



CONCORDE CAPITAL

Ukraine / Railway machinery

AZGM & MZVM

Azovmash restructuring buoys MZVM

August 25, 2008

12M targets AZGM USD 13.0 (upside 155%)
MZVM USD 40.0 (upside 221%)

BUY

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Tickers

PFTS	AZGM UZ
PFTS	MZVM UZ
GDR (Frankfurt/Xetra)	M9X GR

Market information

Azovzahalmash	
Market price, USD	5.0
MCap, USD mln	232.1
Hi/Lo YTD, USD	12.5/5.0
No of shares, mln	46.5
Free float	3.5%
USD mln	8.1

Mariupol Heavy Machinery

Market price, USD	12.1
MCap, USD mln	185.6
Hi/Lo YTD, USD	31.2/12.2
No of shares, mln	15.4
Free float	13.0%
USD mln	24.1

Corporate Governance

AZGM Concorde Rating*	A
MZVM Concorde Rating*	A

* 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.

Shareholders

Azovzahalmash	
Azovmash	26.5%
UPTK	59.5%
Other	14.0%

Mariupol Heavy Machinery

Azovmash	50.0%
UPTK	24.0%
State	11.0%
Other	15.0%

- Yesterday, Azovmash reported that shareholders, including the state, at their AGM this week, voted to reorganize the holding from an open to a closed joint stock company
- We see the AGM's decision as another step by Azovmash's private shareholder toward creation of a railway machinery holding (via privatization of Azovmash)
- We maintain our target prices and BUY recommendations on AZGM and MZVM – being more bullish on MZVM

Azovmash shareholders vote for legal reorganization

Yesterday Azovmash, the holding for Azovzahalmash (26% stake) and Mariupol Heavy Machinery (50% stake), announced that 100% of the company's shareholders (including the State Property Fund of Ukraine), at their August 19 AGM, voted to reorganize Azovmash from an open to a closed joint stock company.

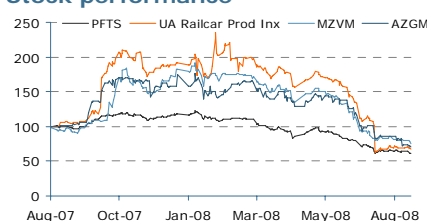
UPTK now at front of line for Azovmash control

Once of the implications is that after Azovmash transitions to a closed structure, UPTK (50%-1 stake) will have first dibs if the state (50%+1) sells its stake. We see the AGM's decision as a sign that the state is considering unloading this asset; we expect privatization could take place as early as 2009. Control over Azovmash is central to UPTK's goal of creating a railway machinery holding consisting of Azovzahalmash, Mariupol Heavy Machinery, Poltavakhimmash and Russia's Armavir. Just this month, Ukraine's Antimonopoly Committee gave permission to the Mariupol Investment Group (related to UPTK) to acquire a controlling stake in Poltavakhimmash.

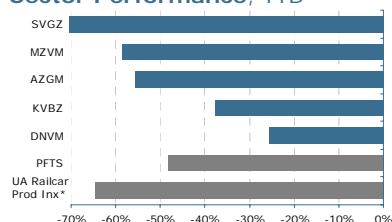
Will MZVM & AZGM be treated equally by UPTK now?

For UPTK, which has operational control over both Azovzahalmash and Mariupol Heavy Machinery, it is more profitable to develop Azovzahalmash, where it currently holds a larger stake (see our July 17, 2007 note). Should UPTK accumulate a controlling stake in Azovmash, its shareholdings in the pair of production assets would be roughly equal. We believe this would lead UPTK to put both railcar makers back on equal footing in terms of development – we are now more bullish on MZVM.

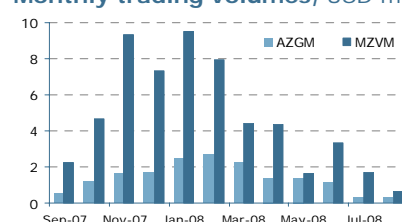
Stock performance



Sector Performance, YTD



Monthly trading volumes, USD mln



Source: Bloomberg, PFTS, Concorde Capital

* Concorde Capital's Ukrainian Railcar Index is MCap weighted, free float adjusted; it includes KVBZ UZ, DNVM UZ, AZGM UZ, SVGZ UZ

FLASH NOTE

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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.

<u>Concorde Capital ratings distribution</u>		
Buy	93	75%
Hold	20	16%
Sell	8	6%
Under Review	3	2%
Total	124	100%

<u>Investment banking clients*</u>		
Buy	7	100%
Hold	0	0%
Sell	0	0%
Under Review	0	0%
Total	7	100%

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

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