



Ukrtelecom

Awaiting Privatization

HOLD

6 Dec 2004

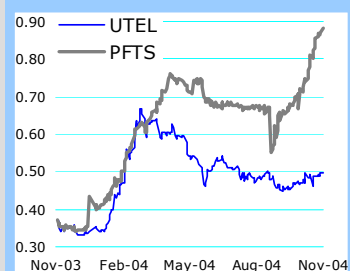
USD 0.110

12m Target

USD 0.127

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UTEL Mid-Market, UAH



Market Information

Bloomberg	UTEL UZ
Reuters	UTEL.PFT
No of Shares, mn	18,726.2
Reg S GDR to Ord.	1:50
Market price	0.125/
52Wk H/L, USD	0.062
MCap, USD mn	1,685.4
Free Float, %	2.5%

Stock Ownership

State	92.86%
Legal entities	4.71%
Individuals	2.43%

Ratios

EBITDA Margin	44.1%
EBIT Margin	31.1%
Net Margin	15.3%
Net Debt/ Equity	0.13

Monopolistic ownership of the "last mile" and the creation of a multi-service network will allow Ukrtelecom to expand at double-digit rates in the growing data & internet market. Revenue augmentation from data transfer and IP telephony and cost declines from restructuring and equipment renewal, are the main mid-term value drivers. LD revenue erosion, from mobile cannibalization, is expected in the mid-term. Our 12m target is US\$ 12.7, which implies a 15% upside. HOLD

Ukrtelecom moves from rapidly aging voice telephony to an integrated multi-service infrastructure which enables both voice and data transfer, utilizing broad-band technologies. In the meanwhile, a "last mile" monopoly allows the company to promote dial-up services, while the current and subsequent intensive investments into a multi-service network create the base for a monopoly in xDSL and high-quality data transfer. Completion of a nation-wide three-level MSN is awaited by 2008-2009.

The mid-term growth of fixed line penetration will continue, secured by a two-million household wait list for telephone installations. Due to cost advantages over wire-line competitors, Ukrtelecom will absorb most of the excess demand. Because of the socio-demographic profile of the wait-list, demand for fixed lines cannot be satisfied by a relatively expensive mobile alternative. However, booming mobile will start eroding Ukrtelecom's LD traffic starting as soon as next year. Ukrtelecom is expected to effectively counteract this by aggressively launching fixed VoIP in 2005.

The expected privatization of Ukrtelecom in 1H05 will remove deterrents for the government to unleash market liberalization, which in the long term will lead to shrinking margins and lessened market power for Ukrtelecom. We see Ukrtelecom having enough resources to withstand market pressures by restructuring and shifting towards customer-oriented management - this will only be possible when a private owner comes to the company.

Uncertainty exists of an additional share issuance in the course of the state's reinvestment of proceeds from privatization. If the issue takes place, it will wash out minority's stakes in UTEL by 10-13 per cent depending on the tender price...

WATCH:

- Fixed telephony tariff rebalance, expected 1H05
- Announcement of recovery scheme introduction for universal service obligations, expected 2005

KEY FINANCIAL DATA, USD mn

	Net Revenues	EBITDA	Net Income	DPS, USD
2003	963.2	424.4	214.4	0.0016
2004E	1,081.5	500.0	231.1	0.0025
2005E	1,188.5	557.5	250.5	0.0031
Spot Exch Rate		5.33		

KEY RATIOS

	P/S	P/E	EV/EBITDA	Div. Yield
2003	1.94	12.73	4.62	1.5%
2004E	1.73	8.73	3.93	1.6%
2005E	1.58	8.10	3.52	2.5%

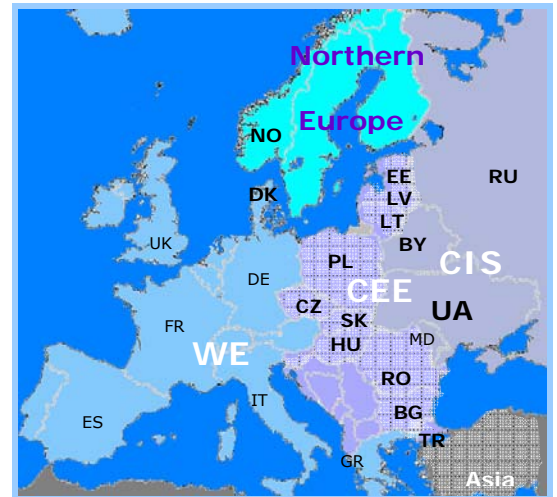
Glossary

Geographical abbreviations

CEE	Central and Eastern Europe
CIS	Commonwealth of Independent States
CNE	Central and Northern Europe
EUCC	European Union Candidate Countries, including new EU members (checked area on the map)
WE	Western Europe

Country abbreviations (according to Internet Country Codes)

BD	Bangladesh
BG	Bulgaria
BY	Belarus
CZ	Czech Republic
DK	Denmark
EE	Estonia
HU	Hungary
LT	Lithuania
LV	Latvia
MY	Malaysia
NO	Norway
PL	Poland
SK	Slovak Republic
RO	Romania
RU	Russia
TR	Turkey
UA	Ukraine



Organizations

Ukrainian:

NCRC	National Communications Regulation Commission
SCIC	State Communications and Informatization Committee
SPFU	State Property Fund
SSCU	State Statistics Committee of Ukraine

International:

ITU	International Telecommunications Union
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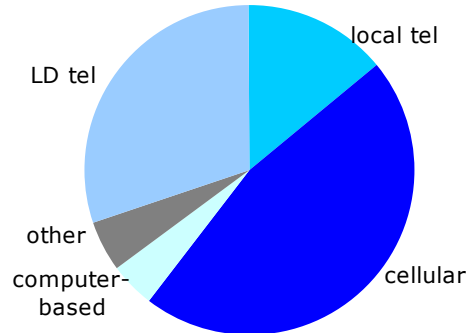
Industry-specific terms:

Altnets	Alternative (to the incumbent) operators
ARPU	Average Revenue Per User (index used by mobile operators)
AUPU(AMPU)	Average (Minutes) Usage Per User (used by mobile operators)
BWA	Broadband Wireless Access (methods of wireless internet access)
CDMA	Code Division Multiple Access (digital wireless technology)
DSL	Digital Subscriber Line (technology of voice and data transfer over regular phone lines)
FTM / FTF	Fixed-to-Mobile / Fixed-to-Fixed (calls)
3G	Third Generation mobile standard
GSM	Global System for Mobile Communication (G2 most popular wireless telephony standard)
GPRS	General Packet Radio Service (wireless data packet switching method)
IP	Internet Protocol (most developed format of data transfer)
IPT, IP telephony	Voice transfer over packet switched networks, using IP
ISDN	Integrated Services Digital Network (method of voice and data transfer in digital telephone network)
LD, ILD, DLD	Long-Distance (telephony): International (ILD), Domestic (DLD)
LMDS / MMDS	Local / Multi-channel Multi-point Distribution Service (new standards of wireless data transfer)
SMS	Short Message Service (wireless text transfer service provided by GSM)
USO	Universal Service Obligation (obligation to provide full range of telecommunications services)
VoIP	Voice over IP (same as IPT)

Ukrainian Telecommunications

Ukrtelecom is a natural monopolist in a USD 2.5 bn Ukrainian telecom market (2003), ranking 6th among CEE markets, after Poland, Turkey, & Russia, being comparable in size with the markets of Hungary, the Czech Republic, and Bulgaria. Ukraine has a rapidly growing cellular segment. Mobile, together with long-distance telephony, constitute the major share of market revenues.

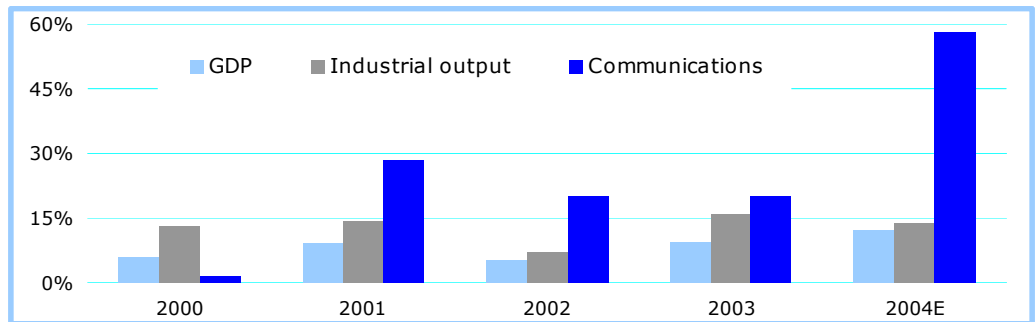
Telecommunication Market Revenue Distribution, Jan-Sep 2004



Source: State Statistics Committee of Ukraine (SSCU)

Telecommunications has been the most dynamic industry in Ukraine for the last several years. In 2004, 9-month growth of market revenues was 60.2% yoy.

Growth Rate: Communications Vs Macro Indicators



Sources: SSCU, Ministry of Economy prognosis, ConCap estimates

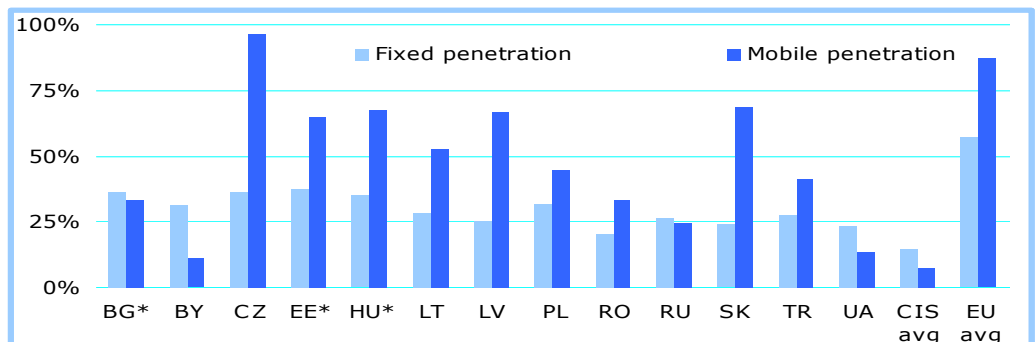
The telecom industry is the most dynamic in Ukraine...

... because of a mobile market boom and data & IT development

The recent boom is explained by the rapid growth of the cellular mobile segment (9M04 increased by 2.48x yoy), LD telephony growth (+33% yoy); and an increase in computer-based communication revenues (+47% yoy).

Unlike many other countries of Central and Eastern Europe (CEE), the Ukrainian telephone market remains far from saturation, which ensures its further development. The current level of fixed line penetration gives room for at least a 30% growth in the subscriber base, likely to the 'maturity' levels of Hungary and Baltic states. The mobile segment promises to be even more dynamic.

Penetration In CEE Countries, 2003



Source: International Telecommunications Union (ITU)

*- 2002 data

Regulatory Bodies

The industry is governed by the laws "On Communications" and "On the Resource of Radio Frequencies" and will be regulated by two bodies after 2005: the Department of Communications and the National Communications Regulation Commission (NCRC) which is now in the stage of creation.

Until the creation of the NCRC, the communication market had only a nominal regulatory body. Before August 2004 controlling functions were executed by the State Communications and Informatization Committee (SCIC), which used to license activities and exercise control over them. The Committee has been liquidated; instead, its functions were temporarily transmitted to the Department of Communications.

Re-distribution of regulatory power will be completed in 2005

The newly created department will execute all of the SCIC functions until January 1, 2005. According to the law "On Communications" adopted in November 2003, beginning 2005 the NCRC will be responsible for operators licensing, tariff regulation, supervision, as well as for distribution of radiofrequency use and number resource assigned to private telecommunications usage. The Department of Communications will be responsible only for technical standardization and the licensing of equipment. Therefore, currently the department does not execute the role, which will be assigned to NCRC in 2005, nor does the NCRC have the authority to do it. Due to this fact, licensing and frequency distribution are most likely to be suspended until early 2005.

Currently, about 1000 companies are licensed for local telephony service provision, ten are licensed for ILD services, and seven for cellular communications, four are licensed for fixed CDMA service and four companies obtained radiofrequencies to launch wireless internet in LMDS.

The Ukrainian telecom market is closely watched by the State Anti-Monopoly Committee, as the market is monopolized by Ukrtelecom as fixed line incumbent, and by Kyivstar with UMC creating mobile duopoly.

The SPFU, responsible for UTEL's privatization, has also obtained company supervision authority

As Ukrtelecom is 92.86% state-owned, the state is responsible for governing the company. On November 4, the supervisory functions of Ukrtelecom were transmitted from the Ministry of Transport and Communications to the State Property Fund, which appears logical, as the SPFU now will be responsible for both supervision and privatization of Ukrtelecom.

Legal Environment

The Ukrainian telecommunications sector was liberalized in 1995, but Ukrtelecom, as a natural monopoly and state-owned company, still has benefits compared to alternative operators (altnets). Ukrtelecom owns the national telecommunication backbone and up to 90% of local networks. They are prohibited from being transferred into the property or management of any other entity. Unbundling in the Ukrainian telecommunication industry is not a current issue. Thus, Ukrtelecom customers cannot be competed away by alternative operators, at least in the short term.

No unbundling threat in the short term

USO limits Ukrtelecom's flexibility

Despite its strong market benefits & position, Ukrtelecom has long operated in an unfavorable legal environment. Unlike alternative telecoms, Ukrtelecom suffers from universal service obligations (USO), namely:

- it is obliged to provide services at preferential tariffs to numerous categories of citizens receiving social assistance;
- the provision of services to a number of population categories and organizations cannot be restricted by Ukrtelecom, regardless of their actual payment for the services;
- it must charge reduced fees for rural telephony services – below cost.

Ukrtelecom does not have tariff flexibility to charge fees on a cost-basis and at the same time there is no USO recovery scheme such as in the Czech Republic, where

Compensation scheme for USO is not adopted

all voice service operators share the loss on a pro-rata basis. Instead, cross-subsidization is observed in Ukraine, i.e. in order to generate funds to cover Ukrtelecom's loss on USO, high international long distance (ILD) telephony tariffs are set. Furthermore, under the burden of social obligations, Ukrtelecom feels forced to push some portion of those costs to altnets: they are charged higher tariffs for access to Ukrtelecom's fixed network. According to the law "On Communications", a new scheme of compensation for USOs should have been worked out in 2004, but because of the reform in controlling bodies this will occur in 2005.

Ukrtelecom will enjoy preferential treatment until privatization

Currently, the state is exposed to a clear conflict of interests. On the one hand controlling bodies should regulate the industry and introduce fair rules. On the other hand the government has tried to protect Ukrtelecom's exclusive operating environment to prevent any fall in its privatization attractiveness.

Privatization will improve Ukrtelecom's internal flexibility...

A ban on 'downsizing' until six months after privatization and a restriction on property alienation before privatization is in force. Therefore, only privatization can untie the company from restructuring limitations.

...but will end state preferences

We expect the structure of the Ukrainian fixed line market to change considerably within the next few years, basically because of UTEL's privatization. Until now Ukrtelecom has managed to maintain its hold on the majority of local lines, however after the second stage of privatization, the government will encourage the development of competition and put under question monopolistic rights to strategic backbone and last mile ownership.

Market Position

Ukrtelecom's monopolistic position is secured by its control of the "last mile"

Ukrtelecom is the incumbent wireline operator accounting, together with its subsidiaries, Utel and Infocom, for 59% of Ukrainian communication market revenues. Being a natural monopoly in wireline telephony, the company owns the national backbone and controls about 83% of the "last mile". This advantage gives the opportunity to benefit from both providers and end users of voice or data transition services. LD traffic, including international, is currently divided between the Ukrtelecom parent and Utel, the first operating 2 international digital exchanges and 24 long-distance exchanges (LDE), 7 of which are digital; the latter having 2 digital international communication centers and 24 digital LDEs. Its other subsidiary, Infocom (51%), owns the nation-wide data package network Ukrpack.

Ukrtelecom provides fixed-line telephony, wire broadcasting, radio communication, radio & TV broadcasting, data transmission, video-conference, satellite communication, dedicated lines (ISDN, Frame relay), internet access and a number of other telecom services.

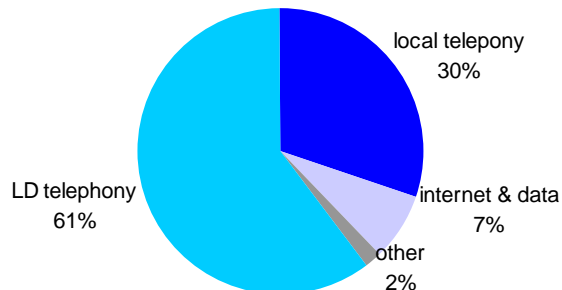
In 2003, Ukrtelecom and its subsidiaries accounted for:

- 75% of total revenues from wireline telephony
- 59% of local telephony revenues
- 84% of wireline long-distance telephony
- 95% of international long-distance (ILD) telephony
- about 25% of IP telephony

After the divestiture of UMC, Ukrtelecom exited the Ukrainian mobile market which now shows three-digit growth. However, the company is benefiting from growing mobile traffic capitalizing on its fixed line monopoly, as all the mobile operators pay Ukrtelecom fees to access its network.

Ukrtelecom Consolidated Revenue Breakdown 2003

Voice telephony is Ukrtelecom's main revenue source



Source: company data, ConCap estimates

The Company's strategy foresees a mobile comeback with the acquisition of a license for 3G, as GSM frequencies are already occupied by 5 companies. A 3G prototype, CDMA standard may solve the problem of telephone installation in out-of-the-way places.

Data transfer and Internet development is among the company's key strategic plans

Creation of a multi-service transportation network and development of wireless access internet technologies are among the strategic plans of the company. Internet and data services are expected to grow at double digit rates for the next 3-4 years.

UTEL's Competitive Advantages

The strong market position of Ukrtelecom and its affiliates are explained by the following:

- Ukrtelecom owns the national backbone. Therefore, access fees for the public service telephone network is source of revenue for Ukrtelecom and expense for the altnets
- Holding 82.5% of the "last mile" and having presence in all regions, UTEL has a considerable competitive advantage, as most altnets use or rent Ukrtelecom's lines
- A developed network also grants Ukrtelecom economies of scale
- Having control over the international traffic gate and the customer-oriented subsidiary Utel, the company also competes in ILD services for corporate clients and individuals
- Together with another affiliated company, Infocom, which holds its own high-speed data package transmission network, UTEL controls high-quality data transfer.

UTEL exposed to the following problems:

- As a natural monopoly, Ukrtelecom takes on universal service obligations without adequate compensation, which exposes it to unprofitable market segments
- Due to its social function, the company is unprotected from possible political speculation and therefore is dependent on government for its tariff and investment policy
- Ukrtelecom is still to managed in an out-of-date, engineering-focused manner with poor marketing
- Imminent market liberalization will promote competition, challenging Ukrtelecom's monopolistic position.

A new compensation scheme for USO provisions is expected to be worked out in 2005. Most likely it will be done by the creation of a "universal fund", similar to that which is expected to start in Russia in 2005, where a 2-3% revenue tax will be imposed on all telecom market participants.

Privatization is expected to make Ukrtelecom more market-oriented

Privatization of the company should lead to changes in management and marketing strategies, further promotion of new technologies and put the company further away from political risks. On the other hand, the company's privatization will uncover new problems to the company. In particular, privatization will push the state towards market liberalization, and may lead to an unbundling process (when company has to compete with the altnets for access to its own network).

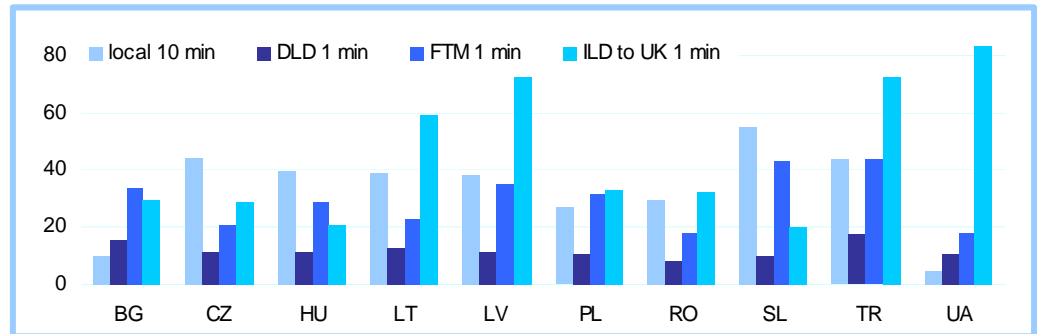
Tariffs and Tariff Policy

Tariff flexibility is bounded in Ukraine

Tariffs for fixed telephony are set by the state within a pre-determined range. Operators may lower tariffs by 20% provided that operating costs are covered, or raise them by up to 20%, if operating costs cannot be otherwise covered.

Since 1998, tariffs have been revised twice in Ukraine: in May 2000 and July 2002. The 2002 rebalancing was accompanied by a differentiation of business-hour and off-peak calls and by the introduction of per second tariffication. Tariffs for domestic calls were increased (by 83% on local and 20%-44% on DLD calls), whereas ILT tariffs were lowered (by 68% to USA and 6% to Western Europe).

Telephone Tariffs As Of June 2003, UA Current, In Eurocents



Sources: IBM 4-th EUCC report, Ukrtelecom

In spite of the changes in 2002, which led to a near convergence with European levels, the tariff structure is still unbalanced due to Ukrtelecom's cross subsidization of local calls with LD. Therefore, tariffs for local telephony are low compared to those of western neighbors, with rural local tariffs set below cost. On the other hand, ILT tariffs are higher than in EU Candidate Countries and new EU members (hereafter referred as EUCC).

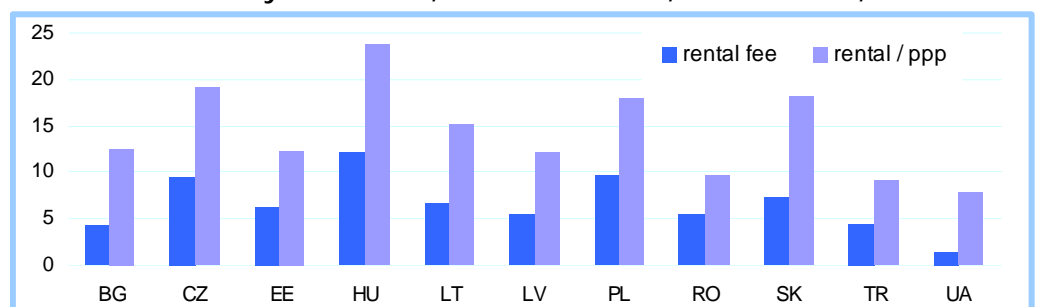
The further integration of Ukraine with European organizations and cooperation with western countries will naturally lead to further convergence with European levels. New tariff rebalancing is expected in 1H05, which will benefit operators in all segments of fixed telephony.

Local telephony demand is inelastic

Demand for local calls is inelastic, as about 40% of revenues comes from corporate users. Further, the current level of economic growth will inevitably lead to a rise in business activity which will positively affect local traffic and revenue. Local traffic from individuals is also unlikely to be affected significantly by an increase of tariffs, as about 1/3 of subscribers pay a fixed monthly fee.

Increased fixed monthly subscription fees is the most secure source for increased revenue in the mid-term. The chart below compares the current monthly subscription fees charged by CEE incumbents. To account for purchasing power differentials by country, tariffs are given in nominal EURO and in EURO/PPP - both patterns show the possibility of further tariff increases, at least by 1.5x.

Residential Monthly Rental Fee, As Of June 2003, UA – Current, EUR

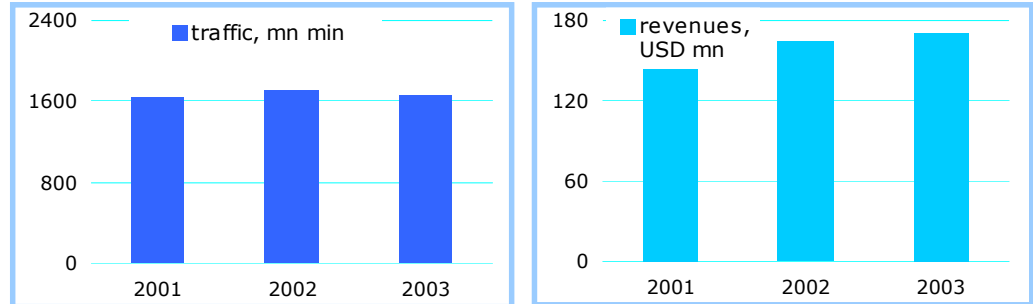


Sources: IBM 4-th EUCC report, Ukrtelecom

Fixed DLD market seems sensitive to mobile penetration

Ukrainian DLD tariffs are in line with those of Eastern European neighbors in nominal terms. Fixed-to-fixed interregional traffic fell in 2003 by 4%, which can be explained by fixed-to-mobile substitution in DLD. While DLD tariffs for wireline telephony in Ukraine are in line with those of EUCC, mobile phones are a reasonable alternative. A further decrease of cellular tariffs is expected to negatively affect both wireline DLD traffic and revenues.

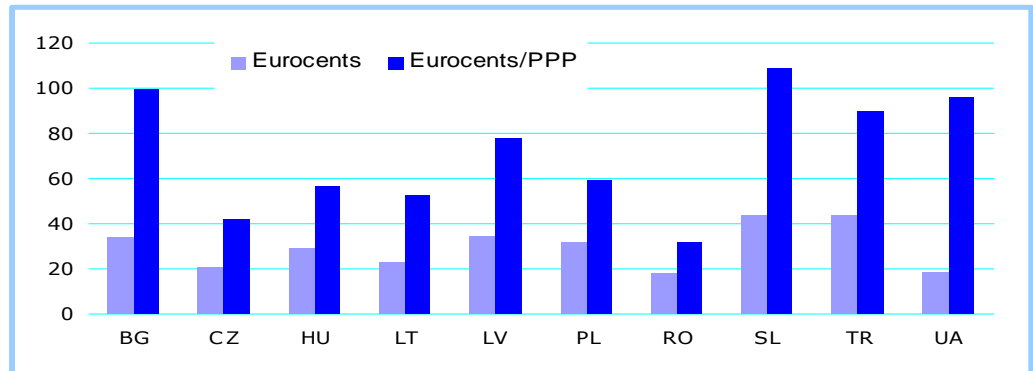
Ukrtelecom Inter-Regional Traffic And Revenues



Source: Ukrtelecom

Fixed to mobile tariffs were set at UAH 1.2 (USD 0.23) per minute in September 2003 (increased by 3.5-7 times), as compensation to mobile operators for the introduction of a calling party pay (CPP) principle. The tariff is in line with EUCC tariffs in PPP terms and we do not expect it to be changed.

FTM tariffs, Jun 2003, UA-current

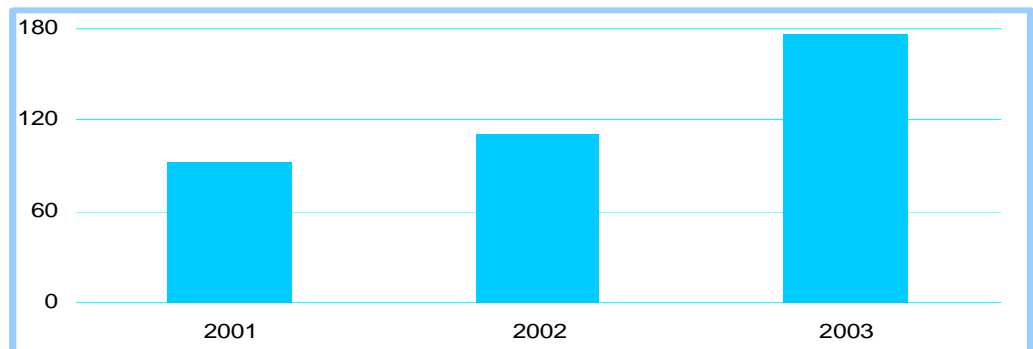


Sources: IBM 4-th report on EUCC, Ukrtelecom

FTM traffic has revealed low sensitivity to increased tariffs

According to Ukrtelecom, the introduction of CPP in Sep 2003, accompanied by the FTM tariff increase, caused a 2x increase in FTM revenues in 2003 to USD 41.5 mn. The chart below shows a noticeable increase in revenues from Ukrtelecom's provision of FTM and intra-regional LD calls (UTEL reported them together, as prior to September 2003 they were treated as the same category).

Ukrtelecom FTM And Intra-Regional FTF Revenues

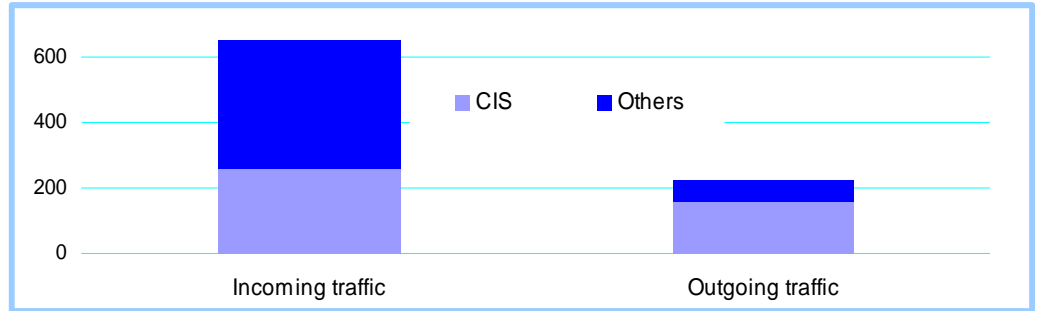


Source: Ukrtelecom

High ILD tariffs cause disproportion between outgoing and incoming traffic...

A pronounced misbalance exists in international LD tariffs, which is clearly seen in a comparison with the EUCC, and from the pattern of ILD calls to and from Ukraine.

Ukrainian ILD Incoming And Outgoing Traffic In 1H 2004, Mn Minutes

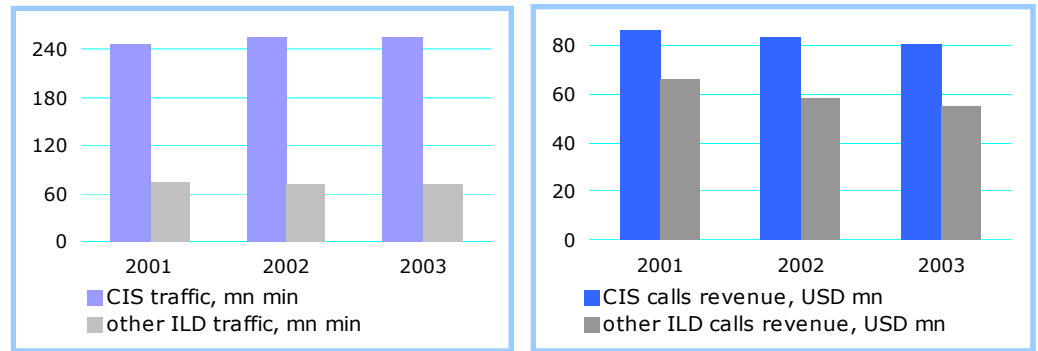


Source: SSCU

CIS calls are charged at European tariff policy trends and, at this level, incoming and outgoing CIS traffic is relatively balanced - due to cultural interrelations and relatively equal revenue levels, neither party would shift the tariff burden on another for communication within the CIS. However, only 16% of outgoing traffic to incoming in ILD other than to the CIS clearly shows that Ukrainian residents and companies rely more on their foreign counterparts in traditional voice communications when initiating calls. As was expected, a decreasing trend in ILD persists.

... and negatively affect voice ILD traffic and revenues

Ukrtelecom International Outgoing Traffic And Revenues



Source: Ukrtelecom

ILD tariffs are planned to be lowered by 25% in 2005.

Fixed Line

Ukrtelecom's fixed line competitors are 80-100 times smaller in terms of subscriber base...

Ukrtelecom is the only fixed line operator that has well developed infrastructure in all the regions of the country. Ukrtelecom's subscriber base, amounting to 9.2 mn, is not comparable with other fixed providers, in which the number of subscribers is at least 50x less. Ukrtelecom's major competitors in fixed services market are: Farlep (9 large cities of Ukraine), Velton Telecom (12 cities), Optima Telecom (10 cities), and Golden Telecom (14 cities). They are based on digital equipment and provide high-quality voice and internet services, including IP telephony. Golden Telecom, is licensed for GSM-1800 cellular services and Velton is licensed to provide CDMA fixed telephony.

...but are targeting high-yield niches

As UTEL owns the nation-wide network, and thus has cost advantages, altnets differentiate themselves with high-quality service and mostly concentrate on corporate customers. The development of their networks is limited to cities with a population greater than 200 ths. While competition for fixed line installation is tough in those areas, (urban area penetration is 3x higher in rural areas), Ukrtelecom has no competitors in districts of low population density; altnets occupy more profitable niches, leaving low-margin segments for Ukrtelecom.

Ukrtelecom's share in new exchange capacity installation is increasing, due to intensive CapEx (with CapEx/Sales 0.3 in 2003).

New Phones Installation By Ukrtelecom

	2000	2001	2002	2003 9m	2004
Installed exchange capacities, ths	225	297	452	646	532
Share of total installations in Ukraine	84%	81%	75%	80%	95%
Incremental fixed line end-users, ths	190	199	207	277	221
New end-users in annual installations, %	84%	67%	46%	43%	42%

Source: Ukrtelecom, SCIC

The decreasing pace of subscriber expansion, coupled with solid growth in exchange capacity (42% CAGR 3Y), is in line with Ukrtelecom's strategy of data & IT development. The replacement of old lines - mostly in large cities - creates a basis for the provision of high-quality data transfer services. In addition, this will lead to decreased operation & maintenance costs and prevent connection problems within the existing network.

Further fixed line development is possible due to excess demand...

Due to the existence of a fixed line installation queue, and relatively low penetration, Ukrtelecom is expected to raise its subscriber by at least 30% in the next 5-6 years.

... and development of the data transfer segment

The development of data transfer technologies, where wireline continues to dominate over wireless alternatives, is leading to fixed broadband development. A multi-service network, which Ukrtelecom is creating, is based on open architecture that supports a wide range of both traditional and new technologies for access to telecom services. This network will cover the entire territory of Ukraine and will have a three-level structure: a strategic backbone with international gateways (already completed), regional & local multi-service distribution and access. In the future, existing fixed line networks will develop as both telephone channels and data package switching, while over the next 3-4 years voice services will remain the major revenue source for the company.

Powerful LD Alternative?

Ukrtelecom's natural monopoly in fixed lines and ownership of international gates, which guarantee revenues from access fees, may be challenged by another Ukrainian natural monopolist: Ukrainian Railroad, Ukrzaliznytsia (UZ). UZ is exploiting a developed high-capacity network of internal and external communication channels, participating in EuroTransTelecom (ETT), a JV with Transtelecom, (100% affiliate of state company Russian Railroads).

In August 2004 the State Communication and Informatization Committee was re-organized into the sub-division of Ministry of Transport and Communications, and governed by an ex-railroad manager Georgy Kyrpa, who strengthened the lobbying power of UZ.

Will Ukrzaliznytsia lose its chance to enter the market?

Mr. Kyrpa is planning to use the lines of UZ and ETT for commercial purposes and, due to his control over telecommunications, can make these plans a reality. In particular, ETT is now more likely to obtain a license for international telephony. However, UZ has only one month before license approval is transferred to the new state department. In 2005 it will be much harder for ETT to enter the market; as UZ has not obtained the license yet, we doubt that it will do so before 2005.

IP Telephony

In June 2004, the SCIC approved conditions for fixed telephony licensing, according to which VoIP providers must be licensed. According to these regulations, equipment must meet certain technical requirements, and an IPt provider is responsible for informing potential customers about quality differences between traditional voice and VoIP. VoIP licensing is the same as for traditional voice telephony: an ILD license is active on the whole territory of Ukraine, a DLD license is issued for each of 27 regions separately. The cost of a license for a IP provider is 6% of the license fee for traditional voice providers.

Costs Of Licenses For LD Telephony In Ukraine

Service	license cost, USD ths	
	ILD	DLD (per 1 region)
Traditional voice telephony	1'687	64
VoIP	101	4
Mobile	1'687	64

Source: Cabinet of Ministers decree of June 16, 2004

Licensing of IP telephony creates fair rules for the VoIP market, benefiting large operators like UTEL

Licensing regulation was long awaited by market participants who have long competed in a no-regulation environment. Dumping pricing policies, practiced by hundreds of small non-licensed VoIP operators, threatened to bury the traditional ILD voice services of major telcos. The adopted regulation eliminates uncertainty by implementing transparent and fair conditions for IP telephony. In addition, it *de jure* fixes market access restrictions which were implemented by major market players in 2002 when owners of ILD licenses raised access fees for their competitors to a restrictive USD 0.06 per minute.

IP telephony is gradually ousting traditional voice in international LD...

VoIP will inevitably cannibalize traditional ILD. Cellular operators alone raised their international outgoing VoIP traffic 4 times during 2003.

... whereas a price floor restricts domestic VoIP prospects

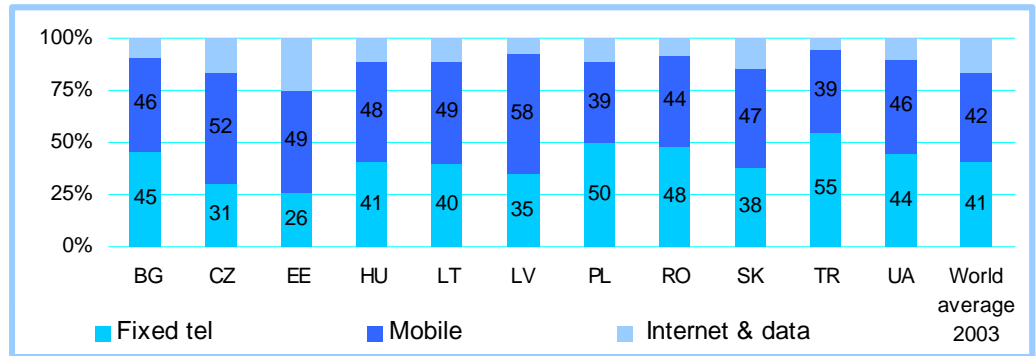
IP telephony is tariffed according to the same rules as traditional one, therefore, IPT tariffs can only be lowered by 20%. Thus, IP is still not popular for DLD because the lower quality simply outweighs a tariff differential. Plans to cancel the floor tariffs for telephony in 2005 were announced by the SCIC in July, and we expect this plan will be supported.

A gradual increase in VoIP quality will enhance the maneuverability of telephony providers, as they can use cheaper methods for transfer data package. Ukrtelecom and its subsidiaries, Utel and Infocom, control about 1/4 of the IP-telephony market and provide a wide range of services, including pre-paid and contract IP-telephony, VoIP services for corporate clients, etc. Ukrtelecom is well positioned to dominate a focused and widespread introduction of VoIP services to existing clients. A nationwide multi-service network and high-quality VoIP equipment, with low distortion, are pre-conditions. Ukrtelecom is working in both directions, however the exact timing of aggressive VoIP implementation remains unclear.

Cellular Development

09M04 cellular operators' revenues rose by 148% yoy and by November mobile penetration had exceeded fixed penetration. The share of mobile communication revenues in total sector revenues is in line with average EUCC and world levels.

Telecom Revenue Breakdown, EUCC 2002, UA – 9m 2004



Source: IBM 4-th report on EUCC, France Telecom

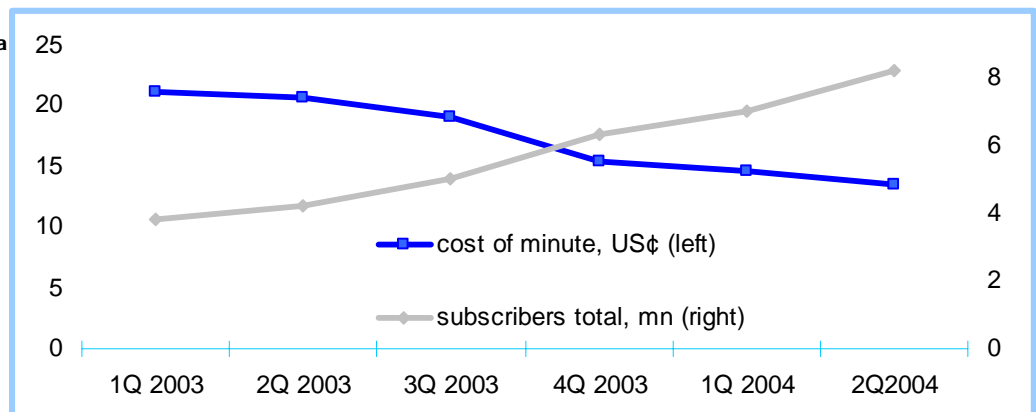
We attribute explosive growth in the mobile sector to:

- The introduction of calling party pay principle (CPP) in Ukraine in September 2003, which boosted the customer base by attracting lower-income customers
- The aggressive marketing policy of main operators and the implementation of youth-oriented pre-paid packages with low tariffs and limited services.

Both reasons imply a reduction in costs for mobile customers. We found almost a perfect correlation (-0.985) between the weighted average cost per minute for UMC and Kyivstar (approximated by the ratio of ARPU to the average monthly traffic per user, AUPU) and the size of the subscriber base. (It is important to note that an ARPU/AUPU ratio does not perfectly reflect the cost of one minute used by a telecom subscriber - due to roaming, SMS, mobile internet and GPRS revenues).

ARPU/AUPU Ratio VS Subscriber Base, UMC And Kyivstar

A significant drop in mobile costs has caused a subscription boom

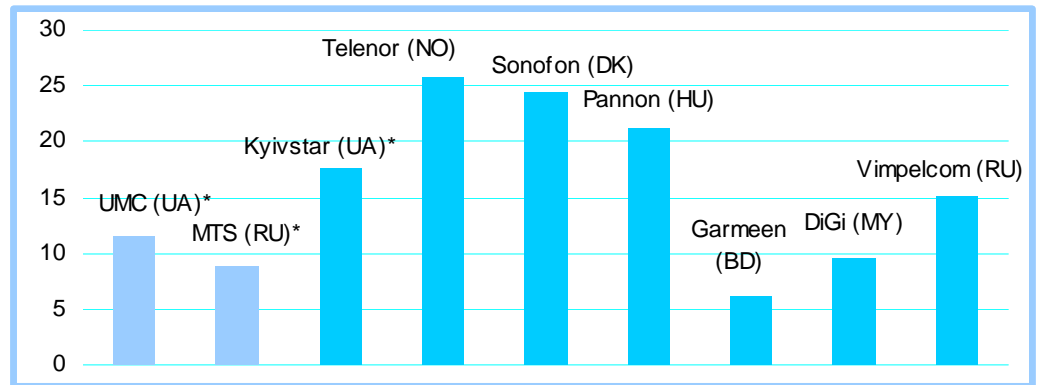


Sources: company data, ConCap calculations

A third national mobile operator can lead to further decreases in mobile tariffs

Tariffs for cellular calls will decrease further, under pressure of the Anti Monopoly Committee. Increased competition from the expected emergence of a third national mobile operator will also push tariffs lower. Ukrainian Radio Systems (WellCom), has already launched a GSM-900 network in 22 major cities; DCC (a JV with Turkcell) will build a nation-wide GSM-1800 network in 2004-2005; and Ukrtelecom may launch 3G mobile services.

ARPU/AUPU: UMC, Kyivstar, And Related Companies, 2003 Avg, In US¢



Sources: company data, ConCap calculations

* - 2Q 2004 average

Not much room for tariff reduction remains

Though we will definitely see further mobile cost reduction in the coming year, we do not believe that cost of a GSM minute will be lower than US¢8 by the end of 2005. Price incentives will continue to stimulate client base growth, however we expect the beginning of saturation next year, even if a powerful third mobile operator should enter the market.

UMC and Kyivstar subscriber base prospects under duopoly

	2004				2005			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
ARPU/AUPU, US¢	14.6	13.5	11.3	10.7	10.0	9.4	8.9	8.2
Subscribers, mn	7.1	8.2	10.5	12.1	13.2	14.1	14.7	15.2

Source: Company data, ConCap estimations

A subscription boom has forced cellcoms to invest more in their equipment

Mobile penetration growth potential is nearly exhausted, thus we predict only a moderate raise of the cellular subscriber base in 2005. Moreover, mobile penetration may be limited by cellcoms which are already experiencing difficulties meeting the "high-quality, uninterrupted service" provision. The sharp increase of subscribers has led to the need for additional infrastructure, which resulted unanticipated forced capital expenditures and limits company possibilities to develop new directions of services.

Cannibalization Threat

Fixed lines have room for growth because of a 2 mn household waiting list ...

In most CEE markets, after mobile penetration overtook fixed penetration, the effect of mobile cannibalization began to severely undermine wireline revenue growth. Eastern Europe fixed penetration stabilized at 30%-37% levels, less than western European (at about 60% on average). In Ukraine, we do not expect mobile cannibalization until fixed penetration reaches 27%-30%, as there still exists a wait list of about 2 million households (4% of the population) for fixed line installation. The total demand for fixed lines, satisfied and excessive, now equals +/- 28 phones per 100 inhabitants, and about 0.2 mn new potential subscribers are added to the wait list each year.

... with the relatively high costs of cellular telephony limiting fixed-to-mobile substitution

Fixed-to-mobile substitution will also be limited by the high cost of cellular communication and the low average income of Ukrainians. 175 free (local call) minutes are included in the flat monthly fee of USD 1.9 for a fixed line subscription. In addition, a substantial portion of the population receives a government subsidized fixed line service at 'near free' rates. Further, the standard fee for fixed line installation (USD 37.5 for residential lines) is much less than mobile sign-up fees of USD 80 (including a second-hand telephone) and a monthly tariff of USD 10 for 60-120 minutes of air-time.

As the average customer of the two most popular cellular providers spends USD 14 monthly, if we assumed that a maximum of 25% of total personal expenditures could be used for mobile services, a mobile customer could not possibly have monthly expenditures less than USD 56. According to SSCU information from 2003, this accounts for less than 35% of the Ukrainian population. Simply, mobile is still

not an alternative for a significant portion of the population. We do not see any reason for mobile penetration to exceed 45% within the next 4 years.

Fixed and mobile penetration dynamics in Ukraine

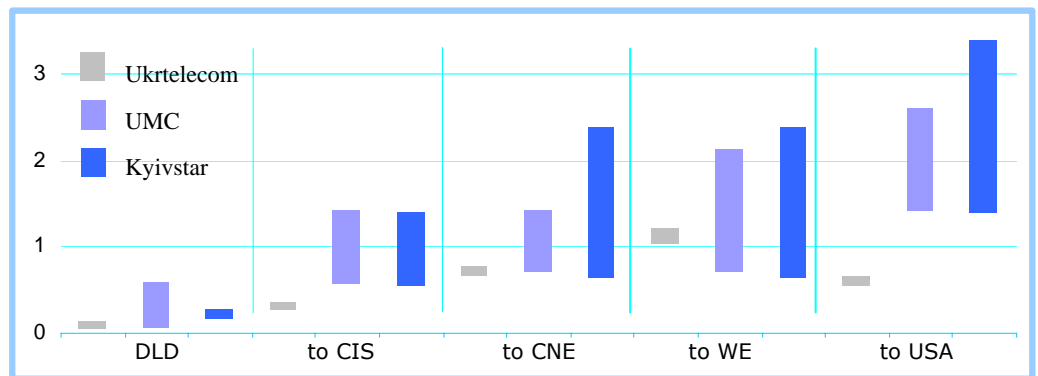
	2001	2002	2003	2004E	2005E	2006E	2007E	2008E
Fixed penetration, %	20.8	21.9	22.8	23.8	24.9	26.1	27.3	28.6
Mobile penetration, %	4.7	7.5	13.6	26.3	33.9	38.1	41.1	43.4
Fixed wait list, mn			2.16	1.97	1.75	1.49	1.20	0.90

Sources: ITU, SSCU, ConCap estimations

While fixed line growth appears sustainable, a booming mobile market will surely affect fixed revenues. In particular, there exists the danger of considerable switch to mobile operators for LD due to noticeable tariff convergence. UMC and Kyivstar began providing ILD services, with significant discounts, using high-quality IP-telephony. For customers of major mobile operators, tariffs to Western Europe are lower than for Ukrtelecom fixed line subscribers.

Tariff Range Comparison: LD From Ukrtelecom Vs Mobile, USD/min

Subscription customers of mobile operators can call Western Europe cheaper than fixed line customers



Sources: Company data, ConCap estimations

Note: lower tariff bound is accessible only for contract customers of mobile operators

Cellcoms' high-quality VoIP threatens UTEL's ILD traffic ...

While inexpensive cellular ILD is only accessible for 17% of UMC users and 14% of Kyivstar users, providing this service to pre-paid customers could significantly affect ILD call distribution between fixed and cellular operators, leading to shrinking LD revenues and margins for Ukrtelecom. This decrease, however, is expected to be compensated by Ukrtelecom's expansion into fixed IP telephony, and is mitigated – in the mid term - by growing access fee revenues from cellular operators. In the long term the two leading cellcoms will construct their own networks and eliminate the hardware advantage of Ukrtelecom (though one of them is a likely candidate to buy UTEL in the upcoming privatization).

... Ukrtelecom will defend by expanding into fixed VoIP

Cellcoms' construction of independent backbones will erode UTEL's access fees in a year or two

CDMA and Mobile 3G Prospectives

The GSM mobile standard will be price non-competitive in the future

CDMA (Code Division Multiple Access) is a cellular technology which has a number of advantages over the GSM standard, such as a higher capacity of cells, lower costs, lower sensitivity to barriers, lower radioactive emanation, high quality, confidentiality of communication and high data transition capacity.

... So far, CDMA, a wireless standard, is not "mobile" in Ukraine

Currently, CDMA licenses are valid for four Ukrainian companies: Velton, International Telecommunications & ITC, which are based on outdated 800MHz frequencies, and CST-Invest – based on the CDMA2000 standard (close to 3G). At the moment, these companies are restricted to fixed CDMA-based services (i.e. within the radius of one CDMA cell). This restriction can be explained solely by the high lobbying power of GSM-based mobile operators. However this has been overcome with a "shadow mobile network" in the largest cities of Ukraine.

Currently, Ukrtelecom, UMC and Kyistar are applying for CDMA licenses. However, the registration of new licenses will not be sooner than in 2005 when the new Commission is expected to start. The first major telecom player to obtain a CDMA license will lobby to eliminate restrictions of CDMA as only a fixed standard.

Data Transfer and Internet

Data transfer service is replacing old voice transfer technologies

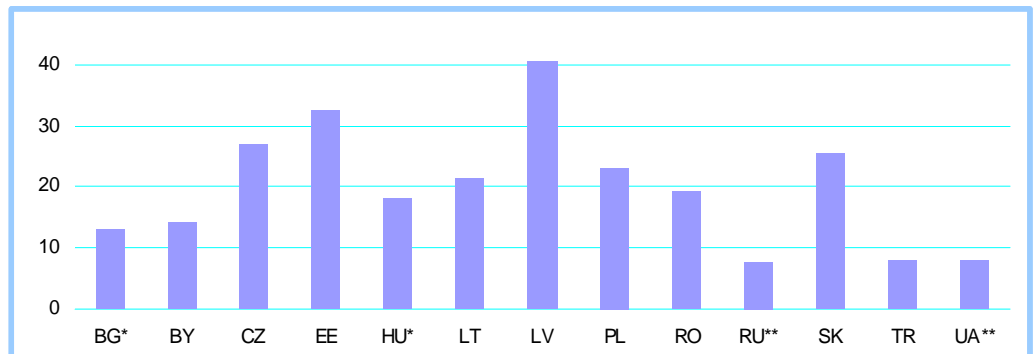
Recent trends indicate that revenue erosion will become increasingly obvious within two to three years. Although computer and internet penetration in Ukraine lags CEE levels, this sector is expected to be the main source of communication income in the future. Thus, all major fixed telephony providers are at the same time providers of internet access and data transfer services.

The state also fosters development of high-quality data transfer services, *digitalization*, being the primal aim. According to government regulation, starting 2004, backbone and telephone line development is only allowed with *digital* switching equipment. As Ukrtelecom totally dominates the fixed line market, this regulation is mainly targeting the incumbent operator.

Wireline Data And IT

9M04 internet & data service revenue surged 47% yoy, (for Ukrtelecom +60% yoy). This segment can rise further as internet penetration severely lags behind other European countries.

Internet Penetration, 2003, %



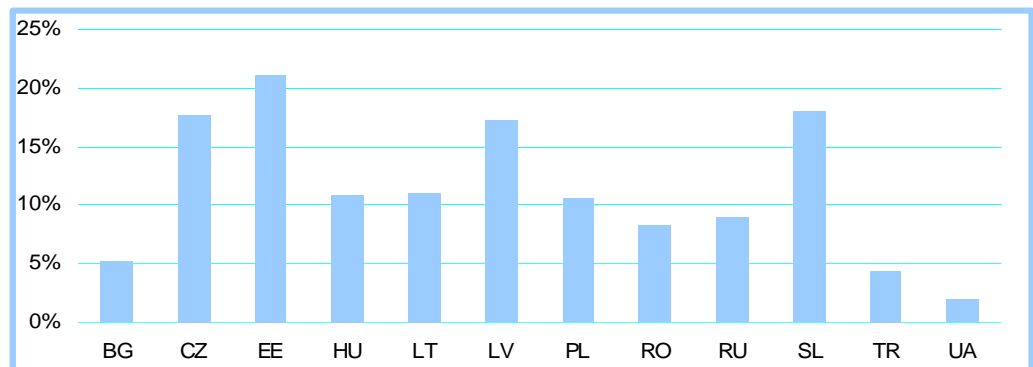
Sources: ITU, National Communications Regulators (**)

* - 2002 data

In the short term, UTEL's ambitious internet access projects are restrained by low PC penetration

A further rise of internet users will result in internet services being the fastest growing communications branch. However, the low level of computer penetration in Ukraine serves as a natural limit for internet penetration and sector revenues.

Computer Penetration In CEE Countries, 2002



Source: ITU

As population revenues are growing steadily in Ukraine, computer penetration is expected to rise rapidly in the near future. According to MKS, a Ukrainian PC trader, computer penetration is expected to be 6.3% by the end of 2004, and number of computer users is expected to continue to grow by 25-30% yearly for the next 2-3 years.

UTEL plans to increase data and internet revenues from 4% (2003) to 20-25% by 2008. In particular, Ukrtelecom is starting to provide dial-up low-speed access in all

Ukrainian settlements, which alone could double internet subscribers in 2004. The latter is possible due to the company's marketing project: password-free internet access. The service is much more convenient as it does not require any scratch-card to buy. The customer receives its internet bill together with the telephone bill at the end of month – which, in contrast to pre-paid services, stimulates a customer's propensity to consume. This project may lead to Ukrtelecom's domination in dial-up internet, basically due to the company's last mile ownership which allows Ukrtelecom to charge lower internet tariffs – or even set internet tariffs to zero and thus collect only telephone traffic revenues.

Ukrtelecom is expected to dominate in xDSL services provision

In 2002, Ukrtelecom actively entered the DSL market and is currently the main player in this arena. UTEL has chosen to target DSL internet access to small offices and high-end private users, using domestic equipment. For the implementation of a nationwide high-speed investment program, Ukrtelecom's decision is a feasible price/efficiency alternative. No other operator has the financial resources to roll-out a comparable investment program, thus Ukrtelecom is laying the foundation for future DSL domination.

In 2003, Ukrtelecom's revenue from xDSL services increased 2.35x yoy. However, a xDSL connection is limited to digital subscriber lines. While national backbone digitalization is almost complete, subscriber digitalization lags.

Digitalization Of The National Networks

	2003	2004E	2005E
Backbone	73%	95%	100%
Subscriber lines	30%	42%	57%

Source: SSCU, Ukrtelecom, ConCap estimations

Data services for corporate customers will increase in line with growing business activity in the economy

Ukrtelecom also provides data/voice transfer for corporate users through Frame Relay (revenue increased 3.64x in 2003) and ISDN (revenue increased 1.7x in 2003). Rise in data and internet revenues are expected because of gradual increases in business activity.

The creation a multi-service network is the strategic aim for Ukrtelecom. This network will allow provide a wide range of data transfer and internet access services and will replace voice telephony lines in the future.

A developed data package network is the major competitive advantage of Infocom

Ukrtelecom's subsidiary Infocom, which owns the data package network UkrPack, is an important player in the market of data transfer and internet access. Their own nation-wide network, independent of Ukrtelecom's backbone, is the company's competitive advantage. As of January 2004, the company had installed 489 packet switch nodes in most district centres of Ukraine. However, Infocom only accounts for about 15% of the data and internet market. Its major competitors are: the more aggressive Golden Telecom, the more flexible and customer-oriented local IP providers, as well as the more powerful Ukrtelecom.

Wireless Data and Internet

Mobile is still a weak competitor in data transfer due to capacity limitations and relatively high costs. However, new technologies of broadband wireless access (BWA) are knocking on the door.

Ukrtelecom is pioneering a quasi-wireless service, which is quite popular due to ease of access and high speed. This **Wi-Fi** ("Wireless Fidelity") service allows wireless internet connection from any computer located near an inexpensive radio transmitter. Internet-gates are located in hotels, transportation and business centres and are becoming popular. Ukrtelecom has a Wi-Fi license for Kyiv and Kyiv region and is applying for the license in other regions.

Ukrtelecom starts to provide public BWA services...

According to Ukrtelecom's project (RadioSpot), it is planned to install 250 Wi-Fi systems in Kyiv by the end of 2004. Partners in RadioSpot are expected to be large hotels, restaurants and transportation stations and should spread quickly as Wi-Fi device installation fees are only \$300-350. In addition, monthly fees of between \$20 and \$25 are charged to the partner for a flat level of monthly traffic.

... But its success is still unclear

Ukrtelecom also proposes its service to other potential Wi-Fi providers, but its prospects in this direction are rather unclear. As for this moment, information about six "RadioSpots" in Kyiv is known, therefore, plans to install 250 in 2004 look unreal. Though, management remains optimistic on the future of RadioSpot.

Wi-Fi will compete with wireline internet in offices due to the ease in connection for any computer located within 100-300 m.

We expect only limited development of WBA in the short term

UTEL also plans **LMDS** (Local Multipoint Distribution Services) and **MMDS** (Multi-channel Multipoint Distribution Services) expansion. The radius of activity of LMDS and MMDS cells are 5-7 km and 40-50 km, respectively. Therefore, these technologies could solve the problem of last mile in internet access for low-populated territories. However, there is an absence of licenses for frequency usage (40-70 GHz) to implement the technology. Also, the implementation of such technologies requires high demand and is thus limited significantly by low computer penetration.

Ukrtelecom Revenues & Costs Structure

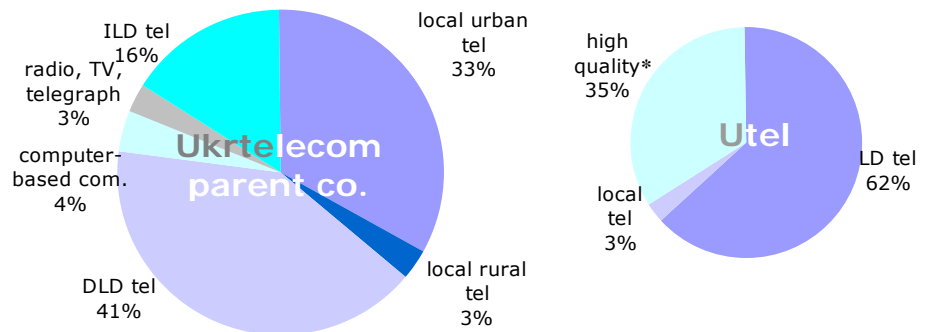
Unconsolidated Revenues, USD Mn

	Ukrtelecom	Utel	Infocom
2001	632	266	6.3
2002	701	282	7.7
2003	803	306	8.7
2004E	940	333	9.9

Source: company data

The main sources of Ukrtelecom, and related company, revenue is local and long-distance telephony. Infocom, accounting for 1% of consolidated revenues, is fully specialized on data transfer and internet access.

Major Sources Of Operating Revenues, 2003



Source: company data

*high quality: services for corporate customers

Utel's "high-quality service", accounting for 35% of total revenue, is a DLD and ILD service for corporate customers using dedicated business-lines.

PC based revenue is expected to equal ¼ of UTEL's revenue in three years

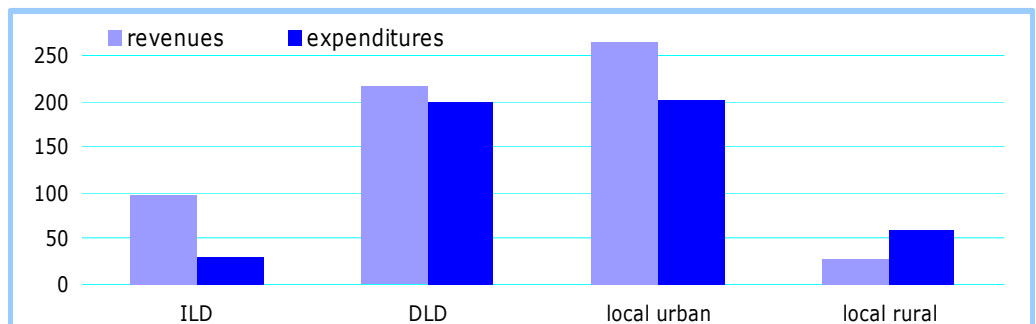
According to Utel, total international, non-CIS voice traffic serviced by the company amounted to 459 mn minutes in 2003, while VoIP traffic was 360 mn minutes. If the tariff floor is relaxed in 2005, we can expect a further rise in IP traffic, which we expect to be one of the most important revenues drivers for both Utel and Ukrtelecom in the next two to three years.

According management plans, data & internet access services will account for 25% of unconsolidated revenue by 2006-2007. The entrance of a strategic investor may promote more rapid development of computer-based services.

Cross-subsidization causes revenue/ costs disparity for Ukrtelecom

Cross-subsidization, which is the easiest source of funds for social policies in the CIS, affects Ukrtelecom heavily, leading to a distorted cost/revenue structure by segment:

Ukrtelecom Unconsolidated Revenues And Costs In Telephony, 2002



Source: company data

We expect that tariff rebalance in 2005 will positively affect Ukrtelecom's top line:

UTEL growth drivers:

- **tariff rebalance**

- Lower ILD tariffs will raise international traffic in the short run, and - due to the high elasticity of ILD demand - will translate into augmented revenues. (However, in the long run, no rebalancing can protect voice telephony in ILD from less expensive technologies like VoIP)
- Higher per minute local tariffs will contribute to growth due to the low price sensitivity of local traffic to tariff changes.
- Increased fixed subscription fees will lead to an increase in subscription revenues. However, social considerations may result in subscription fees being excluded from the rebalance package in 2005

Other mid-term drivers for Ukrtelecom's revenue are:

- **VoIP services**
- **Internet & data**

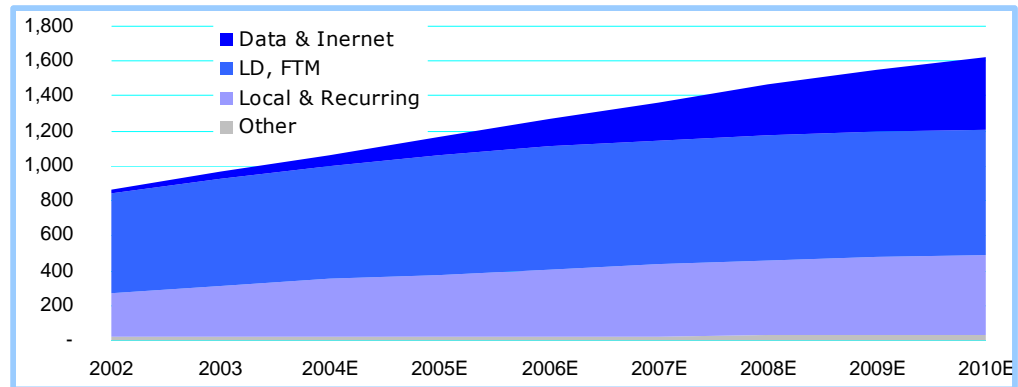
- VoIP service implementation, which will widen the range of services provided and make LD calls less expensive.
- Widening of internet access leading to higher data revenues

Net margin, adjusted for extraordinary items, of 13.9% is comparable to last year

Ukrtelecom's unconsolidated financial results for 2004 are strong and promising. Net revenue 9M04 amounted to USD 691 mn (+20.3% yoy) and net income grew 2x yoy, to USD 153 mn (a net margin of 22.1%). As Utel is Ukrtelecom's subsidiary, we treat Utel dividends as extraordinary non-recurring income. Without these dividends net margin is 13.9% and similar to last year.

Ukrtelecom's management expect at least 17% top-line growth in 2004, to USD 940 mn. In our financial model we incorporate changes of management style after privatization, which will make the company more customer-oriented. We forecast the following pattern of Ukrtelecom consolidated revenues:

Ukrtelecom Consolidated Revenues, USD mn



Source: Ukrtelecom, ConCap estimations

The privatization of Ukrtelecom will lead to company restructuring and thus a large reduction of operating costs, mainly due to workforce optimization as was the case with other incumbent operators after privatization.

Costs reduction drivers:

- **workforce optimization**

CEE Telecoms Employment Efficiency & Privatization

	SPT/Cesky Lietuvas		Matav	TPSA	Slovenské	Ukrtelecom
Privatization Year	1995	1998	1993	2000	2000	2005E
Lines/Empl	91	11	88	130	121	-
Sales/Empl, USD ths	33	17	n/a	44	32	-
2003						
Lines/Empl	306	175	146	105	175	74
Sales/Empl, USD ths	156	117	168	277	71	8

Sources: German Advisory project on privatization, company data

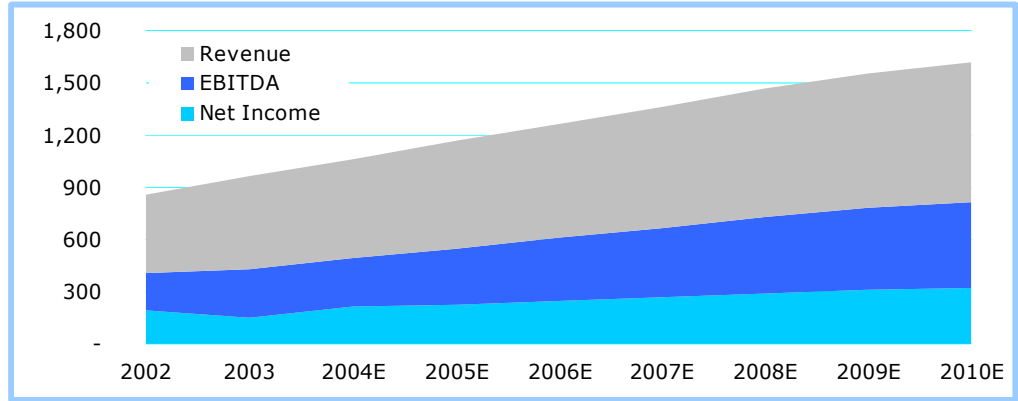
- **Lower maintenance costs from digitalization**
- **Lower costs of borrowing**

Further, as digital equipment is more energy-saving, more fault-proof and requires less man-power for maintenance, growing digitalization directly decreases Ukrtelecom's costs. Privatization will make the company more transparent which will facilitate its access for funds, lowering the cost of borrowing.

A strategic owner in UTEL would quickly improve all three of our company specific risks (Financial Stability, Management Aptitude and Corporate Governance) and is partially responsible for WACC moving from 20.6% in 2004 to 18.5% 2005 and 16.9% 2006.

Also, a new strategic owner will result in a gradual growth of EBITDA margins due to cost control and more refined marketing strategies.

Consolidated P&L Items

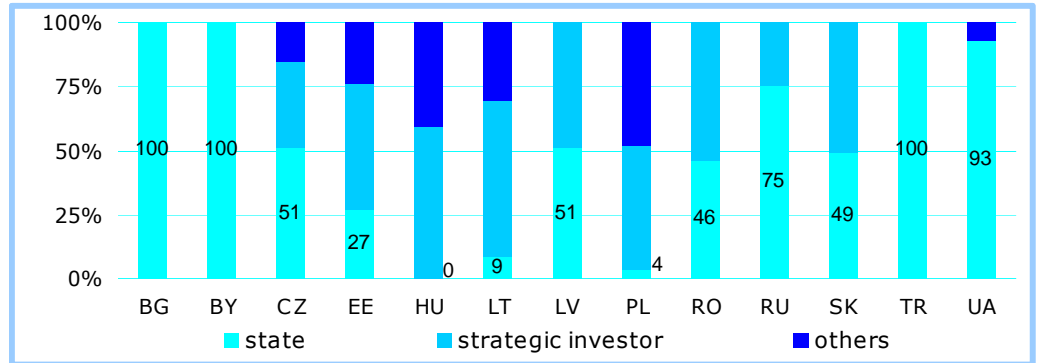


Source: Ukrtelecom, ConCap estimations

Privatization

Most incumbent telecoms in CEE are controlled by strategic investors.

Ownership Structure Of CEE Incumbent Operators, 2004



Source: IBM 4-th report, ConCap

Most CEE telecoms have strategic investors

Baltic telecom monopolists are controlled by Sonera (Finland) and Telia (Sweden): Elion (EE, 49%), Latt telecom (LV, 49%), Lietuvos Telekomas (LT, 60%). Other large owners in CEE telecoms include Deutsche Telekom: 51% in Slovenské Telekomunikácie (SK), and Ameritech: 59.5% in Matav (HU). Polish TPSA is 34% controlled by France Telecom and 13.5% by Kulczyk Holding. Further, the Greek company OTE has a 54% interest in Romania Telecom.

The Bulgarian and Belarusian incumbents are unlikely to be privatized within the next 3 years and the situation with Russian Svyazinvest is simply unclear. The company's investor, Mustcom, not satisfied with its investment and has sold a 25% stake in Svyazinvest for USD 0.6 bn, (purchased in 1997 for USD 1.875 bn). The Moldavian incumbent's privatization has failed several times due to an absence of relevant bids.

In October, the Czech government declared the possibility privatizing a 51% stake in Cesky Telecom to a strategic investor this November. However, it's privatization has already been postponed several times.

Except UTEL, Czech and Turkish incumbent operator can be privatized soon

In mid October the Turkish government approved the sale of a 55% stake in Türk Telekom, which will be carried out by the end of 2004. This event may outshine Ukrtelecom's privatization as the Turkish incumbent, with its 2003 net sales of USD 5.3 bn, gross profit of USD 2 bn, and ownership of cellular operator EVEA, looks much more attractive.

However, the privatization process in Turkey is not likely to interfere with Ukrtelecom, unless SCM and Çukurova Group (DCC and Turkcell's strategic partners) plan to participate in both tenders, which looks unrealistic.

The Privatization of Ukrtelecom

Privatization's 2nd step envisages the sale of 42.86% to a strategic investor

The law "On Privatization of Ukrtelecom", stipulates two stages for the company's privatization. In the first stage, finished 2002, 7.14% of Ukrtelecom's shares were allocated to current/past employees and company management - currently the only source of free float. The second stage, selling a 42.86%-1 share to an *industrial investor*, is expected to occur after Presidential elections. The conditions to qualify as an *industrial investor* are to be announced by the government. They will have a decisive impact on the exact tender participants.

The privatization law stipulates a reinvestment of 30% from the proceeds of Ukrtelecom's sale for an additional share issuance to the benefit of the state. Other shareholders' participating in the additional issuance is not foreseen by the law. The strategic investor will have the right to take an additional 25% from the state under operating management, which will partially compensate for the dilution. Minority shareholders apparently get no compensation at all. As such conditions simply confuse possible privatization participants, they were predicted by many to be cancelled, but still are valid.

Candidates

We consider four privatization candidates

The list of contenders will contain Russian fixed line monopolist Svyazinvest, and two diversified Russian financial-industrial groups, AFK Systema, and Alfa Group, as well as Ukrainian System Capital Management (owner of mobile operator DCC) in alliance with Turkcell.

The State Property Fund claims that some large western telecommunication companies have interest in Ukrtelecom, but there appears to be no evidence of such. France Telecom, with no experience in the Ukrainian telecom market, poor experiences in the CEE and with net financial debt of EUR 44.2 bn (as of Jan.1, 2004), is unlikely to participate. British Telecom, Italian Telecom and Telephonica have not revealed any interest in the CEE telecom market and Vodafone is hardly interested in a fixed line operator.

Potentially, Scandinavian telecoms Telia and Sonera, with their experience in the privatization of Baltic incumbent operators, could be treated as candidates, but there is no information to back their claim.

DT and Telenor are likely to participate with Russian partners

Deutsche Telekom (DT) has experience in Ukrainian telecoms, previously owning 16.3% of UMC. However, due to business contacts with Systema (both have stakes in the largest Russian cellular company MTS), DT is more likely to participate in the tender with Systema. This will be especially beneficial for Systema, as having such an alliance will increase the possibility of meeting the requirements for participation. However, DT's intention to sell its 25% stake MTS signal a decreasing interest of DT in CEE assets.

Telenor, who owns 55% of Kyivstar, is more likely to partner with Kyivstar/Alfa Group who together own Russian VimpelCom and for Golden Telecom in Russia.

Therefore, two large western-European telecom operators may participate, but they are most likely to delegate their involvement to Russian partners, which have experience, know the "rules of game" and can better lobby Ukraine's governmental institutions and business structures.

The candidates are:

... Systema/Deutsche Telekom;

AFK Systema, who owns UMC is one of the most likely candidates for winning the competition. The corporation can lobby its interests through the influence of Russian authorities over Ukrainian politicians (Mr. Yevtushenkov, the main owner of Systema is loyal to Putin and has good business relationships with Moscow major Yuri Luzhkov). Control over UMC is the main competitive advantage of Systema.

... Svyazinvest;

Russian Svyazinvest, 75%-1 stake owned by the state and expected to be privatized in a year or two is another possible participant. Svyazinvest is very close to the Russian Minister of Communication, however, the company's future is rather

unclear: Svyazinvest unites all the state-owned shares of Russian regional incumbent operators, but the expediency of such a union is questionable.

... Alfa Group /
Telenor;

Alfa Group, with Kyivstar, have powerful Ukrainian business contacts such as Yuriy Tumanov (Head of the Board of Governors and President Kuchma's brother-in-law). Kuchma's son-in-law, Viktor Pinchuk, also has some interest in Kyivstar and contacts with Alfa Group. Even with a new President, Alfa Group will remain a lobbying power.

Alfa also has experience in Ukrainian telecom & IT via Kyivstar/Golden Telecom and with Systema possible synergies. As Alfa is expected to participate in the competition with Telenor, it hardly will suffer from financial constraints.

SCM / Çukurova Group

Rinat Akhmetov, the head of Ukraine's most powerful business group SCM, is also treated as one of the most serious contenders for Ukrtelecom. His presence in the telecom market through DCC and close relations with Privatization Commissioner Nikolay Azarov allow him to rely on the loyalty of privatization decision makers. DCC has signed a JV agreement with Turkcell (Turkish largest cellular operator controlled by powerful Turkish business group Çukurova), to provide Ukraine-wide mobile services. As 1800 MHz is not competitive in price to GSM-900, plans of the JV were not treated seriously, while instead the privatization of Ukrtelecom seems to be the JV's aim. DCC/Turkcell is treated as one of the likely winners, though the JV is likely to need time to concentrate enough funds. Postponement of the tender could evidence a planned DCC/Turkcell win. SCM's chances are much higher with a Yanukovich win in the current political crisis.

Battle for Ukrtelecom

Controversial tender conditions included items prohibitive for some major candidates

On July 29, 2004 tender admission conditions were printed. The conditions were highly controversial and were later revoked by the SPFU, but they have revealed fierce behind-the-scenes fighting for Ukrtelecom and give a base for predicting possible winners. Below we list the conditions which are necessary to participate in UTEL's privatization:

- *Total assets of at least EUR 10 bn as of the last reporting date;*
- *Total annual revenue of at least EUR 10 bn for the last reporting year;*
- *Ownership of at least 50 ths km of communication backbone;*
- *Experience in privatization of incumbent telecom operators;*
- *Experience in telecom markets outside CIS Credit rating at least S&P or Fitch BB, or Moody's Ba2;*
- *Absence of lawsuits with Ukrainian governmental bodies as of July 28, 2004*

Svyazinvest and DCC/Turkcell cannot solely satisfy the listed requirements. The requirements could be met by Alfa and Systema ... in partnership with their western partners. It is important to note that the last requirement looks specially designed to remove Systema from the competition. DT is also likely to be engaged in lawsuits and thus does not pass this requirement. This condition is most likely to be removed.

Consequently, only Telenor is able to satisfy all the requirements, which shows that as of the end of July Alfa/Telenor was 'chosen' to be the most suitable investor for Ukrtelecom. However, after Presidential elections a final version of the tender conditions will be tabled and the above likely will be changed. If the opposition candidate wins, allowance conditions will target large multinational telecoms (DT, Telenor, Telia/Sonera). If the current administration wins the conditions will be shifted to favour Ukrainian (DCC) investor. We expect the start of privatization right after the announcement of presidential elections results, as all preparations are completed.

Stock Depreciation After Privatization?

Law on privatization stipulates the possibility of an additional issuance to the benefit of state

Article 17 of the Law on Privatization of Ukrtelecom states 30% from the money obtained by the state from the divestiture of 43.86% of Ukrtelecom will be re-invested, with a simultaneous increase in the statutory fund to the benefit of the state.

The impact will be two-fold:

1. An increase in the value of Ukrtelecom by $(V+0.3*X)/V$, where X is price paid for 42.86% of Ukrtelecom and V is the pre-issuance equity value of Ukrtelecom.
2. A decrease in the share of the strategic investor and minority shareholders by $SF/(SF+0.3*X)$, where SF is the pre-issuance statutory fund of Ukrtelecom.

Other shareholders can lose from this issuance

As SF is lower than V , the second effect outweighs the first, leading to a decrease in UTEL's stock value.

Errosion Of UTEL Stock Fair Price After Additional Issuance

Stock fair price, US¢	Privatization price of 42.86% of Ukrtelecom, USD mn					
	500	600	700	800	900	1000
10	7.7%	9.0%	10.2%	11.4%	12.5%	13.5%
11	8.4%	9.8%	11.1%	12.3%	13.5%	14.6%
12	8.9%	10.4%	11.8%	13.1%	14.3%	15.5%
13	9.3%	10.9%	12.3%	13.7%	15.0%	16.3%
14	9.7%	11.3%	12.8%	14.3%	15.6%	16.9%

The strategic investor's lobbying power can prevent the unfavourable issuance

However, it is possible that the additional issuance does not take place, as recently neither privatization regulation authorities have mentioned it. The probability of an additional shares issuance, therefore, depends on the lobbying power of Ukrtelecom's investor:

- If Alfa Group, or DCC win the tender, an additional share issuance, with dilution of investor's stake, can be prevented because of their lobbying power
- If Systema or Svyasinvest win the tender, their lobbying power may not be enough to reverse the additional issuance
- If a representative of a multi-national telecom operators wins the tender, an additional shares issuance is most likely, as they do not have any direct lobbying power in Ukraine and the state would be most likely to want to 'take advantage' of such an investor

As Ukrainian and Russian investors have more power to prevent an unfavourable additional shares issuance, they can bid more for Ukrtelecom. This is additional incentive for DT and Telenor to participate in the tender together with Russian partners.

We estimate the probability of an additional shares issuance, and dilution of minority investors, by assigning probabilities to different companies winning the privatization tender and their respective power to prevent an additional issuance:

Estimation of additional issuance probability after privatization

	Prob. to win tender	Prob. to prevent add issuance
Alfa	0.30	0.75
Systema	0.24	0.45
Telenor (w/o Alfa)	0.03	0.05
DT (w/o Systema)	0.03	0.05
Svyasinvest	0.21	0.45
DCC	0.12	0.80
Other	0.04	0.05
Weighted probability of additional issuance:		0.44

Valuation

Peer comparison

For the purpose of peer comparison we took two groups of incumbent operators. First are Emerging Market telecom incumbents, including representatives of Asia, Central Europe and South America.

Emerging Market Peer Comparison

	MCap, USD mn	Lines, 000	P/E (04E)	EV/EBITDA (04E)	EV/Sales (04E)	MCap/Lines (04E)
Bezeq	2,752	3,010	-	5.8	2.1	914
Cesky Telecom	4,370	3,586	21.9	10.5	2.8	1,219
Embratel	1,060	-	7.8	2.0	0.7	-
Lietuvas Telecomas	615	828	-	4.2	2.4	743
Matav	3,939	2,347	14.6	4.7	2.0	1,678
Telemar Norte Leste	1,060	15,200	16.9	3.3	1.5	70
TPSA	7,017	11,120	24.1	4.2	1.9	631
Ukrtelecom	2,060	9,337	9.6	4.3	2.0	221
Peer average			17.1	5.0	1.9	876
Peer median			16.9	4.2	2.0	829
Discount to average			-44%	-14%	5%	-75%
Discount to median			-43%	1%	1%	-73%
Implied UTEL price at mean, US¢			14.9	12.0	10.4	17.7
Implied UTEL price at median, US¢			14.8	10.6	10.6	17.6

Sources: Bloomberg, company data, ConCap estimates

The positive growth potential of Ukrainian telecommunications and company privatization should compensate for any possible Ukrainian uncertainty discount. Therefore, overall, Ukrtelecom is traded at an unjustified discount to Emerging Market peers.

Some discount, however, may emerge due to the uncertainty of an additional share issuance after privatization. We address this issue later in Valuation Summary on p.29

Russian regional telecom incumbents can be treated as a group of companies acting in conditions similar to Ukrtelecom:

Russian Regional Peer Comparison

	MCap, USD mn	Lines, 000	P/E (04E)	EV/EBITDA (04E)	EV/Sales (04E)	MCap/Lines (04E)
Rostelecom	1,712	-	238.6	4.2	1.6	-
Central Telecom	654	5,832	-	4.0	1.2	112.2
North-West Telecom	495	3,401	15.1	4.1	1.1	145.6
VolgaTelecom	955	4,006	14.9	5.2	1.7	238.4
Southern Telecom	285	3,419	6.4	5.4	1.1	83.3
Uralsvyazinform	1,536	3,320	22.0	8.1	2.5	462.7
Sibirtelecom	906	3,544	16.4	5.8	1.6	255.5
Dalsvyaz	153	1,118	15.2	7.4	0.6	136.5
MGTS	1,293	4,100	16.8	5.6	2.6	315.4
Ukrtelecom	2,060	9,337	9.6	4.3	2.0	220.6
Peer average			43.2	5.5	1.6	218.7
Peer median			15.8	5.4	1.6	192.0
Discount to average			-78%	-21%	28%	1%
Discount to median			-39%	-20%	25%	15%
Implied UTEL price at mean, US¢			18.0	12.8	8.5	10.6
Implied UTEL price at median, US¢			14.5	12.6	8.5	9.6

Sources: Bloomberg, Svyasinvest, ConCap estimates

We believe UTEL must trade at a premium to Russian regional operators, because unlike Russian companies, Ukrtelecom is a nation-wide operator which provides a full range of telecom services, including ILD.

DCF model

Our 10-year operational model is based on estimated consolidated financial statements, composed from the separate financial statements of Ukrtelecom, Utel and Infocom. All statements are reported according to Ukrainian accounting standards. The model is based on the assumptions of strong growth in data & internet over the mid-term, ILD revenues fading in the long term, and is more conservative than Ukrtelecom's management plans.

The model does not account for a possible Infocom split. As Infocom accounts for less than 1% of consolidated Ukrtelecom assets and revenues, any change in control over Infocom would be immaterial.

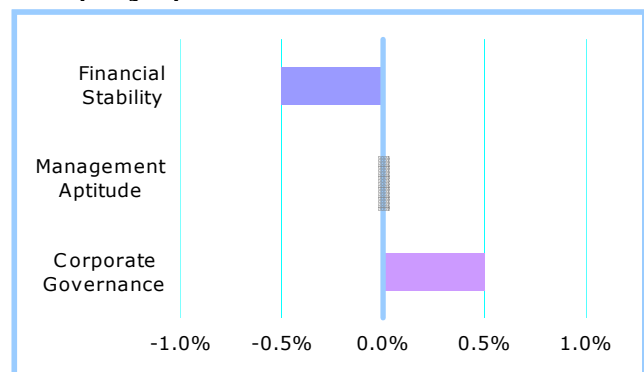
WACC is calculated for each forecasted period. 2014 to perpetuity WACC is set at 12%. Company-specific risk accounts for three factors: financial stability, management aptitude, and corporate governance, each respective premium within a range -1% to +1%.

Basic assumptions and outputs of our model are presented below.

WACC calculation for 2004:

Debt/Equity, eop	0.19
Weight of debt	0.113
Weight of equity	0.839
Average Interest Rate	9.8%
Ukr Eurobonds YTM	7.3%
Corp. bond premium	10.5%
Equity premium	5.5%
Company-specific Premium/Discount	0%
Cost Of Equity	23.3%
WACC	20.6%

Company-Specific Risk Breakdown:



	2003	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	CAGR 5Y	CAGR 10Y
GDP growth	9.3%	9.0%	7.0%	6.0%	5.0%	4.5%	4.0%	4.0%	4.0%	4.0%	4.0%	5.3%	4.6%
Industrial production growth	15.9%	14.0%	9.0%	6.5%	5.5%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	6.2%	5.6%
Fixed lines penetration	22.8%	23.6%	24.5%	25.5%	26.6%	27.7%	28.4%	29.0%	29.5%	29.8%	30.4%		
Mobile penetratin	13.6%	26.1%	33.7%	35.6%	37.3%	39.1%	40.0%	40.6%	41.1%	41.7%	42.0%		
Local calls rev. growth	13.7%	12.0%	6.1%	5.7%	4.9%	4.3%	4.2%	4.1%	4.1%	4.1%	4.1%	6.6%	5.3%
Local revenue	1,562	1,749	1,856	1,962	2,058	2,146	2,236	2,328	2,424	2,523	2,626		
LD revenue growth	7.3%	9.4%	6.2%	3.0%	1.2%	0.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	3.9%	1.9%
LD revenue	3,234	3,538	3,758	3,870	3,917	3,925	3,917	3,909	3,901	3,893	3,886		
Data & Internet growth	91.8%	59.0%	62.0%	59.0%	51.0%	38.0%	26.6%	15.0%	8.0%	7.5%	7.0%	53.5%	31.5%
Data & Internet rev.	224	357	578	919	1,388	1,916	2,425	2,789	3,012	3,238	3,465		
Other revenues	116	121	125	130	135	142	149	157	166	175	185		
Total Revenue Growth	11.8%	12.2%	9.6%	8.9%	9.0%	8.4%	7.4%	5.2%	3.5%	3.4%	3.4%	9.6%	7.1%
Net revenue	5,137	5,765	6,317	6,882	7,498	8,129	8,728	9,184	9,503	9,830	10,162		
Gross margin, %	53.1%	54.0%	54.5%	55.3%	56.1%	57.0%	57.0%	57.0%	57.0%	57.0%	57.0%		
EBITDA margin, %	44.1%	46.2%	46.9%	48.0%	48.9%	49.9%	50.0%	50.1%	50.1%	50.1%	50.1%		
Net income	784	1,143	1,229	1,328	1,468	1,619	1,747	1,806	1,832	1,860	1,893	7.2%	5.2%

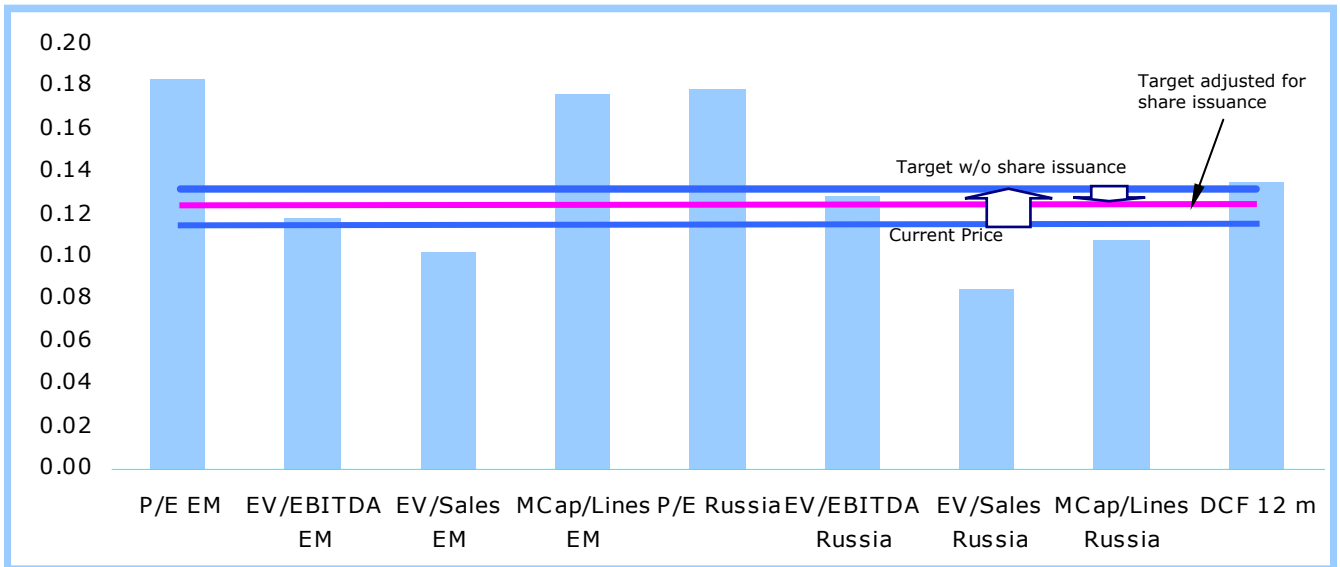
Source: ConCap forecast

Discounted Cash Flow Valuation
For the purposes of forecasting local currency is used

	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E
EBITDA	2,665	2,963	3,301	3,669	4,055	4,366	4,597	4,759	4,924	5,092
EBIT	1,900	2,084	2,296	2,539	2,802	2,995	3,112	3,166	3,227	3,297
Tax Rate	30%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Taxed EBIT	1,240	1,330	1,563	1,722	1,905	2,102	2,246	2,334	2,375	2,420
Plus D&A	765	879	1,005	1,130	1,253	1,372	1,485	1,592	1,697	1,795
Less CapEx	(1,755)	(1,839)	(2,121)	(2,146)	(2,128)	(2,109)	(2,052)	(1,977)	(1,903)	(1,871)
Less change in OWC	(149)	(277)	(130)	(170)	(148)	(151)	(162)	(80)	(56)	(67)
FCFF	(20)	191	412	758	1,095	1,404	1,762	2,008	2,179	2,427
WACC	20.6%	18.5%	16.9%	15.6%	14.9%	14.3%	13.6%	13.0%	12.6%	12.3%
Discounted CF's	(20)	157	290	462	581	652	721	726	700	694
Terminal Value										29,553
Disct'd TV	8,455									
Firm value		13,420								
Less Net Debt		(1,517)								
Equity Value		11,903								
Share price @ val. Date, USD			0.118							
										12-month price, USD
										0.137

Sensitivity Analysis – Share Value, USD

WACC	Perpetuity growth rate				
	2.5%	3.0%	3.5%	4.0%	4.5%
-3.0%	0.155	0.161	0.169	0.177	0.186
-2.0%	0.144	0.150	0.157	0.165	0.174
-1.0%	0.134	0.140	0.147	0.154	0.162
+0.0%	0.125	0.131	0.137	0.143	0.151
+1.0%	0.117	0.122	0.127	0.134	0.141
+2.0%	0.109	0.114	0.119	0.125	0.131
+3.0%	0.102	0.106	0.111	0.116	0.123

Valuation Summary, USD


Assuming the absence of an additional shares issuance, target price would be **US¢ 13.5**. If the issuance takes place, stock value is corrected downward, depending on the privatization price, as described on page 28:

Target After Privatization And Additional Share Issuance VS 42.86% Stake Privatization Price

UTEL privatization price, USD mn	0	400	500	600	700	800	1000
Target stock price, USD	0.135	0.124	0.122	0.120	0.118	0.116	0.113

The SPF predicts the price of Ukrtelecom's stake to be between USD 600 and 800 mn, implying a MCAP of USD 1.4 - 1.86 bn. We expect it to be +/- USD 800 mn, which will imply UTEL's target at **US¢ 11.6**

As was mentioned above (p.25), there is a probability that the unbeneficial additional shares issuance will not take place. Our estimated probability of the additional shares issuance is 44%.

Our UTEL target, adjusted for the probability of an additional share issuance, is **US¢ 12.7**, implying a 15% upside. HOLD

Financial statements are reported according to Ukrainian Accounting Standards

Income Statement Summary, USD mn

	2002	2003	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E
Net Revenues	863	963	1,081	1,188	1,298	1,415	1,534	1,647	1,733	1,793	1,855	1,917
Change y-o-y	N/M	12%	12%	10%	9%	9%	8%	7%	5%	3%	3%	3%
Cost Of Sales	(381)	(452)	(497)	(541)	(580)	(621)	(660)	(708)	(745)	(771)	(797)	(824)
Gross Profit	481	511	584	648	718	794	874	939	988	1,022	1,057	1,093
Other Operating Income/Expenses, net	(9)	(20)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)
SG&A	(61)	(67)	(75)	(81)	(86)	(92)	(100)	(105)	(111)	(115)	(119)	(123)
EBITDA	411.3	424.4	500.0	557.5	622.9	692.3	765.1	823.8	867.3	897.8	929.0	960.7
EBITDA margin, %	47.7%	44.1%	46.2%	46.9%	48.0%	48.9%	49.9%	50.0%	50.1%	50.1%	50.1%	50.1%
Depreciation	(106)	(126)	(144)	(165)	(190)	(213)	(236)	(259)	(280)	(300)	(320)	(339)
EBIT	305	299	356	392	433	479	529	565	587	597	609	622
EBIT margin, %	35.4%	31.0%	33.0%	33.0%	33.4%	33.9%	34.5%	34.3%	33.9%	33.3%	32.8%	32.4%
Interest Expense	(13)	(9.3)	(25)	(35)	(45)	(49)	(53)	(51)	(56)	(58)	(61)	(64)
Financial Income	16	23	28	28	28	28	28	28	28	28	28	28
Other income/(expense)	(8)	(55)	(19)	(19)	(19)	(19)	(19)	(19)	(19)	(19)	(19)	(19)
PBT	300	257	340	367	398	440	485	523	541	549	557	567
Tax	(103)	(110)	(126)	(136)	(147)	(163)	(179)	(194)	(200)	(203)	(206)	(210)
Effective tax rate	34%	43%	37%	37%	37%	37%	37%	37%	37%	37%	37%	37%
Net Income	196.8	147	214	231	251	277	305	330	341	346	351	357
Net Margin, %	23%	15.3%	19.8%	19.4%	19.3%	19.6%	19.9%	20.0%	19.7%	19.3%	18.9%	18.6%
Dividend Declared	27.4	30.6	47.2	57.8	67.6	83.1	122.2	181.3	238.6	276.6	315.9	339.4

Balance Sheet Summary, USD mn

	2002	2003	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E
Current Assets	335	381	424	472	525	581	641	702	738	764	792	819
Cash & Equivalents	79	87	100	111	123	134	144	155	159	165	171	176
Trade Receivables	103	113	130	143	158	177	199	222	234	242	260	268
Inventories	56	74	76	83	91	99	107	115	121	126	130	134
Other current assets	97	106	119	135	152	171	190	209	224	231	232	240
Fixed Assets	1,391	1,516	1,771	2,002	2,273	2,498	2,688	2,874	2,999	3,088	3,149	3,192
PP&E, net	981	1,118	1,345	1,567	1,789	1,981	2,144	2,277	2,378	2,449	2,496	2,510
Other Fixed Assets	410	397	426	436	484	516	544	597	620	639	654	682
Total Assets	1,726	1,897	2,195	2,474	2,798	3,079	3,329	3,576	3,737	3,852	3,941	4,011
Shareholders' Equity	1,402	1,500	1,667	1,846	2,022	2,219	2,405	2,553	2,655	2,724	2,759	2,777
Share Capital	878	878	878	878	878	878	878	878	878	878	878	878
Reserves and Other	88	293	293	291	283	287	289	289	289	289	289	289
Retained Earnings	436	328	496	673	855	1,049	1,233	1,381	1,483	1,552	1,587	1,605
Current Liabilities	146	206	223	241	259	280	300	321	342	354	366	379
ST Interest Bearing Debt	17	35	42	49	59	62	61	63	66	69	72	74
Trade Payables	34	43	49	54	58	64	72	79	87	90	93	96
Accrued Wages	8	8	5	5	5	6	6	7	7	7	7	8
Accrued Taxes	14	20	18	14	6	7	8	8	9	9	9	10
Other Current Liabilities	101	131	108	119	130	141	153	165	173	179	185	192
LT Liabilities	178	191	305	387	517	580	624	701	740	774	815	855
LT Interest Bearing Debt	152	165	279	357	486	552	598	676	713	750	795	834
Other LT	26	26	26	30	31	28	26	25	27	24	21	21
Total Liabilities & Equity	1,726	1,896	2,195	2,474	2,798	3,079	3,329	3,576	3,737	3,852	3,941	4,011

UAH/USD Exchange Rates

	2002	2003	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E
Average	5.33	5.33	5.34	5.35	5.35	5.35	5.35	5.35	5.35	5.35	5.35	5.35
Year-end	5.33	5.33	5.35	5.35	5.35	5.35	5.35	5.35	5.35	5.35	5.35	5.35

Financial statements are reported according to Ukrainian Accounting Standards

Cash Flow Statement Summary, USD mn

	2002	2003	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E
Net Income	197	147	214	231	251	277	305	330	341	346	351	357
Depreciation	106	126	144	165	190	213	236	259	280	300	320	339
Non-operating and non-cash items	(27)	62	(23)	(13)	(62)	(35)	(29)	(58)	(30)	(34)	(31)	(45)
Less Changes in working capital	19	48	(52)	(24)	(32)	(28)	(28)	(31)	(15)	(11)	(13)	(11)
Operating Cash Flow	295	383	283	359	346	427	484	499	576	601	627	640
Capital Expenditures, net	(278)	(299)	(345)	(374)	(405)	(402)	(398)	(387)	(373)	(359)	(353)	(336)
Other Investments, net	7	(48)										
Investing Cash Flow	(271)	(347)	(345)	(374)	(405)	(402)	(398)	(387)	(373)	(359)	(353)	(336)
Net Borrowings/(repayments)	8	30	121	83	139	69	45	80	40	40	47	42
Dividends Paid	(27)	(42)	(47)	(58)	(68)	(83)	(122)	(181)	(239)	(277)	(316)	(339)
Other	1	(36)										
Financing Cash Flow	(19)	(48)	74	25	71	(14)	(77)	(101)	(198)	(237)	(269)	(298)
Beginning Cash Balance	N/A	79	87	100	111	123	134	144	155	159	165	171
Ending Cash Balance	79	87	99	111	123	134	144	155	159	165	171	176
Net Cash Inflows/Outflows	5	(12)	12	11	13	11	10	11	5	6	6	6

Ratio Analysis and Per Share Data

	2002	2003	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E
Operating Efficiency Ratios												
Total Asset Turnover	0.50	0.53	0.53	0.51	0.49	0.48	0.48	0.48	0.47	0.47	0.48	0.48
Fixed Asset Turnover	0.62	0.66	0.66	0.63	0.61	0.59	0.59	0.59	0.59	0.59	0.59	0.60
Operating Profitability Ratios												
Operating Profit Margin	35.4%	31.0%	33.0%	33.0%	33.4%	33.9%	34.5%	34.3%	33.9%	33.3%	32.8%	32.4%
Net Margin	22.8%	15.3%	19.8%	19.4%	19.3%	19.6%	19.9%	20.0%	19.7%	19.3%	18.9%	18.6%
ROE	14.0%	10.1%	13.5%	13.2%	13.0%	13.1%	13.2%	13.3%	13.1%	12.9%	12.8%	12.9%
Financial Risk Ratios												
Debt-to-Equity Ratio	0.12	0.13	0.19	0.22	0.27	0.28	0.27	0.29	0.29	0.30	0.31	0.33
Total Debt-to-Assets Ratio	0.11	0.12	0.16	0.18	0.21	0.21	0.21	0.21	0.22	0.22	0.23	0.23
Interest Coverage	22.6	32.1	14.0	11.3	9.6	9.8	9.9	11.0	10.5	10.3	10.0	9.7
Du Pont Analysis												
Net Margin	22.8%	15.3%	19.8%	19.4%	19.3%	19.6%	19.9%	20.0%	19.7%	19.3%	18.9%	18.6%
Total Asset Turnover	0.50	0.53	0.53	0.51	0.49	0.48	0.48	0.48	0.47	0.47	0.48	0.48
Fin Leverage Multiplier	1.23	1.25	1.29	1.33	1.36	1.39	1.39	1.39	1.40	1.41	1.42	1.44
ROE = NM x TAT x FLM	14.0%	10.1%	13.5%	13.2%	13.0%	13.1%	13.2%	13.3%	13.1%	12.9%	12.8%	12.9%
Per Share Data, USD												
EPS	0.011	0.008	0.011	0.012	0.013	0.015	0.016	0.018	0.018	0.018	0.019	0.019
DPS	0.001	0.002	0.003	0.003	0.004	0.004	0.007	0.010	0.013	0.015	0.017	0.018
BPS	0.075	0.080	0.089	0.099	0.108	0.119	0.128	0.136	0.142	0.145	0.147	0.148

Exchange Rates, UAH/USD

	2002	2003	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E
Average exchange rate	5.33	5.33	5.34	5.35	5.35	5.35	5.35	5.35	5.35	5.35	5.35	5.35
Year-end exchange rate	5.33	5.33	5.35	5.35	5.35	5.35	5.35	5.35	5.35	5.35	5.35	5.35

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