UKRAINE / Coal Machinery

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CONCORDE CAPITAL

Ukrainian Coal Machinery

Used to going it alone

November 17, 2008

Contents

INVESTMENT THESIS

Industry summary

SHORT-TERM RISKS

- After showing its first signs of recovery since the 1990s over the last three years, the Ukrainian coal machinery sector risks a sharp slowdown. While in 2003-2007, the industry's domestic state and private customers almost tripled expenditures on coal mining equipment, they too will succumb to the slumping tide of the economy: we forecast Ukrainian real GDP growth to fall to 5.3% in 2008 and -1% in 2009

- The seemingly perpetual Ukrainian political quagmire, with the current prospect of another round of parliamentary elections in 2009 and the next presidential poll around the corner in 2010, adds risks for the state-sponsored coal sector (50% of coal machinery purchases are financed through the state budget)

SHORT-TERM GOVERNMENT ACTION

- On November 13, representatives of the coal industry and government met to hash out details of state support amid the financial crisis that would include using the newly created stabilization fund to create a reserve of energy coal, introducing preferential transportation tariffs and import quotas on coking coal, and prolonging the repayment period for debt held by sector companies

LONG-TERM OPPORTUNITIES

- Although short-term concerns are mounting, we see fundamental drivers for the domestic coal industry in the next 5-10 years: (1) Ukraine’s strong need to cut its gas dependence on Russia to improve energy security; (2) and rising Ukrainian demand for coking coal from steelmakers, backed by rebounding demand for steel. Ukrainian steel producers, over the last month, have been confirming expansion programs, though they acknowledge 1-2 year delays

- The Ministry of Economy, on July 16, upgraded the state program on the development of the coal industry until 2030 with a more ambitious timeline for increasing coal extraction: 110 mln mt by 2013 vs. by 2015 previously. We estimate implementation of the program would require USD 1.2 bln p.a. in investments on coal mining equipment until 2012

- This September, SCM announced plans to increase its holdings of the sector; we believe its goal is to accumulate controlling stakes in DGRM, HMBZ and YAMZ. Moreover, we expect SCM to form a full-fledged holding that will account for 80% of domestic coal machinery production

- We expect improvement in financial disclosure with: (1) the completion of SCM's holding, in which it would instill transparency at included companies, similar to at Metinvest and DTEK; and (2) the privatization of remaining state mines, doing away with shady state purchase tenders for coal mining equipment. We see these events taking place no earlier than in three years

Valuation summary

Although, our DCF models yielded high fair values for all stocks, excluding Dongirmash, it would be difficult to expect Ukrainian coal machinery stocks to enter the spotlight over 2009 under bearish market conditions. To provide a more or less realistic benchmark of mid-term upside, we relied more on peer comparison when setting our target prices. When assigning recommendations, we took into account P&L quality, liquidity and parent group support.

Three of four stocks in the sector look fundamentally attractive in the long run and we recommend to HOLD them. The future of Dongirmash is uncertain given a conflict between major shareholder, Metinvest, and the owner of a 19% stake, IUD.

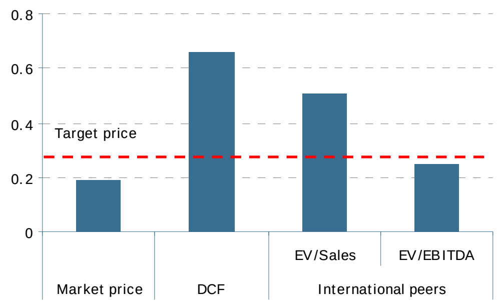
Our preferred stock is Druzhkivka Machinery, controlled by SCM. We think, this company is most insulated from macroeconomic woes. SCM, the #1 business group in Ukraine, is the largest domestic consumer of coal mining equipment: on which it spent around USD 200 mln in 2007 (30% of the total in Ukraine) for its vertically integrated energy (DTEK) and metals & mining (Metinvest) holdings.

Recommendation summary

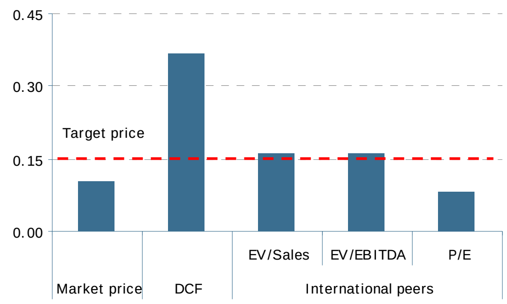
Ticker	Company	Price, USD	12M TP, USD	Rec.	Upside, %	MCap, USD mln	FF, %
DGRM	Dongirmash	0.16	0.04	SELL	-74%	7.0	38%
DRMZ	Druzhkivka M-ry	0.19	0.30	HOLD	58%	39.4	12%
HMBZ	Svitlo Shakhtarya	0.11	0.15	HOLD	43%	35.2	10%
YAMZ	Yasynuvatsky M-ry	0.57	0.80	HOLD	40%	13.0	34%

Valuation results, USD per share

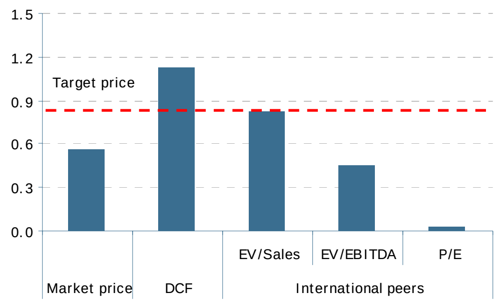
Druzhkivka Machinery



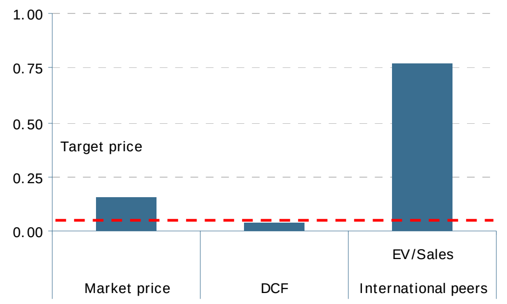
Svitlo Shakhtarya



Yasynuvatsky Machinery



Dongirmash



Source: PFTS, Concorde Capital estimates

As we expect Dongirmash to continue reporting distorted financials in the mid-term, we treat valuation by profitability metrics, as well as DCF valuation unreliable.

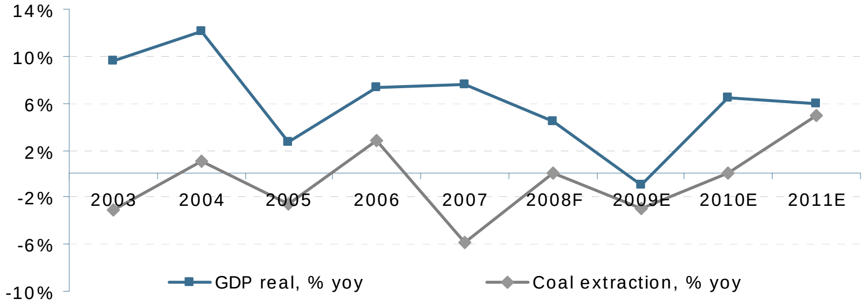
MARKET OVERVIEW

Short-term industry concerns

Growth constrained by economic weakness

Though the potential domestic demand for coal machinery equipment remains strong due to replacement/modernization needs (80% of the equipment is worn out), there is a risk of insufficient financing for orders in 2009. Our expectation is that in the short-term the coal industry will slow, following the recession in the Ukrainian economy (we forecast real GDP growth to drop from 7.6% in 2007 to 4.5% in 2008 and -1% in 2009).

Real GDP growth, %



Source: State Statistics Committee, Concorde Capital estimates

Government and private mines in Ukraine are the two major buyers (split est. 50/50) of Ukrainian coal mining equipment. Last year, they jointly spent USD 617 mln (up 36% yoy). Moreover, private investments grew 57% vs. the state's 23%.

METALLURGY: LARGE CUSTOMER FACES PROBLEMS

The Ukrainian metals and mining industry, a consumer of 100% of coke and 30% of electricity produced in the country, is the major determinant of demand for coal, and thus coal machinery.

This year, domestic steel production plunged 6% yoy in 10M08 due to the absence of demand for steel globally, and we forecast a drop of 15% yoy in 2008.

We estimate that steel production in Ukraine will be flat in 2009, if the first signs of recovery emerge this spring, otherwise it can decrease up to 10% yoy if the recovery is delayed until summer. Major domestic steel groups have recently been announcing expansion projects being postponed by 1-2 years.

Political turmoil adds more risks

The seemingly perpetual Ukrainian political quagmire, with the prospect of another round of parliamentary elections in 2009 and the next presidential poll around the corner in 2010, adds risks for the state-sponsored coal sector. The budget finances ~60% of state coal mines in the country, including repairs and equipment purchases.

Additional risks are present for the coal industry in the fate of Prominvestbank (PIB), Ukraine's #6 largest lender by assets, which services budget financing to coal mines. In late October, corporate raider attacks destabilized confidence in the bank, and it became the first Ukrainian bank and biggest to date to seek government support. The temporary state-appointed administrator of PIB announced on November 3 that 68% in the bank was sold (to the Klyuev brothers, two Ukrainian businessmen), and news of its strategic sale/nationalization continue to make headlines. At any rate, the general understanding is that the National Bank of Ukraine will have no choice but ensure PIB' critical service to the coal sector will not be interrupted.

GOVERNMENT OFFERS ASSISTANCE TO COAL INDUSTRY

The Cabinet of Ministers announced in July 2008 that it planned to provide guarantees in the amount of UAH 3.1 bln (USD 639.2 mln) to coal enterprises for loans to modernize coal mines. With current political uncertainty and tight lending conditions, we foresee implementation of this program no earlier than mid-2009.

In early November 2008, the Cabinet of Ministers charged the Ministry of Coal Industry to develop a draft on state support for the coal industry, the realization of which would help to secure it from the broader financial crisis.

On November 13, representatives of the coal industry and government met to hash out details of state support amid the financial crisis that would include: using the newly created stabilization fund to create a reserve of energy coal, introducing preferential transportation tariffs and import quotas on coking coal, and prolonging the repayment period for debt held by sector companies.

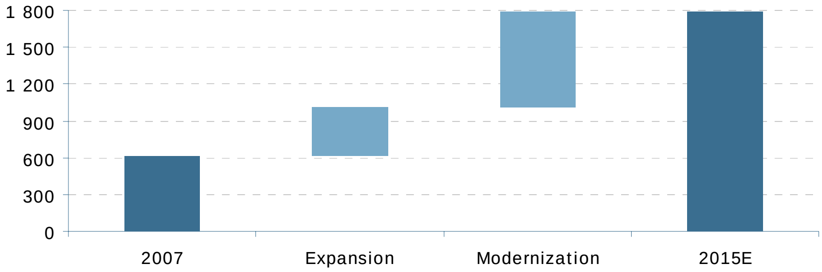
Long-term outlook: sector will recover

In the long run, increasing investments in mining equipment will be supported by the need for Ukraine to decrease its gas dependence on Russia, growing domestic demand for coal, and heavy underinvestment in the coal machinery industry (~80% of equipment is worn out and needs to be replaced).

The growth driver of the Ukrainian coal machinery industry, in our view, is implementation of the government program to increase coal extraction (base scenario targets +46% growth by 2015).

In general, we estimate Ukrainian coal mine expenditures to almost triple by 2015 to USD 1.8 bln annually vs. 0.6 bln in 2007, thanks to modernization of mining equipment and higher coal extraction (for more details see appendix D).

Equipment expenditures by Ukr. mines, breakdown by driver, USD mn



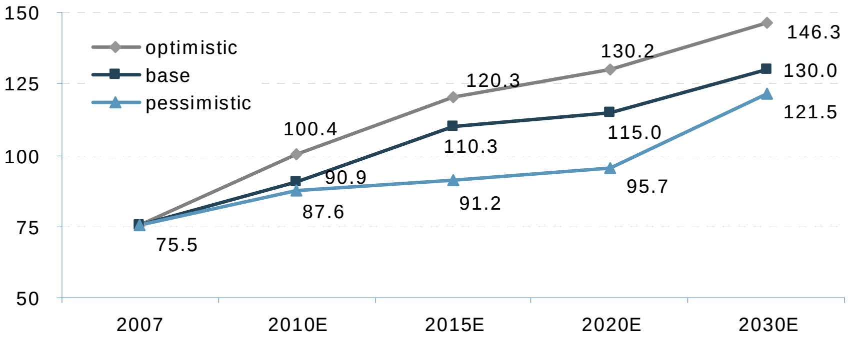
Source: Company data, Energy Strategy 2030, Concorde Capital estimates

We believe the financial crisis of ’08-’09 will hardly have a significant impact on the government's coal industry development program in the long run. Since the program was approved in 2006, two powerful economic incentives have emerged to boost coal extraction: rising gas prices and growing demand for coking coal; and we believe these factors will keep driving the coal machinery development in the next five-ten years.

Government upgraded coal extraction targets

The Ministry of Economy, on July 16, released its *Main State Priorities for Social-Economic Development 2009-2012*, which foresees a more ambitious than before timeline for increasing coal extraction: 110 mln mt by 2013. We think the base scenario of the program (by 2015) is more realistic, but are ready to upgrade our forecasts if future coal output figures warrant it.

Planned coal extraction in Ukraine, mln mt



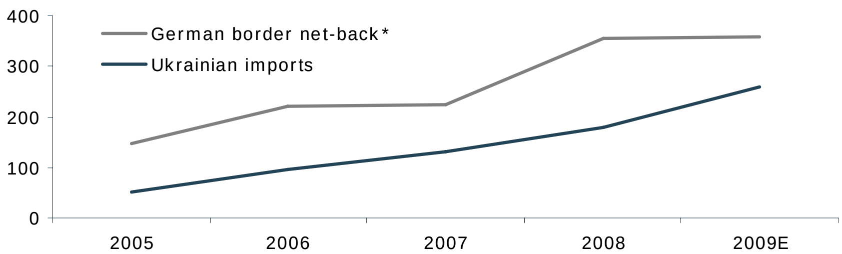
Source: Energy Strategy of Ukraine 2030, EnergoBiznes

ENERGY COAL: KEY TO UKRAINE'S ENERGY INDEPENDENCE

Even though Ukraine has the seventh largest coal reserves in the world, coal makes up only 19% of the domestic energy balance vs. the world's average of 23%. The largest share (41%) is gas, ~70% of which is imported. We are now observing that Ukraine, in order to decrease its dependence on imported gas, is starting to substitute gas for coal as a fuel where possible.

With Russian gas more than tripling in price in the last three years, gas has become too expensive an alternative to coal for electricity generation (electricity produced from gas at 2008 prices is 40% more expensive than from coal). Gas consumption by generators' power plants dropped by 50% in 2007 in comparison to 2005.

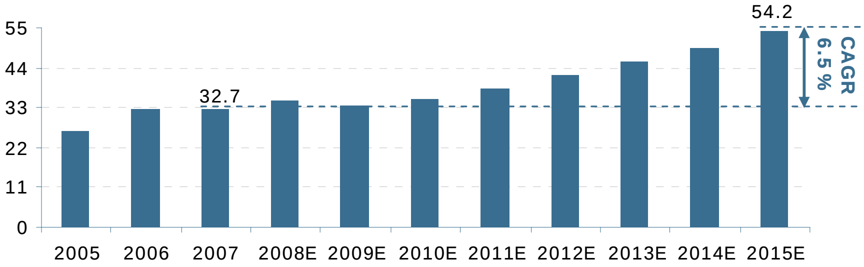
Yearly average gas price at Ukrainian-Russian border, USD/mcm



** Average contract price at the German border netted back to the Ukrainian-Russian border (assuming total transportation costs at USD 60/mcm)*
Source: Ministry of Fuel and Energy, Oxford Institute of Energy Studies, Concorde Capital research

Ukrainian generation companies' efforts to slash gas consumption will drive demand for steam coal, which we forecast to grow at 6.5% CAGR 2007-2015 and reach 54.2 mln mt per annum by end-2015.

Steam coal demand from Ukrainian generation companies, mln mt

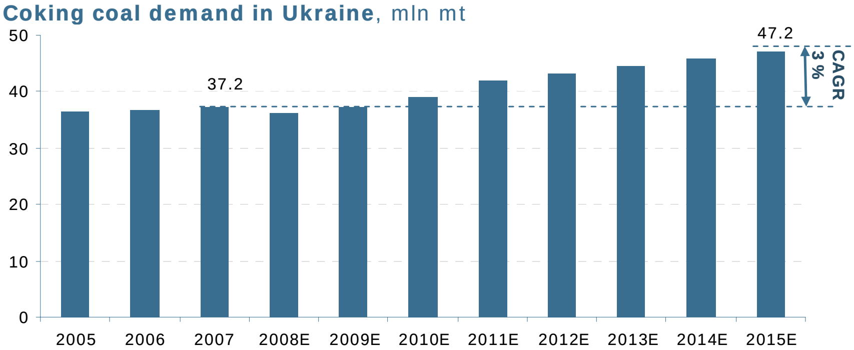


Source: Energobiznes, Concorde Capital estimates

COKING COAL: DEMAND OUTPACES SUPPLY

We think that in the long run the domestic market can consume an additional 20% of Ukrainian coking coal by squeezing out imports: in 2007 Ukraine imported 20-30% of coking coal. According to our estimates, Ukrainian coke plants will need 27% more coal by 2015 (or +10 mln mt from 2007) to meet the demand for steel from Ukraine and BRIC countries.

Coking coal demand in Ukraine, mln mt



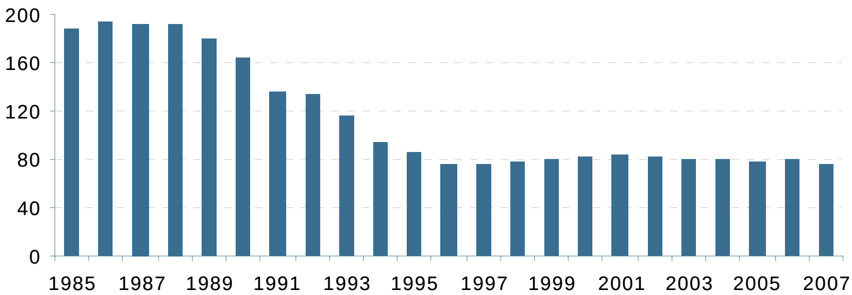
Source: Metalexpert, Concorde Capital estimates

Expenditures on mining equipment must double to support at least current extraction

Over the last four years, even though coal mines increased machinery expenditures twofold – it was still not enough to facilitate higher coal extraction: domestic coal production fell by 5% over the last four years, and has stagnated over the last decade.

We conservatively estimate that by 2015 Ukrainian mines must double CapEx to USD 16/mt of coal extracted (or USD 1.8 bln of investments a year) to support production at least at its current level.

Ukrainian coal extraction in 1985-2007, mln mt



Source: EnergoBiznes

According to our estimates, the coal industry would have needed an additional ~USD 200 mln (32% of total CapEx to equipment in 2007) in CapEx last year to sustain 2006's coal extraction level of 80.3 mln mt.

Domestic coal mines' CapEx per mt of coal extracted in 2007 was 17% less than the average of the three global leaders (Anglo American, BHP Billiton, Xstrata), which unlike Ukrainian mines extract coal from open pits, and thus technically require less expenditures to maintain. Taking into consideration that Ukrainian coal mines' equipment is ~80% worn out, according to a representative of Ministry of Coal Industry, the amount of Ukrainian mines' CapEx per mt should be significantly more than the average of the top three world leaders.

Coal mines' average equipment expenditures, USD/mt of coal extracted

[*] Anglo American, BHP Billiton, Xstrata. Note: We relate the decrease in equipment expenditures in 2007 by the three world leaders to spending being redirected to acquisitions
Source: Company data, Verkhovna Rada, EnergoBiznes, Concorde Capital calculations

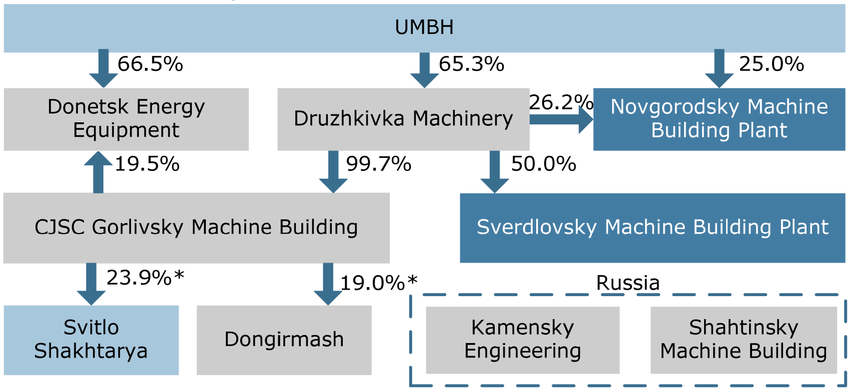
SCM started consolidation of MB

In late September, SCM said that it was in the process of increasing its stakes in Ukrainian coal machinery companies, with a view toward developing the business into a regional powerhouse with synergies from horizontal and vertical integration.

SCM has already taken the first moves to restructure its coal machinery assets, legally transferring its 65.3% stake in Druzhkivka Machinery to the specially-created Ukrainian Machine Building Holding in March. Three months later, SCM passed its 66.5% stake in the non-public Donetsk Energy Plant to UMBH. In mid-September, SCM received permission from the Ukrainian Antimonopoly Committee to purchase a more than 50% stake in Russia's Kamensky Engineering.

We expect SCM to establish a full-scale coal machinery holding by end-2010, including controlling stakes in Druzhkivka Machinery, Dongirmash, Svitlo Shakhtarya, two unlisted Ukrainian companies (Gorlivsky Machine Building and Donetsk Energy Plant) and its assets in Russia.

SCM coal machinery asset structure



** According to SCM, it holds 40% of Svitlo Shakhtarya trough affiliated companies and 43% of Dongirmash. Note: Gray denotes companies under control of SCM-related Gorniye Mashini*
Source: Company data, Interfax

Needed steps for SCM to complete UMBH

In our view, on the way to forming a full-scale holding, SCM will have to:

- Increase its shareholdings in Dongirmash to 60% (from 43% currently), by either (most probably) acquiring the Industrial Union of Donbas' 19% stake or buying 17% from the market. According to Ukrainian legislation, 60% of voting shares present are required to run AGMs and EGMs, i.e. secure full operating control

- Boost its stake in Svitlo Shakhtarya from ~40% to 60% by buying out shares from the company's current CEO. Taking into consideration SCM's role as a sector demand driver, which will strengthen via mine acquisitions and privatizations in the next 2-3 years, and the financial crisis, we see the company's CEO having reasons to sell out

- Purchase a controlling stake in Yasynuvatsky Machinery. Though SCM does not currently have any shares, it is rumored to be interested. Yasynuvatsky Machinery would fit into the holding as the CIS' only producer of roadheaders

UMBH: A holding with both vertical and horizontal integration

The coal machinery holding fits well with SCM's energy (DTEK) and steel (Metinvest) wings, which are stable consumers of coal machinery equipment (~USD 200 mln or roughly 30% of total expenditures of Ukrainian mines for equipment in 2007).

Coal machinery assets sit atop SCM's energy & steel business chain

Coal Machinery

2007 share in domestic production: 55%
Druzhkivka Machinery (*DRMZ UZ)*
Dongirmash (*DGRM UZ)*
Donetsk Energy
Gorlivsky Machine Building

Coal Mining

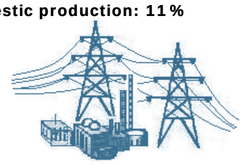
2007 share in domestic production: 28%
Komsomolets Donbasa (*SHKD UZ)*
Krasnodonugol
Pavlohradugol

steam coal

coking coal

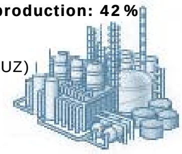
Electricity Generation

2007 share in domestic production: 11%
Vostokenergo



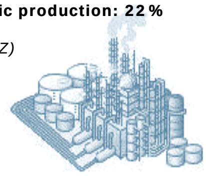
Coke

2007 share in domestic production: 42%
Avdiyivka Coke *(AVDK UZ)*
Donetsk Coke (DKOK UZ)
Azovstal/Markokhim (AZST UZ)
Zaporizhcoke* (ZACO UZ)



Steel

2007 share in domestic production: 22%
Azovstal (*AZST UZ)*
Enakievo Steel (*ENMZ UZ)*
Makiyivka Steel



** SCM owns about 51% of the company, but control over the company is held by Zaporizhstal (45% shareholder)*
Source: Company data, Concorde capital calculations

Furthermore, SCM's M&A activity to secure coal deliveries would bring more orders to UMBH companies. Over the next 2-3 years, we see SCM participating in the privatization of the remaining state-owned Ukrainian coal mines, while also being active in seeking mines outside the country (in May 2008 SCM announced plans to buy Russia's Chikha coal mine; currently Metinvest is seeking the acquisition of US United Coal).

Additionally, UMBH can give included companies synergies in the form of: (1) *cost optimization* (up to 2% saving in raw material, thanks to centralized purchases) and (2) *higher profits*, thanks to sales of more value added products, notably machinery packages (e.g. a package including Svitlo's scraping conveyors, Druzhkivka's mechanical supports and Gorlivsky's heading equipment).

Horizontal integration would also help coal machinery producers included in SCM's holding improve their competitive profile with regards to quality, service, distribution network and price. We believe in two-three years SCM's mines will focus/switch more to equipment made by UMBH companies, which by that time will upgrade their product profile (currently, SCM buys ~50% of foreign equipment).

COMPANY PROFILES

Druzhkivka Machinery (DRMZ UZ)

Coal Machinery

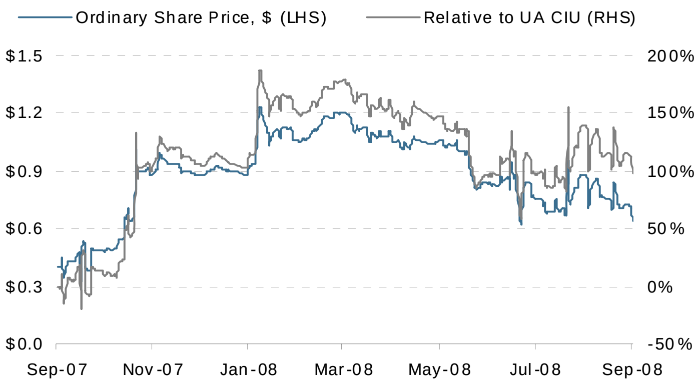
12M target (USD)	0.30
Upside*	58%

HOLD

INVESTMENT CASE

- Flagship of SCM's coal machinery wing, produces mechanical supports. SCM, the largest country's producer of coal, will likely place all its equipment orders with Druzhkivka
- Long-term demand is driven by domestic replacement needs est. ~42 units/year (in 2007 Druzhkivka made 23 units) and increasing investments by coal mines
- Diversification: 10-15% of sales to emerging markets. According to the company, it has orders to deliver support complexes to Vietnam and Russia, and mining locomotives to Iran. The company is currently in negotiations with potential consumers in India and China
- The company's 2006-2009 CapEx program aimed at boosting production capacity by 20-30%
- Highest free float among domestic peers

SHARE PRICE PERFORMANCE*



BUSINESS OVERVIEW

Largest producer of mining machinery and the only producer of powered supports in Ukraine. Located in close proximity to its major customers in Eastern Ukraine. Stable orders from state tenders for mining equipment (affiliated with SCM).
Plans to extend its markets by participating in tenders in India, Iran, Vietnam and Russia.
In 2007, the company increased sales +77% yoy to USD 151 mln, EBITDA grew 1.8x yoy to USD 14 mln (margin 9.3%) and net income more than doubled yoy to USD 5.1 mln (net margin 3.4%). In 1H08, net revenues increased by 3% yoy to USD 67.6 mln, and posted net losses of USD 1.1 mln vs. a profit of USD 5.9 mln in 1H07.

MARKET INFORMATION

Market Price*, USD	0.20
Price impact**	3
52 Wk H/L USD	1.24/0.10
Chg 3m/6m/52w	-74%/-80%/-79%
Chg vs UA CIU 3m/6m/52w	-13%/-5%/-6%
Chg YTD	-77%
Avg M Tr Vol 6M, USD ths	631
MCap, USD mln	39.4
Free float	12.0%
FF Mcap, USD mln	4.7
No of shares, mln	207.5
Par Value, UAH	0.25
Foreign Ticker	n/a
DR Ratio	n/a
Avg M Tr Vol 6M, USD ths	n/a

STOCK OWNERSHIP

Ukrainian Machine Building Holding	65.25%
Investment Fund "Golden Vortex"	12%
Individuals	2.45%
Other	20.3%

CORPORATE GOVERNANCE

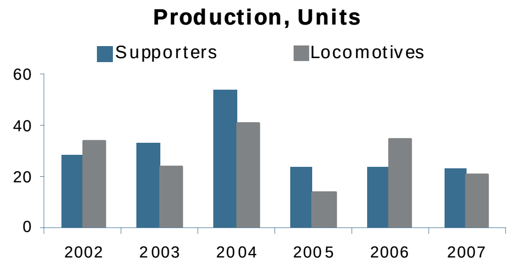
Concorde Rating***	BA

MARKET MULTIPLES

	2008E	2009E
EV/Sales	0.3	0.2
EV/EBITDA	2.7	2.9
P/E	28.5	neg
P/B	1.1	0.9
P/CF	4.9	3.1

KEY RATIOS

	2007	2008E	2009E
EBITDA margin	9.3%	9.9%	8.2%
Net Margin	3.4%	0.9%	-1.2%
ROE	15%	3.9%	-5.2%
Net Debt/Equity	0.10	0.10	-0.07



*Market information as of 17 Nov 2008, based on PFTS Mid prices

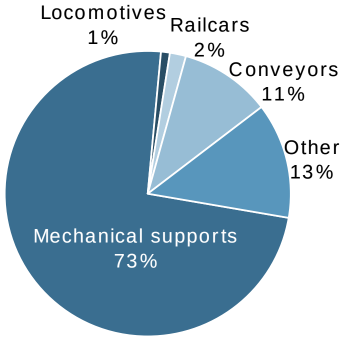
**** Price"impact" is the opinion of Concorde's trading desk on stocks to help investors estimate the reliability of quoted prices:**
1: Market price reaction remains within 10% in execution of a market order of about USD 10 mln in size
2: Market price reaction remains within 10% in execution of a market order of about USD 1 mln in size
3: All other stocks (quoted)

*** The rating is based on Concorde Capital's corporate governance survey. Q denotes quality corporate governance standards, AA - above average standards, A - average, BA - below average and P – poor.

Monopoly producer of roof supports in Ukraine, SCM's preferred coal machinery asset

The company is the only producer of supports in Ukraine at present. Its owner, SCM, holds one other supports producers (with similar a product profile), Kamensky (Russia). SCM prefers to produce supports at larger Druzhkivka, while Kamensky focuses mainly on spare parts.

Sales structure, 2007



Note: "Other" category consists of casting, cages, and spare parts
Source: Company data

Production, units

	2002	2003	2004	2005	2006	2007	2008E	2009E
Supports*	29	33	34	24	24	23	22	19
Locomotives	34	24	41	14	35	21	20	18
Railcars, ths	2.8	1.8	2.3	1.5	1.8	1.5	1.5	1.5
Conveyors	0	0	0	0	4	18	18	18

** Full name "Mechanical support complexes," one support complex consists of about 125 mechanical supports, on average*
Source: Company data

Domestic demand and export operations

In Ukraine, according to a Druzhkivka representative, there are ~300 working support complexes, 70% of which are purely in Druzhkivka's niche (coal extraction in thin seams). A supporter's life is five years, after which it must be replaced. This implies that the replacement of existing supporters will only generate domestic annual demand of 42 units.

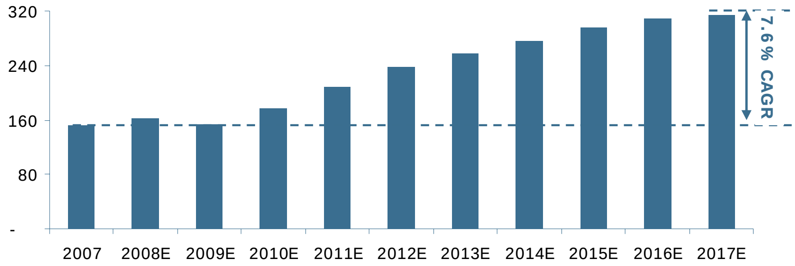
According to our estimates, exports accounted for 10% of Druzhkivka's sales in 2007 (USD 15 mln). This figure will already be higher this year: according to the company, in the beginning of the year, it received orders to deliver support complexes to Vietnam and Russia, and mining locomotives to Iran. The company is currently in negotiations with potential consumers in India and China.

Modernization program

According to management, the plant currently is currently operating at 60-70% of its capacity. The USD ~20 mln modernization program in 2006-2009, will increase Druzhkivka's production capacity by an estimated 20-30% and the quality of produced supports by 2010. In 2007, the company spent USD 6.5 mln on CapEx (2x more than 2007's D&A) - a level management plans to maintain over the mid-term. In 2008-2009, the company expects to reconstruct its support production facilities by installing new German and Swiss equipment.

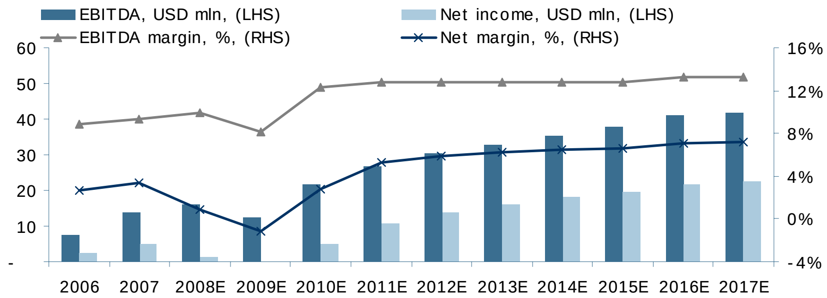
Key forecasts

Revenues, USD mln



Source: Company data, Concorde Capital estimates

Profitability



Source: Company data, Concorde Capital estimates

DCF Valuation

DCF output, UAH mln, as of November

	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
EBITDA	**80**	**62**	**106**	**129**	**146**	**158**	**170**	**182**	**198**	**201**
EBIT	61	42	85	107	123	134	146	158	173	177
Tax Rate	*35%*	*30%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*
Taxed EBIT	39	30	64	80.0	92.3	100.7	109.3	118.5	130.1	132.8
Plus D&A	20	20	21	22	23	24	24	24	24	24
Less CapEx	(25)	(33)	(40)	(40)	(38)	(35)	(28)	(24)	(24)	(24)
Less change in OWC	2	13	(12)	(37)	(23)	12	9	4	2	(4)
FCFF	**36**	**30**	**33**	**25**	**54**	**102**	**115**	**123**	**132**	**129**
WACC	26.2%	28.1%	28.3%	16.2%	15.3%	14.9%	14.2%	13.5%	13.1%	12.9%
Discounted cash flow	35	23	19	13	24	39	39	36	35	30
Sum of discounted CF		327								

		Perpetuity growth rate	1.0%
		WACC to perpetuity	12.5%
Disc' TV	334		
		Implied exit EBITDA multiple	5.6x
Firm value	**662**		
Portion due to TV	51%		
Less net debt	8		
Equity value	670		

Implied 12M price, USD 0.66

Implied Share Price, USD

WACC Y1-10	**Perpetuity Growth Rate**				
	0.0%	***0.5%***	***1.0%***	***1.5%***	***2.0%***
-1.5%	0.59	0.66	0.72	0.79	0.85
-1.0%	0.57	0.64	0.70	0.76	0.83
-0.5%	0.56	0.62	0.68	0.74	0.80
+0.0%	0.55	0.60	**0.66**	0.72	0.78
+0.5%	0.53	0.59	0.65	0.70	0.76
+1.0%	0.52	0.57	0.63	0.68	0.74
+1.5%	0.51	0.56	0.61	0.66	0.72

Implied Share Price, USD

WACC to perpetuity	**Perpetuity Growth Rate**				
	0.0%	***0.5%***	***1.0%***	***1.5%***	***2.0%***
11.0%	0.67	0.69	0.71	0.73	0.75
11.5%	0.66	0.67	0.69	0.71	0.73
12.0%	0.64	0.66	0.68	0.69	0.71
12.5%	0.63	0.65	**0.66**	0.68	0.70
13.0%	0.62	0.64	0.65	0.67	0.68
13.5%	0.62	0.63	0.64	0.66	0.67
14.0%	0.61	0.62	0.63	0.64	0.66

Financial Statements, UAS

Income Statement Summary, USD mln

	2006	2007	2008E	2009E	2010E	2011E	2012E
Net Revenues	**85.5**	**151.0**	**162.5**	**153.7**	**177.2**	**208.0**	**238.1**
Gross Profit	16.7	29.7	32.0	27.7	38.3	44.9	51.4
Gross margin	*19.6%*	*19.7%*	*19.7%*	*18.0%*	*21.6%*	*21.6%*	*21.6%*
EBITDA	**7.6**	**14.0**	**16.1**	**12.6**	**21.8**	**26.6**	**30.5**
EBITDA margin	*8.9%*	*9.3%*	*9.9%*	*8.2%*	*12.3%*	*12.8%*	*12.8%*
Depreciation	(3.5)	(3.6)	(3.9)	(4.1)	(4.3)	(4.6)	(4.8)
EBIT	**4.1**	**10.5**	**12.2**	**8.5**	**17.5**	**22.0**	**25.6**
EBIT margin	*4.8%*	*6.9%*	*7.5%*	*5.6%*	*9.9%*	*10.6%*	*10.8%*
Interest Expense	(1.3)	(1.1)	(10.0)	(10.4)	(10.9)	(7.5)	(7.1)
PBT	**2.8**	**9.5**	**2.1**	**(1.8)**	**6.5**	**14.5**	**18.5**
Tax	(0.5)	(4.4)	(0.7)	-	(1.6)	(3.6)	(4.6)
Net Income	**2.3**	**5.1**	**1.4**	**(1.8)**	**4.9**	**10.9**	**13.9**
Net Margin	*2.7%*	*3.4%*	*0.9%*	*-1.2%*	*2.8%*	*5.2%*	*5.8%*

Balance Sheet Summary, USD mln

	2006	2007	2008E	2009E	2010E	2011E	2012E
Current Assets	**140**	**114**	**107**	**100**	**117**	**136**	**151**
Cash & Equivalents	1	3	8	14	21	23	29
Trade Receivables	25	29	29	28	32	37	43
Inventories	67	36	39	32	35	41	47
Other current assets	48	47	31	27	30	35	33
Fixed Assets	**37**	**36**	**39**	**41**	**44**	**49**	**52**
PP&E, net	27	26	32	35	39	45	48
Other Fixed Assets	10	10	7	6	5	4	4
Total Assets	**177**	**151**	**147**	**141**	**162**	**185**	**204**
Shareholders' Equity	**29**	**34**	**36**	**34**	**40**	**51**	**65**
Share Capital	10	10	10	10	11	11	11
Reserves and Other	19	24	26	24	29	40	55
Current Liabilities	**148**	**92**	**80**	**69**	**77**	**86**	**90**
ST Interest Bearing Debt	6	0	1	-	-	-	-
Trade Payables	104	57	46	35	39	46	52
Other Current Liabilities	37	34	33	32	36	38	36
LT Liabilities	**-**	**24**	**31**	**38**	**45**	**47**	**47**
LT Interest Bearing Debt	-	6	11	12	12	9	9
Other LT	-	18	20	26	33	38	39
Total Liabilities&Equity	**177**	**151**	**147**	**141**	**162**	**185**	**204**

Source: Company data, Concorde Capital estimates

Svitlo Shakhtarya (HMBZ UZ)

Coal Machinery

www.shaht.kharkov.ua

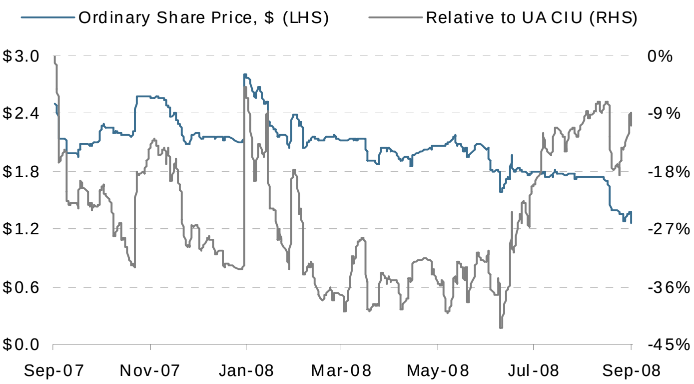
12M target (USD)	0.15
Upside*	43%

HOLD

INVESTMENT CASE

- Most profitable coal machinery company in Ukraine, with reported margins even higher than its international peer average: HMBZ' EBITDA margin was 25.9% in 1H08 vs. international peers' average of 17.9%
- Independent producer with high financing risks, given the worsening credit environment
- Though 95% of Ukrainian coal mines are equipped with the company's scraping conveyors, it might face growing competition from SCM companies
- SCM is seeking control over the company: in our view, Svitlo Shakhtarya's inclusion in UMBH would result in higher orders and profitability
- Highly illiquid stock

SHARE PRICE PERFORMANCE*



BUSINESS OVERVIEW

One of the oldest coal machinery producers in the CIS. Initially specialized in the production of lamps for mines, but now focuses on the production of conveyors. Leading conveyor producer in Ukraine (47% of the domestic market). ISO 9001:2000 certified. In 2006, it became the first in Ukraine to produce scraping conveyors for the development of hard-to-reach coal seams. Main customers in Ukraine are domestic mines. Major export markets: Russia, Belarus, Estonia, Bulgaria and India.

In 1H08, net revenues increased by 23.4% yoy to USD 28.9 mln, and EBITDA margin increased to 25.9% from 16.9% in 1H07. In 2007, the company posted net revenues of USD 53.4 mln (up 30.7% yoy), EBITDA of USD 12.1 mln (up 31.8% yoy), and net income of USD 6.2 mln (up 4.7% yoy).

MARKET INFORMATION

Market Price*, USD	0.11
Price impact**	3
52 Wk H/L USD	0.49/0.05
Chg 3m/6m/52w	-68%/-79%/-81%
Chg vs UA CIU 3m/6m/52w	-7%/-4%/-8%
Chg YTD	-81%
Avg M Tr Vol 6M, USD ths	350
MCap, USD mln	35.2
Free float	10.0%
FF Mcap, USD mln	3.5
No of shares, mln	335.3
Par Value, UAH	0.01
Foreign Ticker	n/a
DR Ratio	n/a
Avg M Tr Vol 6M, USD ths	n/a

STOCK OWNERSHIP

Management	50%
System Capital Management (SCM)	40%
Other	10%

CORPORATE GOVERNANCE

Concorde Rating***	A

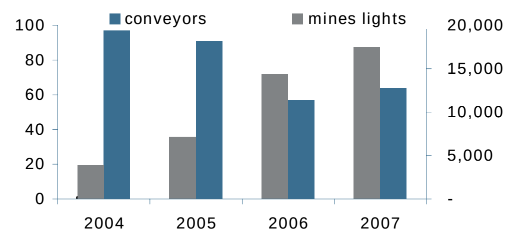
MARKET MULTIPLES

	2008E	2009E
EV/Sales	0.3	0.3
EV/EBITDA	1.6	1.9
P/E	7.1	7.9
P/B	0.6	0.5
P/CF	2.8	2.2

KEY RATIOS

	2007	2008E	2009E
EBITDA margin	22.7%	18.8%	17.0%
Net Margin	11.5%	8.6%	8.2%
ROE	12%	8%	7%
Net Debt/Equity	-0.25	-0.27	-0.28

Production Output, Units



*Market information as of 17 Nov 2008, based on PFTS Mid prices

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1: Market price reaction remains within 10% in execution of a market order of about USD 10 mln in size
2: Market price reaction remains within 10% in execution of a market order of about USD 1 mln in size
3: All other stocks (quoted)

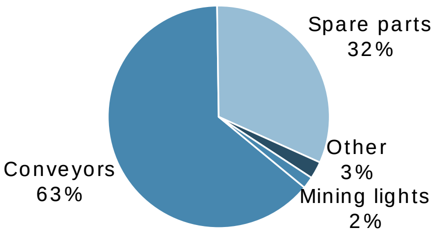
*** The rating is based on Concorde Capital's corporate governance survey. Q denotes quality corporate governance standards, AA - above average standards, A - average, BA - below average and P – poor.

Ukrainian scraping conveyors monopoly

Almost 95% of Ukrainian coal mines are equipped with the company's scraping conveyors according to Svitlo Shakhtarya's CEO. The company was the only producer of scraping conveyors in the USSR. It controlled 60% of the Ukrainian market in 2007, with minor competition from Dongirmash and Druzhkivka Machinery.

Scraping conveyors made up more than 60% of the company’s sales in 2007. The company focuses on the domestic market, exports amounted to about 2%-3%. Svitlo Shakhtarya's current capacity utilization at est. ~50%.

Sales structure, 2007



Source: Company data

Production output, units

	2003	2004	2005	2006	2007	2008E	2009E
Mine conveyors	58	97	91	57	64	64	55
Mining lights, ths	47.2	43.0	7.1	14.4	17.5	18.4	18.9

Source: Company data, Concorde Capital estimates

In 2004-2005 the market saw an abnormal spike in demand for conveyors thanks to orders from the owners of newly privatized coal mines, while in 2009 we expect orders to drop due to less financing of the industry.

Domestic operations: outlook

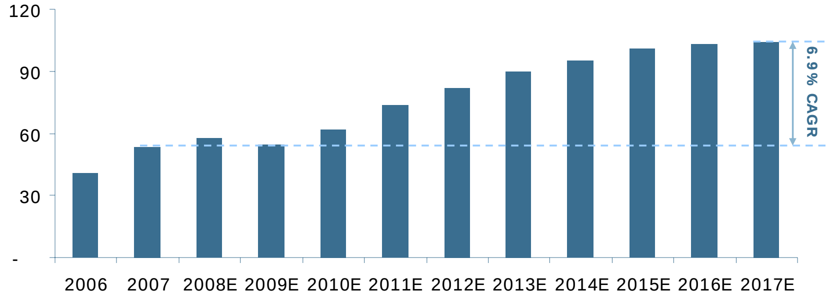
The Ukrainian conveyors market today is ~360 operating scraping conveyors, with an average lifespan of five years. Given that the base case scenario for the government's Energy Strategy until 2030 envisages coal extraction growth of 46% by 2015; we estimate that the company will sell, on average, 93 scraping conveyors annually over the next ten years.

Highest profitability among Ukrainian coal machinery producers

Since 2002, Svitlo Shakhtarya’s EBITDA margin has been growing from 17% to 38%. We associate the high margins to a greater focus on value-added products in its product line than its Ukrainian peers and the absence of cost inflation schemes, unlike those at Dongirmash and Druzhkivka.

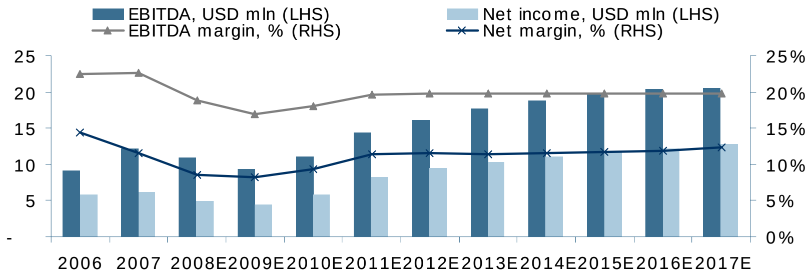
Key forecasts

Revenues, USD mln



Source: Company data, Concorde Capital estimates

Profitability



Source: Company data, Concorde Capital estimates

DCF Valuation

DCF output, UAH mln, as of November

	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
EBITDA	**54**	**46**	**54**	**70**	**77**	**85**	**90**	**96**	**98**	**98**
EBIT	43	36	45	62	71	78	82	86	87	87
Tax Rate	*36%*	*30%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*
Taxed EBIT	27	25	34	46.8	53.5	58.5	61.4	64.7	65.5	65.6
Plus D&A	12	10	9	7	6	7	8	10	10	11
Less CapEx	(19)	(24)	(25)	(25)	(25)	(24)	(23)	(20)	(16)	(11)
Less change in OWC	(4)	(4)	(7)	(9)	(6)	(7)	(5)	(5)	(1)	(1)
FCFF	**15.7**	**8**	**11**	**20**	**28**	**34**	**42**	**49**	**58**	**65**
WACC	30.0%	30.0%	28.8%	16.0%	14.7%	13.9%	13.2%	12.7%	12.5%	12.5%
Discounted cash flow	15	6	6	10	12	13	14	15	15	15
Sum of discounted CF		138								

Disc' TV	174	Perpetuity growth rate	1.0%
		WACC to perpetuity	12.5%
		Implied exit EBITDA multiple	5.8 x
Firm value	**312**		
Portion due to TV	56%		
Less net debt/cash	89		
Equity value	401		

Implied 12M price, USD 0.38

Implied Share Price, USD

WACC Y1-10	Perpetuity Growth Rate 0.0%	0.5%	1.0%	1.5%	2.0%
-1.5%	0.38	0.39	0.39	0.40	0.41
-1.0%	0.37	0.38	0.39	0.39	0.40
-0.5%	0.36	0.37	0.38	0.39	0.39
+0.0%	0.35	0.36	**0.37**	0.38	0.39
+0.5%	0.35	0.35	0.36	0.37	0.38
+1.0%	0.34	0.35	0.35	0.36	0.37
+1.5%	0.33	0.34	0.35	0.35	0.36

Implied Share Price, USD

WACC to perpetuity	Perpetuity Growth Rate 0.0%	0.5%	1.0%	1.5%	2.0%
11.0%	0.37	0.38	0.39	0.40	0.41
11.5%	0.37	0.37	0.38	0.39	0.40
12.0%	0.36	0.37	0.38	0.38	0.39
12.5%	0.35	0.36	**0.37**	0.38	0.39
13.0%	0.35	0.36	0.36	0.37	0.38
13.5%	0.35	0.35	0.36	0.36	0.37
14.0%	0.34	0.35	0.35	0.36	0.37

Financial Statements, UAS

Income Statement Summary, USD mln

	2006	2007	2008E	2009E	2010E	2011E	2012E
Net Revenues	**40.9**	**53.4**	**57.9**	**54.5**	**61.7**	**73.3**	**81.7**
Gross Profit	17.8	20.7	21	19	22	26	29
Gross margin	*43.5%*	*38.8%*	*35.8%*	*34.0%*	*35.0%*	*36.0%*	*36.0%*
EBITDA	**9.2**	**12.1**	**10.9**	**9.3**	**11.1**	**14.4**	**16.1**
EBITDA margin	*22.5%*	*22.7%*	*18.8%*	*17.0%*	*18.0%*	*19.6%*	*19.7%*
Depreciation	(2.2)	(2.7)	(2.3)	(2.0)	(1.8)	(1.5)	(1.2)
EBIT	**7.0**	**9.4**	**8.6**	**7.3**	**9.3**	**12.9**	**14.9**
EBIT margin	*17.0%*	*17.7%*	*14.8%*	*13.3%*	*15.1%*	*17.6%*	*18.2%*
Interest Expense	(0)		(0.8)	(0.9)	(1.6)	(1.8)	(2.3)
PBT	**8.4**	**9.6**	**7.7**	**6.4**	**7.7**	**11.1**	**12.6**
Tax	(2.5)	(3.4)	(2.8)	(1.9)	(1.9)	(2.8)	(3.1)
Net Income	**5.9**	**6.2**	**5.0**	**4.5**	**5.8**	**8.3**	**9.4**
Net Margin	*14.4%*	*11.5%*	*8.6%*	*8.2%*	*9.4%*	*11.3%*	*11.5%*

Balance Sheet Summary, USD mln

	2006	2007	2008E	2009E	2010E	2011E	2012E
Current Assets	**45**	**52**	**58**	**59**	**65**	**71**	**78**
Cash & Equivalents	13	15	18	18	21	26	29
Trade Receivables	4	4	4	4	5	5	6
Inventories	16	19	21	22	24	23	25
Other current assets	12	15	15	15	15	17	17
Fixed Assets	**10**	**12**	**11**	**13**	**20**	**23**	**27**
PP&E, net	9	10	10	13	17	21	26
Other Fixed Assets	1	2	1	1	3	2	2
Total Assets	**55**	**64**	**69**	**72**	**84**	**94**	**105**
Shareholders' Equity	**52**	**58**	**62**	**65**	**70**	**74**	**80**
Share Capital	1	1	1	1	1	1	1
Reserves and Other	51	57	61	64	69	74	79
Current Liabilities	**4**	**6**	**8**	**7**	**12**	**16**	**21**
ST Interest Bearing Debt	-	-	0	0	4	8	12
Trade Payables	1	2	3	3	3	3	4
Other Current Liabilities	2	3	4	4	4	4	4
LT Liabilities	**-**	**-**	**0**	**0**	**2**	**4**	**4**
LT Interest Bearing Debt	-	-	0	0	2	4	4
Other LT	-	-	-	-	-	-	-
Total Liabilities & Equity	**55**	**64**	**69**	**72**	**84**	**94**	**105**

Source: Company data, Concorde Capital estimates

Yasynuvatsky Machinery (YAMZ UZ)

Coal Machinery

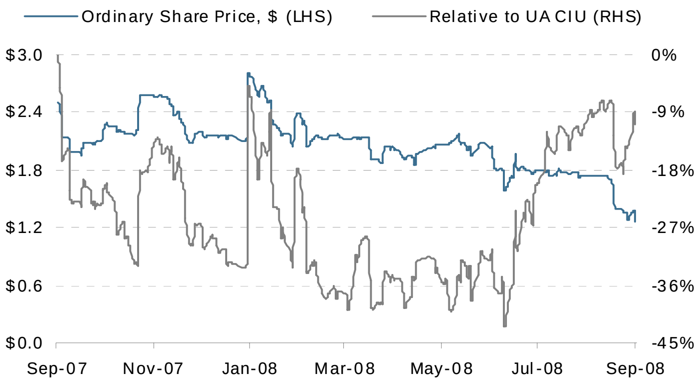
www.jscymz.com

12M target (USD)	0.80
Upside*	40%
	HOLD

INVESTMENT CASE

- Sells 50% of equipment to Russian coal mining heavyweights, which we consider risky clients
- Only CIS-based producer of heavy heading machines (78% of the company's sales in 2007); and large supplier of medium machines
- Acquisition target for SCM in the mid-term: should improve corporate governance; increase efficiency and order book

SHARE PRICE PERFORMANCE*



BUSINESS OVERVIEW

Specializes in heading machines, Ukraine's main coal machinery product in demand abroad. Stable demand from Russian, Kazakh and domestic (mostly private) mines. Machines are 3-5 times cheaper than West European analogues of comparable quality.

In 1H08, net revenues increased by 57.9% yoy to USD 17.6 mln, EBITDA margin was down 11.8 pp yoy to 2.3%, and net margin increased by 0.7 pp yoy to 0.8%.

MARKET INFORMATION

Market Price*, USD	0.57
Price impact**	3
52 Wk H/L USD	2.79/1.55
Chg 3m/6m/52w	-52%/-55%/-62%
Chg vs UA CIU 3m/6m/52w	8%/18%/10%
Chg YTD	-58%
Avg M Tr Vol 6M, USD ths	3232
MCap, USD mln	13.0
Free float	33.5%
FF Mcap, USD mln	4.35
No of shares, mln	22.8
Par Value, UAH	4.65
Foreign Ticker (FSE)	WPB1
DR Ratio	1:10
Avg M Tr Vol 6M, USD ths	n/a

STOCK OWNERSHIP

Management	61.4%
Employees	4%
Other	34.7%

CORPORATE GOVERNANCE

Concorde Rating***	A

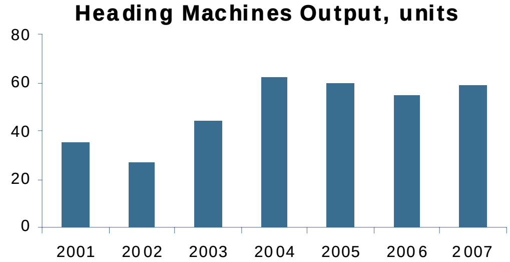
MARKET MULTIPLES

	2008E	2009E
EV/Sales	0.4	0.5
EV/EBITDA	3.9	4.8
P/E	31.5	n/m
P/B	0.3	0.3
P/CF	3.2	2.6

KEY RATIOS

	2007	2008E	2009E
EBITDA margin	7.9%	10.7%	10.0%
Net Margin	0.2%	1.3%	0.3%
ROE	0.1%	1%	0%
Net Debt/Equity	0.07	0.14	0.11

Heading Machines Output, units



*Market information as of 17 Nov 2008, based on PFTS Mid prices

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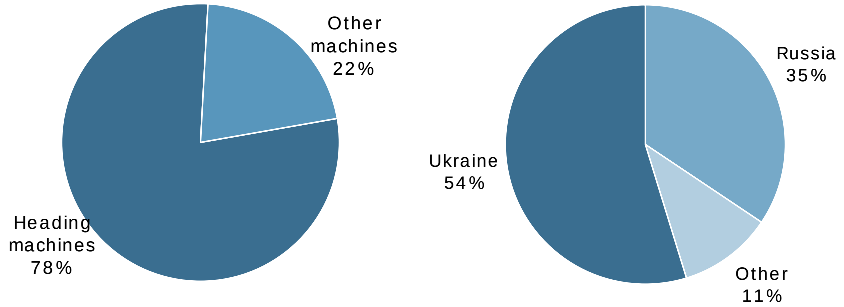
3: All other stocks (quoted)

*** The rating is based on Concorde Capital's corporate governance survey. Q denotes quality corporate governance standards, AA - above average standards, A - average, BA - below average and P – poor.

Largest Ukrainian coal machinery exporter

Yasynuvatsky Machinery is the CIS sole producer of heavy heading machines and Ukrainian largest exporter. Most of export orders come from Russia, which we consider a solvent long term client, however, in the short run risks of lower orders from Russian mines delaying their expansion programs is high.

Sales structure
by product **by country**



Source: Company data

Roadheader production

	2003	2004	2005	2006	2007	2008E	2009E
Heavy	3	9	7	3	6	5	11
Medium	22	47	64	41	48	51	39
Light	4	6	3	9	6	5	4

Source: Company data

The company's current capacity utilization is 60-65%.

Acquisition target

Taking into consideration Yasynuvatsky's unique products portfolio, we see the company as a possible takeover target for SCM, for inclusion in its coal machinery holding due to its market niche.

Forecast revisions

Sales

		2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	Total
	New	54	59	66	70	73	75	76	75	75	623
Heading machines, units	Old	89	69	65	80	98	80	76	76	76	709
	New	0.6	0.7	0.8	0.9	0.9	1.0	1.1	1.1	1.2	8
Non-core business, USD mln	Old	7.4	8.5	9.3	10.3	11.1	11.9	12.5	13.1	13.7	98
	New	32	30	34	39	43	45	47	48	49	367
Total sales, USD mln	Old	37	47	41	42	50	61	55	55	56	444

Source: Concorde Capital estimates

Profitability

		2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
	New	*10.7%*	*10.0%*	*11.0%*	*14.0%*	*15.0%*	*16.0%*	*17.2%*	*17.0%*	*16.7%*
EBITDA margin	Old	*20.5%*	*20.3%*	*20.5%*	*20.3%*	*20.2%*	*20.5%*	*20.5%*	*20.5%*	*20.5%*
	New	*2.8%*	*3.5%*	*6.6%*	*7.9%*	*8.1%*	*8.6%*	*8.9%*	*8.9%*	*8.9%*
Net margin	Old	*1.3%*	*0.3%*	*1.7%*	*4.7%*	*6.1%*	*7.3%*	*8.8%*	*8.8%*	*8.8%*

Source: Concorde Capital estimates

DCF Valuation

DCF output, UAH mln, as of November

	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
EBITDA	**17**	**15**	**18**	**27**	**31**	**34**	**39**	**39**	**39**	**39**
EBIT	13	10	13	21	25	29	33	33	33	32
Tax Rate	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*
Taxed EBIT	10	8	10	15.7	18.9	21.4	24.5	24.7	24.5	24.1
Plus D&A	5	5	5	6	6	6	6	6	6	7
Less CapEx	(8)	(11)	(8)	(8)	(6)	(6)	(6)	(6)	(6)	(7)
Less change in OWC	(6)	1	(6)	(5)	(4)	0	(2)	(1)	(1)	(1)
FCFF	**(1)**	**2**	**1**	**9**	**14**	**22**	**23**	**24**	**23**	**23**
WACC	27.5%	27.1%	26.7%	15.8%	14.5%	14.0%	13.4%	12.9%	12.5%	12.4%
Discounted cash flow	(1)	2	1	4	7	9	8	7	6	6
Sum of discunted CF		63								
									Perpetuity growth rate	1%
									WACC to perpetuity	12.5%
Disc' TV		64								
									Implied exit EBITDA	5.3 x
Firm value		**127**								
Portion due to TV		50%								
Less net debt		(7)								
Equity value		120								

Implied 12M price, USD 1.08

Implied Share Price, USD

WACC Y1-10	Perpetuity Growth Rate				
	0.0%	***0.5%***	***1.0%***	***1.5%***	***2.0%***
-1.5%	1.09	1.12	1.16	1.20	1.24
-1.0%	1.07	1.10	1.13	1.17	1.20
-0.5%	1.05	1.08	1.11	1.14	1.17
+0.0%	1.03	1.06	**1.08**	1.11	1.15
+0.5%	1.02	1.04	1.06	1.09	1.12
+1.0%	1.00	1.02	1.05	1.07	1.10
+1.5%	0.99	1.01	1.03	1.05	1.08

Implied Share Price, USD

WACC to perpetuity	Perpetuity Growth Rate				
	0.0%	***0.5%***	***1.0%***	***1.5%***	***2.0%***
11.0%	1.13	1.16	1.19	1.22	1.26
11.5%	1.10	1.12	1.15	1.18	1.22
12.0%	1.06	1.09	1.12	1.15	1.18
12.5%	1.03	1.06	**1.08**	1.11	1.15
13.0%	1.00	1.03	1.05	1.08	1.11
13.5%	0.97	1.00	1.02	1.05	1.08
14.0%	0.95	0.97	0.99	1.02	1.05

Financial Statements, UAS

Income Statement Summary, USD mln

	2006	2007	2008E	2009E	2010E	2011E	2012E
Net Revenues	**25.1**	**25.8**	**32.3**	**30.5**	**33.9**	**39.1**	**42.5**
Gross Profit	9.8	8.1	10.4	9.5	10.5	12.9	14.4
Gross margin	*39.3%*	*31.4%*	*32.2%*	*31.0%*	*31.0%*	*33.0%*	*34.0%*
EBITDA	**4.3**	**2.0**	**3.5**	**3.0**	**3.7**	**5.5**	**6.4**
EBITDA margin	17.1%	7.9%	10.7%	10.0%	11.0%	14.0%	15.0%
Depreciation	(0.7)	(0.7)	(0.9)	(1.0)	(1.1)	(1.1)	(1.2)
EBIT	**3.6**	**1.3**	**2.6**	**2.1**	**2.7**	**4.3**	**5.2**
EBIT margin	*14.3%*	*5.1%*	*7.9%*	*6.8%*	*7.8%*	*11.1%*	*12.2%*
Interest Expense	(0.4)	(1.3)	(2.4)	(2.4)	(2.4)	(2.0)	(1.9)
PBT	**3.4**	**0.1**	**0.2**	**(0.3)**	**0.2**	**2.3**	**3.3**
Tax	(1.0)	(0.0)	(0.0)	-	(0.1)	(0.6)	(0.8)
Effective tax rate	31%	22%	25%	25%	25%	25%	25%
Net Income	**2.3**	**0.0**	**0.1**	**(0.3)**	**0.2**	**1.8**	**2.5**
Net Margin	*9.3%*	*0.2%*	*0.5%*	*-1.0%*	*0.5%*	*4.5%*	*5.9%*

Balance Sheet Summary, USD mln

	2006	2007	2008E	2009E	2010E	2011E	2012E
Current Assets	**23**	**23**	**31**	**29**	**32**	**35**	**36**
Cash & Equivalents	5	1	6	5	6	7	8
Trade Receivables	9	8	11	10	11	12	12
Inventories	7	7	8	8	9	10	10
Other current assets	3	7	6	6	6	7	6
Fixed Assets	**26**	**34**	**27**	**28**	**30**	**30**	**30**
PP&E, net	6	7	10	11	12	12	13
Other Fixed Assets	19	27	17	18	18	18	18
Total Assets	**48**	**57**	**58**	**58**	**61**	**65**	**66**
Shareholders' Equity	**41**	**41**	**41**	**41**	**42**	**44**	**47**
Share Capital	21	21	21	21	22	22	22
Reserves and Other	20	20	20	20	21	22	25
Current Liabilities	**4**	**9**	**10**	**8**	**9**	**11**	**10**
ST Interest Bearing Debt	-	2	2	2	2	3	3
Trade Payables	1	1	1	1	1	2	2
Other Current Liabilities	2	6	6	5	5	6	5
LT Liabilities	**4**	**138**	**298**	**262**	**239**	**220**	**208**
LT Interest Bearing Debt	-	4	5	6	7	7	7
Other LT	4	4	2	2	3	3	2
Total Liabilities & Equity	**48**	**57**	**58**	**58**	**61**	**65**	**66**

Source: Company data, Concorde Capital estimates

Dongirmash (DGRM UZ)

Coal Machinery

www.dongormash.donetsk.ua

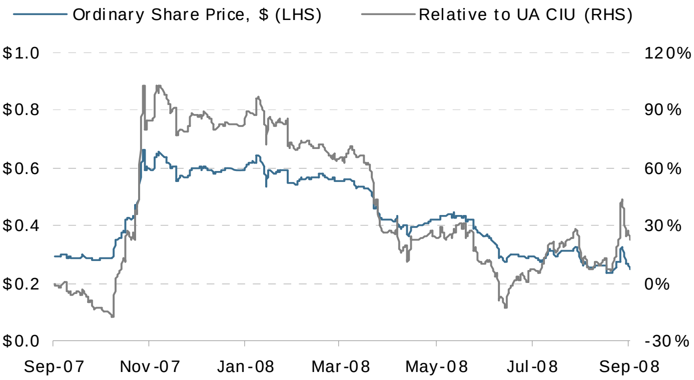
12M target (USD)	0.04
Upside	-74%

SELL

INVESTMENT CASE

- Ownership conflict: we think controlling shareholder SCM is seeking to lift its stake in the company to 60% from 43%; however, IUD (owns 19% stake) seems not keen to sell
- Reported profitability is negative, likely due to the conflict: SCM is eroding the financials in order to force IUD sell its stake. We do not expect any improvements in 2008-2009
- Extremely high debt (USD 19 mln vs. USD 16 mln of revenues in 1H08), likely due to related parties
- Illiquid stock

SHARE PRICE PERFORMANCE*



BUSINESS OVERVIEW

Most diversified producer of coal mining equipment in Ukraine. Produces about 60 types of small-series and tailor-made heavy machinery for mining, steel, electricity generation, the railcar and chemical industries, and coal mining equipment (~70% of sales). Sells most of its mining equipment to domestic coal mines and ore-enrichment plants (Pavlohradugol, Makiyivugol, Artemugol, etc.). Operates its own research & development department (designs about 85% of products).

In 2007, sales increased by 34% yoy to USD 46.8 mln and net income changed to negative USD 7.2 mln from positive USD 3.5 mln in 2006. In 1H08, net revenues were down by 32.7% yoy to USD 16.4 mln. The company posted a net income of USD 0.04 mln vs. net loss USD 2.9 mln in 1H07.

*Market information as of 17 Nov 2008, based on PFTS Mid prices

**** Price"impact" is the opinion of Concorde's trading desk on stocks to help investors estimate the reliability of quoted prices:**
1: Market price reaction remains within 10% in execution of a market order of about USD 10 mln in size
2: Market price reaction remains within 10% in execution of a market order of about USD 1 mln in size
3: All other stocks (quoted)

*** The rating is based on Concorde Capital's corporate governance survey. Q denotes quality corporate governance standards, AA - above average standards, A - average, BA - below average and P – poor.

MARKET INFORMATION

Market Price*, USD	0.16
Price impact**	3
52 Wk H/L USD	0.66/0.07
Chg 3m/6m/52w	-49%/-69%/-79%
Chg vs UA CIU 3m/6m/52w	12%/6%/-6%
Chg YTD	-56%
Avg M Tr Vol 6M, USD ths	371.0
MCap, USD mln	7.0
Free float	38.0%
FF Mcap, USD mln	2.66
No of shares, mln	45.5
Par Value, UAH	0.25
Foreign Ticker	n/a
DR Ratio	n/a
Avg M Tr Vol 6M, USD ths	n/a

STOCK OWNERSHIP

System Capital Management (SCM)	43%
IUD	19%
Other	38%

CORPORATE GOVERNANCE

Concorde Rating***	P

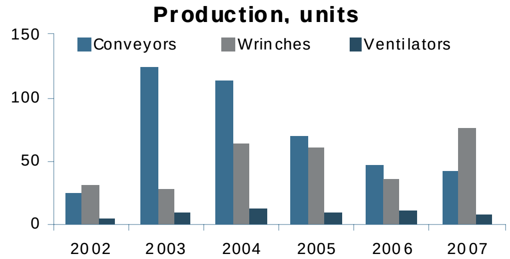
MARKET MULTIPLES

	2008E	2009E
EV/Sales	0.6	0.8
EV/EBITDA	23.1	29.2
P/E	n/m	n/m
P/B	n/m	n/m
P/CF	-1.3	-3.4

KEY RATIOS

	2007	2008E	2009E
EBITDA margin	-9.1%	2.8%	2.8%
Net Margin	-15.4%	-10.1%	-11.9%
ROE	n/m	n/m	n/m
Net Debt/Equity	n/m	n/m	n/m

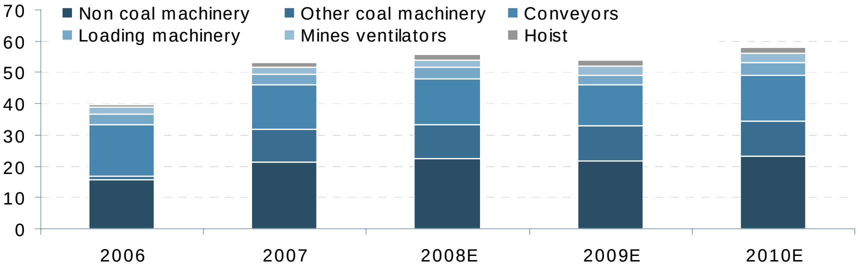
Note: Shareholder equity is negative.



Most diversified producer in the sector

Dongirmash has the widest product line among listed Ukrainian coal machinery companies. We estimate 60-65% of its sales are from coal machinery products, while the rest is to metallurgical plants, the railway and chemical industries; and non-machinery products.

Production output, USD mln



Source: Company data, Concorde Capital estimates

The company focuses on the domestic market, which accounts for ~85% of its sales; the rest of its products are exported to the CIS and Baltics. Dongirmash is the only Ukrainian company to deliver products to open pit mines (~60% of coal extracted in Russia from open mines).

Valuation concerns

We expect the company to report artificially distorted financials in the mid-term, making valuation by profitability metrics irrelevant and complicating DCF valuation.

Financial Statements, UAS

Income Statement Summary, USD mln

	2006	2007	2008E	2009E	2010E	2011E	2012E
Net Revenues	**34.8**	**46.8**	**55.9**	**52.8**	**58.1**	**65.2**	**71.8**
Gross Profit	5.9	1.9	8.9	8.5	16.1	18.1	20.0
Gross margin	*17.0%*	*4.1%*	*16.0%*	*16.0%*	*27.8%*	*27.8%*	*27.8%*
EBITDA	**(0.5)**	**(4.2)**	**1.5**	**1.5**	**8.5**	**9.5**	**10.5**
EBITDA margin	-1.5%	-9.1%	2.8%	2.8%	14.6%	14.6%	14.6%
Depreciation	(1.2)	(1.8)	(1.8)	(1.9)	(2.0)	(2.1)	(2.2)
EBIT	**(1.7)**	**(6.0)**	**(0.3)**	**(0.4)**	**6.5**	**7.4**	**8.3**
EBIT margin	*-4.9%*	*-12.9%*	*-0.5%*	*-0.8%*	*11.2%*	*11.4%*	*11.5%*
Interest Expense	(0.7)	(0.6)	(5.3)	(5.9)	(6.2)	(6.1)	(6.0)
PBT	**(1.7)**	**(6.0)**	**(0.3)**	**(0.4)**	**6.5**	**7.4**	**8.3**
Tax	(0.6)	(0.6)	-	-	(0.1)	(0.3)	(0.6)
Effective tax rate	-22%	-9%	25%	25%	25%	25%	25%
Net Income	**(3.5)**	**(7.2)**	**(5.6)**	**(6.3)**	**0.2**	**1.0**	**1.7**
Net Margin	*-10.1%*	*-15.4%*	*-10.1%*	*-11.9%*	*0.4%*	*1.5%*	*2.4%*

Balance Sheet Summary, USD mln

	2006	2007	2008E	2009E	2010E	2011E	2012E
Current Assets	**28**	**18**	**21**	**19**	**19**	**22**	**24**
Cash & Equivalents	0	0	1	1	1	1	1
Trade Receivables	14	7	8	7	8	9	10
Inventories	7	8	8	8	8	8	9
Other current assets	6	3	4	3	3	3	4
Fixed Assets	**20**	**21**	**22**	**23**	**24**	**27**	**28**
PP&E, net	16	17	18	19	20	22	24
Other Fixed Assets	4	5	4	5	4	4	4
Total Assets	**47**	**40**	**43**	**42**	**44**	**48**	**52**
Shareholders' Equity	**6**	**(2)**	**(7)**	**(14)**	**(14)**	**(13)**	**(11)**
Share Capital	2	2	2	2	2	2	2
Reserves and Other	3	(4)	(10)	(16)	(16)	(15)	(14)
Current Liabilities	**29**	**22**	**27**	**26**	**24**	**28**	**30**
ST Interest Bearing Debt	3	3	7	8	6	9	10
Trade Payables	20	17	18	17	16	17	18
Other Current Liabilities	5	1	1	1	1	1	1
LT Liabilities	**13**	**19**	**24**	**29**	**33**	**33**	**33**
LT Interest Bearing Debt	12	18	22	28	32	32	33
Other LT	1	1	1	1	1	1	1
Total Liabilities & Equity	**47**	**40**	**43**	**42**	**44**	**48**	**52**

Source: Company data, Concorde Capital estimates

APPENDICES

Appendix A: Comparative valuation

	Country	MCap, USD mln	EV/Sales 2008E	EV/Sales 2009E	EV/EBITDA 2008E	EV/EBITDA 2009E	P/E 2008E	P/E 2009E
Dongirmash	Ukraine	**7.0**	**0.6**	**0.8**	**23.1**	**29.2**	**neg**	**neg**
Druzhkivka Machinery	Ukraine	**39.4**	**0.3**	**0.2**	**2.7**	**2.9**	**28.5**	**neg**
Svitlo Shakhtarya	Ukraine	**35.2**	**0.3**	**0.3**	**1.6**	**1.9**	**7.1**	**7.9**
Yasynuvatsky Machinery	Ukraine	**13.0**	**0.4**	**0.5**	**3.9**	**4.8**	**31.1**	**129.1**
Average					**2.7**	**3.2**	**22.2**	**38.5**
International								
Bucyrus International Inc	USA	2,140	0.9	0.8	4.8	4.1	8.9	7.1
JOY Global Inc	USA	3,477	1.1	0.9	5.7	4.7	9.6	7.5
United Tractors	Indonesia	1,241	0.6	0.5	2.9	2.5	6.2	4.8
Anhui Heli Company	China	321	0.4	0.3	3.1	2.6	6.3	5.2
Sandvik AB	Sweden	8,253	1.0	1.0	5.3	5.1	7.4	7.5
Shantui Construction Machinery	China	668	0.7	0.5	5.1	4.4	7.2	5.8
Average			**0.8**	**0.7**	**4.5**	**3.9**	**7.6**	**6.3**
DGRM price								
Implied by International peer avg, USD/share			0.9	0.8	neg	neg	neg	neg
Upside/Downside to International avg			511%	398%	n/m	n/m	n/m	n/m
DRMZ price								
Implied by International peer avg, USD/share			0.6	0.4	0.3	0.2	0.1	Neg
Upside/Downside to International avg			197%	132%	63%	29%	-39%	n/m
HMBZ price								
Implied by International peer avg, USD/share			0.2	0.2	0.2	0.2	0.1	0.1
Upside/Downside to International avg			77%	54%	90%	64%	11%	-20%
YAMZ price								
Implied by International peer avg, USD/share			1.1	0.9	0.7	0.5	0.1	0.0
Upside/Downside to International avg			88%	44%	16%	-21%	-76%	-95%

Appendix B: Key peer financials

	Country	MCap, USD mln	Net Revenues 2008E	Net Revenues 2009E	EBITDA margin 2008E	EBITDA margin 2009E	Net Margin 2008E	Net Margin 2009E
Dongirmash	Ukraine	**7.0**	**56**	**53**	**2.8%**	**2.8%**	**-10.1%**	**-11.9%**
Druzhkivka Machinery	Ukraine	**42.3**	**163**	**154**	**9.9%**	**8.2%**	**0.9%**	**-1.2%**
Svitlo Shakhtarya	Ukraine	**35.2**	**58**	**55**	**18.8%**	**17.0%**	**8.6%**	**8.2%**
Yasynuvatsky Machinery	Ukraine	**13.0**	**32**	**30**	**10.7%**	**10.0%**	**1.3%**	**0.3%**
International								
Bucyrus International Inc	USA	2,140	2,455	2,837	18.3%	18.7%	9.8%	10.7%
JOY Global Inc	USA	3,477	3,392	4,052	18.4%	19.0%	10.7%	11.4%
United Tractors	Indonesia	1,241	2,194	2,486	20.2%	20.9%	9.1%	10.3%
Anhui Heli Company	China	321	615	764	13.3%	12.6%	8.3%	8.1%
Sandvik AB	Sweden	8,253	11,527	11,683	19.3%	19.4%	9.7%	9.4%
Shantui Construction Machinery	China	668	999	1,244	13.0%	11.5%	9.3%	9.2%
Peer average					**17.1%**	**17.0%**	**9.5%**	**9.9%**

Appendix C: Our view on sector development: two phases

Given the ongoing political uncertainty in Ukraine, we expect the privatization of coal mines only after the next presidential election (i.e. no sooner than 2010). Accordingly, we split our forecast period in two: before privatization of state mines (2008-2010) and post-privatization (2011 onward).

Privatization directly influences two key issues for sector companies:

- **Competition & demand.** All state mines, in practice, buy only Ukrainian equipment, and have stably grown expenditures at 12% CAGR over 2003-2007, based on state budget figures. In comparison, private mines (~35% of Ukrainian coal extraction) purchase ~50% of equipment internationally (for more details see Appendix C). After privatization, orders from the formerly state mines will be open to competition from international equipment rivals.

- **Transparency**. Competition between local coal machinery producers for state tenders led several (Druzhkivka and Dongirmash including) to employ shady schemes to gain a more advantageous position (see our March 2006 report). After privatization, these opportunities will be exhausted.

Period 1: Low competition & poor transparency (2008-2010)

The first phase holds the promise of stable growth in state orders, with minor competitive pressure. We expect the order books of Ukrainian coal equipment producers to grow at 16.7% CAGR in 2008-2010. In our view, manufacturers will use this period to boost their competitive profiles.

A possible snag for minority shareholders is the opaque mechanism under which state tenders for equipment purchases are currently conducted; the terms do little to stimulate equipment producers to report real margins.

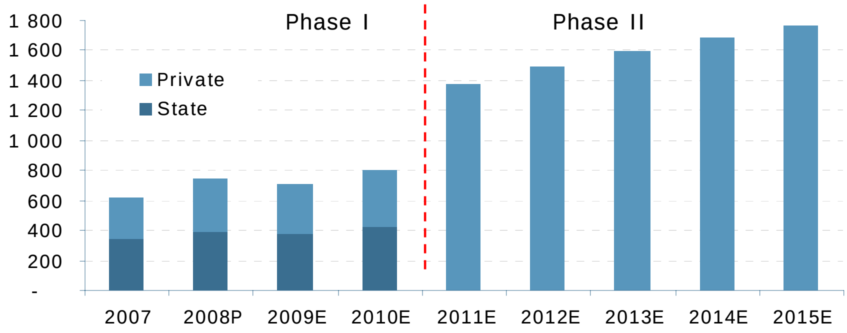
Period 2: Increased competition & improved transparency (2011 onward)

We anticipate a one-time, about 40%, jump in domestic demand for mining equipment in the year following the privatization of state mines. This spike will be followed by increasing competition from international rivals for orders from the newly privatized mines.

The key benefit for minorities that we see is the abolishment of state-supported coal equipment purchase schemes, which will spur improvements in transparency, and in turn, reported profits.

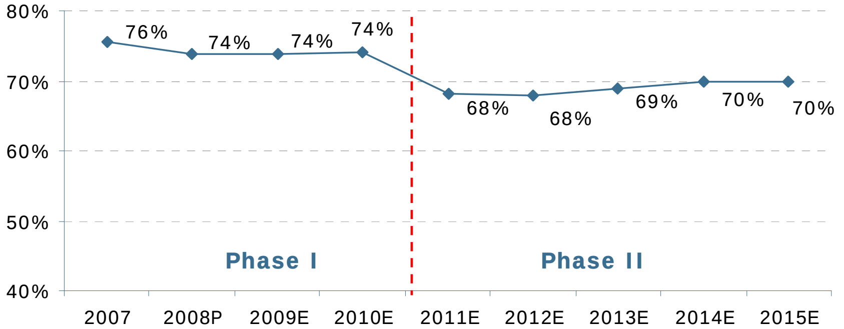
Overview of sector's two development phases

CapEx of Ukrainian coal mines, USD mln



Source: Company data, Laws on State Budgets 2003-2008, EnergoBiznes, Concorde Capital estimates

Ukrainian producers' market share, %



Source: Company data, Laws on State Budgets 2007-2008, Concorde Capital estimates

Summary of two phases before and after mine privatizations

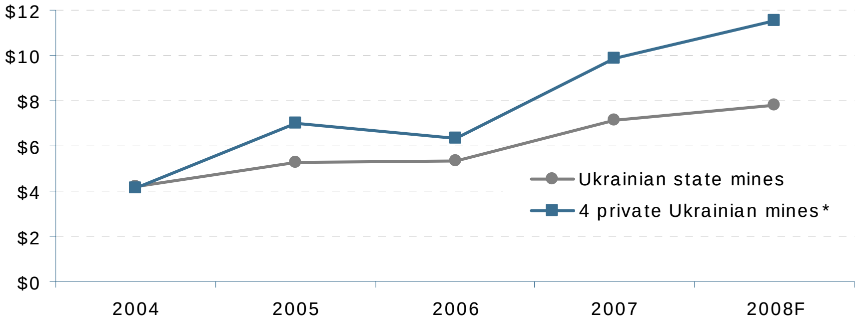
	Phase I	Phase II
Demand	Stable	One-off jump and stable growth
Competition	Low	Fair
Transparency improvement	Relatively little probability	High probability

Source: Concorde Capital research

Appendix D: Private vs. state owned mines: A historical comparison

Private coal mines' CapEx per mt of coal extracted is higher than that of state mines: 38% more in 2007 and 55% in 2008 (based on announced plans).

Ukrainian state vs. private mines' equipment expenditures, USD / mt of coal extracted



** Krasnodonugol, Pavlohradugol, Komsomolets Donbasa, Shakhtoupravlenie Pokrovskoye (formerly Chervonoarmiyska Zakhidna)*
Source: Company data, Verkhovna Rada, EnergoBiznes, Concorde Capital calculations

Ukrainian mines' profile

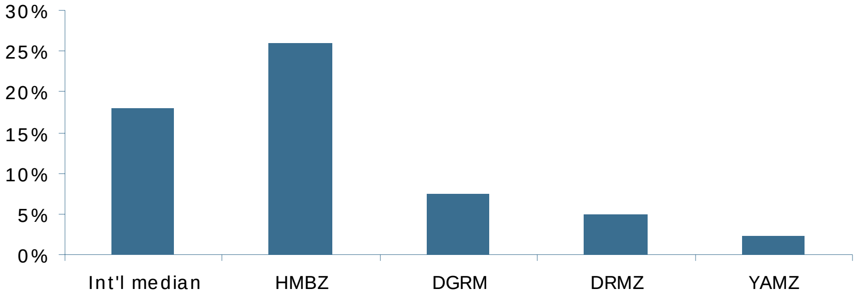
	State	Private
CapEx, $ per ton in 2007	7.2	9.9
Planned CapEx growth in 2008	14%	29%
Share of Ukrainian equipment purchases, 2007	100%	~50%
Share in total coal extraction, 2007	~60%	~40%

Source: Company data, Concorde Capital estimations

Appendix E: P&L quality is low

In our view, Svitlo Shakhtarya is the only listed sector player to report reliable EBITDA margins. The other companies heavily distort their P&L statements.

Coal machinery sector EBITDA margins, 1H08



Source: Company data, Bloomberg

Ukrainian coal machinery financials

	Sales , USD		Gross margin, %		EBITDA margin, %		Net margin,	
	1H08	*YOY*	*1H07*	*1H08*	*1H07*	*1H08*	*1H07*	*1H08*
DGRM	16.4	-32.7%	5.5%	26.3%	-6.5%	7.4%	-	0.2%
DRMZ	67.6	3.2%	26.4%	19.2%	14.3%	5.0%	9.0%	-1.6%
HMBZ	28.9	23.4%	37.0%	36.5%	16.9%	25.9%	2.7%	14.9%
YAMZ	17.6	57.9%	42.1%	25.4%	14.1%	2.3%	0.1%	0.8%

Best in class Worst in class

Source: Company data

	Sales, USD mln		Gross mgn, %		EBITDA mgn, %		Net mgn, %	
	2007	yoy	2006	2007	2006	2007	2006	2007
DGRM	46.8	34.4%	17.0%	4.1%	-1.5%	-9.1%	10.1%	15.4%
DRMZ	151.0	76.5%	19.6%	19.7%	8.9%	9.3%	2.7%	3.4%
HMBZ	53.4	30.7%	43.5%	38.8%	22.5%	22.7%	14.4%	11.5%
YAMZ	25.8	3.1%	39.3%	31.3%	17.1%	7.7%	12.4%	0.2%

Best in class Worst in class

Source: Company data

Ukrainian coal machinery expenses, common size

	Other Oper. Income/Costs, %		SG&A		D&A	
	1H07	*1H08*	*1H07*	*1H08*	*1H07*	*1H08*
DGRM	-2.9%	-6.1%	9.1%	12.8%	3.9%	5.3%
DRMZ	7.6%	2.6%	19.6%	16.8%	2.7%	2.6%
HMBZ	-2.6%	-0.2%	17.6%	10.5%	5.3%	5.6%
YAMZ	-10.5%	-4.0%	17.5%	19.0%	3.1%	2.4%

Best in class Worst in class

Source: Company data

	Other Oper Income/Costs, %		SG&A		D&A	
	2006	2007	2006	2007	2006	2007
DGRM	-3.6%	-3.8%	14.9%	9.4%	3.4%	3.8%
DRMZ	5.0%	6.2%	15.7%	16.6%	4.1%	2.4%
HMBZ	-7.5%	-3.6%	13.6%	12.5%	5.5%	5.0%
YAMZ	-6.2%	-6.9%	15.9%	16.8%	2.9%	2.8%

Best in class Worst in class

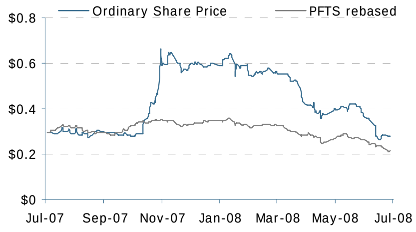
Source: Company data

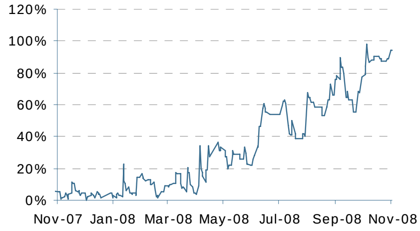
We see two key catalysts for improvement in the sector's financial transparency in the next two-three years: (1) SCM will consolidate the sector, creating a western-style holding, like Metinvest or DTEK; (2) and elimination of non-transparent state purchase tenders for coal equipment after privatization of the remaining state coal mines.

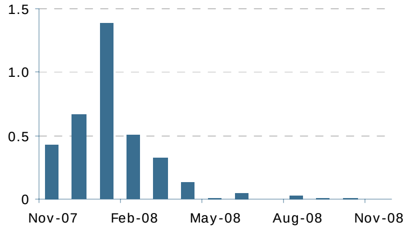
Appendix F: Stock market monitor

Stock performance *Spread, %* *Monthly trading volumes, USD mln*

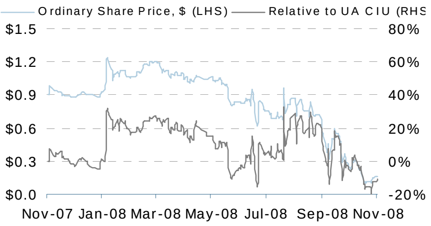
Dongirmash (DGRM)

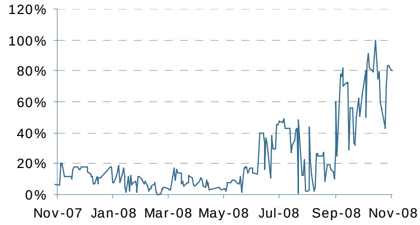


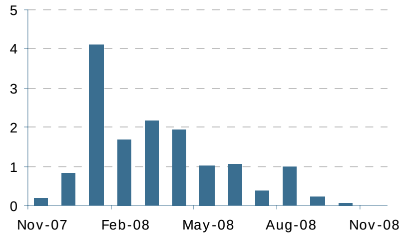




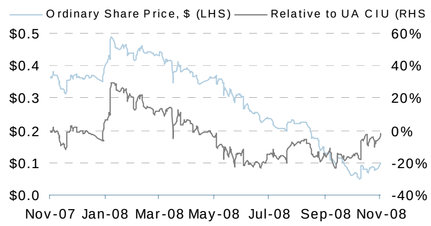
Druzhkivka Machinery (DRMZ)

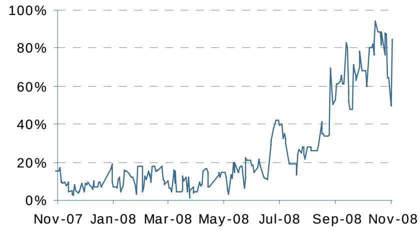


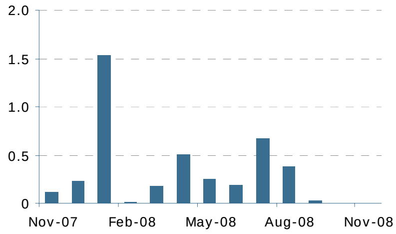




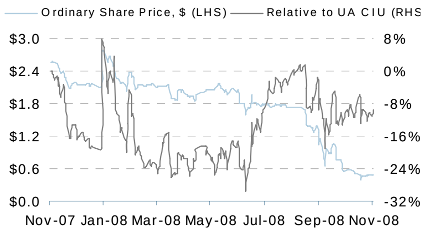
Svitlo Shakhtarya (HMBZ)

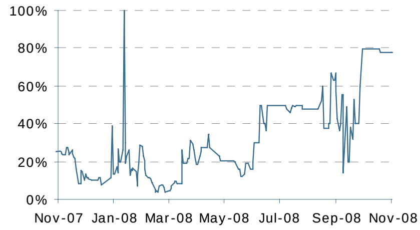


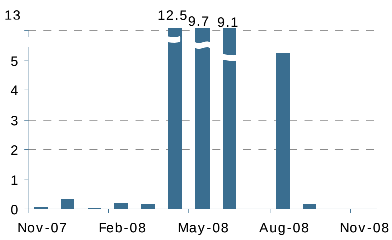




Yasynuvatsky Machinery (YAMZ)







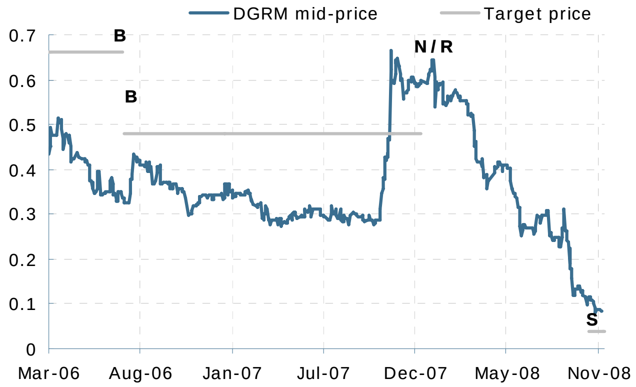
Analyst certification

I, Eugene Cherviachenko, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject securities and issuers. I also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

Dongirmash rating history

Date	Target, USD	Market, USD	Rec	Action
14-Mar-06	0.66	0.30	BUY	Initiating
25-Jul-06	0.48	0.55	BUY	Maintain
09-Jan-08	N/R	0.59	N/R	Downgrade
17-Nov-08	0.04	0.16	SELL	Downgrade

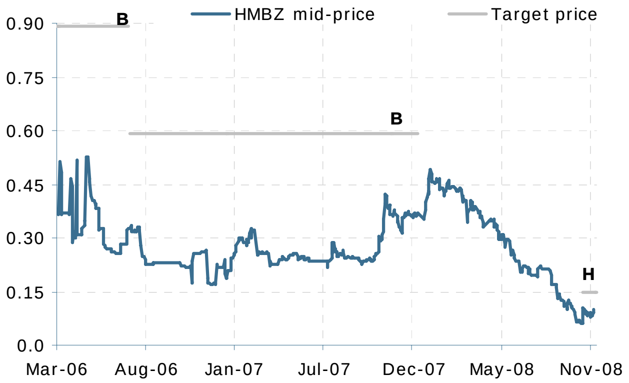
** Until December 2006, the company was covered by Eugene Cherviachenko. In January 2008, Inna Perepelytsya took over coverage. In November 2008, Eugene again assumed coverage of this company.*



Svitlo Shakhtarya rating history

Date	Target, USD	Market, USD	Rec	Action
14-Mar-06	0.89	0.41	BUY	Initiating
25-Jul-06	0.59	0.30	BUY	Maintain
09-Jan-08	N/R	0.36	N/R	Downgrade
17-Nov-08	0.15	0.11	HOLD	Downgrade

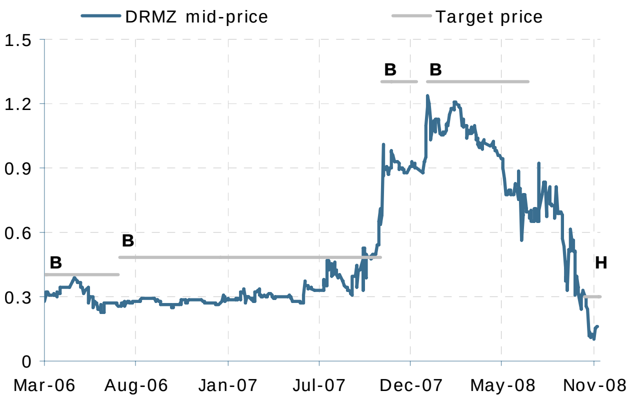
** Until December 2006, the company was covered by Eugene Cherviachenko. In January 2008, Inna Perepelytsya took over coverage. In November 2008, Eugene again assumed coverage of this company.*



Druzhkivka Machinery rating history

Date	Target, USD	Market, USD	Rec	Action
14-Mar-06	0.40	0.34	BUY	Initiating
25-Jul-06	0.48	0.22	BUY	Maintain
29-Oct-07	1.30*	0.64	BUY	Maintain
09-Jan-08	1.30	0.88	BUY	Maintain
17-Nov-08	0.30	0.19	HOLD	Downgrade

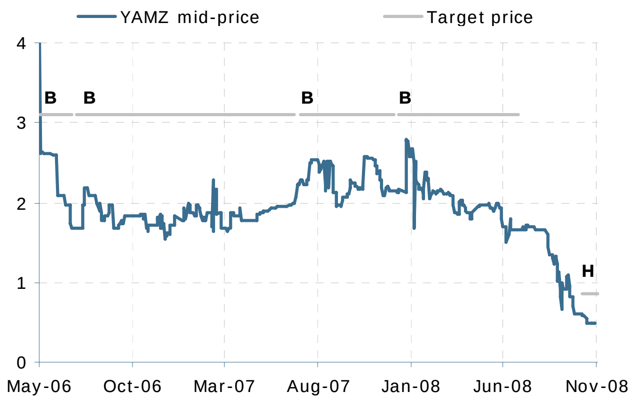
** Until December 2006, the company was covered by Eugene Cherviachenko. In January 2008, Inna Perepelytsya took over coverage. In November 2008, Eugene again assumed coverage of this company.*



Yasynuvatsky Machinery rating history

Date	Target, USD	Market, USD	Rec	Action
14-Mar-06	3.10	n/a	BUY	Initiating
25-Jul-06	3.10	1.75	BUY	Maintain
24-Jul-07	3.10	2.20	BUY	Maintain
09-Jan-08	3.10	2.80	BUY	Maintain
17-Nov-08	0.80	0.57	HOLD	Downgrade

** Until December 2006, the company was covered by Eugene Cherviachenko. In January 2008, Inna Perepelytsya took over coverage. In November 2008, Eugene again assumed coverage of this company.*



Investment ratings

The time horizon for target prices in Concorde Capital's research is 12 months unless otherwise stated. Concorde Capital employs three basic investment ratings: Buy, Hold and Sell. Typically, Buy recommendation is associated with an upside of 15% or more from the current market price; Sell is prompted by downside from the current market price (upside <0%); Hold recommendation is generally for limited upside within 15%. Though investment ratings are generally induced by the magnitude of upside, they are not derived on this basis alone. In certain cases, an analyst may have reasons to establish a recommendation where the associated range given above does not correspond. Temporary discrepancies between an investment rating and its upside at a specific point in time due to price movement and/or volatility will be permitted; Concorde Capital may revise an investment rating at its discretion. A recommendation and/or target price might be placed Under Review when impelled by corporate events, changes in finances or operations. Investors should base decisions to Buy, Hold or Sell a stock on the complete information regarding the analyst's views in the research report and on their individual investment objectives and circumstances.

Concorde Capital ratings distribution

Buy	90	74%
Hold	18	15%
Sell	7	6%
Under Review	7	6%
Total	122	100%

Investment banking clients*

Buy	7	100%
Hold	0	0%
Sell	0	0%
Under Review	0	0%
Total	7	100%

** Within the last twelve month period, Concorde Capital has obtained compensation from these companies for investment banking services.*

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