



CONCORDE CAPITAL

Ukraine / Coal

Chervonoarmiyska-Zakhidna

Leveraging Coking Coal Deficit

October 24, 2007

Current Price: USD 1.59

12M Target: USD 2.50

BUY

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Bloomberg SHCHZ UZ

Market information

No of Shares, mln	848
Market Price, USD	1.59
52Wk H/L, USD	1.59/0.58
MCap, USD mln	1352.6
Free float	2.1%
Free float, USD	28.4

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.

Ownership

Donetskstal	46%
Investorozvytok LTD	41%
Other	13%

Ratios 2007E

EBITDA Margin	21.0%
Net Margin	3.0%
Net Debt/ Equity	neq

After meeting with the company's management following the AGM last week, we see a catalyst in a pending IPO, though not officially confirmed: IFRS audits and an evaluation of reserves are scheduled for 2008. We see the stock continuing its recent 110% run, on strong drivers in booming global coal prices and the company leveraging its supplying power in an environment of a coking coal deficit in Ukraine. We upgrade mid-term production forecasts and raise our target price to USD 2.5 per share, with an implied 57% upside.

Domestic coal mines are feeding on higher prices

In June-October 2007, Ukrainian coking coal prices rallied 40-50% to near their historical maximum. We forecast them to remain firm in the mid-term given the large appetite of domestic coke makers, insufficient supplies from local sources, limited imports of quality products and global coking coal price inflation of 20-35% yoy expected in 2008.

The only game in town

Local steel producers are undertaking the transformation to non-gas technologies (PCI), which require K grade quality coal with low sulphur content. In view of the lack of seaports for deliveries from abroad and a deficit on the CIS market, Chervonoarmiyska-Zakhidna, producer of 62% of total Ukrainian output, is poised to experience robust demand.

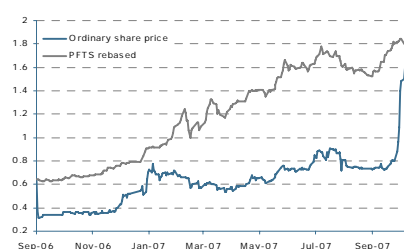
We raise our production forecasts

At the AGM last week, management disclosed new production plans by 2012, which are 20% higher than our previous forecasts. Though we remain more conservative in light of probable delays in increasing production, we revise upward our production forecasts, now estimating 8.5 mln mt in 2008 vs. 7.5 previously.

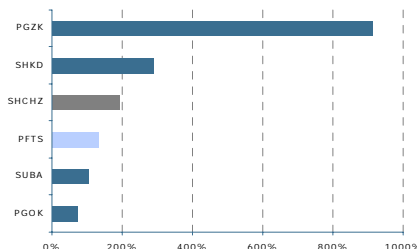
IPO as a catalyst

In our discussion with management after the AGM, they disclosed plans for an IFRS audit and evaluation of reserves by the end of 2008. Our general impression is that they are heading toward an IPO, which would be a catalyst for the stock's price. Look for improved reporting standards as a result of IPO preparations and a strong external impetus - the return of Yulia Tymoshenko as prime minister; her new government is likely to take a tough stance on tax evaders.

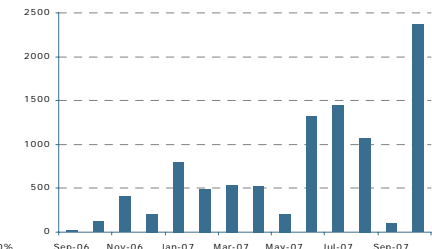
Stock performance*, 12M



Sector performance*, YTD



Trading Volumes, USD ths



Note: PFTS bid price

Source: PFTS, Concorde Capital estimates

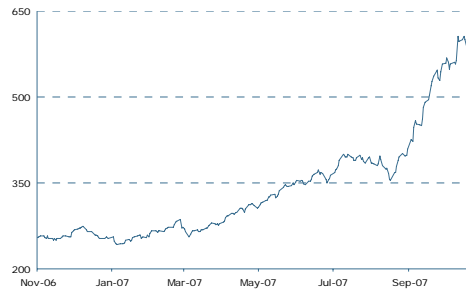
Key financials, USD mln

	Sales		EBITDA mgn		Net mgn		EV/S		EV/EBITDA		P/E	
	True	Reported	True	Reported	True	Reported	True	Reported	True	Reported	True	Reported
2006	457.9	272.0	39%	31%	20%	6%	2.95	4.96	7.55	16.00	14.7	n/m
2007E	509.1	273.0	45%	21%	28%	3%	2.65	4.76	5.89	22.69	9.47	n/m
2008E	817.1	450.0	45%	25%	28%	7%	1.65	3.00	3.67	11.99	5.90	42.83

UAH/USD Spot exchange rate is 5.05

Global coal equities rush

World Bloomberg Coal Stock Index

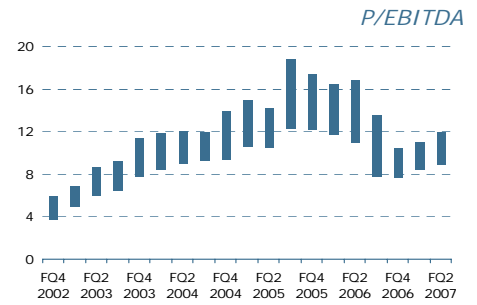
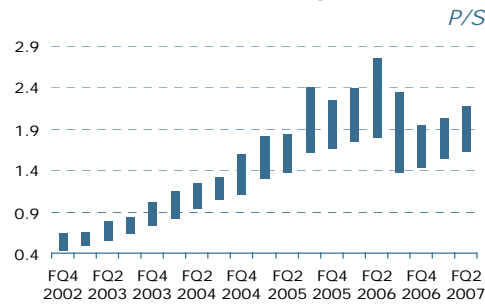


Source: Bloomberg

Raspadska Mine, USD



Historical market multiples of coal stocks



Source: Bloomberg

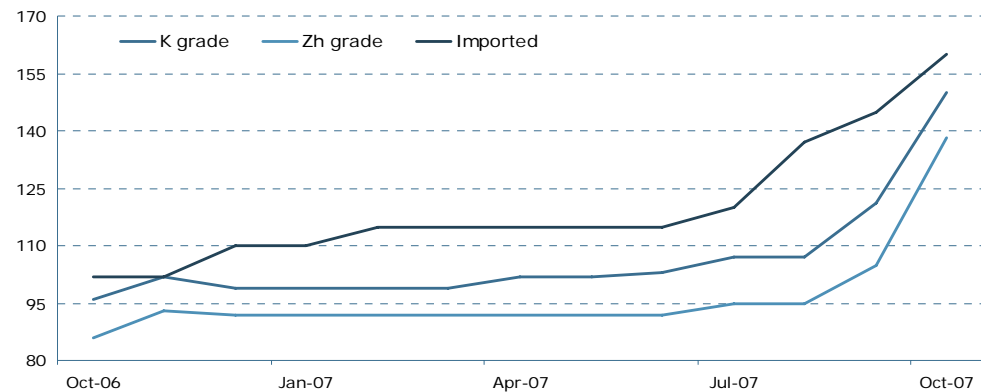
* Sample of stocks includes Peabody, Arch Coal, Consol and Massey

Market outlook: Sizzling hot

Prices jumped in 3Q07

In June-October 2007 Ukrainian coking coal prices rallied 40-50% to near their historical maximum driven by strong demand from coke makers and a shortage of supply in the CIS.

Price of coking coal concentrate in Ukraine, USD/mt



Source: Metal Courier

We revise our coal price forecasts upward

Ukrainian coking coal producers, in contrast to Russian mines, are better positioned to benefit from price growth as they sell coal via monthly/quarterly contracts. According to our estimates for 2007, the average price of coking coal will climb 23-25% yoy for coking-grade coal to 109 USD/mt, for fat grades to 99 USD/mt, and for imported coking coal concentrate from Russia to 125 USD/mt.

We revise upward our mid-term forecast for coking coal prices from 85-100 USD/mt previously to 115-120 USD/mt. Although a slight downward correction of 3-5% is possible, we estimate coking coal prices in Ukraine will remain robust in the mid-term.

Strong demand vs. Limited supply

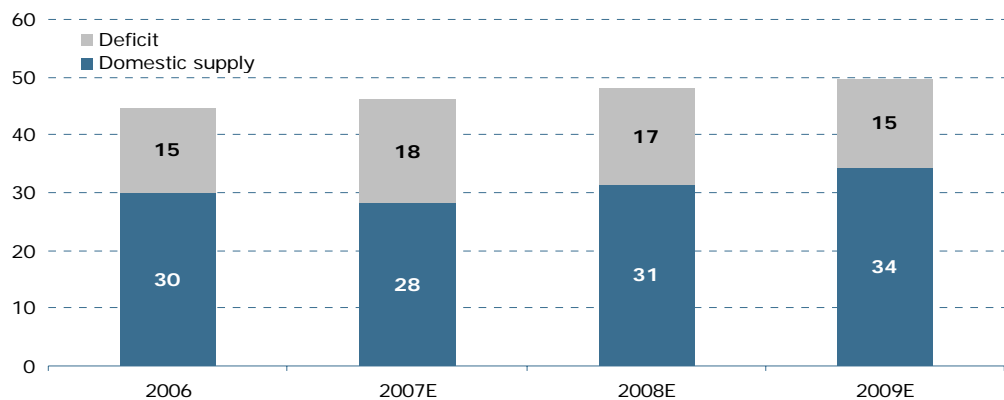
Domestic demand is stable

Ukrainian demand for coking coal, driven by the increasing output of coke producers (up 5.0% yoy in 8M07), will remain robust in the mid-term. We forecast domestic consumption will grow from 45 mln mt in 2007 to almost 50 mln mt in 2009.

Local supplies are meagre

Ukrainian coke makers have traditionally faced a deficit in the domestic supply of hard coking coal to meet production needs. Local coal producers decreased extraction of coking coal by 8% yoy in 8M07 to 18.9 mln mt. According to Vasiliy Kharakhulakh, the CEO of the Ukrainian Metallurgy Association Metalurgprom, they are forecasting that the deficit of quality coking coal will persist in 2008-2009.

Domestic coking coal supply vs. deficit, mln mt



Source: *Energobusiness, Concorde Capital estimates*

Note: *Raw coal*

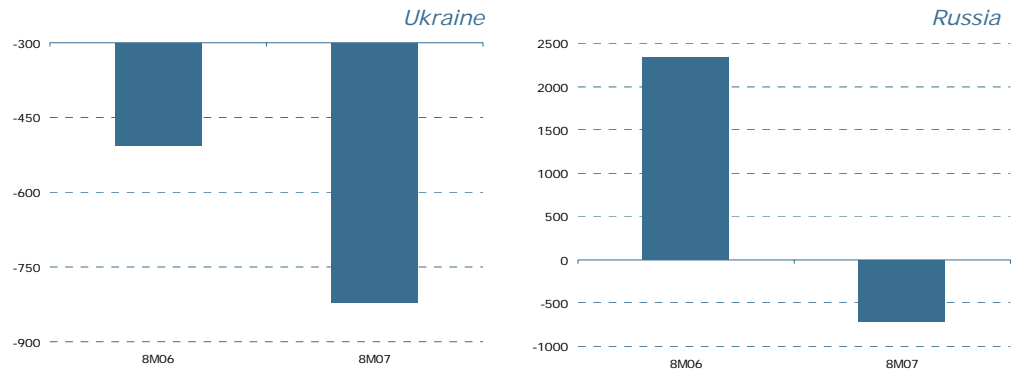
We forecast coal extraction will remain firm in 2008-2009. Although privately owned mines are planning to increase capacities (Metinvest-owned Krasnodon Coal, Donetskstal-owned Chervonoarmiyska-Zakhidna), state owned mines are poorly financed to increase production. In our opinion, the situation could change for better after privatization, expected after 2009.

The large private domestic producers, Chervonoarmiyska-Zakhidna, Krasnodon, Pavlohrad and Zasyadko (accounting for more than 60% of coking coal in the country combined), might artificially keep the deficit on the market in order to benefit from higher prices for their products.

Russian imports limited by mining incidents in 1H07

Large explosions at Russian Ulianivska, Uibileina and Komsomolska coal mines in 1H07 resulted in a deficit of coal in Russia, which is the largest exporter of coking coal to Ukraine.

Coking coal balance, ths mt



Source: Metal Expert

While in 2005-2006, Russian imports nearly covered the Ukrainian deficit in coking coal, we forecast that Russia will not be able to cover the shortfall in domestic supplies in at least the next two-three years. According to the agency Metal Expert, Russia will increase production of fat grade coal and restore balance on the domestic market by the end of 2008. Although, the Russian market will continue to experience a shortage of coking (K) grade coal until 2012, leaving Ukraine without Russian imports of coking (K) grade coal, one of the key components in coke processing.

Local producers ready to pay higher prices for non-Russian imports

As Russian imports are limited, local producers are seeking other sources. In 2008 the Ukrainian Industrial Union of Donbas plans to import 1.5 mln mt coking coal for Alchevsk Coke from North America, which will cover 25-30% of their need (imports through IUD's seaport in Romania began in 2007). In 2007, Arcelor Mittal received a pilot delivery of coal from Kazakhstan from related mines. These shipments marked a turnabout by Ukrainian producers that are now ready to pay global prices for quality coal.

However, due to bottlenecks at local seaports and problems with railroad transportation, we think that imports of coking coal from America, Australia and Canada will remain minimal. At the same time, a global 25-30% yoy increase in coking coal prices forecasted by the National Bank of Australia (NAB) and Macquarie Research Equities should support high domestic prices.

Seeking quality coal

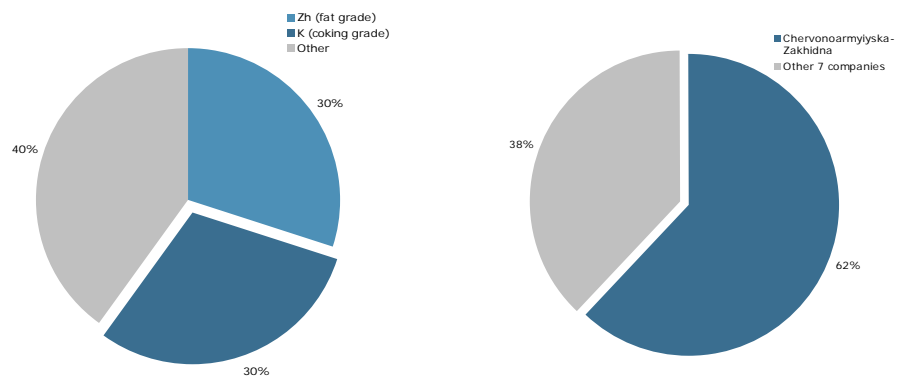
Among the few local high grade coking coal suppliers

Chervonoarmiyska-Zakhidna produces 62% of all Ukrainian K grade coal. K grade, together with Zh grade, coal is a mandatory part of the coking feed mix. The proportion of K and Zh grade coal must be above 60% for optimal coke charge; though Ukrainian K grade is more preferable than Zh grade due to lower sulphur content.

This type of coal is required for producers of quality coke used in the pig iron smelting process, especially with non-gas technologies (including pulverized-coal injection workshops). Local steel mills have announced plans to implement PCI workshops to eliminate gas consumption by 2009, thus we expect demand for hard K grade coking coal with low sulphur content to increase in the mid-term.

Unlike Chervonoarmiyska-Zakhidna, other large mines in Ukraine mostly extract coal with high sulphur content (see Appendix 2).

Coking coal grades in coke production Ukrainian producers of K grade coal



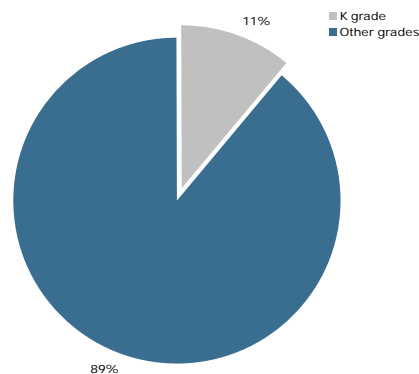
Source: Metal Expert, Ukrainian Coal Chemical Institute

Quality of Russian exports to Ukraine declines

Most Russian coking coal producers are integrated into large steel holdings and thus consume the lion's share of quality coal themselves.

The growing shortage of coking grade coal in Russia, particularly for K grade coal, has limited imports. The Ukrainian Coke Association and Metalurgprom have confirmed that deliveries have diminished (see Appendix 3). Metal Courier has forecasted the Russian deficit of coking coal could reach 2.5 mln mt p.a. if producers do not bring capacity additions on stream and preserve high prices on the market.

Coking coal imports from Russia in 8M07



Source: Metal Courier

Management is betting on growth

At the AGM last week, management disclosed new production plans by 2012, which are 20% higher than our previous forecasts. Although the company decreased output almost 13% yoy to 3.9 mln mt in 8M07 to keep the local market hot, management is targeting 7.0 mln mt by the end of the year. On the conservative side, we had forecasted coal extraction of 6.5 mln mt in 2007.

Management vs. old Concorde forecast, *ths mt*

<i>Coal extraction</i>	<i>2007E</i>	<i>2008E</i>	<i>2009E</i>	<i>2010E</i>	<i>2011E</i>
Concorde Capital, old	6.5	7.5	7.5	10.0	10.0
Management	7.0	9.0	12.0	12.0	12.0

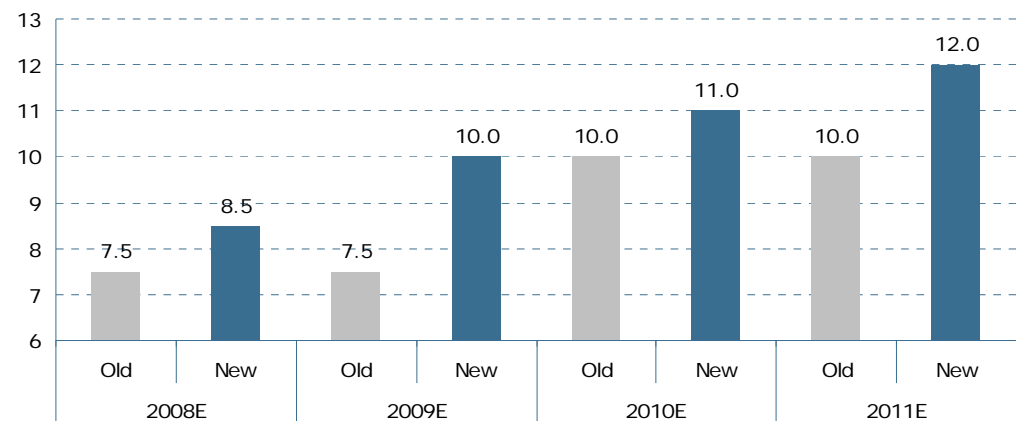
Source: Company data, Concorde Capital estimates

Management is planning to spend around USD 150 mln during the next two-three years on a new coal cutter (Joy Global) and heading machines from the Ukrainian Yasynuvatsky Machinery plant, which will help boost capacity by 2 mln mt.

By the end of 2008, a new groove will be launched. According to management, the company has already invested around USD 180-200 mln of the total planned for the project (USD 230 mln). This groove will tap into 190-200 mln mt coal deposits. It will be equipped with an in-house combined heat & power unit with methane gas as feedstock. The generator will make the company self-sufficient in electricity.

Based on management expectations, we lifted our production forecasts, though we remain more conservative to account for probable delays in increasing production.

Annual production forecast revision, *mln mt*



Source: Company data, Concorde Capital estimates

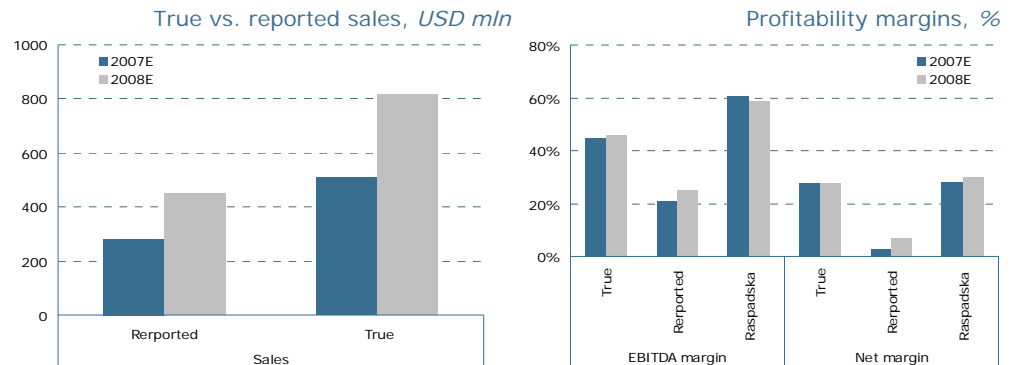
All in all, management estimates that the mine's reserves will be depleted by 2038, which implies their total volume is around 370-390 mln mt.

In 1H08 management plans to complete construction of a coal refining plant that will allow it to refine almost 100% of raw coal (planned investments: USD 140 mln). There is a risk that the refinery will be a separate legal entity and therefore we do not account for it in our revenue forecasts.

Beyond the reported numbers

In our opinion, the mine remains involved in transfer pricing with its parent Donetskstal, which is both a risk and an opportunity. Based on market prices, output volumes and the mining cost of 47 USD/mt of coal, we calculate the company's true revenues are almost two times higher than reported. Our rough calculations of real profitability are close to its Russian peer, Raspadska.

Chervonoarmiyska-Zakhidna financials



Source: Company data, Concorde Capital estimates

Preparation for big corporate action underway?

We believe the company will clean up UAS accounts or issue them by IFRS in the mid-term, allowing investors to see its true financials. During Concorde's talks with Donetskstal management in May 2007, they indicated that the company is on the eve of a large corporate event; the mine's AGM last week further reinforced their statements.

We see the following hints indicating that Donetskstal is preparing to take Chervonoarmiyska-Zakhidna public:

- Company management told us that IFRS financials and an evaluation of reserves will be completed by the end of 2008
- Donetskstal's managers previously said Baker Tilly would serve as auditor of Chervonoarmiyska-Zakhidna
- Rumors that the group is already in the process of selecting a lead manager between three global banks
- Donetskstal requires more than USD 1.0 bln to fund development programs

Donetskstal's estimated financial need

Asset	Project	Period	Amount, USD mln
Chervonoarmiyska-Zakhidna	Construction of groove #2	2009	30-150
	Modernization of existing mining equipment	2008	100-150
Refinery plant	Construction	2008-2009	140
Donetskstal	Replacement of open-hearth furnaces with electric arc furnaces	2008-2009	>350
Istil	Acquisition of electric mini mill (rumored in mass-media in September)		>350
Total			above 1,000

Source: Company data, Concorde Capital estimates

In our opinion, Chervonoarmiyska-Zakhidna is the only candidate for placement within the Donetskstal group, due to its other assets' legal structures. According to our estimates, a 20% stake in the company could be valued in the range USD 450-700 mln.

Donetskstal Group

Donetskstal



Source: Concorde Capital

Note: Makiyivka Coke and Donetsk Steel Plant are structured as two separate legal entities; Yasynivsky Coke rents half its facilities to MMK Illich Steel, Kostromskaya and Zarechnaya mines are small coal extractors and are located in Russia

New government to root out tax avoiders

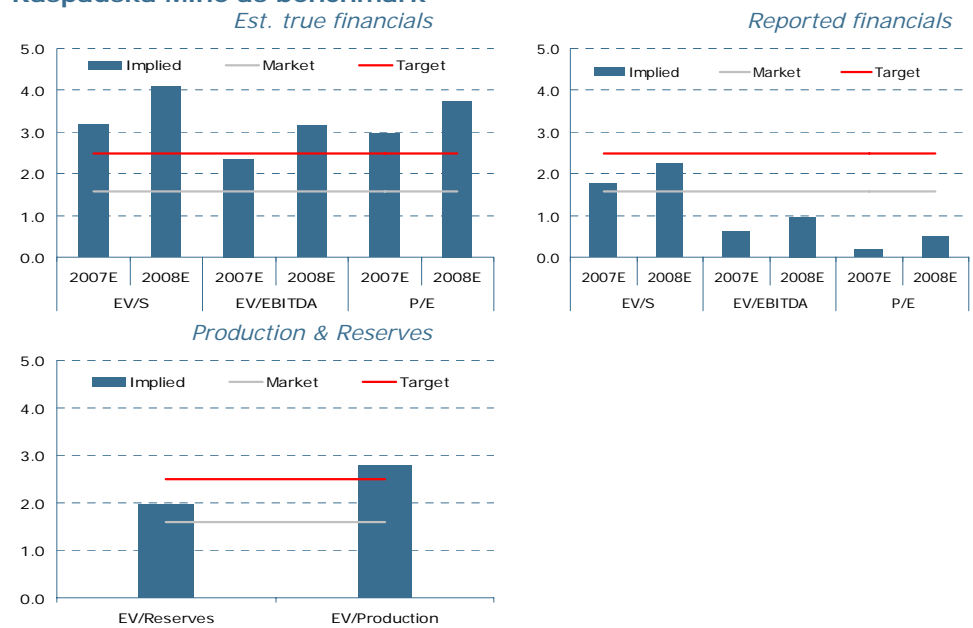
An external driver to improve transparency is the likely return of Yulia Tymoshenko as prime minister, whose campaign promises recalled her 2004 crusade as PM against shady schemes and corruption. After the significant improvements by local steel groups (see our steel and pipes reports of Oct. 19 and Sept. 21), Donetskstal is among the last remaining large tax avoiders in the country.

Valuation summary

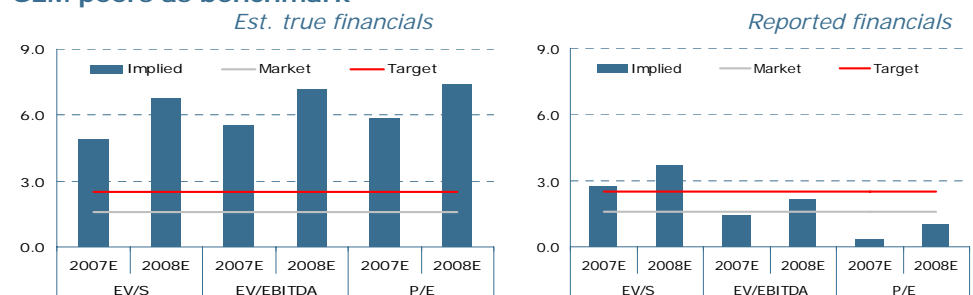
We valued the company by Russian (Raspadska Coal Mine), GEM and developed market peers. Our valuation based on estimated true financials yields 40% to 367% upsides, while on reported financials, the company looks fairly valued. To account for non-transparent reporting standards, we calculated the implied price based on EV/Production and EV/Reserves to Raspadska Mine – the closest peer, which offers upsides from 76% and 26%, respectively. However, in our view, the EV/Reserves multiple does not account for the quality of reserves, which is higher for Chervonoarmiyska-Zakhidna, thus this metric might lead to underestimation.

We derived our target price by weighting valuations based on true financials (implied price of USD 4.1 per share; weight 20%), reported financials (implied price of USD 1.5; weight 30%), EV/Production (implied price of USD 2.8; weight 30%), and EV/Reserves (implied price of USD 2.0; weight 20%). Our new target price is USD 2.5 per share.

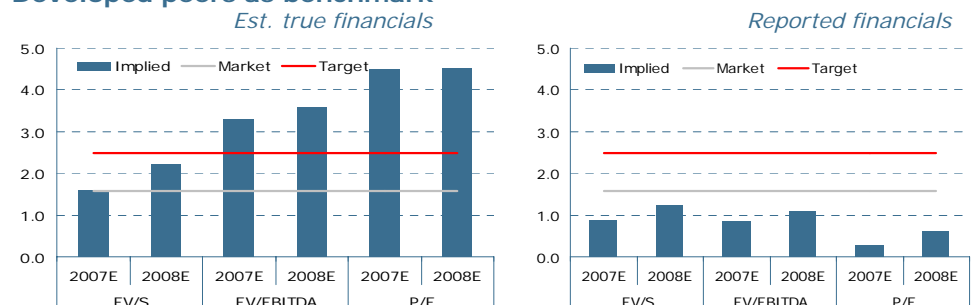
Raspadska Mine as benchmark



GEM peers as benchmark



Developed peers as benchmark



Valuation

Raspadska Mine

	MCap, USD mln	EV/S		EV/EBITDA		P/E		EV/Output, USD/mt	EV/Reserves, USD/mt
<u>Ukraine</u>		<u>2007E</u>	<u>2008E</u>	<u>2007E</u>	<u>2008E</u>	<u>2007E</u>	<u>2008E</u>	<u>2006</u>	
SHCHZ (1)	1 349.2	2.65	1.65	5.89	3.67	9.47	5.90	2.8	3.5
SHCHZ (2)	1 349.2	4.76	3.00	22.69	11.99	158.80	42.83		
	MCap, USD mln	<u>2007E</u>	<u>2008E</u>	<u>2007E</u>	<u>2008E</u>	<u>2007E</u>	<u>2008E</u>	<u>2006</u>	EV/Reserves, USD/mt
Raspadska Mine	3 176.2	5.30	4.25	8.76	7.27	17.64	13.93	348.1	4.3
SHCHZ price (1)									
Implied by Avg, USD		3.18	4.09	2.37	3.15	2.96	3.75	2.8	2.0
Upside/Downside		100%	157%	49%	98%	86%	136%	75%	25%
SHCHZ price (2)									
Implied by Avg, USD		1.77	2.25	0.61	0.96	0.18	0.52	2.8	2.0
Upside/Downside		11%	42%	-61%	-39%	-89%	-67%	75%	25%

Source: Thomson Financial, Bloomberg, Concorde Capital estimates

Note: SHCHZ valuation is done both on (1) estimated true and (2) reported financials

GEM peers

	MCap, USD mln	EV/S		EV/EBITDA		P/E	
		2007E	2008E	2007E	2008E	2007E	2008E
Ukraine							
SHCHZ (1)	1 349.2	2.65	1.65	5.89	3.67	9.47	5.90
SHCHZ (2)	1 349.2	4.76	3.00	22.69	11.99	158.80	42.83
GEM Peers							
China Shenhua (China)	195 191.3	18.98	16.28	35.58	29.74	66.80	54.06
Yanzhou Coal (China)	10 746.4	5.23	4.47	12.81	10.73	24.98	19.10
Banpu Public PCL (Thailand)	3 443.6	4.16	3.59	14.80	11.94	19.88	16.24
Tambang Batubara (Indonesia)	2 129.0	4.49	3.69	19.16	13.62	28.64	20.78
Average		8.21	7.01	20.59	16.51	35.07	27.54
Median		4.86	4.08	16.98	12.78	26.81	19.94
SHCHZ price (1)							
Implied by Avg, USD		4.93	6.75	5.56	7.15	5.89	7.43
Implied by Median, USD		2.92	3.93	4.58	5.54	4.50	5.38
Upside/Downside by Avg		210%	325%	250%	350%	271%	367%
Upside/Downside by Median		83%	147%	188%	248%	183%	238%
SHCHZ price (2)							
Implied by Avg, USD		2.74	3.72	1.44	2.19	0.35	1.02
Implied by Median, USD		1.62	2.17	1.19	1.69	0.27	0.74
Upside/Downside by Avg		72%	134%	-9%	38%	-78%	-36%
Upside/Downside by Median		2%	36%	-25%	7%	-83%	-53%

Source: Thomson Financial, Bloomberg, Concorde Capital estimates

Note: SHCHZ valuation is done both on (1) estimated true and (2) reported financials

Developed markets

	MCap, USD mln	EV/S		EV/EBITDA		P/E	
		2007E	2008E	2007E	2008E	2007E	2008E
Ukraine							
SHCHZ (1)	1 349.2	2.65	1.65	5.89	3.67	9.47	5.90
SHCHZ (2)	1 349.2	4.76	3.00	22.69	11.99	158.80	42.83
Developed Market Peers							
Peabody (USA)	13 599.2	2.91	2.32	15.18	9.74	27.62	17.59
Arch Coal (USA)	5 003.1	2.68	2.21	13.16	8.17	29.61	14.99
Consol (USA)	9 186.2	2.61	2.27	10.82	8.14	23.55	17.25
Massey (USA)	2 145.1	1.25	1.19	6.49	6.15	16.82	16.17
Macarthur (Australia)	1 249.2	3.42	2.63	13.31	7.99	22.79	13.58
Foundation Coal (USA)	1 909.3	1.63	1.51	7.92	6.26	37.05	20.34
Centennial Coal (Australia)	1 079.2	2.33	2.66	9.95	8.72	31.09	19.68
Felix Resources (Australia)	1 065.8	4.42	3.41	21.44	10.68	30.98	17.32
Gloucester Coal (Australia)	364.2	2.88	2.66	11.70	8.49	20.67	13.65
Average		2.68	2.32	12.22	8.26	26.69	16.73
Median		2.68	2.32	11.70	8.17	27.62	17.25
SHCHZ price (1)							
Implied by Avg, USD		1.61	2.23	3.30	3.58	4.48	4.51
Implied by Median, USD		1.61	2.23	3.16	3.54	4.64	4.65
Upside/Downside by Avg		1%	40%	107%	125%	182%	184%
Upside/Downside by Median		1%	40%	99%	123%	192%	193%
SHCHZ price (2)							
Implied by Avg, USD		0.89	1.23	0.86	1.09	0.27	0.62
Implied by Median, USD		0.89	1.23	0.82	1.08	0.28	0.64
Upside/Downside by Avg		-44%	-23%	-46%	-31%	-83%	-61%
Upside/Downside by Median		-44%	-23%	-48%	-32%	-83%	-60%

Source: Company data, Thomson Financial, Bloomberg, CentreInvest Group, Concorde Capital estimates

Note: SHCHZ valuation is done both on (1) estimated true and (2) reported financials

Appendix 1: Key Financials

in USD mln, unless otherwise stated

	Sales		EBITDA mgn, %		Net mgn, %		Output, mln mt
	2007E	2008E	2007E	2008E	2007E	2008E	2006
Ukraine							
SHCHZ (1)	509.1	817.1	48%	45%	30%	28%	6.8
SHCHZ (2)	283.2	450.0	21%	25%	3%	7%	6.8
Russian Peers							
Raspadska Mine	636.8	759.6	61%	58%	28%	30%	9.7
GEM Peers							
China Shenhua (China)	10 450.4	12 230.2	53%	55%	28%	30%	
Yanzhou Coal (China)	1 950.1	2 286.4	41%	42%	22%	25%	
Banpu Public PCL (Thailand)	926.6	1 069.2	28%	30%	19%	20%	
Tambang Batubara (Indonesia)	441.6	532.7	23%	27%	17%	19%	
Developed Markets							
Peabody (USA)	5 643.6	6 873.9	19%	24%	9%	11%	
Arch Coal (USA)	2 339.8	2 767.3	20%	27%	7%	12%	
Consol (USA)	3 686.6	4 213.9	24%	28%	11%	13%	
Massey (USA)	2 390.3	2 473.2	19%	19%	5%	5%	
Macarthur (Australia)	340.2	427.3	26%	33%	16%	22%	
Foundation Coal (USA)	1 496.0	1 563.0	21%	24%	3%	6%	
Centennial Coal (Australia)	755.5	635.8	23%	30%	5%	9%	
Felix Resources (Australia)	267.5	352.2	21%	32%	13%	17%	
Gloucester Coal (Australia)	129.8	143.6	25%	31%	14%	19%	

Source: Company data, Thomson Financials, Bloomberg, CentreInvest Group, Concorde Capital estimates

Note: SHCHZ valuation is done both on (1) estimated true and (2) reported financials

Appendix 2: CIS coal quality comparison

Region/Mine	Ash, %	Moisture, %	Sulphur, %	Calorific, CKal/kg	Caking, mm	Coal Grade
<i>Russia/Kazakhstan</i>						
Vorkutaugol	32%	-	0.5-0.6%	-	19	Hard-coking
Kuzbassrazrezugol	14%	-	0.4-0.5%	-	10	Hard-coking
Yakutia	7%	-	0.3-0.4%	-	16	Hard-coking
Gukov Coal						
Kuzbassrazrezugol	10%	-	<1%	>5500	-	High-grade steam
Intaugol**	37%	12%	-	3500-4000	-	Sub-bituminous
	26%	10%	-	4000-4500	-	Low-grade steam
Ekibastuz	35%	-		3500-4000	-	Low-grade steam
<i>Ukraine</i>						
Komsomolets Donbassa	23.0%	5.0%	2.7%	>5500	-	High-grade steam
Krasnoarmiyska-Zakhidna	9.0%	6.5%	0.7%	-	13	Hard coking, semi hard-coking
Zasyadko Mine	8.7%	10.8%	2.0%	-	16-20	Semi hard-coking
Krasnodon Coal	8.4%	7.4%	3.0%	-	16-20	Semi hard-coking
Pavlohrad Coal	36.8%	9.9%	1.5%	>4100	-	High-grade steam

Source: Company data, Bloomberg, CentreInvest Group, Uralsib, Concorde Capital estimates

* Price range for the CIS

** Non-processed coal and concentrate

Note: The lower the sulfur, ash and moisture content and the higher the calorific value, the better the quality; caking characteristics are valuable for coking coal and vary from 3 to 20 mm (higher caking – higher coke quality)

Appendix 3: Quality of Russian imports vs. Ukraine

Key coking coal quality parameters

	2000	2001	2002	2003	2004	2005	2006
Ukraine							
Moisture, %	10.6	10.7	10.7	10.9	10.9	10.5	10.4
Ash, %	8.6	8.5	8.4	8.4	8.2	8.2	8.2
Sulfur, %	2.0	1.9	2.0	1.9	2.0	1.8	1.83
Volatile matter, %	31.8	32.0	31.9	31.9	31.2	32.9	31.7
Caking, mm	16.5	16.3	16.3	16.4	16.5	17.0	18.6
Russia							
Moisture, %	7.3	7.5	7.5	6.5	8.5	8.5	8.5
Ash, %	9.9	9.9	10.1	8.5	10.1	8.9	9
Sulfur, %	0.5	0.5	0.5	0.5	0.5	0.6	0.56
Volatile matter, %	26.5	27.9	26.6	28.5	30.8	30.1	31.4
Caking, mm	12.4	12.1	11.0	13.5	13.0	12.5	13.6

Source: Ukrainian Coal & Chemical Institute

Note: The lower the sulfur, ash and moisture content and the higher the calorific value, the better the quality; caking characteristics are valuable for coking coal and vary from 3 to 20 mm (higher caking – higher coke quality)

Appendix 4: Coal Classification

International	Ukraine	Domestic Private Producers
Anthracite	High-grades anthracite (A)	
Bituminous:		
Hard coking coal	Coking (K) , Fat (Zh) coal	Chervonoarmiyska-Zakhidna (K)
Semi-hard and semi-soft coking coal	Coking (K) , Fat (Zh) with high sulfur content and ash, plus high-grade gas (G) and poorly caking (OS) coal	Chervonoarmiyska -Zakhidna (K) , Krasnodon Coal (Zh, K), Zasyadko (Zh), Pavlohrad Coal (G)
High-grade steam coal	Low-grade anthracite (A), lean (T), poorly caking (SS), gas (G), high-grade candle (D) coal	Komsomolets Donbasa (T), Pavlohrad Coal (G)
Sub-Bituminous	Candle (D), plus high-grade brown (B) coal	
Lignite	Brown (B) coal	

Appendix 5: Quarterly financials, UAS

INCOME STATEMENT SUMMARY, USD mln

	1Q06	1H06	9M06	2006	1Q07	1H07
Net Revenues	69.6	137.3	204.6	272.0	62.9	123.1
<i>Change yoy</i>	4.9%	-0.3%	-1.0%	-1.8%	-9.6%	-10.3%
Gross Profit	33.3	58.9	79.8	102.4	19.6	32.5
EBITDA	28.8	49.1	65.0	83.9	16.4	25.7
<i>margin</i>	41.3%	35.8%	31.8%	30.8%	26.1%	20.9%
Depreciation	(8.1)	(16.1)	(23.8)	(32.4)	(9.4)	(18.6)
EBIT	20.7	33.0	41.2	51.5	7.0	7.1
<i>margin</i>	29.7%	24.0%	20.1%	18.9%	11.1%	5.7%
Financial Expense, net	(0.0)	(0.0)	(0.0)	(0.0)	(4.5)	(4.5)
Other income/(expense)	(0.5)	(1.1)	(5.0)	(5.2)	(0.1)	(0.2)
PBT	20.1	31.9	36.2	46.2	6.9	6.9
Tax	(2.4)	(6.8)	(10.4)	(29.6)	(2.5)	(3.4)
<i>Effective tax rate</i>	11.9%	21.3%	28.6%	64.0%	35.8%	49.5%
Net Income	17.7	25.1	25.9	16.6	4.4	3.5
<i>Net Margin</i>	25.5%	18.3%	12.6%	6.1%	7.0%	2.8%

BALANCE SHEET SUMMARY, USD mln

	1Q06	1H06	9M06	2006	1Q07	1H07
Current Assets	38.2	47.9	51.2	38.2	35.4	43.0
Cash & Equivalents	0.2	0.4	0.3	0.4	0.2	0.2
Trade Receivables	12.4	18.1	23.7	8.1	6.1	9.3
Inventories	20.4	23.3	23.1	25.3	23.6	27.3
Other	5.2	6.2	4.2	4.4	5.5	6.2
Fixed Assets	273.0	282.1	306.6	318.5	328.6	353.2
PP&E, net	206.1	212.9	224.8	234.7	234.9	248.2
Other	66.9	69.2	81.7	83.9	93.8	105.0
Total Assets	311.3	330.0	357.8	356.7	364.0	396.2
Shareholders' Equity	269.5	278.1	290.3	263.9	267.1	266.1
Share Capital	42.0	42.0	42.0	42.0	42.0	42.0
Retained Earnings	101.3	102.8	114.2	96.9	96.9	96.9
Other	126.2	133.3	134.1	124.9	128.1	127.2
Current Liabilities	41.7	51.9	67.5	83.7	87.8	121.0
ST Interest Bearing Debt	-	-	-	-	-	-
Trade Payables	28.0	39.5	55.8	59.6	75.0	110.1
Other	7.2	6.8	5.8	16.6	10.4	5.3
LT Liabilities	0.0	0.0	-	9.1	9.1	9.1
LT Interest Bearing Debt	-	-	-	-	-	-
Other	0.0	0.0	-	9.1	9.1	9.1
Total Liabilities & Equity	311.3	330.0	357.8	356.7	364.0	396.2

QUARTERLY ANALYSIS, USD mln

	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07
Net Revenues	71.4	68.9	70.2	69.6	67.7	67.3	67.4	62.9	60.2
<i>Change yoy</i>	122.3%	142.4%	57.1%	4.9%	-5.2%	-2.3%	-4.0%	-9.6%	-11.0%
EBITDA	35.7	32.1	17.9	28.8	20.3	15.9	18.9	16.4	9.3
<i>margin</i>	50.0%	46.5%	25.5%	41.3%	30.0%	23.7%	28.0%	26.1%	15.5%
EBIT	29.5	25.5	11.1	20.7	12.3	8.2	10.3	7.0	0.1
<i>margin</i>	41.3%	37.0%	15.8%	29.7%	18.2%	12.2%	15.3%	11.1%	0.2%
Net Income	20.6	12.7	4.2	17.7	7.4	0.8	(9.2)	4.4	(0.9)
<i>Net Margin</i>	28.9%	18.4%	6.0%	25.5%	10.9%	1.1%	-13.7%	7.0%	-1.6%

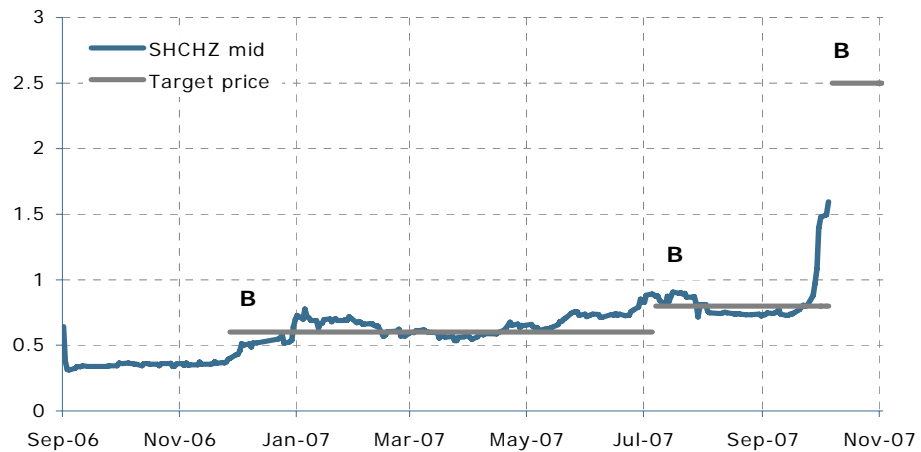
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I, Eugene Cherviachenko, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or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

Chervonoarmiyska-Zakhidna

Date	Target price, USD	Market Price, USD	Rec'	Action
25-July-06	0.6	0.41	BUY	Initiating
15-Dec-06	0.8	0.40	BUY	Maintain
24-Oct-07	2.5	1.59	BUY	Maintain

Recommendation history, USD



Concorde Rating Universe

Buy	38	47%
Hold	23	28%
Sell	7	9%
Under Review/Suspended	13	16%
Total	81	100%

Investment Banking Clients

Buy	10	83%
Hold	2	17%
Sell	0	0%
Under Review/Suspended	0	0%
Total	12	100%

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