



CONCORDE CAPITAL

Ukraine / Steel

# ArcelorMittal Kryviy Rih

An upstream ace

July 22, 2008

Current price: USD 3.30  
12M Target: USD 4.75

**BUY**

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### Tickers

Bloomberg KSTL UZ

### Market information

|                     |          |
|---------------------|----------|
| Market price, USD   | 3.30     |
| MCap, USD mln       | 12,736.5 |
| 52Wk Hi/Lo, USD     | 4.2/2.1  |
| No of shares, mln   | 3,859.53 |
| Free float, USD mln | 140.1    |

### Corporate Governance

Concorde Rating\*\* AA

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

### Shareholders

|               |        |
|---------------|--------|
| ArcelorMittal | 94.64% |
| Other         | 5.36%  |

### Ratios 2008E

|               |       |
|---------------|-------|
| EBITDA margin | 38.1% |
| Net margin    | 27.5% |

- Integration into ArcelorMittal group completed: ArcelorMittal Kryviy Rih now positioned as a hub for regional expansion
- Mid-term USD 2 bln expansion program will leverage the company's upstream advantage, according to ArcelorMittal group's objectives
- Targets by 2014: +60% in iron ore output; +50% in crude steel output; launch of flat products; seeking oxidized iron ore processing
- Iron ore integration supports high margins: industry leader in 2007, EBITDA margin will expand to 38% in 2008 from 28% in 2007
- The market underestimates AM Kryviy Rih's integration, oxidized iron ore resources alone add up to 16% to the value
- KSTL trades at around 40% discount on P/E metric to peers and 40-50% discount on EV/Steel Output to Russian Evraz and NLMK
- We upgrade our 12M target price to USD 4.75/share (44% upside)

### Hub for regional expansion, substantial modernization ahead

We see ArcelorMittal Kryviy Rih as a vital part of ArcelorMittal's (AM) strategy: (1) increase iron ore self-sufficiency to 85% by 2015; (2) reinforce leadership in Western Europe; and (3) strengthen presence in fast growing markets. The AM Kryviy Rih management team, appointed in early 2008, has the tailored background to execute a USD 2 bln investment program designed to develop 1.8 bln mt in iron ore resources and launch flat products by 2014.

### 1.5x growth in production will follow investment program

AM Kryviy Rih is targeting a +60% boost in iron ore output to 16 mln mt p.a. by 2012. The plant is also seeking to process oxidized iron ore (est. +5...10 mln mt p.a. to production; +47% to existing iron ore Fe resources). By 2014, the company plans to expand downstream capacity, construct a flat rolling mill and up steel output to 12 mln mt p.a. (+47%).

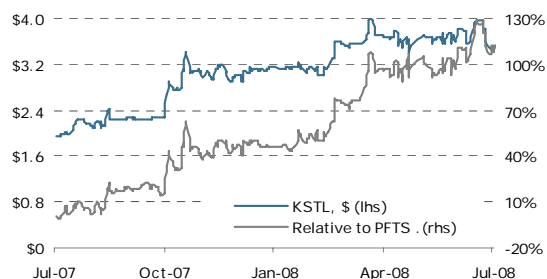
### Superior margins in 2007, set to expand in 2008

The company's EBITDA margin was 9 pp above ArcelorMittal's in 2007 and among the top-10 within its broad peer group. We project further margin growth to 38% in 2008 on the back of a widening price/cost spread (from USD 230/mt last year to above USD 500/mt this year).

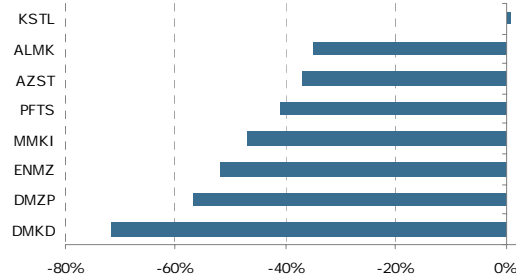
### Steel price forecasts upgraded

We revise upward our 2008 projections for Ukrainian steel prices (FOB): square billet to USD 930/mt (+USD 130/mt); wire rod and rebar to USD 1040/mt (+USD 184/mt). Industry think tanks project steel demand will grow 6-7% p.a. by 2009 and on average by 5% annually until 2015, while consumers will face supply constraints from declining Chinese output and a 95% global capacity utilization rate.

### Stock performance, 12M



### Sector performance, YTD



### Key financials & ratios

|       | Revenue, USD mln | EBITDA margin | Net margin |
|-------|------------------|---------------|------------|
| 2007  | 3 725            | 27.9%         | 20.2%      |
| 2008E | 6 859            | 35.3%         | 25.3%      |
| 2009E | 7 685            | 39.0%         | 27.8%      |

Spot exchange rate: 5.05 UAH/USD

|  | EV/S | EV/EBITDA | P/E  |
|--|------|-----------|------|
|  | 3.4  | 12.1      | 16.9 |
|  | 1.9  | 5.3       | 7.3  |
|  | 1.7  | 4.3       | 6.0  |

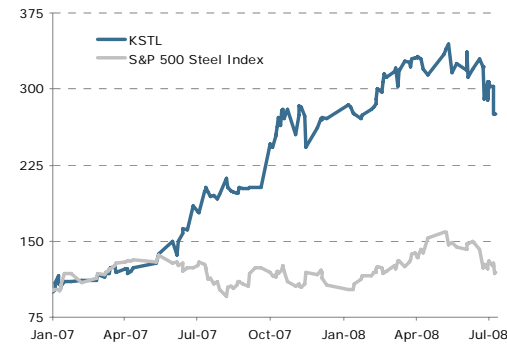
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# Stock market

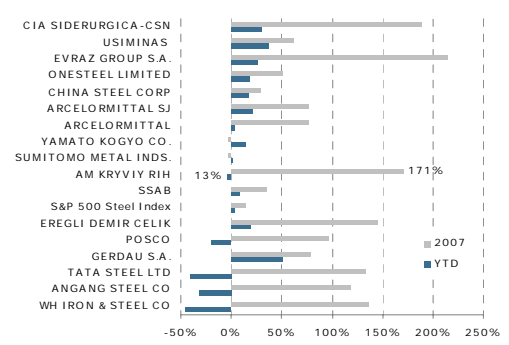
## Steels at a glance

AM Kryviy Rih vs. S&P World Steel Index

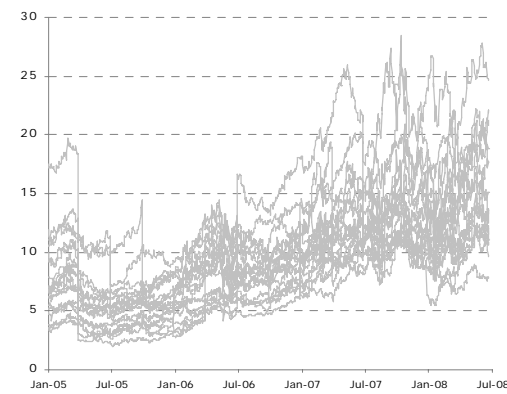


Note: Performance rebased to 100  
Source: Bloomberg, PFTS, Concorde Capital research

Sector performance, %

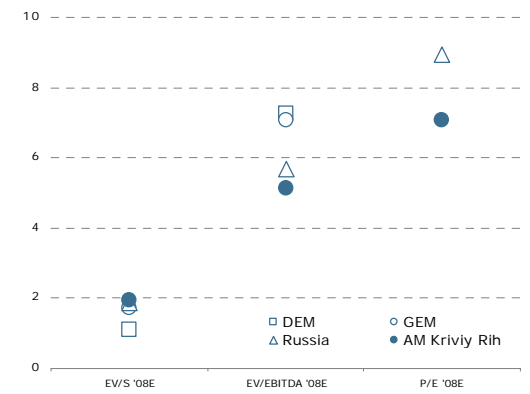


Daily P/E



Note: Excluding P/E above 35. KSTL daily P/E averages: 2005-2008 is 12.1; 2007 is 13.2; 2008 is 17.6  
Source: Bloomberg, PFTS, Concorde Capital research

Forward-looking market multiples

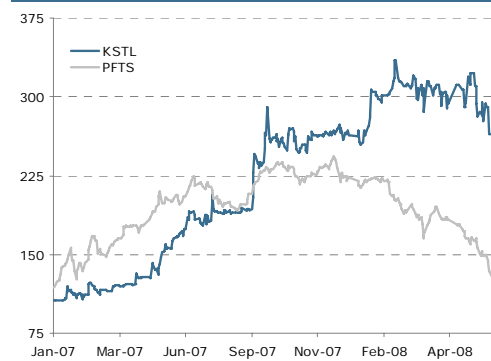


## KSTL as a defensive play on the bearish Ukrainian market

AM Kryviy Rih and the Ukrainian stock market seem to be in two different universes: KSTL slid 1% YTD, in contrast, the PFTS has dropped 45%.

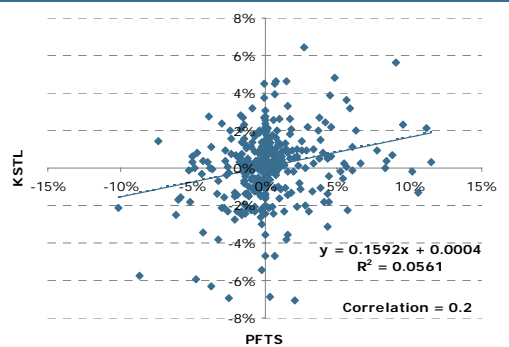
AM Kryviy Rih vs PFTS-index

Relative performance



Note: Performance rebased to 100  
Source: Bloomberg, PFTS, Concorde Capital research

Correlation of daily changes



## Share buybacks by ArcelorMittal

In a two year span, ArcelorMittal accumulated a 94.64% stake in AM Kryviy Rih as of April 2008 (according to official reports) from the 93.02% it acquired at privatization in November 2005, by buying up shares from the market.

We think buybacks will continue to underpin AM Kryviy Rih's stock price further. This is in line with the group's strategy: ArcelorMittal has >99% ownership in more than 80% of its key subsidiaries; in 2Q08 it raised its stake in Acesita (Brazil) to 97.7%, and in 1Q08 it upped its shareholding to 99.5% in Acindar (Argentina).

## AM Kryviy Rih as a dividend play?

In contrast to all other Ukrainian steel smelters, for three years in a row, AM Kryviy Rih has distributed its net income as dividends. At AM Kryviy Rih's AGM on June 12, shareholders voted to make a USD 1.2 bln dividend payout. The company's 2007 dividends imply a 8.7% yield, above that of Russian Evraz and Severstal.

### Steel company dividends

|                       | 2005             | 2006             | 2007             |
|-----------------------|------------------|------------------|------------------|
| <b>AM Kryviy Rih*</b> |                  |                  |                  |
| DPS/Yield             | 0.021 USD / 2.9% | 0.021 USD / 1.3% | 0.30 USD / 8.7%  |
| <b>Mechel</b>         |                  |                  |                  |
| DPS/Yield             | 1.41 USD / 5.1%  | 2.29 USD / 9.5%  | 3.29 USD / 16.0% |
| <b>Evraz</b>          |                  |                  |                  |
| DPS/Yield             | 1.53 USD / 6.0%  | 1.12 USD / 1.1%  | 2.61 USD / 2.5%  |
| <b>Severstal</b>      |                  |                  |                  |
| DPS/Yield             | 0.44 USD / 5.1%  | 0.53 USD / 4.3%  | 0.49 USD / 2.9%  |

\* includes dividends paid to the state according to the privatization agreement: USD 63.8 mln (DPS USD 0.017) paid in 2005 and USD 79.3 mln (DPS USD 0.021) in 2006

Source: Company data

AM Kryviy Rih's dividends exceeded its 2007 net income by 52% and equaled 70% of retained earnings as of December 31, 2007. In turn, retained earnings of USD 1.6 bln are four times bigger than required investments for 2008 and just marginally below the amount for AM Kryviy Rih's entire investment program until 2014 (USD ~2 bln).

We estimate AM Kryviy Rih will continue to pay dividends in the mid-term, distributing generated surpluses from the company's fast growing earnings to feed ArcelorMittal's needs.

## Juncture for upstream & downstream expansion

### New management team brought into the fold

Since the beginning of 2008, ArcelorMittal embarked on a management reshuffle at AM Kryviy Rih, marking a milestone in the company's development.

- The company's January AGM appointed Jean Robert Jouet as CEO. Before coming to AM Kryviy Rih, Mr. Jouet was the Upstream and Site Manager at ArcelorMittal Flat Carbon Western Europe in Dunkirk, France
- In June 2008 AM Kryviy Rih announced that Christophe Cornier joined the company's Board of Directors. Mr. Cornier currently holds the position of technical director within ArcelorMittal, primarily responsible for the execution of greenfield steel projects.

Since privatization in November 2005 until they were reassigned elsewhere in the group, the previous management team of AM Kryviy Rih successfully plugged the steel mill into the ArcelorMittal structure and set up tight relationships with the state and local government. They also introduced advanced management/corporate standards and improved operating processes.

The new management unit possesses a different set of virtues: they have the background to execute the company's six-year USD 2 bln investment program (compared to CapEx of USD 360 mln in 2005-2007). Strategic objectives of the program: +50% increase in crude steel production, implementation of flat product manufacturing, +60% increase in iron ore output, further development and exploration of over 2.6 bln mt in iron ore resources, including 0.8 bln mt in oxidized ores.

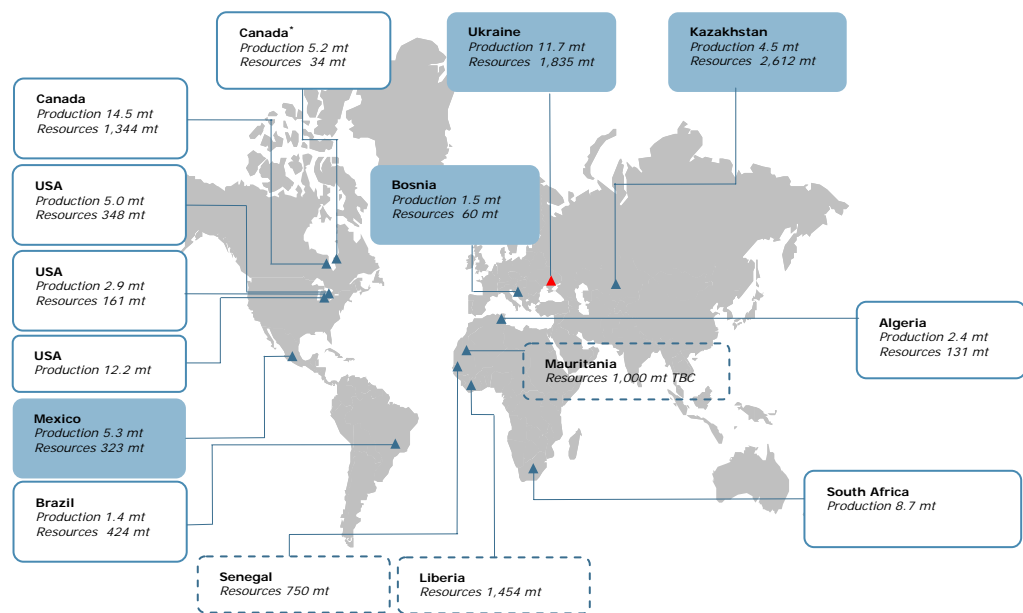
## +60% to iron ore output, eyeing oxidized ore resources

Michel Wurth, a member of the ArcelorMittal Board Of Directors, said in June that ArcelorMittal is looking at doubling its iron ore self-sufficiency to 75-85% by 2015 via the development of iron ore assets in Ukraine, Liberia, Senegal and Mauritania. According to ArcelorMittal, AM Kryviy Rih will boost iron ore output +60% to 16 mln mt p.a. by 2012.

Operating two underground mines (avg. Fe 54%) with 0.1 bln mt in iron ore resources and an open pit mining complex (avg. Fe 34%) with over 1.8 bln mt in resources, AM Kryviy Rih is *de facto* #2 within the ArcelorMittal group.

This March, ArcelorMittal announced its mining initiatives, noting the opportunity to process oxidized iron ore at AM Kryviy Rih (+816 mln mt with Fe 35%). This would bring AM Kryviy Rih's resources to over 2.6 bln mt (over 900 mln mt in Fe content) – the largest within ArcelorMittal's global structure. We estimate oxidized ore processing would add +5...10 mln mt p.a. to AM Kryviy Rih's production of iron ore.

### ArcelorMittal iron ore projects



\* Wabush Mines (Canada) - an iron ore venture ArcelorMittal is in the process of acquiring.

Note: Dotted boxes are greenfield projects, colored boxes are brownfield projects with planned expansion  
Source: ArcelorMittal

To start processing oxidized iron ore, AM Kryviy Rih would require specialized facilities. The plant is among those competing to acquire the Kryviy Rih Oxidized Ore (KGOKOR) plant.

#### Reference: Kryviy Rih Oxidized Ore plant

KGOKOR, whose projected pellet capacity is 11 mln mt annually, was designed to utilize dumps from AM Kryviy Rih or Pivdenny Iron Ore to produce sinter feed, which it would thereafter process into pellets. Construction of KGOKOR, started in 1985, requires an additional USD 750-800 mln (est.) to be completed. Ukraine owns a 56.4% stake in KGOKOR; Romania 28%; Slovakia 15.6%. Ukraine (via the State Property Fund) is seeking a partner to complete the construction of KGOKOR. Among the candidates are AM Kryviy Rih, Smart Group and Russia's Metalloinvest.

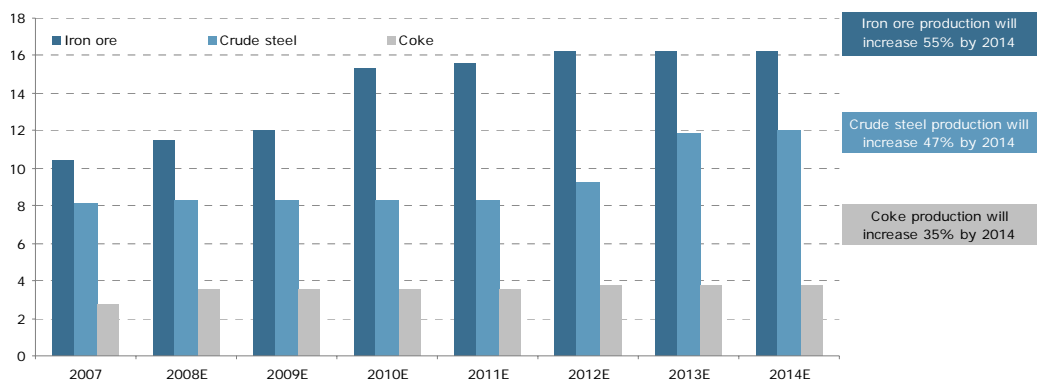
## +47% to steel production, broadening product profile

By 2014 AM Kryviy Rih is targeting to lift crude steel production to 12 mln mt p.a. (+50%) and establish flat steel manufacturing, backed by downstream modernization. Presently AM Kryviy Rih distributes flat products made by ArcelorMittal Timertau (Kazakhstan), ArcelorMittal Eisenhüttenstadt (Germany) and ArcelorMittal Dudelange (Luxemburg) to CIS markets.

### Investment program and production targets by 2014

|              |   |
|--------------|---|
| Iron ore     | <ul style="list-style-type: none"> <li>• new sinter workshop will come on stream in 2012 (+ 4.5 mln mt p.a. of sinter; +38% compared to 2007)</li> <li>• potential development of oxidized iron ore resources (816 mln mt); could result in sinter feed production increase by 5-10 mln mt p.a.)</li> <li>• increase sinter feed production: +57% by 2010 (to 13 mln mt p.a.)</li> <li>• increase sintered ore production: +50% by 2012 (to 3 mln mt p.a.)</li> </ul> |
| Coke         | <ul style="list-style-type: none"> <li>• new coke oven came on stream in late 2007</li> <li>• increase coke production: +28% yoy in 2008 (coke self-sufficiency rate will increase to 91% from 70% in 2007)</li> </ul>  |
| Pig iron     | <ul style="list-style-type: none"> <li>• PCI workshop will be constructed by 2010, coke consumption rate in pig iron smelting will decrease from 550 kg/mt in 2007 to 460 kg/mt</li> </ul>  |
| Crude steel  | <ul style="list-style-type: none"> <li>• new converter workshop will be constructed by 2012, replacing inefficient open hearth furnaces. We estimate the new workshop will be equipped with a continuous casting machine (slab/square billet)</li> <li>• increase crude steel production to 12 mln mt p.a. (+50% compared to 2007)</li> </ul>   |
| Rolled steel | <ul style="list-style-type: none"> <li>• new rolling workshop (flat products) will be constructed by 2014. Estimated capacity is nearly 4.5 mln mt p.a.</li> </ul>  |

### Estimated annual production, ths mt



Source: Company data, Concorde Capital estimates

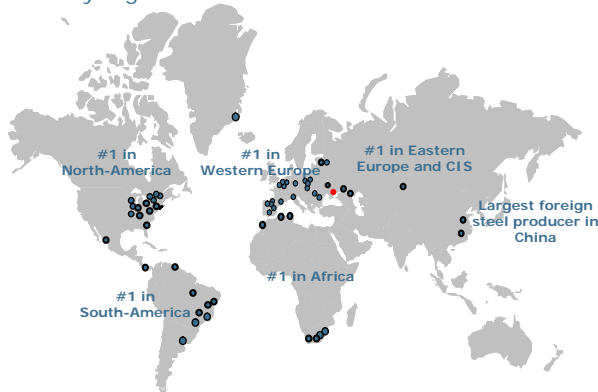
## Regional hub for the group's growth

Located close to capacious Western European, fast growing CIS, Central and Eastern European markets, AM Kryviy Rih can leverage its upstream advantage to continue bolstering its position within the world's largest steel group.

According to ArcelorMittal's expansion objectives presented in its 2007 Activity Report, the group plans to "reinforce market leadership in Western Europe by leveraging its strong upstream presence in Central and Eastern Europe, with the target of achieving a 20% market share in the fast growing markets."

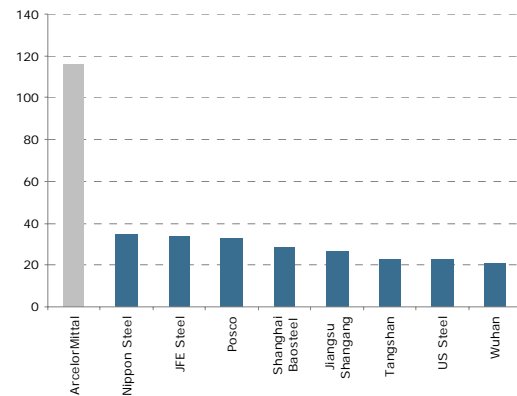
### ArcelorMittal – Global steel leader

Rank by region



Source: ArcelorMittal, Metal Bulletin  
Red dot – AM Kryviy Rih; blue dot – ArcelorMittal assets

Global top-10 steel producers in 2007, mln mt

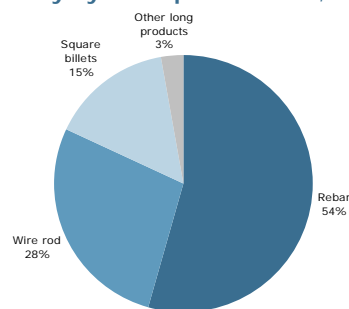


Ukraine's entrance this year into the WTO (see our note of February 7) underpins ArcelorMittal's plans with respect to AM Kryviy Rih's further development. We expect the EU and US to eliminate quotas on Ukrainian flat steel in 2009. This will open up capacious markets for AM Kryviy Rih's forthcoming flat products.

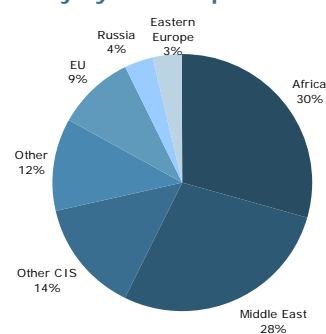
The company will be among the beneficiaries of Ukraine's participation in Russia's WTO accession talks. In June, Deputy Head of the Presidential Secretariat Andriy Honcharuk said that the state, during negotiations with the Russian delegation, could request Russia terminate or expand quotas on domestic steel products. In September 2007 Russia imposed quotas on Ukrainian exports of AM Kryviy Rih's key product, rebar: 112 ths mt in 2007, 330 ths mt in 2008, 363 ths mt in 2009, and 400 ths mt in 2010.

Presently AM Kryviy Rih focuses on wire rod and rebar, manufacturing roughly 20% of ArcelorMittal's long products in 2007 and more than 15% of total CIS production. Exports make up around 70% of the company's shipments.

AM Kryviy Rih's product mix, 2007



AM Kryviy Rih's export destinations, 2007



Source: Company data, Concorde Capital estimates



## Margin expansion on low cost and strong prices

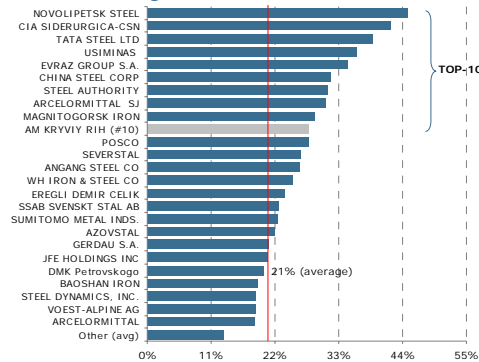
### Profitability: above industry average, will strengthen in 2008

AM Kryviy Rih's higher self-sufficiency in iron ore relative to parent ArcelorMittal and most of its peers, results in larger operating margins. AM Kryviy Rih's EBITDA margin was 9 pp more than ArcelorMittal in 2007. Within our broad peer group, AM Kryviy Rih was #10 by reported EBITDA margin in 2007.

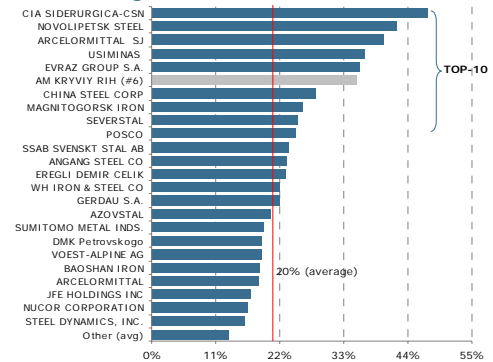
We project further improvement in AM Kryviy Rih's profitability, from 27% in 2007 to 35% in 2008 on the back of the widening price/cost difference estimated at USD 230/mt last year to above USD 500/mt this year: while we expect costs to grow 47% yoy (AM Kryviy Rih's estimated cash cost rose to 40% over 1H08), selling prices on average will increase up to 90% yoy (Ukrainian export steel prices (FOB) soared +120% over 1H08).

#### Steel producers' profitability

EBITDA margin 2007



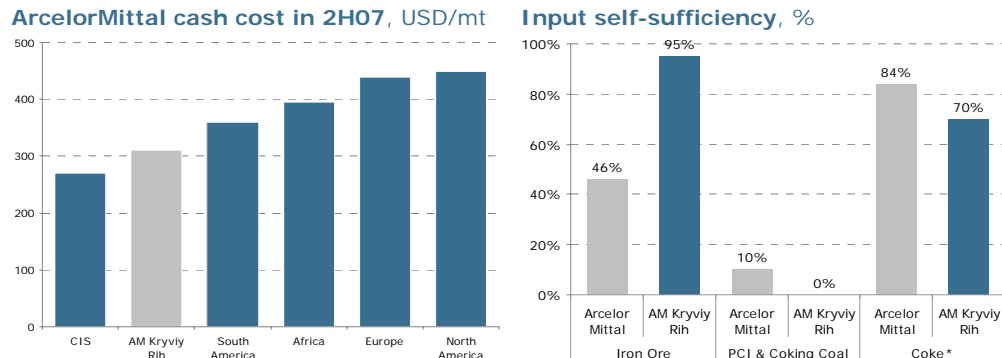
EBITDA margin 2008E



Source: Thomson Financial, Bloomberg, Concorde Capital estimates  
 Note: AM Kryviy Rih's reported EBITDA margin under UAS

## Cash costs will stay below the industry average

AM Kryviy Rih has the lowest production cost among traded Ukrainian steel mills and is among most the cost-efficient producers within ArcelorMittal. ArcelorMittal projects an increase in the production cost for non-integrated steel makers globally from 4Q07 to 2H08 to above USD 600/mt. We estimate AM Kryviy Rih's production cost will increase from nearly USD 330/mt in 2007 on average to around USD 500/mt in 2008, while the average production cost at a standard Ukrainian mill will be above USD 630/mt in 2008.



\* Coke processing capacities.

Note: ArcelorMittal (HRC): AM Kryviy Rih (rebar): we disregard the difference within 5% in cash cost of HRC and rebar  
 Source: ArcelorMittal, Metal Expert, Concorde Capital estimates

## SUPERIOR IRON ORE INTEGRATION IS KEY ADVANTAGE

AM Kryviy Rih enjoys lower costs due to internal iron ore resources; iron ore accounts for some 30% of the cash cost for a non-integrated producer. While we project AM Kryviy Rih's average cost of sinter feed to be USD ~40/mt in FY08, Ukrainian producers will pay on average price of USD ~120/mt.

Within ArcelorMittal's structure, AM Kryviy Rih is increasing in strategic importance, on the background of the parent's weakness on the US market. This summer, in a failed attempt to cover soaring raw material costs, ArcelorMittal was not successful in passing on surcharges of USD 250/mt to US customers (largely, the resistance came from weakened auto companies). It has so far not acquired additional iron ore assets in North America (it is currently attempting to force the acquisition of Wabush Mines in Canadian courts).

Driven by demand and high concentration of the global iron ore seaborne market among Brazilian Vale (34% in 2007), Australian BHP Billiton (16% in 2007) and Rio Tinto (24% in 2007), we estimate iron ore prices to prolong their upward trend in the mid-term (see the appendix).

## OTHER COST ADVANTAGES

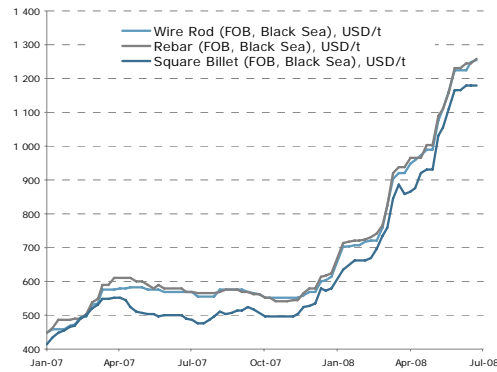
- In-house coke processing facilities. We forecast that the average Ukrainian price of coke in 2008 will be almost USD 100/mt above AM Kryviy Rih's cost of coke
- Close proximity to Ukrainian coal and bulk ferroalloy producers (~300-600 km)
- Lower transportation costs for raw materials in the CIS by rail vs. seaborne. We believe the company will reduce transportation costs by instead sourcing coal from Russian mines acquired by ArcelorMittal in 2007 (est. to meet over 50% of AM Kryviy Rih's needs) by rail
- Lower price for metal scrap in Ukraine (average domestic price was USD 250/mt in 2007 vs. Ukrainian export price of USD 290/mt in 2007)
- Reduction in personnel costs (15% of COGS in 2007). In 2Q07, 9 ths employees accepted buyout offers and were paid USD ~46 mln. The company now employs 48 ths; another wave of staff buyouts is planned in 2008. Based on AM Kryviy Rih's average monthly salary of USD 500, it saved USD 5.5 mln in April 2008, implying USD 46 mln for FY08

## Revenues will rise along with a strong up-cycle

We upgrade our revenue estimates for AM Kryviy Rih (FY08E: USD 6.9 bln, +84% yoy, +20% to our previous forecast; FY09E: USD 7.8 bln, +13% yoy, +26% to our previous forecast) mainly on account of a more favorable outlook for steel prices.

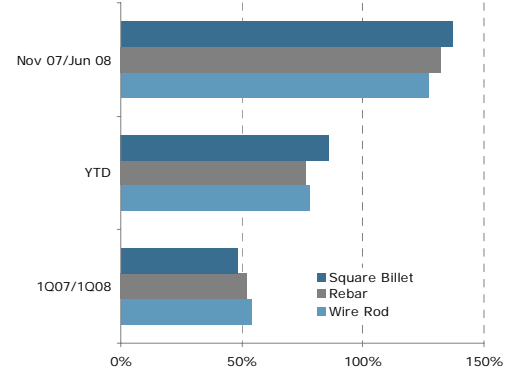
Based on our view of the industry's rising steel-making costs, >95% global steel capacity utilization rates and robust demand for steel, we have revised upward our projections for steel prices (FOB) in 2008 as follows: the average price for Ukrainian square billet is USD 930/mt (from USD 800/mt); the average price for wire rod and rebar is USD 1040/mt (from USD 856/mt). In 2009, we project the prices will strengthen by 5-10% yoy.

Ukrainian steel prices, USD/mt



Source: Metal Courier

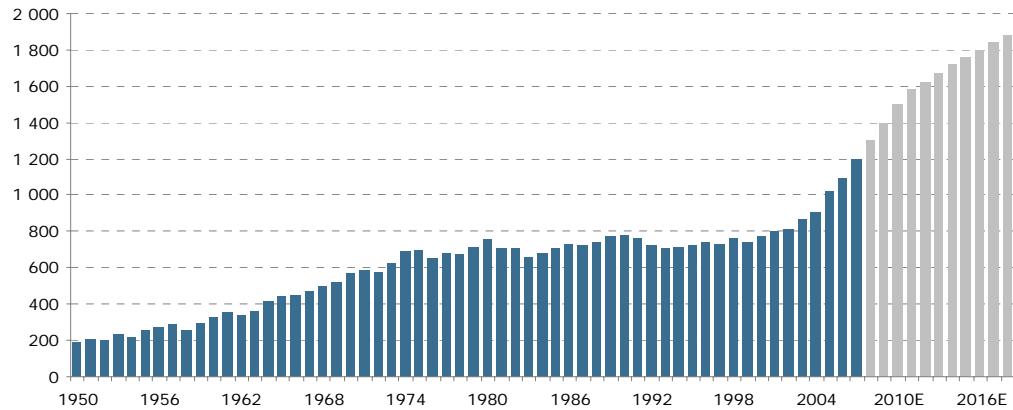
Ukrainian steel price growth, %



## Steel market: Robust demand vs. supply constraints

China's escalating steel consumption and the growth in other emerging economies has led to 7% annual growth on the global steel market on average over the last seven years. The International Institute of Steel projects apparent demand for global steel to grow +500 mln mt p.a. over the next ten years (3-5% p.a.), driven by India, China and the CIS.

World steel apparent demand, mln mt



Source: ArcelorMittal, IISI

According to the European Confederation of Iron and Steel Industries (Eurofer), global steel consumption will increase 7% yoy in 2008 to 1.102 bln mt p.a. and by 6% yoy in 2009. By 2012, consumption will rise by 26% from 2007, in particular: EU +3%; NAFTA +3%; Japan +3%; China +37%; India +51%; South America +52%; CIS +27%; and the rest of the world +21%.

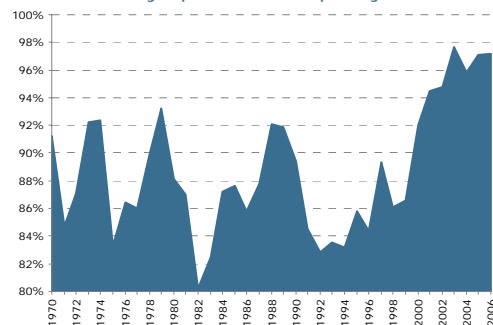
The increase in demand was answered by capacity expansion and higher utilization rates. According to ArcelorMittal's estimates, presently the global utilization rate stands at above 95%.

Simultaneously, China, the world's largest steel producer (36% of global steel production), has been slowing growth due to:

- government implementation of strict measures on producers' capacity and credit financing
- higher export taxes
- closures of inefficient and pollutive producers

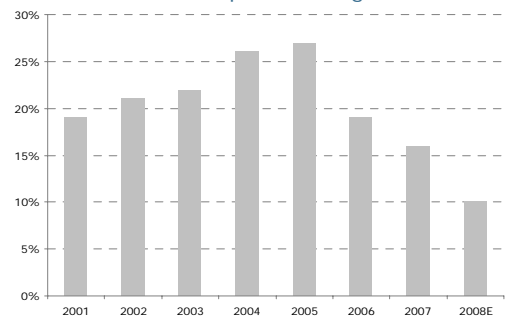
### Global supply constraints

Steel industry operational capacity utilization



Source: ArcelorMittal, IISI

Chinese crude steel production growth rate, %



## Valuation

When deriving the fair value of AM Kryviy Rih, we employed the following approaches: peer comparison, sum-of-the-parts and DCF modeling.

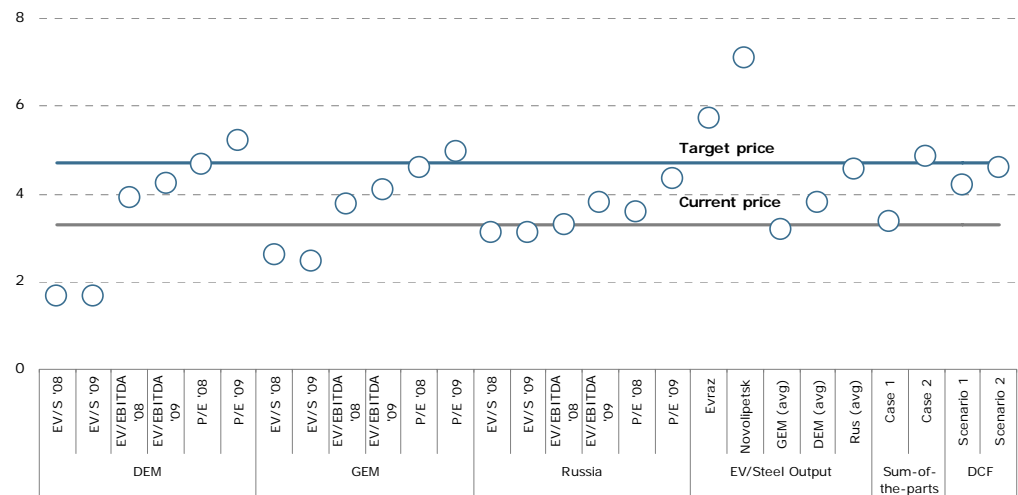
On financial metrics, valuation on P/E yields the highest upside for AM Kryviy Rih; KSTL trades unjustifiably low compared to its peer group. Even on EV/S, AM Kryviy Rih deserves a higher valuation, given its superior profitability: within the group of integrated steel companies, AM Kryviy Rih trades closer to the bottom of the range.

While AM Kryviy Rih currently trades at EV/Steel Output of USD 1,551/mt, we believe it should trade closer to the EV/Steel Output multiples of integrated steel producers with strong margins, like Evraz (USD 2,607/mt) and Novolipetsk (USD 3,294/mt), thanks to its upstream iron ore integration – to these two stocks, AM Kryviy Rih presently trades at 40%-50% discounts.

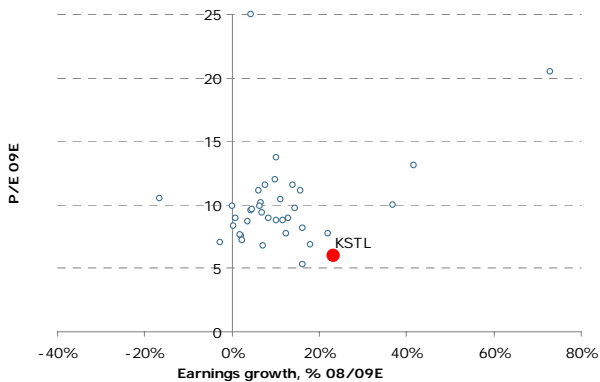
Sum-of-the-parts valuation of AM Kryviy Rih's business accounts for current production and the value of its iron ore resources; it yields upside of up to 47%.

Our DCF analysis distinguishes between two scenarios: with and without processing of oxidized iron ore resources by AM Kryviy Rih. The former scenario implies a value per share of USD 4.2 (27% upside), and the latter USD 4.6 (39% upside).

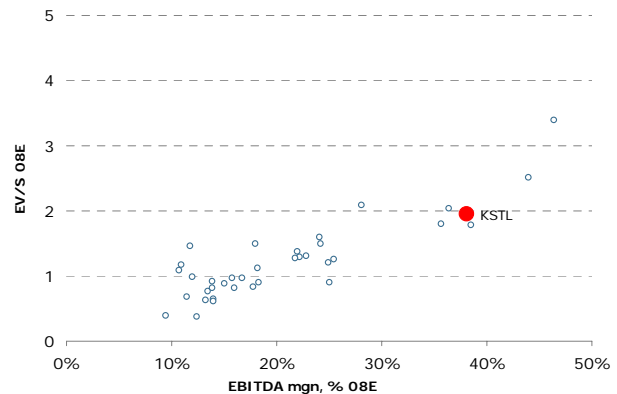
### AM Kryviy Rih implied prices, USD per share



### P/E vs. Net income growth



### EV/S vs. EBITDA margin



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

## Comparison by financial multiples

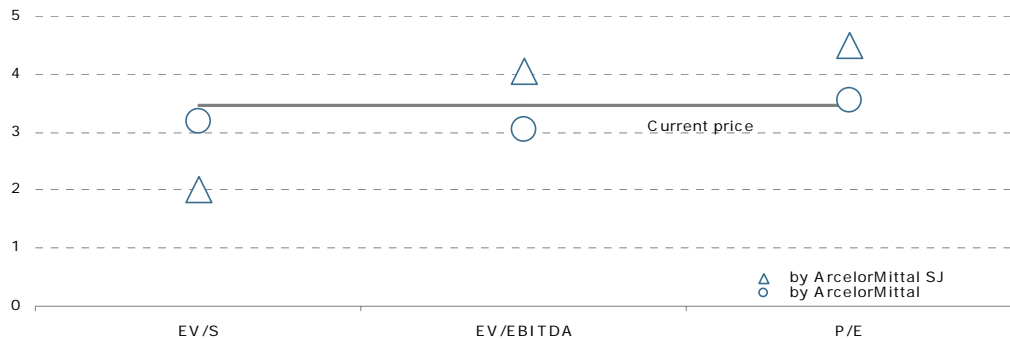
|   | MCap,<br>USD mln | EV/S       |            | EV/EBITDA  |            | P/E         |            | EBITDA<br>margin |              | Net margin   |              |
|---|------------------|------------|------------|------------|------------|-------------|------------|------------------|--------------|--------------|--------------|
|   |                  | 2008E      | 2009E      | 2008E      | 2009E      | 2008E       | 2009E      | 2008E            | 2009E        | 2008E        | 2009E        |
| <b>ARCELORMITTAL KRYVIY RIH</b>                 | <b>12 736.4</b>  | <b>1.9</b> | <b>1.7</b> | <b>5.3</b> | <b>4.3</b> | <b>7.3</b>  | <b>6.0</b> | <b>35.2%</b>     | <b>39.0%</b> | <b>25.3%</b> | <b>27.8%</b> |
| <b>Developed market peers</b>                   |                  |            |            |            |            |             |            |                  |              |              |              |
| BLUESCOPE STEEL LTD                             | 7 832.8          | 0.9        | 0.7        | 6.5        | 6.4        | 10.5        | 12.5       | 13.9%            | 11.2%        | 6.9%         | 4.6%         |
| ONESTEEL LIMITED                                | 5 784.8          | 1.1        | 0.9        | 10.2       | 6.6        | 20.5        | 11.9       | 10.7%            | 13.2%        | 4.1%         | 5.9%         |
| VOEST-ALPINE AG                                 | 10 627.1         | 0.9        | 0.8        | 4.9        | 4.5        | 6.8         | 6.4        | 18.3%            | 18.3%        | 8.1%         | 8.3%         |
| SALZGITTER AG                                   | 9 325.3          | 0.4        | 0.3        | 3.0        | 2.9        | 7.1         | 7.3        | 12.4%            | 11.9%        | 7.1%         | 6.7%         |
| THYSSENKRUPP AG                                 | 25 919.9         | 0.4        | 0.4        | 4.1        | 3.8        | 8.2         | 7.0        | 9.4%             | 10.1%        | 3.8%         | 4.1%         |
| JFE HOLDINGS INC                                | 30 022.8         | 1.0        | 0.9        | 5.8        | 5.3        | 11.1        | 10.5       | 16.7%            | 16.9%        | 6.4%         | 6.6%         |
| KOBE STEEL, LTD.                                | 8 129.3          | 0.6        | 0.6        | 4.7        | 4.4        | 10.4        | 9.4        | 13.2%            | 13.4%        | 3.3%         | 3.6%         |
| NIPPON STEEL CORP                               | 33 360.6         | 0.8        | 0.7        | 5.7        | 5.2        | 11.6        | 10.8       | 13.5%            | 13.7%        | 5.2%         | 5.4%         |
| NISSHIN STEEL CO                                | 3 008.0          | 0.7        | 0.6        | 5.9        | 5.3        | 12.0        | 10.9       | 11.5%            | 11.8%        | 3.5%         | 3.7%         |
| SUMITOMO METAL INDS.                            | 21 399.2         | 1.5        | 1.4        | 8.2        | 7.2        | 13.7        | 12.4       | 18.0%            | 19.6%        | 8.0%         | 8.4%         |
| YAMATO KOGYO CO.                                | 3 393.9          | 1.2        | 1.0        | 10.6       | 8.9        | 9.9         | 9.9        | 10.9%            | 11.7%        | 14.5%        | 14.0%        |
| ARCELORMITTAL                                   | 121 947.8        | 1.1        | 1.0        | 6.1        | 5.8        | 9.5         | 9.1        | 18.2%            | 17.7%        | 10.2%        | 10.3%        |
| SSAB SVENSKT STAL AB                            | 8 912.4          | 1.5        | 1.2        | 6.2        | 5.0        | 7.7         | 6.9        | 24.2%            | 24.1%        | 12.1%        | 12.7%        |
| AK STEEL HOLDING                                | 6 132.7          | 0.8        | 0.7        | 5.8        | 4.6        | 11.5        | 10.1       | 13.9%            | 14.5%        | 6.6%         | 6.8%         |
| NUCOR CORPORATION                               | 18 863.2         | 0.8        | 0.6        | 5.1        | 4.2        | 8.8         | 8.0        | 16.0%            | 15.6%        | 8.4%         | 8.4%         |
| STEEL DYNAMICS, INC.                            | 6 550.8          | 1.0        | 0.9        | 6.1        | 5.6        | 9.6         | 9.2        | 15.8%            | 15.6%        | 7.5%         | 7.4%         |
| UNITED STATES STEEL                             | 19 253.4         | 0.9        | 0.7        | 5.9        | 4.5        | 8.8         | 7.9        | 15.0%            | 16.3%        | 9.2%         | 9.3%         |
| HYUNDAI STEEL CO                                | 5 710.2          | 1.0        | 1.1        | 8.2        | 7.9        | 10.2        | 9.5        | 12.1%            | 13.3%        | 6.2%         | 6.3%         |
| POSCO   | 42 591.2         | 1.3        | 1.2        | 5.8        | 5.6        | 9.9         | 9.3        | 22.2%            | 21.5%        | 12.3%        | 12.5%        |
| <b>Average</b>                                  |                  | <b>0.9</b> | <b>0.8</b> | <b>6.3</b> | <b>5.5</b> | <b>10.4</b> | <b>9.4</b> | <b>15.1%</b>     | <b>15.3%</b> | <b>7.5%</b>  | <b>7.6%</b>  |
| <b>GEM peers</b>                                |                  |            |            |            |            |             |            |                  |              |              |              |
| ARCELORMITTAL SJ                                | 11 388.5         | 1.8        | 1.4        | 4.6        | 4.1        | 7.5         | 7.4        | 38.5%            | 34.4%        | 26.6%        | 23.2%        |
| CIA SIDERURGICA-CSN                             | 30 667.8         | 3.4        | 2.6        | 7.3        | 5.2        | 13.1        | 9.2        | 46.4%            | 48.9%        | 23.8%        | 25.7%        |
| GERDAU S.A.                                     | 29 507.9         | 1.4        | 1.2        | 6.2        | 5.4        | 11.1        | 9.6        | 22.0%            | 22.7%        | 10.3%        | 10.5%        |
| USIMINAS  | 18 366.3         | 1.8        | 1.6        | 5.0        | 4.4        | 7.7         | 6.3        | 35.7%            | 36.2%        | 21.6%        | 22.4%        |
| ANGANG STEEL CO                                 | 14 476.3         | 1.3        | 1.0        | 5.7        | 4.9        | 9.7         | 8.5        | 22.8%            | 20.8%        | 11.8%        | 11.0%        |
| BAOSHAN IRON                                    | 22 508.6         | 0.8        | 0.7        | 4.6        | 4.2        | 8.9         | 7.9        | 17.8%            | 17.9%        | 7.7%         | 7.9%         |
| CHINA STEEL CORP                                | 18 294.1         | 2.1        | 2.0        | 7.4        | 7.0        | 8.9         | 8.9        | 28.1%            | 28.2%        | 22.2%        | 20.7%        |
| MAANSHAN IRON&STEEL                             | 4 217.4          | 0.6        | 0.6        | 4.6        | 4.3        | 9.4         | 8.8        | 14.0%            | 13.5%        | 4.3%         | 4.2%         |
| PZ NEW ST.&VANADIUM                             | 5 305.8          | 1.5        | 1.4        | 12.4       | 12.3       | 25.0        | 24.0       | 11.8%            | 11.7%        | 5.1%         | 5.3%         |
| WH IRON & STEEL CO                              | 11 686.7         | 1.3        | 1.0        | 5.8        | 4.8        | 8.9         | 8.2        | 21.8%            | 21.6%        | 12.2%        | 11.4%        |
| STEEL AUTHORITY                                 | 13 094.4         | 0.9        | 0.9        | 3.6        | 3.2        | 6.8         | 5.8        | 25.0%            | 27.3%        | 16.4%        | 17.7%        |
| TATA STEEL LTD                                  | 11 304.2         | 0.6        | 0.5        | 4.4        | 3.8        | 5.3         | 4.6        | 14.0%            | 14.3%        | 6.2%         | 6.8%         |
| EREGLI DEMIR CELIK                              | 8 377.4          | 1.6        | 1.1        | 6.6        | 4.9        | 10.0        | 7.3        | 24.1%            | 23.2%        | 13.2%        | 13.6%        |
| <b>Average</b>                                  |                  | <b>1.5</b> | <b>1.2</b> | <b>6.0</b> | <b>5.3</b> | <b>10.2</b> | <b>9.0</b> | <b>24.8%</b>     | <b>24.7%</b> | <b>14.0%</b> | <b>13.9%</b> |
| <b>Russian peers</b>                            |                  |            |            |            |            |             |            |                  |              |              |              |
| EVRAZ GROUP S.A.                                | 36 163.5         | 2.0        | 1.7        | 5.6        | 5.0        | 8.7         | 8.4        | 36.4%            | 34.8%        | 20.8%        | 19.7%        |
| MAGNITOGORSK IRON                               | 13 879.2         | 1.3        | 1.2        | 4.9        | 4.8        | 7.2         | 7.0        | 25.5%            | 25.3%        | 17.7%        | 17.3%        |
| NOVOLIPETSK                                     | 29 191.9         | 2.5        | 2.2        | 5.7        | 5.2        | 8.4         | 8.3        | 44.0%            | 42.6%        | 29.4%        | 27.1%        |
| SEVERSTAL                                       | 22 337.9         | 1.2        | 1.1        | 4.8        | 4.5        | 7.7         | 7.5        | 25.0%            | 24.4%        | 14.2%        | 13.4%        |
| <b>Average</b>                                  |                  | <b>1.8</b> | <b>1.6</b> | <b>5.3</b> | <b>4.9</b> | <b>8.0</b>  | <b>7.8</b> | <b>32.7%</b>     | <b>31.8%</b> | <b>20.5%</b> | <b>19.4%</b> |
| <b>Implied AM Kryviy Rih's price, USD/share</b> |                  |            |            |            |            |             |            |                  |              |              |              |
| by Dev. peers avg                               |                  | 1.65       | 1.66       | 3.93       | 4.24       | 4.68        | 5.22       |                  |              |              |              |
| by GEM peers avg                                |                  | 2.60       | 2.47       | 3.78       | 4.10       | 4.59        | 4.97       |                  |              |              |              |
| by Rus. peers avg                               |                  | 3.10       | 3.12       | 3.30       | 3.79       | 3.59        | 4.34       |                  |              |              |              |
| Upside/Downside to Dev. avg                     |                  | -50%       | -50%       | 19%        | 28%        | 42%         | 58%        |                  |              |              |              |
| Upside/Downside to GEM avg                      |                  | -21%       | -25%       | 14%        | 24%        | 39%         | 51%        |                  |              |              |              |
| Upside/Downside to Rus. avg                     |                  | -6%        | -5%        | 0%         | 15%        | 9%          | 32%        |                  |              |              |              |

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

## Comparison to ArcelorMittal-labelled companies

AM Kryviy Rih trades at 14-23% discounts to ArcelorMittal SJ on EV/EBITDA and P/E; and 2.5% discount on P/E to ArcelorMittal (refer to page 13). Comparison of AM Kryviy Rih is more appropriate to ArcelorMittal SJ thanks to the two companies' similar profitability.

### Implied AM Kryviy Rih price, USD per share



Note: Financials 2008E

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

On the EV/Steel Output metric, AM Kryviy Rih trades at premium relative to ArcelorMittal and ArcelorMittal SJ. In our view, the premium is justified by AM Kryviy Rih's higher self-sufficiency in iron ore. ArcelorMittal SJ has no stakes in iron ore assets, although it supplies iron ore on a cost plus 3% basis to Kumba Ltd (8.75 mln mt p.a.; est. 80% of total needs in 2007; the contract's life extends to 2028).

|                  | EV, USD bln | Output, mln mt |          | Iron ore self-sufficiency | EV/Steel Output, USD/mt |
|------------------|-------------|----------------|----------|---------------------------|-------------------------|
|                  |             | Steel          | Iron ore |                           |                         |
| AM Kryviy Rih    | 12.7        | 8.1            | 10.2     | 95%                       | 1 551                   |
| ArcelorMittal    | 121.9       | 117.1          | 64.0     | 46%                       | 1 241                   |
| ArcelorMittal SJ | 11.4        | 7.35           | 8.8      | 80%                       | 1 447                   |

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

## EV/Steel Output multiple comparison

GEM, developed market and Russian peers trade within a wide range of EV/Steel metrics: USD 502/mt to USD 6,238/mt. AM Kryviy Rih, as a low-cost producer, should naturally trade closer to the range's upper bound.

We rely on EV/Steel multiples for producers with similar low-cost profiles, like Evraz and Novolipetsk – to these two stocks, AM Kryviy Rih trades at 40%-50% discounts.

|                                 | MCap,<br>USD mln | EV/Steel<br>Output,<br>USD/mt | EBITDA margin,<br>08E | Implied AM Kryviy<br>Rih price,<br>USD/share |
|---------------------------------|------------------|-------------------------------|-----------------------|--|
| <b>ArcelorMittal Kryviy Rih</b> | <b>12 736.4</b>  | <b>1 551</b>                  | <b>35.3%</b>          |  |
| <b>GEM peers</b>                |                  |                               |                       |  |
| BLUESCOPE STEEL LTD             | 7 832.8          | 1 271.3                       | 13.9%                 | 2.7  |
| ONESTEEL LIMITED                | 5 784.8          | 3 065.6                       | 10.7%                 | 6.4  |
| VOEST-ALPINE AG                 | 10 627.1         | 1 615.9                       | 18.3%                 | 3.4  |
| SALZGITTER AG                   | 9 325.3          | 875.1                         | 12.4%                 | 1.8  |
| THYSSENKRUPP AG                 | 25 919.9         | 1 504.4                       | 9.4%                  | 3.2  |
| JFE HOLDINGS INC                | 30 022.8         | 1 179.6                       | 16.7%                 | 2.5  |
| KOBE STEEL, LTD.                | 8 129.3          | 1 681.5                       | 13.2%                 | 3.5  |
| NIPPON STEEL CORP               | 33 360.6         | 1 193.8                       | 13.5%                 | 2.5  |
| NISSHIN STEEL CO                | 3 008.0          | 1 047.2                       | 11.5%                 | 2.2  |
| SUMITOMO METAL INDS.            | 21 399.2         | 2 054.3                       | 18.0%                 | 4.3  |
| YAMATO KOGYO CO.                | 3 393.9          | n/a                           | 10.9%                 | n/a  |
| ARCELORMITTAL                   | 121 947.8        | 1 241.4                       | 18.2%                 | 2.6  |
| SSAB SVENSKT STAL AB            | 8 912.4          | 2 738.7                       | 24.2%                 | 5.7  |
| AK STEEL HOLDING                | 6 132.7          | 1 034.8                       | 13.9%                 | 2.2  |
| NUCOR CORPORATION               | 18 863.2         | 976.0                         | 16.0%                 | 2.0  |
| STEEL DYNAMICS, INC.            | 6 550.8          | 1 724.2                       | 15.8%                 | 3.6  |
| UNITED STATES STEEL             | 19 253.4         | 1 079.0                       | 15.0%                 | 2.3  |
| HYUNDAI STEEL CO                | 5 710.2          | 816.6                         | 12.1%                 | 1.7  |
| POSCO                           | 42 591.2         | 1 325.9                       | 22.2%                 | 2.8  |
| <b>Average</b>                  |                  | <b>1 517.7</b>                | <b>15.1%</b>          | <b>3.2</b>                                   |
| <b>DEM peers</b>                |                  |                               |                       |  |
| ARCELORMITTAL SJ                | 11 388.5         | 1 476.8                       | 38.5%                 | 3.1  |
| CIA SIDERURGICA-CSN             | 30 667.8         | 6 283.4                       | 46.4%                 | 13.2   |
| GERDAU S.A.                     | 29 507.9         | 1 986.3                       | 22.0%                 | 4.2  |
| USIMINAS                        | 18 366.3         | 2 026.9                       | 35.7%                 | 4.3  |
| ANGANG STEEL CO                 | 14 476.3         | 1 789.4                       | 22.8%                 | 3.8  |
| BAOSHAN IRON                    | 22 508.6         | 3 200.4                       | 17.8%                 | 6.7  |
| CHINA STEEL CORP                | 18 294.1         | 1 469.1                       | 28.1%                 | 3.1  |
| MAANSHAN IRON&STEEL             | 4 217.4          | 502.8                         | 14.0%                 | 1.1  |
| PZ NEW ST.&VANADIUM             | 5 305.8          | 949.9                         | 11.8%                 | 2.0  |
| WH IRON & STEEL CO              | 11 686.7         | 687.1                         | 21.8%                 | 1.4  |
| STEEL AUTHORITY                 | 13 094.4         | 835.7                         | 25.0%                 | 1.8  |
| TATA STEEL LTD                  | 11 304.2         | 546.1                         | 14.0%                 | 1.1  |
| EREGLI DEMIR CELIK              | 8 377.4          | 1 833.2                       | 24.1%                 | 3.8  |
| <b>Average</b>                  |                  | <b>1 814.4</b>                | <b>24.8%</b>          | <b>3.8</b>                                   |
| <b>Russian peers</b>            |                  |                               |                       |  |
| EVRAZ GROUP S.A.                | 36 163.5         | 2 607.3                       | 36.4%                 | 5.5  |
| MAGNITOGORSK IRON (MMK)         | 13 879.2         | 1 007.9                       | 25.5%                 | 2.1  |
| NOVOLIPETSK                     | 29 191.9         | 3 294.0                       | 44.0%                 | 6.9  |
| SEVERSTAL                       | 22 337.9         | 1 387.7                       | 25.0%                 | 2.9  |
| <b>Average</b>                  |                  | <b>2 074.2</b>                | <b>32.7%</b>          | <b>4.4</b>                                   |

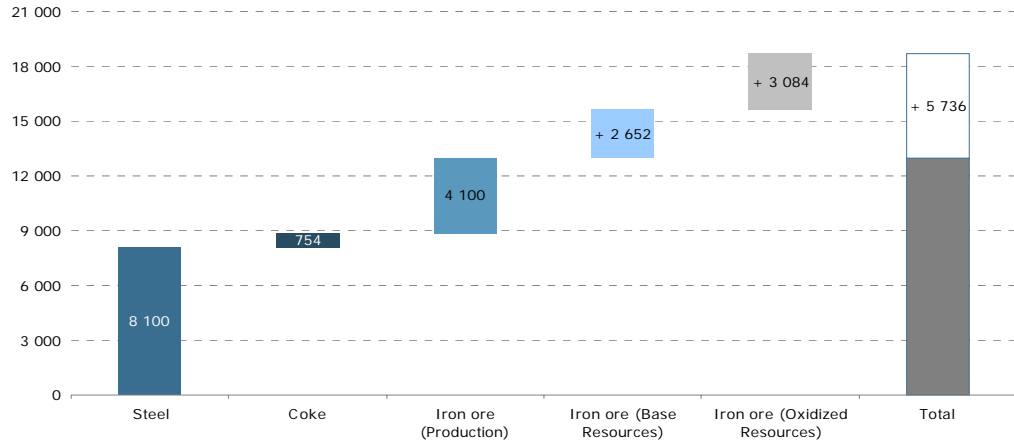
Source: Bloomberg, Thomson Financial, Company data, PFTS, Concorde Capital estimates



## Sum-of-the-parts valuation

Separately evaluating AM Kryviy Rih's steel, coke and iron ore businesses, we derived a range for its value varying from USD 12.9 bln (USD 3.4 per share) to nearly USD 18.6 bln (USD 4.84 per share).

### Sum-of-the-parts value of AM Kryviy Rih, USD mln



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

Valuation of AM Kryviy Rih's steel business is based on EV/Steel Output of USD 1,000/mt, which we set close to Russian non-integrated producer, Magnitogorsk Steel.

To evaluate AM Kryviy Rih's iron ore business by output, we applied the average EV/Iron Ore Output (USD 402/mt) of pure Ukrainian iron ore producers with a similar iron ore profile by Fe content: Ferrexpo (USD 383/mt) and Pivdenny Iron Ore (USD 421/mt). For valuation by iron ore resources, we applied the average of EV/Iron Ore Resources of traded iron ore producers (USD 10.8/mt) and recent deal multiples (Acquisition price/Iron Ore Resources).

- In 2007 Vedanta acquired a 51% stake in Indian Sesa Goa for USD 981 mln
- Anglo purchased MMX, a group of Brazilian iron ore assets, for USD 6.7 bln in 2007

|                   | EV,<br>USD mln | Acquisition price,<br>USD mln | Output,<br>mln mt | Resources,<br>mln mt | EV/Output    | EV/Resources |
|-------------------|----------------|-------------------------------|-------------------|----------------------|--------------|--------------|
| Sesa Goa          | 2 742          | 1 924                         | 6.1               | 126                  | 449.7        | 15.3         |
| MMX               | 9 158          | 6 650                         | 25.0              | 386                  | 366.3        | 17.2         |
| Fortescue         | 27 185         |                               | 45.0              | 2 238                | 604.1        | 12.2         |
| Ferrexpo          | 4 101          |                               | 10.7              | 1 184                | 383.4        | 3.5          |
| Pivdenny Iron Ore | 3 700          |                               | 8.8               | 612                  | 420.5        | 6.1          |
| <b>Average</b>    |                |                               |                   |                      | <b>450.9</b> | <b>10.8</b>  |

Note: Resources adjusted for Fe content. Ferrexpo's resources at existing open pits; Pivdenny Iron Ore's resources are under Soviet classification

Source: Company data, Citi Investment Research, Concorde Capital research

Valuing AM Kryviy Rih's coke business, we applied EV/Coke Output of USD 210/mt, the average EV/Coke Output of locally traded pure Ukrainian coke producers, Avdiyivka, Yasynivsky and Alchevsk Coke.

## DCF valuation

We elaborate two scenarios to derive AM Kryviy Rih's value using DCF:

**Scenario 1.** "Without exploration of oxidized iron ore resources". AM Kryviy Rih will not develop oxidized iron ore from its dumps.

**Scenario 2.** "Exploration of oxidized iron ore resources". AM Kryviy Rih will start to process its oxidized iron ore resources in 2010. Under our assumptions, the company will increase production of sinter feed by +10 mln mt p.a. from 2013. In our model, we used USD 800 mln in CapEx for the project, as announced by management (see p. 5).

### Key model assumptions

|   | 2007 | 2008E | 2009E | 2010E | 2011E | 2012E |
|---|------|-------|-------|-------|-------|-------|
| <b>Ukrainian export steel prices (spot)</b> |      |       |       |       |       |       |
| Rebar, USD/mt (FOB, Black Sea)              | 565  | 1 040 | 1 113 | 946   | 804   | 764   |
| <i>chg , yoy</i>                            | -    | 89%   | 7%    | -15%  | -15%  | -5%   |
| Square billet, USD/mt (FOB, Black Sea)      | 490  | 930   | 996   | 847   | 720   | 684   |
| <i>chg , yoy</i>                            | -    | 84%   | 7%    | -15%  | -15%  | -5%   |
| HRC, USD/mt (FOB, Black Sea)                | 650  | 1 162 | 1 243 | 1 056 | 898   | 853   |
| <i>chg , yoy</i>                            | -    | 79%   | 7%    | -15%  | -15%  | -5%   |
| Sinter feed, USD/mt (DAF)                   | 65   | 120   | 138   | 138   | 110   | 94    |
| <i>chg , yoy</i>                            | -    | 85%   | 15%   | 0%    | -20%  | -15%  |

### Scenario 1

|                              |       |       |       |       |       |       |
|------------------------------|-------|-------|-------|-------|-------|-------|
| Rolled steel, ths mt         | 7 200 | 7 350 | 7 350 | 7 350 | 7 350 | 8 351 |
| <i>chg , yoy</i>             | -     | 2%    | 0%    | 0%    | 0%    | 14%   |
| Tradable sinter feed, ths mt | -     | 669   | 1 169 | 4 469 | 4 517 | 5 867 |
| <i>chg , yoy</i>             | -     | -     | 75%   | 282%  | 1%    | 30%   |
| Revenue, USD mln             | 3 725 | 6 791 | 7 685 | 7 231 | 6 232 | 6 304 |
| <i>chg , yoy</i>             | -     | 82%   | 13%   | -6%   | -14%  | 1%    |
| Steel revenue, USD mln       | 3 641 | 6 643 | 7 384 | 6 377 | 5 535 | 5 899 |
| <i>chg , yoy</i>             | -     | 82%   | 11%   | -14%  | -13%  | 7%    |
| Non-steel revenue, USD mln   | 84    | 217   | 301   | 708   | 572   | 214   |
| <i>chg , yoy</i>             | -     | 156%  | 39%   | 135%  | -19%  | -63%  |
| EBITDA, USD mln              | 1 040 | 2 423 | 2 995 | 2 931 | 2 216 | 1 985 |
| <i>EBITDA margin, %</i>      | 27.9% | 35.3% | 39.0% | 41.4% | 36.3% | 32.5% |
| Net income, USD mln          | 752   | 1 737 | 2 140 | 2 076 | 1 522 | 1 336 |
| <i>Net margin, %</i>         | 20.2% | 25.3% | 27.8% | 29.3% | 24.9% | 21.9% |

### Scenario 2

|                              |       |       |       |       |        |       |
|------------------------------|-------|-------|-------|-------|--------|-------|
| Rolled steel, ths mt         | 7 200 | 7 350 | 7 350 | 7 350 | 7 350  | 8 351 |
| <i>chg , yoy</i>             | -     | 2%    | 0%    | 0%    | 0%     | 14%   |
| Tradable sinter feed, ths mt | -     | 669   | 1 169 | 4 469 | 4 517  | 5 867 |
| <i>chg , yoy</i>             | -     | -     | 75%   | 282%  | 1%     | 30%   |
| Revenue, USD mln             | 3 725 | 6 859 | 7 685 | 7 085 | 6 130  | 6 569 |
| <i>chg , yoy</i>             | -     | 84.2% | 12.0% | -7.8% | -13.5% | 7.1%  |
| Steel revenue, USD mln       | 3 641 | 6 643 | 7 384 | 6 377 | 5 535  | 5 899 |
| <i>chg , yoy</i>             | -     | 82%   | 11%   | -14%  | -13%   | 7%    |
| Non-steel revenue, USD mln   | 84    | 217   | 301   | 708   | 596    | 669   |
| <i>chg , yoy</i>             | -     | 156%  | 39%   | 135%  | -16%   | 12%   |
| EBITDA, USD mln              | 1 040 | 2 423 | 2 995 | 2 931 | 2 223  | 2 305 |
| <i>EBITDA margin, %</i>      | 27.9% | 35.3% | 39.0% | 41.4% | 36.3%  | 35.1% |
| Net income, USD mln          | 752   | 1 738 | 2 141 | 2 077 | 1 526  | 1 565 |
| <i>Net margin, %</i>         | 20.2% | 25.3% | 27.9% | 29.3% | 24.9%  | 23.8% |

*Note: We calculate revenues using the estimated selling price of AM Kryviy Rih, not spot market prices. The selling price factors in short-term contract pricing and is adjusted for the margin of steel traders (on average AM Kryviy Rih's selling prices are 3-10% lower than spot market prices). Non-steel revenue consists of proceeds from tradable pig iron and sinter feed*  
*Source: Company data, Concorde Capital estimates*

## DCF models

### Scenario 1

Valuation as of July 09

UAH mln

|                          | 2008E         | 2009E         | 2010E         | 2011E         | 2012E        | 2013E         | 2014E                        | 2015E         | 2016E         | 2017E         |
|--------------------------|---------------|---------------|---------------|---------------|--------------|---------------|------------------------------|---------------|---------------|---------------|
| EBITDA                   | <b>11 631</b> | <b>14 828</b> | <b>14 509</b> | <b>10 969</b> | <b>9 828</b> | <b>11 476</b> | <b>12 794</b>                | <b>12 794</b> | <b>12 794</b> | <b>12 794</b> |
| EBIT                     | 11 315        | 14 340        | 13 898        | 10 232        | 8 990        | 10 506        | 11 760                       | 11 719        | 11 674        | 11 628        |
| Tax Rate                 | 25%           | 25%           | 25%           | 25%           | 25%          | 25%           | 25%                          | 25%           | 25%           | 25%           |
| Taxed EBIT               | 8 486         | 10 755        | 10 423        | 7 674         | 6 743        | 7 879         | 8 820                        | 8 789         | 8 756         | 8 721         |
| Plus D&A                 | 316           | 488           | 611           | 737           | 837          | 971           | 1 034                        | 1 075         | 1 120         | 1 167         |
| Less CapEx               | (2 140)       | (2 282)       | (3 156)       | (2 418)       | (2 118)      | (1 865)       | (1 535)                      | (1 085)       | (1 152)       | (1 199)       |
| Less change in OWC       | (1 303)       | (790)         | (168)         | 876           | 57           | (633)         | 31                           | -             | -             | -             |
| FCFF                     | <b>5 359</b>  | <b>8 171</b>  | <b>7 710</b>  | <b>6 869</b>  | <b>5 519</b> | <b>6 352</b>  | <b>8 351</b>                 | <b>8 779</b>  | <b>8 723</b>  | <b>8 688</b>  |
| WACC                     | 13.6%         | 13.6%         | 12.7%         | 12.3%         | 11.3%        | 11.3%         | 11.3%                        | 11.3%         | 11.3%         | 11.3%         |
| Sum of discounted CFs    |               | 42 618        |               |               |              |               | WACC To Perpetuity           |               |               | 10.5%         |
| PV of Terminal Value     |               | 36 037        |               |               |              |               | Terminal Value               |               |               | 92 371        |
| Firm Value               |               | 78 655        |               |               |              |               | Perpetuity Growth Rate       |               |               | 1.0%          |
| Portion due to TV        |               | 45.8%         |               |               |              |               | Implied Exit EBITDA Multiple |               |               | 7.2x          |
| Less Net Debt            |               | (89)          |               |               |              |               |                              |               |               |               |
| Equity Value             |               | 78 566        |               |               |              |               |                              |               |               |               |
| Implied share price, UAH |               | 20.4          |               |               |              |               |                              |               |               |               |
| Implied share price, USD |               | 4.2           |               |               |              |               |                              |               |               |               |

### Sensitivity of AM Kryviy Rih's 12M equity value, UAH mln

| 10-Year Discount Rates | Perpetuity Growth Rate |        |               |        |        | WACC to perpetuity | Perpetuity Growth Rate |        |               |        |        |
|------------------------|------------------------|--------|---------------|--------|--------|--------------------|------------------------|--------|---------------|--------|--------|
|                        | 0.0%                   | 0.5%   | 1.0%          | 1.5%   | 2.0%   |                    | 0.0%                   | 0.5%   | 1.0%          | 1.5%   | 2.0%   |
| WACC-1.0%              | 78 980                 | 80 905 | 83 033        | 85 397 | 88 039 | 9.5%               | 77 855                 | 80 016 | 82 431        | 85 148 | 88 227 |
| WACC-0.5%              | 76 902                 | 78 754 | 80 802        | 83 077 | 85 620 | 10.0%              | 76 252                 | 78 210 | 80 386        | 82 817 | 85 553 |
| WACC+0.0%              | 74 900                 | 76 684 | <b>78 566</b> | 80 845 | 83 293 | 10.5%              | 74 811                 | 76 595 | <b>78 566</b> | 80 756 | 83 204 |
| WACC+0.5%              | 72 973                 | 74 690 | 76 588        | 78 697 | 81 054 | 11.0%              | 73 509                 | 75 142 | 76 937        | 78 922 | 81 127 |
| WACC+1.0%              | 71 117                 | 72 770 | 74 598        | 76 629 | 78 899 | 11.5%              | 72 328                 | 73 829 | 75 472        | 77 280 | 79 278 |

### Scenario 2

Valuation as of July 09

UAH mln

|                          | 2008E         | 2009E         | 2010E         | 2011E         | 2012E        | 2013E         | 2014E                        | 2015E         | 2016E         | 2017E         |
|--------------------------|---------------|---------------|---------------|---------------|--------------|---------------|------------------------------|---------------|---------------|---------------|
| EBITDA                   | <b>11 631</b> | <b>14 828</b> | <b>14 509</b> | <b>10 969</b> | <b>9 828</b> | <b>11 476</b> | <b>12 794</b>                | <b>12 794</b> | <b>12 794</b> | <b>12 794</b> |
| EBIT                     | 11 315        | 14 340        | 13 898        | 10 232        | 8 990        | 10 506        | 11 760                       | 11 719        | 11 674        | 11 628        |
| Tax Rate                 | 25%           | 25%           | 25%           | 25%           | 25%          | 25%           | 25%                          | 25%           | 25%           | 25%           |
| Taxed EBIT               | 8 486         | 10 755        | 10 423        | 7 674         | 6 743        | 7 879         | 8 820                        | 8 789         | 8 756         | 8 721         |
| Plus D&A                 | 316           | 488           | 611           | 737           | 837          | 971           | 1 034                        | 1 075         | 1 120         | 1 167         |
| Less CapEx               | (2 140)       | (2 282)       | (3 156)       | (2 418)       | (2 118)      | (1 865)       | (1 535)                      | (1 085)       | (1 152)       | (1 199)       |
| Less change in OWC       | (1 303)       | (790)         | (168)         | 876           | 57           | (633)         | 31                           | -             | -             | -             |
| FCFF                     | <b>5 359</b>  | <b>8 171</b>  | <b>7 710</b>  | <b>6 869</b>  | <b>5 519</b> | <b>6 352</b>  | <b>8 351</b>                 | <b>8 779</b>  | <b>8 723</b>  | <b>8 688</b>  |
| WACC                     | 13.6%         | 13.6%         | 12.7%         | 12.3%         | 11.3%        | 11.3%         | 11.3%                        | 11.3%         | 11.3%         | 11.3%         |
| Sum of discounted CFs    |               | 44 757        |               |               |              |               | WACC To Perpetuity           |               |               | 10.5%         |
| PV of Terminal Value     |               | 41 660        |               |               |              |               | Terminal Value               |               |               | 106 995       |
| Firm Value               |               | 86 417        |               |               |              |               | Perpetuity Growth Rate       |               |               | 1.0%          |
| Portion due to TV        |               | 48.2%         |               |               |              |               | Implied Exit EBITDA Multiple |               |               | 7.1x          |
| Less Net Debt            |               | (89)          |               |               |              |               |                              |               |               |               |
| Equity Value             |               | 86 328        |               |               |              |               |                              |               |               |               |
| Implied share price, UAH |               | 22.4          |               |               |              |               |                              |               |               |               |
| Implied share price, USD |               | 4.6           |               |               |              |               |                              |               |               |               |

### Sensitivity of AM Kryviy Rih's 12M equity value, UAH mln

| 10-Year Discount Rates | Perpetuity Growth Rate |        |               |        |        | WACC to perpetuity | Perpetuity Growth Rate |        |               |        |        |
|------------------------|------------------------|--------|---------------|--------|--------|--------------------|------------------------|--------|---------------|--------|--------|
|                        | 0.0%                   | 0.5%   | 1.0%          | 1.5%   | 2.0%   |                    | 0.0%                   | 0.5%   | 1.0%          | 1.5%   | 2.0%   |
| WACC-1.0%              | 85 527                 | 88 025 | 90 816        | 93 957 | 97 517 | 9.5%               | 85 527                 | 88 025 | 90 816        | 93 957 | 97 517 |
| WACC-0.5%              | 83 664                 | 85 927 | 88 442        | 91 253 | 94 415 | 10.0%              | 83 664                 | 85 927 | 88 442        | 91 253 | 94 415 |
| WACC+0.0%              | 81 987                 | 84 049 | <b>86 328</b> | 88 860 | 91 690 | 10.5%              | 81 987                 | 84 049 | <b>86 328</b> | 88 860 | 91 690 |
| WACC+0.5%              | 80 472                 | 82 359 | 84 435        | 86 729 | 89 279 | 11.0%              | 80 472                 | 82 359 | 84 435        | 86 729 | 89 279 |
| WACC+1.0%              | 79 097                 | 80 831 | 82 731        | 84 821 | 87 131 | 11.5%              | 79 097                 | 80 831 | 82 731        | 84 821 | 87 131 |

Source: Concorde Capital estimates

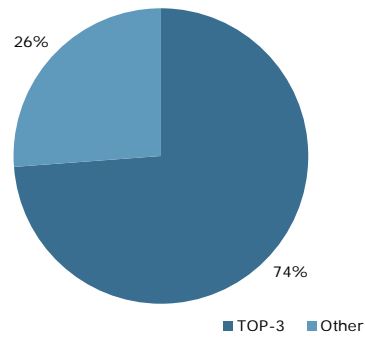
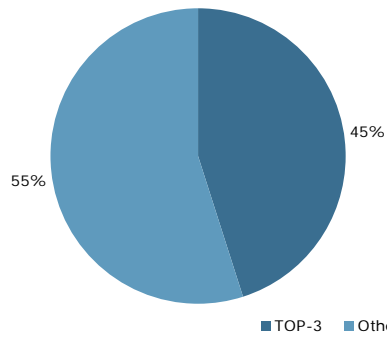
## Appendices

### Iron ore seaborne market concentration and historical prices

#### Concentration of iron ore suppliers on the global seaborne market

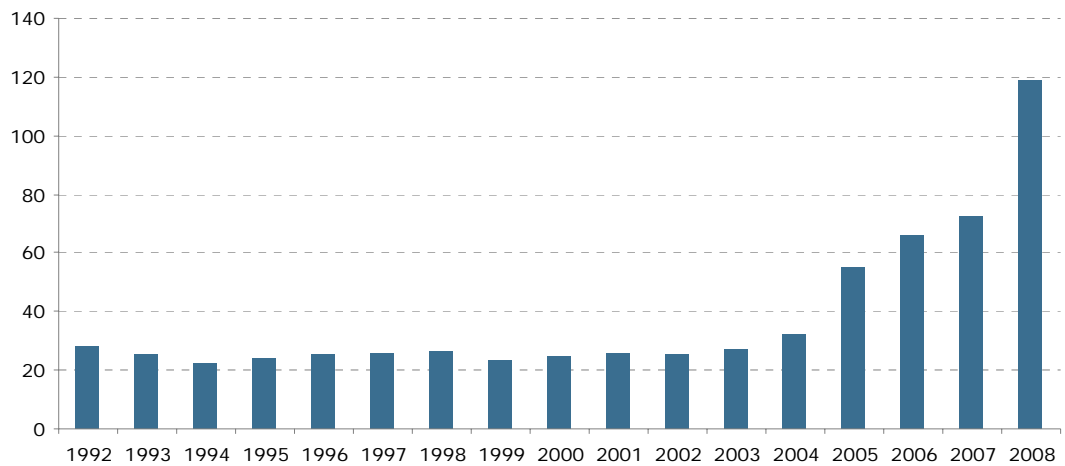
1999

2007



Note: Top-3 consist of CVRD (Vale), Rio-Hamersley (Rio Tinto) and BHP (BHP Billiton)  
Source: ArcelorMittal

#### Iron ore price, USD cents per 1% Fe\*



\* Standard Carajas  
Source: Macquarie Research, Metallorg

## Quarterly financial statements

### Income statement summary, USD mln

|                                   | 1Q06         | 2Q06         | 3Q06         | 4Q06         | 1Q07         | 2Q07         | 3Q07         | 4Q07         | 1Q08           |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|----------------|
| <b>Net Revenues</b>               | <b>558.8</b> | <b>717.9</b> | <b>773.2</b> | <b>801.4</b> | <b>836.9</b> | <b>983.2</b> | <b>976.9</b> | <b>927.8</b> | <b>1 093.8</b> |
| Cost Of Sales                     | (381.8)      | (461.1)      | (459.1)      | (509.4)      | (538.2)      | (557.3)      | (586.7)      | (658.5)      | (738.1)        |
| Gross Profit                      | 177.0        | 256.9        | 314.1        | 291.9        | 298.7        | 425.8        | 390.2        | 269.3        | 355.7          |
| <i>Gross margin</i>               | <i>31.7%</i> | <i>35.8%</i> | <i>40.6%</i> | <i>36.4%</i> | <i>35.7%</i> | <i>43.3%</i> | <i>39.9%</i> | <i>29.0%</i> | <i>32.5%</i>   |
| Other Operating Income/Costs, net | (2.4)        | (7.2)        | (14.3)       | (6.7)        | (23.6)       | (67.7)       | (4.2)        | (3.9)        | (15.2)         |
| SG&A                              | (33.6)       | (49.3)       | (49.2)       | (49.8)       | (47.5)       | (50.2)       | (53.5)       | (93.2)       | (59.9)         |
| <b>EBITDA</b>                     | <b>141.0</b> | <b>200.3</b> | <b>250.6</b> | <b>235.4</b> | <b>227.6</b> | <b>307.9</b> | <b>332.5</b> | <b>172.2</b> | <b>280.7</b>   |
| <i>EBITDA margin</i>              | <i>25.2%</i> | <i>27.9%</i> | <i>32.4%</i> | <i>29.4%</i> | <i>27.2%</i> | <i>31.3%</i> | <i>34.0%</i> | <i>18.6%</i> | <i>25.7%</i>   |
| Depreciation                      | (13.5)       | (13.6)       | (13.3)       | (12.4)       | (13.3)       | (14.2)       | (15.0)       | (14.8)       | (17.2)         |
| <b>EBIT</b>                       | <b>127.6</b> | <b>186.8</b> | <b>237.3</b> | <b>223.0</b> | <b>214.3</b> | <b>293.7</b> | <b>317.5</b> | <b>157.4</b> | <b>263.4</b>   |
| <i>EBIT margin</i>                | <i>22.8%</i> | <i>26.0%</i> | <i>30.7%</i> | <i>27.8%</i> | <i>25.6%</i> | <i>29.9%</i> | <i>32.5%</i> | <i>17.0%</i> | <i>24.1%</i>   |
| Interest Expense                  | (0.8)        | (1.9)        | (2.8)        | (3.1)        | (3.1)        | (3.1)        | (3.1)        | (3.1)        | (3.1)          |
| Financial income/(expense)        | -            | 1.3          | 3.4          | 4.9          | 4.1          | 5.6          | 6.2          | 6.1          | 7.4            |
| Other income/(expense)            | (2.0)        | (2.7)        | 4.0          | (0.3)        | (0.1)        | (3.9)        | (0.4)        | 0.0          | 0.5            |
| <b>PBT</b>                        | <b>124.8</b> | <b>183.5</b> | <b>241.9</b> | <b>224.4</b> | <b>215.2</b> | <b>292.3</b> | <b>320.2</b> | <b>160.4</b> | <b>268.3</b>   |
| Tax                               | (36.8)       | (44.8)       | (62.4)       | (50.2)       | (52.7)       | (79.2)       | (78.0)       | (26.1)       | (70.1)         |
| <b>Net Income</b>                 | <b>87.9</b>  | <b>138.8</b> | <b>179.5</b> | <b>174.2</b> | <b>162.5</b> | <b>213.1</b> | <b>242.2</b> | <b>134.4</b> | <b>198.2</b>   |
| <i>Net Margin</i>                 | <i>15.7%</i> | <i>19.3%</i> | <i>23.2%</i> | <i>21.7%</i> | <i>19.4%</i> | <i>21.7%</i> | <i>24.8%</i> | <i>14.5%</i> | <i>18.1%</i>   |

Source: Company data

### Balance sheet summary, USD mln

|                                       | 1Q06           | 2Q06           | 3Q06           | 4Q06           | 1Q06           | 2Q07           | 3Q07           | 4Q07           | 1Q08           |
|---------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Current Assets</b>                 | <b>761.6</b>   | <b>1 096.8</b> | <b>1 274.3</b> | <b>1 277.1</b> | <b>1 441.2</b> | <b>1 655.5</b> | <b>1 849.7</b> | <b>1 925.9</b> | <b>2 198.8</b> |
| Cash & Equivalents                    | 155.6          | 277.3          | 325.6          | 251.3          | 371.5          | 503.0          | 476.6          | 367.8          | 287.6          |
| Trade Receivables                     | 315.8          | 388.4          | 317.2          | 377.2          | 418.2          | 384.5          | 467.3          | 525.3          | 511.4          |
| Inventories                           | 202.9          | 183.9          | 191.3          | 207.6          | 202.1          | 239.7          | 244.8          | 286.8          | 334.5          |
| Other current assets                  | 87.3           | 247.3          | 440.2          | 441.0          | 449.4          | 528.3          | 661.0          | 746.0          | 1 065.3        |
| <b>Fixed Assets</b>                   | <b>741.7</b>   | <b>753.0</b>   | <b>772.2</b>   | <b>818.5</b>   | <b>839.3</b>   | <b>898.2</b>   | <b>936.6</b>   | <b>1 031.0</b> | <b>1 065.4</b> |
| PP&E, net                             | 479.3          | 474.3          | 465.8          | 485.3          | 496.0          | 521.3          | 529.7          | 657.1          | 678.0          |
| Other Fixed Assets                    | 262.4          | 278.7          | 306.3          | 333.1          | 343.3          | 376.8          | 406.9          | 373.9          | 387.4          |
| <b>Total Assets</b>                   | <b>1 503.3</b> | <b>1 849.8</b> | <b>2 046.5</b> | <b>2 095.6</b> | <b>2 280.5</b> | <b>2 553.7</b> | <b>2 786.3</b> | <b>2 956.9</b> | <b>3 264.2</b> |
| <b>Shareholders' Equity</b>           | <b>1 358.7</b> | <b>1 478.8</b> | <b>1 653.8</b> | <b>1 748.3</b> | <b>1 899.0</b> | <b>2 111.8</b> | <b>2 353.9</b> | <b>2 488.1</b> | <b>2 685.5</b> |
| Share Capital                         | 764.3          | 764.3          | 764.3          | 764.3          | 764.3          | 764.3          | 764.3          | 764.3          | 764.3          |
| Reserves and Other                    | 49.0           | 64.6           | 60.1           | 59.8           | 61.3           | 90.2           | 90.1           | 89.9           | 89.8           |
| Retained Earnings                     | 545.5          | 649.9          | 829.4          | 924.3          | 1 073.4        | 1 257.4        | 1 499.5        | 1 633.9        | 1 831.5        |
| <b>Current Liabilities</b>            | <b>144.6</b>   | <b>169.2</b>   | <b>188.2</b>   | <b>164.0</b>   | <b>198.3</b>   | <b>275.2</b>   | <b>265.8</b>   | <b>318.8</b>   | <b>428.7</b>   |
| ST Interest Bearing Debt              | -              | -              | -              | 16.7           | 16.7           | 33.3           | 33.3           | 50.0           | 50.0           |
| Trade Payables                        | 34.4           | 40.9           | 44.7           | 68.2           | 44.8           | 58.2           | 61.2           | 114.5          | 152.1          |
| Accrued Wages                         | 14.1           | 15.9           | 16.4           | 17.3           | 17.1           | 17.7           | 17.8           | 18.7           | 19.1           |
| Accrued Taxes                         | 39.0           | 36.1           | 44.7           | 7.3            | 18.4           | 51.4           | 59.5           | 23.9           | 36.9           |
| Other Current Liabilities             | 57.1           | 76.3           | 82.4           | 54.4           | 101.3          | 114.6          | 94.0           | 111.8          | 170.6          |
| <b>LT Liabilities</b>                 | <b>-</b>       | <b>201.7</b>   | <b>204.5</b>   | <b>183.3</b>   | <b>183.3</b>   | <b>166.7</b>   | <b>166.7</b>   | <b>150.0</b>   | <b>150.0</b>   |
| LT Interest Bearing Debt              | -              | 200.0          | 200.0          | 183.3          | 183.3          | 166.7          | 166.7          | 150.0          | 150.0          |
| Other LT                              | -              | 1.7            | 4.5            | -              | -              | -              | -              | -              | -              |
| <b>Total Liabilities &amp; Equity</b> | <b>1 503.3</b> | <b>1 849.8</b> | <b>2 046.5</b> | <b>2 095.6</b> | <b>2 280.5</b> | <b>2 553.7</b> | <b>2 786.3</b> | <b>2 956.9</b> | <b>3 264.2</b> |

Source: Company data

## Projected financials

### Income statement summary, USD mln

|                                   | 2006         | 2007         | 2008E        | 2009E        | 2010E        | 2011E        | 2012E        |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Net Revenues</b>               | <b>2 851</b> | <b>3 725</b> | <b>6 859</b> | <b>7 685</b> | <b>7 085</b> | <b>6 106</b> | <b>6 113</b> |
| <i>Change, yoy</i>                |              | 31%          | 84%          | 12%          | -8%          | -14%         | 0%           |
| Cost Of Sales                     | (1 811)      | (2 341)      | (3 853)      | (4 190)      | (3 729)      | (3 463)      | (3 670)      |
| Gross Profit                      | 1 040        | 1 384        | 3 006        | 3 495        | 3 356        | 2 643        | 2 444        |
| Other Operating Income/Costs, net | (31)         | (99)         | (206)        | (115)        | -            | -            | -            |
| SG&A                              | (182)        | (244)        | (377)        | (384)        | (425)        | (427)        | (459)        |
| <b>EBITDA</b>                     | <b>827</b>   | <b>1 040</b> | <b>2 423</b> | <b>2 995</b> | <b>2 931</b> | <b>2 216</b> | <b>1 985</b> |
| <i>EBITDA margin</i>              | 29.0%        | 27.9%        | 35.3%        | 39.0%        | 41.4%        | 36.3%        | 32.5%        |
| Depreciation                      | (53)         | (57)         | (66)         | (99)         | (123)        | (149)        | (169)        |
| <b>EBIT</b>                       | <b>775</b>   | <b>983</b>   | <b>2 357</b> | <b>2 897</b> | <b>2 808</b> | <b>2 067</b> | <b>1 816</b> |
| <i>EBIT margin</i>                | 27.2%        | 26.4%        | 34.4%        | 37.7%        | 39.6%        | 33.9%        | 29.7%        |
| Interest Expense                  | (9)          | (12)         | (41)         | (43)         | (40)         | (37)         | (34)         |
| Financial income/(expense)        | 10           | 22           | -            | -            | -            | -            | -            |
| Other income/(expense)            | (1)          | (4)          | -            | -            | -            | -            | -            |
| <b>PBT</b>                        | <b>775</b>   | <b>988</b>   | <b>2 316</b> | <b>2 853</b> | <b>2 768</b> | <b>2 030</b> | <b>1 782</b> |
| Tax                               | (194)        | (236)        | (579)        | (713)        | (692)        | (507)        | (445)        |
| <b>Net Income</b>                 | <b>580</b>   | <b>752</b>   | <b>1 737</b> | <b>2 140</b> | <b>2 076</b> | <b>1 522</b> | <b>1 336</b> |
| <i>Net margin</i>                 | 20.4%        | 20.2%        | 25.3%        | 27.8%        | 29.3%        | 24.9%        | 21.9%        |

Note: Scenario 1

Source: Concorde Capital estimates

### Balance sheet summary, USD mln

|                                       | 2006         | 2007         | 2008E        | 2009E        | 2010E        | 2011E        | 2012E        |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Current Assets</b>                 | <b>1 277</b> | <b>1 926</b> | <b>2 103</b> | <b>2 263</b> | <b>2 252</b> | <b>2 207</b> | <b>2 182</b> |
| Cash & Equivalents                    | 251          | 368          | 200          | 231          | 213          | 374          | 354          |
| Trade Receivables                     | 377          | 525          | 532          | 615          | 567          | 489          | 489          |
| Inventories                           | 208          | 287          | 374          | 419          | 410          | 398          | 422          |
| Other current assets                  | 441          | 746          | 998          | 999          | 1 063        | 946          | 917          |
| <b>Fixed Assets</b>                   | <b>818</b>   | <b>1 031</b> | <b>1 488</b> | <b>1 881</b> | <b>2 377</b> | <b>2 688</b> | <b>2 947</b> |
| PP&E, net                             | 485          | 657          | 769          | 1 420        | 1 846        | 2 260        | 2 549        |
| Other Fixed Assets                    | 334          | 374          | 718          | 461          | 531          | 427          | 397          |
| <b>Total Assets</b>                   | <b>2 096</b> | <b>2 957</b> | <b>3 591</b> | <b>4 145</b> | <b>4 630</b> | <b>4 895</b> | <b>5 129</b> |
| <b>Shareholders' Equity</b>           | <b>1 735</b> | <b>2 488</b> | <b>3 038</b> | <b>3 611</b> | <b>4 129</b> | <b>4 434</b> | <b>4 661</b> |
| Share Capital                         | 764          | 764          | 780          | 780          | 780          | 780          | 780          |
| Reserves and Retained Earnings        | 971          | 1 724        | 2 258        | 2 832        | 3 350        | 3 654        | 3 881        |
| <b>Current Liabilities</b>            | <b>177</b>   | <b>319</b>   | <b>391</b>   | <b>372</b>   | <b>339</b>   | <b>299</b>   | <b>306</b>   |
| ST Interest Bearing Debt              | 17           | 50           | 67           | 77           | 71           | 61           | 61           |
| Trade Payables                        | 68           | 114          | 112          | 126          | 112          | 104          | 110          |
| Accrued Wages                         | 17           | 19           | 7            | 8            | 7            | 6            | 6            |
| Accrued Taxes                         | 7            | 24           | 7            | 8            | 7            | 6            | 6            |
| Other Current Liabilities             | 67           | 112          | 200          | 154          | 142          | 122          | 122          |
| <b>LT Liabilities</b>                 | <b>183</b>   | <b>150</b>   | <b>162</b>   | <b>162</b>   | <b>162</b>   | <b>162</b>   | <b>162</b>   |
| LT Interest Bearing Debt              | 183          | 150          | 162          | 162          | 162          | 162          | 162          |
| Other LT                              | -            | -            | -            | -            | -            | -            | -            |
| <b>Total Liabilities &amp; Equity</b> | <b>2 096</b> | <b>2 957</b> | <b>3 591</b> | <b>4 145</b> | <b>4 630</b> | <b>4 895</b> | <b>5 129</b> |

Note: Scenario 1

Source: Concorde Capital estimates

### UAH/USD Exchange Rates

|          | 2006 | 2007 | 2008E | 2009E | 2010E | 2011E | 2012E |
|----------|------|------|-------|-------|-------|-------|-------|
| Average  | 5.05 | 5.05 | 4.80  | 4.95  | 4.95  | 4.95  | 4.95  |
| Year-end | 5.05 | 5.05 | 4.80  | 4.95  | 4.95  | 4.95  | 4.95  |

Source: National Bank of Ukraine, Concorde Capital estimates

## Despite SPF's claim, reprivatization risk is low

On July 14, it was reported that the State Property Fund sent a letter to the Cabinet of Ministers to request the government terminate its 2005 privatization agreement with ArcelorMittal. The SPF claimed that ArcelorMittal failed to comply with the terms of the deal, specifically upgrading certain facilities and meeting commitments regarding working conditions, and asked for the government to allocate USD 14 mln in funds to bring a court case against it.

We do not view the State Property Fund's move as risk to ArcelorMittal's ownership rights, but rather as political posturing by the SPF's embattled current head, Valentyna Semenyuk-Samsonenko. Her efforts to remain at her post and the broader tension between President Yushchenko and Prime Minister Yulia Tymoshenko have stalled all privatizations planned for this year. Tymoshenko, who has established herself as a crusader against murky government deals, has stated on several occasions that she sees no need to revise Kryvorizhstal's privatization.

On the other side of the coin, we believe that in order to head off any potential claims against it, ArcelorMittal will continue to bolster and maintain diligent corporate governance practices. The plant earned an AA (Above Average) rating in our 2008 and 2007 corporate governance survey of Ukrainian companies, with the highest possible marks in the financial statement quality and ownership disclosure segments.

## Analyst Certification

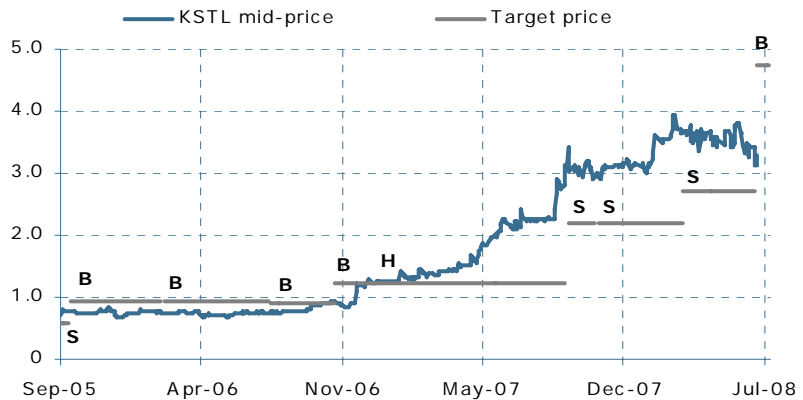
I, Eugene Cherviachenko, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject securities and issuers. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendations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

### ArcelorMittal Kriviy Rih\*

| Date      | Target price, USD | Market Price, USD | Rec' | Action     |
|-----------|-------------------|-------------------|------|------------|
| 04-Jan-05 | 0.45              | 0.35              | BUY  | Initiating |
| 06-Jul-05 | pending           | 0.48              | HOLD | Downgrade  |
| 26-Sep-05 | 0.58              | 0.65              | SELL | Downgrade  |
| 07-Nov-05 | 0.93              | 0.76              | BUY  | Upgrade    |
| 22-Mar-06 | 0.93              | 0.78              | BUY  | Maintain   |
| 18-Aug-06 | 0.91              | 0.76              | BUY  | Maintain   |
| 21-Nov-06 | 1.22              | 0.94              | BUY  | Maintain   |
| 22-Dec-06 | 1.22              | 1.22              | HOLD | Downgrade  |
| 19-Oct-07 | 2.20              | 3.13              | SELL | Downgrade  |
| 04-Dec-07 | 2.20              | 3.00              | SELL | Maintain   |
| 04-Apr-08 | 2.70              | 3.70              | SELL | Maintain   |
| 22-Jul-08 | 4.75              | 3.30              | BUY  | Upgrade    |

\* Until March 2007 the company was covered by Andriy Gostik, who now focuses on another sector. In February 2007, Eugene Cherviachenko took over coverage; in October 2007, Andriy Gerus joined the metals & mining group.

### KSTL Recommendation history, USD per share





## Investment Ratings

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

### Concorde Capital ratings distribution

|              |            |             |
|--------------|------------|-------------|
| Buy          | 76         | 67%         |
| Hold         | 20         | 18%         |
| Sell         | 8          | 7%          |
| Under Review | 10         | 9%          |
| <b>Total</b> | <b>114</b> | <b>100%</b> |

### Investment banking clients\*

|              |          |             |
|--------------|----------|-------------|
| Buy          | 7        | 100%        |
| Hold         | 0        | 0%          |
| Sell         | 0        | 0%          |
| Under Review | 0        | 0%          |
| <b>Total</b> | <b>7</b> | <b>100%</b> |

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

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