

**INITIATING  
COVERAGE**

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# Ukrainian Automotive Industry

## Corporate restructurings looming



Bogdan  
(LUAZ: BUY) 0.30  
Upside/Downside 50%

AvtoKRAZ  
(KRAZ: HOLD) 0.18  
Upside/Downside -10%

UkrAvto  
(AVTO: SELL)

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# INVESTMENT THESIS

## Investment summary

Company	Bloomberg
UkrAvto	AVTO UZ
AvtoKrAZ	KRAZ UZ
Bogdan Automobile Plant	LUAZ UZ

	Price 12M TP		Upside	Rec.
	USD	USD		
AVTO UZ	130.0	N/R	-	SELL
KRAZ UZ	0.20	0.18	-10%	HOLD
LUAZ UZ	0.20	0.30	50%	BUY

	Shares	MCap	Free float	
	mln	\$ mln	%	\$ mln
AVTO UZ	6.3	823.0	20%	164.6
KRAZ UZ	2.3	452.6	7%	31.6
LUAZ UZ	3.3	682.1	10%	68.2

### Key ratios, 2008E

	EV/S	EV/EBITDA	P/E
	AVTO UZ	0.7	12.9
KRAZ UZ	1.7	13.2	19.3
LUAZ UZ	0.8	11.4	8.5

### Key financials, 2007E, USD mln

	Sales	EBITDA	Net Income
	AVTO UZ	322.3	115.5
KRAZ UZ*	211.6	26.2	15.6
LUAZ UZ	434.0	33.9	18.0

\* Restated

**Ukraine's solid macroeconomic backdrop (average growth over the last three years in real GDP at 6% and real disposable income at 16%) is providing the spark to the domestic automotive sector. Over the last 12 months, Concorde's Automotive Index bested the PFTS by 75pp. On the mid-term horizon is the creation of larger auto holdings, which are likely to involve all traded names, to mixed benefit. Taking the holdings public will serve as catalysts. Our top pick in the segment is Bogdan Automobile Plant, on the strength of its current expansion plan, which we believe is not fully factored into its stock price.**

### Ukrainian macroeconomic backdrop paves the road

Over 2005-2007, the rapid expansion in the Ukrainian economy (real GDP growth at 6% CAGR) and accelerating transportation needs (freight turnover grew doubled) led to a 156% upshift in new car sales. We expect that in the mid-term, the Ukrainian automotive sector will enjoy double digit growth based on the sound outlook for real disposable income (13% annual growth over 2008-09), real GDP (7% annual growth over 2008-09), and freight and passenger transportation.

### WTO & dependence on suppliers: margin constrictors

Two key factors will restrict Ukrainian car producers' margins: the 15%-25% drop in import duties for cars in 2009 as part of Ukraine's WTO accession accords and the high bargaining power of auto part suppliers. Meanwhile, with less dependence on the supply chain, truck producers (importing only 40% of parts vs 80% for car makers) will be better able to defend their margins.

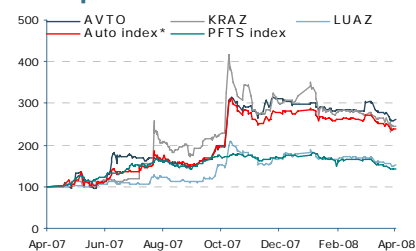
### Holdings' strategic plans rife with catalysts

Last year Bogdan and AvtoKrAZ announced strategic plans to create holdings and thereafter to take the new structures public. We expect IPOs by these automotive holdings over 2008-2009 to provide catalysts for underlying stocks. The plans of UkrAvto's owner to create a car distribution holding, in our view, carry high risk of asset stripping or dilution at UkrAvto.

### Recommendations

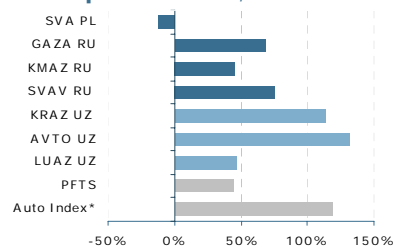
We initiate coverage of the Bogdan Automobile Plant with a BUY recommendation and target price of USD 0.30 per share. Our upgraded target price for AvtoKrAZ of USD 0.18 per share, prompting us to reiterate HOLD. High risk of asset stripping and dilution at UkrAvto spoils the company's investment case, we initiate coverage with a SELL rating, without a target price.

### Stock performance

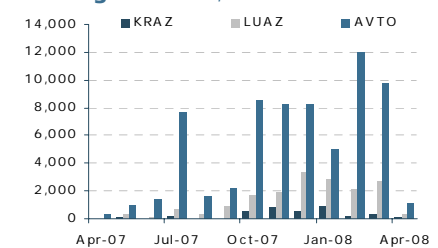


Note: Concorde Capital's Automotive Index is market capitalization weighted, free float adjusted; it includes AVTO UZ, KRAZ UZ, LUAZ UZ.  
Source: PFTS, Bloomberg, Concorde Capital

### Stock performance, 12M\*

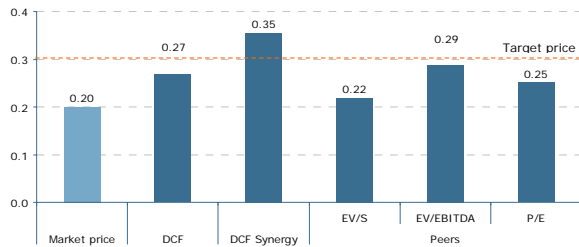


### Trading volumes, USD ths



## Investment cases

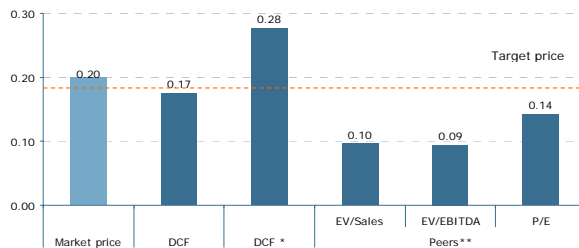
### VALUATION RESULTS, USD PER SHARE



### Bogdan: BUY

- Bogdan's revenues almost doubled in 2007; we expect 1.8x growth this year to USD 1.26 bln
- The company is implementing a five-year (2005-2009) USD 300 mln CapEx program to boost capacity 3x and increase its share of car production by 4pp to 14% by 2009
- Margins will decrease up to 3.6pp by 2010, by our estimates, as a result of: (1) lower import duties for cars in 2009 as part of Ukraine's WTO agreements (down 15pp to 10%); (2) rising bargaining power of suppliers (up to 80% of assembly parts are imported from foreign suppliers)
- High level corporate governance. 2004-2006 IFRS financials are publicly available, 2007 accounts are expected in May
- Stock catalyst: creation of Bogdan holding (merger with Cherkasy Bus and three production companies) in 2H08

### VALUATION RESULTS, USD PER SHARE

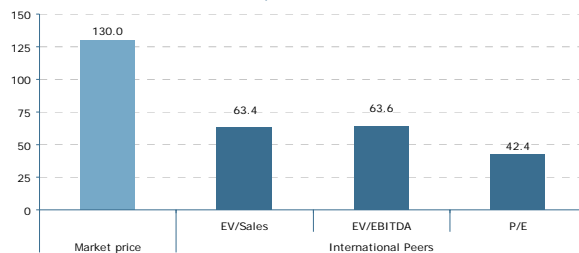


Note: DCF \* indicates our optimistic scenario (see page 39), \*\* KRAZ peer valuation based on adjusted financials

### AvtoKrAZ: HOLD

- Truck sales to Russia grew 2.8x in the last two years; we expect them to double by 2011; Growth is supported by Russia's soaring demand and insufficient capacities until at least 2012
- AvtoKrAZ has not realized two-year-old plans to assemble trucks in Asia and Latin America; if the company launches assembly in these markets in 2009, sales could grow at 17% CAGR until 2016 vs. 14% under our base case scenario
- Officially reported financials continue to be foggy. Disclosure of IFRS financials is expected this year
- IPO of KrAZ holding would be a stock catalyst; we expect management to announce a final decision on IPO in 2008

### VALUATION RESULTS, USD PER SHARE



Source: PFTS, Concorde Capital estimates

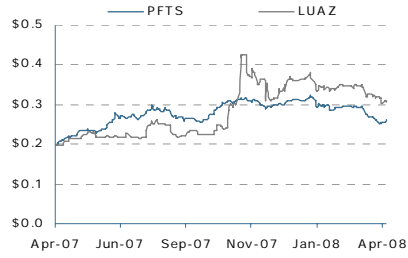
### UkrAvto: SELL

- Automotive blue chip (free float of USD 165 mln, average monthly volumes over last 6M of USD 9.5 mln)
- Market misunderstands investment case for UkrAvto, in our opinion, mixing up all with all things that carry the UkrAvto brand name. UkrAvto is not an automaker, it operates a distribution and service network, also exposed to insurance
- Market could have also overlooked the transitory nature of last year's rise in profitability, due to VAT exemptions in 2H07, overreacting to high published margins (its net margin in 2007 was 45.8% vs industry average of 2.2%)
- Company financials only consolidate 38 of 640 related companies and reflect less than 50% of all network revenues, according to our estimates
- UkrAvto is 80% held by entities related to businessman Taniel Vasadze; we see a high risk of dilution/asset stripping in management's plans to create an auto distribution holding, given low regard for minority shareholder interests

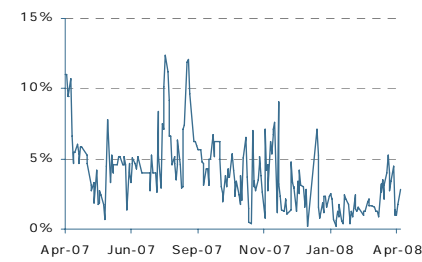
# Stock market monitor

## Bogdan Automobile Plant (LUAZ)

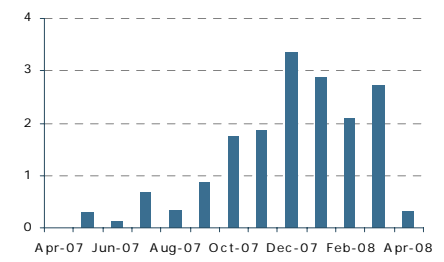
Stock performance



Spread, %

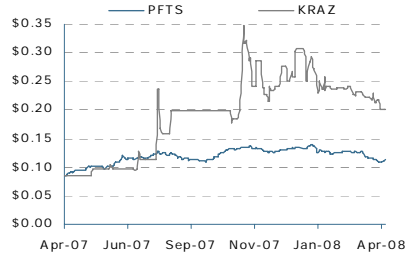


Monthly trading volumes, USD mln

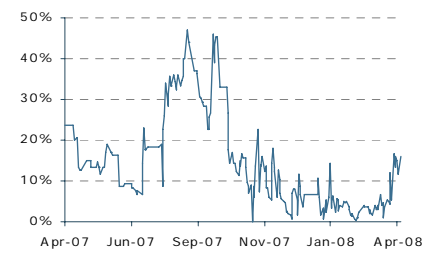


## AvtoKRAZ (KRAZ)

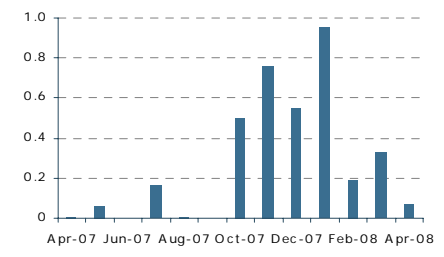
Stock performance



Spread, %

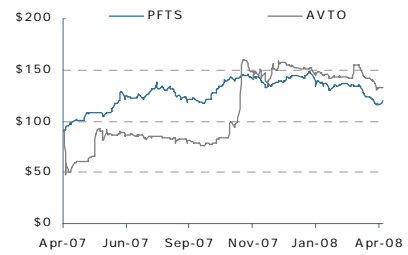


Monthly trading volumes, USD mln

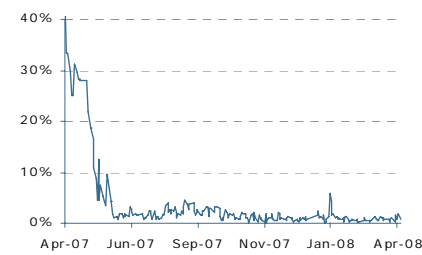


## UkrAvto (AVTO)

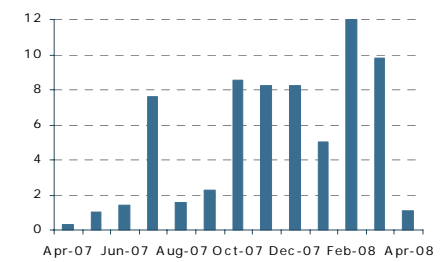
Stock performance



Spread, %



Monthly trading volumes, USD mln



Source: PFTS

## Sector introduction

The Ukrainian auto market is represented on the PFTS by three stocks: AvtoKrAZ (KRAZ), producer of heavy trucks under its namesake brand; Bogdan (LUAZ), an assembler of international car makers, as well as Bogdan branded light trucks and buses; and UkrAvto (AVTO), an auto distributor controlled by the owner of Ukraine's largest automobile plant, ZAZ.

Together, the three listed companies control 14% of car production in Ukraine, 57% of truck and bus production and 38% of the car distribution market.

Company	2007E Sales, USD mln	Main products/services	Main shareholders
AvtoKrAZ	211.6	Heavy trucks (over 10 mt, KRAZ)	K. Zhevago* (Finance & Credit)
Bogdan	697.3	Cars (VAZ, KIA, Hyundai), Trucks (up to 3.5 mt, Isuzu), Buses (Bogdan)	Bogdan Associates
UkrAvto	465.1	Car distribution and servicing	T. Vasadze*

\* Verkhovna Rada deputies in the Tymoshenko Bloc. Source: Company data, Concorde Capital.

The Zaporizhya Automobile Plant (aka ZAZ, Ukraine's biggest automaker) and smaller producers Eurocar and KrASZ are not listed on stock exchanges. We see them as candidates for listing in the mid-term – their descriptions are in the company profile section of this report.

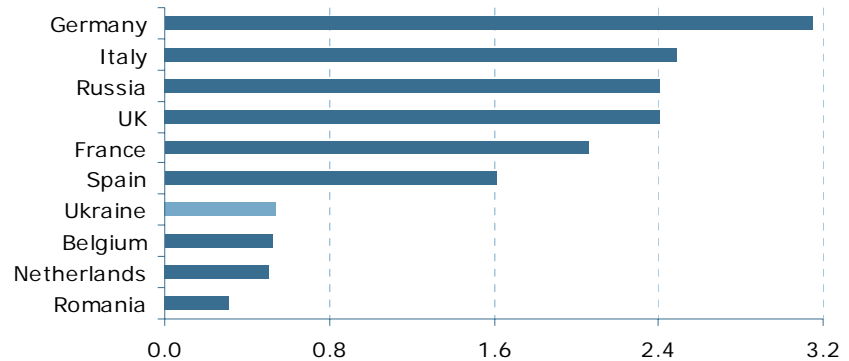
## **MARKET OVERVIEW**



## Behind the wheel: market drivers

Ukraine is one of the largest car markets in Europe, ranking seventh in new car sales in 2007. Annual demand for new cars has expanded 3.5x over the last four years, and we expect it will increase 2.7x by 2015.

### Europe's top 10 car markets in 2007, mln units



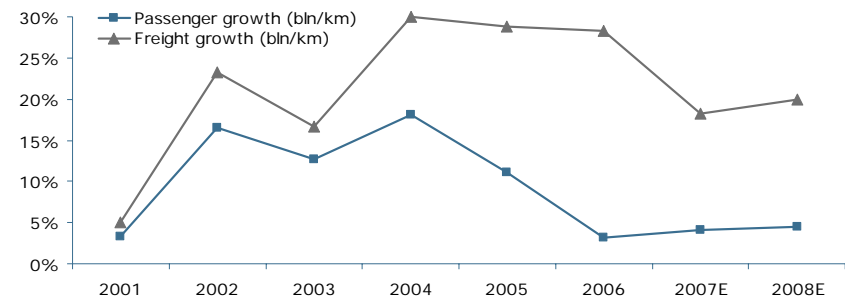
Source: Global Insight

We believe three factors will drive demand for vehicles in Ukraine over the mid-term: economic growth, easier auto financing, and replacement needs.

### #1 economic growth

The double in Ukraine's real GDP over the last seven years has stimulated increases in key transportation indicators: freight turnover by fivefold, passenger turnover by 1.7x and car penetration by 1.5x.

### Passenger and freight turnover growth

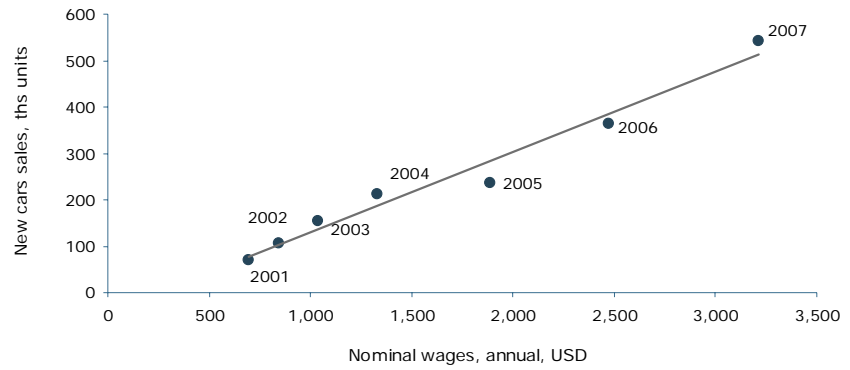


Source: State Statistics Committee, Concorde Capital estimates

Key mid-term drivers for passenger and freight turnover, besides increased business activity, will be major international sporting events. In 2012, Ukraine will cohost the UEFA European Soccer Championship with Poland. In addition, demand for Ukrainian trucks and buses in the CIS will be fuelled by the 2011 Asian Winter Games in Almaty (Kazakhstan) and the 2014 Winter Olympic Games in Sochi (Russia).

The average Ukrainian's salary increased 129% in nominal terms over 2005-2007, motivating demand for passenger cars: penetration grew 28% during the period.

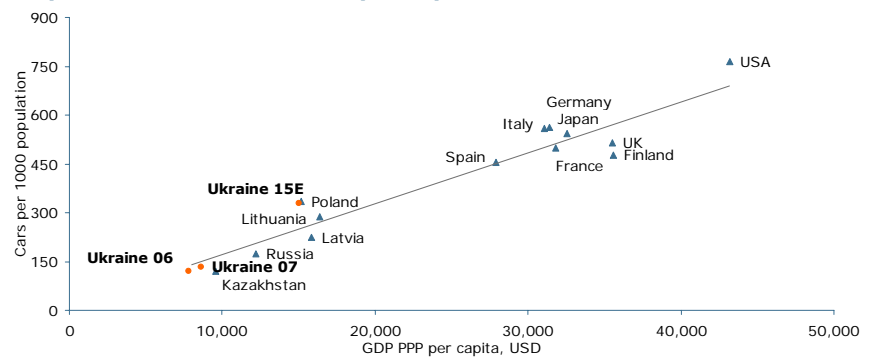
### Nominal wages vs. new car sales



Source: Autoconsulting, Concorde Capital

Currently Ukraine's car penetration (130 cars per ths people) corresponds to the global trend line of GDP per capita.

### Car penetration and GDP PPP per capita in selected countries, 2006



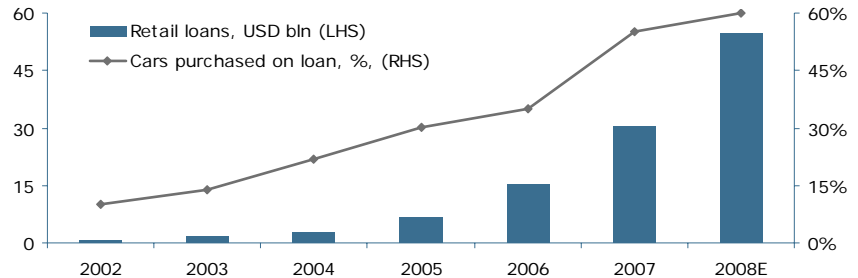
Source: IMF, EIU, Concorde Capital estimates

By 2015, we assume that Ukraine's GDP PPP and car penetration will both reach Poland's current level, which implies the total number of cars in Ukraine will grow by about 9.2 mln over the next eight years. Hence, we believe car penetration will continue to grow faster than Ukraine's GDP per capita over the mid-term.

## #2 easier auto financing

The rapid development of Ukraine's retail banking sector is stimulating new car purchases: according to the First Ukrainian International Bank, Ukraine is among the top ten countries in Europe by share of cars purchased on loan (55% in 2007).

### Auto lending dynamics in Ukraine



Source: National Bank of Ukraine, First Ukrainian International Bank, Concorde Capital estimates

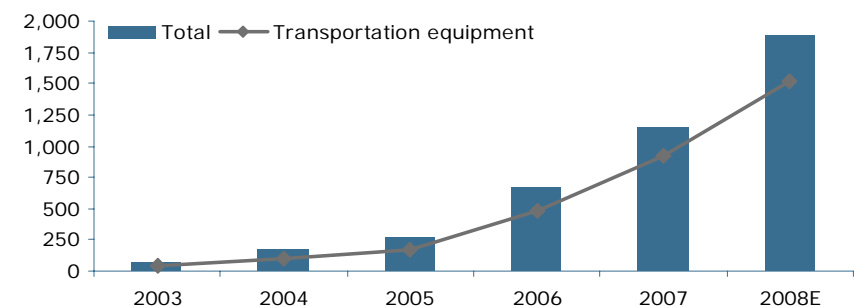
The key factor supporting growth in car purchases on loan has been decreasing interest rates, driven down by competition among banks (by 1.5-2pp in the last two years), and simplification of loan agreement procedures. Specialized "car banks" have emerged to stimulate growth in car purchases via loans:

**Case study: Renault Bank opened in Ukraine.** Renault Credit International (RCI) Banque – launched a subsidiary in Ukraine in late 2007. The bank plans to issue loans for 25% of all Renault car sales in Ukraine this year. Currently the bank provides loans for about 6% of purchases: about 2x lower than the average Ukrainian bank.

Though lending conditions can get tighter in 2008, due to prevailing volatility on global financial markets, in the mid-term we expect interest rates on car loans to decrease (2pp in the next two-three years). We believe about 60% of cars to be purchased on loan in 2008.

Another financial instrument – leasing – is set to mainly stimulate demand for trucks and buses. The Ukrainian leasing market grew 4.2 times over last three years. About 80% of all leases in Ukraine involve transportation equipment (railcars, automobiles, trucks, buses).

### Transportation equipment leasing in Ukraine, USD mln



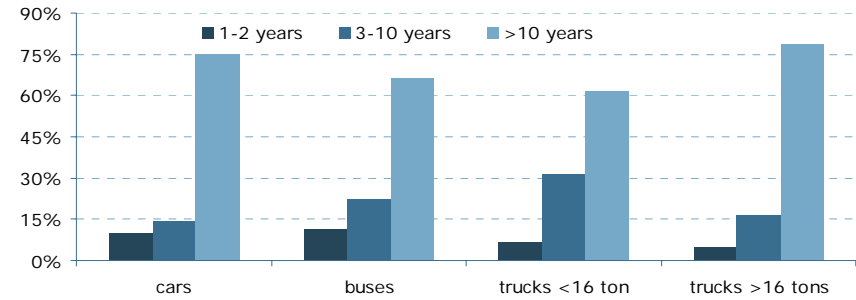
Source [www.leasing.org.ua](http://www.leasing.org.ua)

Municipal administrations have started to use leasing as an instrument to expand their bus fleets with minimal impact on local budget spending. In February 2008, the Kyiv City Administration announced plans to lease 500 buses.

### #3 replacement needs

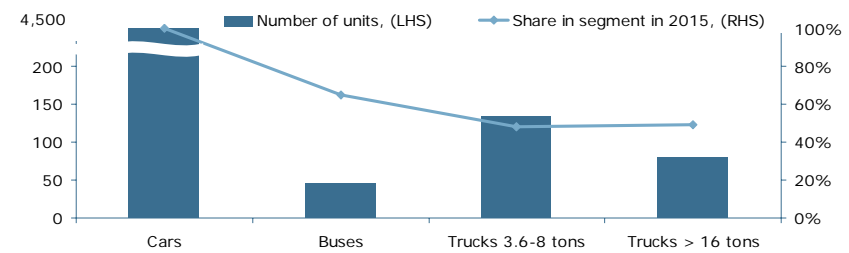
The average age of passenger cars in Ukraine is 13 years vs. 12 in Russia and eight in the European Union. We forecast that the pace of replacing outdated vehicles will accelerate and that by 2015 all cars older than the 1997 production year will be off Ukrainian roads. We also estimate that 50%-60% of buses and trucks from the 1997 production year and older will be replaced by 2015.

#### Age structure of vehicles in Ukraine in 2007



Source: UkrAvtoprom Association of Ukrainian Car Producers

#### Replacement forecast: Vehicles 1997 and older to be replaced by 2015



Source: UkrAvtoprom Association of Ukrainian Car Producers

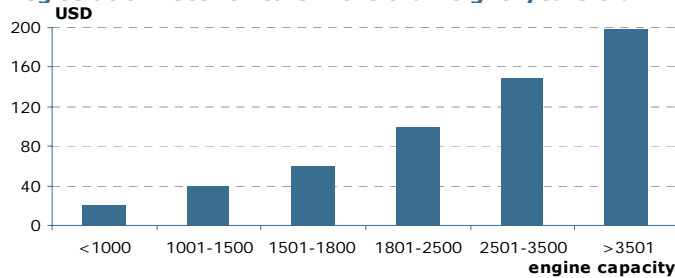
The Ukrainian legal framework gives Ukrainians and Ukraine-based businesses reason to prefer buying new cars and trucks, as purchasing used imported vehicle entails mandatory registration fees and excise taxes.

#### Case study: Registration fees for used vehicles in Ukraine.

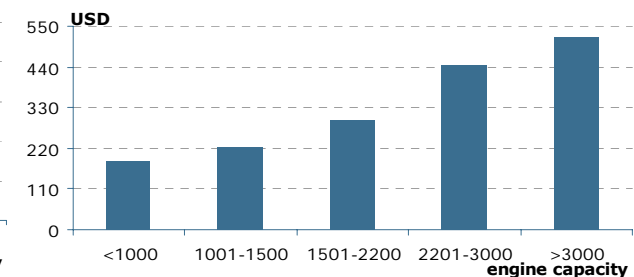
In December 2006 registration fees for vehicles (USD/cm<sup>3</sup> of engine capacity) older than eight years were increased by 30x-50x. These fees, together with the March 2005 twofold hike in excise taxes on old cars makes importing used cars uncompetitive with new ones, increasing the former's price by up to 80%.

#### Fees and taxes on used imported cars, USD/100 cm<sup>3</sup> of engine capacity

##### Registration fees for cars more than eight years old



##### Excise taxes on cars more than five years old



Source: Verkhovna Rada

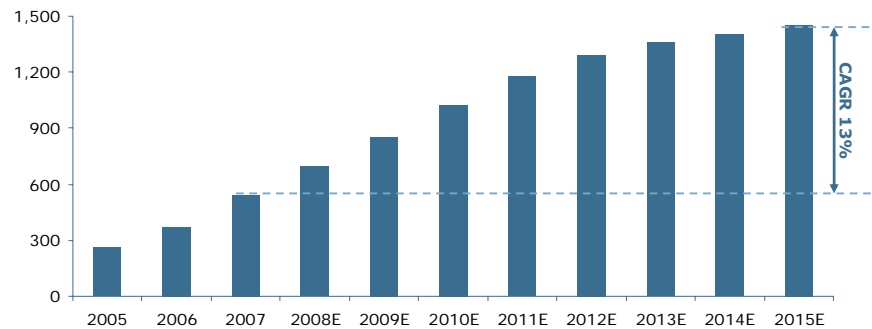
## Car sector

### Demand trends

The new car market in Ukraine grew 46% yoy in 2007 to become one of the top-10 markets in Europe. The main reasons were: increases in Ukrainians' income level; car loan accessibility (share of cars sold by loans increased to 55% vs. 35% in 2006); banks' preference to provide loans for new car purchases rather than for used vehicles); as well as the registration duties and excise tax on used cars.

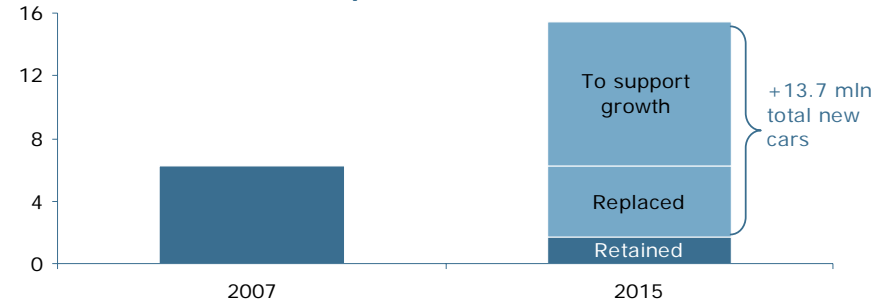
Given the growth in Ukrainian car penetration and cyclical replacement needs, we expect demand for new cars will grow 2.6 times by 2015.

#### Sales of new cars in Ukraine, ths units



Source: Autoconsulting, Concorde Capital estimates

#### Ukrainian car market development, mln units

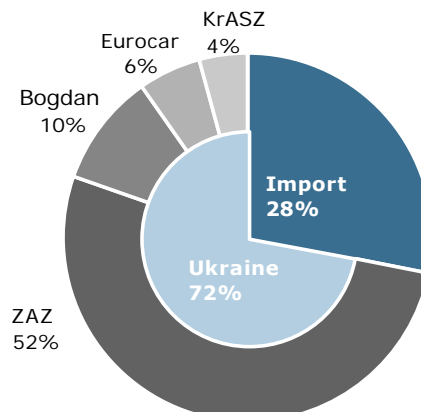


Source: Bogdan, Concorde Capital estimates

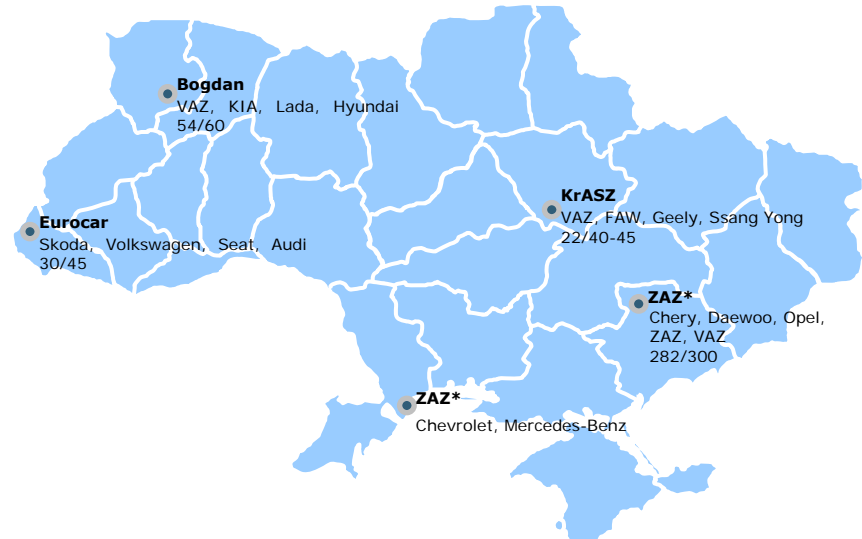
### Ukrainian car producers

Four local car producers dominate the Ukrainian OEM market, accounting for 72% of new cars sold in 2007.

#### Ukrainian car market split by producers, 2007

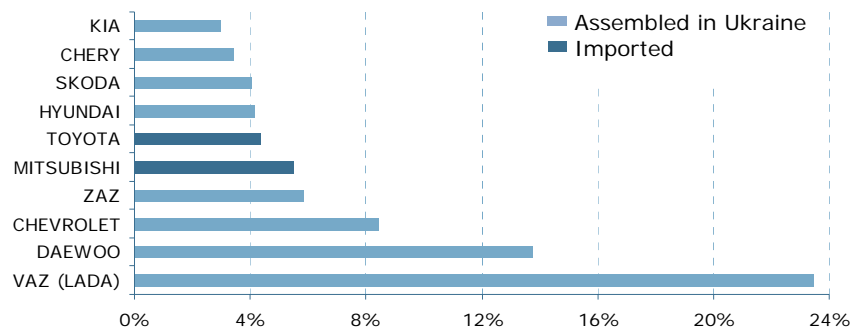


Source: Company data, UkrAvtoprom Association of Ukrainian Car Producers

**Ukrainian car producers (2007 Production/Capacity, ths units)**


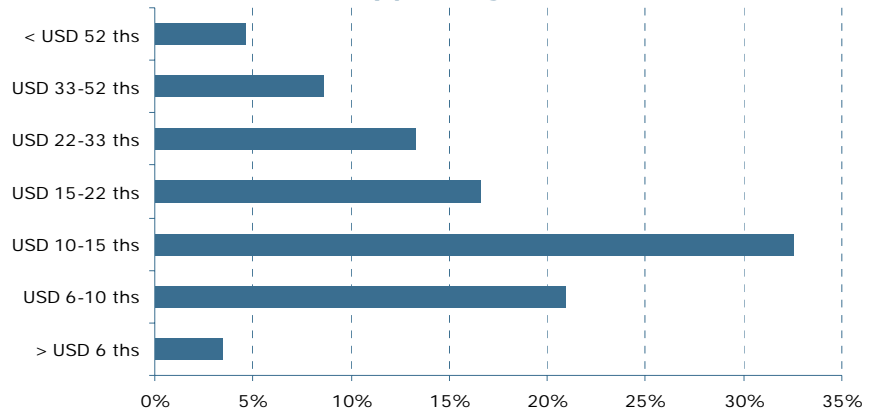
\* 282/300 ths units is aggregated for both ZAZ plants

Thanks to import duties and strong branding, domestically produced models dominate new car sales.

**Market share of ten most popular brands in Ukraine, 2007**


Source: Bogdan

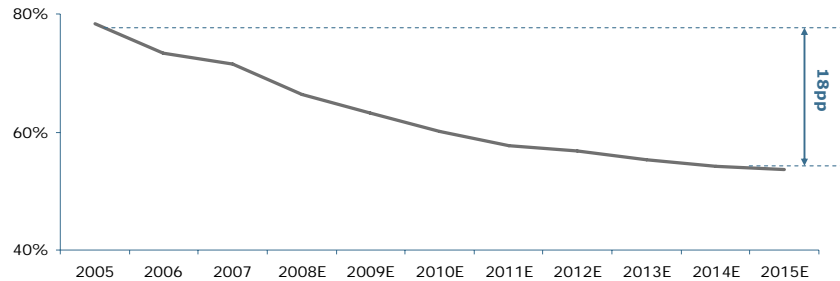
Most cars sold in Ukraine are of B and C classes (price range USD 10-33 ths).

**Share of cars sold in Ukraine by price segment, 2007**


Source: Bogdan, Concorde Capital calculations

With the overall market growth and domestic car producers' strong positions, we expect their share of the new car market in Ukraine to fall from 72% in 2007 to 54% over the next eight years. Our estimates, based on announcements by Ukrainian automobile manufacturers, for growth in production capacities by 2012 is lower than anticipated growth in domestic demand: 69% vs. 138%. Since 2005, Ukrainian producers have already seen their share of the local market erode by 6%.

**Ukrainian car producers share of the domestic new car market**



Source: Concorde Capital estimates

We do not exclude a scenario where domestic automakers either revise capacity upgrade plans upward or intensify cooperation with international players. Either move could help Ukrainian automakers defend their market share, but in lieu of concrete announcements, we do not account for these scenarios in our forecasts.

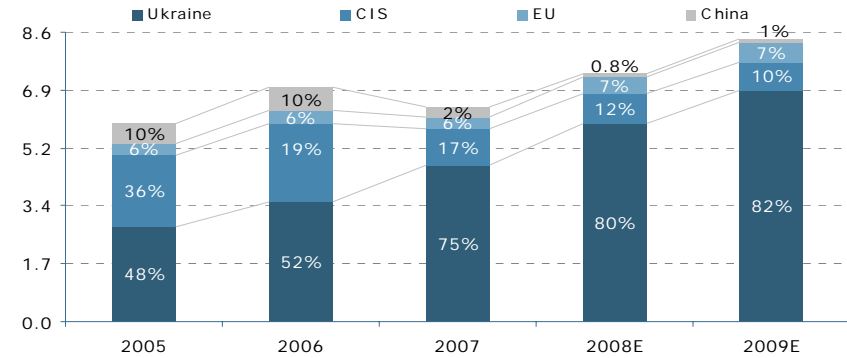
## Bus sector

### Demand trends

From 2005 to 2007, the number of buses in use in Ukraine grew 7% to 105 ths.

Sales of Ukrainian buses grew 81% yoy in 2005 from 2.6 ths units to 4.7 ths, as most domestic manufacturers launched serial production lines. By 2007, the market share of domestic producers in sales of new buses increased to 75%.

#### Sales of new buses in Ukraine by origin, ths units

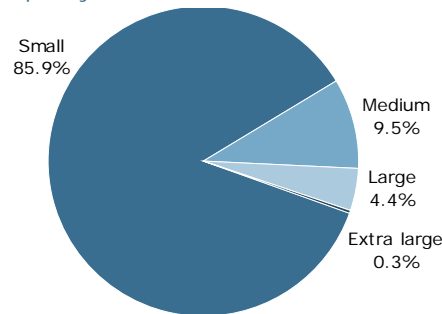


Source: Bogdan, Concorde Capital estimates

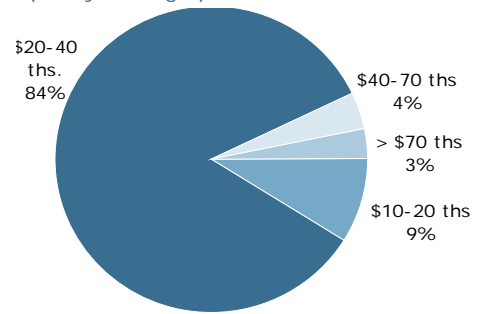
The key reason for Ukrainian producers' success is that they reached agreements with local private transportation companies to supply them with small and mid-sized buses, after winning a lobbying battle to get municipal governments to restrict the use of mini-buses (less than 14 passengers). In 2007, while new bus purchases in Ukraine (in units) fell 10.5% yoy, total passenger capacity of new buses sold rose 10% yoy, according to our estimates.

#### Ukrainian bus market in 2007

Split by class



Split by average price

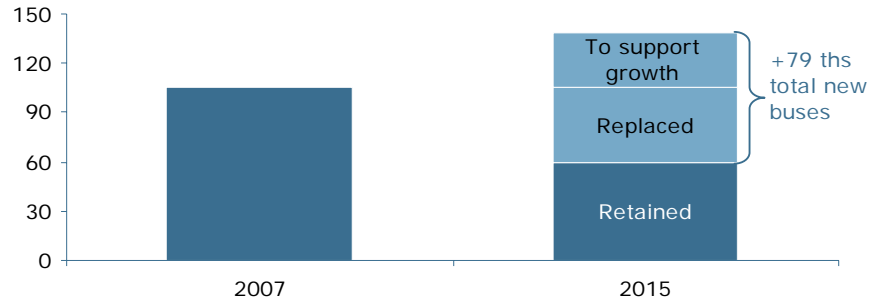


Source: UkrAvtoprom Association of Ukrainian Car Producers. Note: Small buses have passenger capacity of less than 25 people, mid-size buses – up to 35, large buses – over 35, and extra-large – over 100

We expect bus sales to grow at 8% CAGR until 2015, driven by replacement needs (70% of buses in Ukraine are more than 10 years old) and passenger transportation growth (4% p.a. on average during the period).

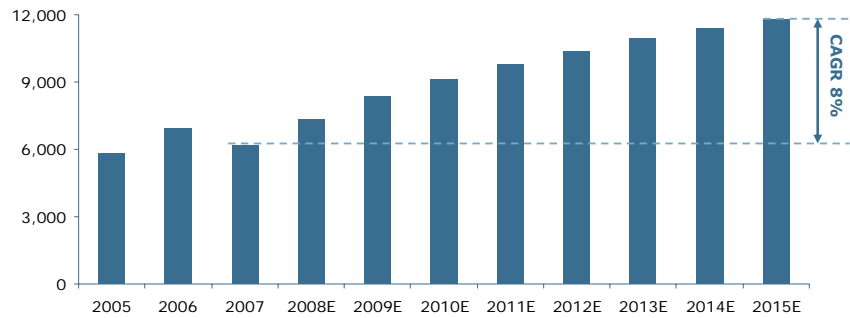


### Ukrainian bus market development, ths units



Source: Bogdan, Concorde Capital estimates

### Sales of new buses in Ukraine, ths units

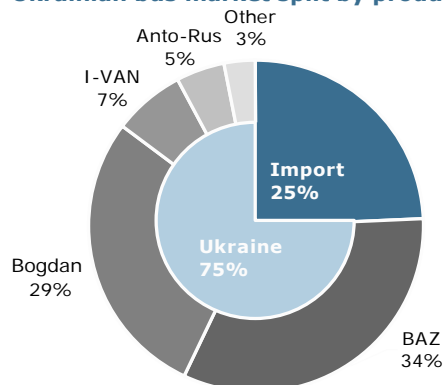


Source: Autoconsulting, Concorde Capital estimates

## Ukrainian bus producers

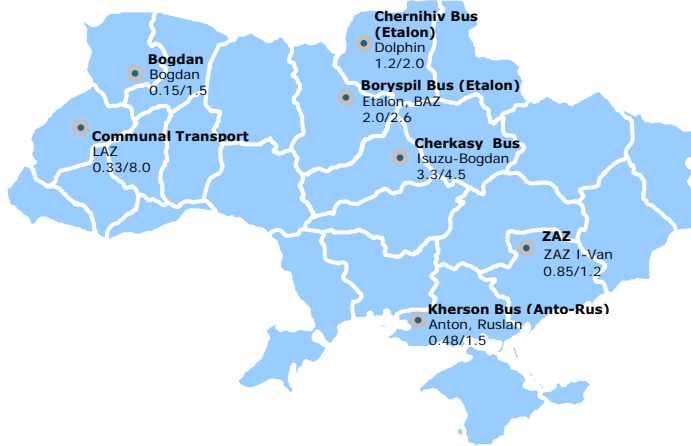
Ukrainian bus producers are targeting the largest and fastest growing segment of the market: mid-size buses ideal for short distance routes. The narrow segment of more expensive large and extra-large buses for longer-distance routes is mostly occupied by international players.

### Ukrainian bus market split by producers, 2007



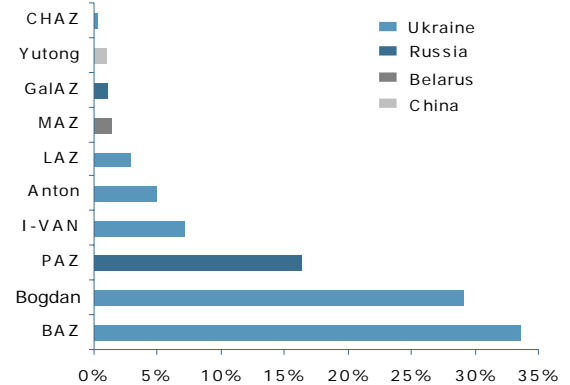
Source: UkrAvtoprom Association of Ukrainian Car Producers

**Ukrainian bus producers**  
(2007 Production/Capacity, ths units)



Source: Company data, Concorde Capital estimates

**Market share of ten most popular brands in Ukraine, 2007**



Source: Bogdan

Besides their focus on the mid-size bus segment, Ukrainian bus producers have staked out their positions on the market over the last two years with:

- Cost advantage over more expensive imports due to transportation costs, which raise the sticker price of import models by 20-25% on average
- Wide distribution chains; availability of spare parts and service facilities
- Lobbying power to procure large orders from municipal governments

We expect the share of domestic producers will reach 90% by 2015, mostly driven by growing orders from municipal governments, which are moving to modernize their bus fleets with mid-sized buses.

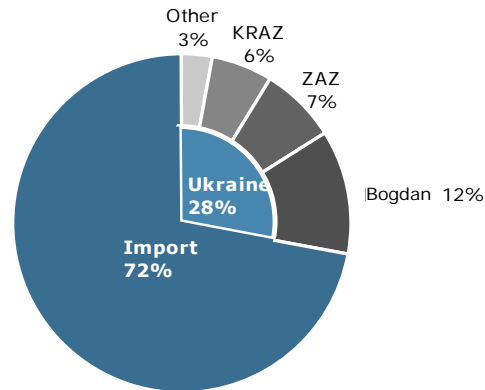
About 60% of domestically produced buses are sold in Ukraine, though producers have plans to expand sales to elsewhere in Eastern Europe (Russia, Moldova, Belarus) and to the Middle East (Iran, Iraq, Afghanistan, Egypt, Saudi Arabia).

# Truck sector

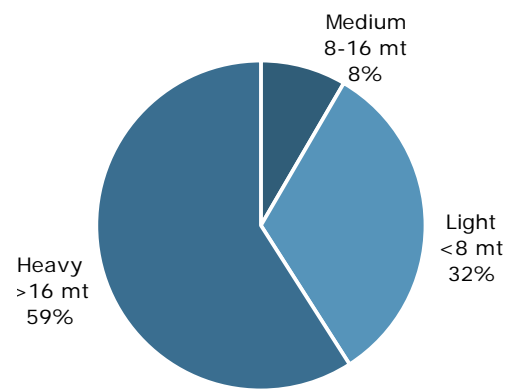
## Demand trends

### Ukrainian truck market in 2007

Split by producers

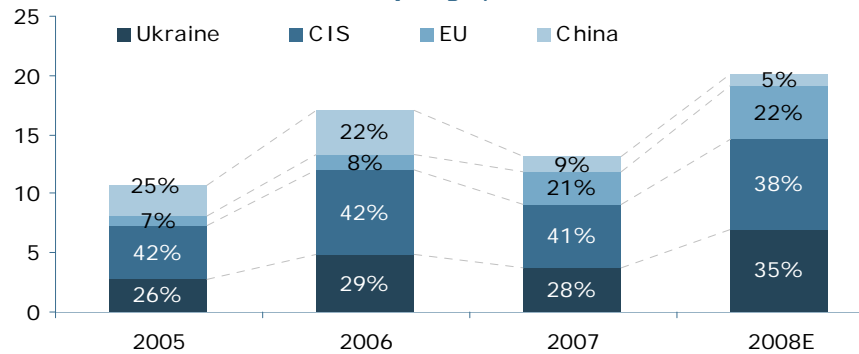


Split by capacity



Source: UkrAvtoprom Association of Ukrainian Car Producers, Concorde Capital estimates

### Sales of new trucks in Ukraine by origin, units ths



Source: Bogdan

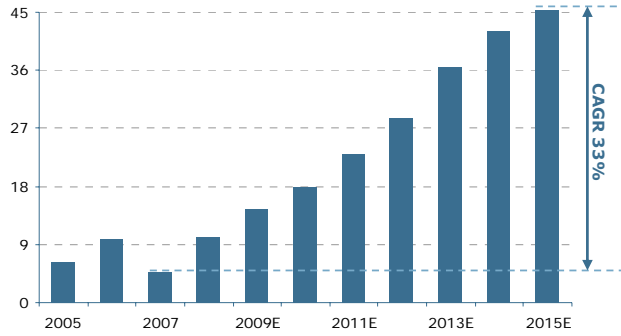
Last year was marked by a 23% decrease in new truck sales in Ukraine. Two key reasons led to this drop: (1) a high comparison base in 2006 from the rush to purchase trucks equipped with *Euro-1* and *Euro-0* engines ahead of the implementation of *Euro-2* standard in Ukraine, and (2) the inflow of cheaper used trucks to Ukraine in 2007, mostly light trucks (load below 8 mt) from new EU countries, which brought their legislation in compliance with stricter EU ecological engine standards (*Euro-4*). This created the need to replace their existing truck fleets with *Euro-3* engines. Countries east of the EU, such as Ukraine, where *Euro-3* standards are acceptable, became markets for these castoffs.

#### Case study: Euro Engine Standards

Ecological *Euro* standards were created in 1992 by a United Nations committee to restrict emission from both petrol and diesel cars of carbon monoxide, hydrocarbon, nitrogen oxide and particulate matter, which are considered harmful to human health. Higher *Euro* numbers correspond to higher ecological standards. The law "On Importing Vehicles to Ukraine and Vehicle Registration" of 2006 brought the *Euro-2* standard to Ukraine. Meanwhile, legislation implementing the *Euro-4* standard in EU countries was passed in 2005.

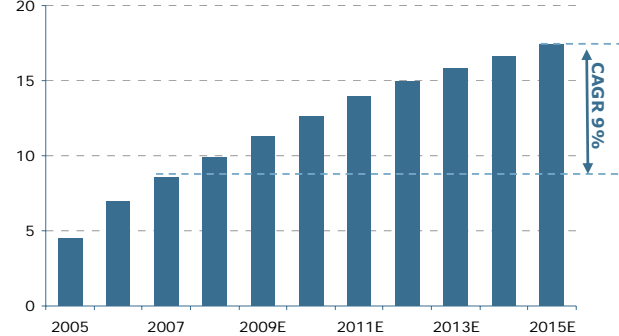
**Demand for new Ukrainian trucks, ths units**

Light trucks 3.6-8 tons



Source: Bogdan, Concorde Capital estimates

Heavy trucks: &gt;16 tons



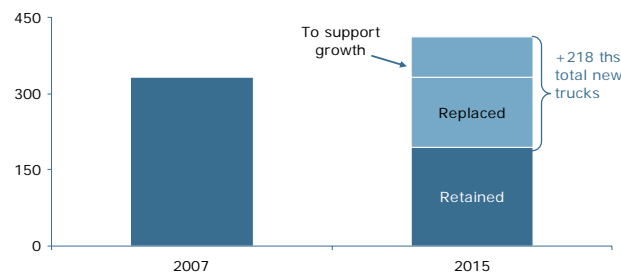
We believe the run of used EU trucks resold in Ukraine will be exhausted by the end of 2008, and in 2009 the balance of light and heavy trucks sold domestically will return to its 2006 level.

We forecast light pickup trucks sales until 2015 will be twice as much as heavy trucks due to higher replacement needs: 278 ths light pickups in Ukraine were older than the 1997 production year in 2007 vs. 163 ths heavy trucks, while light trucks have a shorter useful life.

We expect demand for trucks in Ukraine to increase by 4.4x for light trucks and 1.7x for heavy trucks from 2008 to 2015, driven by freight transportation growth (on average by 12%) and replacement needs (75% of trucks are more than 10 years old).

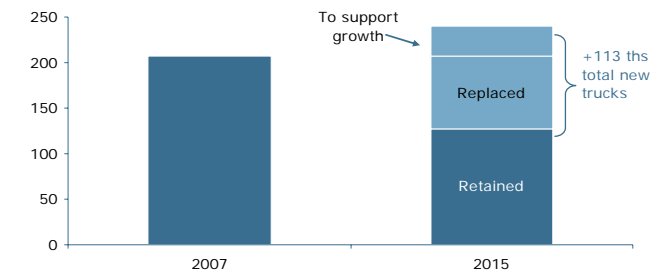
**Ukrainian truck market development, ths units**

Light trucks 3.6-8 tons



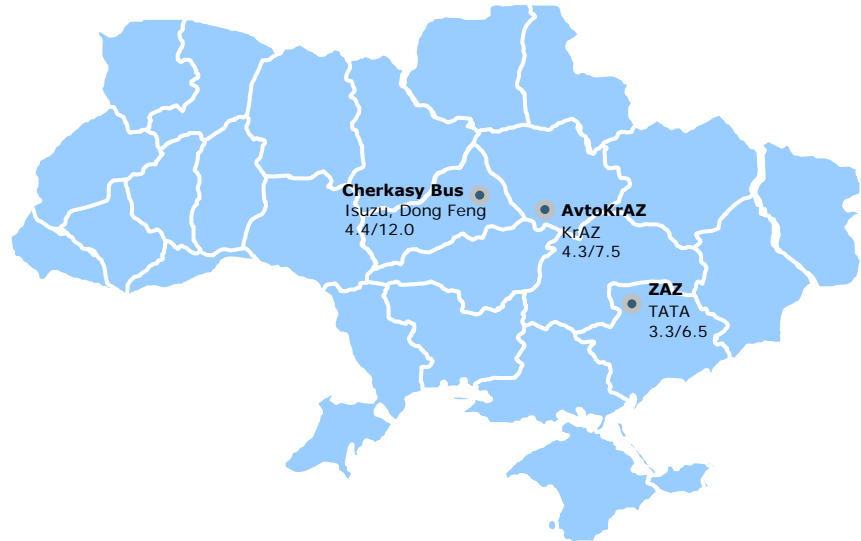
Source: Bogdan, Concorde Capital estimates

Heavy trucks: &gt;16 tons



## Ukrainian truck producers

Ukrainian truck producers (2007 Production/Capacity, ths units)

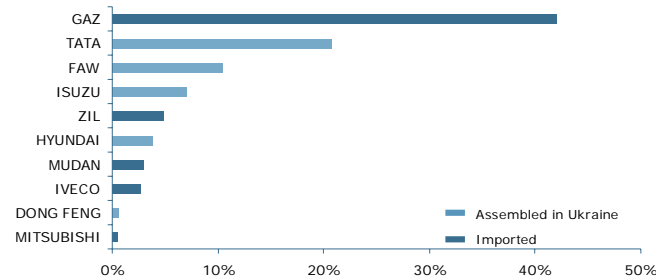


Source: Company data, Concorde Capital estimates

Domestic producers occupy 27.5% of the Ukrainian light trucks segment; the largest presence is that of Bogdan and ZAZ, which compete with Asian and Russian manufacturers. European producers are not represented on the light trucks market; they have targeted middle and heavy trucks. AvtoKrAZ, with 13.5% of the Ukrainian heavy truck market, is the main local player, facing competition from CIS producers.

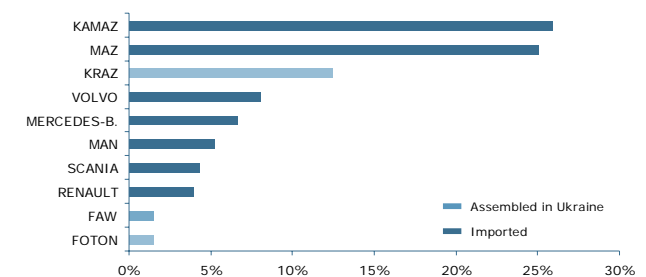
### Market share of ten most popular brands in Ukraine, 2007

Light trucks: 3.6-8 tons



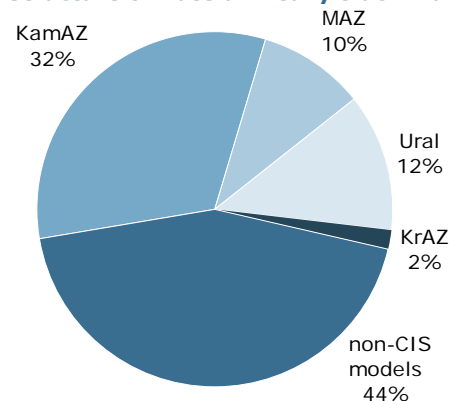
Source: Bogdan

Heavy trucks: >16 tons



The Russian market is crucial to AvtoKrAZ, as it accounts for 50% of the company's sales. AvtoKrAZ holds 2% of the Russian heavy truck market.

### Structure of Russian heavy truck market in 2007



Source: Company data

**Main heavy truck producers in CIS**

<b>Company</b>	<b>Brands</b>	<b>Capacity in 2007</b>	<b>Number of cars produced in 2007</b>
KamAZ	KamAZ	53ths	53ths
GAZ	GAZ, Ural	n/a	16ths
MAZ	MAZ	25ths	23ths
AvtoKrAZ	KrAZ	8ths	4ths

*Source: Company data, Concorde Capital estimates*

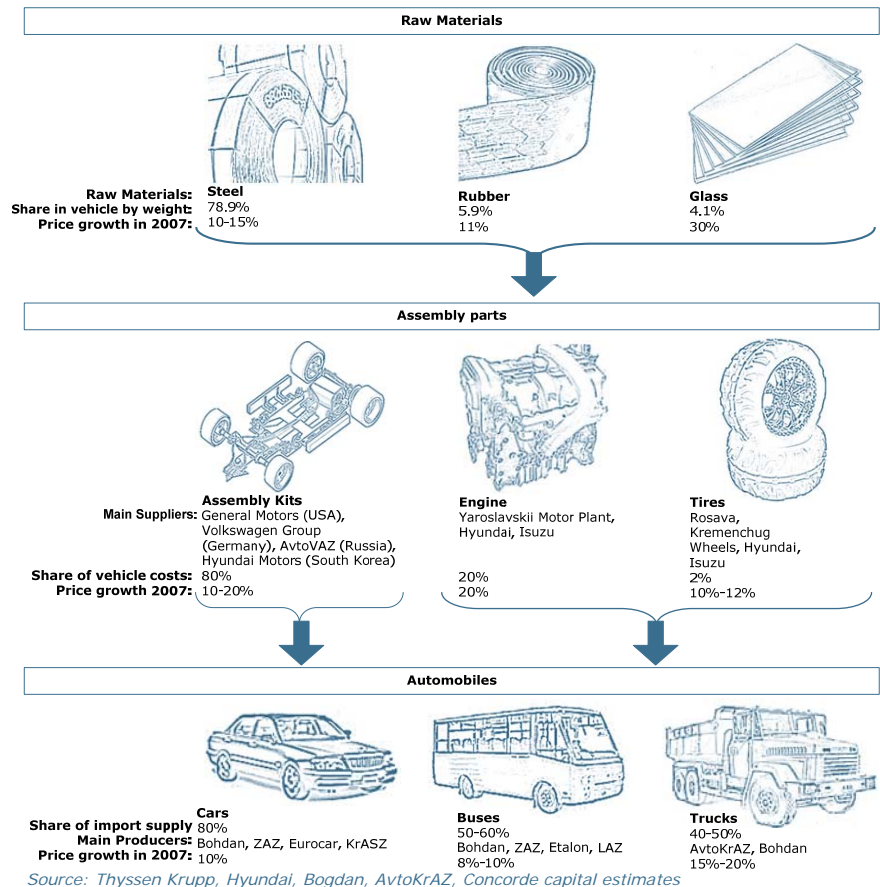
The Russian heavy truck market is promising for Ukrainian producers in the short-and mid-term: Russian competitors are currently working at close to full capacity and are unable to meet growth in local demand. The major Russian player in heavy truck segment, KAMAZ is working at full capacity and starting to implement a five-year CapEx program to triple its capacity by 2012. We expect the Russian heavy truck market will grow at 11% CAGR until 2012, and with insufficient supply from local producers, AvtoKrAZ will double its sales to Russia over this period.

## Supply chain & WTO accession: margin restrictors

Part suppliers' bargaining power and increased competitive pressure brought about by decreased import duties as part of WTO agreements, figure to weigh on domestic producers' margins.

### Raw materials & assembly parts

Ukraine is heavily dependant on imported assembly parts: imports account for 80% of car production costs and 40%-60% of bus and truck production costs.



The substantial bargaining power of international component suppliers, without the possibility of substitution is holding auto makers hostage globally. Domestic manufacturers are no different, facing the same difficulties in finding locally-produced equivalents, which implies high operating risks: last year, prices for imported parts grew faster than their production costs (difference of 1-6pp depending on the part).

## WTO entrance: Import duties set to lower

As historically one of the most protected industries from imports, the automobile industry will face the most rapid increase in competitive pressure after Ukraine's accession to the WTO. Import duties for automobiles are currently 20%-25%, while *WTO Schedule CLXII-Ukraine* stipulates duties of no more than 10%-15%.

### Ukrainian import duties on automobiles

	Current	Post-WTO Limit
Duty for assembly parts	0%	0%
Import duty for new cars	25%	10%
Import duty for new buses	20%	10-15%
Import duty for new trucks	20%	10%
Import/export duty on new vehicles to/from Russia	0%	0%

*Source: Ukrainian Law On Duties and Tariffs, WTO Schedule CLXII - Ukraine*

Ukraine will officially become a member of the WTO 30 days after its Ministry of Foreign Affairs notifies the WTO that parliament ratified accession protocols, which were passed on April 10. Ukraine still has to amend the domestic laws to bring legislation in line with WTO provisions and revise import duties. Stanislav Scherbina, the president of the Ukrainian Association of Automobile Importers and Dealers, forecasts that WTO-related changes to import duties for automobiles will come into force beginning in 2009.

## Summary

We account for the risks to Ukrainian auto manufacturers' supply chain and increased competitive pressure by decreasing our EBITDA margin forecasts by 1.6pp to 10.0% in 2008, and by 3.6pp to 8.0% in 2010 for Bogdan, following the implementation of decreased import duties. Meanwhile, more competition from imports will have a muted affect on AvtoKrAZ: we decrease our EBITDA margin estimate for it by a modest 1.1pp in 2008.



## **COMPANY PROFILES**

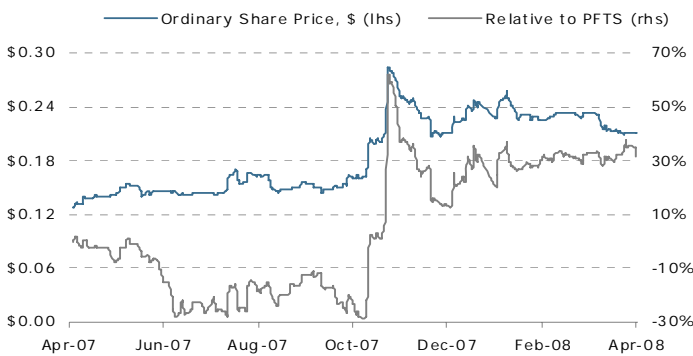
# Bogdan Automobile Plant (LUAZ UZ)

**Auto Manufacturers**
<http://www.luaz.ua>

 12M target (USD) 0.30  
 Upside\*

**INVESTMENT CASE**

- Bogdan's revenues almost doubled in 2007; we expect 1.8x growth this year to USD 1.26 bln
- The company is implementing a five-year (2005-2009) USD 300 mln CapEx program to boost capacity 3x and increase its share of car production by 4pp to 14% by 2009
- Margins will decrease up to 3.6pp by 2010, by our estimates, as a result of: (1) lower import duties for cars in 2009 as part of Ukraine's WTO agreements (down 15pp to 10%); (2) rising bargaining power of suppliers (up to 80% of assembly parts are imported from foreign suppliers)
- High level corporate governance. 2004-2006 IFRS financials are publicly available, 2007 accounts are expected in May
- Stock catalyst: creation of Bogdan holding (merger with Cherkasy Bus and three production companies) in 2H08

**SHARE PRICE PERFORMANCE\***

**BUSINESS OVERVIEW**

Second largest car producer in Ukraine, part of the Bogdan Corporation. Manufactures cars under VAZ, Lada, Hyundai and Kia brand names and assembles trucks and buses with the Isuzu, Dong Feng and Bogdan monikers. Sold 8% of its shares to international investors in 2006 for USD 26 mln. Management expects consolidation of related vehicle manufacturing assets into Bogdan by the end of 2008. Management has announced plans to hold an IPO in 2009-10 of a 10-20% stake.

In 2007, according to UAS financials net revenues increased by 97.7% yoy to USD 818 mln and net income increased by 3.7 times to USD 73.8 mln. The substantial income growth is related to a one-off tax allowance in 2H07.

**Watch list:**

Bogdan Automobile and Cherkasy Bus merger: 2H08  
 2007 IFRS accounts release: May 2007

**MARKET INFORMATION**

<b>Market Price*</b> , USD	0.20
Price impact**	n/a
52 Wk H/L USD	0.29/0.14
Chg 3m/6m/52w	-15%/-12%/30%
Chg vs PFTS 3m/6m/52w	1%/36%/21%
Chg YTD	-17%
Avg M Tr Vol 6M, USD ths	2 573

<b>MCap</b> , USD mln	682.1
Free float	10%
FF Mcap, USD mln	68.2

<b>No of shares</b> , mln	3328.0
Par Value, UAH	0.25

<b>XETRA</b>	L4J1
DR Ratio	1:100
Avg M Tr Vol 6M, USD ths	n/a

**STOCK OWNERSHIP**

SV Motors Ltd. *	56.7%
UA Automobile Holding*	11.9%
JSC Ukrprominvest *	8.5%
Hyundai Motors Ukraine*	5.5%
Bogdan LLC *	4.5%
Mega Motors*	2.8%
Other	10.1%

\*Bogdan Corporation Associates

**CORPORATE GOVERNANCE**

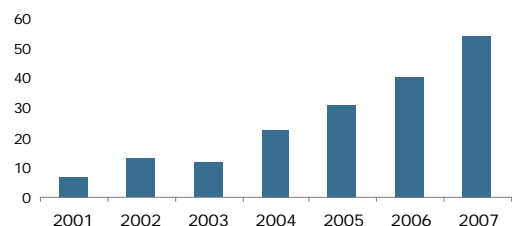
Concorde Rating\*\*\* U/R

**MARKET MULTIPLES**

	2007E	2008E
EV/Sales	1.4	0.8
EV/EBITDA	11.0	8.4
P/E	13.3	11.4
P/B	2.5	2.1

**KEY RATIOS**

	2006	2007E	2008E
EBITDA margin	8%	12.8%	10.0%
Net Margin	5%	7.4%	4.7%
ROE	15%	19%	24%
Net Debt/Equity	0.40	1.06	1.15

**Cars Output, ths units**


\*Market information as of Apr 08, 2008, based on PFTS Bid prices

\*\* Price "impact" is the opinion of Concorde's trading desk on stocks to help investors estimate the reliability of quoted prices:

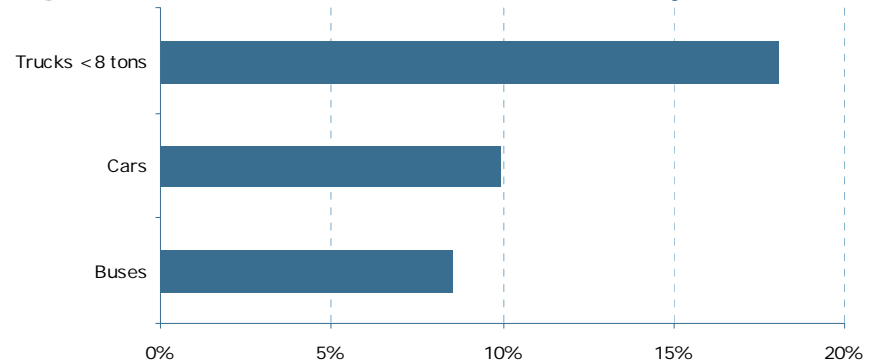
1: Market price reaction remains within 10% in execution of a market order of about USD 10 mln in size  
 2: Market price reaction remains within 10% in execution of a market order of about USD 1 mln in size  
 3: All other stocks (quoted)

\*\*\* The rating is based on Concorde Capital's corporate governance survey. Q denotes quality corporate governance standards, AA - above average standards, A - average, BA - below average and P - poor.

## Bogdan: one of the major domestic vehicle producers

With 18% of the light truck market, 10% of the car market and 9% of the domestic bus market, Bogdan is one of the largest domestic automotive manufacturers.

**Bogdan's share in new vehicle sales in Ukraine, 2007, by units**



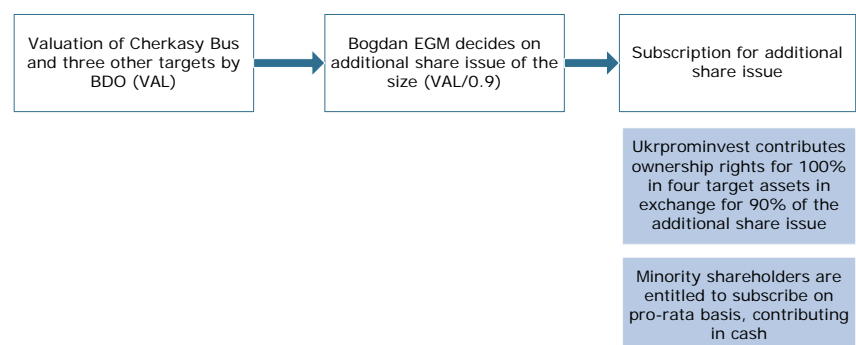
Source: Company data

## Bogdan Corporation consolidation

According to the company's management, by the end of this year, four target companies related to Bogdan Corporation (Cherkasy Bus and three small companies involved in car assembly) will merge with Bogdan via an additional share issue. Management also informed us that BDO auditors will conduct the valuation of the target assets.

As we see it, available information suggests the following structure for the merger: the target companies are valued by independent auditors and go to the asset side of Bogdan's balance sheet, additional shares are issued to offset this item in the Shareholder Equity section of the balance sheet. The major shareholder, Bogdan Corporation Associates, then would subscribe for 90% of newly issued shares in Bogdan, contributing ownership rights for 100% in the four targeted assets. Minority shareholders will be entitled to subscribe to an aggregate 10% of the additional share issue on a pro-rata basis, contributing in cash.

### Probable process of Bogdan's consolidation



Source: Concorde Capital estimations

We expect fair treatment of minority shareholders during the merger, given management's overall ambition to build a positive track record ahead of the announced IPO in 2009-10, and from our personal experience in interaction with the management, we tab the company with a high corporate governance profile.

We believe that Bogdan will benefit from synergies (economies of scale, combined market, R&D, etc) starting from 2009.

## Product mix and production capacity

Bogdan is the second largest car producer in Ukraine; cars accounted for 95.6% of the company's sales in 2007.

The company's five-year USD 300 mln capacity expansion plan foresees increasing the share of buses in total sales from 2.4% in 2007 to 8.4% by 2012 and trucks from 2.0% in 2007 to 2.4% by 2012.

The investment program is planned to increase Bogdan's production capacity from 2005 to 2009: cars by 3x to 180 ths, buses by 4x to 6 ths and trucks by 6x to 3 ths. Bogdan's output has already risen 70% over 2006-2007 as a result of the program.

### Increasing capacity at Bogdan, number of vehicles

	<b>2005</b>	<b>Production 2006</b>	<b>2007</b>	<b>Capacity target 2009</b>
Cars	30,691	40,408	54,068	180,000
Buses	626	132	530	6,000
Trucks	468	748	845	3,000

*Source: Company data*

## Financial analysis

Since 2004, Bogdan has annually reported IFRS financials. The difference between IFRS and UAS financials decreases as you move from the top line to the bottom. Management said that they expect 2007 IFRS financial statements to be released in May.

	2005			2006		
	UAS	IFRS	Difference	UAS	IFRS	Difference
Sales, USD mln	217	163	+32.8%	414	359	+15.3%
COGS, USD mln	(171)	(122)	-49	(353)	(308)	-45
COGS, %	80.2%	74.7%	+5.5%	85.2%	85.9%	-0.7%
EBITDA, USD mln	26	26	0	31	42	-11
EBITDA margin, %	10.6%	15.9%	-5.3%	7.5%	11.6%	-4.1%
Net income, USD mln	19	19	0	20	26	-6
Net margin, %	8.8%	11.9%	-3.1%	4.8%	7.2%	-2.4%

Source: Company data

The management attributes the deviation to:

- Differences in accounting for sales on commission
- Differences in allocation of selling expenses between the company's manufacturing plant and distributors; different approach to account R&D expenses
- Differences in accounting of interest payments on loans taken for CapEx and depreciation

We use IFRS financials in our modeling and peer valuation purposes.

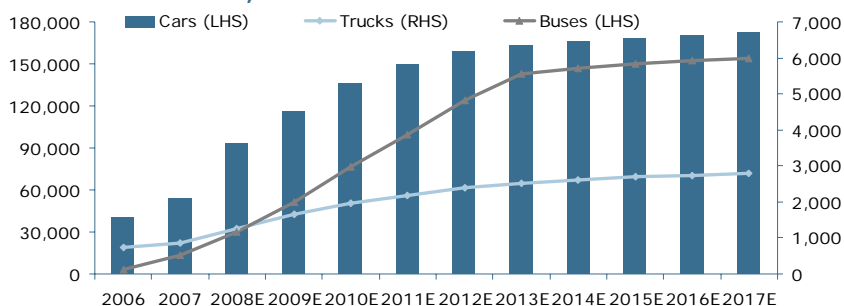
## Key forecasts

Taking into account the company's expansion plans and our overall view of market conditions, we use two forecast periods for modeling purposes:

**Growth (2008-2012).** The company's sales will grow at 29% CAGR until 2012 and its EBITDA margin range between 10.0-7.6% during the period. Meanwhile, the company will actively expand output as its production capacity increases. During this five-year period, the company will start to sacrifice its margins due to heightened competition (see p 24).

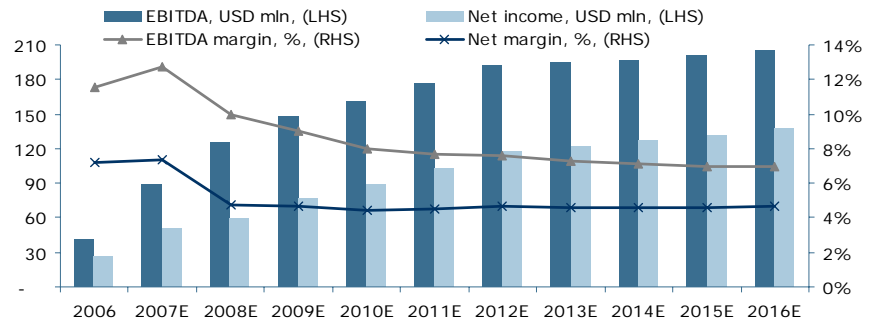
**Stabilization (2013-2016).** Sales will slow to 4% CAGR during the period, while the company's EBITDA margin will range between 7.3-7.0%. The company's facilities will be fully loaded; margins will stabilize.

### Production forecasts, units



Source: Company data, Concorde Capital estimates

### Profitability forecasts



Source: Concorde capital estimates Note: The company increased its net margin by 4.2pp to 9% (UAS financials) over 2007 due to VAT breaks for local producers in 2H07

### DCF Valuation

For valuation purposes, we discriminate between two scenarios: the base case (assuming no corporate changes) and a scenario that accounts for synergies related to creation of a Bogdan holding. The scenarios share common assumptions in terms of production and CapEx. The difference is that COGS is lower under the synergy scenario compared to the base case: -0.5pp in 2009, -1.0pp in 2010 and 1.5pp afterward. Our base case scenario yields a fair value of USD 0.27 per share by DCF, while the synergy scenario implies USD 0.35.

#### DCF output for base scenario, UAH mln, as of April 2009

	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
<b>EBITDA</b>	<b>636</b>	<b>751</b>	<b>813</b>	<b>895</b>	<b>970</b>	<b>983</b>	<b>993</b>	<b>1,010</b>	<b>1,039</b>
EBIT	601	712	771	851	924	935	943	959	985
Tax Rate	25%	25%	25%	25%	25%	25%	25%	25%	25%
Taxed EBIT	451	534	578	638	693	701	707	719	739
Plus D&A	35	39	42	44	46	48	50	52	54
Less CapEx	(465)	(90)	(80)	(67)	(69)	(72)	(74)	(77)	(80)
Less change in OWC	(309)	(179)	(109)	(124)	(94)	(61)	(39)	(23)	(22)
<b>FCFF</b>	<b>(288)</b>	<b>304</b>	<b>431</b>	<b>491</b>	<b>576</b>	<b>616</b>	<b>644</b>	<b>671</b>	<b>690</b>
WACC	11.4%	11.3%	11.0%	10.5%	9.9%	10.2%	10.3%	10.6%	10.8%
Discounted cash flow	(264)	280	357	368	392	381	361	340	316
Sum of discounted CF		2,795							
							Perpetuity growth rate	2.0%	
							WACC to perpetuity	11.0%	
Terminal value		3,579							7,825
							Implied exit EBITDA multiple		7.5x
<b>Firm value</b>		<b>6,374</b>							
Portion due to TV		56%							
Less net debt		(1,888)							
<b>Equity value</b>		<b>4,486</b>							
<b>Implied 12M price, USD</b>		<b>0.27</b>							

#### Sensitivity analysis

Implied Share Price, USD						Implied Share Price, USD					
WACC Y1-10	Perpetuity Growth Rate					WACC to perpetuity	Perpetuity Growth Rate				
	1.0%	1.5%	2.0%	2.5%	3.0%		1.0%	1.5%	2.0%	2.5%	3.0%
-1.5%	0.28	0.29	0.30	0.32	0.33	9.5%	0.28	0.29	0.31	0.33	0.35
-1.0%	0.26	0.28	0.29	0.30	0.32	10.0%	0.26	0.28	0.29	0.31	0.33
-0.5%	0.25	0.27	0.28	0.29	0.31	10.5%	0.25	0.27	0.28	0.29	0.31
0.0%	0.24	0.25	<b>0.27</b>	0.28	0.30	11.0%	0.24	0.25	<b>0.27</b>	0.28	0.30
+0.5%	0.23	0.24	0.26	0.27	0.28	11.5%	0.24	0.25	0.26	0.27	0.28
+1.0%	0.22	0.23	0.25	0.26	0.27	12.0%	0.23	0.24	0.25	0.26	0.27
+1.5%	0.22	0.23	0.24	0.25	0.26	12.5%	0.22	0.23	0.24	0.25	0.26

## Comparative valuation

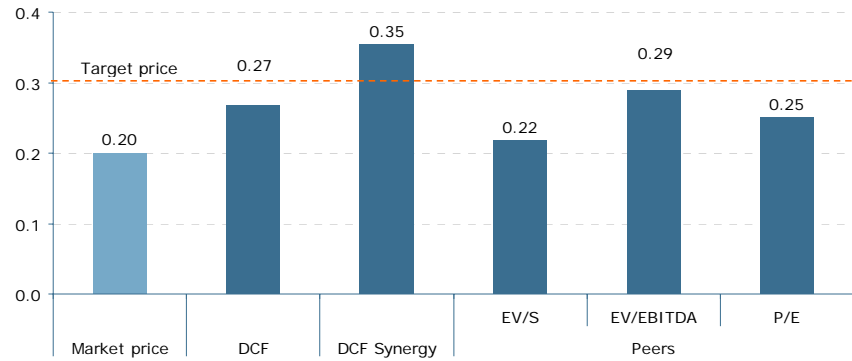
	Country	MCap USD mln	Net Revenues, USD mln			EBITDA margin			Net Margin		
			2006	2007E	2008E	2006	2007E	2008E	2006	2007E	2008E
<b>Bogdan</b>	<b>Ukraine</b>	<b>682</b>	<b>359</b>	<b>697</b>	<b>1259</b>	<b>11.6%</b>	<b>12.8%</b>	<b>10.0%</b>	<b>7.2%</b>	<b>7.4%</b>	<b>4.7%</b>
<b>Developing</b>											
Beiqi Foton Motor Company	China	1,205	3757	4254	4675	2.7%	2.8%	2.8%	1.3%	1.4%	1.4%
Jiangling Motors	China	1,492	364	1139	1348	39.5%	13.8%	13.1%	25.3%	8.9%	8.3%
Qingling Motors Company Limited	China	427	445	509	574	9.7%	10.9%	10.6%	2.0%	3.2%	3.8%
Brilliance China Automotive Holdings Lim	China	664	1323	2170	2579	4.0%	6.5%	7.2%	-1.0%	0.9%	2.3%
Mahindra & Mahindra Limited	India	3,745	2988	3482	4006	13.5%	11.3%	11.4%	9.6%	8.4%	8.1%
Maruti Udyog Limited	India	5,377	3531	4563	5394	15.0%	14.5%	14.2%	10.5%	10.5%	10.1%
Tata Motors Limited	India	6,046	7075	7674	8909	12.0%	10.8%	11.0%	7.1%	6.1%	6.1%
Avtovaz	Russia	5,276	6629	6885	7230	10.2%	8.8%	9.0%	2.2%	1.1%	neg
Gaz Auto Plant	Russia	4,071	4122	5380	6512	10.7%	11.9%	12.0%	3.8%	5.0%	5.1%
Severstal Auto	Russia	2,070	1136	1888	2490	12.8%	12.2%	12.3%	6.7%	5.5%	5.4%
China Motor Corp.	Taiwan	1,272	1254	959	1009	8.3%	10.5%	12.3%	8.5%	7.9%	8.2%
Yulon Motor Company	Taiwan	2,081	915	750	798	8.9%	7.4%	7.5%	10.6%	11.9%	11.6%
Ford Otomotive S AS	Turkey	3,391	4384	5489	5897	13.0%	11.2%	11.6%	6.8%	6.8%	7.1%
Tofas AS	China	1,778	2136	2706	4397	7.2%	7.5%	10.1%	2.2%	4.2%	5.3%
Tianjin Faw Xiali Auto Co Ltd	China	1,770	1033	1066	1144	6.0%	6.3%	7.4%	5.1%	5.2%	7.2%
Chongqing Changan automobi	China	3,196	3101	2249	2305	5.7%	4.5%	4.4%	1.8%	4.7%	7.1%
Kia Motors Corporation	Korea	3,815	17233	18250	19575	3.9%	5.2%	6.1%	0.3%	1.6%	2.7%
<b>Average</b>						<b>10.8%</b>	<b>9.2%</b>	<b>9.6%</b>	<b>6.0%</b>	<b>5.5%</b>	<b>6.2%</b>
<b>Ukrainian Diversified Machinery</b>											
Luhanskteplovoy	Ukraine	266	88	165	321	6.5%	9.5%	10.0%	-3.5%	5.0%	5.5%
Motor Sich	Ukraine	539	245	333	379	16.0%	23.0%	23.0%	3.0%	12.0%	13.0%
Sumy Frunze	Ukraine	599	306	367	495	9.7%	12.7%	15.0%	4.8%	6.0%	8.2%
Turboatom	Ukraine	427	52	66	174	21.0%	34.5%	29.7%	8.4%	10.4%	18.9%
Druzhkivka Machinery	Ukraine	227	86	131	157	8.9%	14.3%	15.0%	2.7%	9.0%	9.5%
Kryukiv Wagon	Ukraine	747	225	401	523	13.1%	14.7%	15.8%	8.1%	10.2%	11.1%
Stakhaniv Wagon	Ukraine	347	91	237	433	7.5%	6.6%	10.1%	2.4%	3.1%	5.8%
Mariupol Heavy Machinery	Ukraine	378	502	521	554	2.1%	17.2%	17.5%	0.0%	11.6%	12.1%
Azovzahalmarsh	Ukraine	464	325	445	517	3.0%	18.1%	18.5%	0.1%	12.1%	13.2%
AvtoKrAZ	Ukraine	462	147	177	221	12.4%	12.5%	13.0%	7.8%	8.5%	9.0%
<b>Average</b>						<b>10.0%</b>	<b>16.3%</b>	<b>16.8%</b>	<b>2.9%</b>	<b>8.8%</b>	<b>10.8%</b>

	Country	MCap USDmln	EV/Sales		EV/EBITDA		P/E	
			2007E	2008E	2007E	2008E	2007E	2008E
<b>Bogdan</b>	<b>Ukraine</b>	<b>682</b>	<b>1.4</b>	<b>0.8</b>	<b>11.0</b>	<b>8.4</b>	<b>13.3</b>	<b>11.5</b>
<b>Developing</b>								
Beiqi Foton Motor Company	China	1,205	0.3	0.3	11.2	10.0	20.1	17.9
Jiangling Motors	China	1,492	1.1	n/a	7.9	n/a	14.8	13.4
Qingling Motors Company Limited	China	427	0.1	0.1	0.9	0.5	26.2	19.4
Brilliance China Automotive Holdings Lim	China	664	0.3	0.3	4.4	4.4	34.5	11.3
Mahindra & Mahindra Limited	India	3,745	1.3	1.1	11.1	9.6	12.7	11.5
Maruti Udyog Limited	India	5,377	1.1	0.9	7.3	6.3	11.2	9.9
Tata Motors Limited	India	6,046	0.9	0.8	8.7	7.5	12.9	11.1
Avtovaz	Russia	5,276	0.9	0.9	10.3	9.6	70.3	n/m
Gaz Auto Plant	Russia	4,071	0.9	0.7	7.5	6.1	15.1	12.3
Severstal Auto	Russia	2,070	1.2	1.0	10.1	7.7	19.8	15.3
China Motor Corp.	Taiwan	1,272	1.3	1.2	12.1	10.0	16.9	15.3
Yulon Motor Company	Taiwan	2,081	2.7	2.6	36.7	34.5	23.4	22.6
Ford Otomotive S AS	Turkey	3,391	0.6	0.6	5.8	5.3	9.1	8.1
Tofas AS	China	1,778	0.8	0.5	10.6	5.0	15.5	7.7
Tianjin Faw Xiali Auto Co Ltd	China	1,770	1.6	1.5	26.0	20.8	32.2	21.4
Chongqing Changan automobi	China	3,196	1.3	1.2	28.8	26.5	30.1	19.5
Kia Motors Corporation	Korea	3,815	0.4	0.4	7.6	6.3	12.9	7.3
<b>Average</b>			<b>1.0</b>	<b>0.9</b>	<b>12.2</b>	<b>10.6</b>	<b>22.2</b>	<b>14.0</b>
Implied Bogdan price, USD			0.12	0.22	0.24	0.29	0.35	0.25
Implied Upside (downside)			-41%	6%	16%	40%	68%	22%
<b>Ukrainian Diversified Machinery</b>								
Luhanskteplovoy	Ukraine	266	1.7	0.9	18.3	8.9	32.3	15.1
Motor Sich	Ukraine	539	1.8	1.6	7.7	6.8	13.5	10.9
Sumy Frunze	Ukraine	599	1.7	1.3	13.8	8.6	27.3	14.7
Turboatom	Ukraine	427	6.4	2.4	18.6	8.2	61.8	13.0
Druzhkivka Machinery	Ukraine	227	1.8	1.5	12.4	9.8	19.3	15.2
Kryukiv Wagon	Ukraine	747	1.9	1.4	12.6	9.1	18.2	12.9
Stakhaniv Wagon	Ukraine	347	1.5	0.8	23.5	8.4	47.6	13.7
Mariupol Heavy Machinery	Ukraine	378	0.8	0.7	4.6	4.2	6.3	5.6
Azovzahalmarsh	Ukraine	464	1.1	0.9	6.0	4.9	8.6	6.8
AvtoKrAZ	Ukraine	462	3.0	2.4	23.8	18.3	30.7	23.2
<b>Average</b>			<b>2.2</b>	<b>1.4</b>	<b>14.1</b>	<b>8.7</b>	<b>26.6</b>	<b>13.1</b>
Implied Bogdan price, USD			0.57	0.42	0.26	0.18	0.39	0.24
Implied Upside (downside)			148%	85%	27%	-15%	73%	3%

### Valuation summary

Based on DCF and peer valuation, we set our 12M target price for Bogdan at USD 0.30 per share, and initiate coverage with a BUY recommendation.

### Valuation results, USD per share



Source: PFTS, Concorde Capital estimates.



## Financial Statements, IFRS

### Income Statement Summary, USD mln

	2006	2007E	2008E	2009E	2010E	2011E	2012E
<b>Net Revenues</b>	<b>359</b>	<b>697</b>	<b>1,259</b>	<b>1,653</b>	<b>2,012</b>	<b>2,302</b>	<b>2,528</b>
Gross Profit	51	105	170	198	221	246	268
<i>Gross margin</i>	14.1%	15.0%	13.5%	12.0%	11.0%	10.7%	10.6%
<b>EBITDA</b>	<b>42</b>	<b>89</b>	<b>126</b>	<b>149</b>	<b>161</b>	<b>177</b>	<b>192</b>
<i>EBITDA margin</i>	11.6%	12.8%	10.0%	9.0%	8.0%	7.7%	7.6%
Depreciation	(2)	(4)	(7)	(8)	(8)	(9)	(9)
<b>EBIT</b>	<b>40</b>	<b>85</b>	<b>119</b>	<b>141</b>	<b>153</b>	<b>169</b>	<b>183</b>
<i>EBIT margin</i>	11.1%	12.2%	9.4%	8.5%	7.6%	7.3%	7.2%
Interest Expense	(5)	(27)	(40)	(38)	(34)	(30)	(26)
<b>PBT</b>	<b>36</b>	<b>57</b>	<b>79</b>	<b>103</b>	<b>119</b>	<b>138</b>	<b>157</b>
Tax	(10)	(6)	(20)	(26)	(30)	(35)	(39)
<i>Effective tax rate</i>	29%	10%	25%	25%	25%	25%	25%
<b>Net Income</b>	<b>26</b>	<b>52</b>	<b>59</b>	<b>77</b>	<b>89</b>	<b>104</b>	<b>118</b>
<i>Net Margin</i>	7.2%	7.4%	4.7%	4.7%	4.4%	4.5%	4.7%

### Balance sheet summary, USD mln

	2006	2007E	2008E	2009E	2010E	2011E	2012E
<b>Current Assets</b>	<b>284</b>	<b>449</b>	<b>613</b>	<b>710</b>	<b>799</b>	<b>877</b>	<b>936</b>
Cash & Equivalents	9	2	4	5	6	7	8
Trade Receivables	54	91	164	215	231	260	291
Inventories	35	77	131	160	179	195	203
Other current assets	185	279	315	331	382	414	435
<b>Fixed Assets</b>	<b>102</b>	<b>244</b>	<b>329</b>	<b>339</b>	<b>347</b>	<b>351</b>	<b>356</b>
PP&E, net	101	215	315	337	346	351	356
Other Fixed Assets	1	29	14	2	1	0	0
<b>Total Assets</b>	<b>386</b>	<b>693</b>	<b>942</b>	<b>1,050</b>	<b>1,146</b>	<b>1,228</b>	<b>1,293</b>
<b>Shareholders' Equity</b>	<b>220</b>	<b>272</b>	<b>328</b>	<b>398</b>	<b>460</b>	<b>507</b>	<b>572</b>
Share Capital	163	163	163	163	163	163	163
Reserves and Other	57	109	165	235	297	344	409
<b>Current Liabilities</b>	<b>132</b>	<b>283</b>	<b>320</b>	<b>395</b>	<b>456</b>	<b>510</b>	<b>523</b>
ST Interest Bearing Debt	70	153	88	103	98	100	72
Trade Payables	32	74	131	160	197	226	249
Other Current Liabilities	30	56	101	132	161	184	202
<b>LT Liabilities</b>	<b>34</b>	<b>138</b>	<b>294</b>	<b>257</b>	<b>229</b>	<b>211</b>	<b>198</b>
LT Interest Bearing Debt	25	138	294	257	229	211	198
Other LT	9	-	-	-	-	-	-
<b>Total Liabilities &amp; Equity</b>	<b>386</b>	<b>693</b>	<b>942</b>	<b>1,050</b>	<b>1,146</b>	<b>1,228</b>	<b>1,293</b>

### Cash flow statement summary, USD mln

	2006	2007E	2008E	2009E	2010E	2011E	2012E
Net Income	26	52	60	79	93	108	124
D&A	2	4	7	8	9	9	10
Non-operating and non-cash items	14	(8)	(0)	0	(0)	0	(0)
Changes in working capital	(80)	(104)	(62)	(36)	(22)	(26)	(20)
<b>Operating Cash Flow</b>	<b>(39)</b>	<b>(56)</b>	<b>5</b>	<b>50</b>	<b>79</b>	<b>91</b>	<b>114</b>
Capital Expenditures, net	(35)	(147)	(93)	(18)	(16)	(14)	(14)
Other Investments, net	(3)	-	-	-	-	-	-
<b>Investing Cash Flow</b>	<b>(37)</b>	<b>(147)</b>	<b>(93)</b>	<b>(18)</b>	<b>(16)</b>	<b>(14)</b>	<b>(14)</b>
Net Borrowings/(repayments)	65	196	93	(23)	(34)	(17)	(43)
Dividends Paid	-	-	(3)	(8)	(28)	(59)	(56)
Equity Financing & Other	22	-	-	-	-	-	-
<b>Financing Cash Flow</b>	<b>87</b>	<b>196</b>	<b>90</b>	<b>(31)</b>	<b>(62)</b>	<b>(77)</b>	<b>(99)</b>
Beginning Cash Balance	1	9	2	4	5	6	7
Ending Cash Balance	9	2	4	5	6	7	8
<b>Net Cash Inflows/Outflows</b>	<b>11</b>	<b>(7)</b>	<b>2</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>

Source: Company data, BDO Balance-Audit, Concorde Capital estimates

# AvtoKrAZ (KRAZ UZ)

<http://www.AvtoKrAZ.com.ua>

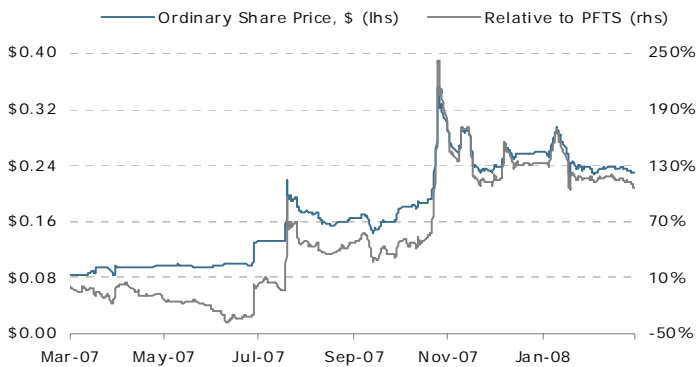
## Auto Manufacturers

12M target (USD) 0.18  
Upside\* -10%

### INVESTMENT CASE

- Truck sales to Russia grew 2.8x in the last two years; we expect them to double by 2011; Growth is supported by Russia's soaring demand and insufficient capacities until at least 2012
- AvtoKrAZ has not realized two-year-old plans to assemble trucks in Asia and Latin America; if the company launches assembly in these markets in 2009, sales could grow at 17% CAGR until 2016 vs. 14% under our base case scenario
- Officially reported financials continue to be foggy. Disclosure of IFRS financials is expected this year
- IPO of KrAZ holding would be a stock catalyst; we expect management to announce a final decision on IPO in 2008

### SHARE PRICE PERFORMANCE\*



### BUSINESS OVERVIEW

AvtoKrAZ aka the Kremenchuk Automobile Plant is the only producer of heavy-duty off-road trucks in Ukraine. Exported 70% of its sales in 2007, over half of which went to Russia. Is returning to markets where AvtoKrAZ trucks were sold during Soviet times. Last year, deliveries were made to Vietnam, Pakistan, Iraq, Egypt, Angola, Rumania and Syria.

Increased truck production by 8% yoy in 2007 to 4,327, and management is targeting output growth of 16% yoy to 5,000 trucks in 2008.

\*Market information as of Feb 25, 2008, based on PFTS Mid prices

\*\* Price "impact" is the opinion of Concorde's trading desk on stocks to help investors estimate the reliability of quoted prices:

- Market price reaction remains within 10% in execution of a market order of about USD 10 mln in size
- Market price reaction remains within 10% in execution of a market order of about USD 1 mln in size
- All other stocks (quoted)

\*\*\* The rating is based on Concorde Capital's corporate governance survey. Q denotes quality corporate governance standards, AA - above average standards, A - average, BA - below average and P - poor.

### MARKET INFORMATION

**Market Price\***, USD 0.20  
Price impact\*\* 3  
52 Wk H/L USD 0.35/0.08  
Chg 3m/6m/52w -21%/11%/108%  
Chg vs PFTS 3m/6m/52w -6%/22%/77%  
Chg YTD -22.9%  
Avg M Tr Vol 6M, USD ths 561

**MCap**, USD mln 453  
Free float 7%  
FF Mcap, USD mln 31.7

**No of shares**, mln 2263.0  
Par Value, UAH 0.25

**XETRA** A6X1  
DR Ratio 1:100  
Avg M Tr Vol 6M, USD ths n/a

### STOCK OWNERSHIP

Finance & Credit 93.0%  
Other 7.0%

### CORPORATE GOVERNANCE

Concorde Rating\*\*\* U/R

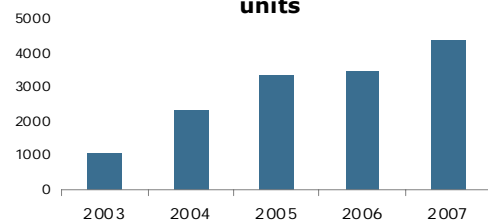
### MARKET MULTIPLES

	2007E	2008E
EV/Sales	2.5	1.7
EV/EBITDA	19.9	13.2
P/E	29.6	19.3
P/B	2.0	2.0
P/CF	18.7	15.2

### KEY RATIOS

	2006	2007E	2008E
EBITDA margin	12%	13%	14%
Net Margin	8%	10%	11%
ROE	4%	7%	9%
Net Debt/Equity	0.20	0.10	0.10

### Trucks Production Dynamics, units



## Catalyst on the horizon: IPO

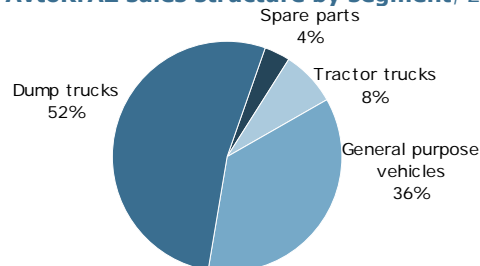
In March 2008, Konstantin Zhevago, primary beneficiary of Finance&Credit group, AvtoKrAZ' majority shareholder, confirmed IPO plans for F&C-controlled assets. In 2007, F&C said there were two scenarios for taking F&C's machine building assets public: IPO/placement of AvtoKrAZ holding with strictly truck production facilities; or IPO/placement of a broad machinery holding including AvtoKrAZ (KRAZ), Stakhaniv Wagon (SVGZ), Zaliv Shipyard (SZLV), Berdichiv Progress (filters, drying equipment for steel and mining) and Uzhgorod Turbogaz (equipment for gas power stations, mining, transportation and storage of oil&gas). We expect F&C will make a final decision on the structure and timing of placement by fall 2008.

No parameters for creation of a holding around AvtoKrAZ were disclosed. We see two ways for the company to structure their consolidation: (1) merger via an additional share issue (similar to what is currently being mulled over at Bogdan) or creation of a new entity and transfer of corporate rights (as with Ferrexpo in 2004). It is in F&C's interest to *show respect* for investors, as F&C needs a track record of good corporate governance in view of further share placements by other assets in the group. We expect placement to be liquidity booster for the stock.

## Product mix

AvtoKrAZ is the only Ukrainian heavy truck producer. It focuses mainly on the production of dump trucks:

**AvtoKrAZ sales structure by segment, 2007**



Source: Company data, Concorde Capital estimates

While AvtoKrAZ' spare parts business amounts to only 4% of sales, its share has been growing (from 2% in 2005) ever since the Ministry of Industrial Policy of Ukraine determined in December 2004 that vehicles must be serviced only at official manufacturer's service centers or those it certifies to do the work.

## Scenarios of production capacity utilization

The company has a potential to produce 14.5 ths trucks, if it works in two shifts. Currently, Bogdan operates one shift (i.e. annual capacity is 7.25 ths trucks). In 2007 its one shift capacity was loaded by 58%. We expect the company to fully load its one shift in the next seven years due to demand growth in the CIS. Our base case scenario assumes 100% utilization of one-shift capacity after 2015.

**Reference: A Two-Shift Regime.** Even though AvtoKrAZ has not realized two-year-old plans to assemble trucks in Asia and Latin America, we do not exclude that AvtoKrAZ will realize this pipe dream. In Oct. 2007 the company's director of sales reiterated plans for a string of assembly plants and JVs: assembly plants in India, Cuba, and Vietnam; and joint ventures in Venezuela, Ecuador and Nicaragua. If AvtoKrAZ launches assembly abroad in 2009, sales could grow at 17% CAGR until 2016 vs. 14% under our base case scenario.

## Marketing innovations

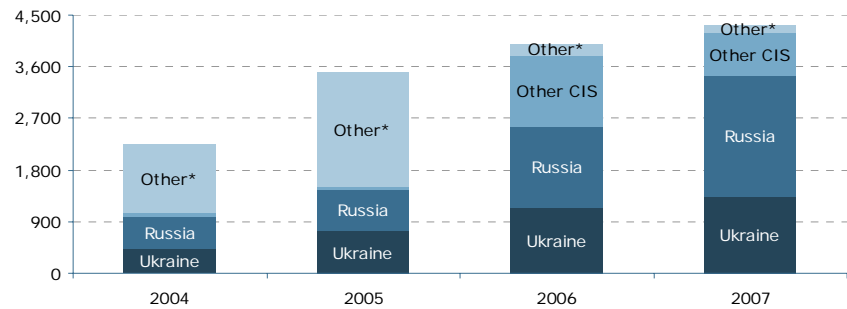
In order to remain competitive on CIS markets (mainly Russia), AvtoKrAZ is improving its distribution network and launching new efforts to facilitate financing truck purchases:

- AvtoKrAZ founded its own leasing company, KrAZ Leasing, in summer 2007, building on the financial resources and expertise of its parent, Finance & Credit. We expect this venture to help increase the company's sales and account for 10-15% of the total trucks sold in the mid-term.
- In February 2008, the company established RusKrAZ, a Russia-based distributor, to gain exposure to dealers' margins and break its dependence on duplicitous selling agents in Russia. We believe direct trucks sales in Russia will help to increase AvtoKrAZ' EBITDA margins up to 0.5pp within two years.
- In March 2008, the company, together with its Polish dealer, created the AvtoKrAZ Polska service station to boost sales of KrAZ trucks in Poland.

## Sales structure

Exports account for 69% of AvtoKrAZ' total sales. AvtoKrAZ sold 2,000 military trucks to Iraq as part of a two-year contract over 2004-2005, good for 34% of total sales during the period. Sales to the developing world tapered off significantly in the intervening period, but we expect segment sales to pick up and rise from 3% of total sales currently to 20% in the mid-term.

### Sales destinations, ths units



Source: Company data, Concorde Capital estimates. Note: Other includes Iraq, Pakistan, Vietnam, Cuba, Angola, Sudan, Algeria, Syria, Liberia, Bulgaria, India, Egypt, and Mongolia.

In November 2007, AvtoKrAZ was granted an allowance (valid until June 2010) to bypass state monopoly Ukrspetsexport and export military products directly to consumers. We expect direct sales will increase the company's EBITDA margin by up to 0.5pp.

## Officially reported data remains opaque

AvtoKrAZ' financials according to local accounting standards remain foggy, understating sales in favor of "Other income." The company is preparing IFRS statements as a step on the road to IPO; we optimistically expect them this year.

We restate the company's financials based on production and price data, and profitability estimates based on our interviews with management.

## Key forecasts

We see four scenarios for AvtoKrAZ' development:

**Base case scenario** assumptions:

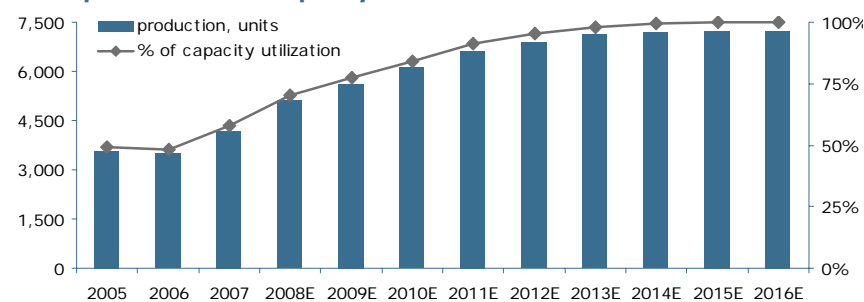
### Forecast revisions for AvtoKrAZ

		2008E	2009E	2010E	2011E	2012E
Trucks sales, units	New	5,100	5,600	6,100	6,600	6,900
	Old	5,000	5,400	5,700	6,000	6,000
Sales, USD mln	New	322	391	457	583	627
	Old	223	241	267	295	310
EBITDA margin	New	12.6%	12.9%	13.6%	14.0%	13.6%
	Old	13.7%	17.2%	17.2%	17.2%	17.2%

Source: Concorde Capital estimates

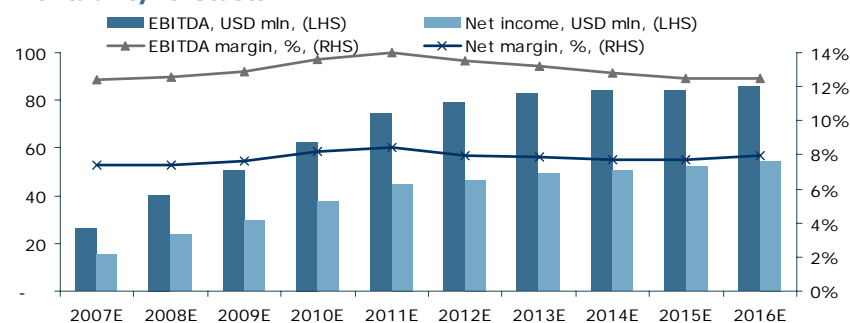
We revise upward our forecasts for truck prices: from growth at 5% CAGR over 2008-10 to 15% CAGR over the period (prices grew over 2007 by 20% vs our previous forecast of 15%) and truck output (by 4% over 2008-2010). We cut our EBITDA margin projection by 1.1pp: we expect higher costs related to new requirements in Ukraine and Russia since the beginning of 2008 to equip new trucks with more expensive *Euro-3* engines (+20% more costly than *Euro-2* motors). In addition, we believe aggressive marketing will be reflected in higher than we previously expected SG&A costs.

### Truck production and capacity utilization



Source: Company data, Concorde Capital estimates

### Profitability forecasts



Our base case scenario implies a 12M fair value of USD 0.17 per share.

**Aggressive sales scenario** assumptions:

More aggressive sales growth: the company will switch to two-shift production, rolling out 9.3 ths trucks by 2016. Compared to our base-case, growth under this scenario is +3% CAGR until 2016.

**Synergy scenario** assumptions:

Creation of a broad machinery holding around AvtoKrAZ will provide cost optimization in terms of raw materials purchases, which will be reflected in COGS (2pp decrease after 2010, according to our estimates).

**Combination of both optimistic scenario** assumptions:

In order to take into account the eventuality of both cases, our combo scenario foresees aggressive sales (overall growth at 17% CAGR over 2008-2016) and COGS optimization (2pp after 2010).

**Implied prices by DCF scenarios, USD per share**

	Synergy from holding		
		<b>No</b>	<b>Yes</b>
Aggressive Growth	<b>No</b>	0.17	0.21
	<b>Yes</b>	0.23	0.28

*Source: Concorde Capital estimates*

## DCF Valuation

### DCF output of base case scenario, UAH mln, as of April

	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
<b>EBITDA</b>	<b>205</b>	<b>254</b>	<b>314</b>	<b>374</b>	<b>397</b>	<b>418</b>	<b>423</b>	<b>424</b>	<b>433</b>
EBIT	146	196	255	316	340	362	368	371	380
Tax Rate	25%	25%	25%	25%	25%	25%	25%	25%	25%
Taxed EBIT	110	147	191	237	255	272	276	278	285
Plus D&A	58	59	59	58	57	56	55	54	53
Less CapEx	(75)	(80)	(75)	(58)	(57)	(56)	(55)	(54)	(53)
Less change in OWC	(132)	(37)	(32)	(23)	(21)	(16)	(13)	(11)	(10)
<b>FCFF</b>	<b>(38)</b>	<b>88</b>	<b>143</b>	<b>214</b>	<b>234</b>	<b>255</b>	<b>263</b>	<b>267</b>	<b>275</b>
WACC	14.9%	13.8%	12.6%	11.7%	10.8%	10.9%	11.1%	11.2%	11.3%
Discounted cash flow	(34)	80	115	154	152	149	138	126	117
Sum of discounted CF		1,030							
							Perpetuity growth rate		1.0%
							WACC to perpetuity		11.0%
Terminal value		1,325							3,119
							Implied exit EBITDA multiple		7.2x
<b>Firm value</b>		<b>2,355</b>							
Portion due to TV		56%							
Less net debt		(369)							
<b>Equity value</b>		<b>1,987</b>							
<b>Implied 12M price, USD</b>		<b>0.17</b>							

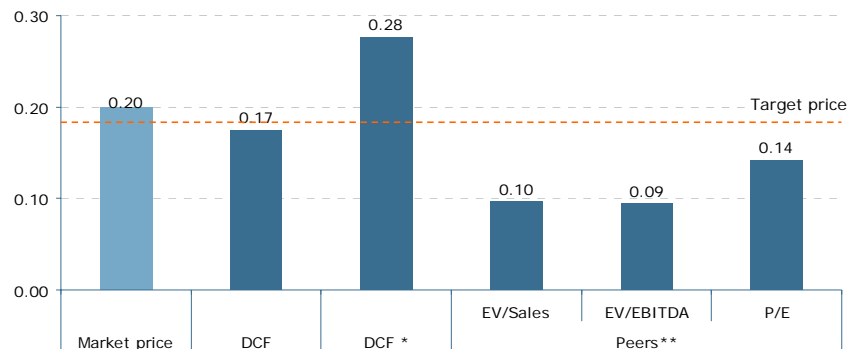
### Sensitivity analysis

Implied Share Price, USD						Implied Share Price, USD					
WACC Y1-10	Perpetuity Growth Rate					WACC to perpetuity	Perpetuity Growth Rate				
	1.0%	1.5%	2.0%	2.5%	3.0%		1.0%	1.5%	2.0%	2.5%	3.0%
-1.5%	0.18	0.18	0.19	0.20	0.21	9.5%	0.18	0.19	0.20	0.21	0.22
-1.0%	0.17	0.18	0.19	0.19	0.20	10.0%	0.17	0.18	0.19	0.20	0.21
-0.5%	0.17	0.17	0.18	0.19	0.20	10.5%	0.17	0.17	0.18	0.19	0.20
0.0%	0.16	0.17	<b>0.17</b>	0.18	0.19	11.0%	0.16	0.17	<b>0.17</b>	0.18	0.19
+0.5%	0.16	0.16	0.17	0.18	0.18	11.5%	0.16	0.16	0.17	0.17	0.18
+1.0%	0.15	0.16	0.16	0.17	0.18	12.0%	0.15	0.16	0.16	0.17	0.18
+1.5%	0.15	0.15	0.16	0.16	0.17	12.5%	0.15	0.15	0.16	0.16	0.17

## Valuation summary

We continue to rely on our DCF model to determine KRAZ' fair value: peer valuation does not adequately capture the company's long-term growth prospects. We set our 12M target for KRAZ at USD 0.18 per share and reiterate HOLD.

### Valuation results, USD per share



Note: DCF \* indicates our optimistic scenario (see page 39) Source: PFTS, Concorde Capital estimates.



## Peer valuation

	Country	MCap USD mln	Net Revenues, USD mln			EBITDA margin			Net margin		
			2006	2007E	2008E	2006	2007E	2008E	2006	2007E	2008E
<b>AvtoKraz</b>	<b>Ukraine</b>	<b>453</b>	<b>147</b>	<b>212</b>	<b>322</b>	<b>12.4%</b>	<b>12.4%</b>	<b>12.6%</b>	<b>7.8%</b>	<b>7.4%</b>	<b>7.4%</b>
<b>International</b>											
VolvoAB	Sweden	34,201	43098	47339	50377	11.9%	12.2%	12.4%	5.4%	5.9%	6.3%
ScaniaAB	Sweden	17,529	12905	14069	14724	18.1%	18.1%	17.8%	9.8%	10.0%	9.9%
HinoMotors	Japan	3,430	10496	12747	13232	6.2%	6.8%	7.0%	3.3%	1.8%	1.9%
Kamaz	Russia	4,911	2612	3619	4469	10.8%	11.5%	12.2%	5.4%	4.5%	5.1%
ManAG	Germany	17,428	22240	23835	24512	13.7%	13.7%	13.7%	7.6%	7.8%	7.8%
<b>Average</b>						<b>12.1%</b>	<b>12.4%</b>	<b>12.6%</b>	<b>6.3%</b>	<b>6.0%</b>	<b>6.2%</b>
<b>Ukrainian</b>											
Luhanskteplovoz	Ukraine	266	88	165	321	6.5%	9.5%	10.0%	-3.5%	5.0%	5.5%
Motor Sich	Ukraine	539	245	333	379	16.0%	23.0%	23.0%	3.0%	12.0%	13.0%
Sumy Frunze	Ukraine	599	306	367	495	9.7%	12.7%	15.0%	4.8%	6.0%	8.2%
Turboatom	Ukraine	427	52	66	174	21.0%	34.5%	29.7%	8.4%	10.4%	18.9%
Druzhkivka Machinery	Ukraine	227	86	131	157	8.9%	14.3%	15.0%	2.7%	9.0%	9.5%
Kryukiv Wagon	Ukraine	747	225	401	523	13.1%	14.7%	15.8%	8.1%	10.2%	11.1%
Stakhaniv Wagon	Ukraine	347	91	237	433	7.5%	6.6%	10.1%	2.4%	3.1%	5.8%
Mariupol Heavy M-ry	Ukraine	378	502	521	554	2.1%	17.2%	17.5%	0.0%	11.6%	12.1%
Azovzahalmash	Ukraine	464	325	445	517	3.0%	18.1%	18.5%	0.1%	12.1%	13.2%
Bogdan	Ukraine	760	414	931	1210	7.5%	7.5%	7.5%	4.8%	5.0%	5.0%
<b>Average</b>						<b>9.5%</b>	<b>15.8%</b>	<b>16.2%</b>	<b>3.1%</b>	<b>8.4%</b>	<b>10.2%</b>

	Country	MCap USDmln	EV/Sales		EV/EBITDA		P/E	
			2007E	2008E	2007E	2008E	2007E	2008E
<b>AvtoKraz</b>	<b>Ukraine</b>	<b>453</b>	<b>2.4</b>	<b>1.6</b>	<b>19.5</b>	<b>12.9</b>	<b>29.0</b>	<b>18.9</b>
<b>International</b>								
Volvo AB	Sweden	34,201	0.9	0.8	7.1	6.5	12.3	10.8
Scania AB	Sweden	17,529	1.5	1.4	8.3	7.9	12.5	12.0
Hino Motors	Japan	3,430	0.4	0.4	6.4	6.0	15.0	13.4
Kamaz	Russia	4,911	1.5	1.2	13.0	9.7	30.1	21.5
Man AG	Germany	17,428	0.7	0.7	5.3	5.1	9.3	9.1
<b>Average</b>			<b>1.0</b>	<b>0.9</b>	<b>8.0</b>	<b>7.0</b>	<b>15.9</b>	<b>13.4</b>
Implied KRAZ price, USD			0.07	0.10	0.07	0.09	0.11	0.14
Implied Upside(downside)			-66%	-52%	-67%	-53%	-45%	-29%
<b>Ukrainian</b>								
Luhanskteplovoz	Ukraine	266	1.7	0.9	18.3	8.9	32.3	15.1
Motor Sich	Ukraine	539	1.8	1.6	7.7	6.8	13.5	10.9
Sumy Frunze	Ukraine	599	1.7	1.3	13.8	8.6	27.3	14.7
Turboatom	Ukraine	427	6.4	2.4	18.6	8.2	61.8	13.0
Druzhkivka Machinery	Ukraine	227	1.8	1.5	12.4	9.8	19.3	15.2
Kryukiv Wagon	Ukraine	747	1.9	1.4	12.6	9.1	18.2	12.9
Stakhaniv Wagon	Ukraine	347	1.5	0.8	23.5	8.4	47.6	13.7
Mariupol Heavy M-ry	Ukraine	378	0.8	0.7	4.6	4.2	6.3	5.6
Azovzahalmash	Ukraine	464	1.1	0.9	6.0	4.9	8.6	6.8
Bogdan	Ukraine	760	1.1	0.9	14.5	11.7	16.3	12.6
<b>Average</b>			<b>2.0</b>	<b>1.2</b>	<b>13.2</b>	<b>8.0</b>	<b>25.1</b>	<b>12.1</b>
Implied KRAZ price, USD			0.17	0.15	0.12	0.11	0.18	0.13
Implied Upside (downside)			-16%	-25%	-38%	-47%	-10%	-37%

## Financial Statements, UAS\*

### Income Statement Summary, USD mln

	2006	2007E	2008E	2009E	2010E	2011E	2012E
<b>Net Revenues</b>	<b>147</b>	<b>212</b>	<b>322</b>	<b>390</b>	<b>457</b>	<b>529</b>	<b>583</b>
Gross Profit	26	38	57	71	86	100	108
<i>Gross margin</i>	17.8%	17.8%	17.8%	18.2%	18.8%	19.0%	18.5%
<b>EBITDA</b>	<b>18</b>	<b>26</b>	<b>41</b>	<b>50</b>	<b>62</b>	<b>74</b>	<b>79</b>
<i>EBITDA margin</i>	12.4%	12.4%	12.6%	12.9%	13.6%	14.0%	13.5%
Depreciation	(12)	(12)	(12)	(12)	(12)	(11)	(11)
<b>EBIT</b>	<b>7</b>	<b>15</b>	<b>29</b>	<b>39</b>	<b>51</b>	<b>63</b>	<b>67</b>
<i>EBIT margin</i>	4.4%	6.9%	9.0%	9.9%	11.1%	11.8%	11.6%
Interest Expense	(8)	(9)	(9)	(9)	(8)	(8)	(8)
<b>PBT</b>	<b>13</b>	<b>18</b>	<b>32</b>	<b>40</b>	<b>50</b>	<b>60</b>	<b>62</b>
Tax	(1)	(3)	(8)	(10)	(13)	(15)	(15)
<i>Effective tax rate</i>	9%	15%	25%	25%	25%	25%	25%
<b>Net Income</b>	<b>11</b>	<b>16</b>	<b>24</b>	<b>30</b>	<b>38</b>	<b>45</b>	<b>46</b>
<i>Net Margin</i>	7.8%	7.4%	7.4%	7.6%	8.2%	8.5%	8.0%

### Balance Sheet Summary, USD mln

	2006	2007E	2008E	2009E	2010E	2011E	2012E
<b>Current Assets</b>	<b>300</b>	<b>279</b>	<b>139</b>	<b>153</b>	<b>165</b>	<b>178</b>	<b>187</b>
Cash & Equivalents	0	0	0	0	1	1	1
Trade Receivables	35	38	51	55	55	58	58
Inventories	33	40	42	51	59	69	76
Other current assets	231	201	45	47	50	50	52
<b>Fixed Assets</b>	<b>261</b>	<b>261</b>	<b>265</b>	<b>269</b>	<b>272</b>	<b>272</b>	<b>272</b>
PP&E, net	109	116	120	125	129	130	130
Other Fixed Assets	151	145	144	144	143	142	142
<b>Total Assets</b>	<b>561</b>	<b>541</b>	<b>404</b>	<b>422</b>	<b>437</b>	<b>450</b>	<b>459</b>
<b>Shareholders' Equity</b>	<b>259</b>	<b>274</b>	<b>291</b>	<b>301</b>	<b>309</b>	<b>313</b>	<b>323</b>
Share Capital	112	112	112	112	112	112	112
Reserves and Other	147	162	179	189	197	201	211
<b>Current Liabilities</b>	<b>138</b>	<b>289</b>	<b>244</b>	<b>94</b>	<b>86</b>	<b>91</b>	<b>113</b>
ST Interest Bearing Debt	28	50	38	55	40	40	53
Trade Payables	8	5	7	11	13	15	17
Other Current Liabilities	103	234	199	29	33	36	42
<b>LT Liabilities</b>	<b>13</b>	<b>22</b>	<b>18</b>	<b>35</b>	<b>37</b>	<b>23</b>	<b>20</b>
LT Interest Bearing Debt	12	22	18	35	37	23	20
Other LT	-	-	-	-	-	-	-
<b>Total Liabilities &amp; Equity</b>	<b>561</b>	<b>541</b>	<b>404</b>	<b>422</b>	<b>437</b>	<b>450</b>	<b>459</b>

Note: All P&L figures adjusted based on our interviews with management

# UkrAvto (AVTO UZ)

<http://www.ukrauto.ua>

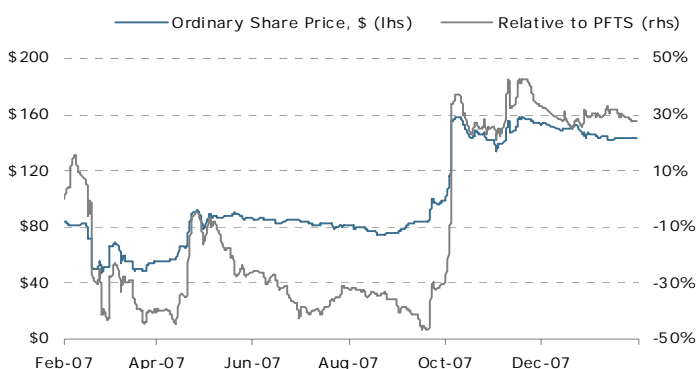
## Auto Distribution

12M target (USD) N/R  
Upside\* n/a

### INVESTMENT CASE

- Automotive blue chip (free float of USD 165 mln, average monthly volumes over last 6M of USD 9.5 mln)
- Market misunderstands investment case for UkrAvto, in our opinion, mixing up all with all things that carry the UkrAvto brand name. UkrAvto is not an automaker, it operates a distribution and service network, also exposed to insurance
- Market could have also overlooked the transitory nature of last year's rise in profitability, due to VAT exemptions in 2H07, overreacting to high published margins (its net margin in 2007 was 45.8% vs industry average of 2.2%)
- Company financials only consolidate 38 of 640 related companies and reflect less than 50% of all network revenues, according to our estimates
- UkrAvto is 80% held by entities related to businessman Tariel Vasadze; we see a high risk of dilution/asset stripping in management's plans to create an auto distribution holding, given low regard for minority shareholder interests

### SHARE PRICE PERFORMANCE\*



### BUSINESS OVERVIEW

Largest distributor of automobiles produced by CJSC ZAZ (the leading Ukrainian car maker). Owns a dealership network, service companies, insurance companies and (indirectly) a network of filling stations. Distributes: Tavria and Slavuta models (designed by ZAZ), VAZ-models and cars produced by ZAZ under license agreements with General Motors and DaimlerChrysler. Controlled by Tariel Vasadze, a Verkhovna Rada deputy from the Yulia Tymoshenko bloc.

In 9M07 financials were distorted by intragroup automobile sale optimization schemes, a one-off event related to VAT exemption. 9M07 sales decreased by 69% yoy to USD 110 mln, EBITDA increased by 15x to USD 85 mln and net margin climbed to 75.4% from 2.1% in 9M06.

### MARKET INFORMATION

**Market Price\***, USD 130.0  
Price impact\*\* n/a  
52 Wk H/L USD 158.4/48.0  
Chg 3m/6m/52w -13%/57%/135%  
Chg vs PFTS 3m/6m/52w 2%/69%/105%  
Chg YTD -15%  
Avg M Tr Vol 6M, USD ths 9490

**MCap**, USD mln 823.0  
Free float 20%  
FF MCap, USD mln 164.6

**No of shares**, mln 6.3  
Par Value, UAH 15

**XETRA** n/a  
DR Ratio n/a  
Avg M Tr Vol 6M, USD ths n/a

### STOCK OWNERSHIP

Carlson Industries Ltd 17.2%  
Holms Ventures Ltd 24.7%  
Private Individual 30.2%  
Other 27.9%

### CORPORATE GOVERNANCE

Concorde Rating\*\*\* U/R

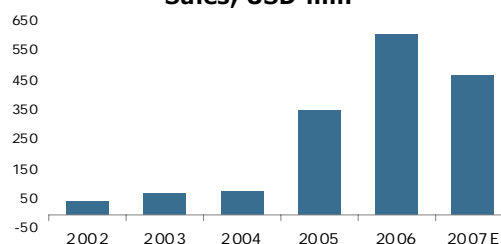
### MARKET MULTIPLES

	2007E	2008E
EV/Sales	1.8	0.7
EV/EBITDA	3.7	12.9
P/E	3.9	25.4
P/B	2.5	2.3

### KEY RATIOS

	2006	2007E	2008E
EBITDA margin	5%	49%	5%
Net Margin	2%	46%	3%
Net Debt/Equity	2.80	0.02	0.01

### Sales, USD mln



\*Market information as of Feb 25, 2008, based on PFTS Mid prices

\*\* Price "impact" is the opinion of Concorde's trading desk on stocks to help investors estimate the reliability of quoted prices:

1: Market price reaction remains within 10% in execution of a market order of about USD 10 mln in size  
2: Market price reaction remains within 10% in execution of a market order of about USD 1 mln in size  
3: All other stocks (quoted)

\*\*\* The rating is based on Concorde Capital's corporate governance survey. Q denotes quality corporate governance standards, AA - above average standards, A - average, BA - below average and P - poor.

## Risky investment

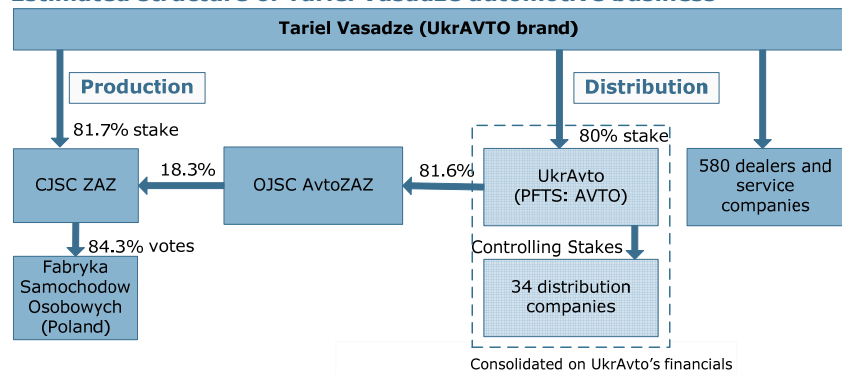
We believe UkrAvto is the most risky traded Ukrainian automotive stock. In our view, its shady corporate structure leads to investors misunderstanding the company's business.

### UkrAvto company (AVTO) ≠ UkrAvto brand

It is important to discriminate between **the company UkrAvto** (listed on the PFTS as AVTO) and the set of the companies that work under the **brand UkrAvto**. The company UkrAvto is one of many automotive assets controlled by Ukrainian businessman and MP Tariel Vasadze. In addition to car dealerships and a fuel retail business under the UkrAvto brand, Vasadze controls Ukraine's largest domestic car producer, the Zaporizhzhya Automobile Plant (CJSC ZAZ).

Only 34 out of 622 companies working under the UkrAvto brand are consolidated on the company UkrAvto's (AVTO) financials.

### Estimated structure of Tariel Vasadze automotive business



Source: Company data, Concorde Capital estimates

UkrAvto's current market price of USD 130.0 per share can only be justified if all dealerships working under the UkrAvto brand are consolidated on the company's financials. Management informed us that they have no such plans.

### Financial data and key ratios, 2008

	Sales, mln USD	EBITDA margin	Net margin	EV/Sales	EV/EBITDA	P/E
Peer average*		5.1%	2.5%	0.3	6.3	8.2
UkrAvto brand (consolidated)	3,571	5.4%	2.7%	0.2	4.3	8.5
Premium/Discount to peers				-31%	-32%	3%
UkrAvto company (AVTO)	1,185	5.4%	2.7%	0.7	13.1	25.7
Premium/Discount to peers				108%	104%	211%

\* list of peers on page 47

Source: Company data, Concorde Capital estimates

### Risk of dilution

We see a high risk of dilution/asset stripping in management's plans to create an auto distribution holding, given low regard for minority shareholder interests.

### Case study: AVTO and Zaporizhzhia Automobile Plant

In April 2007 UkrAvto (AVTO) acquired 31.7% of CJSC ZAZ. But later in December this stake was sold back, providing an illustrative example: Vasadze is at liberty to reshuffle assets without respect for other shareholders' voices.

## Distribution holding poses risks for minorities

Tariel Vasadze plans to create separate auto production and retail holdings, with IPOs to follow in 2009-10. In an interview with us, management said that neither of the holdings are planned to be created on the basis of UkrAvto (AVTO).

Our opinion is that the main owner is considering creating a new car distribution company where it will control up to 100%. This implies high risk that all the companies currently consolidated in UkrAvto (AVTO) will be transferred to the balance sheet of the new company and UkrAvto will become an empty shell.

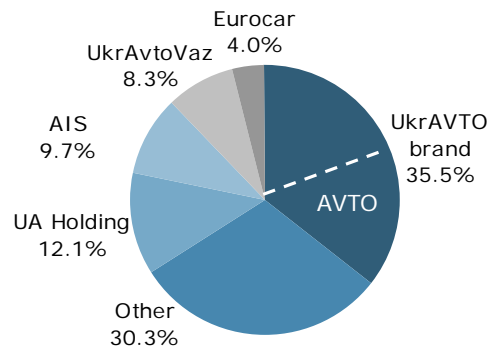
Alternatively, Vasadze could create a holding on the basis of UkrAvto (AVTO) in a move similar to the restructuring of Zaporizhstal via additional share issue in 2006-07, with a risk of dilution for minority shareholders.

## Dealer Business

UkrAvto is the leading auto distribution company in Ukraine. It is an exclusive distributor of cars produced by the Zaporizhya Automobile Plant and sells imported makes (Opel, Chevrolet, Mercedes-Benz, Chrysler, Dodge, Jeep, Toyota and Cadillac). More than 95% of revenues come from sales of cars and spare parts.

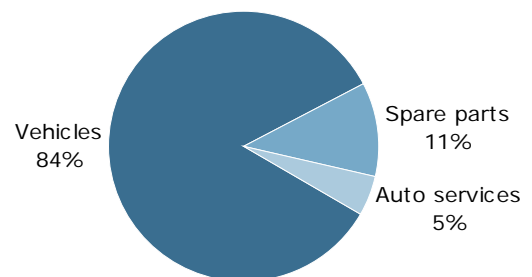
According to our estimates, UkrAvto's financials reflect about 50% of the net revenues of the entire dealer network operating under the UkrAvto brand.

**Ukrainian car dealers, 2007**



Source: Interfax, Concorde Capital estimates

**Revenue structure of UkrAvto (AVTO)**

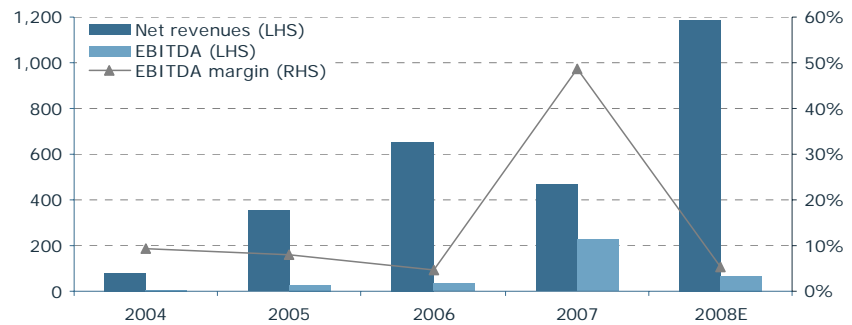


Source: Company data

## Financial analysis

In 2007 UkrAvto was affected by a 29% drop in its top line and 7.2x surge in EBITDA. The changes are one-off and related to sales optimization schemes inside Tarel Vasadze's business group. In 2006, UkrAvto bought cars from Zaporizhya Automobile Plant and then sold them through its distribution network. In May 2007 the Zaporizhya Automobile Plant was granted a 0% VAT privilege (VAT is 20% in Ukraine), which made it beneficial for the plant to report that it sold produced cars itself and paid a commission to dealers (i.e. UkrAvto). UkrAvto reported only commission payments as revenue in 2H07.

### Financials of UkrAvto, USD mln



Source: Company data

VAT savings for the entire Vasadze group was USD 360 mln, according to our estimates. Part of this amount was reflected on UkrAvto's P&L, resulting in a one-time rise in the company's EBITDA.

VAT privileges expired in January 2008 - we expect the Vasadze group to resume its former scheme of reporting car sales through its distribution network this year. We forecast this will result in 2.5x yoy growth in reported sales for 2008, and UkrAvto's EBITDA margin to return to its 2006 level.

### Key estimates for UkrAvto

	Net revenues		EBITDA		Net income	
	USD mln	USD mln	margin	USD mln	margin	
<b>2007E</b>	465.1	225.6	48.6%	212.9	45.8%	
<b>2008E</b>	1184.6	64.0	5.4%	32.4	2.7%	

Source: Company data, Concorde Capital estimates

## Peer valuation

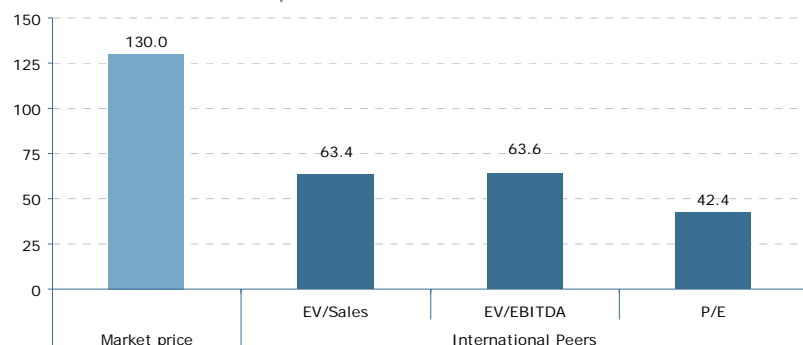
	Country	MCap USDmIn	Net revenues, USDmIn			EBITDA margin			Net margin		
			2006	2007E	2008E	2006	2007E	2008E	2006	2007E	2008E
<b>AVTO</b>	<b>Ukraine</b>	<b>823</b>	<b>650</b>	<b>465</b>	<b>1185</b>	<b>4.8%</b>	<b>48.6%</b>	<b>5.4%</b>	<b>1.6%</b>	<b>45.8%</b>	<b>2.7%</b>
AP Eagers Limited	Australia	387	949	1,486	1,607	3.3%	3.8%	3.9%	1.3%	1.7%	1.7%
Asbury Automotive Group Inc	USA	470	5,821	5,790	5,872	3.1%	3.4%	3.3%	1.1%	1.2%	1.3%
Autocanada Income Fund	Canada	86	304	848	1,039	3.4%	3.1%	3.2%	3.6%	0.3%	3.0%
BiliaAB	Sweden	356	2,396	2,487	2,545	3.0%	3.2%	3.4%	0.7%	0.9%	1.1%
Group 1 Automotive Inc	USA	555	6,061	6,391	6,471	3.3%	3.0%	3.0%	1.5%	1.3%	1.3%
Jardine Cycle&Carriage Ltd	Singapore	4,218	4,944	8,722	10,127	15.3%	11.4%	11.9%	6.5%	3.8%	3.9%
Lithia Motors Inc	USA	199	3,242	3,266	3,347	3.6%	2.9%	3.1%	2.3%	1.1%	1.1%
Lookers PLC	UK	329	2,756	3,333	3,979	2.8%	2.6%	2.7%	1.4%	1.1%	1.2%
Pendragon PLC	UK	439	10,009	10,261	10,549	3.7%	3.2%	3.3%	0.9%	0.4%	0.8%
Sonic Automotive Inc	USA	860	8,005	8,272	8,450	3.4%	3.8%	3.9%	1.2%	1.4%	1.5%
Stern Groep NV	The Netherlands	270	972	1,437	1,571	3.3%	5.9%	5.3%	1.5%	1.5%	1.7%
Super Group Limited	South Africa	375	1,387	1,780	1,958	9.7%	11.0%	10.9%	3.2%	4.3%	4.5%
Autonation Inc	USA	2,787	17,776	17,192	17,422	3.9%	4.1%	4.3%	1.7%	1.5%	1.7%
Penske Automotive Group	USA	1,930	11,358	12,959	13,713	2.9%	2.9%	2.9%	1.1%	1.1%	1.1%
TunasRidean	India	149	431	483	594	3.3%	6.2%	6.5%	0.6%	3.8%	3.7%
Daewoo Motor Sales	South Korea	892	3,067	3,262	3,573	1.8%	2.3%	3.0%	0.7%	1.8%	2.3%
Edaran Otomobil Nasional	Malaysia	141	784	542	618	5.6%	4.3%	4.8%	2.6%	2.6%	3.3%
MBM Resources Berhad	Malaysia	204	321	358	378	7.2%	6.0%	5.8%	8.8%	9.2%	9.1%
SAG Gest	Poland	480	928	1,109	1,169	7.1%	9.8%	11.0%	3.4%	3.4%	4.1%
<b>Average</b>						<b>4.7%</b>	<b>4.9%</b>	<b>5.1%</b>	<b>2.3%</b>	<b>2.2%</b>	<b>2.5%</b>

	Country	MCap USDmIn	EV/Sales		EV/EBITDA		P/E	
			2007E	2008E	2007E	2008E	2007E	2008E
<b>AVTO</b>	<b>Ukraine</b>	<b>823</b>	<b>1.8</b>	<b>0.7</b>	<b>3.7</b>	<b>12.9</b>	<b>3.9</b>	<b>25.4</b>
AP Eagers Limited	Australia	387	0.4	0.4	10.9	10.3	15.3	13.9
Asbury Automotive Group Inc	USA	470	0.2	0.2	4.8	4.7	6.6	6.4
Autocanada Income Fund	Canada	86	n/a	n/a	n/a	n/a	29.8	2.8
BiliaAB	Sweden	356	0.2	0.2	6.1	5.6	16.1	13.0
Group 1 Automotive Inc	USA	555	n/a	n/a	n/a	n/a	6.9	6.8
Jardine Cycle&Carriage Ltd	Singapore	4,218	0.9	0.7	7.5	5.7	12.9	10.6
Lithia Motors Inc	USA	199	n/a	n/a	n/a	n/a	5.8	5.2
Lookers PLC	UK	329	0.2	0.1	6.8	5.3	9.3	7.1
Pendragon PLC	UK	439	0.1	0.1	3.2	3.0	9.6	5.5
Sonic Automotive Inc	USA	860	n/a	n/a	n/a	n/a	7.6	6.9
Stern Groep NV	The Netherlands	270	0.4	0.4	7.2	7.1	12.4	10.0
Super Group Limited	South Africa	375	0.5	0.4	4.1	3.5	4.9	4.2
Autonation Inc	USA	2,787	0.3	0.2	6.1	5.6	10.5	9.7
Penske Automotive Group	USA	1,930	0.3	0.3	9.6	8.8	14.0	12.3
TunasRidean	India	149	n/a	n/a	n/a	n/a	8.1	6.8
Daewoo Motor Sales	South Korea	892	0.3	0.3	14.7	9.6	15.1	11.0
Edaran Otomobil Nasional	Malaysia	141	0.2	0.1	4.6	2.9	10.1	6.9
MBM Resources Berhad	Malaysia	204	0.6	0.5	9.3	9.0	6.2	5.9
SAG Gest	Poland	480	0.9	0.8	8.8	7.7	12.9	10.1
<b>Average</b>			<b>0.4</b>	<b>0.3</b>	<b>7.4</b>	<b>6.3</b>	<b>11.3</b>	<b>8.2</b>
Implied AVTO price, USD			26.9	62.2	263.9	63.3	378.9	41.8
Implied Upside (downside)			-79%	-52%	103%	-51%	191%	-68%

## Valuation summary

UkrAvto trades at 107-215% premiums to its international peers on all 2008E multiples, which we attribute to the market misunderstanding the company's business and failure to account for risks of asset stripping or dilution. We initiate coverage with a SELL rating and withhold assigning a target price.

### Valuation results, USD per share



Source: PFTS, Concorde Capital estimates

## INCOME STATEMENT SUMMARY, USD mln

	2002	2003	2004	2005	2006	2007E	2008E
<b>Net Revenues</b>	<b>44.7</b>	<b>67.5</b>	<b>77.9</b>	<b>351.8</b>	<b>650.2</b>	<b>n/a</b>	<b>n/a</b>
<i>Change yoy</i>	<i>N/M</i>	<i>51.1%</i>	<i>15.4%</i>	<i>351.7%</i>	<i>84.8%</i>	<i>n/a</i>	<i>n/a</i>
Gross Profit	11.8	24.3	38.2	72.5	96.8	n/a	n/a
<b>EBITDA</b>	<b>5.3</b>	<b>4.1</b>	<b>7.3</b>	<b>28.7</b>	<b>31.3</b>	<b>n/a</b>	<b>n/a</b>
<i>margin</i>	<i>11.9%</i>	<i>6.0%</i>	<i>9.4%</i>	<i>8.2%</i>	<i>4.8%</i>	<i>n/a</i>	<i>n/a</i>
Depreciation	(0.8)	(0.8)	(1.3)	(1.8)	(5.8)	n/a	n/a
<b>EBIT</b>	<b>4.5</b>	<b>3.2</b>	<b>6.0</b>	<b>26.9</b>	<b>25.5</b>	<b>n/a</b>	<b>n/a</b>
<i>margin</i>	<i>10.0%</i>	<i>4.8%</i>	<i>7.7%</i>	<i>7.6%</i>	<i>3.9%</i>	<i>n/a</i>	<i>n/a</i>
Financial Expense, net	(2.4)	(2.7)	(3.6)	(5.2)	(15.1)	n/a	n/a
Other income/(expense)	(0.1)	(0.1)	0.5	0.3	4.4	n/a	n/a
<b>PBT</b>	<b>1.9</b>	<b>0.4</b>	<b>2.8</b>	<b>22.0</b>	<b>14.8</b>	<b>n/a</b>	<b>n/a</b>
Tax	(0.7)	(0.2)	(0.3)	(5.5)	-	n/a	n/a
<i>Effective tax rate</i>	<i>37.2%</i>	<i>40.0%</i>	<i>10.0%</i>	<i>24.9%</i>	<i>0.0%</i>	<i>n/a</i>	<i>n/a</i>
<b>Net Income</b>	<b>1.2</b>	<b>0.2</b>	<b>2.5</b>	<b>16.5</b>	<b>10.1</b>	<b>n/a</b>	<b>n/a</b>
<i>Net Margin</i>	<i>2.7%</i>	<i>0.4%</i>	<i>3.3%</i>	<i>4.7%</i>	<i>1.6%</i>	<i>n/a</i>	<i>n/a</i>

## BALANCE SHEET SUMMARY, USD mln

	2002	2003	2004	2005	2006	2007E	2008E
<b>Current Assets</b>	<b>12.7</b>	<b>15.5</b>	<b>70.0</b>	<b>134.6</b>	<b>294.0</b>	<b>n/a</b>	<b>n/a</b>
Cash & Equivalents	0.4	0.7	0.8	1.8	5.5	n/a	n/a
Trade Receivables	2.7	6.0	10.4	14.3	27.5	n/a	n/a
Inventories	5.0	6.1	7.8	57.5	79.0	n/a	n/a
Other	4.6	2.6	51.0	60.9	182.0	n/a	n/a
<b>Fixed Assets</b>	<b>31.7</b>	<b>36.0</b>	<b>45.0</b>	<b>172.9</b>	<b>310.7</b>	<b>n/a</b>	<b>n/a</b>
PP&E, net	14.0	16.2	24.9	33.6	43.5	n/a	n/a
Other	17.7	19.8	20.1	139.2	267.2	n/a	n/a
<b>Total Assets</b>	<b>44.4</b>	<b>51.4</b>	<b>115.0</b>	<b>307.4</b>	<b>604.7</b>	<b>n/a</b>	<b>n/a</b>
<b>Shareholders' Equity</b>	<b>15.3</b>	<b>15.7</b>	<b>19.0</b>	<b>100.3</b>	<b>123.0</b>	<b>n/a</b>	<b>n/a</b>
Share Capital	5.9	6.0	6.7	7.3	19.8	n/a	n/a
Retained Earnings	2.7	1.9	4.4	21.2	30.5	n/a	n/a
Other	6.6	7.8	7.9	71.8	72.7	n/a	n/a
<b>Current Liabilities</b>	<b>13.5</b>	<b>12.8</b>	<b>52.2</b>	<b>165.3</b>	<b>356.7</b>	<b>n/a</b>	<b>n/a</b>
ST Interest Bearing Debt	7.1	3.5	10.3	5.4	226.0	n/a	n/a
Trade Payables	4.8	7.3	10.6	79.3	125.5	n/a	n/a
Other	1.7	2.0	31.3	80.6	5.2	n/a	n/a
<b>LT Liabilities</b>	<b>15.7</b>	<b>22.9</b>	<b>43.7</b>	<b>41.8</b>	<b>125.1</b>	<b>n/a</b>	<b>n/a</b>
LT Interest Bearing Debt	12.8	21.9	37.9	36.1	123.6	n/a	n/a
Other	2.8	1.0	5.9	5.7	1.5	n/a	n/a
<b>Total Liabilities &amp; Equity</b>	<b>44.4</b>	<b>51.4</b>	<b>115.0</b>	<b>307.4</b>	<b>604.7</b>	<b>n/a</b>	<b>n/a</b>

## QUARTERLY ANALYSIS, USD mln

	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07
<b>Net Revenues</b>	<b>41.8</b>	<b>155.8</b>	<b>130.3</b>	<b>114.4</b>	<b>180.1</b>	<b>158.9</b>	<b>196.8</b>	<b>111.7</b>	<b>100.4</b>	<b>110.3</b>
<i>Change yoy</i>	<i>129.6%</i>	<i>810.1%</i>	<i>340.7%</i>	<i>379.7%</i>	<i>330.7%</i>	<i>2.0%</i>	<i>51.0%</i>	<i>-2.4%</i>	<i>-44.3%</i>	<i>-30.6%</i>
<b>EBITDA</b>	<b>5.8</b>	<b>7.7</b>	<b>9.1</b>	<b>4.8</b>	<b>9.8</b>	<b>7.2</b>	<b>9.5</b>	<b>3.1</b>	<b>27.0</b>	<b>85.4</b>
<i>margin</i>	<i>13.8%</i>	<i>4.9%</i>	<i>7.0%</i>	<i>4.2%</i>	<i>5.4%</i>	<i>4.5%</i>	<i>4.8%</i>	<i>2.7%</i>	<i>26.9%</i>	<i>77.46%</i>
<b>EBIT</b>	<b>5.3</b>	<b>7.3</b>	<b>8.6</b>	<b>3.4</b>	<b>8.5</b>	<b>5.7</b>	<b>7.9</b>	<b>1.4</b>	<b>25.3</b>	<b>83.7</b>
<i>margin</i>	<i>12.8%</i>	<i>4.7%</i>	<i>6.6%</i>	<i>3.0%</i>	<i>4.7%</i>	<i>3.6%</i>	<i>4.0%</i>	<i>1.3%</i>	<i>25.2%</i>	<i>75.9%</i>
<b>Net Income</b>	<b>3.9</b>	<b>5.1</b>	<b>3.3</b>	<b>1.4</b>	<b>5.4</b>	<b>3.3</b>	<b>(0.1)</b>	<b>0.8</b>	<b>21.6</b>	<b>83.2</b>
<i>Net Margin</i>	<i>9.3%</i>	<i>3.2%</i>	<i>2.5%</i>	<i>1.3%</i>	<i>3.0%</i>	<i>2.1%</i>	<i>0.0%</i>	<i>0.7%</i>	<i>21.6%</i>	<i>75.4%</i>



# KrASZ Ltd

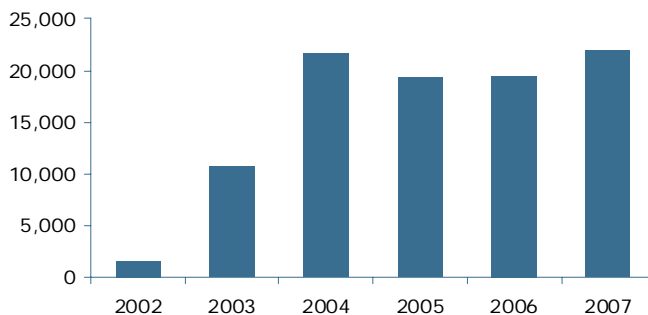
## Auto Manufacturers

12M target (USD) N/R  
Upside\* n/a

### BUSINESS OVERVIEW

Kremenchuk Avto Assembly Plant (KrASZ) joined the AIS Holding in 1999. Produces vehicles under the brands: VAZ, FAW, and the Korean off-road vehicle Ssang Yong. In 2007 KrASZ started production of Chinese light-car Geely. In 2007 KrASZ increased production by 20% yoy to 22 ths auto units; management plans to boost output by 50% yoy in 2008. In 9M07, the company increased net revenues by 11.4% yoy to USD 114.5 mln, EBITDA by 138.5% yoy to USD 3.4 mln and net income to USD 0.8 mln vs USD 0.5 mln in 9M06.

**KrASZ Output, units**



### MARKET INFORMATION

**Market Price\***, USD n/a  
Price impact\*\* n/a  
52 Wk H/L USD n/a  
Chg 3m/6m/52w n/a  
Chg vs PFTS 3m/6m/52w n/a  
Chg YTD n/a  
Avg M Tr Vol 6M, USD ths n/a

**MCap**, USD mln n/a  
Free float n/a  
FF Mcap, USD mln n/a

**No of shares**, mln n/a  
Par Value, UAH n/a

**XETRA** n/a  
DR Ratio n/a  
Avg M Tr Vol 6M, USD ths n/a

### CORPORATE GOVERNANCE

Concorde Rating\*\*\* n/a

### MARKET MULTIPLES

	2007E	2008E
EV/Sales	n/a	n/a
EV/EBITDA	n/a	n/a
P/E	n/a	n/a
P/B	n/a	n/a
P/CF	n/a	n/a

### KEY RATIOS

	2006	2007E	2008E
EBITDA margin	2%	3%	n/a
Net Margin	0.4%	0.3%	n/a
ROE	1%	1%	n/a
Net Debt/Equity	0.30	0.40	n/a

**\*\* Price "impact" is the opinion of Concorde's trading desk on stocks to help investors estimate the reliability of quoted prices:**

1: Market price reaction remains within 10% in execution of a market order of about USD 10 mln in size  
2: Market price reaction remains within 10% in execution of a market order of about USD 1 mln in size  
3: All other stocks (quoted)

\*\*\* The rating is based on Concorde Capital's corporate governance survey. Q denotes quality corporate governance standards, AA - above average standards, A - average, BA - below average and P - poor.

## INCOME STATEMENT SUMMARY, USD mln

	2003	2004	2005	2006	2007	2008E
<b>Net Revenues</b>	<b>19.9</b>	<b>120.3</b>	<b>147.8</b>	<b>129.1</b>	<b>172.0</b>	<b>n/a</b>
<i>Change yoy</i>	-	506.0%	22.9%	-12.6%	33.2%	n/a
Gross Profit	1.1	6.0	6.0	5.7	8.1	n/a
<b>EBITDA</b>	<b>0.3</b>	<b>1.4</b>	<b>3.0</b>	<b>2.1</b>	<b>5.1</b>	<b>n/a</b>
<i>margin</i>	1.5%	1.1%	2.0%	1.6%	3.0%	n/a
Depreciation	(0.2)	(0.3)	(0.3)	(28.7)	(47)	n/a
<b>EBIT</b>	<b>0.2</b>	<b>1.1</b>	<b>2.7</b>	<b>(26.6)</b>	<b>(41)</b>	<b>n/a</b>
<i>margin</i>	0.8%	0.9%	1.8%	-20.6%	n/a	n/a
Financial Expense, net	0.0	0.0	0.0	0.0	2.8	n/a
Other income/(expense)	(0.0)	(0.0)	1.0	28.6	49	n/a
<b>PBT</b>	<b>0.1</b>	<b>0.1</b>	<b>1.3</b>	<b>0.8</b>	<b>1</b>	<b>n/a</b>
Tax	(0.0)	(0.0)	(0.2)	(0.3)	(0.4)	n/a
<i>Effective tax rate</i>	2.4%	0.2%	14.7%	34.6%	42.2%	n/a
<b>Net Income</b>	<b>0.1</b>	<b>0.1</b>	<b>1.1</b>	<b>0.5</b>	<b>0.6</b>	<b>n/a</b>
<i>Net Margin</i>	<b>0.3%</b>	<b>0.1%</b>	<b>0.7%</b>	<b>0.4%</b>	<b>0.3%</b>	<b>n/a</b>

## BALANCE SHEET SUMMARY, USD mln

	2003	2004	2005	2006	2007	2008E
<b>Current Assets</b>	<b>7.8</b>	<b>77.5</b>	<b>85.7</b>	<b>49.2</b>	<b>49.2</b>	<b>n/a</b>
Cash & Equivalents	0.0	0.0	0.1	0.2	0.2	n/a
Trade Receivables	0.3	8.7	29.3	5.0	5.0	n/a
Inventories	5.8	42.9	48.0	31.9	31.9	n/a
Other	1.7	25.9	8.3	12.0	12.0	n/a
<b>Fixed Assets</b>	<b>32.1</b>	<b>30.1</b>	<b>44.6</b>	<b>83.3</b>	<b>83.3</b>	<b>n/a</b>
PP&E, net	1.5	2.2	0.1	0.0	0.0	n/a
Other	30.5	27.9	44.5	83.3	83.3	n/a
<b>Total Assets</b>	<b>39.8</b>	<b>107.6</b>	<b>130.3</b>	<b>132.5</b>	<b>132.5</b>	<b>n/a</b>
<b>Shareholders' Equity</b>	<b>30.4</b>	<b>40.7</b>	<b>43.9</b>	<b>44.5</b>	<b>44.5</b>	<b>n/a</b>
Share Capital	30.4	40.6	42.7	42.7	42.7	n/a
Retained Earnings	0.0	0.1	1.3	1.8	1.8	n/a
Other	0.0	0.0	0.0	0.0	0.0	n/a
<b>Current Liabilities</b>	<b>5.3</b>	<b>62.9</b>	<b>82.4</b>	<b>60.1</b>	<b>60.1</b>	<b>n/a</b>
ST Interest Bearing Debt	-	14.3	6.1	14.9	14.9	n/a
Trade Payables	5.1	43.8	74.5	44.6	44.6	n/a
Other	0.1	4.6	1.5	0.2	0.6	n/a
<b>LT Liabilities</b>	<b>4.1</b>	<b>4.1</b>	<b>4.0</b>	<b>27.9</b>	<b>27.9</b>	<b>n/a</b>
LT Interest Bearing Debt	3.4	3.8	4.0	0.6	0.6	n/a
Other	0.8	0.3	0.0	27.3	27.3	n/a
<b>Total Liabilities &amp; Equity</b>	<b>39.8</b>	<b>107.6</b>	<b>130.3</b>	<b>132.5</b>	<b>132.5</b>	<b>n/a</b>

## QUARTERLY ANALYSIS, USD mln

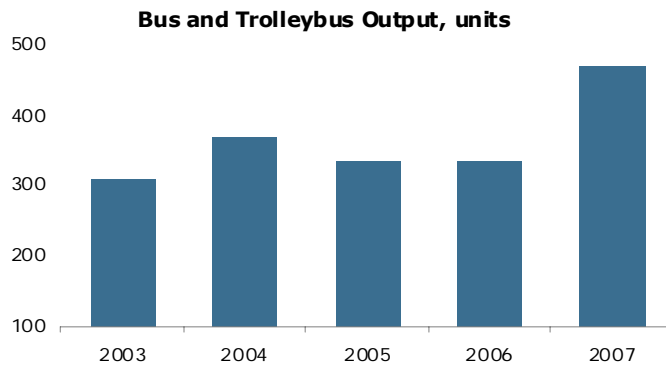
	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07
<b>Net Revenues</b>	<b>68.4</b>	<b>16.6</b>	<b>17.7</b>	<b>51.9</b>	<b>26.4</b>	<b>24.6</b>	<b>26.3</b>	<b>21.7</b>	<b>36.3</b>	<b>56.5</b>
<i>Change yoy</i>	267.89%	-51.29%	-63.41%	14.87%	-61.40%	48.51%	48.10%	-58.15%	37.74%	129.64%
<b>EBITDA</b>	<b>1.4</b>	<b>(0.4)</b>	<b>0.7</b>	<b>0.4</b>	<b>0.9</b>	<b>0.1</b>	<b>0.6</b>	<b>0.7</b>	<b>1.1</b>	<b>1.6</b>
<i>margin</i>	2.07%	-2.50%	4.04%	0.81%	3.35%	0.55%	2.39%	3.35%	3.07%	2.82%
<b>EBIT</b>	<b>1.3</b>	<b>(0.5)</b>	<b>0.7</b>	<b>0.4</b>	<b>(8.0)</b>	<b>(8.8)</b>	<b>(10.2)</b>	<b>(11.9)</b>	<b>(12.6)</b>	<b>(8.8)</b>
<i>margin</i>	1.92%	-3.02%	3.66%	0.69%	-30.50%	-35.81%	-38.62%	-54.80%	-34.60%	-15.61%
<b>Net Income</b>	<b>1.1</b>	<b>(0.8)</b>	<b>0.2</b>	<b>0.2</b>	<b>0.5</b>	<b>(0.2)</b>	<b>0.0</b>	<b>0.1</b>	<b>0.3</b>	<b>0.4</b>
<i>Net Margin</i>	1.6%	-4.9%	1.0%	0.4%	1.9%	-0.7%	0.0%	0.4%	0.8%	0.7%

# CJSC Communal Transport Plant (Lviv Bus) Auto Manufacturers

12M target (USD) N/R  
Upside\* n/a

## BUSINESS OVERVIEW

CJSC Communal Transport Plant (Lviv Bus), aka LAZ, was founded in 2003 by open JSC Lviv Bus. One of the leading bus manufacturers in Ukraine. Specializes in production of municipal and tourist buses. Capacity: 3 ths buses p.a. Controls around 80% of the Ukrainian market for large municipal buses. Sales destinations: Ukraine, Russia and other CIS countries. Around 30% of all buses in the CIS came from Lviv Bus. In 2007, Lviv Bus increased production by 41% to 471 units. In 9M07, Communal Transport Plant posted sales USD 25 mln (+23% yoy).



## MARKET INFORMATION

**Market Price\***, USD n/a  
Price impact\*\* n/a  
52 Wk H/L USD n/a  
Chg 3m/6m/52w n/a  
Chg vs PFTS 3m/6m/52w n/a  
Chg YTD n/a  
Avg M Tr Vol 6M, USD ths n/a

**MCap**, USD mln n/a  
Free float n/a  
FF Mcap, USD mln n/a

**No of shares**, mln 0.326  
Par Value, UAH 1,000

**XETRA** n/a  
DR Ratio n/a  
Avg M Tr Vol 6M, USD ths n/a

## OWNERSHIP

Artival Ltd	20.2%
Budtransgas	25.0%
Eurotrack Technologies Ltd	11.4%
Communal Transport Plant	21.0%
Other	22.4%

## CORPORATE GOVERNANCE

Concorde Rating\*\*\* n/a

## MARKET MULTIPLES

	2007E	2008E
EV/Sales	n/a	n/a
EV/EBITDA	n/a	n/a
P/E	n/a	n/a
P/B	n/a	n/a
P/CF	n/a	n/a

## KEY RATIOS

	2006	2007E	2008E
EBITDA margin	25%	n/a	n/a
Net Margin	17%	n/a	n/a
ROE	7%	n/a	n/a
Net Debt/Equity	n/a	n/a	n/a

\*\* Price "Impact" is the opinion of Concorde's trading desk on stocks to help investors estimate the reliability of quoted prices:

- 1: Market price reaction remains within 10% in execution of a market order of about USD 10 mln in size
- 2: Market price reaction remains within 10% in execution of a market order of about USD 1 mln in size
- 3: All other stocks (quoted)

\*\*\* The rating is based on Concorde Capital's corporate governance survey. Q denotes quality corporate governance standards, AA - above average standards, A - average, BA - below average and P - poor.

## INCOME STATEMENT SUMMARY, USD mln

	2003	2004	2005	2006	2007E	2008E
<b>Net Revenues</b>	<b>6.3</b>	<b>19.5</b>	<b>31.4</b>	<b>26.2</b>	<b>n/a</b>	<b>n/a</b>
<i>Change yoy</i>	-	209.2%	61.1%	-16.4%	n/a	n/a
Gross Profit	2.3	(1.3)	8.1	10.7	n/a	n/a
<b>EBITDA</b>	<b>1.3</b>	<b>(3.8)</b>	<b>5.1</b>	<b>6.6</b>	<b>n/a</b>	<b>n/a</b>
<i>margin</i>	21.1%	-19.3%	16.2%	25.0%	n/a	n/a
Depreciation	(0.8)	(1.5)	(1.9)	(1.5)	n/a	n/a
<b>EBIT</b>	<b>0.5</b>	<b>(5.3)</b>	<b>3.2</b>	<b>5.0</b>	<b>n/a</b>	<b>n/a</b>
<i>margin</i>	8.5%	-27.1%	10.1%	19.3%	n/a	n/a
Financial Expense, net	(0.1)	(1.2)	(1.8)	(0.7)	n/a	n/a
Other income/(expense)	0.0	0.0	0.1	0.0	n/a	n/a
<b>PBT</b>	<b>0.4</b>	<b>(6.4)</b>	<b>1.4</b>	<b>4.4</b>	<b>n/a</b>	<b>n/a</b>
Tax	(0.0)	-	-	-	n/a	n/a
<i>Effective tax rate</i>	0.1%	0.0%	0.0%	0.0%	n/a	n/a
<b>Net Income</b>	<b>0.4</b>	<b>(6.4)</b>	<b>1.4</b>	<b>4.4</b>	<b>n/a</b>	<b>n/a</b>
<i>Net Margin</i>	6.5%	-33.1%	4.5%	16.7%	n/a	n/a

## BALANCE SHEET SUMMARY, USD mln

	2003	2004	2005	2006	2007E	2008E
<b>Current Assets</b>	<b>39.4</b>	<b>45.9</b>	<b>65.6</b>	<b>102.6</b>	<b>n/a</b>	<b>n/a</b>
Cash & Equivalents	0.1	2.1	2.6	0.5	n/a	n/a
Trade Receivables	4.8	9.2	23.7	17.9	n/a	n/a
Inventories	5.2	14.9	21.0	38.3	n/a	n/a
Other	29.4	19.7	18.4	45.9	n/a	n/a
<b>Fixed Assets</b>	<b>31.8</b>	<b>32.7</b>	<b>38.0</b>	<b>35.8</b>	<b>n/a</b>	<b>n/a</b>
PP&E, net	26.1	26.6	32.1	20.8	n/a	n/a
Other	5.7	6.1	5.9	15.0	n/a	n/a
<b>Total Assets</b>	<b>71.2</b>	<b>78.6</b>	<b>103.6</b>	<b>138.5</b>	<b>n/a</b>	<b>n/a</b>
<b>Shareholders' Equity</b>	<b>61.7</b>	<b>55.5</b>	<b>59.6</b>	<b>64.0</b>	<b>n/a</b>	<b>n/a</b>
Share Capital	61.2	61.5	64.6	64.6	n/a	n/a
Retained Earnings	0.4	(6.0)	(5.0)	(0.6)	n/a	n/a
Other	-	-	-	-	n/a	n/a
<b>Current Liabilities</b>	<b>9.6</b>	<b>23.1</b>	<b>44.0</b>	<b>74.5</b>	<b>n/a</b>	<b>n/a</b>
ST Interest Bearing Debt	3.8	9.9	9.4	9.7	n/a	n/a
Trade Payables	3.8	4.3	16.4	27.3	n/a	n/a
Other	2.0	8.9	18.2	37.4	n/a	n/a
<b>LT Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>n/a</b>	<b>n/a</b>
LT Interest Bearing Debt	-	-	-	-	n/a	n/a
Other	-	-	-	-	n/a	n/a
<b>Total Liabilities &amp; Equity</b>	<b>71.2</b>	<b>78.6</b>	<b>103.6</b>	<b>138.5</b>	<b>n/a</b>	<b>n/a</b>

## QUARTERLY ANALYSIS, USD mln

	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07
<b>Net Revenues</b>	<b>5.1</b>	<b>7.7</b>	<b>13.3</b>	<b>7.8</b>	<b>12.5</b>	<b>(0.1)</b>	<b>6.0</b>	<b>5.4</b>	<b>5.9</b>	<b>13.7</b>
<i>Change yoy</i>	-6.0%	87.4%	177.2%	50.4%	145.1%	-101.2%	-55.3%	-31.5%	-52.9%	-149.4%
<b>EBITDA</b>	<b>(0.1)</b>	<b>0.8</b>	<b>4.7</b>	<b>1.3</b>	<b>7.0</b>	<b>(2.5)</b>	<b>0.8</b>	<b>1.0</b>	<b>0.5</b>	<b>(0.7)</b>
<i>margin</i>	-1.1%	10.9%	35.1%	16.1%	55.8%	N/M	13.1%	18.0%	8.7%	-5.14%
<b>EBIT</b>	<b>(0.5)</b>	<b>0.3</b>	<b>4.2</b>	<b>0.8</b>	<b>6.5</b>	<b>(2.8)</b>	<b>0.5</b>	<b>0.7</b>	<b>0.2</b>	<b>(1.0)</b>
<i>margin</i>	-10.0%	4.2%	31.2%	10.0%	52.2%	N/M	8.4%	12.7%	3.9%	-7.2%
<b>Net Income</b>	<b>(0.8)</b>	<b>(0.2)</b>	<b>3.7</b>	<b>0.5</b>	<b>6.4</b>	<b>(2.9)</b>	<b>0.4</b>	<b>0.4</b>	<b>0.2</b>	<b>(1.0)</b>
<i>Net Margin</i>	-15.1%	-3.2%	27.7%	6.2%	51.1%	N/M	6.2%	7.9%	3.7%	-7.4%

# OJSC Cherkasy Bus

## Auto Manufacturers

12M target (USD)	N/R
Upside*	n/a

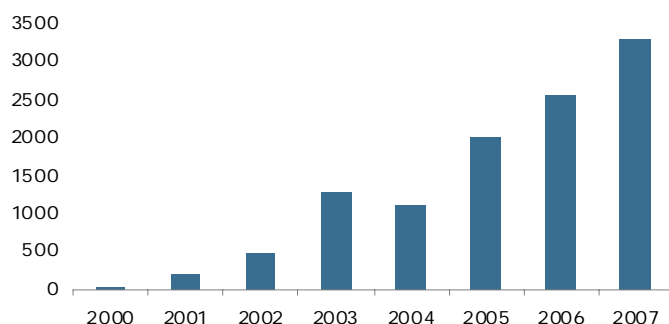
### BUSINESS OVERVIEW

Part of the Bogdan Corporation, management plans to merge it with Bogdan Automobile Plant in 2008. Specializes in the production of small Bogdan-branded buses.

In 7M07 the Bogdan Corporation increased bus output by 18.7% yoy to 1.7 ths units, most of which were produced by Cherkasy Bus.

In 9M07, the company increased net revenues by 40.5% yoy to USD 77.1 mln, EBITDA by 115.0% yoy to USD 4.6 mln and net income to USD 2.4 mln vs USD 0.9 mln in 9M06. EBITDA margin improved to 6.0% from 3.9% in 9M06 and net margin to 3.1% from 1.7% in 9M06.

**Buses Output, units**



### MARKET INFORMATION

<b>Market Price*</b> , USD	n/a
Price impact**	n/a
52 Wk H/L USD	n/a
Chg 3m/6m/52w	n/a
Chg vs PFTS 3m/6m/52w	n/a
Chg YTD	n/a
Avg M Tr Vol 6M, USD ths	n/a

<b>MCap</b> , USD mln	n/a
Free float	5%
FF Mcap, USD mln	n/a

<b>No of shares</b> , mln	81.5
Par Value, UAH	2

<b>XETRA</b>	n/a
DR Ratio	n/a
Avg M Tr Vol 6M, USD ths	n/a

### STOCK OWNERSHIP

Concern Ukrprominvset	58.6%
Finance & Credit	9.9%
Hyundai Motors	9.6%
Ukrpromavtoshynoremont	7.8%
Other	14.1%

### CORPORATE GOVERNANCE

Concorde Rating***	n/a
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### MARKET MULTIPLES

	2007E	2008E
EV/Sales	n/a	n/a
EV/EBITDA	n/a	n/a
P/E	n/a	n/a
P/B	n/a	n/a
P/CF	n/a	n/a

### KEY RATIOS

	2006	2007E	2008E
EBITDA margin	4%	6.1%	n/a
Net Margin	1%	3.8%	n/a
ROE	7%	13%	n/a
Net Debt/Equity	0.10	0.23	n/a

\*\* Price "Impact" is the opinion of Concorde's trading desk on stocks to help investors estimate the reliability of quoted prices:

- 1: Market price reaction remains within 10% in execution of a market order of about USD 10 mln in size
- 2: Market price reaction remains within 10% in execution of a market order of about USD 1 mln in size
- 3: All other stocks (quoted)

\*\*\* The rating is based on Concorde Capital's corporate governance survey. Q denotes quality corporate governance standards, AA - above average standards, A - average, BA - below average and P - poor.

## INCOME STATEMENT SUMMARY, USD mln

	2002	2003	2004	2005	2006	2007E	2008E
<b>Net Revenues</b>	<b>9.9</b>	<b>9.9</b>	<b>11.3</b>	<b>47.2</b>	<b>81.3</b>	<b>n/a</b>	<b>n/a</b>
<i>Change yoy</i>	<i>N/M</i>	<i>0.8%</i>	<i>13.7%</i>	<i>318.0%</i>	<i>72.1%</i>	<i>n/a</i>	<i>n/a</i>
Gross Profit	0.4	0.6	0.1	3.5	5.8	n/a	n/a
<b>EBITDA</b>	<b>0.1</b>	<b>0.2</b>	<b>(0.5)</b>	<b>1.6</b>	<b>3.0</b>	<b>n/a</b>	<b>n/a</b>
<i>margin</i>	<i>1.0%</i>	<i>2.2%</i>	<i>-4.2%</i>	<i>3.4%</i>	<i>3.7%</i>	<i>n/a</i>	<i>n/a</i>
Depreciation	(0.1)	(0.2)	(0.3)	(0.4)	(0.6)	n/a	n/a
<b>EBIT</b>	<b>(0.0)</b>	<b>0.0</b>	<b>(0.8)</b>	<b>1.2</b>	<b>2.4</b>	<b>n/a</b>	<b>n/a</b>
<i>margin</i>	<i>-0.1%</i>	<i>0.5%</i>	<i>-6.7%</i>	<i>2.6%</i>	<i>3.0%</i>	<i>n/a</i>	<i>n/a</i>
Financial Expense, net	(0.0)	-	(0.0)	(0.0)	(0.4)	n/a	n/a
Other income/(expense)	(0.0)	(0.0)	(0.0)	0.1	(0.1)	n/a	n/a
<b>PBT</b>	<b>(0.0)</b>	<b>0.0</b>	<b>(0.8)</b>	<b>1.3</b>	<b>1.9</b>	<b>n/a</b>	<b>n/a</b>
Tax	(0.0)	(0.0)	-	(0.1)	(0.1)	n/a	n/a
<i>Effective tax rate</i>	<i>-115.8%</i>	<i>128.9%</i>	<i>0.0%</i>	<i>8.0%</i>	<i>6.6%</i>	<i>n/a</i>	<i>n/a</i>
<b>Net Income</b>	<b>(0.0)</b>	<b>(0.0)</b>	<b>(0.8)</b>	<b>1.2</b>	<b>1.2</b>	<b>n/a</b>	<b>n/a</b>
<i>Net Margin</i>	<i>-0.4%</i>	<i>0.0%</i>	<i>-7.1%</i>	<i>2.5%</i>	<i>1.5%</i>	<i>n/a</i>	<i>n/a</i>

## BALANCE SHEET SUMMARY, USD mln

	2002	2003	2004	2005	2006	2007E	2008E
<b>Current Assets</b>	<b>13.8</b>	<b>5.2</b>	<b>6.1</b>	<b>24.0</b>	<b>54.6</b>	<b>n/a</b>	<b>n/a</b>
Cash & Equivalents	0.0	0.0	0.0	0.7	1.3	n/a	n/a
Trade Receivables	12.1	2.6	2.2	7.5	26.6	n/a	n/a
Inventories	1.2	2.2	3.6	12.2	12.6	n/a	n/a
Other	0.4	0.4	0.3	3.6	14.2	n/a	n/a
<b>Fixed Assets</b>	<b>1.8</b>	<b>3.3</b>	<b>4.2</b>	<b>4.5</b>	<b>6.0</b>	<b>n/a</b>	<b>n/a</b>
PP&E, net	0.7	2.3	3.0	3.4	4.7	n/a	n/a
Other	1.1	1.0	1.2	1.1	1.3	n/a	n/a
<b>Total Assets</b>	<b>15.6</b>	<b>8.6</b>	<b>10.3</b>	<b>28.5</b>	<b>60.6</b>	<b>n/a</b>	<b>n/a</b>
<b>Shareholders' Equity</b>	<b>1.1</b>	<b>1.9</b>	<b>1.1</b>	<b>2.3</b>	<b>33.5</b>	<b>n/a</b>	<b>n/a</b>
Share Capital	1.4	2.2	2.2	2.3	32.3	n/a	n/a
Retained Earnings	(0.5)	(0.5)	(1.3)	(0.2)	1.0	n/a	n/a
Other	0.2	0.2	0.2	0.2	0.2	n/a	n/a
<b>Current Liabilities</b>	<b>14.4</b>	<b>6.7</b>	<b>9.2</b>	<b>26.2</b>	<b>27.0</b>	<b>n/a</b>	<b>n/a</b>
ST Interest Bearing Debt	-	-	0.1	0.7	4.0	n/a	n/a
Trade Payables	14.1	6.4	8.9	23.1	21.2	n/a	n/a
Other	0.4	0.3	0.3	2.3	1.9	n/a	n/a
<b>LT Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.1</b>	<b>n/a</b>	<b>n/a</b>
LT Interest Bearing Debt	-	-	-	-	-	n/a	n/a
Other	-	-	-	-	0.1	n/a	n/a
<b>Total Liabilities &amp; Equity</b>	<b>15.6</b>	<b>8.6</b>	<b>10.3</b>	<b>28.5</b>	<b>60.6</b>	<b>n/a</b>	<b>n/a</b>

## QUARTERLY ANALYSIS, USD mln

	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07
<b>Net Revenues</b>	<b>3.1</b>	<b>16.9</b>	<b>23.9</b>	<b>17.1</b>	<b>19.5</b>	<b>18.3</b>	<b>26.4</b>	<b>21.8</b>	<b>26.3</b>	<b>29.0</b>
<i>Change yoy</i>	<i>41.7%</i>	<i>623.6%</i>	<i>441.6%</i>	<i>427.8%</i>	<i>521.2%</i>	<i>7.9%</i>	<i>10.5%</i>	<i>27.6%</i>	<i>34.7%</i>	<i>58.7%</i>
<b>EBITDA</b>	<b>0.1</b>	<b>0.4</b>	<b>1.3</b>	<b>0.4</b>	<b>0.8</b>	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>	<b>2.0</b>	<b>1.7</b>
<i>margin</i>	<i>3.8%</i>	<i>2.2%</i>	<i>5.5%</i>	<i>2.6%</i>	<i>4.0%</i>	<i>5.1%</i>	<i>3.3%</i>	<i>4.3%</i>	<i>7.7%</i>	<i>5.83%</i>
<b>EBIT</b>	<b>0.0</b>	<b>0.3</b>	<b>1.2</b>	<b>0.3</b>	<b>0.6</b>	<b>0.8</b>	<b>0.7</b>	<b>0.8</b>	<b>1.8</b>	<b>1.5</b>
<i>margin</i>	<i>0.8%</i>	<i>1.7%</i>	<i>5.2%</i>	<i>1.9%</i>	<i>3.2%</i>	<i>4.2%</i>	<i>2.6%</i>	<i>3.5%</i>	<i>6.9%</i>	<i>5.2%</i>
<b>Net Income</b>	<b>0.2</b>	<b>0.2</b>	<b>1.1</b>	<b>0.2</b>	<b>0.4</b>	<b>0.3</b>	<b>0.3</b>	<b>0.4</b>	<b>1.1</b>	<b>0.9</b>
<i>Net Margin</i>	<i>5.2%</i>	<i>1.5%</i>	<i>4.6%</i>	<i>0.9%</i>	<i>2.3%</i>	<i>1.7%</i>	<i>1.0%</i>	<i>2.0%</i>	<i>4.0%</i>	<i>3.0%</i>

# CJSC Eurocar

## Auto Manufacturers

12M target (USD)	N/R
Upside*	n/a

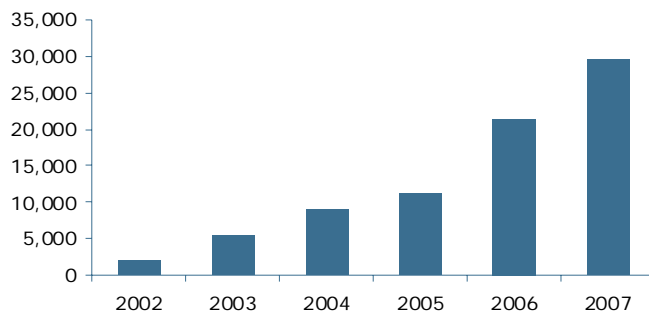
### BUSINESS OVERVIEW

Auto producer Eurocar is a closed joint stock company, established in 2002. Makes include Skoda, Volkswagen Group and Seat. Undertaking USD 200 mln investment program until 2011, which foresees increasing capacity by 120 ths units per year. In May 2006, the company already opened a new production plant with production capacity 45 ths cars per year (increasing the company's overall capacity by 5x).

In 2007 Eurocar increased output by 38% yoy to 29 ths cars and its dealership network amounted to 69 outlets.

In 3Q07, increased net revenues by 26% yoy to USD 119 mln, EBITDA by 65% yoy to USD 13 mln and net income decreased to USD 8.4 mln in comparison with USD 9.6 mln in 3Q06. EBITDA margin improved to 11.3% from 8.6% in 3Q06 and net margin decreased to 7.1% from 10.2% in 3Q06.

**Eurocar Output, units**



### MARKET INFORMATION

<b>Market Price*</b> , USD	n/a
Price impact**	n/a
52 Wk H/L USD	n/a
Chg 3m/6m/52w	n/a
Chg vs PFTS 3m/6m/52w	n/a
Chg YTD	n/a
Avg M Tr Vol 6M, USD ths	n/a

<b>MCap</b> , USD mln	n/a
Free float	n/a
FF Mcap, USD mln	n/a

<b>No of shares</b> , mln	0.8
Par Value, UAH	113

<b>XETRA</b>	n/a
DR Ratio	n/a
Avg M Tr Vol 6M, USD ths	n/a

### STOCK OWNERSHIP

Iberia Motor	10.0%
UniCredit Bank Ltd	10.0%
Atoll Holding Ltd	58.8%
Other	21.2%

### CORPORATE GOVERNANCE

Concorde Rating***	n/a
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### MARKET MULTIPLES

	2007E	2008E
EV/Sales	n/a	n/a
EV/EBITDA	n/a	n/a
P/E	n/a	n/a
P/B	n/a	n/a
P/CF	n/a	n/a

### KEY RATIOS

	2006	2007E	2008E
EBITDA margin	9%	11%	n/a
Net Margin	6%	7%	n/a
ROE	56%	58%	n/a
Net Debt/Equity	0.00	0.07	n/a

\*\* Price "impact" is the opinion of Concorde's trading desk on stocks to help investors estimate the reliability of quoted prices:

- 1: Market price reaction remains within 10% in execution of a market order of about USD 10 mln in size
- 2: Market price reaction remains within 10% in execution of a market order of about USD 1 mln in size
- 3: All other stocks (quoted)

\*\*\* The rating is based on Concorde Capital's corporate governance survey. Q denotes quality corporate governance standards, AA - above average standards, A - average, BA - below average and P - poor.

## INCOME STATEMENT SUMMARY, USD mln

	2003	2004	2005	2006	2007E	2008E
<b>Net Revenues</b>	<b>144.1</b>	<b>329.9</b>	<b>215.0</b>	<b>336.9</b>	<b>n/a</b>	<b>n/a</b>
<i>Change yoy</i>	-	129.0%	-34.8%	56.7%	n/a	n/a
Gross Profit	13.2	17.2	17.8	46.1	n/a	n/a
<b>EBITDA</b>	<b>3.6</b>	<b>7.9</b>	<b>9.3</b>	<b>30.5</b>	<b>n/a</b>	<b>n/a</b>
<i>margin</i>	2.5%	2.4%	4.3%	9.1%	n/a	n/a
Depreciation	(0.5)	(0.6)	(0.7)	(1.0)	n/a	n/a
<b>EBIT</b>	<b>3.1</b>	<b>7.3</b>	<b>8.6</b>	<b>29.5</b>	<b>n/a</b>	<b>n/a</b>
<i>margin</i>	2.2%	2.2%	4.0%	8.7%	n/a	n/a
Financial Expense, net	3.5	0.1	0.7	0.3	n/a	n/a
Other income/(expense)	(3.7)	(0.4)	3.6	(1.8)	n/a	n/a
<b>PBT</b>	<b>1.5</b>	<b>5.2</b>	<b>10.8</b>	<b>26.1</b>	<b>n/a</b>	<b>n/a</b>
Tax	(0.5)	(1.3)	(2.7)	(6.5)	n/a	n/a
<i>Effective tax rate</i>	30.0%	25.0%	25.0%	25.0%	n/a	n/a
<b>Net Income</b>	<b>1.1</b>	<b>3.9</b>	<b>8.1</b>	<b>19.6</b>	<b>n/a</b>	<b>n/a</b>
<i>Net Margin</i>	<b>0.7%</b>	<b>1.2%</b>	<b>3.8%</b>	<b>5.8%</b>	n/a	n/a

## BALANCE SHEET SUMMARY, USD mln

	2003	2004	2005	2006	2007E	2008E
<b>Current Assets</b>	<b>23.4</b>	<b>73.2</b>	<b>50.6</b>	<b>68.0</b>	<b>n/a</b>	<b>n/a</b>
Cash & Equivalents	5.9	2.4	1.8	23.7	n/a	n/a
Trade Receivables	5.0	39.9	2.1	6.8	n/a	n/a
Inventories	12.3	26.9	23.7	30.6	n/a	n/a
Other	0.1	3.9	23.1	6.8	n/a	n/a
<b>Fixed Assets</b>	<b>3.2</b>	<b>18.2</b>	<b>12.3</b>	<b>16.3</b>	<b>n/a</b>	<b>n/a</b>
PP&E, net	3.1	3.0	3.4	4.1	n/a	n/a
Other	0.2	15.2	8.9	12.2	n/a	n/a
<b>Total Assets</b>	<b>26.7</b>	<b>91.4</b>	<b>62.9</b>	<b>84.3</b>	<b>n/a</b>	<b>n/a</b>
<b>Shareholders' Equity</b>	<b>3.9</b>	<b>19.9</b>	<b>27.0</b>	<b>42.5</b>	<b>n/a</b>	<b>n/a</b>
Share Capital	3.2	16.4	17.3	21.4	n/a	n/a
Retained Earnings	0.6	3.5	9.8	21.2	n/a	n/a
Other	-	-	-	-	n/a	n/a
<b>Current Liabilities</b>	<b>22.8</b>	<b>71.5</b>	<b>35.9</b>	<b>41.7</b>	<b>n/a</b>	<b>n/a</b>
ST Interest Bearing Debt	15.0	22.4	18.3	23.7	n/a	n/a
Trade Payables	3.3	46.5	14.5	12.7	n/a	n/a
Other	1.8	1.7	2.4	4.4	n/a	n/a
<b>LT Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>n/a</b>	<b>n/a</b>
LT Interest Bearing Debt	-	-	-	-	n/a	n/a
Other	-	-	-	-	n/a	n/a
<b>Total Liabilities &amp; Equity</b>	<b>26.7</b>	<b>91.4</b>	<b>62.9</b>	<b>84.3</b>	<b>n/a</b>	<b>n/a</b>

## QUARTERLY ANALYSIS, USD mln

	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07
<b>Net Revenues</b>	<b>46.0</b>	<b>57.7</b>	<b>64.2</b>	<b>63.0</b>	<b>80.6</b>	<b>94.3</b>	<b>99.0</b>	<b>105.4</b>	<b>136.7</b>	<b>118.6</b>
<i>Change yoy</i>	-43.53%	-40.68%	-42.26%	33.94%	75.23%	63.37%	54.20%	67.20%	69.70%	25.81%
<b>EBITDA</b>	<b>(0.4)</b>	<b>2.4</b>	<b>5.6</b>	<b>4.5</b>	<b>8.1</b>	<b>8.1</b>	<b>9.8</b>	<b>10.6</b>	<b>13.7</b>	<b>13.4</b>
<i>margin</i>	-0.87%	4.09%	8.74%	7.12%	10.07%	8.60%	9.90%	10.02%	10.03%	11.28%
<b>EBIT</b>	<b>(0.6)</b>	<b>2.2</b>	<b>5.4</b>	<b>4.2</b>	<b>7.9</b>	<b>7.9</b>	<b>9.5</b>	<b>10.3</b>	<b>13.5</b>	<b>13.1</b>
<i>margin</i>	-1.25%	3.77%	8.40%	6.74%	9.76%	8.33%	9.60%	9.75%	9.85%	11.08%
<b>Net Income</b>	<b>0.6</b>	<b>1.4</b>	<b>4.0</b>	<b>2.6</b>	<b>5.0</b>	<b>9.6</b>	<b>2.4</b>	<b>7.3</b>	<b>9.8</b>	<b>8.4</b>
<i>Net Margin</i>	1.4%	2.4%	6.2%	4.2%	6.2%	10.2%	2.4%	6.9%	7.2%	7.1%



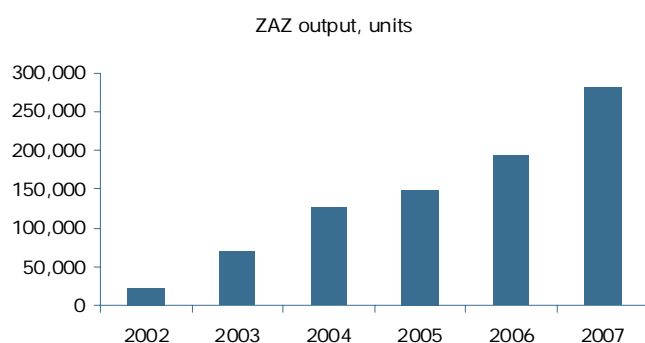
# CJSC Zaporizhya Automobile Plant

## Auto Manufacturers

12M target (USD)  
Upside\*

### BUSINESS OVERVIEW

CJSC Zaporizhya Automobile Plant aka ZAZ. Established in 1956. Only Ukrainian automaker with complete cycle production (from engine to transmission, body and components), delivery and dealerships. Makes include ZAZ, Chevrolet, Opel, VAZ, Mercedes-Benz, Chery and Tata. In 2007 ZAZ increased output by 46% yoy to 282 ths cars. Plans to open a new plant with an annual production capacity of 100-120 ths cars in Zaporizhya by 2010.



### MARKET INFORMATION

<b>Market Price*</b> , USD	n/a
Price impact**	n/a
52 Wk H/L USD	n/a
Chg 3m/6m/52w	n/a
Chg vs PFTS 3m/6m/52w	n/a
Chg YTD	n/a
Avg M Tr Vol 6M, USD ths	n/a
<b>MCap</b> , USD mln	n/a
Free float	n/a
FF Mcap, USD mln	n/a
<b>No of shares</b> , mln	0.67
Par Value, UAH	900
<b>XETRA</b>	n/a
DR Ratio	n/a
Avg M Tr Vol 6M, USD ths	n/a

### STOCK OWNERSHIP

Lancroft Project Ltd	22.2%
Redstore MGMT Ltd	21.9%
OJSC ZAZ	18.3%
Other	37.6%

### CORPORATE GOVERNANCE

Concorde Rating***	n/a
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### MARKET MULTIPLES

	2007E	2008E
EV/Sales	n/a	n/a
EV/EBITDA	n/a	n/a
P/E	n/a	n/a
P/B	n/a	n/a
P/CF	n/a	n/a

### KEY RATIOS

	2006	2007E	2008E
EBITDA margin	4%	8%	n/a
Net Margin	1%	7%	n/a
ROE	5%	39%	n/a
Net Debt/Equity	0.50	0.45	n/a

\*\* Price "impact" is the opinion of Concorde's trading desk on stocks to help investors estimate the reliability of quoted prices:

1: Market price reaction remains within 10% in execution of a market order of about USD 10 mln in size  
2: Market price reaction remains within 10% in execution of a market order of about USD 1 mln in size  
3: All other stocks (quoted)

\*\*\* The rating is based on Concorde Capital's corporate governance survey. Q denotes quality corporate governance standards, AA - above average standards, A - average, BA - below average and P - poor.

## INCOME STATEMENT SUMMARY, USD mln

	2003	2004	2005	2006	2007E	2008E
<b>Net Revenues</b>	<b>418.9</b>	<b>819.4</b>	<b>1,131.3</b>	<b>1,376.6</b>	<b>n/a</b>	<b>n/a</b>
<i>Change yoy</i>	-	95.6%	38.1%	21.7%	n/a	n/a
Gross Profit	95.7	209.9	183.1	130.0	n/a	n/a
<b>EBITDA</b>	<b>51.0</b>	<b>126.5</b>	<b>51.0</b>	<b>61.9</b>	<b>n/a</b>	<b>n/a</b>
<i>margin</i>	12.2%	15.4%	4.5%	4.5%	n/a	n/a
Depreciation	(3.4)	(4.7)	(11.3)	(8.8)	n/a	n/a
<b>EBIT</b>	<b>47.6</b>	<b>121.8</b>	<b>39.7</b>	<b>53.1</b>	<b>n/a</b>	<b>n/a</b>
<i>margin</i>	11.4%	14.9%	3.5%	3.9%	n/a	n/a
Financial Expense, net	0.0	0.0	0.6	0.3	n/a	n/a
Other income/(expense)	(0.0)	(0.1)	0.1	(0.4)	n/a	n/a
<b>PBT</b>	<b>44.9</b>	<b>113.3</b>	<b>25.9</b>	<b>34.5</b>	<b>n/a</b>	<b>n/a</b>
Tax	(2.8)	(6.3)	(19.5)	(14.9)	n/a	n/a
<i>Effective tax rate</i>	6.3%	5.6%	75.4%	43.2%	n/a	n/a
<b>Net Income</b>	<b>42.1</b>	<b>107.0</b>	<b>6.4</b>	<b>19.6</b>	<b>n/a</b>	<b>n/a</b>
<i>Net Margin</i>	<b>10.0%</b>	<b>13.1%</b>	<b>0.6%</b>	<b>1.4%</b>	n/a	n/a

## BALANCE SHEET SUMMARY, USD mln

	2003	2004	2005	2006	2007E	2008E
<b>Current Assets</b>	<b>135.4</b>	<b>259.9</b>	<b>363.0</b>	<b>510.9</b>	<b>n/a</b>	<b>n/a</b>
Cash & Equivalents	11.4	12.2	11.1	14.8	n/a	n/a
Trade Receivables	8.8	14.3	141.8	212.9	n/a	n/a
Inventories	77.1	143.6	85.8	64.5	n/a	n/a
Other	38.3	89.8	124.3	218.8	n/a	n/a
<b>Fixed Assets</b>	<b>77.9</b>	<b>146.2</b>	<b>242.8</b>	<b>254.9</b>	<b>n/a</b>	<b>n/a</b>
PP&E, net	54.6	95.5	207.2	201.5	n/a	n/a
Other	23.3	50.7	35.6	53.5	n/a	n/a
<b>Total Assets</b>	<b>213.4</b>	<b>406.1</b>	<b>605.8</b>	<b>765.8</b>	<b>n/a</b>	<b>n/a</b>
<b>Shareholders' Equity</b>	<b>149.2</b>	<b>257.1</b>	<b>384.1</b>	<b>402.9</b>	<b>n/a</b>	<b>n/a</b>
Share Capital	113.7	114.2	120.0	120.0	n/a	n/a
Retained Earnings	13.2	114.8	128.0	147.2	n/a	n/a
Other	22.4	28.2	136.1	135.7	n/a	n/a
<b>Current Liabilities</b>	<b>40.4</b>	<b>87.8</b>	<b>105.4</b>	<b>218.3</b>	<b>n/a</b>	<b>n/a</b>
ST Interest Bearing Debt	-	29.4	44.6	74.5	n/a	n/a
Trade Payables	24.3	46.3	49.1	125.4	n/a	n/a
Other	11.4	7.9	3.4	7.6	n/a	n/a
<b>LT Liabilities</b>	<b>23.8</b>	<b>61.2</b>	<b>116.3</b>	<b>144.7</b>	<b>n/a</b>	<b>n/a</b>
LT Interest Bearing Debt	23.7	61.1	115.6	144.0	n/a	n/a
Other	0.0	0.0	0.7	0.7	n/a	n/a
<b>Total Liabilities &amp; Equity</b>	<b>213.4</b>	<b>406.1</b>	<b>605.8</b>	<b>765.8</b>	<b>n/a</b>	<b>n/a</b>

## QUARTERLY ANALYSIS, USD mln

	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07
<b>Net Revenues</b>	<b>276.0</b>	<b>251.8</b>	<b>304.0</b>	<b>272.9</b>	<b>315.5</b>	<b>363.1</b>	<b>425.0</b>	<b>368.3</b>	<b>519.8</b>	<b>774.0</b>
<i>Change yoy</i>	38.32%	9.11%	15.48%	-8.84%	14.31%	44.22%	39.78%	34.92%	64.73%	113.14%
<b>EBITDA</b>	<b>4.2</b>	<b>1.7</b>	<b>7.1</b>	<b>8.4</b>	<b>15.2</b>	<b>20.1</b>	<b>18.1</b>	<b>30.5</b>	<b>58.8</b>	<b>56.0</b>
<i>margin</i>	1.50%	0.69%	2.34%	3.08%	4.82%	5.55%	4.27%	8.28%	11.32%	7.23%
<b>EBIT</b>	<b>1.5</b>	<b>(1.4)</b>	<b>4.2</b>	<b>5.3</b>	<b>12.3</b>	<b>17.5</b>	<b>18.0</b>	<b>27.6</b>	<b>55.9</b>	<b>53.4</b>
<i>margin</i>	0.54%	-0.56%	1.37%	1.94%	3.91%	4.82%	4.24%	7.51%	10.75%	6.90%
<b>Net Income</b>	<b>(3.3)</b>	<b>(6.1)</b>	<b>(7.0)</b>	<b>(1.5)</b>	<b>3.8</b>	<b>8.8</b>	<b>8.5</b>	<b>21.3</b>	<b>50.3</b>	<b>46.8</b>
<i>Net Margin</i>	-1.2%	-2.4%	-2.3%	-0.6%	1.2%	2.4%	2.0%	5.8%	9.7%	6.1%

## **APPENDICES**

## Appendix A: Bogdan production line

### Cars

#### VAZ



#### 2112

2106, 2107, 2109, 2110,  
21111, 2104, 21099, 21214

#### Other models:

#### KIA



#### Carens

Magentis, Rio, Cerano, Opirus,  
Sorento, Picanto, Pregio,  
Sportage, Carnival, Cee'd

#### Hyundai



#### Elantra

Getz, Matrix, Santa Fe,  
Sonata, Tucson, Accent

### Other products

#### Trucks



#### HD-65

HD-72, BJ1043, BJ1046,  
BJ1049

#### Other models:

#### Buses



#### A06921

A1451, A06900, A1441,  
A1445, A1452

#### Trolleybuses



#### E-231

Source: Company data, mass media

## Appendix B: AvtoKrAZ production line

Type of truck	Industries served/Typical Commodities	Competitors	Prices by brand, USD ths
Dump truck 	Construction, mining, wood products, agriculture. Used for loose material (Grave, sand, asphalt, snow, wood chips, triple mix, dirt, etc.) and bulk cargo (construction materials)	AvtoKrAZ (Ukraine) Kamaz (Russia) MAZ (Belarus) Volvo (Sweden) Mercedes (Germany) Iveco (Italy) MAN (Germany)	KrAZ 69 KamAZ 98 MAZ 90 <b>Used:</b> Volvo (5 years) 120 Mercedes (3 years) 174 Iveco (5 years) 122 MAN TGA (4 years) 142
Tractor Track 	Construction, mining, wood products. Used for towing semitrailers and heavy carriers on all types of roads and off-road	AvtoKrAZ (Ukraine) Kamaz (Russia) MAZ (Belarus) Volvo (Sweden) Mercedes (Germany) Iveco (Italy) MAN (Germany)	KrAZ 59 KamAZ 70 MAZ 67 <b>Used:</b> Volvo (4 years) 95 Mercedes (4 years) 119 Iveco (4 years) 81 MAN (4 years) 56
Concrete transport truck 	Construction. Used for cement from factory/plant to the construction yard	AvtoKrAZ (Ukraine) Kamaz (Russia) Mercedes-Benz (Germany) MAN (Germany) DAF (Netherlands)	KrAZ 92 KamAZ 91 <b>Used:</b> Mercedes-Benz (6 years) 102 MAN (5 years) 106 DAF (5 years) 111
Timber truck 	Construction. Used for timber	AvtoKrAZ (Ukraine) Ural (Russia) Mercedes-Benz (Germany) Iveco (Italy)	KrAZ 68 Ural 82 <b>Used:</b> Mercedes-Benz (5 years) 111 Iveco (4 years) 144
Chassis truck 	Construction. Used for oversize loads and special equipment	AvtoKrAZ (Ukraine) Kamaz (Russia) MAZ (Belarus) Volvo (Sweden) Mercedes-Benz (Germany) MAN (Germany)	KrAZ 61 KamAZ 77 MAZ 72 <b>Used:</b> Volvo (4 years) 95 Mercedes-Benz (5 year) 97 MAN (3 year) 92

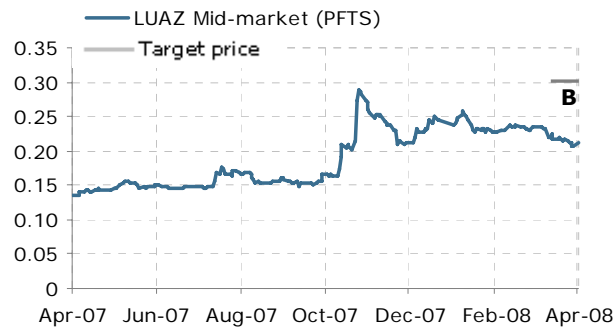
Source: Company data, mass media

## Analyst Certification

We, Inna Perepelytsya and Elena Sergeyeva, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject securities and issuers. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

### Bogdan rating history

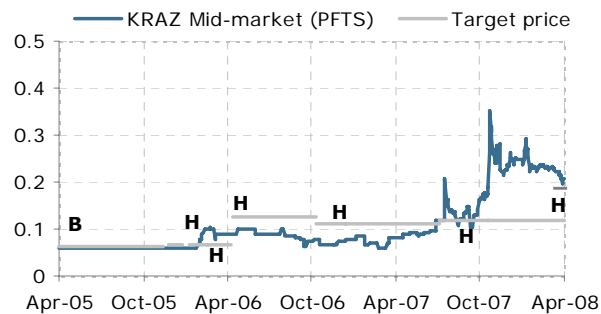
Date	Target price USD	Market Price USD	Recommendation	Action
11-Apr-08	0.30	0.20	BUY	Initiate



### AvtoKRAZ ratings history

Date	Target price USD	Market Price USD	Recommendation	Action
22-Mar-05	0.063	0.040	BUY	Initiating
30-Nov-05	0.066	0.065	HOLD	Downgrade
13-Jan-06	0.067	0.060	HOLD	Maintain
17-Apr-06	0.127	0.105	HOLD	Maintain
18-Oct-06	0.110	0.097	HOLD	Maintain
11-Jul-07	0.12*	0.130	HOLD	Maintain
11-Apr-08	0.180	0.199	HOLD	Maintain

\* - Until December 2006 the company was covered by Olha Pankiv. In July 2007, Inna Perepelytsya took over coverage.



### UkrAvto rating history

Date	Target price USD	Market Price USD	Recommendation	Action
11-Apr-08	N/R	130.0	SELL	Initiate



## Investment Ratings

The time horizon for target prices in Concorde Capital's research is 12 months unless otherwise stated. Concorde Capital employs three basic investment ratings: Buy, Hold and Sell. Typically, Buy recommendation is associated with an upside of 15% or more from the current market price; Sell is prompted by downside from the current market price (upside <0%); Hold recommendation is generally for limited upside within 15%. Though investment ratings are generally induced by the magnitude of upside, they are not derived on this basis alone. In certain cases, an analyst may have reasons to establish a recommendation where the associated range given above does not correspond. Temporary discrepancies between an investment rating and its upside at a specific point in time due to price movement and/or volatility will be permitted; Concorde Capital may revise an investment rating at its discretion. A recommendation and/or target price might be placed Under Review when impelled by corporate events, changes in finances or operations. Investors should base decisions to Buy, Hold or Sell a stock on the complete information regarding the analyst's views in the research report and on their individual investment objectives and circumstances.

### Concorde Capital ratings distribution

Buy	51	45%
Hold	26	23%
Sell	20	18%
Under Review	16	14%
<b>Total</b>	<b>113</b>	<b>100%</b>

### Investment banking clients\*

Buy	6	100%
Hold	0	0%
Sell	0	0%
Under Review	0	0%
<b>Total</b>	<b>6</b>	<b>100%</b>

\* Within the last twelve month period, Concorde Capital has obtained compensation from these companies for investment banking services.

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