UKRAINE
Metals & Mining

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CONCORDE CAPITAL

The Coke Industry

Making A Comeback

Companies Covered

Avdiyivka Coke (**ADVK**)

Alchevsk Coke (**ALKZ**)

Bagliy Coke (**BKOK**)

Donetsk Coke (**DKOK**)

Yasynivsky Coke (**YASK**)

Zaporizh Coke (**ZACO**)

August 23, 2006

Contents

Investment Summary

With this report we are updating and expanding our coverage of Ukraine's coke sector, focusing on the six companies that are traded on the PFTS.

We see the industry headed for a modest recovery from the lean period that began last year, when world prices for coke plummeted while prices for coke inputs rose. We see strong demand for steel, high energy prices and China's efforts to restrain its overproduction of coke driving a recovery in the world market price for coke from current levels of USD 120-130/mt to an average of 130-140 per mt in 2006 and USD 160/mt from 2007 on.

However, coking coal prices will also remain relatively high, limiting Ukrainian coke makers' margins, while their ability to recapture traditional export markets, which were largely lost during the downturn, is impaired by high rail tariffs. Coke producers must succeed on the domestic market, and those that are linked to their suppliers and customers will have strong advantages. Murky financials are still a serious problem at most coke makers, and some are more likely than others to make improvements.

Avdiyivka Coke (AVDK), the biggest coke maker in Europe, has suffered from the loss of exports and intensified domestic competition, but its future looks secure because of its importance to its parent group, System Capital Management. SCM is preparing to IPO its metallurgy assets and Avdiyivka Coke is likely to be one of the headline components. SCM's ownership of coking coal mines provides AVDK with secure supplies, and though much of AVDK's output is in excess of SCM's demands, we see AVDK's sales recovering from 2007. Based on our DCF valuation and a conservative valuation of AVDK's stakes in coal and machine-building companies, we rate AVDK a BUY.

Zaporizh Coke (ZACO), is the most transparent Ukrainian coke producer. This owes to its unique ownership: SCM together with its satellite group owns a majority stake, while Zaporizhstal, ZACO's main customer, owns a large minority stake. We see Zaporizhstal providing ZACO with steadily growing demand, and a likelihood that Zaporizhstal's owners will eventually buy full control of ZACO. Although Zaporizhstal's reputation on the market has suffered from its conflict with the steel mill's minority shareholders, we expect the group will have changed its ways and cleaned up its reputation by the time of any consolidation with ZACO. By our calculations ZACO is the most attractively valued Ukrainian coke stock. We rate ZACO a BUY.

We assign HOLD recommendations to Yasynivsky Coke (YASK) and Donetsk Coke (DKOK) for very different reasons. Yasynivsky has good prospects due to its high-grade coke, secure coking coal supplies, an aggressive modernization program and newly established links to Ukraine's second-biggest steel plant, Mariupol Illicha, but its transparency is poor and the outlook in that regard is not good. Donetsk Coke has poor prospects as its capacity is not required by its parent group, SCM, and its transparency is also poor but those problems appear to be fully factored into its low price.

We assign SELL recommendations to Alchevsk Coke (ALKZ) and Bagliy Coke (BKOK). Alchevsk Coke has good prospects due to its close link to a steel plant in the same city, but its transparency is particularly bad and unlikely to improve. Bagliy Coke has improved its transparency but the loss of its export markets is a major threat.

Valuation Summary

	Bloomberg Ticker	Price, USD	MCap, USD mln	12-mo Target, USD	Rec'	Upside/Downside,
Avdiyivka Coke	AVDK UZ	2.96	573	4.79	BUY	62%
Alchevsk Coke	ALKZ UZ	0.07	224	0.05	SELL	-33%
Zaporizh Coke	ZACO UZ	1.20	144	2.47	BUY	105%
Yasynivsky Coke	YASK UZ	0.32	87	0.30	HOLD	-5%
Donetsk Coke	DKOK UZ	0.17	43	0.19	HOLD	10%
Bagliy Coke	BKOK UZ	0.13	89	0.12	SELL	-9%

AVDK: BUY

+ The largest coke maker in Europe

+ Transparency to improve

+ Operates the newest coke capacities in Ukraine

+ Diversified order book

+ Coking coal sourced primarily from related mines ensuring stability of supply

+ Non-coke business (coal, machine-building) creates additional value

- Competition getting tougher which resulted in falling output in 2005-2006

+ production to recover in 2007

Significantly undervalued on DCF. BUY

ALKZ: SELL

- One of the least transparent coke makers with distorted financials

- Transparency unlikely to improve

- Despite growing production, all benefits trickle down to a holding company

- Additional share issue further drained free float

+ On a positive note, assets renovated and new equipment installed

Overvalued based on reported financials SELL

ZACO: BUY

+ Strong demand from Zaporizhstal boosting production

+ Most transparent among Ukrainian coke makers

+ Likely take-over target in the medium term

Most attractively valued among Ukrainian coke stocks. BUY

YASK: HOLD

+ The only producer of a premium coke grade

+ Fully self-sufficient in coking coal

+ Assets rejuvenated

- Transparency concerns high, as most equipment has been leased in 2006

Although undervalued on DCF, non-transparency of operations in 2006 calls for HOLD

DKOK: HOLD

- Excess capacity

- The largest consumer lost

- Tolling plagues financials

- Going concern not ensured

Despite all the negatives with regard to DKOK's business, current market price is low enough relative to our target to make the stock suitable for most risk tolerant investors. HOLD

BKOK: SELL

- Shrinkage of export markets a major threat to the business

- Transparency has been improving, but still far from desired

- Capacities under-utilized

+ A planned sale would likely improve business prospects

Overvalued on DCF and prospects are fuzzy. SELL

Coke Sector Poised for Modest Recovery

As Tough Competition Separates Winners and Losers

Ukraine's coke industry has been struggling through a lean period since global demand for steel turned down in early 2005. Coke prices plummeted last year as China's excess coke flooded the world market, while prices for coking coal and rail transit rose. Ukrainian coke makers were unable to match the prices of their Chinese competitors and lost most of their export markets.

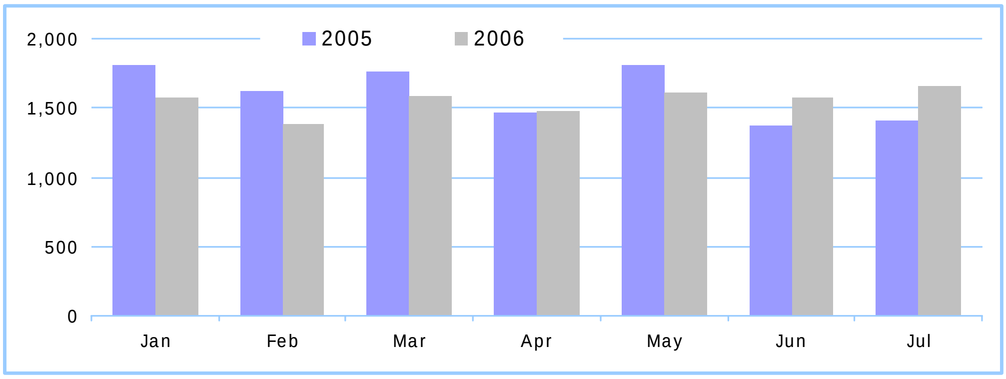
Now, however, with demand for steel recovering, demand for coke is stabilizing and Ukraine's coke industry is set for a modest recovery. Although the boom conditions of 2003-2004 will not be recreated, **we expect a recovery in the world market price for coke from current levels of USD 120-130/mt to an average of 130-140 per mt in 2006 and USD 160/mt from 2007 on.** The rebound will be underpinned by high energy prices, strong demand for steel, and China's efforts to restrain its overproduction of coke. However, coking coal prices will also remain relatively high, although below their peak level reached last year, limiting Ukrainian coke makers' margins and their ability to recapture export markets.

The imperative for coke producers to succeed on the domestic market will drive further integration of coke makers with coking coal and steel makers. Coke producers that are linked to their suppliers and customers will have strong advantages. This is illustrated by the fact that five coke makers located in the same city as their primary customers increased output in 1H06 by an average of 4.5%, while the coke industry's output overall was down 6.1%.

Output Decline Bottoming Out

The loss of export markets was the main reason Ukraine's coke output fell by 8.7% in 2005 to 18.9m mt from its 2004 peak of 20.7m mt. Domestic demand for coke was also weaker last year as steel makers restrained iron production. This year started off with more weakness as gas shortages initially slowed steel and coke production. However, spring brought a modest revival in coke production as steel prices rallied and gas shortages were no longer a problem. We project pig iron production will increase by 4% in 2006 to 32m mt. That means a boost in domestic demand for coke, compensating for the continued decline in exports, which fell by 76.2% yoy in 1H06 after a 65% drop in 2005. Coke output was down 6.1% yoy in 1H06, but **after a better second half we expect coke output to be down by 3% in 2006 to 18.4m mt.** Monthly coke output dynamics support our view that the output decline is bottoming out.

Chart 1. Coke Monthly Production, 1H05 vs 1H06, ths mt.



Source: Ukrainian News agency; Interfax

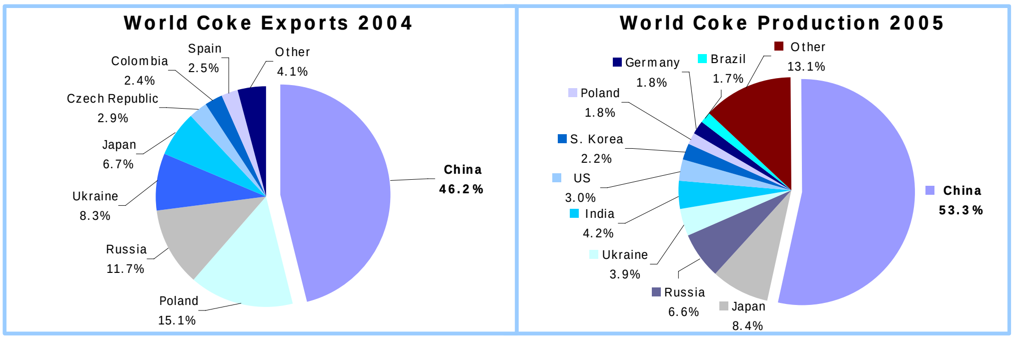
In the mid-term (2007-2009) we expect Ukraine's coke output to recover at a CAGR of 3-5% on the back of growing domestic steel production and gradually reviving exports. After 2009, we expect output to be flat as reduced domestic consumption due to technological updates at domestic steel mills is balanced out by increased exports.

China Drives the World Market

China Dominates the Coke Market

China emerged as the dominant player in the world coke market during the 1990s when its coke exports grew by more than fivefold - from 2.7 mln mt in 1993 to a peak of 15.2 mln mt in 2000. China accounted for 53% of global coke production last year (49% in 2004) and 46% of international coke trade in 2004.

Chart 2. Coke Production and Exports by Country, ths mt



Source: Resource-Net

How China Sets the Price

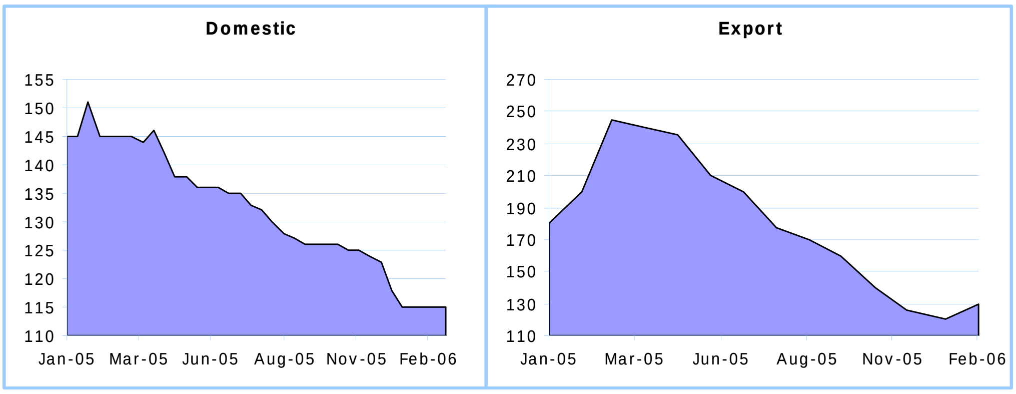
China's dominant position endows it with the ability to set the coke price on the global market. China does this by regulating the price that it charges its coke producers for export licenses.

As China rapidly expanded its steel industry in 2003-2004 and domestic demand for coke surged, China restricted coke exports by sharply increasing the prices of export licenses. As a result, Chinese export prices for coke peaked at USD 400 per mt FOB in March-April 2004, with the license accounting for 50% of the price.

As internal demand was quenched in the following months, the price of export licenses was steadily reduced, and Chinese FOB coke prices declined to USD 210-220/mt by October 2004. However, China continued to ramp up its coke production, adding 40 mln mt of capacity in 2004 on top of 21 mln mt added in 2003.

By 2005 world markets for steel and coke were glutted. The Chinese FOB coke price fell to USD 125-130 by the end of the year, with the export license accounting for just USD 5-10/mt.

Chart 3. Chinese Coke Price In 2005-2006, USD/mt.



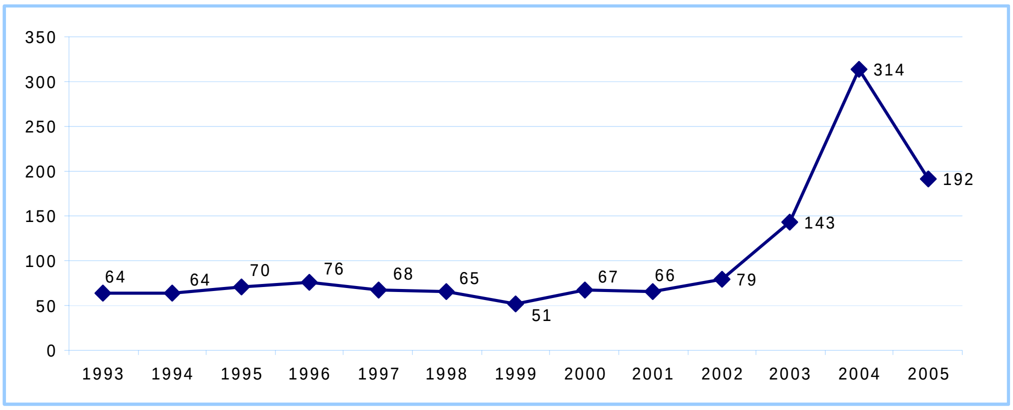
Source: China Coal & Coke; Metalltorg

China's Market Controls Have Produced Wild Price Swings

World market prices for coke have swung wildly since 2002, spiking upward by some 400% in 2002-2004, plummeting back down almost as rapidly in 2004-2006 and then bottoming out in recent months at around 50% above the 2002 level.

The timing of the movements in the coke price closely parallels movements in the steel price, for obvious reasons. But the movements of the coke price have been much greater in scale. The explanation for this lies in China's dominance of the coke market and its somewhat awkward efforts in recent years to regulate coke production and exports. As demand for coke grew in 2003-2004, China sharply restricted its exports; by the time demand sagged in 2005-2006, China was over-producing and the market was flooded.

Chart 4. Average Chinese Coke Export Price (FOB), USD / mt



Source: Resource-Net; Metalltorg

Our forecast of a rebound of the coke price in 2007 rests on our view that China will resolve its overproduction by gradually shutting down the most outmoded, inefficient and polluting coke plants. Our forecast also rests on the view that the historically high oil and gas prices will produce greater demand for alternative fuels, including coal, the main component of coke. Thus, just as oil prices are unlikely to return to pre-2003 levels, coke prices are also unlikely to return to their pre-2003 levels.

Reining in Overproduction

Since 2001, China has been struggling to modernize its coke industry and eliminate rampant illegal coke production. The government has announced ambitious plans to shut down 100 mln mt of capacity of outdated and environmentally dangerous coke plants within two years, or one-third of the Chinese coke industry's total 300 mln mt capacity.

With coke production in 2005 at 243 mln mt, almost 20% of China's coke-making capacity is already idle. Aside from the government's closure plans, China's steel, coke and coal industries are going through a process of consolidation in which the better coke producers are increasingly likely to be linked with major steel makers. This process will clarify which coke makers are uncompetitive and thus make the government's job easier.

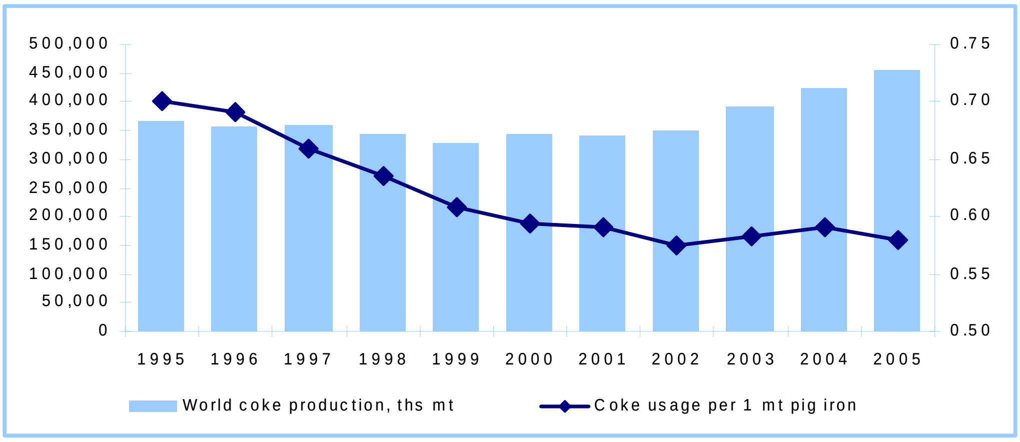
In sum, we expect China will be more successful in the future in regulating its coke production and exports, resulting in a modest recovery of the world market price from this year's levels and less price volatility in the future. Chinese government's efforts already resulted in a 14.4% decline in the country's exports last year, which suggests that in the longer term Chinese exports will hardly be as vast as in 2000-2004.

Outlook for Global Demand Stable Thanks to China

According to the International Iron & Steel Institute's estimates published in April 2006, global demand for steel is projected to rise by ~7% in 2006, which should translate into a comparable growth in production of pig iron and, respectively, coke. **In the medium term, we expect global demand for coke to stabilize.**

The stabilization of the global coke-to-iron output ratio over the past five years suggests that the same level of coke consumption per 1 mt of pig iron produced should also prevail in the near future. This will be the case until the Chinese steel industry reaches a new technological level allowing it to utilize significantly less coke. In the meantime, demand for met coke will grow proportionately to global pig iron production.

Chart 5. Coke Usage In Pig Iron Production.



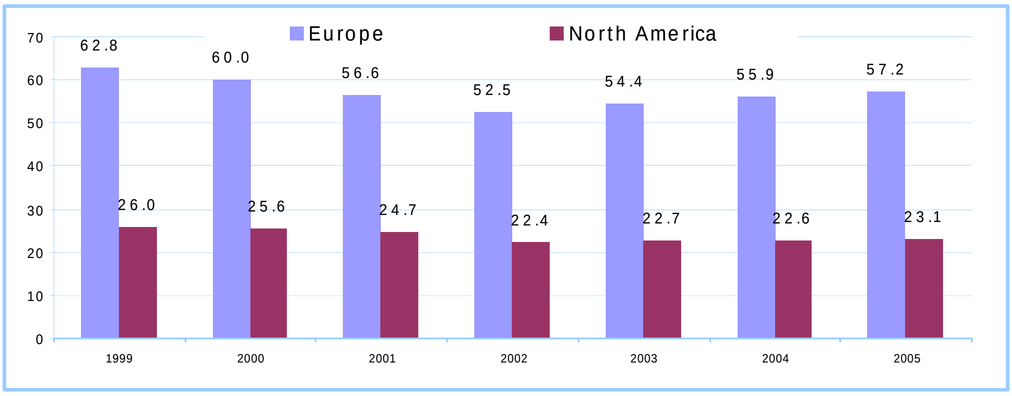
Source: IISI; Resource-Net; Concorde Capital calculations

Coke Production to Continue Shifting to Developing Economies

Over the long term, we expect coke production to continue its move from developed economies to developing economies. Due mainly to the serious pollution concerns and the high cost of building new coke batteries, North America and Western Europe have been gradually phasing out coke production and replacing domestically produced coke with imports.

Europe's annual coke capacity diminished by 16% in 1999-2002, from 62.8 mln mt to 52.5 mln mt, while coke capacity in North America fell by 14%, from 26.0 mln mt to 22.4 mln mt, during the same period. Then, as demand for steel surged in 2003-2005, there was only a moderate capacity build-up, by 9% in Europe and 4% in North America. (Even so, production in North America declined.) We believe the prevailing long-term trend is for coke plants in the developed countries to close and for coke production to be relocated to developing economies.

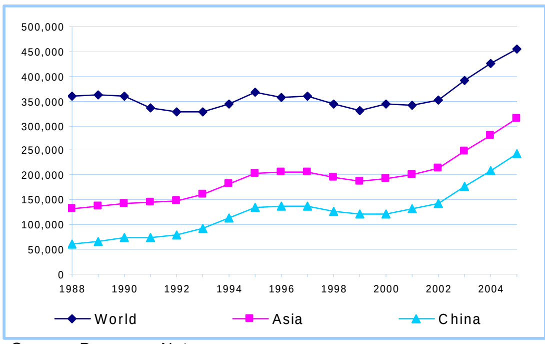
Chart 6. Coke Capacity In Europe And North America, mln mt.

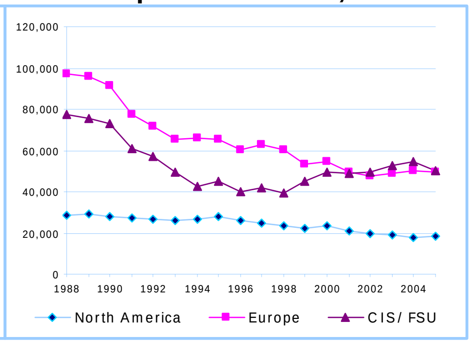


Source: Resource-Net

The restructuring of the global coke industry is reflected in the production dynamics of developed vs. developing regions (see chart below). The recent surge in world production was driven by China (53% of world output in 2005, 6yr CAGR of 12.4%). The global revival that started in 1999 was also supported by an increase in coke production in the CIS region (6yr CAGR of 1.9%). At the same time, production in North America and Europe declined, with 6yr CAGRs of -3.1% and -1.4%, respectively. Now Europe is the largest single market for Chinese coke exports (~33% in 2004-2005), while North America accounts for ~15% of Chinese coke exports.

Chart 7. Coke Production: China & CIS Vs. Developed Economies, ths mt.





Source: Resource-Net

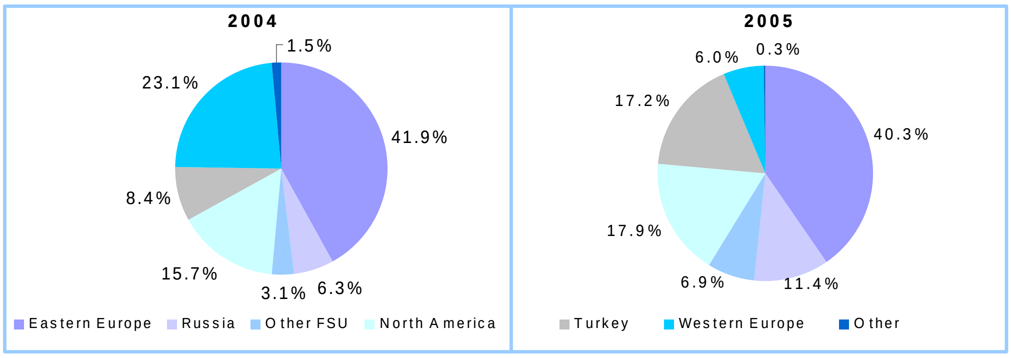
Long-Haul Struggle to Regain Exports

Ukrainian coke makers have lost most of their export markets in the past year as falling world prices for coke combined with rising prices for inputs made Ukrainian coke uncompetitive. Ukraine's coke export fell by a dramatic 64% last year, while the share of exports in total production fell from 15.4% in 2004 to 6.0% in 2005. Although we don't foresee any rapid recovery of exports, we expect Ukraine's coke industry will gradually win back its former place in the international coke trade.

Ukraine accounted for 3.9% of world coke production in 2005, making it No. 5 in the world after China, Japan, Russia and India, while in 2004 it had a 4.9% share and ranked No. 4 after China, Japan and Russia. Until last year Ukraine also ranked fourth in terms of its share in international trading, with an 8.3% share in 2004. However, after the plunge in Ukraine's coke exports in 2005, we estimate its share in international trade has fallen to 2-3%.

Ukrainian coke makers experienced a significant drop in tonnage sales in all their export markets in 2005, especially Western Europe. The Western European market was flooded with coke from China and Poland, while other traditional export markets for Ukraine also partly switched to Chinese coke.

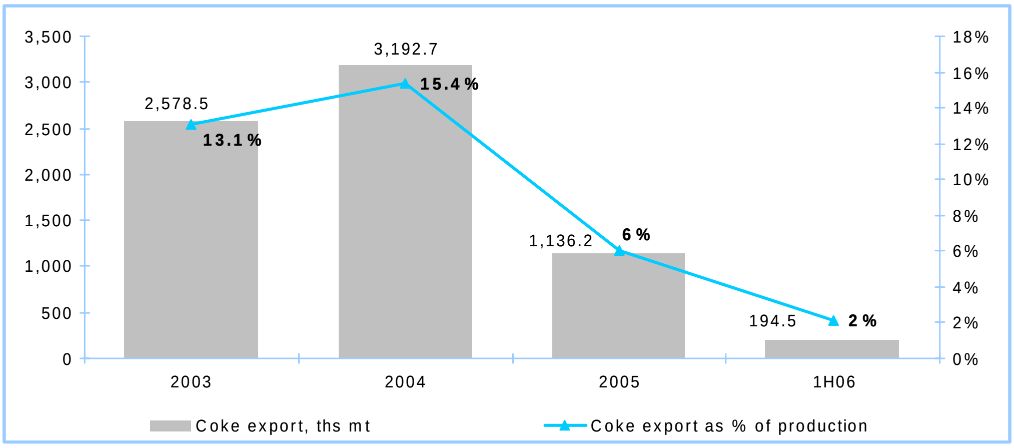
Chart 8. Ukraine's Coke Export Structure, ths mt.



Source: Metal Ukrainy Magazine

Ukraine's biggest and most consistent export market is Central and Eastern Europe, which accounted for just over 40% of exports in 2004 and 2005. The other major markets are Turkey, Russia, Western Europe and North America, which together took just over half of Ukraine's exports in 2004 and 2005.

Chart 9. Ukraine's Coke Exports Dynamics.



Source: Ukrainian State Statistics Committee; Metal Ukrainy Magazine; Ukrainian News agency

Limited export opportunities as evidenced by a decline in coke exports of 76.2% yoy in 1H06 are the reason why we think Ukraine's aggregate coke output will decline slightly in 2006. We expect that in 2006 Ukrainian coke makers will further yield their share in export markets to Chinese companies, as currently Chinese coke costs USD 120-130 per mt FOB vs. Ukrainian EXW price of USD 140 per mt.

Winning back these export markets will not be easy, as a substantial portion of Ukrainian coke makers' costs are regulated by the government – namely, the price for domestic coking coal from state mines and railway tariffs. Yet, anticipated improvement in global coke prices should make Ukrainian coke competitive in its traditional East European and Turkish markets and lead to gradual export growth.

Domestic Market Tightening

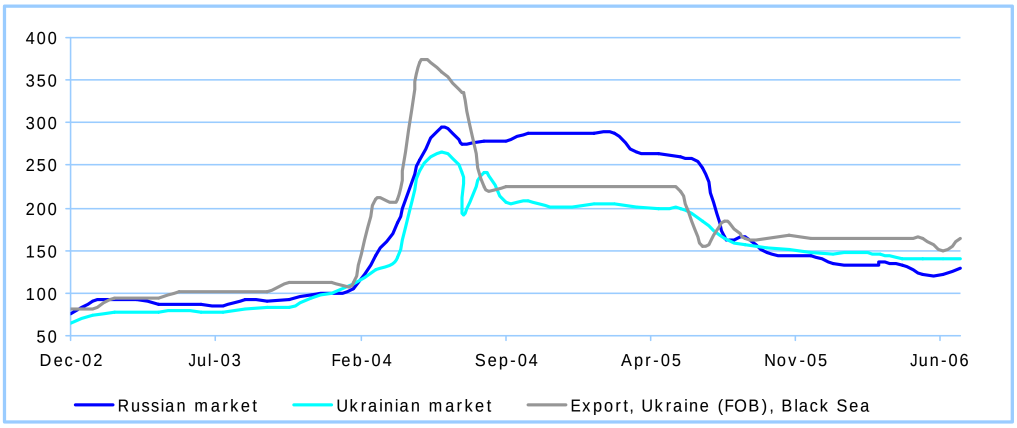
Domestic Prices to Dip Further Before 2007 Recovery

Coke prices on Ukraine's domestic coke market have generally followed the world market trends, but not exactly. Currently, the Ukrainian EXW price of coke is USD 140 per mt, while Chinese coke costs USD 120-130 per mt. We expect this gap to close by the end of the year.

Specifically, we expect **domestic coke prices will further decrease to ~USD 130-135 per mt by the end of 2006,** while Chinese coke prices grow to the same level. As the chart below illustrates, prices in the Russian market have already fallen to this level, although historically (prior to late 2005) they were higher than Ukrainian domestic prices. We expect domestic coke prices will come down in step with a further decrease in the price of coking coal supplied by state-owned mines (see section Relief from the 'Price Scissors' below).

From 2007 on, we expect Ukraine's domestic coke price to recover in step with the expected recovery of world market prices. However, we believe domestic coke consumption to gradually decline as steel makers become more efficient.

Chart 10. Ukrainian And Russian Coke Prices, USD/mt.

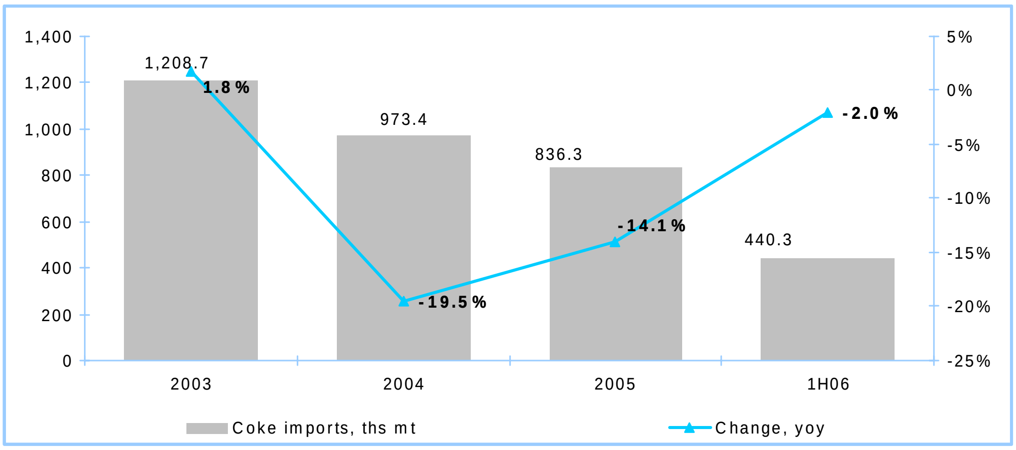


Source: Metal Ukrainy Magazine

Mittal Main Coke Importer

Although the availability of cheaper imported coke has been an important factor forcing prices down in Ukraine's domestic market, the amount of coke imported by Ukrainian steel makers has been declining as a result of increased domestic supply.

Chart 11. Ukraine's Coke Imports Dynamics.



Source: Ukrainian State Statistics Committee; Metal Ukrainy Magazine; Ukrainian News agency

Until last year, the main importer of coke was Mariupol Illicha, which imported Russian coke. Russian coke accounted for 96.3% of imports in 2005. However, in early 2006 Mariupol Illicha switched to domestic coke after striking a deal to lease most of the capacity of Yasynivsky Coke. In 5M06, coke imports from Russia plunged 86.4% yoy.

Meanwhile, Mittal Steel bought Ukraine's largest steel mill, Kryvorizhstal, which it has since renamed Mittal Steel Kryvy Rig, and began importing coke from its plants in Poland, Romania and Kazakhstan. We expect Mittal's imports will compensate for Mariupol Illicha's switch to local coke and keep total coke import in 2006 on a par with the 2005 level , or ~5% of total domestic consumption.

Coke Unlikely to be Popular Substitute for Gas

There has been a great deal of discussion about the potential for coke producers to benefit as Ukrainian steel makers seek to reduce their gas consumption. However, we think the potential is limited. By our calculations, coke would only become a cost-effective substitute for gas if retail gas prices, which are currently about USD 121 per ths cm (net of VAT), were to surpass USD 188 per ths cm (see Appendix). We expect the retail gas price will remain at its current level until the end of 2006 and reach USD 160-170 per ths cm in 2007.

Moreover, steel makers that are determined to reduce their gas consumption in the short term also have the option of using anthracite coal, which is much cheaper than coke, but of a lower quality in terms of usage in blast furnaces. Mittal Steel Kryvy Rig has announced that it has nearly finished converting its blast furnaces to substitute anthracite, and to a lesser extent coke, for gas. However, anthracite supply in Ukraine is insufficient and its price is rising, which will limit its use as a substitute for gas.

Conversion to PCI Will Reduce Coke Consumption

In the longer term, we expect most steel mills will convert to pulverized coal injection (PCI), which requires significant investments and time to install, but in the long run it is much more economical. The PCI process uses coal powder blown into the blast furnace. Most Ukrainian steel makers have announced plans to convert to PCI within the next two to seven years.

Conversion to PCI will not only remove natural gas from the blast furnace process, it will also reduce coke consumption. In the long term, we expect Ukrainian steel mills' use of coke will gradually approach the efficiency of developed economies' steel industries. In Europe, production of one tonne of pig iron requires ~350 kg of coke. Russian steel makers used 484 kg of coke per mt of steel last year, while Ukrainian steel makers used 516 kg, down 3% from 2004. We expect Ukraine's coke-to-pig iron ratio will continue to decline, as the added efficiency from technological improvements will outweigh any use of coke as a substitute for gas.

Relief from the 'Price Scissors'

The coke industry took a double hit in 2005 as coke prices fell and the cost of coke makers' main input, coking coal, rose more than two-fold. This, exacerbated by a raise in rail transit cost, effectivly led to the closure of European export markets. However, the situation started to improve in early 2006 when contract prices for coking coal saw a reduction worldwide, and coke makers were able to increase their margins. In Ukraine, importing cheaper coal form Russia and Kazakhstan helped steel makers with no assets in the coal industry cut their production costs, while those steel mills who control coking coal mines could manage their costs by buying coal cheaper than the market price. In addition, the Ukrainian government while facing new market prices for coking coal had to make two cuts to prices for coking coal extracted by state mines, in late 2005 and in early 2006.

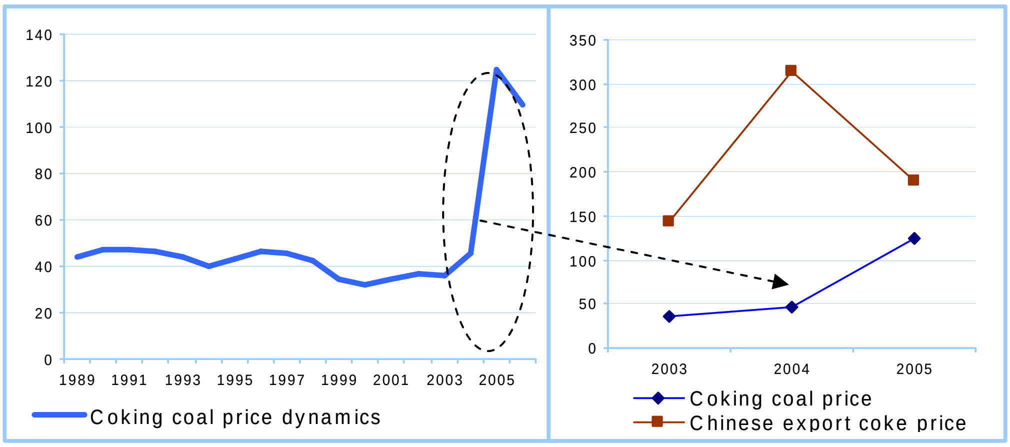
Detrimental Effect of 'Price Scissors'

Last year, as coke prices were plummeting, prices for coking coal were peaking. These two factors created a 'scissors effect' on coke makers' profits, cutting them on both the revenue and cost sides. Only coke makers linked to privately owned coking coal producers were sheltered from this damaging situation.

However. we anticipate no further squeeze in the profit margins of independent coke makers. Rather, **we forecast that margins will stabilize in the second half of 2006 as lower prices for imported coking coal restrain coking coal prices.**

In the longer term, we expect coke makers margins to increase as coking coal prices decrease due to weaker demand and an enhanced domestic supply. That said, profit margins of coke makers will only have limited room for improvement, as coking coal prices are not to fall significantly after 2006 underpinned by high oil and gas prices.

Chart 12. Price Scissors, USD / mt*.



**Coking coal prices are on Australia-Japan contracts (FOB)*
Source: Expert Magazine; IEA; AME Mineral Economics; Resource-Net; Metalltorg; Concorde Capital estimates

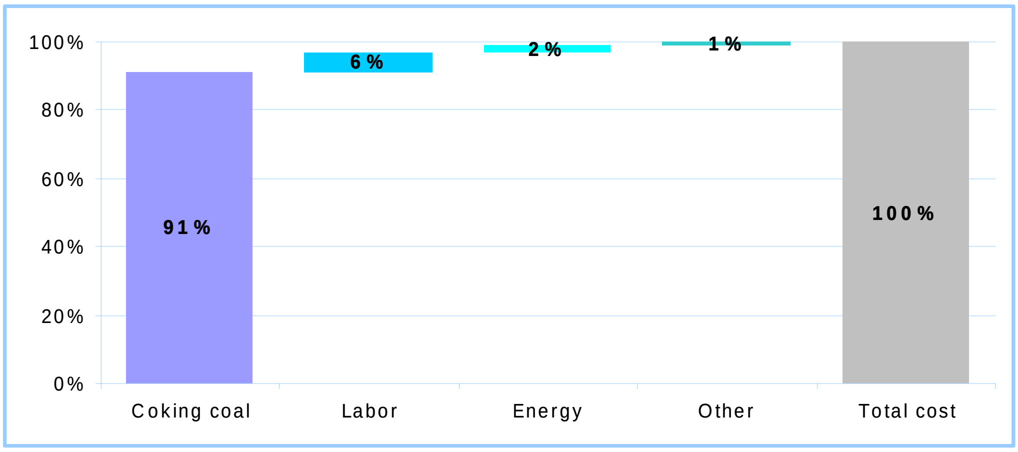
We explain the unprecedented rise of coking coal prices in 2004-2005 by a temporary market inefficiency. Following a period of record coke prices in late 2004 – early 2005 caused by escalated demand from the steel industry, coking coal mines reacted by raising the price of their product. As China unexpectedly in 2005 turned from a net coking coal exporter into an importer, the global supply-demand balance was disturbed putting a strong upward pressure on the coking coal price.

Another reason for the coking coal price surge in 2005 (100-120% depending on grade) was a temporarily limited supply due to numerous accidents at coal mines worldwide. Contract prices ranged from USD 80 per mt for a low quality coal to USD 125 per mt for high-quality high-energy coal, while spot prices sky-rocketed to USD 200 per mt in 1Q05, above coke prices per se.

Coking Coal Price The Key Cost Component

The cost of coking coal accounts for ~91% of Ukrainian coke plants' production costs. Coke producers that are not linked to coking coal producers must buy coking coal on the market from domestic mines controlled by competing business groups or the state, or import coking coal from abroad. The price they pay for coking coal effectively sets a lower limit for the price of their coke.

Chart 13. Production Cost Structure For Ukrainian Coke Producers.



Source: Ukrkoks

Assuming the average coking coal concentrate price for Ukrainian coke makers at USD 90 per mt in absence of transfer pricing, the average concentrate usage of 1.3 mt per 1 mt of coke products (met coke and other kinds of coke) and the coal component comprising 91% in total production costs, the break-even EXW price for Ukrainian coke would be:

Break even EXW coke price = production costs
= USD 129 per mt.

The minimum price for Ukrainian coke exports to Europe is formed by adding profit mark-up and railway tariffs to the production costs. That is, break-even price for Ukrainian coke is:

Break even coke price = production costs + railway tariff

The railway tariff to ship coke to the country's western border now stands at USD 28-30 per mt. The calculated break-even export price of ~USD 160 per mt for coke shipped by railway is above the Chinese export price of USD 120-130 per mt, effectively confining Ukrainian coke to the domestic market.

Ukrainian coking coal and coke makers are currently lobbying for the reduction of rail tariffs for shipments of Ukrainian coal and coke which would enable the companies to charge lower prices for their products and both improve domestic sales and restore exports to Europe.

High Coking Coal Prices Tapering Off

Prospects for coke makers started to improve in early 2006, when the coking coal price trend changed its direction downwards. Specifically, at that time mid-sized coal companies signed contacts for the current year at prices 40% below the previous year's level. Soon after that negotiations between world mineral majors and the largest consumers of coking coal resulted in a **decrease of 2006 contract prices for coking coal by 8% on average.**

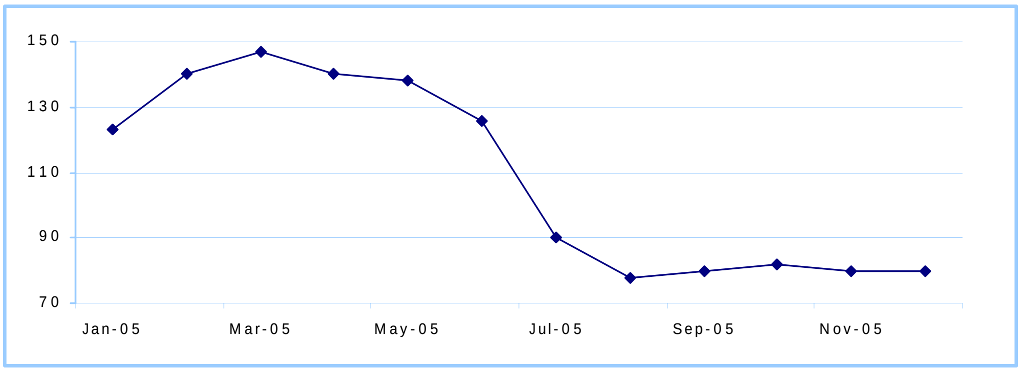
The foundation for this change was laid down in 2H05 after a summer plunge in steel prices (15-20%) led to a slow-down in steel and pig iron and respectively coke production, which depressed demand for coking coal. On the supply side, coking coal production was rising at a leading pace, and mineral majors such as

BHP Billiton and Rio Tinto were investing in capacity expansion. Apart from Australian companies, the other two major coal exporters, USA and Canada, were also developing additional capacities given their abundance of proven coal reserves. The resulting over-supply of coal in the market pushed the price down.

Government Backs Off on Coking Coal Price

In March 2005, the government raised the price for coking coal concentrate sold by state-owned mines by 20.7%, to USD 120-128 per mt, which was significantly above the import price of USD 90-95 per mt. The unintended result was that most coke makers switched to imported coal concentrate. Five months later, the government backpedaled and state-owned mines reduced their concentrate price by 18%, to the level of the Russian coal price.

Chart 14. Coking Coal Import Price In 2005, USD/ mt.



Source: Metal Magazine

However, the government's moves to reduce state mines' coking coal price have lagged behind the market. In February 2006, the government initiated another coking coal price reduction, this time by 8%, in response to cheapening imports. We estimate the current price for domestically produced coking coal concentrate at USD 90-95 per mt. Yet import prices are still cheaper, at ~USD 80 per mt.

Strong Private Players in Domestic Coking Coal Market

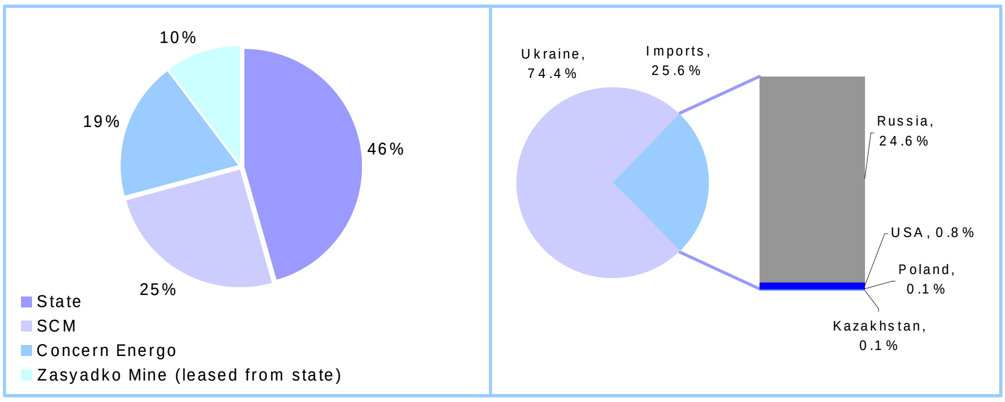
In 2005, Ukraine mined 32.8 mln mt of coking coal (down 7.5% from 35.3 mln mt in 2004). At the same time, consumption of coking coal concentrate by domestic coal plants totaled 27 mln mt in 2005 (31.7 mln mt in 2004).

Despite the appearance of self-sufficiency in coking coal, Ukraine lacks certain high quality coal grades necessary for pig iron production and has to import them. In 2005 Ukraine imported ~25.6% of the coal concentrate consumed by coke plants. Most imported coal was delivered from Russia (96.3% of imports).

Most coking coal mines in Ukraine are still state-owned, the exceptions being Krasnodon Coal, Pavlohrad Coal (both belong to System Capital Management, or SCM, Ukraine's largest diversified business group) and Krasnoarmiyska-Zakhidna (owned by the Donetskstal group, a second-tier business group with assets in steel industry). In addition, the Zasyadko mine is leased by the state to its management and its distribution policy is not state regulated.

Also, certain business groups such as Donetsk-based Industrial Union of Donbas (IUD, second largest metal group in Ukraine) have access to a number of state-owned mines through good relations with the mines' management and, we believe, they ship coal from these mines at preferential terms.

Chart 15. Coking Coal Mining And Supply In 2005, ths mt.

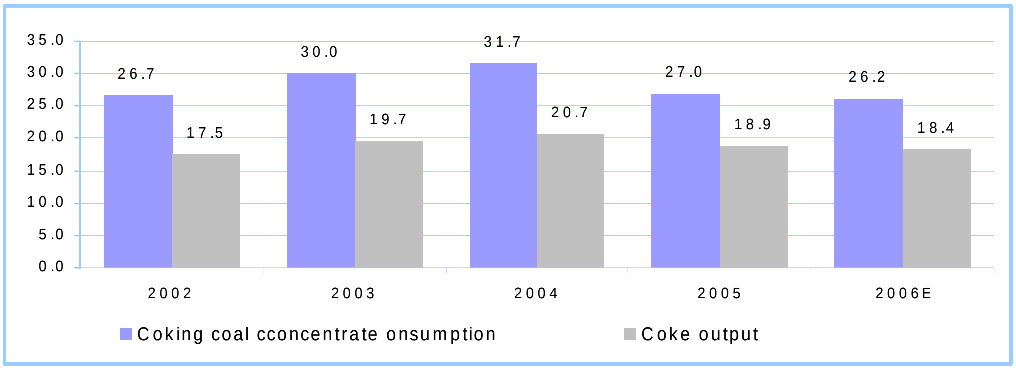


Source: Energobusiness Magazine; Metal Courier Magazine; Concorde Capital estimates

Demand For Imported Coking Coal To Remain Strong

Due to the anticipated decline in coke production in 2006, we project demand for coking coal by Ukrainian coke plants to decrease by 3% this year, to 26.2 mln mt. Currently, the Ukrainian Coal Industry Ministry, who controls state-owned coal mines, is lobbying for an introduction of quotas on imported coal. We do not believe this initiative will be supported, though, as some Ukrainian coke plants are strongly opposed to it. We do not think the structure of coking coal supply in terms of import and domestic production shares will change significantly in 2006. Import is expected to at least retain its share due to competitive pricing.

Chart 16. Coking Coal Consumption By Ukrainian Coke Plants, mln mt.



Source: Metal Courier Magazine; Ukrainian News; Resource-Net; Concorde Capital estimates

Seeking Balance

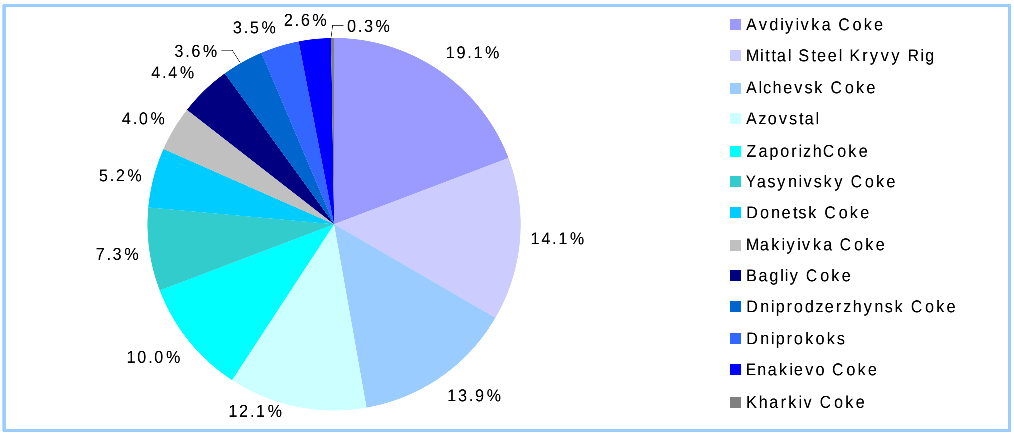
Competition Driving Integration With Steel, Coking Coal Makers

The business groups that control Ukraine's steel industry have long sought to secure their supply of inputs by buying control of coke and coking coal makers. However, the integration process is far from smooth and simple, and it is far from complete. All the major coke makers are owned by business groups which also own steel-production assets, but there are many capacity mismatches, so that some business groups produce more coke than their steel mills require, while other business groups have a shortage of coke capacity. Only two of the steel groups produce their own coking coal and those capacities are also mismatched.

The prospects of coke plants depend very much on how they fit in to this picture. Some coke plants are closely linked to their suppliers and/or customers, while others are at the mercy of market volatility.

Of the 13 coke plants in Ukraine, two are fully integrated units of steel mills. Ukraine's steel majors Mittal Steel Kryvy Rig and Azovstal operate the Kryvy Rig Coke Plant and Markokhim, respectively, as business units in their structure. Another ten coke makers, although separate companies, are controlled by business groups who also operate steel mills and/or coking coal mines, thus providing for various degrees of vertical integration within a respective group. Only one coke maker, Kharkiv Coke, which is also by far Ukraine's smallest, has independent ownership.

Chart 17. Coke Production by Company in 2005, mln mt.



Source: Ukrainian News.

Coke Supply / Demand Balance In Business Group Context

Ukraine's coke production is dominated by five business groups: SCM, IUD, Privat, Donetsstal and the international group Mittal. Their plants accounted for more than 99% of Ukraine's coke production in 2005. Other steel groups, such as SMART group (Makiyivka Iron&Steel), Midland resources (Zaporizhstal), and V. Boyko's group (Mariupol Illicha) do not have coke production.

In most cases, the coke output of these groups does not match their own demand. Those with excess coke sell it to other domestic groups or abroad, while those with a coke shortage must buy coke from rival business groups or import it.

Table 1. Coke Balance By Business Group In 2005, mln mt.

Group	Pig iron producers	Pig iron output	Coke consumed	Coke Makers	Coke output	Coke excess/ deficit
SCM	Azovstal	4.95		Avdiyivka Coke	3.62	
	Enakievo Iron & Steel	1.95	2.67	Donetsk Coke	0.99	
			1.06	ZaporizhCoke	1.89	
				Azovstal (Markokhim)	2.28	
				Enakievo Coke	0.49	
	Group total	**6.90**	**3.74**		**9.28**	**5.54**
Mittal Steel	Mittal Steel Kryvy Rig	6.16	2.78	Kryvy Rig Coke	2.66	**-0.12**
IUD	Alchevsk Iron&Steel	2.92	1.46	Alchevsk Coke	2.63	
	DMK Dzerzhynskogo	2.88	1.40			
	Kramatorsk Iron&Steel*	0.03	0.07			
	Group total	**5.83**	**2.94**		**2.63**	**-0.31**
Management (V. Boyko group)	Mariupol Illicha	5.24	2.78	None	NA	**-2.78**
Midland Resources et al.	Zaporizhstal	3.54	1.88	None	NA	**-1.88**
Privat group	DMK Petrovskogo	1.50	0.94	Bagliy Coke	0.83	
				Dniprokoks	0.66	
				Dniprodzerzhynsk Coke	0.68	
	Group total	**1.50**	**0.94**		**2.17**	**1.23**
SMART Group	Makiyivka Iron&Steel	0.82	0.44	None	NA	**-0.44**
Donetskstal group	Donetskstal	0.79	0.38	Yasynivsky Coke	1.37	
				Makiyivka Coke	0.76	
	Group total	**0.79**	**0.38**		**2.17**	**1.79**
Independent producer				Kharkiv Coke	0.06	**0.06**

Source: Ukrainian News; Ministry of industrial Policy

*ZaporizhCoke is 42%-owned by Zaporizhstal. This blocking stake gives Zaporizhstal a certain influence on the company's distribution policy.

**Blast Furnace ferromanganese (FeMn), not pig iron

Ukraine's net coke suppliers group-wise are SCM, Privat and Donetskstal group, while net coke consumers are IUD, MMK Illicha, Zaporizhstal, Mittal Steel Kryvy Rig and SMART Group. Coke trade between the business groups is determined chiefly by the following considerations:

- 'friendliness'
- logistics (geographical proximity).

IUD is located in the Donetsk region as well as SCM and Donetskstal group and relationships between these three groups have historically been more cooperative than competitive. Accordingly, IUD has an opportunity to source coke from the other two Donetsk-based groups who have surpluses.

Zaporizhstal has a 42% stake in SCM-controlled Zaporizh Coke and is located in close proximity to this coke plant. It meets most of its coke needs purchasing the feedstock primarily from Zaporizh Coke and sourcing the balance from other SCM-controlled coke makers.

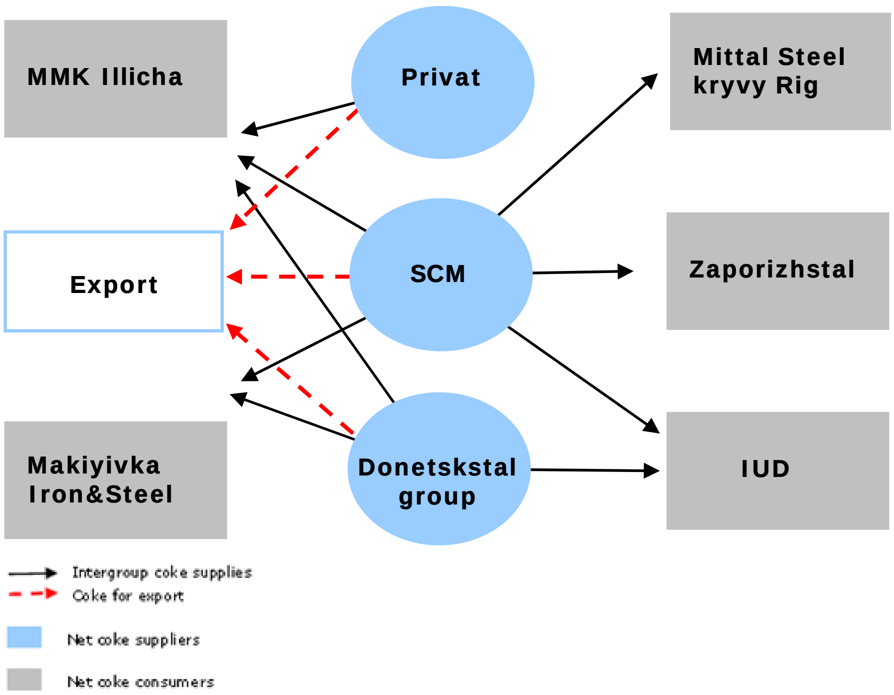
The proximity factor makes **Mariupol Ilicha** source coke mainly from SCM-associated coke plants as well as Donetskstal group and import the balance. In 2006, coke purchases from Donetskstal group coke plants are expected to increase, and imports to decline. This is due to the fact that earlier this year Mariupol Illicha received Yasynivsky Coke's capacities in a long-term lease.

SMART Group buys coke for its Makiyivka Iron and Steel needs from Donetskstal group, whose coke assets are located in the same city, and from SCM.

Privat group has a history of corporate wars with IUD and prefers to export most coke produced rather than supply domestic rivals.

Mittal Steel Kryvy Rig's coke requirements are to a large extent met by in-house coke production. Before the steel mill (at that time Kryvorizhstal) was re-privatized by Mittal Steel in October 2005, its previous owner, SCM-related Investment and Metallurgical Union (IMU) filled up the minor coke deficit by supplies from SCM. With the change in the ownership, however, the company has increased coke imports, mainly from Poland.

Chart 18. Coke Supplies By Business Group.



Source: Concorde Capital

Coking Coal: Privat Most Vulnerable

Coking coal provisions differ significantly among business groups. Ukraine's only coke producing group with excess coal capacities is Donetskstal group. SCM is partly supplied with in-house coal but still has to buy a large portion of it on the market or source it from state-owned mines run by friendly management. IUD does not own any coal mines, but is on good terms with SCM and Donetskstal group and, in addition, de-facto controls management of several state-owned mines sourcing coal from them. Mittal Steel Kryvy Rig buys coal on the market and has an opportunity to receive relatively cheap coal from Mittal Steel's mines in Temirtau, Kazakhstan. The most susceptible to interruptions of coking coal supply is Privat group who does not possess any mines and has to rely mostly on Russian import.

Table 2. Coking Coal Demand / Supply By Business Group, 2005 (mln mt).

	Coal concentrate consumed	Coal mined	Coal excess / deficit*
SCM	13.3	8.3	-14.0
IUD	3.8	0.0	-6.4
Mittal Steel Kryvy Rig	3.8	0.0	-6.4
Privat	3.1	0.0	-5.2
Donetskstal group	2.9	6.2	1.4

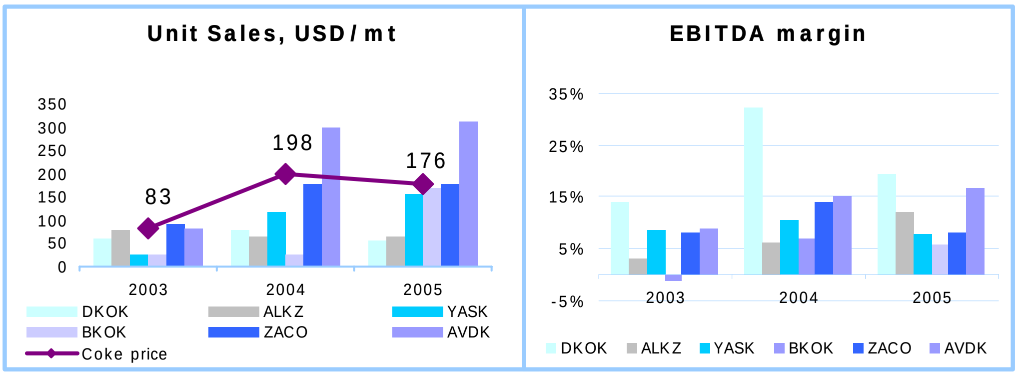
**We estimate that in 2005 production of 1 mt of coal concentrate required, on average, 1.68 mt of coking coal*
Source: Metal Courier; Energobusiness Magazine

Behind The Reported Numbers

Financials Vastly Confusing

Being either an upstream or a middle unit within their holding business groups makes Ukrainian coke producers prone to non-market transactions that usually benefit downstream units. Resulting reported financials are not consistent with the true economics of coke businesses. Namely, unit sales for most coke plants bear little resemblance to the prevailing market prices for coke, and both unit sales and margins unjustifiably vary among coke producers. Moreover, certain coke producers whose unit sales are among the lowest exhibit the highest margins (DKOK and ALKZ). To overcome these seeming contradictions a restatement of the reported financials is required.

Chart 19. Key Financials Comparison By Coke Plant.



Source: Company data; Metal Ukrainy Magazine

Where The Confusion Is Rooted

We identified four situations wide-spread among Ukrainian coke makers that distort their financials:

Transfer pricing. Coke is sold below-the-market to steel mills owned by the parent business group resulting in lower sales. Detected at DKOK, ALKZ, YASK and to a lesser extent ZACO.

Tolling. Coke producers pay with coke for coking coal supplied by third parties related to their parent business group. Both sales and production costs are reduced which usually results in skewed margins. This is a favorite approach of Privat who practiced it on a large scale at BKOK prior to 2005. Also detected at YASK who supplies coke under tolling schemes to a related closely held steel mill Donetskstal for both consumption and further re-sale. Found at ALKZ and DKOK.

Cross-sales. Instead of direct sale, coke producers have related steel mills sell their coke on commission and in turn receive steel which they themselves sell on commission, usually in export markets. The rationale for this scheme is value-added tax (VAT) optimization by their holding groups. The state has accumulated huge arrears of export VAT compensation to steel-exporting business groups washing out their working capital. In response, the latter resort to distributing their steel through other companies who focus on the domestic market and thus accrue VAT payable to the state, which enables set-off of VAT payables and receivables.

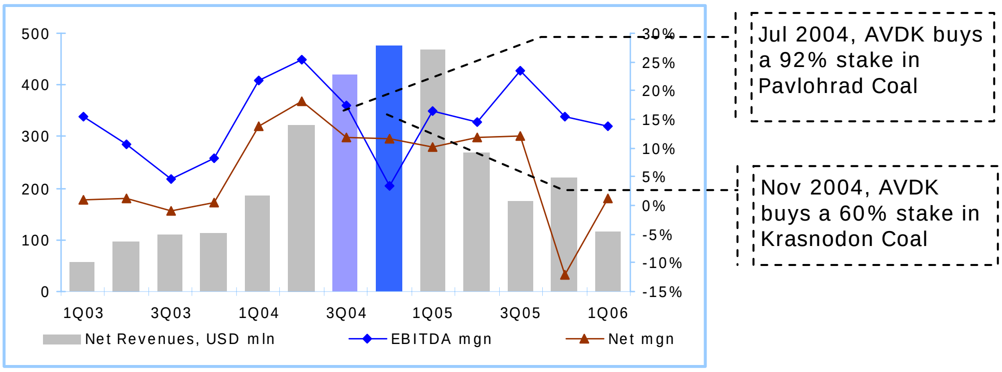
Typical of coke makers related to SCM and IUD, namely, AVDK, ALKZ and DKOK for whom steel comprises a large portion of exports. May result in distorted sales and margins.

Selling products of subsidiaries. This case is mostly typical of AVDK which is used as a special purpose vehicle (SPV) by its holding group SCM. SCM privatized a number of coal assets through AVDK so that the latter now owns a

99.9% stake in Krasnodon Coal (5.5 mln mt of coal mined in 2005), a 92.1% stake in Pavlohrad Coal (12.1 mln mt of coal mined in 2005) and a 61.3% stake in Komsomolets Donbasa (2.6 mln mt of coal mined in 2005). In addition, AVDK holds majority stakes in two machine building plants (cumulative sales of USD 132 mln in 2005) and minority stakes in two coal refineries.

We believe that AVDK used to sell a portion of coal extracted by its subsidiary mines on the domestic market as evidenced by the boost in its unconsolidated sales and margins immediately following the mines' privatization. This resulted in greater sales and profits than what could be realistically generated by its core coke making business.

Chart 20. AVDK's Quarterly Sales And Margins.

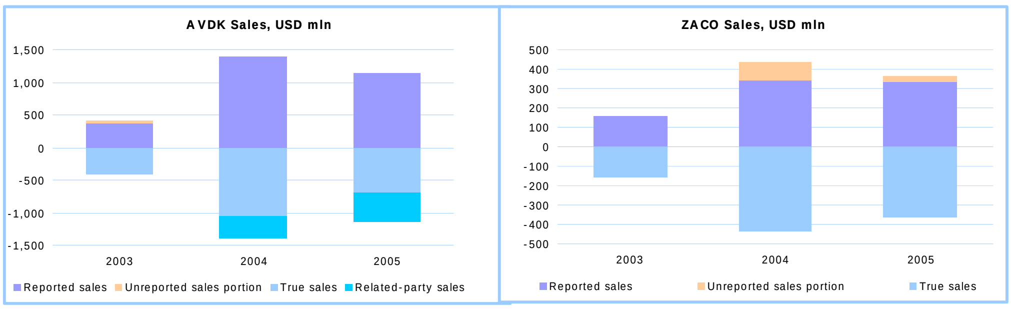


Source: Company data

Transparency Improvement In Progress

Despite the existing problems with the reported financials, most coke producers demonstrated a significant reduction in the scale of accounting distortions last year.

Chart 21. Behind Reported Financials : AVDK and ZACO.

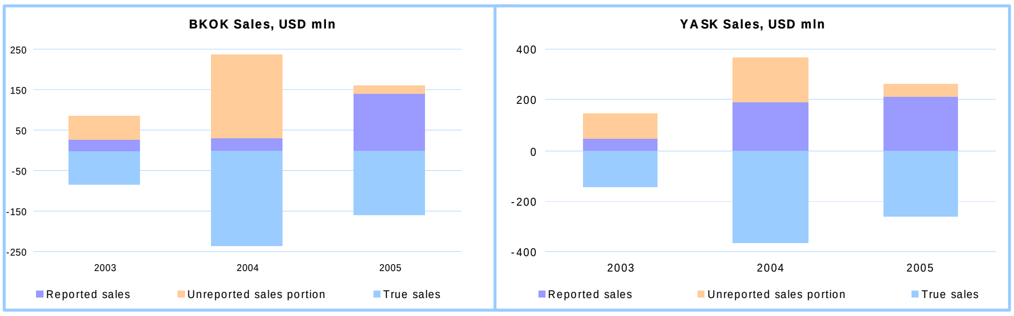


Source: Company data; Concorde Capital

According to our estimates, in 2005 AVDK reduced the scope of related party transactions, and ZACO reported financials apparently close to true numbers.

We expect that AVDK will stop practicing related party transactions in the medium term as SCM further proceeds with restructuring its metal-related holding in the preparation for an IPO. SCM already made an important step toward better transparency earlier this year transferring its metal, mining and coke assets to a separate entity Metinvest Holding and discontinuing a number of tolling relationships. AVDK may also have to sell its stakes in machine building companies and probably spin off some of its coal subsidiaries such as Komsomolets Donbasa and Pavlohrad Coal who mine primarily steam coal.

Chart 22. Behind Reported Financials : BKOK and YASK

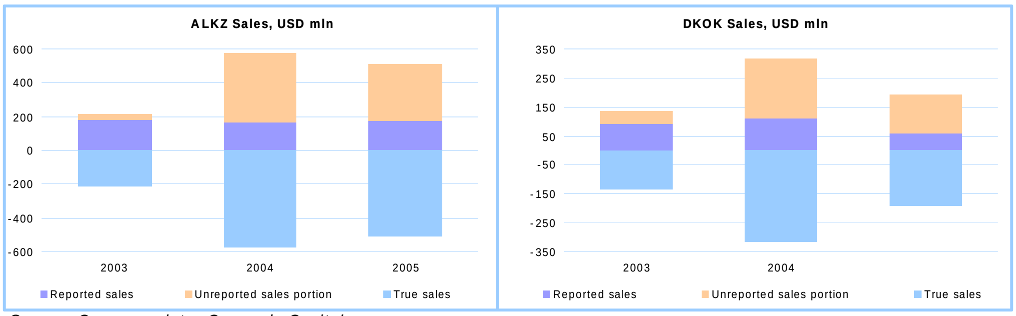


Source: Company data; Concorde Capital

Our findings show that BKOK significantly reduced transfer pricing last year which we attribute to the intent of its controlling shareholder, Privat, to sell the company to a strategic investor, as announced by Privat's representatives. However, BKOK's margins remain among the lowest in the industry (see Chart 20). We believe that further improvement of financial reporting and corporate governance at BKOK will be triggered when the company is actually sold.

As far as YASK is concerned, despite apparent progress in reporting transparency last year, there are concerns that the company's assets may be stripped, which will adversely affect its reported sales and earnings. Starting from early 2006 YASK has been leasing two of its coke batteries that produced three fourths of its output last year to Mariupol Illicha steel mill. Uncertainty remains over how it will affect YASK's financials.

Chart 23. Behind Reported Financials: BKOK and YASK



Source: Company data; Concorde Capital

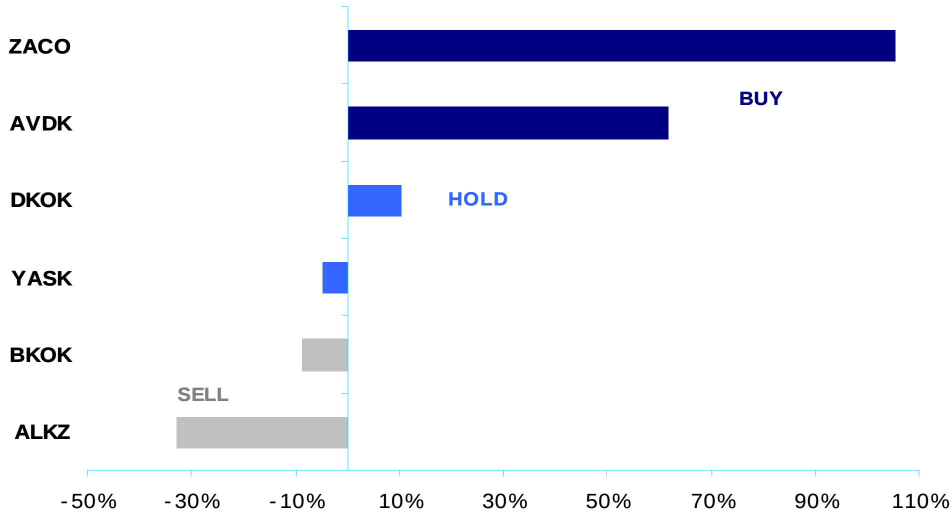
Neither ALKZ nor DKOK phased out related party schemes in 2005, according to our calculations. ALKZ supplies most of its coke to Alchevsk Iron & Steel (**ALMK: HOLD**), as both companies are controlled by IUD. Given that IUD's strategy is to milk its assets and consolidate earnings within the holding group, we do not think that ALKZ will start reporting true financials in the near future. Rather, it is likely to be merged with ALMK in the midterm.

The case of DKOK is complicated by the fact that at least three powerful shareholder groups own the company. These are SCM, Mariupol Illicha and ARS (an entity close to SCM but not fully controlled by SCM). In addition, if considered within SCM's production chain, DKOK's capacities appear to be redundant. Under the conditions of encumbered exports and given a loss of a major domestic consumer (Mariupol Illicha steel mill who now switched to YASK) the company may stop being a going concern. We do not see incentives for DKOK's shareholders to clean up its financials under these circumstances.

Valuation

We conducted both a DCF and a peer comparison analysis to value Ukrainian coke makers. In all cases, the valuation range implied by peer comparison was wide enough to include a DCF-based value. Our target prices are based primarily on DCF with the exception of ALKZ for which peer group comparison is used. For AVDK, the worth of financial investments was a key component of equity value.

Upsides And Recommendations



Comparison Valuation

Ukraine

Company	Current Price, USD	MCap, USD mln	EV/S 2005	EV/S 2006E	EV/EBITDA 2005	EV/EBITDA 2006E	P/E 2005	P/E 2006E
AVDK	2.96	573.1	0.7	1.6	4.4	13.1	7.8	39.3
ALKZ	0.07	223.7	1.5	1.4	12.1	11.5	29.7	20.8
ZACO	1.20	143.5	0.4	0.5	5.2	6.1	7.8	8.5
YASK	0.32	86.3	0.4	0.6	5.2	6.4	10.6	11.5
DKOK	0.17	42.9	0.8	1.0	3.9	31.8	9.1	neg
BKOK	0.13	89.2	0.6	0.9	11.2	12.2	23.7	19.9
Average			**0.7**	**1.0**	**7.0**	**13.5**	**14.8**	**22.9**
Median			**0.7**	**0.9**	**5.2**	**11.8**	**9.8**	**19.9**

International Peers

Company	MCap, USD mln	EV/S 2005	EV/S 2006E	EV/EBITDA 2005	EV/EBITDA 2006E	P/E 2005	P/E 2006E
Taiyuan Coal Gasification Co	243.3	0.8	0.6	3.9	2.7	10.7	7.3
Gujarat NRE Coke Limited	142.0	1.3	0.9	2.8	2.9	4.4	4.1
Taiyuan Chemical Inds Co Ltd	209.7	1.0	0.6	10.2	6.5	22.8	14.7
Shanxi Coking Co Ltd	285.0	1.4	1.4	7.2	7.2	22.5	22.3
Shanxi Antai Co Ltd	248.5	1.6	1.3	8.4	7.0	14.0	19.1
Heilongjiang Heihua Co	274.1	1.8	1.1	12.9	8.3	54.5	35.2
Excel Coal Ltd	1,316.0	5.8	4.5	21.7	11.8	18.4	19.1
Average		**1.9**	**1.5**	**9.6**	**6.6**	**21.0**	**17.4**
Median		**1.4**	**1.1**	**8.4**	**7.0**	**18.4**	**19.1**

		EV/S 2005	EV/S 2006E	EV/EBITDA 2005	EV/EBITDA 2006E	P/E 2005	P/E 2006E
AVDK	Premium/ (Discount) by Average	-62%	10%	-59%	98%	-63%	125%
	Premium/ (Discount) by Median	-47%	43%	-53%	88%	-58%	106%
	Implied Price by Average, USD	**10.01**	**2.59**	**9.18**	**0.86**	**8.00**	**1.31**
	Implied Price by Median, USD	**6.78**	**1.68**	**7.78**	**0.98**	**7.00**	**1.44**
	Upside (Downside) by Average	238%	-13%	210%	-71%	170%	-56%
	Upside (Downside) by Median	129%	-43%	163%	-67%	136%	-51%
ALKZ	Premium/ (Discount) by Average	-24%	-8%	13%	74%	41%	19%
	Premium/ (Discount) by Median	6%	20%	30%	65%	61%	9%
	Implied Price by Average, USD	**0.10**	**0.08**	**0.06**	**0.03**	**0.05**	**0.06**
	Implied Price by Median, USD	**0.07**	**0.06**	**0.06**	**0.03**	**0.05**	**0.07**
	Upside (Downside) by Average	36%	12%	-13%	-60%	-29%	-16%
	Upside (Downside) by Median	-6%	-24%	-26%	-56%	-38%	-8%
ZACO	Premium/ (Discount) by Average	-78%	-68%	-52%	-9%	-63%	-51%
	Premium/ (Discount) by Median	-70%	-58%	-44%	-13%	-58%	-56%
	Implied Price by Average, USD	**5.49**	**4.00**	**2.49**	**1.33**	**3.24**	**2.47**
	Implied Price by Median, USD	**3.93**	**3.03**	**2.16**	**1.41**	**2.84**	**2.71**
	Upside (Downside) by Average	356%	232%	107%	10%	170%	105%
	Upside (Downside) by Median	227%	152%	80%	17%	136%	125%
YASK	Premium/ (Discount) by Average	-79%	-62%	-52%	-3%	-50%	-34%
	Premium/ (Discount) by Median	-71%	-50%	-44%	-8%	-43%	-40%
	Implied Price by Average, USD	**1.52**	**0.89**	**0.65**	**0.33**	**0.63**	**0.48**
	Implied Price by Median, USD	**1.09**	**0.67**	**0.56**	**0.35**	**0.55**	**0.52**
	Upside (Downside) by Average	383%	183%	106%	4%	99%	52%
	Upside (Downside) by Median	246%	113%	79%	10%	74%	66%
DKOK	Premium/ (Discount) by Average	-61%	-36%	-64%	380%	-57%	n/m
	Premium/ (Discount) by Median	-46%	-17%	-59%	355%	-50%	n/m
	Implied Price by Average, USD	**0.44**	**0.27**	**0.48**	**0.03**	**0.40**	**n/a**
	Implied Price by Median, USD	**0.32**	**0.21**	**0.41**	**0.04**	**0.35**	**n/a**
	Upside (Downside) by Average	157%	58%	178%	-80%	131%	n/m
	Upside (Downside) by Median	84%	20%	141%	-79%	102%	n/m
BKOK	Premium/ (Discount) by Average	-67%	-38%	4%	84%	13%	14%
	Premium/ (Discount) by Median	-51%	-18%	-44%	70%	-47%	4%
	Implied Price by Average, USD	**0.40**	**0.21**	**0.12**	**0.07**	**0.12**	**0.11**
	Implied Price by Median, USD	**0.28**	**0.16**	**0.11**	**0.07**	**0.10**	**0.12**
	Upside (Downside) by Average	206%	65%	-4%	-48%	-11%	-12%
	Upside (Downside) by Median	119%	25%	-17%	-45%	-22%	-4%

Discounted Cash Flows Valuation

AVDK Discounted Cash Flow Valuation

Valuation date **Aug 22 2006**

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

	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
EBITDA	**315**	**355**	**369**	**395**	**407**	**415**	**415**	**415**	**415**
EBIT	233	275	291	318	332	342	344	347	349
Tax Rate	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*
Taxed EBIT	175	206	218	239	249	256	258	260	262
Plus D&A	82	80	79	77	75	73	71	68	65
Less CapEx	(104)	(117)	(111)	(103)	(102)	(91)	(79)	(71)	(66)
Less change in OWC	66	40	(1)	(2)	0	0	-	-	-
FCFF	**219**	**209**	**184**	**211**	**222**	**238**	**250**	**258**	**261**
WACC	13.9%	12.9%	12.3%	11.7%	11.4%	11.0%	10.7%	10.6%	10.7%

WACC to Perpetuity	11%	Disc. Terminal Value	1,182
Firm Value	2,446	Portion due to TV	48.3%
Less Net Debt	(1,327)	Perpetuity Growth Rate	2.0%
Plus Non-Operating Assets	3,318	Implied Exit EBITDA Multiple	7.1x
Equity Value	4,437		
Fair Value per Share	USD 4.54	**12-mo Fair Value per Share**	**USD 4.79**

AVDK Sensitivity Analysis: Implied 12-Month Share Price, USD

10-Year Discount Rates	Perpetuity Growth Rate				
	0.0%	***1.0%***	***2.0%***	***3.0%***	***4.0%***
WACC – 3.0%	4.90	5.05	5.23	5.46	5.75
WACC – 2.0%	4.76	4.90	5.07	5.29	5.56
WACC – 1.0%	4.64	4.77	4.93	5.13	5.38
WACC + 0.0%	4.52	4.64	**4.79**	4.98	5.22
WACC + 1.0%	4.41	4.53	4.67	4.84	5.06
WACC +2.0%	4.31	4.42	4.55	4.71	4.92
WACC + 3.0%	4.21	4.31	4.44	4.59	4.79

Our valuation of AVDK assumes that the company will fully open up in 2006 by improving corporate governance and transparency, as its holding corporation Metinvest is expected to finish restructuring by that time in an attempt to become a full-fledged western-style metal & mining company. Starting from 2006, we project AVDK's cash flows as if it were a pure coke making business, and AVDK's investments in coal mines and machine-building plants are conservatively valued at their current book value on AVDK's balance sheet. According to our estimates, AVDK's financial investments in coal and machine building companies referred to in the DCF analysis as non-operating assets account for 75% of the company's equity value. Our 12-month target price is USD 4.79 warranting a 62% upside. We rate the stock as a **BUY**.

ALKZ Discounted Cash Flow Valuation Scenario 1

Valuation date **Aug 22 2006**

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

	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
EBITDA	**139**	**146**	**142**	**152**	**158**	**163**	**165**	**165**	**165**
EBIT	99	97	89	95	98	99	98	96	93
Tax Rate	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*
Taxed EBIT	74	72	67	71	73	75	74	72	70
Plus D&A	40	49	53	57	60	64	66	69	71
Less CapEx	(902)	(437)	(47)	(52)	(59)	(65)	(66)	(69)	(72)
Less change in OWC	(6)	25	28	21	(15)	(31)	(0)	-	-
FCFF	**(794)**	**(290)**	**101**	**97**	**60**	**42**	**74**	**72**	**69**
WACC	13.6%	11.7%	11.4%	11.1%	10.8%	10.5%	10.3%	10.2%	10.3%

WACC to Perpetuity	11%	Disc. Terminal Value	326
Firm Value	N/M	Portion due to TV	N/M
Less Net Debt	(419)	Perpetuity Growth Rate	2.0%
Equity Value	N/M	Implied Exit EBITDA Multiple	4.7x
Fair Value per Share	N/M	**12-mo Fair Value per Share**	**N/M**

ALKZ Discounted Cash Flow Valuation Scenario 2

Valuation date **Aug 22 2006**

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

	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
EBITDA	**313**	**342**	**366**	**378**	**393**	**390**	**394**	**394**	**394**
EBIT	273	294	313	321	333	327	328	325	322
Tax Rate	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*
Taxed EBIT	205	220	235	241	250	245	246	244	242
Plus D&A	40	49	53	57	60	64	66	69	71
Less CapEx	(902)	(437)	(47)	(52)	(59)	(65)	(66)	(69)	(72)
Less change in OWC	(35)	(30)	(40)	(86)	(39)	(42)	(29)	-	-
FCFF	**(692)**	**(197)**	**202**	**160**	**212**	**201**	**218**	**244**	**241**
WACC	14.3%	12.8%	12.6%	12.3%	12.1%	11.7%	11.3%	11.4%	11.5%

WACC to Perpetuity	11%	Disc. Terminal Value	1,046
Firm Value	1,013	Portion due to TV	103.2%
Less Net Debt	(333)	Perpetuity Growth Rate	2.0%
Equity Value	681	Implied Exit EBITDA Multiple	6.9x
Fair Value per Share	USD 0.04	**12-mo Fair Value per Share**	**USD 0.10**

ALKZ Scenario 2 Sensitivity Analysis: Implied 12-Month Share Price, USD

10-Year Discount Rates	Perpetuity Growth Rate				
	0.0%	***1.0%***	***2.0%***	***3.0%***	***4.0%***
WACC – 3.0%	0.10	0.11	0.12	0.13	0.15
WACC – 2.0%	0.09	0.10	0.11	0.12	0.14
WACC – 1.0%	0.09	0.10	0.10	0.12	0.13
WACC + 0.0%	0.08	0.09	**0.10**	0.11	0.12
WACC + 1.0%	0.08	0.08	0.09	0.10	0.11
WACC +2.0%	0.07	0.08	0.08	0.09	0.10
WACC + 3.0%	0.06	0.07	0.08	0.09	0.10

Our DCF analysis of ALKZ considers two scenarios. Scenario 1 foresees ALKZ remaining among the least transparent coke producers, with sales and earnings severely underreported as it continues to be a de-facto captive coke maker for Alchevsk Iron & Steel. Scenario 2 envisions ALKZ opening up in the medium term and its business is valued based on real rather than reported cash flows. In both cases the DCF value is negatively affected by the company's huge CapEx program in 2006 and 2007 resulting from the construction of a new coke battery. The CapEx is justified from the perspective of IUD, ALKZ's owner, who is increasing its steel capacity and will need a greater and uninterrupted coke supply in the near future, but we doubt that the CapEx is value adding for ALKZ on a stand-alone basis. All in all, we believe that Scenario 1 is most likely, yet a respective DCF valuation is not meaningful. We base our target for ALKZ on an average of forward-looking EV/EBITDA and P/E multiples and set it at USD 0.05 per share, a downside of 33%. **SELL**.

ZACO Discounted Cash Flow Valuation

Valuation date **Aug 22 2006**

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

	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
EBITDA	**133**	**146**	**180**	**215**	**241**	**243**	**243**	**243**	**243**
EBIT	116	130	163	198	224	227	227	227	227
Tax Rate	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*
Taxed EBIT	87	97	123	149	168	170	170	170	170
Plus D&A	17	17	17	17	17	17	16	16	16
Less CapEx	(27)	(26)	(31)	(32)	(34)	(24)	(19)	(16)	(16)
Less change in OWC	2	(22)	7	7	18	(2)	-	-	-
FCFF	**80**	**66**	**116**	**140**	**170**	**160**	**167**	**170**	**170**
WACC	14.8%	13.7%	13.1%	12.5%	12.2%	11.7%	11.3%	11.3%	11.3%

WACC to Perpetuity	11%	Disc. Terminal Value	728
Firm Value	1,429	Portion due to TV	50.9%
Less Net Debt	(124)	Perpetuity Growth Rate	2.0%
Plus Non-Operating Assets	8	Implied Exit EBITDA Multiple	7.9x
Equity Value	1,313		
Fair Value per Share	USD 2.18	**12-mo Fair Value per Share**	**USD 2.47**

ZACO Sensitivity Analysis: Implied 12-Month Share Price, USD

10-Year Discount Rates	Perpetuity Growth Rate				
	0.0%	***1.0%***	***2.0%***	***3.0%***	***4.0%***
WACC – 3.0%	2.57	2.72	2.91	3.14	3.43
WACC – 2.0%	2.44	2.58	2.75	2.96	3.24
WACC – 1.0%	2.31	2.44	2.60	2.80	3.06
WACC + 0.0%	2.19	2.32	**2.47**	2.65	2.89
WACC + 1.0%	2.08	2.20	2.34	2.51	2.74
WACC +2.0%	1.98	2.09	2.22	2.38	2.59
WACC + 3.0%	1.88	1.98	2.11	2.26	2.46

We expect ZACO's reported sales to be reflective of market prices for the company's products starting from 2006, as in 2005 the ZACO practiced virtually no transfer pricing, by our estimates. We also think that the company will begin to report its true margins in 2007 onward. These assumptions underpin our DCF for the stock. The 12-month target price is USD 2.47 per share implying and upside of 105%. **BUY.**

YASK Discounted Cash Flow Valuation

Valuation date **Aug 22 2006**

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

	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
EBITDA	**77**	**123**	**149**	**152**	**153**	**155**	**155**	**155**	**155**
EBIT	55	100	125	128	130	131	131	131	131
Tax Rate	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*
Taxed EBIT	41	75	94	96	97	98	98	98	98
Plus D&A	23	23	23	24	24	24	24	24	24
Less CapEx	(54)	(62)	(45)	(38)	(35)	(31)	(26)	(24)	(24)
Less change in OWC	(70)	(16)	(14)	(1)	(0)	(0)	-	-	-
FCFF	**(60)**	**21**	**58**	**81**	**85**	**91**	**96**	**98**	**98**
WACC	15.1%	13.7%	12.9%	12.2%	11.7%	11.3%	10.9%	10.8%	10.9%

WACC to Perpetuity	11%	Disc. Terminal Value	429
Firm Value	709	Portion due to TV	60.5%
Less Net Debt	(34)	Perpetuity Growth Rate	2.0%
Plus Non-Operating Assets	15	Implied Exit EBITDA Multiple	7.2x
Equity Value	691		
Fair Value per Share	USD 0.50	**12-mo Fair Value per Share**	**USD 0.60**

YASK Sensitivity Analysis: Implied 12-Month Share Price, USD

10-Year Discount Rates	Perpetuity Growth Rate				
	0.0%	***1.0%***	***2.0%***	***3.0%***	***4.0%***
WACC – 3.0%	0.63	0.66	0.71	0.77	0.85
WACC – 2.0%	0.59	0.63	0.67	0.73	0.80
WACC – 1.0%	0.56	0.59	0.63	0.69	0.75
WACC + 0.0%	0.53	0.56	**0.60**	0.65	0.71
WACC + 1.0%	0.50	0.53	0.57	0.61	0.67
WACC +2.0%	0.47	0.50	0.54	0.58	0.63
WACC + 3.0%	0.45	0.48	0.51	0.55	0.60

We did not find significant distortions in YASK's reported financials in 2005. Our cash flow projections used in YASK's DCF valuation assume that in 2007 onward the company will report true sales and margins. The DCF-based price is USD 0.60 per share 12 months from now. However, there is a risk that the leasing of the company's capacities to MMKI which started in 2006 may result in a cash drain from YASK or even in asset stripping. This would cause a significant worsening of the company's financials and potentially make YASK a special purpose vehicle with no real value. Since the company's management did not disclose any specifics of the lease agreement, we take a conservative stance on this stock. Our probability-weighted target price for YASK is USD 0.30 per share, which suggests a downside of 5%. **HOLD**.

DKOK Discounted Cash Flow Valuation

Valuation date **Aug 22 2006**

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

	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
EBITDA	**7**	**32**	**36**	**84**	**86**	**87**	**89**	**90**	**90**
EBIT	(3)	22	26	74	76	77	79	80	80
Tax Rate	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*
Taxed EBIT	(2)	17	20	56	57	58	59	60	60
Plus D&A	10	10	10	10	10	10	10	10	10
Less CapEx	(10)	(11)	(13)	(17)	(17)	(13)	(12)	(10)	(10)
Less change in OWC	(1)	(1)	(8)	(7)	(0)	(4)	(4)	(2)	-
FCFF	**(3)**	**15**	**9**	**42**	**49**	**51**	**54**	**58**	**60**
WACC	15.8%	14.5%	13.5%	12.6%	12.1%	11.6%	11.1%	11.0%	11.1%

WACC to Perpetuity	11%	Disc. Terminal Value	204
Firm Value	372	Portion due to TV	54.7%
Less Net Debt	(1)	Perpetuity Growth Rate	0.0%
Plus Non-Operating Assets	47	Implied Exit EBITDA Multiple	6.0x
Equity Value	419		
Fair Value per Share	USD 0.33	**12-mo Fair Value per Share**	**USD 0.38**

DKOK Sensitivity Analysis: Implied 12-Month Share Price, USD

10-Year Discount Rates	Perpetuity Growth Rate				
	-2.0%	***-1.0%***	***0.0%***	***1.0%***	***2.0%***
WACC – 3.0%	0.40	0.42	0.44	0.47	0.50
WACC – 2.0%	0.39	0.40	0.42	0.45	0.47
WACC – 1.0%	0.37	0.38	0.40	0.42	0.45
WACC + 0.0%	0.35	0.36	**0.38**	0.40	0.43
WACC + 1.0%	0.33	0.35	0.36	0.38	0.41
WACC +2.0%	0.32	0.33	0.35	0.37	0.39
WACC + 3.0%	0.31	0.32	0.33	0.35	0.37

Two main problems plague DKOK's cash flows: non-market transactions and shrinkage of major markets. We do not expect a scaling back in the scope of related-party transactions by DKOK sooner than 2009. Under this assumption, DCF yields DKOK's value per share of USD 0.38 in 12 months. However, due to the risk of losing customers there is a possibility of the company having to idle its capacities. Accounting for this scenario, our probability weighted target price for DKOK is USD 0.19 per share. Given the low current market price of the stock, our target implies an upside of 10%. This makes us recommend a HOLD for DKOK despite the serious problems the company is facing.

BKOK Discounted Cash Flow Valuation

Valuation date **Aug 22 2006**

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

	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
EBITDA	**39**	**52**	**66**	**80**	**88**	**89**	**90**	**90**	**90**
EBIT	31	44	58	71	80	80	81	81	81
Tax Rate	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*
Taxed EBIT	24	33	43	54	60	60	61	61	61
Plus D&A	8	8	8	8	8	8	8	8	8
Less CapEx	(18)	(27)	(26)	(20)	(11)	(10)	(9)	(9)	(9)
Less change in OWC	(143)	20	(13)	(17)	(19)	(9)	(2)	-	-
FCFF	**(130)**	**34**	**12**	**25**	**37**	**50**	**59**	**61**	**61**
WACC	15.4%	14.4%	13.3%	12.5%	11.9%	11.5%	11.2%	11.3%	11.4%

WACC to Perpetuity	11%	Disc. Terminal Value	207
Firm Value	261	Portion due to TV	79.4%
Less Net Debt	(20)	Perpetuity Growth Rate	0.0%
Equity Value	241	Implied Exit EBITDA Multiple	6.2x
Fair Value per Share	USD 0.07	**12-mo Fair Value per Share**	**USD 0.12**

BKOK Sensitivity Analysis: Implied 12-Month Share Price, USD

10-Year Discount Rates	Perpetuity Growth Rate				
	-2.0%	***-1.0%***	***0.0%***	***1.0%***	***2.0%***
WACC – 3.0%	0.13	0.14	0.14	0.15	0.17
WACC – 2.0%	0.12	0.13	0.14	0.15	0.16
WACC – 1.0%	0.12	0.12	0.13	0.14	0.15
WACC + 0.0%	0.11	0.12	**0.12**	0.13	0.14
WACC + 1.0%	0.10	0.11	0.12	0.12	0.13
WACC +2.0%	0.10	0.10	0.11	0.12	0.12
WACC + 3.0%	0.09	0.10	0.10	0.11	0.12

Given that in 2005 BKOK drastically improved the transparency of its financials by cracking down on tolling schemes, we expect the company to raise its corporate governance standards enough by 2008 for its reported financials to be reliable. On the other hand, the company's business has been hurt recently by a closure of export markets. We anticipate a slow recovery of BKOK's sales in the midterm. These assumptions underlie the DCF valuation above, which suggests a 12-month target value for BKOK of USD 0.12 per share and a downside of 9%. **SELL**.

Financial Models (in UAH mln)

Core assumptions

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
GDP growth	9.3%	12.0%	2.6%	4.5%	5.0%	4.5%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Industrial production growth	15.8%	12.5%	3.1%	5.0%	5.5%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Coke price, USD/mt	85.0	210.0	180.0	145.0	160.0	160.0	160.0	160.0	160.0	160.0	160.0	160.0

Avdiyivka Coke

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Gross coke output, ths mt	4,627.1	4,710.1	3,624.0	3,007.9	3,158.3	3,284.6	3,383.2	3,484.7	3,554.4	3,554.4	3,554.4	3,554.4
True sales	2,244.2	5,629.6	3,577.0	2,519.3	2,730.6	2,839.8	2,925.0	3,012.7	3,073.0	3,073.0	3,073.0	3,073.0
Reported sales,	2,007.7	7,455.7	5,782.3	2,519.3	2,730.6	2,839.8	2,925.0	3,012.7	3,073.0	3,073.0	3,073.0	3,073.0
Reported EBITDA mgn	*8.9%*	*15.0%*	*16.9%*	*12.5%*	*13.0%*	*13.0%*	*13.5%*	*13.5%*	*13.5%*	*13.5%*	*13.5%*	*13.5%*
Reported EBIT mgn	*4.3%*	*13.9%*	*15.4%*	*9.2%*	*10.1%*	*10.2%*	*10.9%*	*11.0%*	*11.1%*	*11.2%*	*11.3%*	*11.4%*
Reported net mgn	*0.3%*	*13.5%*	*6.5%*	*2.9%*	*4.7%*	*5.2%*	*5.9%*	*6.2%*	*6.4%*	*6.6%*	*6.9%*	*7.1%*

Alchevsk Coke

Scenario 1	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Gross coke output, ths mt	2,345.4	2,567.1	2,629.9	2,669.3	2,829.5	3,027.6	3,239.5	3,369.1	3,470.2	3,504.9	3,504.9	3,504.9
True sales	1,137.5	3,068.3	2,595.8	2,091.5	2,446.3	2,617.5	2,800.7	2,912.8	3,000.2	3,030.2	3,030.2	3,030.2
Reported sales	967.9	895.7	875.2	1,156.4	1,265.3	1,353.9	1,448.7	1,506.6	1,551.8	1,567.3	1,567.3	1,567.3
Reported EBITDA mgn	*3.1%*	*6.1%*	*12.2%*	*12.0%*	*11.5%*	*10.5%*	*10.5%*	*10.5%*	*10.5%*	*10.5%*	*10.5%*	*10.5%*
Reported EBIT mgn	*1.4%*	*3.9%*	*9.8%*	*8.6%*	*7.6%*	*6.6%*	*6.6%*	*6.5%*	*6.4%*	*6.3%*	*6.1%*	*5.9%*
Reported net mgn	*0.4%*	*2.1%*	*4.4%*	*4.7%*	*3.1%*	*1.9%*	*2.4%*	*2.4%*	*2.4%*	*2.4%*	*2.7%*	*2.7%*

Scenario 2	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Reported sales	967.9	895.7	875.2	2,235.7	2,446.3	2,617.5	2,800.7	2,912.8	3,000.2	3,030.2	3,030.2	3,030.2
Reported EBITDA mgn	*3.1%*	*6.1%*	*12.2%*	*14.0%*	*14.0%*	*14.0%*	*13.5%*	*13.5%*	*13.0%*	*13.0%*	*13.0%*	*13.0%*
Reported EBIT mgn	*1.4%*	*3.9%*	*9.8%*	*12.2%*	*12.0%*	*12.0%*	*11.5%*	*11.4%*	*10.9%*	*10.8%*	*10.7%*	*10.6%*
Reported net mgn	*0.4%*	*2.1%*	*4.4%*	*8.5%*	*8.1%*	*8.1%*	*8.1%*	*8.1%*	*7.8%*	*7.8%*	*7.9%*	*7.9%*

Zaporizh Coke

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Gross coke output, ths mt	1,677.6	1,949.3	1,885.8	1,980.1	2,039.5	2,080.3	2,121.9	2,143.1	2,164.5	2,164.5	2,164.5	2,164.5
True sales	827.4	2,329.9	1,861.3	1,658.4	1,763.3	1,798.5	1,834.5	1,852.8	1,871.4	1,871.4	1,871.4	1,871.4
Reported sales	827.4	1,833.6	1,719.8	1,658.4	1,763.3	1,798.5	1,834.5	1,852.8	1,871.4	1,871.4	1,871.4	1,871.4
Reported EBITDA mgn	*-1.2%*	*6.9%*	*5.7%*	*7.6%*	*8.5%*	*10.5%*	*12.5%*	*13.5%*	*13.5%*	*13.5%*	*13.5%*	*13.5%*
Reported EBIT mgn	*-5.4%*	*2.5%*	*4.8%*	*6.1%*	*7.2%*	*9.2%*	*11.2%*	*12.2%*	*12.2%*	*12.2%*	*12.2%*	*12.2%*
Reported net mgn	*-6.0%*	*1.7%*	*2.7%*	*4.4%*	*5.2%*	*6.7%*	*8.1%*	*8.8%*	*8.7%*	*8.8%*	*8.9%*	*9.1%*

Yasynivsky Coke

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Gross coke output, ths mt	1,630.1	1,633.6	1,273.4	1,260.7	1,298.5	1,324.5	1,350.9	1,364.5	1,378.1	1,378.1	1,378.1	1,378.1
True sales	790.6	1,952.5	1,256.9	987.7	1,122.6	1,145.1	1,168.0	1,179.7	1,191.4	1,191.4	1,191.4	1,191.4
Reported sales	237.4	1,021.8	1,094.0	861.1	1,122.6	1,145.1	1,168.0	1,179.7	1,191.4	1,191.4	1,191.4	1,191.4
Reported EBITDA mgn	*8.6%*	*10.7%*	*7.8%*	*9.0%*	*11.0%*	*13.0%*	*13.0%*	*13.0%*	*13.0%*	*13.0%*	*13.0%*	*13.0%*
Reported EBIT mgn	*1.0%*	*8.9%*	*5.8%*	*6.4%*	*8.9%*	*11.0%*	*11.0%*	*11.0%*	*11.0%*	*11.0%*	*11.0%*	*11.0%*
Reported net mgn	*-3.0%*	*6.1%*	*3.8%*	*4.4%*	*6.1%*	*7.6%*	*7.7%*	*7.7%*	*7.7%*	*7.7%*	*7.8%*	*7.8%*

Donetsk Coke

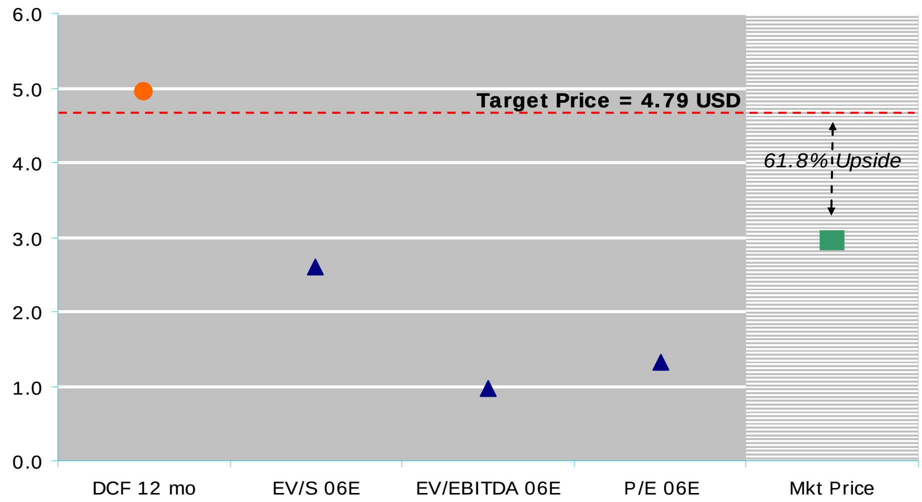
	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Gross coke output, ths mt	1,459.0	1,406.3	992.9	665.2	698.5	726.4	748.2	763.2	778.5	794.0	802.0	802.0
True sales	707.6	1,680.8	980.0	521.2	603.9	628.1	646.9	659.8	673.0	686.5	693.4	693.4
Reported sales	479.4	580.5	289.9	229.0	265.3	275.9	646.9	659.8	673.0	686.5	693.4	693.4
Reported EBITDA mgn	*14.2%*	*32.4%*	*19.6%*	*3.0%*	*12.0%*	*13.0%*	*13.0%*	*13.0%*	*13.0%*	*13.0%*	*13.0%*	*13.0%*
Reported EBIT mgn	*12.5%*	*31.2%*	*16.5%*	*-1.3%*	*8.3%*	*9.5%*	*11.5%*	*11.5%*	*11.5%*	*11.5%*	*11.5%*	*11.6%*
Reported net mgn	*8.9%*	*22.3%*	*8.3%*	*-1.6%*	*5.9%*	*6.8%*	*8.3%*	*8.2%*	*8.2%*	*8.2%*	*8.2%*	*8.2%*

Bagliy Coke

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Gross coke output, ths mt	917.6	1,052.4	831.5	681.8	702.3	723.4	737.8	752.6	760.1	767.7	767.7	767.7
True sales	445.0	1,257.9	820.7	571.1	607.2	625.4	637.9	650.6	657.2	663.7	663.7	663.7
Reported sales	135.9	153.9	717.5	514.0	607.2	625.4	637.9	650.6	657.2	663.7	663.7	663.7
Reported EBITDA mgn	*-1.2%*	*6.9%*	*5.7%*	*7.6%*	*8.5%*	*10.5%*	*12.5%*	*13.5%*	*13.5%*	*13.5%*	*13.5%*	*13.5%*
Reported EBIT mgn	*-5.4%*	*2.5%*	*4.8%*	*6.1%*	*7.2%*	*9.2%*	*11.2%*	*12.2%*	*12.2%*	*12.2%*	*12.2%*	*12.2%*
Reported net mgn	*-6.0%*	*1.7%*	*2.7%*	*4.4%*	*5.2%*	*6.7%*	*8.1%*	*8.8%*	*8.7%*	*8.8%*	*8.9%*	*9.1%*

Valuation Summary

AVDK



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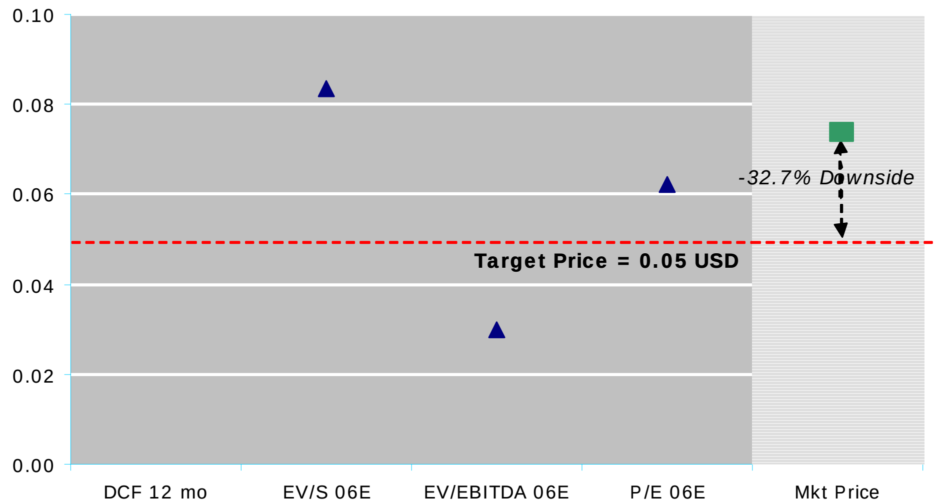

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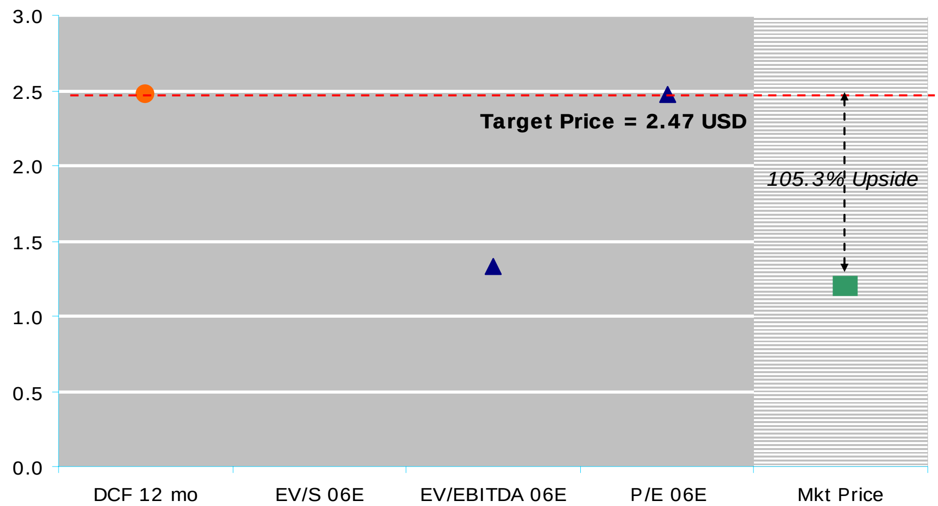

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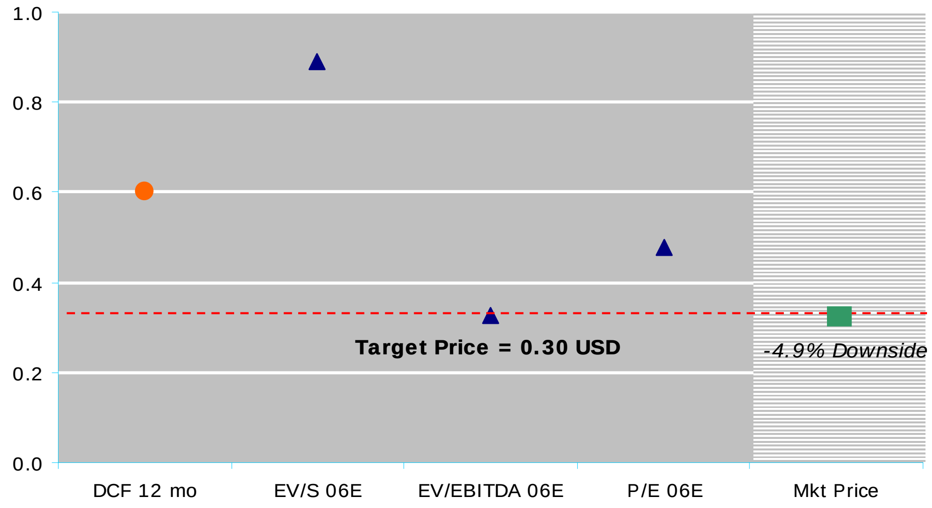

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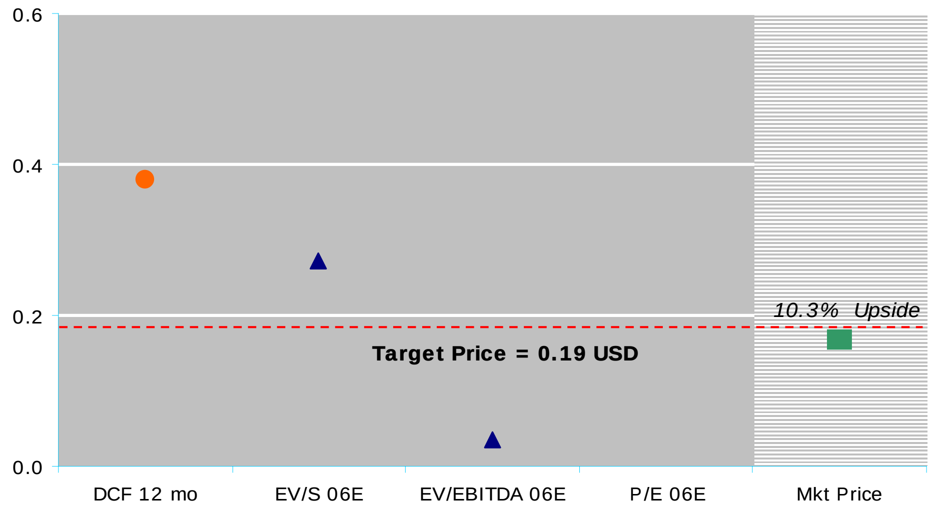

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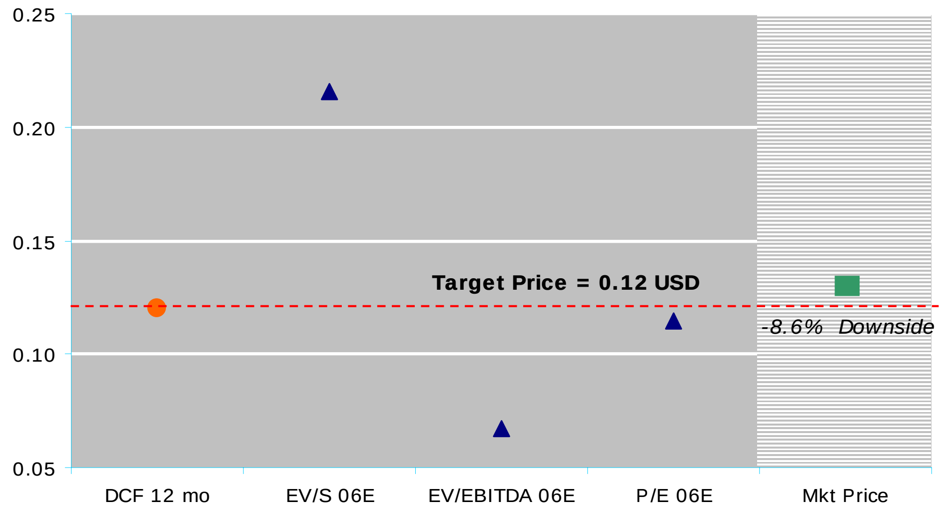
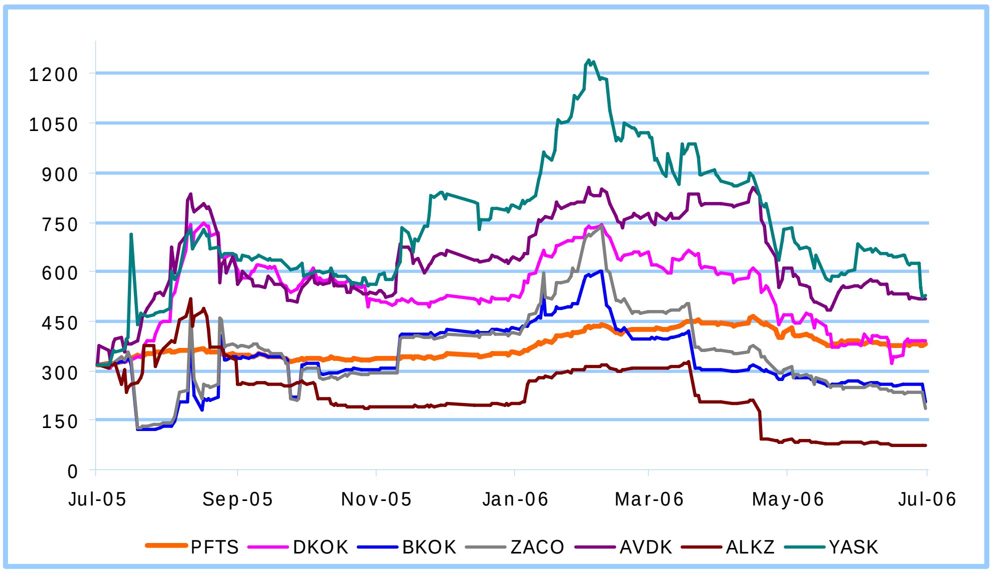


Stock Market



Company	Ticker	MCap, USD mln	FF, %	FF MC, USD mln	Spreads as of 27/07/06	Tr Vol, USD mln* 1H06	2005	1H05
Avdiyivka Coke	AVDK	573.1	3.2%	18.3	13.1%	4.08	14.67	0.13
Alchevsk Coke	ALKZ	223.7	2.0%	4.5	50.0%	0.05	0.50	0.02
Zaporizh Coke	ZACO	143.5	7.2%	10.3	23.9%	3.56	1.97	0.44
Yasynivsky Coke	YASK	86.3	9.0%	7.8	17.5%	9.04	11.17	2.49
Donetsk Coke	DKOK	42.9	7.7%	3.3	38.9%	3.01	2.49	0.26
Bagliy Coke	BKOK	89.2	6.0%	5.4	57.1%	0.04	0.18	0.00

Source: PFTS, Concorde Capital calculations

Company Profiles

**Net debt calculated in company profiles below includes 'Other LT liabilities, as we believe this item in essence corresponds to intra-group loans for most coke makers owned bylarge business groups'*

BUY

Current price	Target price
USD 2.96	USD 4.79

AVDK Mid-Market, USD

Market Information

Bloomberg Ticker	AVDK UZ
No of Shares, mln	193.6
Market price, USD	2.96
MCap, USD mln	**573**
Free float	3.2%
FF MCap, USD mln	18

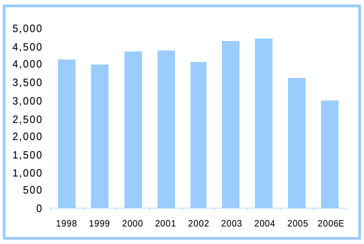
Stock Ownership

SCM	66.0%
ARS	24.9%
Mariupol Illicha	5.9%
Other	3.2%

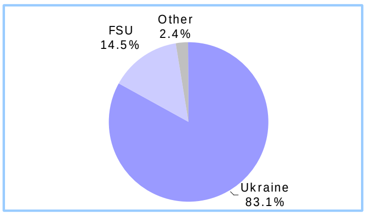
Ratios, 2005

EBITDA Margin	16.9%
Net Margin	6.5%
Net Debt/ Equity	0.49

Gross Coke Output, ths mt



Sales Breakdown In 2005



Avdiyivka Coke

The Largest In Europe; The Newest in Ukraine. AVDK is Europe's largest coke maker operating nine coke batteries with a total capacity of 6.87 mln mt annually. In 2005, it accounted for 19% of Ukraine's total coke output. Most of the company's equipment was put in operation in the early 60ies - the late 70ies (average age over 30 years) and requires modernization (normally, design life of coke battery is up to 30 years) yet it is among the newest in Ukrainian coke industry. In an effort to upgrade the plant, in 2004 AVDK installed a new battery in place of the old one.

IPO To Boost Transparency. SCM, Ukraine's largest private company, effectively controls a 91% stake in AVDK through direct ownership of a 66% stake and through its satellite business group ARS who has almost 25% in AVDK. Being part of Metinvest Holding, SCM's newly created metal & mining arm, AVDK is poised to enjoy benefits stemming from its holding company going public, which we project to happen in the next two or three years. A vehicle for SCM's privatization deals in the past, AVDK will likely undergo a major restructuring in the near future which would cut down related party transactions and enable market pricing of its products.

Diversified Order Book, But Competition Getting Tougher. AVDK caters met coke and coke breeze primarily to Mariupol Illicha steel mill, Azovstal and Enakievo Iron & Steel (both controlled by SCM), and DMK Dzerzhynskogo steel mill (controlled by IUD). Nikopol Ferroalloy is a major consumer of AVDK's coke nut. We expect shipments to Mariupol Illicha (~35% share in met coke sales in past years) to decrease in 2006, as the latter switched to Yasynivsky coke in 2006. In addition, prohibitive railway tariffs will complicate exports in the near term. We also believe that this year AVDK will face stronger competition from steel mills who have captive coke producers and from non-captive coke makers adjacent to steel mills. Despite an expected 17% reduction in coke output this year (to 3.0 mln mt), we think the company will be recovering production in the following years to reach by 2015 the level of 2005 at ~3.6 mln p.a. on the back of a stronger demand from steel makers other than MMKI.

Stable Feedstock Supply Warranted. AVDK processes both domestically mined coal (-80%) and high quality coal imported from Russia (~20%). In Ukraine, its key coking coal suppliers are SCM-related mines and Donestal group who operates Krasnoarmiyska-Zakhidna mine and has excess coal. We think that AVDK, being one of the SCM's best coking assets, will have a priority over other SCM's coke plants in case of a coal shortage in the market and will continue to see its coal supply uninterrupted.

Reported 1H06 Sales Decline Misleading. AVDK reported USD 232.9 mln in revenues for 1H06, down 69% yoy. However, for the same period, AVDK's gross coke output fell 21% yoy, and we estimate that the average coke price dropped ~30%, which implies a reduction of sales by only 45% rather than a 69% decline. We think that such a drastic plunge in reported revenue is misleading and must have resulted from AVDK cutting down non-coke sales due to the restructuring of the entire SCM's business. Our financial projections assume sales and earnings from coke business only and our valuation is based on true cash flows.

KEY FINACIAL DATA, USD mln

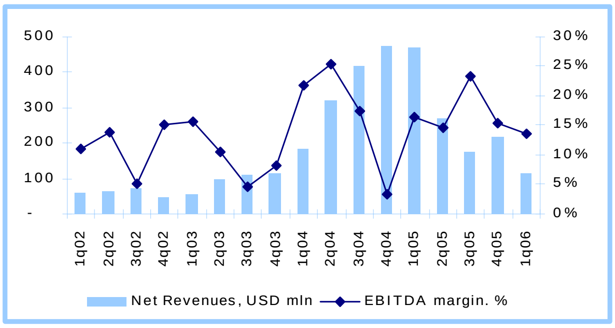
	Net Revenue	EBITDA	Net Income
2005	1,128.3	190.3	73.9
2006E	498.9	62.4	14.6
2007E	540.7	70.3	25.6

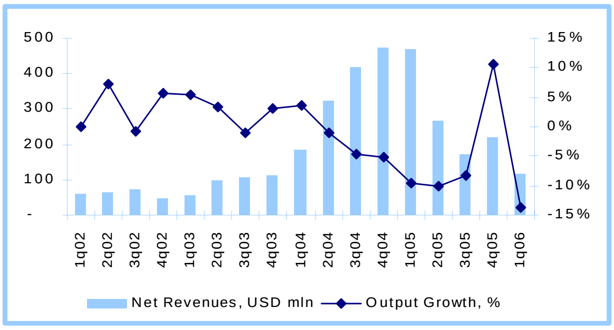
Spot Exch. Rate	5.05

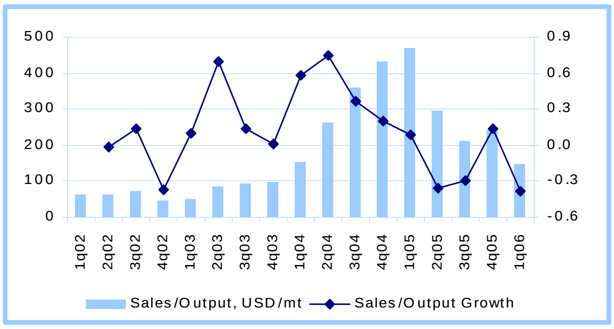
KEY RATIOS

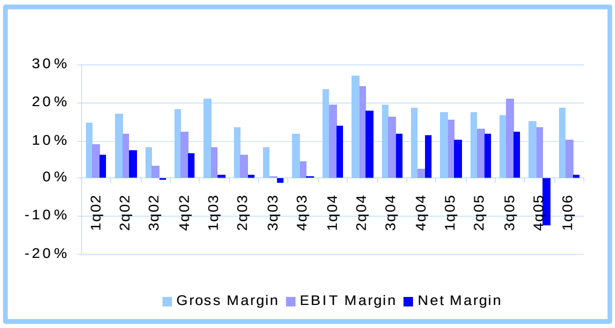
	EV/S	EV/EBITDA	P/E
2005	0.76	4.51	7.76
2006E	1.64	13.15	39.26
2007E	1.47	11.29	22.36

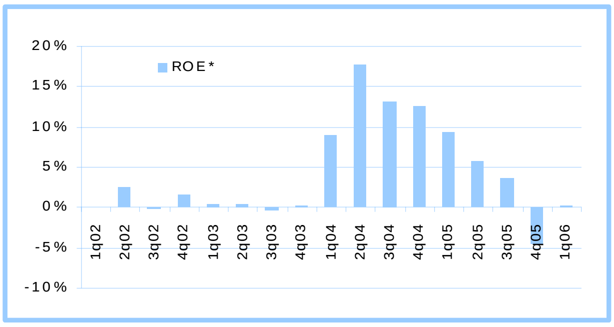
AVDK's Quarterly Analysis

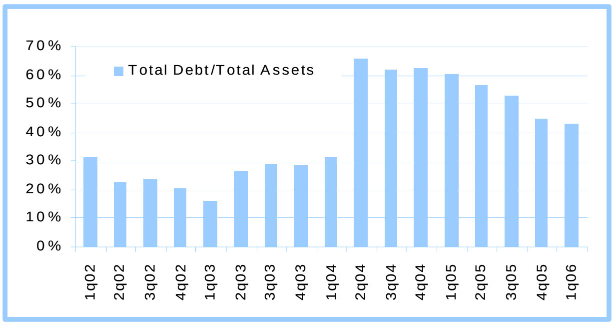












**Quarterly ROE is not annualized*

Financial Statements

All financial statements according to Ukrainian Accounting Standards

Income Statement Summary, USD mln

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Net Revenues	**376**	**1,402**	**1,128**	**499**	**541**	**562**	**579**	**597**	**609**	**609**	**609**	**609**
Change y-o-y	*167%*	*272%*	*-20%*	*-56%*	*8%*	*4%*	*3%*	*3%*	*2%*	*0%*	*0%*	*0%*
Cost Of Sales	(329)	(1,100)	(938)	(424)	(454)	(470)	(481)	(495)	(505)	(505)	(505)	(505)
Gross Profit	47	301	191	75	87	93	98	101	103	103	103	103
Other Operating Income/Costs, net	(1)	(70)	23	-	-	-	-	-	-	-	-	-
SG&A	(12)	(20)	(23)	(12)	(16)	(20)	(20)	(21)	(21)	(21)	(21)	(21)
EBITDA	**33**	**211**	**190**	**62**	**70**	**73**	**78**	**81**	**82**	**82**	**82**	**82**
EBITDA margin, %	8.9%	15.0%	16.9%	12.5%	13.0%	13.0%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%
Depreciation	(17)	(16)	(17)	(16)	(16)	(16)	(15)	(15)	(14)	(14)	(13)	(13)
EBIT	**16**	**195**	**173**	**46**	**54**	**58**	**63**	**66**	**68**	**68**	**69**	**69**
EBIT margin, %	4.3%	13.9%	15.4%	9.2%	10.1%	10.2%	10.9%	11.0%	11.1%	11.2%	11.3%	11.4%
Interest Expense	(0)	(15.5)	(49)	(27)	(20)	(19)	(17)	(16)	(16)	(15)	(12)	(11)
Financial income/(expense)	(1)	60	(32)	-	-	-	-	-	-	-	-	-
Other income/(expense)	(4)	0	25	-	-	-	-	-	-	-	-	-
PBT	**11**	**239**	**117**	**19**	**34**	**39**	**46**	**49**	**52**	**53**	**56**	**58**
Tax	(10)	(50)	(43)	(5)	(9)	(10)	(11)	(12)	(13)	(13)	(14)	(14)
Effective tax rate	*89%*	*21%*	*37%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*
Extraordinary Income/(loss)	-	0.1	0.3	-	-	-	-	-	-	-	-	-
Net Income	**1**	**189**	**74**	**15**	**26**	**29**	**34**	**37**	**39**	**40**	**42**	**43**
Net Margin, %	*0.3%*	*13.5%*	*6.5%*	*2.9%*	*4.7%*	*5.2%*	*5.9%*	*6.2%*	*6.4%*	*6.6%*	*6.9%*	*7.1%*

Balance Sheet Summary, USD mln

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Current Assets	**211**	**303**	**200**	**99**	**107**	**112**	**115**	**118**	**121**	**121**	**121**	**121**
Cash & Equivalents	4	13	36	7	8	8	9	9	9	9	9	9
Trade Receivables	92	101	46	40	43	45	46	48	49	49	49	49
Inventories	19	33	35	17	18	19	19	20	20	20	20	20
Other current assets	96	157	83	35	38	39	41	42	43	43	43	43
Fixed Assets	**169**	**956**	**844**	**833**	**841**	**848**	**853**	**858**	**862**	**864**	**864**	**864**
PP&E, net	140	131	135	138	142	147	151	156	160	164	166	169
Other Fixed Assets	28	825	710	695	699	701	702	702	702	700	698	696
Total Assets	**380**	**1,259**	**1,044**	**933**	**948**	**959**	**968**	**977**	**983**	**984**	**985**	**985**
Shareholders' Equity	**272**	**471**	**579**	**593**	**619**	**639**	**657**	**671**	**683**	**695**	**708**	**721**
Share Capital	64	64	64	64	64	64	64	64	64	64	64	64
Reserves and Other	89	107	126	126	126	126	126	126	126	126	126	126
Retained Earnings	119	300	389	404	429	450	467	482	493	505	518	531
Current Liabilities	**97**	**282**	**144**	**140**	**166**	**174**	**175**	**178**	**180**	**178**	**176**	**174**
ST Interest Bearing Debt	-	-	-	56	66	70	69	68	68	66	64	62
Trade Payables	80	168	94	59	73	75	77	79	81	81	81	81
Accrued Wages	0	1	1	1	1	1	1	1	1	1	1	1
Accrued Taxes	2	6	0	0	0	0	0	0	0	0	0	0
Other Current Liabilities	15	107	48	25	27	28	29	30	30	30	30	30
LT Liabilities	**11**	**506**	**321**	**199**	**163**	**146**	**136**	**127**	**120**	**111**	**101**	**90**
LT Interest Bearing Debt	-	479	298	175	140	123	112	103	96	87	77	66
Other LT	11	27	24	24	24	24	24	24	24	24	24	24
Total Liabilities & Equity	**380**	**1,259**	**1,044**	**933**	**948**	**959**	**968**	**977**	**983**	**984**	**985**	**985**

Cash Flow Statement Summary, USD mln

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Net Income	1	189	74	15	26	29	34	37	39	40	42	43
Depreciation	17	16	17	16	16	16	15	15	14	14	13	13
Non-operating and non-cash items	12	(61)	9	15	(0)	(0)	(0)	(0)	(0)	(0)	0	0
Changes in working capital	(9)	(29)	(13)	13	8	(0)	(0)	0	0	-	-	-
Operating Cash Flow	22	115	86	59	49	44	49	52	53	54	56	56
Capital Expenditures, net	(4)	(15)	(17)	(21)	(23)	(22)	(20)	(20)	(18)	(16)	(14)	(13)
Other Investments, net	(4)	(555)	159	-	-	-	-	-	-	-	-	-
Investing Cash Flow	(7)	(571)	143	(21)	(23)	(22)	(20)	(20)	(18)	(16)	(14)	(13)
Net Borrowings/(repayments)	(11)	-	(207)	(67)	(25)	(13)	(11)	(9)	(8)	(10)	(12)	(13)
Dividends Paid	-	-	-	-	-	(9)	(17)	(22)	(27)	(28)	(30)	(30)
Other	-	465	-	-	-	-	-	-	-	-	-	-
Financing Cash Flow	(11)	465	(207)	(67)	(25)	(22)	(28)	(31)	(35)	(38)	(42)	(43)
Beginning Cash Balance	1	4	14	36	7	8	8	9	9	9	9	9
Ending Cash Balance	4	13	36	7	8	8	9	9	9	9	9	9
Net Cash Inflows/Outflows	3	9	22	(29)	1	0	0	0	0	-	-	-

UAH/USD Exchange Rates

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Average	5.33	5.32	5.12	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05
Year-end	5.33	5.31	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05

SELL

Current price	Target price
USD 0.07	USD 0.05

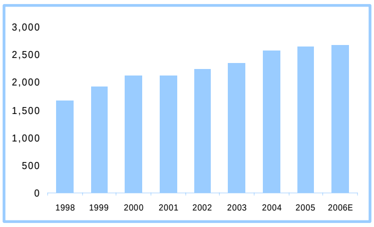
ALKZ Mid-Market, USD

Market Information	
Bloomberg Ticker	ALKZ UZ
No of Shares, mln	3,012.0
Market price, USD	0.07
MCap, USD mln	**224**
Free float	2.0%
FF MCap, USD mln	4.5

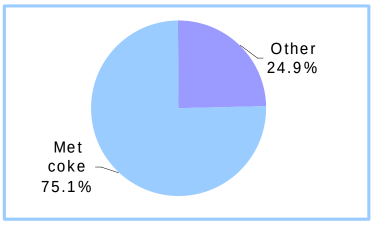
Stock Ownership	
IUD	98.0%
Other	2.0%

Ratios, 2005	
EBITDA Margin	12.2%
Net Margin	4.4%
Net Debt/ Equity	0.94

Gross Coke Output, ths mt



Sales Breakdown In 2005



Alchevsk Coke

Strong Domestic Demand Ensured, But All Benefits Reaped By IUD. ALKZ ranked third by production in 2005 claiming a 14% share. The company enjoys stable domestic demand for its coke generated within its holding corporation, IUD. Alchevsk Iron & Steel, DMK Dzerzhynskogo and Kramatorsk Iron & Steel consume but all of ALKZ's coke production. As a result, in 2005 ALKZ increased output by 2.5%, and in 1H06 by 0.7% yoy, whereas on average Ukraine's coke production slipped by 13.9% in 2005 and by 6.1% in 1H06. However, increasing tonnage sales generate earnings for a parent company rather than for ALKZ.

Non-Transparency Unlikely To Disappear. ALKZ is fully dependent on IUD's ability to raise capital as well as on coal supplies by the latter. IUD, although it does not have its own coal mines, is on friendly terms with SCM and sources coking coal from both SCM's and state owned mines. IUD also uses ALKZ as a vehicle for tax avoidance schemes selling its steel via ALKZ. We estimate that ALKZ hid 66-70% of its revenues by using tolling, sale on commission and possibly other scams that benefited its controlling corporation but put minority investors at a severe disadvantage. We think that ALKZ will eventually become a captive coke producer of Alchevsk Iron & Steel, and given its thin free float, we do not envisage considerable improvement in its corporate governance.

Shares Issued To Finance Capacity Build-Up… In line with IUD's plans to double the capacity of Alchevsk Iron & Steel in the midterm, ALKZ started construction a new coke battery in 2004 with a projected capacity of 1 mln mt p.a. The battery was launched in April 2006. The project cost is estimated at ~USD 215 mln, while ALKZ's entire modernization program requires a total of USD 350 mln by 2008. ALKZ's AGM in September 2005 decided to issue additional shares to help finance a construction of the new coke battery. The issue proceeds amounted to ~USD 139 mln.

…Which Further Drew Down Free Float. ALKZ's charter fund increased more than 14 times as a result of the share issue and we estimate that free float shrank from 5% to less than 2% due to a dilution of individual shareholders who opted not to subscribe for the new shares.

On The Positive Side: Assets Renovated. In addition to the battery launched this year, the company is currently operating five older batteries. The latter have a total capacity of 2.5 mln mt. Although installed in 1955-1962, four of ALKZ's batteries went through a refurbishment in 1982-1986 and one battery was upgraded in 1993, which prolonged their useful lives.

KEY FINACIAL DATA, USD mln

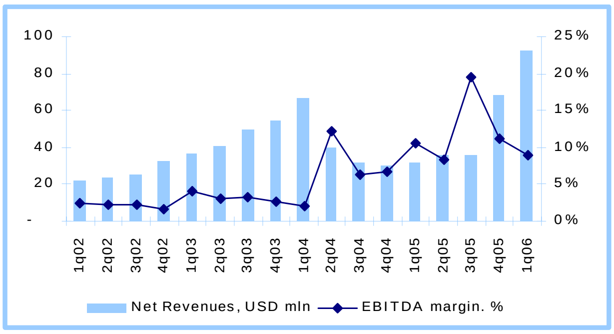
	Net Revenue	EBITDA	Net Income
2005	170.8	20.8	7.5
2006E	229.0	27.5	10.8
2007E	250.6	28.8	7.8

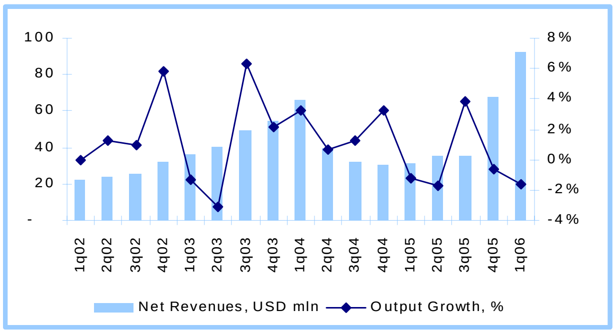
Spot Exch. Rate	5.05

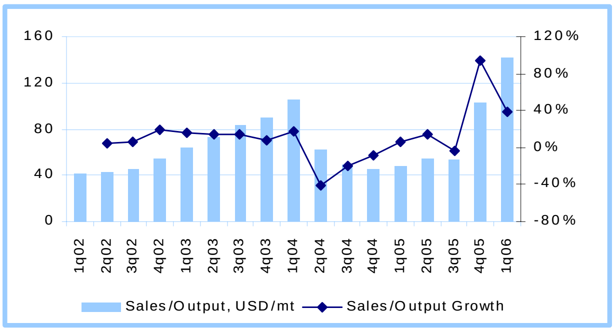
KEY RATIOS

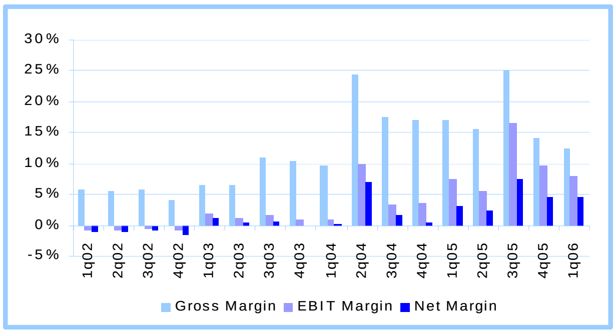
	EV/S	EV/EBITDA	P/E
2005	1.72	14.11	29.71
2006E	1.38	11.50	20.79
2007E	1.46	12.72	28.81

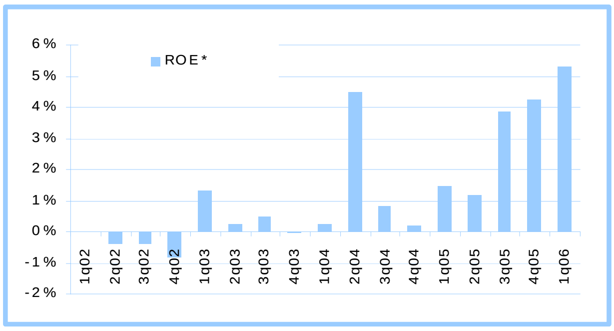
ALKZ's Quarterly Analysis

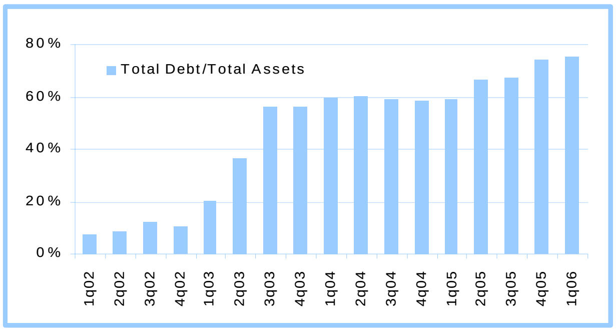












******Quarterly ROE is not annualized*

Financial Statements: Scenario 1

All financial statements according to Ukrainian Accounting Standards

Income Statement Summary, USD mln

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Net Revenues	**182**	**168**	**171**	**229**	**251**	**268**	**287**	**298**	**307**	**310**	**310**	**310**
Change y-o-y	*29%*	*-7%*	*1%*	*34%*	*9%*	*7%*	*7%*	*4%*	*3%*	*1%*	*0%*	*0%*
Cost Of Sales	(165)	(142)	(141)	(190)	(208)	(225)	(241)	(251)	(258)	(261)	(261)	(261)
Gross Profit	16	27	29	39	43	43	46	48	49	50	50	50
Other Operating Income/Costs, net	(1)	(1)	(0)	-	-	-	-	-	-	-	-	-
SG&A	(9)	(16)	(8)	(11)	(14)	(15)	(16)	(16)	(17)	(17)	(17)	(17)
EBITDA	**6**	**10**	**21**	**27**	**29**	**28**	**30**	**31**	**32**	**33**	**33**	**33**
EBITDA margin, %	3.1%	6.1%	12.2%	12.0%	11.5%	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%
Depreciation	(3)	(4)	(4)	(8)	(10)	(11)	(11)	(12)	(13)	(13)	(14)	(14)
EBIT	**2**	**7**	**17**	**20**	**19**	**18**	**19**	**19**	**20**	**19**	**19**	**18**
EBIT margin, %	1.4%	3.9%	9.8%	8.6%	7.6%	6.6%	6.6%	6.5%	6.4%	6.3%	6.1%	5.9%
Interest Expense	(0)	(0.3)	(4)	(5)	(9)	(11)	(10)	(10)	(10)	(10)	(8)	(7)
Financial income/(expense)	0	0	0	-	-	-	-	-	-	-	-	-
Other income/(expense)	(0)	(1)	(1)	-	-	-	-	-	-	-	-	-
PBT	**2**	**6**	**12**	**14**	**10**	**7**	**9**	**10**	**10**	**10**	**11**	**11**
Tax	(1)	(2)	(5)	(4)	(3)	(2)	(2)	(2)	(2)	(2)	(3)	(3)
Effective tax rate	*60%*	*38%*	*39%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*
Extraordinary Income/(loss)	-	-	-	-	-	-	-	-	-	-	-	-
Net Income	**1**	**4**	**8**	**11**	**8**	**5**	**7**	**7**	**7**	**7**	**8**	**8**
Net Margin, %	*0.4%*	*2.1%*	*4.4%*	*4.7%*	*3.1%*	*1.9%*	*2.4%*	*2.4%*	*2.4%*	*2.4%*	*2.7%*	*2.7%*

Balance Sheet Summary, USD mln

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Current Assets	**91**	**69**	**155**	**105**	**103**	**100**	**100**	**104**	**107**	**108**	**108**	**108**
Cash & Equivalents	1	5	8	5	5	5	6	6	6	6	6	6
Trade Receivables	34	39	59	37	35	38	40	42	43	43	43	43
Inventories	30	20	73	48	46	38	34	35	36	36	36	36
Other current assets	25	6	15	16	18	19	20	21	22	22	22	22
Fixed Assets	**47**	**83**	**132**	**302**	**365**	**352**	**351**	**350**	**351**	**351**	**351**	**351**
PP&E, net	41	42	44	132	178	198	214	227	238	247	254	260
Other Fixed Assets	7	41	88	171	187	154	137	124	113	104	96	91
Total Assets	**138**	**152**	**287**	**407**	**469**	**452**	**450**	**454**	**457**	**458**	**458**	**459**
Shareholders' Equity	**60**	**64**	**75**	**224**	**232**	**237**	**244**	**251**	**259**	**266**	**274**	**283**
Share Capital	10	10	10	141	141	141	141	141	141	141	141	141
Reserves and Other	50	50	53	61	61	61	61	61	61	61	61	61
Retained Earnings	0	4	12	22	30	35	42	50	57	64	72	81
Current Liabilities	**78**	**51**	**136**	**112**	**128**	**131**	**135**	**138**	**135**	**135**	**134**	**133**
ST Interest Bearing Debt	2	1	2	26	38	40	41	43	43	42	41	40
Trade Payables	73	45	94	67	73	79	84	88	90	91	91	91
Accrued Wages	0	0	0	0	0	0	1	1	1	1	1	1
Accrued Taxes	0	0	1	1	1	1	1	1	1	1	1	1
Other Current Liabilities	3	4	40	18	15	11	9	6	-	-	-	-
LT Liabilities	**0**	**38**	**77**	**71**	**109**	**84**	**71**	**65**	**63**	**57**	**50**	**43**
LT Interest Bearing Debt	-	4	34	37	80	64	61	65	63	57	50	43
Other LT	0	34	42	34	30	20	10	-	-	-	-	-
Total Liabilities & Equity	**138**	**152**	**287**	**407**	**469**	**452**	**450**	**454**	**457**	**458**	**458**	**459**

Cash Flow Statement Summary, USD mln

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Net Income	1	4	8	11	8	5	7	7	7	7	8	8
Depreciation	3	4	4	8	10	11	11	12	13	13	14	14
Non-operating and non-cash items	1	2	1	0	14	13	0	0	(0)	(0)	(0)	(0)
Changes in working capital	(1)	10	2	(1)	5	6	4	(3)	(6)	(0)	-	-
Operating Cash Flow	4	19	15	18	36	34	22	16	14	20	22	23
Capital Expenditures, net	(4)	(18)	(50)	(179)	(86)	(9)	(10)	(12)	(13)	(13)	(14)	(14)
Other Investments, net	(1)	(4)	1	-	-	-	-	-	-	-	-	-
Investing Cash Flow	(5)	(22)	(49)	(179)	(86)	(9)	(10)	(12)	(13)	(13)	(14)	(14)
Net Borrowings/(repayments)	2	3	37	18	51	(24)	(12)	(4)	(1)	(7)	(8)	(8)
Dividends Paid	-	-	-	-	-	-	-	-	-	-	-	-
Other	0	3	-	139	-	-	-	-	-	-	-	-
Financing Cash Flow	2	6	37	157	51	(24)	(12)	(4)	(1)	(7)	(8)	(8)
Beginning Cash Balance	1	1	5	8	5	5	5	6	6	6	6	6
Ending Cash Balance	1	5	8	5	5	5	6	6	6	6	6	6
Net Cash Inflows/Outflows	0	4	3	(4)	0	0	0	0	0	0	-	-

UAH/USD Exchange Rates

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Average	5.33	5.32	5.12	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05
Year-end	5.33	5.31	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05

Financial Statements: Scenario 2

All financial statements according to Ukrainian Accounting Standards

Income Statement Summary, USD mln

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Net Revenues	**182**	**168**	**171**	**443**	**484**	**518**	**555**	**577**	**594**	**600**	**600**	**600**
Change y-o-y	*29%*	*-7%*	*1%*	*159%*	*9%*	*7%*	*7%*	*4%*	*3%*	*1%*	*0%*	*0%*
Cost Of Sales	(165)	(142)	(141)	(367)	(402)	(430)	(460)	(479)	(496)	(501)	(501)	(501)
Gross Profit	16	27	29	75	82	88	94	98	98	99	99	99
Other Operating Income/Costs, net	(1)	(1)	(0)	-	-	-	-	-	-	-	-	-
SG&A	(9)	(16)	(8)	(13)	(15)	(16)	(19)	(20)	(21)	(21)	(21)	(21)
EBITDA	**6**	**10**	**21**	**62**	**68**	**73**	**75**	**78**	**77**	**78**	**78**	**78**
EBITDA margin, %	3.1%	6.1%	12.2%	14.0%	14.0%	14.0%	13.5%	13.5%	13.0%	13.0%	13.0%	13.0%
Depreciation	(3)	(4)	(4)	(8)	(10)	(11)	(11)	(12)	(13)	(13)	(14)	(14)
EBIT	**2**	**7**	**17**	**54**	**58**	**62**	**64**	**66**	**65**	**65**	**64**	**64**
EBIT margin, %	1.4%	3.9%	9.8%	12.2%	12.0%	12.0%	11.5%	11.4%	10.9%	10.8%	10.7%	10.6%
Interest Expense	(0)	(0.3)	(4)	(4)	(6)	(6)	(4)	(3)	(3)	(2)	(1)	(1)
Financial income/(expense)	0	0	0	-	-	-	-	-	-	-	-	-
Other income/(expense)	(0)	(1)	(1)	-	-	-	-	-	-	-	-	-
PBT	**2**	**6**	**12**	**50**	**52**	**56**	**60**	**62**	**62**	**62**	**63**	**63**
Tax	(1)	(2)	(5)	(13)	(13)	(14)	(15)	(16)	(15)	(16)	(16)	(16)
Effective tax rate	*60%*	*38%*	*39%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*
Extraordinary Income/(loss)	-	-	-	-	-	-	-	-	-	-	-	-
Net Income	**1**	**4**	**8**	**38**	**39**	**42**	**45**	**47**	**46**	**47**	**47**	**47**
Net Margin, %	*0.4%*	*2.1%*	*4.4%*	*8.5%*	*8.1%*	*8.1%*	*8.1%*	*8.1%*	*7.8%*	*7.8%*	*7.9%*	*7.9%*

Balance Sheet Summary, USD mln

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Current Assets	**91**	**69**	**155**	**184**	**180**	**179**	**187**	**181**	**176**	**178**	**178**	**178**
Cash & Equivalents	1	5	8	9	10	10	11	12	12	12	12	12
Trade Receivables	34	39	59	71	68	73	78	81	83	84	84	84
Inventories	30	20	73	73	68	60	60	48	40	40	40	40
Other current assets	25	6	15	31	34	36	39	40	42	42	42	42
Fixed Assets	**47**	**83**	**132**	**294**	**363**	**352**	**351**	**350**	**351**	**351**	**351**	**351**
PP&E, net	41	42	44	132	178	198	214	227	238	247	254	260
Other Fixed Assets	7	41	88	162	184	154	137	124	113	104	96	91
Total Assets	**138**	**152**	**287**	**478**	**542**	**531**	**538**	**531**	**527**	**529**	**529**	**529**
Shareholders' Equity	**60**	**64**	**75**	**251**	**290**	**332**	**363**	**387**	**401**	**415**	**424**	**434**
Share Capital	10	10	10	141	141	141	141	141	141	141	141	141
Reserves and Other	50	50	53	61	61	61	61	61	61	61	61	61
Retained Earnings	0	4	12	49	88	130	162	185	199	213	222	232
Current Liabilities	**78**	**51**	**136**	**184**	**190**	**151**	**143**	**128**	**113**	**114**	**104**	**95**
ST Interest Bearing Debt	2	1	2	29	45	15	17	17	15	20	11	2
Trade Payables	73	45	94	118	113	112	106	96	94	90	90	90
Accrued Wages	0	0	0	1	1	1	1	1	1	1	1	1
Accrued Taxes	0	0	1	2	2	2	2	2	2	2	2	2
Other Current Liabilities	3	4	40	35	29	21	17	12	-	-	-	-
LT Liabilities	**0**	**38**	**77**	**43**	**63**	**48**	**32**	**16**	**14**	**-**	**-**	**-**
LT Interest Bearing Debt	-	4	34	3	33	29	22	16	14	-	-	-
Other LT	0	34	42	40	30	20	10	-	-	-	-	-
Total Liabilities & Equity	**138**	**152**	**287**	**478**	**542**	**531**	**538**	**531**	**527**	**529**	**529**	**529**

Cash Flow Statement Summary, USD mln

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Net Income	1	4	8	38	39	42	45	47	46	47	47	47
Depreciation	3	4	4	8	10	11	11	12	13	13	14	14
Non-operating and non-cash items	1	2	1	9	8	10	(0)	0	0	0	(0)	(0)
Changes in working capital	(1)	10	2	(7)	(6)	(8)	(17)	(8)	(8)	(6)	-	-
Operating Cash Flow	4	19	15	48	51	54	39	51	50	54	61	62
Capital Expenditures, net	(4)	(18)	(50)	(179)	(86)	(9)	(10)	(12)	(13)	(13)	(14)	(14)
Other Investments, net	(1)	(4)	1	-	-	-	-	-	-	-	-	-
Investing Cash Flow	(5)	(22)	(49)	(179)	(86)	(9)	(10)	(12)	(13)	(13)	(14)	(14)
Net Borrowings/(repayments)	2	3	37	(7)	36	(44)	(15)	(16)	(5)	(8)	(9)	(9)
Dividends Paid	-	-	-	-	-	-	(13)	(23)	(32)	(33)	(38)	(38)
Other	0	3	-	139	-	-	-	-	-	-	-	-
Financing Cash Flow	2	6	37	132	36	(44)	(28)	(39)	(37)	(41)	(47)	(47)
Beginning Cash Balance	1	1	5	8	9	10	10	11	12	12	12	12
Ending Cash Balance	1	5	8	9	10	10	11	12	12	12	12	12
Net Cash Inflows/Outflows	0	4	3	1	1	1	1	0	0	0	-	-

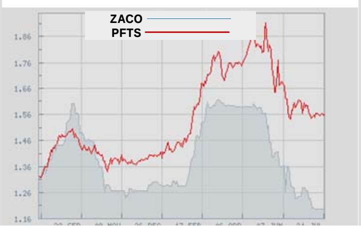
UAH/USD Exchange Rates

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Average	5.33	5.32	5.12	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05
Year-end	5.33	5.31	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05

BUY

Current price	Target price
USD 1.20	USD 2.47

ZACO Mid-Market, USD

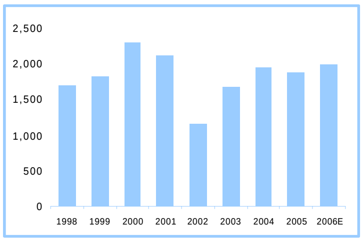


Market Information	
Bloomberg Ticker	ZACO UZ
No of Shares, mln	119
Market price, USD	1.20
MCap, USD mln	**144**
Free float	7.2%
FF MCap, USD mln	10.3

Stock Ownership	
Zaporizhstal	41.8%
SCM	35.7%
ARS	15.3%
Other	7.2%

Ratios, 2005	
EBITDA Margin	8.2%
Net Margin	5.5%
Net Debt/ Equity	0.45

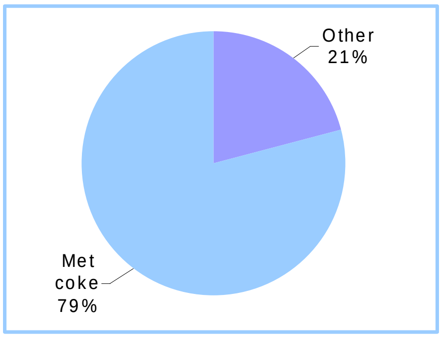
Gross Coke, ths mt



Zaporizh Coke

Solid Demand Ensures Production Growth. Despite a 6.1% decline in Ukraine's total coke production, ZACO posted a 6% yoy growth in 1H06. It's share reached 10.6%, up from 10.0% in 2005, ranking the company 5th by production. We project ZACO's coke production growth to continue in the near term, as its key consumer, Zaporizhstal, needs more coke than ZACO is currently producing and is likely to increase its shipments from ZACO thanks to the latter's convenient location adjacent to Zaporizhstal. Other consumers of ZACO's met coke are Mariupol Illicha, DMK Dzerzhynskogo, Alchevsk Iron & Steel and DniproSpetsStal whose demand for coke is likely to increase in the near term due to favorable steel markets.

Sales Breakdown In 2005



Asset Base Taken Care Of Well. Although ZACO's set-up dates back to 1934, the company's last large-scale equipment rehabilitation took place in 1980-1982 effectively starting a count of the plant's useful life. It enabled ZACO to produce high quality coke and a wide range of by-coke products encompassing over 40 names.

Checks & Balances Ensure Transparency. Three shareholder groups (Zaporizhstal, SCM and ARS) have the largest stakes in ZACO but none of them have full control over the company's operations. By virtue of its shareholder structure, ZACO is the least prone to transfer pricing among Ukrainian coke makers. In fact, our calculations suggest that ZACO's last year sales were based mainly on market prices (underreported by now more than 8%), whereas prior to 2001-2002 it had been operating under various tolling schemes devastating reported revenues, as Zaporizhstal had run the plant alone. We believe that the countervailing effect of rival business groups will help the company refrain from non-market transactions in the near future. The fact that SCM transferred its 35.7% stake in ZACO to Metinvest Holding where Western-style corporate culture is being fostered, should safeguard against related party transactions by ZACO.

Likely Takeover Target. We think that in the midterm Zaporizhstal will probably acquire a controlling stake in ZACO given that SCM has excess coke capacities. This should positively reflect on ZACO's stock price, in our view, as vertical integration should create synergies between the two companies. We believe that at that time Zaporizhstal, who itself is considering an IPO, will improve its corporate governance enough to eliminate risks of tolling and other non-market schemes at ZACO.

KEY FINACIAL DATA, USD mln

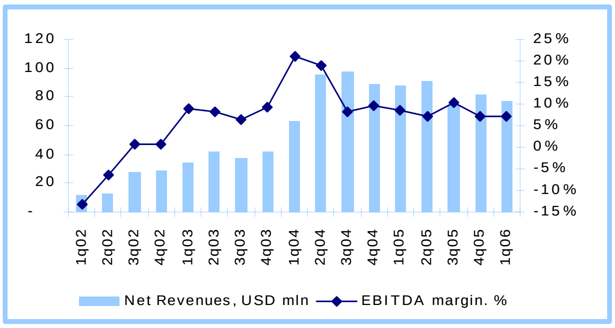
	Net Revenue	EBITDA	Net Income
2005	335.6	27.6	18.4
2006E	328.4	26.3	16.9
2007E	349.2	29.0	18.5

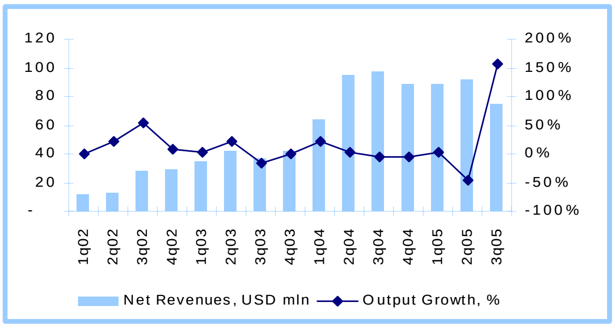
Spot Exch. Rate	5.05

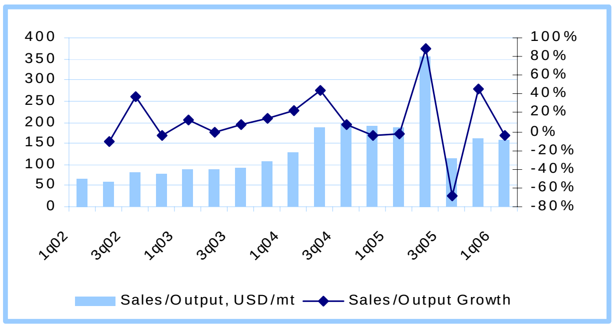
KEY RATIOS

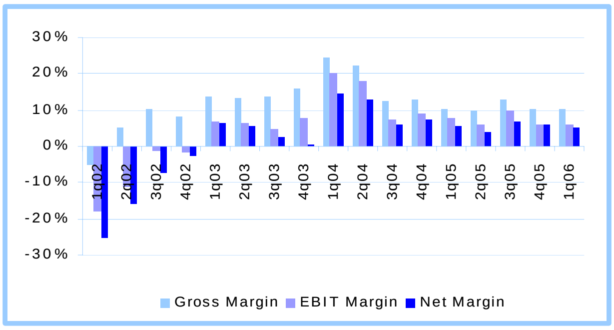
	EV/S	EV/EBITDA	P/E
2005	0.53	6.50	7.76
2006E	0.48	6.02	8.42
2007E	0.44	5.33	7.70

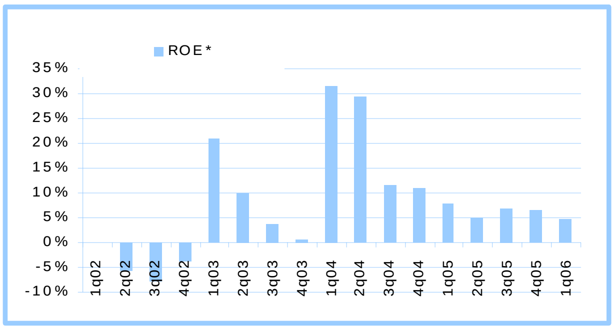
ZACO's Quarterly Analysis

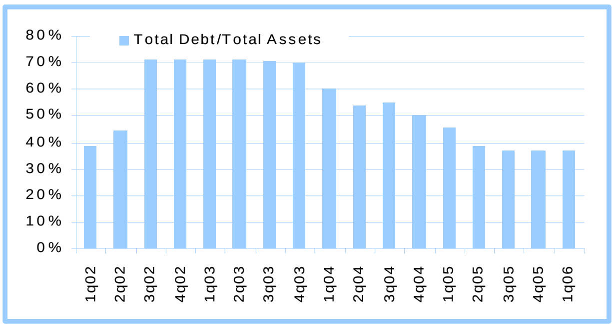












Quarterly ROE is not annualized

Financial Statements

All financial statements according to Ukrainian Accounting Standards

Income Statement Summary, USD mln

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Net Revenues	**155**	**345**	**336**	**328**	**349**	**356**	**363**	**367**	**371**	**371**	**371**	**371**
Change y-o-y	*10%*	*122%*	*-3%*	*-2%*	*6%*	*2%*	*2%*	*1%*	*1%*	*0%*	*0%*	*0%*
Cost Of Sales	(133)	(285)	(300)	(294)	(311)	(310)	(309)	(306)	(309)	(309)	(309)	(309)
Gross Profit	22	60	36	34	38	46	54	61	61	61	61	61
Other Operating Income/Costs, net	0	(1)	(2)	-	-	-	-	-	-	-	-	-
SG&A	(9)	(11)	(6)	(8)	(9)	(11)	(12)	(13)	(13)	(13)	(13)	(13)
EBITDA	**13**	**48**	**28**	**26**	**29**	**36**	**43**	**48**	**48**	**48**	**48**	**48**
EBITDA margin, %	8.3%	13.9%	8.2%	8.0%	8.3%	10.0%	11.7%	13.0%	13.0%	13.0%	13.0%	13.0%
Depreciation	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)
EBIT	**10**	**45**	**24**	**23**	**26**	**32**	**39**	**44**	**45**	**45**	**45**	**45**
EBIT margin, %	6.6%	13.1%	7.3%	7.0%	7.4%	9.1%	10.8%	12.1%	12.1%	12.1%	12.1%	12.1%
Interest Expense	(2)	(0.4)	(0)	(0)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(0)
Financial income/(expense)	0	0	1	-	-	-	-	-	-	-	-	-
Other income/(expense)	0	(0)	0	-	-	-	-	-	-	-	-	-
PBT	**9**	**45**	**25**	**23**	**25**	**31**	**38**	**43**	**44**	**44**	**44**	**45**
Tax	(3)	(11)	(7)	(6)	(6)	(8)	(9)	(11)	(11)	(11)	(11)	(11)
Effective tax rate	*37%*	*25%*	*26%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*
Extraordinary Income/(loss)	-	-	-	-	-	-	-	-	-	-	-	-
Net Income	**6**	**34**	**18**	**17**	**19**	**23**	**28**	**33**	**33**	**33**	**33**	**33**
Net Margin, %	*3.6%*	*9.7%*	*5.5%*	*5.2%*	*5.3%*	*6.5%*	*7.8%*	*8.9%*	*8.9%*	*8.9%*	*9.0%*	*9.0%*

Balance Sheet Summary, USD mln

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Current Assets	**25**	**60**	**54**	**61**	**72**	**71**	**70**	**67**	**67**	**67**	**67**	**67**
Cash & Equivalents	0	5	1	8	9	9	9	9	9	9	9	9
Trade Receivables	10	5	17	20	28	27	25	22	22	22	22	22
Inventories	8	37	23	24	25	25	25	25	25	25	25	25
Other current assets	7	14	12	10	10	11	11	11	11	11	11	11
Fixed Assets	**58**	**61**	**74**	**70**	**75**	**79**	**82**	**86**	**88**	**88**	**88**	**88**
PP&E, net	29	30	32	34	35	36	38	40	42	43	44	45
Other Fixed Assets	29	30	42	37	41	42	44	45	45	45	44	43
Total Assets	**82**	**121**	**128**	**132**	**147**	**150**	**152**	**152**	**155**	**156**	**156**	**156**
Shareholders' Equity	**25**	**60**	**81**	**98**	**111**	**120**	**124**	**128**	**129**	**131**	**133**	**134**
Share Capital	0	0	0	0	0	0	0	0	0	0	0	0
Reserves and Other	39	39	42	42	42	42	42	42	42	42	42	42
Retained Earnings	(15)	21	39	56	69	78	83	86	88	89	91	93
Current Liabilities	**58**	**61**	**9**	**16**	**27**	**29**	**28**	**25**	**26**	**24**	**23**	**21**
ST Interest Bearing Debt	-	0	-	6	11	13	11	8	9	8	6	5
Trade Payables	23	20	6	8	14	14	15	15	15	15	15	15
Accrued Wages	0	0	1	1	1	1	1	1	1	1	1	1
Accrued Taxes	0	3	1	1	1	1	1	1	1	1	1	1
Other Current Liabilities	34	37	1	-	-	-	-	-	-	-	-	-
LT Liabilities	**0**	**0**	**38**	**18**	**10**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
LT Interest Bearing Debt	-	-	-	-	-	-	-	-	-	-	-	-
Other LT	0	0	38	18	10	-	-	-	-	-	-	-
Total Liabilities & Equity	**82**	**121**	**128**	**132**	**147**	**150**	**152**	**152**	**155**	**156**	**156**	**156**

Cash Flow Statement Summary, USD mln

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Net Income	6	34	18	17	19	23	28	33	33	33	33	33
Depreciation	3	3	3	3	3	3	3	3	3	3	3	3
Non-operating and non-cash items	2	1	(8)	6	(3)	(0)	(0)	(0)	(0)	0	(0)	0
Changes in working capital	(3)	(28)	(48)	0	(4)	1	1	4	(0)	-	-	-
Operating Cash Flow	7	9	(34)	26	14	27	33	39	36	36	36	37
Capital Expenditures, net	(2)	(5)	(5)	(5)	(5)	(6)	(6)	(7)	(5)	(4)	(3)	(3)
Other Investments, net	5	(1)	(2)	-	-	-	-	-	-	-	-	-
Investing Cash Flow	4	(6)	(6)	(5)	(5)	(6)	(6)	(7)	(5)	(4)	(3)	(3)
Net Borrowings/(repayments)	(10)	0	37	(14)	(3)	(7)	(2)	(3)	1	(1)	(2)	(2)
Dividends Paid	-	-	-	-	(6)	(14)	(24)	(29)	(31)	(31)	(32)	(32)
Other	-	0	-	-	-	-	-	-	-	-	-	-
Financing Cash Flow	(10)	0	37	(14)	(9)	(21)	(26)	(33)	(31)	(32)	(33)	(33)
Beginning Cash Balance	0	0	5	1	8	9	9	9	9	9	9	9
Ending Cash Balance	0	5	1	8	9	9	9	9	9	9	9	9
Net Cash Inflows/Outflows	0	4	(4)	7	1	0	0	0	0	-	-	-

UAH/USD Exchange Rates

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Average	5.33	5.32	5.12	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05
Year-end	5.33	5.31	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05

Yasynivsky Coke

HOLD

Current price	Target price
USD 0.32	USD 0.30

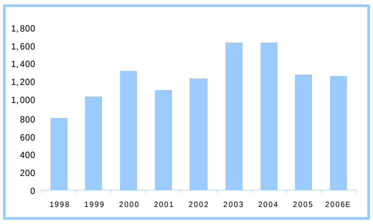
YASK Mid-Market, USD

Market Information	
Bloomberg Ticker	YASK UZ
No of Shares, mln	273.6
Market price, USD	0.32
MCap, USD mln	**86**
Free float	9%
FF MCap, USD mln	8

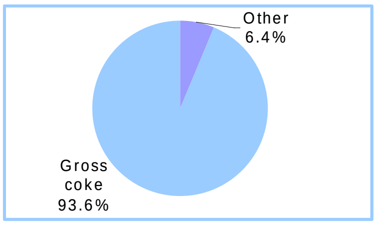
Stock Ownership	
Donetskstal group	91.0%
Other	9.0%

Ratios, 2005	
EBITDA Margin	7.8%
Net Margin	3.8%
Net Debt/ Equity	-0.01

Gross Coke Output, ths mt



Sales Structure In 2005



Asset Base Rejuvenation Secures The Future. YASK is #6 in Ukraine having accounted for 6.8% of the country's total output in 2005. The company operates six coke batteries commissioned in the 50ies, with a design capacity of 3.2 mln mt p.a. However, the effective capacity of the plant is estimated at 1.8 mln mt, as two batteries are currently being idled awaiting overhaul. Of the four batteries currently in operation, two went through a complete renovation in 1999 and 2002. The third battery came on-stream in July 2006 after a thorough refurbishment that started in 2002 thus replacing the battery that was halted in July 2005. The company ran at 81% of its capacities last year. In our view, large-scale rehabilitation of production facilities indicates that YASK's owners hold a long term view of the company and allows YASK to remain among Ukraine's most competitive coke producers.

Fully Self-Sufficient In Coking Coal. YASK is in a better position in terms of coking coal supply than any other Ukrainian coke maker. Its holding Donetskstal group operates Ukraine's largest coking coal mine Krasnoarmiyska-Zakhidna (6.2 mln of coal in 2005), whereas YASK and Makiyivka Coke controlled by Donetslstal consumed only 2.9 mln mt of coal concentrate last year. Even though domestic coal supply is in excess, YASK has to source lesser amounts of coal from Russia (12% in 2005) to improve coke quality.

New Product Entering The Market. In April 2006, YASK started to sell a coke of premium grade produced from a blend of Ukrainian and Russian coal. This product is designed specifically to meet the demand for a high quality coke that steel mills will require after their transition to coal intensive technologies (PCI). YASK's two large customers, Donetskstal and Mariupol Illicha (MMKI), are already switching to using the premium coke.

Transfer Pricing Risk Remains High. Both in 2004 and 2005 YASK was selling ~87% of its gross coke output to related parties, primarily to Donetskstal. YASK shipped to Donetskstal over 83% of its gross coke production in 2004 and over 50% in 2005, while the mill's coke consumption accounted for 39% and 30% of YASK's output in respective years. The balance was apparently re-sold at higher prices. Most common schemes were tolling with coke-for-coal exchange in 2004 and sale for commission on behalf of YASK in 2005. As a result, we estimate YASK's sales were underreported by 48% in 2004 and 19% in 2005. Despite a visible progress, transfer pricing remains a key risk for YASK's minority shareholders, in our opinion.

Deal With MMKI: Promise Or Peril? In January 2006, YASK leased to Mariupol Illicha steel mill two of its four operating batteries accounting for more than 75% of YASK's effective production capacity. The lease was largely a forced move, as YASK had to secure a market for its coke after losing export markets due high railway tariffs. Although the company officially reported an export share in sales of only 5.5% in 2004 and 7.5% in 2005 while we estimate that at least 50% of its coke was exported through related party schemes. MMKI consumes more coke than YASK can produce warranting a stable demand, yet a non-transparent lease structure raises our concerns about a possibility of profits accumulated outside of YASK and downgrades YASK's valuation. In the long term, we believe, YASK remains a likely takeover target for MMKI.

KEY FINACIAL DATA*, USD mln

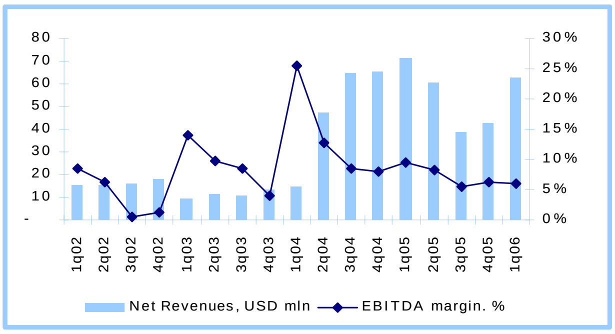
	Net Revenue	EBITDA	Net Income
2005	213.5	16.6	8.2
2006E	170.5	15.3	7.5
2007E	222.3	24.5	13.6

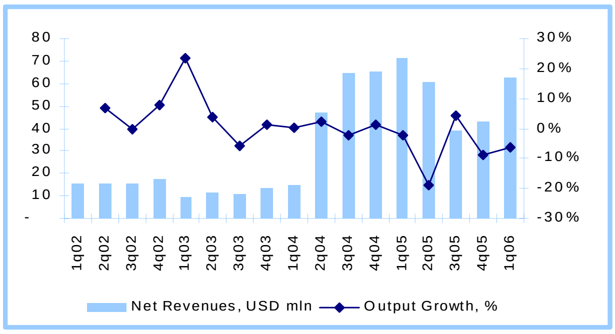
Spot Exch. Rate	5.05

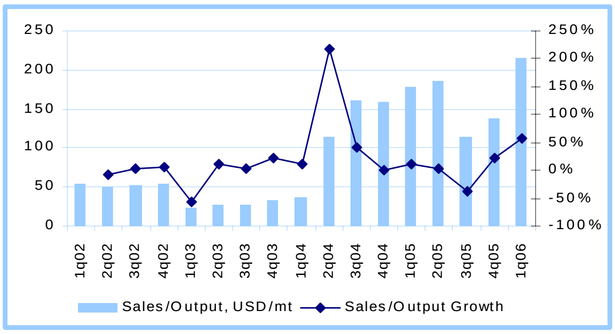
KEY RATIOS

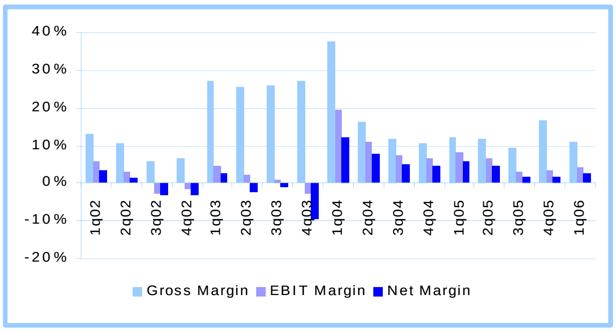
	EV/S	EV/EBITDA	P/E
2005	0.41	5.26	10.73
2006E	0.58	6.48	11.66
2007E	0.45	4.12	6.42

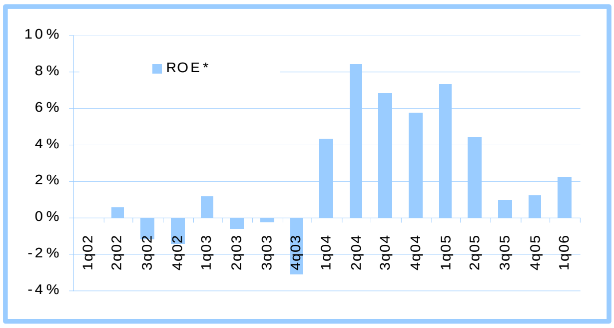
YASK's Quarterly Analysis

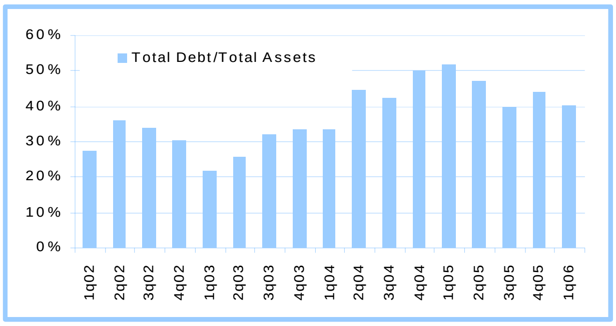












**Quarterly ROE is not annualized*

Financial Statements

All financial statements according to Ukrainian Accounting Standards

Income Statement Summary, USD mln

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Net Revenues	**45**	**192**	**213**	**171**	**222**	**227**	**231**	**234**	**236**	**236**	**236**	**236**
Change y-o-y	*-68%*	*331%*	*11%*	*-20%*	*30%*	*2%*	*2%*	*1%*	*1%*	*0%*	*0%*	*0%*
Cost Of Sales	(33)	(164)	(187)	(150)	(191)	(189)	(193)	(195)	(197)	(197)	(197)	(197)
Gross Profit	12	28	27	20	31	37	38	39	39	39	39	39
Other Operating Income/Costs, net	(3)	(1)	(2)	-	-	-	-	-	-	-	-	-
SG&A	(5)	(6)	(9)	(5)	(7)	(8)	(8)	(8)	(8)	(8)	(8)	(8)
EBITDA	**4**	**21**	**17**	**15**	**24**	**29**	**30**	**30**	**31**	**31**	**31**	**31**
EBITDA margin, %	8.6%	10.7%	7.8%	9.0%	11.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%
Depreciation	(3)	(3)	(4)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)
EBIT	**0**	**17**	**12**	**11**	**20**	**25**	**25**	**26**	**26**	**26**	**26**	**26**
EBIT margin, %	1.0%	8.9%	5.8%	6.4%	8.9%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%
Interest Expense	(1)	(0.6)	(0)	(1)	(2)	(2)	(2)	(2)	(2)	(2)	(1)	(1)
Financial income/(expense)	0	0	(0)	-	-	-	-	-	-	-	-	-
Other income/(expense)	-	0	-	-	-	-	-	-	-	-	-	-
PBT	**(0)**	**16**	**12**	**10**	**18**	**23**	**24**	**24**	**24**	**24**	**24**	**25**
Tax	(1)	(5)	(4)	(3)	(5)	(6)	(6)	(6)	(6)	(6)	(6)	(6)
Effective tax rate	*-311%*	*29%*	*33%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*
Extraordinary Income/(loss)	-	-	-	-	-	-	-	-	-	-	-	-
Net Income	**(1)**	**12**	**8**	**8**	**14**	**17**	**18**	**18**	**18**	**18**	**18**	**18**
Net Margin, %	*-3.0%*	*6.1%*	*3.8%*	*4.4%*	*6.1%*	*7.6%*	*7.7%*	*7.7%*	*7.7%*	*7.7%*	*7.8%*	*7.8%*

Balance Sheet Summary, USD mln

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Current Assets	**17**	**46**	**39**	**40**	**55**	**58**	**59**	**60**	**60**	**60**	**60**	**60**
Cash & Equivalents	0	0	1	1	2	2	2	2	2	2	2	2
Trade Receivables	11	19	1	12	18	20	21	21	21	21	21	21
Inventories	5	24	30	23	29	28	29	29	30	30	30	30
Other current assets	2	4	7	5	7	7	7	7	7	7	7	7
Fixed Assets	**43**	**58**	**77**	**83**	**91**	**95**	**98**	**100**	**101**	**102**	**102**	**102**
PP&E, net	37	39	50	53	57	61	64	66	68	70	72	73
Other Fixed Assets	5	18	27	30	33	34	34	34	33	32	30	29
Total Assets	**60**	**104**	**116**	**123**	**146**	**153**	**157**	**159**	**161**	**162**	**162**	**162**
Shareholders' Equity	**40**	**52**	**65**	**72**	**82**	**89**	**91**	**93**	**94**	**95**	**96**	**97**
Share Capital	13	13	14	14	14	14	14	14	14	14	14	14
Reserves and Other	23	23	27	27	27	27	27	27	27	27	27	27
Retained Earnings	4	16	24	32	41	48	51	53	54	54	55	56
Current Liabilities	**20**	**52**	**51**	**51**	**64**	**64**	**65**	**66**	**67**	**67**	**66**	**65**
ST Interest Bearing Debt	8	1	-	13	15	16	16	17	17	17	16	15
Trade Payables	11	49	48	36	46	45	46	47	47	47	47	47
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	0	0	0
Other Current Liabilities	0	2	2	2	2	2	2	2	2	2	2	2
LT Liabilities	-	-	-	-	-	-	-	-	-	-	-	-
LT Interest Bearing Debt	-	-	-	-	-	-	-	-	-	-	-	-
Other LT	-	-	-	-	-	-	-	-	-	-	-	-
Total Liabilities & Equity	**60**	**104**	**116**	**123**	**146**	**153**	**157**	**159**	**161**	**162**	**162**	**162**

Cash Flow Statement Summary, USD mln

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Net Income	(1)	12	8	8	14	17	18	18	18	18	18	18
Depreciation	3	3	4	5	5	5	5	5	5	5	5	5
Non-operating and non-cash items	1	1	(1)	0	(0)	(0)	(0)	(0)	(0)	(0)	(0)	0
Changes in working capital	(5)	17	7	(14)	(3)	(3)	(0)	(0)	(0)	-	-	-
Operating Cash Flow	(2)	33	18	(2)	15	19	22	23	23	23	23	23
Capital Expenditures, net	(4)	(27)	(16)	(11)	(12)	(9)	(8)	(7)	(6)	(5)	(5)	(5)
Other Investments, net	(0)	(1)	(1)	-	-	-	-	-	-	-	-	-
Investing Cash Flow	(4)	(27)	(18)	(11)	(12)	(9)	(8)	(7)	(6)	(5)	(5)	(5)
Net Borrowings/(repayments)	7	(6)	(1)	13	3	0	0	1	1	(0)	(1)	(1)
Dividends Paid	-	-	-	-	(4)	(10)	(15)	(16)	(17)	(17)	(17)	(18)
Other	0	0	1	-	-	-	-	-	-	-	-	-
Financing Cash Flow	7	(6)	(0)	13	(1)	(10)	(15)	(16)	(17)	(18)	(18)	(18)
Beginning Cash Balance	0	0	0	1	1	2	2	2	2	2	2	2
Ending Cash Balance	0	0	1	1	2	2	2	2	2	2	2	2
Net Cash Inflows/Outflows	0	0	0	0	1	0	0	0	0	-	-	-

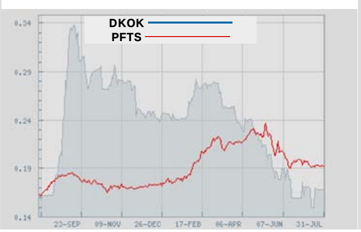
UAH/USD Exchange Rates

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Average	5.33	5.32	5.12	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05
Year-end	5.33	5.31	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05

HOLD

Current price	Target price
USD 0.17	USD 0.19

DKOK Mid-Market, USD

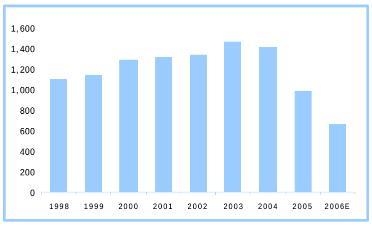


Market Information	
Bloomberg Ticker	DKOK UZ
No of Shares, mln	249.1
Market price, USD	0.17
MCap, USD mln	**43**
Free float	7.7%
FF MCap, USD mln	3.3

Stock Ownership	
SCM	55.5%
ARS	23.8%
Illich Stal (MMKI)	13.0%
Other	7.7%

Ratios, 2005	
EBITDA Margin	19.6%
Net Margin	8.3%
Net Debt/ Equity	0.00

Gross Coke Output, ths mt



Donetsk Coke

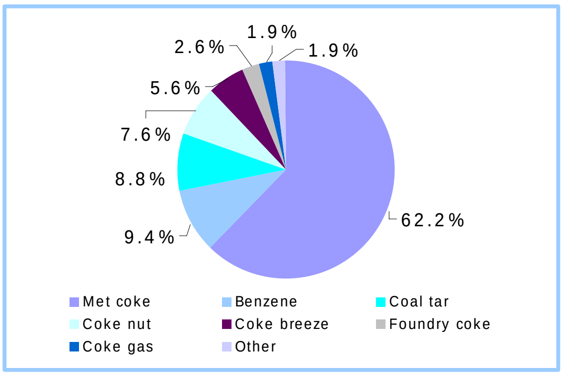
Excess Capacity A Problem. DKOK is Ukraine's seventh largest coke producer with a 5.2% share in total production in 2005. It consists of three separate plants – Rutchenkivsky, Donetsky and Smolianivsky, all located in the city of Donetsk. At its AGM this year, the company made a decision to halt two of its most worn out batteries for overhaul. We estimate that this will reduce DKOK's effective capacity from 2.0 mln mt to 1.4 mln mt p.a., as only five out of seven batteries will be operating. The oldest batteries were put into operation in the 50ies, while the average battery age is ~35 years. We believe, though, that the real reason for the stoppage of the two batteries is lack of demand for DKOK's coke, as evidenced by a 29.4% fall in production last year and a 36% yoy plunge in 1H06. Capacity utilization stood at only 72.8% in 2005 and we estimate it to fall below 50% in 2006.

The Largest Customer About To Be Lost. Among main consumers of DKOK's met coke are Mariupol Illicha steel mill (MMKI), Donetskstal, Mittal Steel Kryvy Rig and Makiyivka Iron & Steel. MMKI historically was the single largest consumer of DKOK's coke and we estimate, in 2005 it accounted for ~60% of its sales, DKOK also sells its nut coke to Nikopol Ferroalloy and, Zaporizhzhya Ferroalloy and supplies chemical by-products to other coke makers. In 2005, exports comprised ~25% of DKOK's sales. After MMKI switched to sourcing coke from YASK in 2006, DKOK has been facing the risk of losing more than a half of its market.

Tolling Plagues Financials. DKOK sourced 85% of raw materials in 2005 and 53% in 2004 under tolling. In exchange for coking coal, it shipped coke to its coal suppliers. Consequently, we estimate that both in 2004 and 2005 DKOK underreported ~65-70% of sales. Although this year DKOK's 24% stake directly owned by SCM was transferred to Metinvest Holding, which SCM is positioning as a Western-style metal corporation, unlike the case with ZACO, we do not believe this will increase DKOK's transparency in the near future. It appears that SCM does not yet have a clear strategy with regard to DKOK and the company's transparency is not on the agenda.

To Be Or Not To Be? Shrinking domestic market coupled with export difficulties and DKOK's redundancy within SCM's structure makes us question DKOK being a going concern. This notwithstanding, the company still has a chance to recover by diversifying sales or due to being taken over by a steel mill/ business group in need of coke capacities, such as MMKI or IUD.

Sales Structure In 2005

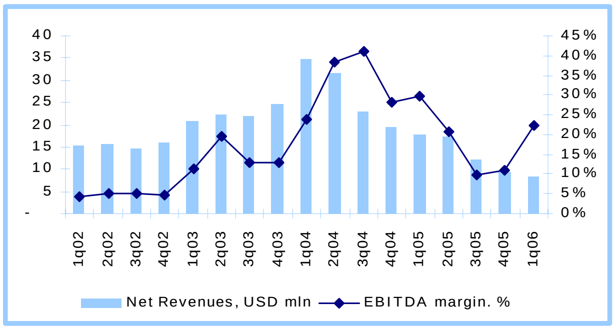


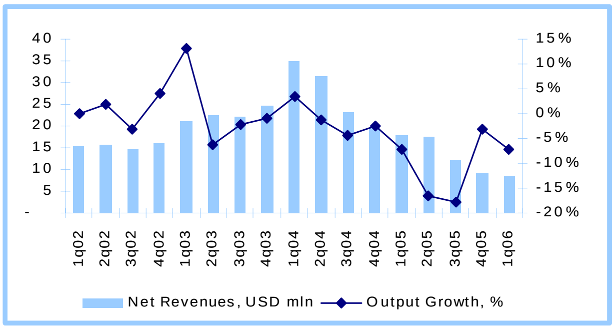
KEY FINACIAL DATA, USD mln	Net Revenue	EBITDA	Net Income
2005	56.6	11.1	4.7
2006E	45.3	1.4	-0.7
2007E	52.5	6.3	3.1

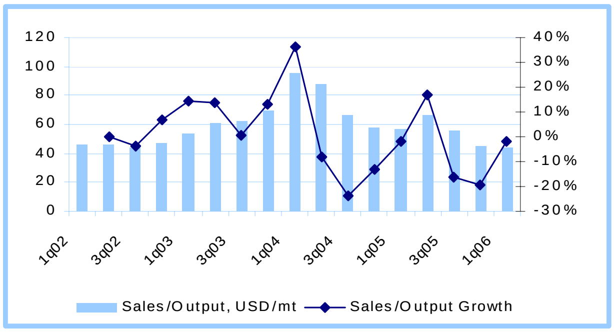
Spot Exch. Rate	5.05

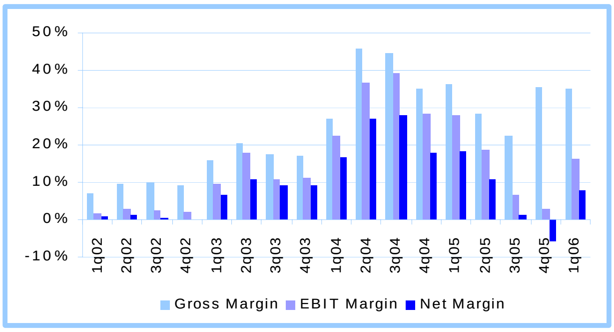
KEY RATIOS	EV/S	EV/EBITDA	P/E
2005	0.75	3.81	9.00
2006E	0.94	31.37	neg
2007E	0.80	6.63	13.57

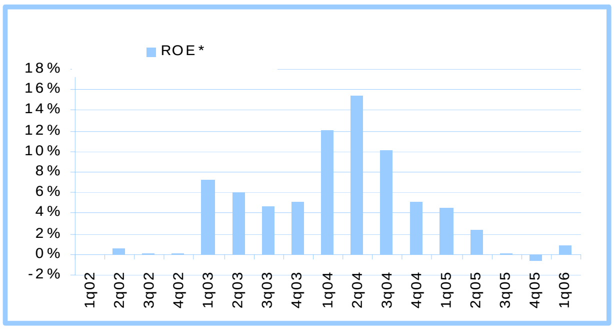
DKOK's Quarterly Analysis

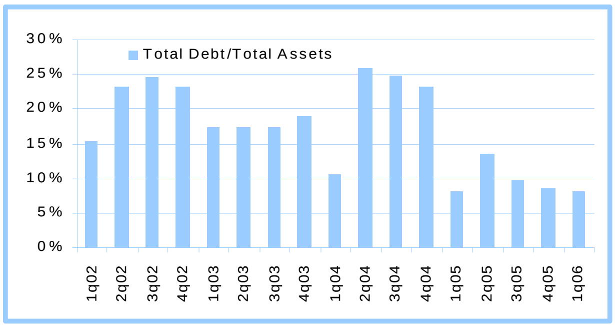












Quarterly ROE is not annualized

Financial Statements

All financial statements according to Ukrainian Accounting Standards

Income Statement Summary, USD mln

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Net Revenues	**90**	**109**	**57**	**45**	**53**	**55**	**128**	**131**	**133**	**136**	**137**	**137**
Change y-o-y	*-36%*	*21%*	*-48%*	*-20%*	*16%*	*4%*	*134%*	*2%*	*2%*	*2%*	*1%*	*0%*
Cost Of Sales	(74)	(68)	(39)	(39)	(44)	(46)	(107)	(109)	(111)	(114)	(115)	(115)
Gross Profit	16	41	17	7	8	9	21	22	22	22	23	23
Other Operating Income/Costs, net	0	(1)	(2)	-	-	-	-	-	-	-	-	-
SG&A	(4)	(5)	(4)	(5)	(2)	(2)	(4)	(5)	(5)	(5)	(5)	(5)
EBITDA	**13**	**35**	**11**	**1**	**6**	**7**	**17**	**17**	**17**	**18**	**18**	**18**
EBITDA margin, %	14.2%	32.4%	19.6%	3.0%	12.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%
Depreciation	(2)	(1)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
EBIT	**11**	**34**	**9**	**(1)**	**4**	**5**	**15**	**15**	**15**	**16**	**16**	**16**
EBIT margin, %	12.5%	31.2%	16.5%	-1.3%	8.3%	9.5%	11.5%	11.5%	11.5%	11.5%	11.5%	11.6%
Interest Expense	(0)	(0.0)	(0)	(0)	(0)	(0)	(0)	(1)	(1)	(1)	(1)	(1)
Financial income/(expense)	0	0	0	0	0	0	0	0	0	0	0	0
Other income/(expense)	(1)	(0)	(0)	-	-	-	-	-	-	-	-	-
PBT	**11**	**34**	**9**	**(1)**	**4**	**5**	**14**	**14**	**15**	**15**	**15**	**15**
Tax	(3)	(10)	(4)	-	(1)	(1)	(4)	(4)	(4)	(4)	(4)	(4)
Effective tax rate	*25%*	*29%*	*49%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*
Extraordinary Income/(loss)	-	-	-	-	-	-	-	-	-	-	-	-
Net Income	**8**	**24**	**5**	**(1)**	**3**	**4**	**11**	**11**	**11**	**11**	**11**	**11**
Net Margin, %	*8.9%*	*22.3%*	*8.3%*	*-1.6%*	*5.9%*	*6.8%*	*8.3%*	*8.2%*	*8.2%*	*8.2%*	*8.2%*	*8.2%*

Balance Sheet Summary, USD mln

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Current Assets	**21**	**45**	**40**	**40**	**40**	**41**	**51**	**51**	**52**	**53**	**54**	**54**
Cash & Equivalents	3	1	0	2	2	2	4	4	4	4	4	4
Trade Receivables	6	10	18	16	16	16	18	18	19	19	19	19
Inventories	7	7	5	5	6	6	12	12	12	12	13	13
Other current assets	5	27	17	17	17	17	17	17	17	18	18	18
Fixed Assets	**35**	**46**	**46**	**45**	**46**	**47**	**48**	**50**	**51**	**51**	**51**	**51**
PP&E, net	21	21	24	23	23	24	25	26	27	27	27	27
Other Fixed Assets	14	25	22	23	23	23	23	23	24	24	24	24
Total Assets	**56**	**92**	**86**	**86**	**86**	**87**	**99**	**101**	**103**	**104**	**105**	**105**
Shareholders' Equity	**45**	**70**	**79**	**78**	**80**	**80**	**81**	**82**	**83**	**83**	**84**	**84**
Share Capital	12	12	12	12	12	12	12	12	12	12	12	12
Reserves and Other	22	24	25	25	25	25	25	25	25	25	25	25
Retained Earnings	11	35	42	41	43	43	44	45	46	46	47	48
Current Liabilities	**11**	**21**	**7**	**8**	**7**	**7**	**18**	**19**	**20**	**21**	**21**	**21**
ST Interest Bearing Debt	-	0	-	3	1	3	6	7	8	9	9	9
Trade Payables	10	18	7	5	5	5	11	11	11	11	11	11
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	0	0	0
Other Current Liabilities	1	3	0	0	1	-	-	-	-	-	-	-
LT Liabilities	-	-	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
LT Interest Bearing Debt	-	-	-	-	-	-	-	-	-	-	-	-
Other LT	-	-	0	0	0	0	0	0	0	0	0	0
Total Liabilities & Equity	**56**	**92**	**86**	**86**	**86**	**87**	**99**	**101**	**103**	**104**	**105**	**105**

Cash Flow Statement Summary, USD mln

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Net Income	8	24	5	(1)	3	4	11	11	11	11	11	11
Depreciation	2	1	2	2	2	2	2	2	2	2	2	2
Non-operating and non-cash item	0	(1)	4	1	(0)	0	(0)	(0)	(0)	(0)	(0)	0
Changes in working capital	(4)	(11)	(10)	(0)	(0)	(1)	(1)	(0)	(1)	(1)	(0)	-
Operating Cash Flow	6	14	1	2	5	4	11	12	12	12	13	13
Capital Expenditures, net	(1)	(3)	(2)	(2)	(2)	(2)	(3)	(3)	(3)	(2)	(2)	(2)
Other Investments, net	2	(14)	-	-	-	-	-	-	-	-	-	-
Investing Cash Flow	1	(16)	(2)	(2)	(2)	(2)	(3)	(3)	(3)	(2)	(2)	(2)
Net Borrowings/(repayments)	(4)	-	0	3	(2)	1	4	1	1	1	0	(0)
Dividends Paid	-	-	-	-	(2)	(3)	(10)	(10)	(10)	(11)	(11)	(11)
Other	-	0	-	-	-	-	-	-	-	-	-	-
Financing Cash Flow	(4)	0	0	3	(3)	(2)	(6)	(9)	(9)	(10)	(11)	(11)
Beginning Cash Balance	1	3	1	0	2	2	2	4	4	4	4	4
Ending Cash Balance	3	1	0	2	2	2	4	4	4	4	4	4
Net Cash Inflows/Outflows	2	(2)	(1)	2	(1)	0	2	0	0	0	0	-

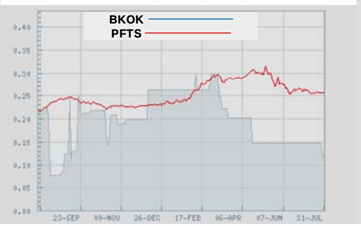
UAH/USD Exchange Rates

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Average	5.33	5.32	5.12	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05
Year-end	5.33	5.31	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05

SELL

Current price	Target price
USD 0.13	USD 0.12

BKOK Mid-Market, USD

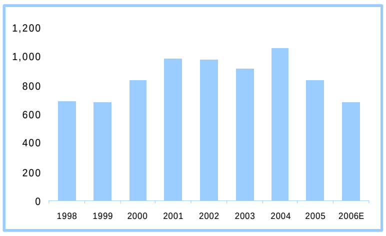


Market Information	
Bloomberg Ticker	BKOK UZ
No of Shares, mln	686.3
Market price, USD	0.13
MCap, USD mln	**89**
Free float	6.0%
FF MCap, USD mln	5.4

Stock Ownership	
Privat (apprx.)	94.0%
Other	6.0%

Ratios, 2005	
EBITDA Margin	5.7%
Net Margin	2.7%
Net Debt/ Equity	0.08

Gross Coke Output, ths mt



Bagliy Coke

Closing Of Markets Threatens Business. The smallest among Ukrainian listed coke makers, BKOK claimed a 4.4% share in the country's coke output in 2005. The company's production fell 21% in 2005 and 16% in 1H06 due to the shrinkage of exports. BKOK's holding group, Privat, operates a total of three coke plants with a share in Ukraine's total production of 12%, which is more than twice as much as Privat-owned DMZ Petrovskogo steel mill can consume. Export markets traditionally were the key for Privat's coke plants, and we estimate that BKOK sold abroad more than a half of its output. With an increase in railway tariffs and given the influx of a cheaper Chinese coke, the company's business sustained a severe blow in 2005 and 1H06.

Capacities Under-Utilized. BKOK's eight coke batteries built during the 50-ies have a design capacity of 3.7 mln mt p.a. However, in the 90-ies the four most out-of-date batteries were taken out of operation. Currently BKOK's effective capacity stands at 1,840 ths mt, with three batteries, renovated in 1985-1987, running and the fourth one, overhauled in 2005, being idled.

Ready For A Sale. Last year Privat's spokesmen stated openly the group's intent to sell BKOK which we see as Privat's attempt to get rid of excess coke capacities. Thanks to pre-sale preparations, BKOK's financials underwent a drastic change with sales rising nearly five-fold, despite a decrease in output and a reduction of the coke price in global markets. We ascribe the turnaround to the cessation of tolling schemes, as previously ~90% of the company's output was sold under tolling by Privat-related traders who supplied BKOK with a coke coal purchased from Privat's partners in Russia. Despite the improvement in reported sales, BKOK's margins remained low (EBITDA margin of 7% and net margin of 3% in 2005), which, we believe, signifies the presence of Privat's favorite gimmick - cost inflation to minimize taxes.

Among potential bidders we see IUD and Mittal Steel, who have ambitious plans to increase steel output and Privat's Russian partners. Zaporizhstal and Mariupol Illicha mill, both also lacking coke, are less likely acquirers of BKOK, in our view, as the former does not seem to have enough cash and the latter already found a way-out by leasing YASK's capacities.

Charter Fund Doubled. In December 2005 BKOK's shareholders voted for a two-fold increase of its charter fund. On June 30, 3006 another AGM approved a subscription for the additional shares. The issue proceeds amounted to ~USD 17 mln and will be used to finance modernization projects in the company's auxiliary coal, chemical and energy shops.

KEY FINACIAL DATA, USD mln

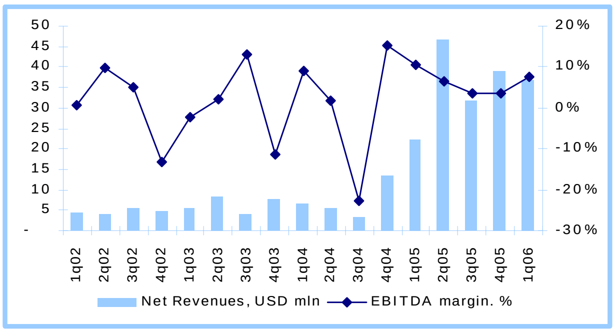
	Net Revenue	EBITDA	Net Income
2005	140.0	8.0	3.8
2006E	101.8	7.7	4.5
2007E	120.2	10.2	6.3

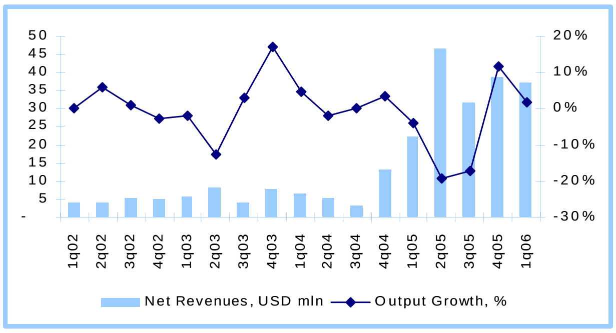
Spot Exch. Rate	5.05

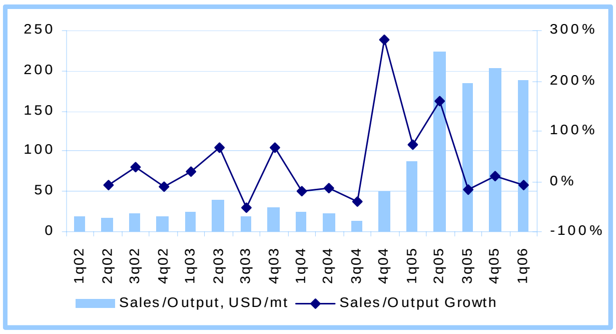
KEY RATIOS

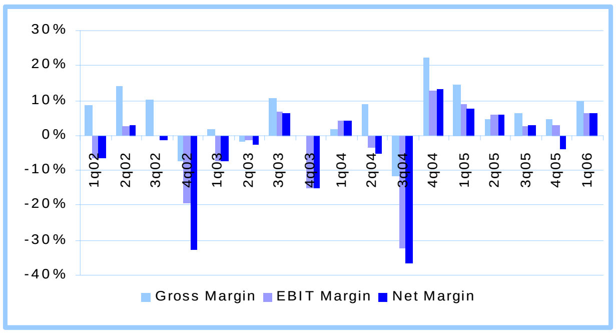
	EV/S	EV/EBITDA	P/E
2005	0.65	11.48	23.74
2006E	0.93	12.19	19.86
2007E	0.76	8.89	14.27

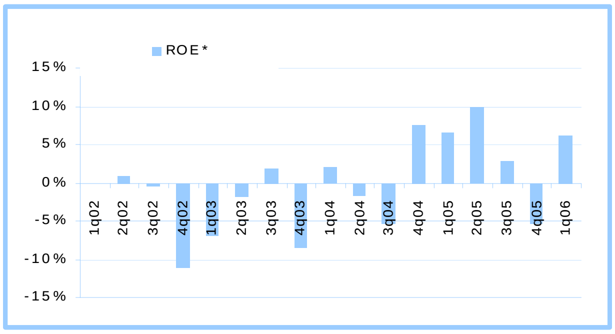
BKOK's Quarterly Analysis

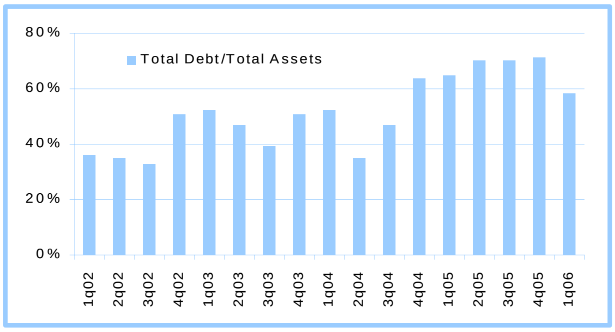












Quarterly ROE is not annualized

Financial Statements

All financial statements according to Ukrainian Accounting Standards

Income Statement Summary, USD mln

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Net Revenues	**25**	**29**	**140**	**102**	**120**	**124**	**126**	**129**	**130**	**131**	**131**	**131**
Change y-o-y	*-82%*	*14%*	*384%*	*-27%*	*18%*	*3%*	*2%*	*2%*	*1%*	*1%*	*0%*	*0%*
Cost Of Sales	(25)	(26)	(131)	(91)	(107)	(108)	(107)	(108)	(109)	(110)	(110)	(110)
Gross Profit	0	3	9	10	13	16	19	21	21	21	21	21
Other Operating Income/Costs, net	1	1	2	-	-	-	-	-	-	-	-	-
SG&A	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)
EBITDA	**(0)**	**2**	**8**	**8**	**10**	**13**	**16**	**17**	**18**	**18**	**18**	**18**
EBITDA margin, %	-1.2%	6.9%	5.7%	7.6%	8.5%	10.5%	12.5%	13.5%	13.5%	13.5%	13.5%	13.5%
Depreciation	(1)	(1)	(1)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
EBIT	**(1)**	**1**	**7**	**6**	**9**	**11**	**14**	**16**	**16**	**16**	**16**	**16**
EBIT margin, %	-5.4%	2.5%	4.8%	6.1%	7.2%	9.2%	11.2%	12.2%	12.2%	12.2%	12.2%	12.2%
Interest Expense	-	(0.0)	(0)	(0)	(0)	(0)	(0)	(1)	(1)	(1)	(0)	(0)
Financial income/(expense)	0	0	0	-	-	-	-	-	-	-	-	-
Other income/(expense)	(0)	(0)	(0)	-	-	-	-	-	-	-	-	-
PBT	**(2)**	**1**	**6**	**6**	**8**	**11**	**14**	**15**	**15**	**15**	**16**	**16**
Tax	-	-	(2)	(1)	(2)	(3)	(3)	(4)	(4)	(4)	(4)	(4)
Effective tax rate	*0%*	*0%*	*39%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*
Extraordinary Income/(loss)	-	-	-	-	-	-	-	-	-	-	-	-
Net Income	**(2)**	**1**	**4**	**4**	**6**	**8**	**10**	**11**	**11**	**12**	**12**	**12**
Net Margin, %	*-6.0%*	*1.7%*	*2.7%*	*4.4%*	*5.2%*	*6.7%*	*8.1%*	*8.8%*	*8.7%*	*8.8%*	*8.9%*	*9.1%*

Balance Sheet Summary, USD mln

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Current Assets	**8**	**47**	**75**	**68**	**51**	**48**	**46**	**47**	**49**	**49**	**49**	**49**
Cash & Equivalents	0	0	0	0	0	0	0	0	0	0	0	0
Trade Receivables	4	4	16	16	20	21	21	22	23	24	24	24
Inventories	2	20	10	16	18	18	18	18	19	19	19	19
Other current assets	2	23	48	36	12	9	6	6	7	7	7	7
Fixed Assets	**18**	**20**	**27**	**23**	**27**	**31**	**33**	**33**	**34**	**34**	**34**	**34**
PP&E, net	14	14	14	16	17	19	21	22	23	23	24	24
Other Fixed Assets	4	6	13	8	10	11	12	12	11	10	10	9
Total Assets	**26**	**67**	**102**	**91**	**78**	**79**	**79**	**81**	**83**	**83**	**83**	**83**
Shareholders' Equity	**13**	**24**	**29**	**51**	**54**	**58**	**62**	**64**	**67**	**69**	**71**	**74**
Share Capital	5	16	16	32	32	32	32	32	32	32	32	32
Reserves and Other	13	13	14	15	15	15	15	15	15	15	15	15
Retained Earnings	(5)	(5)	(1)	4	7	11	15	17	19	22	24	27
Current Liabilities	**13**	**43**	**70**	**38**	**24**	**21**	**17**	**16**	**16**	**14**	**12**	**10**
ST Interest Bearing Debt	-	0	0	3	2	4	6	8	8	6	3	1
Trade Payables	7	33	48	30	21	16	11	8	8	8	8	8
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	0	0	0
Other Current Liabilities	6	9	22	4	-	-	-	-	-	-	-	-
LT Liabilities	**0**	**0**	**2**	**2**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
LT Interest Bearing Debt	-	-	-	-	-	-	-	-	-	-	-	-
Other LT	0	0	2	2	-	-	-	-	-	-	-	-
Total Liabilities & Equity	**26**	**67**	**102**	**91**	**78**	**79**	**79**	**81**	**83**	**83**	**83**	**83**

Cash Flow Statement Summary, USD mln

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Net Income	(2)	1	4	4	6	8	10	11	11	12	12	12
Depreciation	1	1	1	2	2	2	2	2	2	2	2	2
Non-operating and non-cash item	0	0	(6)	6	(0)	(0)	0	-	(0)	(0)	(0)	0
Changes in working capital	1	(7)	(0)	(28)	4	(3)	(3)	(4)	(2)	(0)	-	-
Operating Cash Flow	1	(5)	(1)	(16)	12	7	8	9	11	13	13	14
Capital Expenditures, net	(1)	(3)	(2)	(3)	(5)	(5)	(4)	(2)	(2)	(2)	(2)	(2)
Other Investments, net	-	(3)	(0)	-	-	-	-	-	-	-	-	-
Investing Cash Flow	(1)	(7)	(2)	(3)	(5)	(5)	(4)	(2)	(2)	(2)	(2)	(2)
Net Borrowings/(repayments)	-	-	2	3	(3)	2	2	2	(0)	(2)	(2)	(2)
Dividends Paid	-	-	-	-	(3)	(4)	(6)	(9)	(9)	(9)	(9)	(10)
Other	-	11	-	17	-	-	-	-	-	-	-	-
Financing Cash Flow	-	11	2	20	(6)	(2)	(5)	(7)	(9)	(11)	(12)	(12)
Beginning Cash Balance	0	0	0	0	0	0	0	0	0	0	0	0
Ending Cash Balance	0	0	0	0	0	0	0	0	0	0	0	0
Net Cash Inflows/Outflows	(0)	(0)	(0)	0	0	0	0	0	0	0	-	-

UAH/USD Exchange Rates

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Average	5.33	5.32	5.12	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05
Year-end	5.33	5.31	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05

Appendix: Is Coke An Alternative to Gas?

Steel Smelters Looking For A Substitute To Expensive Gas

In 2006, Ukraine saw its import gas price double (from USD 44-50 to USD 95 per ths cm at Ukrainian/ Russian border) due to a re-negotiation of contract terms with Russian Gazprom and intermediary Rosukrenergo. Gas comprised ~5-7% in total production costs of Ukrainian steel mills last year, and the perspective of a gas price increase did not bode well for steel makers. The blast furnace process (production of pig iron) is most gas intense steel making phase in Ukrainian mills, accounting for ~40% of all gas they consume. In contrast, in developed economies gas-free-technologies are used in operating blast furnaces.

Table 1. Gas Usage In Steel Making In 2005.

Avg gas usage	cm per 1 mt of product
Blast furnace (pig iron)	98.3
Open hearth furnace (steel ingots)	72.3
Basic oxygen furnace (steel ingots)	3.6
Basic oxygen furnace (continuously cast steel billet)	7.0
Electric arc furnace (continuously cast steel billet)	23.5
Steel rolling (finished steel)	36.6

Source: Metal Magazine

Technologically, coke can replace natural gas in the blast furnace process. In late 2005, the Ukrainian association of coke makers, Ukrkoks, suggested putting this into effect, which would lead to a sizable growth in demand for domestic coke producers. Coke plants even proposed a price rebate to steel mills should their offer be accepted. On the part of Ukrainian steel makers, Mittal Steel Kryvy Rig openly announced its intent to fully replace natural gas used in blast furnaces with additional amounts of coke and anthracite.

Coke-For-Gas Substitution Not Economical At Current Prices

There are two basic ways coke can be used to replace natural gas in blast furnaces:

1) Natural gas is fully or partially substituted with an additional hard met coke in the blast furnace charge. This solution can be implemented even in the short term with little CapEx. It envisages an increase in domestic coke production by ~3.6 mln mt a year, or by ~20%.

2) Coke gas, which is a by-product of coke making, can be used to replace natural gas for those steel mills located in close proximity to coke producers. The drawback of this approach is that it is only feasible in a situation when a steel plant is located in the same city as a coke maker that will provide coke gas. The supply of coke gas is limited now and its increase would call for a raise in coke production.

We evaluated the economics of coke-for-gas substitution to see if such a replacement is justified. The gas price for industrial companies settled at ~USD 145 per ths cm in 1H06 VAT inclusive, or ~USD 120.8 after VAT. The average coke price for steel mills is estimated at USD 145/mt in 1H06, or 18% below the average price in 2005

Table 2. Coke &Gas Cost Without Substitution*.

	Usage per mt	Price in 2005, USD	Price in 1H06, USD
	(in mt)		
Met coke (in combination with gas)	0.516	176.2	145.0
	(in '000 cm)		
Gas	0.0983	85.0	120.8
Cost of coke, USD/ mt of pig iron		90.9	74.8
Cost of gas, USD/ mt of pig iron		8.4	11.9
Cost of coke&gas, USD/ mt of pig iron		**99.2**	**86.7**

Source: Ukrkoks; Concorde capital calculations

Table 3. Coke Cost With Coke-For-Gas Substitution*.

	Usage per mt *(in mt)*	Price in 1H06, USD
Met coke (no gas)	0.631	145.0
Cost of coke, USD / mt of pig iron		**91.5**

**Coke and gas consumption per mt of pig iron are as of 2005 ; prices are after-VAT*
Source: Ukrkoks; Concorde capital calculations

The outright conclusion suggested by the tables above is that gas intensive technology remained more appealing in 1H06. According to our calculations, it is cheaper to use a combination of gas and coke than replace gas with coke, and resulting savings are ~USD 4.8 per one tonne of pig iron produced. A gas price of ~USD 170 per ths cm, provided the coke price does not change, would make choosing between gas intense and gas free technologies economically equivalent for steel mills. If we assume that the coke price in 2007 will reach USD 160 per mt, then the corresponding ‘neutral’ gas price is USD 187.5 per ths cm, above the projected price of USD 160-170 per ths cm in 2007.

Glossary

Coke is a hard, gray, porous product remaining after bituminous coal is heated to a high temperature without oxygen until the components that easily vaporize have been driven off (process known as C*arbonization*). It consists chiefly of carbon and is an ideal fuel for furnaces in which bituminous coal itself cannot give a complete burning.

Gross coke is the term that encompasses all types of coke produced by a specific plant, including met. coke, coke breeze and nut coke.

Metallurgical (Met) Coke. Not all coke can be used in metallurgical operations for which good quality coke made from a specific blend of coking coal is essential. Such coke is classified as met. coke.

Blast Furnace (BF) Coke. The term is used to refer to such Met Coke which is used for iron making in BF. The particles are 25-80 mm in size. BF coke fulfills 3 main functions in the blast furnace operation:

i) It acts as a fuel providing heat for all reactions
ii) It acts as a reductant providing carbon for reduction of iron ore and
iii) It provides the required permeability for movement of gases through the bed of iron ore, coke and limestone inside the blast furnace.

Nut Coke. A type of coke product (size 15-25 mm) used by sinter plants, ferroalloy producers and in pig iron industry.

***Coke Breeze**.* Coke screenings (size 0-15 mm) produced in the process of coke making and used by sinter plants and cement industry.

Coking/Non-coking Coal. Based on coking property, coals are broadly classified into two categories namely, *Coking Coal* and *Non-coking Coal*. *Steam coal* used for steam/power generation falls under the broad group of Non-coking coal.

Coking Coal. Coking coals are those varieties of coal which on heating in the absence of air undergo transformation into plastic state, swell and then re-solidify to give a *Cake*. On quenching the cake results in a strong and porous mass called coke.

Coke Oven. Coking coal is converted into coke in silica refractory lined ovens/ chambers called coke ovens.

Coke Oven Battery A set of ovens that process coal into coke. Coke ovens are constructed in batteries of 10 - 100 ovens that are 20 feet tall, 40 feet long, and less than two feet wide. Inside the narrow confines of the coke oven, coal is heated without oxygen for 18 hours to drive off gases and impurities. Such batteries are normally attached with by-product plant where valuable constituents are recovered from the volatile /gaseous content of coal driven out during carbonization. Accordingly, such coke ovens are known as *Byproduct coke oven battery* vis-a-vis *Non-recovery type coke ovens*, also known as *Bee-hive type coke ovens*.

Pulverized Coal Injection (PCI)/ Coal Dust Injection (CDI). These are technologies wherein pulverized/ granulated/ dust coal is injected into the blast furnace through the tuyeres along with the Blast to replace part of the coke requirement.

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