

Ukraine / Iron Ore

Pivdenny Iron Ore & Sukha Balka

Privat to Exit the Iron Ore Business?

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	Price USD	12M target USD	Upside	Rec.
PGZK	0.27	0.42	55.6%	BUY
SUBA*	0.06	0.19	216.7%	BUY

* PFTS bid price

Pivdenny Iron Ore

Bloomberg PGZK UZ

No of Shares, mln 2,143.7

Market price, USD 0.27

MCap, USD mln 579.4

Free float 7.5%

FF MCap, USD mln 43.5

Stock Ownership

Privat 47.9%

Smart group 44.4%

Other 7.5%

Sukha Balka

Bloomberg SUBA UZ

No of Shares, mln 848.5

Market price, USD* 0.06

MCap, USD mln 50.9

Free float 6.0%

FF MCap, USD mln 3.1

Stock Ownership

Privat 94.0%

Other 6.0%

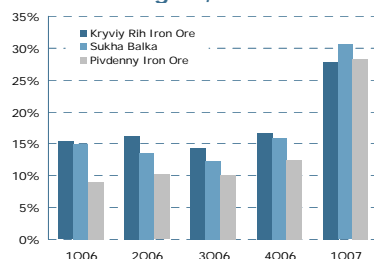
* PFTS bid price

The unexpectedly strong performance of three Privat-related iron ore producers in 4Q06-1Q07 has been overlooked by the market. At the moment, it is not clear whether Privat decided to display its non-core assets for sale, or if it was a one-off splash. Whatever the reason, improved margin disclosure is positive. We reiterate BUY recommendations for Pivdenny Iron Ore and Sukha Balka, with our targets unchanged, still offering hefty upsides of 56% and 217% respectively.

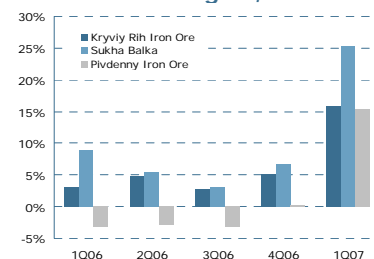
Dizzying improvements in profitability margins in 4Q06-1Q07

In 4Q06-1Q07 the profitability margins of Privat-related iron ore producers sky-rocketed to what we believe is close to their true level. The progress is way above what other Privat-related metals & mining companies reported for the same period (see Appendix 1).

EBITDA margins, %



Net income margins, %



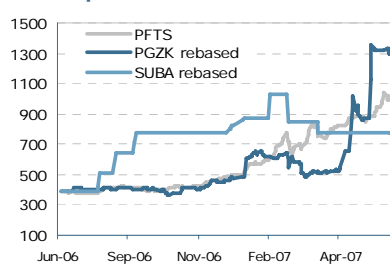
Why?

- Strategic sale (60% probability).** Privat decides to focus on the development of its core business – ferroalloys, where it controls >20% of the global market.

We see Metinvest, as well as other CIS steel heavyweights, as likely bidders. News outlets reported in May that Metinvest's owners intended to acquire a 40% stake in Kryviy Rih Iron Ore. Additionally, Metinvest has forged closer ties with Smart group, which holds a 44.4% stake in Pivdenny Iron Ore.

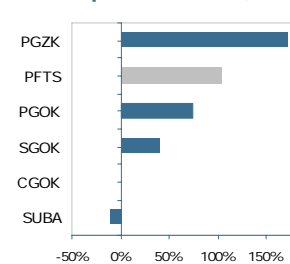
- One-off occurrence (40% probability).** Privat discloses improved margins due to other factors (possibly political), which is not the first time it has done this type of thing. In the mid-2005, when Tymoshenko was Prime Minister, it temporarily reported robust margins (see Appendix 1).

Stock performance vs. PFTS

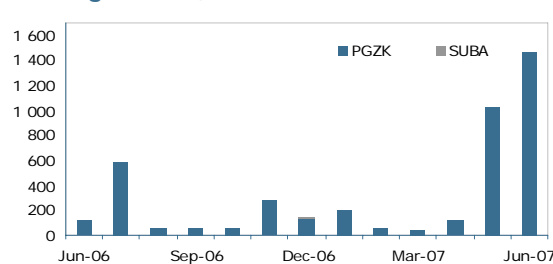


Source: PFTS, Bloomberg

Sector performance, YTD



Trading volume, USD ths



Appendix 1: Financials of Privat-related metals & mining assets

Iron ore

Pivdenny Iron Ore

	1Q02	2Q02	3Q02	2002	1Q03	2Q03	3Q03	2003	1Q04	2Q04	3Q04	2004	1Q05	2Q05	3Q05	2005	1Q06	2Q06	3Q06	2006	1Q07
Net Revenues	35	73	115	156	36	77	119	165	43	80	119	161	56	129	182	267	78	152	244	306	119
EBITDA	7	18	31	39	7	16	28	41	0	(9)	28	(22)	(2)	27	32	38	7	15	25	38	34
EBITDA margin, %	18.9%	24.9%	26.6%	24.9%	20.8%	20.3%	23.6%	24.9%	0.4%	-11.5%	23.7%	-13.4%	-3.1%	20.9%	17.8%	14.1%	9.0%	10.1%	10.1%	12.4%	28.4%
EBIT	3	10	19	23	4	8	17	26	(4)	(16)	17	(36)	(6)	18	19	19	2	6	10	19	29
EBIT margin, %	7.2%	13.9%	16.3%	14.9%	10.4%	10.7%	14.3%	16.0%	-8.1%	-20.3%	14.4%	-22.3%	-10.7%	14.1%	10.5%	7.3%	2.6%	3.9%	4.2%	6.2%	24.1%
Net Income	2	9	18	10	4	8	16	12	(3)	(25)	17	(54)	(7)	10	4	5	(3)	(4)	(8)	1	18
Net Margin, %	5.1%	12.6%	15.3%	6.3%	10.0%	10.1%	13.8%	7.3%	-7.9%	-31.0%	13.9%	-33.5%	-12.3%	7.8%	2.2%	2.0%	-3.2%	-3.0%	-3.2%	0.4%	15.3%

Sukha Balka

	1Q02	2Q02	3Q02	2002	1Q03	2Q03	3Q03	2003	1Q04	2Q04	3Q04	2004	1Q05	2Q05	3Q05	2005	1Q06	2Q06	3Q06	2006	1Q07
Net Revenues	8	16	25	34	10	16	24	34	10	15	24	28	10	27	40	59	18	35	52	74	25
EBITDA	1	2	4	5	1	2	4	6	1	1	4	0	1	7	9	12	3	5	6	12	8
EBITDA margin, %	16.7%	14.2%	14.6%	15.1%	9.0%	14.0%	16.5%	16.8%	11.8%	6.6%	16.6%	1.6%	7.0%	25.3%	23.7%	20.5%	15.0%	13.6%	12.3%	16.0%	30.6%
EBIT	0	1	1	2	0	1	2	3	1	0	2	(2)	0	5	7	9	2	3	4	9	7
EBIT margin, %	6.0%	4.8%	5.5%	6.2%	1.8%	5.2%	8.0%	7.6%	6.6%	0.4%	8.0%	-6.4%	0.9%	20.7%	18.9%	15.8%	10.7%	9.3%	7.5%	11.4%	26.9%
Net Income	0	1	1	0	(0)	0	1	1	0	(0)	1	(3)	0	5	6	7	2	2	2	5	6
Net Margin, %	6.5%	5.1%	5.8%	0.2%	-0.8%	2.6%	5.6%	4.1%	4.8%	-1.8%	5.6%	-10.1%	0.0%	19.7%	15.6%	11.5%	9.0%	5.5%	3.1%	6.7%	25.3%

Kryviy Rih Iron Ore

	1Q02	2Q02	3Q02	2002	1Q03	2Q03	3Q03	2003	1Q04	2Q04	3Q04	2004	1Q05	2Q05	3Q05	2005	1Q06	2Q06	3Q06	2006	1Q07
Net Revenues	17	32	50	68	21	42	66	89	29	62	66	132	46	95	121	167	41	84	124	174	48
EBITDA	3	6	10	14	3	6	9	11	3	6	9	19	17	27	28	31	6	14	18	29	13
EBITDA margin, %	17.4%	19.6%	20.1%	19.8%	15.0%	13.8%	13.1%	12.4%	11.7%	10.3%	13.1%	14.1%	38.1%	27.8%	23.1%	18.7%	15.3%	16.3%	14.3%	16.8%	27.8%
EBIT	0	1	2	2	1	2	2	3	1	2	2	10	14	20	18	17	3	7	7	15	10
EBIT margin, %	1.2%	2.7%	3.2%	3.5%	5.0%	3.8%	3.4%	3.0%	5.1%	3.8%	3.3%	7.9%	30.4%	20.5%	14.5%	10.0%	6.6%	8.0%	5.9%	8.8%	20.9%
Net Income	(0)	(0)	0	0	1	0	1	1	1	1	1	7	7	10	12	10	9	1	4	3	9
Net Margin, %	-0.6%	-0.1%	0.1%	0.0%	2.5%	1.0%	1.1%	0.9%	3.1%	2.3%	1.0%	5.2%	20.8%	12.8%	8.1%	5.4%	3.1%	4.9%	2.8%	5.1%	15.8%

Steel

DMK Petrovskogo

	1Q02	2Q02	3Q02	2002	1Q03	2Q03	3Q03	2003	1Q04	2Q04	3Q04	2004	1Q05	2Q05	3Q05	2005	1Q06	2Q06	3Q06	2006	1Q07
Net Revenues	4	9	15	22	6	14	23	33	12	27	23	66	18	37	56	77	20	43	74	106	34
EBITDA	0	0	1	(0)	(0)	0	1	1	(0)	(0)	1	(1)	(0)	0	1	8	1	(0)	(1)	(0)	2
EBITDA margin, %	8.2%	2.8%	4.7%	4.4%	-0.5%	3.5%	2.8%	2.0%	-0.4%	-1.7%	2.8%	-1.4%	-2.3%	0.4%	1.5%	10.4%	4.7%	-0.6%	-0.8%	-0.2%	5.3%
EBIT	0	(0)	0	0	(0)	0	0	(0)	(0)	(1)	0	(2)	(1)	(0)	0	7	1	(1)	(1)	(2)	(0)
EBIT margin, %	3.0%	-1.9%	0.7%	0.9%	-3.7%	0.6%	0.1%	-0.4%	-2.1%	-3.2%	0.1%	-2.7%	-3.7%	-1.0%	0.2%	9.0%	3.2%	-2.0%	-1.9%	-1.5%	3.7%
Net Income	(1)	(1)	(2)	(2)	(1)	(1)	(2)	(3)	(1)	(2)	(2)	(4)	(1)	(1)	(1)	3	0	(1)	(2)	(2)	1
Net Margin, %	-13.7%	-17.5%	-12.9%	-11.3%	-15.8%	-10.5%	-9.5%	-9.5%	-8.1%	-7.6%	-9.5%	-6.5%	-6.5%	-1.7%	-1.3%	4.3%	2.5%	-2.3%	-2.2%	-2.1%	3.1%

Coke

Bagliy Coke

	1Q02	2Q02	3Q02	2002	1Q03	2Q03	3Q03	2003	1Q04	2Q04	3Q04	2004	1Q05	2Q05	3Q05	2005	1Q06	2Q06	3Q06	2006	1Q07
Net Revenues	4	8	14	19	6	14	18	25	7	12	18	29	22	69	102	141	37	76	107	137	29
EBITDA	0	0	1	0	(0)	0	1	(0)	1	1	1	2	2	5	7	8	3	6	5	6	(4)
EBITDA margin, %	0.8%	5.2%	5.2%	0.5%	-2.2%	0.3%	3.1%	-1.2%	9.0%	5.7%	3.1%	6.9%	10.4%	7.8%	6.5%	5.7%	7.4%	8.1%	4.5%	4.1%	-12.8%
EBIT	0	(0)	(0)	(1)	(0)	(1)	(0)	(1)	0	0	(0)	1	2	5	6	7	2	5	4	4	(4)
EBIT margin, %	-6.4%	-0.5%	-1.2%	-5.6%	-7.3%	-3.7%	-1.3%	-5.4%	4.3%	0.7%	0.0%	2.5%	9.0%	6.9%	5.5%	4.7%	6.4%	7.1%	3.4%	3.0%	-14.0%
Net Income	(0)	(0)	(0)	(2)	(0)	(1)	(0)	(2)	0	(0)	(0)	1	2	4	5	2	4	5	4	4	(4)
Net Margin, %	-6.3%	-1.6%	-1.5%	-9.6%	-7.3%	-4.6%	-2.2%	-6.0%	4.3%	-0.1%	-2.2%	1.7%	7.5%	6.5%	5.3%	2.6%	6.4%	7.1%	3.4%	0.6%	-14.3%

Ferroalloys & Manganese ore

Zaporizhya Ferroalloy

	1Q02	2Q02	3Q02	2002	1Q03	2Q03	3Q03	2003	1Q04	2Q04	3Q04	2004	1Q05	2Q05	3Q05	2005	1Q06	2Q06	3Q06	2006	1Q07
Net Revenues	24	53	90	136	44	91	141	191	54	143	141	328	77	159	231	316	71	152	235	326	85
EBITDA	1	4	8	10	4	8	11	15	1	(3)	11	(20)	(11)	(11)	(5)	6	5	12	14	15	7
EBITDA margin, %	4.3%	7.3%	8.8%	7.7%	10.1%	9.1%	8.1%	7.8%	2.7%	-2.4%	8.1%	-6.1%	14.0%	-6.7%	-2.2%	1.9%	7.4%	7.9%	5.9%	4.5%	8.7%
EBIT	0	2	5	6	3	6	8	11	0	(6)	8	(24)	(12)	(13)	(9)	1	4	9	10	9	6
EBIT margin, %	0.1%	3.6%	5.5%	4.8%	7.8%	6.8%	6.0%	5.7%	0.8%	-3.9%	6.0%	-7.4%	15.3%	-8.1%	-3.7%	0.3%	5.6%	6.1%	4.2%	2.8%	7.0%
Net Income	(2)	(3)	(1)	0	1	3	5	0	(2)	(7)	5	(30)	(12)	(12)	(9)	(2)	4	7	4	0	2
Net Margin, %	-7.7%	-5.2%	-0.8%	0.1%	2.8%	3.4%	3.5%	0.1%	-3.1%	-5.2%	3.5%	-9.0%	15.7%	-7.5%	-3.7%	-0.5%	4.9%	4.6%	1.6%	0.1%	2.6%

Stakhaniv Ferroalloy

	1Q02	2Q02	3Q02	2002	1Q03	2Q03	3Q03	2003	1Q04	2Q04	3Q04	2004	1Q05	2Q05	3Q05	2005	1Q06	2Q06	3Q06	2006	1Q07
Net Revenues	10	14	23	37	14	30	43	62	2	18	43	69	22	46	66	95	29	61	94	129	35
EBITDA	(0)	1	1	0	(0)	2	3	4	0	1	3	2	(1)	(2)	(1)	(1)	1	4	7	9	5
EBITDA margin, %	-1.3%	3.7%	3.2%	0.5%	-0.2%	6.9%	6.5%	8.5%	15.9%	6.5%	6.5%	2.6%	-5.5%	-4.5%	-2.0%	-1.1%	2.5%	7.0%	7.5%	7.2%	15.0%
EBIT	(1)	(0)	(0)	(2)	(0)	1	1	2	(0)	0	1	(1)	(2)	(3)	(3)	(4)	(0)	3	4	6	4
EBIT margin, %	-5.6%	-0.5%	-1.1%	-3.7%	-3.0%	4.0%	3.2%	3.8%	-9.6%	0.8%	3.2%	-1.0%	-8.3%	-7.4%	-5.1%	-4.1%	-0.3%	4.3%	4.7%	4.4%	12.2%
Net Income	(1)	(1)	(1)	(3)	(1)	0	0	(1)	(2)	(2)	0	(6)	(2)	(4)	(4)	(6)	(1)	1	2	1	2
Net Margin, %	-8.2%	-3.0%	-4.4%	-7.1%	-6.7%	0.1%	0.7%	-3.1%	-8.6%	-10.6%	0.7%	-9.1%	-9.7%	-9.2%	-6.3%	-6.2%	-2.8%	1.7%	2.0%	0.6%	5.3%

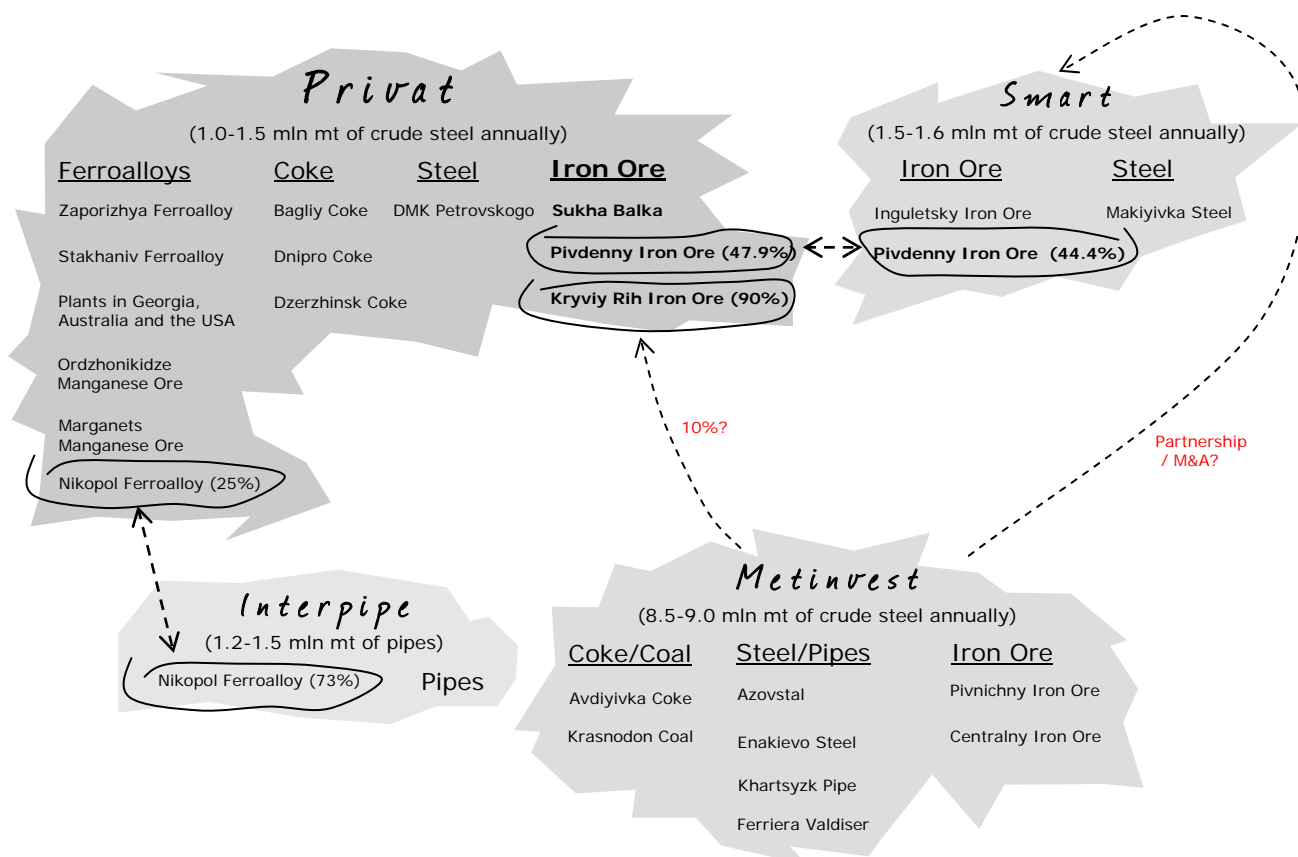
Nikopol Ferroalloy

	1Q02	2Q02	3Q02	2002	1Q03	2Q03	3Q03	2003	1Q04	2Q04	3Q04	2004	1Q05	2Q05	3Q05	2005	1Q06	2Q06	3Q06	2006	1Q07
Net Revenues	70	140	204	273	-	145	209	288	84	187	210	415	130	255	362	481	133	234	371	525	174
EBITDA	4	12	14	14	-	6	8	15	2	6	8	26	10	18	11	6	(2)	(8)	1	9	11
EBITDA margin, %	5.6%	8.7%	7.0%	5.3%	-	4.3%	3.8%	5.1%	2.4%	3.1%	3.8%	6.3%	7.4%	7.1%	3.1%	1.3%	-1.5%	-3.6%	0.3%	1.7%	6.0%
EBIT	3	10	11	10	-	4	4	10	1	3	4	21	8	15	7	(0)	(4)	(12)	(4)	2	9
EBIT margin, %	3.9%	7.0%	5.3%	3.5%	-	2.6%	2.0%	3.3%	0.9%	1.8%	2.0%	5.1%	6.3%	5.9%	1.8%	0.0%	-2.7%	-4.9%	-1.0%	0.4%	5.0%
Net Income	2	6	6	3	-	2	1	4	1	2	1	13	8	12	(0)	(4)	(13)	(7)	0	5	5
Net Margin, %	2.5%	4.3%	2.7%	1.3%	-	1.3%	0.6%	1.4%	0.8%	0.9%	0.6%	3.2%	6.1%	4.6%	-0.1%	-0.9%	-2.9%	-5.3%	-1.8%	0.0%	2.9%

Marganets Manganese Ore

	1Q02	2Q02	3Q02	2002	1Q03	2Q03	3Q03	2003	1Q04	2Q04	3Q04	2004	1Q05	2Q05	3Q05	2005	1Q06	2Q06	3Q06	2006	1Q07
Net Revenues	2	53	93	137	45	96	139	162	32	92	139	163	15	45	75	104	18	48	87	124	28
EBITDA	(0)	3	13	16	(1)	(1)	(2)	5	1	(1)	(2)	(8)	(0)	2	4	7	4	4	7	8	2
EBITDA margin, %	-2.0%	6.4%	13.1%	11.8%	-2.4%	-1.4%	-1.2%	3.3%	4.7%	-1.3%	-1.2%	-5.0%	-0.7%	4.6%	5.3%	6.3%	19.6%	8.9%	7.5%	6.4%	5.7%
EBIT	(0)	1	9	12	(2)	(3)	(5)	0	(4)	(5)	(13)	(1)	(1)	(1)	(1)	0	2	1	1	1	0
EBIT margin, %	-7.8%	2.3%	10.0%	8.6%	-4.8%	-3.6%	-3.5%	0.1%	0.7%	-4.0%	-3.5%	-8.1%	-9.8%	-2.2%	-1.1%	-0.1%	11.3%	1.9%	1.7%	1.0%	0.4%
Net Income	(0)	1	9	7	(2)	(4)	(5)	(0)	(0)	(4)	(5)	(14)	(1)	0	0	5	2	0	1	0	0
Net Margin, %	-8.6%	1.8%	9.7%	5.3%	-4.9%	-3.7%	-3.6%	-0.1%	-1.0%	-4.6%	-3.6%	-8.7%	-9.2%	0.3%	0.3%	4.7%	9.3%	0.8%	1.0%	0.0%	0.0%

Appendix 2: Privat to shed its iron ore assets?



Privat group

Through its satellite companies, Privat is a vertically-integrated group, controlling >20% of the global ferroalloy market. Importantly, Nikopol Ferroalloy, jointly controlled by Privat/Interpipe, occupies 8-10% of the global market itself.

Privat controls three iron ore producers: Pivdenny Iron Ore, Sukha Balka, and Kryviy Rih Iron Ore (est. value of Privat's stake in these assets is USD 800-1000 mln). The estimated value of other metals & mining assets is USD 150-200 mln as their equipment is outdated.

Smart group

Middle-sized Ukrainian steel business group, which controls a 44.4% stake in Pivdenny Iron Ore.

The group's key asset is open-pit iron ore mining company Inguletsky Iron Ore. It also owns small-size outdated steel plant, Makiyivka Steel.

Interpipe group

Interpipe owns 73% of Nikopol Ferroalloy (estimated value USD 700-800 mln).

The group's major business is making pipes & tubes. Interpipe is planning an IPO in 2008 for its pipe assets. It also announced plans to construct an electric-arc furnace for Nyzhnyodniprovsky Pipe (est. cost of a furnace USD 650-700 mln).

Metinvest

In February 2007 it was rumored that the group had bought a 10% stake in Kryviy Rih Iron Ore, that its representatives entered the supervisory board, and it had appointed the company's CFO. Additionally, news outlets reported that SCM (Metinvest's parent) put in a bid for 40% of the company.

In June Metinvest agreed to jointly participate in a USD 3 bln CapEx program of Makiyivka Steel, which is owned by Smart group, a move believe might take it one step toward an acquisition of Smart group.

Note: Please see more details on the business specifics of Pivdenny Iron Ore and Sukha Balka in our report of November 23, 2006.

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.

Pivdenny Iron Ore

Date	Target price, USD	Market Price, USD	Rec'	Action
27-May-05	0.17	0.04	BUY	Initiating
09-Mar-06	0.33	0.23	BUY	Maintain
22-Mar-06	0.33	0.18	BUY	Maintain
13-Apr-06	0.14	0.11	BUY	Maintain
18-Aug-06	0.12	0.09	BUY	Maintain
29-Dec-06	0.14	0.08	BUY	Maintain
30-May-07	0.42	0.23	BUY	Maintain
22-June-07	0.42	0.27	BUY	Maintain

PGZK recommendation history, USD



Sukha Balka

Date	Target price, USD	Market Price, USD	Rec'	Action
27-May-05	0.10	0.02	BUY	Initiating
18-Aug-06	0.12	0.09	BUY	Maintain
23-Nov-06	0.19	0.09	BUY	Maintain
29-Dec-06	0.19	0.08	BUY	Maintain
22-June-06	0.19	0.06	BUY	Maintain

SUBA recommendation history, USD



Concorde Capital Rating Universe

Buy	32	38.1%
Hold	11	13.1%
Sell	5	6.0%
Under Review	25	29.8%
Not Rated	11	13.1%
Total	84	100%

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