UKRAINE
Machine Buliding

Olha Pankiv
op@concorde.com.ua
+380 44 207 5037

Eugene Cherviachenko
ec@concorde.com.ua
+ 380 44 207 5037

CONCORDE CAPITAL

Coal Machinery

Digging Out

Companies Covered:

Yasynuvatsky

Target MCap USD mln	70.0
12M Target USD	3.1

Druzhkivsky (DRMZ)

Market Price USD	0.34
12M Target USD	0.40
Target MCap USD mln	82.0

Donetskgirmash (DGRM)

Market Price USD	0.55
12M Target USD	0.66
Target MCap USD mln	30.0

Svitlo Shakhtarya (HMBZ)

Market Price USD	0.41
12M Target USD	0.89
Target MCap USD mln	100.0

March 14, 2006

CONTENT

COAL MACHINERY: INVESTMENT CASE

We are initiating coverage of Coal Machinery - an industry at a turning point. The fates of coal mines and mining machinery producers are intertwined. Ukrainian coal mining, one of the backbones of the national economy, has lived from hand to mouth since the collapse of the Soviet Union. Its future remained foggy after the change of political power in January 2005. However, later in the year, after the revolutionary dust settled, the economy's long-term development came to the forefront. We are optimistic about the future of the coal industry for two major reasons:

- Ukraine is pulling away from Russia and is striving to decrease its energy dependence on its northern neighbor;
- The political opposition's powerbase resides in Ukraine's coal basins and is made up of miners, a numerous, highly organized and politically active stratum of Ukrainian society. To insure their support the opposition constantly advocates industry development.

The government is on the verge of completing a strategic document on Energy Development in Ukraine. The document stipulates that Ukraine will satisfy domestic demand for coal with its own reserves. The strategy envisages an annual increase in coal mining capacities by 23% until 2030. The government plans to do this by both constructing new mines and rebuilding old capacities. This implies high and long-lasting demand for coal machinery.

We expect to see capital inflows into coal mining that will back substantial growth in the coal machinery segment, after the mines are privatized starting from 2006.

Focusing On The Four Largest Open JSCs. These companies produce a wide range of machinery products for the entire coal mining production process. Yasynuvatsky machinery have never been traded. The other three were listed on the PFTS in late 2005 and early 2006. Free float ranges from 12 to 40%.

Company	Ticker	Free Float	Target Price USD	MCap USD mln	Target MCap USD mln	Rec'
Yasynuvatskyy M-Build.		24%	3.10		70	BUY
Druzhkivsky M-Build.	DRMZ	12%	0.40	74.7	82	BUY
Donetskgirmash	DGRM	20%	0.66	18.7	30	BUY
Svitlo Shakhtarya	HMBZ	40%	0.89	46.0	100	BUY

Source: Concorde Capital estimates

Druzhkovsky, **Donetskgirmash.** We see potential for the consolidation of these companies along with other assets under the umbrella of SCM-related Ukrvuglemash. Transparency improvement in the mid-term (due to reasons elaborated upon in our MZVM/AZGM report of Sep 21, 2005) is another driver. If the government makes good on its talk to re-privatize these companies we do not see any reason why this would hurt their value. They would be put up for auction and qualified investors would bid for them (the Kyvoryzhstal case created a positive precedent).

Svitlo Shakhtarya. This small but efficient company is a possible candidate for acquisition. Consolidation jointly with other Ukrvuglemash-managed companies is possible, as SCM-related companies own ~24% of Svitlo, and could potentially increase its holdings.

Yasynuvatsky is a smaller, family-owned and family-managed, producer. It has transparent books, posts healthy profit margins and is distinguished among Ukrainian peers by its ability to export products. In March 2006 the company is going to issue an ADRs. The company is independent of major business groups, and has fended of all attempts by hostile outsiders. We believe Yasinuvatsky is a premium acquisition target.

COAL MINING

Coal: *The Future*

Most of the coal mining machinery produced in Ukraine is consumed locally, therefore the development of this segment of machine building is highly dependent on the Ukrainian coal industry. The latter is a strategically important sector of the country's economy, accounting for ¼ of the country's energy balance and providing over 300 ths jobs.

Ukraine's Energy Balance, 2004

Type of resource	Share, %	Source, %	
		Domestic	Import
Gas	41.5	23.3	76.7
Coal	**25.4**	**98.1**	**1.9**
Nuclear energy	12.6	100.0	0.0
Oil	9.5	26.1	73.9
Hydro energy	2.0	100.0	0.0
Other	9.0	100.0	0.0
Total	**100**	**58.9**	**41.1**

Source: The Dnipropetrovsky State Research Institute

For the last ten years the industry has been declining, with only the government's support keeping it afloat through subsidies and protection from imports. Coal mining remains one of the key elements of the national economy, as it is a crucial part of Ukraine's efforts to reach greater energy diversification. Besides, coal mining has the backing of the powerful opposition, which resides in the Eastern regions where most of the mines are situated.

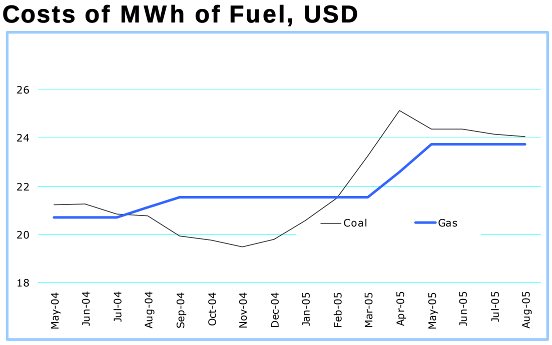
Move Over Gas

The era of cheap gas in Ukraine is over. Though formally the new gas agreement signed between Naftogaz and Gazprom in January set USD 95 per "000 m3 for the first half of the year, we expect gas prices for Ukraine to grow in the future. Thus the issue of Ukrainian energy independence has become one of the government's top priorities. The government has given an economy-wide order - trade gas for coal.

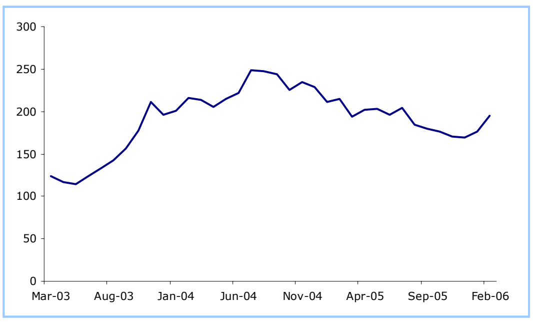
Energy generating companies are major consumers of steam coal as well as gas (8.5% of Ukraine's total gas consumption). However, by replacing gas with coal these companies can cut its gas consumption from 17% of total energy consumed on average to 1-2%, and thus Ukraine can decrease its dependence on Russia and Turkmenistan.

Until the price for gas shot up in 2H05 the cost per energy unit derived from coal and gas was almost equal. Higher gas prices have made using coal more expedient. Currently domestic steam coal prices are on par with world prices (~USD 55 per mt, US spot), and we expect them to follow world trends. Thus as gas prices are only going to get higher, we expect the consumption of steam coal to expand, opening up growth prospects for the coal mining industry.

Costs of MWh of Fuel, USD



NWE Steam Coal Price / Euro Index



Source: Energo Business, Bloomberg, Concorde Capital calculations

Dependence On Coal

Electricity generators and coke producers are the main consumers of coal in Ukraine with the former burning steam coal, and the latter – coking coal.

Structure Of Fuel Consumption By Generating Companies

	7m05		7m04		% change	
	Gas	Coal	Gas	Coal	Gas	Coal
CEEN	17%	**83%**	12%	**88%**	5%	**-5%**
DNEN	19%	**81%**	12%	**88%**	7%	**-7%**
DOEN	11%	**89%**	10%	**90%**	2%	**-2%**
vsen	1%	**99%**	9%	**91%**	-8%	**8%**
ZAEN	37%	**63%**	25%	**75%**	12%	**-12%**

Source: Energobiznes, Concorde Capital calculations

Facing expensive gas limitations, Vostokenergo introduced technologies that practically eliminated its need for gas. Other generators continue to depend to some extent on gas, but we expect this to change in the long-term. The government supports investments for the installation of new technologies that will allow the energy companies to switch from gas to coal in production.

State Support For The Overhaul Of Electricity Generating Companies

	Type of work	Unit inst. Capacity, MW	Financing support, mln USD 2004-10	2004-05	2006-07	2008-10
DNEN						
Prydniprovsk	full reconstuction	150	**85**	2	18	66
DOEN						
Slaviansk	full reconstuction	100	**58**	6	15	38
ZAEN						
Burshtyn	full reconstuction	200	**85**		6	79
Dobrotvir	full reconstuction	160	**66**		9	57
Dobrotvir-2	sulphur filters	225	**74**	3	71	
CEEN						
Trypillia	full reconstuction	300	**109**		15	94
Uglegorsk	full reconstuction	300	**47+47**		6+0	41+47
Zmiiv	full reconstuction	300	**53**	10	19	25
		300	**60**	0	21	40
Vostokenergo						
Zuiv	new unit	120	**57**		4	52
Luhansk	full reconstuction	200	**121**		19	102

Source: Energobiznes, Concorde Capital research

Demand For Coking Coal To Increase? Ukrainian steel makers face the problem of replacing gas with a coke after the increase in gas prices in 2005. Thus, we expect demand for coke to increase in the mid-term after steel makers change their production processes to implement the substitution.

Technically it is possible to replace the 35 cm of gas used in the production of one mt of cast iron, with ~100 kg of coke without additional capital expenditures. In line with the projected increase in coke consumption in the mid-term, coke processing plants intend to increase their capacities in 2006 – thus driving demand for coking coal.

With the current extraction capacities of Ukrainian coal mines, local production can not satisfy demand, and the lacking amount is imported from Russia. There is a pending need to increase domestic mining of coking coal for two major reasons.

First, the quality of the coking coal coming from Russia has been decreasing. Recently, Russia shifted its exports of good-quality coking coal away from Ukraine, to more profitable markets elsewhere, including Japan. The latter is the largest importer of coal in the world, and is planning to diversify deliveries most of which used to come from Australia.

Secondly, there is a risk that Russian imports to Ukraine may dry up as Russia intends to replace gas with coke in pig iron production. Their aim is to increase revenues from gas exports.

Nevertheless, we believe that Ukraine will continue relying on imports of Russian coking coal, but will gradually cut back over time.

Political Pressure

Most coal mines are concentrated in Eastern Ukraine, home of the current government's political opposition, where pro-Russian sympathies and Soviet ideology still have deep roots.

Miners have always been one the most politically active segments of the population, effectively using strikes to achieve their goals. They are easy to mobilize and manipulate. Donbass-Kiev marches, broadly covered in the media have been successful in pressing the government to provide support for the industry and pay out wage arrears.

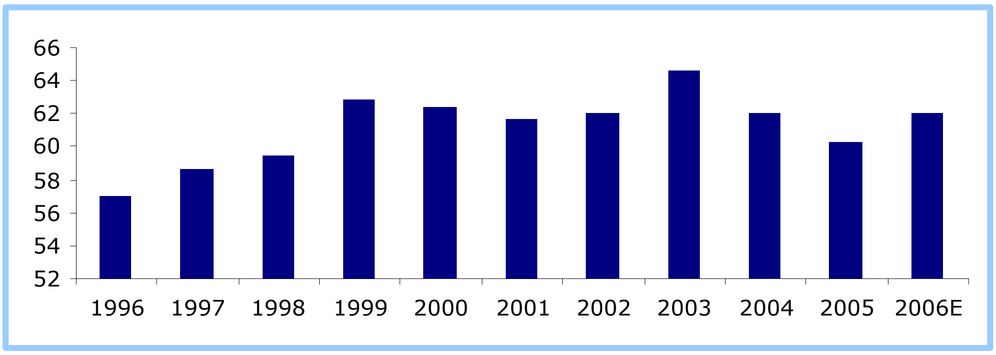
The government has no effective social program for workers that have been laid off due to mine closures. Since 1996, ~130 ths coal industry employees have been fired, only 2-3% of which have been re-employed by government programs, aimed at dealing with the unemployment problem in the region.

Sector Profile

Ukraine has the 8th largest coal reserves in the world, over 117.6 bln mt (~1,470 years of mining at 2005 levels). Proven reserves (those, which can be mined economically) totaled 56.7 bln mt in 2005. Steam coal represents 70% of them.

In spite of increasing state support, the extraction of coal has been decreasing since 2003. In 2005 output was only ~ 60 mln mt of processed coal (78 mln mt of mined coal). We expect the declining trend to reverse in 2006, after the government's massive privatization process starts. We project the amount of coal processed to return to 2004 levels this year.

Processed Coal 1996-2006, mln mt



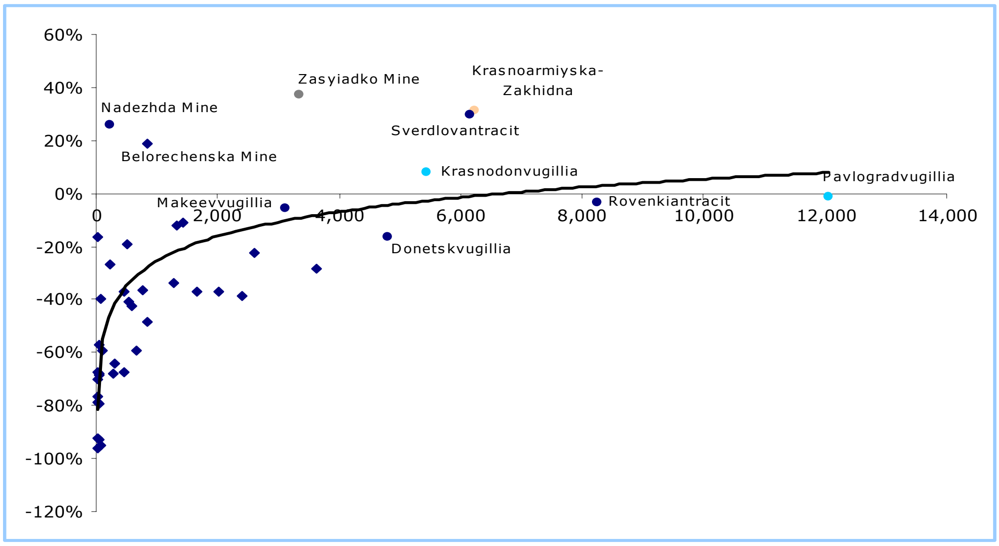
Source: State Statistic Committee, Concorde Capital estimates

The Economy Of Scale Matters

The coal mining industry is a highly concentrated industry, with the 15 largest companies (there are 62 operating in Ukraine) accounting for 85% of the output in 2005.

The relationship between the size of the coal mining companies and their profitability is rather obvious:

Profitability vs Output Of Ukraine's Coal Mines, 2005*



Owned by • **Energo, • **SCM**, • **Rented**, the rest – state owned*
Source: EnergoBusiness, Concorde Capital calculations

Ownership Of The Largest-Mines: SCM owns three mines, thus controlling 26% of the coal mining in the country. Energo group owns a mine that accounts for 8% of Ukraine's total output. The Zasyadko mine, the country's 8th largest (by output in 2005) has been rented out. The other ten mines are state-owned, however they are closely related to or controlled by leading Ukrainian business groups.

Private Mine Means Better Investment?... We expect the correlation between size and profitability to become stronger as mines are privatized. Profitable (and large) mines are most likely to become the first privatization targets. Private mines are able to spend more for technical renovations than state-owned mines, and thus increase their profitability further. In addition, as profitable mines can afford to spend on the exploration of new seams, their output tends to grow.

For example, in late 2005, SCM-related Pavlogradvugillia launched a large-scale CapEx program. A new conveyor line worth ~USD 2.7 mln was installed. After that the company attracted USD 26.3 mln through a corporate bond issue for **new coal machinery equipment purchases.**

Performance Of The Top-15 Coal Companies In 2005

	Output/mine	Productivity*	Empl./mine
Top-15	730	30	2055
Private & Rented	1349	39	2910
State-owned	318	19	1413

Source: Energobizness, Concorde Capital calculations ** mt/ employee/ month*

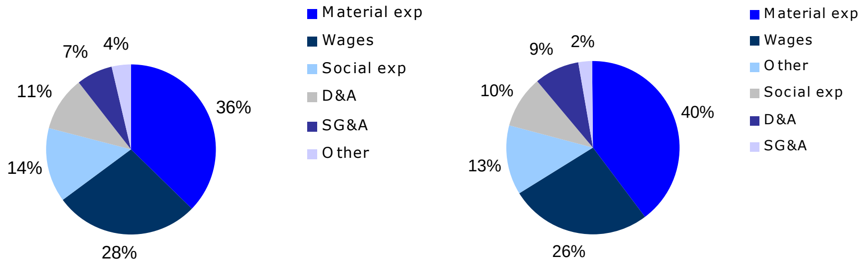
Domestic Coal Pricing And The Threat From Imports

In Ukraine the average cost for coal mined at a depth of 700 m is 52 USD per mt (for state-owned companies it varies from 60 to 1500 USD per mt, for private mines it is USD 31-66 per mt). Using current mining technology, costs will grow by USD 6-9 for each 100 meters of additional depth, thus increasing the current gap of USD 3/ mt between the cost of steam coal and its price.

Almost 100% of Ukraine's coal is mined underground. Coal is concentrated in seams of 0.8-2 m in height over 700 m under the surface. Most Ukrainian coal mining equipment is outdated, over 60% of the coal is mined using hand-hammers which increases mining costs.

**Ukrainian Coal Costs, 1H04*
~ USD 36**

**Russian Coal Costs, 1H04*
~ USD 20**



Source: EnergoBusiness, Company data, Concorde Capital calculations
**Underground mining*

Russian imports are a potential threat to locally mined coal for two major reasons: Russia's coal seals are situated closer to the surface, and its underground mines are more mechanized. About 70% of the coal in Russia is open pit mined at cost of USD 5-10 per mt, and the cost of underground mining is about half what it is in Ukraine.

Protecting The Last Hope For Energy Independence…

Steam Coal. The Ukrainian Government, which controls four out of five energy generating companies, unofficially prevents them from buying imported Russian coal. The fifth generator, Vostokenergo, is controlled by SCM, which owns mines, and uses coal, extracted from them. We do not believe this control will be liberalized due to the government's unwillingness to increase Ukraine's energy dependence on Russia.

Coking Coal. From the beginning of 2006 coke producers (the main consumers of coking coal) decreased their output. We expect demand to increase after pig iron producers modernize their facilities to be able to substitute gas with coke. However, even in spite of falling demand, domestic mines do not meet the country's coking coal needs. Over 10 mln mt of Russian coking coal was imported in 2005 to cover the existing deficit.

We believe that Ukraine's dependence on imports of coking coal will diminish, once domestic extraction improves.

Duties On The Horizon? In 2H05 the government was actively discussing the issue of import duties on coking coal, nevertheless, no final decision has been made, and we believe that this step will only be taken after Ukraine's internal coal extraction starts covering demand, while consumers continue importing coal.

Privatization - The Medicine. We expect the state of Ukraine's coal mining industry to improve after privatization, as the most non-profitable mines are closed and those that can be made profitable get additional financing. In our view, business groups that do not possess their own mines in Ukraine will be willing to complete their technical cycles "coal-coke-steel" and "coal-generator", and will be interested in mining their own coal, instead of importing. Currently, all rented and privatized coal mines operate more efficiently than state mines.

Restructuring On The Way

Once the threat of increased gas prices became evident, the Ukrainian authorities stepped up their activity in the development of the coal industry.

The government has worked out a 25-year development plan for Ukraine's fuel and energy complex, which foresees a twofold increase in coal consumption by 2030. Reduced gas use is to be compensated by increases in coal, oil and nuclear energy consumption.

Nevertheless, this concept has not been officially adopted yet, and a previous plan made by former Prime Minster Yulia Tymoshenko's government is in place now. Below we provide the main points from the Tymoshenko plan with a few minor adjustments made by representatives of Yekhanurov's government. We do not expect serious changes in the new government's plans concerning the coal industry to occur.

Tymoshenko's coal industry development plan foresees three stages with gradual decreases in government support, a 23% increase in capacities by 2030, and internal mining completely replacing imports.

- **2006-2010** – annual coal mining will increase from 78 mln mt, in 2005 to 90.9 mln mt by 2010. Production capacities are planned to increase from 91.5 mln mt in 2004 to 105.8 mln mt through the introduction of new capacities and reconstruction of old ones. Total investment in industry development, including the companies' own funds and budget funds are expected to be around USD 1.5 bln, including budget financing of ~USD 0.9 bln.

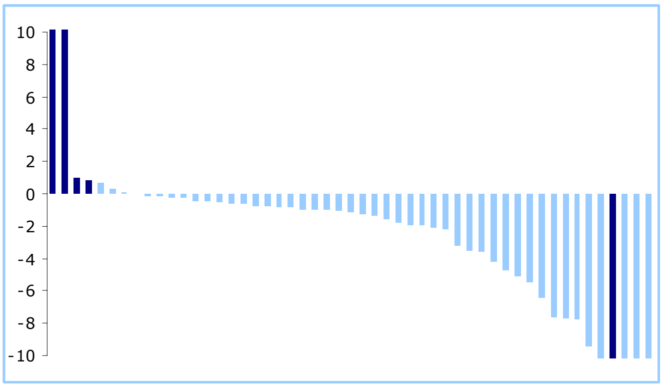
- **2011-2015** - coal output will increase to 96.5 mln mt annually. Total investment will be the same as in the previous stage, but contributions from the budget will drop to USD 0.4 bln.

- **2016-2030** - coal output will increase to 112 mln mt annually, production capacities – by 124.4 mln mt. Total investment in industry development is projected to reach USD 1.7 bln, with only 0.1 bln coming from the budget.

A major step in the restructuring foresees the privatization of all state-owned mines. According to Coal Minister Viktor Topolov, in two-three years, Ukraine's mines will be privatized and those which can not be made profitable will be closed. **According to the ministry, the main goal of the privatization is to attract investors for the reconstruction of the coal industry.**

Ukraine's mines can be divided into three categories. About 14% of the country's mines were profitable in 2005, and another 33% broke even. The remaining 53% lost money last year. The government hopes that investments into certain mines from the third group, following their privatization, will make them profitable. The rest will be closed.

Coal Companies By Net Income '05, USD mln*



**Data is cut at level of USD 10 mln; Those, in dark blue, have been privatized*
Source: State Statistic Committee, Concorde Capital calculations

In 2004, four big coal mining companies were sold to the business groups SCM and Energo. The former bought Pavlogradvugillia, Krasnodonvugillia and Komsomolets Donbassa. The latter - Krasnoarmiyska-Zakhidna #1. In the wake of Kryvorizhstal's re-privatization, the rumor mill has started buzzing about a possible government take over of certain mines, however, Prime Minister Yurii Yekhanurov said there would be no mine re-privatizations.

The government has said five more mines will be privatized in the near future, though, no names have been disclosed. We expect privatization to start with the biggest mines, which also happen to be the most attractive. We expect serious privatization competition. Russian, Indian and domestic business groups have already announced their intention to participate.

Learning From Our Neighbors

Five years ago Poland and Romania faced similar problems with their coal industries. While pushing the government for more active reforms in the industry, President Yushchenko mentioned the positive experience of Poland, and stressed that Ukraine should do its best to follow in Poland's footsteps.

The major difference between what happened in Poland, and the Ukrainian government's plans is the amount of coal mined. While for both Ukraine's neighbors (Romania and Poland) reforms in the coal industry led to a decrease in the amount of coal mined (after non-profitable mines were closed), Ukraine plans to increase output.

Some mines were closed in Poland and Romania, but those, left, increased productivity, in Poland from 32 to 55 mt per miner per month, and from 23 to 52 mt in Romania. In Ukraine this figure was 29 mt in 2005, and we expect it to increase once the new owners re-equip the mines.

In 2003, the Polish government cut all subsidies for coal mining, while Romania gradually decreased their size. Ukraine plans to follow the latter's lead.

COAL MACHINERY

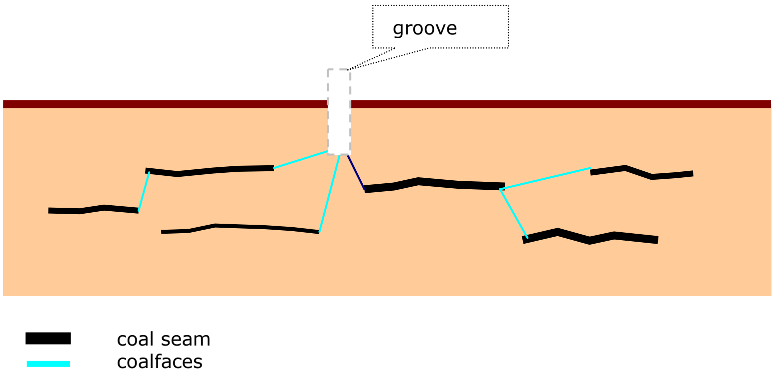
Extracting Coal: How It Works

There are two main methods of underground mining: room-and-pillar and long-wall mining.

In room-and-pillar mining, coal deposits are mined by cutting a network of 'rooms' into the coal seam and leaving behind 'pillars' of coal to support the roof of the mine. These pillars can be up to 40% of the total amount of coal in the seam – although this coal can sometimes be recovered at a later stage.

Longwall mining involves the full extraction of coal from a section of the seam or 'face' using mechanical shearers. When the coal has been extracted from the area, the roof is allowed to collapse. Over 75% of the coal in the deposit can be extracted from panels of coal that can extend for 3 km through the coal seam.

Coal mines exist on deposits of coal that may stretch ~150 km. Coal seams are located at different depths along main deposit. To extract the coal, miners have to drill several grooves which will be connected with different coalfaces.



The technology of working coal seams depends on geological structure. Though the equipment necessary for coal extracting is almost the same in every case.

Machinery Requirements

Heading And Drilling Equipment. To work coal seams, a groove has to be made. Coal can be brought to the surface mixed with water in pipes or by drum winders and other surfacing equipment. Next, coalfaces have to be made. These are made with heading machines of different types depending on the abrasiveness and strength of rocks.

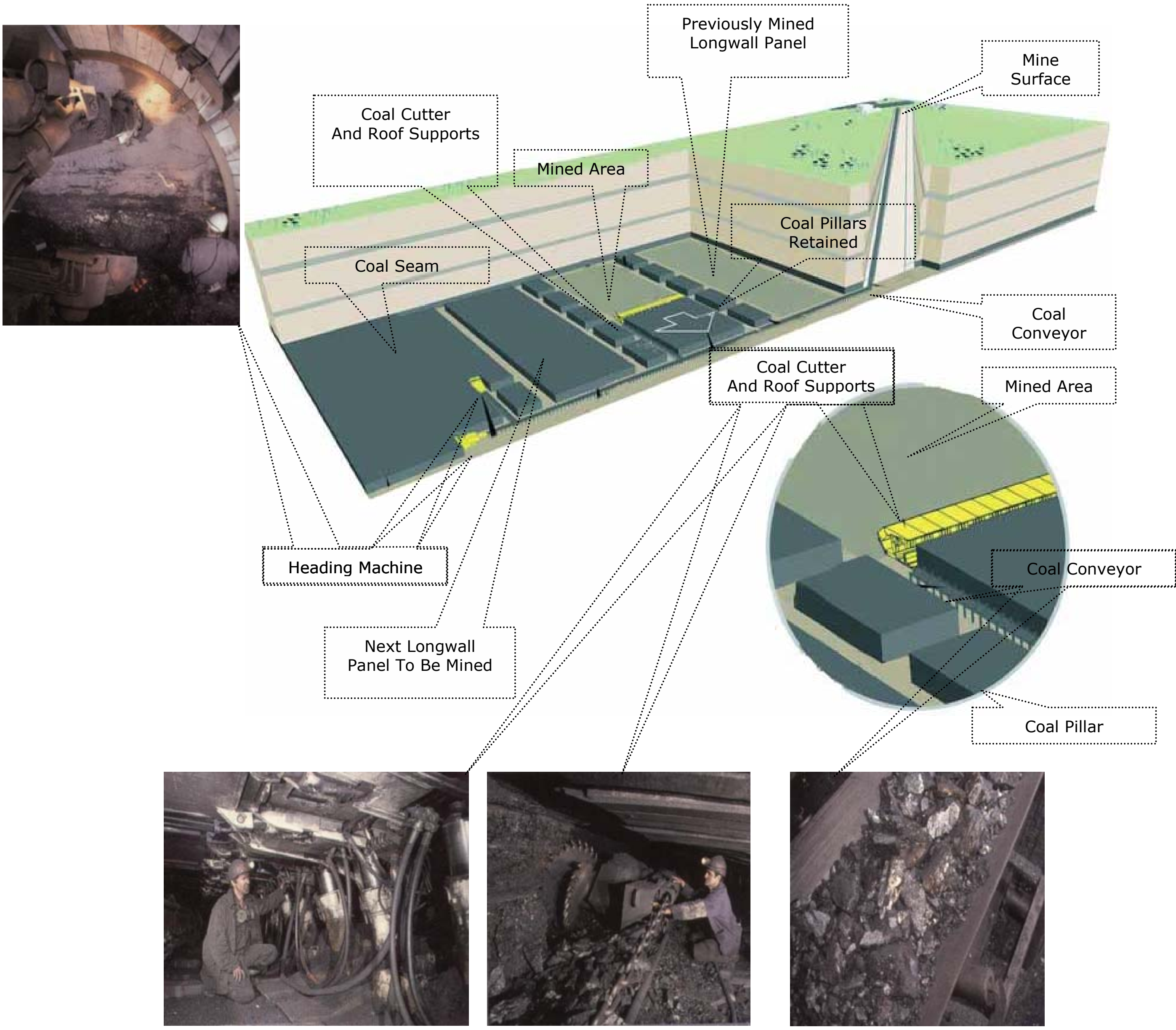
Conveyors, Loading And Transportation Machines. These machines are used to extract coal from the mines. Loading and transportation equipment is used to deliver coal from coalfaces to the groove – which will later be brought to the surface. Transportation equipment is also used to bring workers to the coalfaces.

Powered Roof Supports keep the roof of the mine from collapsing. There are several types: shield; roof; conjugate and other.

All this equipment is transportable and is moved from one coalface to another by transportation equipment.

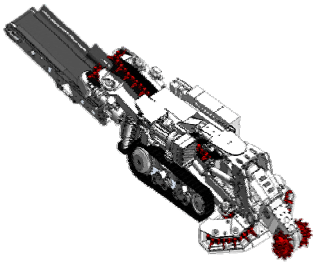
Coal Cutters are used to work the coal seam. They are movable and placed under powered roof supports to avoid cave-ins. Their main function is to tear coal out of the seam and direct it toward the conveyor.

Underground Coal Mining Process



Coal Mining Machinery

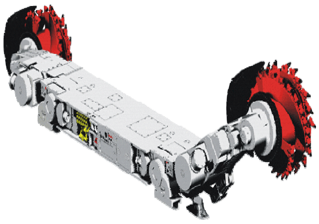
Key Products: heading machines, coal-cutters, powered supports, loading and transportation machines, mine conveyors, elevators, fans and different kinds of surfacing equipment.



Heading Machines*

Technical characteristics	Yasyn-ky	Novokr-y	Gorlivsky
Ultimate strength of rocks breaking, scomp, MPa, min	70-120	100-120	70-100
Rock abrasivity, mg, max	15-18	15-18	15-18
Mine working section, m2	8-38	7-30	7-32
Output, m3/min	0.25-2	0.3-3	0.4-5
Gradients of driven working, grad	12	12	12
Weight, mt	< 30-75	< 41-53	< 33-90
Estimated Price Range, USD ths		300-800	

* *All represented companies have combines that can work coal-seams of 0.75-2 m height*

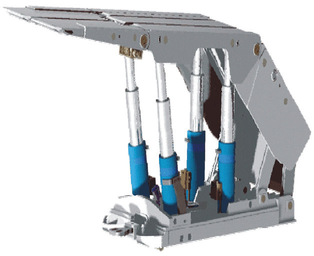


Coal Cutters

Technical characteristics	Gorlovsky	Novokramatorsky
Seam thickness, m	0.85-3.2	0.8-1.5
Output, mt/min	10-24	5-10
Total power, kW	360-860	290-420
Weight, mt	17.5-48	14.5-22
Mean reserve prior to capital repair, ths/mt	400-2000	600-800
Estimated Price Range, USD ths	400-700	

Flight Conveyors

Technical Characteristics	Dongrimash	Novokr-y	Svitlo Shakhtaria
Output, t/h	960	1000	920
Length, m	Up to 300	Up to 250	Up to 300
Potential resource, mln mt	1.5-3	3	1.5-2
Estimated Price Range, USD ths		100-400	



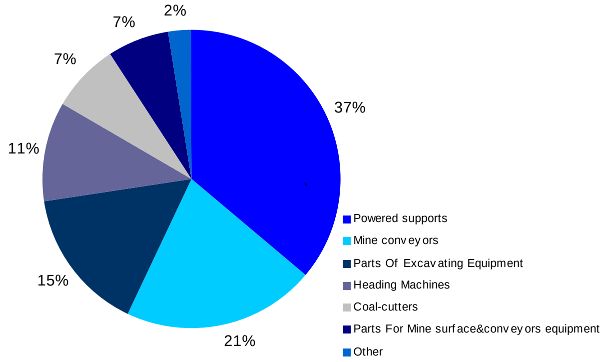
Powered Roof And Shield Support

Technical characteristics	Druzhk-y
Seam thickness, m	0.8-2.4
Angle of seam	15-35
Unit resistance, kN	1520-4800
Unit mass, kg	1840-9600
Estimated Price Range, USD ths	400-1500

Market Segmentation

Ukraine possesses a full range of coal machinery products. About 15 enterprises produce equipment for coal extraction, which can be used for both – underground and surface mining.

Coal Mining Machinery Breakdown By Product, 2004



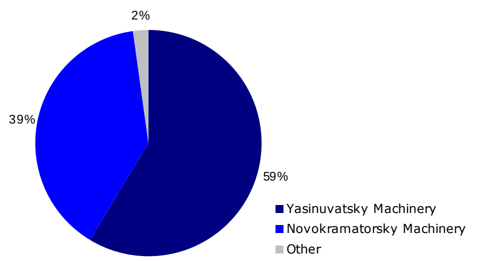
Source: Company data, Concorde Capital calculations

In Ukraine there is demand for new excavating, supporting and heading equipment. Their share in the total sales of coal mining machinery made up 74% in 2004.

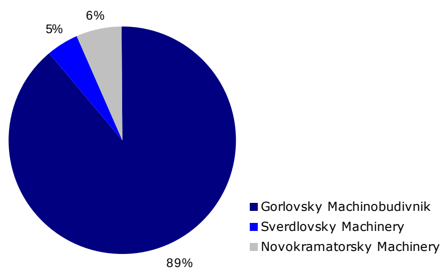
Powered supports represent the largest share in the segment, USD 90 mln in 2004. In Ukraine the only company that produces this equipment is **Druzhkivsky Machine Building**.

Heading machines and coal-cutters, are the other two major machines in this segment making up USD 32.9 and 22.7 respectively in sales in 2004.

Heading Machines



Coal-Cutters



Source: Company data, Concorde Capital calculations

In other segments more companies compete, and spare parts for coal mining equipment are produced by numerous domestic enterprises whose core business is not necessarily coal machinery.

Other Coal Mining Equipment Breakdown By Producer, 2004

	Conveyors	Parts for excavating equipment	Parts for mine surface equipment	Loading/ transportation machines
Total Sale, USD mln	**~ 63.7**	**~ 46.9**	**~ 20.6**	**~ 2.5**
Dniprovazhmash	-	-	19%	-
Konveermash	-	-	18%	-
Dongirmash	41%	-	17%	60%
Novokramatorsky	-	7%	9%	-
Petrovsky Plant	-	-	7%	-
Svitlo Shakhtaria	47%	17%	-	-
Druzhkovsky Machinery	-	15%	-	-
Vistek	-	13%	-	-
Krasnoluchsky Machinery	6%	-	-	8%
Girmash	-	-	-	15%
Gorlivsky Mash	-	4%	-	-
Yasinuvatsky Machinery	-	4%	-	-
Other	6%	40%	36%	17%
	100%	100%	100%	100%

Source: Company data, Concorde Capital calculations

Industry Structure

Currently more than 70% of Ukraine's coal mining machinery is managed by Ukrvuglemash, which is controlled by SCM and IUD.

Ukrvuglemash				
Druzhkivsky Machinery	Dongirmash	Gorlivsky mashinobudivnik	Novgorodsky Machinery	Sverdlovsky Machinery

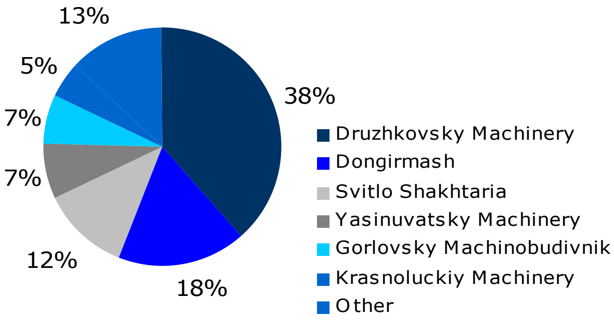
Ukrvuglemash does not own any of these companies, except for small blocks in Donetskgirmash and Svitlo Shakhtarya (the latter is not managed by it), but serves as a managing company and sells the companies' products. This, coupled with the low profit margins of the companies managed by Ukrvuglemash, make us conclude the companies are involved in transfer pricing.

While Coal Minister Viktor Topolov has been saying that the re-privatization of Ukrvuglemash companies was highly likely, this contradicts the statements of President Yushchenko, who said that no re-privatization would happen after Kryvorizhstal. Thus, we consider the government at the most could require additional payment from the present owners, and expect the consolidation processes in the industry to continue.

Svitlo Shakhtaria is in direct competition with Ukrvuglemash-managed companies in conveyor production. Svitlo controls over 12.5% of the Ukrainian coal machinery market. Yasynuvatsky Machine Building anouther unrelated domestic coal machinery producer, controls over 7.8% of the domestic market.

Two Ukrainian machinery giants Novokramatorsky Machine Building and the Malyshev Plant are diversified into coal extracting equipment, mainly heading machines, Their share of the domestic coal machinery market was ~ 6% in 2004. Even though the major specializations of both companies are in different segments (metallurgical and military equipment) we expect these companies to improve their positions in the coal machinery market in the mid-term. Novokramatorsky increased heading machine output in 2004 by 51% yoy to 36 units, and announced plans to increase this kind of output further. Novokramatorsky made 22 heading machines in 9M05, a 16% increase yoy. The Malyshev Plant signed a contract with the national Chinese coal mines for the delivery of 14 combines, and delivered 15 combines to Ukrainian consumers.

Coal Mining Machinery Sales Structure '04, USD mln



Source: Company data

The State As The Main Buyer

Government purchases for re-equipment and development of mines totaled USD 226 mln in 2004, which is almost 70% of the total Ukrainian output of coal machinery. The rest were bought by private mining companies.

In 2005, the government initially planned to increase purchases of coal mining machinery to USD 274 mln, implying growth of 17.5% yoy.

Planned Government Purchases 2005, items

	Plan 2005	Produced in 2004
Powered supports	64	54
Heading machines	49	96
Coal – cutters	75	135
Conveyors and elevators	388	326

Source: Ministry of Fuel and Energy

Nevertheless, in spite of its big plans for 2005, the government's purchases in 1H05 were negligible due to a severe lack of financing. The situation improved in 3Q05, and we assume the upward trend in the government's expenditures for coal mining machinery continued until the end of 2005.

The Price Of Government Purchases

The Ukrvuglemash's consolidation of producers caused a lack of competition in the industry and resulted in excessively high prices for coal mining machinery. In 2002 Ukraine's government set tenders for purchases of coal machinery to deal with the problem but due to Ukrvuglemash monopolistic position, the attempts to decrease prices failed. The situation is not likely to change, as Ukrainian-made products are cheaper than their foreign counterparts, and Ukrvuglemash shows no signs of losing its monopolistic position.

MAJOR PLAYERS

The Winners And Losers In 2005

The 3Q05 results distinctly split producers of coal mining machinery in two groups. Those experiencing production growth in January-September operate in the heading machines segment, and export over 50% of their total sales. The rest make machinery that is mainly consumed internally.

Performance Of Major Coal Mining Machinery Producers

	Form of ownership	Sales 2004, USD mln	yoy 2004 sales growth	yoy 9M05 output growth	Major product from coal machinery segment	Control	2004 exports, % of sales
Going down							
Donetskgirmash	OJSC	56.8	152%	-38%	conveyors	SCM	2%
Druzhkivsky	OJSC	123.2	106%	-61%	powered supports	SCM	0%
Gorlivsky mashynobudivnyk	CJSC	21.6	11%	-27%	coal cutters	SCM	24%
Novgorodsky	OJSC	3.8	70%	-61%	carriages and locomotives	SCM	39%
Svitlo Shakhtarya	OJSC	38.6	107%	-0.2%*	conveyors	management	2%
Malyshev Plant	State-owned	55.0	0%	-5%*	heading machines	state	50%
Going up							
Novokramatorsky	CJSC	191.9	46%	37%	heading machines	management	63%
Yasynuvatsky	OJSC	24.0	89%	32%	heading machines	management	53%

*Source: Donetsk oblast administration, company information; *data on sales presented*

We will now concentrate on the performance of the four largest open JSCs in the segment: Donetskgirmash, Druzhkivsky Machine Building, Svitlo Shakhtarya and Yasynuvatsky Machine Building.

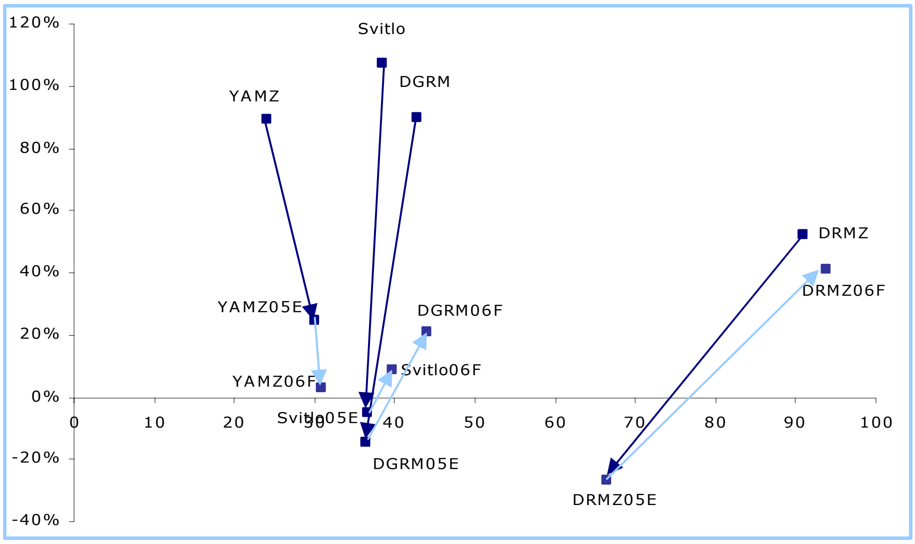
Growth Slows Down In 2005

After the four companies posted growth of 114% on average in 2004, Yasynuvatsky continued growing, although at a slower pace, while the other three saw significant declines in sales. This trend is mainly due to political issues, as in 2004 most of the state's purchases were made from SCM-related Druzhkivsky and Donetskgirmash. In 1H05 the mines faced under-financing from the state, and thus decreased purchases of equipment.

The industry is now in a transitional state, currently high exports serve as a prerequisite for successful performance, and new internal demand is expected to start appearing with the privatization of coal mines, planned to start in 2006. The government's financing of equipment purchases for coal mines has increased in 2H05, and we expect it to grow further, as increases in gas prices continue, and the government starts replacing gas with other energy sources, including coal.

Nevertheless, due to lack of financing for mines in 1H05, we estimate the overall sales for all the companies decreased in 2005, except for Yasynuvatsky, whose sales growth pace dipped slightly. The company's exports prevent its sales from decreasing.

Sales vs Growth 2004, Estimates For 2005-2006

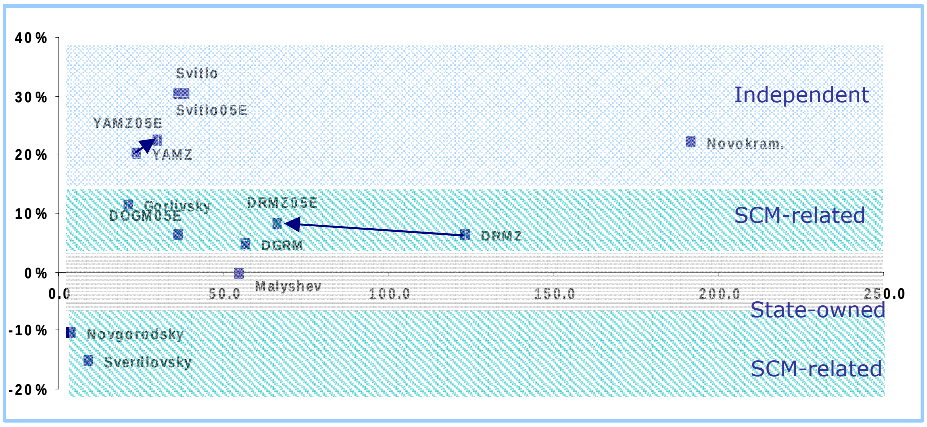


Source: Company data, Concorde Capital estimates

Profitability: Svitlo Still At The Top

Independent companies posted significantly higher profitability margins than those managed by Ukrvuglemash. Svitlo Shakhtarya's margins were the highest of the group last year, and we expect it to hold on to the top spot in 2005. The profit margins of Druzhkovsky and Donetskgirmash are significantly lower than both their Ukrainian and foreign peers. In our opinion, this is due to transfer pricing. Both, Druzhkovsky and Donetskgirmash sell internally through their managing company Ukrvuglemash, which, we suspect, takes a large share of profits.

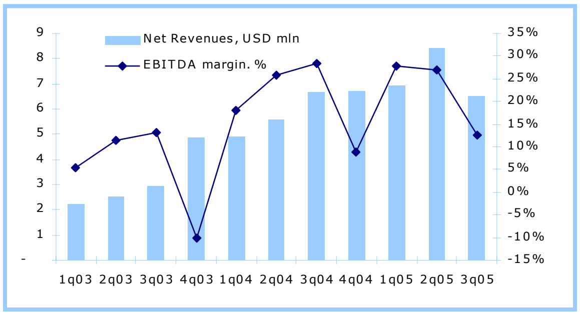
Sales vs EBITDA Margins In 2004, Estimates For 2005

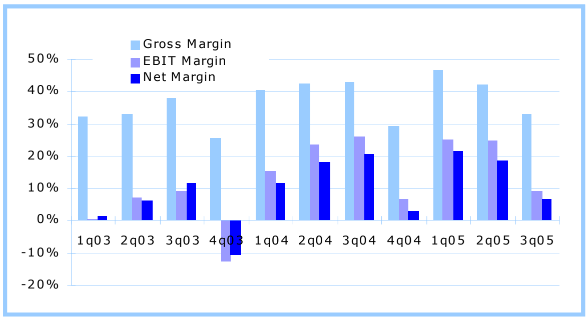


Source: Company data, Concorde Capital estimates

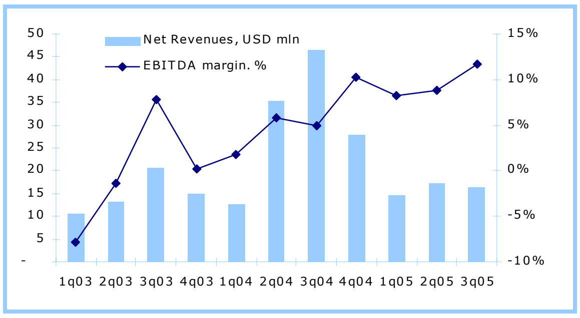
Quarterly data reveals significant volatility in sales and profitability, which is traditional for Ukraine's machine-building segment, as it is dependent on unpredictable demand.

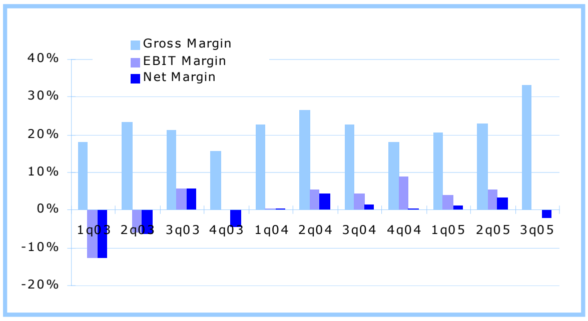
Yasinuvatsky



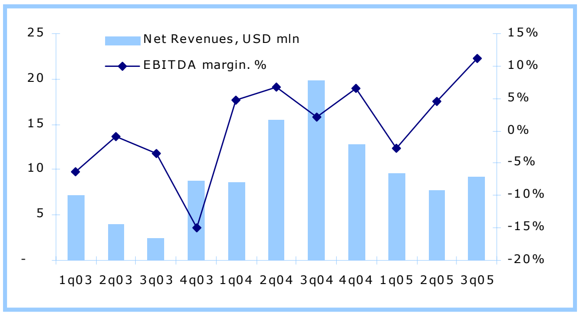


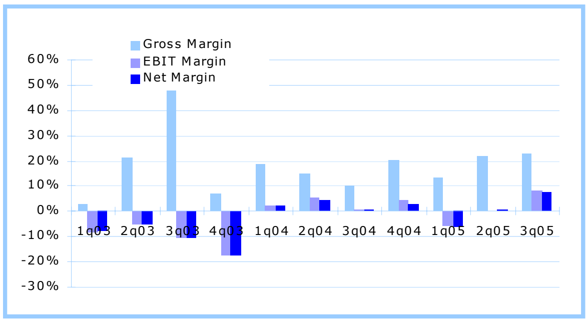
Druzhkovsky



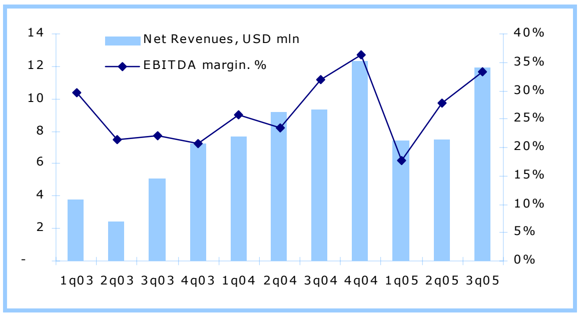


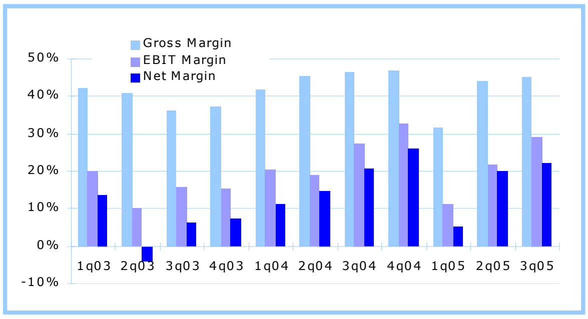
Dongirmash





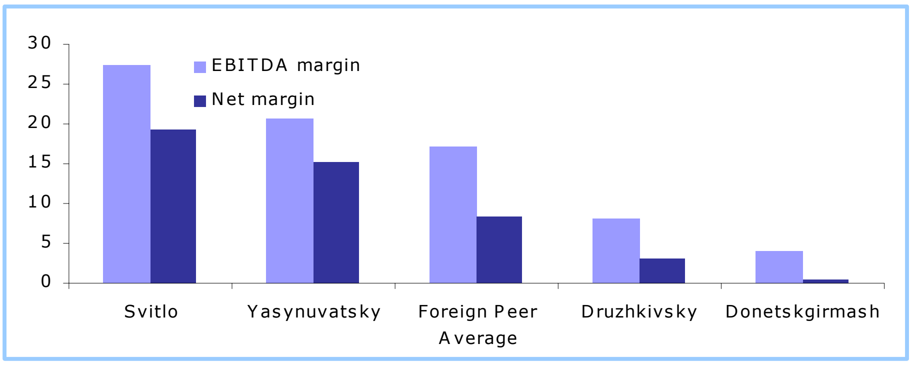
Svitlo





Source: Company Data

Profitability Margins: Ukraine vs Foreign Peers (2005E average)

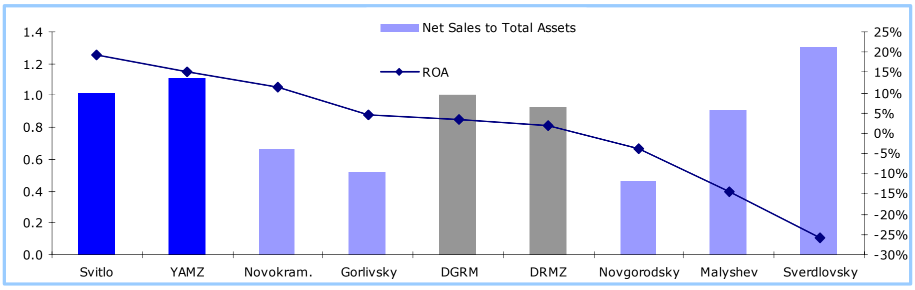


Source: Company Data

Asset Efficiency

Svitlo Shakhtarya and Yasynuvatsky made the most efficient use of their assets, posting the highest ROA out of the entire group (19% and 15% respectively) in 2004. This is due to them having the highest net margins in the group and higher than average asset turnover. Donetskgirmash and Druzhkovsky posted almost the same asset turnover, but significantly lower net margins, which placed them behind the other two companies in terms of ROA.

ROA Comparison In 2004

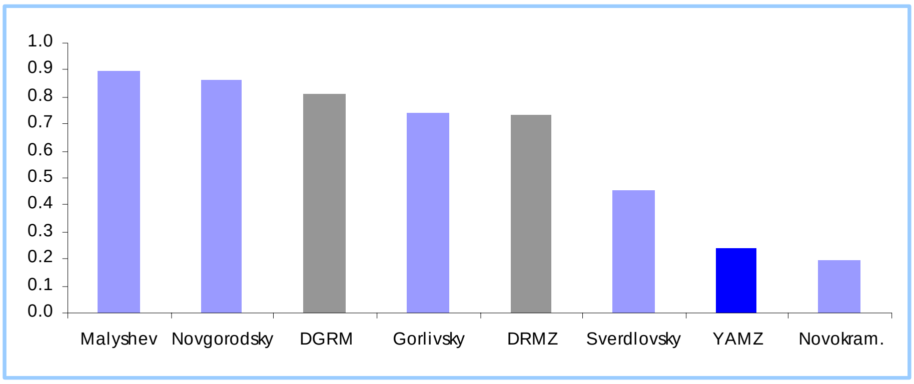


Source: Company Data

Interest-Bearing Debt Absent?

None of the four companies had any interest-bearing debt until 3Q05, when Donetskgirmash and Druzhkivsky started attracting loans. The financing of the independent groups of companies is conducted through reinvestment of their relatively high profits.

Total Debt To Total Assets



Source: Company Data

Export Potential

The majority of the products from the coal machinery segment are consumed internally with the exception of heading machines, ~65% of which were exported in 2004. Russia the leading market for Ukraine's heading machines as its plants were designed to make lighter and less powerful models than those made in Ukraine.

Heading machines made in Ukraine are significantly cheaper than those made abroad. Yasynuvatsky, Novokramatorsky machine building and Gorlivsky Mashynobudivnyk benefit from exports in this segment. Russia and Kazakhstan are the companies' major consumers.

As for other machines, Russia is a traditional buyer of Ukraine-made products, and also possesses its own capacities, including Anzheromash, Yurginskiy Machine Building, the Red October plant and Kuznetsky Machine Building. To improve technology and experience, these Russian companies often form joint ventures with leading world producers including Anderson PLC, Eirkhoff, DBT, JOY.

Non-Typical Exports

Although Druzhkovsky and Donetskgirmash officially reported exports amounting to 25% and 20% of total sales respectively, in fact they did not export their own products, but certain unrelated equipment and steel, produced by IUD-controlled Alchevsky Metallurgical Plant and the Dnipropetrovsk Dzerzhynsky Plant. Steel also constitutes a significant part of Svitlo Shakhtarya's exports. In 1H05 exports of unrelated products at Druzhkovsky and Donetskgirmash increased. We consider these non-core revenues as not sustainable in the long-run. While conducting our valuation of these companies, we consider exports of unrelated products as attempts to artificially increase sales, and deduct this amount from the reported figure.

Yasynuvatsky: A Horse Of A Different Color

The difference between different brands of Ukraine-made coal mining equipment is insignificant. Dongiprovuglemash, the largest state-owned research institute for coal machinery designed most of the products made by Ukrainian companies. Yasynuvatsky machine building which owns its own design bureau is the only major exception. Having its own designs allows Yasynuvatsky to produce over 30 different types of heading machines which are tailored to meet the needs of its individual customers. In contrast, Novokramatorsky makes two models and Gorlivsky Mashynobudivnyk – three.

What To Expect

We do not believe the government will re-consider the privatization of companies managed by Ukrvuglemash, including Donetskgirmash and Druzhkovsky. After the Parliamentary elections in the late March, the political wing that supports Eastern-Ukrainian big business will strengthen, and shield the companies from any hostile moves by the state.

We expect **consolidation** in the coal industry, involving the companies, mentioned above. They would bring savings in the course of production process, and also – more efficient marketing, as re-equipment of mines would mean package deals, including heading machines, powered supports, coal cutters, conveyers, etc. Svitlo Shakhtarya may participate as well, as ~24% of it is owned by SCM-related Ukrvuglemash and Gorlivsky mashinobudivnik. Consolidation of the three companies alone would put a stock on the market with market capitalization of USD 220 mln.

Yasynuvatsky, a good **candidate for takeover**, is likely to stay away from the rest of the producers, specializing on differentiated heading machines, and actively promoting its products abroad. The company's owners have actively defended themselves from hostile takeover attempts.

COMPANY PROFILES

BUY

Yasynuvatsky Machine Building

Target Price	USD 3.1
Target MCap, mln	USD 70.0

The smallest producer out of the four, with the largest profitability margins actively develops exports and intends to differentiate its products further. The company is owned by the management, which intends to raise funds for further development through issuance of corporate bonds this year.

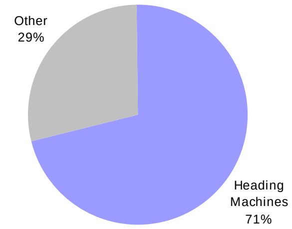
Market Information	
No of Shares, mln	22.8
Par Value, USD	0.9
Free float	25%

Stock Ownership	
Management	76.5%
Employees	7.2%
Other	16.3%

Ratios, 9M05	
EBITDA Margin	23%
Net Margin	16%
Total Debt/ Equity	0.33

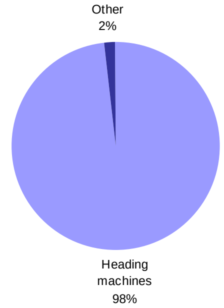
Small But Growing. In 2004 the net revenues of Yasynuvatsky were 10% of the of the net revenues of the other four companies, considered in this report, we project that in 2005 its share was around 18%. This is the only company out of the four, which we project to increase in net revenues in 2005. It also posted the second-highest profitability margins of the four in the mentioned group during 9M05.

Production Breakdown



Export Prospects. The company is the most active exporter out of the four, as it specializes in heading machines – the only Ukrainian-made coal machinery product, in demand abroad. Yasynuvatsky increased its share of exports in sales from 53% in 2004 to 60% in 9M05. Significant reliance on exports allowed this company to stay afloat in 2005. Last year only 2 heading machines out of 60 produced by the company were sold domestically, and no purchases were made by the state, which intended to spend ~USD 16.5 mln for Yasynuvatsky-made machines in 2005. Russia accounted for 71% of the company's exports in 2004. The other destinations include Kazakhstan, Hungary, Slovakia and Belarus.

Export Breakdown



Differentiated Products. External differentiation concerns all the heading machines made in Ukraine, as they are heavier and thus more powerful than those made in Russia, the main consumer of this kind of Ukrainian export. For example, Kopeysky machine building plant in Russia produces heading machines that weigh 20 tons, while Yasynuvatsky – 35-70 tons. Yasynuvatsky presently is considering starting production of lighter heading machines for use in Ukraine.

Internal differentiation is connected to the fact that Yasynuvatsky owns a design bureau, while Ukraine's other producers take designs from the Dongiprovuglemash research institute. Domestic competition is growing, in addition to Novokramatorsky machine-building, has been making heading machinery long time and Gorlivsky Mashynobudivnyk is also becoming active in this segment.

KEY FINANCIAL DATA, USD mln

	Net Revenues	EBITDA	EBITDA margin	Net Income	Net margin
2004	24.0	4.8	20.2%	3.2	13.5%
2005E	30.1	6.7	22.3%	4.6	15.3%

Further increases in demand for heading machines relies on the relatively short life span of this product: it requires capital repairs after passing each 1.5 km (3-4 years of work).

An Independent Producer With No Connection To Any Business Groups. Yasynuvatsky is a family-controlled business with the Trubianin family owning ~65% of it. The owners manage the company, and have fight off all external takeover attempts.

Increasing Equity. In late 2005 the company's shareholders voted for an additional share issue in the amount of USD 15.6 mln. The funds attracted will be directed to reconstruction and modernization.

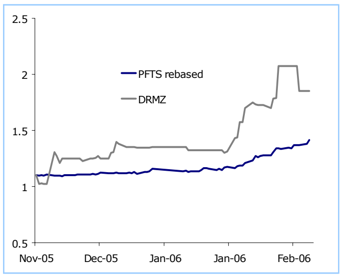
Debt To Increase. Corporate bonds for USD 5 mln are to be issued in 2006 with Capital Bank as the underwriter. Roughly 25% of the bank is owned by Yasynuvatsky.

BUY

Druzhkivsky Machine Building (DRMZ)

Current Price	USD 0.34
Target Price	USD 0.40
Target MCap, mln	USD 82.0

DRMZ Mid-Market, UAH



Market Information	
No of Shares, mln	207.5
Market Price, USD	0.34
MCap, USD mln	70.1
Free float	12%

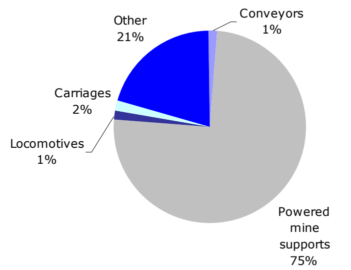
Stock Ownership	
SCM	65%
IUD	12%
Other	23%

Ratios, 9M05	
EBITDA Margin	9.6%
Net Margin	0.9%
Total Debt/ Equity	2.52

A monopoly producer of powered supports in Ukraine, the company purchased two small producers of supports and coal carriages last year and consolidated its position.

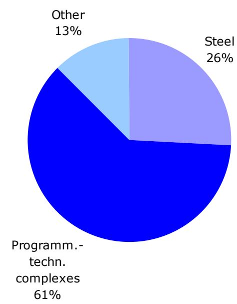
A Powered Support Monopoly. Druzhkivsky products are relatively durable with a projected life of up to eight years after which an overhaul of the equipment is required. The company's products have little or no export potential due to their technical specifics and a lack of demand in the CIS, which has its own production capacities.

Production Breakdown 2004



Exports Negligible. Although officially exports made up 25% of total sales in 2004, nearly 26% of Druzhkovsky's exports were steel, produced by steel mills, controlled by the Industrial Union of Donbas (a minority shareholder of Druzhkovsky) and another 61% consisted of two programming-technical complexes – not produced by the company.

Export Breakdown 2004



We project a 27% yoy decrease in net revenues in 2005 due to the under-financing of coal mines by the government. Druzhkovsky's production is expected to start growing in 2006, as the demand from newly privatized domestic mines picks up.

The Center Of Consolidation In The Segment. In 2004, Druzhkovsky bought stakes in two producers of coal machinery: Sverdlovsky and Novgorodsky machine-building plants. Both acquisitions were under threat of re-privatization, as well as Druzhkovsky itself, according to the Coal Ministry.

Nearly 48.5% of **Novgorodsky** machine building (a producer of mine carriages and locomotives) was bought in November 2004 for USD 0.4 mln (P/S x0.22, P/EBITDA and P/E neg). 50%+ 1 share of **Sverdlovsky** machine building (a producer of spare parts for mining equipment and mechanical supports) was bought for USD 1.8 mln (P/S x0.4, P/EBITDA neg.).

In June 2005 the local authorities asked the State Property Fund to cancel the results of the privatization contest, accusing Druzhkovsky of trying to prevent Sverdlovsky, which can be considered competitors from working. They stated that Druzhkovsky banned Sverdlovsky machine building from supplying its equipment to a number of coal companies, thus preventing from operating at capacity, and fulfilling investor's obligations. The privatization conditions for Novgorodsky were also checked by the State Property Fund, which suspected lower than a fair sale price.

However, the new political configuration in the Rada after the elections is expected to be favorable for the company.

KEY FINANCIAL DATA, USD mln *

	Net Revenue	EBITDA	Net Income
2004	123.2	7.5	2.5
2005E	66.5	6.3	2.1
Spot Exchange Rate	5.05		

**2004 – reported data, 2005E – adjusted data*

KEY RATIOS

	EV/S	EV/EBITDA	P/E
2004	n/a	n/a	n/a
2005E	1.3	14.1	37.5

BUY

Current Price	USD 0.55
Target Price	USD 0.66
Target MCap, mln	USD 30.0

Donetskgirmash (DGRM)

A major producer, diversified in the coal machinery segment, as well as in metallurgical, cement and railway equipment is increasingly targeting Russia as an export market.

Market Information	
No of Shares, mln	45.5
Market Price, USD	0.55
MCap, USD mln	25.0
Free float	20%

Stock Ownership	
Ukrvuglemash	19%
Gorlivsky Mashynobudivnyk	19%
IUD	17%
Other	45%

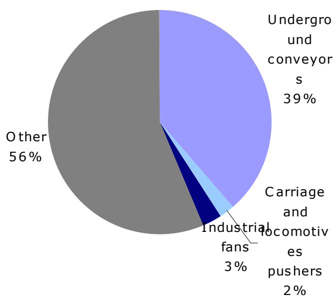
Ratios, 9M05	
EBITDA Margin	4.2%
Net Margin	0.4%
Total Debt/ Equity	4.32

The Most Diversified Producer. Donetskgirmash produces the widest range of machinery out of the four companies in this report. Coal mining equipment makes up ~70% of the company's sales, the rest is machinery for metallurgical plants, cement industry, railways and electrical power stations. Underground conveyors constitute the largest share of the company's coal machinery output, followed by mine fans, conveyors, carriages, excavating equipment, etc.

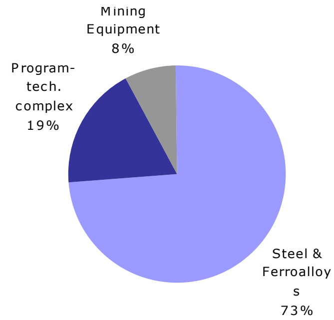
Sales Decreased In 2005. Donetskgirmash also suffered a from change in political authority, and a decrease in state-financed purchases, which we assume caused the decline in its net revenues by 14.7% yoy in 2005. Its gross margin increased from 15% by the end of last year to 19% in 9M05, nevertheless, due to high SG&A, its EBITDA margin decreased significantly. The company's net margin remained positive in 9M05.

Exports Grow. The amount of real exports in 1H05 was almost threefold higher than during the entire 2004. Its share increased from 2% of net revenues in 2004 to 19% in 1H05. The company also, similar to Druzhkovsky, is artificially increasing its sales through exports of steel from IUD companies. Almost all its machine-building exports go to Russian consumers. One of the ways the company exports to Russia is through the Kamensky machine-building plant, which is also managed by Ukrvuglemash.

Production Breakdown 2004



Exports Breakdown 2004



KEY FINANCIAL DATA, USD mln *	Net Revenue	EBITDA	Net Income
2004	56.8	2.7	1.5
2005E	36.5	1.5	0.2
Spot Exchange Rate		5.05	

**2004 – reported data, 2005E – adjusted data*

KEY RATIOS	EV/S	EV/EBITDA	P/E
2004	n/a	n/a	n/a
2005E	1.0	24.5	124.7

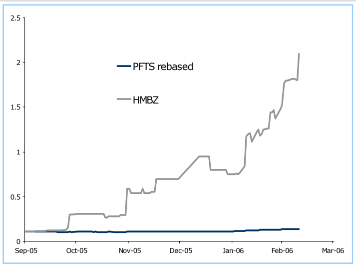
BUY

Svitlo Shakhtarya (HMBZ)

Ukraine's largest producer of conveyors posted the highest profitability margins in 9M05. We estimate the company's sales decreased slightly in 2005 but expect its margins to stay high.

Current Price	USD 0.41
Target Price	USD 0.89
Target MCap, mln	USD 100.0

HMBZ Mid-Market, UAH



Market Information	
No of Shares, mln	111.8
Market Price, USD	0.41
MCap, USD mln	46.0
Free float	40%

Stock Ownership	
Management	25%
Gorlivsky Mashynobudivnyk	15%
Merco Services	11%
Ukrvuglemash	9%
Other	40%

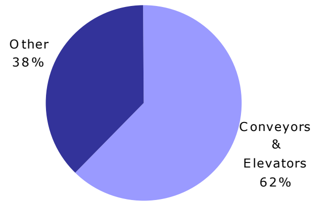
Ratios, 9M05	
EBITDA Margin	27%
Net Margin	17%
Total Debt/ Equity	0.13

Conveyors And Lamps. Initially the company specialized in the production of lamps for mines, however, later Svitlo Shakhtarya shifted its focus to the production of conveyors. Presently the company is the leading producer of this kind of machinery in Ukraine, and controls 47% of the market, followed by Donetskgirmash with 41%.

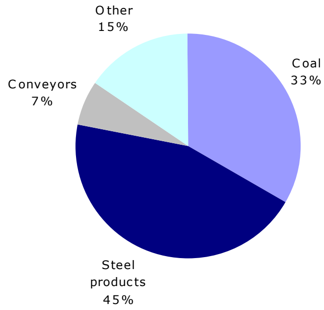
2005 Sales Down, Profit Margins Up. Based on the 3% decrease in sales yoy in 9M05, we expect an annual decrease by 5%, due to a lack of state financing for the coal mining industry in 2005. Svitlo posted the highest profitability margins out of the four companies in 2004, and we estimate that they stayed high in 2005. This profitability level is near the highest in the Ukrainian machine-building industry.

Growing Exports. The company saw its exports of coal machinery increase from 2% of sales in 2004 to 8% in 1H05. Russia is the main consumer of the company's exports.

Production Breakdown 2004



Export Breakdown 2004



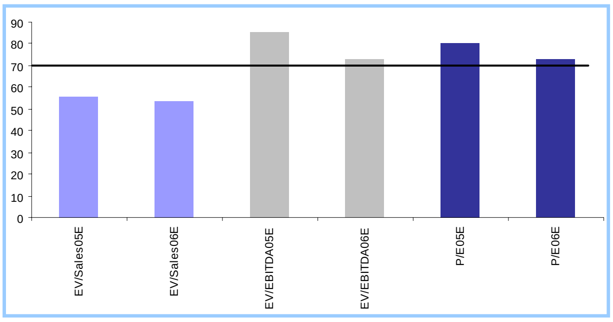
KEY FINANCIAL DATA, USD mln	Net Revenue	EBITDA	Net Income
2004	38.4	11.6	7.4
2005E	36.6	10.0	8.1
Spot Exchange Rate		5.05	

KEY RATIOS	EV/S	EV/EBITDA	P/E
2004	n/a	n/a	n/a
2005E	0.9	3.4	5.7

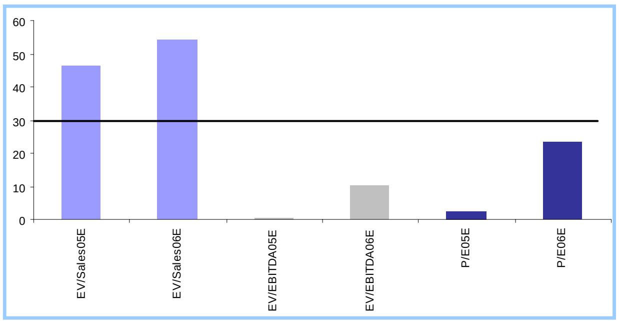
Valuation

Target MCap, USD mln

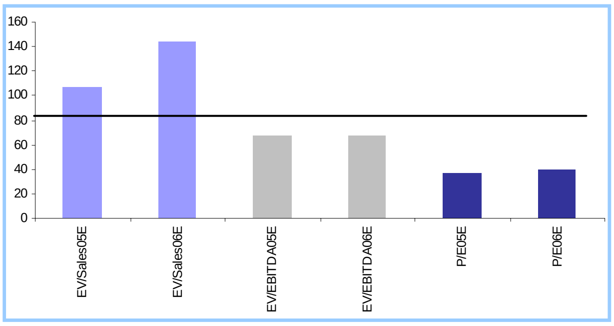
Yasynuvatsky



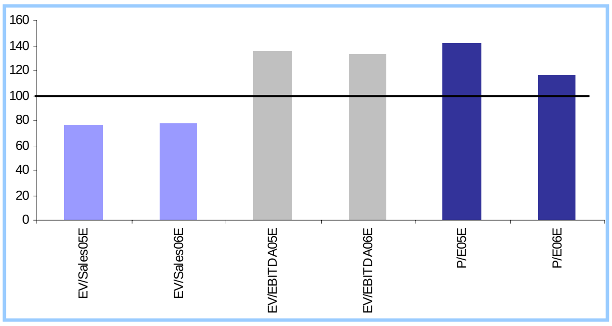
Donetskgirmash



Druzhkivsky



Svitlo



Source: Concorde Capital estimates

Peer Comparison

	Country	MCap, USD mln	Sales			EBITDA Mgn			Net Mgn			EV/SALES			EV/EBITDA			P/E		
			2004	**2005E**	**2006E**	**2004**	**2005E**	**2006E**	**2004**	**2005E**	**2006E**	**2004**	**2005E**	**2006E**	**2004**	**2005E**	**2006E**	**2004**	**2005E**	**2006E**
Yasynuvatsky m-build	Ukraine		24.0	30.0	30.9	20.2	22.3	22.3	13.5	15.3	15.3									
Donetskgirmash	Ukraine	25.0	42.8	36.5	44.1	6.3	4.1	6.3	3.4	0.4	3.4		0.7	1.0		16.7	15.5		120.0	16.5
Druzhkivsky m-bild	Ukraine	70.1	91.0	66.5	93.7	8.2	8.2	8.2	2.7	3.2	2.7		1.2	0.9		12.8	10.5		33.6	27.4
Svitlo shakhtarya	Ukraine	46.0	38.4	36.6	39.7	30.1	27.4	30.1	19.2	19.2	19.2		0.9	0.9		3.4	2.9		5.7	6.0
Bucyrus International Inc	USA	1301.0	454.2	563.3	714.0	9.1	15.8	16.1	1.3	8.2	8.7	3.0	2.5	1.9	33.6	15.5	12.0	213.8	28.3	21.0
JOY Global Inc	USA	6674.0	1432.2	1948.2	2405.0	11.5	15.9	18.0	3.9	7.6	10.5	4.6	3.4	2.8	40.3	21.5	15.4	120.6	44.9	26.5
SDS Corp. Limited	Australia	62.5	59.9	n/a	n/a	12.7	n/a	n/a	4.0	n/a	n/a	1.1	n/a	n/a	8.5	n/a	n/a	26.3	n/a	n/a
United Tractors	Indonesia	1221.6	958.4	1119.1	1453.5	23.5	17.7	19.0	12.4	8.6	8.8	1.3	1.1	0.9	5.7	6.5	4.7	10.3	12.6	9.5
Anhui Heli Company	China	225.6	165.3	221.900	259.900	14.8	n/a	n/a	9.0	8.4	9.0	1.3	0.9	0.8	8.6	n/a	n/a	15.1	12.1	9.6
Sandvik AB	Sweden	12729.4	8217.7	8,031.4	8,629.5	18.5	19.0	19.8	8.2	9.1	9.6	1.7	1.8	1.6	9.3	9.3	8.3	19.0	17.5	15.3
Shantui Construction Machinery	China	197.2	204.6	n/a	n/a	10.0	n/a	n/a	5.5	n/a	n/a	0.9	n/a	n/a	8.9	n/a	n/a	17.6	n/a	n/a
Foreign Peer Average						14.3	17.1	**18.2**	6.3	8.4	**9.3**	2.0	1.9	**1.6**	16.4	13.2	**10.1**	60.4	23.1	**16.4**
Foreign Peer Median						12.7	16.8	**18.5**	5.5	8.4	**9.0**	1.3	1.8	**1.6**	8.9	12.4	**10.2**	19.0	17.5	**15.3**
YAMZ																				
Target Mcap Avg												50.1	61.0	**52.3**	81.6	91.0	**72.3**	195.7	106.1	**77.6**
Target Mcap Median												34.3	55.5	**53.3**	45.4	85.6	**72.8**	61.6	80.4	**72.6**
DOGM																				
Target Mcap Avg												85.6	53.0	**52.8**	44.3	1.8	**10.0**	89.0	3.5	**24.9**
Target Mcap Median												57.5	46.3	**54.3**	24.1	0.6	**10.2**	28.0	2.6	**23.3**
DRMZ																				
Target Mcap Avg												182.5	119.2	**140.6**	123.1	73.0	**67.4**	150.7	48.4	**42.1**
Target Mcap Median												122.7	107.1	**143.7**	67.3	67.9	**68.0**	47.4	36.7	**39.4**
Svitlo Shakhtarya																				
Target Mcap Avg												84.4	82.9	**75.6**	197.7	144.1	**132.2**	446.9	186.8	**124.9**
Target Mcap Median												59.1	76.2	**76.9**	111.0	136.1	**133.1**	140.6	141.7	**116.8**

Sales figures were restated to account for non-core exports

Financial Statements, UAS

Income Statement Summary, USD mln

	Yasinuvatsky			Donetskgirmash			Druzhkivsky			Svitlo		
	2003	**2004**	**9M05**	**2003**	**2004**	**9M05**	**2003**	**2004**	**9M05**	**2003**	**2004**	**9M05**
Net Revenues	**12.6**	**23.9**	**21.9**	**22.4**	**56.6**	**26.7**	**59.4**	**122.8**	**48.2**	**18.5**	**38.4**	**26.7**
Cost Of Sales	(8.7)	(14.4)	(12.9)	(19.4)	(48.1)	(21.5)	(47.6)	(94.8)	(35.7)	(11.4)	(20.6)	(15.7)
% of Net Revenues	*69%*	*60%*	*59%*	*87%*	*85%*	*81%*	*80%*	*77%*	*74%*	*61%*	*53%*	*59%*
Gross Profit	4.0	9.5	8.9	3.0	8.5	5.1	11.8	28.0	12.5	7.1	17.9	11.0
% of Net Revenues	*31%*	*40%*	*41%*	*13%*	*15%*	*19%*	*20%*	*23%*	*26%*	*39%*	*47%*	*41%*
Other Operating Income/Costs, net	(1.2)	(1.3)	(1.2)	(2.4)	(1.5)	(0.6)	(0.2)	(6.0)	(0.3)	(1.5)	(1.8)	(1.8)
% of Net Revenues	*-10%*	*-6%*	*-5%*	*-11%*	*-3%*	*-2%*	*0%*	*-5%*	*-1%*	*-8%*	*-5%*	*-7%*
SG&A	(2.4)	(3.4)	(2.7)	(2.5)	(4.3)	(3.4)	(10.9)	(14.5)	(7.6)	(1.4)	(4.5)	(1.8)
% of Net Revenues	*19%*	*14%*	*13%*	*11%*	*8%*	*13%*	*18%*	*12%*	*16%*	*8%*	*12%*	*7%*
EBITDA	**0.3**	**4.8**	**5.0**	**(1.9)**	**2.7**	**1.1**	**0.6**	**7.4**	**4.6**	**4.3**	**11.6**	**7.3**
EBITDA margin, %	2.4%	20.2%	23.0%	-8.4%	4.7%	4.2%	1.0%	6.1%	9.6%	23.0%	30.1%	27.4%
Depreciation	(0.4)	(0.6)	(0.6)	(0.7)	(0.9)	(0.9)	(1.5)	(0.9)	(3.1)	(1.3)	(1.7)	(1.4)
% of Net Revenues	*4%*	*2%*	*3%*	*3%*	*2%*	*3%*	*3%*	*1%*	*6%*	*7%*	*4%*	*5%*
EBIT	**(0.1)**	**4.3**	**4.5**	**(2.6)**	**1.8**	**0.2**	**(0.9)**	**6.5**	**1.5**	**2.9**	**9.9**	**5.9**
EBIT margin, %	-1.2%	17.9%	20.4%	-11.4%	3.1%	0.8%	-1.5%	5.3%	3.2%	15.8%	25.7%	22.2%
Interest Expense	-	-	-	-	(0.0)	(0.1)	(0.0)	(0.0)	(0.1)	-	(0.0)	-
Financial income/(expense)	0.1	0.1	0.1	-	0.0	-	0.0	(2.7)	0.0	-	-	-
Other income/(expense)	0.0	(0.1)	0.1	0.0	0.1	(0.0)	(0.0)	(1.3)	(0.0)	(0.2)	0.8	0.8
PBT	**0.0**	**4.3**	**4.7**	**(2.5)**	**1.9**	**0.1**	**(0.9)**	**2.5**	**1.4**	**2.7**	**10.6**	**6.7**
Tax	(0.0)	(1.1)	(1.2)	-	(0.4)	(0.0)	(0.7)	-	(1.0)	(1.5)	(3.3)	(2.2)
Effective tax rate	*30%*	*25%*	*25%*	*0%*	*22%*	*0%*	*-82%*	*0%*	*70%*	*53%*	*31%*	*33%*
Extraordinary Income/(loss)	-	-	-	-	-	-	-	-	-	-	-	-
Net Income	**0.0**	**3.2**	**3.5**	**(2.5)**	**1.5**	**0.1**	**(1.6)**	**2.5**	**0.4**	**1.3**	**7.3**	**4.5**
Net Margin, %	*0%*	*13%*	*16%*	*-11%*	*3%*	*0%*	*-3%*	*2%*	*1%*	*7%*	*19%*	*17%*

Balance Sheet Summary, USD mln

	Yasinuvatsky			Donetskgirmash			Druzhkivsky			Svitlo		
	2003	**2004**	**9M05**	**2003**	**2004**	**9M05**	**2003**	**2004**	**9M05**	**2003**	**2004**	**9M05**
Current Assets	**13**	**12**	**18**	**28**	**28**	**33**	**126**	**99**	**87**	**25**	**30**	**38**
Cash & Equivalents	3	2	3	0	0	0	1	1	0	6	7	12
Trade Receivables	3	2	5	5	8	8	70	37	13	4	5	4
Inventories	5	5	6	21	14	13	35	33	34	11	13	16
Other current assets	2	3	4	2	5	12	20	28	40	4	5	7
Fixed Assets	**8**	**9**	**10**	**11**	**13**	**14**	**13**	**34**	**34**	**8**	**8**	**8**
PP&E, net	6	7	7	9	11	12	8	28	26	8	7	8
Other Fixed Assets	2	2	3	3	2	2	5	6	7	1	1	1
Total Assets	**20**	**22**	**28**	**40**	**41**	**47**	**139**	**133**	**121**	**34**	**38**	**46**
Shareholders' Equity	**14**	**17**	**21**	**8**	**9**	**9**	**38**	**35**	**34**	**28**	**35**	**41**
Share Capital	5	5	5	2	2	2	10	10	10	0	0	0
Reserves and Other	3	3	3	10	7	7	3	3	2	14	14	14
Retained Earnings	6	9	13	(4)	(0)	(1)	26	23	22	13	21	26
Current Liabilities	**6**	**3**	**4**	**31**	**31**	**23**	**100**	**98**	**87**	**4**	**3**	**5**
ST Interest Bearing Debt	-	-	-	-	-	3	0	0	10	-	-	-
Trade Payables	3	1	1	30	29	16	89	66	68	3	2	2
Accrued Wages	0	0	0	0	0	0	0	0	0	0	0	0
Accrued Taxes	0	-	0	0	0	0	0	0	0	0	1	1
Other Current Liabilities	3	2	3	1	2	4	10	31	7	0	1	2
LT Liabilities	**0**	**1**	**2**	**0**	**0**	**16**	**0**	**0**	**-**	**2**	**0**	**0**
LT Interest Bearing Debt	-	-	-	-	-	15	-	-	-	-	-	-
Other LT	0	1	2	0	0	1	0	0	-	2	0	0
Total Liabilities & Equity	**20**	**22**	**28**	**40**	**41**	**47**	**139**	**133**	**121**	**34**	**38**	**46**

Source: Company Data

Concorde Capital
3V Sportyvna Square
2nd entrance, 3rd floor
Kyiv 01023, UKRAINE

Tel +380 44 206 8370
Fax: +380 44 206 8366
www.concorde.com.ua
office@concorde.com.ua

CEO
Igor Mazepa im@concorde.com.ua

Managing Partner
John David Suggitt js@concorde.com.ua

Director, International Equity Sales
Peter Bobrinsky pb@concorde.com.ua

Equity Sales
Marina Martirosyan mm@concorde.com.ua
Lucas Romriell lr@concorde.com.ua
Alexis Stenbock-Fermor asf@concorde.com.ua
Anastasiya Nazarenko an@concorde.com.ua

Director of Research
Konstantin Fisun, CFA kf@concorde.com.ua

Utilities (Telecom, Energy)
Alexander Paraschiy ap@concorde.com.ua

Metals & Mining
Andriy Gostik ag@concorde.com.ua
Eugene Cherviachenko ec@concorde.com.ua

Machine Building, Construction, Consumer Goods
Olga Pankiv op@concorde.com.ua

Banking & Macroeconomics, Retail
Alexander Viktorov av@concorde.com.ua

Oil & Gas, Chemicals
Vladimir Nesterenko vn@concorde.com.ua

Politics, Editor
Nick Piazza np@concorde.com.ua

Junior Analyst
Polina Khomenko pk@concorde.com.ua

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