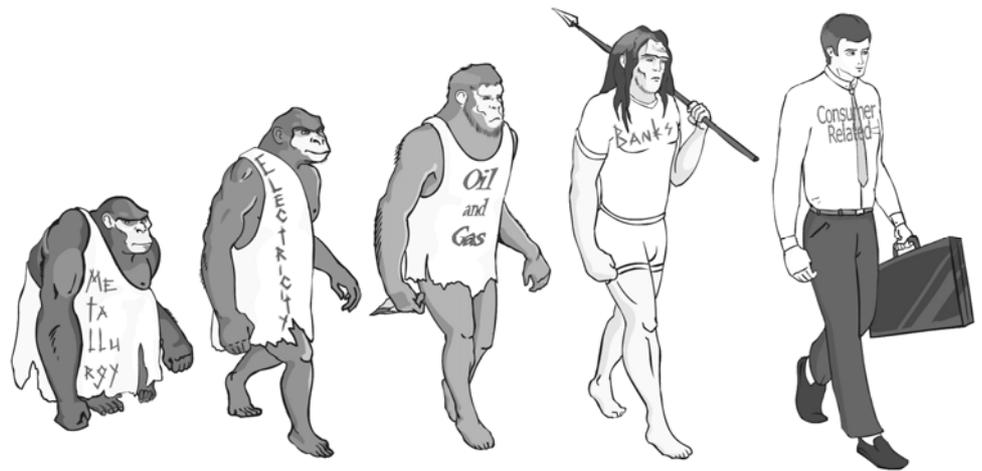


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Ukrainian Corporate Governance

From Ape To Man



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From Ape To Man

The Rise Of Self-Made Ukraine

Two developments are currently shaping Ukraine's business climate. On one side, the new economy has strengthened enough to become a significant force. A new generation of business owners is coming into the spotlight. People who started their new ventures in the late 1990's – early 2000's want to capitalize on their successful businesses. Their new more "self-made" background is instilled in their management and a new approach to capital markets is becoming the norm. "Red directors" are increasingly becoming a relics of the old epoch. On the other side, new political realities and the maturing market suggest a new quality of money is starting to flow into Ukrainian equities. This money is more demanding. It wants not only to know about a company's business affairs, but also has a thirst for information about how the company is managed.

Over 2004-2006 the Ukrainian market grew by leaps and bounds, with increasing liquidity. The PFTS has smashed through one historical maximum after another and found a new comfort zone well above the 500 mark since the beginning of 2007. The number of private placements and IPOs completed in 2006 was four to five times greater than 2005. The number and size of new equity offerings scheduled to take place in 2007 should make 2006's numbers pale in comparison. This widening and maturing of the market, with new stocks on the supply side and new investors on the demand side, raise the need for more detailed information concerning corporate governance.

Where Are We On The Darwin Scale?

On the whole, Ukrainian companies are still far behind their western peers in terms of corporate development, most have never considered formulating a corporate strategy, the management feels uncomfortable facing simple questions from experienced shareholders. Ownership is generally highly concentrated, which does not facilitate the development of higher business standards. The supervisory boards of most companies are nothing more than rubber stamp committees for the beneficial owner.

Of crucial importance is that the current legal system does not promote high corporate governance standards. Law provisions are formulated so loosely that publishing something like "Hey, last year was great" in a newspaper would likely meet all requirements. Timely and non-discriminatory dissemination of information is rare and the official publications where companies are required to publish their information are very primitive in quality.

Ownership structure is only made public to a certain degree, (i.e. beneficial owners are generally cleverly hidden in order to protect their business from legal attacks from rivals), making getting detailed information about ownership plans and motivation a chore. Legal requirements are patchy and most companies can stay within the parameters of the law and reveal very little.

The bulk of companies either have no websites or websites that contain little information of interest to shareholders and are rarely updated.

A ray of light in this opaqueness is the memorandums at bond issuances, even local placements: they contain plenty of valuable information, thanks to the demanding nature of the regulations.

The arrival of the Tymoshenko government in 2005 sent shockwaves through the business community and led many companies and business groups to improve their corporate governance in order to forge closer ties with western

financial institutions and thus protect themselves from possible hostile moves by the government. Despite the fall of the "Orange Crusaders," many companies thereafter found attracting capital on western markets a much easier and cheaper alternative to more shady local forms of financing and continue to make strides towards the development of a corporate idea. Moreover, in 2006 a new law regulating the activities on capital markets brought Ukraine's legislation another step closer to contemporary standards.

Ukrainian Corporate Governance: Our Approach

One of the goals of this report is to share our knowledge and experience in dealing with local companies to shed light on the corporate governance standards behind the numbers to help investors make more informed investment decisions.

Unlike Russia, in Ukraine systematic analysis of corporate governance practices is scarce, especially from the point of view of a portfolio investor. In fact a recent study of corporate governance by Standard & Poor's for thirty Ukrainian banks is about the only attempt made to tackle this issue. In order to fill the gap we are publishing our first report on Ukrainian Corporate Governance.

We limit the scope of our research to several key areas, not venturing into the stringent requirements of an international Corporate Governance examination, which generally includes analysis of aspects such as management committees and supervisory boards, decision making processes, accountability of the management and internal company regulations. When placed alongside other aspects of corporate governance, these are the least developed in Ukraine. The relevant information is accessible in very rare cases, and we would encounter difficulties trying to differentiate companies in these areas. For this reason we focus on aspects which in today's environment are more important for decision making while investing into Ukrainian equities. Specifically taking into account that in recent years we have witnessed blatant disregard for minority rights in the form of massive dilutive share issues; many companies release financial reports sporadically that are often incomplete and management is unwilling to share their strategy with the investment community.

For these reasons we have decided to make Reporting & Disclosure, Investor Relations, Minority Concerns and Strategic Risks the focal point of our report.

Ranking System

In **Reporting & Disclosure** we looked at the willingness of the companies to be forthcoming with their financial data and ownership structure. With the principle belief that the more willing a company is to be upfront with its financials and ownership the more developed in terms of corporate culture and well run the company would be. Three aspects were considered: availability of IFRS accounting, quality of UAS reporting, and disclosure of ownership. We used public sources, the companies' own publications, and additionally contacted top-level management from each of the companies to judge their willingness to provide investors with financial information. The total possible score in this section has a range of [-2;4].

IFRS scoring ranged from 0.0/-0.5 depending on whether or not the companies reported their financials in accordance with IFRS to 2.0 if they were willing to provide IFRS reports to inquiring investors or made them publicly available. In looking at how closely the companies adhered to **Ukrainian Accounting Standards**, the scoring window ranged from -1.0 for statements that were obviously heavily distorted, to zero for those that suggested some manipulation, and 1.0 if the statements contained little or minor discrepancies. In cases where the companies were clearly against

sharing financial information a score of 0 was given. With foreign-based companies which obviously do not use UAS a score of 1.0 was given as not to punish these companies over a technicality. When looking at **ownership structure**, the scoring range was -1.0/1.0. This section was one of our most stringent. To avoid splitting hairs between companies that were all trying to hide their owners we only gave a 1.0 score to companies where ownership was common knowledge or provided at a reasonable level, while those companies that used opaque structures and schemes received a -1.0.

Investor Relations. We judge investor relations using three criteria: management accessibility, what we have termed Public Face and company websites. The total possible score in this section has a range of [-3.5;4]. **Management accessibility** looks at the willingness of top management to meet with investors, arrange site visits, discuss company operations and share business strategies with the financial community - a key factor for giving investors insight into the company. This section allowed the widest range of scores, from -2.0 for companies that provided no accessibility, to +2.0 for quality accessibility entailing a willingness to meet and have frank discussions about the company's business. The wide range of scores allowed us to better differentiate between companies.

Public face, is the term we devised to encompass the company's own efforts to keep the public informed of its activities and present itself to potential investors. Scoring ranged from -1.0 for those companies that rarely can be found in the media or at public events, 0.0 for those who appear sporadically and +1.0 for companies that can be regularly found in the press and initiating contact with the investment community.

An examination of **websites** was also included in this section of our research as a high quality website serves as one of the easiest and most effective ways to get valuable information including everything from ownership structure to financials. As our research proved, those companies with the highest overall standards of corporate governance also had the most informative sites. Scoring ranged -0.5 for companies without a site, 0.5 where the site contained little data useful for investors, and +1.0 for a site that contained a section designed specially for investors with data including, in particular, financials and ownership information. We allowed a certain amount of leeway for some companies' websites in order to reward their attitude to dissemination of information, even if their online presence may be still behind what a demanding international investor would like to see.

With **Minority Concerns** we looked specifically at factors that are of utmost interest to minority shareholders including: the risk of dilutive action, the existence of a DR program, the presence of institutional investors, and the company's use of equity market instruments. The total possible score in this section has a range of [-3;4]. In our section on **risk of dilution**, the top score, meaning low risk, was zero. Companies whose minorities faced moderate risk of dilution scored -1.0 and those in the process of diluting minorities, with a recent track record of such abuse or with a high chance of doing so received a punishing -2.0. As **DR programs** generally signal greater interest in attracting investors and equity financing, companies with available Depository Receipts were given a score of 1.0, while those that did not - received a zero. As we did with UAS, we gave companies that initially placed their shares on international exchanges rather than locally the maximum score in this section to avoid punishing them over a technicality.

We consider the presence of **institutional investors** a strong positive factor in instilling positive corporate governance standards. We gave companies with substantial institutional holdings a +1.0, those with an insignificant presence of institutionals scored zero, and those without -1.0.

As plans for **private equity placements** or **IPOs** generally entail higher corporate governance and greater openness to minority shareholders, we gave those companies that had completed an IPO or private placement 1

point, those who had officially announced plans and taken steps to complete them got 0.5 and those with no known plans for an equity placement got a score of 0.0.

In our **Strategic Risks** section we look at risks related to inappropriate corporate governance practices that hurt the business of a company directly or indirectly, or lead to minority shareholders being deprived of their part in the value generated by the company. The total possible score in this section has a range of [-3;0]. One of these risks, is the **risk of suboptimal business decisions** by the management due to abuse of control by majority shareholders. This usually involves related-party transactions, transfer pricing, other misrepresentations, asset stripping, unjustifiable acquisitions or divestitures etc. The best possible score in this section was zero for companies that had normal business risks. While companies where the described risk may not be disregarded got -1.0, and companies with obvious abuses got a -2.0. Additionally we looked at the possibility of the company being involved in either **internal or external corporate conflicts** involving rival business groups, minority shareholders and in some instances regulators. The most positive score possible in this section was 0, while companies that had been or were in danger of conflict got -1.0.

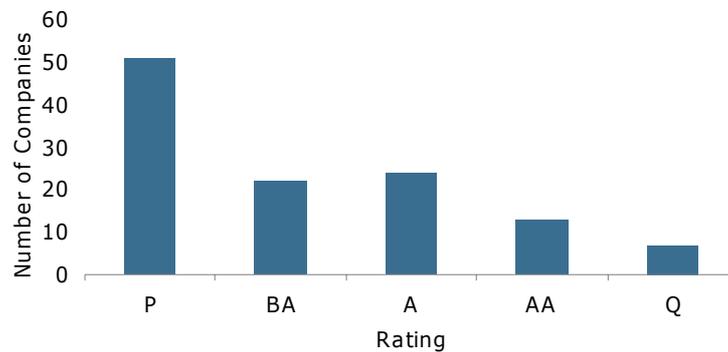
Classifications

The total scores possible in our rating ranges from -8.5 to 11.0. We classified all companies based on the following five categories:

- 11.0 – 9.0 Quality corporate governance standards (**Q**)
- 8.5 – 6.0 Above Average (**AA**)
- 5.5 – 3.0 Average (**A**)
- 2.5 – 0.0 Below Average (**BA**)
- 0.0 or less Poor (**P**)

We rated 118 companies, including several listed on foreign exchanges, encompassing all sectors of the Ukrainian economy. We chose companies based on their investability and overall interest to investors. Of the 118 companies, 7 earned our Q rating, we had 13 AA's, 24 A's, 22 BA's and 51 companies received our P rating. The average score for our study is 1.5.

Scoring by Category



Scoring & Rankings

Name	Rating	Score	Ticker	Sector	REPORTING/DISCLOSURE [-2..4]			INVESTOR RELATIONS [-3.5..4]			MINORITY CONCERNS [-3..4]			STRATEGIC RISKS [-3..0]		
					IFRS	UAS Fin Statements Quality	Ownership Disclosure	Management accessibility	Public Face	web site	Risk of Dilutive Action	DR	Presence of Institutional Investors	IPO, PP	Risk of sub-opt biz decisions	Corp Conflicts
					N-NPub-Y 0/0.5/2	Dist/some mnpt/ok -1/0/1	incorn/ful -1/1	Lim/fair/good -2 ... 2	N/sporadic/A -1/0/1	N/y/inform -0.5/0.5/1	H/M/L -2/-1/0	N/Y non/insg/signif 0/1	N/A/C -1/0/1	0/0.5/1	serious / some concrn / min -2/-1/0	serious/ minor -1/0
Galnaftogaz	Q	11.0	GLNG	Oil&Gas	2	1	1	2	1	1	0	1	1	1	0	0
Astarta	Q	11.0	AST PW	Consumer-related	2	1	1	2	1	1	0	1	1	1	0	0
XXI-Century	Q	11.0	XXIC LN	Real Estate	2	1	1	2	1	1	0	1	1	1	0	0
Cardinal Resources	Q	10.0	CDL LN	Oil&Gas	2	1	1	1	1	1	0	1	1	1	0	0
Forum	Q	9.0	FORM	Banks	2	0	1	1	1	1	0	1	1	1	0	0
JKX	Q	9.0	JKX LN	Oil&Gas	2	1	1	1	0	1	0	1	1	1	0	0
Regal Petroleum	Q	9.0	RTP LN	Oil&Gas	2	1	1	1	0	1	0	1	1	1	0	0
Slavutych	AA	8.5	SLAV	Consumer-related	2	1	1	2	1	0.5	0	0	1	0	0	0
Nyzhnyodniprovsky Pipe	AA	7.5	NITR	Pipes	0.5	1	1	1	1	0.5	0	1	1	0.5	0	0
Ukrnafta	AA	6.5	UNAF	Oil&Gas	2	1	1	1	1	0.5	0	1	1	0	-1	-1
Ukrsotsbank	AA	6.5	USCB	Banks	0.5	1	-1	2	1	1	0	0	1	1	0	0
Ukrtelecom	AA	6.5	UTEL	Telecom	2	1	1	-1	1	1	0	1	1	0.5	-1	0
Mittal Steel Kryviy Rig	AA	6.5	KSTL	Steel	0	1	1	2	1	0.5	0	0	1	0	0	0
Centrenerg	AA	6.5	CEEN	Utilities: GenCo	0.5	1	1	1	1	1	0	1	1	0	-1	0
Stirol	AA	6.0	STIR	Chemicals	2	1	-1	1	1	0.5	0	1	1	0.5	-1	0
Universalna Insurance	AA	6.0	SKUN	Insurance	0	0	-1	2	1	1	0	1	1	1	0	0
Motor Sich	AA	6.0	MSICH	Machine Building	0	1	1	1	0	0.5	0	1	1	0.5	0	0
Aval	AA	6.0	BAVL	Banks	0.5	1	1	0	1	0.5	0	0	1	1	0	0
Ukrprodukt	AA	6.0	UKR LN	Consumer-related	0.5	1	1	0	0	0.5	0	1	1	1	0	0
Khmelnitskoblenergo	AA	6.0	HMON	Utilities: OblEn	0	0	1	1	1	1	0	1	1	0	0	0
Megabank	AA	6.0	MEGA	Banks	2	0	-1	1	0	1	0	1	1	1	0	0
Ukrzazbank	A	5.5	UGZB	Banks	2	0	-1	1	1	1	0	0	1	0.5	0	0
Yasinovatsky M-B	A	5.5	YAMZ	Machine Building	0	1	1	1	-1	0.5	0	1	1	1	0	0
Khartsyzk Pipe	A	5.5	HRTR	Pipes	0.5	0	1	1	1	0.5	0	1	1	0.5	-1	0
MKS	A	5.5	KVIN	Consumer-related	0	-1	1	1	1	0.5	0	1	1	1	0	0
Rodovid Bank	A	5.0	RODB	Banks	0.5	0	-1	1	1	0.5	0	1	1	1	0	0
Velyka Kishenya	A	5.0	RTGR	Consumer-related	0.5	0	-1	1	1	0.5	0	1	1	1	0	0
Poltava Iron Ore	A	5.0	PGOK	Mining&Coke	0	-1	1	2	1	0.5	0	1	1	0.5	-1	0
Azovstal	A	5.0	AZST	Steel	0.5	1	1	1	1	0.5	-2	1	1	0	0	0
Zakhidenergo	A	5.0	ZAEN	Utilities: GenCo	0.5	1	1	0	1	0.5	0	1	1	0	-1	0
Dniproenergo	A	5.0	DNEN	Utilities: GenCo	0	1	1	1	0	1	0	1	1	0	-1	0
Suninterbrew	A	5.0	SUNI	Consumer-related	0.5	1	1	0	1	0.5	0	0	1	0	0	0
Donbasenergo	A	4.5	DOEN	Utilities: GenCo	0	1	1	1	1	0.5	0	0	1	0	-1	0
Zhydahiv Pulp & Paper	A	4.5	ZCPK	Pulp&Paper	0	0	1	1	1	0.5	0	0	1	0	0	0
Dniproshina	A	3.5	DNSh	Chemicals	0	1	-1	1	0	0.5	0	1	1	0	0	0
Severny Iron Ore	A	3.5	SGOK	Mining&Coke	0.5	0	1	1	1	0.5	0	0	-1	0.5	0	0
Pushka Cement	A	3.5	KRCS	Construction	0	1	1	0	0	0.5	0	0	1	0	0	0
Maruipol Heavy Machinery	A	3.5	MZVM	Machine Building	0	-1	1	1	0	0.5	0	1	1	0	0	0
Centralny Iron Ore	A	3.5	CGOK	Mining&Coke	0.5	0	1	1	1	0.5	0	0	-1	0.5	0	0
Zaporizhzhya Aluminum	A	3.5	ZALK	Non-Ferrous	0	1	1	1	0	0.5	0	0	0	0	0	0
Turboatom	A	3.5	TATM	Machine Building	0	1	1	0	0	0.5	0	0	1	0	0	0
Ukrinbank	A	3.0	UKIB	Banks	0.5	0	-1	0	0	0.5	0	1	1	1	0	0
Koms Donbasa Mine	A	3.0	SHKD	Mining&Coke	0	1	1	1	0	-0.5	-1	0	1	0.5	0	0

Name	Rating	Score	Ticker	Sector	REPORTING/DISCLOSURE [-2..4]			INVESTOR RELATIONS [-3.5..4]			MINORITY CONCERNS [-3..4]			STRATEGIC RISKS [-3..0]		
					IFRS	UAS Fin Statements Quality	Ownership Disclosure	Management accessibility	Public Face	web site	Risk of Dilutive Action	DR	Presence of Institutional Investors	IPO, PP	Risk of sub-opt biz decisions	Corp Conflicts
					N-NPub-Y 0/0.5/2	Dist/some mnpt/ok -1/0/1	incom/ful -1/1	Lim/fair/good -2 ... 2	N/sporadic/A -1/0/1	N/y/inform -0.5/0.5/1	H/M/L -2/-1/0	N/Y non/insg/signif 0/1	N/A/C -1/0/1	N/A/C 0/0.5/1	serious / some concrn / min -2/-1/0	serious/ minor -1/0
DniproAzot	BA	2.5	DNAZ	Chemicals	0	1	1	0	0	0.5	-2	1	1	0	0	0
Chernigov Khimvolokno	BA	2.5	CHIM	Chemicals	0.5	1	-1	0	1	0.5	0	1	-1	0.5	0	0
LuAZ	BA	2.5	LUAZ	Machine Building	0	0	-1	0	1	0.5	-1	1	1	1	0	0
AvtoKrAZ	BA	2.5	KRAZ	Machine Building	0	-1	-1	1	1	0.5	-1	1	1	1	0	0
Luganskteplovov	BA	2.5	LTPL	Machine Building	0	1	1	0	0	0.5	0	0	1	0	0	-1
Kievenergo	BA	2.5	KIEN	Utilities: GenCo	0.5	0	1	0	1	1	0	0	1	0	-1	-1
Sumy Frunze	BA	2.5	SMASH	Machine Building	0	1	1	0	-1	0.5	0	0	1	0	0	0
Farmak	BA	2.5	FARM	Pharmaceutical	0	1	1	1	0	0.5	0	0	-1	0	0	0
Crimsoda	BA	2.5	KSOD	Chemicals	0	1	1	-1	-1	0.5	0	1	1	0	0	0
Prikarpatoblenergo	BA	2.0	PREN	Utilities: OblEn	0	0	-1	1	1	1	0	0	1	0	0	-1
Kharkivoblenergo	BA	2.0	HAON	Utilities: OblEn	0	0	1	1	0	1	0	0	0	0	-1	0
Novomoskovsk Pipe	BA	2.0	NVTR	Pipes	0.5	0	1	0	0	0.5	0	0	1	0	-1	0
Cherv-Arm Zakhidna Mine	BA	1.5	SHCHZ	Mining&Coke	0	0	1	1	0	-0.5	-1	0	1	0	0	0
Dniprometiz	BA	1.5	DMPO	Metal ware	1	0	1	1	1	-0.5	0	0	-1	0	0	0
Volynoblenergo	BA	1.5	VOEN	Utilities: OblEn	0	0	1	0	0	-0.5	0	0	1	0	0	0
Zhytomiroblenergo	BA	1.5	ZHEN	Utilities: OblEn	0	0	1	-1	0	0.5	0	0	1	0	0	0
Enakiev Metal Plant	BA	1.0	ENMZ	Steel	0.5	0	1	1	1	0.5	-2	0	0	0	-1	0
Zakarpatyoblenergo	BA	0.5	ZOEN	Utilities: OblEn	0	0	1	0	0	0.5	0	0	0	0	-1	0
Zaporizhtransformator	BA	0.5	ZATR	Machine Building	0	1	-1	0	0	0.5	-1	1	0	0	0	0
Kryukivka Wagon Works	BA	0.5	KVBZ	Machine Building	0	1	-1	-1	0	0.5	0	0	1	0	0	0
Azovzagalmash	BA	0.5	AZGM	Machine Building	0	-1	1	1	-1	-0.5	0	0	1	0	0	0
Dniprooblenergo	BA	0.5	DNON	Utilities: OblEn	0	0	1	0	-1	0.5	0	0	1	0	-1	0
Vinnitsaoblenergo	BA	0.5	VIEN	Utilities: OblEn	0	0	1	0	0	0.5	0	0	0	0	-1	0
Azot Cherkasy	P	-0.5	AZOT	Chemicals	0	1	1	0	0	0.5	-1	1	0	0	-2	-1
Chernigivoblenergo	P	-0.5	CHEON	Utilities: OblEn	0	0	-1	0	0	0.5	0	0	1	0	0	-1
Khersonoblenergo	P	-0.5	HOEN	Utilities: OblEn	0	0	1	-2	1	-0.5	0	0	0	0	0	0
Ukrrihflot	P	-1.0	FLOT	Shipping	0.5	0	-1	1	0	0.5	-1	0	0	0	0	-1
Avdiyivka Coke	P	-1.0	AVDK	Mining&Coke	0	-1	-1	0	0	0.5	0	0	1	0.5	-1	0
Zaporizhzhya Ferroalloy	P	-1.5	ZFER	Ferroalloy	0	0	-1	-1	-1	0.5	0	1	0	0	0	0
Dnipropetrovsk Pipe	P	-1.5	DTRZ	Pipes	0	0	-1	0	-1	0.5	0	0	1	0	-1	0
Ternopiloblenergo	P	-1.5	TOEN	Utilities: OblEn	0	0	-1	0	0	0.5	0	0	0	0	0	-1
Donetsk Metal Rolling	P	-1.5	DMPZ	Steel	0	1	1	-1	-1	0.5	0	0	-1	0	-1	0
Krymenergo	P	-1.5	KREN	Utilities: OblEn	0	0	1	-2	0	-0.5	0	0	1	0	-1	0
Kirovogradoblenergo	P	-1.5	KION	Utilities: OblEn	0	0	1	-1	-1	-0.5	0	0	0	0	0	0
Sevastopolenergo	P	-1.5	SMEN	Utilities: OblEn	0	0	1	-2	-1	-0.5	0	0	1	0	0	0
Alchevsk Iron & Steel	P	-2.0	ALMK	Steel	0.5	0	1	-2	-1	0.5	-1	0	1	0	-1	0
Poltavaoblenergo	P	-2.5	POON	Utilities: OblEn	0	0	-1	0	0	-0.5	0	0	0	0	0	-1
Odesa Cable	P	-2.5	OCAB	Telecom	0	0	-1	-1	-1	0.5	0	0	0	0	0	0
ZaporizhCoke	P	-2.5	ZACO	Mining&Coke	0	0	-1	0	-1	-0.5	0	0	1	0	-1	0
Stakhanov Ferroalloy	P	-2.5	SFER	Ferroalloy	0	0	-1	-1	-1	-0.5	0	1	0	0	0	0
Dniprospestal	P	-2.5	DNSS	Steel	0	0	-1	0	-1	0.5	0	0	1	0	-1	-1
Dongormash	P	-2.5	DGRM	Machine Building	0	-1	-1	0	0	-0.5	-1	0	1	0	0	0
Druzhkovsky Machine-Building	P	-2.5	DRMZ	Machine Building	0	-1	-1	-1	0	-0.5	0	0	1	0	0	0
Silur	P	-2.5	SILUR	Metal ware	0	0	-1	-1	-1	0.5	0	0	0	0	0	0
Zaporizhstal	P	-3.0	ZPST	Steel	0.5	1	-1	-2	-1	0.5	-2	1	1	0	0	-1
Lvivoblenergo	P	-3.5	LVON	Utilities: OblEn	0	0	-1	-1	-1	0.5	0	0	0	0	0	-1
Stakhaniv Wagon Works	P	-3.5	SVGZ	Machine Building	0	0	-1	0	-1	-0.5	-1	0	0	0	0	0
Nord	P	-3.5	NORD	Consumer-related	0	0	-1	-2	-1	0.5	0	0	0	0	0	0

Name	Rating	Score	Ticker	Sector	REPORTING/DISCLOSURE [-2..4]			INVESTOR RELATIONS [-3.5..4]			MINORITY CONCERNS [-3..4]				STRATEGIC RISKS [-3..0]	
					IFRS	UAS Fin Statements Quality	Ownership Disclosure	Management accesibility	Public Face	web site	Risk of Dilutive Action	DR	Presence of Institutional Investors	IPO, PP	Risk of sub-opt biz decisions	Corp Conflicts
					N-NPub-Y	Dist/some mnpt/ok	incom/ful	Lim/fair/good	N/sporadic/A	N/y/inform	H/M/L	N/Y	non/insg/signif	N/A/C	serious / some concn / min	serious/ minor
					0/0.5/2	-1/0/1	-1/1	-2 ... 2	-1/0/1	-0.5/0.5/1	-2/-1/0	0/1	-1/0/1	0/0.5/1	-2/-1/0	-1/0
Sumyoblenergo	P	-3.5	SOEN	Utilities: OblEn	0	0	-1	-2	-1	0.5	0	0	1	0	0	-1
Marganets Ore	P	-3.5	MGZC	Mining&Coke	0	-1	-1	-1	-1	-0.5	0	1	0	0	0	0
Ordzhonikidze Ore	P	-3.5	ORGZ	Mining&Coke	0	-1	-1	-1	-1	-0.5	0	1	0	0	0	0
Dniproswitch	P	-3.5	DSTR	Machine Building	0	1	-1	-2	-1	-0.5	0	0	0	0	0	0
Dniprovsky Dzerzhinsky Metal	P	-4.0	DMKD	Steel	0.5	0	1	-2	-1	0.5	0	0	-1	0	-1	-1
Zaporizhiaoblenergo	P	-4.5	ZAON	Utilities: OblEn	0	0	-1	0	-1	0.5	0	0	-1	0	-1	-1
Chernivtsyoblenergo	P	-4.5	CHEN	Utilities: OblEn	0	0	1	-2	-1	-0.5	0	0	0	0	-1	-1
Donetsk Metal Plant	P	-4.5	DOMZ	Steel	0	-1	-1	0	-1	0.5	-1	0	1	0	-2	0
Dniprovagonrembud	P	-4.5	n/a	Machine Building	0	0	-1	-1	-1	-0.5	0	0	-1	0	0	0
Inguletsky Iron Ore	P	-4.5	IGOK	Mining&Coke	0	0	-1	-1	-1	0.5	0	0	-1	0	-1	0
Dniprovagonmash	P	-4.5	DNVM	Machine Building	0	0	-1	-1	-1	-0.5	-1	0	0	0	0	0
Pivdenny Iron Ore	P	-4.5	PGZK	Mining&Coke	0	-1	-1	-2	-1	0.5	0	0	1	0	-1	0
Yasinivsky Coke	P	-4.5	YASK	Mining&Coke	0	0	-1	-1	-1	-0.5	-1	1	0	0	-1	0
Donetskoblenergo	P	-4.5	DOON	Utilities: OblEn	0	-1	1	-2	-1	-0.5	0	0	1	0	-2	0
Nikopol Ferroalloy	P	-5.5	NFER	Ferroalloy	0	-1	-1	-1	-1	-0.5	-1	1	1	0	-1	-1
Donetsk Coke	P	-5.5	DKOK	Mining&Coke	0	-1	-1	0	0	-0.5	0	0	-1	0	-2	0
Mariupol Illicha	P	-5.5	MMKI	Steel	0	-1	-1	-2	-1	0.5	0	0	1	0	-1	-1
Alchevsk Coke	P	-6.0	ALKZ	Mining&Coke	0.5	-1	1	-2	-1	-0.5	-1	0	-1	0	-1	0
Odessaoblenergo	P	-6.5	ODEN	Utilities: OblEn	0	0	-1	-1	0	-0.5	-1	0	-1	0	-1	-1
Sukha Balka	P	-6.5	SUBA	Mining&Coke	0	-1	-1	-2	-1	-0.5	0	0	0	0	-1	0
Naftokhimik Prykarpattya	P	-6.5	NAFP	Oil&Gas	0	-1	-1	-1	-1	-0.5	-1	1	0	0	-2	0
Cherkassyoblenergo	P	-7.5	CHON	Utilities: Oblen	0	0	-1	-2	-1	-0.5	0	0	-1	0	-1	-1
Kherson Refinery	P	-7.5	HNPk	Oil&Gas	0	-1	-1	-1	0	-0.5	-2	0	0	0	-2	0
Baglykoks	P	-7.5	BKOK	Mining&Coke	0	-1	-1	-2	-1	-0.5	0	0	0	0	-2	0
Galychyna Refinery	P	-8.5	HANZ	Oil&Gas	0	-1	-1	-1	-1	-0.5	-1	0	0	0	-2	-1
Dniprokoks	P	-8.5	DNKOK	Mining&Coke	0	-1	-1	-2	-1	-0.5	0	0	-1	0	-2	0

Ratings Round-up

The most striking thing about corporate governance standards in Ukraine is how widely they vary. Companies listed on Western exchanges were by far the leaders in maintaining high standards while those with little or no experience in attracting foreign capital in some cases had never even heard of the term Corporate Governance. Sadly almost all the companies we looked at in this study received our lowest rating – Poor.

Foreign Guests. The oil & gas sector had some of the highest scores in our report, due in a large part to the presence of three foreign-based oil companies Cardinal Resources, JKC and Regal Petroleum. All three scored near the top of our ratings with near international corporate governance standards in terms of disclosure and investor relations.

Studying Abroad. Ukrainian companies that were part of a large international holding or had been listed on a foreign exchange also received high scores. Mittal Steel Kryvyi Rih, Sun Interbrew, and Slavutich are examples of the first type, incorporating the business practices of the parent holding. While companies like Astarta and XXI Century, which chose the warmer climates of Warsaw and London, have brought their level of openness and transparency to near the standards of their adopted homeland.

Homegrown Heroes. Two of our top scorers were the smaller Ukrainian companies Bank Forum and Galnaftogaz. The companies are trailblazers in attracting foreign equity capital (both were among the first Ukrainian companies to make private equity placements among institutional investors). Galnaftogaz has announced ambitious plans including an IPO, while Bank Forum used the funds from its placement to become one of Ukraine's top ten largest banks in terms of assets and is currently in the process of a strategic sale. Thus it is little surprise that both are leaders when it comes to corporate governance.

Working For The Man. In the case of Ukrtelecom, and a few companies from the energy sector, state ownership did not result in poor corporate governance practice. In fact with UTEL while the risk of bad business decisions is still there, significant improvement in all other aspects is obvious - the company is being prepared for privatization. At Ukrnafta, even though the state's majority share is *de facto* managed by Privat Group, the significance of the company and presence of state regulators on the board helped keep its corporate governance standards at a high level.

Monkey Business. Companies part of large Ukrainian business groups tended to have the lowest level of corporate governance standards. In most cases they are unwilling to share the most basic information and are leery of minorities. It is important to note that with several of these companies their holding companies, like Metinvest, for example, tend to be very accommodating. However, individual companies rarely ever provide the name of their holding.

Break Down By Sector

Some of Ukraine's new booming sectors, like Consumer Goods and Financial Services raked in the higher scores in our survey while the traditional backbones on the economy showed that they had a lot of catching up to do.

Consumer Goods: Leaders Of The Pack. Consumer goods producers came out well above the rest of the sectors with a mean score of 7.1, about 1.0 point higher than the second highest scoring sector. High scores by the sugar producer Astarta (11.0), the real estate developer XXI Century (11.0) and the retail chain Velika Kesheniya (5.0), along with solid scores by the brewers Sun Interbrew (formerly Rogan) (5.0) and Slavutich (8.5) and dairy producer Ukrprodukt (5.0), all drove up the sector's score while the other two companies, computer retailer MKS and Zhidachiv Paper, both got scores of 5.5 each. The presence of large international holding companies behind the brewers as well as the listing of XXI Century in London and Astarta in Warsaw support their strong ratings.

Financial Services: Good, We Thought They'd Be Better. The sector received the second highest average score 5.9, however, we expected to see banks with large foreign owners dominate the scoring. In fact, with the exception of Ukrspbank (with a score of 6.5) it was smaller local banks that had the stronger scores led by Bank Forum (9.0), Megabank (6.0), Ukrgazbank (5.5) and Rodovid Bank (5.0). While the media darling Raiffeisen Bank Aval's score of 6.0, though also solid, failed to meet our expectations in terms of investor relations. Our findings turned out to be quite similar to that of a joint report by Standard & Poor's of Ukraine's top 30 largest banks from last December. In their rankings Raiffeisen Bank Aval finished near the bottom of the pack. Universalna Insurance (part of Universalna Group which includes Galnaftogaz) received a strong score of 6.0.

Oil & Gas: Bugged Down By Refineries. Despite being boosted by the inclusion of three foreign-based companies (Cardinal 10.0, JXK 9.0, Regal 9.0) whose openness to investors and past IPOs brought them high scores, Ukrnafta (6.5) and our top scorer Galnaftogaz (11.0), the sector came in way behind financial services with a score of 4.3. The shoddy scores received by the traded refineries (HNPB -8.5, HANZ -7.5) we included on the list pulled down the sector.

Metals & Mining: NITR & KSTL Head & Shoulders Above The Rest. As a sector, Metals & Mining had some of the lowest overall results in our research, however, Nyzhnoydniprovsky Pipe and Mittal Steel Kryvyi Rig went against the grain to bring strong scores of 7.5 and 6.5 respectively. KSTL came as little surprise, as Mittal has spent its first year in control stomping out grey schemes with its traders and improving the plant's efficiency. NITR despite being part of a large Ukrainian holding (generally a precursor to poor corporate governance) is a leader in terms of transparency and financial disclosure in the pipe sector. Other names that deserve mention are Khartzysk Pipe and Azovstal that received solid scores above 5.0 representing their greater focus on investor relations and good financial disclosure. The next highest score in the sector was 3.5, with the bulk of the companies receiving negative scores.

Reporting & Disclosure

On the whole, companies that are part of large Ukrainian business groups like SCM, scored poorly in this section. Privat group's companies almost uniformly are tight-lipped concerning disclosure, and the financial information they do provide suggests heavy tax optimization and rampant transfer pricing. On the other hand, companies that are part of large international holdings (KSTL), were listed abroad (JKX, Astarta, XXI Century), state controlled enterprises that are actively looking to attract investors (UTEL), smaller individual entities (Rodovid Bank, Megabank, Bank Forum) tend to be very forthcoming with their financial data and ownership structure.

IFRS: was ist das? There was a strong correlation between those company's that provided their IFRS financials to investors or posted them on their site and receiving an overall high score in this report. The list of the companies with the top ten overall scores was nearly the same as the list of companies that got a 2.0 or the highest score in this section. One quite anecdotic example is Galnaftogaz: in an effort to derail the company's top score (it is our IB department's client and its high score is certain to raise the eyebrows of critics) we asked the company to provide us with financials in different language, however, we failed as the company happily obliged. Other company's like Megabank, Stirol and Ukrtelecom all proudly display their most recent information on their site. Other companies like Veliyka Kesheniya and Ukrprodukt, were relatively receptive to meeting and discussing their companies' plans with potential investors but refused to provide financial information to non-shareholders. The majority of companies simply do not report financial according to IFRS.

The Art Of Reporting In Line With UAS. To come up with scores for the quality of UAS reporting, we relied heavily on the critical eyes and conservative nature of our sector analysts. Generally speaking, if you prefer to be on the safe side, don't look at Ukrainian companies bottom lines: in many cases reported net incomes are surrealist abstractions of the truth. The EBITDA line is generally more reliable, however you will find the fingerprints of skillful accountants here as well. In some cases even top lines are distorted. Generally known fibbers and transfer pricers like MZVM, Nikopol Ferroalloy, Pivdenny Iron Ore and the refineries had poor scores, with all of our Q group passing with flying colors and the bulk of companies falling in between. (See Appendix 2 for complete list of Ukrainian companies that report their financials inline with IFRS)

Who Is Whose? There is an obvious split – half the companies from our sample are generally open with their ownership structure, while the other half keep this information under lock and key. Among those that got the top score there was a large number of companies from the energy sector. Additionally, companies that were part of international holdings scored high. Those that received a -1.0 for using opaque structures including holding companies and trading houses, like Zaporizhstal and DniproSpetStal and even some more open names like Ukrsootsbank, Velika Kesheniya and Universalna Insurance. With the latter group, even though the beneficial owner is generally known, they are still hidden by offshore structures. A good example of a company that was completely open with its ownership structure was Raiffeisen Bank Aval, which on their own initiative contacted our offices to clarify their ownership structure.

Investor Relations

In looking at investor relations in terms of management accessibility, Public Face and websites, it was state held companies and companies that were part of large local holdings that tended to receive poorer scores. Even in state companies with progressive management the bureaucracy inherited from years past at state institutions interferes with their ability to be more accommodating to the investment community. To attend meetings and semi-formal gatherings top management requires official stamped letters, and site visits require weeks of notice and special permission. Additionally, state companies tend to pay little regard to developing their brand and taking an active role in engaging potential investors despite their sometimes dire need of investment. Companies from larger Ukrainian business groups tend to have similar issues however, this is connected more to the tight control by their holding which keeps a lot of their activities out of sight. In most cases however, the group's holding is very active in presenting the organization as a whole, Metinvest being a textbook example. Smaller, younger Ukrainian companies, especially from the financial sector tend to be much more investor orientated.

Case Study: Ukgazbank – An Investor Relations Turnaround Story.

Since the autumn of 2006 Ukgazbank has undergone a metamorphosis in terms of opening up to the investment community. Over the last six months the company has revamped its website, making it more user-friendly and included a section with financial information. The bank opened a media/investor relations department which began actively contacting the investment community about the bank's activities. Additionally the bank has taken a hands on approach to formulating its investment strategy and this is reflected in the top management's new found interest in meeting with potential investors.

Guests Welcome? On the whole our top ten group companies filled the ranks of the higher scorers in this section, while it was companies from the energy and metals & mining sectors that tend to be less willing to meet with potential investors. Top examples of companies that we found to be quite open included Galnaftogaz, Ukrsotsbank, Astarta, XXI Century, and Slavutich all of whom not only are open with information but without hesitation agree to schedule personal meetings. The middle of the pack included several companies that were willing to speak but reluctant to have substantial discussions. The metals & mining sector, seemed to consist of mainly hermits and thus their negative score.

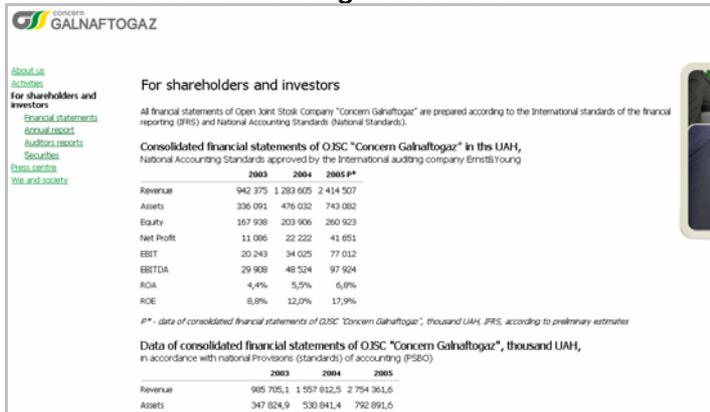
Putting Your Best Face Forward. "Public face" is the term we devised to encompass the company's efforts to keep the public informed of its activities and present itself to the investing public. On the whole, Ukrainian businesses tend to be pretty thoughtless when it comes to taking the investment community into account. However, the last few years has seen a sheer rise in media/investor relations activity. The financial services sector has been one of the leaders in this area. Additionally, companies like Ukrnafta, AvtoKrAZ, Astarta, XXI-Century, Ukrsotsbank and Stirol can be constantly found in the Ukrainian press announcing everything from production results to management decisions, are regular faces at investment conferences and take part in other investor oriented corporate events.

Case Study: Poltava GOK – FerrExpo The Mother Hen.

Poltava Iron Ore's holding company, FerrExpo, deserves to be singled out for its tireless efforts to maintain an open dialog with the investment community. It is common for the company to contact analysts following the release of its financial results and following the release of reports on the company. FerrExpo is very concerned with its companies' images among investors and always wants to see them given a fair shake. Thus the company gets high mark for Public Face.

Quality Time Online. Our research proved those companies with the highest overall standards of corporate governance also had the most informative sites. A quality website is one of the best tools for getting up to date and accurate information concerning a particular company. Companies like XXI-Century, Astarta, Urtelecom, Megabank, and Galnaftogaz all had quality sites. Though Kievenergo and Ukrsofsbank fail to provide detailed financial information on their site we gave them the highest score, due to their sites' very detailed information about their business. Universalna Insurance failed to receive our highest score, as it lacks detailed financial information but it is worth noting that among its local peers in insurance its site is unrivaled. Of the sites we looked at, Ukrnafta's was probably the biggest let down. The company is one of Ukraine's most important and its stock is the bluest of the country's blue chips, however, the data on its site is years out of date and has no substantial financial information.

Screen Shot Of Galnaftogaz's Website



concern GALNAFTOGAZ

For shareholders and investors

All financial statements of Open Joint Stock Company "Concern Galnaftogaz" are prepared according to the International standards of the financial reporting (IFRS) and National Accounting Standards (National Standards).

Consolidated financial statements of OJSC "Concern Galnaftogaz" in the UAH, National Accounting Standards approved by the International auditing company Ernst&Young

	2003	2004	2005 ^{P*}
Revenue	942 375	1 283 605	2 414 507
Assets	336 091	476 032	743 082
Equity	167 938	203 906	260 923
Net Profit	11 086	22 222	41 651
EBIT	20 243	34 025	77 032
EBITDA	29 908	48 524	97 924
ROA	4,4%	5,5%	6,8%
ROE	8,8%	12,0%	17,9%

P - data of consolidated financial statements of OJSC "Concern Galnaftogaz", thousand UAH, IFRS, according to preliminary estimates*

Data of consolidated financial statements of OJSC "Concern Galnaftogaz", thousand UAH, in accordance with national Provisions (standards) of accounting (PSBO)

	2003	2004	2005
Revenue	965 705,1	1 557 612,5	2 754 361,6
Assets	347 824,9	530 841,4	792 891,6

www.galnaftogaz.com

Screen Shot of Megabank's Website



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News

- 8.11.2006 **Megabank PLC ranks N 9 in the rating of securities**
On 01.07.2006 Megabank PLC, the holder of securities' assets rates N 9 of the rating of holders of securities which takes place quarterly and which is held by the Professional Association of register assistants and bailees. There were more than 80 holders of securities in the rating.
- On 03.11.2006 Megabank PLC, the holder of securities' assets come to 675 310 551,19 grv.
- 1.11.2006 **The Supervisory Board of Megabank PLC has changed the governing board**
The Supervisory Board of Megabank PLC Kharkiv changed the governing board of the bank. As Svetlana Sahitnova, the Corporate Secretary, said, Vladimir Avdievsky, the vice-chairman of the Head of the board, Maxim Pereshkin, the Head of risk-management Board and Nikolay Selivko, the Head of Finance monitoring Board entered the governing board of the bank. In all there are 10 members in the governing board.
- 1.11.2006 **Megabank PLC gained the diploma for the participation in the International display "15 years UIC: Cooperation and integration"**

Exchange rates 01.02.2007

- € Euro 5.5417
- \$ Dollar USA 5.0500
- ₽ Russian rouble 0.1902

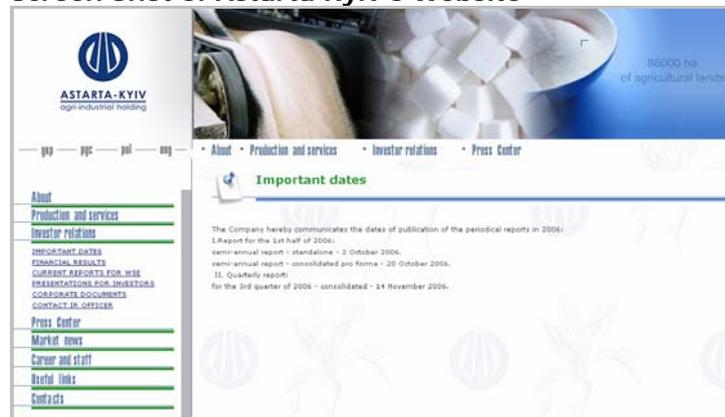
Dates of bank metals*

- Au Gold 3261.0380
- Ag Silver 67.4680

*for 1 ounce

www.megabank.net

Screen Shot of Astarta Kyiv's Website



ASTARTA-KYIV
agro-industrial holding

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Important dates

The Company hereby communicates the dates of publication of the periodical reports in 2006:

- I. Report for the 1st half of 2006: semi-annual report - standalone - 2 October 2006; semi-annual report - consolidated pro forma - 20 October 2006.
- II. Quarterly report: for the 3rd quarter of 2006 - consolidated - 14 November 2006.

www.astartakiev.com

Minority Treatment

Over the last two years terms referring to the abuse and disregard of minority shareholders have become buzz words among those working and investing on the Ukrainian equity market. Zaporizhstal is a major reason for all of this bad sentiment. Clearly this bad blood has its roots in some real concerns, however, as we found when working on this report, the idea that minority investors are constantly getting the short end of the stick is a bit exaggerated. On the whole, as our case study with ZPST, Azovstal and ZaporizhCoke reflects, the situation is on the up. As the number of companies announcing IPO or private placement plans and teaming up with strategic investors grows so does the overall behavior of majority shareholders and the strength and savvy of minorities in defending their rights.

It is worth noting that companies that fair poorly in this section also tended to have poorer overall scores.

Watered Down Risks? Of the 118 companies we looked at for this report, the vast majority (95 companies) in our view had minimal or no risk of dilutive action. We marked 21 companies with a certain level of risk, most of them were from the mining or machine building sectors. The well known dilutors ZPST and AZST along with the Kherson Refinery, which just announced plans to join part of a closed joint stock company – entailing a high risk of asset stripping, and the Enakiev Metallurgical Plant received scores of -2.0.

Case Study: ZPST-AZST-ZACO - An Example of Improvement.

In June of 2006, Zaporizhstal (ZPST) went ahead with a massively dilutive share issue (tripling its charter fund from USD 42 mln to USD 131 mln) with a buy-back price three times lower than the market price before the issue's announcement. This led to conflict with minorities that ended up getting the company suspended from trading on the PFTS, and gave the market a black eye. At nearly the same time Azovstal (AZST) merged with its trading house using another dilutive share issue, but in contrast to ZPST, AZST offered a reasonable though not ideal buyback price, showing SCM's slightly higher respect for minorities. The last straw came in August, when ZaporizhCoke (ZACO) (controlled by SCM and ZPST) announced plans to merge with a trading house associated with major shareholders in what would have diluted minority stakes by more than 10x. However, after being brow-beaten for the situation at ZPST and AZST, ZACO's owners canceled the share issue and instead announced a hefty dividend payout.

DRs. Companies active in attracting foreign investment are generally considered to have better corporate governance standards. For this reason we rewarded companies that had depository receipts by giving them an extra one point. Unsurprisingly, 53 of the 73 companies that did not have DR programs also received low scores in the investor relations section. This number would be higher if we did not count companies that issued DRs years ago and are now relatively dormant on the secondary market. On the other hand, companies that had issued depository receipts over the last two years are in the upper percentiles of our total scoring.

Institutional Holdings. Generally, the presence of institutional investors has proven to be a disciplining factor for the management of Ukrainian companies in recent years, and has been helping promote corporate governance standards. In the case study above, the positive outcome for the minorities would have been impossible if it were not for shareholder activism, where funds with positions in the stocks described, together with local investment banks, stood up to voice their disagreement with the minority-hostile corporate actions of majority shareholders. The companies in our survey that did not have institutional investors, tended to receive negative or poor overall scores. Chernigiv Khimvolokno received a negative score in this section, however it is important to point out that the company is looking to place a large equity stake among portfolio investors.

IPO Here We Go. Companies preparing to attract or with experience in attracting foreign investment go to great lengths to improve their level of corporate governance as a tool to woo investors. This was clearly reflected in our findings: companies that had completed an IPO or private placement had a mean overall score of 6.7, while companies that had announced plans had an average score of 4.6 and those with no plans had a meager mean score of 0.9. Several companies under the umbrella of IPO-bound Metinvest got our 0.5 score, while Bank Aval and Ukrspotsbank both received the highest possible score as both companies were recently bought by institutional investors and are clearly at a higher level, with no need for their new owners to be schooled in the art of using equity market tools.

Companies	IPO/PP/Anc	Comments
Cardinal Resources	IPO	Placed 6.6% stake for USD 20 mln in on LSE in 2005
Galnaftogaz	PP	Placed 12% stake for USD 17.5 mln in 2005 and 5% for USD 9.5 mln in 2006
Forum	PP	Placed USD 10 mln stake for USD 20 mln in 2006
Yasinovatsky M-B	PP	Placed a 17.7% equity stake in 2006 for an undisclosed amount
Rodovid Bank	PP	Placed a 19% stake for USD 37 mln in 2006
LuAZ	PP	Placed a 8% stake for USD 16 mln
Velyka Kishenya	PP	Placed a 10% stake for USD 27.5 mln and a 23% stake for USD 37.5 mln in 2006
AvtoKrAZ	PP	Placed a 5% stake for USD 4.5 mln in 2005 Placed a 20% stake for USD 31.5 mln in on the Warsaw Stock Exchange in 2006.
Astarta	IPO	
MKS	PP	Placed a 20% stake for USD 14.5 mln in 2006
Megabank	PP	Placed a 20% stake for USD 19 mln in 2006
Universalna Insurance	PP	Placed an 15% stake for USD 11.3 mln in 2006
XXI-Century	IPO	Placed a 35.7% stake for USD 139 mln in London in 2005
Ukrinbank	PP	Placed a 20% stake for USD 36 mln in 2006
Ukrprodukt	IPO	Placed a 27.2% for USD 10 mln in London in 2005
Chernigov Khimvolokno	PP	In the process placing a large stake among portfolio investors
Stirol	Anc	Company has expressed interest in holding IPO
Motor Sich	Anc	Has announced plans to place a 3-5% stake locally in 2007
Severny Iron Ore	Anc	Part of Metinvest IPO plans, possible in 2008 (10% for USD 1 bln - estimate)
Nyzhnyodniprovsky Pipe	Anc	Part of Interpipe IPO plans.
Avdiyivka Coke	Anc	Part of Metinvest IPO plans, possible in 2008(10% for USD 1 bln - estimate)
Khartsyzk Pipe	Anc	Part of Metinvest IPO plans, possible in 2008(10% for USD 1 bln - estimate)
Centralny Iron Ore	Anc	Part of Metinvest IPO plans, possible in 2008(10% for USD 1 bln - estimate)
Koms Donbasa Mine	Anc	Part of DTEK IPO plans, likely following Metinevest IPO

Strategic Risks

Business Is Business. A classic example of a highly doubtful business decision was made by state-owned Ukrtelecom, where in 2002, the government sold off its mobile arm, UMC, now a market leader and cash generator. Since then, these risks have mitigated, as the state is trying its best to dress the company up for privatization – it was even granted a 3G license, the only one given in Ukraine.

Overall, the situation with misuse of power or bad business practice is not as bad as it was in the past: we estimate 60% of the companies are exposed to only minimal risks of sub-optimal business decisions. On the other hand, only 9% of the enterprises from our sample scored the lowest -2: the coking sector, iron ore and refineries delivered most of the bad examples. With these companies, the market lacks a clear understanding of the owner's strategy and there exists substantial risks as to sustainability of business due to the fickle business decisions of majority shareholders.

P-R-I-V-A-T Spells Trouble. Companies that scored the lowest in our section on corporate conflicts were part of large Ukrainian business groups. The biggest culprit was Privat Group: the better half of all poor scorers in our rating are associated with Privat. Companies that scored poorly in this section are involved in either internal power struggles involving rival business groups (including six Oblenergos - Ternopil, Poltava, Chernihiv, Sumy, Lviv, Prikarpattya along with DniproSpetsStal and Kievenoenergo), or with their minority shareholders (like Zaporizhstal), or with the government (NFER)). Ukrnafta falls into this list due to the risks associated with possible changes to a law that would reduce quorum at AGMs from 60% to 50% which would with high probability lead to a messy power grab for control of the company.

Case Study: 6 Oblenergos, 2 Oligarchs & a Conflict.

One of the most well-known corporate conflicts in Ukraine involves six Oblenergoes (TOEN, POON, CHEON, SOEN, LVON, PREN, and SMEN), where Ukrainian business magnates Konstantin Grigorishyn and Ihor Kolomoisky jointly control offshore companies owning 36%-40% stakes in all of the companies. Last year, Kolomoisky bought additional 20%-25% stakes in these companies from another oligarch, Grigoriy Surkis who controlled the companies before the Orange Revolution. Operating control is the key to unlocking the value of oblenergo assets and by gaining these stakes, Kolomoskiy inherited control over the companies leaving Grigorishyn out in the cold. The latter has since gone to great lengths to dismiss management controlled by Kolomoisky making the business climate in the companies very turbulent. In short, when you see black-masked people with machine guns taking headquarters by storm you can be sure your corporate governance standards are lacking.

Case Study: Privat - Bad News For Minorities?

An interesting feature with Privat is that this group, unlike most other Ukrainian oligarchic structures, is very aggressively elbowing its way to get its hands on sweet assets all over Ukraine and has no qualms about initiating conflicts with its most influential peers. The group managed to be, at different times, engaged in more or less serious quarrels with almost every significant business group in the country, and even with many Russian businessmen. The good news is that Privat people know how to get the maximum out of this business. The bad news is that minorities often end up on the sidelines watching most of their value pass by, Privat has never hesitated to milk the companies they run.

However, despite their bad boy reputation, we were not able to find a smoking gun in terms of minority abuse and thus must point out that Privat, unlike other business groups can hardly be accused of direct corporate actions against minority shareholders. The group has never initiated a dilutive share issue or created obstacles for the market in terms of trading in their stocks. When in January Privat decided to consider structural changes at Dniproazot that could have hurt minorities, they simply went on the open market and offered a buy-back at market price. Relatively fair treatment, in our view.

In any case, Privat can stomach the negative side-effects of their aggressive strategy in regards to equity markets, as they have little trouble raising debt internationally. In 2006, the bank made two Eurobond placements for a total of USD 250 mln and received a USD 300 mln syndicated loan. In January 2007, Privat completed a USD 500 mln Eurobond placement.

The "glass half empty" theory about Privat right now is that they have seen the writing on the wall, and realize that there is only a small window left for them to get away with aggressive corporate behavior in view of their rivals tightening their grip on Privat's throat after the group lost much of its political lobby. Their ample debt financing would allow them turn their back on the equity market and run roughshod over minorities.

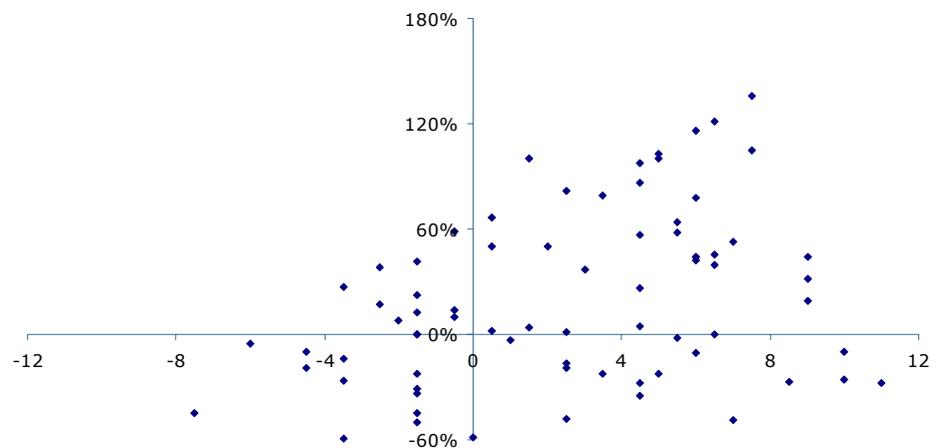
We can look at the glass as half full however – this debt raising activity combined with the fact that some of the group's companies (ZFER, DNAZ, SFER) have been reporting steadily improving margins over the last several quarters may mean that the company is preparing to break from its checkered past to avoid threats from rival business groups like SCM, who have made strides to become more transparent and can use their close ties to the government to cause Privat headaches.

Stock Market

We did not find strong statistical evidence that higher corporate governance standards translate into better stock performance. The 0.34 correlation gives just a slight hint. However, this is mostly explained by uniform **downside** behavior across the rating score – the risk of poor stock performance does not depend on how good corporate standards are.

On the other hand, from the chart below, the **upside** potential is apparently more promising for stocks of better scoring companies. Though all three top scorers from our rating of best governed companies regrettably underperformed, overall in the third and fourth quartiles of our rating the number of good performers outweighs losers substantially, with very attractive gains.

2006 Stock Performance vs Corporate Governance Score



Source: PFTS, Concorde Capital research. Calculated using mid-market prices, highly illiquid stocks and stocks with less than 52 weeks trading history excluded

In a nutshell – remember the old expression, “it happens”, and regardless of how high some companies corporate governance standards are they still may disappoint investors, but as our research shows on the whole companies with more attractive upsides proved to be found among stocks of more investor-friendly and well governed companies.

Appendix 1: S&P Bank Ratings

In December, Standard & Poor's in conjunction with the Financial Initiatives Agency produced their first Corporate Governance report on Ukraine's top 30 largest banks. The study ranked the banks on the basis of Ownership & Corporate Structure, Financial & Operational Information, Supervisory Board & Management Structure and Processes, in terms of the quality and availability of information that could be gathered using the banks' financial reporting, websites and public information available about their filings with governmental regulatory bodies. The study found that on average banks provided only about 42% of the information they were requested. According to the report the most easily available information of financial and operational character including annual reports and information about shareholders with a 10% stake or larger. While the most difficult information to find was information about the structure and activities of the board of directors and management, including salaries and decision making processes. The report also found that the most useful sources of information for investors were the banks' websites and governmental regulatory bodies. Additionally the report found that state-held banks were some of the most forthcoming and transparent. While banks with major foreign holdings had made progress but still lagged behind the state banks in terms of transparency.

Bank	Total Score
Ukreximbank	62
Kreschatik	61.6
TAS-Kommerzbank	61.5
Kredobank	56.8
Vabank	54
Ukrsotsbank	53.6
Ukrsibbank	53.3
Forum	50.8
Nadra	49.2
First Ukrainian International Bank	48.9
Kreditprombank	46.8
Pivdenniy Bank	46.7
Ukrgazbank	45.5
Index Bank	44.5
Privatbank	42.7
Finance & Credit	40.4
Ukrprombank	36.9
Mriya	36.9
Oshchadbank	36.2
Rodovid	34.4
Industrialbank	34
Pravexbank	33.4
Brokbusinessbank	31.7
OTP Bank	31.5
Alfa-bank	31.1
Raiffeisen Bank Aval	30.6
ING Bank Ukraine	29.8
Dongorbank	26.7
Pominvestbank	22.9
Imexbank	21.2

Source: Standard & Poor's, Financial Initiatives

Appendix 2: Ukrainian IFRS

Companies with IFRS Reporting	Published/Restricted
Galnaftogaz	Pub
Astarta	Pub
Cardinal Resources	Pub
Forum	Pub
JKX	Pub
Regal Petroleum	Pub
Slavutych	Pub
Ukrnafta	Pub
Ukrtelecom	Pub
Stirol	Pub
Megabank	Pub
Ukrgazbank	Pub
XXI-Century	Pub
Nyzhnyodniprovsky Pipe	R
Ukrsotsbank	R
Centrenergo	R
Aval	R
Ukrprodukt	R
Khartsyzk Pipe	R
Rodovid Bank	R
Velyka Kishenya	R
Azovstal	R
Zakhidenergo	R
Suninterbrew	R
Severny Iron Ore	R
Centralny Iron Ore	R
Ukrinbank	R
Chernigov Khimvolokno	R
Kievenergo	R
Novomoskovsk Pipe	R
Enakiev Metal Plant	R
Ukrriichflot	R
Alchevsk Iron & Steel	R
Zaporizhstal	R
Dniprovsky Dzerzhinsky Metal	R
Alchevsk Coke	R

**Note this is consists of companies that made it known to us that they report according to IFRS standards, there may be additional companies.*

Appendix 3: Company Profiles

	Ticker	DRs	FF%	MCap USD mln	FF, USD mln	Major Ownership	Website	Notes
STEEL			2.1%	10,813.9	226.7			
Mittal Steel Kryviy Rig	KSTL	-	1.1%	4,818.7	52.0	Mittal, 94%	www.mittalsteel.com	After arriving, Mittal improved discipline in relations with traders
Azovstal	AZST	DZB	1.7%	2,682.9	45.6	SCM 98.3%	www.azovstal.com.ua	Foreign capital present in form of Eurobonds (USD 175 mln, placed Feb 2006); part of IPO-bound Metinvest; fair buyout offered after 2006 dilutive share issue
Enakievo Metallurgical Plant	ENMZ	-	13.8%	164.3	22.7	SCM 68.6%	www.emz.com.ua	Part of Metinvest Holding, though still non-transparent financials improving in preparation for IPO
Alchevsk Iron & Steel	ALMK	-	5.0%	679.6	34.0	IUD 95.0%	www.amk.lg.ua	Cooperation with international financial institutions, murky trading schemes suggest transfer pricing
Donetsk Metal Plant	DOMZ	D2K	30.0%	42.7	12.8	Concern Energo 70%	www.dmz.donbass.com	Tight-lipped company, severe transfer pricing, poor financial disclosure
Dniprovsky Dzerzhinsky Metal	DMKD	-	1.0%	36.5	0.4	IUD 99.0%	www.dmkd.dp.ua	Cooperation with international financial institutions; murky trading schemes suggest transfer pricing
Donetsk Metal Rolling	DMPZ	-	7.2%	18.7	1.3	Vtorsyrovyna 79.0%	http://dmpz.chat.ru/	Tight-lipped company, little public information
Mariupol Ililcha	MMKI	IWD	2.0%	2,094.0	41.9	Ilych Stal 91.0%	www.iyich.com.ua	Tight-lipped company, poor financial disclosure, little cooperation with international banks and portfolio investors
Dniprospsststal	DNSS	-	5.8%	276.6	16.0	Interpipe 60.0%	www.dss.com.ua	Ownership conflicts about to be settled, tight-lipped company
Zaporizhstal	ZPST	UWP	4.0%	n/a	n/a	Zakhid-Reserv 28.5%	www.zaporizhstal.com	Suspended from trading on the PFTS following massive dilutive share issue
MINING & COKE			1.9%	8,947.9	171.9			
Poltava Iron Ore	PGOK	UVT	4.0%	1,180.3	47.2	Ferrexpo AG 85.8%	www.ferrexpo.poltava.ua	Active dialog with financial community. Financials with trader Ferrexpo not consolidated
Severny Iron Ore	SGOK	-	0.6%	2,623.5	15.7		www.sevgok.com.ua	Involved in IPO plans of Metinvest (SCM recently transferred control of 23.7% stake to Metinvest as part of restructuring), recently held presentation of new technology for invest community
Dniprometiz	DMPO	-	2.5%	8.18	0.2	Severstal 60.0%	n/a	Acquired by Severstal Group in 2006, now included in group's consolidated financials
Avdiyivka Coke	AVDK	-	3.2%	458.1	14.7	SCM 66.0%	www.akhz.com.ua	Part of IPO-bound Metinvest, transparency improving but still involved in related party transactions
Cherv-Arm Zakhidna Mine	SHCHZ	-	2.1%	594.0	12.5	Donetskstal 46.0%	www.kz1.donetsk.ua	Involved in transfer pricing with Donetskstal Group
Centralny Iron Ore	CGOK	-	0.5%	2,623.5	13.1	SCM-related 99.5%	www.cgzk.com.ua	Involved in IPO plans of Metinvest (SCM recently transferred control of 60% stake to Metinvest as part of restructuring), recently held presentation of new technology for invest community,
Alchevsk Coke	ALKZ	-	2.0%	298.2	6.0	IUD 98.0%	n/a	Involved in transfer pricing with Alchevsk Iron & Steel
Inguletsky Iron Ore	IGOK	-	0.5%	0.0	0.0	SMART Group 99.5%	www.ingok.com.ua	Flipped from an open (OJSC) to closed (Ltd) entity then switched back to OJSC.
Donetsk Coke	DKOK	D6N	7.7%	28.6	2.2	SCM 55.5%	n/a	Poor transparency, being abandoned by parent SCM
Sukha Balka	SUBA	S6D1	3.3%	111.1	3.7	Privat 94.0%	n/a	Tight lipped company, poor financial disclosure
Koms Donbasa Mine	SHKD	-	2.5%	169.4	4.2	SCM 87.0%	n/a	Financial reporting have improved, little contact with investment community, part of SCM fuel and energy unit DFEC, heading toward IPO
ZaporizhCoke	ZACO	-	7.2%	152.4	11.0	Zaporizhstal 41.8%	n/a	Cancelled a would-be dilutive share issue following minority protests, financial reporting better than by other coke makers
Marganets Iron Ore	MGZC	NQ8	2.0%	213.4	4.3	Fianex 24.0%	n/a	Involved in transfer pricing
Pivdenny Iron Ore	PGZK	-	7.5%	269.5	20.2	Privat 48.0%	www.ugok.com.ua	Poor reporting improving increase in capital not reported since 2005
Baglykokoks	BKOK	-	6.0%	82.4	4.9	Privat 94.0%	n/a	Financial transparency improving, Privat not interested in investor relations, poor ownership disclosure
Yasinivsky Coke	YASK	-	9.0%	121.6	10.9	Donetskstal 91.0%	n/a	Tight-lipped company, financial reporting better than by most other coke makers
Silur	SILUR	-	8.2%	13.7	1.1	Bank Pivdenny Related 91.8%	www.silur.com	Sold in Dec 2004 by SCM to Bank Pivdenny, now part of Industrial Hardware Union, which include Stalkanat and Stalmetiz all companies located near Odessa.
Ordzhonikidze Ore	ORGZ	OAC	2.8%	n/a	n/a	Privat 40.9%	n/a	Involved in related party transactions with Privat ferroalloy producers, tight lipped company, poor financial disclosure

Appendix 3: Company Profiles (2)

Ticker	DRs	FF%	MCap USD mln	FF, USD mln	Major Ownership	Website	Notes		
PIPES			7.1%	2,428.15	173.2				
Nyzhnyodniprovsky Pipe	NITR	NYZ	9.3%	1,084.10	101.3	Interpipe 86.9%	www.ntz.dp.ua	the most transparent among pipe makers; good financial and ownership disclosure, part of IPO-bound Interpipe	
Khartsyzk Pipe	HRTR	LBZ	2.0%	1,077.56	21.6	SCM & related 98.0%	www.ukrpipe.com.ua	significantly improved quality of financials; tolling schemes in the past, part of IPO-bound Metinvest	
Novomoskovsk Pipe	NVTR	-	13.5%	139.01	18.8	Interpipe 86.5%	www.nmtz.com.ua	www.nmtz.dp.ua	Tight-lipped company, part of IPO-bound Interpipe, improving financial reporting,
Dnipropetrovsk Pipe	DTRZ	-	24.8%	127.5	31.6	IUD-related 75.2%	n/a	Poor investor relations and quality of financials, financial recovery procedure in the past	
FERROALLOYS			3.9%	649.4	25.2				
Zaporizhzhya Ferroalloy	ZFER	ZL3	8.0%	204.3	16.3	Privat 50.0%	www.zfz.com.ua	Tight lipped company, poor financial disclosure	
Nikopol Ferroalloy	NFER	N4AA	2.0%	372.7	7.5	Privat 27.0%	n/a	Ownership conflicts still lingering, tight-lipped company	
Stakhanov Ferroalloy	SFER	S5Z1	2.0%	72.5	1.4	Privat 98.0%	n/a	Tight lipped company, poor financial disclosure	
NON-FERROUS METALS									
Zaporizhzhya Aluminum	ZALK	-	3.0%	110.7	3.3	SUAL 97.5%	www.zalk.com.ua	Fully disclose margins, part of Russian global aluminium holding	
OIL & GAS			16.2%	5,467.9	887.0				
JKX	JKX LN	-	60.1%	849.4	510.5	Hares 19.2%	www.jkx.co.uk	Western standard Corporate Governance, actively engages investment community	
Cardinal Resources	CDL LN	-	79.0%	34.3	27.1	KazMunaiGaz 60.0%	www.cardinal-uk.com	Active in engaging financial community, open with financial information	
Galnaftogaz	GLNG	C9Z	23.4%	166.3	38.9	F.I.E.H. and related parties 76.6%	www.galnaftogas.com	a leader in the sphere of corporate governance among Ukrainian companies, actively engages investment community, happy to meet investors, heading to IPO, have adopted corporate governance code	
Ukrnafta	UNAF	UKAA	8.0%	3,702.0	296.2	State 50%+1	www.ukrnafta.com	Relatively good disclosure (Adherence to IFRS reporting standards for 3 years) despite Privat presence on board, risks involving a law lowering quorum at shareholder meetings	
Regal Petroleum	RPT LN	-	n/a	435.4	n/a	n/a	www.regalpetroleum.com	Active in engaging financial community, open with financial information	
Kherson Refinery	HNPk	-	12.0%	69.1	8.3	Privat 68.4%	n/a	Ownership has shown little regard for minority shareholder rights, high asset stripping risk	
Naftokhimik Prykarpattya	NAFP	N3ZA	5.6%	52.0	2.9	n/a	n/a	Poor disclosure, risks connected to Privat group transfer pricing	
Galychyna Refinery	HANZ	-	2.0%	159.5	3.2	Privat 73.0%	n/a	Corporate conflicts involving the state, poor disclosure, high risks connected to Privat group transfer pricing	
CHEMICALS			7.5%	1,064.0	79.9				
Chernigov Khimvolokno	CHIM	-	12.0%	112.1	13.5	Energotransinvest Corp. 88.0%	www.him.com.ua	Company actively seeking to attract foreign investment, aiming for IPO in 2008-9	
Stirol	STIR	SVX	6.0%	461.9	27.7	Stirolkhinvest and related secur. 94.0%	www.stirol.net	Open with financial information, Eurobonds outstanding	
Azot Cherkasy	AZOT	A9T	2.4%	215.4	5.2	Privat 97.6%	www.azot.cherkassy.net	Corporate conflicts between the company's shareholders ongoing	
Dniproshina	DNSh	D1V1	23.0%	39.9	9.2	management 77%	www.dneproshina.dp.ua	Report true financials, limited interest in contact with investment community	
Crimsoda	KSOD	C6Z	11.0%	95.5	10.5	RSI Erste Beteiligungsgesellschaft 89.0%	www.cs.ua	Hermetic company, thought to be connected to Ukrainian gas tycoon Dimitri Firtash	
DniproAzot	DNAZ	UZB	10.0%	139.2	13.9	Privat 85.9%	www.azot.com.ua/	Open with financial information, Privat recently completed a buy-out at market price; be business may be divested with asset spin off	

Appendix 3: Company Profiles (3)

	Ticker	DRs	FF%	MCap USD mln	FF, USD mln	Major Ownership	Website	Notes
UTILITIES: GenCos			20.3%	2,493.6	505.1			
Donbasenergo	DOEN	-	14.2%	247.6	35.2	NC ECU 85.8%	www.de.com.ua	NC ECU is only representative on supervisory board; no DRs; open-minded management
Centrenergo	CEEN	DBG	12.7%	605.3	76.9	NC ECU 87.3%	www.centrenergo.com	Most transparent energy company; NC ECU is only representative on supervisory board; 2-nd level DR program in pipeline
Zakhidenergo	ZAEN	WT7	29.9%	682.0	203.9	NC ECU 70.1%	www.zakhidenergo.ua	NC ECU is only representative on supervisory board; DRs
Dniproenergo	DNEN	DPG	24.0%	685.7	164.6	NC ECU 76.0%	www.dniproenergo.ua	Financial recovery process to finish soon renewing shareholder meetings; good disclosure; DRs
Kievenenergo	KIEN	-	9.0%	272.9	24.6	NC ECU 50.0%	www.kievenenergo.com.ua	Conflict between main shareholders makes management very tight lipped and increases risks; no DRs
UTILITIES: Oblenergos			10.0%	2,965.3	295.1			
Prikarpatoblenergo	PREN	-	13.6%	104.7	14.2	EnSt/Privat 33.8%	www.oe.if.ua	Involved in Privat/Energy Standart conflict, but impact of the conflict is minor; informative website; skilled management
Kharkivoblenergo	HAON	-	6.2%	221.0	13.7	State 65.0%	www.oblenergo.kharkov.ua	Minority shareholder in supervisory board; open-minded management
Zhytomiroblenergo	ZHEN	-	8.4%	110.3	9.3	VS Energy 91.6%	www.ztoe.com.ua	Total control of VS Energy; poor disclosure
Kirovogradoblenergo	KION	-	6.0%	106.5	6.4	VS Energy 94.0%	n/a	Total control of VS Energy; poor disclosure
Livoblenergo	LVON	-	21.1%	210.3	44.4	State 70.0%	www.loe.lviv.ua	Involved in Privat/Energy Standart conflict; poor disclosure; management hides profits
Khersonoblenergo	HOEN	-	3.5%	93.5	3.3	VS Energy 96.5%	n/a	Total control of VS Energy; poor disclosure; risks of dilution
Khmelnytskoblenergo	HMON	KF3A	11.3%	109.2	12.3	State 70.0%	www.hoe.com.ua	NC ECU is only representative on supervisory board; open-minded management; the only Oblenergo with DRs
Sumyoblenergo	SOEN	-	9.3%	n/a	n/a	State 25.0%	www.smenergy.com.ua	Involved in Privat/Energy Standart conflict; poor disclosure; management hides profits
Zakarpattiaoblenergo	ZOEN	-	14.5%	63.5	9.2	State 75.0%	www.energo.uz.ua	NC ECU is only representative on supervisory board, open to meeting with investors
Chernivtsyoblenergo	CHEN	-	8.0%	19.2	1.5	State 70.0%	n/a	State did not allow large minority shareholders to be in supervisory board; poor disclosure
Cherkassyoblenergo	CHON	-	2.3%	n/a	n/a	State 46.0%	n/a	Minorities in supervisory board; poor disclosure; unclear ownership structure
Dniprooblenergo	DNON	-	9.1%	738.6	67.2	State 75.0%	www.doe.dp.ua	NC ECU is only representative on supervisory board; solid disclosure
Sevastopolenergo	SMEN	-	4.8%	58.6	2.8	VS Energy 95.2%	n/a	Total control of VS Energy; poor disclosure
Zaporizhiaoblenergo	ZAON	-	10.9%	461.7	50.3	State 60.2%	www.zoe.com.ua	NC ECU is only representative on supervisory board; informative website
Poltavaoblenergo	POON	-	0.4%	108.3	0.4	State 25.0%	n/a	Involved in Privat/Energy Standart conflict; management hides profits
Chernigivoblenergo	CHEON	-	9.9%	66.2	6.5	State 25.0%	www.chernigivoblenergo.com.ua	Involved in Privat/Energy Standart conflict; poor disclosure
Volynoblenergo	VOEN	-	6.9%	45.4	3.1	State 75.0%	n/a	NC ECU is only representative on supervisory board; skilled management
Krymenergo	KREN	-	18.4%	138.7	25.5	State 70.0%	n/a	NC ECU is only representative on supervisory board; poor disclosure
Ternopiloblenergo	TOEN	-	8.9%	56.2	5.0	State 51.0%	www.toe.com.ua	Effectively main shareholder NC ECU does not control the company; Involved in Privat/Energy Standart conflict
Vinnitsaoblenergo	VIEN	-	4.7%	104.3	4.9	State 75.0%	www.voe.com.ua	NC ECU is only representative on supervisory board; poor disclosure
Odesaoblenergo	ODEN	-	9.2%	n/a	n/a	VS Energy 65.8%	n/a	Conflict between state and VS Energy on additional shares issuance; poor disclosure
Donetskoblenergo	DOON	-	10.0%	149.2	14.9	State 65.1%	n/a	Subject to political and corporate whims; SCM and NC ECU in supervisory board; huge debts
TELECOM			2.5%	4,376.8	109.2			
Ukrtelecom	UTEL	UK1	2.5%	4,324.7	108.1	State Property Fund 92.9%	www.ukrtelecom.ua	Management attempting to act independently of state, woo investment community; privatization plans unclear
Odesa Cable	OCAB	O5N1	2.0%	52.1	1.0	Management 76.8%	www.odeskabel.com	Not interested in dialog with investment community

Appendix 3: Company Profiles (4)

	Ticker	DRs	FF%	MCap USD mln	FF, USD mln	Major Ownership	Website	Notes
BANKING & FINANCIAL SERVICES			8.7%	5,995.8	522.8			
Forum	FORM	B5F	10.0%	755.0	75.5	Provita Insurance 65.0%	www.forum.com.ua	Open with financial information, willing to meet with investors, first Ukrainian bank to make private placement; in process of strategic sale
Aval	BAVL	-	6.5%	3,991.9	259.5	Raiffeisen International 95.5%	www.aval.ua	New ownership in process of raising the company's corporate governance standards, more improvement expected
Rodovid Bank	RODB	-	15.0%	490.3	73.6	Management affiliated companies 54.0%	www.rodovidbank.com	Since arrival of new management in 2004-5 the bank has seen huge turn around towards a more investor oriented policy
Megabank	MEGA	-	20.0%	130.9	26.2	M-Invest 33.5%	www.megabank.net	Open with financial information, participated in IFC corporate governance program, recent private placement has provided further stimulus to improve corporate standards
Ukrinbank	UKIB	-	8.0%	54.8	4.4	Shelton 73.4%	www.ukrinbank.com	Poor discloser, private placement completed but a lot left to improve terms of Corporate Governance
Ukrspotsbank	USCB	-	10.0%	329.7	33.0	Banca Intesa 88.0%	www.usb.com.ua	Arrival of Intesa has seen the bank boost investor relations, willing to meet, provide information to investment community
Ukrgazbank	UGZB	-	23.0%	177.8	40.9	Vasyl Gorbal 15.2%	www.ukrgasbank.com	Corporate Governance turn around story, over last 6-months has opened dialog with investors
Universalna Insurance	SKUN	-	15.0%	65.3	9.8	F.I.E.H. 82.8%	www.universalna.com	A leader among insurance companies in terms of investor relations, completed private placement
MACHINE BUILDING			6.8%	1,954.7	133.5			
Yasinovatsky M-B	YAMZ	WPB1	3.1%	171.1	5.4	Management 76.5%	www.jszymz.com	Friendly to minorities, discloses their margins - a rarity in the sector
Luganskteplovoz	LTPL	-	2.0%	238.4	4.8	State 76.0%	www.contact-teplovoz.lugansk.ua	Several attempts at privatization have failed, lawsuits still pending
Motor Sich	MSICH	-	6.5%	157.7	10.2	Garant Invest 46.2%	www.motorsich.com	Top management willing to talk; rumored merger with Russian holding.
LuAZ	LUAZ	L4J1	2.5%	464.6	11.6	Ukrprominvest 90.0%	www.luaz.ua	Gearing up for IPO in 2009-10. Part of Bohdan Corporation's IPO plans, approachable ownership
AvtoKRAZ	KRAZ	A6X1	0.0%	0.0	0.0	Finance&Credit 95.8%	www.autokraz.com.ua	Experienced in attracting foreign capital, mulling creation of machine building holding, management willing to talk
Dniproswitch	DSTR	-	7.0%	20.2	1.4	CJSC Tako 35.1%	www.dsz.dp.ua	Discloses real margins, uninterested in minorities
Azovzagalmash	AZGM	-	1.0%	125.2	1.3	Azovmash 26.2%	n/a	Revolving door management positions (changes nearly twice per year); tight-lipped
Sumy Frunze	SMASH	M9Y1	6.0%	47.2	2.8	Tecline Invest 25.0%	www.frunze.com.ua	Controlled by embattled Russian businessman Konstantin Grigorish, forming consortium to take part in Chernobyl surrogofogus project.
Maruipol Heavy Machinery	MZVM	M9X	24.0%	115.5	27.7	Azovmash 50%	www.azovmash.ua	Controlled by SCM, involved in transfer pricing; sale of state's additional 11% stake put off several times
Stakhaniv Wagon Works	SVGZ	-	12.0%	217.1	26.0	Finance&Credit 77.8%	n/a	Part of KRAZ group, management willing to talk, to be part of possible KRAZ holding
Zaporizhtransformator	ZATR	YXZ1	24.0%	45.1	10.8	Energy Standard 98.0%	www.ztr.ua	Under control of embattled Russian businessman Konstantin Grigorish, good financial disclosure
Dniprovagonrembud	n/a	-	0.9%	n/a	n/a	Selekta LLC 53.4%	n/a	Dark horse company; member of top management director recently said to have been arrested for corruption
Turboatom	TATM	-	25.0%	32.6	8.2	State 75.2%	www.turboatom.ukrbiz.net	Involved in conflict between Industrial Policy Ministry and Megabank concerning the company's inclusion into Ukrenegomash Holding with several loss making state companies
Kryukivka Wagon Works	KVBZ	-	12.0%	59.6	7.2	TAS 27.0%	www.kvsz.com	Very tight lipped company, ties to Privat, poor disclosure
Dniprovagonmash	DNVM	-	0.5%	64.2	0.3	TAS 48%	www.dvmash.com	Poor financial disclosure
Dongormash	DGRM	-	7.0%	180.7	12.7	Ukrvuglemash 19.0%	www.dongormash.donetsk.ua	To be positively effected by SCM move toward greater transparency
Druzhkovsky Machine-Building	DRMZ	-	20.0%	15.4	3.1	SCM 65.0%	n/a	To be positively effected by SCM move toward greater transparency

Appendix 3: Company Profiles (5)

	Ticker	DRs	FF%	MCap USD mln	FF, USD mln	Major Ownership	Website	Notes
CONSUMER-RELATED			12.9%	2,578.1	331.7			
Slavutych	SLAV	-	6.5%	215.4	14.0	BBH 92.0%	www.slavutich.com	Part of BBH, provides consolidated financials, very investor accomodating.
Velyka Kishenya (Retail Group)	RTGR	-	12.0%	426.0	51.1	Lunin Roman 88.0%	www.welcash.kiev.ua	Easy to contact top level management, however information the company is willing to provide is limited
Astarta	AST PW	-	18.8%	126.7	23.8	n/a	www.astartakiev.kiev.ua	Open with financial information, interested in meeting with members of the investment community, first Ukrainian company to list in Warsaw
XXI-Century	XXIC LN	-	35.7%	567.3	202.5	Lev Partskhaladze 55.0%	www. 21.com.ua	Provides financial information to public, actively engages investment community, listed in London in 2006
Sun Interbrew (Rogan)	SUNI	-	2.0%	1,073.5	21.5	InBev 98.0%	www.rogan.ua	Parent Sun-Interbrew, restructuring Ukrainian breweries under Sun name, now trading under SUNI ticker, holding provides consolidated financials
Ukrprodukt	UKR LN	-	0.0%	35.2	0.0	Ukrproduct Group Ltd 100%	www.ukrproduct.com	This company has slipped in terms of investor relations since IPO, rarely initiates contact with investment community
Nord	NORD	-	5.0%	53.5	2.7	Landyk Family 75.3%	www.nord.ua	Closed company, run by Rada MP Valentyn Landyk
MKS (Ekvin)	KVIN	-	20.0%	80.6	16.1	Management 80.0%	www.mks.ua	First Ukrainian consumer electronics retail chain to make private placement
PULP&PAPER								
Zhydahiv Pulp & Paper	ZCPK	-	3.5%	32.1	1.1	Privat Group 43.2%	www.osnova.ua	Willing to meet with investors
CONSTRUCTION								
Pushka	KRCS	-	4.2%	23.9	1.0	Eurocement Group 90.1%	www.eurocem.ru	Part of Russia's Eurocement Group, which is known for its murky ownership structure, and armed corporate conflicts centered around Kavkazcement. The group has little interest in foreign investement.
SHIPPING								
Ukrrichflot	FLOT	-	46.4%	42.2	19.6	"Richflotservice" Ltd 20.6%	www.ukrrichflot.com	Currently under raider attacks, delisted in 2001 due to conflict with minorities
PHARMACEUTICALS								
Farmak	FARM	-	60%	111.6	67.0	Management 42.1%	www.farmak.kiev.ua	strong management, focused business plan, above talking with investment community

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