UKRAINE
Iron Ore Mining

CONCORDE CAPITAL

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Ukrainian Iron Ore

Following the Global Uptrend

Poltava Iron Ore
(PGOK: HOLD)

Market Price, USD	8.6
12M Target, USD	8.8
Upside/Downside	2%

Pivdenny Iron Ore
(PGZK: BUY)

Market Price, USD	0.08
12M Target, USD	0.14
Upside/Downside	75%

Sukha Balka
(SUBA: BUY)

Market Price, USD	0.09
12M Target, USD	0.19
Upside/Downside	111%

November 23, 2006

Opportunities in Iron Ore

Overall, iron ore remains at the periphery of the stock market, with Poltava Iron Ore (PGOK) accounting for the bulk of trading volumes in the sector. We believe that two other stocks with free float available, PGZK and SUBA, have been unduly overlooked and present a good investment alternative to PGOK, whose performance did not live up to market expectations.

Good prospects of iron ore stocks are underpinned by growing production of domestic iron ore makers and positive dynamics of price for iron ore. We think Ukrainian iron ore producers will strengthen their positions on the recovering European and expanding Chinese markets in 2006-2008 due to a shortage of shipments from Australia and Brazil. We expect prices to grow until 2009 as ore consumption is likely to follow the secular uptrend. On the domestic market, we expect demand for iron ore to grow 32% by 2010 on the back of escalating steel production while ore imports into Ukraine will be limited due to high transportation costs. We think domestic ore prices will follow the global trend upward.

Poltava Iron Ore: Poor Financials, Threat of Increasing Competition. PGOK has shown little progress improving its reported financials in 2006 and we expect transfer pricing schemes with its trader, Ferrexpo, to continue into 2007. The possible launch of pellet-producing Kryvy Rih Oxidized Iron Ore plant will likely threaten PGOK's markets after 2010. On a positive note, PGOK is likely to create a strategic alliance with a global player or go public after the Vorskla Steel mill (controlled by PGOK's key owners) is constructed in 2009-2010. We maintain our HOLD recommendation and reduce our target to USD 8.8 per share, an upside of 2%.

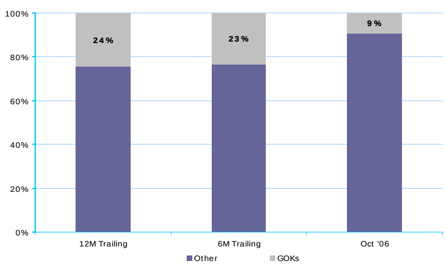
Pivdenny Iron Ore: Sound Prospects, Improving Transparency. We expect that PGZK will increase shipments of sinter, its core value-added product, to domestic steel mills by ~21% yoy in 2006. On the other hand, due to government pressure to eliminate tax minimization schemes, PGZK's transparency should improve in the midterm. We raise our target for PGZK to USD 0.14, an upside of 75%. We maintain our BUY recommendation.

Sukha Balka: Attractively Priced Acquisition Target. Despite its smaller size, we view SUBA as the best investment opportunity in the sector, offering an upside of 111%. The company is controlled by the Privat group (94% ownership), but we think its sale to a strategic investor is probable in the mid-term. We expect transparency improvements and a possible takeover to be key triggers for the stock's price appreciation. Our upgraded target price is USD 0.19 per share. We keep our BUY recommendation unchanged.

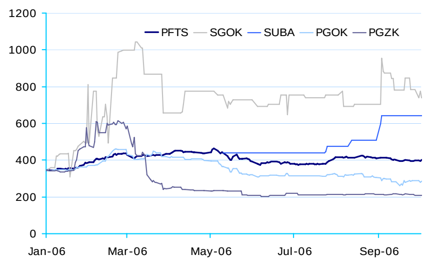
Company	Ticker	YTD Hi/Low Price, USD	Current Price, USD	Target Price, USD	Rating	Upside/ Downside	FF, %	MCap, USD mln	EV, USD mln
Poltava Iron Ore	PGOK	15.0/8.2	8.6	8.8	HOLD	2%	4.0%	992.4	1,178.6
Pivdenny Iron Ore	PGZK	0.25/0.08	0.08	0.14	BUY	75%	7.7%	514.5	558.2
Sukha Balka	SUBA	0.09/0.06	0.09	0.19	BUY	111%	6.0%	78.7	85.2

Source: Bloomberg, Concorde Capital estimates

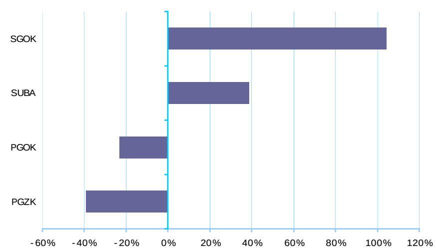
Metals Trading Structure on PFTS



Sector Performance



Price Performance, YTD

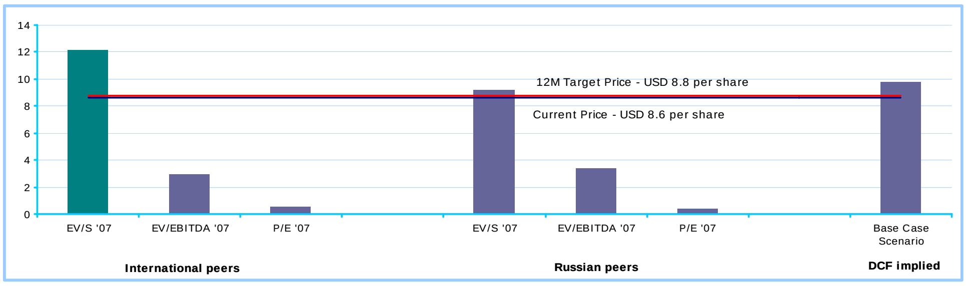


Source: PFTS

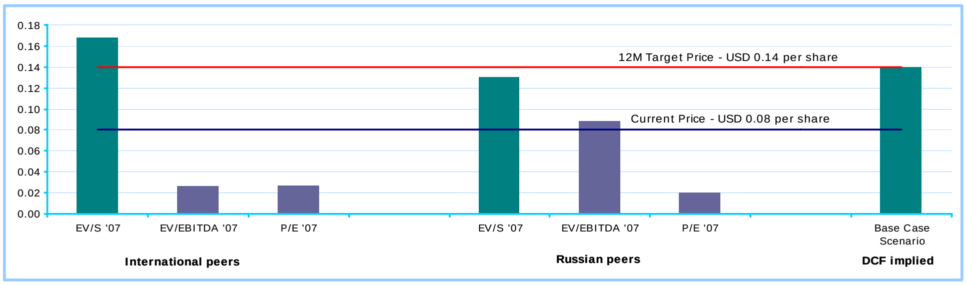
Content

Valuation Summary

Poltava Iron Ore – Upside 2% (HOLD):

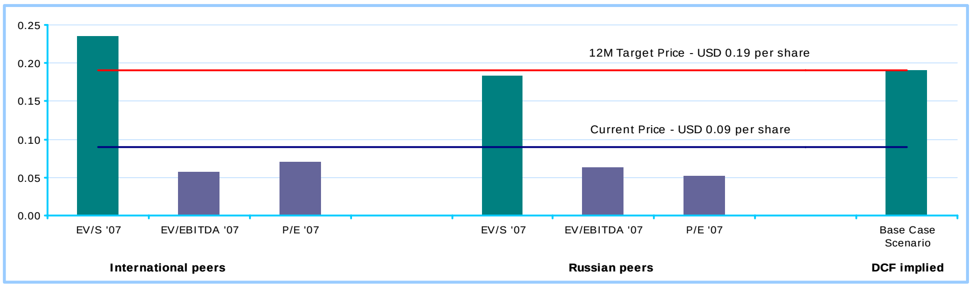


Pivdenny Iron Ore – Upside 75% (BUY)*:



* PGZK valuation is based on a fully diluted number of shares

Sukha Balka – Upside 111% (BUY):



Demand to Grow Over Next 2-3 Years

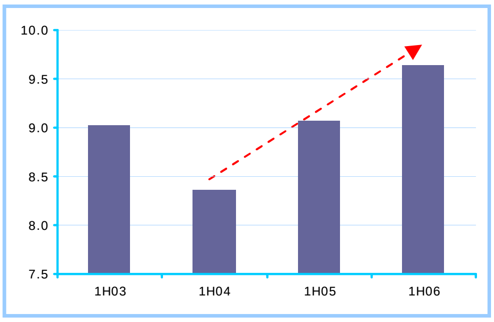
In the next two-three years, we expect Ukrainian iron ore producers will benefit from 4-5% annual growth in demand for iron ore due to booming steel production.

Following the announcements of domestic steel producers, we believe, pig iron output will grow to 40-42 mln mt by 2010 from ~31 mln mt in 2005 (with a 5Y CAGR of 5%), which will increase domestic demand for iron ore to an equal degree.

On export markets, we expect demand from traditional importers (Poland, the Czech Republic, Slovakia, Hungary, Romania, Serbia, Austria and Bulgaria) to increase by 2-3% yoy in 2007-2009. In addition, China, where pig iron production is projected to grow by 5-6% yoy by 2009, is a promising market for domestic ore exporters. We also think Ukrainian ore producers will strengthen their positions on recovering European markets as supply from major world exporters Australia and Brazil will be limited due to growing demand for iron ore worldwide.

Positive Export Markets, Thanks to Pig Iron Growth

Ukraine's Iron Ore Export, mln mt

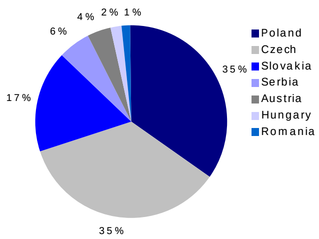


Source: Ukrainian Metal

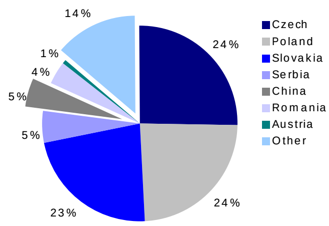
In 1H06 Ukrainian iron ore producers increased their exports to nearly 9.6 mln mt or by 6.2% yoy (up 15.2% to 1H04) on the back of favorable international markets, especially in China. In 1H06 China accounted for 5% of Ukrainian exports of non-sintered ore and 14% of sintered ore, while back in 1H03 Ukrainian ore producers did not export to China at all. Overall, Ukrainian ore makers increased total exports to the Western European and Asian markets to 19% (non-sintered ore) and 38% (sintered ore) in 1H06, as represented by the charts below. For comparison, in 1H03 Ukraine exported only to Eastern Europe and Austria.

Ukrainian Iron Ore Exports Breakdown:

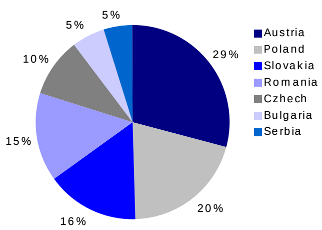
Non-Sintered Ore, 1H03



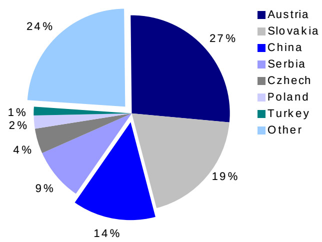
Non-Sintered Ore, 1H06



Sintered Ore, 1H03



Sintered Ore, 1H06



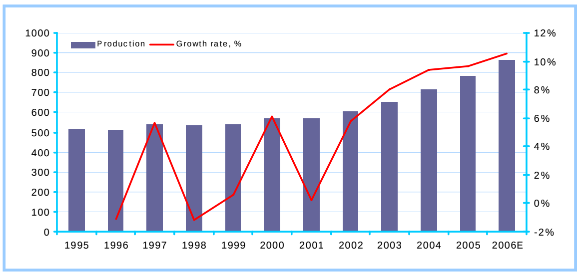
Source: Ukrainian Metal

China: Global Iron Ore Absorber

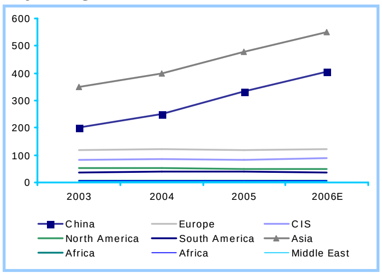
Ukrainian iron ore producers have already entered China's growing market and, in our opinion, their positions there are secured in 2007-2009 thanks to unsatisfied demand. China, with its unprecedented growth of blast furnace iron production (BFI) by 65% in 2003-2005 (from 202 mln mt to 333 mln mt), spurred global BFI production increase of 20% in this period. We project that until 2008 China's BFI production growth will continue at a lower pace (6-7% yoy).

BFI Production, mln mt*:

World



By Region



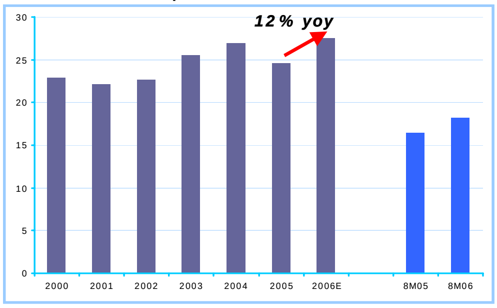
Source: IISI, Concorde Capital estimates
** Ukrainian exports iron ore to countries using only the BFI method*

Europe: Awakening in 2006, Stable in the Mid-Term

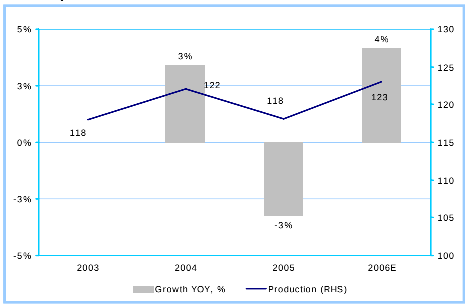
The awakening European steel market is another driver for Ukrainian iron ore export growth in the short-term. In 2006, we expect total European BFI production to recover by 4% yoy to 123 mln mt. Importantly, estimated growth in BFI production of traditional importers (Poland, the Czech Republic, Slovakia, Hungary, Romania, Serbia, Austria and Bulgaria) will exceed aggregate European growth this year as shown by the 8M06 numbers and will be around 12% yoy in 2006 (see the charts below).

BFI Production, mln mt:

Traditional Importers*



Europe



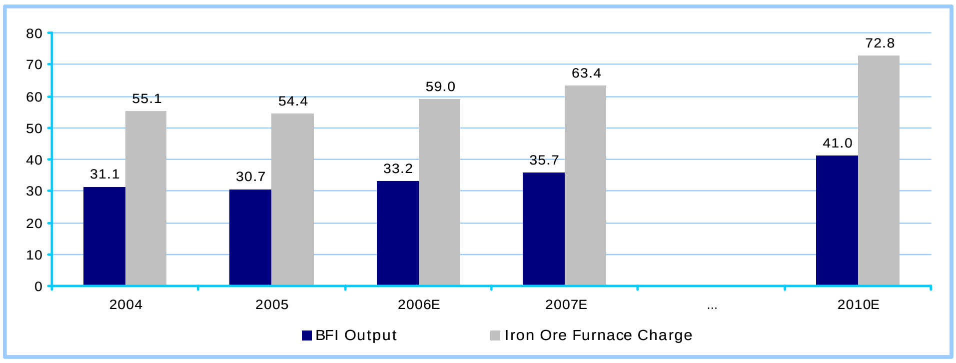
Source: IISI, Concorde Capital estimates
** Data for Bulgaria is not available*

In the longer term, we expect BFI production in Europe to fluctuate around 123-128 mln mt per annum. Due to a logistical advantage over their competitors, Ukrainian exporters have secured a niche in Eastern Europe and have good chances to strengthen their presence in Western/Central Europe, in our opinion.

Ukrainian Consumption to Grow Sizably

We forecast domestic demand for iron ore to grow at a stable rate of ~5% per annum by 2010 on the back of BFI production increase to 41 mln mt based on the plans of Ukrainian smelters (primarily Alchevsk Iron & Steel (ALMK), Enakievo Metal Plant (ENMZ) and Donetskstal). We expect domestic demand for iron ore to grow by 7.5% to 63 mln mt of iron ore furnace charge in 2007 on the back of growth in BFI output to 36 mln mt as each additional ton of pig iron requires ~1.8 mt of iron ore furnace charge. In 2H06 steel smelters are accelerating BFI output, targeting an increase of 8.3% yoy to 33 mln mt for the full year, after a production decline in 1H06 (down 16.7% yoy). We believe this is realistic; in 8M06 smelters increased BFI output by 8.6% yoy.

Ukraine's BFI / Furnace Charge Proportion, mln mt



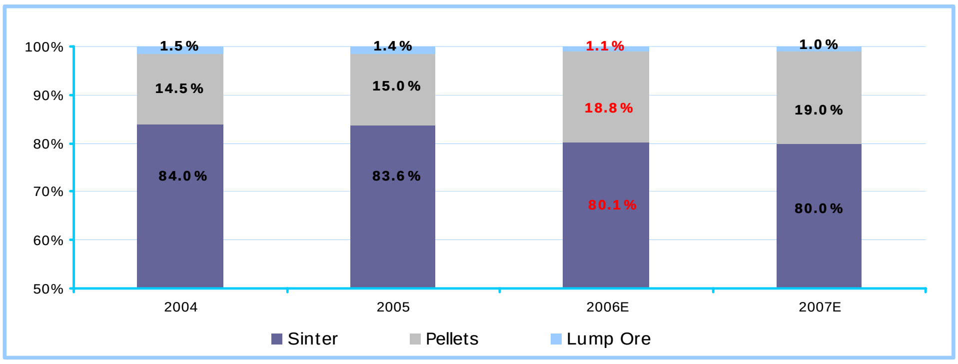
Source: IISI, Concorde Capital estimates

Demand Structure Shifts Toward Value-Added Products

We expect pellets and sinter feed will lead Ukraine's iron ore production in terms of growth in demand in the mid-term due to a shift in the structure of iron ore furnace charge. This will strengthen positions of domestically oriented pellet producers (Pivnichny Iron Ore (SGOK) and Centralny Iron Ore (CGOK)) and sinter feed makers with excess production (SGOK, CGOK, Inguletsky Iron Ore (IGOK) and Pivdenny Iron Ore (PGZK)).

We have found domestic steel smelters are slightly changing the structure of furnace charge to more value-added pellets (see the chart below). We assume the change stems from growing requirements in steel quality and technological changes in the BFI process connected to lower gas consumption.

Changes in Fe charge, %



Source: Industrial Ministry, Concorde Capital estimates

Based on changes in the requirements of BFI producers, we estimate Ukrainian demand for ore products will grow over 2006E – 2010E: pellets by 33%; sinter feed (major feed for pellets/sinter production) by 27%; sinter by 23% and lump ore (minor feed for sinter/pig iron production) by 22%.

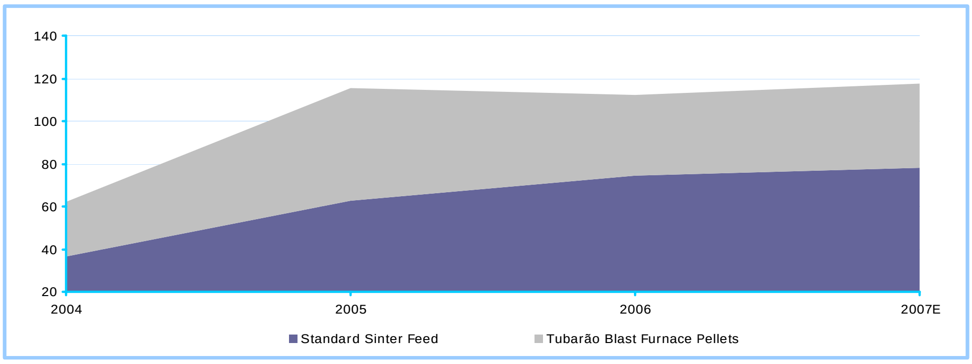
High Prices to Boost Revenues

We believe domestic iron ore producers are poised to benefit from the upward trend in global and domestic prices in the mid-term. We expect world prices for ore to grow stably at 5-7% annually by 2008 on the back of lacking global supply. We project domestic prices for iron ore products will increase by 2-3% yoy in 2006, except pellets, which will decline by ~10% yoy this year. In 2007 we forecast the prices to increase by 7-10% yoy following the global trend.

Export: Growth by 2009, Stabilization Afterward

Recently, the world's largest iron ore producer, CVRD, announced its plan to increase contract iron ore prices by at least 5% in 2007. If this happens and other major ore producers follow CVRD, European prices for high quality ore will rise as follows: blast furnace pellets (BFP) to 117-120 USD/mt; lump ore to 100 USD/mt; and sinter feed to 80 USD/mt. We forecast prices to continue growing until 2009, and to return to their 2006 level in the long-term.

CVRD Sinter Feed and Pellet Prices (Europe), USD/mt

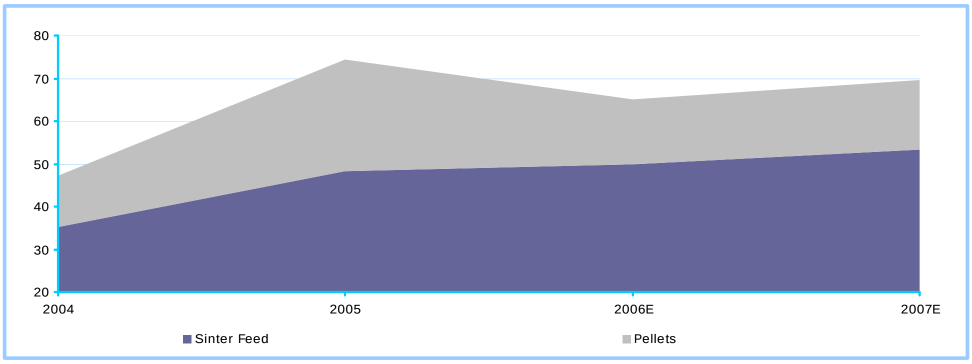


Source: CVRD, Concorde Capital estimates

Domestic: Following the Global Trend Upward

We expect domestic spot prices for iron ore to follow world contract prices in the mid-term due to domestic iron ore makers' intentions to benefit from a favorable market. On the domestic market, Ukrainian ore makers have the power to dictate prices to steel smelters as long as export markets are favorable. We believe booming export markets and few opportunities to import ore will be wild cards for ore producers in their negotiations with steel smelters, which lack iron ore. We estimate domestic prices to reach their peak in 2007: lump ore – 40 USD/mt; BFP – USD 70 USD/mt; sinter feed – 53 USD/mt; sinter – 55 USD/mt. In the longer term, when demand for ore runs dry, we expect prices to slide to their 2006 level.

Ukrainian Sinter Feed and Pellet Prices, USD/mt



Source: Ukrainian Metal, Concorde Capital estimates

Domestic Iron Ore Oligopoly

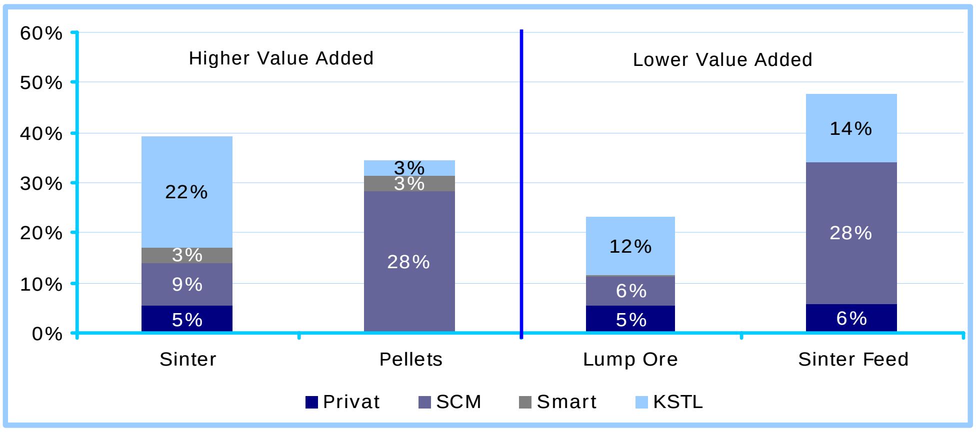
There are six players on the domestic iron ore market: Privat, System Capital Management, Mittal Steel Kryvy Rih, Smart, Minerfin and Ferrexpo Poltava Iron Ore (see Appendix 2).

Smart and Privat groups are well positioned to dictate prices for sinter feed, sinter and lump ore on the Ukrainian market. Privat-controlled iron ore mines (Sukha Balka and Kryvy Rih Iron Ore) produce ~70% of lump ore. Aggregate production of sinter feed by these groups comprises ~40% of Ukraine's total. However, for all that, their internal consumption of these products is small: 8% of lump ore and 15% of sinter feed.

On the other hand, Ferrexpo Poltava Iron Ore, which does not produce BFI at all and accounts for ~45% of total pellet production, is the major exporter (81% of domestic pellets in 2005). Zaporizhya Iron Ore, which produced ~27% of total lump ore in 2005 sells half of its products to Zaporizhstal (ZPST) and exports the rest.

SCM consumes most of their sinter feed internally and so does KSTL with its lump ore and sinter feed. These two players have little effect on the market prices for sinter feed and lump ore. On the other hand, SCM is a price leader in the domestic pellet market, as its iron ore producers ship pellets to domestic stand-alone steel mills covering almost all their needs.

2006E Consumption Within Ore-Mining Groups*



** % of Ukrainian ore production*
Source: Company data, Concorde Capital estimates

Imports are Not a Threat

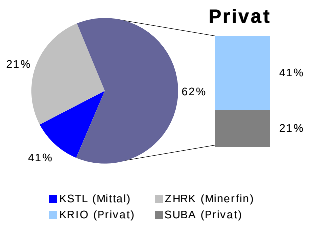
Ukraine's iron ore imports (primarily from Russia) totaled only 1.4 mln mt in 9M06 or less than 4% of Ukraine's consumption. We expect imports to remain low in 2007 due to the following reasons:

- High transportation costs, which effectively protect domestic ore producers from significant import shipments. In terms of production costs, domestic ore producers are competitive with Russian ones.

- High-end European markets as well as the growing Russian market will be higher priorities for Russian producers than the Ukrainian market.

Domestic Ore Market Segmentation '05

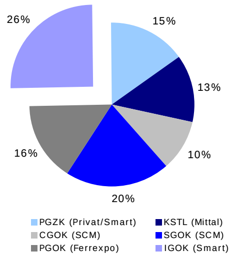
Lump Ore Output '05



Source: Ukrainian News

Lump Ore – Controlled by Privat group. As owner of two large domestic underground mines, Sukha Balka (SUBA) and Kryvy Rih Iron Ore (KRIO), the Privat group produced 62% of total domestic lump ore in 2005. Smaller producers are Mittal Steel Kryvy Rih, with 11% of extraction in 2005, and Zaporizhya Iron Ore (ZHRK), controlled by the Slovakian business group Minerfin, who mined 27% of Ukraine's lump ore in 2005.

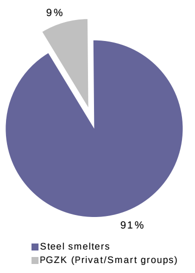
Sinter Feed Output '05



Source: Ukrainian News

Sinter Feed – IGOK The Largest Supplier. Inguletsky Iron Ore (IGOK), the only domestic iron ore producer without in-house sintering facilities, is the biggest supplier of sinter feed to domestic free market (26% of Ukraine's production in 2005). SCM (Centralny and Pivnichny Iron Ore producers), although the largest domestic producer (30% of total in 2005), consumes most of its sinter feed within the group. Ferrexpo Poltava Iron Ore produced 16%, and Pivdenny Iron Ore made 15% of domestic sinter feed output in 2005. Mittal Steel Kryvy Rih was the smallest producer of sinter feed (13%) last year.

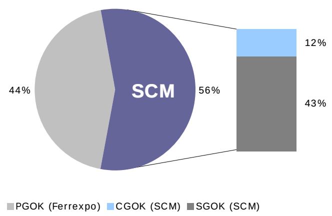
Sinter Output '05



Source: Ukrainian News

Sinter – Privat/Smart Secured Niche. Pivdenny Iron Ore, owned jointly by Smart and Privat groups, is the sole producer of sinter among domestic ore producers. The company secured this segment on the market by supplying sinter to the Donetskstal steel mill and related steel mills Makiyvka Iron & Steel and Dnipropetrovsky Iron & Steel Petrovskogo (DMZP), as unlike other steel smelters they all have no in-house sintering facilities.

Pellets Output '05



Source: Ukrainian News

Pellets – SCM/PGOK Oligopoly. SCM is a major supplier of pellets on the domestic market (56% of domestic production in 2005). On the other hand, Poltava Iron Ore, which accounts for 44% of domestic production, exports more than 90% of its products.

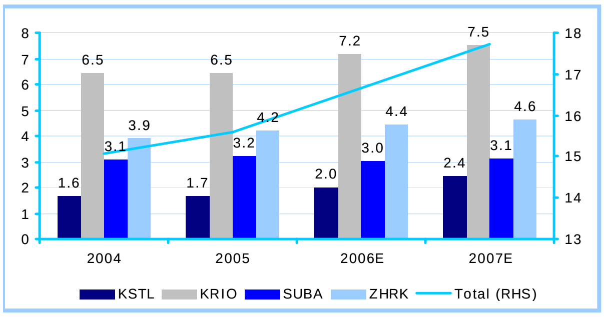
Domestic Iron Ore Production Forecasts '07E

We forecast domestic iron ore production to grow at a rate of ~6-7% yoy over the next few years driven by strong domestic and export demand.

Lump Ore

We estimate aggregate domestic lump ore production in 2006 to increase to 16.7 mln mt (up 6.9% yoy) and project production at 17.7 mln mt (up 6.4%) yoy in 2007.

Estimated Production, mln mt

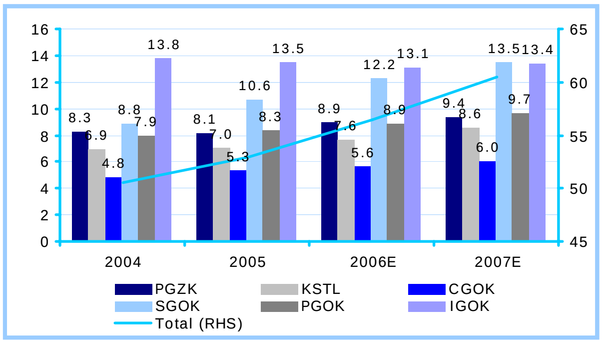


Source: Ukrainian News, Concorde Capital estimates

Sinter Feed

We forecast sinter feed production to increase by 6.6% yoy to 56.5 mln mt in 2006. We forecast growth of 7.2% yoy to 60.5 mln mt in 2007.

Estimated Production, mln mt

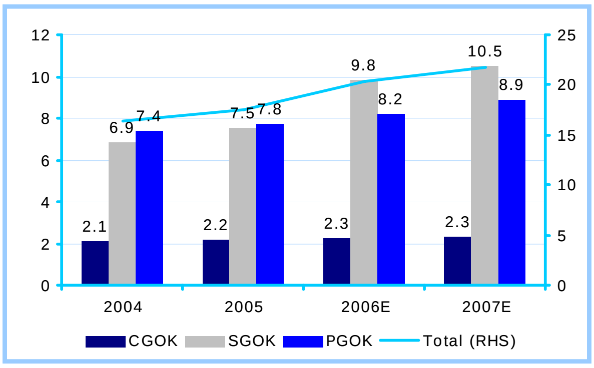


Source: Ukrainian News, Concorde Capital estimates

Pellets

We project aggregate pellet production to reach 20.3 mln mt in 2006 (up 16.3% - the highest growth in the iron ore segment) due to a significant boost in production by SGOK (up 30% yoy). In 2007 we expect the growth to slow to 7.0% yoy and production to reach 21.7 mln mt.

Estimated Production, mln mt



Source: Ukrainian News, Concorde Capital estimates

Case Study: KGOKOR Construction to Threaten PGOK

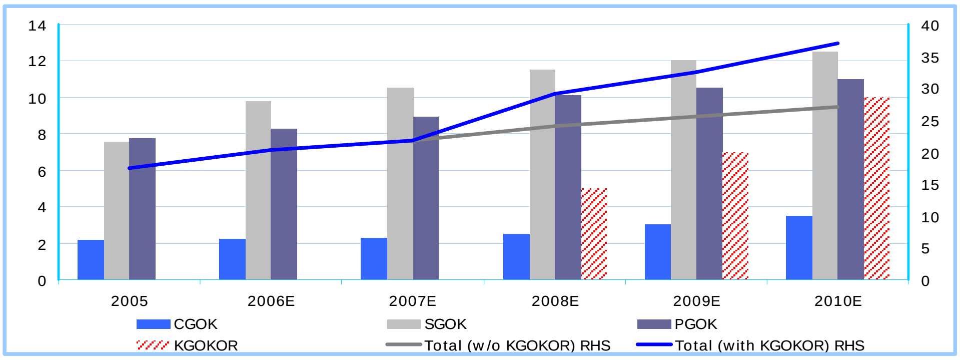
In August the Cabinet decided to complete construction of a pellet producer Kryvy Rih Oxidized Iron Ore plant (KGOKOR) jointly with a consortium of Metaloinvest (Russia) and Smart group (Ukraine). We believe KGOKOR will be launched in 2008-2009, threatening major domestic pellet exporter Poltava Iron Ore.

KGOKOR's projected pellet capacity is 11 mln mt (by comparison, Ukraine's pellet output totaled 17.5 mln mt in 2005). The plant was designed to utilize dumps from PGZK and KSTL to produce feed for its pellets. However, it is likely that in the initial stage (first 2-3 years) it will purchase sinter feed from Inguletsky Iron Ore (Smart) or Lebedinsky and Mikhailovsky Iron Ore (Metaloinvest) (up to 13.5 mln mt p.a.). Started in 1985, the construction of KGOKOR requires an additional USD 750-800 mln to be completed.

Summarizing the Effects

Based on the announced plans of Ukrainian pellets producers, we project their production to increase to ~27 mln mt by 2010 from 17.5 mln mt in 2005 (with KGOKOR it would reach ~37 ml mt, up 40%).

Ukrainian Pellet Production, mln mt



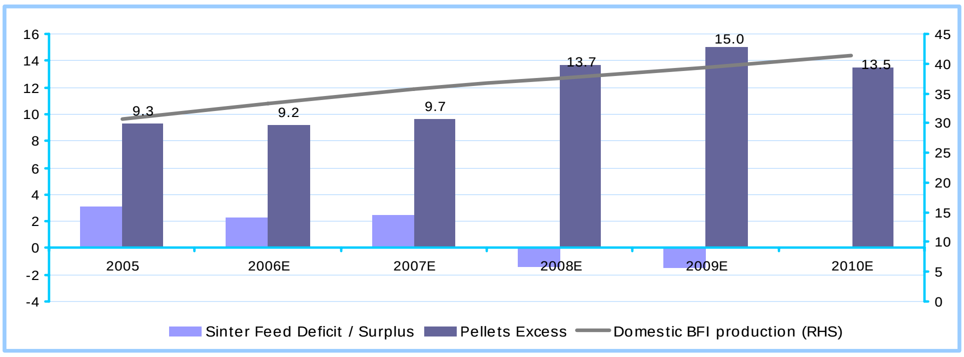
Source: Industrial Ministry, Concorde Capital estimates

We estimate that the degree of risk to PGOK's sales will vary depending on whether KGOKOR will sell pellets domestically or export them, and whether the balance in the Ukrainian sinter feed market will be maintained:

Best case scenario (60% probability) assumes that excess pellet production beyond domestic demand will grow to 13.5-15 mln mt in 2008-2010 compared with 9.6 in 2005, threatening 35-50% of PGOK's sales:

- KGOKOR focuses primarily on the domestic pellets market;
- KGOKOR consumes sinter feed from Inguletsky Iron Ore (Smart group);
- Import of sinter feed from Russia remains low as major exporters are companies related to Metaloinvest, which will have an incentive to sell value-added pellets to Ukrainian steel mills rather than sinter feed;
- Ukrainian steel smelters radically switch to consuming more pellets due to a shortage of sinter feed.

Ukrainian Pellets and Sinter Feed Balance, mln mt

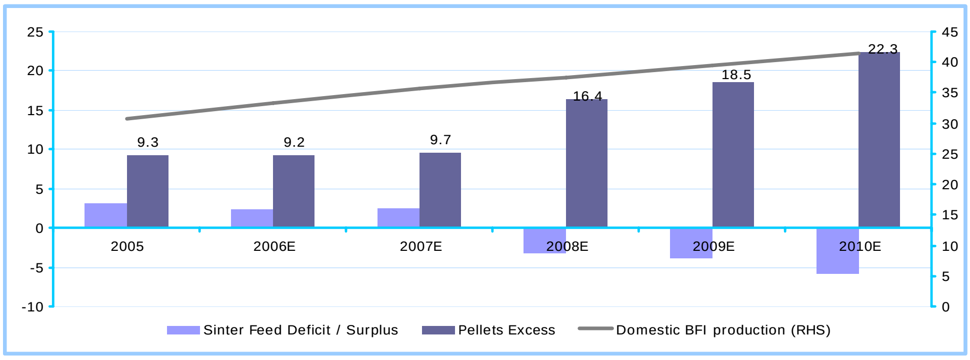


Source: Industrial Ministry, Concorde Capital estimates

Worst case scenario (40% probability) assumes excess pellet production beyond domestic demand to grow to 16.4-22.3 mln mt in 2008-2010 compared with 9.6 in 2005, threatening 60-100% of PGOK's sales (see the chart below):

- KGOKOR focuses on exports;
- KGOKOR consumes sinter feed from Inguletsky Iron Ore or Metaloinvest-related Lebedinsky and Mikhailovsky Iron Ore;
- Import of sinter feed from Russia sufficient to cover demand from steel mills;
- Ukrainian steel smelters do not switch to consuming more pellets.

Ukrainian Pellets and Sinter Feed Balance, mln mt



Source: Industrial Ministry, Concorde Capital estimates

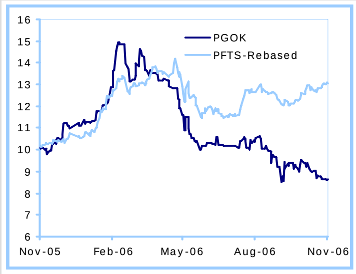
Company Profiles

Poltava Iron Ore

HOLD

Current price	Target price
USD 8.6	USD 8.8

PGOK Mid-Market, USD



Market Information

Bloomberg Ticker	PGOK UZ
No of Shares, mln	**115.4**
Market price, USD	8.6
MCap, USD mln	**992.4**
Free float	4%
FF MCap, USD mln	39.7

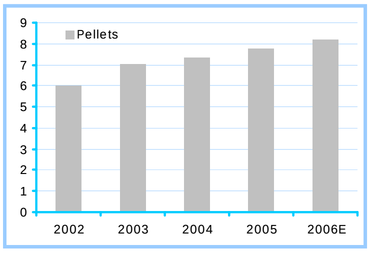
Stock Ownership

Ferrexpo AG	85.8%
Other	14.2%

Ratios, 2005

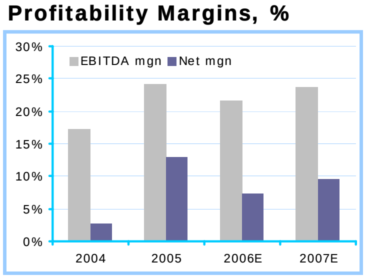
EBITDA Margin	24%
Net Margin	13%
Net Debt/ Equity	0.74

Output, mln mt



Source: Concorde Capital estimates

Profitability Margins, %

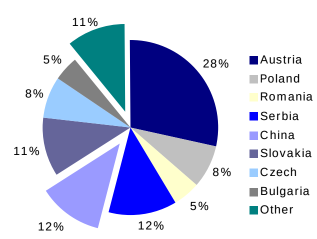


Source: Concorde Capital estimates

We are now less optimistic about Poltava Iron Ore given its weak interim financials this year as well as the threat of increasing competition if construction of huge pellet-producer KGOKOR is completed in 2008-2009. On a positive side, PGOK remains a pre-IPO story and the chances are that the company's owners will mitigate the risk stemming from KGOKOR after they construct a mini-steel mill that will become an alternative consumer of PGOK's pellets. Our DCF-based probability weighted target price is USD 8.8 per share (a downgrade from USD 10 per share), which yields a 2% upside. We maintain our **HOLD** recommendation.

Poor Transparency… While we expect the company's production figures to improve this year, we think the improvement will not be adequately translated into PGOK's reported sales growth. Based on a weak top line of USD 215 mln (a 14% drop yoy) in 1H06, we estimate that PGOK underreported nearly 30% of its revenues transferring them to its trader and major shareholder, Ferrexpo. We forecast the same level of transfer pricing for the full year.

Export Structure, 06E



Source: Company data

…to Be Remedied in the Mid-Term. PGOK's key beneficiary, Konstantin Zhevago, recently hinted in an interview to the *Financial Times* about the possibility of taking PGOK public on a foreign stock exchange and mentioned the possibility of a strategic alliance with a larger player. We believe the appointment of the former manager from BHP Billiton as Ferrexpo's top manager will help this initiative. We think an IPO would be a reasonable option for PGOK after the related steel mill, Vorskla Steel, is constructed in 2009-2010. If Zhevago goes for a strategic alliance instead, it may be realized even earlier.

Risks Associated with KGOKOR… We estimate the construction in 2008-2009 of another domestic pellet maker (the Kryvy Rih Oxidized Iron Ore plant or KGOKOR) with installed capacity on par with that of PGOK will increase competition on the European pellets market, threatening PGOK's share. PGOK's owners do not have a steel smelter among their assets to safeguard PGOK's sales. We think that if KGOKOR is constructed, PGOK might lose a significant portion of its sales to Europe (see p. 12).

…To be Partially Offset by Vorskla Steel. Vorskla Steel mill, which will be constructed by Poltava Iron Ore's owners in 2009-2010 should account for ~50% of PGOK's pellet shipments and diminish long-term risks associated with KGOKOR's construction. If PGOK's owners fail to launch Vorskla Steel, we think they will have to solve their shipment dilemma through a merger with a major steel business group.

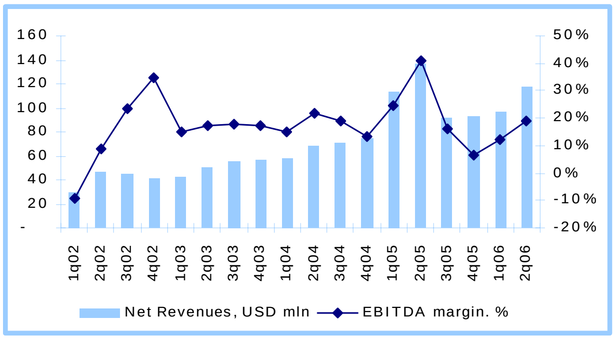
CapEx Program. PGOK plans to invest USD ~500 mln to raise iron ore output to 30 mln mt (by developing the Yeristovo deposit) and construct crushing/floatation mills for sinter feed production by 2010. This will eliminate PGOK's dependency on external sinter feed suppliers and help improve its product mix raising its share of higher value-added pellets from 40% in 2006E to 55% in 2010.

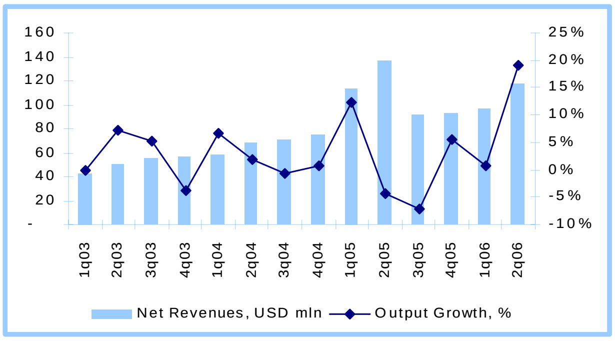
Key Financials & Ratios

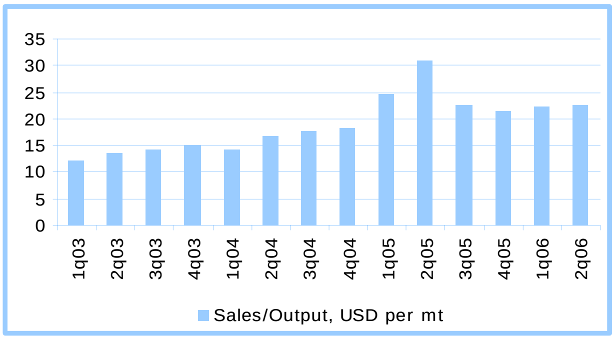
	Sales, USD mln	EBITDA Margin	Net Margin	EV/S	EV/EBITDA	P/E
2005	435.0	24%	13%	2.7	11.3	17.5
2006E	451.7	22%	7%	2.6	12.2	29.5
2007E	564.8	24%	9%	2.1	9.4	19.0

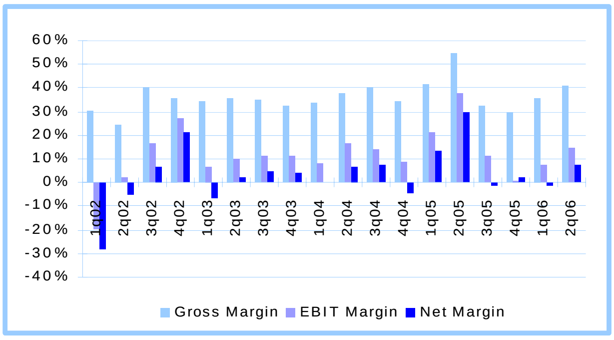
Spot exchange rate is 5.05

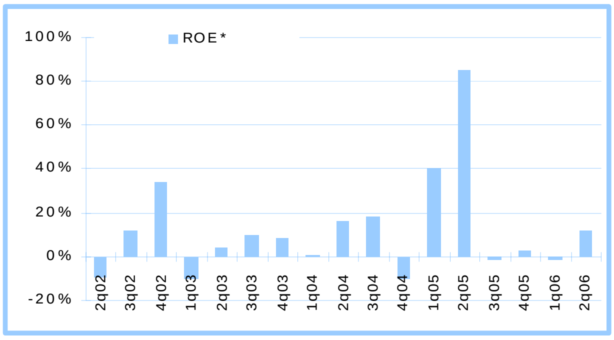
PGOK's Quarterly Analysis



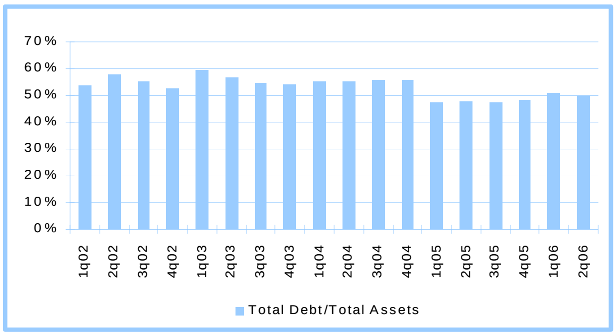








**Quarterly ROE is annualized*



Financial Statements (Base Case Scenario)

All financial statements according to Ukrainian Accounting Standards

Income Statement Summary, USD mln

	2004	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Net Revenues	**273**	**435**	**452**	**565**	**663**	**753**	**1017**	**918**	**918**	**918**	**918**	**918**
Change y-o-y	*N/M*	*59%*	*4%*	*25%*	*17%*	*14%*	*35%*	*-10%*	*0%*	*0%*	*0%*	*0%*
Cost Of Sales	(173)	(256)	(267)	(341)	(392)	(424)	(457)	(471)	(485)	(499)	(499)	(499)
Gross Profit	100	179	185	224	272	330	560	447	433	419	419	419
Other Operating Income/Costs, net	(3)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)
SG&A	(50)	(69)	(81)	(85)	(86)	(98)	(130)	(119)	(129)	(129)	(129)	(129)
EBITDA	**47**	**105**	**98**	**134**	**180**	**226**	**424**	**322**	**299**	**284**	**284**	**284**
EBITDA margin, %	17%	24%	22%	24%	27%	30%	42%	35%	33%	31%	31%	31%
Depreciation	(15)	(18)	(20)	(26)	(31)	(37)	(42)	(48)	(50)	(51)	(53)	(55)
EBIT	**32**	**87**	**78**	**108**	**149**	**189**	**382**	**275**	**249**	**233**	**231**	**229**
EBIT margin, %	12%	20%	17%	19%	22%	25%	38%	30%	27%	25%	25%	25%
Interest Expense	(14)	(15)	(34)	(39)	(45)	(42)	(42)	(41)	(33)	(25)	(20)	(16)
Financial income/(expense)	1	2	2	2	2	2	2	2	2	2	2	2
Other income/(expense)	(3)	(0)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
PBT	**16**	**73**	**45**	**70**	**105**	**148**	**341**	**235**	**217**	**209**	**212**	**215**
Tax	(9)	(17)	(11)	(17)	(26)	(37)	(85)	(59)	(54)	(52)	(53)	(54)
Effective tax rate	*55%*	*23%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*
Net Income	**7**	**57**	**34**	**52**	**79**	**111**	**256**	**176**	**163**	**157**	**159**	**161**
Net Margin, %	*3%*	*13%*	*7%*	*9%*	*12%*	*15%*	*25%*	*19%*	*18%*	*17%*	*17%*	*18%*
Dividend Declared	**-**	**-**	**-**	**-**	**-**	**0**	**127**	**120**	**87**	**108**	**121**	**133**

Balance Sheet Summary, USD mln

	2004	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Current Assets	**118**	**148**	**165**	**192**	**189**	**217**	**288**	**264**	**257**	**257**	**257**	**257**
Cash & Equivalents	19	13	14	17	20	23	31	28	28	28	28	28
Trade Receivables	9	16	32	34	36	40	54	49	46	46	46	46
Inventories	34	55	56	62	60	68	92	83	83	83	83	83
Other current assets	56	63	63	79	73	87	112	106	101	101	101	101
Fixed Assets	**182**	**369**	**404**	**509**	**604**	**696**	**793**	**865**	**875**	**878**	**878**	**878**
PP&E, net	163	202	238	340	433	524	613	686	696	697	697	697
Other Fixed Assets	20	167	167	169	171	173	180	179	180	181	181	181
Total Assets	**300**	**517**	**569**	**701**	**793**	**913**	**1 081**	**1 129**	**1 132**	**1 135**	**1 135**	**1 135**
Shareholders' Equity	**132**	**267**	**300**	**352**	**431**	**542**	**671**	**727**	**803**	**852**	**891**	**920**
Share Capital	138	207	217	217	217	217	217	217	217	217	217	217
Reserves and Other	(5)	61	83	135	214	326	454	510	586	635	674	703
Current Liabilities	**98**	**174**	**172**	**221**	**229**	**244**	**276**	**277**	**208**	**168**	**135**	**110**
ST Interest Bearing Debt	71	137	138	178	182	191	205	213	145	104	71	47
Trade Payables	19	25	25	31	33	38	51	46	44	44	44	44
Accrued Wages	1	1	1	2	2	2	3	3	3	3	3	3
Accrued Taxes	1	2	1	2	2	2	3	3	3	3	3	3
Other Current Liabilities	6	8	7	8	10	11	14	13	14	14	14	14
LT Liabilities	**70**	**75**	**97**	**127**	**132**	**127**	**134**	**125**	**121**	**115**	**109**	**105**
LT Interest Bearing Debt	70	75	75	99	99	89	83	79	75	69	63	59
Other LT	0	1	23	28	33	38	51	46	46	46	46	46
Total Liabilities & Equity	**300**	**517**	**569**	**701**	**793**	**913**	**1 081**	**1 129**	**1 132**	**1 135**	**1 135**	**1 135**

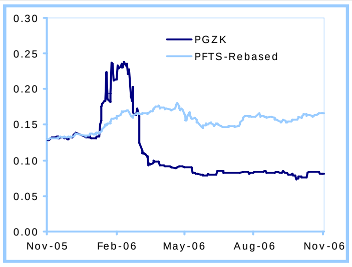
UAH/USD Exchange Rates

	2004	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Average	5.32	5.12	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05
Year-end	5.31	5.05	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 0.08	USD 0.14

PGZK Mid-Market, USD



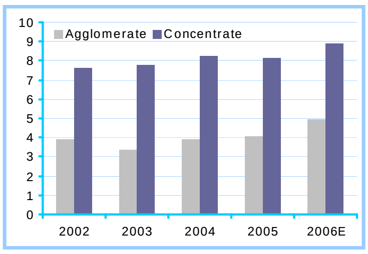
Market Information*	
Bloomberg Ticker	PGZK UZ
No of Shares, mln	**6,430.9**
Market price, USD	0.08
MCap, USD mln	**514.5**
Free float	7.5%
FF MCap, USD mln	38.6

Stock Ownership	
Privat group	47.9%
Smart group	44.4%
Other	7.7%

Ratios, 2005	
EBITDA Margin	14%
Net Margin	2%
Net Debt/ Equity	0.25

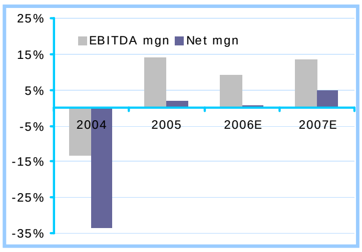
**# of shares includes unregistered share issue*

Output, mln mt



Source: Concordе Capital estimates

Profitability Margins, %



Source: Concorde Capital estimates

Pivdenny Iron Ore

As the only sinter producer among domestic iron ore producers, Pivdenny Iron Ore will benefit from expanding domestic and export markets in the mid-term. Although the fundamental value is overlooked by the market due to low financial reporting standards, we expect financial disclosure to improve thanks to the government's efforts to bring tax dodgers into the open. Our probability weighted target price based on DCF is USD 0.14, which yields a 75% upside. We maintain our **BUY** recommendation.

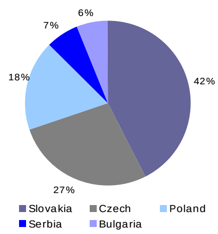
Favorable Market Prospects. We expect PGZK to increase production of sinter by 21% yoy in 2006 to ~5 mln mt on the back of growing domestic demand. Sinter feed production is projected to grow by 10% yoy to ~8.9 mln mt for the same period. We forecast annual growth of sinter and sinter feed output by 5% until 2009 due to a lack of supplies to the domestic market. We expect the domestic sinter price to grow to 53 USD/mt (up 6% yoy), domestic sinter feed price to grow by 2% yoy to 50 USD/mt and export sinter feed prices to increase to 55 USD/mt (up 10% yoy) in 2006. We forecast the price upswing to continue until 2009 due to unsatisfied demand for iron ore.

Transparency to Improve. We believe PGZK's transparency will improve driven by the government's efforts to crack down on tax minimization schemes as Privat group's lobbying power has weakened following the parliamentary elections in 2006. We believe PGZK has room to improve its reported financials as we estimate its true sales are significantly higher than reported. Specifically, we estimate the company's reported sales in 2006 to be USD 315.7 mln compared to estimated true sales of USD 395 mln. We estimate PGZK's true EBITDA margin at 39% and true net margin at 28% this year.

Privat Might Leave PGZK's Business. We believe PGZK's controlling shareholder Privat group will have an incentive to sell its stake at the peak in iron ore prices, which is expected in 2009-2010. The tight relationship of Smart, PGZK's second largest shareholder, and Russian Metaloinvest, which is actively seeking to consolidate the iron ore industry in the CIS, suggests that their alliance will likely seek control over PGZK through a possible buy out of Privat's stake.

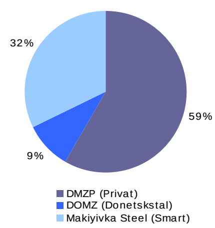
Trades on a Diluted Basis. PGZK's current low market price suggests it has adjusted to a dilutive share issue, subscription for which is currently pending approval. If approved, the issue would increase PGZK's charter fund three fold. Apparently, major shareholders have not yet agreed on the fate of the issue. Should the subscription be cancelled, which is less likely, we expect quotations to be restored to their higher pre-issue level.

Export Structure, 06E*

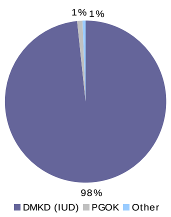


Domestic Sales, 06E:

Sinter



Sinter Feed



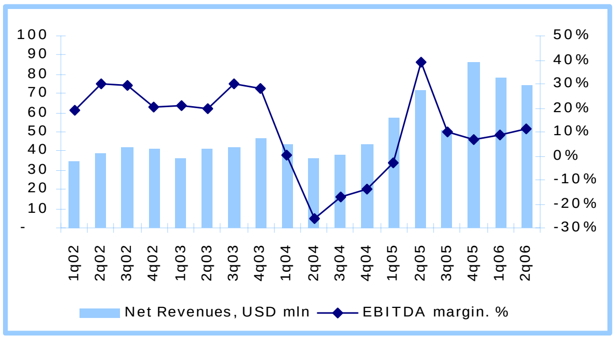
** PGZK to export nearly 20% of produced sinter feed in 06E*
Source: Company data, Concorde Capital estimates

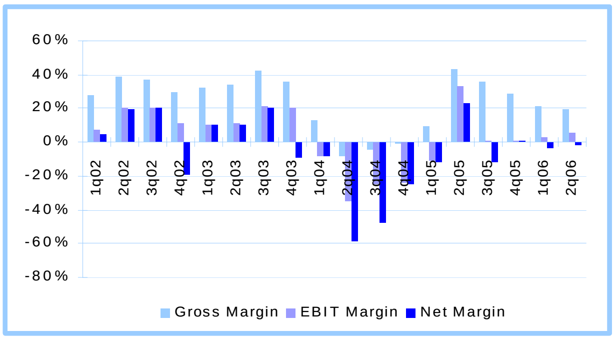
Key Financials & Ratios

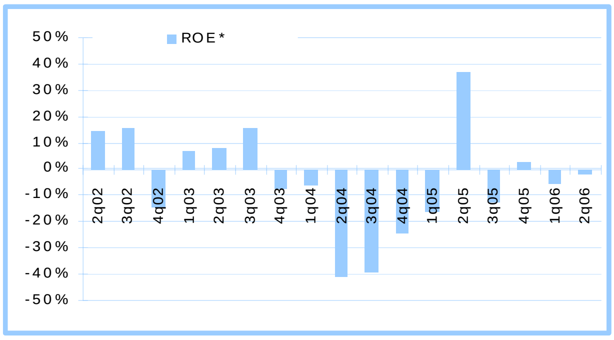
	Sales, USD mln	EBITDA Margin	Net Margin	EV/S	EV/EBITDA	P/E
2005	266.6	14%	2%	2.1	15.0	102.0
2006E	315.7	9%	1%	1.8	19.1	294.3
2007E	397.8	13%	5%	1.4	15.0	26.2

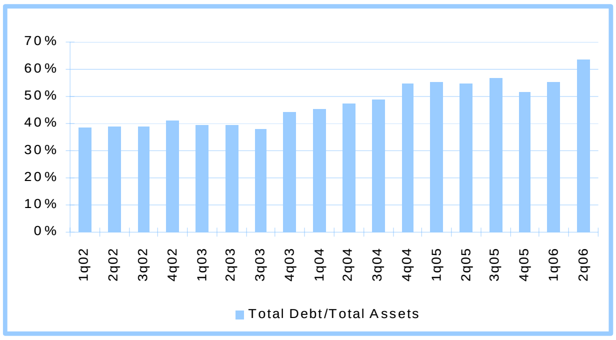
Spot exchange rate is 5.05

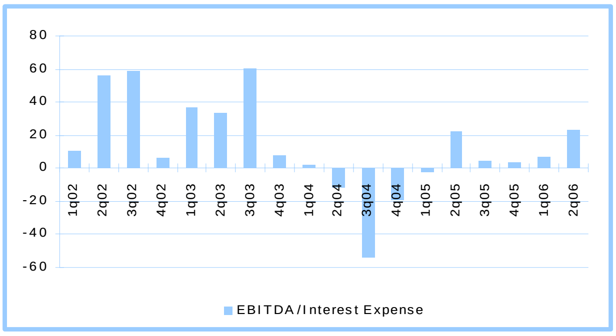
PGZK's Quarterly Analysis

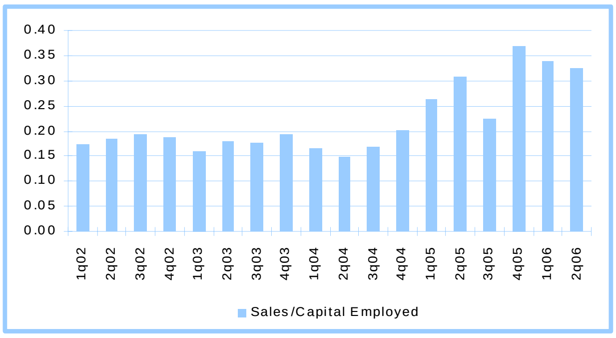












Quarterly ROE is not annualized

Financial Statements (Base Case Scenario)

All financial statements according to Ukrainian Accounting Standards

Income Statement Summary, USD mln

	2004	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Net Revenues	**161**	**267**	**316**	**398**	**425**	**455**	**637**	**663**	**662**	**662**	**662**	**662**
Change y-o-y	*N/M*	*66%*	*18%*	*26%*	*7%*	*7%*	*40%*	*4%*	*0%*	*0%*	*0%*	*0%*
Cost Of Sales	(161)	(186)	(246)	(295)	(310)	(325)	(341)	(358)	(369)	(380)	(392)	(403)
Gross Profit	0	80	70	103	115	130	295	304	293	282	270	259
Other Operating Income/Costs, net	(2)	(11)	(6)	(6)	(7)	(6)	(6)	(3)	(3)	(3)	(3)	(3)
SG&A	(20)	(32)	(35)	(44)	(47)	(50)	(70)	(73)	(73)	(73)	(73)	(73)
EBITDA	**(22)**	**37**	**29**	**53**	**62**	**74**	**219**	**228**	**217**	**206**	**195**	**183**
EBITDA margin, %	-13%	14%	9%	13%	14%	16%	34%	34%	33%	31%	29%	28%
Depreciation	(14)	(18)	(19)	(19)	(20)	(20)	(20)	(20)	(20)	(20)	(20)	(20)
EBIT	**(36)**	**19**	**10**	**34**	**42**	**54**	**199**	**208**	**197**	**186**	**175**	**163**
EBIT margin, %	-22%	7%	3%	8%	10%	12%	31%	31%	30%	28%	26%	25%
Interest Expense	(1)	(5)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(7)	(7)	(7)
Financial income/(expense)	-	-	-	-	-	-	-	-	-	-	-	-
Other income/(expense)	(17)	(0)	-	-	-	-	-	-	-	-	-	-
PBT	**(54)**	**14**	**2**	**26**	**34**	**45**	**191**	**201**	**189**	**179**	**167**	**156**
Tax	-	(9)	(1)	(7)	(8)	(11)	(48)	(50)	(47)	(45)	(42)	(39)
Effective tax rate	*0%*	*64%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*
Net Income	**(54)**	**5**	**2**	**20**	**25**	**34**	**143**	**151**	**142**	**134**	**126**	**117**
Net Margin, %	*-33%*	*2%*	*1%*	*5%*	*6%*	*7%*	*23%*	*23%*	*21%*	*20%*	*19%*	*18%*
Dividend Declared	**-**	**-**	**-**	**-**	**6**	**26**	**143**	**151**	**142**	**134**	**126**	**117**

Balance Sheet Summary, USD mln

	2004	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Current Assets	**186**	**181**	**181**	**196**	**213**	**225**	**230**	**235**	**235**	**234**	**233**	**233**
Cash & Equivalents	1	1	1	1	1	1	1	1	1	1	1	1
Trade Receivables	33	22	25	32	36	36	45	46	46	46	46	46
Inventories	33	49	44	52	59	64	64	62	61	61	61	61
Other current assets	119	108	110	111	117	124	121	126	126	126	126	126
Fixed Assets	**193**	**205**	**208**	**220**	**231**	**237**	**244**	**246**	**246**	**247**	**247**	**247**
PP&E, net	167	178	187	198	208	214	217	219	219	219	219	219
Other Fixed Assets	26	26	21	22	23	23	27	28	28	28	28	28
Total Assets	**379**	**386**	**389**	**416**	**444**	**462**	**474**	**481**	**481**	**481**	**480**	**480**
Shareholders' Equity	**171**	**186**	**187**	**207**	**226**	**234**	**234**	**234**	**234**	**234**	**234**	**234**
Share Capital	101	101	106	106	106	106	106	106	106	106	106	106
Reserves and Other	70	85	81	101	120	128	128	128	128	128	128	128
Current Liabilities	**164**	**153**	**157**	**160**	**167**	**172**	**182**	**191**	**190**	**190**	**189**	**189**
ST Interest Bearing Debt	22	48	44	46	51	52	49	53	53	53	52	52
Trade Payables	90	72	79	80	81	84	96	99	99	99	99	99
Accrued Wages	2	2	2	2	1	1	2	2	2	2	2	2
Accrued Taxes	1	4	0	0	0	0	1	1	1	1	1	1
Other Current Liabilities	49	26	32	32	33	35	35	35	35	35	35	35
LT Liabilities	**43**	**47**	**44**	**50**	**51**	**55**	**57**	**56**	**56**	**56**	**56**	**56**
LT Interest Bearing Debt	-	-	-	-	-	-	-	-	-	-	-	-
Other LT	43	47	44	50	51	55	57	56	56	56	56	56
Total Liabilities & Equity	**379**	**386**	**389**	**416**	**444**	**462**	**474**	**481**	**481**	**481**	**480**	**480**

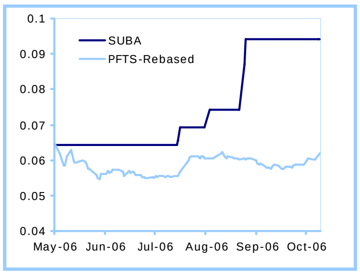
UAH/USD Exchange Rates

	2004	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Average	5.32	5.12	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05
Year-end	5.31	5.05	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 0.09	USD 0.19

SUBA Mid-Market, USD

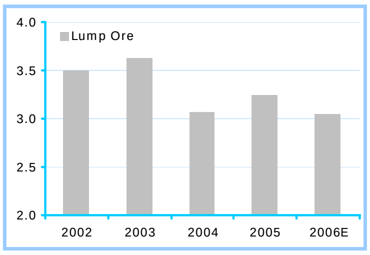


Market Information	
Bloomberg Ticker	SUBA UZ
No of Shares, mln	**837.3**
Market price, USD	0.09
MCap, USD mln	**78.7**
Free float	6%
FF MCap, USD mln	4.7

Stock Ownership	
Privat group	94%
Other	6%

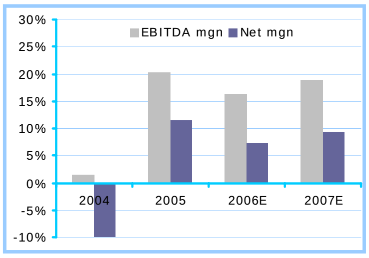
Ratios, 2005	
EBITDA Margin	20%
Net Margin	11%
Net Debt/ Equity	0.14

Output, mln mt



Source: Concorde Capital estimates

Profitability Margins, %



Source: Concorde Capital estimates

Sukha Balka

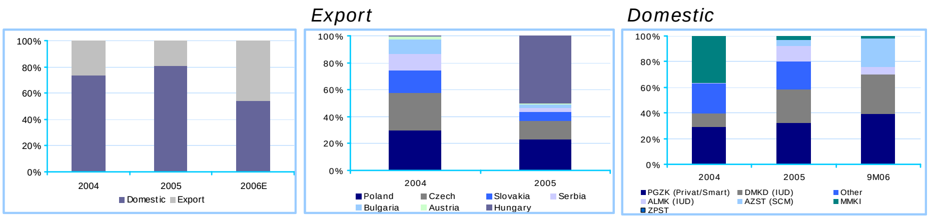
Sukha Balka, a likely acquisition target, is overlooked by the market, in our opinion. We believe bullish ore market prospects and the recent improvement in transparency stemming from likely pre-sale preparations will spur the market to better appreciate the stock. Our valuation yields a DCF-based probability weighted target price of USD 0.19 (a 111% upside). We keep our previous **BUY** recommendation unchanged.

SUBA – Asset for Sale. In 2005 Privat's spokesman mentioned the group's plans to sell this asset (Privat owns a 94% stake). However, Privat's current plans regarding SUBA are less certain. We believe that a sale is the most appropriate strategy for Privat since it has a tremendous excess of lump ore and no sizeable steel assets.

New Owners to Improve Corporate Governance Standards. With 114.5 mln mt in proved reserves (33Y of life), SUBA is an eye-catching asset both for domestic and global players. In our opinion, prospective SUBA's buyers, such as IUD or Mittal Steel, adhere to better corporate governance practices than Privat and would improve corporate governance standards at SUBA after the takeover.

Output to be Stable, Prices to Grow. We project SUBA's production to grow by 2% yoy to 3.1 mln mt in 2007 due to an increase in domestic and export deliveries. Strong expected demand for lump ore after 2007 will ensure SUBA's stable output in the mid-term. We forecast SUBA's domestic and export ore prices to grow in 2007 by 13-14% yoy to 40 USD/mt and 45 USD/mt, respectively, and remain high until 2009.

Sales Structure:



Source: Company data, Interfax

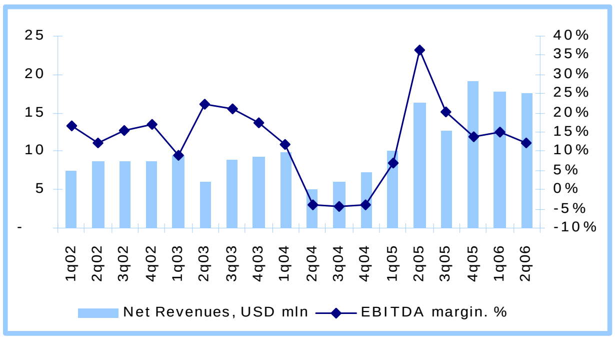
Top Line Improving. We estimate SUBA will increase its top line by 22% yoy to USD 71.2 mln in 2006 on the back of a selling price increase as evidenced by a 33% yoy surge in 1H06. This year we expect an EBITDA margin of 16%. SUBA still has room to improve reported sales and margins significantly, because according to our estimates its true 2006E sales are USD 120 mln, while EBITDA and net margins are 33% and 24%, respectively.

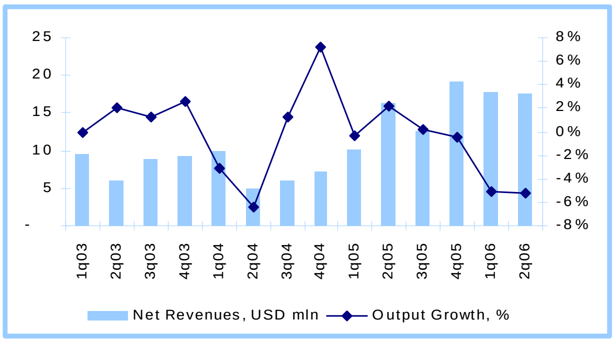
Key Financials & Ratios

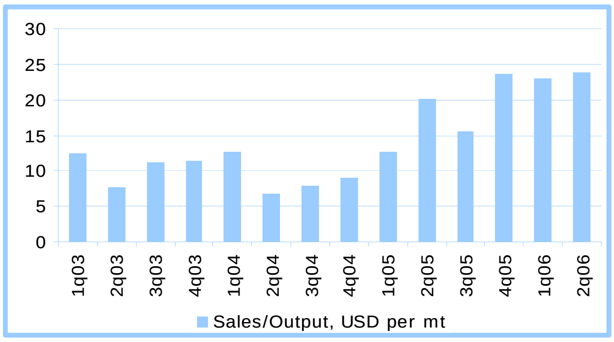
	Sales, USD mln	EBITDA Margin	Net Margin	EV/S	EV/EBITDA	P/E
2005	58.4	20%	11%	1.5	7.4	11.8
2006E	71.2	16%	7%	1.2	7.6	15.1
2007E	71.9	19%	9%	1.2	6.3	11.7

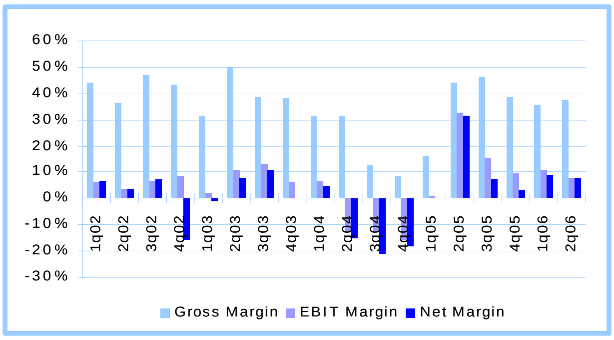
Spot exchange rate is 5.05

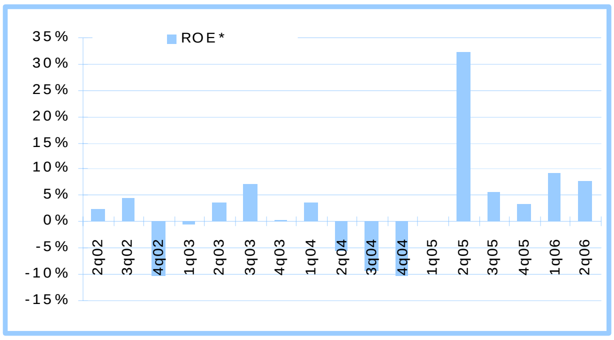
SUBA's Quarterly Analysis

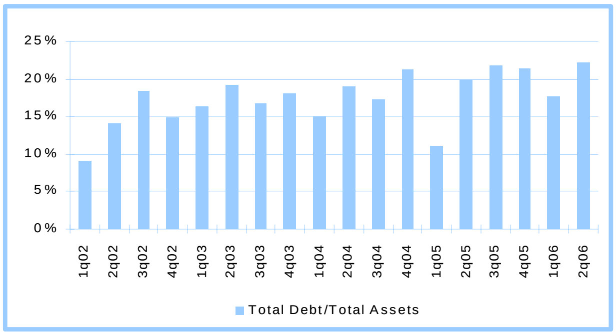












Quarterly ROE is annualized

Financial Statements (Base Case Scenario)

All financial statements according to Ukrainian Accounting Standards

Income Statement Summary, USD mln

	2004	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Net Revenues	**28**	**58**	**71**	**72**	**72**	**85**	**116**	**116**	**116**	**116**	**116**	**116**
Change y-o-y	*N/M*	*107%*	*22%*	*1%*	*0%*	*17%*	*37%*	*0%*	*0%*	*0%*	*0%*	*0%*
Cost Of Sales	(22)	(36)	(44)	(44)	(47)	(56)	(60)	(64)	(64)	(64)	(64)	(64)
Gross Profit	6	22	27	27	25	29	56	51	51	51	51	51
Other Operating Income/Costs, net	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
SG&A	(5)	(9)	(14)	(13)	(12)	(12)	(17)	(18)	(19)	(19)	(19)	(19)
EBITDA	**0**	**12**	**12**	**14**	**12**	**15**	**37**	**33**	**32**	**32**	**32**	**32**
EBITDA margin, %	*2%*	*20%*	*16%*	*19%*	*17%*	*18%*	*32%*	*28%*	*28%*	*28%*	*28%*	*28%*
Depreciation	(2)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(4)	(4)	(4)
EBIT	**(2)**	**9**	**9**	**10**	**9**	**12**	**34**	**29**	**28**	**28**	**28**	**28**
EBIT margin, %	*-6%*	*16%*	*12%*	*14%*	*13%*	*14%*	*29%*	*25%*	*25%*	*25%*	*25%*	*24%*
Interest Expense	(2)	(1)	(2)	(1)	(1)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Financial income/(expense)	1	-	-	-	-	-	-	-	-	-	-	-
Other income/(expense)	(0)	(0)	-	-	-	-	-	-	-	-	-	-
PBT	**(3)**	**8**	**7**	**9**	**8**	**12**	**33**	**29**	**28**	**28**	**28**	**28**
Tax	-	(2)	(2)	(2)	(2)	(3)	(8)	(7)	(7)	(7)	(7)	(7)
Effective tax rate	*0%*	*19%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*
Net Income	**(3)**	**7**	**5**	**7**	**6**	**9**	**25**	**21**	**21**	**21**	**21**	**21**
Net Margin, %	*-10%*	*11%*	*7%*	*9%*	*9%*	*10%*	*22%*	*19%*	*18%*	*18%*	*18%*	*18%*
Dividend Declared	**-**	**-**	**-**	**-**	**3**	**7**	**20**	**19**	**19**	**20**	**21**	**21**

Balance Sheet Summary, USD mln

	2004	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Current Assets	**26**	**41**	**42**	**43**	**39**	**41**	**50**	**52**	**55**	**55**	**55**	**55**
Cash & Equivalents	0	0	0	0	0	0	0	0	0	0	0	0
Trade Receivables	5	12	13	12	10	10	15	16	17	17	17	17
Inventories	8	12	13	12	10	11	16	17	17	17	17	17
Other current assets	13	16	16	18	18	19	19	19	20	20	20	20
Fixed Assets	**40**	**47**	**48**	**51**	**53**	**55**	**56**	**56**	**56**	**56**	**56**	**56**
PP&E, net	27	30	33	36	37	39	40	40	40	40	40	40
Other Fixed Assets	13	17	16	16	16	16	17	17	17	17	17	17
Total Assets	**66**	**88**	**91**	**94**	**92**	**95**	**106**	**108**	**111**	**111**	**111**	**111**
Shareholders' Equity	**52**	**69**	**73**	**80**	**83**	**85**	**90**	**92**	**94**	**95**	**95**	**95**
Share Capital	0	8	8	8	8	8	8	8	8	8	8	8
Reserves and Other	51	61	65	71	74	76	81	83	86	87	87	87
Current Liabilities	**12**	**17**	**15**	**12**	**7**	**8**	**14**	**14**	**15**	**14**	**14**	**14**
ST Interest Bearing Debt	0	10	10	7	2	3	3	3	3	2	2	2
Trade Payables	2	2	2	2	2	2	6	6	7	7	7	7
Accrued Wages	1	1	0	0	0	0	0	0	0	0	0	0
Accrued Taxes	0	2	0	0	0	0	0	0	0	0	0	0
Other Current Liabilities	9	3	3	3	3	3	5	5	5	5	5	5
LT Liabilities	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**
LT Interest Bearing Debt	-	-	-	-	-	-	-	-	-	-	-	-
Other LT	2	2	2	2	2	2	2	2	2	2	2	2
Total Liabilities & Equity	**66**	**88**	**91**	**94**	**92**	**95**	**106**	**108**	**111**	**111**	**111**	**111**

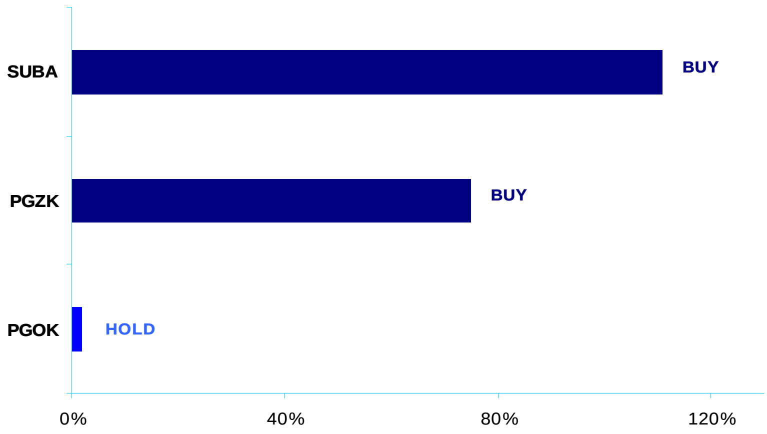
UAH/USD Exchange Rates

	2004	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Average	5.32	5.12	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05
Year-end	5.31	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05

Valuation

We used both a DCF and peer comparison analysis to value Poltava Iron Ore, Pivdenny Iron Ore and Sukha Balka. We found that our peer comparison suggests a wide enough range to embrace DCF-based values. Our 12 month target prices are probability weighted prices derived from DCF modeling.

Upsides and Recommendations*



** PGZK's valuation is based on a fully diluted number of shares*

PGOK
12M target price (USD 8.8) is a probability weighted price based on DCF.

Fairly valued on: EV/S multiples, DCF

PGZK
12M target price (USD 0.14) is a probability weighted price based on DCF.

Undervalued on: EV/S multiples, DCF

SUBA
12M target price (USD 0.19) is a probability weighted price based on DCF.

Undervalued on: EV/S multiples, DCF

Peer Comparison

Pivdenny Iron Ore and Sukha Balka are undervalued based on '07EV/S multiples, while Poltava Iron Ore is fairly valued based on it. We suppose that valuations by EV/EBITDA and P/E are the most distorted by transfer pricing and less reliable than EV/S. We did not conduct a P/Output valuation because Ukrainian iron ore products differ significantly from foreign ones in terms of Fe content and other important parameters that determine their value (strength, non-metallic components, size, etc.).

	EV/S			EV/EBITDA			P/E		
Ukraine	**2005**	**2006E**	**2007E**	**2005**	**2006E**	**2007E**	**2005**	**2006E**	**2007E**
PGZK	0.8	0.7	0.5	5.9	7.4	4.1	34.0	98.1	8.8
PGZK*	2.1	1.8	1.4	15.0	19.1	10.5	102.1	294.3	26.3
PGOK	2.7	2.6	2.1	11.3	12.0	8.9	17.6	29.5	19.0
PGOK**	1.8	1.9	1.6	3.7	4.6	4.0	5.0	6.4	5.6
SUBA	1.5	1.2	1.1	7.2	7.3	6.1	11.3	14.4	11.2
Average	**1.8**	**1.6**	**1.4**	**8.6**	**10.1**	**6.7**	**34.0**	**88.5**	**14.2**
Median	**1.8**	**1.8**	**1.4**	**7.2**	**7.4**	**6.1**	**17.6**	**29.5**	**11.2**
International Peers	**2005**	**2006E**	**2007E**	**2005**	**2006E**	**2007E**	**2005**	**2006E**	**2007E**
BHP Billiton	4.5	3.4	3.2	12.8	7.1	6.2	20.8	10.9	10.0
CVRD	3.9	3.4	2.9	7.7	6.6	5.4	11.7	9.0	7.6
Rio Tinto	4.9	4.0	3.7	11.6	7.4	-0.1	17.7	11.8	11.5
Kumba Resources	3.2	3.0	2.8	14.3	12.6	11.7	21.5	20.4	20.9
Cleveland-Cliffs	0.4	0.2	0.2	1.6	1.3	0.8	3.3	3.1	3.3
Portman	2.7	1.8	1.3	6.8	3.7	2.6	11.7	6.6	5.2
Average	**3.3**	**2.6**	**2.3**	**9.2**	**6.5**	**4.4**	**14.5**	**10.3**	**9.7**
Median	**3.5**	**3.2**	**2.8**	**9.7**	**6.9**	**4.0**	**14.7**	**9.9**	**8.8**
PGZK price									
Implied by Avg, USD	0.38	0.37	0.41	0.14	0.07	0.09	0.03	0.01	0.09
Implied by Mean, USD	0.42	0.45	0.50	0.15	0.07	0.08	0.03	0.01	0.08
Upside/Downside by Avg	*381%*	*358%*	*417%*	*72%*	*-15%*	*11%*	*-58%*	*-90%*	*11%*
Upside/Downside by Mean	*424%*	*458%*	*530%*	*83%*	*-8%*	*-2%*	*-57%*	*-90%*	*0%*
PGZK price*									
Implied by Avg, USD	0.13	0.12	0.14	0.05	0.02	0.03	0.01	0.003	0.03
Implied by Mean, USD	0.14	0.15	0.17	0.05	0.02	0.03	0.01	0.003	0.03
Upside/Downside by Avg	*60%*	*53%*	*72%*	*-43%*	*-72%*	*-63%*	*-86%*	*-97%*	*-63%*
Upside/Downside by Mean	*75%*	*86%*	*110%*	*-39%*	*-69%*	*-67%*	*-86%*	*-97%*	*-67%*
PGOK price									
Implied by Avg, USD	10.6	8.7	9.8	6.6	3.9	3.4	0.8	0.5	0.6
Implied by Mean, USD	11.6	10.8	12.2	7.1	4.2	2.9	0.9	0.5	0.5
Upside/Downside by Avg	*23%*	*1%*	*14%*	*-23%*	*-55%*	*-60%*	*-90%*	*-95%*	*-93%*
Upside/Downside by Mean	*35%*	*26%*	*41%*	*-18%*	*-51%*	*-66%*	*-90%*	*-95%*	*-94%*
PGOK price**									
Implied by Avg, USD	17.5	12.6	13.6	23.6	12.9	9.6	24.9	13.8	14.9
Implied by Mean, USD	19.1	15.6	16.8	25.0	13.8	8.5	25.4	13.3	13.4
Upside/Downside by Avg	*103%*	*47%*	*58%*	*174%*	*50%*	*12%*	*190%*	*61%*	*73%*
Upside/Downside by Mean	*122%*	*81%*	*95%*	*191%*	*61%*	*-1%*	*195%*	*55%*	*56%*
SUBA price									
Implied by Avg, USD	0.22	0.21	0.19	0.12	0.08	0.06	0.12	0.06	0.08
Implied by Mean, USD	0.24	0.26	0.24	0.13	0.08	0.06	0.12	0.06	0.07
Upside/Downside by Avg	*140%*	*135%*	*115%*	*32%*	*-13%*	*-29%*	*28%*	*-29%*	*-13%*
Upside/Downside by Mean	*162%*	*186%*	*161%*	*40%*	*-7%*	*-37%*	*30%*	*-31%*	*-22%*

	EV/S			EV/EBITDA			P/E		
Russian Peers	**2005**	**2006E**	**2007E**	**2005**	**2006E**	**2007E**	**2005**	**2006E**	**2007E**
Mikhailivsky GOK	2.3	2.2	2.0	5.0	4.9	4.5	7.4	7.1	6.7
Lebedinsky GOK	3.2	2.8	2.4	5.5	4.8	4.4	7.4	6.9	6.3
Average	**2.8**	**2.5**	**2.2**	**5.2**	**4.8**	**4.4**	**7.4**	**7.0**	**6.5**
PGZK price									
Implied by Avg, USD	0.32	0.35	0.39	0.07	0.05	0.09	0.02	0.01	0.06
Upside/Downside by Avg	*32%*	*35%*	*39%*	*7%*	*5%*	*9%*	*2%*	*1%*	*6%*
PGZK price*									
Implied by Avg, USD	0.11	0.12	0.13	0.07	0.05	0.09	0.01	0.00	0.02
Upside/Downside by Avg	*11%*	*12%*	*13%*	*2%*	*2%*	*3%*	*1%*	*0%*	*2%*
PGOK price									
Implied by Avg, USD	8.7	8.2	9.2	3.1	2.5	3.4	0.5	0.3	0.4
Upside/Downside by Avg	*865%*	*816%*	*918%*	*305%*	*248%*	*341%*	*50%*	*28%*	*41%*
PGOK price**									
Implied by Avg, USD	14.5	11.9	12.8	12.8	9.2	9.5	12.8	9.3	9.9
Upside/Downside by Avg	*68%*	*39%*	*49%*	*49%*	*7%*	*11%*	*49%*	*9%*	*15%*
SUBA price									
Implied by Avg, USD	0.18	0.20	0.18	0.06	0.06	0.06	0.06	0.04	0.05
Upside/Downside by Avg	*18%*	*20%*	*18%*	*6%*	*6%*	*6%*	*6%*	*4%*	*5%*

** PGZK's valuation is done on both undiluted and diluted bases, as approval of the subscription for the company's newly issued shares is pending*
*** PGOK's valuation is done for two scenarios: consolidated with Ferrexpo A.G. and without Ferrepo A.G.*

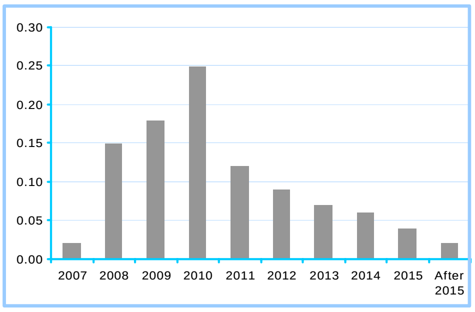
Source: Bloomberg, Thomson, Company data, Concorde Capital estimates

DCF Valuation

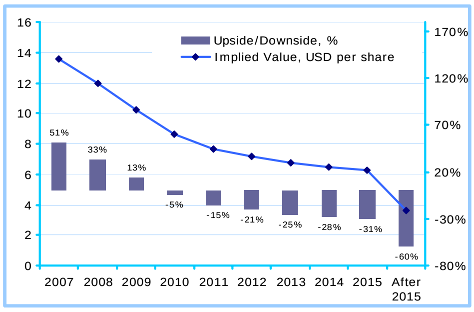
Though we believe Poltava Iron Ore, Pivdenny Iron Ore and Sukha Balka's corporate governance standards will improve in the mid-term, there has been no clear sign of this yet. For this reason we took a probabilistic approach to valuation, considering a set of possible scenarios that account for a year when the companies' true economy will be disclosed. In our valuation more weights are set to 2008-2010 period as we estimate the government' pressure on tax avoiders and corporate governance improvement will yield a harvest in two-three years.

Poltava Iron Ore: Probability weighted 12M fair value is 8.8 USD/share, implying an upside of 2%.

True Disclosure Probabilities

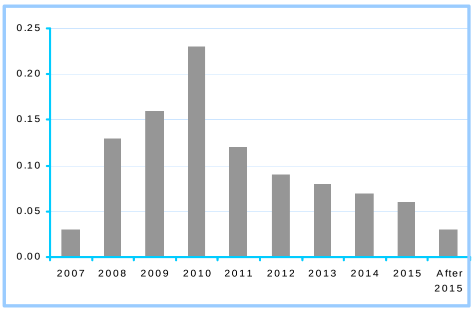


Implied Value

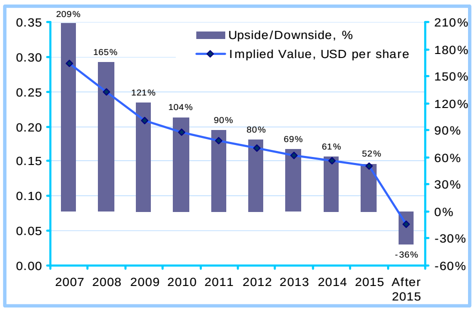


Pivdenny Iron Ore: Probability weighted 12M fair value is 0.14 USD/share, which yields a 75% upside.

True Disclosure Probabilities

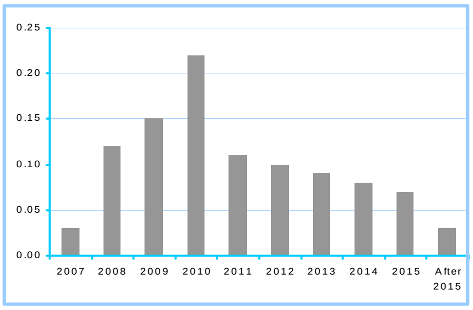


Implied Value

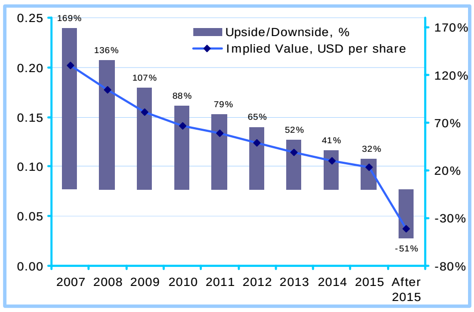


Sukha Balka: Probability weighted 12M fair value is 0.19 USD/share, which yields a 111% upside.

True Disclosure Probabilities



Implied Value



Iron Ore Producers: Base Case Scenarios

Core DCF Assumptions

	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
GDP growth	2.6%	4.5%	5.0%	4.5%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Industrial production growth	3.1%	5.0%	5.5%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Domestic Prices, USD/mt											
Lump Ore	33	35	40	42	35	35	35	35	35	35	35
Sinter feed	49	50	53	53	45	45	45	45	45	45	45
Sinter	50	53	55	62	60	55	55	50	50	50	50
Pellets (Fe 62%)	75	65	70	72	65	60	60	60	60	60	60
Export Prices, USD/mt											
Lump Ore	35	40	45	50	45	40	40	40	40	40	40
Sinter Feed	50	55	65	60	55	55	55	55	55	55	55
Pellets (Fe 62%)	80	90	95	100	100	90	80	80	80	80	80
Pellets (Fe 65%)	90	100	105	110	110	100	90	90	90	90	90

Poltava Iron Ore

Financial Model (in USD mln)

	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Pellets output, ths mt	7 757	8 200	8 964	10 000	10 500	11 000	11 000	11 000	11 000	11 000	11 000
True sales	-	868.9	1 020.4	1 068.3	1 017.0	918.0	918.0	918.0	918.0	918.0	918.0
Reported Sales	435.0	451.7	564.8	663.3	753.1	1 017.0	918.0	918.0	918.0	918.0	918.0
True EBITDA mgn	-	*46%*	*45%*	*48%*	*47%*	*42%*	*35%*	*33%*	*31%*	*31%*	*31%*
Reported EBITDA mgn	*20%*	*17%*	*19%*	*22%*	*25%*	*38%*	*30%*	*27%*	*25%*	*25%*	*25%*

PGOK Discounted Cash Flow Valuation

Valuation date **Nov. 23 2007**

For the purposes of forecasting local currency is used (UAH mln), unless otherwise noted

	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
EBITDA	**494**	**675**	**908**	**1142**	**2142**	**1628**	**1510**	**1437**	**1437**	**1437**
EBIT	392	544	751	957	1928	1388	1260	1177	1168	1159
Tax Rate	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*
Taxed EBIT	294	408	563	717	1446	1041	945	883	876	869
Plus D&A	102	130	157	185	214	240	250	259	268	278
Less CapEx	(315)	(684)	(620)	(647)	(668)	(603)	(264)	(264)	(269)	(278)
Less change in OWC	(96)	(77)	51	(95)	(229)	68	32	-	-	-
FCFF	**(14)**	**(222)**	**152**	**161**	**764**	**746**	**963**	**878**	**876**	**869**
WACC	13.7%	13.3%	13.2%	12.5%	12.1%	11.6%	11.1%	10.7%	10.7%	10.7%

WACC to Perpetuity	10%	Disc. Terminal Value	10 373
Firm Value	7 027	Portion due to TV	60.7%
Less Net Debt	(1 282)	Perpetuity Growth Rate	1.5%
Equity Value	5 745	Implied Exit EBITDA Multiple	7.2x
Fair Value per Share	USD 8.89		
12-mo Fair Value per Share	**USD 9.86**		

Sensitivity Analysis: Implied 12-Month Share Price, USD

10-Year Discount Rates	Perpetuity Growth Rate				
	0.5%	***1.0%***	***1.5%***	***2.0%***	***2.5%***
WACC – 3.0%	11.39	11.88	12.43	13.05	13.75
WACC – 2.0%	10.54	11.00	11.51	12.08	12.73
WACC – 1.0%	9.75	10.18	10.65	11.18	11.79
WACC + 0.0%	9.02	9.42	**9.86**	10.35	10.91
WACC + 1.0%	8.35	8.71	9.12	9.58	10.11
WACC +2.0%	7.72	8.06	8.44	8.87	9.36
WACC + 3.0%	7.13	7.45	7.81	8.21	8.66

Pivdenny Iron Ore

Financial Model (in USD mln)

	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Sinter feed output, ths mt	8 145	8 919	9 365	9 833	10 325	10 841	11 383	11 952	11 952	11 952	11 952
Sinter output, ths mt	4 098	4 966	5 215	5 475	5 640	5 640	5 640	5 640	5 640	5 640	5 640
Sinter feed For Sale, ths mt	5 195	5 343	5 610	5 891	6 264	6 780	7 322	7 892	7 892	7 892	7 892
True sales	-	505.6	639.1	669.0	608.1	636.7	662.8	662.0	662.0	662.0	662.0
Reported Sales	266.6	315.7	397.8	425.0	454.7	636.7	662.8	662.0	662.0	662.0	662.0
True EBITDA mgn	*-*	*39%*	*42%*	*42%*	*35%*	*34%*	*34%*	*33%*	*31%*	*29%*	*28%*
Reported EBITDA mgn	*14%*	*9%*	*13%*	*14%*	*16%*	*34%*	*34%*	*33%*	*31%*	*29%*	*28%*

PGZK Discounted Cash Flow Valuation

Valuation date **Nov. 23 2007**

For the purposes of forecasting local currency is used (UAH mln), unless otherwise noted

	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
EBITDA	**148**	**269**	**311**	**372**	**1108**	**1154**	**1096**	**1040**	**982**	**923**
EBIT	52	171	211	271	1006	1053	995	940	883	824
Tax Rate	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*
Taxed EBIT	39	128	158	203	755	789	746	705	662	618
Plus D&A	96	98	100	101	101	101	101	100	100	99
Less CapEx	(159)	(151)	(150)	(126)	(116)	(110)	(102)	(100)	(100)	(99)
Less change in OWC	44	(72)	(79)	(32)	36	(3)	2	2	5	(2)
FCFF	**19**	**3**	**29**	**146**	**776**	**777**	**747**	**706**	**667**	**616**
WACC	15.3%	14.9%	14.2%	13.3%	12.8%	11.9%	11.4%	11.4%	11.3%	11.3%

WACC to Perpetuity	11%	Disc. Terminal Value	6 582
Firm Value	4 998	Portion due to TV	51.7%
Less Net Debt	(227)	Perpetuity Growth Rate	1.5%
Equity Value	4 771	Implied Exit EBITDA Multiple	7.1x
Fair Value per Share	USD 0.13		
12-mo Fair Value per Share	**USD 0.15**		

Sensitivity Analysis: Implied 12-Month Share Price, USD

10-Year Discount Rates	Perpetuity Growth Rate				
	0.5%	***1.0%***	***1.5%***	***2.0%***	***2.5%***
WACC – 3.0%	0.16	0.17	0.18	0.19	0.20
WACC – 2.0%	0.15	0.16	0.17	0.17	0.18
WACC – 1.0%	0.14	0.15	0.16	0.16	0.17
WACC + 0.0%	0.14	0.14	**0.15**	0.15	0.16
WACC + 1.0%	0.13	0.14	0.14	0.14	0.15
WACC +2.0%	0.13	0.13	0.14	0.14	0.14
WACC + 3.0%	0.13	0.13	0.13	0.13	0.14

Sukha Balka

Financial Model (in USD mln)

	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Lump ore output, ths mt	3 241	3 047	3 107	3 123	3 139	3 154	3 154	3 154	3 154	3 154	3 154
True sales	-	113.3	130.7	135.9	120.8	115.9	115.9	115.9	115.9	115.9	115.9
Reported Sales	58.4	71.2	71.9	72.0	84.6	115.9	115.9	115.9	115.9	115.9	115.9
True EBITDA mgn	*-*	*40%*	*47%*	*48%*	*38%*	*32%*	*28%*	*28%*	*28%*	*28%*	*28%*
Reported EBITDA mgn	*20%*	*16%*	*19%*	*17%*	*18%*	*32%*	*28%*	*28%*	*28%*	*28%*	*28%*

SUBA Discounted Cash Flow Valuation

Valuation date **Nov. 23 2007**

For the purposes of forecasting local currency is used (UAH mln), unless otherwise noted

	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
EBITDA	**59**	**68**	**62**	**78**	**189**	**164**	**161**	**161**	**161**	**161**
EBIT	44	52	46	61	171	147	144	144	143	143
Tax Rate	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*
Taxed EBIT	33	39	34	45	129	110	108	108	108	107
Plus D&A	15	16	16	17	17	17	18	18	18	18
Less CapEx	(34)	(30)	(25)	(24)	(20)	(18)	(18)	(18)	(18)	(18)
Less change in OWC	(15)	(2)	17	(3)	(22)	(7)	(11)	-	-	-
FCFF	**(1)**	**23**	**43**	**35**	**103**	**102**	**97**	**107**	**107**	**108**
WACC	16.0%	15.7%	14.0%	13.1%	12.5%	12.0%	11.5%	11.5%	11.5%	11.5%

WACC to Perpetuity	11%	Disc. Terminal Value	1 149
Firm Value	864	Portion due to TV	52.2%
Less Net Debt	(35)	Perpetuity Growth Rate	1.5%
Equity Value	829	Implied Exit EBITDA Multiple	7.1x
Fair Value per Share	USD 0.16		
12-mo Fair Value per Share	**USD 0.20**		

Sensitivity Analysis: Implied 12-Month Share Price, USD

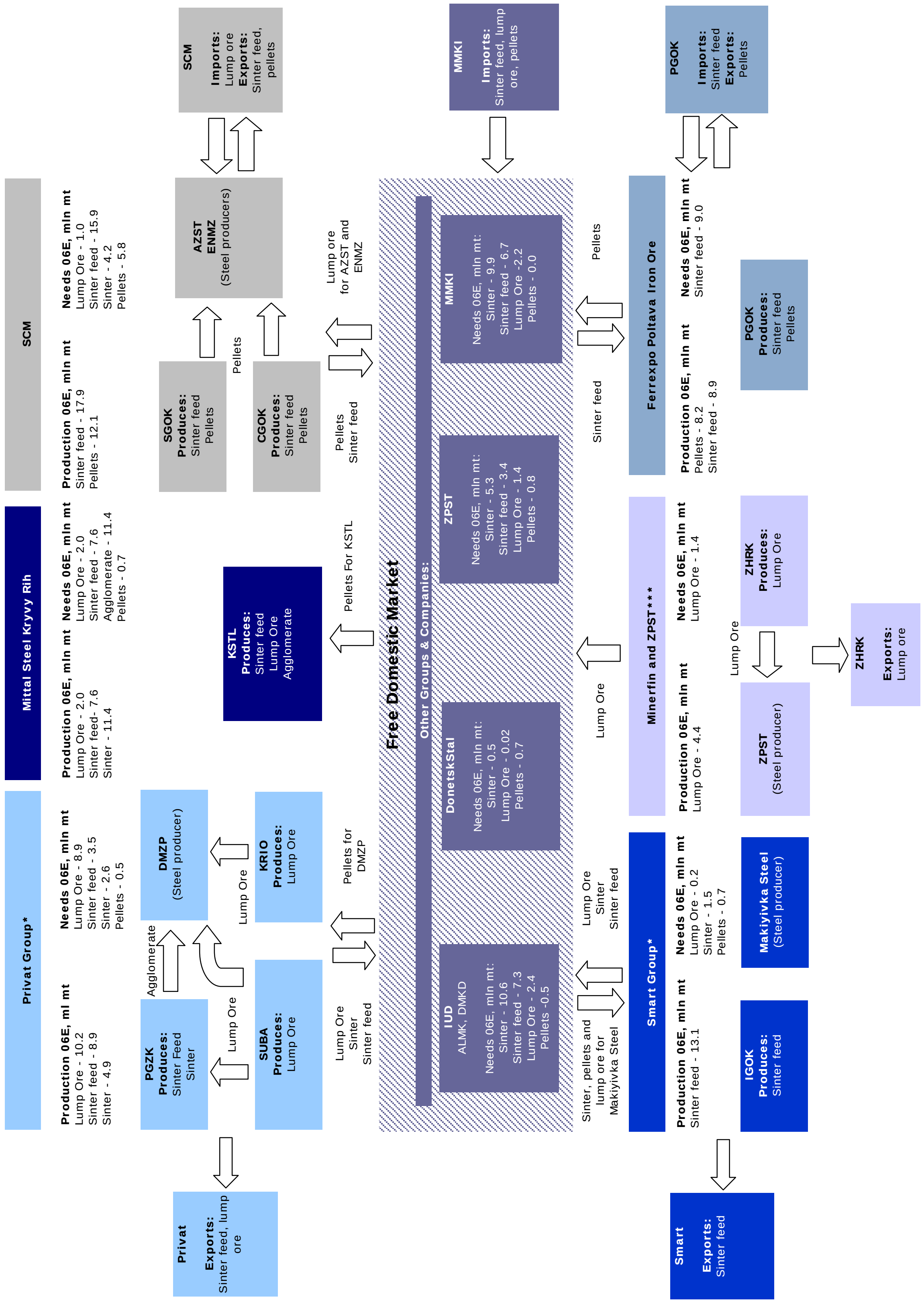
10-Year Discount Rates	Perpetuity Growth Rate				
	0.5%	***1.0%***	***1.5%***	***2.0%***	***2.5%***
WACC – 3.0%	0.22	0.23	0.23	0.24	0.25
WACC – 2.0%	0.21	0.21	0.22	0.23	0.24
WACC – 1.0%	0.20	0.20	0.21	0.22	0.22
WACC + 0.0%	0.18	0.19	**0.20**	0.20	0.21
WACC + 1.0%	0.17	0.18	0.18	0.19	0.20
WACC +2.0%	0.16	0.17	0.17	0.18	0.19
WACC + 3.0%	0.16	0.16	0.16	0.17	0.18

Appendix 1: Key Financials

	Mcap, USD mln	Sales, USD mln			EBITDA mgn			Net mgn		
		2005	2006E	2007E	2005	2006E	2007E	2005	2006E	2007E
Ukraine										
PGZK	514	266	316	398	14%	9%	13%	2%	1%	5%
PGOK	992	435	452	565	24%	22%	24%	13%	7%	9%
SUBA	75	58	71	72	20%	16%	19%	11%	7%	9%
International										
BHP Billiton	125 932	29 885	39 325	39 925	35%	47%	51%	20%	29%	32%
CVRD	52 332	14 555	16 552	18 324	50%	51%	53%	31%	35%	38%
Rio Tinto	89 166	18 341	22 768	23 657	42%	54%	54%	27%	33%	33%
Kumba Resources	5 850	1 886	2 000	2 081	23%	24%	24%	14%	14%	13%
Cleveland-Cliffs	893	1 740	1 740	2 000	24%	18%	25%	16%	16%	14%
Portman	722	260	374	425	39%	48%	50%	24%	29%	33%
Russia										
Mikhailovsky GOK	2 136	941	959	1058	45%	46%	45%	31%	32%	30%
Lebedinsky GOK	2 992	924	1081	1233	59%	58%	56%	44%	40%	38%

Source: Bloomberg, UBS, Thomson, Concorde Capital estimates

Appendix 2: Ukrainian Iron Ore Market Balance



* Privat and Smart groups own major stakes in PGZK (operating control belongs to Privat). PGZK is sinter supplier for Makiyivka Steel.
** Sinter feed is a main feedstock for both sinter and pellets production
*** ZPST is a minor shareholder in ZHRK
**** All steel makers except Makiyivka Iron & Steel, DMZP and Donetskstal have own sintering facilities

Source: Company Data, Concorde Capital estimates

Appendix 3: Operation Schemes

SINTER FEED – SINTER - PELLETS

Open Pit Mining

Consist of strip and iron ore mining. Mined ore contains Fe – 27.5-35% (PGZK) and 21.7-30.9% (PGOK)

Crushing

Mined ore is crushed into small pieces in special machines (crusher). Before crushing, iron ore undergoes screen sizing.

Ore-dressing

After ore is crushed to the optimal size, it goes to magnetic separation machines, which produce sinter feed with Fe content: 65.3% (PGZK) and 63.4-65.5% (PGOK).

PGZK

Sintering

Blended with lump ore (~193 kg/per mt), coke/culm (~44/26 kg per mt), limestone (~254 kg per mt) and reduced to fragments, sinter feed (~741 kg per mt) goes to an sintering machine, which uses nearly 5 cm per mt of gas. The last phase is cooling. Produced sinter contains Fe 55.4%.

PGOK

Floatation

Intermediate Stage. To increase Fe content in concentrate it can be processed in a special floatation machine. After floatation, Fe content in sinter feed grows by 2%. This technology is used by GOKs with low Fe content in mined iron ore and by producers of pellets with 65% Fe content.

Filtration-Decomposition

Sinter feed is mixed with bentonite (9 kg per mt) and limestone (~2 per mt), which are decomposed to the needed fraction. This blend is filtered and, as pulp, is directed to the pellet factory.

Pelletizing

Pulp goes to a granulator, which produces non-dry pellets. The pellets are burnt in a special kiln (gas consumption 20 kg per mt) and cooled. Pellets contains 62-65% of Fe.

LUMP ORE

Underground Mining

Mined ore contains Fe – 55.7%

SUBA

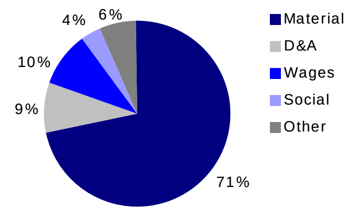
Ore Enriching

Enriched ore contains Fe – 57.6-57.9%

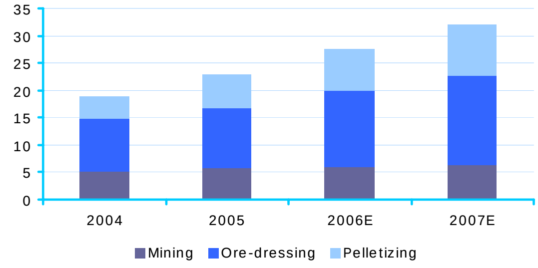
Appendix 4: Cost Structure

PGOK

Breakdown, %



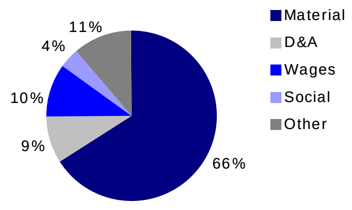
Direct Cost, USD per mt



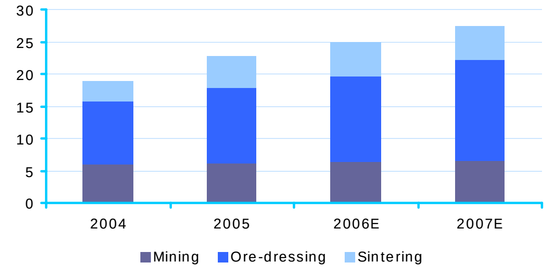
Source: Company data, Concorde Capital estimates

PGZK

Breakdown, %



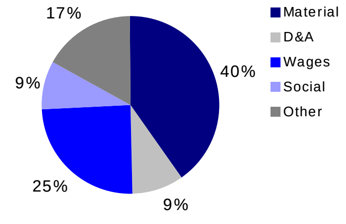
Direct Cost, USD per mt



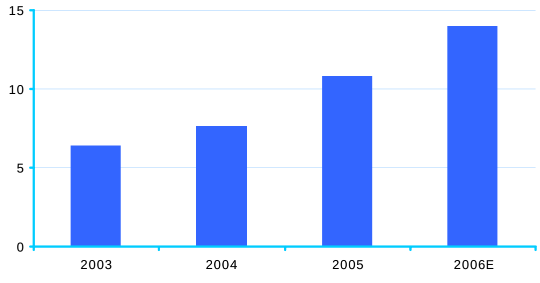
Source: Company data, Concorde Capital estimates

SUBA

Breakdown, %



Direct Cost, USD per mt



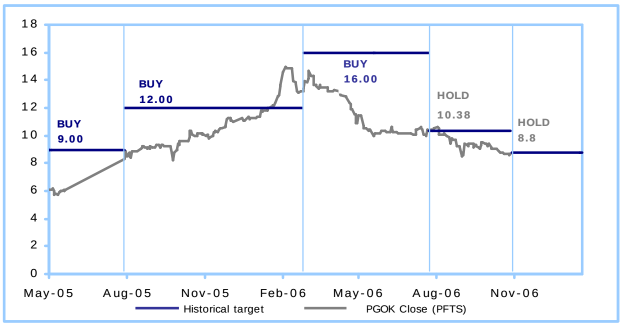
Source: Company data, Concorde Capital estimates

Analyst Certification

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

Poltava Iron Ore (PGOK)

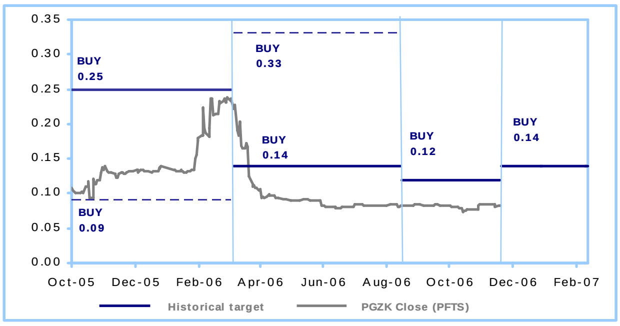
Date	Target price, USD	Market price, USD	Recommen-dation	Action
27 May 05	9.00	6.70	BUY	Initiate
16 June 05	9.00	6.25	BUY	Maintain
07 July 05	12.00	6.93	BUY	Maintain
22 Mar 06	16.00	13.20	BUY	Maintain
18 Aug 06	10.38	10.40	HOLD	Downgrade
23 Nov 06	8.8	8.6	HOLD	Downgrade



Pivdenny Iron Ore (PGZK)*

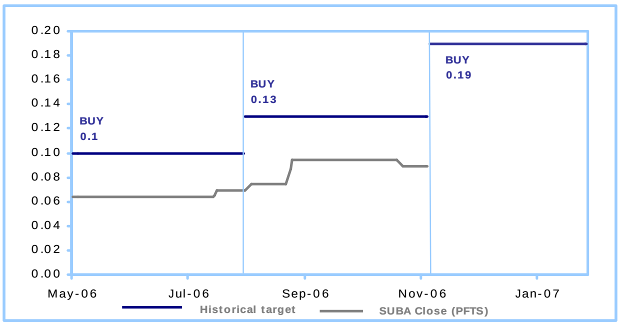
Date	Target price, USD	Market price, USD	Recommen-dation	Action
27 May 05	0.09/0.25	0.04	BUY	Initiate
09 Mar 06	0.33/0.14	0.23	BUY	Maintain
18 Aug 06	0.12	0.09	BUY	Maintain
23 Nov 06	0.14	0.08	BUY	Maintain

** Due to uncertainties with PGZK's additional share issue we reported both diluted and undiluted target prices from May 2005 to August 2006. The issue is not registered yet, however the market price has adjusted to the new number of shares.*



Sukha Balka (SUBA)

Date	Target price, USD	Market price, USD	Recommen-dation	Action
27 May 05	0.1	0.015	BUY	Initiate
18 Aug 06	0.13	0.06	BUY	Maintain
23 Nov 06	0.19	0.09	BUY	Maintain



From May 2005 to October 2006 the companies were covered by other analysts, Viktor Koval and Andriy Gostik. In November 2006, Eugene Cherviachenko joined Andriy Gostik in coverage of these companies. Koval is no longer an analyst with Concorde Capital.

Concorde Capital Coverage Universe

Buy	38	54%
Hold	11	15%
Sell	9	13%
Pending/Suspended	5	7%
Not Rated	8	11%
Total	**71**	**100%**

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