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Corporate governance in Ukraine

Passing go



October 2011

Overview

Today's market for new equity offerings is downright discriminative, far removed from the heyday of Ukrainian placements when all that was needed was a set checklist (financial reports - check, prospectus - check, road show - check) – and a pulse - check – to come back with suitcases of cash. Investors' demands today have resulted in fewer businesses surviving the heightened scrutiny and accepting challenging valuations. Those, as in the classic board game Monopoly, that are passing go, succeeding in tapping the market and collecting their \$200 (or rather, substantially more) must be fluent in investor-speak and fervent corporate governance crusaders.

With this background in mind, we return to the corporate governance scene in Ukraine, which we reviewed pre-crisis in 2008 and 2007. We resurrect our tool for measuring intangible notions like respect for minority shareholders, agency risks and corporate reputation in order to help institutional investors better understand the risks entailed in investing in Ukrainian companies. The field today is still striking in its diversity, with fresh faces setting the gold standard and adopting listing homes in Warsaw and London on one end, and pocket Oligarch-controlled assets and unwitting companies *skupka*-ed into the market seemingly eons ago on the other.

In Part I, we test 114 public Ukrainian companies on 10 criteria that we believe embody effective corporate governance practices to see which ones excel ...and which ones struggle.

In Part II, we delve into the world of corporate ownership to answer the question – does ownership matter from a governance perspective? Hint – yes!

In Part III, we try to find evidence on whether investors reward quality governance stories with better stock performance... and punish the worst offenders.

Best & worst in corporate governance in Ukraine

Top-15 Best		Bottom-15 Worst	
Astarta	Megabank	Nikopol Ferroalloy	Dakor
Galnaftogaz	Milkiland	Stakhaniv Ferroalloy	Druzhkivka Machinery
JXX Oil & Gas	Mriya Agroholding	Zaporizhya Ferroalloy	Mariupol H-Machinery
MHP	Regal Petroleum	Alchevsk Coke	Sumy Frunze
Cadogan Petroleum	Sadovaya Group	DMK Dzerzhinskogo	Zaporizhstal
Ferrexpo	Sintal Agriculture	Odesaoblenergo	Dongirmash
Khlibprom	TMM Real Estate	ZaporizhCoke	UkrAvto
MCB Agricole		Azovzahalmash	

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Part I

Corporate governance ratings: Buckle up

Our approach to Corporate Governance analysis

Objective

The primary goal of this report is to present a practical tool to help portfolio investors better understand corporate governance practices in Ukrainian companies in order to make more informed investment decisions.

Components

Key tenants of international corporate governance examinations, namely the structure and accountability of supervisory & audit boards and management, decision making processes, risk management practices, and executive remuneration – remain relatively undeveloped in Ukraine. The overall low level of corporate maturity and dearth of information on these issues continue to make pan-Ukrainian comparisons on these criteria hardly meaningful.

As a result, we focus on 10 governance criteria that we view most relevant to investing in Ukrainian equities today with respect to corporate governance and group them into three broad categories: reporting & disclosure, minority shareholder concerns, and investor relations. Our yardstick is based on the framework we employed our previous corporate governance reports in 2008 and 2007, which was specifically developed to allow for comparability across the diverse field of corporations studied.

In order to determine scoring on each criteria, we relied on a range of sources for information on listed Ukrainian companies: public resources (website, regulatory filings, official state newspapers and registries) and internal publications (annual reports, shareholder announcements, presentations). In addition, in many cases we contacted top-level management. We also relied on the views of our team of sector analysts, drawing on their extensive day-to-day experience in communicating with representatives of these companies.

Survey component matrix

Reporting & Disclosure	Minority Concerns	Investor Relations
<ul style="list-style-type: none"> • Availability of public IFRS financials • Quality of UAS financials • Ownership disclosure • Corporate structure disclosure 	<ul style="list-style-type: none"> • Risk of dilution • Presence of institutional investors • Strategic risks 	<ul style="list-style-type: none"> • Management accessibility • Public face • Website

Note: For a full description of scoring methodology and definitions, see Appendix 1

Scoring & rating guide

For each of our 10 criteria, we assigned each company a 0 or 1, loosely corresponding to high risk or poor performance and low risk or satisfactory performance, depending on the component. We summed up the results in each category to arrive at a corporate governance score within a 0 to 10 range for companies. We assigned one of five ratings based on these scores as indicated in the following chart.

Rating guide

Rating	Score	Typical company profile
Quality (Q)	9-10	IFRS financial statements available, quality UAS financials, good ownership & corporate structure disclosure, low minority risks, excellent investor relations
Above Average (AA)	7-8	Spotty IFRS availability, quality UAS financials, good ownership & corporate structure disclosure, low risk of dilution, some other minority risks, good investor relations
Average (A)	5-6	No IFRS, quality UAS financials, good disclosure, low risk of dilution, low institutional presence, some strategic risks, some investor relations efforts
Below Average (BA)	4	No IFRS, some issues with UAS financials quality, spotty disclosure, some risk of dilution, no institutional presence, some strategic risks, poor investor relations
Poor	0-3	No IFRS, poor UAS financials quality, spotty disclosure, risk of dilution, no institutional presence, strategic risks, poor investor relations

Note: For a full description of scoring methodology and definitions, see Appendix 1

Survey universe

We rated 114 companies this year, representing all major sectors of the Ukrainian equity market, including those listed abroad. This is a substantial decrease from the 175 corporations we looked at in our last update in 2008. The fallout from the global financial crisis has been immense in this respect - the vast majority of exclusions were made due to reductions in liquidity such that we no longer deem those companies' stock investible. Other rationale for omission included delisting, bankruptcy and merger. On the flipside, nine companies received debut ratings following placements (see Appendix 6 for a list of equity placements by Ukrainian companies).

Differences from our past surveys

The titanic shift in the investment environment since our 2008 report, as well as feedback on our past reports prompted us to rethink our scoring system. To start, we did not award negative scores this year, opting instead for only 0 or 1, loosely corresponding to high/low risk, depending on the component. This simplified scoring was designed to be more accessible and, at the same time, remove an element of subjectivity.

The broad rating components remain unchanged, but we eliminated two subareas of minority concerns, DR programs and IPO/PP plans, which we do not deem as critical to gauging a company's corporate governance trajectory today. We merged the suboptimal business decisions and corporate conflicts components into a single strategic risks component, and expanded our exploration into the critical area of disclosure practices by adding a criteria on corporate structure. We also raised the bar on what we consider constitutes "substantial" shareholdings by institutional investors from 3% to 10%.

Ratings summary

Company	Ticker	2011 Rating	2008 Rating	Reporting/Disclosure				Minority Concerns			Investor Relations			2011 Score
				IFRS	UAS quality	Ownership disclosure	Corporate structure	Risk of dilution	Institutional presence	Strategic risks	Mgmt accessibility	Public face	Website	
Astarta	AST PW	Q	Q	1	1	1	1	1	1	1	1	1	1	10
Galnaftogaz	GLNG UK	Q	Q	1	1	1	1	1	1	1	1	1	1	10
JKX Oil & Gas	JKX LN	Q	Q	1	1	1	1	1	1	1	1	1	1	10
Myronivsky Hliboproduct	MHPC LI	Q	-	1	1	1	1	1	1	1	1	1	1	10
Cadogan Petroleum	CAD LN	Q	-	1	1	1	1	1	1	0	1	1	1	9
Ferrexpo	FXPO LN	Q	Q	1	1	1	1	1	1	0	1	1	1	9
Khlibprom	HLPR UK	Q	A	1	1	1	1	1	0	1	1	1	1	9
MCB Agricole	4GW1 GR	Q	AA	1	1	1	1	1	1	0	1	1	1	9
Megabank	MEGA UK	Q	AA	1	1	1	1	1	1	1	1	0	1	9
Milkiland	MLK PW	Q	-	1	1	1	1	1	1	1	1	0	1	9
Mriya Agroholding	MAYA GR	Q	-	1	1	1	1	1	1	0	1	1	1	9
Regal Petroleum	RPT LN	Q	Q	1	1	1	1	1	1	0	1	1	1	9
Sadovaya Group	SGR PW	Q	-	1	1	1	1	1	1	1	1	0	1	9
Sintal Agriculture	SNPS GR	Q	-	1	1	1	1	1	1	1	0	1	1	9
TMM Real Estate	TR61 GR	Q	Q	1	1	1	1	1	1	0	1	1	1	9
Agroton	AGT PW	AA	-	1	1	1	1	1	1	0	0	1	1	8
Avangard	AVGR LI	AA	-	1	1	1	1	1	1	0	0	1	1	8
Bank Forum	FORM UK	AA	Q	1	1	1	1	1	0	1	0	1	1	8
Darnitsa	4SI1 GR	AA	A	0	1	1	1	1	1	1	1	1	0	8
KDD Group	KDDG LN	AA	Q	1	1	1	1	1	1	0	1	0	1	8
Kernel	KER PW	AA	Q	1	1	1	1	1	1	0	0	1	1	8
Landkom	LKI LN	AA	AA	1	1	1	1	1	1	0	0	1	1	8
Ukrproduct Group	UKR LN	AA	Q	1	1	1	1	1	1	1	0	0	1	8
Ukrsotsbank	USCB UK	AA	Q	1	1	1	1	1	0	1	0	1	1	8
United Media Holding	A65 GR	AA	-	0	1	1	1	1	1	1	1	1	0	8
Universalna Insurance	SKUN UK	AA	Q	0	0	1	1	1	1	1	1	1	1	8
Azovstal	AZST UK	AA	AA	0	1	1	1	1	0	1	1	0	1	7
Bogdan Motors	LUAZ UK	AA	Q	0	1	1	1	1	0	0	1	1	1	7
Central Iron Ore	CGOK UK	AA	BA	0	1	1	1	1	0	1	1	0	1	7
Khartsyzsk Pipe	HRTR UK	AA	AA	0	1	1	1	1	0	1	1	0	1	7
Northern Iron Ore	SGOK UK	AA	A	0	1	1	1	1	0	1	1	0	1	7
Raiffeisen Bank Aval	BAVL UK	AA	AA	1	1	1	1	1	0	1	0	1	0	7
Slavutych	SLAV UK	AA	AA	0	1	1	1	1	0	1	0	1	1	7
XXI Century Investments	XXIC LN	AA	Q	1	1	1	0	0	1	0	1	1	1	7
Aisi Realty	AISI LN	A	Q	1	1	1	0	1	1	0	0	0	1	6
ArcelorMittal Kryviy Rih	KSTL UK	A	AA	0	1	1	1	1	0	0	1	1	0	6
Farmak	FARM UK	A	P	0	1	1	1	1	1	1	0	0	0	6
Khmelnitskoblenergo	HMON UK	A	AA	0	1	1	1	1	0	1	0	0	1	6

Company	Ticker	2011 Rating	2008 Rating	Reporting/Disclosure				Minority Concerns			Investor Relations			2011 Score
				IFRS	UAS quality	Ownership disclosure	Corporate structure	Risk of dilution	Institutional presence	Strategic risks	Mgmt accessibility	Public face	Website	
Prykarpoblenergo	PREN UK	A	A	0	1	0	1	1	0	1	0	1	1	6
Sun InBev Ukraine	SUNI UK	A	A	0	1	1	1	1	0	1	0	1	0	6
Turboatom	TATM UK	A	A	0	1	1	1	1	0	0	0	1	1	6
Avdiivka Coke	AVDK UK	A	A	0	0	1	0	1	0	1	1	0	1	5
AvtoKrAZ	KRAZ UK	A	A	0	0	1	0	1	0	1	0	1	1	5
Centrenergo	CEEN UK	A	AA	0	1	1	1	1	0	0	1	0	0	5
Chernivtsioblenergo	CHEN UK	A	P	0	1	1	1	1	0	1	0	0	0	5
Creativ Group	CRGR UK	A	Q	0	1	1	0	1	1	1	0	0	0	5
Dniproenergo	DNEN UK	A	A	0	1	1	1	1	0	0	0	0	1	5
Dniprooblenergo	DNON UK	A	A	0	1	1	1	1	0	1	0	0	0	5
Donbasenergo	DOEN UK	A	AA	0	1	1	1	1	0	0	1	0	0	5
Kharkivoblenergo	HAON UK	A	AA	0	1	1	1	1	0	1	0	0	0	5
Krymenergo	KREN UK	A	A	0	1	1	1	1	0	1	0	0	0	5
Luhanskteplovoz	LTPL UK	A	A	0	1	1	1	1	0	0	0	1	0	5
Mostobud	MTBD UK	A	A	0	1	1	0	1	0	1	0	0	1	5
Motor Sich	MSICH UK	A	AA	0	1	0	0	1	1	0	0	1	1	5
Novomoskovsk Pipe	NVTR UK	A	AA	0	1	1	1	1	0	0	1	0	0	5
Nyzhnyodniprovsk Pipe	NITR UK	A	A	0	1	1	1	1	0	0	1	0	0	5
Southern Iron Ore	PGZK UK	A	A	0	1	1	1	1	0	0	1	0	0	5
Vinnitsyaoblenergo	VIEN UK	A	A	0	1	1	1	1	0	1	0	0	0	5
Volynoblenergo	VOEN UK	A	A	0	1	1	1	1	0	1	0	0	0	5
Zakarpoblenergo	ZOEN UK	A	A	0	1	1	1	1	0	1	0	0	0	5
Zaporizhtransformator	ZATR UK	A	A	0	0	1	0	1	0	1	0	1	1	5
Cherkasyoblenergo	CHON UK	BA	P	0	1	0	1	1	0	1	0	0	0	4
Chernihivoblenergo	CHEON UK	BA	BA	0	1	0	1	1	0	1	0	0	0	4
DMP Petrovskogo Steel	DMZP UK	BA	BA	0	0	1	1	1	0	1	0	0	0	4
Donetskoblenergo	DOON UK	BA	P	0	0	1	1	1	0	1	0	0	0	4
Komsomolets Donbasa	SHKD UK	BA	A	0	1	1	0	1	0	0	1	0	0	4
Krymsoda	KSOD UK	BA	A	0	0	1	1	1	0	1	0	0	0	4
Kryukiv Wagon	KVBZ UK	BA	A	0	1	0	1	1	0	1	0	0	0	4
Kyivenergo	KIEN UK	BA	A	0	1	0	0	1	0	0	0	1	1	4
Kyivmedpreparat	KMED UK	BA	A	0	0	1	1	1	1	0	0	0	0	4
Lvivoblenergo	LVON UK	BA	BA	0	1	0	1	1	0	1	0	0	0	4
MMK Illicha	MMKI UK	BA	BA	0	1	1	1	0	0	0	1	0	0	4
PES-Energougol	ENUG UK	BA	BA	0	1	1	1	0	0	1	0	0	0	4
Poltavaoblenergo	POON UK	BA	BA	0	1	0	1	1	0	1	0	0	0	4
Stakhaniv Wagon	SVGZ UK	BA	A	0	0	1	1	0	0	1	0	1	0	4
Stirol	STIR UK	BA	AA	0	0	1	1	1	0	1	0	0	0	4

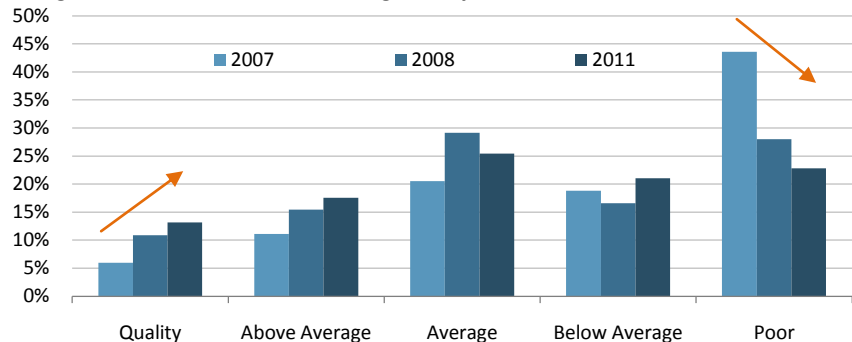
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				IFRS	UAS quality	Ownership disclosure	Corporate structure	Risk of dilution	Institutional presence	Strategic risks	Mgmt accessibility	Public face	Website	
Ternopiloblenergo	TOEN UK	BA	P	0	1	0	1	1	0	1	0	0	0	4
Ukrnafta	UNAF UK	BA	A	0	0	1	1	1	0	0	0	0	1	4
Ukrros	UROS UK	BA	A	0	1	0	0	0	1	1	0	0	1	4
Ukrtelecom	UTLM UK	BA	AA	0	1	0	1	1	0	0	0	0	1	4
Yasynivsky Coke	YASK UK	BA	A	0	0	1	1	1	0	0	1	0	0	4
Yenakiieve Steel	ENMZ UK	BA	A	0	0	1	0	1	0	1	0	0	1	4
Zakhidenergo	ZAEN UK	BA	AA	0	1	1	1	1	0	0	0	0	0	4
Zaporizhyaoblenergo	ZAON UK	BA	P	0	1	0	1	1	0	1	0	0	0	4
Zhytomyroblenergo	ZHEN UK	BA	A	0	1	1	0	1	0	0	0	0	1	4
Alchevsk Iron & Steel	ALMK UK	P	BA	0	0	1	1	1	0	0	0	0	0	3
Dniproshyna	DNSH UK	P	A	0	1	1	0	0	0	1	0	0	0	3
Dniprospeksstal	DNSS UK	P	A	0	0	0	1	1	0	1	0	0	0	3
Khersonoblenergo	HOEN UK	P	P	0	1	1	0	1	0	0	0	0	0	3
Kirovohradoblenergo	KION UK	P	BA	0	1	1	0	1	0	0	0	0	0	3
Koryukivka Paper	KFTP UK	P	P	0	1	0	1	0	0	1	0	0	0	3
Nikopol Ferroalloy	NFER UK	P	P	0	0	1	1	1	0	0	0	0	0	3
Oranta	SORN UK	P	A	0	0	1	1	0	0	0	1	0	0	3
Sevastopoblenergo	SMEN UK	P	BA	0	1	1	0	1	0	0	0	0	0	3
Shakhtoupravlenie Pokrovskoye	SHCHZ UK	P	A	0	0	1	1	0	0	0	1	0	0	3
Stakhaniv Ferroalloy	SFER UK	P	BA	0	0	1	1	1	0	0	0	0	0	3
Sumy Nasosenergomash	SNEM UK	P	BA	0	1	0	0	1	0	1	0	0	0	3
Svitlo Shakhtarya	HMBZ UK	P	A	0	1	0	0	1	0	1	0	0	0	3
Zaliv Shipyard	SZLV UK	P	A	0	0	1	0	1	0	0	0	0	1	3
Zaporizhya Ferroalloy	ZFER UK	P	BA	0	0	1	1	1	0	0	0	0	0	3
Alchevsk Coke	ALKZ UK	P	BA	0	0	1	1	0	0	0	0	0	0	2
DMK Dzerzhinskogo	DMKD UK	P	P	0	0	1	1	0	0	0	0	0	0	2
Odesaoblenergo	ODEN UK	P	P	0	1	0	0	1	0	0	0	0	0	2
Poltava Iron Ore	PGOK UK	P	A	0	0	1	1	0	0	0	0	0	0	2
Retail Group	RTGR UK	P	AA	0	1	1	0	0	0	0	0	0	0	2
ZaporizhCoke	ZACO UK	P	BA	0	0	1	1	0	0	0	0	0	0	2
Azovzahalmash	AZGM UK	P	A	0	0	1	0	0	0	0	0	0	0	1
Dakor	DAKOR UK	P	A	0	0	0	0	0	1	0	0	0	0	1
Dongirmash	DGRM UK	P	P	0	0	1	0	0	0	0	0	0	0	1
Druzhkivka Machinery	DRMZ UK	P	BA	0	0	1	0	0	0	0	0	0	0	1
Mariupol Heavy Machinery	MZVM UK	P	A	0	0	1	0	0	0	0	0	0	0	1
Sumy Frunze	SMASH UK	P	A	0	0	1	0	0	0	0	0	0	0	1
UkrAvto	AVTO UK	P	BA	0	0	0	1	0	0	0	0	0	0	1
Zaporizhstal	ZPST UK	P	P	0	0	0	1	0	0	0	0	0	0	1

Ratings roundup

Long-term progress at both ends of the scale

The headline result from this year's survey is that the overall trend in corporate governance practices of public Ukrainian companies is still of continued improvement. Over our last three surveys, we have seen a steady increase in the percentage of Quality ratings and a simultaneous decrease in the percentage of Poor ratings. Compared to our 2007 survey, there were twice as many Quality ratings and nearly twice as few Poor ratings.

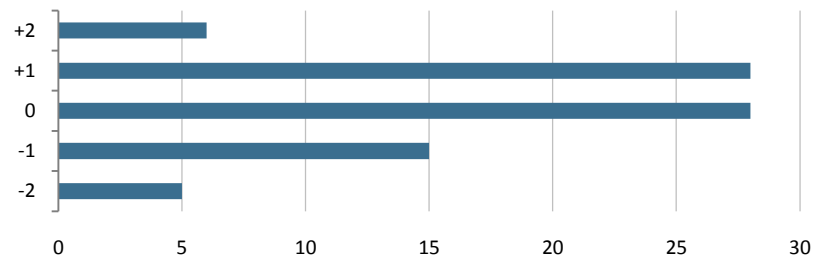
Ratings distribution as % of total ratings each year



Source: Concorde Capital research

When we look at the set of 82 companies that we ranked all three report years, we do notice more incremental improvements in governance over the last four years than declines. However, the trend is far from universal - we assigned identical ratings to just as many of those companies, 28, in 2011 and 2007.

Number of companies moving between rating levels, 2011 vs. 2007



Source: Concorde Capital research

Quality of fresh faces evident in high caliber governance

The evolution in Ukrainian corporate culture is not being led by transformations at existing market names, but rather by the inflow of fresh faces. In the aftermath of the global financial meltdown in 2008, heightened scrutiny and challenging valuations have meant only the strongest companies truly dedicated to tapping global equity capital markets have been successful. Investors have demanded nothing short of outstanding corporate governance from new market entrants.

The nine companies added to our rating following placements boasted an average score of 8.8, well above our overall survey average of 5.2. Two-thirds of them received our highest Quality rating. Notably, the newcomers have overwhelmingly opted for foreign listings, typically in Warsaw or London.

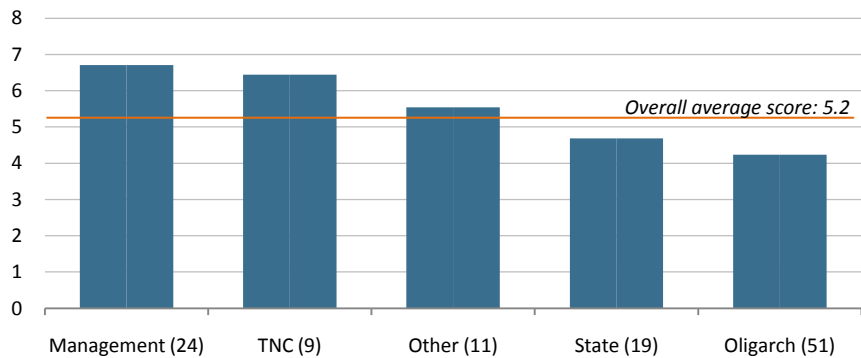
Debut ratings in 2011 survey

<i>Company</i>	<i>Listing Date</i>	<i>Venue</i>	<i>CG Score</i>	<i>CG Rating</i>
Myronivsky Hliboproduct	May 2008	LSE	10	Q
Milkiland	December 2010	WSE	9	Q
Mriya Agroholding	June 2008	FSE	9	Q
Cadogan Petroleum	June 2008	LSE	9	Q
Sadovaya Group	December 2010	WSE	9	Q
Sintal Agriculture	August 2008	FSE	9	Q
Avangard	May 2010	LSE	8	AA
Agroton	November 2010	WSE	8	AA
United Media Holding	May 2008	FSE	8	AA

Source: Concorde Capital research

Ownership matters: Oligarch-controlled assets among the worst

This year, we continued to see that ownership plays an important role in a company's governance. Ukrainian assets controlled by Oligarchs had the lowest average score of any majority shareholder group at just 4.4. Meanwhile, companies owned by management and transnational corporations fared much better, with averages of 6.7 and 6.4, respectively. This discussion is continued in Part II of this report.

Average score by ownership type


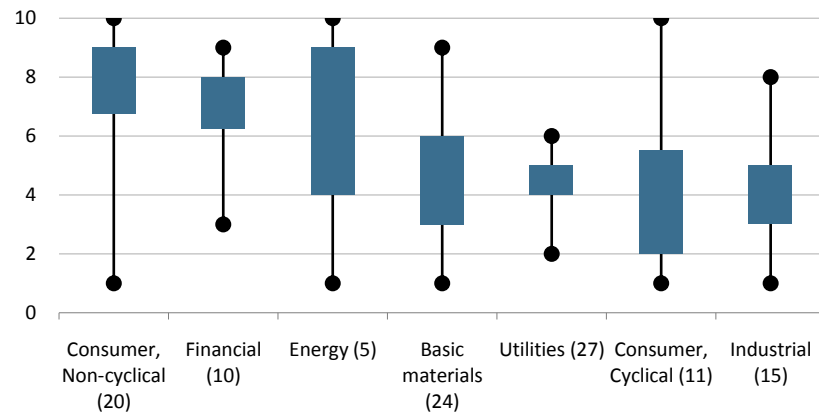
Note: Number in parenthesis indicates amount of rated companies falling within that ownership category

Source: Concorde Capital research

Breakdown by sector

Consumer Goods and Financials companies are among the most progressively governed in Ukraine, securing top scores again in this year's rankings. Not unsurprisingly, companies from these sectors have been the most active on international capital markets in recent years in terms of both equity offerings and Eurobond issues. Meanwhile, the traditional backbones of the local economy, Basic Materials and Industrial companies, still lagged.

Quartile distribution of scoring by sector



Note: Dots indicate highest and lowest scoring companies in each sector. Bars indicate range within which 50% of companies in that sector were scored. Number in parentheses indicates number of companies rated in each sector

Source: Concorde Capital research

Consumer, Non-Cyclical

Setting the gold standard in this year's rankings was Consumer, Non-Cyclical, which is dominated by agriculture, and food & beverage names. This industry is home to two of our perfect scores, Astarta and Myronivsky Hliboproduct. All but five of the companies in this group earned Quality or Above Average ratings. It has experienced among the keenest investor interest in recent years and is strongly represented by foreign-listings, mostly in Warsaw and London.

Financial

Not far behind are Financials, which have been the vanguard in terms of best practices for several years now, despite being among the hardest hit by the financial crisis. Banks and real estate developers alike posted solid scores in every section of our rankings including Investor Relations. Notably, this corner of the market has a high share of transnational (Bank Forum, Ukrsofsbank and Raiffeisen Bank Aval) and market-oriented management (TMM, Megabank) ownership.

Energy

Ukraine's Oil & Gas plays ran the gamut of the corporate governance spectrum. London-listed JXX, Cadogan and Regal all received Quality ratings. Then there was Ukrnafta at Below Average this year, but appears to be in the middle of a turnaround, with the appointment this spring of new CEO and major shareholders Privat and the state finally voicing a shared vision for the company.

Basic materials

More than half of the entrants in this industry (Iron & Steel, Mining, Chemicals, etc.) had below average or poor scores. Companies in this sector were particularly befuddled by Investor Relations. The lion's share of assets in this segment are Oligarch owned. The only two foreign-listed stocks, Ferrexpo and Sadovaya Group, were head and shoulders above the pack, including being the only ones to publish public IFRS accounts and have investor-relevant websites.

Utilities

Ukraine's electricity assets clustered strongly around the average mark. This is indicative of the sector's current state ownership slant. However, with the current government removing barriers for mass privatization, this bias is likely to shift as new owners take over. Like basic materials, utilities were plagued by poor IR marks, and we were not aware of a single company here that issues public IFRS accounts.

Consumer, Cyclical

Galnaftogaz and Bogdan Motors stood out in this industry grouping, both good examples of market-friendly management and proactive IR operations. The rest of the predominantly auto and railcar manufacturers here fared pretty poorly, especially in terms of risk of dilution and strategic risks.

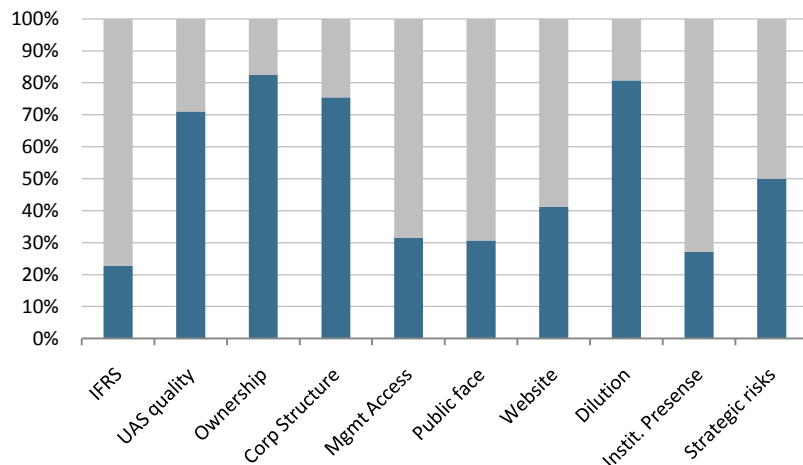
Industrial

Industrial companies fell into either the Average or Poor rating categories and were the only sector other than Utilities to not have a company score about 6 (Average). The industry is characterized by poor disclosure of corporate structure, little regard for IR, low institutional presence and high strategic risks. Interestingly, while SCM assets grouped in its DTEK (energy) and Metinvest (metals & mining) wings scored respectably, entities in coal machinery umbrella, UMBH, all rated Poor: Svitlo Shakhtarya, Druzhkivka Machinery and Dongirmash.

Breakdown by criteria

Our analysis identified the criteria where most listed Ukrainian companies excelled... and where they come up short. Overall, the quality of financial statements according to local GAAP, Ukrainian Accounting Standards (UAS) was adequate, as was disclosure of ownership and corporate structure. The vast majority of local issuers struggled though when it came to investor relations, with only about a third getting a positive score in each of the three IR components we looked at. By far though the most disappointing finding was the high level of strategic risks associated with investing in Ukrainian corporations for minorities.

Percentage of positive and null scores for each rating criteria



*Note: Gray bars represent the percentage of null scores in given criteria; blue bars represent positive scores. For a full description of scoring methodology and definitions, see Appendix 1
 Source: Concorde Capital research*

Availability of public IFRS financials

In early May, Ukraine hitched up to the global bandwagon of wide-scale adoption of International Financial Reporting Standards when its parliament passed a law requiring mandatory annual reports by IFRS from public companies, banks and insurers beginning January 1, 2012. The new law followed years of government talk about a gradual transition to IFRS (a relevant program was initiated by the Securities & Exchange Commission in 2007) and followed an announcement by neighboring Russian President Dmitry Medvedev in April that Russia would require annual IFRS accounts by Russian public joint stock companies as of 2012.

Only 26 Ukrainian companies release public IFRS financials, all but one of which is listed on an international exchange or a bank (Galnaftogaz). Thus, the mandatory transition by companies listed domestically should be a significant step forward in terms of improving the transparency and clarity of financial reporting in the country. At the same time, we note delays in implementation of the law and extensions are very likely due to the time necessary for training and updating of corporate internal accounting systems.

Quality of UAS financials

Overall, our team of sector analysts gauged the quality of financial reports according to Ukrainian Accounting Standards as adequate. However, 29% of companies we looked at showed some evidence of cooking the books including inventive accounting manipulations, distortions or other

discrepancies that made the accounts unreliable for analytical purposes. Of note is that Oligarchs owned 26 of the 33 offenders. Furthermore, 27 of these companies were either basic materials or manufacturing companies.

Disclosure of ownership & corporate structure

Listed Ukrainian companies, to their credit, generally did very well in reporting, explaining and being forthcoming with information about their beneficiary owners and corporate structure, which entails their key business units, relationship between parent and subsidiaries, and details about fixed assets and licenses. Most of the companies that failed to score in both categories were machine builders: Motor Sich, Sumy Nasosenergomash, Svitlo Shakhtarya, and Druzhkivka Machinery.

Risk of dilution

After the market's early years of living in fear of minority abuse and dilutive share issues by majority shareholders, we the bulk of companies (92) today to carry a low risk of dilution. Several of the poor scorers here have a history of serial disrespect for minorities and we cannot rule out repeat activity: Zaporizhstal, ZaporizhCoke, Alchevsk Coke, UkrAvto. Of the zeros in this segment, 64% (14 of 22) were Oligarch-owned.

Presence of institutional investors

Since we initiated our corporate governance ratings, we've held that substantial shareholdings by institutional investors are a strong disciplinary factor for management and promote higher corporate governance practices. An article forthcoming in the Journal of Financial Economics "Does Governance Travel Around the World?" by Aggarwal, Erel, et. al., examining the impact of portfolio investors on governance in 23 countries found a positive association. According to our findings, Ukrainian companies with a significant institutional stake (10% or more) had a significantly higher average score than those that did not, 7.7 vs. 4.2.

Strategic risks

This year we combined the various types of worrying strategic risks we accounted for separately in 2008 and 2007 into one category that includes both cases of transfer pricing, asset stripping, questionable acquisitions & divestitures, as well as corporate conflicts with rival business groups, minority shareholders and regulators. We were discouraged by the high level of strategic risk, which we saw in 50% of the corporations we studied. Those that did badly ranged from companies with checkered pasts (e.g. Privat Group companies), real estate developers (e.g. KDD Group, XXI Century), and those subject to government oversight (e.g. oil & gas producers and electric utilities).

Management accessibility

Investors' access to the management of the typical Ukrainian company is still fairly guarded. The group of companies that host regular site visits, conference calls and attend industry events consists mostly of the foreign listed stocks, but there are also a few local stars. Among these, we positively evaluated Metinvest's efforts in this area to create a dialogue with investors and analysts about their business strategies and discuss operations at holding assets. We considered about half of management owned corporations to excel in this area, including Astarta, MHP, Milkiland, Mriya Agroholding, TMM, Megabank

and Darnitsa. After IFRS availability, this was the second most challenging measure for Ukrainian corporations.

Public face

The notion of reputation with the public and investment community is certainly at the crux of a solid corporate governance program. At the heart is perception, often based on past actions or association with an overall brand or trademark, that are routinely used value a company. Not surprising, the companies that best tended to their image also tended to excel in our survey, ensuring active engagement with press releases, comments in the media, mailing lists and newsletters. Among the domestically listed companies to do well in this area were Galnaftogaz, Khibprom, Bank Forum, Bogdan Motors and Azovstal.

Website

Our research showed that while most Ukrainian companies have an online presence, investor-relevant information (ownership or financial details) was scarce. It is not uncommon to find sites that have been neglected after a few flurried months of activity after being setup sometime in the early or mid 2000s; others were shrines containing limited newsflow relating to the achievements of the beneficiary owner or management. In addition to the Quality rated companies and banks, there were a number of pleasant surprises in this segment, namely Ukrros, Zaliv Shipyard, and Turboatom.

What's next for Corporate Governance in Ukraine?

In looking at what might be in store for corporate governance in Ukraine in the near future, we identify four key trends that are likely to play out in the near term.

- **IFRS transition.** Reporting by IFRS by domestically listed Ukrainian companies is rare, but that should soon change with the government's mandating of annual IFRS accounts starting in 2012. We expect delays and extensions in actual observance of this law due to the time necessary for training and updating of corporate internal accounting systems... but even an incremental improvement next year in IFRS availability will be warmly received and widespread adoption a giant leap forward.
- **Continued stream of quality market entrants.** In 2011-2012, we are likely to continue to see a slow, steady stream of quality issuers making offerings and no large business group structures, similar to 2010. These new market entrants should continue to promote high corporate governance standards.
- **Changes in ownership structure.** The Ukrainian government is slowly making a concerted effort to denationalize key assets. Following its privatization of telecom operator Ukrtelecom in March 2011, it is moving ahead with plans to divest electric utilities. In 2011, we are likely to see this favor friendly business groups via cozy privatization arrangements, such as SCM bidding for Dniproenergo and Zakhidenergo.
- **Uneven government intervention.** Recent attempts to regulate capital markets and key sectors have proven the Cabinet of Ministers and key regulators to be all thumbs, and provoked the ire of business associations and international organizations with their un-market friendly initiatives, notably via now infamous grain export quotas, a failed attempt to introduce a minority squeeze-out law (see Appendix 5) and recent plans to nationalize the securities depository system. Political will in Ukraine to implement mandatory corporate governance standards has historically been lacking due to strong lobbying interests and we do not expect this to change.

Part II

Corporate ownership: Who's at the wheel?

Oligarchs have wide reach over Ukrainian equities

In Part I, we implicated key beneficiary shareholders as most responsible for the corporate commitment to better governance in Ukraine. Infamous “oligarchs” have long had significant influence on politics and the economy in Ukraine. They are *the* dominant force in Ukrainian corporate culture; they are collectively the largest majority shareholder group in our corporate governance universe, with majority control of shy of half the field. Moreover, Oligarchs, collectively, have the lowest average corporate governance score of any majority shareholder group. In companies they control, elements like supervisory boards & audit commissions, executive management and corporate communications professionals are often just cogs in an Oligarch’s broader empire.

Majority ownership structure of Ukrainian equity market

Ownership type	# of majority-controlled stocks	% majority-controlled of total	Average corporate governance rating
Management	24	21.1%	6.7
TNC	9	7.9%	6.4
Other	11	9.6%	5.5
State	19	16.7%	4.7
Oligarch	51	44.7%	4.2
All	114	100.0%	5.2

*Note: This chart covers the 114 stocks that received corporate governance ratings in this report
 Source: Concorde Capital research*

Privatization favors?

Ukraine’s 2011 state budget implies a deficit of UAH 38.8 bln (USD 4.9 bln), about UAH 10.0 bln of which it expected to cover with privatization proceeds. To that end – for the first time in many years, the government not only reached its goal, but did it already in 1Q11. The State Property Fund finally signed off on the privatization of the state’s 92.8% stake in incumbent telecom operator Ukrtelecom on March 11 to the only suitor to bid on it at a December 2010 auction, Austrian firm Epic, for UAH 10.6 bln (USD 1.3 bln) ending 12-years of talk of selling it off. The buyer, though it claims independence, is dogged by rumors it is working on behalf of various oligarchs.

President Viktor Yanukovich, following Ukrtelecom’s sale, urged the government to set a more ambitious privatization agenda, which is certain to involve the utilities sector, where other than oil & gas, the government is still a big player. The next big-ticket asset to go is expected to be either Zakhidenergo or Dniproenergo, with an announcement coming in 3Q11 and the other following by yearend. Additionally, state-owned stakes in several Oblenergos could also be privatized this year. Our sector analyst views large Ukrainian business groups as most likely to privatize these companies.

Blockbuster ECM debuts on backburner

Prior to the financial crisis, domestic business groups had taken to international equity capital markets in a big way. Finance & Credit Group's IPO of Ferrexpo on the main market of the London Stock Exchange in June 2007 remains the largest placement by a Ukrainian company. Hot on its heels, other large domestic business groups, notably Interpipe and Metinvest, were keen to announce IPO plans of their own. Then the financial crisis hit and thinned the flow of placements to almost nil (see Appendix 6 for a list of equity placements by Ukrainian companies) – and has kept Oligarch-linked assets under Oligarch control.

Several large corporations say they remain committed to tapping global equity markets as a mid-term goal, and though 2011 has seen an uptick in placement chatter, we are more likely to see a slow, steady stream of quality issuers making offerings and no large business group structures, similar to 2010.

Mixing business & politics

In Ukraine, business & politics often go together like bread & butter. Ukraine's richest have been intimately involved in running the government over the years, allured by the promise of controlling key regulatory levers, directing government orders and cash flow, and immunity from criminal prosecution. Though kleptocratic tendencies in the Ukrainian government would surprise few locals, there have been signals of amplified suspect activity. For example, government watchers have been raising eyebrows at the sizable year-on-year increases in the net wealth of top government officials over 2010.

Government officials among top-50 richest individuals in Ukraine

<i>Individual</i>	<i>Net wealth est. in 2010 (vs. 2009)</i>	<i>Business group</i>	<i>Gov't position</i>
Rinat Akhmetov	USD 15.6 bln - #1 (USD 7.5 bln)	System Capital Management	Parliament MP (Party of Regions)
Konstantin Zhevago	USD 2.7 bln - #6 (USD 1.3 bln)	Finance & Credit	Parliament MP (Tymoshenko Bloc)
Vasyl Khmelnytskyi	USD 1.2 bln - #18 (USD 439 mln)	Kyiv Investment Group	Parliament MP (Party of Regions)
Andriy & Serhiy Klyuev	USD 900 mln - #25 (USD 384 mln)	Ukrpodshipnik	Minister of Econ. Dev. & Trade / Parliament MP (Party of Regions)
Oleksandr Savchuk	USD 868 mln - #28 (USD 126 mln)	Azovmash	Parliament MP (Party of Regions)
Vyacheslav Boguslayev	USD 845 mln - #29 (USD 282 mln)	Motor Sich	Parliament MP (Party of Regions)
Sergiy Tigipko	USD 796 mln - #30 (USD 572 mln)	TAS Group	Vice Prime Minister of Social Policy
Grigoriy Skudar	USD 446 mln - #41 (USD 296 mln)	Novokramatorsk Machinery	Parliament MP (Party of Regions)
Oleksandr Slobodyan	USD 440 mln - #41 (USD 220 mln)	Obolon	Parliament MP (Our Ukraine)
Valeriy Khoroshkovskiy	USD 430 mln - #42 (USD 357 mln)	Inter Media Group	Head of the State Security Service (SBU)
Serhiy & Oleksandr Buryak	USD 382 mln - #45 (USD 360 mln)	Brokbiznesbank	Olexander: Parliament MP (Tymoshenko Bloc)
Oleksandr Feldman	USD 380 mln - #46 (USD 266 mln)	AVEK Holding	Parliament MP (Tymoshenko Bloc)

Source: Focus Magazine (March 2011), Cabinet of Ministers, Verkhovna Rada of Ukraine, Concorde Capital

There are notable cases of Oligarchs setting a clear division in their political and corporate dealings. Interpipe's Viktor Pinchuk left parliament in 2006 after serving eight years as a deputy. Other Oligarchs are not known to be (or to

have been) closely associated with any major political party, including Ukrlandfarming's Oleg Bakhmatyuk and Universalna Investment Group's Vitaliy Antonov.

Unmasking Ukraine's largest business groups

We present an overview of Ukraine's business groups with the largest presence on the equity market, including state-controlled holdings, drawing on our knowledge of the Ukrainian economy and interaction with representatives at all levels of these businesses. We based these profiles on information available both publicly and exclusively to Concorde Capital, through its analysts, network of contacts or otherwise. We believe the information contained herein is an accurate reflection of the structure of Ukraine's business groups.

Ukraine's largest business groups

<i>Business group</i>	<i>Industry focus</i>	<i>Key beneficiaries</i>	<i>Average CG score</i>
Universalna Investment	Consumer/Retail, Insurance	Vitaliy Antonov	9.0
Ukrprominvest	Industrial, Consumer	Petro Poroshenko	7.0
National Energy Company of Ukraine	Electric Utilities	Government	4.6
Ukrlandfarming	Consumer, Agriculture	Oleg Bakhmatyuk	4.5
System Capital Management	Basic Materials, Electric Utilities, Finance	Rinat Akhmetov	4.4
Energy Standard	Industrial, Electric Utilities	Konstantin Grigorishyn	4.3
Finance & Credit	Basic Materials, Industrial, Finance	Konstantin Zhevago	4.3
Interpipe / EastOne	Pipes, Media	Viktor Pinchuk	4.3
Privat	Ferroalloys, Oil & Gas, Electric Utilities, Finance	Ihor Kolomoyskiy, Hennadiy Boholiubov, Alexei Martynov	4.3
Group DF	Energy, Chemicals	Dmytro Firtash	4.0
TAS	Industrial, Insurance	Sergiy Tigipko	4.0
VS Energy	Electric Utilities, Real Estate	Alexander Babakov, Evgeniy Giner	4.0
Donetskstal	Basic Materials, Finance	Viktor Nusenkis	3.5
Naftogaz of Ukraine	Energy	Government	3.0
Industrial Union of Donbas	Basic Materials	Serhiy Taruta, Oleg Mkrchtan	2.3

Source: Concorde Capital research

Donetskstal

Overview

- Industry focus: Basic Materials, Finance
- Prohibition by the State Securities & Exchange Commission to suspend trading in shares of Donetskstal assets expired on July 11, 2011. Donetskstal appealed a 12-month suspension of trading in the shares of its assets by the local SEC, which was announced to the public on May 27, 2011. The Ukrainian SEC said it implemented the measure to protect shareholders and quell a shareholder conflict, following a court ruling instigated by a member of parliament
- Shakhtoupravlenie Pokrovskoye is Ukraine's largest maker of coking coal and a major CIS producer of hard coking coal concentrate (K grade)
- Yasynivsky Coke is Ukraine's #4 largest coke producer, with output of 1.1 mln mt in 2010
- Politically neutral

Primary beneficiaries

Individual	Net wealth estimates	
	Forbes	Focus
Viktor Nusenkis	N/R	USD 707 mln

Source: Forbes Magazine Ukraine (April 2011), Focus Magazine (March 2011)

Listed assets

Company	Sector	Ticker	Stake	CG Score	Rating
Donetsk Steel Plant	Basic Materials	DOMZ UK	70%	N/A	N/A
Pokrovskoye Mine	Basic Materials	SHCHZ UK	90%	3	P
Yasynivsky Coke	Basic Materials	YASK UK	95%	4	BA
<i>Average CG Score</i>				3.5	

Source: Concorde Capital

Other key assets

Sector	Assets
Basic Materials	Donetskstal, Kostromovskaya Mine (Russia), Zarenchnaya Mine (Russia), MakiyivCoke
Financial	Kreditprombank

Source: Concorde Capital sources

Energy Standard

Overview

- Industry focus: Industrial, Electric Utilities
- Opaque and shady asset divestment at Sumy Frunze in late 2010 was value-destructive for minority shareholders
- History of aggressive acquisitions. Conducted successful hostile takeover of river shipping monopoly Ukrrichflot (listed on PFTS) in 2008. Long-standing corporate conflicts at so-called “conflict” Oblenergos (Ternopiloblenergo, Poltavaoblenergo, Chernihivoblenergo, Sumyoblenergo, Lvivoblenergo, Prykarpatooblenergo and Sevastopoblenergo) resolved in 2009 between oligarchs Grigorishyn, Grigoriy Surkis, and Ihor Kolomoyskiy (Privat)
- Utility assets controlled by Energy Standard holding; industrial assets consolidated under Svarog Asset Management
- Politically closest to Communist Party

Primary beneficiaries

Individual	Net wealth estimates	
	Forbes	Focus
Konstantin Grigorishyn	N/R	USD 2.2 bln

Source: Forbes Magazine Ukraine (April 2011), Focus Magazine (March 2011)

Listed assets

Company	Sector	Ticker	Stake	CG Score	Rating
Cherkasyoblenergo	Utilities	CHON UK	25%	4	BA
Chernihivoblenergo	Utilities	CHEON UK	96%*	4	BA
Dniprooblenergo	Utilities	DNON UK	16%*	5	A
Kharkivoblenergo	Utilities	HAON UK	29%	5	A
Poltavaoblenergo	Utilities	POON UK	97%*	4	BA
Sumy Frunze	Energy	SMASH UK	84%	1	P
Ternopiloblenergo	Utilities	TOEN UK	40%*	4	BA
Turboatom	Industrial	TATM UK	15%	6	A
Ukrrichflot	Transportation	FLOT UZ	96%	N/A	N/A
Vinnitsyaoblenergo	Utilities	VIEN UK	17%	5	A
Volynoblenergo	Utilities	VOEN UK	20%	5	A
Zaporizhyaoblenergo	Utilities	ZAON UK	29%*	4	BA
Zaporizhtransformator	Industrial	ZATR UK	99%	5	A
<i>Average CG Score</i>				4.3	

* Controlled jointly with Privat Group

Source: Concorde Capital

Other key assets

Sector	Assets
Utilities	Sumyoblenergo, Luhansk Energy Union, Central Energy Company
Industrial	Zaporizhya Small Transformer Plant, Zaporizhya Super High-voltage Transformer Plant, Zaporizhya Cable Plant

Source: Concorde Capital sources

Finance & Credit

Overview

- Industry focus: Basic Materials, Industrial, Finance
- Ferrexpo was the first Ukrainian company to list on the main market of the London Stock Exchange, conducting the largest Ukrainian IPO to date, in 2008
- Other assets including AvtoKrAZ, Stakhaniv Wagon and Finance & Credit Bank have all at times been rumored to be IPO candidates
- Arterium Corporation confirmed in March 2011 it was bidding for Poland's Polfa Warszawa and intended to list on the Warsaw Stock Exchange if successful
- Primary beneficiary Konstantin Zhevago is among the youngest of Ukraine's oligarchs (37 years old) and one of the most market-friendly
- Politically closest to Yulia Tymoshenko Bloc. Zhevago is a member of parliament in the Tymoshenko Bloc

Primary beneficiaries

Individual	Net wealth estimates	
	Forbes	Focus
Konstantin Zhevago	USD 2.4 bln	USD 2.7 bln

Source: Forbes Magazine Ukraine (April 2011), Focus Magazine (March 2011)

Listed assets

Company	Sector	Ticker	Stake	CG Score	Rating
AvtoKrAZ	Industrial	KRAZ UK	93%	5	A
Ferrexpo	Basic materials	FXPO LN	51%	9	Q
Kyivmedpreparat	Pharmaceuticals	KMED UK	80%	4	BA
Poltava Iron Ore	Basic materials	PGOK UK	96%	2	P
Odesaoblenergo	Utilities	ODEN UK	10%	2	P
Stakhaniv Wagon	Industrial	SVGZ UK	92%	4	BA
Zaliv Shipyard	Industrial	SZLV UK	93%	N/A	N/A
<i>Average CG Score</i>				4.3	

Source: Concorde Capital

Other key assets

Sector	Assets
Basic materials	Vorskla Steel
Financial	Finance & Credit Bank
Pharmaceuticals	Arterium Corporation, Halychfarm, Hemoplast

Source: Concorde Capital sources

Group DF

Overview

- Industry focus: Energy, Chemicals
- Expanded OstChem Holding into one of Europe's largest chemical holdings. Significantly bolstered asset portfolio over last year, with acquisition of Stirol in September 2010 and Azot Cherkasy in March 2011
- History of opaque and nontransparent dealings. Rosukrenergo (45% stake) was cut out as the shady intermediary in Ukraine's gas trade with Russia following negotiations between Prime Minister Yulia Tymoshenko in 2009. Firtash was previously unknown until his role in Rosukrenergo came to light
- The Stockholm Arbitration Tribunal ruled in favor of Rosukrenergo against Naftogaz of Ukraine in June 2010, forcing the latter to return 12.1 bln m3 of natural gas that it was appropriated in Tymoshenko's 2009 gas agreements
- Politically closest to the Party of Regions. Firtash is believed to be a major party financier and has enjoyed a resurgence following the election of former Regions leader Viktor Yanukovich as president in early 2010

Primary beneficiaries

Individual	Net wealth estimates	
	Forbes	Focus
Dmytro Firtash	USD 996 mln	USD 1.5 bln

Source: Forbes Magazine Ukraine (April 2011), Focus Magazine (March 2011)

Listed assets

Company	Sector	Ticker	Stake	CG Score	Rating
Krymsoda	Chemicals	KSOD UK	90%	4	BA
Stirol	Chemicals	STIR UK	90%	4	BA
<i>Average CG Score</i>				4.0	

Source: Concorde Capital

Other key assets

Sector	Assets
Energy	Rosukrenergo, Ukgaz-Energo, several stakes in regional gas distribution companies in Ukraine
Chemicals	Ostchem Holding, Crimean Titan
Finance	Bank Nadra

Source: Concorde Capital sources

Interpipe / EastOne

Overview

- Industry focus: Pipes, Media
- Interpipe restructured its USD 200 mln Eurobonds in August 2010, extending the maturity by seven years and increasing the coupon rate from 8.75% to 10.25%. Interpipe failed to make a USD 8.75 mln semiannual coupon payment in February 2010
- Reorganizing and focusing its asset portfolio. EastOne was formed in 2007, holding Interpipe and media assets under StarLightMedia TV Group. The group divested UkrSotsbank to UniCredit and Dniprospeksstal to undisclosed buyers (rumored to be Russian) in 2008.
- Geo-Alliance pulled out of a planned listing on the Warsaw Stock Exchange in late 2010
- Politically neutral. Viktor Pinchuk is the son-in-law of former President Leonid Kuchma

Primary beneficiaries

Individual	Net wealth estimates	
	Forbes	Focus
Viktor Pinchuk	USD 3.3 bln	USD 3.0 bln

Source: Forbes Magazine Ukraine (April 2011), Focus Magazine (March 2011)

Listed assets

Company	Sector	Ticker	Stake	CG Score	Rating
Nikopol Ferroalloy	Industrial	NFER UK	71%	3	P
Novomoskovsk Pipe	Industrial	NVTR UK	98%	5	A
Nyzhnyodniprovs'k Pipe	Industrial	NITR UK	98%	5	A
<i>Average CG Score</i>				4.3	

Source: Concorde Capital

Other key assets

Sector	Assets
Energy	Geo-Alliance
Industrial	Interpipe Niko Tube
Media	StarLightMedia TV Group (ICTV, STB, Novy, M1 & M2), Fakty i Kommentary Newspaper, Ekonomika publishing house (InvestGazeta, Delo)

Source: Concorde Capital sources

Industrial Union of Donbas

Overview

- Industry focus: Basic Materials
- Sold a 50%+2 stake in the group to Russian investors led by former Evraz shareholder Alexander Katunin in January 2010. Reports indicated Russian Prime Minister Vladimir Putin, chairman of Russia's Vnesheconombank, which financed the deal, was personally involved; a month later VEB bought about USD 1 bln in IUD debt; VEB rumored to be ultimate beneficial owner
- Politically neutral

Primary Ukrainian beneficiaries

Individual

	Net wealth estimates	
	Forbes	Focus
Serhiy Taruta	USD 694 mln	USD 2.1 bln
Oleg Mkrтчan	USD 694 mln	USD 1.9 bln

Source: Forbes Magazine Ukraine (April 2011), Focus Magazine (March 2011)

Listed assets

Company	Sector	Ticker	Stake	CG Score	Rating
Alchevsk Coke	Basic Materials	ALKZ UK	95%	2	P
Alchevsk Iron & Steel	Basic Materials	ALMK UK	96%	3	P
Dnipropetrovsk Pipe	Industrial	DTRZ UK	75%	N/A	N/A
DMK Dzerzhinskogo	Basic Materials	DMKD UK	95%	2	P
<i>Average CG Score</i>				2.3	

Source: Concorde Capital

Other key assets

Sector	Assets
Basic Materials	Czestochowa Huta (Poland)
Industrial	Dnipropetrovsk Babushkina
Media	Media Invest Group, Evolution Media Holding

Source: Concorde Capital sources

National Energy Company of Ukraine

Overview

- Industry focus: Electric Utilities
- The NC ECU is the most represented Ukrainian business group in terms of number of stocks: 18
- The government is pushing to divest the state's stakes in the sector significantly in the next year. In April 2011, the Cabinet of Ministers listed stakes in 11 electric utilities for privatization by yearend: 25% stake in Dniproenergo; 45.1% stake in Zakhidenergo; 25% stake in Kyivenergo; 50% in Vinnytsyaoblenergo, Dniiprooblenergo, and Zakarpatooblenergo; 45% in Krymenergo and Chernivtsioblenergo, 40% in Donetskoblenergo and 26% in Ternopiloblenergo. The government is planning to retain 25% stakes in the three GenCos
- Several smaller stakes in Oblenergos have been sold in recent years: 25% in Prykarpatooblenergo (August 2010), 25% in Poltavaoblenergo (July, December 2010), 25%+1 in Sumyoblenergo (May 2009), 27% in Lvivoblenergo (April 2009)
- Ukraine's Cabinet of Ministers mandated state-controlled enterprises pay 30% of their net income as dividends for 2010, as it did in 2009 (30% payout), 2008 (15%) and 2007 (25-40%)
- Fully state-owned; the NC ECU was established by the Cabinet of Ministers to manage state-controlled companies in the electricity industry

Listed assets

Company	Sector	Ticker	Stake	CG Score	Rating
Centrenergo	Utilities	CEEN UK	78%	5	A
Cherkasyoblenergo	Utilities	CHON UK	71%*	4	BA
Chernivtsioblenergo	Utilities	CHEN UK	70%	5	A
Dniproenergo	Utilities	DNEN UK	50%	5	A
Dniiprooblenergo	Utilities	DNON UK	75%	5	A
Donbasenergo	Utilities	DOEN UK	86%	5	A
Donetskoblenergo	Utilities	DOON UK	86%	4	A
Kharkivoblenergo	Utilities	HAON UK	65%	5	A
Khmelnitskoblenergo	Utilities	HMON UK	70%	6	A
Krymenergo	Utilities	KREN UK	70%	5	A
Kyivenergo	Utilities	KIEN UK	50%	4	BA
Odesaoblenergo	Utilities	ODEN UK	55%	2	P
Ternopiloblenergo	Utilities	TOEN UK	51%	4	BA
Vinnytsyaoblenergo	Utilities	VIEN UK	75%	5	A
Volynoblenergo	Utilities	VOEN UK	75%	5	A
Zakarpatooblenergo	Utilities	ZOEN UK	75%	5	A
Zakhidenergo	Utilities	ZAEN UK	70%	4	BA
Zaporizhyaoblenergo	Utilities	ZAON UK	60%	4	BA
Average CG Score					4.6

* This 71% stake is held by the state, but not the entire stake is held by the NC ECU

Source: Concorde Capital

Other key assets

Sector	Assets
Utilities	Luhanskoblenergo, Mykolaivoblenergo, Ukrhydroenergo, several heat and power plants

Source: Concorde Capital sources

Naftogaz of Ukraine

Overview

- Industry focus: Energy
- Ukrnafta is Ukraine's largest oil producer and second largest gas producer, holding about 70% of domestic oil and condensate extraction
- The state finally appears to have resolved shareholder conflict with Privat Group at Ukrnafta. Shareholders voted in a non-Ukrainian former investment banker as CEO in February 2011 and have on the agenda of a future EGM formation of a vertically integrated oil company, with a view to a subsequent IPO on a western stock exchange
- Following renewal of positive relations with Russia, talks of a JV, merger and otherwise increased cooperation between Naftogaz and Gazprom have been persistent
- Top government officials, including President Viktor Yanukovich and Energy Minister Yuriy Boyko, in recent months have suggested up to a 25% stake in Naftogaz could be offered via an IPO in the coming years

Listed assets

Company	Sector	Ticker	Stake	CG Score	Rating
Ukrnafta	Energy	UNAF UK	50%+1	3	P

Source: Concorde Capital

Other key assets

Sector	Assets
Energy	Ukrgaz-Energo, Ukrtransgaz, Gas of Ukraine, Ukrtatnafta

Source: Concorde Capital sources

Privat

Overview

- Industry focus: Ferroalloys, Oil & Gas, Electric Utilities, Finance
- Centered around key asset: PrivatBank, Ukraine's #1 bank by assets; well diversified across sectors and geography (well beyond Ukraine): main assets in basic materials and electric utilities
- Aggressive player, involved in numerous corporate conflicts
- Aims for operational control, ownership of less than 50% in companies is quite typical
- Ownership exercised via numerous offshore vehicles; assets not structured as a single holding
- Politically neutral

Primary beneficiaries

Individual	Net wealth estimates	
	Forbes	Focus
Ihor Kolomoyskiy	USD 2.5 bln	USD 5.3 bln
Hennadiy Bogolyubov	USD 2.5 bln	USD 5.0 bln
Alexei Martynov	USD 684 mln	USD 930 mln

Source: Forbes Magazine Ukraine (April 2011), Focus Magazine (March 2011)

Listed assets

Company	Sector	Ticker	Stake	CG Score	Rating
Chernihivoblenergo	Utilities	CHEON UK	96%*	4	BA
Dniprooblenergo	Utilities	DNON UK	25%*	5	A
JKX Oil & Gas	Energy	JKX LN	27%	10	Q
Nikopol Ferroalloy	Industrial	NFER UK	27%	3	P
Poltavaoblenergo	Utilities	POON UK	97%*	4	BA
Stakhaniv Ferroalloy	Industrial	SFER UK	98%	3	P
Ternopiloblenergo	Utilities	TOEN UK	40%*	4	BA
Ukrnafta	Energy	UNAF UK	45%	3	P
Zaporizhya Ferroalloy	Industrial	ZFER UK	98%	3	P
Zaporizhyaoblenergo	Utilities	ZAON UK	29%*	4	BA
<i>Average CG Score</i>				4.3	

* Controlled jointly with Energy Standard Group

Source: Concorde Capital

Other key assets

Sector	Assets
Energy	Halychyna Refinery, Naftokhimik Prykarpattya
Finance	PrivatBank
Industrial	Ordzhonkidze Manganese Ore, Marganets Manganese Ore, Kremenchuk Steel Casting
Media	Glavred Media, TET TV, Komsomolska Pravda, Focus Publishing House

Source: Concorde Capital sources

System Capital Management

Overview

- Industry focus: Basic Materials, Electric Utilities, Finance
- Largest corporate entity in Ukraine and among most influential business groups; recorded consolidated profit before tax of USD 1.3 bln in 2010 and gross revenues of USD 12.8 bln in 2010 according to IFRS results audited by PricewaterhouseCoopers; assets at end-2010 were valued at USD 22.8 bln
- Structured into industry holdings: Metinvest (Basic Materials), DTEK (Utilities), SCM-Finance, UMBH (Coal Machinery)
- Strong political influence with the Party of Regions. Akhmetov is believed to be a major party financier and is a member of parliament in the Party of Regions

Primary beneficiaries

Individual	Net wealth estimates	
	Forbes	Focus
Rinat Akhmetov	USD 16.0 bln	USD 15.6 bln

Source: Forbes Magazine Ukraine (April 2011), Focus Magazine (March 2011)

Listed assets

Company	Sector	Ticker	Stake	CG Score	Rating
Avdiivka Coke	Basic Materials	AVDK UK	92%	5	A
Azovstal	Basic Materials	AZST UK	96%	7	AA
Central Iron Ore	Basic Materials	CGOK UK	76%	7	AA
Dniproenergo	Utilities	DNEN UK	48%	5	A
Donetsk Coke	Basic Materials	DKOK UK	37%*	N/A	N/A
Dongirmash	Industrial	DGRM UK	83%	1	P
Druzhkivka Machinery	Industrial	DRMZ UK	87%	1	P
Khartsyzsk Pipe	Industrial	HRTR UK	98%	7	AA
Komsomolets Donbasa	Basic Materials	SHKD UK	99.7%	4	BA
Krymenergo	Utilities	KREN UK	12.5%	5	A
MMK Illicha Steel	Basic Materials	MMKI UK	99%	4	BA
Northern Iron Ore	Basic Materials	SGOK UK	63%	7	AA
PES-Energougol	Utilities	ENUG UK	91%	4	BA
Southern Iron Ore	Basic Materials	PGZK UZ	50%	5	A
Svitlo Shakhtarya	Industrial	HMBZ UK	90%	3	P
Yenakiieve Steel	Basic Materials	ENMZ UK	91%	4	BA
Zakhidenergo	Utilities	ZAEN UK	11%	4	BA
ZaporizhCoke	Basic Materials	ZACO UK	25%	2	P

Average CG Score

4.4

* Includes a stake held by MMK Illicha

Note: Ownership figure for basic materials companies are controlled Metinvest, where SCM owns 71.25%, with other stakes controlled by Smart Holding and Volodymyr Boyko.

Source: Concorde Capital

Other key assets

Sector	Assets
Basic Materials	Makiyivka Steel, Promet Steel (Bulgaria), Pavlohrad Coal, Krasnodon Coal, Avlita Port, Inguletsky Iron Ore
Finance	First Ukrainian International Bank, Dongorbank
Real Estate	Donbas Palace Hotel, Opera Hotel
Sports	FC Donetsk Shakhtar, Donbas Arena
TMT	Astelit, Segodnya
Utilities	Vostokenergo

Source: Concorde Capital sources

TAS

Overview

- Industry focus: Industrial, Insurance
- TAS Insurance, a universal insurer, had gross premiums written of UAH 92.7 mln (down 15.5% y-o-y), collected insurance payments of UAH 3.0 mln and assets totaled UAH 417.4 mln in 9M10, according to trade publication Insurance Top
- Tigipko announced in 2009 that he planned to sell a substantial portion of his assets in connection with his bid to re-enter politics. He was a presidential candidate in the January 2010 election. He is currently serving in government as Deputy Prime Minister and Minister of Social Policy
- Sold 100% stake in TAS-Commerzbank to Swedbank in February 2007
- Politically allied with Party of Regions in current government

Primary beneficiaries

Individual	Net wealth estimates	
	Forbes	Focus
Sergiy Tigipko	USD 827 mln	USD 796 mln

Source: Forbes Magazine Ukraine (April 2011), Focus Magazine (March 2011)

Listed assets

Company	Sector	Ticker	Stake	CG Score	Rating
Dniprovaonmash	Industrial	DNVM UK	77%	N/A	N/A
Kryukiv Wagon	Industrial	KVBZ UK	26%	4	BA

Source: Concorde Capital

Other key assets

Sector	Assets
Finance	TAS Insurance, Business Standard Bank
Industrial	Kremenchuk Steel Casting

Source: Concorde Capital sources

Ukrlandfarming

Overview

- Industry focus: Consumer, Agriculture
- Flagship asset Avangard has been active on global capital markets in the last year: It raised USD 187.5 mln in an IPO on the London Stock Exchange in April 2010 and then placed USD 200 mln in a debut Eurobond issue in November 2010 with a coupon of 10.5%
- Bakhmatyuk transferred his stake in Avangard (77.5%) to Ukrlandfarming in September 2011
- Acquired controlling stakes in agricultural companies Rise and Dakor Agro Holding in January 2011. The transaction made Ukrlandfarming the largest landholder in Ukraine. Ukrlandfarming said it controlled a landbank of 480 ths ha as of June 30, 2011
- Politically neutral

Primary beneficiaries

Individual	Net wealth estimates	
	Forbes	Focus
Oleg Bakhmatyuk	USD 1.0 bln	USD 1.1 bln

Source: Forbes Magazine Ukraine (April 2011), Focus Magazine (March 2011)

Listed assets

Company	Sector	Ticker	Stake	CG Score	Rating
Avangard	Consumer	AVGR LI	78%	8	AA
Dakor Agro Holding	Consumer	DAKOR UK	76%	1	P
Average CG Score				4.5	

Source: Concorde Capital

Other key assets

Sector	Assets
Agriculture	Ukrlandfarming Rise Agriculture
Finance	Financial Initiative Bank

Source: Concorde Capital sources

Ukrprominvest

Overview

- Industry focus: Industrial, Consumer
- Bogdan Motors is the second largest car producer in Ukraine, with a domestic market share of 26% in 2010. It has consistently been ranked among top Ukrainian companies in corporate governance in our surveys
- Sold its controlling stake in Cherkasy Bus in March 2011 to Prominvestbank, one of Bogdan Corporation's lenders
- Roshen Corporation, with total production of 400 ths mt p.a., is one of the largest domestic confectionaries; it makes about 200 different products and controls four factories in Ukraine and two abroad (in Russia and Lithuania)
- Politically close to Our Ukraine Bloc, but viewed as flexible. Poroshenko was Minister for Foreign Affairs in 2009-2010 under President Viktor Yushchenko. He is the chairman of the board of the National Bank of Ukraine (since 2007)

Primary beneficiaries

Individual	Net wealth estimates	
	Forbes	Focus
Petro Poroshenko	USD 866 mln	USD 1.2 bln

Source: Forbes Magazine Ukraine (April 2011), Focus Magazine (March 2011)

Listed assets

Company	Sector	Ticker	Stake	CG Score	Rating
Bogdan Motors	Consumer	LUAZ UK	78%	7	AA

Source: Concorde Capital

Other key assets

Sector	Assets
Consumer	Roshen Corporation, Ridna Marka Corporation, Agroproinvest
Industrial	Kia Motors Ukraine, Hyundai Motors Ukraine, Ukravtoholding
Media	Fifth Channel TV

Source: Concorde Capital sources

Universalna Investment

Overview

- Industry focus: Consumer/Retail, Insurance
- Excellent record in corporate governance. Its companies have consistently ranked among best in our surveys. Galnaftogaz and Khibprom are among only Ukrainian corporations to have a designated corporate governance code (Galnaftogaz was the first in 2004)
- Galnaftogaz was Ukraine's second-largest automobile fuel retailer, with 12.1% of the total sales of fuel retailed in Ukraine in 2010
- Khibprom is Ukraine's third largest bread/bakery producer, with an 8% market share in 2009. Produced 128 ths mt of bread and bakery products in 2010 (-0.3% y-o-y), generating UAH 522 mln in revenues (+12.7% y-o-y) and UAH 68 mln in EBITDA (13% margin)
- Universalna Insurance, a universal insurer, had gross premiums written of UAH 4.0 mln (down 38.8% y-o-y), collected insurance payments of UAH 1.1 mln and assets totaled UAH 33.7 mln in 9M10, according to trade publication Insurance Top
- Entities within group have been regularly audited by major global auditors, Galnaftogaz & Khibprom by Ernst & Young since 2006
- Cooperates with global IFIs including the EBRD and IFC. The EBRD owns a stake in Galnaftogaz. The IFC granted Khibprom a long-term convertible USD 20 mln loan in 2007. The EBRD & IFC granted Galnaftogaz up to USD 190 mln in loans to support its development program; EBRD is planning to raise its stake in Galnaftogaz from 10% currently to 19%, the EBRD is considering an equity injection into Universalna Insurance in exchange for a 23% stake
- Politically neutral

Primary beneficiaries

Individual	Net wealth estimates	
	Forbes	Focus
Vitaliy Antonov	USD 340 mln	USD 575 mln

Source: Forbes Magazine Ukraine (April 2011), Focus Magazine (March 2011)

Listed assets

Company	Sector	Ticker	Stake	CG Score	Rating
Galnaftogaz	Retail	GLNG UK	80%	10	Q
Khibprom	Consumer	HLPR UK	97%	9	Q
Universalna Insurance	Finance	SKUN UK	52%	8	AA
<i>Average CG Score</i>				9	

Source: Concorde Capital

VS Energy

Overview

- Industry focus: Electric Utilities, Real Estate
- Major player on Ukrainian electricity distribution market: responsible for 19% of Ukraine's electricity transmission in 2010 (25.7 mln MWh); group revenue totaled UAH 9.7 bln (USD 1.2 bln) in 2010
- Politically neutral

Primary beneficiaries

Individual	Net wealth estimates	
	Forbes	Focus
Alexander Babakov (Russia)	N/R	N/R
Evgeniy Giner (Russia)	N/R	N/R

Source: Forbes Magazine Ukraine (April 2011), Focus Magazine (March 2011)

Listed assets

Company	Sector	Ticker	Stake	CG Score	Rating
Chernivtsioblenergo	Utilities	CHEN UK	22%	5	A
Khersonoblenergo	Utilities	HOEN UK	95%	3	P
Khmelnitskoblenergo	Utilities	HMON UK	19%	6	A
Kirovohradoblenergo	Utilities	KION UK	94%	3	P
Krymenergo	Utilities	KREN UK	10%	5	A
Odesaoblenergo	Utilities	ODEN UK	55%	2	P
Sevastopoblenergo	Utilities	SMEN UK	95%	3	P
Zakarpatooblenergo	Utilities	ZOEN UK	11%	5	A
Zhytomyroblenergo	Utilities	ZHEN UK	92%	4	BA

Average CG Score

4.0

Source: Concorde Capital

Other key assets

Sector	Assets
Chemicals	Cherkasykhimvolokno
Finance	First Investment Bank
Real Estate	Premier Palace Hotel (Kyiv), Cosmopolit Hotel (Kharkiv), Dnister Hotel (Lviv), Londonska Hotel (Odesa), Oreanda Hotel (Yalta), Star Hotel (Mukachevo)
Utilities	Mykolaivoblenergo

Source: Concorde Capital sources

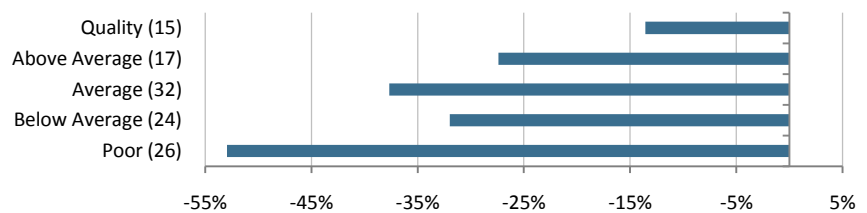
Part III

Corporate governance & Equity markets

Governance champions tend to be favored over misfits

Two different looks at the YTD stock performance indicate good governance appears to generate higher stock returns. The market capitalization weighted average performance by rating category hints at a relationship between low governance risk and better performance and high governance risk and lower returns. For comparison, the UX is down 31.9% YTD.

Market capitalization weighted average YTD performance by rating category

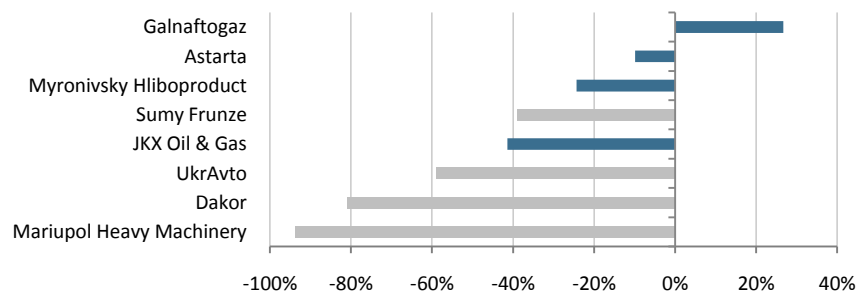


Note: Market capitalization weighted average YTD performance excludes Ukrnafta and Zaporizhstal, which heavily skewed the averages in their respective ratings categories. Market data as of August 31, 2011.

Source: Concorde Capital research, Bloomberg

We also compared the YTD performance of our four perfect scoring companies compared those at the bottom of the pile. We note that corporate governance issues alone are an unlikely explanation for the way this disparate group shook out.

Best and worst governed companies and YTD stock performance



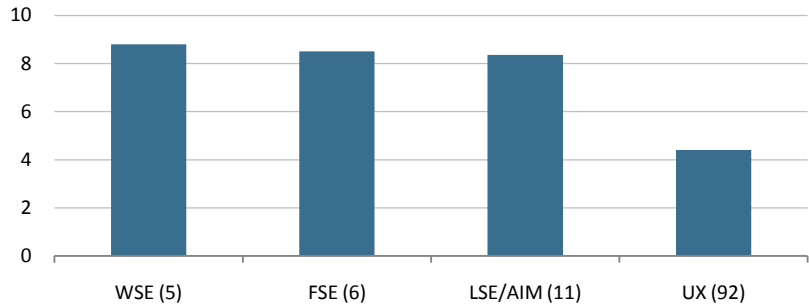
Note: Chart includes the top four perfect scores in our report (in blue) and the four stocks that received zero or one scores and traded over 200 times since the start of the year (in gray). Market data as of August 31, 2011. Source: Concorde Capital research, Bloomberg

Foreign listings = higher scores

Our research showed something most market participants take for granted – foreign-listed companies typically do much better on corporate governance than those on the local UX or PFTS exchanges. Of course, this is largely due to new market entrants in recent years heading exclusively westward. Eight of the 12 Ukrainian placements in 2010-2011 have landed in Poland's IPO hotspot.

Both Warsaw and London promote governance through a list of “comply or explain” rules. In this regard, local market standards are lacking – Ukraine’s Securities and Exchange Commission does have a Corporate Governance Code, but it is voluntary and was last updated in 2003.

Average scores by listing platform

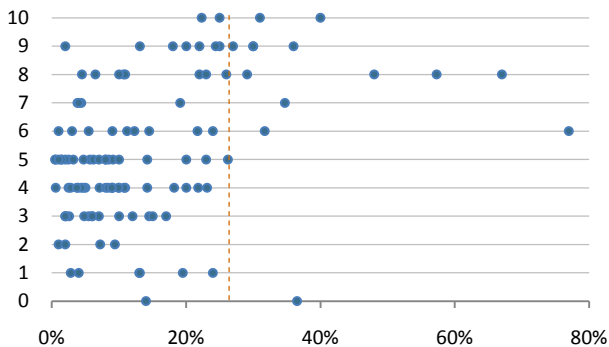


Source: Concorde Capital research

Larger minority presence entails more respect

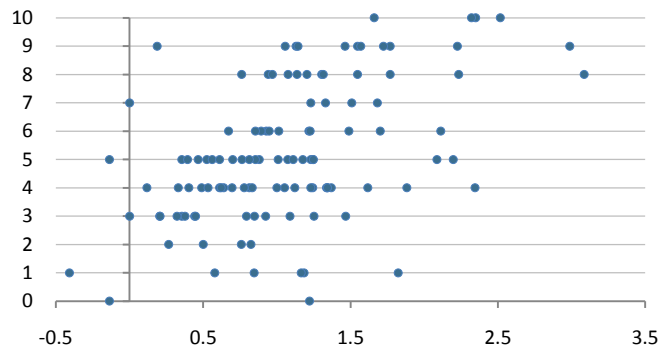
We see again in this year’s data that up to a certain point, the magnitude of free float is a wash when it comes to indicating corporate governance practices. However, we continue to observe that at after about 25% free float (the level that according to law provides for the right to block decisions at shareholder meetings), there is only one poorly governed enterprise. Graphing the US dollar value of free float on a logarithmic scale also lends some support to the notion of more respect for a larger minority presence – with the dispersion slanting from bottom left to top right.

Scores and percentage of free float



Note: Orange dashed bar indicates 25% threshold to block shareholder meeting decisions. Market data as of August 31, 2011. Source: Concorde Capital research

Scores and USD value of free float (log scale)



Note: Market data as of August 31, 2011. Source: Concorde Capital research, Bloomberg

Appendices

Appendix 1: Methodology

Reporting/disclosure

IFRS: Availability of IFRS accounts. 1 point for public, 0 points if unavailable to the public or prepared for internal purposes.

UAS quality: Quality accounts released according to local GAAP – Ukrainian Accounting Standards (UAS). 1 point for high quality, 0 points for distortions, manipulations or other discrepancies that render the accounts unreliable for analytical purposes. For companies incorporated abroad that are not required to report by UAS, we assigned 1 point to avoid undue punishment.

Ownership structure: Availability and transparency of information on beneficiary owners and overall ownership structure. 1 point for common knowledge or provided at a reasonable level, 0 points otherwise.

Corporate structure: Disclosure of information on corporate structure – key business units; relationship between subsidiaries and ownership; details of products, services; details of output; details of fixed assets or licenses. 1 point for information provided at a reasonable level, 0 points otherwise.

Minority concerns

Risk of dilution: Our assessment of the risk of dilutive action. 1 point for low risk of dilution, 0 points for high risk of dilution or track record of abuse.

Presence of institutional investors: Presence of institutional investors. 1 point for substantial institutional holdings of 10% or more, 0 points for insignificant institutional holdings of less than 10%.

Strategic risks: Our assessment of strategic risks – agency risks of suboptimal business decisions (related-party transactions, transfer pricing, asset stripping, unjustifiable acquisitions/divestiture) and a history or current presence of internal or external corporate conflicts (with rival business groups, minority shareholders and regulators). 1 point for low strategic risk, 0 points for high strategic risk.

Investor relations

Management accessibility: Willingness of top management to meet and talk with investors, arrange site visits and conference calls, discuss operations and share business strategies. 1 point for availability of management and readiness to have frank discussions, 0 points for no access.

Public face: Diligence of efforts to keep the public and investors informed of activities, including press releases, comments for media and newsletters. 1 point for proactive information dissemination and communications campaigns and high visibility at public/investment events, 0 points for sporadic or rare appearances.

Website: Quality of investment related information contained on corporate websites. 1 point for reasonable access to ownership and financial information, and timely updates, 0 points otherwise.

Appendix 2: Comparison to 2008/2007 ratings

We made fairly major changes to the rating criteria and scoring system for our report this year versus our previous surveys in 2008 and 2007. The substantial revisions to our methodology make relative comparison by scores alone a difficult exercise of the classic apples and oranges variety. For this reason, we drew conclusions from comparison by rating alone in this report, not by scores.

For copies of our 2008 and 2007 reports on corporate governance and full methodology, please visit our website at <www.concorde.ua>.

Rating criteria changes

The broad rating components remain unchanged from our prior research: Reporting & Disclosure, Minority Concerns and Investor Relations. However, we eliminated two subareas of minority concerns, DR programs and IPO/PP plans, which we do not deem as critical to gauging a company's corporate governance trajectory today. In addition, we merged the suboptimal business decisions and corporate conflicts components into a single strategic risks component, and expanded our exploration into the critical area of disclosure practices by adding a criteria on corporate structure. We also raised the bar on what we consider constitutes "substantial" shareholdings by institutional investors from 3% to 10%.

Survey component matrix

Reporting & Disclosure	Minority Concerns	Investor Relations
<ul style="list-style-type: none"> • Availability of public IFRS financials • Quality of UAS financials • Ownership disclosure + <i>Corporate structure disclosure</i> 	<ul style="list-style-type: none"> • Risk of dilution • <i>Presence of institutional investors</i> • <i>Strategic risks (Risk of suboptimal business decisions + Corp. Conflicts)</i> - <i>Warrants / DR programs</i> - <i>IPO, PP plans</i> 	<ul style="list-style-type: none"> • Management accessibility • Public face • Website

Note: Text in italics indicates changes in criteria from 2008/2007

Scoring & rating changes

This year we did not award negative scores, opting instead for only 0 or 1, loosely corresponding to high/low risk, depending on the component. This simplified scoring was designed to be more accessible and, at the same time, remove an element of subjectivity.

Rating guide

Rating	2011 Scoring	2008/2007 Adjusted
Quality (Q)	9-10	9.5-8.0
Above Average (AA)	7-8	7.5-4.5
Average (A)	5-6	4.0-1.5
Below Average (BA)	4	1.0-0.0
Poor	0-3	less than 0.0

Appendix 3

Laws, regulations & listing requirements

As elsewhere in the world, the legal and regulatory framework within which Ukrainian issuers operate is a strong determinant of corporate governance practices. However, in lieu of other incentive, Ukrainian corporates are adept at playing by the letter of the law and not the spirit, we thus view their legal and regulatory constraints as particularly critical.

Overall, corporate governance issues are undeveloped in terms of local market infrastructure, as local government and regulatory bodies have traditionally been lax to intervene. The much-heralded 2009 law “On Joint Stock Companies”, which significantly boosted protections for minority shareholders, is an important example of a step in the right direction.

Stock exchange listing / DR requirements

Ukrainian Exchange (www.ux.com.ua): The UX went live on March 26, 2009 and has since launched order-driven trading, Internet trading, online index calculation, repo quotations and derivatives trading. More than 120 securities traders and 1,200 individual investors have connected to the UX, gaining access to more than 100 stocks and bonds. UX member companies must adhere to certain disclosure requirements:

- Publish quarterly financial results within 30 days of the end of each quarter
- Disclose total number of shareholders within 30 days of the end of each quarter
- Publish audited financial results within 30 days of approval by auditor
- Announce corporate actions such as amendments to bylaws, changes to the par value of shares, cancellation of shares, and additional share issues within 10 days of relevant decisions

Warsaw Stock Exchange (www.gpw.pl): The Warsaw Stock Exchange main board was established in April 1991 and has been the destination of several Ukrainian IPOs/PPs in recent years. The WSE launched NewConnect, an alternative trading system for young growing companies with a high-tech focus, in 2007. The WSE promotes corporate governance practices via implementation of its “Best Practices of WSE Listed Companies” (last updated in May 2010), which listed companies must adhere to on a “comply or explain” principle. Recommendations cover areas including information disclosure, protection of shareholder rights, remuneration & incentive policies, and supervisory board competence and duties.

London Stock Exchange / Alternative Investment Market

(www.londonstockexchange.com): London Stock Exchange main board listing requirements oblige companies to report on a “comply or explain” basis on compliance with the UK Corporate Governance Code (formerly the Combined Code), published by the Financial Reporting Council (UK), in their annual reports and accounts. The main principles of the code are leadership, effectiveness, accountability, remuneration and relations with shareholders. Companies listed on the Alternative Investment Market are not required to comply with certain LSE corporate governance provisions, however they must adhere to relevant requirements in their home jurisdiction.

Depository Receipts (www.adrbnymellon.com): Depository Receipts have many flavors: American Depository Receipts (ADRs) are publicly available to U.S. investors on a national stock exchange or in the over-the-counter market, Rule 144A Depository Receipts are privately placed and resold only to

Qualified Institutional Buyers (QIBs); or Global Depositary Receipts (GDRs) are generally available in one or more markets outside the foreign company's home country. The Bank of New York Mellon lists the advantages of DRs in terms of investor benefits: quotation and payment of dividends in a foreign currency (US dollars or Euros); diversification without having to venture outside an investor's local market; familiar trade, clearance and settlement procedures; and the elimination of custodian services. Unsponsored DRs are issued by one or more depositaries in response to market demand, but without a formal agreement of the company. Sponsored DRs can be issued at different levels under a contract with the company: Level I are traded in the US over-the-counter (OTC); Level II and Level III are listed on a US stock exchange, require registration with the US Securities & Exchange Commission (SEC) and adherence to US Generally Accepted Accounting Practices (GAAP). Rule 144A programs provide for raising capital via a DR private placement with QIBs in the US; Regulation S programs provide for raising capital via DR placements offshore to non-US investors.

Regulators

State Securities & Exchange Commission (www.ssmc.gov.ua): Ukraine's Securities and Stock Market State Commission [official title] was established by presidential decree in June 1995. The commission is charged with protecting the rights of market participants as well as the integrity of the Ukrainian securities market. The commission works in conjunction with international organizations working in capital markets and financial services such as the OECD, IFC, World Bank and other regional and national securities commissions.

National Bank of Ukraine (www.bank.gov.ua): The National Bank's legal status and scope of activities are derived from the Constitution and Law of Ukraine "On the National Bank of Ukraine." Its main mandate is to ensure stability of the national currency, the Ukrainian hryvnya, by promoting stability of the banking system and prices. The NBU is charged, among other things, with exercising banking regulation and supervision. As of May 1, 2011, the NBU had licensed 177 banks to perform banking transactions. Serhiy Arbutov became the central bank governor in January 2011.

Audit Chamber of Ukraine (www.apu.com.ua): The Audit Chamber, established in April 1993, certifies Ukrainian auditors, conducts training activities, and oversees compliance with auditing standards and ethics. The Audit Chamber is responsible for Ukrainian Accounting Standards (UAS). The Audit Chamber registered 2,011 audit firms and individuals as of May 11, 2011 that are accredited to prepare audited UAS financial reports for issuers.

Legislation & key initiatives

Law of Ukraine "On Joint Stock Companies" (<http://zakon1.rada.gov.ua/cgi-bin/laws/main.cgi?nreg=514-17>): After years of debate in parliament, the Verkhovna Rada adopted a new law governing joint stock companies in April 2009. The law was designed to significantly strengthen the legal protection of minority shareholders:

- Sets up boundaries for dividend settlement and timely payments
- Outlines the subscription rights of shareholders in additional share issues
- Strengthens shareholder options for challenging shareholder meeting decisions

- Defines the role and responsibilities of the supervisory board. Allows for minority shareholders to have representation on the supervisory board
- Adds additional protection against corporate raiders
- Requires Public Joint Stock Companies to be registered with at least one stock exchange and have a website

State Securities & Exchange Commission Public Information Databases

(www.ed.ssmc.gov.ua / www.smida.gov / www.stockmarket.gov.ua): The State Securities and Exchange Commission launched an online project in 1Q07 to enhance the disclosure of financial statements and ownership information in Ukraine. Companies where the state owns 25% or more and all public debt issuers are required to publish quarterly and annual financials; public joint stock companies are required to publish annual financials. Failure to meet disclosure requirements results in a fine. The database currently holds more than 25,000 records of Ukrainian companies. The latest database initiative – ESCRIN – funded by USAID went live in 2010 and began collecting information beginning with 1Q11 financials.

National Bank of Ukraine “Methodological Recommendations for Improving Corporate Governance in Ukrainian Banks”

(www.bank.gov.ua/Bank_supervision/korp_uprav/): The National Bank of Ukraine, in cooperation with the International Finance Corporate, moved to bring local legislation in line with Basel II’s market disclosure requirements, with the adoption of these non-binding recommendations in March 2007. According to Concorde Capital sources, this document is utilized by the NBU in connection with its audits of banks.

International Finance Corporation Project “Corporate Governance in the Ukrainian Banking Sector”

(www.ifc.org/ubcg): The International Finance Corporation conducted a program in 2004-2007 to improve corporate governance practices in Ukrainian banks in order to increase the investment attractiveness of bank loans and revitalize small and medium businesses. The program consisted of open seminars and closed consultations and workshops. Pilot program participants included Megabank, TAS-Commerzbank (now Swedbank Ukraine), Ukrgazbank and Bank Dnister.

European Union “Bank Sector Reform Project, Ukraine”

(http://www.bank.gov.ua/Bank_Supervision/EU-funded%20project/index.php-lang=en&profile=1.htm): The EU funded this project, implemented by ING Institutional & Government Advisory BV, in 2004-2007. The program consisted of a series of trainings and seminars for professionals at both the National Bank of Ukraine and Ukrainian commercial banks.

State Securities & Exchange Commission “Corporate Governance Principles”

(www.ssmc.gov.ua/UserFiles/File/Corporate/2.doc): Ukraine’s State Securities and Exchange Commission adopted a set of non-mandatory principles in December 2003 based on international best practices.

Appendix 4

Corporate Governance evaluation in Ukraine

Two international ratings agencies also cover corporate governance issues in Ukraine.

Standard & Poor's & Financial Initiatives Agency: Transparency and Disclosure by Ukrainian Banks (www.standardandpoors.com): In December 2010, Standards & Poor's and the Financial Initiatives Agency issued their latest update on the information disclosure and transparency of Ukraine's 30 largest banks. S&P has issued the report annually since 2006. Evaluation criteria included 116 items grouped into three categories: ownership structure and shareholder rights, financial and operational information, and supervisory board and management structure and processes. The 2010 report found that the Ukrainian banks' transparency index had fallen as "access to reports filed with regulators became more restricted, primarily due to the flawed disclosure infrastructure in the stock market, together with a significant decline in the volume of financial and operating information."

Fitch Ratings (www.fitchratings.com): Fitch Ratings does not issue individual corporate governance ratings to issuers of Ukrainian securities, but considers corporate governance an integral part of its ratings process. Fitch determined four main pillars in CIS corporate governance: ownership structure, related-party transactions, transparency and audit process integrity and quality of board members. Fitch issued its last report focusing on corporate governance issues in Ukraine in May 2009 "Corporate Governance – Russian, Kazakh and Ukrainian Perspective," which at the time suggested that standards in Ukraine were at an early stage of development compared to Russia and Kazakhstan.

Appendix 5

Case of the failed minority squeeze out law

Ukraine's parliament, the Verkhovna Rada, approved changes to the Law "On Joint Stock Companies" on December 22, 2010 that would have given the owner(s) of 95% or more of shares the right to force minority shareholders to sell their stakes. The share buyouts were to be made at the market price based on stock exchange quotations for listed stocks. However, on January 12, Ukrainian President Viktor Yanukovich vetoed the amendments and parliament subsequently adopted changes that left out the controversial squeeze out rule.

In terms of investments in Ukraine, the issue brought corporate governance considerations to the forefront. Companies with good corporate governance or publicity sensitive (like banks) were expected to conduct minority-friendly buyouts, while those with less than stellar records were viewed as likely to squeeze out minorities at the lowest possible price (see our related research report dated December 27, 2010). Ultimately, after the veto, the point was moot, but the case of the failed minority squeeze out law underscored the importance of corporate governance in a market such as Ukraine, with an occasionally unpredictable and erratic regulatory and legislative environment.

Appendix 6

Equity placements by Ukrainian companies

Company	IPO/PP	Venue	Stake, %	Value, USD mln
2007				
Aisi Realty	IPO	LSE	30.2%	33.1
Clubhouse Group (7 Days)	PP	FSE	16.4%	32.8
Creativ Group	PP	WSE	23.4%	30.0
Dakor	PP	PFTS	20.0%	21.0
Darnitsa (Nord Star)	PP	FSE	10.0%	48.0
Datagroup	PP	OTC	10.0%	21.0
DUPD	IPO	LSE	100.0%	208.0
DUPD	SPO	LSE	26.0%	100.0
Factorial Bank	PP	PFTS	10.0%	5.8
Ferrexpo	IPO	LSE	25.1%	419.0
Karavan	PP	OTC	10.0%	55.0
Kernel Group	IPO	WSE	33.0%	218.0
KDD Group	IPO	LSE	19.6%	130.0
Landkom International	IPO	LSE	54.9%	110.9
Landwest Company	PP	FSE	20.0%	43.0
Motor Sich	PP	PFTS	10.0%	37.1
Oranta	PP	PFTS	11.4%	39.7
Pakko (CB Retail)	PP	FSE	20.0%	36.0
TKS Real Estate	PP	FSE	22.0%	39.6
TMM Real Estate	IPO	FSE	13.1%	105.0
Ukrros	IPO	PFTS	20.0%	42.0
Universalna Insurance	PP	PFTS	19.0%	15.8
Vinnifrut	PP	PFTS	25.0%	15.9
Total				1,773.6
Median				40.9
2008				
Cadogan Petroleum*	IPO	LSE	28.8%	224.0
Davento	PP	FSE	11.0%	77.8
MCB Agricole	PP	FSE	24.4%	56.0
Mironivsky Hliboproduct (MHP)*	IPO	LSE	22.3%	371.0
Mriya Agroholding*	PP	FSE	20.0%	90.0
Sintal Agriculture*	PP	FSE	15.0%	34.5
UMH (Advantest)*	PP	FSE	15.0%	45.0
Universalna Insurance	PP	PFTS	9.2%	25.0
Total				923.3
Median				66.9
2009				
Agroton*	PP	WSE	25.0%	42.0
East Coal (Lysander Minerals)	PP	TSX Venture	3.7%	0.6
East Coal (Lysander Minerals)	PP	TSX Venture	12.8%	3.3
Sintal Agriculture*	PP	FSE	17.2%	12.9
Total				58.8
Median				8.1
2010				
Agrogeneration	PP	NYSE Alternext	28.6%	20.0
Agroton*	IPO	WSE	26.2%	54.3
Avangard*	IPO	LSE	21.7%	208.0
Kulczyk Oil Ventures	IPO	WSE	42.0%	99.7
Milkiland*	PP	WSE	22.4%	68.8
Sadovaya Group*	PP	WSE	25.0%	30.4
Total				481.2
Median				68.8
2011				
Agrogeneration	SPO	NYSE Alternext	16.4%	16.4
Black Iron Inc	IPO	TMX	18.5%	35.9
Coal Energy	IPO	WSE	25.0%	79.2
KSG Agro	IPO	WSE	33.0%	39.6
Industrial Milk Company	IPO	WSE	34.9%	29.8
Ovostar	IPO	WSE	25.0%	33.2
Westa	IPO	WSE	25.0%	46.3
Total				247.2
Median				37.8

* Received debut corporate governance rating in this report

Source: Bloomberg, Company data, Interfax, Concorde Capital

About Concorde Capital



Concorde Capital is a leading investment company based in Ukraine that provides a full range of brokerage, investment banking and asset management services. It was founded in 2004 and is owned by management.

The firm attracted more than USD 2 billion for leading Ukrainian companies via IPOs and private placements since 2004 in the metallurgy, automobile, chemical, oil & gas, agricultural, real estate and pharmaceutical sectors. Concorde Capital led by number of M&A transactions in Ukraine among local and global firms in 2007-2008, and by number of M&A deals in the CIS financial market in 2007, according to mergermarket and DealWatch.

Thomson Reuters Extel Surveys rated Concorde Capital the highest Ukraine-based Pan-European brokerage firm in European Emerging Markets in 2009 and consistently ranked Concorde Capital's research department among the top three in Ukraine in 2007-2009. Cbonds awarded Concorde Capital second best sales team in the Ukrainian bond market in 2010. Concorde Capital received second place among investment companies in Ukraine in 2011 according to the annual local rating Top 100 Companies in Ukraine.

Concorde Capital contacts

CONCORDE CAPITAL

2 Mechnikova Street, 16th Floor
Parus Business Centre
Kyiv 01601, Ukraine
Tel.: +380 44 391 5577
Fax: +380 44 391 5571
www.concorde.ua
Bloomberg: TYPE CONR <GO>

CEO

Igor Mazepa im@concorde.com.ua

SALES

Head of Sales & Trading

Luba Yurchyk ly@concorde.com.ua

International Sales & Trading

Katerina Shevchenko ksh@concorde.com.ua
Marina Martirosyan mm@concorde.com.ua
Rostyslav Shmanenko rs@concorde.com.ua
Dasha Vasilieva vd@concorde.com.ua

RESEARCH

Utilities, Agriculture, Consumer

Yegor Samusenko syg@concorde.com.ua

Basic materials

Andriy Gerus ga@concorde.com.ua

Energy, Chemicals

Antonina Davydenko ada@concorde.com.ua

Equity strategy, Industrial machinery

Vitaly Gorovoy vg@concorde.com.ua

Economics, Financials

Svetlana Rekrut sr@concorde.com.ua

Fixed income

Andriy Gerus ga@concorde.com.ua
Svetlana Rekrut sr@concorde.com.ua

Politics

Brad Wells bw@concorde.com.ua

Editor

Brad Wells bw@concorde.com.ua

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