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Nitrogen Fertilizers

You liked Dniproazot...
...you will love Stirol

Companies Covered:

Stirol	(STIR)
Azot Cherkasy	(AZOT)
Rivneazot	(RAZT)
Dniproazot	(DNAZ)
Azot Severodonestsk	
Odessa Portside	

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Ukrainian nitrogen fertilizer producers will continue reaping the benefits of high world prices for nitrogen products for at least another year, and local producers are planning to increase capacities and introduce gas-saving technologies. For STIR, even after the recent share price spurt, we see a 40% upside potential, and initiate coverage with a BUY recommendation. We consider DNAZ as being traded close to fair price at present and downgrade our recommendation to HOLD.

MARKET VIEW

Sales Boom In 2004. The Ukrainian nitrogen fertilizer industry posted a 32% increase in sales in 2004, due to high external market prices. We project that tight supply conditions worldwide on increasing demand from South-East Asia and South America will cause price growth in 2005. As the majority of new capacities start from late 2006, favorable conditions for producers will prevail in 2006. Afterwards, as capacities continue growing at a pace exceeding that of demand, we project prices for nitrogen fertilizers to go down smoothly to their 3-year average in 2007.

Output To Increase. Parallel to world trends, Dniproazot and Rivneazot are planning to restore previously mothballed ammonia capacities, and Stirol, Rivneazot and Azot Cherkasy will introduce new capacities in the near future. Stirol is planning to increase urea production 30% in 2005-07; Rivneazot will start construction of a urea workshop (500 mt capacity) in 2006. Cherkasy Azot elaborates on a program to increase ammonia capacities by 13% over 2006-2007 and augment urea capacities by 20% by the end of 2008.

Location, Location, Location. Low transportation costs give Ukrainian producers their main advantage, as producers are located close to Black Sea ports. Stirol and Azot Severodonetsk have a competitive cost advantage exporting ammonia as they are connected to the Togliatti-Odessa pipeline. Dniproazot plans to spend USD 16 mln to connect to the pipeline in 2006. Odessa Portside is located at Yuzhnyy port, and controls shipments of Ukrainian and Russian ammonia through the pipeline.

Gas Conflict Settled. We consider the recent agreement between Gazprom and Naftogaz positive news for the industry, as it has removed the potential threat of gas shortage. In the mid-term we project that gas prices will grow to USD 85 per 1000 m³ (currently USD 68).

Higher Gas Prices Will Lead To Greater Efficiency. Increasing gas prices will pressure Ukrainian producers into developing gas-saving technologies. The ammonia aggregates, which companies currently use, can be improved to save up to 7% of gas consumption.

The Future Of The Internal Market Is Cloudy. Domestic consumption, which is 13% of the total output, depends heavily on government support and is ten times less than it was in 1990. We expect the situation to improve in coming years and internal market demand to grow two-fold over the long-term.

INVESTMENT SUMMARY

Six Ukrainian companies produce nitrogen fertilizers:

- Stirol (STIR)
- Dniproazot (DNAZ)
- Azot Cherkasy (AZOT)
- Rivneazot (RAZT)
- Odessa Portside
- Azot Severodonetsk

The first two are actively traded, and STIR is among the most liquid of Ukrainian stocks. The liquidity of DNAZ has improved significantly since the beginning of 2005, after an additional share issue was placed among portfolio investors.

Company	Bloomberg	Liquidity	Current USD	12-mo DCF Price, USD	Multiples Implied Price, USD	12-mo Target, USD	Rec'
Stirol	STIR UZ	high	25.0	26.1	42-45	35.0	BUY
Dniproazot	DNAZ UZ	medium	0.0065	0.0053	0.010-0.011	0.006	HOLD

For both companies, implied prices obtained by DCF analysis are significantly lower than those suggested by peer comparison. Inspired by the 3 year continuous upward trend in the global fertilizer industry, the market is apparently ready to value fertilizer stocks at a premium. Our target for DNAZ is somewhat above the DCF-implied level. Stirol, in our opinion has more potential to surprise investors with new ideas, and most importantly, they know how to deliver clear messages to the market. We think that it is possible for this stock to bridge the undeserved 30% - 50% discount gap to Chinese and Indian peers, and set the target in the middle of the range implied by DCF and multiples analysis.

We are eagerly awaiting the privatization of Odessa Portside next year, which promises to become another Large CAP, potential blue chip. The company is still 100% state-owned. It has unique advantages over Ukrainian peers. Strategic positioning in Yuzhnyy port lowers logistics costs, and the company controls shipments of Russian and Ukrainian ammonia which come through the Togliatti-Odessa pipeline.

RAZT is not liquid, and AZOT (Cherkasy) trading at PFTS was just recently resumed after suspension due to a conflict between shareholders over the legitimacy of additional share issues.

CJSC Azot Severodonetsk was founded last year by Worldwide Chemical LLC (60%) and the State Property Fund (40%), based on the state-owned company Azot Severodonetsk. Meanwhile, the government would like to revert the deal and sell 100% of state-owned Azot Severodonetsk on tender, while Worldwide Chemical is defending their controlling ownership.

VALUATION

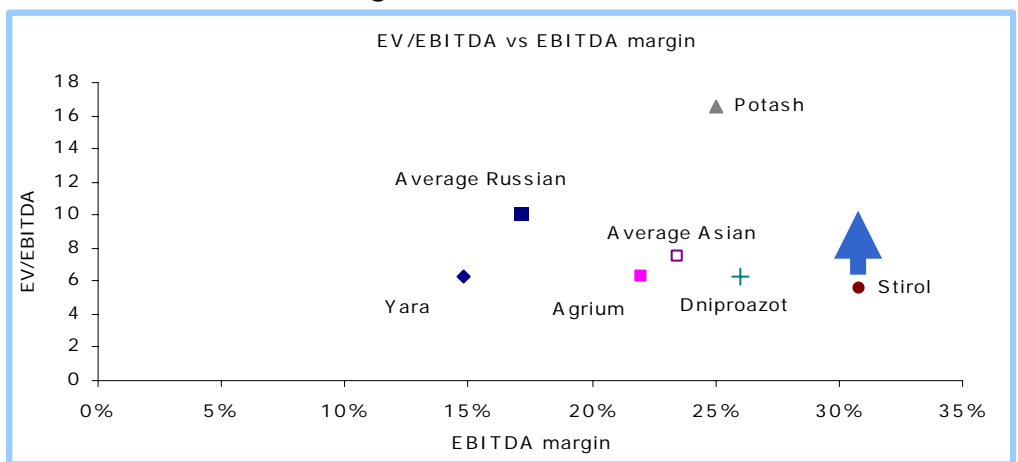
For valuation we use both DCF and peer comparison methods.

We chose three peer groups, based on their region of operation, to compare with Ukrainian companies: Russian producers; the combination of Canadian Agrium and Potash and Norwegian Yara; and a third comparison group consisting of Chinese and Indian companies.

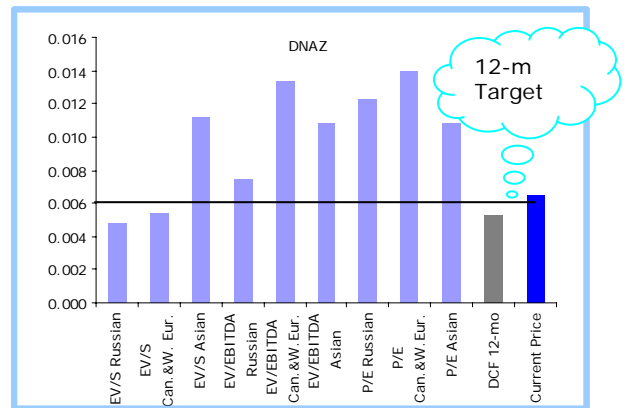
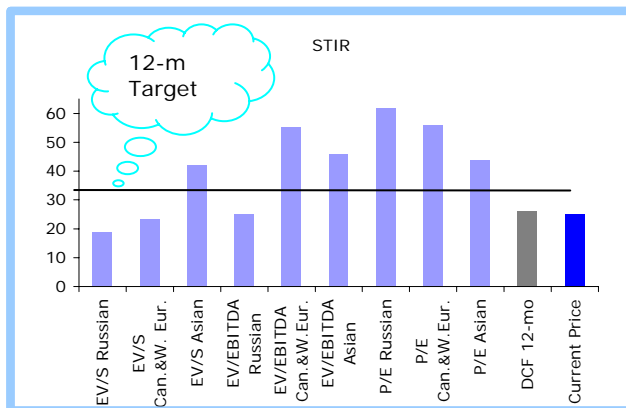
Comparing Ukrainian companies with their Russian peers is not reliable. In our opinion, the relatively low profit margins of Russian companies are due to their accounting policies, which are designed to show minimal profits. Thus, Russian P/E multiples are much higher than their global peers.

For both STIR and DNAZ, higher valuations **implied** by EV/EBITDA and P/E multiples compared to EV/Sales, are explained by higher margins of Ukraine's producers relative to peers from developed countries and Asia.

EV/EBITDA vs EBITDA Margin, 2004



Source: Bloomberg, company data



2004 data is presented for Russian companies, the rest is based on IBES projections for 2005.

Stirol currently trades below its fair value – and has a 40% upside. Dniproazot seems to have been appreciated by the market and is trading close to its fair value. Thus, we have initiated a BUY recommendation for STIR, and downgraded DNAZ to HOLD.

Peer Comparison

The Russians

	Sales		EBITDA Margin		Net Mgn		ROE
	2003	2004	2003	2004	2003	2004	2004
Dniproazot	126.7	156.0	25%	26%	13%	13%	3%
Stirol	245.4	353.0	25%	31%	14%	22%	10%
Rivneazot	59.3	102.1	-3%	10%	-12%	5%	2%
Odessa Portside	217.6	294.6	33%	38%	17%	20%	7%
Azot Severodonetsk	230.7	309.1	17%	23%	9%	13%	7%
Azot Cherkasy	232.7	232.8	5%	7%	0%	1%	1%
Avg Ukrainian			17.0%	22.4%	6.9%	12.4%	5.0%
Akron	360.0	365.0	16%	16%	3%	3%	9%
Azot Novomoskovsk	211.0	279.0	-3%	18%	-12%	3%	18%
Azot Nevynnomysk	162.4	267.0	18%	26%	1%	6%	9%
Azot Kemerovo	104.0	129.3	8%	7%	3%	6%	10%
Azot Perm	105.0	115.0	22%	19%	16%	14%	n/a
Avg Russian			12.0%	17.1%	2.0%	7.3%	10.0%
Median Russian			15.8%	17.6%	2.5%	5.9%	9.4%

	EV/S		EV/EBITDA		P/E	
	2003	2004	2003	2004	2003	2004
Dniproazot	2.0	1.6	8.0	6.3	13.8	11.4
Stirol	2.5	1.7	9.8	5.6	19.1	8.7
Akron	1.7	1.7	11.0	10.9	59.4	48.6
Azot Novomoskovsk	1.7	1.3	neg	7.1	neg	36.1
Azot Nevynnomysk	1.4	0.9	7.8	3.3	54.1	6.4
Azot Kemerovo	2.2	1.8	29.2	25.9	54.5	21.5
Azot Perm	0.8	0.7	3.6	3.7	2.6	2.7
Avg Russian	1.6	1.3	12.9	10.2	42.6	23.1
Median Russian	1.7	1.3	9.4	7.1	54.3	21.5
DNAZ Discount to average	28%	28%	-38%	-38%	-68%	-50%
DNAZ Discount to median	21%	30%	-15%	-12%	-75%	-47%
DNAZ implied target price@mean, USD	0.0048	0.0049	0.0109	0.0110	0.020	0.013
DNAZ implied target price@median, USD	0.0052	0.0048	0.0078	0.0075	0.026	0.012
STIR Discount to average	59%	36%	-25%	-45%	-55%	-62%
STIR Discount to median	50%	38%	3%	-21%	-65%	-60%
STIR implied target price@mean, USD	15.50	19.03	32.31	43.38	55.70	66.31
STIR implied target price@median, USD	16.33	18.83	23.10	25.00	70.93	61.88

Source: Company Data, Concorde Capital estimates

Canada and Western Europe

	Sales		EBITDA Margin		Net Margin		ROE
	2004	2005	2004	2005	2004	2005	2004
Dniproazot	156.0	204.0	26%	36%	13%	22%	3%
Stirol	353.0	502.0	31%	41%	22%	28%	10%
Agrium	3056.7	3197.0	22%	21%	9%	9%	34%
Potash	3125.8	3601.0	25%	32%	10%	17%	14%
Yara	6729.1	7258.6	15%	13%	9%	7%	37%
Group mean			21%	22%	9%	11%	28%
Group median			22%	21%	9%	9%	34%

	EV/S		EV/EBITDA		P/E	
	2004	2005	2004	2005	2004	2005
Dniproazot	1.6	1.2	6.3	3.4	11.4	5.1
Stirol	1.7	1.2	5.6	3.0	8.7	4.8
Agrium	1.1	1.0	5.0	5.0	11.0	10.9
Potash	4.1	3.6	16.5	11.2	37.4	20.1
Yara	0.9	0.9	6.2	6.7	9.4	10.2
Group mean	2.0	1.8	9.2	7.6	19.3	13.7
Group median	1.1	1.0	6.2	6.7	11.0	10.9
DNAZ Discount to average	-20%	-32%	-32%	-55%	-41%	-63%
DNAZ Discount to median	50%	20%	1%	-49%	4%	-53%
DNAZ implied target price@mean, USD	0.0084	0.0100	0.0099	0.0154	0.011	0.018
DNAZ implied target price@median, USD	0.0041	0.0054	0.0065	0.0134	0.006	0.014
STIR Discount to average	-16%	-34%	-39%	-61%	-55%	-65%
STIR Discount to median	59%	17%	-10%	-56%	-21%	-55%
STIR implied target price@mean, USD	29.18	26.31	39.60	62.21	55.40	70.81
STIR implied target price@median, USD	16.69	23.48	27.51	55.15	31.55	56.17

Source: Bloomberg, IBES estimates

China and India

	Sales		EBITDA Margin		Net Mgn		ROE
	2004	2005	2004	2005	2004	2005	2004
Dniproazot	156.0	204.0	26%	36%	13%	22%	3%
Stirol	353.0	502.0	31%	41%	22%	28%	10%
HEBEI CANGZHOU DAHUA CO-A	204.4	n/a	16%	n/a	5%	n/a	28%
YUNNAN YUNTIANHUA CO-A SHS	228.9	291.1	44%	47%	26%	26%	28%
SICHUAN MEIFENG CHEM INDUS-A	114.8	160.6	35%	29%	20%	20%	19%
LIAONING HUAJIN TONGDA CHE-A	204.1	n/a	23%	n/a	8%	n/a	10%
MANGALORE CHEMICALS & FERT	133.7	n/a	5%	n/a	2%	n/a	5%
CHAMBAL FERTILIZERS & CHEM	580.1	n/a	18%	n/a	3%	n/a	11%
Group mean			23%	38%	11%	23%	17%
Group median			21%	38%	7%	23%	15%

	EV/S		EV/EBITDA		P/E	
	2004	2005	2004	2005	2004	2005
Dniproazot	1.6	1.2	6.3	3.4	11.4	5.1
Stirol	1.7	1.2	5.6	3.0	8.7	4.8
HEBEI CANGZHOU DAHUA CO-A	0.9	n/a	5.5	n/a	12.7	n/a
YUNNAN YUNTIANHUA CO-A SHS	3.1	2.4	6.9	5.1	11.4	9.0
SICHUAN MEIFENG CHEM INDUS-A	2.4	1.7	6.8	5.9	11.4	8.1
LIAONING HUAJIN TONGDA CHE-A	2.6	n/a	11.3	n/a	23.6	n/a
MANGALORE CHEMICALS & FERT	0.4	n/a	8.1	n/a	13.4	n/a
CHAMBAL FERTILIZERS & CHEM	1.1	n/a	6.3	n/a	17.9	n/a
Group mean	1.7	2.0	7.5	5.5	15.1	8.5
Group median	1.7	2.0	6.8	5.5	13.1	8.5
DNAZ Discount to average	-6%	-39%	-16%	-37%	-24%	-40%
DNAZ Discount to median	-6%	-39%	-8%	-37%	-13%	-40%
DNAZ implied target price@mean, USD	0.0070	0.0112	0.0079	0.0109	0.009	0.011
DNAZ implied target price@median, USD	0.0070	0.0112	0.0137	0.0109	0.007	0.011
STIR Discount to average	0%	-41%	-25%	-46%	-42%	-43%
STIR Discount to median	-1%	-41%	-18%	-46%	-33%	-43%
STIR implied target price@mean, USD	25.09	42.01	32.43	45.96	43.32	43.90
STIR implied target price@median, USD	25.20	42.01	56.13	45.96	37.56	43.90

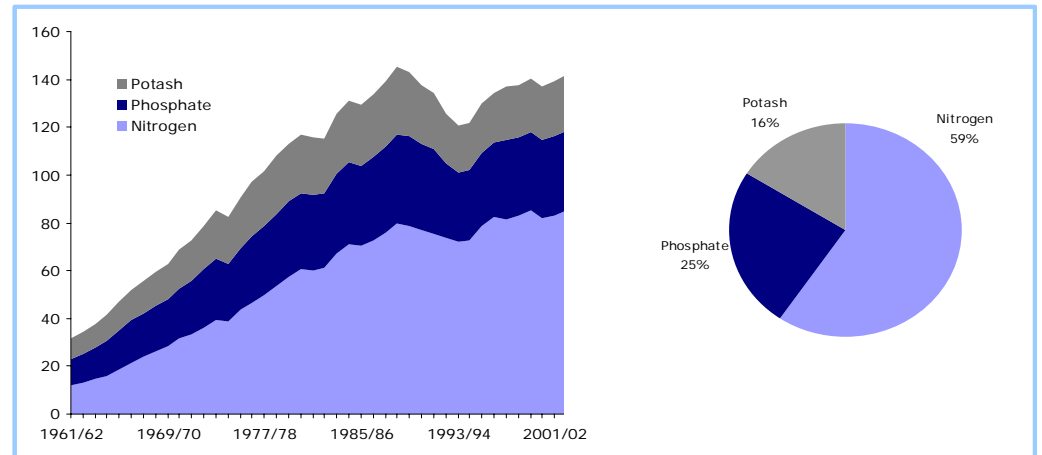
Source: Bloomberg, IBES estimates

PRODUCTS and MARKETS

Nitrogen: Everyone's Favorite

Nitrogen fertilizer is the most actively used type of fertilizer worldwide. While in the early 60's, nitrogen, phosphate and potash fertilizers were applied in proportion ~1:1:1, the former were growing at the highest pace. The tendency is still in place, as consumption of nitrogen in fertilizers posted the highest 10-year CAGR of 1.5%, compared to 0.7% of phosphate and 1.3% of potash.

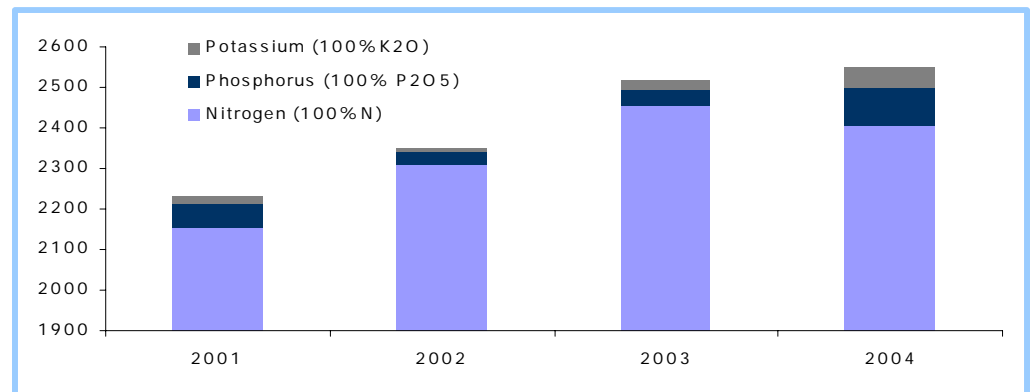
World consumption of fertilizers; 2004 breakdown (mln tons of nutrients)



Source: The International Fertilizer Industry Association (IFA)

Nitrogen fertilizers constitute 94.3% of the total amount of mineral fertilizers (measured in mt of nutrients), produced in Ukraine.

Ukraine's Fertilizer Output in 2004, `000 tons



Source: Industrial Policy Ministry

Product Types

Ammonium Nitrate (NH₄NO₃)

Contains 34.6% nitrogen and is the most effective nitrogen fertilizer. It can be used for all crops in all agricultural zones. It is produced in granules or scales.

The explosiveness of ammonium nitrate hurts its reputation. Its popularity among terrorist groups and the dangers involved in storing it have caused certain countries to ban imports of ammonium nitrate altogether. At the end of 2002 China and the Philippines forbid imports of this fertilizer. This caused world's consumption of ammonium nitrate to decrease at -1.3% 10-year CAGR, compared to 1.5% CAGR over the same period for overall consumption of nitrogen for fertilizer purposes.

To lower the danger involved in handling ammonium nitrate, it is necessary to add components which decrease its nitrogen content, and thus, its explosiveness. Rivneazot has been developing less explosive Ammonium Nitrate -- increasing its output of lime-ammonium nitrate more than 4-fold to 47.5K mt.

Production:

- Neutralization of nitric acid with gaseous ammonia:
 $NH_3 + HNO_3 = NH_4NO_3 + 144.9 \text{ kJoul}$
- Neutralization heat is used to evaporate the received ammonium nitrate solution.
- Granulation or crystallization
- Drying and cooling

Urea ((NH₂)₂CO)

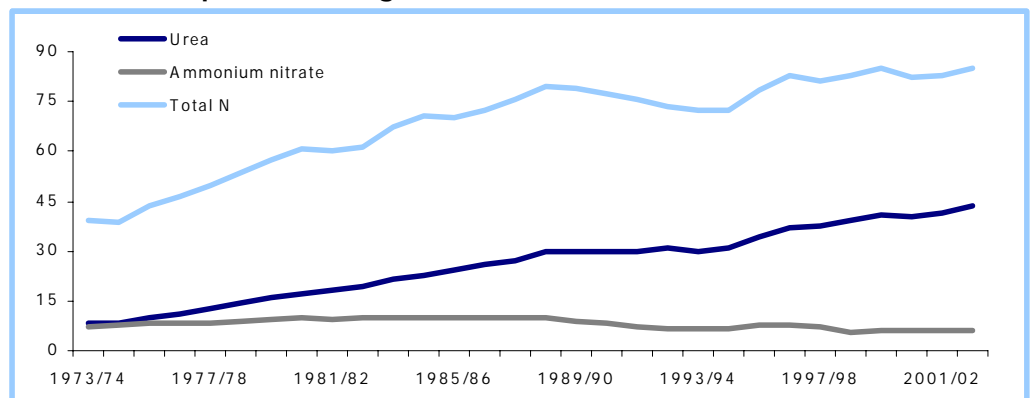
Contains 46% nitrogen. It is the most concentrated nitrogen fertilizer. It is produced in granules covered with oil.

The world's consumption of urea has grown the most compared to other types of nitrogen fertilizers, posting a 3.4% CAGR over the last 10 years.

Production:

- Synthesis of ammonium carbamate from ammonia and carbon dioxide (the latter is produced as a by-product from the ammonia plant reformer):
 $2NH_3 + CO_2 = NH_2COONH_4 + 125.6 \text{ kJoul}$
- Detachment of water, and turning it into urea:
 $NH_2COONH_4 = (NH_2)_2CO + H_2O - 15.5 \text{ kJoul}$
- Solution concentration by vacuum, crystallization, or evaporation to produce a melt
- Formation of solids by prilling (pelletizing liquid droplets) or granulating
- Coating of the solids
- Bagging or bulk loading

World consumption of nitrogen fertilizers, mln tons



Source: International Fertilizer Industry Association (IFA)

Urea and ammonium nitrate accounted for 97% of Ukraine's nitrogen fertilizer output in 2004.

Focusing On The Developing World

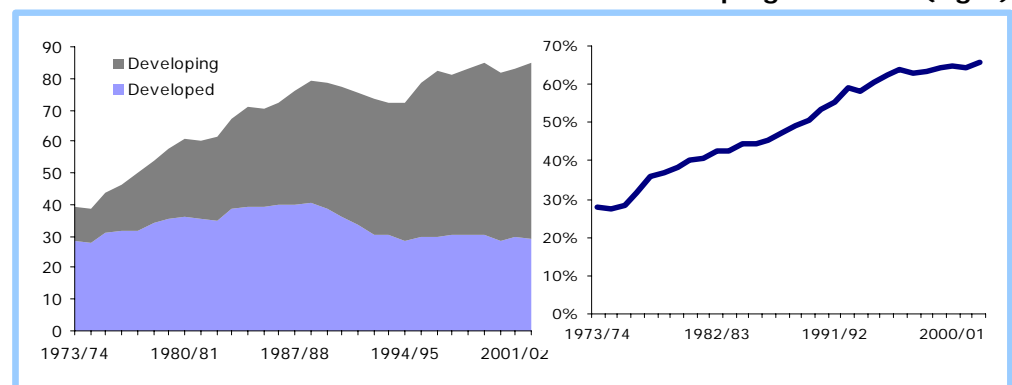
The world's demand for fertilizers is volatile, depending on weather conditions, which define the amount of crops grown, and thus – world prices for them. Moreover, as governments regulate agriculture all over the world, demand for fertilizers is also sensitive to their actions.

Since world demand for mineral fertilizers dropped by 3% (measured in nitrogen volume) during the 2000/01 planting/marketing years, it has grown by 1.2% and 2.5% in consecutive years, according to the data of United Nations Food and Agriculture Organization (FAO).

Demand for fertilizers will continue to grow, in parallel with the world's demand for food. The U.S. Census Bureau has said that by 2025 the world's population, currently estimated at 6.4 bln, will expand by 24%, and will reach 9.1 bln by 2050, a 45% increase.

While agricultural land only takes up about 10% of the Earth's surface, and is almost all in use, the need for agricultural products will grow. This suggests increasing usage of fertilizers. Not only will fertilizer be needed to improve productivity, but also to help maintain current production levels by compensating for the nutrients, taken out the soil by crops.

Consumption of nitrogen fertilizers, mln mt (left); Share of developing countries (right)



Source: International Fertilizer Industry Association

Developing countries now account for 66% of the total consumption of nitrogen fertilizers, while 30 years ago their share only was 28%. The saturation of the agricultural market in developed countries and their efficient use of the land has caused crop lands to decrease. In addition, developed countries to a larger extent enjoy benefits such as crops with improved yields, more advanced agricultural equipment and genetic modifications, which to some extent serve as substitutes for mineral fertilizers.

As developing countries will account for most of the population growth in the future, their demand for fertilizers can only be expected to grow.

China is the largest consumer of nitrogen fertilizers, accounting for 28% of the total consumption. It is followed by India and USA, each accounting for 13% of consumption.

China and India to large extent have fuelled the growth in demand for mineral fertilizers. These two countries' level of total consumption grew from 4% in 1961/63 to 38% in 1997/99, and is projected to reach 40% by 2030.

According to Phosphate Institute of Canada, China has potential to add 8 mn mt of nitrogen, and India – 15mn mt. Together with African and other Asian countries the world can increase its consumption of nitrogen by 35-40mn mt, which is ~40-50% of the current usage level.

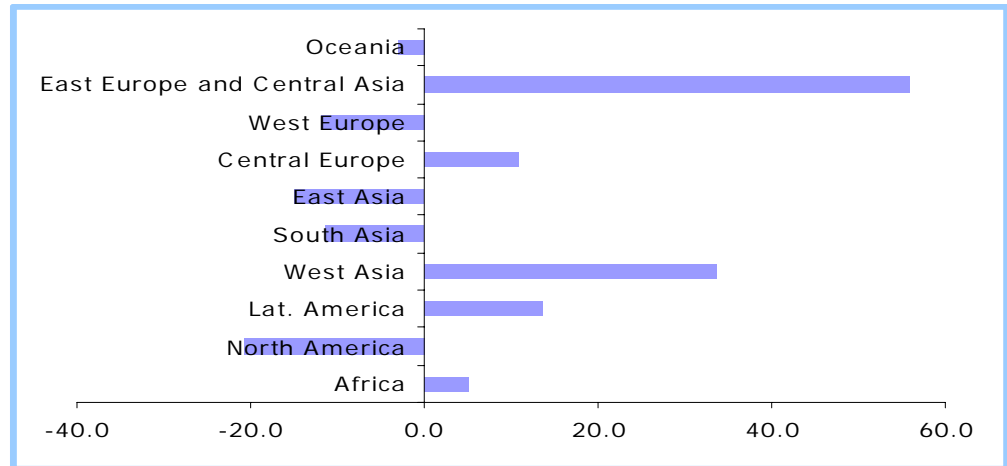
The gap between production and consumption of nitrogen fertilizers will decrease in China, as it develops new capacities, eventually turning the country into a net exporter.

In the short-term, China's potential influence on world prices is minimized by the fact that the government sets exports tariffs (valid until Sept 2005) to promote internal usage of urea for more efficient agriculture.

The production of mineral fertilizers is also shifting to the developing world, where raw materials and labor are cheaper.

USA is projected to remain the largest net importer of nitrogen fertilizers in future, as production there has fallen significantly, while domestic consumption is increasing. Other top importers of nitrogen fertilizers are South Asia and Western Europe.

Net exporters/importers of nitrogen fertilizers in 2004-09



Source: FAO

Ukraine: Fertilizing the World

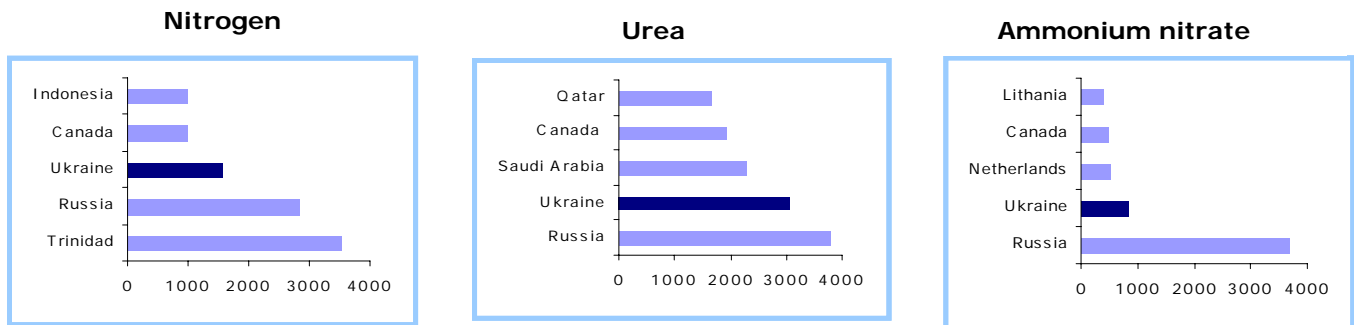
For the last three years Ukrainian nitrogen fertilizer producers have benefited from high world prices. This caused a significant increase in monetary export inflows at practically unchanged output volumes.

Ammonia and nitrogen fertilizers make up over 30% of the chemical output in the country, and 44% of Ukraine's exports. This is mainly due to the rapid growth in this segment: the chemical industry was one of the growth leaders in the economy posting a 14.4% increase last year, and 14.2% yoy in Q105.

The turning point for Ukraine's nitrogen fertilizer industry was the beginning of the 1990^s. After the breakup of the Soviet Union, the collapse of local agriculture brought about a precipitous drop in demand for fertilizers. By the end of the decade, the amount of fertilizers used in Ukraine was 90% lower than in 1990, and fertilized cropland decreased by 80%.

Ukrainian fertilizer producers had to re-orient themselves to external markets, exploiting their main competitive advantages: relatively cheap price for natural gas and geographical proximity to Black Sea ports. Presently Ukraine is one of the world's major exporters of ammonia, urea and ammonium nitrate.

World's largest nitrogen exporters, '000 product mt, average 2000-02



Source: EFMA, Fertecon

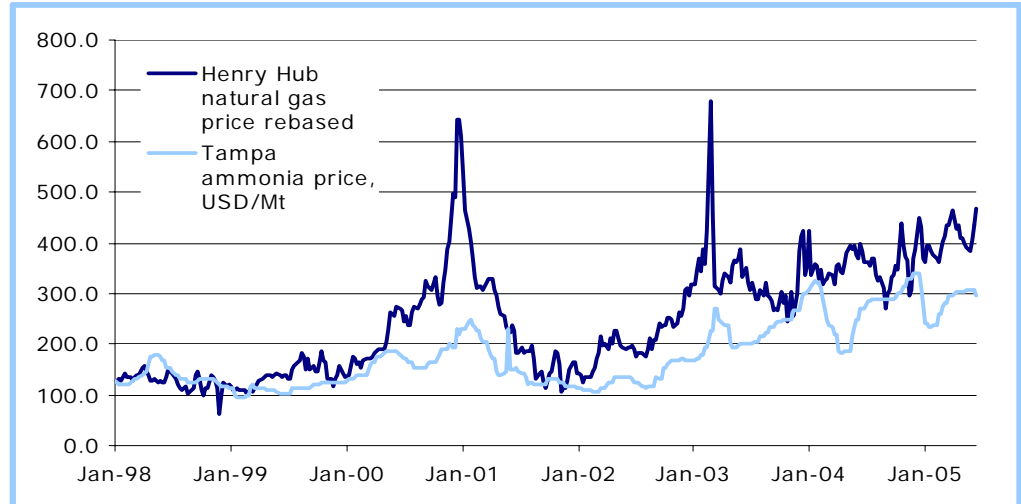
Nearly 80-85% of the mineral fertilizers produced in Ukraine are exported, making the industry highly dependent on external markets.

PRICES AND COSTS

Gas-Driven Prices

World prices for ammonia and nitrogen fertilizers are cost-driven rather than demand-driven. They are defined by two major factors: the price for natural gas in the USA, and opening new capacities, planned all over the world, including the Middle East, China, India, Trinidad and Tobago.

US natural gas and ammonia price dynamics



Source: Bloomberg

Natural gas prices in the US create a floor for nitrogen fertilizers pricing globally. The country possesses the largest nitrogen fertilizer capacities in the world, and can influence the world's supply by opening or mothballing them, depending on internal gas prices. Correlation is 77.4% and 73.9% respectively between the Henry Hub natural gas price and the ammonia prices in Tampa and Yuzhnyy in 1998-2005.

Gas prices in the USA have grown dramatically the last several years: from USD 2.1/mmBTU on average in 1998 to USD 5.8 in 2004, and reached USD 7.8 in mid-July (Henry Hub spot). This growth is due to increasing demand, from both power stations and households, combined with decreasing domestic output. In addition, the bullish oil market has also caused gas prices to rise.

Soaring gas prices have caused about 40-50% of the ammonia capacities in the USA to be shut down. This triggered an increase in the use of nitrogen fertilizer capacities throughout the world by 8% since 2002 – to above 85% of total installed globally - global nitrogen markets hit a scarcity level.

As no significant decrease is expected in U.S. gas prices in the near future, it is unlikely that mothballed fertilizer plants will be reopened. In the long-term, if natural gas prices fall, the production reopened in the US, together with the new capacity additions in the developing world, would start depressing nitrogen fertilizer prices.

Supply-demand projections for nitrogen fertilizers from different sources differ due to lack of reliable data, high uncertainty of demand due to dependence of the demand on government's support for agriculture (e.g. in China), different estimates of timing for the new capacities to be put in place, and their amounts.

Fertecon forecasts that at least by 2008 favorable conditions for producers of nitrogens will persist at world markets, as growth in demand (projected at 3.5% annually in 2005-08 on average) will be balanced during the mentioned period with slightly lower increase in production capacities (CAGR 3.1%).

Urea demand growth, projected by Fertecon goes in line with the 10-year average growth of the demand for this product in 1993-2003, but is higher than 2.9% CAGR posted in the second half of this period.

Global Urea Capacity Growth Forecast*

	Growth	Driving regions
2004	2.3%	China 61% Qatar 17%
2005	2.8%	China 51% Oman 21%
2006	5.4%	China 53% Iran 20%
2007	3.1%	Egypt 31% China 31%
2008	2.0%	Oman 29% China 23%

Source: Fertecon. *Excluding possible closures

At the same time, the International Fertilizer Industry Association (IFA) projects demand for urea to grow by 1.8% on average in 2005-09 – significantly below than average increase in urea capacities, expected to reach 3.4% on average during this period. IFA expects surplus at the world market for nitrogen fertilizers to start growing since 2006, on the assumption that the projected capacities will be launched at the times, planned.

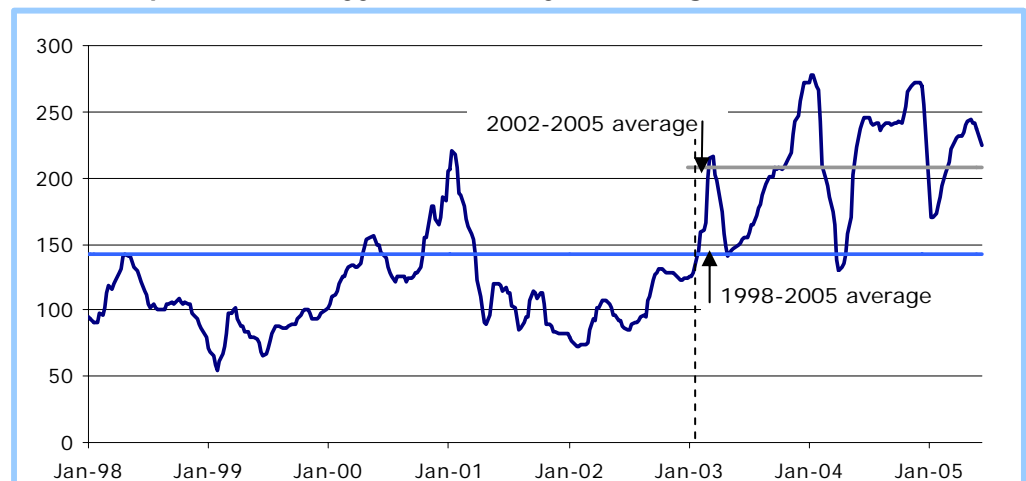
Global Nitrogen Supply/Demand Balance

<i>mln mt N</i>	2005	2007	2009
Nitrogen fertilizer demand	98.1	100.7	103.6
Nitrogen/ammonia supply capability	119.9	122.7	134.6
Global nitrogen balance	+1.4	+6.0	+7.4

<i>mln mt Urea</i>	2005	2007	2009
Urea demand	113.8	118.3	122.3
Urea supply	131.5	141.8	150.6
Global urea balance	+5.6	+9.9	+13.3

Source: IFA

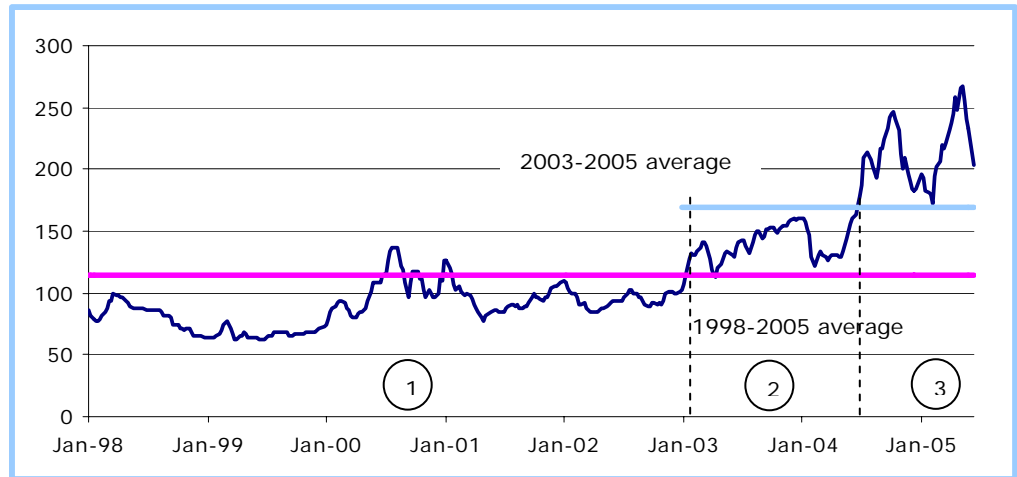
In our model we assume growth in capacities to outpace increase in demand starting from 2007. This will bring downward pressure on the prices and producers' margins.

Ammonia price at Yuzhnyy vs 7- and 3-year average, USD/mt


Source: Bloomberg

Ammonia prices have gone through two major stages in the last eight years. From 1998 to 2002 prices averaged USD 111/mt, in the course of 2003-2005, the price grew to an average of USD 207.

Bullish trend is expected to continue in 2005. We expect the average ammonia price at Yuzhnyy to reach USD 240 in 2005. In the long-term, we expect that further increases in U.S. gas prices will be compensated by new capacities opening worldwide, and ammonia prices will stay somewhere around USD 210/mt.

Urea price at Yuzhnyy vs 7- and 3-year average


Source: Bloomberg

There have been significant long-term changes in world urea market: from 1998 through 2002 prices fluctuated around USD 100/mt level (1), in the course of 2003-2004 the new stable zone moved to ~USD 140 (2). Since mid-2004 prices have been around USD 200/mt. We expect the average price for urea to be USD 210 in 2005, stabilizing eventually at around USD 165/mt.

Costs: Regional Differences

Competitive position in the output of nitrogen fertilizers is defined by the following factors:

- The cost of ammonia output
- The cost of fertilizer production
- Transportation costs
- Environmental costs

Cost characteristics for major regions of the world

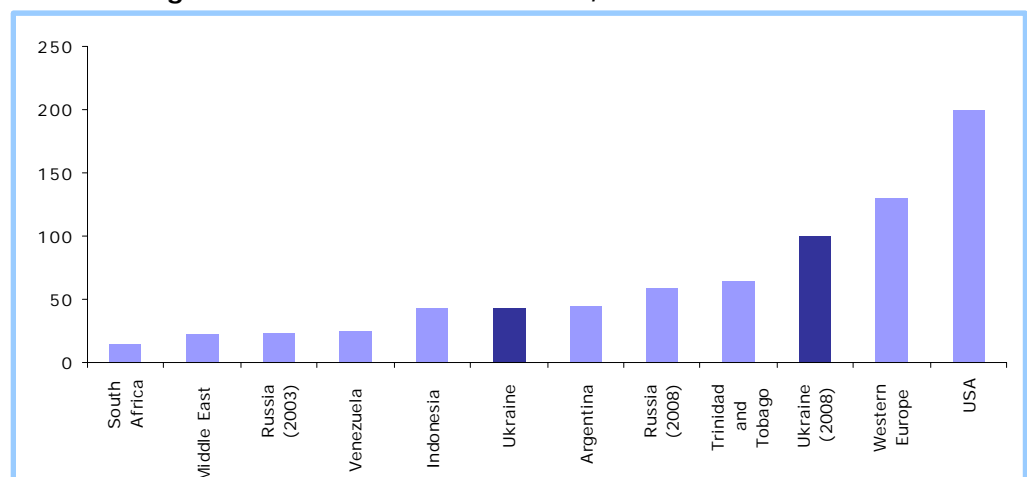
	EU	China	Russia	CIS	USA	Middle East	Ukraine
Technology	Modern mainly natural gas	many small plants	need to revamp	need to revamp	modern	modern	need to revamp
Input		mainly coal lack of cheap energy	natural gas	mainly natural gas	natural gas	natural gas	natural gas
Energy costs	medium		low	high/medium	high	very low	high/medium
Energy efficiency CO₂ output/unit N	high	low	low	medium	high	high	low
Logistics Proximity to markets	advanced	very high transportation problems	high inefficient; few ports	less advanced close to medium	advanced	advanced	high less advanced
	close	close	distant		close	distant	close

Source: EFMA, Yara, Concorde Capital Estimates

Gas - The Major Input

Natural gas is the most important component in ammonia production. In Ukraine it accounts for about 73% of production costs.

The cost of gas for industrial users in 2003, USD/m³



Source: Fertecon, Gazprom, Russian Ministry of Economic Development

Russian producers benefit from low prices for natural gas (USD 32/m³ in 2004). The prices are regulated by the State tariff service. As Russia intends to enter the WTO, the gas price target is USD 59/m³ by 2008, which will raise production costs for Russian producers closer to their foreign counterparts, and diminish their competitive advantage.

Ukraine's Gas Curse

Ukraine consumed 70 bln m3 of gas in 2004. This figure includes 19.5 bln m3 extracted domestically, 29 bln delivered by Russia's Gazprom as payment for the transit of Russian gas to Europe, and 21.5 bln from Turkmenistan.

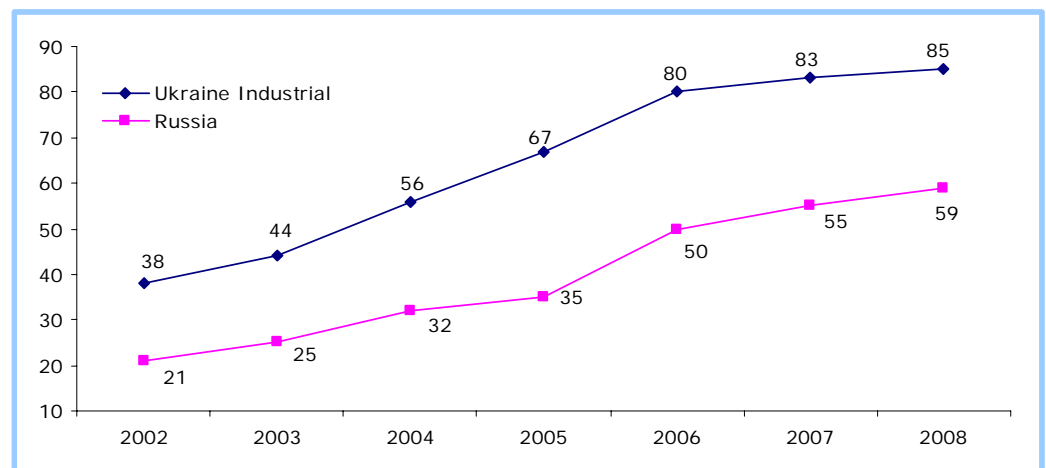
In 2005 Ukraine will receive 36 bln m3 of gas from Turkmenistan. Starting from July 1, Turkmenistan agreed to decrease gas prices for Ukraine from USD 58 to USD 44. In return Ukraine will now pay for gas in cash, instead of barter payments, as was done in the past. Starting from 2007 Ukraine intends to buy 60 bln m3 of Turkmen gas annually.

The current gas price for industrial users, regulated by the National Committee for Energy Regulation is about USD 67/m3, but Naftogaz, which not only extract gas in Ukraine but also make foreign purchases, wants to increase the price, claiming that the current price does not offset production and delivery costs.

Ukraine's gas-intensive industries were shaken in June by Russia's threats to raise gas prices for Ukraine to European-levels (USD 160 vs. current USD 50 per 1000 m3) in 2006. Gazprom also demanded that all settlements be made in cash instead of barter.

Negotiations between Gazprom and Ukraine's Naftogaz cancelled the threat of immediate significant rise in price. In the mid-term we believe that gas prices will increase to USD 85/1000m3.

Ukraine vs Russia Natural Gas Prices, USD/1000 m3, w/o VAT



Source: EFMA, Gazprom, Concorde Capital Estimates

Transportation

Most Russian nitrogen fertilizer producers were built during the Soviet era and were only intended to satisfy internal demand. Therefore, they are located far from major ports. For this reason they pay higher transportation costs than Ukrainian companies, which are located much closer to Black Sea ports.

Additional transportation costs for Russian ammonia producers (mainly, Togliattiazot, which exports 80% of Russia's ammonia) include a transit tariff charged by Ukraine for usage of the Ukrainian section (804 km) of the Togliatti-Odesa ammonia pipeline. The tariff is set at USD 2/mt of ammonia per 100 km – i.e. USD 16.08/mt from the Ukrainian border to Yuzhnyy port. At prices ranging from USD 235 to 297/mt of ammonia at Yuzhnyy in January-April 2005, extra transportation costs made up 5.4 to 6.8% of the price.

Stirol and Azot Severodonetsk are connected to the 'Togliatti-Odesa', which is cheaper than railway transportation. In 2005-06, another Dniproazot will invest USD 16 mln to connect to the ammonia pipeline. The estimated length of the branch is 61 km and it will increase the line's carrying capacity by 12-15%. Starting in 3Q06 Dniproazot intends to transport 550 ths annually through the ammonium pipeline. The additional emission of shares in January, 2004 for USD 66 mln is to be spent on this project and on the restoration of an abandoned ammonium aggregate with 450 ths tons of capacity.

Russia will also liberalize its low domestic railroad transportation tariffs due to European pressure. According to the EFMA, in 2003 rail transport tariffs per 1,100 miles were: Russian domestic: USD 18/short ton (st), Canadian: USD 34/sT and EU: USD 56/sT. The EFMA states that most Russian fertilizer plants are located at considerable distances from primary ports and therefore are subsidized by the government. Russia will abolish these subsidies in the course of its WTO accession.

Ukrainian producers experienced an increase in railway transportation costs on April 1, 2005, as Ukrzaliznytsya, the state-owned railway monopoly complained that the previous tariffs did not cover its costs. The cost of transporting ammonia by rail grew by 50%, for exported urea, it grew by 48.4% and for other exported nitrogen fertilizers, by 35.8%. The transportation of nitrogen fertilizers inside the country has become 50% more expensive.

Thus, the future profit margins of Ukrainian fertilizer producers will be squeezed by increasing prices for natural gas on the one side, and stabilizing world prices for nitrogen fertilizers, on the other.

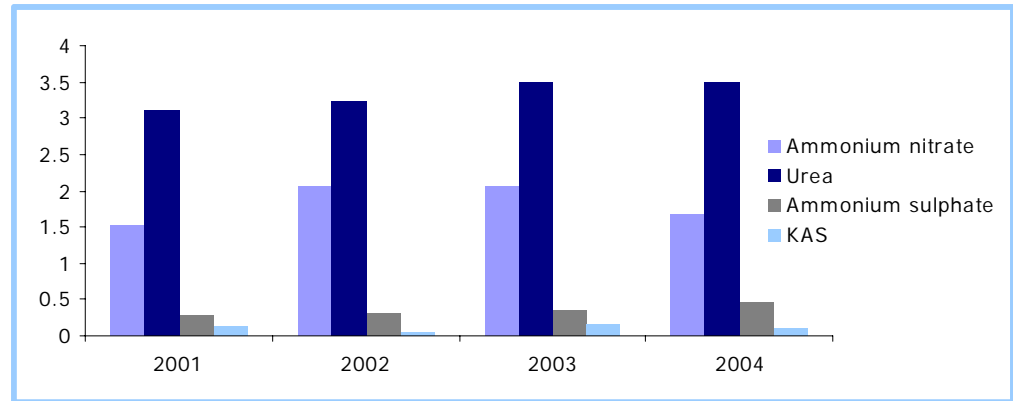
One possible way to lessen the effects of these price pressures is to increase production efficiency. Presently in terms of natural gas and consumed energy for processing, Ukrainian efficiency is much lower than in the USA and Western Europe. While ammonia aggregates, installed at plants in Western Europe and the USA consume 800-900 m³ of gas/mt of ammonia, for Ukraine this number reaches 1100-1250/m³. Most Ukrainian aggregates are about 20 years old. Their improvement can decrease gas consumption by as much as 7%, and most Ukrainian producers have already started implementation of the relevant programs.

UKRAINE

Local Output: Major Capacity Increases Ahead

Output of urea in Ukraine has been relatively stable for the last few years, while the production of ammonium nitrate decreased by 18.3% in 2004. Exports of ammonium nitrate decreased by 41%. At the same time, a significantly larger amount was directed to the internal market. 95% of ammonium nitrate consumed in Ukraine in 2004 had domestic origin.

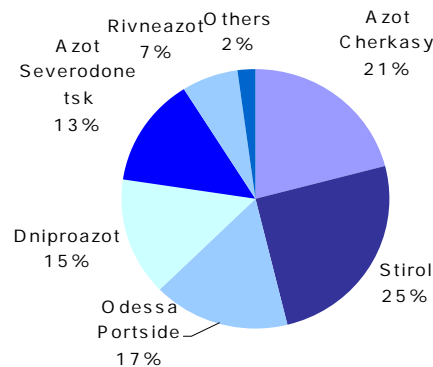
Ukraine's output of nitrogen fertilizers, mln mt



Source: Ministry of Industrial Policy

Ammonia, synthesized from natural gas, is the main component of nitrogen fertilizer. Ukraine's producers of urea and ammonium nitrate possess their own ammonia capacities to satisfy their production needs. Part of the output (50-55% on average), which is not used in the production of fertilizer, is exported. A small amount of ammonia is imported during peak seasons, when the government pressures producers to meet the demands of farmers during sowing campaign.

Major Ukrainian producers of nitrogen fertilizers



Source: Industrial Policy Ministry

Stirol, Azot Severodonetsk and Azot Cherkasy possess capacities to produce both urea and ammonium nitrate. Dniproazot and Odesa Portside only produce urea. While Rivneazot produces ammonium nitrate, and plans to start production of urea, having invested USD 100-120 mln into the project.

Output of ammonia and nitrogen fertilizers in 2004, '000 mt

	Ammonia	Urea	Ammonium nitrate
Stirol	1,260.6	875.2	498.5
Dniproazot	505.4	743.7	0
Odesa portside	1,037.9	836.3	0
Azot Severodonetsk	880.8	346.7	432.9
Azot Cherkasy	823.9	680.5	367.6
Rivneazot	284.6	0	378.4
Total	4,793.20	3,482.40	1,677.40

Output of ammonia was relatively stable in 2004, posting a slight yoy increase of 0.2% - to 4.8 mln tons. The drop in ammonia output at Azot Severodonetsk was

due to the fact that the company underwent a major reconstruction of its ammonia capacities, in 2004.

Ammonia Output 2004 yoy Changes

Stirol	9.8%
Rivneazot	8.6%
Dniproazot	1.0%
Odessa Portside	0.3%
Azot Severodonetsk	-9.7%
Azot Cherkasy	-4.5%

Source: Ministry of Industrial policy

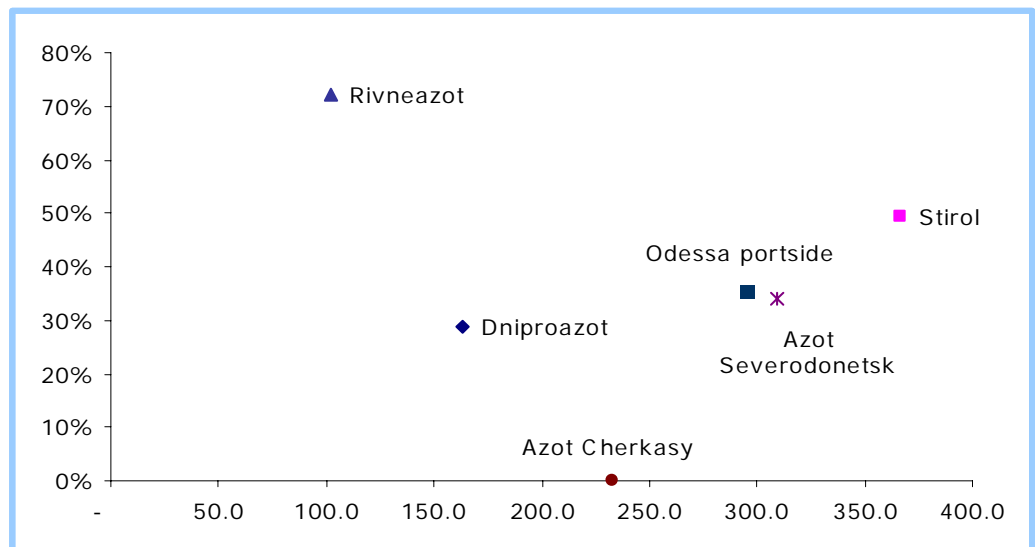
Favorable conditions on the world market caused sales to increase for all of Ukraine's major nitrogen fertilizer producers – from 0.1% by Azot Cherkasy to 72%, posted by Rivneazot. Capacity was the main constraint for the sales increase in 2004.

In an effort to take advantage of high world prices, Ukrainian producers loaded capacities to above their projected level in 2004. Urea capacities were functioning at 105-108% in 2004. Ammonia on the other hand operated at only 77%, as some ammonia aggregates had previously been mothballed, and still have not been completely restored. The overall capacity load at some enterprises overshot 90%, reaching 98% at Azot Severodonetsk, and 94% at Azot Cherkasy.

Some Ukrainian companies decided to increase production capacities by restoring previously abandoned aggregates. Dniproazot plans to reopen a 450 ths mt/year ammonia aggregate that has not been used since 1997. At the same time, Dniproazot is investing in the development of its ammonia transportation capacity, as it plans to finance construction for a new branch of the Togliatti-Odessa ammonia to Dniprodzerzhynsk to transport 550 ths mt/year. This will allow it to decrease transportation costs from USD 12 to 7-8 per mt.

Rivneazot also intends to restore an ammonium aggregate, which has been closed since 1997.

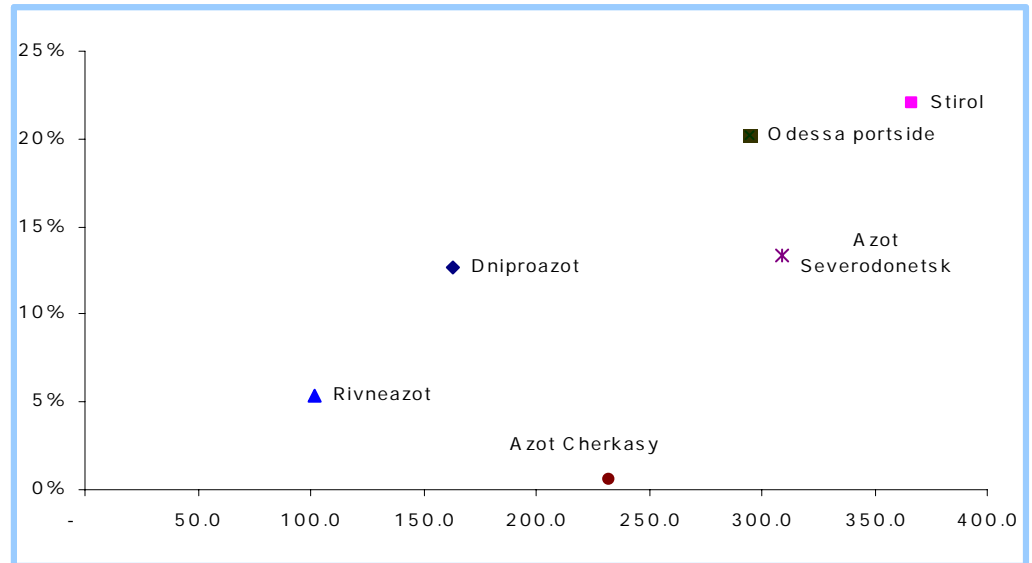
Sales vs growth in 2004



Source: Companies' data

Net margins increased last year, ranging from a manipulated 0.4% (Azot Cherkasy) to 17.0% (Rivneazot), while Dniproazot's net margin posted a slight decline of 0.4. This was mainly due to a significant increase in SG&A, which equaled 18% of DNAZ' net revenues in 2004 (12% industry average).

Sales vs net margins in 2004



Source: Companies' data

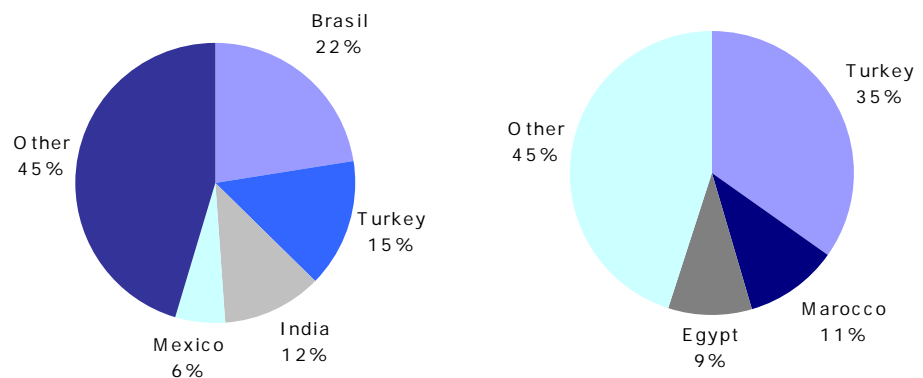
Diversified Export Destinations

Turkey and Brazil are major buyers of Ukrainian nitrogen fertilizers, having imported them for USD 138.1 mln and USD 134.4 mln respectively in 2004.

The USA is one of the largest buyers of Ukrainian ammonia. However, it protects itself with an antidumping tariff from Ukrainian imports of urea – a more value-added product. In March 2003, the country stopped investigation concerning Ukraine's exports of urea-ammonia mixes.

The EU imposed an antidumping tariff on imports of ammonium nitrate from Ukraine. To avoid antidumping sanctions, Ukrainian government sets indicative prices – i.e. minimum export prices for the companies or traders, which actually define, at what price exports will be made.

Ukraine's urea (left) and ammonium nitrate export breakdown



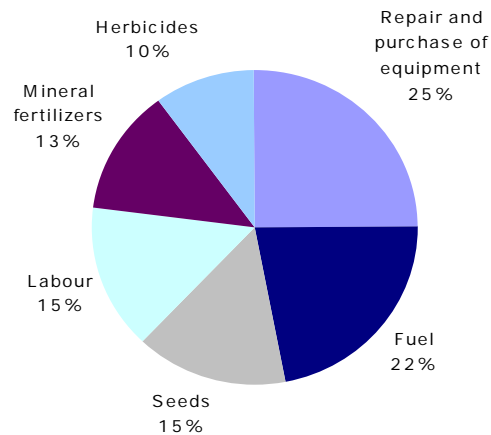
Source: State Statistics Committee

Domestic Demand: An Uncertain Market

Ukrainian demand for mineral fertilizers at present is totally dependent on government support, and growth perspectives are vague.

Total expenses of Ukrainian agricultural sector for the yearly sowing campaign are estimated at USD 1.7 – 2.1 bln. Expenditures for fertilizers (USD 0.2-0.3 mln out of the total) are of a residual nature, as farmers tend to spend money for fuel and seeds first.

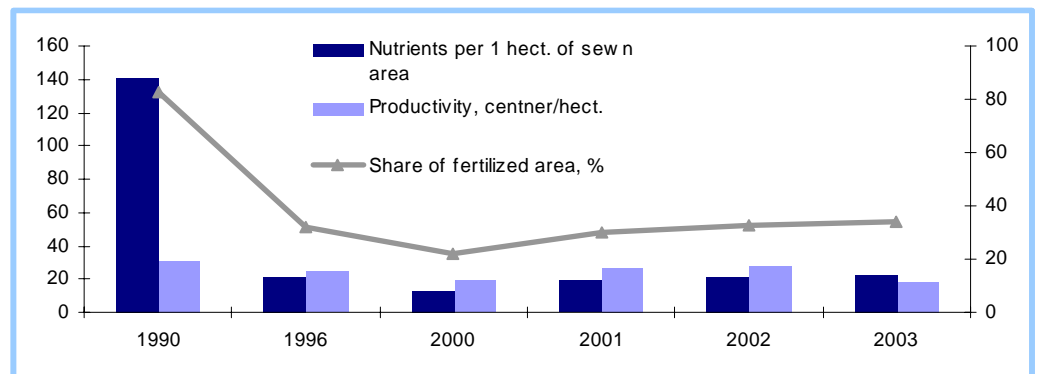
Sowing Costs



Source: Agricultural Ministry

The use of fertilizers in Ukraine dropped more than 91% between 1990 and 2003. Fertilized cropland decreased by 77% during the same period. Grain-growing productivity to decline by 42%.

Usage of fertilizers in Ukraine and grain production efficiency



Source: State Statistics Committee

Intervention by the government at peak seasons (like early spring), when farmers require support, makes domestic demand unstable - producers of mineral fertilizers have to work above designed capacities.

The instability of demand in Ukraine is caused by the absence of a system, which would allow the purchase and accumulation of fertilizers during off-peak seasons – similar to the one existing in European countries, where a large number of distributors own storage facilities, purchase mineral fertilizers at off-peak seasons, store them, and according to futures contracts, deliver them to customers.

Government interventions come in two forms: 1 – export limitations to ensure sufficient domestic supply and 2 - setting internal prices & delivery amounts for each enterprise to the internal market.

This year the government used both. Starting from April 22 it banned exports of ammonium nitrate until agreed domestic minimum quantities were delivered at agreed price limits.

Government regulations for Ammonium Nitrate

	Price, USD/mt	Amount, ` 000 mt
2004	110	820
2005	165	780

The government's policy resulted in significant decrease in exports of mineral fertilizers – from 511 ths mt in March to 98 ths mt in April.

Among Nitrogen fertilizers, ammonium nitrate is the most commonly used internally. Urea is bought if its price is relatively low, or if there is an ammonium nitrate deficit on the internal market.

Internal consumption of urea and ammonium nitrate

	Urea, ` 000 mt	Ammonium nitrate, ` 000 mt
2002	150.4	1048.0
2003	226.3	643.3
2004	87.3	795.0
2005E	80-90	500-600
Long-term projections	150-200	1200-1300

Source: *Derzhzovnishinform*

In the long-term, as agrarians gain more access to loans to increase working capital, internal consumption of fertilizers may grow twofold.

UKRAINIAN MARKET PLAYERS

Major Ukrainian groups, active in the segment, include Privat, Ukrsibbank and Finance & Credit. None have managed to gain control over more than one nitrogen producer, but all have other assets in the chemical industry.

Major owners of nitrogen fertilizer producers

<p>Privat</p>	<p>Companies affiliated with Privat own 84.4% of Dniproazot. Other group assets in the chemical industry include 65.62% stake in Lysychansk Soda, the second-largest soda producer in the country</p>
<p>Ukrsibbank</p>	<p>Companies affiliated with Ukrsibbank own 71.7% of Azot Cherkasy (the remaining shares belong to Peartman Enterprises (12%), and Kliringovyy dim (16.6%). The group also owns 76.01% of the country's largest tire producer Dniproshyna, and two man-made firber producers Cherkasy and Chernigiv</p>
<p>Finance & Credit</p>	<p>Owns a 24% stake in Rivneazot. Its other assets in the chemical industry include the tire-maker Valsa, Stakhanovsky technical carbon plant and Kremenchug technical carbon plant</p>
<p>Raiffeisen Investment</p>	<p>Companies Affiliated with Raiffeisen Investment own 53.9% of Rivneazot</p>

Stirol is controlled by the company's management.

Azot Severodonetsk CJSC was formed by Worlwide Chemical LLC which owns 60% and The State Property Fund. Nearly 85% of Worldwide Chemical is controlled by Alex Rovt, founder of the IBE Trade chemical company, 15% by Rossoshansk Mineral Fertilizers (Russia), which is also connected to IBE Trade.

Corporate conflicts, involving the state authorities as well, are common in the segment. At Azot Cherkasy a conflict between the major and minor shareholders was resolved just recently. The legality of the formation of Azot Severodonetsk is being considered by courts, and there have been alligations that the State Property Fund intends to re-privatize Rivneazot.

COMPANY PROFILES

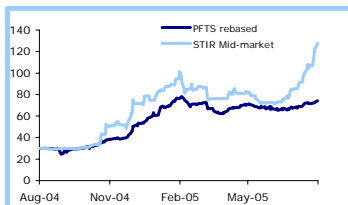
BUY

Stirol

Aug 08, 2005 USD 25.0

12 m target USD 35.0

STIR, UAH



Market Information

Bloomberg	STIR UZ
No of Shares, mln	27.1
Market price, USD	25.0
MCap, USD mln	678
Free float	6%

Stock Ownership

Stirolkhinvest	82.1%
Other STIR-related	11.0%
Other	6.9%

Ratios, 2004

EBITDA Margin	30.9%
Net Margin	22.0%

We believe that the fundamental attractiveness of the company has not been fully captured in the market price. Though our operating model incorporates Stirol losing its outstanding ability to buy the gas cheaply, DCF valuation still results in a fair price above current market. The company's strategic position on the Togliatti-Odessa ammonia pipe-line is a vested competitive edge against Russian producers to save on transportation costs. Stirol optimizes their capital structure through international debt markets: a 30% increase in urea production will be financed by Eurobonds. We watch for the way STIR will invest the immense cash reserves they have accumulated. Returns from the expected acquisition must significantly improve the deployment of 28% of non-operational total assets which now earn only a nominal rate. We initiate coverage with a BUY recommendation

The most diversified producer of nitrogen. In addition to being the largest producer of ammonia and nitrogen fertilizers in the country, STIR derives about 20% of its sales from organic products, polystyrenes, pharmaceuticals, resins, glues, etc. This mitigates the company's exposure to the cyclicity of the nitrogen fertilizer market.

Cheap gas. The company's major competitive advantage is the ability of its shareholders to negotiate purchases of natural gas at wholesale prices, estimated to have been about 18% lower in 2004 than that for other Ukrainian producers. We do not consider this sustainable and in our operating model foresee a gradual increase in gas to USD85/m³ – identical to typical industrial buyers in the mid-term.

Highest profit margins. Stirol posts the highest profit margins among its Ukrainian peers. Its margins are even compatible to those of Odessa Portside, which possesses newer equipment and saves on transportation costs due to its positioning at Yuzhnyy port. Also connected to the Togliatti-Yuzhnyy ammonia pipeline, Stirol has ammonia transportation advantages relative to Russian and Ukrainian peers, who have to use railcars for transporting ammonia.

Optimizing capital structure. Sound financial standing, transparent financial reporting (including a Big-4 audit) and investor-friendly top management allows the company to borrow cheaply in external markets. In July, Stirol placed Eurobonds for USD 125mn at 7.8%. D/E ratio reached 0.44 in 2005, against 0.07 for Dniproazot. The funds, attracted with Eurobonds, will be used in a USD 150mn investment programme planned for 2005-2007, which will ensure a 30% increase in urea output to 1'105K mt/year.

KEY FINANCIAL DATA, USD mln

	Net Revenues	EBITDA	Net Income
2004	352.7	108.8	77.5
2005E	502.4	206.6	140.2
2006E	520.8	186.1	118.4

Spot Exch. Rate 5.0

KEY RATIOS

	EV/S	EV/EBITDA	P/E
2004	1.7	5.6	8.8
2005E	1.2	3.0	4.8
2006E	1.2	3.3	5.7

Acquisition plans. In parallel to extensive borrowing, STIR is looking to invest its significant cash reserves, 28% of the total assets by the end of 2004. The company's management confirmed that they are looking for a target to acquire. Industry experts surmise that Stirol probably is looking at assets outside chemical or pharmaceutical industries. Returns from the expected acquisition must significantly improve the deployment of assets, considerable which now earn only a nominal rate.

Notwithstanding this huge cash ballast, Stirol makes the most efficient usage of its assets among the compatible Ukraine's nitrogen producers. In 2004, Stirol's ROA of 25% was the highest in the Ukrainian peer group. If well diversified, the investment will have an effect on ROA, counteracting expected slowdown on fertilizer market.

Stirol benefited greatly from growing prices in world markets in 2003-2005. We project slight decrease in STIR sales in 2007-09, in line with the price decline expected from 2007, due to global supply growing faster than demand. In our model we foresee prices for ammonia and nitrogen fertilizers normalizing to their last 3-years average rates.

Stirol will manage to partly compensate lower world prices by expanding its urea capacity by 30% by 2007. We assume that the company, being a price-taker, will be able to sell the additional output. In the long-term, the company will continue growth, basing on slight upgrades in capacities, and modest increase in deliveries to the domestic market.

We project Stirol's growth rate lower than that for Dniproazot, as the latter plans relatively higher production increase (50% in ammonia output, compared to 30% growth in urea production, planned by Stirol).

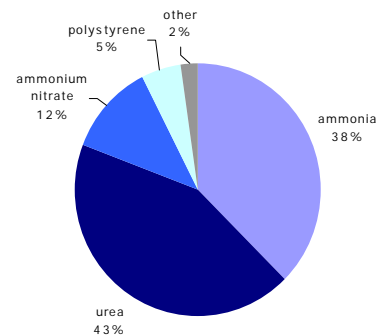
Capacity Utilization

	Capacity `000 mt	Utilization
Ammonia	1350	93%
Urea	956	91%
Amm. nitrate	920	54%
Sulphuric acid	480	17%
Polystyrenes	50	58%

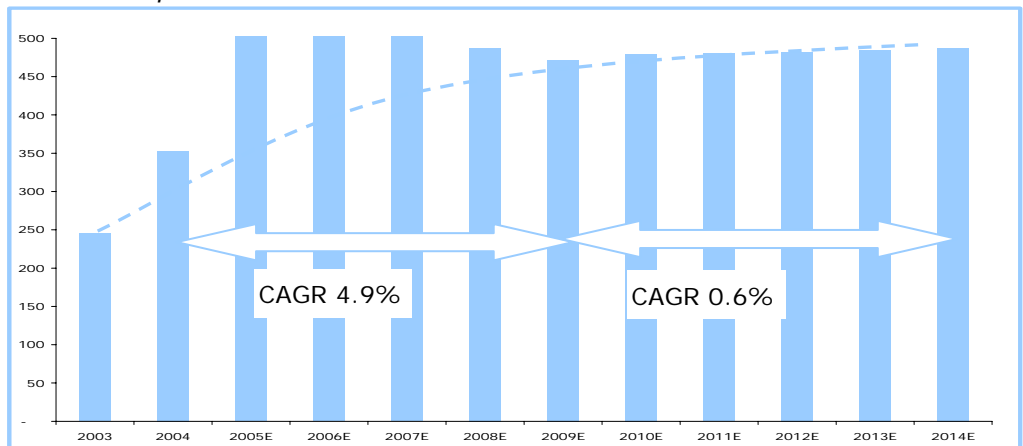
Market share 2004

Ammonia	26%
Urea	25%
Ammonium nitrate	30%

2004 Exports breakdown



STIR Sales, USD mln



Source: Stirol, Concorde Capital estimates

Striving for efficiency. The company's ammonia aggregates are the least efficient among Ukraine's major producers in terms of gas consumption (1,300-1,500 m³ of gas per mt of ammonia – 13% more than average for Ukraine), but due to ongoing upgrading of feedstock, usage ratios have been improved. The investment program foresees further equipment improvement to ensure more savings in gas consumption.

Stirol's divisions

Stirolkhimtrade
Production and sales of liquid nitrogen fertilizers, ammonium, urea, ammonium nitrate, polystyroles, etc.
Stirolbiofarm
Pharmaceuticals
Stirolpak
Packaging, consumer goods

Diversification. Stirol is the only producer of **polystyrenes** in Ukraine, supplying 33% of the total amount consumed last year.

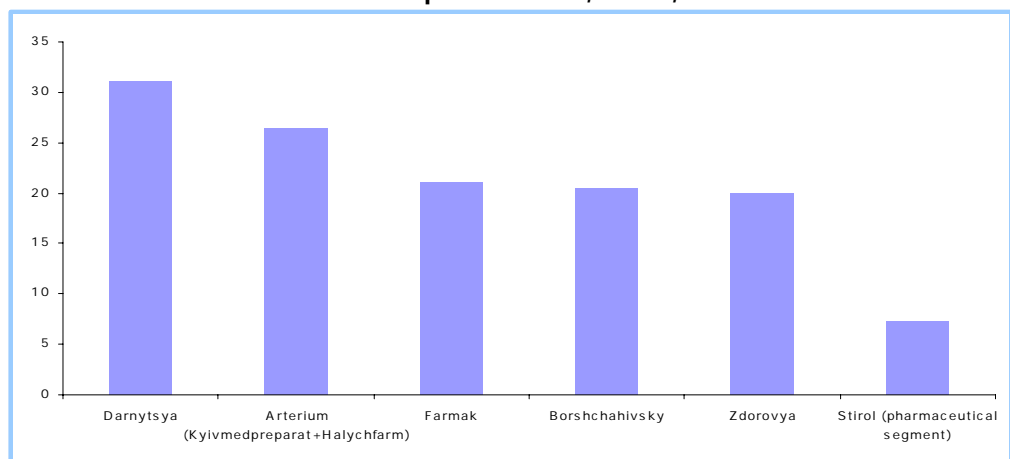
Stirol presently occupies 80% of Ukraine's market of **foaming polystyrene**, used as packaging material and thermal protection. Transportation of this product is inefficient, and Stirol has the potential to monopolize 100% of the internal market. In 2002 Stirol increased its foaming polystyrene capacities from 17.8 to 24 ths mt/year.

The situation is different with the other type of polystyrene - **engineering polystyrene** which is used for production of fridges, computers and other consumer goods. Stirol presently lacks the technological capacity to develop this segment, therefore we project only modest growth.

Stirol's polystyrene production is also constrained by a lack of raw materials – styrene, presently imported from Russia. Increase in styrene capacities is planned in Nizhnekamskneftekhim, Russia and in Turkey, which means Stirol has the potential to increase polystyrene production.

Pharmaceuticals make up about 2% of the company's sales. The company produces over 50 different drugs, most of which are generics. Stirol's sales from medical products are relatively small, compared to other Ukrainian pharmaceutical companies.

Ukrainian Pharmaceuticals: Top 5 vs Stirol, sales, USD mln in 2004*



Source: Company data

*Sales for Kyivmedpreparat and Halychfarm are shown as consolidated number, although unification of the companies happened in 2005

In 2000 Stinol entered **biotechnology**, when it bought on the secondary market, 99% of Trypilsky biochemical plant, the only producer of lysine amino-acid based products in the CIS. The company is not consolidated in Stinol's financial statements. The plant has changed its name to Stinolbiotech. Its major products include yeast and LIPROT – lysine-protein fodder additive, used in feeding cattle, pigs and poultry. In 2004, Stinolbiotech increased net revenues by 97.9% - to USD 12.1mln, and posted a net income of USD 0.01 mln. Total investment for the development of amino acids production is planned at USD 4 mln.

DCF Valuation

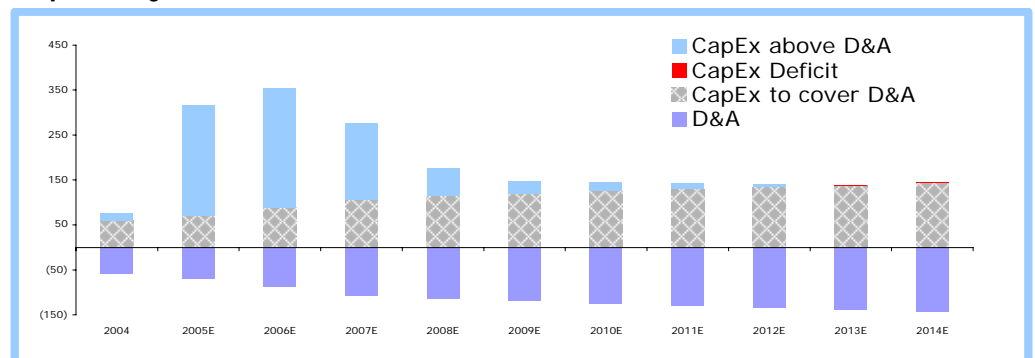
We forecast Stinol modernizing its capacities to improve gas consumption ratios by 7% over the next three years. Still, Stinol's gas efficiency will remain below Dniproazot's. On the other side, we forecast Stinol's current ability to lobby gas prices (about 18% below the industry average) to disappear in the near future.

Basic Assumptions About Major Cost Factor

		2004	2005	2006	2007	2008	2009	2010	2011
Gas Price <i>USD/1000m3 incl VAT</i>	STIR	56	64	78	86	95	99	100	101
	DNAZ	68	81	91	95	98	101	101	102
Gas consumption <i>m3/ton of ammonia</i>	STIR	1362	1334	1308	1282	1262	1262	1262	1262
	DNAZ	1150	1127	1104	1082	1072	1072	1072	1072

Source: company data, Concorde estimates

CapEx Projections



Source: Stinol, Concorde Capital estimates

We will wait to see where Stinol will invest its substantial cash reserves the company has accumulated. As of the end of the first quarter, cash on account amounted to USD 137 mln. The funds are accumulated for strategic acquisition. We do not know the target and timing, however we assume that the acquisition will be accomplished during 2006. We classify the forthcoming purchase as a *financial investment*, and treat the amount as 'cash equivalent' until the nature of the investment is clear. Most experts agree that Stinol is looking for further diversification beyond fertilizer business. Depending on the success of the acquisition strategy, total value of the company may be significantly boosted.

Financial statements are reported according to Ukrainian Accounting Standards

Income Statement Summary, USD mln

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Net Revenues	245	353	502	521	512	489	502	511	517	520	523	526
Change y-o-y	N/M	44%	42%	4%	-2%	-5%	3%	2%	1%	1%	1%	1%
Cost Of Sales	(150)	(204)	(244)	(282)	(302)	(322)	(342)	(353)	(361)	(367)	(371)	(373)
Gross Profit	96	149	259	239	210	166	160	158	156	153	152	153
Other Operating												
Income/Expenses, net	(2)	(2)	(2)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
SG&A	(31)	(38)	(50)	(52)	(51)	(49)	(50)	(41)	(41)	(36)	(37)	(37)
EBITDA	63	109	207	186	158	117	109	116	114	116	115	115
EBITDA margin, %	26%	31%	41%	36%	31%	24%	22%	23%	22%	22%	22%	22%
Depreciation	(12)	(11)	(14)	(18)	(21)	(23)	(24)	(25)	(26)	(27)	(28)	(29)
EBIT	51	98	193	168	137	94	85	91	88	89	87	86
EBIT margin, %	201%	28%	38%	32%	27%	19%	17%	18%	17%	17%	17%	16%
Interest Expense	(1)	(1.6)	(7)	(12)	(13)	(12)	(12)	(12)	(11)	(10)	(9)	(8)
Other income/(expense)	1	7	6	6	6	6	6	6	6	6	6	6
PBT	51	103	192	162	130	88	79	86	83	86	84	85
Tax	(15)	(26)	(52)	(44)	(35)	(24)	(21)	(23)	(22)	(23)	(23)	(23)
Effective tax rate	30%	25%	27%	27%	27%	27%	27%	27%	27%	27%	27%	27%
Net Income	35	78	140	118	95	64	58	62	61	62	62	62
Net Margin, %	14%	22%	28%	23%	19%	13%	12%	12%	12%	12%	12%	12%
Dividend Declared	-	18.3	56.1	53.3	47.6	47.9	43.3	46.9	45.6	46.9	49.3	49.6

Balance Sheet Summary, USD mln

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Current Assets	91	165	353	125	131	129	135	140	144	145	145	146
Cash & Equivalents	44	85	255	15	15	15	15	15	16	16	16	16
Trade Receivables	7	9	15	21	23	24	26	29	31	31	31	32
Inventories	23	34	46	52	56	56	60	60	61	61	62	62
Other current assets	17	37	36	36	36	34	34	36	36	36	37	37
Fixed Assets	124	139	199	492	526	538	545	549	552	553	553	555
PP&E, net	106	107	147	204	255	267	273	277	280	281	280	280
Other Fixed Assets	19	32	52	288	270	270	272	272	272	272	273	275
Total Assets	216	305	551	616	656	667	680	689	696	698	698	701
Shareholders' Equity	177	224	323	376	422	437	453	468	484	499	508	518
Share Capital	60	52	52	52	52	52	52	52	52	52	52	52
Reserves and Other	82	112	123	111	118	108	109	109	109	109	106	103
Retained Earnings	35	59	149	214	261	277	292	307	322	338	350	363
Current Liabilities	34	76	100	112	106	107	112	113	102	100	93	93
ST Interest Bearing Debt	4	14	15	23	18	22	26	25	14	11	3	3
Trade Payables	5	24	28	31	32	31	32	33	34	34	34	34
Other Current Liabilities	25	56	57	58	56	53	54	55	56	56	56	57
LT Liabilities	4	5	128	128	128	123	115	108	110	98	97	91
LT Interest Bearing Debt	3	3	126	126	126	121	113	106	108	96	95	90
Other LT	1	3	2	2	2	2	2	2	2	2	2	1
Total Liabilities & Equity	216	305	551	617	656	667	680	689	696	698	698	701

UAH/USD Exchange Rates

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Average	5.33	5.30	5.10	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Year-end	5.33	5.30	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00

Financial statements are reported according to Ukrainian Accounting Standards

Cash Flow Statement Summary, USD mln

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Net Income	35	78	140	118	95	64	58	62	61	62	62	62
Depreciation	12	11	14	18	21	23	24	25	26	27	28	29
Non-operating and non-cash items	9	9	17	(252)	(2)	0	(1)	(0)	(1)	(0)	(4)	(6)
Less Changes in working capital	(22)	(25)	(12)	(9)	(6)	(3)	(4)	(3)	(3)	(0)	(0)	(0)
Operating Cash Flow	34	73	159	(125)	108	84	77	84	84	89	86	84
Capital Expenditures, net	(13)	(17)	(62)	(71)	(55)	(35)	(29)	(29)	(28)	(28)	(28)	(28)
Other Investments, net	7	(23)										
Investing Cash Flow	(6)	(40)	(62)	(71)	(55)	(35)	(29)	(29)	(28)	(28)	(28)	(28)
Net Borrowings/(repayments)	(1)	9	121	9	(5)	(2)	(3)	(8)	(9)	(14)	(9)	(6)
Dividends Paid	(0)	(0)	(56)	(53)	(48)	(48)	(43)	(47)	(46)	(47)	(49)	(50)
Other	(0)	0										
Financing Cash Flow	(1)	9	65	(45)	(53)	(50)	(47)	(55)	(55)	(61)	(58)	(56)
Beginning Cash Balance	N/A	44	89	255	15	15	15	15	15	16	16	16
Ending Cash Balance	44	85	250	15	15	15	15	15	16	16	16	16
Net Cash Inflows/Outflows	27	41	162	(240)	(0)	(1)	0	0	0	0	0	0

Exchange Rates, UAH/USD

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Average exchange rate	5.33	5.30	5.10	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Year-end exchange rate	5.33	5.30	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00

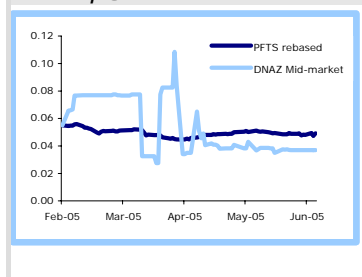
HOLD

Dniproazot

Aug 1, 2005 USD 0.0065

12 m target USD 0.0060

DNAZ, UAH



Market Information

Bloomberg	DNAZ UZ
No of Shares, lbn	35.2
Market price, USD	0.0065
MCap, USD mln	229
Free float	10%

Stock Ownership

Privat Group	84.4%
Others	15.6%

Ratios, 2004

EBITDA Margin	26.0%
Net Margin	12.7%

Plans to double ammonia production by 2009 are supported by DNAZ's intention to transport it more efficiently; connection to Togliatti-Odessa ammonia pipeline is planned for 2006. The financing came from a USD 66mn additional share emission conducted in early 2005. Investors should watch that Privat will not misuse its controlling position in the company to the detriment of minority shareholders: quarterly financial reports indicate that about half of Privat's contribution was just incremental account receivables on DNAZ books. The market seems to have fully discounted all the above factors, valuing the stock close to its fair price. We downgrade our recommendation to HOLD

Ammonia output to double. The company plans to put into operation a previously moth-balled, 450K mt ammonia aggregate, representing half of present capacity. The project's cost is estimated at USD 80-90mln. Utilization of urea capacity overshoot 100%.

Dniproazot will save ~USD 4mln annually on ammonia transportation costs when it is connected to the Togliatti-Odessa ammonia pipeline. The project costs ~USD 16mln. While transportation costs by railway cisterns is USD 12/mt, pipeline transportation is USD 7-8/mt.

We project DNAZ's total CapEx/EBITDA at 31% 2005-09, on par with Stiroil.

Non-nitrogen products make up ~14% of the company's sales.

Dniproazot is Ukraine's second-largest producer of caustic soda (used in the food industry, cellulose and dye production, the chemical industry and metallurgy). Another product, chlorine, accounts for ~5% of revenue. In 2004, DNAZ increased output by 17% yoy to 41.1K mt.

Charter fund increase accompanied with suspicious balance sheet transactions. Previously the company announced plans to finance CapEx with a USD 66mn secondary share issue. In January, Dniproazot increased its charter fund by 221 times by issuing 35 bn common shares at USD 0.002. 75.7% of the additional capital is to be spent for construction of the ammonia pipeline, and 24.3% for the purchase of railway cars. Analyzing the company's first quarter financial reports, we found that Privat may have in fact paid for about half of their shares in the new emission by increasing DNAZ's "trade receivables" and "advance payments". No change in PPE or 'assets under construction' on the balance sheet. We hope this is temporary in nature and Privat's contribution will be visible in further periods' statements. We do not doubt Privat's desire to implement the investment program planned.

KEY FINANCIAL DATA, USD mln

	Net Revenues	EBITDA	Net Income
2004	155.8	40.6	19.8
2005E	204.4	73.9	45.4
2006E	213.0	71.8	43.0
Spot Exch. Rate		5.0	

KEY RATIOS

	EV/S	EV/EBITDA	P/E
2004	1.6	6.3	11.5
2005E	1.2	3.4	5.0
2006E	1.2	3.5	5.3

Ukrnafta involved in DNAZ exports.

About 20% of the total urea produced by DNAZ in 2004 (and 36% in 2003) was exported by Ukrnafta, controlled by Dniproazot's major shareholder – Privat.

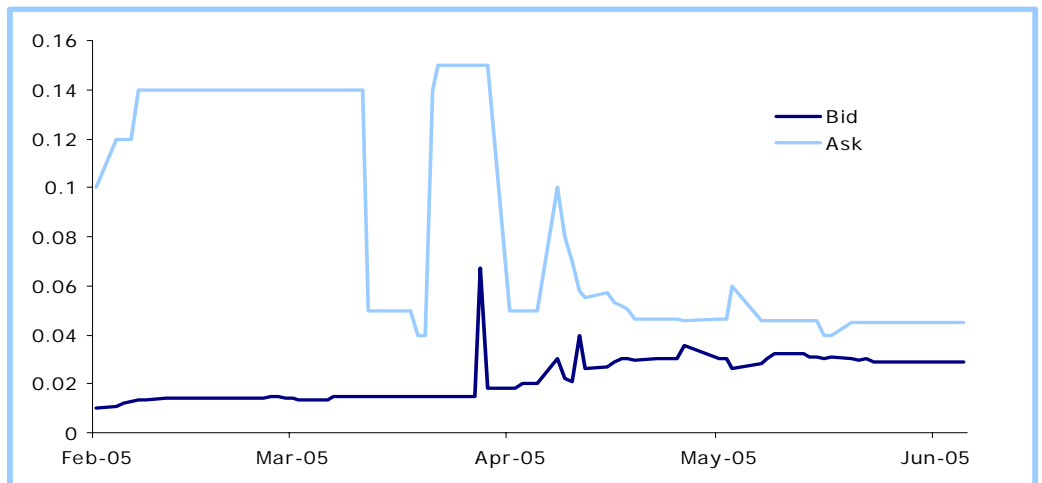
DNAZ management explains this policy with optimization of VAT refunding. We expect this practice to be eliminated, as the government improves VAT repayment. Anyway, this will not significantly influence the company's operations, as we do not see evidence of transfer pricing in this case: Ukrnafta is not used as a center to collect DNAZ's money.

Last summer, Dniproazot reportedly acquired 20% stake in Azot Berezniki (Russia). The company produces about 7% of the nitrogen fertilizers in Russia – up to 1.5mn mt annually. Nevertheless, the deal is not disclosed in the company's financial statements, and according to independent industry experts, must have been made through intermediary. The effect on DNAZ' business is difficult to estimate at the moment.

Last year the company posted the second-largest gross margin in the segment (after Odessa Portside) but a significant increase in selling and administrative expenses in 2004 dragged EBITDA and net margins lower than Odessa Portside and Stirol.

Liquidity of DNAZ shares increased significantly at the beginning of 2005, after the additional emission of shares. DNAZ' trading on the PFTS started in Feb 2005. The bid-ask spread, over 900% initially, narrowed below 20% by August.

DNAZ Quotes On PFTS



Source: PFTS

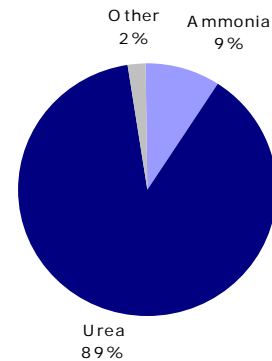
Capacity utilization

	Capacity `000 mt	Utilization
Ammonia	900.0	56%
Urea	706.2	105%
Caustic soda	68.0	87%

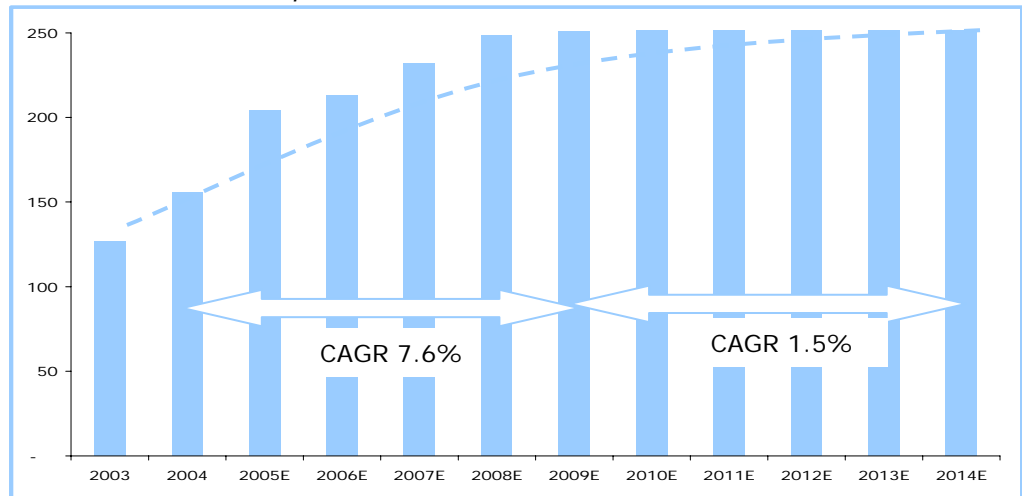
Market share 2004

Ammonia	11%
Urea	21%

2004 Exports breakdown*



*Urea exports of Ukrnafta included

DCF Valuation
DNAZ Sales Forecast, USD mln


Source: Company's data, Concorde Capital projections

For the purposes of forecasting local currency is used (UAH mln)

	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
EBITDA	377	359	363	329	274	264	235	236	235	236
EBIT	348	325	329	295	239	229	200	201	201	201
Tax Rate	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Taxed EBIT	261	243	247	221	179	172	150	151	151	151
Plus D&A	29	34	34	34	34	34	34	34	34	34
Less CapEx	(170)	(162)	(109)	(59)	(49)	(40)	(33)	(33)	(33)	(33)
Less change in OWC	41	(62)	(85)	(89)	(4)	(17)	3	(8)	(1)	(1)
FCFF	162	54	87	108	160	150	154	144	151	151
WACC	17.8%	17.0%	15.8%	15.6%	15.4%	15.2%	14.9%	14.4%	13.6%	13.2%
WACC to Perpetuity		12%								
Perpetuity Growth Rate		2.0%								
Disc. Terminal Value		481								
Firm Value		1,082								44.4%
Less Net Debt		(137)								Implied Exit EBITDA Multiple 6.5x
Equity Value		945								
									12-mo Fair Value per Share	USD 0.0054

Implied Share Price, USD

WACC	Perpetuity Growth Rate				
	1.0%	1.5%	2.0%	2.5%	3.0%
During forecast period					
- 1.5%	0.0056	0.0057	0.0059	0.0061	0.0063
- 1.0%	0.0054	0.0056	0.0057	0.0059	0.0061
- 0.5%	0.0053	0.0054	0.0055	0.0057	0.0059
+ 0.0%	0.0051	0.0052	0.0054	0.0055	0.0057
+ 0.5%	0.0050	0.0051	0.0052	0.0054	0.0055
+ 1.0%	0.0048	0.0049	0.0051	0.0052	0.0054
+ 1.5%	0.0047	0.0048	0.0049	0.0051	0.0052

Financial statements are reported according to Ukrainian Accounting Standards

Income Statement Summary, USD mln

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Net Revenues	127	156	204	213	232	249	251	255	254	256	257	257
Change y-o-y	N/M	23%	31%	4%	9%	7%	1%	2%	0%	1%	0%	0%
Cost Of Sales	(77)	(82)	(97)	(111)	(134)	(159)	(177)	(183)	(187)	(189)	(190)	(190)
Gross Profit	50	74	107	102	98	90	74	73	67	67	67	67
Other Operating Income/Expenses, net	(2)	(5)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
SG&A	(16)	(28)	(31)	(28)	(23)	(22)	(18)	(18)	(18)	(18)	(18)	(18)
EBITDA	32	41	74	72	73	66	55	53	47	47	47	47
EBITDA margin, %	25%	26%	36%	34%	31%	26%	22%	21%	18%	18%	18%	18%
Depreciation	(6)	(5)	(6)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)
EBIT	26	35	68	65	66	59	48	46	40	40	40	40
EBIT margin, %	21%	23%	33%	30%	28%	24%	19%	18%	16%	16%	16%	16%
Interest Expense	(1)	(5)	(2)	(3)	(4)	(5)	(5)	(4)	(3)	(3)	(3)	(2)
Other income/(expense)	(0)	(2)										
PBT	25	29	66	62	62	54	43	42	37	37	38	38
Tax	(8)	(9)	(20)	(19)	(19)	(17)	(13)	(13)	(11)	(12)	(12)	(12)
Effective tax rate	33%	31%	31%	31%	31%	31%	31%	31%	31%	31%	31%	31%
Net Income	17	20	45	43	43	37	30	29	25	26	26	27
Net Margin, %	13%	13%	22%	20%	19%	15%	12%	11%	10%	10%	10%	10%
Dividend Declared	-	-	14	13	21	19	15	14	19	19	19	20

Balance Sheet Summary, USD mln

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Current Assets	107	150	181	194	213	241	241	245	244	251	251	252
Cash & Equivalents	1	1	4	4	5	12	13	13	13	18	18	18
Trade Receivables	6	27	15	21	26	32	30	31	30	31	31	31
Inventories	12	12	17	19	21	22	23	23	23	23	23	23
Other current assets	88	110	146	149	162	174	176	179	178	179	180	180
Fixed Assets	134	122	158	183	198	203	206	207	207	207	206	206
PP&E, net	109	106	136	160	185	195	206	207	207	206	206	206
Other Fixed Assets	25	15	22	23	14	8	0	0	0	0	0	0
Total Assets	242	272	339	377	412	445	447	452	451	458	458	458
Shareholders' Equity	134	207	253	283	305	324	338	353	359	366	372	379
Share Capital	0.3	0.3	70.3	70.3	70.3	70.3	70.3	70.3	70.3	70.3	70.3	70.3
Reserves and Other Retained Earnings	107	158	98	98	98	98	98	98	98	98	98	98
	28	49	85	115	136	155	170	184	191	197	204	210
Current Liabilities	71	21	49	53	61	73	69	65	65	65	60	55
ST Interest Bearing Debt	1	0	-	4	10	20	17	13	13	13	8	3
Trade Payables	33	3	25	24	24	25	23	23	23	23	23	23
Accrued Wages	1	1	1	1	1	1	1	1	1	1	1	1
Accrued Taxes	0	0	1	1	1	1	1	1	1	1	1	1
Other Current Liabilities	36	17	22	23	25	26	27	27	27	27	27	27
LT Liabilities	36	44	37	41	46	48	40	34	27	27	26	24
LT Interest Bearing Debt	28	27	27	31	36	38	30	24	17	17	16	14
Other LT	8	17	10	10	10	10	10	10	10	10	10	10
Total Liabilities & Equity	242	272	339	377	412	444	447	452	451	458	458	458

UAH/USD Exchange Rates

	2003	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Average	5.33	5.30	5.10	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Year-end	5.33	5.30	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00

Financial statements are reported according to Ukrainian Accounting Standards

Cash Flow Statement Summary, USD mln

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Net Income	17	20	45	43	43	37	30	29	25	26	26	27
Depreciation	6	5	6	7	7	7	7	7	7	7	7	7
Non-operating and non-cash items	9	9	(8)	(0)	0	(0)	(0)	0	(0)	0	0	(0)
Less Changes in working capital	122	90	8	(12)	(17)	(18)	(1)	(3)	1	(2)	(0)	(0)
Operating Cash Flow	154	123	52	37	33	27	36	32	33	31	33	33
Capital Expenditures, net	(1)	(3)	(33)	(32)	(22)	(12)	(10)	(8)	(7)	(7)	(7)	(7)
Other Investments, net	(2)	4										
Investing Cash Flow	(3)	1	(33)	(32)	(22)	(12)	(10)	(8)	(7)	(7)	(7)	(7)
Net Borrowings/(repayments)	(150)	(2)	(2)	8	11	12	(11)	(10)	(7)	0	(7)	(7)
Dividends Paid			(14)	(13)	(21)	(19)	(15)	(14)	(19)	(19)	(19)	(20)
Other		(122)										
Financing Cash Flow	(150)	(124)	(15)	(5)	(11)	(7)	(26)	(24)	(26)	(19)	(26)	(27)
Beginning Cash Balance	N/A	1	1	4	4	5	12	13	13	13	18	18
Ending Cash Balance	1	1	4	4	5	12	13	13	13	18	18	18
Net Cash Inflows/Outflows	1	(0)	3	0	0	8	0	0	(0)	5	0	0

Exchange Rates, UAH/USD

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Average exchange rate	5.33	5.30	5.10	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Year-end exchange rate	5.33	5.30	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00

Not Rated

Azot Cherkasy

Market Information

PFTS Ticker	AZOT
No of Shares, mln	98.4

Stock Ownership

Ukrsibbank	71.7%
Kliringovyy dim	16.6%
Other	11.0%

Ratios, 2004

EBITDA Margin	6.5%
Net Margin	0.5%
Net Debt/ Equity	1.7

The company's reported financials mask its real profitability and growth potential of the company. Low profit margins in 2004 must be attributed to "creative accounting" practices. Real revenues should also be higher than officially reported, due to transfer pricing and tolling schemes. Looking at Azot's financials shown in this report, please remember that they are based on official, understated reporting.

After a prolonged fight in the court with a minority shareholder, Kliringovyy Dim, two capital increases were registered in the course of 2004. The total amount of the emission was USD 79.3 mln. The funds are expected to be spent on modernization and to increase the company's capacities. Azot also made announcements early in the year, to attract additional capital by issuing bonds, but did not specify terms.

The company will invest in a 20% increase of caprolactam capacity (used for synthetic fiber and plastics) to 60 ths mt/year. Azot Cherkasy has a monopoly on this type of product in Ukraine. The company also intends to purchase and repair railway carriages and increase urea capacities. It also has plans to start production of ammonia nitrate with phosphate additives which decreases the product's explosiveness, and thus – facilitates its storage and transportation.

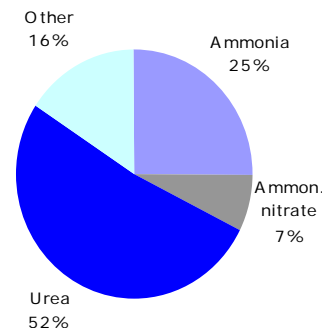
The fact that the company produces ~¼ of Ukraine's ammonium nitrate, the major fertilizer used on the internal market, makes AZOT susceptible to government regulations. This means that the company loads its capacities above 100% during the peak season (Feb-April) to comply with the government's requirements to supply domestic agriculture, and therefore has to purchase more expensive Russian ammonia during these periods.

Now that the problem related to the additional share issues is resolved, trading in AZOT shares is becoming more active. In July 2005, AZOT's trading on the PFTS, suspended a year ago on the appeal of Kliryngovyy Dim, was resumed.

Market share 2004

Ammonia	17%
Urea	20%
Ammonium nitrate	22%

2004 Exports Breakdown



KEY FINANCIAL DATA, USD mln

	Net Revenue	Gross margin	EBITDA	EBITDA margin	Net Income	Net margin
2004	232.8	24.1%	15.2	6.5%	1.2	0.5%
2005E	290.7	30.6%	45.6	15.7%	22.4	7.7%

Not Rated

Odessa Portside

Market Information

No of Shares, mln 798.5

Stock Ownership

State 100%

Ratios, 2004

EBITDA Margin 38.0%

Net Margin 20.3%

Net Debt/ Equity -0.02

Odessa Portside is one of the most attractive Ukrainian enterprises in the segment due to its unique competitive advantage: it is situated at the end of Togliatti-Odessa ammonia pipeline right in the Yuzhnyy sea port.

Due to this, the company saves on transportation costs (SG&A made up 2% of sales in 2004, compared to 9.6% on average for Ukrainian peers).

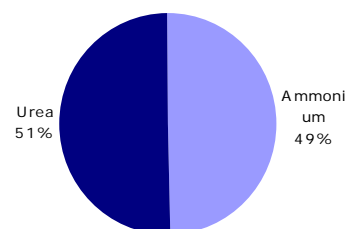
Odessa Portside has a monopoly in Ukraine for storing/cooling/port shipments of ammonia (capacity of 4 mln mt/year).

Market share 2004

Ammonia 22%

Urea 24%

2004 Exports Breakdown



The plant possesses the newest equipment among its Ukrainian peers.

These factors explain Odessa Portside's highest gross margin and second-highest net margin in Ukraine after Stirol, in 2004.

Peer comparison implies Odessa Portside's MCap ranging from USD 450 to 500 mln, on EV/Sales, and from USD 790 to 1,440 mln, on EV/EBITDA and P/E multiples. We believe the company should be traded at premium on EV/Sales multiples due to its unique competitive advantages, which translates into higher margins.

Initially the privatization of Odessa Portside was planned for 2004, when it was reorganized from a state-owned company to an open JSC. In August 2004 the government planned to sell 94.54% of the company at a starting price of around USD 170 mln (2004 P/S x0.6, P/EBITDA x1.6, P/E x3.0), but the privatization was suspended due to political pressure.

The new government has included 50%+1 stake of the company in the privatization list for 2005. The only estimate of Odessa Portside's value came from Arseniy Yatsenyuk, first deputy governor of Odessa Oblast at USD 1 bln, which is close to what we believe is a fair price for the company.

Earlier IBE Trade (USA, indirectly controls a stake in Azot Severodonetsk) and Renova investment company (Russia) voiced their intentions to participate in the privatization of Odessa Portside.

KEY FINANCIAL DATA, USD mln

	Net Revenue	Gross margin	EBITDA	EBITDA margin	Net Income	Net margin
2004	294.6	54.1%	112.1	38.0%	59.7	20.3%
2005E	383.0	60.6%	180.8	47.2%	105.3	27.5%

Not Rated

Rivneazot

Market Information

PFTS Ticker	RAZT
No of Shares, mn	8.5

Stock Ownership

Raiffeisen Investm't	68.4%
Finance&Credit	24.0%

Ratios, 2004

EBITDA Margin	10.2%
Net Margin	5.3%
Net Debt/ Equity	0.41

One of Ukraine's major producers of ammonium nitrate, Rivneazot has plans to begin producing urea. A five-year project to construct a urea workshop with 500 ths mt capacity will start in 2006.

The project's cost is estimated at USD 100 mln. The company said it might apply for a syndicated loan to finance the project. CapEx 2005 is planned at USD 20 mln (17% of the projected sales). This percentage is on par with what we project for DNAZ, and above STIR's 10%.

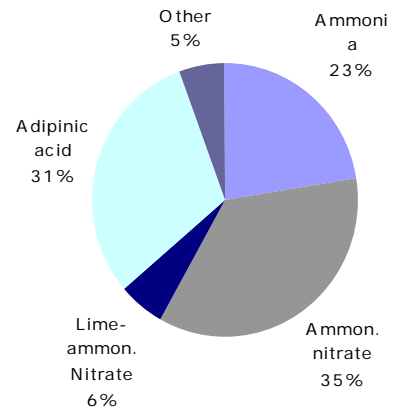
The reprivatization of Rivneazot, lobbied for by the State Property Fund, is unlikely, as first deputy PM Anatoly Kinakh announced in June that the government "put a final dot" in checking the work of a major investor, and does not have any claims to it.

In September 2003 Raiffeisen Investment AG bought 58.86% of RAZT for USD 9.1mln (2003 P/S x0.25, P/EBITDA and P/E neg.). In Dec. 2003 it transferred these shares to its daughter company RAAM Beteiligungsverwaltungs GmbH. The company says, it considers this a portfolio investment, and has plans to sell its stake to a strategic investor in the future.

Market share 2004

Ammonia	6%
Ammonium nitrate	23%

2004 Exports breakdown



KEY FINANCIAL DATA, USD mln

	Net Revenue	Gross margin	EBITDA	EBITDA margin	Net Income	Net margin
2004	102.1	25.4%	10.4	10.2%	5.4	5.3%
2005E	115.7	26.0%	12.1	10.5%	6.2	5.4%

Not Rated

Stock Ownership

Worldwide Chemical	60%
SPF	40%

Ratios, 2004

EBITDA Margin	23%
Net Margin	13%
Net Debt/ Equity	-0.03

Azot Severodonetsk

Azot's current position is murky because of a current legal struggle between the government and Worldwide Chemical LLC. The parties are fighting for ownership of the company: the state intends to sell 100% of Azot Severodonetsk, thus revoking the decision of the previous government to sell 60% of the company to Worldwide Chemical. The latter is defending its ownership in CJSC.

In the meanwhile, two opposite signals were given by the official figures: PM Tymoshenko included 100% of the OJSC company into the privatization list, while the First Deputy PM Kinakh hopes a peaceful agreement will be reached, whereby Worldwide Chemical agrees to a 40% share in the company.

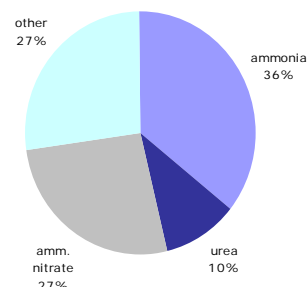
The case resembles Kryvorizhstal power play, where the government showed its muscles to the business group which allegedly illegally acquired KRST, forcing the repeated sale of the company through an open tender. Nevertheless, we believe the 60-40 swop mentioned by Mr Kinakh the most likely scenario.

The company is Ukraine's major producer of organic products, 3rd-largest ammonia-maker, 2nd-largest producer of ammonium nitrate. Last year Azot severodonetsk posted the second-largest sales volume after Stirof.

Market share 2004

Ammonia	18%
Urea	10%
Ammonium nitrate	26%

2004 Exports breakdown



State-owned Azot Severodonetsk was transformed into Closed JSC in 2004, in the course of its sanation process. Nevertheless, immediately after the elections, the new government started questioning the legality of the formation, assuming Worldwide Chemical received its 60% stake cheaper than its true value. In May 2005, the Prosecutor General began investigating the deal.

Simultaneously the largest creditor of the company, Luganskoblenergo (related to Finance&Credit business group), applied to court challenging the property rights of Worldwide Chemical. In March 2005, a district court in Kyiv declared the creation of CJSC as unlawful, and in June the court of appeals confirmed its decision. The company prepared appellation to the Supreme court, which is the ultimate authority to resolve the issue.

KEY FINANCIAL DATA, USD mln

	Net Revenue	Gross margin	EBITDA	EBITDA margin	Net Income	Net margin
2004	309.1	44.9%	70.0	22.6%	41.3	13.3%
2005E	401.8	51.4%	127.8	31.8%	81.2	20.2%

Financial Statement Comparisons

All financial statements according to Ukrainian Accounting Standards

Income Statement Summary, USD mln

	Dniproazot		Stirol		Rivneazot		Odessa Portside		Azot Severodonetsk		Azot Cherkasy	
	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004
Net Revenues	127	163	245	367	59	102	218	295	231	309	233	235
<i>Change y-o-y</i>	54%	29%	99%	49%	15%	72%	51%	35%	98%	34%	59%	1%
Cost Of Sales	(77)	(86)	(150)	(212)	(50)	(76)	(116)	(135)	(141)	(170)	(207)	(178)
Gross Profit	50	77	96	155	10	26	102	159	89	139	26	57
<i>% of Net Revenues</i>	39%	47%	39%	42%	16%	25%	47%	54%	39%	45%	11%	24%
Other Operating												
Income/Costs, net	(2)	(6)	(2)	(2)	(3)	(4)	(25)	(42)	(12)	(10)	(2)	(17)
SG&A	(16)	(29)	(31)	(39)	(8)	(11)	(6)	(6)	(39)	(58)	(14)	(24)
EBITDA	32	42	63	113	(1)	10	71	112	39	70	10	15
<i>EBITDA margin, %</i>	25%	26%	25%	31%	-3%	10%	33%	38%	17%	23%	5%	7%
Depreciation	(6)	(6)	(12)	(12)	(4)	(4)	(9)	(15)	(10)	(14)	(6)	(6)
EBIT	26	37	51	101	(6)	6	62	97	29	56	5	9
<i>EBIT margin, %</i>	21%	23%	21%	28%	-10%	6%	29%	33%	13%	18%	2%	4%
Interest Expense	(1)	(5)	(1)	(2)	(1)	(2)	(1)	(1)	(0)	(0)	(3)	(4)
Financial												
income/(expense)	-	-	2	6	-	-	0	1	0	1	(0)	0
Other income/(expense)	(0)	(2)	(1)	2	(0)	1	1	(3)	(0)	(1)	(1)	0
PBT	25	30	51	107	(7)	5	63	94	29	56	0	5
Tax	(8)	(9)	(15)	(27)	-	-	(26)	(35)	(8)	(15)	(0)	(4)
<i>Effective tax rate</i>	33%	31%	30%	25%	0%	0%	42%	37%	29%	27%	45%	78%
Net Income	17	21	35	81	(7)	5	36	60	21	41	0	1
<i>Net Margin, %</i>	13%	13%	14%	22%	-12%	5%	17%	20%	9%	13%	0%	1%
Dividend Declared	-	-	1	18	-	-	-	-	-	-	-	-

Balance Sheet Summary, USD mln

	Dniproazot		Stirol		Rivneazot		Odessa Portside		Azot Severodonetsk		Azot Cherkasy	
	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004
Current Assets	107	160	91	175	32	54	33	41	71	104	148	176
Cash & Equivalents	1	1	44	90	0	2	3	13	7	8	0	2
Trade Receivables	6	29	7	9	3	6	1	1	6	15	31	63
Inventories	12	13	23	36	13	24	22	15	28	44	29	41
Other current assets	88	117	17	40	15	22	7	12	29	38	87	70
Fixed Assets	134	130	124	148	77	95	164	242	118	140	93	133
PP&E, net	109	113	106	114	69	75	117	228	108	127	87	114
Other Fixed Assets	25	16	19	34	8	20	48	14	10	12	6	20
Total Assets	242	290	216	323	108	150	197	284	189	244	241	309
Shareholders' Equity	134	202	177	237	68	54	175	250	128	152	43	83
Share Capital	0	0	60	52	16	16	96	150	116	116	80	118
Reserves and Other	106	168	82	119	76	76	7	4	6	6	20	20
Retained Earnings	28	33	35	66	(24)	(38)	72	97	6	30	(57)	(56)
Current Liabilities	71	42	34	80	40	95	23	32	52	79	160	181
ST Interest Bearing Debt	1	0	4	15	9	24	5	7	5	3	15	22
Trade Payables	33	3	5	25	9	15	5	3	25	17	120	137
Accrued Wages	1	1	0	0	0	1	0	0	1	1	1	1
Accrued Taxes	0	0	0	5	0	0	3	2	6	14	0	0
Other Current Liabilities	36	56	25	54	22	75	10	39	14	63	24	21
LT Liabilities	36	47	4	6	0	0	-	1	9	13	37	45
LT Interest Bearing Debt	28	29	3	3	-	-	-	-	-	-	6	9
Other LT	8	18	1	3	0	0	-	1	9	13	32	36
Total Liabil's & Equity	242	290	216	323	108	150	197	284	189	244	241	309

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