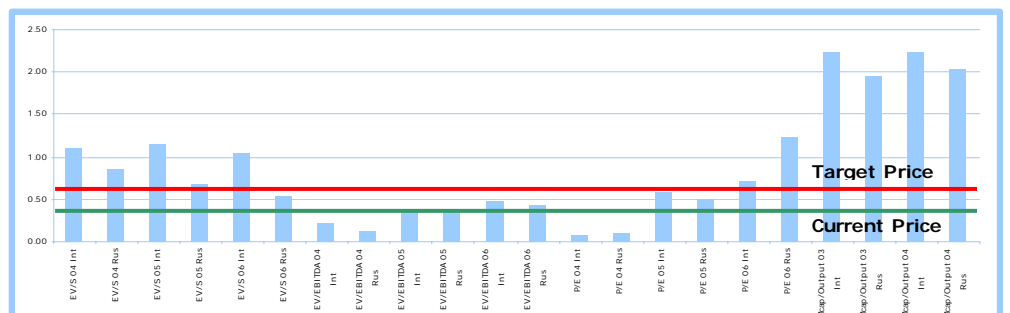
Azovstal



Zaporizhstal



Alchevsk Iron & Steel

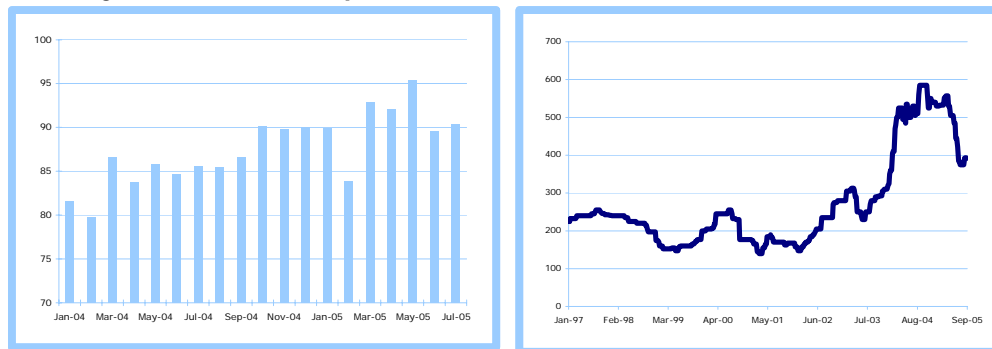


The Market Cools: 2004 Prices Return

A 20% Drop After 3 Years Of Growth

Two years of roaring steel prices came to an end in May 2005, when prices began to plummet back to the levels of early 2004. Chinese companies continue to set the pace on the global market, posting a 28.3% output growth for 1H05 yoy, even higher than 23.2% yoy for 2004. The drop in production growth by the rest of the world, to less than 1%, failed to maintain high price levels.

Monthly Global Steel Output, 000' mt HRC Prices, USD



Source: IISI, Metal Bulletin

As a result, CRC and HRC prices fell by 17% and 23% respectively in the 1H05 yoy. European steel experts say prices will continue to fall for at least the next 12 months despite the reduction in steel output. In our view, the situation is not so dramatic, as the stockpiles of traders were curtailed from 3 to 1 month reserves. Therefore, the prices may even start to revive at the end of the year.

Steel Prices Expectations

Source	Forecast
Arcelor, Mittal Steel	Prices will begin to revive in the fall of 2005 with the expected depletion of stockpiles in Europe
Chinese and US steel experts	The decline of steel prices will continue until the end of 2005 in China and the USA

China Floods The Market

Asian countries, which consume mostly long products, were among the key markets for Ukrainian steel exports. China's immense output growth this year, coupled with its planned introduction of additional capacities leads us to conclude that there will be a more than adequate steel supplies in the region for the next several years. Hence, we expect Ukraine's market share in Asia to decline.

Crude Steel Output 7m05

Country	Output, mln mt	Chng, % YoY
EU 25	110.6	-3.0%
Other Europe	16.6	-0.2%
CIS	63.5	-1.9%
Ukraine	22.0	-2.1%
N. America	74.3	-3.6%
S. America	26.4	0.2%
Africa	10.5	10.9%
Middle East	8.5	8.1%
Asia	320.9	17.1%
China	193.8	28.1%
Japan	66.2	1.2%
South Korea	27.5	0.1%
India	22.1	18.7%
Total	546.3	6.9%

Source: IISI

China's output explosion has even surpassed the country's own enormous appetite for steel. Since 2004, Chinese exports have exceeded imports. According to our estimations, China's net exports may reach 5 mln mt this year. This export expansion has dealt a serious blow to Ukrainian steel producers, which sell half of their products to Asian countries.

China's 15-Year Plan – No Immediate Effect

The Chinese government recently introduced the "Plan to Develop Ferrous Metallurgy by 2020." As part of the plan the country will cap production growth by no longer issuing licenses for the construction of new steel mills. However, the country has more than 310 mln mt of steel capacity in operation, and an additional 150 mln mt already set for installation over the next two years. Therefore, the program will not significantly limit capacity growth in the short-term.

Ukrainian Production – Sensitivity to Export

The Ukrainian steel industry relies heavily on export markets (about 80% of all Ukrainian steel is sold abroad). The poor condition of Ukraine's steel mills on the one hand, and high transportation costs on the other make Ukrainian companies less price competitive. As a result, most Ukrainian producers temporarily shut down some of their blast furnaces in order to upgrade their capacities taking advantage of the slack in the market. This resulted in a decline in Ukrainian steel production.

Ukrainian Crude Steel Output, mln mt

Company	2002 % yoy		2003 %yoy		1H04 %yoy		2004 %yoy		1H05 %yoy	
KSTL	6.9	0%	7.1	3%	3.6	3%	7.1	1%	3.4	-8%
MMKI	6.1	6%	6.5	6%	3.4	6%	6.9	7%	3.5	1%
AZST	4.8	0%	5.3	11%	2.7	13%	5.7	7%	3.0	9%
ZPST	3.9	-2%	4.4	12%	2.2	2%	4.5	2%	2.1	-2%
ALMK	3.1	9%	3.5	11%	1.9	19%	3.8	8%	1.9	-1%
DMK Dzerzhynskogo	2.6	19%	3.2	23%	1.6	13%	3.3	2%	1.6	0%
Yenakievo/Metalen	2.0	6%	2.3	15%	1.2	17%	2.5	9%	1.1	-12%
Makiivska	0.9	-33%	0.9	6%	0.4	-31%	1.0	12%	0.4	5%
DOMZ/Donetskstal	0.9	11%	0.9	1%	0.5	11%	1.0	10%	0.8	-3%
Istil	0.5	41%	0.7	30%	0.4	26%	1.0	47%	0.4	9%
NPR	0.7	10%	0.7	5%	0.4	7%	0.8	10%	0.4	-1%
DMK Petrovskogo	1.2	3%	1.2	1%	0.6	-4%	0.7	-41%	0.6	0%
Dniprospejsstal	0.4	4%	0.3	-17%	0.2	64%	0.5	46%	0.3	10%
Total	34.0	3%	36.9	9%	19.6	8%	38.7	5%	19.4	-1%

Source: IISI, Metal Bulletin

Almost all Ukrainian steel producers had to revise their production plans for 2005. With the sag in prices for both long and flat steel products, only AZST (the most cost-efficient Ukrainian steel mill), Istil and Dniprospejsstal increased production. Others showed insignificant growth or even decline.

Activity Analysis Of Ukrainian Steel Mills, 1H05

	Down	Flat	Up
Prices	KSTL, MMKI, AZST, ZPST, ALMK	-	-
Output	KSTL, ZPST	MMKI, ALMK	AZST
Net Income	KSTL, MMKI, ZPST, ALMK	AZST	-

Source: Concorde Capital

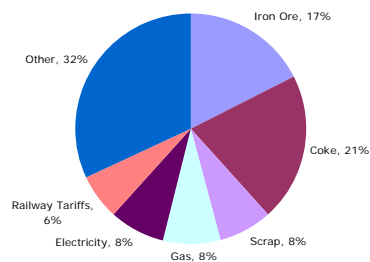
Cost Analysis

Iron Ore, Coke And The Impact Of Transportation Costs

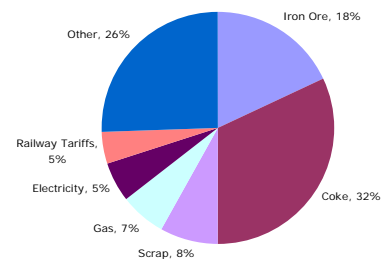
In 2004, the growing prices for coke and iron ore reshaped the cost structure of the Ukrainian metallurgy sector. The share of coke costs, according to our calculations, grew by 11% as coke became twice as expensive in 2004. Despite a 61% price surge for iron ore in Ukraine, its share increased only by 1% to 18% of the total cost structure, as the increase of the coke share had a dominant effect on the new cost breakdown. Though, we expect the share of iron ore to go up in 2005, as prices have already shot up 30% this year.

Cost Structure Of Ukrainian Steel Mills

...2003



...2004

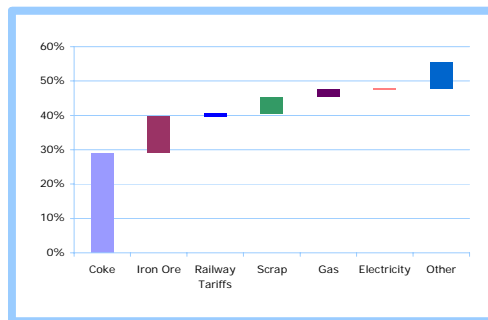


Source: Metal Magazine, Concorde Capital Estimates

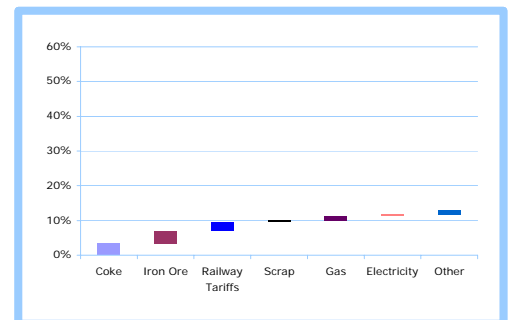
According to our estimates, the jump in iron ore and coke prices has increased the cost of production by more than 50% for Ukrainian steel producers since the beginning of 2004 to date. A 50% increase in transportation tariffs for steel products and raw materials initiated by the government in April of this year, increased costs for steel producers by more than 3%. However, these tariffs are unlikely to increase again this year due to the decline on the steel market.

Growth: Impact Of The Production Cost Factor

...2004



...2005E



Source: Metal Magazine, Concorde Capital Estimates

Gas –Threat from Russia

The Ukrainian steel industry is very inefficient in terms of gas consumption because Ukrainian steel companies have been purchasing gas at prices substantially lower than elsewhere except for Russia. However, in 1H05 Gazprom declared it would raise the price for the gas it supplies to Ukraine from USD 50 to USD 180 per 1000 cm. Nevertheless, the average cost of gas for Ukraine would be lower since, in addition to Russian gas, Ukraine also consumes cheap Turkmen gas and extracts natural gas domestically. So, we estimate that if Russia raised its price to USD 180 per 1000 cm, the gas price for Ukraine's industrial consumers would be close to USD 97 per 1000 cm in 2006. If this happens, we estimate that production costs for Ukrainian steel mills will only grow by ~3%. Yet, there is a possibility that a more significant gas price increase will push steel makers to introduce new technologies to reduce the impact of the gas factor.

We expect the price for Russian gas supplied to Ukraine to rise in the short term, but we project that the increase will be gradual. We think Russian gas prices will most likely grow to USD 180 per 1,000 cm within a three year period. In response, Ukrainian steel mills may increase coke expenditures in order to substitute natural gas with top gas generated from burning coke as a result of pig iron production in the blast furnace process. However, the massive switch to this technology is not likely in the short term, unless the price for natural gas exceeds an estimated threshold of USD 119 per 1000 cm.

Coal injection technology and using coke gas instead of natural gas are two other alternatives to natural gas intensive steel making. Coal injection requires the installation of additional equipment and thus needs some moderate CapEx. Using coke gas may be less costly. Coke gas is a by-product in coke making. Transition to this technology is only suited for enterprises located near major coke production centers. The IUD managers hinted to us that, Alchevsk Iron and Steel will start utilizing coke gas soon. Moreover, after the construction of an additional coke battery at Alchevsk Coke in late 2005, Alchevsk Iron and Steel will no longer need to purchase natural gas on the market at all.

Scrap

If Ukraine wants to enter the WTO, it is required to reduce export duties for scrap from €30 to €5 per mt till 2010. This combined with the recent increase of European steel import quotas to 1 mln mt may lift prices by 25%, to international price levels. As scrap's share in the cost structure of a Ukrainian steel mill is about 7%, it may create additional cost pressure on Ukrainian companies. This session the Rada will consider a draft law that will decrease scrap export duties to €25 per mt in 2006 and to €18 per mt in 2007. Given the government's desire to enter the WTO, it is likely the law will be adopted this fall.

Our Expectations

In June, the government froze tariffs for the following three months on gas, power and railway transportation for companies in the metallurgy sector. However, we would not be surprised if they were to go back up later in the year. Taking into account all factors discussed we estimate that by the end of 2005 total costs will be 75% higher than in early 2004.

Cost Increase Impact On Profitability*

	2003	2004	2005
Sales, USD bln	4.8	7.6	7.6
Sales growth	-	55%	0%
COGS growth, %	-	56%	19%
EBITDA Margin,%	20%	22%	14%
Avg EBITDA margin for Russian** peers:	30%	39%	29%

*Based on aggregated financials for KSTL, MMKI, AZST, ZPST, ALMK

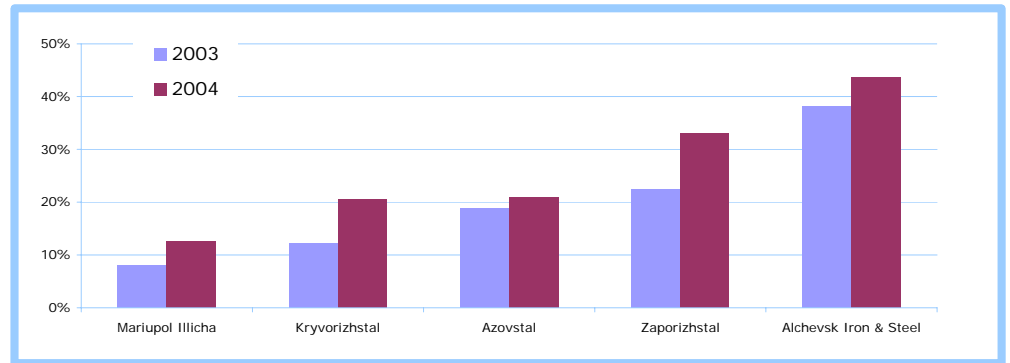
**Russian Peers are listed in Peer Comparison Table (page 4)

Source: Concorde Capital Estimates, UFG, Bloomberg

Transfer Pricing

In 2004, Ukrainian steel producers engaged in related party transactions on a large scale in order to transfer part of the revenues to affiliated trading companies. In 2005, we expect a lower rate of transfer pricing due to the change in government. An increase of payments to the budget by 29% yoy for 1H05 with only 5% steel price growth is the first sign of more transparent operations by Ukrainian steel companies in 2005

Transfer Pricing Rates



Source: Concorde Capital Estimates

Consolidation Started

Vertical Integration

High prices for raw materials, and the growing problems with distribution markets have pushed some Ukrainian steel mills to consolidate. **Kryvorizhstal** is the only vertically integrated company in Ukraine. Other domestic steel producers purchase feedstock from group-related companies or are exposed to market prices. Purchasing at market prices is expensive and hurts profitability, while an intra-group relationship leaves room for financial manipulation.

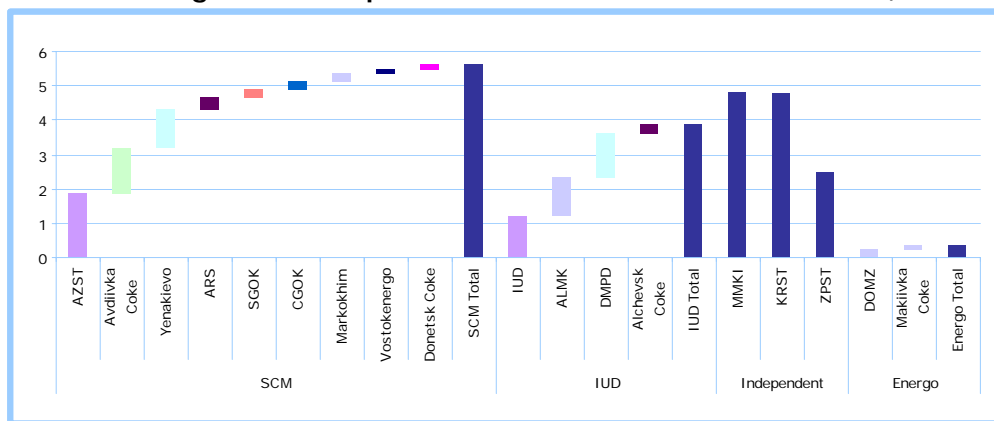
The next vertically integrated company is likely to be **AZST**, which decided to merge with the coke producer Markokhim. Both companies are controlled by the same business group, System Capital Management. This consolidation, according to our estimates, will enable AZST to increase its EBITDA margin by 1.5% and its net margin by 1.0%.

Consolidation Potential

We can gauge consolidation potential in the industry by analyzing the breakdown of steel exports. About 80% of Ukraine's steel is shipped abroad. The steel companies that are part of business groups, mainly **SCM** and **IUD**, export through related companies. They do this mainly to optimize their VAT reimbursement. The side-effect is a serious understatement of the revenue from their steel smelters.

Thus, because SCM uses its whole family of other companies as an exporting vehicle, the company's steel smelters (Azovstal and Yenakievo/Metalen) officially accounted for only 2/3 of the group's total steel export deliveries. Officially, IUD's mills, ALMK and DMK Dzerzhynskogo, exported only 59% of the group's total steel deliveries to foreign markets. **Concern Energo** has an insignificant market share as it operates only one steel mill, Donetsk Iron & Steel (DOMZ), with an annual crude steel output of about 1 mln mt. Nevertheless, Energo also uses its coke producing company Makiivka Coke to export about 40% of DOMZ's total output.

Ukrainian Largest Steel Exporters 2004 – Consolidation Potential, mln mt



Source: State Statistics Committee

We expect to see more transparency and more consolidation in the industry in the mid term. The government is working to stamp out these schemes and many of these companies will need to finance modernization projects so it will only be a matter of time before they become more transparent.

In contrast to SCM, IUD's consolidation is centered around the managing company – the Industrial Union of Donbass. The IUD's steel mills post modest financial results and almost all their profits go to IUD (compare: 16.4% and 5.1% EBITDA margins for IUD and ALMK respectively in 2004).

The need to finance ambitious modernization programs at ALMK (CapEx of USD 1.8 bln till 2010), DMK Dzerzhynskogo (USD 1.1 bln) along with other projects at their foreign assets in Hungary and Poland, will force the IUD to search for additional financial resources. The size of its business and long-term strategy require the IUD to transform into a public company, with access to public equity financing. The IUD's top management is, in our opinion, on their way to IPO in about two years.

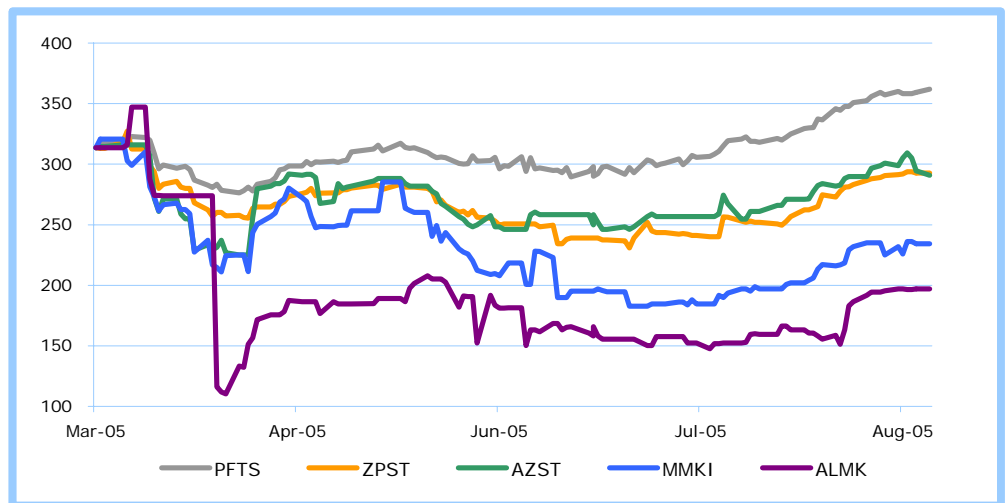
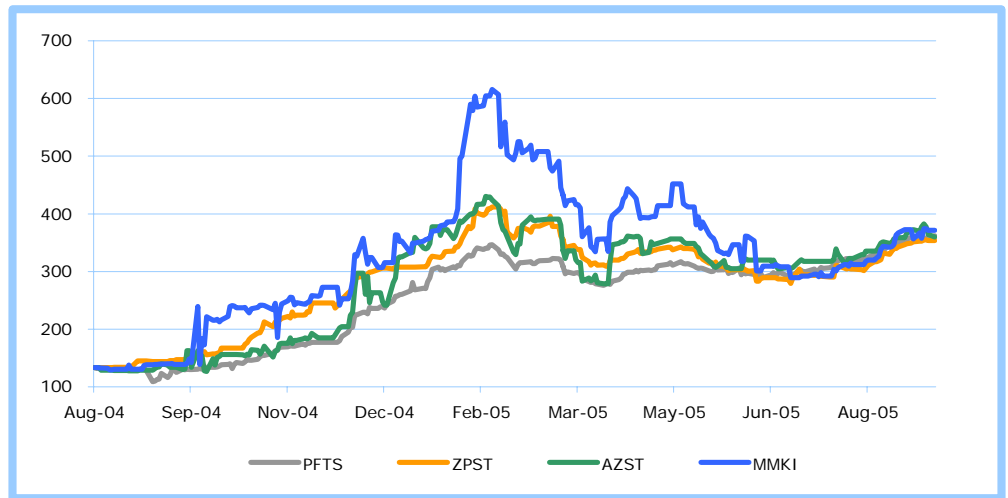
The IUD found an effective way to avoid quotas by acquiring steel mills in the EU (Dunaferr and Huta Czestochowa) and supplying them with slabs for re-rolling. As the European import quota extends to finished products, it stops other Ukrainian steel producers from utilizing the full potential of the EU market.

Quota Breakdown, 000' mt

Product	2004	2005	2006
Flat Steel		595	610
Long Steel		385	395
Total	600	980	1 005

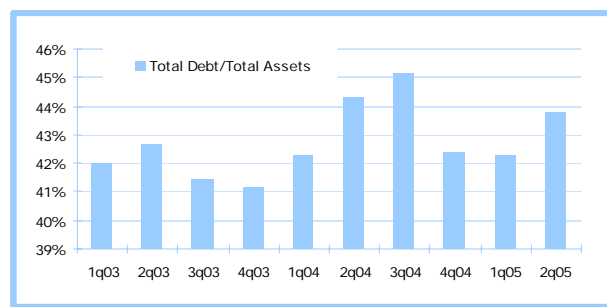
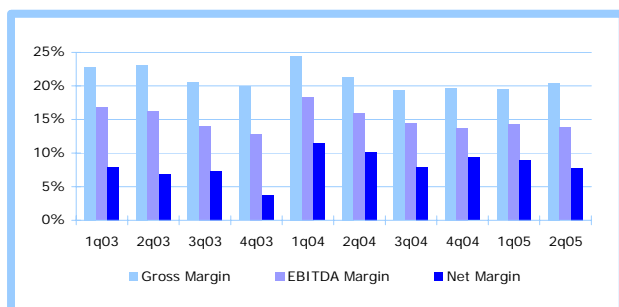
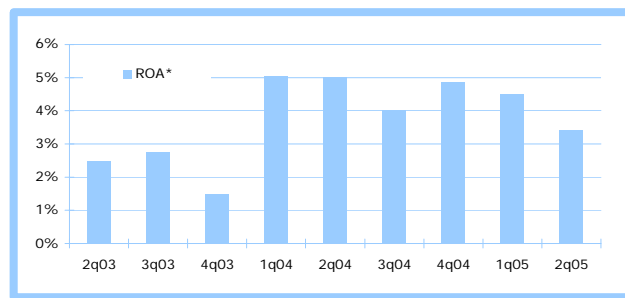
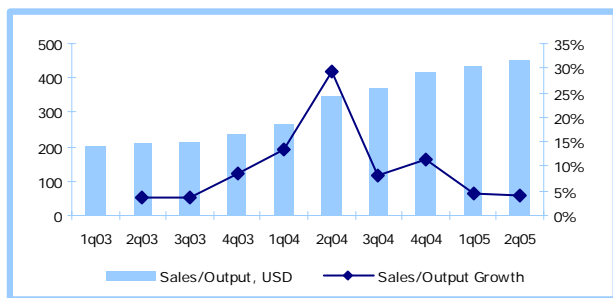
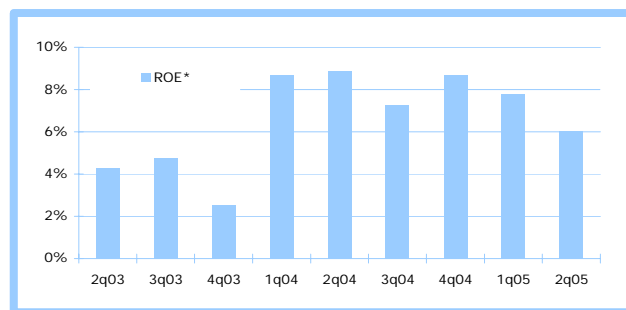
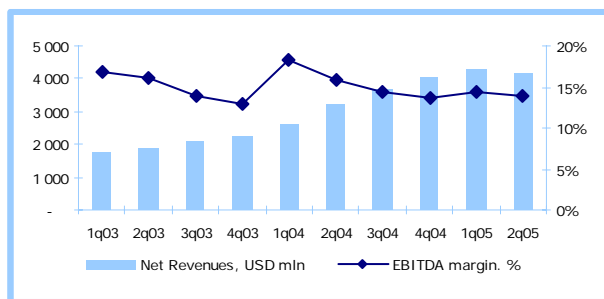
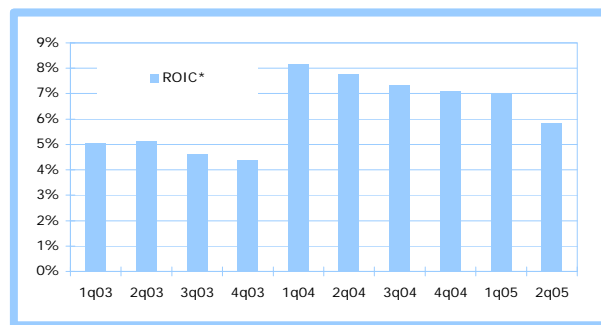
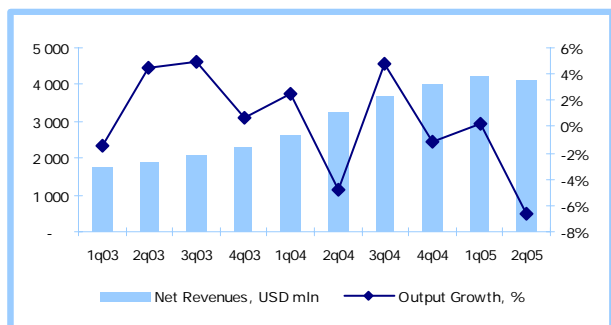
Source: Ukrainian News

Stock Market



Company	Liquidity	PFTS	Spread	Avg Monthly Trading, USD mln	Free Float	FF Mcap, USD mln	Annual FF Turnover
ZPST	Medium	listed	2.4%	2.2	5.0%	52.4	50.4%
MMKI	Medium	listed	5.9%	0.4	3.5%	76.5	6.3%
AZST	High	listed	7.1%	0.6	4.0%	91.1	7.9%
KSTL	High	listed	25.9%	n/a	3.5%	81.6	n/a
ALMK	High	listed	8.8%	4.8	4.5%	13.1	438.8%

Steel Industry Quarterly Analysis



*Quarterly ROIC, ROE and ROA are not annualized

Financials Per mt Of Crude Steel, USD mln

		KSTL	MMKI	AZST	ZPST	ALMK	DOMZ	AVG Ukr	AVG Russian	AVG International	Severstal (Russia)	NLMK (Russia)	MMK (Russia)	NTMK (Russia)	ZSMK (Russia)	INI Steel South Korea	Bluescope Australia	Tangshan China	Maanshan China	AK Steel USA	CSN Brazil	Jinan China	CST Brazil	Anyang China	SSAB Sweden	Ipsco USA
Sales	2003	199.7	240.4	192.3	203.6	138.0	275.9	208.3	245.7	441.1	323.4	277.3	265.0	189.1	173.9	523.2	588.4	279.4	313.5	743.0	474.9	240.8	280.7	241.9	735.1	431.5
	2004	265.6	380.5	303.6	297.6	212.5	358.9	303.1	452.0	552.7	617.1	498.8	427.3	374.0	342.7	657.0	609.0	370.1	404.3	931.7	609.3	334.5	458.6	186.8	818.0	700.8
COGS	2003	140.2	167.2	157.3	141.3	124.2	229.2	159.9	143.3	366.5	170.2	145.3	145.3	132.4	123.4	442.4	461.4	234.4	233.4	755.3	282.9	200.2	194.0	195.8	637.5	394.6
	2004	175.7	265.0	243.0	229.0	199.6	313.6	237.6	235.0	419.0	314.9	207.6	238.4	203.3	210.9	547.2	436.1	311.3	314.3	850.0	310.7	295.0	264.4	149.9	633.7	496.3
Gross Profit	2003	59.5	73.3	35.0	62.3	13.8	46.7	48.4	102.4	74.6	153.2	132.0	119.7	56.7	50.5	80.8	127.0	45.0	80.1	-12.3	192.0	40.6	86.7	46.1	97.6	36.9
	2004	89.9	115.6	60.5	68.5	13.0	45.3	65.5	217.0	133.8	302.2	291.2	188.9	170.7	131.8	109.8	172.9	58.8	90.0	81.7	298.6	39.4	194.3	37.0	184.3	204.4
Gross Margin, %	2003	30%	30%	18%	31%	10%	17%	23%	40%	19%	47%	48%	45%	30%	29%	15%	22%	16%	26%	-2%	40%	17%	31%	19%	13%	9%
	2004	34%	30%	20%	23%	6%	13%	21%	47%	24%	49%	58%	44%	46%	38%	17%	28%	16%	22%	9%	49%	12%	42%	20%	23%	29%
EBITDA	2003	48.4	48.3	23.8	47.4	8.3	29.6	34.3	76.8	14.1	104.4	117.9	86.2	38.5	37.1	11.5	15.2	7.4	13.2	-2.6	35.5	6.6	20.8	9.9	25.1	12.4
	2004	77.2	84.4	47.1	52.8	10.8	26.0	49.7	179.8	126.2	230.5	271.1	151.6	142.4	103.4	100.6	107.4	55.8	94.7	84.0	286.8	33.8	212.6	35.3	168.6	208.9
EBITDA Margin, %	2003	24%	20%	12%	23%	6%	11%	16%	30%	4%	32%	43%	33%	20%	21%	2%	3%	3%	4%	0%	7%	3%	7%	4%	3%	3%
	2004	29%	22%	16%	18%	5%	7%	16%	39%	23%	37%	54%	35%	38%	30%	15%	18%	15%	23%	9%	47%	10%	46%	19%	21%	30%
EBIT	2003	43.8	42.9	18.3	41.0	2.0	24.1	28.7	59.3	9.1	81.3	100.1	67.0	23.5	24.6	8.3	9.9	4.9	9.5	-10.5	26.8	4.7	19.0	7.0	15.0	5.5
	2004	70.6	78.6	41.6	46.1	6.2	21.4	44.1	160.5	97.9	207.7	244.3	131.6	128.2	90.9	77.8	77.0	39.0	67.4	44.8	234.7	26.9	164.8	24.1	133.0	186.9
EBIT Margin, %	2003	22%	18%	10%	20%	1%	9%	13%	23%	2%	25%	36%	25%	12%	14%	2%	2%	2%	3%	-1%	6%	2%	7%	3%	2%	1%
	2004	27%	21%	14%	15%	3%	6%	14%	35%	18%	34%	49%	31%	34%	27%	12%	13%	11%	17%	5%	39%	8%	36%	13%	16%	27%
Net Income	2003	23.1	23.8	9.0	27.5	0.4	11.6	15.9	43.7	4.5	59.7	73.7	54.8	11.8	18.5	4.2	7.8	2.6	8.4	-18.9	13.2	2.8	14.2	4.7	8.5	1.4
	2004	52.9	54.6	31.4	34.1	2.2	16.5	32.0	110.3	71.1	149.8	194.8	107.7	87.1	66.6	55.7	62.0	22.6	54.3	42.6	123.2	14.1	146.2	17.0	119.2	125.3
Net Margin, %	2003	12%	10%	5%	14%	0%	4%	7%	17%	1%	18%	27%	21%	6%	11%	1%	1%	1%	3%	-3%	3%	1%	5%	2%	1%	0%
	2004	20%	14%	10%	11%	1%	5%	10%	26%	13%	24%	39%	25%	23%	19%	8%	10%	6%	13%	5%	20%	4%	32%	9%	15%	18%
Gross Fixed Assets	2003	25.0	24.4	30.5	29.5	30.1	161.0	50.1	n/a	533.0	n/a	n/a	n/a	n/a	n/a	420.6	660.7	242.4	480.1	881.2	920.3	110.9	753.4	153.5	733.3	506.0
	2004	74.6	23.3	27.0	33.1	25.5	64.7	41.4	n/a	585.0	n/a	n/a	n/a	n/a	n/a	545.9	707.0	230.1	435.0	869.6	1067.7	109.1	1100.7	186.8	737.6	445.0
Depreciation	2003	4.5	5.4	5.6	6.4	6.3	5.5	5.6	17.5	5.0	23.1	17.8	19.2	15.1	12.5	3.1	5.3	2.6	3.7	7.9	8.7	1.9	1.8	2.8	10.2	7.0
	2004	6.5	5.8	5.5	6.7	4.6	4.6	5.6	19.3	28.4	22.8	26.8	20.0	14.2	12.5	22.7	30.4	16.8	27.3	39.1	52.1	6.9	47.8	11.2	35.6	22.0
CapEx	2003	25.4	23.2	37.5	10.2	24.4	n/a	24.1	18.2	28.4	25.3	26.9	17.6	18.2	3.2	18.9	16.5	18.8	112.1	14.6	44.9	11.6	20.5	17.4	33.0	4.5
	2004	29.4	23.2	21.8	31.4	21.2	n/a	25.4	30.3	42.6	36.5	29.6	35.0	27.3	23.2	85.2	30.7	28.1	66.2	17.6	85.5	13.7	56.0	51.2	24.1	10.2
Net D/Equity	2003	-10%	-2%	3%	-14%	11%	15%	1%	7%	30%	2%	-28%	-11%	35%	37%	60%	2%	31%	24%	n/a	69%	59%	34%	-51%	30%	39%
	2004	-19%	-11%	2%	-11%	2%	12%	-4%	-20%	54%	-5%	-32%	-17%	-23%	-21%	54%	15%	28%	19%	371%	72%	29%	15%	-23%	4%	4%
Working Capital	2003	30.4	37.5	34.9	23.7	-15.8	-7.1	17.3	60.4	70.0	16.0	156.7	98.3	19.5	11.7	-14.7	43.8	37.5	26.9	106.5	145.2	13.8	14.7	69.1	182.0	145.0
	2004	65.7	68.5	42.1	34.4	-18.3	36.8	38.2	128.2	107.1	10.0	225.6	243.9	90.9	70.5	-10.2	37.1	66.8	8.5	242.9	167.4	19.1	69.6	36.0	302.0	239.1
Total Debt	2003	19.1	20.9	39.2	27.2	44.4	101.9	42.1	133.2	161.8	388.3	51.6	102.0	71.5	52.7	216.6	17.4	76.8	119.1	231.7	582.6	68.1	161.3	0.0	126.6	179.9
	2004	25.9	26.8	110.1	33.8	45.3	89.1	55.2	189.7	153.4	567.2	94.5	165.3	52.9	68.6	244.4	61.5	112.5	82.8	198.2	579.8	59.7	139.5	13.9	79.3	116.4
Net Debt	2003	2.7	-2.3	3.3	-17.3	2.0	10.1	-0.2	-11.8	107.6	6.1	-81.5	-23.7	20.5	19.5	169.9	7.5	46.5	70.8	221.6	333.8	25.4	136.5	-72.1	107.7	136.1
	2004	-28.9	-19.4	20.0	-13.3	0.3	3.4	-6.3	-61.4	84.2	-19.0	-148.2	-57.4	-56.9	-25.2	203.3	49.1	39.5	49.8	130.8	328.5	18.0	101.1	-30.4	21.5	14.9
ROE	2003	19%	19%	8%	25%	2%	19%	15%	29%	17%	24%	29%	30%	15%	45%	12%	24%	12%	20%	n/a	17%	37%	20%	16%	9%	1%
	2004	10%	9%	6%	6%	3%	6%	7%	33%	24%	18%	19%	39%	65%	22%	18%	19%	17%	23%	n/a	28%	31%	26%	13%	31%	37%
ROA	2003	31%	17%	6%	20%	1%	7%	14%	18%	6%	17%	25%	19%	8.0%	19.0%	5.2%	10.6%	6.4%	12.2%	-10.8%	5.4%	9.9%	10.6%	12.0%	4.9%	0.7%
	2004	9%	8%	4%	5%	1%	3%	5%	44%	11%	66%	43%	26%	42.4%	44.2%	8.7%	11.1%	7.7%	12.5%	4.6%	8.4%	9.2%	16.5%	8.9%	17.9%	20.4%

Company Profiles

SELL

Current price	Target price
USD 0.65	USD 0.58

Market Information

No of Shares, mln	3 859.5
Market price, USD	0.65

MCAp, USD mln	2 509
Free float	3.5%
FF MCAp, USD mln	88

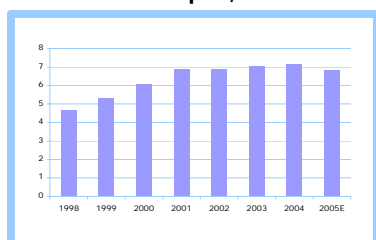
Stock Ownership

State	94.7%
Other	5.3%

Ratios, 2004

EBITDA Margin	29%
Net Margin	20%
Net Debt/ Equity	-0.21

Crude Steel Output, mln mt



Capacity Utilization, 1H05

	Capacity mln mt	Utilization
Sintered Ore	8.1	104%
Coke	2.8	93%
Pig Iron	7.8	76%
Crude Steel	7.5	89%
Rolled Steel	6.3	93%

Kryvorizhstal

Reprivatization. KSTL was put up for re-privatization after a court decision in the spring of 2005. The new tender for the 93.02% stake is set for October 25 with a starting price of USD 1.98 bln, implying MCAp of USD 2.12 bln (P/S'05 = 1.14, EV/EBITDA'05 = 4.61, P/E = 10.34).

The tender conditions:

- radical reconstruction of steel production capacities
- substitution of outdated open-hearth furnaces with electric arc furnaces
- construction of an additional coke battery in order to fully satisfy KSTL's needs for this input material.
- broadening of product range in order to increase the company's competitiveness

The starting price for the tender is reasonable, given KSTL's vertically integrated production chain. The requirement that the buyer maintain sales of more than USD 1.9 bln is feasible, with an output level of 6 mln mt of rolled steel, implying an average price of USD 300 per ton. Currently, rebar, KSTL's core product, trades at ~\$365 per ton. Moreover, the tender requirement contains a safety margin, in case the market cools down. In order to be fully self-sufficient in raw materials, KSTL must increase its coke capacity and construct a pelletizing plant for the production of iron ore pellets. The construction of an additional coke battery may be economically feasible, as its by-product, cheap coke gas, could be used as a substitute for natural gas. As the company's main iron ore feedstock is agglomerate, we believe KSTL has no need to construct pelletizing capacities.

1.7% Block Of KSTL Will Be Sold. The block will be sold on the PFTS in Oct-Dec 2005.

Production. Due to the decline in prices that started in April and lasted until July, KSTL decreased its output by 8% yoy for 1H05. However, since July the company has fully loaded its production capacities and we forecast a 4% yoy crude steel output decrease to 6.8 mln mt for 2005.

KEY FINANCIAL DATA, USD mln

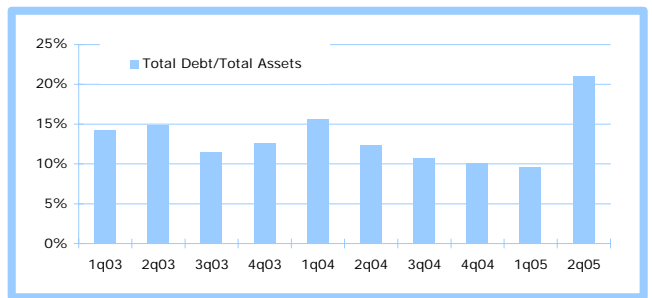
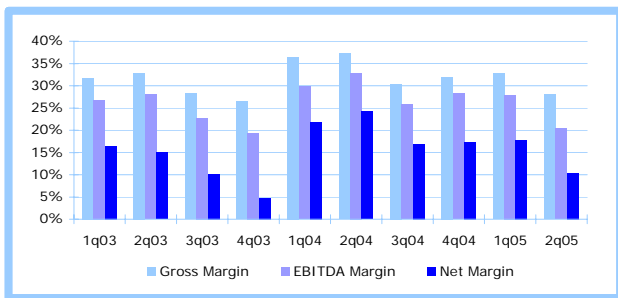
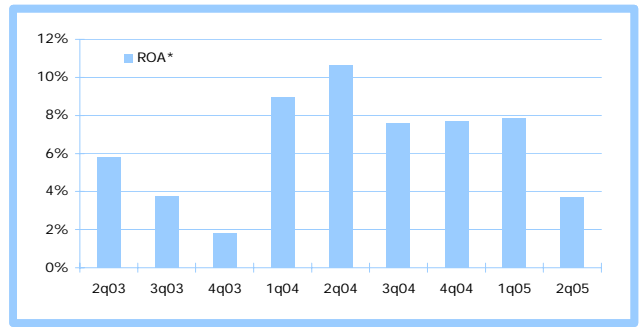
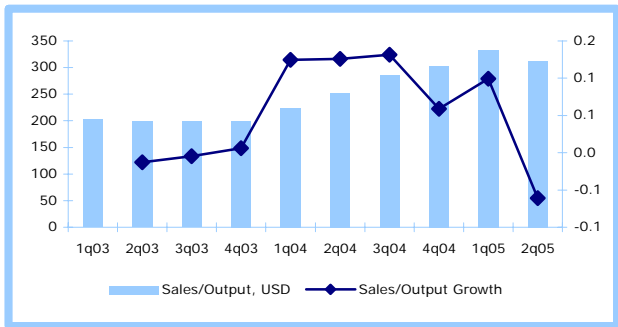
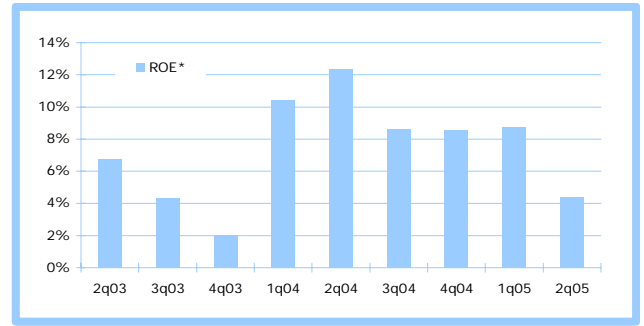
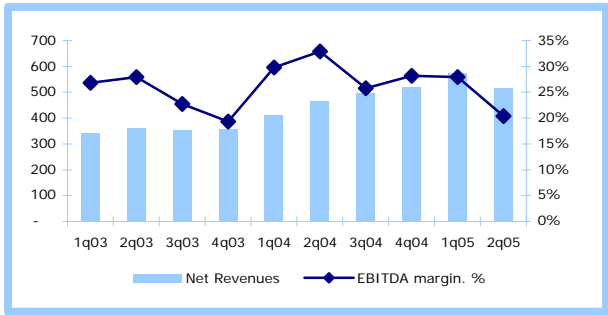
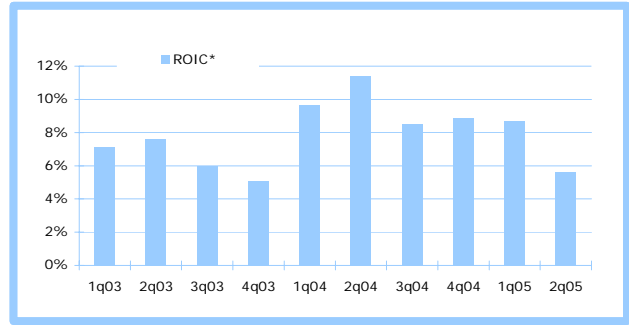
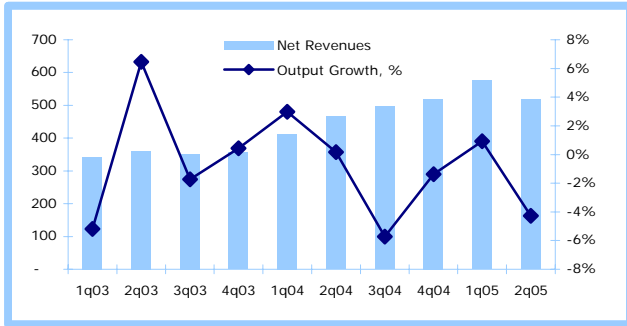
	Net Revenues	EBITDA	Net Income
2004	1 906	554	380
2005E	1 838	460	283
2006E	1 953	484	289

Spot Exch. Rate	5.05
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KEY RATIOS

	EV/S	EV/EBITDA	P/E
2004	1.2	4.2	6.6
2005E	1.3	4.5	8.9
2006E	1.2	4.9	8.7

Company Quarterly Analysis



*Quarterly ROIC, ROE and ROA are not annualized

Financial Statements

All financial statements according to Ukrainian Accounting Standards

Income Statement Summary, USD mln

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Net Revenues	1 413	1 906	1 838	1 953	2 032	2 155	2 249	2 282	2 292	2 301	2 310	2 319
<i>Change y-o-y</i>	<i>N/M</i>	<i>35%</i>	<i>-4%</i>	<i>6%</i>	<i>4%</i>	<i>6%</i>	<i>4%</i>	<i>1%</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>
Cost Of Sales	(991)	(1 261)	(1 287)	(1 367)	(1 402)	(1 466)	(1 529)	(1 552)	(1 559)	(1 565)	(1 571)	(1 577)
Gross Profit	421	645	552	586	630	690	720	730	733	736	739	742
Other Operating Income/Costs, net	(11)	(15)	(14)	(14)	(14)	(14)	(13)	(13)	(13)	(13)	(13)	(13)
SG&A	(68)	(77)	(78)	(88)	(102)	(119)	(135)	(137)	(138)	(138)	(139)	(139)
EBITDA	342.1	553.7	459.7	484.0	514.4	557.6	571.3	580.0	583.0	585.3	587.6	589.9
<i>EBITDA margin, %</i>	<i>24.2%</i>	<i>29.1%</i>	<i>25.0%</i>	<i>24.8%</i>	<i>25.3%</i>	<i>25.9%</i>	<i>25.4%</i>	<i>25.4%</i>	<i>25.4%</i>	<i>25.4%</i>	<i>25.4%</i>	<i>25.4%</i>
Depreciation	(32)	(47)	(55)	(70)	(80)	(90)	(98)	(104)	(109)	(113)	(116)	(120)
EBIT	310	507	405	414	434	468	474	476	474	473	471	470
<i>EBIT margin, %</i>	<i>21.9%</i>	<i>26.6%</i>	<i>22.0%</i>	<i>21.2%</i>	<i>21.4%</i>	<i>21.7%</i>	<i>21.1%</i>	<i>20.9%</i>	<i>20.7%</i>	<i>20.5%</i>	<i>20.4%</i>	<i>20.3%</i>
Interest Expense	(2)	(0.1)	(0)	(2)	(5)	(9)	(12)	(11)	(6)	(4)	(3)	(2)
Financial income/(expense) Other income/(expense)	(12)	(6)	0	0	0	0	0	0	0	0	0	0
PBT	296	501	405	412	429	458	462	465	468	469	468	468
Tax	(132)	(121)	(121)	(124)	(129)	(138)	(138)	(140)	(140)	(141)	(140)	(140)
<i>Effective tax rate</i>	<i>45%</i>	<i>24%</i>	<i>30%</i>	<i>30%</i>	<i>30%</i>	<i>30%</i>	<i>30%</i>	<i>30%</i>	<i>30%</i>	<i>30%</i>	<i>30%</i>	<i>30%</i>
Extraordinary Income/(loss)	0	0	0	0	0	0	0	0	0	0	0	0
Net Income	163.3	380	283	289	300	321	323	326	328	328	328	328
<i>Net Margin, %</i>	<i>12%</i>	<i>19.9%</i>	<i>15.4%</i>	<i>14.8%</i>	<i>14.8%</i>	<i>14.9%</i>	<i>14.4%</i>	<i>14.3%</i>	<i>14.3%</i>	<i>14.3%</i>	<i>14.2%</i>	<i>14.1%</i>
Dividend Declared	-	132.8	113.4	115.4	150.2	160.4	161.5	162.8	229.3	295.2	295.0	294.9

Balance Sheet Summary, USD mln

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Current Assets	336	593	656	703	752	841	900	936	940	943	942	953
Cash & Equivalents	92	208	206	195	183	194	202	205	206	207	203	211
Trade Receivables	1	25	94	137	163	194	225	251	252	253	254	255
Inventories	132	228	225	254	284	323	337	342	344	345	346	348
Other current assets	112	133	131	117	122	129	135	137	138	138	139	139
Fixed Assets	626	637	823	1 014	1 194	1 351	1 461	1 534	1 571	1 587	1 603	1 608
PP&E, net	505	497	631	895	1 071	1 224	1 334	1 406	1 445	1 460	1 468	1 472
Other Fixed Assets	120	141	192	119	124	127	127	127	126	127	136	136
Total Assets	962	1 231	1 478	1 717	1 946	2 192	2 361	2 469	2 511	2 531	2 546	2 561
Shareholders' Equity	842	976	1 197	1 371	1 521	1 681	1 843	2 006	2 104	2 133	2 165	2 198
Share Capital	673	728	728	728	728	728	728	728	728	728	728	728
Reserves and Other	17	28	20	20	20	20	20	20	20	16	16	16
Retained Earnings	152	219	405	579	729	889	1 051	1 214	1 312	1 345	1 377	1 410
Current Liabilities	120	254	279	318	347	385	362	372	360	355	350	349
ST Interest Bearing Debt	9	0	2	6	12	18	25	18	11	9	5	2
Trade Payables	40	29	38	59	81	108	135	160	160	161	162	162
Accrued Wages	7	11	11	11	11	12	13	13	13	13	13	13
Accrued Taxes	5	8	8	9	9	9	10	10	10	8	7	7
Other Current Liabilities	58	338	220	234	234	237	180	171	165	164	164	165
LT Liabilities	0	2	2	28	78	126	156	92	47	43	30	13
LT Interest Bearing Debt			2	28	78	126	156	92	47	43	30	13
Other LT	0	2										
Total Liabilities & Equity	962	1 231	1 478	1 717	1 946	2 192	2 361	2 469	2 511	2 531	2 546	2 561

Cash Flow Statement Summary, USD mln

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Net Income	163	380	283	289	300	321	323	326	328	328	328	328
Depreciation	32	47	55	70	80	90	98	104	109	113	116	120
Non-operating and non-cash items	68	71	124	(2)	(6)	(7)	(8)	(6)	(5)	(9)	(8)	(0)
Changes in working capital	(31)	(283)	(170)	(22)	(38)	(47)	(80)	(17)	(9)	(5)	(3)	(2)
Operating Cash Flow	233	214	292	334	337	357	333	407	423	427	433	446
Capital Expenditures, net	(39)	(35)	(196)	(260)	(254)	(240)	(200)	(170)	(142)	(124)	(124)	(124)
Other Investments, net	(47)	(55)	0	0	0	0	0	0	0	0	0	0
Investing Cash Flow	(86)	(90)	(196)	(260)	(254)	(240)	(200)	(170)	(142)	(124)	(124)	(124)
Net Borrowings/(repayments)	(25)	(9)	4	30	56	54	37	(71)	(51)	(7)	(18)	(19)
Dividends Paid			(113)	(115)	(150)	(160)	(162)	(163)	(229)	(295)	(295)	(295)
Other	(32)	3	0	0	0	0	0	0	0	0	0	0
Financing Cash Flow	(57)	(7)	(109)	(85)	(95)	(106)	(125)	(234)	(280)	(302)	(313)	(314)
Beginning Cash Balance	N/A	93	216	206	195	183	194	202	205	206	207	203
Ending Cash Balance	92	208	202	195	183	194	202	205	206	207	203	211
Net Cash Inflows/Outflows	91	117	(14)	(11)	(12)	11	8	3	1	1	(4)	8

UAH/USD Exchange Rates

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Average	5.33	5.30	5.10	5.00	5	5	5	5	5	5	5	5
Year-end	5.33	5.30	5.00	5.00	5	5	5	5	5	5	5	5

SELL

Current price Target price
USD 0.58 USD 0.56

MMKI, UAH



Market Information

No of Shares, mln 3 351.7
Market price, USD 0.58

MCap, USD mln 1 944
Free float 3.5%
FF MCap, USD mln 68

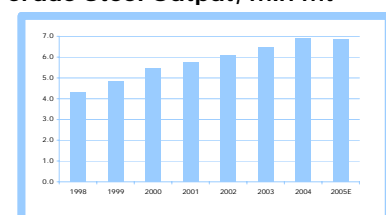
Stock Ownership

Management 93.0%
Other 7.0%

Ratios, 2004

EBITDA Margin 22%
Net Margin 14%
Net Debt/ Equity -0.11

Crude Steel Output, mln mt



Capacity Utilization, 1H05

	Capacity mln mt	Utilization
Sinter	8.1	104%
Pig Iron	7.8	76%
Crude Steel	7.5	89%
Rolled Steel	6.3	93%

KEY FINANCIAL DATA, USD mln

	Net Revenues	EBITDA	Net Income
2004	2 640	586	379
2005E	2 655	465	267
2006E	2 548	401	204

Spot Exch. Rate 5.05

Mariupol Ilich

Hunting For Iron Ore. The company is trying to find a remedy for its lack of iron ore production capacities. Since late 2005, MMKI has been leasing the State owned Severny mine, whose annual output is about 600 thousand mt of iron ore. However, this amount only covers 6% of the companies iron ore needs.

Looking To Rent... MMKI is also trying to lease the Pervomayskaya-Drenazhnaya mine. The government is going to put the lease for this mine up for tender. With a capacity of 5.5 mln mt of iron ore (with iron content 51-52%), this mine would satisfy 60% of MMKI's iron ore needs.

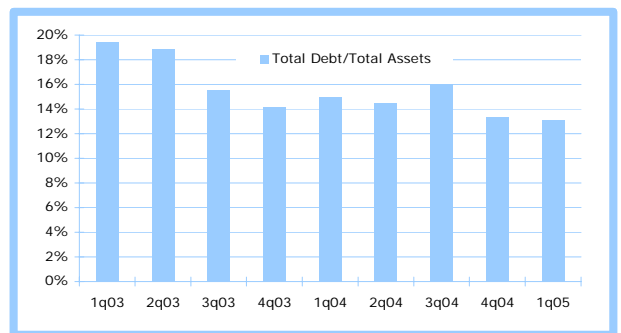
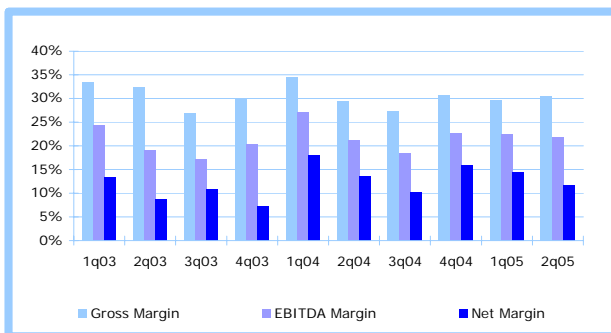
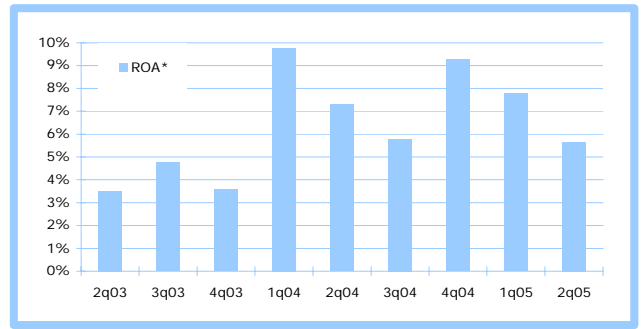
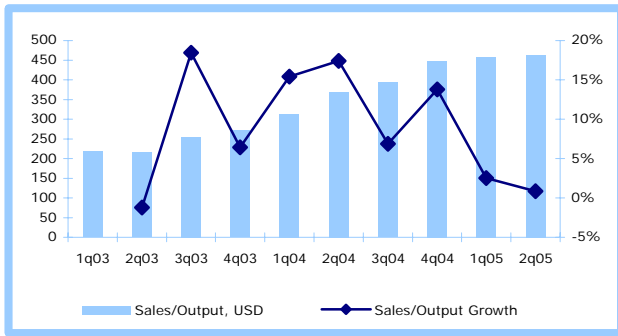
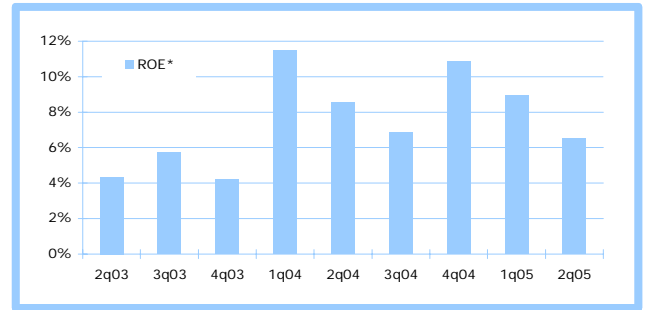
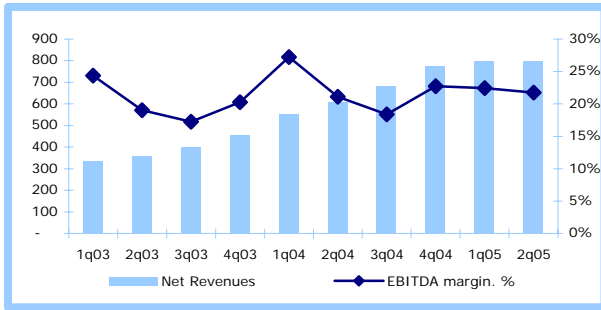
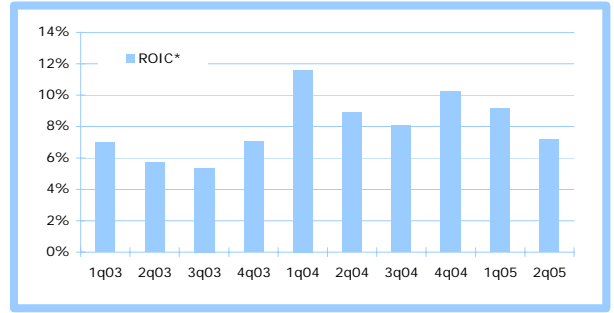
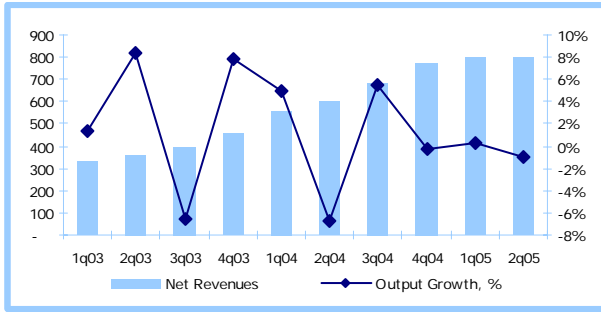
... Or Build Its Own. Jointly with ZPST, MMKI plans to build its own iron ore mine, Priazovsky GOK. The estimated capacity of the GOK is about 10 mln mt of concentrate. Construction is expected to begin in 2007, and the mine should be fully functional by 2010.

MMKI Has Repaired Blast Furnace #2. The physical volume of the furnace was increased during the reconstruction which will result in an increase in pig iron production capacities by 22.7% to 2.7 ths mt daily. However, we do not believe that the company will start to fully utilize the capacity of the rebuilt blast furnace as steel prices are still low. In our opinion, the company will maintain production at 1H05 levels.

KEY RATIOS

	P/S	EV/EBITDA	P/E
2004	0.7	3.1	5.1
2005E	0.7	3.8	7.3
2006E	0.7	4.5	9.5

Company Quarterly Analysis



*Quarterly ROIC, ROE and ROA are not annualized

Financial Statements

All financial statements according to Ukrainian Accounting Standards

Income Statement Summary, USD mln

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Net Revenues	1 553	2 640	2 655	2 548	2 649	2 783	2 867	2 896	2 925	2 954	2 984	3 014
<i>Change y-o-y</i>	<i>N/M</i>	<i>70%</i>	<i>1%</i>	<i>-4%</i>	<i>4%</i>	<i>5%</i>	<i>3%</i>	<i>1%</i>	<i>1%</i>	<i>1%</i>	<i>1%</i>	<i>1%</i>
Cost Of Sales	(1 080)	(1 838)	(1 912)	936	934	(1 976)	(2 007)	(2 027)	(2 047)	(2 068)	(2 089)	(2 109)
Gross Profit	473	802	743	611	715	807	860	869	877	886	895	904
Other Operating Income/Costs, net	(78)	(99)	(119)	(58)	(59)	(59)	(59)	(59)	(59)	(59)	(59)	(59)
SG&A	(83)	(117)	(159)	(153)	(159)	(167)	(172)	(174)	(175)	(177)	(179)	(181)
EBITDA	312.2	585.5	464.6	400.6	497.3	581.1	629.2	636.0	643.0	650.0	657.1	664.3
<i>EBITDA margin, %</i>	<i>20.1%</i>	<i>22.2%</i>	<i>17.5%</i>	<i>15.7%</i>	<i>18.8%</i>	<i>20.9%</i>	<i>21.9%</i>	<i>22.0%</i>	<i>22.0%</i>	<i>22.0%</i>	<i>22.0%</i>	<i>22.0%</i>
Depreciation	(35)	(40)	(53)	(86)	(103)	(117)	(130)	(141)	(152)	(162)	(172)	(182)
EBIT	277	545	411	315	395	464	499	495	491	488	485	482
<i>EBIT margin, %</i>	<i>17.8%</i>	<i>20.6%</i>	<i>15.5%</i>	<i>12.4%</i>	<i>14.9%</i>	<i>16.7%</i>	<i>17.4%</i>	<i>17.1%</i>	<i>16.8%</i>	<i>16.5%</i>	<i>16.3%</i>	<i>16.0%</i>
Interest Expense	(1)	(1.1)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(1)	(1)
Financial income/(expense)	0	2	-	-	-	-	-	-	-	-	-	-
Other income/(expense)	(12)	(1)	-	-	-	-	-	-	-	-	-	-
PBT	264	545	411	315	394	463	499	495	491	488	485	482
Tax	(108)	(166)	(144)	(110)	(138)	(162)	(175)	(173)	(172)	(171)	(170)	(169)
<i>Effective tax rate</i>	<i>41%</i>	<i>30%</i>	<i>35%</i>	<i>35%</i>	<i>35%</i>	<i>35%</i>	<i>35%</i>	<i>35%</i>	<i>35%</i>	<i>35%</i>	<i>35%</i>	<i>35%</i>
Extraordinary Income/(loss)	(1.4)	(0.7)	-	-	-	-	-	-	-	-	-	-
Net Income	153.8	379	267	204	256	301	324	321	319	317	315	313
<i>Net Margin, %</i>	<i>10%</i>	<i>14.3%</i>	<i>10.1%</i>	<i>8.0%</i>	<i>9.7%</i>	<i>10.8%</i>	<i>11.3%</i>	<i>11.1%</i>	<i>10.9%</i>	<i>10.7%</i>	<i>10.6%</i>	<i>10.4%</i>
Dividend Declared	-	-	-	-	-	120.5	162.2	192.9	223.4	253.6	283.5	281.8

Balance Sheet Summary, USD mln

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Current Assets	372	657	772	749	842	939	1 035	1 112	1 144	1 170	1 188	1 199
Cash & Equivalents	16	135	162	148	159	166	172	174	175	177	179	181
Trade Receivables	77	83	135	127	172	209	244	278	292	310	313	316
Inventories	152	241	252	250	278	320	367	405	418	422	427	431
Other current assets	127	198	222	224	233	245	252	255	257	260	269	271
Fixed Assets	583	734	994	1 235	1 417	1 543	1 630	1 697	1 734	1 759	1 770	1 769
PP&E, net	418	458	644	1 053	1 236	1 367	1 452	1 509	1 544	1 565	1 574	1 573
Other Fixed Assets	165	277	351	181	180	176	178	188	190	194	196	196
Total Assets	955	1 391	1 766	1 984	2 259	2 482	2 665	2 809	2 878	2 929	2 958	2 969
Shareholders' Equity	821	1 206	1 552	1 757	2 013	2 200	2 353	2 479	2 533	2 571	2 591	2 599
Share Capital	157	158	158	158	158	158	158	158	158	158	158	158
Reserves and Other	507	669	710	711	710	717	707	705	663	638	627	603
Retained Earnings	157	379	674	879	1 135	1 316	1 478	1 606	1 702	1 766	1 797	1 828
Current Liabilities	129	181	214	227	246	283	313	330	345	357	366	370
ST Interest Bearing Debt	1	1	3	3	3	3	3	3	3	3	3	3
Trade Payables	44	59	81	104	119	139	166	188	205	216	218	220
Accrued Wages	6	7	11	9	9	10	10	10	10	10	13	13
Accrued Taxes	10	16	19	18	19	19	19	19	19	19	19	20
Other Current Liabilities	68	98	100	93	97	111	115	110	108	109	113	115
LT Liabilities	5	5	-	-	-	-	-	-	-	-	-	-
LT Interest Bearing Debt	0	0	-	-	-	-	-	-	-	-	-	-
Other LT	5	5	-	-	-	-	-	-	-	-	-	-
Total Liabilities & Equity	955	1 391	1 766	1 984	2 259	2 482	2 665	2 809	2 878	2 929	2 958	2 969

Cash Flow Statement Summary, USD mln

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Net Income	154	379	267	204	256	301	324	321	319	317	315	313
Depreciation	35	40	53	86	103	117	130	141	152	162	172	182
Non-operating and non-cash items	116	118	(8)	(16)	(5)	3	(18)	(14)	(47)	(29)	(14)	(24)
Changes in working capital	(196)	(279)	(35)	21	(63)	(54)	(59)	(58)	(15)	(12)	(7)	(6)
Operating Cash Flow	109	259	278	295	291	367	377	391	409	437	466	465
Capital Expenditures, net	(47)	(120)	(261)	(310)	(280)	(240)	(208)	(196)	(184)	(182)	(181)	(181)
Other Investments, net	(17)	(19)	-	-	-	-	-	-	-	-	-	-
Investing Cash Flow	(64)	(139)	(261)	(310)	(280)	(240)	(208)	(196)	(184)	(182)	(181)	(181)
Net Borrowings/(repayments)	(27)	(0)	2	(0)	0	0	0	0	0	0	0	0
Dividends Paid	(1)	-	-	-	-	(120)	(162)	(193)	(223)	(254)	(284)	(282)
Other	(6)	(0)	-	-	-	-	-	-	-	-	-	-
Financing Cash Flow	(34)	(0)	2	(0)	0	(120)	(162)	(193)	(223)	(254)	(284)	(282)
Beginning Cash Balance	N/A	16	140	162	148	159	166	172	174	175	177	179
Ending Cash Balance	16	135	159	148	159	166	172	174	175	177	179	181
Net Cash Inflows/Outflows	11	120	19	(15)	11	7	6	2	2	2	2	2

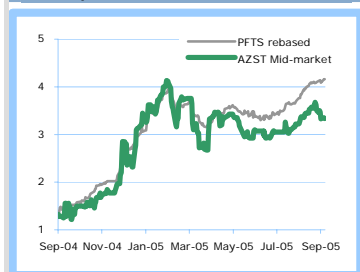
UAH/USD Exchange Rates

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Average	5.33	5.30	5.10	5.00	5	5	5	5	5	5	5	5
Year-end	5.33	5.30	5.00	5.00	5	5	5	5	5	5	5	5

SELL

Current price	Target price
USD 0.65	USD 0.45

AZST, UAH



Market Information

No of Shares, mln	3 174.2
Market price, USD	0.65

MCap, USD mln	2 163
Free float	4%
FF MCap, USD mln	87

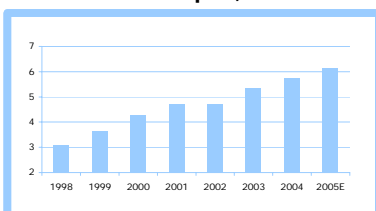
Stock Ownership

SCM	96.0%
Other	4.0%

Ratios, 2004

EBITDA Margin	16%
Net Margin	10%
Net Debt/ Equity	0.14

Crude Steel Output, mln mt



Capacity Utilization, 1H05

	Capacity mln mt	Utilization
Sinter	1.7	123%
Pig Iron	6.1	81%
Crude Steel	7.0	83%
Rolled Steel	5.1	102%

KEY FINANCIAL DATA*, USD mln

	Net Revenues	EBITDA	Net Income
2004	1 751	272	181
2005E	2 187	340	178
2006E	2 236	316	185

Spot Exch. Rate	5.05
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*AZST's financials are on a stand-alone basis

Azovstal

Expanding. AZST has the highest output growth rate among the Ukrainian steel companies this year. For 7m05, AZST's crude steel production grew by 7%, while the industry average was -2%. The company is gradually increasing its output as part of its plan to increase output to more than 7 mln mt by 2007.

Investing In Modernization. AZST plans to complete construction of a new blast furnace. The cost of the blast furnace is USD 60 mln. The company's total investments in the modernization of equipment will reach USD 320 mln. Recently, AZST received a USD 100 mln syndicated loan for two years from a consortium of European banks in order to finance part of the CapEx.

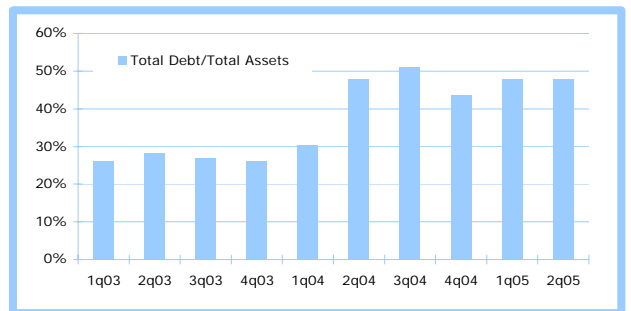
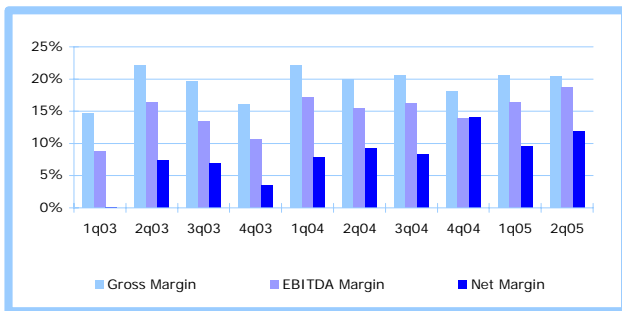
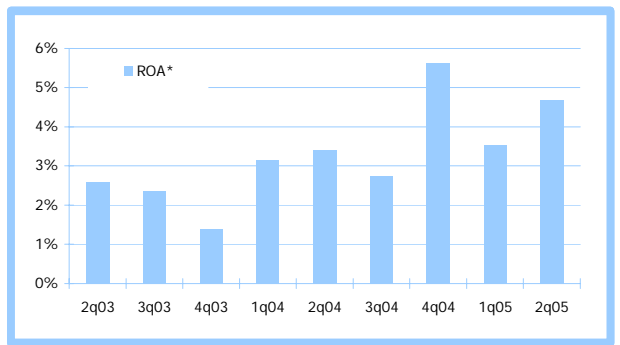
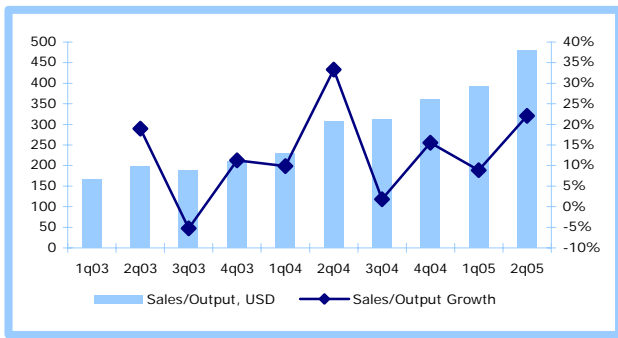
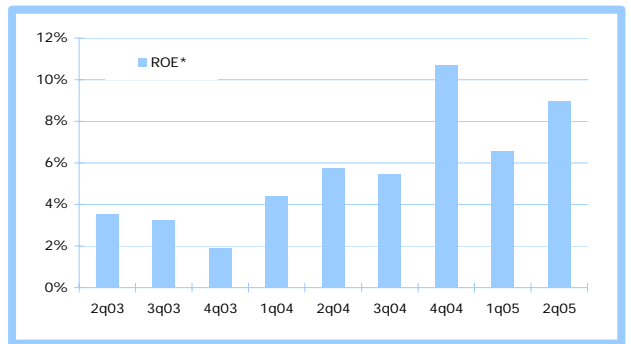
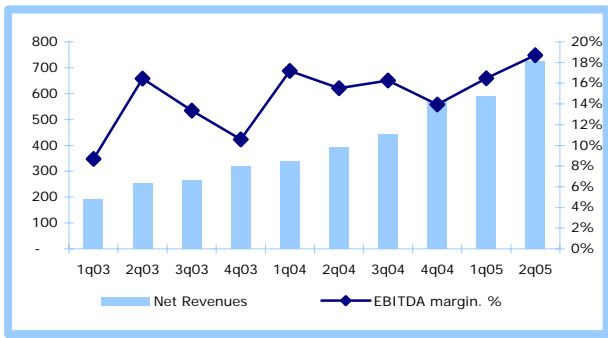
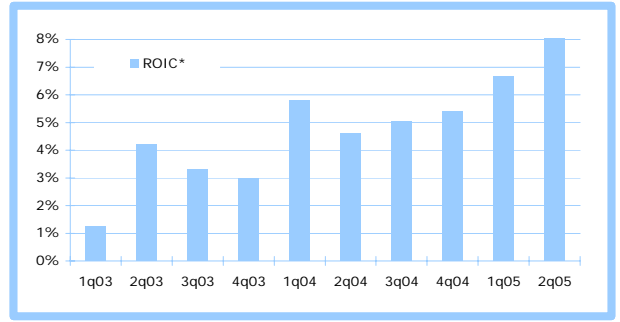
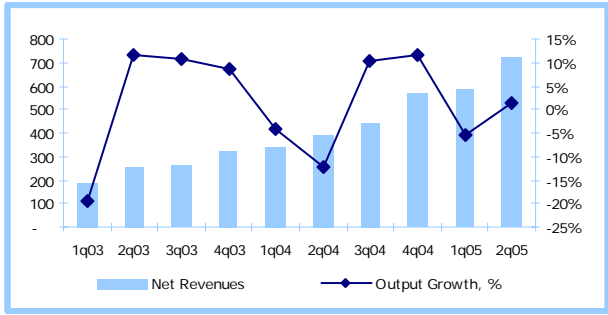
The Company Plans To Become 100% Self-Sufficient. In 2006, AZST will start the construction of the new sinter production factory. The cost of the project is estimated at USD 520 mln. The company plans to attract a loan in order to finance the project. Despite the expensiveness of the construction, the project is economically feasible for the plant as the factory with its capacity of 12 mln mt will make AZST 100% self-sufficient in this material. After commissioning the new plant, AZST's market share in Ukrainian sinter production will grow from 4.2% to 30%. Excessive capacities will enable the company to sell part of its sinter output to other steel mills.

Azovstal And Markokhim To Merge. The shareholders of AZST voted to merge with MCHI at their EGM on September 19. The merger will make AZST the second Ukrainian vertically integrated steel company after Kryvorizhstal.

KEY RATIOS

	EV/S	EV/EBITDA	P/E
2004	1.2	8.0	11.4
2005E	1.0	6.7	11.6
2006E	1.0	7.3	11.2

Company Quarterly Analysis



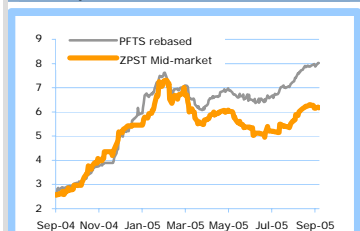
*Quarterly ROIC, ROE and ROA are not annualized

SELL

Zaporizhstal

Current price	Target price
USD 1.20	USD 1.07

ZPST, UAH



Market Information

Bloomberg Ticker	ZPST UZ
No of Shares, mln	843.7
Market price, USD	1.20
MCap, USD mln	1 012
Free float	4%
FF MCap, USD mln	51

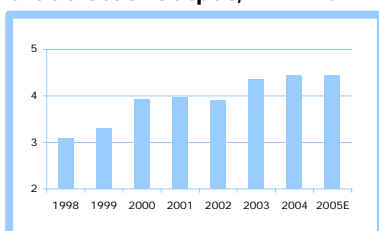
Stock Ownership

Zakhid-Rezerv	28.5%
Global Steel Inv.	22.6%
Airol Beteiligungen	17.0%
Other	35.7%

Ratios, 2004

EBITDA Margin	18%
Net Margin	12%
Net Debt/ Equity	-0.09

Crude Steel Output, mln mt



Capacity Utilization, 1H05

	Capacity mln mt	Utilization
Sinter	n/a	n/a
Pig Iron	3.3	108%
Crude Steel	4.4	97%
Rolled Steel	4.0	88%

KEY FINANCIAL DATA, USD mln

	Net Revenues	EBITDA	Net Income
2004	1 332	237	153
2005E	1 471	254	139
2006E	1 411	202	94

Spnt Fvch Rate 5 05

KEY RATIOS

	EV/S	EV/EBITDA	P/E
2004	0.7	4.0	6.6
2005E	0.7	3.7	7.3
2006E	0.7	4.8	10.8

Upgrades On The Way. ZPST's steel production capacities are some of the most outdated in the industry – the company uses only the open-hearth process for steel smelting. In 2006, ZPST will start upgrading its technology to be prepared for the tightening market in the coming years beginning with construction of a converter shop.

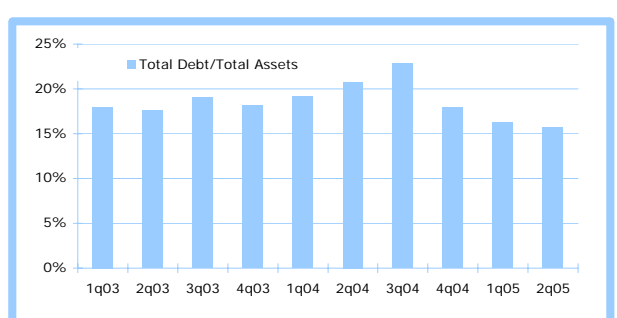
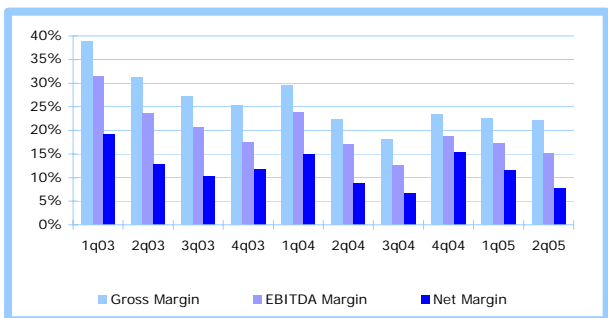
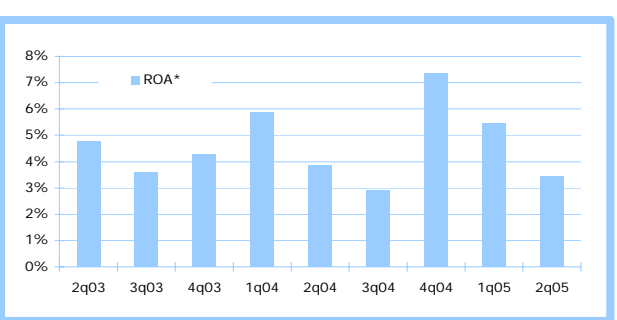
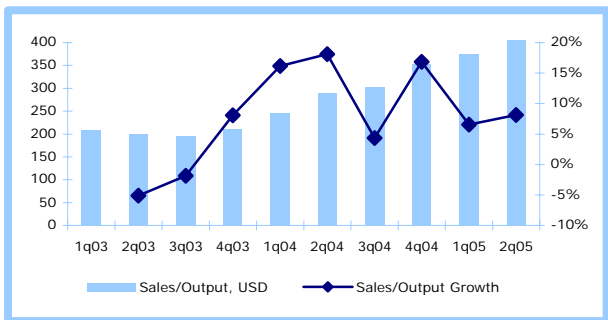
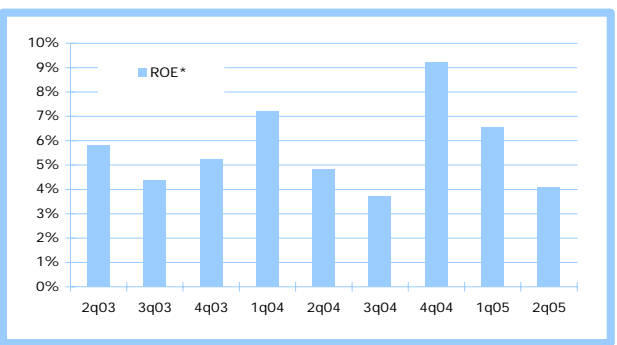
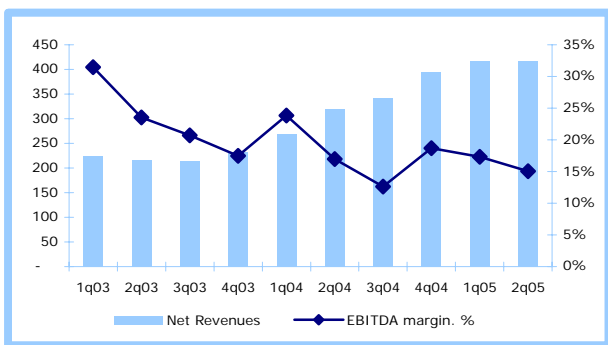
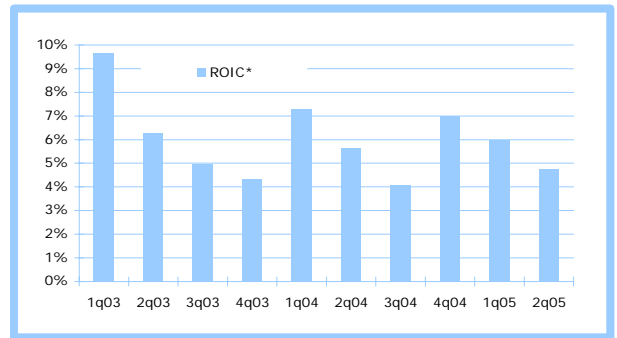
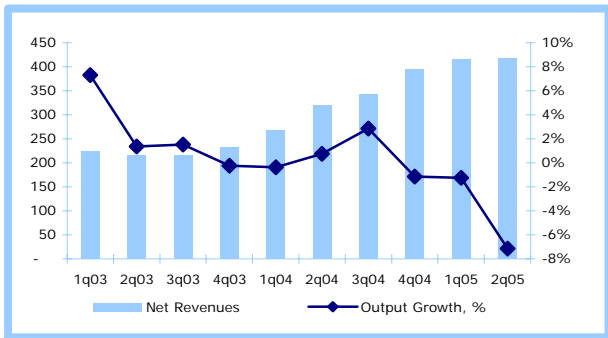
During the first stage of construction, ZPST will set up a converter, continuous casting machine and ladle-furnace with a capacity of 2 mln mt. The second stage envisages the installation of two continuous casting machines, two converters and two ladle-furnaces. The total cost of the project is around USD 1.1 bln. The capacity of the new converter shop will be 4.5-4.7 mln tons of steel, slightly above the current 4.5 mln tons. The project will be accomplished by 2012 -- then the existing open-hearth furnaces will be removed.

Financing With Eurobonds. The first stage of the project will be financed through the issuance of USD 300 mln Eurobonds in 2005. Deutsche Bank and J.P. Morgan will be lead managers of the issuance, which will be placed on the US, European and South-East Asian markets to yield expectedly ~10%.

No Feedstock Problems. ZPST does not directly control any company which could supply input materials. Nevertheless, the plant holds a 29% stake in Zaporizhya Iron Ore and 41% stake in ZaporizhCoke which enables the company to regularly obtain the major feedstock.

ZPST To Build Own GOK. In partnership with MMKI, ZPST will also participate in the construction of Pryazovsky GOK. As both companies have equal parts in the projects, ZPST will be fully sufficient in iron ore.

Company Quarterly Analysis



*Quarterly ROIC, ROE and ROA are not annualized

Financial Statements

All financial statements according to Ukrainian Accounting Standards

Income Statement Summary, USD mln

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Net Revenues	886	1 332	1 471	1 411	1 453	1 512	1 558	1 573	1 589	1 605	1 621	1 637
Change y-o-y	N/M	50%	10%	-4%	3%	4%	3%	1%	1%	1%	1%	1%
Cost Of Sales	(615)	(1 026)	(1 132)	(1 129)	(1 148)	(1 164)	(1 184)	(1 196)	(1 208)	(1 220)	(1 232)	(1 244)
Gross Profit	271	307	338	282	305	348	374	378	381	385	389	393
Other Operating Income/Costs, net	(4)	4	4	4	4	4	4	4	4	4	4	4
SG&A	(61)	(74)	(88)	(85)	(87)	(91)	(93)	(94)	(95)	(96)	(97)	(98)
EBITDA	206.3	236.5	253.9	201.6	222.0	261.0	284.4	287.2	290.0	292.8	295.7	298.7
EBITDA margin, %	23.3%	17.7%	17.3%	14.3%	15.3%	17.3%	18.3%	18.3%	18.3%	18.2%	18.2%	18.2%
Depreciation	(28)	(30)	(37)	(53)	(61)	(69)	(76)	(83)	(89)	(94)	(99)	(104)
EBIT	179	206	217	148	161	192	208	204	201	199	197	195
EBIT margin, %	20.1%	15.5%	14.8%	10.5%	11.0%	12.7%	13.4%	13.0%	12.7%	12.4%	12.1%	11.9%
Interest Expense	(0)	(1.4)	(3)	(4)	(3)	(3)	(3)	(2)	(1)	(1)	(1)	(1)
Financial income/(expense)	5	15	-	-	-	-	-	-	-	-	-	-
Other income/(expense)	(5)	(11)	-	-	-	-	-	-	-	-	-	-
PBT	178	208	214	145	157	188	205	203	200	198	196	194
Tax	(58)	(55)	(75)	(51)	(55)	(66)	(72)	(71)	(70)	(69)	(69)	(68)
Effective tax rate	32%	27%	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%
Extraordinary Income/(loss)	-	-	-	-	-	-	-	-	-	-	-	-
Net Income	119.9	152.8	139	94	102	122	134	132	130	129	127	126
Net Margin, %	14%	11.5%	9.5%	6.7%	7.0%	8.1%	8.6%	8.4%	8.2%	8.0%	7.9%	7.7%
Dividend Declared	2.4	3.1	2.8	1.9	2.0	12.2	26.7	39.5	52.1	64.4	76.4	75.6

Balance Sheet Summary, USD mln

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Current Assets	188	275	343	344	376	422	466	486	507	528	541	547
Cash & Equivalents	62	72	90	85	87	91	93	94	95	96	97	98
Trade Receivables	14	19	45	56	73	91	109	126	143	152	162	164
Inventories	66	118	135	134	145	166	187	189	191	201	203	205
Other current assets	45	65	73	69	71	74	76	77	78	78	79	80
Fixed Assets	465	572	691	787	878	964	1 027	1 092	1 138	1 159	1 192	1 188
PP&E, net	253	322	400	612	697	766	822	861	884	896	897	892
Other Fixed Assets	212	250	291	174	181	198	205	231	254	263	295	295
Total Assets	653	846	1 034	1 131	1 254	1 386	1 492	1 578	1 644	1 687	1 733	1 734
Shareholders' Equity	533	693	873	966	1 066	1 176	1 279	1 365	1 439	1 480	1 524	1 527
Share Capital	40	40	40	40	40	40	40	40	40	40	40	40
Reserves and Other	339	349	370	370	370	370	366	360	356	333	326	278
Retained Earnings	155	304	461	553	654	764	871	963	1 041	1 105	1 156	1 207
Current Liabilities	86	123	120	124	142	163	183	193	195	197	199	201
ST Interest Bearing Debt	12	9	2	1	1	2	2	2	2	2	2	2
Trade Payables	37	89	75	78	87	98	109	118	119	120	122	123
Accrued Wages	1	2	2	2	2	2	2	2	2	2	2	2
Accrued Taxes	4	7	8	8	8	8	8	8	9	9	9	9
Other Current Liabilities	35	19	33	35	44	53	62	63	64	64	65	65
LT Liabilities	34	31	41	41	46	47	30	20	11	10	10	6
LT Interest Bearing Debt	-	4	41	41	46	47	30	20	11	10	10	6
Other LT	34	27	-	-	-	-	-	-	-	-	-	-
Total Liabilities & Equity	653	846	1 034	1 131	1 254	1 386	1 492	1 578	1 644	1 687	1 733	1 734

Cash Flow Statement Summary, USD mln

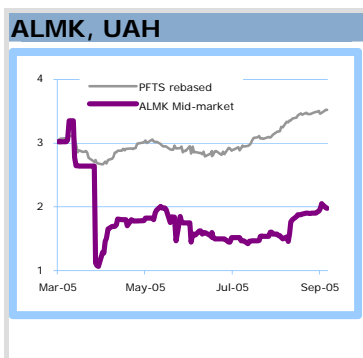
	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Net Income	120	153	139	94	102	122	134	132	130	129	127	126
Depreciation	28	30	37	53	61	69	76	83	89	94	99	104
Non-operating and non-cash item	(5)	(4)	(27)	1	(8)	(18)	(13)	(34)	(28)	(34)	(40)	(48)
Changes in working capital	(19)	(122)	(44)	(2)	(11)	(21)	(21)	(10)	(18)	(18)	(10)	(2)
Operating Cash Flow	124	57	105	146	145	152	176	170	172	171	176	180
Capital Expenditures, net	(42)	(19)	(118)	(150)	(145)	(137)	(130)	(120)	(110)	(105)	(99)	(99)
Other Investments, net	(43)	(28)	-	-	-	-	-	-	-	-	-	-
Investing Cash Flow	(86)	(48)	(118)	(150)	(145)	(137)	(130)	(120)	(110)	(105)	(99)	(99)
Net Borrowings/(repayments)	(6)	1	29	0	5	1	(17)	(10)	(9)	(1)	0	(4)
Dividends Paid	(0)	(1)	(3)	(2)	(2)	(12)	(27)	(40)	(52)	(64)	(76)	(76)
Other	1	(1)	-	-	-	-	-	-	-	-	-	-
Financing Cash Flow	(5)	(1)	26	(2)	3	(12)	(44)	(49)	(61)	(65)	(76)	(80)
Beginning Cash Balance	N/A	63	75	90	85	87	91	93	94	95	96	97
Ending Cash Balance	62	72	88	85	87	91	93	94	95	96	97	98
Net Cash Inflows/Outflows	33	8	13	(5)	3	4	3	1	1	1	1	1

UAH/USD Exchange Rates

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Average	5.33	5.30	5.10	5.00	5	5	5	5	5	5	5	5
Year-end	5.33	5.30	5.00	5.00	5	5	5	5	5	5	5	5

BUY

Current price Target price
 USD 0.38 USD 0.60



Market Information

	ALMK
Bloomberg Ticker	UZ
No of Shares, mln	775.3
No of Shares*, mln	10 775.3
Market price, USD	0.38
MCap, USD mln	295
Free float	4.5%
FF MCap, USD mln	13.3

Stock Ownership

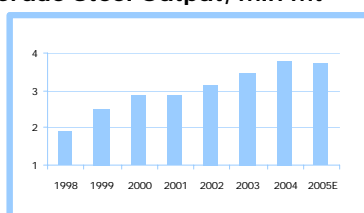
IUD	90.3%
Other	9.7%

Ratios, 2004

EBITDA Margin	5.1%
Net Margin	1.1%
Net Debt/ Equity	0.02

*# of shares after additional share issuance

Crude Steel Output, mln mt



Capacity Utilization, 1H05

	Capacity mln mt	Utilization
Sinter	5.4	89%
Pig Iron	3.1	93%
Crude Steel	3.5	108%

KEY FINANCIAL DATA, USD mln

	Net Revenues	EBITDA	Net Income
2004	801	41	8
2005E	935	140	84
2006E	1 071	150	86

Spnt Fxch Rate 5 05

Alchevsk Iron And Steel

New Investment Program. ALMK decided to radically revise its investment program disclosed at the beginning of the year. The amount of the investment was increased from USD 400 mln to USD 1.8 bln till 2010. As a result, the capacity of the mill will be doubled to 7.6 mln mt of crude steel. The program anticipates the installation of a converter shop to replace its open hearth and the introduction of a continuous casting process.

First Phase Of Steel Casting Complex Completed. The company has already completed the first phase of a continuous steel casting complex with a capacity of 2.5 mln mt of slabs. ALMK invested about USD 400 mln in the construction of the first phase.

ALMK's continuous casting complex will consist of two con-casting machines with an annual capacity of 2.5 mln mt of slabs each. The installation of the second machine will be completed in 2007. The estimated investment for this project is USD 400 mln.

13-Fold Charter Fund Increase. The company will finance its modernization program with loans as well as an expected 13-fold charter fund increase. The company will hold an AGM on September 30 to increase its capital by USD 198 mln to USD 213 mln through an additional share issue.

The side effect of this subscription will be the dilution of minority shareholders who do not subscribe. Employees who currently own less than 1% will not represent a source of liquidity for the market any longer.

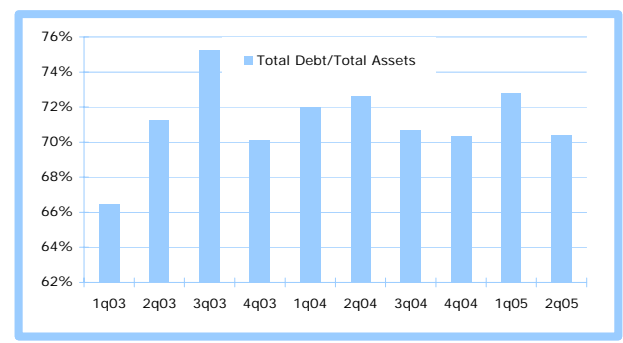
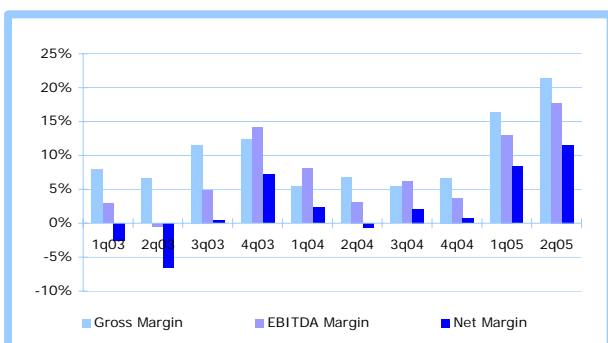
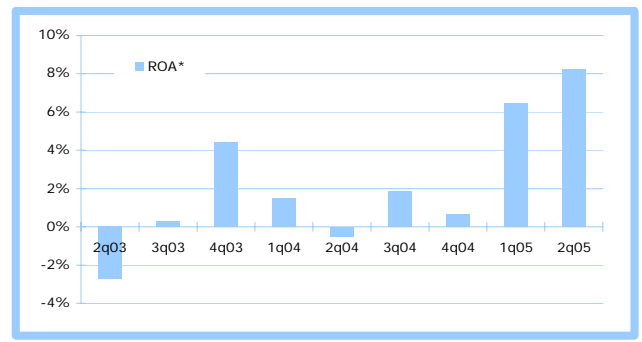
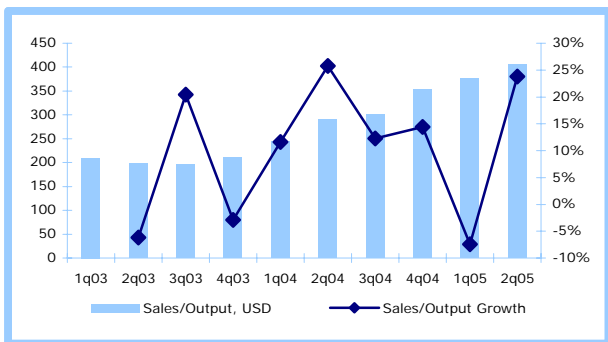
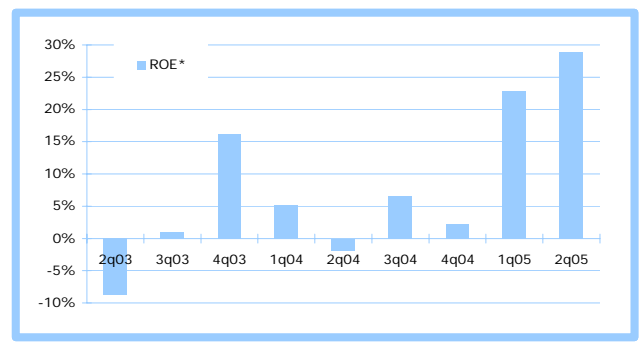
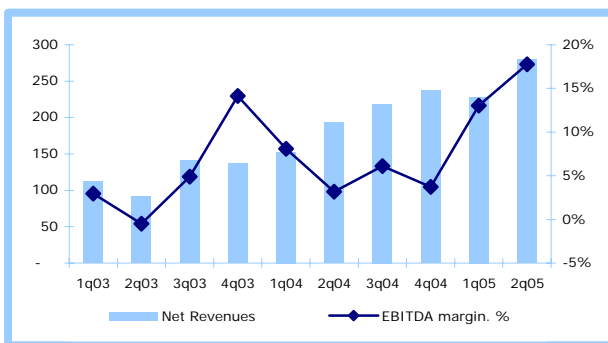
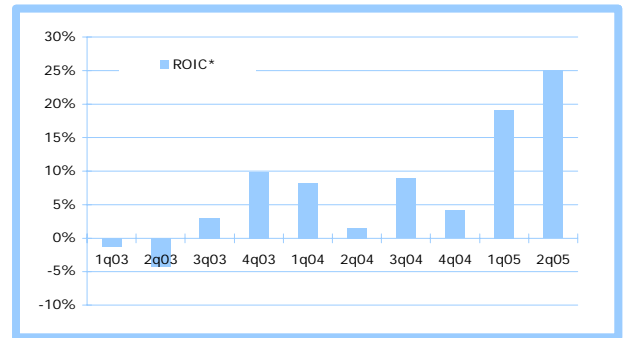
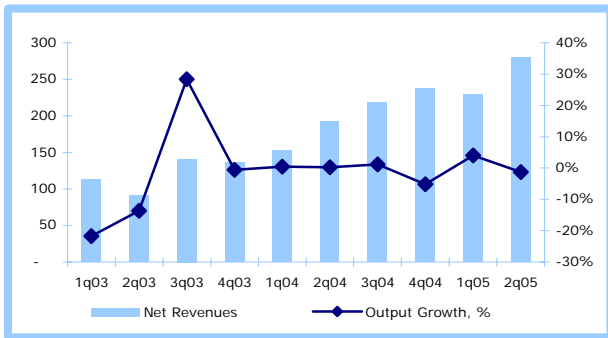
If the additional share issue happens, we estimate that the current price will fall to USD 0.046, while target price will be USD 0.062 implying 35% upside.

ALMK will continue to practice transfer pricing schemes redirecting a significant portion of its profit to the parent company, the IUD. In the medium term, the IUD is going to integrate all its companies creating a large steelmaking holding.

KEY RATIOS

	EV/S	EV/EBITDA	P/E
2004	0.4	7.3	34.8
2005E	0.4	2.3	3.5
2006E	0.5	3.4	3.4

Company Quarterly Analysis



*Quarterly ROIC, ROE and ROA are not annualized

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