



CONCORDE CAPITAL

Ukraine/Nitrogen Fertilizers

STIR & DNAZ

Good, Could Have Been Better

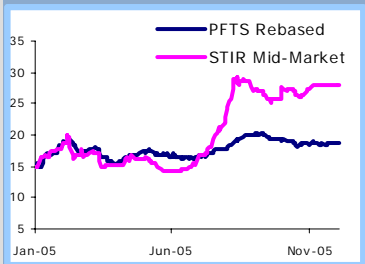
STIR  
DNAZ

12m Target USD 35.0  
12m Target USD 0.006

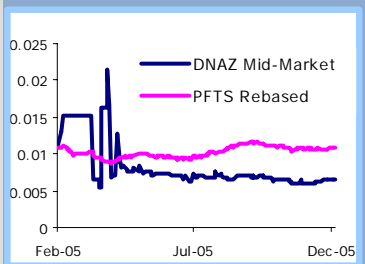
BUY  
HOLD

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**STIR, USD**



**DNAZ, USD**



**Market Information**

	STIR UZ
Bloomberg	
No of shares, mln	27.1
Market Price, USD	28.0
<b>MCap, USD mln</b>	758.8
Free Float	6.0%

	DNAZ UZ
Bloomberg	
No of shares, bln	35.2
Market Price	0.0061
<b>MCap, USD mln</b>	214.7
Free Float	10.0%

**Stock Ownership**

Stirol	
Stirolkhinvest	82.1%
Other Stirol-related	11.0%
Others	6.9%
Dniproazot	
Privat Group	84.4%
Others	15.6%

While both Stirol and Dniproazot posted strong sales growth in 9M05, they could not fully enjoy the benefits of high world prices for nitrogen fertilizers due to the rigidity of their long-term contracts. We increased our natural gas price projections for both companies to USD 116 in the mid-term, however, we believe the high world gas prices will cause the markets for nitrogen products to be stronger than we initially expected. Both Stirol and Dniproazot are still undervalued compared to their peers, and we are sticking with our target prices and recommendations.

**Good But Not Great.** Stirol and Dniproazot posted 30% and 18% yoy increases in net revenues respectively in 9M05 on the back of growing world prices for nitrogen fertilizers. However, they were not able to take full advantage of the price increases due to the rigidity of their long-term contracts. We expect annual sales for both companies to be 7-10% lower than we initially planned, dropping their net margins by 2-4%, from our projections.

**Gas Watch.** The mid-term profitability of both companies will be hurt by gas prices higher than we initially projected. We expect the gas price for industrial consumers to gradually increase to USD 116/1000 cm by 2008. Previously our projection for the mid-term was USD 85. However, gas prices in the US, which set the base price for nitrogen-containing commodities, have increased by 170% ytd, reaching USD 14.9/MMBtu, and are likely to stay high, following the hike in oil prices. This will push world prices for ammonia and nitrogen fertilizers up even higher than we initially expected.

**Staying Put.** We maintain our target prices of USD 35 for Stirol and USD 0.006 for Dniproazot, as the companies are still undervalued in comparison to their foreign peers.

**Value Catalysis:**

**Stirol**

- London or New York IPO planned for 2006
- Investment of a significant amount of accumulated cash

**Dniproazot**

- A more intensive overhaul of capacities than last year will decrease gas consumption per unit of nitrogen-containing products made

**STIR**

**KEY FINACIAL DATA, USD mln**

	KEY FINACIAL DATA, USD mln			KEY RATIOS		
	Net Revenues	EBITDA	Net Income	P/S	EV/EBITDA	P/E
2004	352.7	108.8	77.5	2.2	6.0	9.8
2005E	452.3	161.6	107.8	1.7	4.0	7.0
2006E	520.8	186.1	118.4	1.5	3.5	6.4

**DNAZ**

	KEY FINACIAL DATA, USD mln			KEY RATIOS		
	Net Revenues	EBITDA	Net Income	P/S	EV/EBITDA	P/E
2004	155.8	40.6	19.8	1.4	5.9	11.0
2005E	190	61.7	38	1.1	3.9	5.7
2006E	213	71.8	43	1.0	3.3	5.1

**Sales: 9M05 Up, Annual Expectations Not Met.** Stiroil increased net revenues by 30% yoy during 9M05 to USD 324.9 mln, while Dniproazot posted 18% growth to USD 130.8 mln. Profitability margins were slightly up from the companies' 9M04 results.

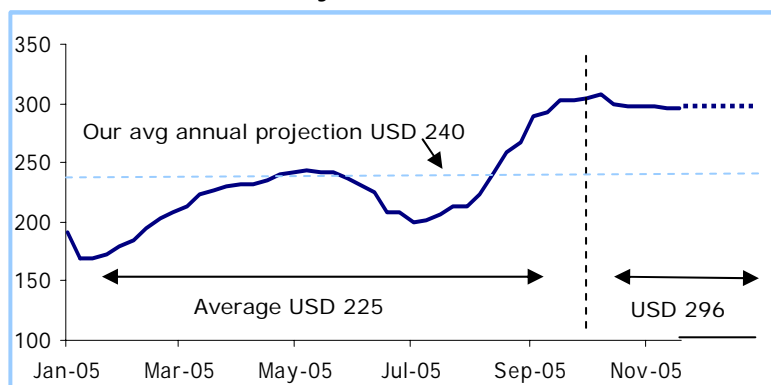
Relatively high prices for ammonium nitrate made Stiroil switch to this product from urea. The company's output from other segments (20% of sales in 2004) is likely to fall. In particular, Stiroil's production of styrene decreased 15% to 18.3 ths mt yoy in 9M05.

In 2005, Dniproazot underwent more intensive overhaul of its ammonia aggregates than in 2004, which caused a 3Q05 decrease in production (ammonia by 19.2% yoy in 3Q05, and urea – by 21.3%), and will result in slightly lower production volumes in 2005 than we projected.

**9M05 Production**

	Ammonia			Urea			Amm. Nitrate		
	ths mt	yoy change	% of 9-mo forecast	ths mt	yoy change	% of 9-mo forecast	ths mt	yoy change	% of 9-mo forecast
<b>Stiroil</b>	1035.9	13%	100%	657.5	-1%	92%	441.4	31%	107%
<b>Dniproazot</b>	371.3	62%	95%	556	2%	99%	-	-	-

**Ammonia Prices, Yuzhny 2005**

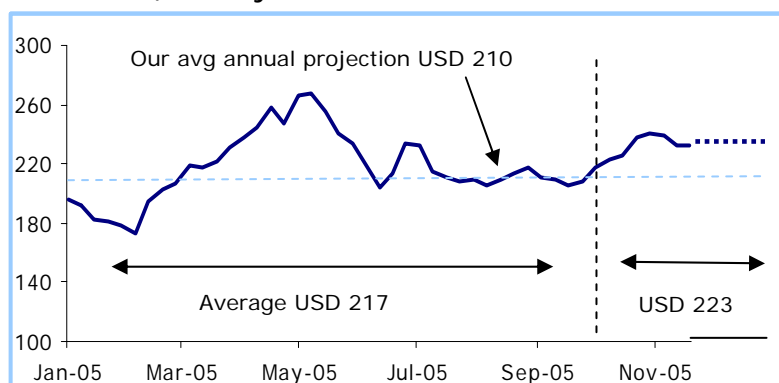


Average Export Price, 9M05, USD

STIR	207
DNAZ	187

Source: Bloomberg, Concorde Capital Estimates

**Urea Prices, Yuzhny 2005**



Average Export Price, 9M05, USD

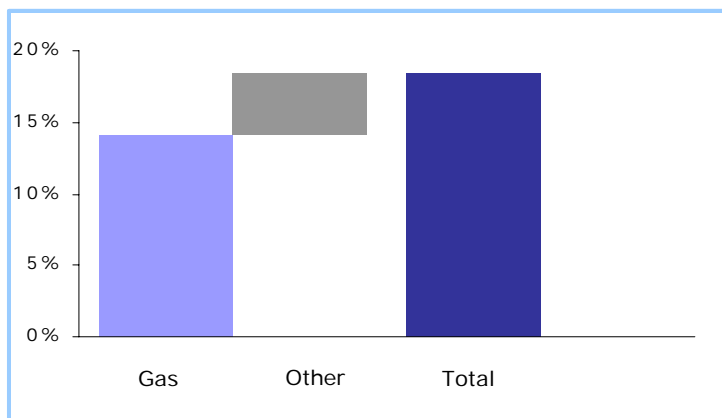
STIR	197
DNAZ	194

Source: Bloomberg, Concorde Capital Estimates

**Profitability Margins Increase Slightly.** Gross, EBITDA and net margins increased slightly compared to the results of 9M04, but are likely to fall below our projections for 2005.

In 2005, price increases for nitrogen products will just barely make up for the effect a 22% jump in gas prices will have on production costs and the companies' margins. (Gas constitutes ~73% of ammonia production costs).

#### Ukrainian Production Cost Changes For Nitrogen Fertilizers In 2005



Source: Concorde Capital Estimates

**The Gas War Continues:** Ukraine and Russia continue to grapple over prices for natural gas. Ukraine wants Russia to stick to the previous agreement by which Russia delivers gas in exchange for transit service at an implied price of USD 50/1000 cm. However, Russia's Gazprom wants Ukraine to start paying European prices for gas. Russia exported gas to non-CIS Europe at USD 185-190 in 2005, and has offered to let Ukraine to pay USD 160 starting in 2006.

Ukraine has signaled that it is willing to compromise, President Yushchenko said Ukraine was willing to pay higher prices for gas if the transition to these new prices was gradual. Ukraine's main source of leverage with its gas-rich neighbor is its gas transportation system, through which ~85% of Russian gas is transported to Europe. Agreements between Ukraine and Russia are to be signed by 2006, so that Gazprom will be able to fulfill its obligations on gas deliveries to Western Europe. The outcome of this struggle is still uncertain, however, we consider Yushchenko's compromise the most likely alternative. This goes in line with our forecasts made in our Gas Issue report in September 2005 (gradual increases of gas prices for industrial consumers to USD 116/1000 cm starting from 2008, taking into account new supplies of Turkmen gas).

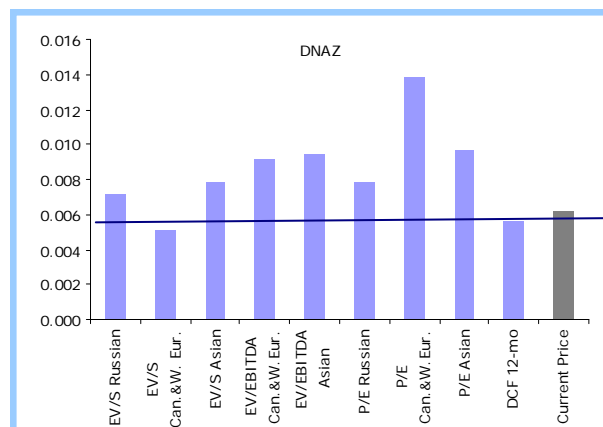
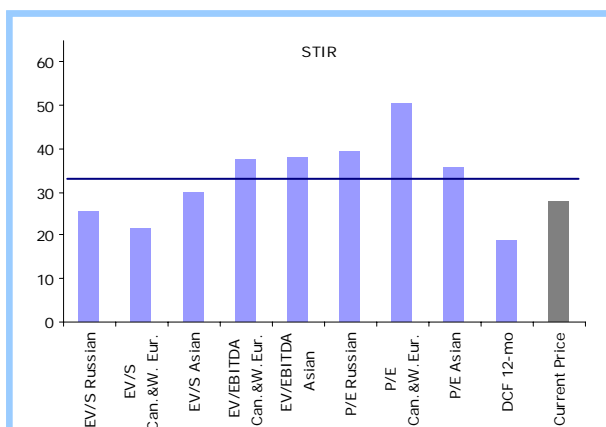
**The Fertilizer Market: Supply-driven.** US gas prices are peaking. They have increased from USD 5.6/ MMBtu at the beginning of January 2005, to USD 14.9 in mid-December, causing more US producers to close up shop and pushing prices for ammonia and nitrogen fertilizers up. We expect US gas prices to stay high, following an increase in oil prices. As US gas prices now define the base price for nitrogen-containing products, they are likely to stay higher in the mid-term than we initially projected.

**US natural gas price dynamics, USD/MMBtu**



Source: Bloomberg

**Cash Reserves To Trigger Stinol's Value.** Due to the uncertainty surrounding the investment of Stinol's USD 256.5 mln cash reserves, we do not include returns on it in our DCF model. We consider potential returns on the cash invested as partially accountable for the difference between our DCF-implied MCap of USD 518 mln and the USD 945 mln, implied by multiples.



**Stinol: Saving Up.** Stinol's cash holdings reached USD 256.5 mln at the end of September (48% of total assets, and 78% of net revenues for 9M05). The increase is connected to the company's intention to jointly bid for Odessa Portside (to be privatized in 2006). More than USD 125 mln, raised through the placement of Eurobonds (3 years, 7.9%) in July have been accumulated in a cash account, but is to be used to increase urea capacities by 30%. Additional funds will be attracted through an IPO, planned for 2006. Details of the company's IPO plans have not been made public.

**Dniiproazot: B/S Still Suspicious.** The increase in the company's charter fund by USD 66 mln in January 2005, officially targeted for CapEx (restoration of previously moth-balled ammonia capacities, and connecting to the Togliatti-Yuzhny pipeline) did not result in any increase in fixed assets. We still believe that Privat may have paid for about half of its shares in the new emission by increasing DNAZ's trade receivables and advance payments, which accompanied the increase in the charter fund in January. Since that time, trade receivables and advance payments have not decreased.

## Peer Comparison

Russian group	Sales		Market Cap	EBITDA Mgn		Net Mgn		ROE2004	EV/S		EV/EBITDA		P/E	
	2003	2004		2003	2004	2003	2004	2004	2003	2004	2003	2004	2003	2004
<b>Dniproazot</b>	126.65	<b>162.9</b>	<b>218.0</b>	25%	<b>26%</b>	13%	<b>13%</b>	3%	1.9	<b>1.5</b>	7.7	<b>5.8</b>	13.1	<b>10.5</b>
<b>Stirol</b>	245.35	<b>366.5</b>	<b>759.5</b>	25%	<b>31%</b>	14%	<b>22%</b>	10%	3.1	<b>2.1</b>	12.1	<b>6.7</b>	21.4	<b>9.4</b>
Rivneazot	59.27	102.1		-3%	10%	-12%	5%							
Odessa Portside	217.62	294.6		33%	38%	17%	20%	7%						
Azot Severodonetsk	230.72	309.1		17%	23%	9%	13%	7%						
Azot Cherkasy	232.66	232.8		5%	7%	0%	1%							
<b>Avg Ukrainian</b>				<b>17.0%</b>	<b>22.4%</b>	<b>6.9%</b>	<b>12.4%</b>	<b>5.0%</b>						
Akron	361.3	488.7	945.5	16%	n/a	2%	10%	9%	2.9	2.1	18.3	n/a	105.1	19.8
Azot Novomoskovsk	211	348.8	554.9	-3%	n/a	-12%	12%	18%	3.1	1.9 neg		n/a neg		13.3
Azot Nevytnomysk	162.37	288.5	334.0	18%	n/a	1%	15%	9%	2.8	1.6	15.6	n/a	167.0	7.7
Azot Kemerovo	104.017	173.7	153.7	8%	n/a	3%	0%	10%	2.2	1.3	28.0	n/a	51.2	outlier
<b>Avg Russian</b>				<b>9.6%</b>	<b>n/a</b>	<b>-1.4%</b>	<b>9.2%</b>	<b>11.3%</b>	<b>2.7</b>	<b>1.7</b>	<b>20.6</b>	<b>n/a</b>	<b>107.8</b>	<b>13.6</b>
<b>Median Russian</b>				<b>11.7%</b>	<b>n/a</b>	<b>1.9%</b>	<b>10.9%</b>	<b>9.4%</b>	<b>2.8</b>	<b>1.7</b>	<b>18.3</b>	<b>n/a</b>	<b>105.1</b>	<b>13.3</b>
DNAZ Discount to average									-29%	-12%	-63%		-88%	-23%
DNAZ Discount to median									-32%	-12%	-58%		-88%	-21%
DNAZ implied target price@mean, USD									0.0090	<b>0.0072</b>	0.0179		0.0509	<b>0.0080</b>
DNAZ implied target price@median, USD									0.0094	<b>0.0072</b>	0.0158		0.0496	<b>0.0078</b>
STIR Discount to average									14%	21%	-41%		-80%	-31%
STIR Discount to median									9%	21%	-33%		-80%	-29%
STIR implied target price@mean, USD									23.6	<b>25.7</b>	48.9		140.7	<b>40.4</b>
STIR implied target price@median, USD									27.0	<b>25.7</b>	43.4		137.2	<b>39.5</b>

	Sales		Market Cap	EBITDA Mgn		Net Mgn		ROE2004	EV/S		EV/EBITDA		P/E	
	2004	2005		2004	2005	2004	2005	2004	2004	2005	2004	2005	2004	2005
<b>Dniproazot</b>	162.9	<b>190</b>	<b>218.0</b>	26%	<b>32%</b>	13%	<b>20%</b>	3%	1.5	<b>1.3</b>	5.8	<b>4.0</b>	10.5	<b>5.7</b>
<b>Stirol</b>	366.5	<b>452.3</b>	<b>759.5</b>	31%	<b>36%</b>	22%	<b>24%</b>	10%	2.1	<b>1.7</b>	6.7	<b>4.7</b>	9.4	<b>7.0</b>
<b>Canada and Western Europe</b>														
Agrium	2838.0	2441.3	2605.5	20%	19%	10%	8%	34%	0.9	1.1	4.5	5.5	9.4	12.8
Potash	3244.4	2642.9	8083.2	22%	31%	9%	15%	14%	2.5	3.1	11.6	9.9	27.1	20.6
Yara	6390.7	6980.7	4928.7	11%	13%	9%	7%	37%	0.8	0.7	6.9	5.6	8.8	10.3
<b>Avg group</b>				<b>18%</b>	<b>21%</b>	<b>9%</b>	<b>10%</b>	<b>28%</b>	<b>1.4</b>	<b>1.6</b>	<b>7.7</b>	<b>7.0</b>	<b>15.1</b>	<b>14.5</b>
<b>Median group</b>				<b>20%</b>	<b>19%</b>	<b>9%</b>	<b>8%</b>	<b>34%</b>	<b>0.9</b>	<b>1.1</b>	<b>6.9</b>	<b>5.6</b>	<b>9.4</b>	<b>12.8</b>
DNAZ Discount to average									8%	-20%	-24%	-43%	-30%	-61%
DNAZ Discount to median									64%	21%	-16%	-29%	12%	-55%
DNAZ implied target price@mean, USD									0.0057	<b>0.0081</b>	0.0085	<b>0.0117</b>	0.0089	<b>0.0157</b>
DNAZ implied target price@median, USD									0.0035	<b>0.0052</b>	0.0076	<b>0.0092</b>	0.0056	<b>0.0138</b>
STIR Discount to average									49%	4%	-12%	-33%	-38%	-52%
STIR Discount to median									126%	57%	-3%	-16%	0%	-45%
STIR implied target price@mean, USD									21.3	<b>30.9</b>	34.5	<b>45.8</b>	44.9	<b>57.8</b>
STIR implied target price@median, USD									14.9	<b>21.8</b>	31.4	<b>37.4</b>	28.1	<b>50.8</b>

Asia	Sales		Market Cap	EBITDA Mgn		Net Mgn		ROE2004	EV/S		EV/EBITDA		P/E	
	2004	2005		2004	2005	2004	2005	2004	2004	2005	2004	2005	2004	2005
HEBEI CANGZHOU DAHUA CO-A	150.1	n/a	130.2	21%	n/a	7%	n/a	28%	1.1	n/a	5.5	n/a	12.7	n/a
YUNNAN YUNTIANHUA CO-A SHS	223.8	284.6	511.8	43%	47%	26%	26%	28%	2.4	1.9	5.6	4.0	8.8	7.0
SICHUAN MEIFENG CHEM INDUS-A	111.6	150.8	223.0	36%	30%	20%	19%	19%	2.1	1.6	5.8	5.2	10.1	7.9
LIAONING HUAIJIN TONGDA CHE-A	199.8	n/a	258.2	25%	n/a	8%	n/a	10%	2.0	n/a	8.0	n/a	15.7	n/a
HUBEI YIHUA CHEMICAL	197.0	280.2	177.9	24%	n/a	7%	5%	10%	1.2	0.8	5.0	n/a	12.7	12.1
MANGALORE CHEMICALS & FERT	133.7	n/a	36.5	5%	n/a	2%	n/a	5%	0.3	n/a	7.3	n/a	11.7	n/a
ABOU KIR CHEMICAL	202.5	293.9	1141.6	40%	51%	25%	29%	27%	4.9	3.4	12.4	6.7	23.0	13.4
SHANDONG HUALU HENGSHENG	120.0	188.7	190.4	22%	25%	13%	11%	18%	2.4	1.5	10.9	6.2	12.5	8.9
CHAMBAL FERTILIZERS & CHEM	545.9	n/a	335.8	17%	n/a	3%	n/a	11%	1.2	n/a	7.1	n/a	19.7	n/a
<b>Avg group</b>				<b>26%</b>	<b>38%</b>	<b>12%</b>	<b>18%</b>	<b>17%</b>	<b>2.0</b>	<b>1.8</b>	<b>7.5</b>	<b>5.5</b>	<b>14.1</b>	<b>9.8</b>
<b>Median group</b>				<b>24%</b>	<b>38%</b>	<b>8%</b>	<b>19%</b>	<b>18%</b>	<b>2.0</b>	<b>1.6</b>	<b>7.1</b>	<b>5.7</b>	<b>12.7</b>	<b>8.9</b>
DNAZ Discount to average									-23%	-30%	-23%	-28%	-25%	-42%
DNAZ Discount to median									-24%	-17%	-19%	-30%	-17%	-36%
DNAZ implied target price@mean, USD									0.0083	<b>0.0093</b>	0.0083	<b>0.0091</b>	0.008	<b>0.011</b>
DNAZ implied target price@median, USD									0.0084	<b>0.0078</b>	0.0119	<b>0.0094</b>	0.007	<b>0.010</b>
STIR Discount to average									6%	-9%	-11%	-15%	-33%	-28%
STIR Discount to median									5%	7%	-6%	-18%	-26%	-21%
STIR implied target price@mean, USD									29.0	<b>34.7</b>	33.8	<b>37.0</b>	41.9	<b>39.1</b>
STIR implied target price@median, USD									29.2	<b>30.1</b>	32.2	<b>38.0</b>	37.6	<b>35.4</b>

## Financial Statements According To UAS

Income Statement Summary, USD mln	Stirol			Dniproazot		
	2003	2004	9M05	2003	2004	9M05
<b>Net Revenues</b>	<b>245.3</b>	<b>352.7</b>	<b>324.9</b>	<b>126.6</b>	<b>155.8</b>	<b>130.8</b>
<i>Change y-o-y</i>	<i>N/M</i>	<i>44%</i>	<i>30%</i>	<i>n/m</i>	<i>23%</i>	<i>18%</i>
Cost Of Sales	(149.7)	(203.8)	(187.2)	(76.7)	(82.0)	(67.5)
Gross Profit	95.7	148.9	137.7	50.0	73.8	63.2
<i>% of Net Revenues</i>	<i>39%</i>	<i>42%</i>	<i>42%</i>	<i>39%</i>	<i>47%</i>	<i>48%</i>
Other Operating Income/Costs, net	(2.2)	(2.1)	(4.9)	(2.3)	(5.3)	(5.6)
<i>% of Net Revenues</i>	<i>-1%</i>	<i>-1%</i>	<i>-1%</i>	<i>-2%</i>	<i>-3%</i>	<i>-4%</i>
SG&A	(30.9)	(37.9)	(41.0)	(15.8)	(28.0)	(19.6)
<i>% of Net Revenues</i>	<i>13%</i>	<i>11%</i>	<i>13%</i>	<i>-12%</i>	<i>-18%</i>	<i>-15%</i>
<b>EBITDA</b>	<b>62.6</b>	<b>108.8</b>	<b>91.9</b>	<b>31.9</b>	<b>40.6</b>	<b>38.1</b>
<i>EBITDA margin, %</i>	<i>25.5%</i>	<i>30.9%</i>	<i>28.3%</i>	<i>25%</i>	<i>26%</i>	<i>29%</i>
Depreciation	(11.6)	(11.2)	(10.0)	(5.7)	(5.4)	(4.4)
<b>EBIT</b>	<b>51</b>	<b>98</b>	<b>82</b>	<b>26.2</b>	<b>35.2</b>	<b>33.7</b>
<i>EBIT margin, %</i>	<i>20.8%</i>	<i>27.7%</i>	<i>25.2%</i>	<i>20.7%</i>	<i>22.6%</i>	<i>25.8%</i>
Interest Expense	(1.0)	(1.6)	(2.1)	(1.4)	(4.8)	(1.4)
Financial income/(expense)	1.7	5.8	12.1	-	-	0.1
Other income/(expense)	(1.0)	1.5	0.5	(0.1)	(1.6)	(1.0)
<b>PBT</b>	<b>50.6</b>	<b>103.3</b>	<b>92.2</b>	<b>24.8</b>	<b>28.7</b>	<b>31.5</b>
Tax	(15.2)	(25.8)	(19.8)	(8.2)	(8.9)	(4.3)
<i>Effective tax rate</i>	<i>30%</i>	<i>25%</i>	<i>21%</i>	<i>33%</i>	<i>31%</i>	<i>14%</i>
Minority Interest	-	-	-	-	-	-
Extraordinary Income/(loss)	-	-	-	-	-	-
<b>Net Income</b>	<b>35.4</b>	<b>77.5</b>	<b>72.4</b>	<b>16.6</b>	<b>19.8</b>	<b>27.1</b>
<i>Net Margin, %</i>	<i>14%</i>	<i>22.0%</i>	<i>22.3%</i>	<i>13%</i>	<i>13%</i>	<i>21%</i>
<b>Dividend Declared</b>	<b>-</b>	<b>18.3</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

### Balance Sheet Summary, USD mln

	2003	2004	9M05	2003	2004	9M05
<b>Current Assets</b>	<b>91.5</b>	<b>165.2</b>	<b>375.7</b>	<b>107.4</b>	<b>150.2</b>	<b>188.7</b>
Cash & Equivalents	43.7	85.3	259.0	1.0	1.0	1.6
Trade Receivables	7.4	8.9	19.7	6.5	27.3	32.3
Inventories	23.0	33.7	45.1	11.9	12.2	16.3
Other current assets	17.3	37.4	51.8	87.9	109.7	138.4
<b>Fixed Assets</b>	<b>124.2</b>	<b>139.4</b>	<b>161.4</b>	<b>134.3</b>	<b>121.7</b>	<b>128.8</b>
PP&E, net	105.7	107.3	112.8	109.0	106.4	112.0
Other Fixed Assets	18.6	32.1	48.6	25.3	15.3	16.8
<b>Total Assets</b>	<b>215.7</b>	<b>304.6</b>	<b>537.1</b>	<b>241.6</b>	<b>271.9</b>	<b>317.5</b>
<b>Shareholders' Equity</b>	<b>177.1</b>	<b>223.5</b>	<b>320.9</b>	<b>134.4</b>	<b>207.3</b>	<b>248.5</b>
Share Capital	59.6	52.0	61.1	0.3	0.3	66.0
Reserves and Other	82.0	112.4	181.9	106.6	157.8	97.5
Retained Earnings	35.4	59.2	73.9	27.5	49.2	80.6
Translation Adjustment	-	-	4.0	-	0.0	4.4
<b>Current Liabilities</b>	<b>34.4</b>	<b>75.8</b>	<b>86.3</b>	<b>71.0</b>	<b>20.9</b>	<b>28.5</b>
ST Interest Bearing Debt	4.2	14.2	22.8	1.1	0.0	0.0
Trade Payables	4.8	23.7	11.7	33.0	3.0	10.0
Accrued Wages	0.3	0.3	0.4	0.5	0.9	1.2
Accrued Taxes	0.2	5.0	0.1	0.4	0.4	1.9
Other Current Liabilities	24.9	50.8	51.3	36.0	16.6	15.5
<b>LT Liabilities</b>	<b>4.2</b>	<b>5.3</b>	<b>129.9</b>	<b>36.2</b>	<b>43.7</b>	<b>40.4</b>
LT Interest Bearing Debt	3.5	2.7	127.1	28.2	27.0	22.7
Other LT	0.8	2.6	2.8	8.0	16.7	17.8
<b>Total Liabilities &amp; Equity</b>	<b>215.7</b>	<b>304.6</b>	<b>537.1</b>	<b>241.6</b>	<b>271.9</b>	<b>317.5</b>

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