



CONCORDE CAPITAL

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# Ukraine/ Equity Strategy

## Riding The Third Wave

March 28, 2006

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**Konstantin Fisun, CFA**  
**Eugene Cherviachenko**  
**Polina Khomenko**

Andriy Gostik  
Alexander Parashiy  
Alexander Viktorov  
Vladimir Nesterenko  
Olga Pankiv  
Nick Piazza

[kf@concorde.com.ua](mailto:kf@concorde.com.ua)  
[ec@concorde.com.ua](mailto:ec@concorde.com.ua)  
[pk@concorde.com.ua](mailto:pk@concorde.com.ua)

[ag@concorde.com.ua](mailto:ag@concorde.com.ua)  
[ap@concorde.com.ua](mailto:ap@concorde.com.ua)  
[av@concorde.com.ua](mailto:av@concorde.com.ua)  
[vn@concorde.com.ua](mailto:vn@concorde.com.ua)  
[op@concorde.com.ua](mailto:op@concorde.com.ua)  
[np@concorde.com.ua](mailto:np@concorde.com.ua)

+380 44 207 5030

## Ukraine: Riding The Third Wave

### **2005: A Make-Over Year For The Ukrainian Market**

Ukraine's coming out party in the stormy winter of 2004/2005 coupled with the market's exceptional returns made believers out of many investors, however, the honeymoon ended in political uncertainty which cooled the stock market. Growth in 2005 was still significant but it could not match steel-supported 2004. However, last year was interesting from another angle. Trading volumes smashed all-time records by a wide margin on the PFTS. Moreover, the first Ukrainian stocks were listed on the XETRA in Frankfurt; free float on the market grew due to a series of equity placements; and we saw Ukrainian companies conduct pioneer IPOs on the AIM section of the London stock exchange.

### **We Calibrated WACC Downwards For All Stocks**

There is sufficient evidence that the new quality of institutional investors coming to Ukraine lately has made the market ready for a new level of valuations. Perceived risks have reduced, the future is discounted at lower rates. As a result, we cut equity premium for the Ukrainian market by three percentage points. This together with less conservative estimates of perpetuity WACC, leads to improvement in our stock valuations by 10%-25% depending on the company.

### **2006: Bull-Riders Only**

We feel that the Rada elections are a trigger. The PFTS index has already reached historical maximums in the first quarter, reflecting general positive expectations. Since 2003, the Ukrainian market has experienced two waves of appreciation, with the PFTS index approximately doubling in value both in the first half of 2004 and during 4Q04-1Q05. We would not be surprised to see the third wave of market adjustment this year – doubling the PFTS's market cap. Judging from the outcome of the elections, we do not believe any political combination will emerge that would scare off investors. The most important thing is that no one is questioning the democratic legitimacy of this election – a rarity for CIS countries. The sooner the parliamentary majority is formed the better for the market.

### **More Equity Placements, Improving Transparency, Pre-IPO Jitters**

Look for these things to drive the market this year. We suggest keeping a careful eye on machine building in order to avoid missing the new names coming to the market, ditto for banks. We favor heavy-weights like Ukrtelecom, Zakhidenergo, Ukrnafta, Poltavsky GOK - they do not promise crazy returns but are a value investment. With some industries it is time to become selective. The "pain in the gas" makes us cautious with most steel smelters and nitrogen fertilizers. It is time to switch to pipes, goks, cokes, ferroalloys.

## In A Nutshell:

### P.4 SECTOR BAROMETER

### P.5 THE STOCK MARKET'S CHANGING PROFILE:

- Growth in 2005 not as spectacular as 2004, in line with EM on average,
- All-time peaks in 2006.
- Two waves of market adjustments since 2003, looks like the third one is on the rise.
- The correlation of the Ukrainian stock market to steel prices has vanished.
- Record trading volumes, continued into 2006.
- New sectors coming into focus: banking, machine-building.
- Pioneer IPOs on AIM and a series of private equity placements in 2005.
- ADR listings in Frankfurt – a much better alternative to Berlin. Started in 2005.

### P.14 INSTITUTIONAL INVESTABLE UNIVERSE:

- We classify stocks in three categories:  
// Premiere League // 2<sup>nd</sup> Tier // 3<sup>rd</sup> Tier or Broad Market //
- The factors most critical for classification are volume and MCap of free float.
- We rank stocks 1, 2 or 3 by *Price Impact*, a comprehensive liquidity indicator of stock price susceptibility to block trade impacts.

### P.19 WACC REVISION:

- The market implies a lower cost of equity.
- Reduction in risk premiums due to:  
sovereign spreads down to 100 b.p. over 2005,  
signs of improvement in corporate governance, many positive earnings surprises due to improved disclosure.
- We reduce WACC for stock valuation by 1...4 per cent depending on stock

### P.23 INVESTMENT THEMES FOR 2006:

- Early entrance. One-time chance to buy low as assets appear on the market for the first time
- "Buy Fair + Subscribe Cheap". Make use of seemingly dilutive share issues.
- Transparency arbitrage. Pick stocks on a "*profit after stealing*" basis
- Pre-IPO. IPO plan announcements snowball. WATCH, sniff out candidates
- Swap Sectors: from steel smelters to GOKS, Coke, Pipes and Ferroalloys

### P.28 A FEW RISKS WORTH MENTIONING:

- Gas price unpredictability
- Further cooling on global steel-markets
- A possible political stalemate after the elections
- Important drivers to watch

### P.34 OUR STOCK PICKS

### P.37 SECTOR FOCUS

### P.57 COMPANY PROFILES

### P.90 APPENDIX. DEPOSITORY RECEIPTS ON UKRANIAN STOCKS

## Sector Barometer

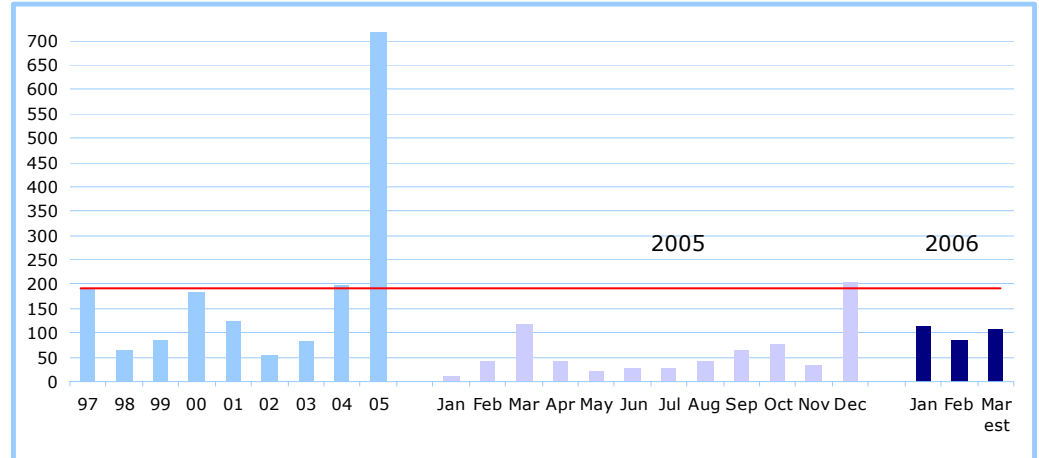
	Overall	Comments
<b>Steel</b>	Most positions valued close to fair. Pick by stock	<b>ALMK</b> - the market fails to value this stock correctly due to uncertainties related to its share issue. <b>DNSS</b> - undervalued producer of specialty steels. <b>KSTL</b> - synergies from Mittal group to create value
<b>Other Metals</b>	Opportunities in Pipes and Ferroalloys	<b>ZFER, SFER</b> - are reshuffling their product mix to lessen electricity costs, signs of more transparency in the mid-term. <b>NFER</b> . Watch re-privatization battle. <b>NITR</b> . Upside on the back of remarkable transparency improvement
<b>Iron Ore &amp; Coke</b>	Overweight. Be selective with coke	<b>PGOK</b> : market momentum, though we believe most of the upside was realized last year. <b>PGZK</b> provides upside (though limited FF), be aware of poor transparency. <b>Coke</b> makers: in short term steel smelters will increase demand for coke to replace natural gas in blast-furnaces
<b>Chemicals</b>	Risky	Both <b>STIR</b> and <b>DNAZ</b> penalized by the gas price hike. Development programs put on hold, STIR IPO postponed - WATCH Pick <b>Azot Cherkasy</b> : new fertilizer stock on the market; with an upside after all risks have been accounted for.
<b>Telecoms</b>	Maintain	<b>UTEL</b> , the only investable stock, is being dressed up for privatization. Comeback to mobile with G3 to create value. Premium at privatization expected.
<b>Electricity Generation, Utilities</b>	Generators undervalued	<b>KIEN</b> to profit from switch to buying from wholesale electricity market. <b>ZAEN</b> - watch for exporter license this year which would give the company direct access to export cash flows. <b>Oblenergos</b> remain a risky investment. Corporate governance risks still high. When & How remain the main questions about sector reform.
<b>Oil &amp; Gas</b>	Maintain	<b>UNAF</b> . value stock. Growth in downstream below than expected <b>GLNG</b> . Pre-IPO story. Value created through expansion of branded gas station network Watch PRIVAT's two refineries closely <b>Naftikhimik Prykarpatya</b> and <b>Galychina</b>
<b>Machine Building</b>	Where the Bulls Roam Above average upsides through Early Entrance	<b>Coal machinery</b> and <b>rail-car</b> related sectors - most appealing opportunities. Expect to see more free float
<b>Food Processing, Retail</b>	Watch for new stocks	A sector of promise; watch for chances to enter via equity placements
<b>Financial</b>	Hot	Bank valuations heated up by major acquisitions in 2005-2006. More FF expected. Don't miss "buy fair + subscribe cheap" opportunities

## THE STOCK MARKET'S CHANGING PROFILE

## Trading Volumes Explode

In 2005 the Ukrainian stock market reached a new level. The first thing that strikes the eye are the dramatically increased trading volumes. The PFTS trading system saw all-time record levels of trading activity, with one-month December volume alone dwarfing all the previous annual results:

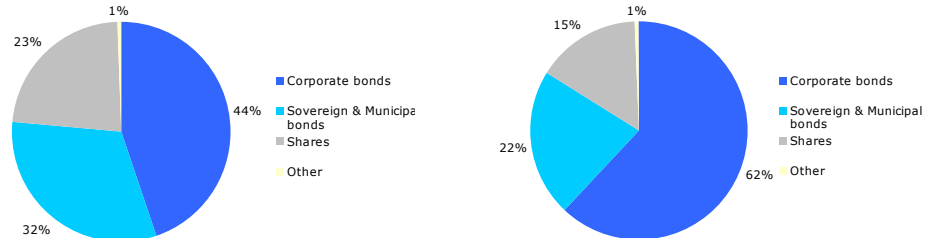
### PFTS Equity Trading Volumes, USD mln



Source: PFTS, Concorde Capital calculations

This was reflected immediately in the increased share of equities in total PFTS trading. Trading on the PFTS has always been dominated by fixed income instruments, and 2005 was not an exception. However, the share of equity trading increased noticeably and now represents about a quarter of all trades registered on the PFTS:

### PFTS Trading Breakdown, 2005, USD mln PFTS Trading Breakdown, 2004, USD mln



Source: PFTS

The first few months of 2006 have demonstrated reassuring dynamics, with monthly volumes exceeding USD 100 mln – which cumulatively already beats annual result of any previous year except 2005.

Keep in mind that PFTS trading only represents the tip of the iceberg. We estimate 85-90% of total trading to be OTC via DRs and recent XETRA and AIM trading

## A New Trading Platform

Another distinguishing feature of 2005 was the listing of first Ukrainian depository receipts in Frankfurt. Shares started trading on the Freiverkehr segment of Frankfurter Boerse and in XETRA. Most stocks have seen only marginal trading activity so far, but it's no different from trading in local shares on an organized market – as reflected by miserable PFTS volumes. Most activity is still OTC. In fact, for all but one stock trading activity in Germany was even higher than that recorded on the PFTS:

### DR Trading In Frankfurt, '000 EUR. Jan 2006

Instrument	XETRA + FSE	PFTS	DR, as % of total
UKRNAFTA ADR 6/UH-,25	1 980.1	10 825.9	15.5%
UKRTELECOM GDR REG S 50	123.9	0.6	99.5%
FORUM BANK UH 10 GDR REGS	123.1	0.0	100.0%
ZAPORIZ.I.IRON+ST.GDR S50	61.9	0.3	99.4%
CONCERN GALNAF.ADR 500	54.8	4.3	92.7%
CENTRENERGO STAT.ADR 10	27.7	0.7	97.5%

Source: Frankfurter Boerse

In January, UNAF was among the Top-20 stocks trading on the Freiverkehr segment of the Frankfurt Boerse in terms of volume. Frankfurt listing, with its exposure to European retail clientele, will definitely contribute to more efficiency of the total market of Ukrainian equities, especially on the back of negotiations about the merger of the Frankfurter Wertpapierboerse and the pan-European stock exchange, Euronext.

In February-March the number of stocks accepted on the Freiverkehr listing snowballed. Below are DRs for Ukrainian equities listed in Frankfurt as of early March:

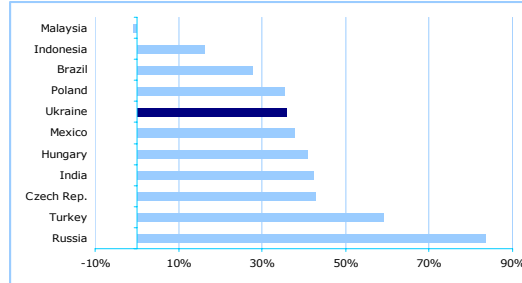
Company	XETRA Ticker
Ukrnafta	UKAA
Centrenergo	DBG
Ukrtelecom	UK1
Zaporizhstal	UWP
Galnaftogaz	C9Z
Bank Forum	B5F
LuAZ	L4J1
Dniproazot	UZB
Stirol	SVX
Azovstal	DZ8
Dniproenergo	DPG
Zakhidenergo	WT7
Khartsyzk Pipe	LBY
Ordzhonikidze GOK	OAC
AvtoKrAZ	A6X1
Dniprokoks	D6N
Naftokhimik Prikarpatya	N3ZA
Nikopol Ferroalloy	N4AA
MZVM	M9X
Donetsk Metal Plant	D2K
Sumy Frunze	M9Y1
Poltava GOK	UVT
Mariupol Illicha Steel	IWD
Zhidachiv Pulp & Paper	Y1D
KrimSoda	C6Z
Zaporizhferroalloy	ZL3
Nizhnyodniprovsky Pipe Rolling	NYZ

Source: Frankfurter Boerse

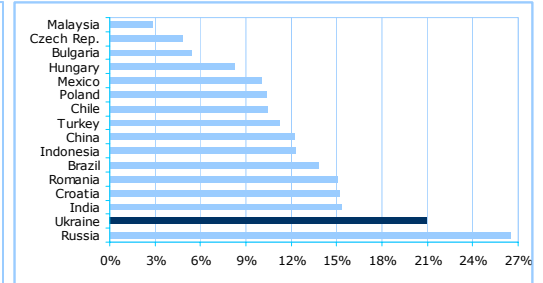
## 2005 Solid, 2006 Great

Last year's solid 35% growth looks trifling compared to the skyrocketing gains of 2004 (with above 200% growth). In 2005, other Emerging alternatives provided more significant returns. Nevertheless in the beginning of 2006 the market picked up speed:

**Emerging Markets Growth, 2005**



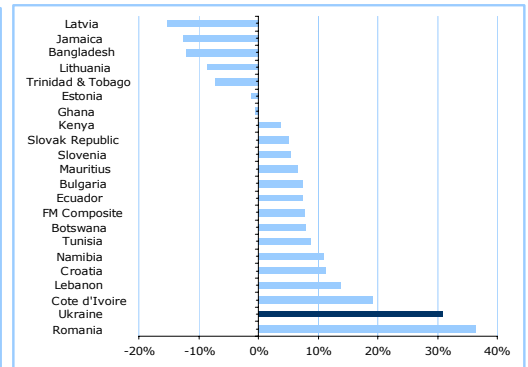
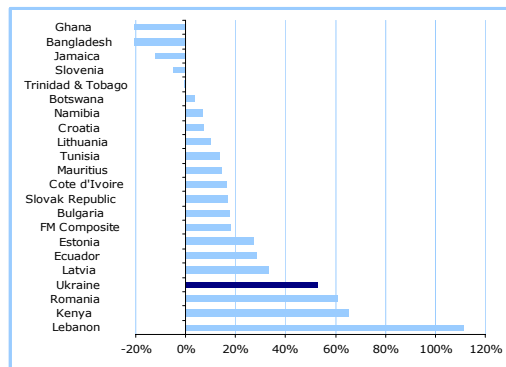
**Emerging Markets Growth, 2006 YTD**



Source: Bloomberg

Ukraine remains among the leaders of Frontier markets, posting 52.8% growth in 2005 and above 30% in the first two months of 2006:

**S&P/IFCF Total Return Index. 2005 Jan-Feb 2006**



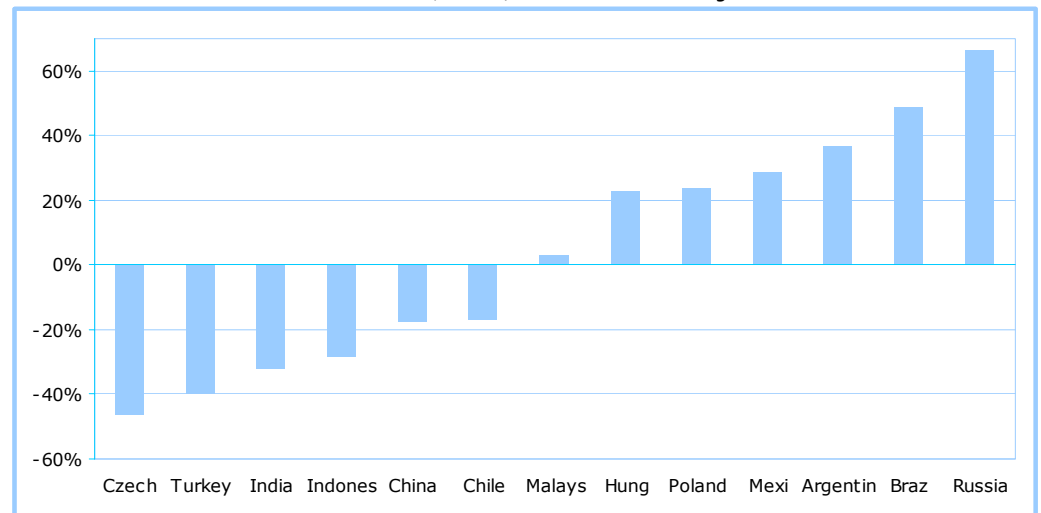
Source: Standard & Poors

The difference in growth rates between the PFTS and S&P/IFCF indexes hints that some growth escapes the local market indicator. In reality, growth on the Ukrainian market has spread into a wider universe of long neglected second- and third-tier stocks. See detailed discussion in further sections.



## Doesn't look *dirt cheap*? hmm...

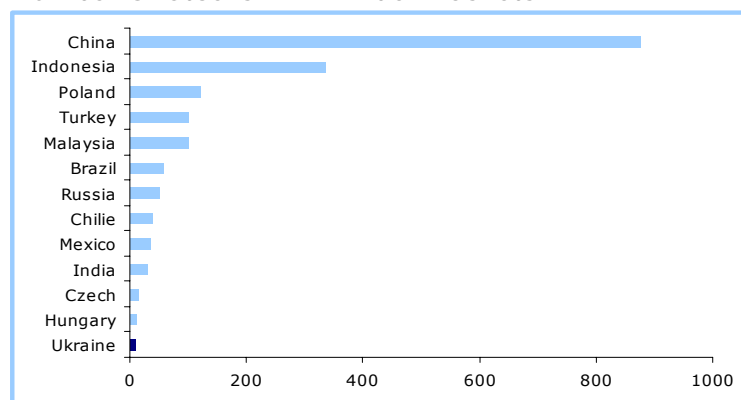
Discount/Premium of Ukraine (PFTS) To Other EM By P/E-2005



Source: Bloomberg

Ukraine seems to be valued somewhere in the middle relative to other Emerging Markets: at a discount to China or the Czech Republic, while at a premium to Russia or Poland. Some may argue that both geographical neighbors or faraway Brazil are much more mature markets and Ukraine's P/E does not look exciting enough. However, the chart above may be quite a bit misleading: the PFTS basket is limited to only ten stocks and is compared to much broader baskets:

Number Of Stocks in EM Index Baskets



Source: Bloomberg

The current growth in Ukraine comes from the stocks populating broader areas of the investment universe, not necessarily with higher risk profiles.

## Does Some Growth Escape The PFTS Index?

The country index includes ten stocks. Since August 1, 2005, the used methodology to calculate the PFTS index changed. Now, each stock's capitalization is weighted by its free float (prior to that non-state share was used).

### PFTS Index Constituents

Company	Ticker	Share old	Share 26.07.05 new	Share 22.03.06	FF*	MCap, USD mn
NPR	NITR	10.2%	12.2%	18.2%	38.7%	646.6
Kievenoergo	KIEN	1.9%	5.8%	4.4%	37.3%	162.5
Zakhidenergo	ZAEN	3.2%	9.8%	7.5%	29.9%	345.3
Dniproenergo	DNEN	1.7%	5.4%	4.8%	23.4%	276.6
Centrenoergo	CEEN	2.1%	6.6%	3.9%	21.7%	247.5
Zaporizhstal	ZPST	<b>27.9%</b>	<b>16.9%</b>	14.7%	19.6%	1,037.7
Stirol	STIR	<b>17.6%</b>	<b>9.7%</b>	8.4%	17.9%	651.0
Donbasenergo	DOEN	0.4%	1.2%	1.3%	14.2%	128.2
Ukrnafta	UNAF	<b>29.2%</b>	<b>14.5%</b>	18.3%	8.0%	3,145.3
Ukrtelecom	UTEL	<b>5.8%</b>	<b>17.9%</b>	18.4%	7.1%	3,558.0

Source: PFTS; \* FF as defined by the PFTS index committee

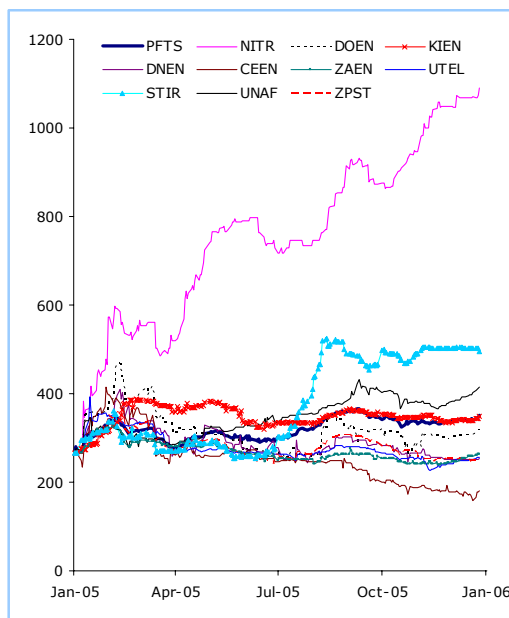
### Industry Breakdown in PFTS index:

Telecom	18.4%
Oil & Gas	18.3%
Chemicals	8.4%
Metals	32.9%
Electricity	21.9%

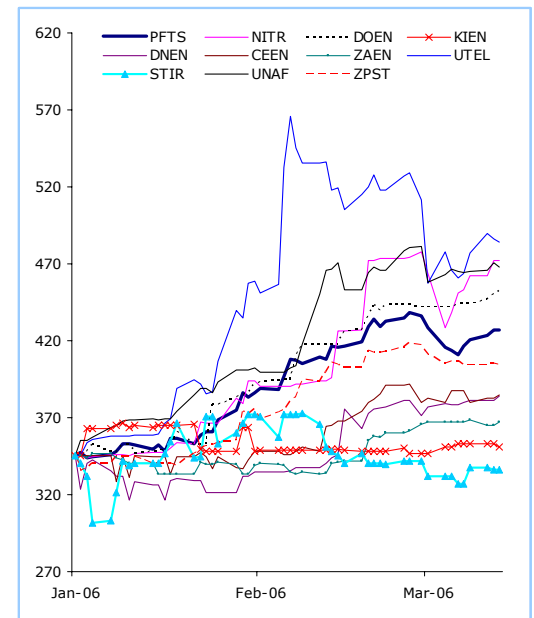
While telecom, oil & gas and utilities are clearly over weighted in the index, chemicals and metals more or less replicate their weight in the national economy.

In 2005, the index was driven by pipes, chemicals and oil & gas and in 2006, telecom leapfrogged chemicals:

### PFTS Index Movers 2005



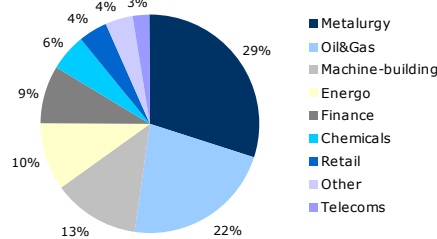
### 2006 YTD



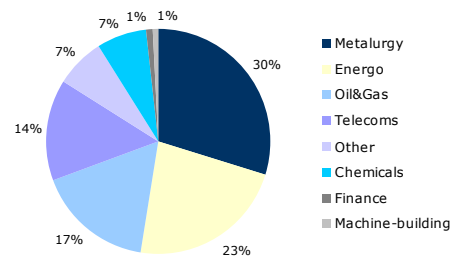
Source: PFTS, Concorde Capital calculations. Based on mid-market prices, normalized to PFTS index

When looking at the Bloomberg terminal (PFTS index), one should keep in mind that machine-building, banking and mining/coking are not represented in the country index - and these were the sectors where investors made returns well above average in 2005. Let's have a look at breakdown of PFTS trading by segment:

**PFTS Equity Trading Volumes 2005**



**PFTS Equity Trading Volumes 2004**



Source: PFTS

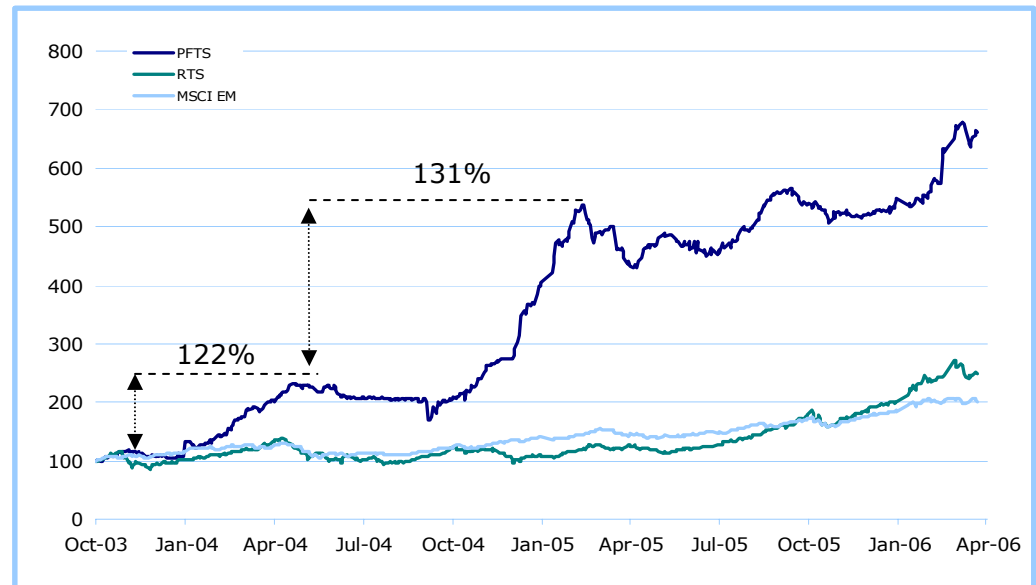
In 2005, the share of telecoms (represented by UTEL only) in registered trading shrank from 14% to 3%, the share of the energy segment halved. Remember that these segments together account for 40% of the PFTS index capitalization.

The decline of this share was due to uncertain privatization plans for these segments and the absence of exciting news. But mostly it just reflects the market rounding up, with stocks in new segments coming to the forefront. Thus, machine-building became number three in terms of trading on the PFTS (its share jumping to 13% from 1% a year ago), finance: 9% versus 1% in 2004. In 2005 the breakdown of PFTS trading better reflected the economy than a year ago.

## All Set For The Third Wave

We stick to our hypothesis that the Ukrainian market is unlocking value in waves, starting with blue chips (2003-2004), followed by second tier stocks in 2004 – and then a broader universe of third-tier stocks: companies with solid fundamentals but overlooked, neglected, or simply not traded.

### PFTS (in USD terms) vs. RTS and Global EM Benchmark



Source: PFTS, RTS, Bloomberg, Concorde Capital calculations. All indexes normalized to 100 in the beginning

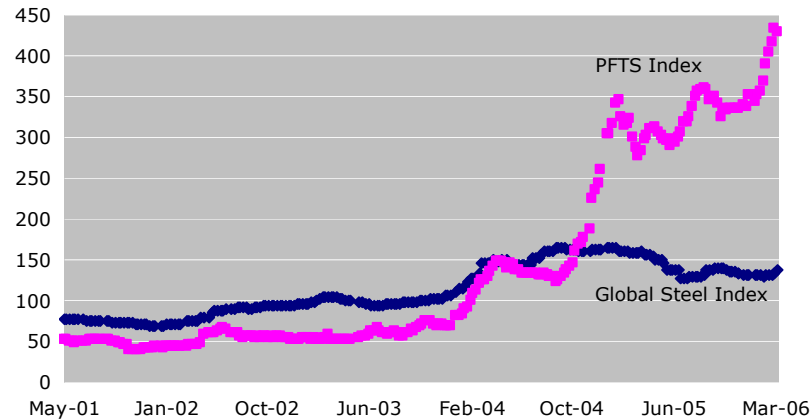
Each wave doubles market cap of the PFTS basket.

Since February, the PFTS index has started making new all-time peaks. It broke the 400 level, and we are very bullish, expecting the third wave of massive appreciation of Ukrainian assets this year. Wax your boards, surf's up.

## “Stock market–steel” link broken?

There is more evidence in support of our *wave theory*. We observe a diminished correlation of the Ukrainian market with global steel prices. The Ukrainian economy depends largely on steel (which accounts for ~27% of national exports). While earlier PFTS index used to mirror movements in steel prices, it does not any more:

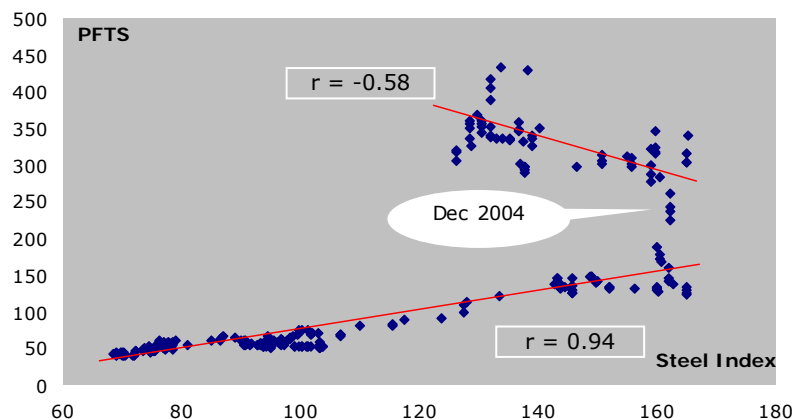
### PFTS vs Global Steel Index



Source: PFTS, CRU International

The global steel market and the Ukrainian stock market seem now to be in two different universes. The leap happened in the late 2004, when the “orange revolution” gave start to what we refer to as the second wave of appreciation of Ukrainian assets.

### Weekly Data Plot , 2001-2005



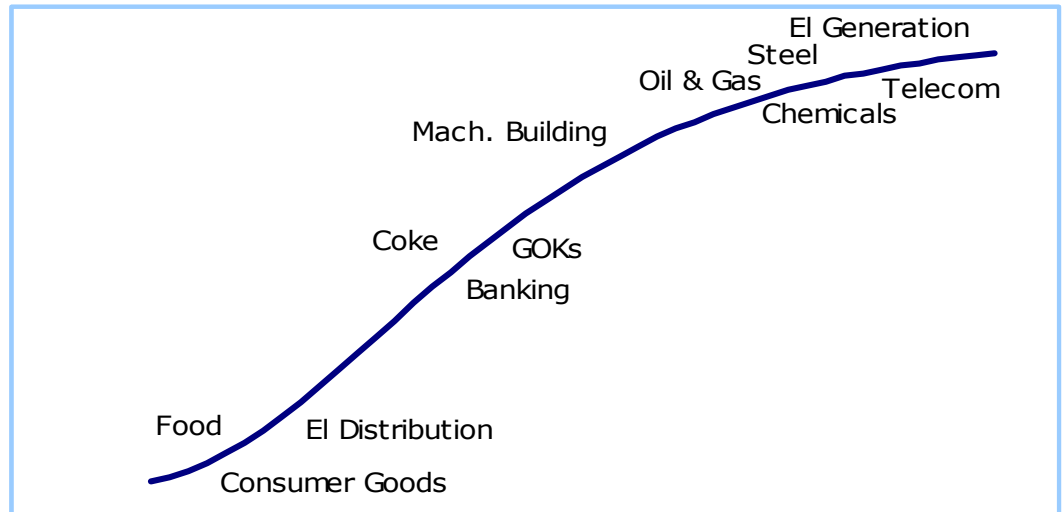
Source: PFTS, CRU International, Concorde Capital research

This is because the Ukrainian market is experiencing large-scale upward adjustment. Investors recalibrate their valuation tools as their perception of country-specific risks reduces. More people are now ready to bring their money to the Ukrainian market and they are ready to require lower returns than those risk-seekers who entered the market back in 2003-2004. Dependency on steel markets has vanished; market behavior seems to be reflective of new cash inflows.

## MARKET SEGMENTATION

Ukrainian blue chips will appreciate further, with current investors fixing their profits to switch into second- and third-tier stocks for higher returns. Which segments will thus receive liquidity? The chart below is a good indicator:

### Industry Maturity Map



Source: Concorde Capital research

In terms of market maturity, industries in the top right-hand corner can, with certain reservations be identified as relatively mature in terms of trading history, liquidity and free float availability. Telecom is basically one stock, Ukrtelecom. Industries in the bottom left corner are in their embryonic market stage: limited stock menu and weak trading activity (consumer goods and food) or very low liquidity (electricity distributors).

The middle part of the curve represents industries in their transition phase, which are the most appealing for investors seeking returns well above average. The machine building sector has been hiding lots of jewels which will be entering the stock market, offering early entrance opportunities. GOKs and Coke are sectors gaining momentum. The banking sector is being heated up by intensive M&A activity.

### Ukrainian Market “Tiered”

As guidance for a global institutional investor, we separate Ukrainian equities in several strata.

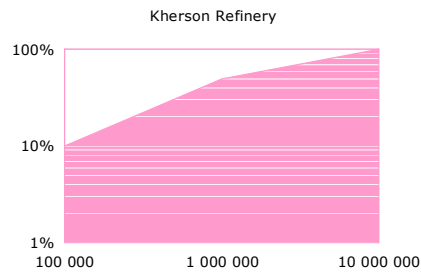
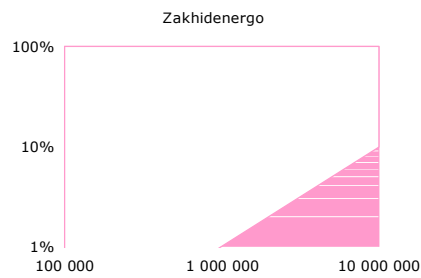
What we call the “**Premiere League**” are blue chips, fully suitable for an institutional investor - stocks with a long enough trading history and a liquid market, where entry and exit are not burdened with restrictive liquidity costs.

**Second tier** stocks are investable but may have certain liquidity constraints.

**Third-tier (or Broad Market)** is the largest segment, with stocks ranging from those just entering the market suitable for certain risk-seeking institutional investors to extremely illiquid animals.

We use size and liquidity as criteria to decide on the tier of a stock. Size is straightforward - market capitalization. Liquidity is a more complex parameter, and we determine it as a combination of factors:

- Trading volumes
- Quotation spreads
- Free float available
- Price impact of a market transaction



*Price impact* is a comprehensive measure resulting from other parameters. We quantify it by analyzing how the market price would react to the execution of a buy/sell order of specified sizes: USD 0.1 mln / 1 mln / 10 mln. We assign a 1 rank to those stocks whose share price would change less than 10% in execution of a USD 10 mln block trade; those stocks with a 0% to 10% change in price for a USD 1 mln block are ranked 2, the rest of the stocks receive a rank of 3.

The graphs on the left visualize this idea. Block size from USD 0.1 to 10 mln is on the X-axis, change of market price due to the execution of a buy order of the respective size is shown on the Y-axis in logarithmic scale. Zakhidenergo is an example of a liquid, by Ukrainian standards, stock; while even a USD 100k transaction can disturb the market for Kherson Refinery.

Quotations for stocks ranked 3 may be subject to serious instability.

We came to the conclusion that market capitalization (both total and free float mcap), and trading activity are the factors that distinguish stocks by tier. Our system of classification for Ukrainian stocks:

**Premiere:** Large stocks either in terms of MCap or free float market cap, with steadily high trading. We control for average monthly volumes posted on the PFTS during the last six months and previous six months.

**Second Tier:** relatively large stocks, with average volumes not falling below a certain threshold during two consequent semiannual periods.

**Third Tier (or Broad Market):** all other stocks

While there are no reliable statistics for the institutional trading in depository receipts (which is in fact what drives the market), we still can refer to PFTS data as an indirect liquidity indicator. Activity on the PFTS is induced by demand from foreign institutions, and represents only a fraction of real trading.

#### Classification Criteria:

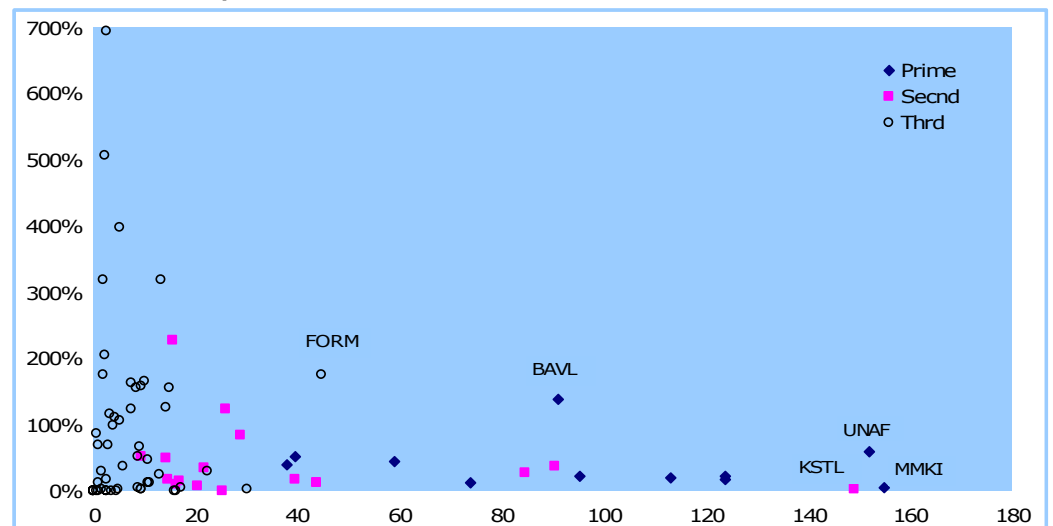
	min MCap		min FF MCap		Avg PFTS monthly vol, USD mln
Premiere	500	OR	100	AND	0.3
Second Tier	100		-	AND	0.1
Broad Market	-		-		-

In our classification, the Premiere League consists of eleven stocks with total MCap of USD 17.2 bln. Sixteen stocks comprise the Second-Tier segment with total MCap of USD 6.7 bln; 67 stocks are in the Broad Market segment with total MCap of USD 8.2 bln. All in all, we consider 94 stocks, with an aggregated MCap of USD 32 bln, and a USD 2 bln free float.

**Premiere & Second-Tier Stock Universe**

Name	Ticker	XETRA	Rec	Tier	Mcap, USD mn	Spread	FF %	FF Mcap, USD mln	FF TO 6m_ann'd	latest 6m avg mo vol USDmln	previous 6m avg mo vol USDmln	Price Impact
Ukrtelecom	UTEL	UK1	Buy	Prime	3,558.0	2%	3.0%	106.7	21%	1.64	1.42	2
Ukrnafta	UNAF	UKAA	Hold	Prime	3,145.3	8%	8.0%	251.6	94%	5.45	3.75	1
Mariupol Ilichha	MMKI	IWD	Hold	Prime	2,413.2	5%	7.0%	168.9	6%	0.66	0.35	2
Azovstal	AZST	DZ8	Hold	Prime	1,872.8	3%	4.0%	74.9	11%	0.65	0.58	2
Poltavsky GOK	PGOK	UVT	Buy	Prime	1,452.0	9%	9.0%	130.7	45%	3.91	1.16	2
Aval Bank	BAVL	-	U/R	Prime	1,405.3	6%	6.5%	91.3	138%	8.37	1.30	2
Zaporizhstal	ZPST	UWP	Hold	Prime	1,037.7	2%	4.0%	41.5	52%	1.64	2.04	2
Avdiiivka Coke	AVDK	-	Buy	Prime	824.8	3%	15.0%	123.7	22%	2.22	0.35	2
Stirol	STIR	SVX	Hold	Prime	651.0	5%	5.5%	35.8	40%	1.31	0.32	1
Nyzhnyodniprovsky Pipe	NITR	NYZ	Buy	Prime	646.6	10%	21.0%	135.8	17%	1.41	1.55	2
Zakhidenergo	ZAEN	WT7	Buy	Prime	345.3	6%	29.9%	103.2	23%	0.60	0.87	1
Kryvorizhstal	KSTL	-	Buy	Secnd	3,010.4	16%	5.0%	150.5	2%	0.22	n/a	2
Ukrstsobank	USCB	-	Buy	Secnd	999.0	57%	5.0%	50.0	36%	3.56	0.005	2
Sumy Frunze	SMASH	M9Y1	U/R	Secnd	327.0	18%	25.0%	81.8	27%	1.38	0.95	2
Zaporizhzhya Ferroalloy	ZFER	ZL3	Buy	Secnd	296.3	17%	8.0%	23.7	7%	0.15	1.98	3
Dniπροenergo	DNEN	DPG	Buy	Secnd	276.6	13%	16.2%	44.8	17%	0.53	1.26	2
Centrenergo	CEEN	DBG	Buy	Secnd	247.5	9%	18.7%	46.2	11%	0.41	0.32	2
Dniπροoblenergo	DNON	-	Buy	Secnd	239.7	7%	9.0%	21.6	34%	0.59	0.29	2
Marupol Heavy Machinery	MZVM	M9X	Buy	Secnd	203.1	8%	15.0%	30.5	83%	1.63	1.88	2
Galnaftogaz	GLNG	C9Z	Buy	Secnd	195.2	7%	23.0%	44.9	214%	2.42	2.61	2
ZaporizhCoke	ZACO	-	Buy	Secnd	190.9	4%	7.6%	14.5	50%	0.57	0.22	2
Motor Sich	MSICH	-	Buy	Secnd	176.6	6%	5.0%	8.8	51%	0.45	1.41	2
Kievenergo	KIEN	-	Buy	Secnd	162.5	9%	9.0%	14.6	17%	0.21	0.25	2
DniπροAzot	DNAZ	UZB	Hold	Secnd	154.7	32%	10.0%	15.5	9%	0.14	0.81	3
Yasinivsky Coke	YASK	-	Hold	Secnd	128.6	16%	11.0%	14.1	227%	2.30	0.62	2
Donbasenergo	DOEN	-	Buy	Secnd	128.2	11%	14.2%	18.2	16%	0.18	0.24	2
Luganskteplovoz	LTPL	-	N/R	Secnd	98.6	6%	24.0%	23.7	92%	1.95	0.61	2

Source: Company Data, Concorde Capital calculations. Price impact explained on p. 15

**Free Float: MCap (USD mln) vs. Turnover (6m annualized)**


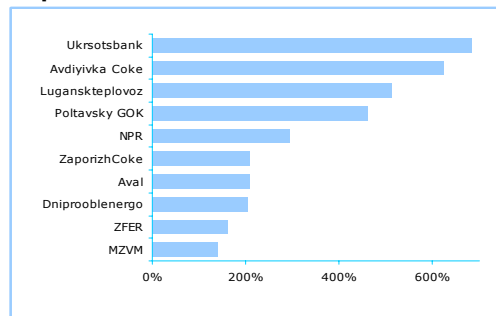
Source: PFTS, Concorde Capital calculations

We plotted free float capitalization and turnover for the universe of stocks we follow - the difference between the Third-tier and Premiere/Second-Tier is clear. While the former is concentrated along the Y-axis (small FF MCap and a tendency towards extremely high turnover ratios), the latter tends to be located along the X-axis (significant FF MCap with a turnover rate mostly below 100%).

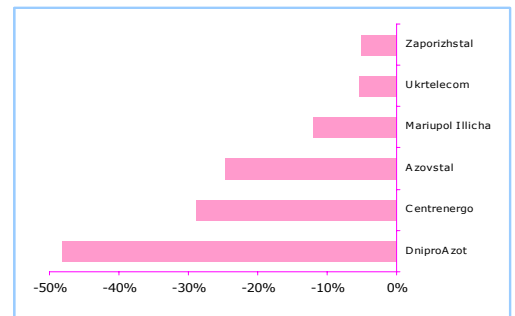


## PFTS Round Up

### Top Performers 2005



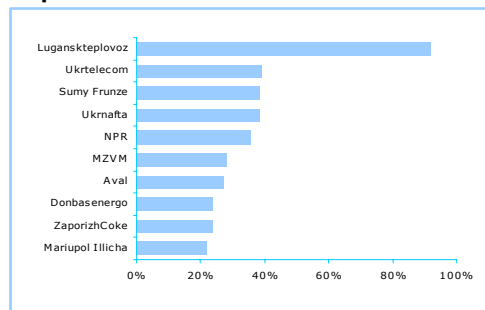
### Worst Performers 2005



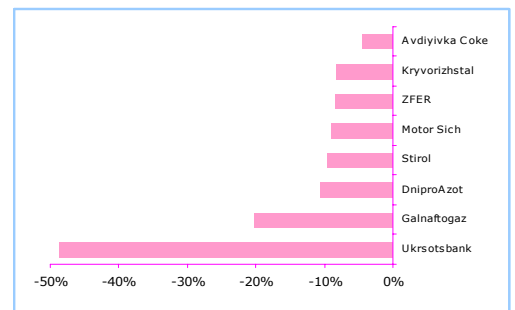
Source: PFTS. Based on mid-market PFTS price. Premiere and Second-Tier stocks only

Five of the ten growth leaders were non-steel metals-related stocks. Having two banking stocks in the top-10 was good news for the market. Only six stocks from the Prime and Second tiers failed to grow in 2005, three of them being steel smelters. We agree with the market: steel was overheated.

### Top Performers YTD 2006



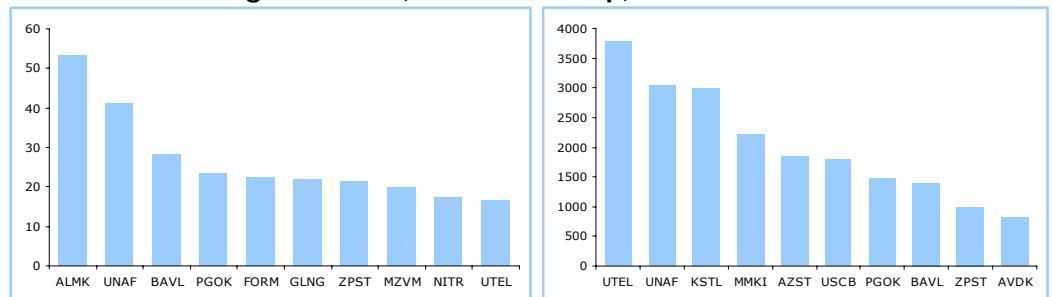
### Worst Performers YTD 2006



Source: PFTS. Based on mid-market PFTS price. Premiere and Second-Tier stocks only

Who leads the market in 2006? Three out of top ten are machine building stocks. Two of three fertilizer stocks lost points. Ukrasbank experienced price adjustment due to a share issue.

### 2005 PFTS Trading Volumes\*, USD mln MCap, USD mln



Source: PFTS. Based on mid-market PFTS price.

\* Odesa Refinery and Retail Group were omitted in volumes ranking as one-time non-market transactions

Half of the top-10 most actively traded stocks are new market entrants: Galnftogaz, Mariupol Heavy Machine-Building, Poltavsky GOK and two banks, Aval and Forum, until 2005 were only marginally present on the market. This is reflective of the appetite the market has for fresh names and exposure to new segments. It is worth pointing out that trading on the PFTS estimatedly accounts only for 10%-15% of total trading in Ukrainian equities, with most activity occurring OTC.

Ukraine's Premiere League welcomed two new players with MCap exceeding billion dollar: Bank Aval and Poltavsky GOK. Four of the ten largest stocks are steel smelters, another two are metal-related – mining and coke.

## Privatization Watch

### 2006 Privatization Candidates:

Company	Sector	Sales 2005E USD mln	Stake For Sale	Probability
MZVM	Machine-Building	412.2	11%	80%
Luganskteplovoy	Machine-building	65.3	76%	80%
Ukrtelecom	Telecommunications	1,242.0	43% - 93%	75%
Nikopol Ferroalloy	Metals	480.0	50+1%	60%
Sumykhimprom	Chemicals	114.7	100%	10%
Turboatom	Machine-building	54.0	75%	10%

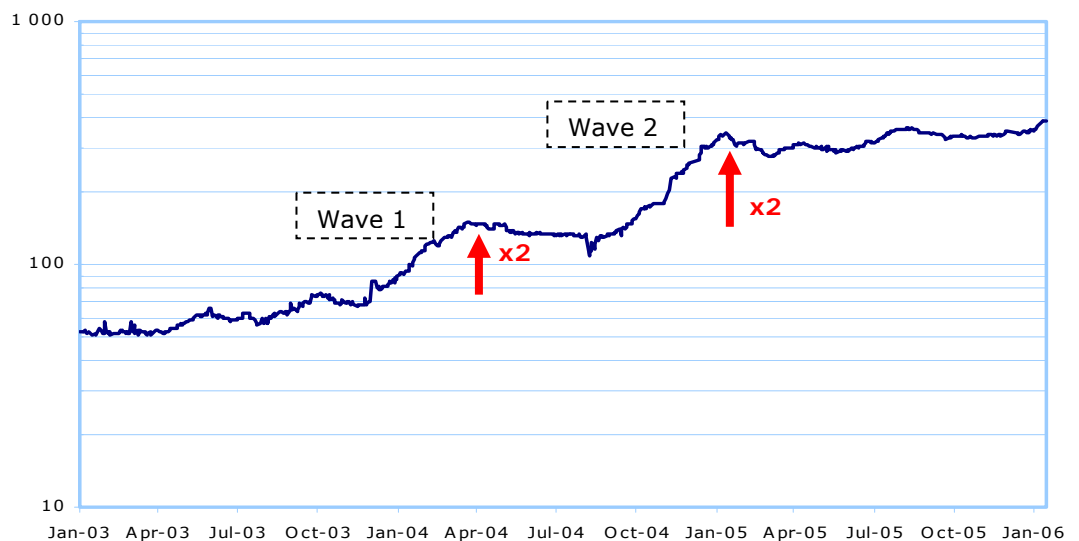
*Source: SPFU, Concorde Capital's estimates*

## WACC REVISION

There is sufficient evidence that the new quality of institutional investors coming to Ukraine suggests the market is ready for a new level of valuations. Perceived risks have been reduced, the future is discounted at lower rates. We lighten WACCs by two-three percentage points, with corresponding improvement in valuations by 10% to 25% depending on the company, due to the calibration effect alone.

Since 2003, the Ukrainian market has experienced two waves of appreciation, with the PFTS index doubling in value both in the first half of 2004 and during 4Q04-1Q05. The real scope of the change was even more significant as the PFTS basket, consisting of only 10 stocks, fails to capture broad market movements. During 2005 the market established a new base, with the PFTS index hanging around its February maximum.

### PFTS Index. Logarithmic Scale



Source: PFTS

Over this period it looks like investors have adjusted their required return in regards to Ukrainian equities downwards. We use this plateau stage of the market to estimate how cost of equity (CoE) changed – and what it implies for stock valuation.

We approach the task from two angles: 1) analyzed what WACC is assumed by the market by comparing market values with free cash flows associated with stocks and 2) analyzing statistical data to estimate components of cost of equity.

### WACC Implied By The Market

In 2005 it was clear that market had found a stationary level. We took January of 2006 as an established level of the market to gauge what cost of equity is built into the current market prices. We calculated a discount rate which would force projected free cash flows, aggregated for a basket of stocks, to equal aggregated market capitalization. While separate stocks could be over- or undervalued by the market, it is reasonable to assume that the basket of stocks representing the PFTS index should average in more or less fair valuation. We excluded Stinol from our analysis: the gas surprise led to critical uncertainty concerning the company's business model, making cash flow projections very non-reliable.

We found that the market WACC derived from stock prices is 12%, which seems to be lower than what we used to apply. (We routinely use explicit WACC projections for every year on a 10-year forecast horizon. Through 2005 WACC for the first forecast year was 15% to 21% depending on the company, with a 10% to 13% WACC to perpetuity. Equivalent single WACC gravitated towards 12%...15%.

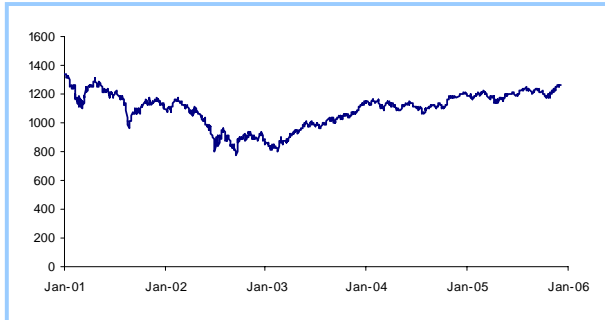
Cost of equity corresponding to the 12% market derived WACC is between 13.5%

and 14.5% depending on how to calculate D/E for the market: average D/E by stock or aggregate debt divided by aggregate equity.

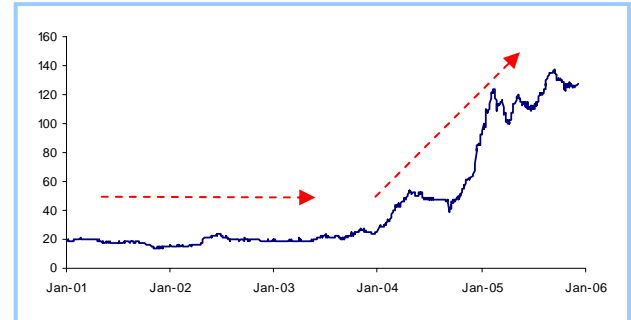
## Volatility-Implied Premiums

While up until late 2003, high volatility in Ukraine was observed on the back of a flat market, and was not compensated by extra-profits, the volatility of 2004-2006 is rewarded by returns well above what the S&P-500 offers.

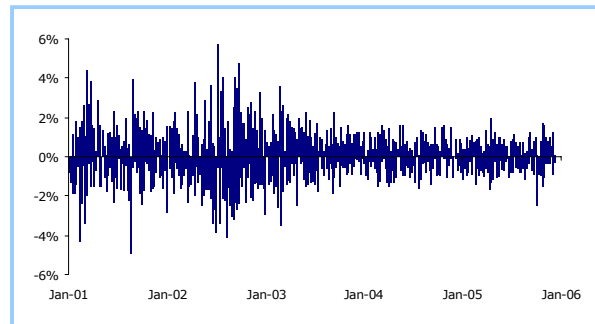
**S&P 500**



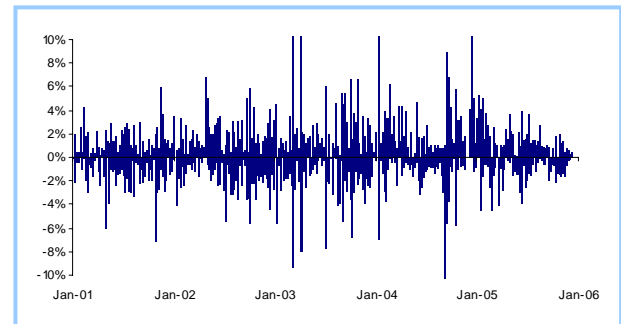
**PFTS (in USD terms)**



**Daily Index Return (S&P 500)**



**Daily Index Return (PFTS)**



Source: Standard and Poor's, PFTS, Concorde Capital calculations. PFTS returns truncated at +/-10% for extreme values

In the early 2000's, the nature of volatility was rooted in very low valuation levels, where the relatively insignificant absolute magnitude of changes in share prices meant significant percentage changes. At that time it would make little sense comparing the Ukrainian stock market with efficient ones. After two years of dramatic changes on the Ukrainian market we believe we can now directly compare relative volatilities of the PFTS and S&P, with meaningful conclusions.

We use two ways to estimate cost of equity from market statistics

**"UA\_Eq/US\_Eq"**. Under the assumption of the full segmentation of the US and Ukrainian markets, we apply the following equation to calculate the required rate of return for investments into Ukrainian equities [R(UA)], in CAPM framework:

$$R(UA) = R_{rf} + CS + \{\sigma_{pfts}/\sigma_{s\&p}\} \times Rep(US)$$

**"UA\_Eq/UA\_FI"**. Another approach is to measure the relative volatility of the equity and fixed income markets for Ukrainian securities:

$$R(UA) = R_{rf} + CS + \{\sigma_{pfts}/\sigma_{eurobonds}\} \times Rep(US)$$

Standard deviations are calculated for S&P-500 [ $\sigma_{s\&p}$ ], PFTS [ $\sigma_{pfts}$ ], and Ukrainian Eurobonds maturing in 2013 [ $\sigma_{eurobonds}$ ]. Equity premium (Rep(US)) = 5%.

Yield on US 10Y T-bills is taken to estimate risk-free rate (R<sub>rf</sub>). Ukraine's country risk premium (CS) is gauged from a spread of Ukrainian Eurobonds over US 10Y T-bills. It reduced by 100–150 basis points during the second half of 2004 and the beginning of 2005. The spread has remained relatively stable at ca. 200 b.p. since then. Risk-free proxy for Ukraine ( R<sub>rf</sub> ( UA) = R<sub>rf</sub>+CS ) is currently 6.4%.

**Ukrainian Sovereign Spread\***


Source: Bloomberg. (\*) UA 06/13 over US 10-Y T-bills

We performed calculations for horizons from one to three years and index returns both daily and weekly, with the following results for cost of equity:

UA_Eq / US_Eq		
Range	Daily	Weekly
3 years	19.7%	17.4%
2 years	18.4%	18.8%
1 year	13.9%	16.2%

UA_Eq / UA_FI		
Range	Daily	Weekly
3 years	17.6%	16.0%
2 years	16.5%	15.7%
1 year	16.0%	15.7%

Evaluating the results we take into account that the nature of the Ukrainian stock market underwent a dramatic change over the last two years, with volumes and liquidity hardly comparable to previous idle periods. Thus we deem the 3-year horizon less reliable for our purposes. So, basically our required rate of return calculations resulted in a 14%...19% range. All in all, considering the 13.5%...14.5% derived from market WACC estimation made earlier, we recognize 16% as current cost of equity for the Ukrainian market - meaning a 9.6% equity risk premium over the risk-free proxy for Ukraine. Changes to our assumptions from last year are summarized below:

	New	Old
UA risk free rate	6.4%	6.3%
Implied country risk premium	1.8%	1.8%
Ukrainian equity risk premium	9.6%	12.7%
<b>Cost of Equity (market average)</b>	<b>16%</b>	<b>19%</b>

Base cost of equity for the Ukrainian market remains about 4%...5% over Russia. We have a strong feeling that we are about 2 percentage points too conservative and most probably will revisit this in the near future.

Concerning CoE calculation for individual stocks, we still consider the reliability of PFTS data not sufficient for beta estimations, due to relatively low liquidity and dominating OTC trading; taking global industry betas we believe to be too generalized a solution. So, as before, instead of using  $\beta$  we continue applying a company specific premium/discount to the required market equity return. We improved the way to estimate this premium by taking a liquidity factor into consideration. The total range of premium/discount may reach 3%, with the following breakdown by factor:

<b>Total company-specific premium:</b>	<b>[-3.0% ... +3.0%]</b>
Corporate governance	[-1.0% ... +1.0%]
Liquidity	[-1.0% ... +1.0%]
Financial stability	[-1.0% ... +1.0%]

The table below summarizes the effect the new assumptions have on valuations for stocks from the PFTS basket:

Company	Previous assumptions			Calibrated model			Valuation impact
	CoE	WACC 2006	WACC perpetuity	CoE	WACC 2006	WACC perpetuity	
Zaporizhstal	16.8%	16.4%	12.0%	15.5%	15.1%	11.5%	16.7%
Ukrnafta	17.5%	16.1%	11.0%	14.0%	13.0%	11.0%	18.9%
NPR	18.7%	18.1%	12.5%	15.0%	14.7%	11.0%	24.3%
Ukrtelecom	21.0%	18.2%	10.0%	15.2%	13.6%	10.0%	13.5%
Zakhidenergo	18.0%	14.9%	12.0%	15.0%	12.5%	12.0%	15.5%
Kievenergo	18.8%	15.7%	12.0%	15.5%	13.1%	12.0%	25.7%
Centrenergo	18.9%	15.2%	12.0%	17.0%	13.7%	12.0%	14.3%
Dniproenergo	23.5%	15.6%	12.0%	16.7%	11.9%	12.0%	10.6%
Donbasenergo	18.5%	12.7%	12.0%	16.0%	11.2%	12.0%	17.3%

Source: Concorde Capital research

Valuation adjustment due to the calibration of models can be significant, reaching as much as 26% for Kievenergo.

We attribute the reduction in equity risk premium to several factors which in our opinion outweighed concerns about political uncertainty in the country.

First, the beginning of **improvement in corporate governance** became visible in 2005. Owners have begun realizing the practical benefits of going to the equity market for money. Several equity placements, pioneer IPOs at AIM, a snowball of official announcements of IPO programs for 2006-2008. All this induces broader acceptance of IFRS accounting, international audit, better disclosure, readiness for dialog with portfolio investors.

Second, **top global corporations entered the Ukrainian market in 2005** buying control in major Ukrainian companies. Mittal Steel acquired 93% in Krivorizhstal for USD 4.5 bln on an open tender and Raiffeisen paid USD 1 bln to private owners for a 93% stake in Bank Aval. There is a commonly shared belief that both acquisitions were at significant premium.

Progressively more expensive acquisitions of UkrSibBank and UkrSotsBank, as well as a series of successful equity placements at very demanding valuations – all this helped investors get used to the new valuation paradigm.

# INVESTMENT THEMES

What investment themes are on tap for 2006?

1. Early Entrance
2. Transparency Arbitrage
3. Pre-IPO
4. "Buy Fair + Subscribe Cheap"

## 1. Early Entrance

As the market is ready to welcome stocks which up until this point had been on the fringe of the investment universe, the name of the game will be watching for new offerings either in the form of equity placement realized by an investment bank in cooperation with company management, or sizeable blocks that can be consolidated by a broker in the process of *skupka* and offered to the market.

Examples can explain this best. The stocks below appeared on the market in the beginning of 2005 and ignited continuous growth through the year. Both were investors' darlings, outperforming the PFTS index several times:

**MZVM (blue) vs PFTS (red)**



**PGOK (blue) vs PFTS (red)**



If shares originally reach the market during *skupka* they are bought from employees at attractive prices (as they received those shares for free during privatization) and investors simply are given the chance to reap immediate benefits of appreciation of a fundamentally attractive asset which before that was not available to the market.

On the other hand, when the blocks come to the market in cooperation with the management it will not be "dirt cheap" but will rather provide a longer-horizon investment opportunity, giving exposure to an attractive segment or as pre-IPO investment. Galnaftogaz was a good example.

In 2006, the sectors most promising in terms of early entrance opportunities are: machine building, consumer goods, food and retail.

## 2. Transparency Arbitrage

The phrase is used rather liberally but we like it. While not always obvious from the analysis of annual reports, insight into interim financials helps detect improved financial disclosure by certain companies and act before the market realizes this fact.

Specifically, comparison of 9-month operating results for a series of years reveals remarkable improvement in financial disclosure for a group of companies. Two major factors triggered the process of better disclosure / improved corporate governance - pressure from the government after the "orange revolution" (especially during Yulia Timoshenko's term as PM), and desire to tap capital markets for financing (many companies target IPOs).

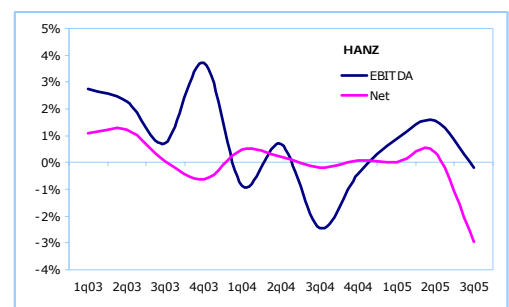
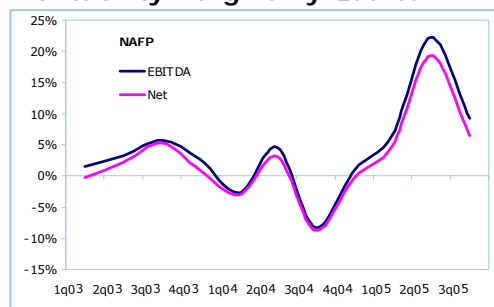
In several industries we find spectacular examples of transparency turnaround:

	9MO3			9MO4			9MO5		
	Sales	Net Inc	Net mgn	Sales	Net Inc	Net mgn	Sales	Net Inc	Net mgn
<b>STEEL</b>									
AZST	706.9	37.2	5.3%	1 172.2	99.8	8.5%	1 797.5	131.7	7.3%
KSTL	1 057.1	146.4	13.8%	1 376.8	287.3	20.9%	1 596.4	203.1	12.7%
MMKI	1 096.5	120.4	11.0%	1 849.3	253.2	13.7%	2 121.5	223.8	10.5%
ZPST	655.2	70.7	10.8%	930.1	91.3	9.8%	1 171.6	100.3	8.6%
ALMK	345.1	-8.3	-2.4%	564.3	6.8	1.2%	720.9	61.5	8.5%
<b>IRON ORE</b>									
PGZK	118.7	16.4	13.8%	117.5	-43.0	-36.6%	180.1	3.8	2.1%
PGOK	148.6	1.1	0.7%	197.8	10.3	5.2%	341.5	54.7	16.0%
SUBA	24.4	1.4	5.6%	20.9	-1.5	-7.3%	39.1	6.1	15.5%
CGOK	73.0	1.3	1.8%	111.0	23.7	21.4%	355.6	75.3	21.2%
SGOK	108.1	8.9	8.2%	239.8	37.7	15.7%	771.7	210.1	27.2%
<b>PIPES</b>									
NITR	232.0	1.1	0.5%	345.4	6.9	2.0%	467.7	58.3	12.5%
HRTR	49.6	0.8	1.6%	81.9	1.2	1.4%	183.7	20.7	11.3%
NVTR	62.0	0.0	0.0%	85.8	0.9	1.1%	93.9	1.0	1.1%
DTRZ	36.3	-0.7	-1.9%	56.8	0.1	0.2%	102.1	0.1	0.1%

In the steel industry Alchevsk, part of the IUD business group, increased margins from close to zero up to 9%, in contrast to other steel producers whose profitability was lower than a year ago. Most GOKs substantially improved disclosure. Especially in the pipe industry the change has been impressive - at Nyzhnyodniprovsky and Khartsyzky pipe plants as contrast to Novomoskovsky and Dnipropetrovsky.

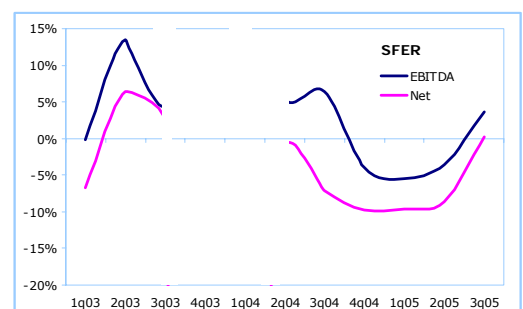
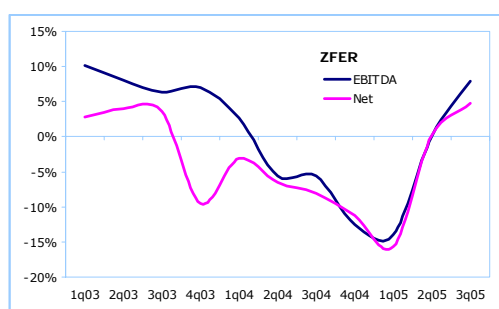
Naftokhimik Prykarpattya, PRIVAT's company, improved financial disclosure in 2005. Galychina was acquired by PRIVAT this year. Watch if HANZ's disclosure will improve as well.

### Profitability Margins By Quarter



Source: Company data

PRIVAT has two assets in the ferroalloy industry (chart below). Is their 2005 improvement sustainable? **WATCH** for confirmation.



Note: SFER was idle in 4Q03-1Q04



Our approach is to model transparent/obscure scenarios and weigh them according to our understanding of relative probability, to arrive at a target price. If the procedure results in an upside we refer to the stock as being cheap on a “*profit after stealing*” basis. This is the case with MZVM. Please refer to our report from 21 Sep 2005 for details.

### 3. Pre-IPO

#### IPO monitor

Company	Sector	expected	\$-size estimate
Mironovsky Khleboproduct	Food	2006	USD 200 mln
KP media	Media, publishing	2H2006	
Furshet	Retail chain	2H2006...2007	
KRAZ Industries	Machine building	4Q2006...2007	
Poltavsky GOK	Iron ore	2007	USD 150 mln
Stirol	Chemicals	2007 /on hold	USD 100 mln
Galnaftogaz	Oil retail	2007	USD 100 mln
Image Holding	Alcoholic beverages	2007	
Soyuz-Victan	Alcoholic beverages	2H2007	
Velyka Kishenya	Retail chain	2H2007	
SCM-Energy	Energy	2007	
Istil	Steel	2008	USD 120 mln
IUD	Steel	2008	USD 500 mln

Source: Companies, Concorde estimates

The companies on the list have officially announced their IPO aspirations. Many others have programs but are being tight lipped.

We would not be surprised to see more than one Public Offering from SCM. So far they have only declared their plans to place a holding which consolidates their assets in the energy sector (power generation, distribution and coal mining facilities) on international stock exchanges. At the same time another holding was created to consolidate SCM's assets in metals/mining. There could be good news in the telecom sector as well, where SCM is building up a holding that includes mobile and fixed-line operators. SCM is even eyeing Ukrtelecom which is expected to be privatized this year.

IUD's IPO plans is good news for ALMK and ALKZ which are going to become part of the holding.

It is possible PRIVAT could pull off an IPO for its electricity holding if they win the corporate conflict against Grigorishin.

### 4. “Buy Fair + Subscribe Cheap”

Specifics of Ukrainian legislation make it possible to make use of opportunities to participate in otherwise dilutive share issues. If you are already a shareholder, participation in the subscription for additional shares, warranted on a pro-rata basis, will reduce average cost of your investment. Often it is an instrument for the owner to conduct an equity placement.

Share issues at nominal price are a Ukrainian tradition. According to the current legislation, emission proceeds in excess of par value can lead to tax obligations for the issuer. Therefore, Ukrainian companies prefer to make very large share issuances at prices below market rather than small emissions at market price. This gives shareholders an opportunity to effectively reduce average cost of their shares by subscribing for cheap shares pro rata.

The recent example of Pivdenny GOK (PGZK) demonstrates the idea. We reproduce a fragment of our report from 9 March, 2006 with the results of subscription analysis. The simulation employs market price for PGZK as of the date of the report (USD 0.23) and requires modification as the market price fell since then. The reproduction is for illustration only.

The share issue is conducted at par, which is USD 0.05 per share – 78% below the market price. Other things held constant, under the efficient market assumption, the price for the stock would accommodate to the new number of shares by falling from USD 0.23 to USD 0.11 per share and the target would be adjusted from USD 0.33 to USD 0.14. It takes some math to make a decision on participation in the subscription or selling stock to fix profit. Understanding that the market will not adjust to the increased number of shares in perfect accordance with any definite formulae, we nevertheless simulated what return investors can expect on their investment into PGZK depending on the price they bought their shares at.

Stock purchased	Expected upside to weighted cost of purchase			
	Current return	No share issue	Share issue conducted	
		Current upside	Adjusted, with subscription	Adjusted, w/o subscription
@, USD	Market price = USD 0.23	Target price = USD 0.33	Adj. target price=USD 0.14	
0.07	229%	376%	156%	106%
0.09	156%	270%	129%	60%
0.11	109%	203%	107%	31%
<b>0.13</b>	<b>77%</b>	<b>156%</b>	<b>89%</b>	<b>11%</b>
0.15	53%	122%	74%	-4%
0.17	35%	96%	61%	-15%
0.19	21%	75%	50%	-24%
0.21	10%	59%	40%	-31%
0.23	0%	45%	31%	-37%

Source: Concorde Capital

If investor originally acquired shares at USD 0.11 he is indifferent as to selling stock or participating in the subscription (his upside would not change). With his original purchase price below USD 0.11 his holding period return is higher than the upside he/she can count on after subscription. Investor would be better off selling the stock. With original price above USD 0.13 investor should subscribe to upgrade his/her upside.

## THE HUMDRUM LIFE OF BIG BUSINESS

After a problematic first half of 2005, life for big business stabilized with Yushchenko's dismissal of the government, signing a memorandum with Yanukovich and round table meeting with the 20 most influential representatives of big business. Below is the guest list:

Name	Assets	industries
Rinat Akhmetov	SCM	Metals, mining, energy, telecoms, machinery
Vyacheslav Boguslaev	Motor Sich	Machine-building
Vladimir Bojko	Mariupol Illicha Steel	Steel
Vitaly Gajduk	IUD	Metals, coke, machine-building
Andrey Kluev	Ukrpodshipnik group	Machine-building, coal, metals
Igor Kolomojsky	PRIVAT group	Oil&gas, metals, mining, banking
Valentin Landyk	Nord group	Machine-building
Viktor Pinchuk	Interpipe	Steel, pipes, media,
Vladimir Polyachenko	Kievgorstroj	Construction
Alexej Poroshenko	Concern Ukrprominvest	Confectionary, Auto, shipyards
Georgy Skudar	Closed JSC Novokramatorsky	Machine-building
Alexander Slobodyan	Closed JSC Obolon	Brewery
Grigory Surkis	Concern Slavutich/ FC Dynamo	Electricity utilities
Eugene Utkin	Kvazar-Micro	IT
Valery Khoroshkovsky	TV Inter, Merks	Media, Consumer durables
Eduard Shifrin	Zaporizhstal	Steel
Nikolay Yankovsky	Stirol	Chemicals
Alexander Yaroslavsky	UkrSib	Banking, chemicals, construction materials
Konstantin Zhevago	Finance&Credit group	Mach.-build, iron ore, pharma, chem

### Business Groups Activity Monitor

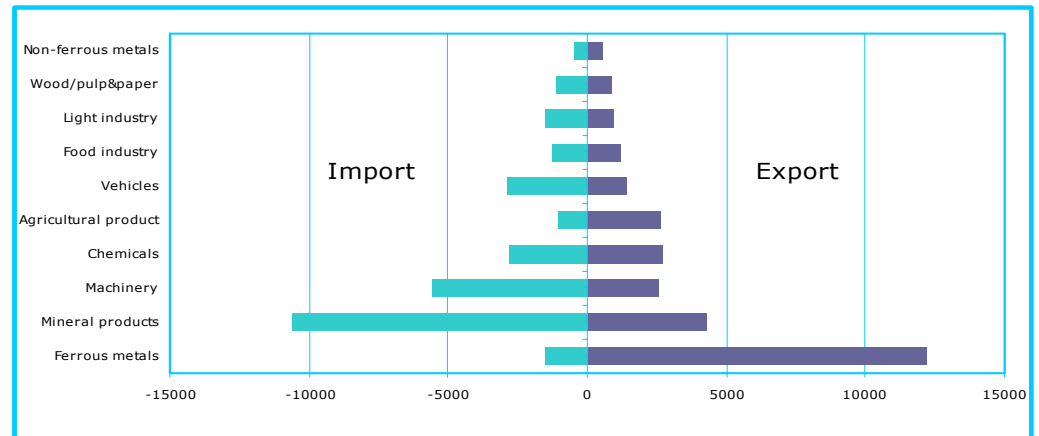
PRIVAT	<ul style="list-style-type: none"> <li>Accumulating assets in oil - virtual creation of vertically integrated oils business;</li> <li>Overseas acquisitions in metals, fight for NFER;</li> <li>Fighting for control in Oblenergos with Grigorishin</li> </ul>
SCM	<ul style="list-style-type: none"> <li>Structuring business into holdings,</li> <li>IPO plans in energy segment announced;</li> <li>acquisitions in machine-building;</li> <li>consolidation in telecoms</li> </ul>
IUD	<ul style="list-style-type: none"> <li>structuring business to achieve vertical integration in steel making;</li> <li>watching for acquisition targets in steel abroad</li> <li>IPO plans announced</li> </ul>
Interpipe	<ul style="list-style-type: none"> <li>Exit from banking (Ukrsotsbank);</li> <li>Changing angle from manufacturing to service - media business, real estate</li> </ul>
UkrSib	<ul style="list-style-type: none"> <li>Selling assets (Ukrsibbank, machine-building);</li> <li>assets in chemicals for sale in mid-term</li> </ul>
Finance&Credit	<ul style="list-style-type: none"> <li>Creation of a machine-building holding (→ IPO)</li> <li>PGOK development, IPO possible</li> <li>Steel mill construction</li> </ul>

# A FEW RISKS WORTH MENTIONING

## Macro challenges

The chart below leaves no guessing what the major risks for the Ukrainian economy are – dependency on imported natural gas and oil, and export that leans heavily on steel.

Ukraine's External Trade, 11m2005, USD mln

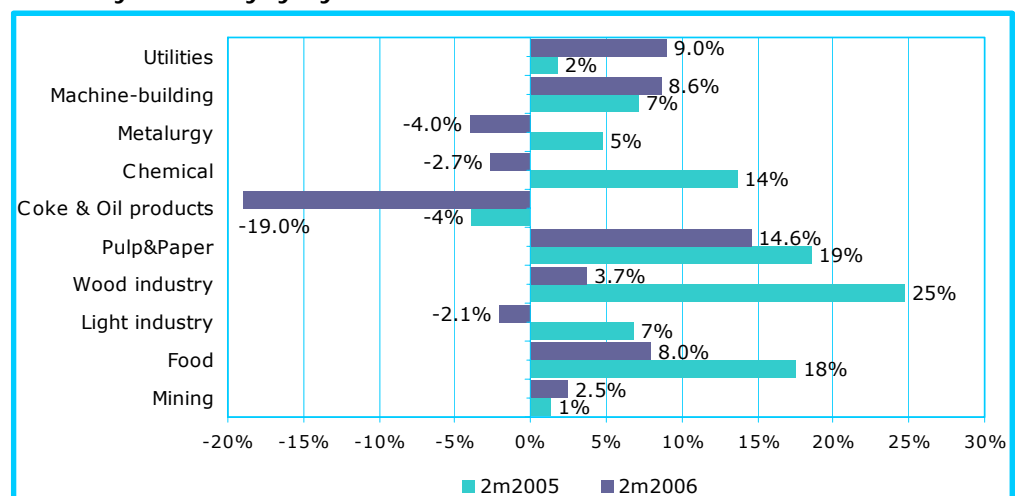


Source: State Statistics Committee

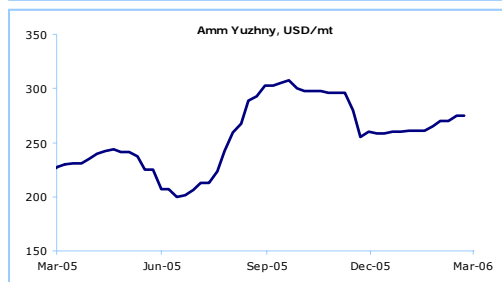
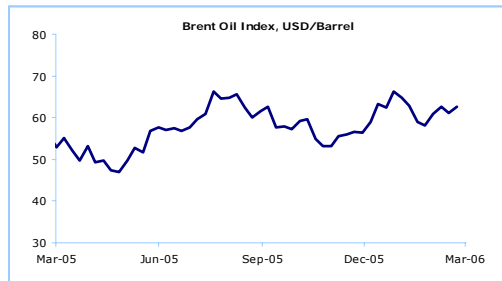
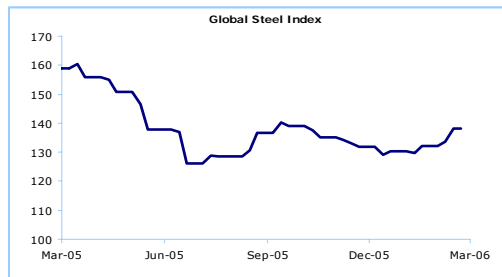
Unfortunately, both factors are in play simultaneously now: the slowdown in global steel markets and the end of cheap gas imports. Since January, Ukraine has had to adjust to living with higher gas prices. A 60% hike in gas prices is obviously only the beginning. In the long term this will force the economy to be more energy efficient. However, the immediate effect will cause serious problems to certain sectors of economy. Producers of nitrogen fertilizers and the steel industry are exposed the most. The main problem is that the global steel boom has gone cold leaving Ukrainian smelters with only memories about high profits. The steel industry is the major currency deliverer to the country. Thus the economy is bound by two constraints: on both the earning and cost side.

The first two-month results are anything but good for the steel and chemical sectors: contraction compared to first months of the previous year, the year that itself marked a serious deceleration of the economy.

Industry Growth yoy By Sector

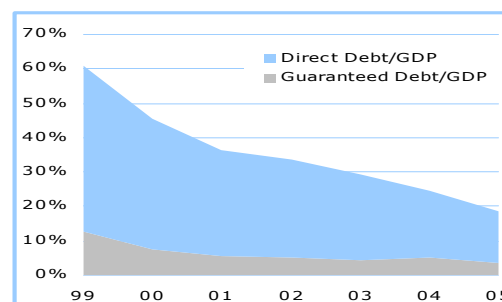
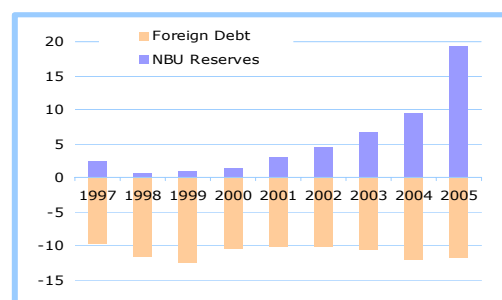
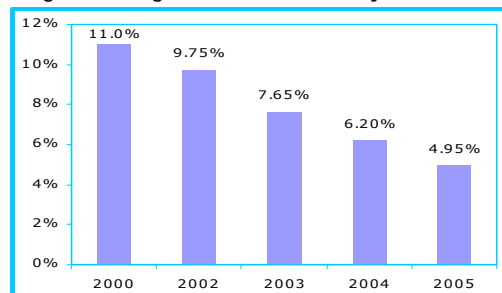


Source: State Statistics Committee



Source: Bloomberg

Weighted Average Eurobond Placement yields



Source: National Bank of Ukraine, Ministry of Finance

There is good news, however. Machine building, food and pulp & paper have demonstrated sound growth in the beginning of the year. Machine building is growing even faster than the previous year. (We are cautious about a 9% rate for utilities, which was mainly due to the exceptionally frosty and extended winter season, and is not sustainable). Fortunately the share of the three growth leaders in total industry production is the same as chemicals and metallurgy. We will see to what extent they will manage to off-set the cool-down in steel and fertilizer segments.

It looks like Ukraine now can make use of the strong financial position it has built up over years:

**Low leverage** of the national economy. Since 1999, the ratio of the state's debt to GDP has exhibited a steady downward trend, away from a 60% Maastricht criteria for EU candidate countries. Leaving the country with plenty of capacity to assume debt for its infrastructural programs or to cover the budget deficit. Recently the Ministry of Finance announced plans to start placements of domestic bonds with very long maturity. Previously the majority of government bonds had a 1-3 year maturity with a few exceptions of 5-year bonds.

**Low cost external borrowings.**

Ukraine has halved the weighted average cost of external borrowings since 2000 to an economically attractive level.

**Substantial NBU reserves.**

The National Bank has raised its international reserves to a historical peak of USD 16.3 bln. The resources are sufficient to keep the national currency stable and cover a six-month import volume that is twice as high as the IMF required level for three months.

**Ukraine's Economic Indicators**

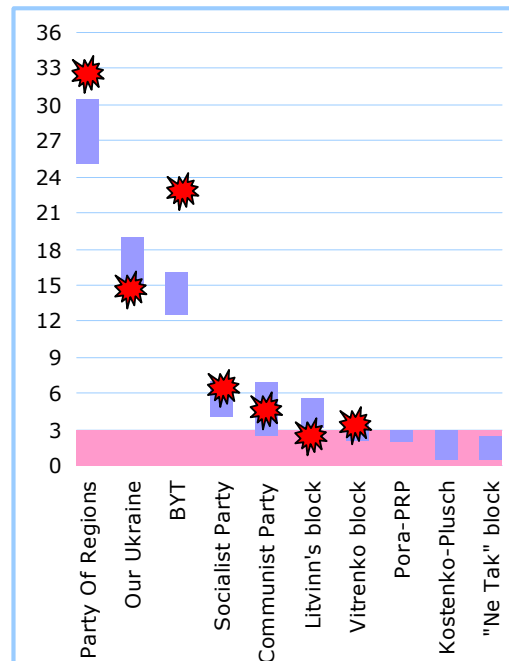
	2000	2001	2002	2003	2004	2005	2006E
<b>Real Indicators</b>							
GDP real growth, %	5.9	9.2	5.2	9.4	12.1	2.6	3.0
Nominal GDP, USD mn	31262	38009	42393	49537	65039	81744	110354
Industrial output growth	12.4	14.2	7.0	15.7	12.5	3.1	4.0
Capital Investments Growth, %	14.4	20.8	8.9	31.3	28.0	3.4*	8.0
CPI (eop), %	25.8	6.1	-0.6	8.2	12.3	10.3	10.0
PPI (eop), %	20.8	0.9	5.7	11.1	24.1	9.5	13.0
<b>Foreign economic activity</b>							
FDI annual, USD mn	593	680	917	1323	2253	7328	2500
FDI (Cumulative since 1991), USD mn	3875	4555	5472	6794	9047	16375	18875
Current Account Balance, % GDP	4.6	3.7	7.5	5.9	10.5	8.6**	1.0
Total Exports, USD mn	19248	19809	22012	27328	37980	40421	42442
Export Growth, %	17.9%	2.9%	11.1%	24.2%	39.0%	6.4%	5.0%
Total Imports, USD mn	18166	16924	18164	24409	31004	39052	48815
Import Growth, %	19.2%	-6.8%	7.3%	34.4%	27.0%	26.0%	25.0%
Trade Balance, USD mn	1082	2885	3848	2919	6976	1369	-6373
<b>Debt</b>							
Total Public Debt, USD mn	14173	14085	14202	14543	16096	15474	17474
Total Public Debt, %GDP	45.3	37.1	33.5	29.4	24.7	18.9	15.8
NBU Reserves, USD mn	1475	3089	4417	6940	9525	19395	14000
<b>Social indicators</b>							
Population, mn	48.9	48.5	48.0	47.6	47.4	46.9	46.5
Unemployment (ILO)	11.7	11.1	10.1	9.1	8.5	8.5	8.5
<b>Monetary indicators</b>							
Monetary Base (M0), USD mn	2353	3623	4963	6211	7681	11764	16116
Broad Money (M2), USD mn	5798	8411	12075	17714	23494	37724	52813
Money Supply (M3), USD mn	5928	8517	12179	17823	23593	37905	53066
Money Supply Growth, %	11.0	43.7	43.0	46.3	32.1	60.7	40.0%
UAH/USD (eop)	5.435	5.299	5.332	5.332	5.31	5.05	5.05
UAH/USD (avg)	5.440	5.372	5.327	5.333	5.32	5.12	5.05
<b>Budget, % GDP</b>							
Revenues	28.9%	26.9%	27.4%	28.5%	26.0%	25.3%	22.4%
Expenses	28.3%	27.2%	26.7%	28.6%	28.9%	27.0%	24.6%
Budget Balance	-0.7%	-0.3%	0.7%	-0.2%	-3.0%	-1.8%	-2.3%

\* 9m2005 results; \*\* expected

## Political Uncertainty, Not The End Of The World

### 2006 Elections: First Impressions

#### Poll results



The elections themselves saw few surprises. According to official exit polls the Party of Regions, which has had a commanding lead in the polls since coming back from death's door after the firing of the Tymoshenko government and the Yanukovich-Yushchenko memorandum, finished with roughly 33%. A minor surprise was the Tymoshenko block in second with almost 23%. The President's party, Our Ukraine (O.U.), stumbled in with 13.5%. Strange how differently pre-election opinion polls (blue ranges in the chart) erred on the part of Our Ukraine on the one side and their opponents, Regions and BYT, on the other? From the second tier the Socialists 5.4%, Communists 3.5% and the Natailia Vitrenko Block 3.4% all seem likely to overcome the 3% barrier and will be selling their votes to the big three. In any case, the new political reforms make the coalition process more important than the elections.

#### Political Reform or Pandora's Box?

On January 1, 2006 Ukraine switched from a presidential-parliamentary to a parliamentary-presidential republic – the result of a political compromise that helped unlock the revolutionary situation in December 2004. Before at least 50% of the parliament was elected on a majority basis, now voters vote exclusively for a political party. The deputies elected to the Rada will now serve a five instead of four-year term and form the government. Most important – the powers of the President were diminished and the prime minister becomes a key figure, which made the Parliamentary elections on March 26 extremely important as they effectively weaken the powers of the President.

#### A Brief Look At Ukraine's Big 3:

**The Party Of Regions.** The party has gone through a radical transformation since 1H05, when Yushchenko's firing of the Tymoshenko government brought the party back from the dead. The party claims to have European integration as a long term goal, but is for closer ties with Russia until then. Regions main platforms are the simplification of taxes, especially for large businesses and several populist measures. The party's business oriented nature could improve the effectiveness of the Rada.

**Our Ukraine.** The President's Party has found life at the top more difficult than they thought it would be. However, the party's ability to make deals and find compromises has kept it afloat in the past, and Our Ukraine has no choice but to be the most flexible party as it came in third. O.U. has already said it is waiting for coalition proposals from BYT. Our Ukraine's personal agendas tend to divide and consume a great deal of the party's energy. Several high ranking party members are allegedly connected to the shady RusUkrenergo gas deal which up until now had been hindering the formation of an 'orange' coalition.

**The Yulia Tymoshenko Block.** For the most part with BYT you get Tymoshenko and that is it. Her supporting cast is weaker than the other two parties. However, this may serve as her block's advantage, unlike Regions or Our Ukraine, BYT seems to have no internal power struggles. Tymoshenko has made no secret of her wish to crush corruption and to knock big business down a peg by whatever methods

necessary. During her reign as PM Tymoshenko was considered very populist, however, she has pointed out that she was only fulfilling the President's campaign promises. We think, if she takes PM seat, the country will be in for some shock therapy – meaning very non-populist decisions.

## Government Building - Possible Coalitions

**Operation Orange.** (Probability: High) After the results of the exit polls were announced Yulia Tymoshenko said her party would begin meetings immediately to form a new 'orange' coalition with Our Ukraine and the Socialists giving them ~229 seats (226 are need for a simple majority) according to most exit polls. Earlier the parties were able to agree that whoever got the most votes would name the PM. Now the other sticking point, the current gas agreement with Russia which Yushchenko to this point has refused to abandon might be the last remaining hurdle. However, this could be a shaky union, and this lack of stability will be preyed on by a more unified and powerful Party of Regions.

**The Judas Theory.** (Probability: Medium) Regions are extremely flexible ideologically and Our Ukraine is known for its ability to reach political compromises, however, BYT's strong showing and Our Ukraine's let down at the polls make the possibility of Regions enticing Our Ukraine to work with them less likely. BYT's hostile attitude towards Regions makes a union almost impossible.

**Let's Do It All Again.** (Probability: Not Likely) It's important to remember that under the current legislation, if the new Rada fails to form a coalition within one month or elect a Prime Minister one month after that Yushchenko can fire the Rada and call new elections. Yushchenko and his party are gunning to turn back the legally questionable constitutional changes limiting his powers and this may be one tool he could use to help obtain this goal. However as things stand now it looks as though compromises will be found.

## A New Government Or A House Of Cards?

Ukraine is now in uncharted waters. The amendments to the constitution were drawn up quickly and contain several contradictions, meaning that the new government will be built on unstable ground. The President still has the power to nominate people for the post of Prime Minister, Defense Minister and Foreign Minister, but final say rests with the Rada. The new laws also make it nearly impossible for individual deputies to vote against the will of their party.

After the formation of the government the Rada will still have the power to disband it if it is able to muster a 2/3 majority. There are no laws requiring the coalitions to vote as a block once the government is formed. Therefore, it will be possible for one coalition to form a government which would work until there is a disagreement in the coalition. At which time, one party could split off, team up with other factions in the Rada, and sack the government. On the positive side, overall the 'orange' pro-western integration parties have the largest number of seats, which likely means any government that attempts to turn back Ukraine's European course is likely to be handed its walking papers.



## Back To Work?

The 'orange' parties look likely to work together and put Yulia Tymoshenko back in the PM seat, however the long term stability of this government is questionable. With Regions breathing down its neck it is likely that this coalition will not last. The larger presence of Regions in the Rada means there will be a stronger big business lobby; this could mean simplified taxes and an improved business environment in the country. However, Tymoshenko as PM looks like bad news for Pinchuk companies.

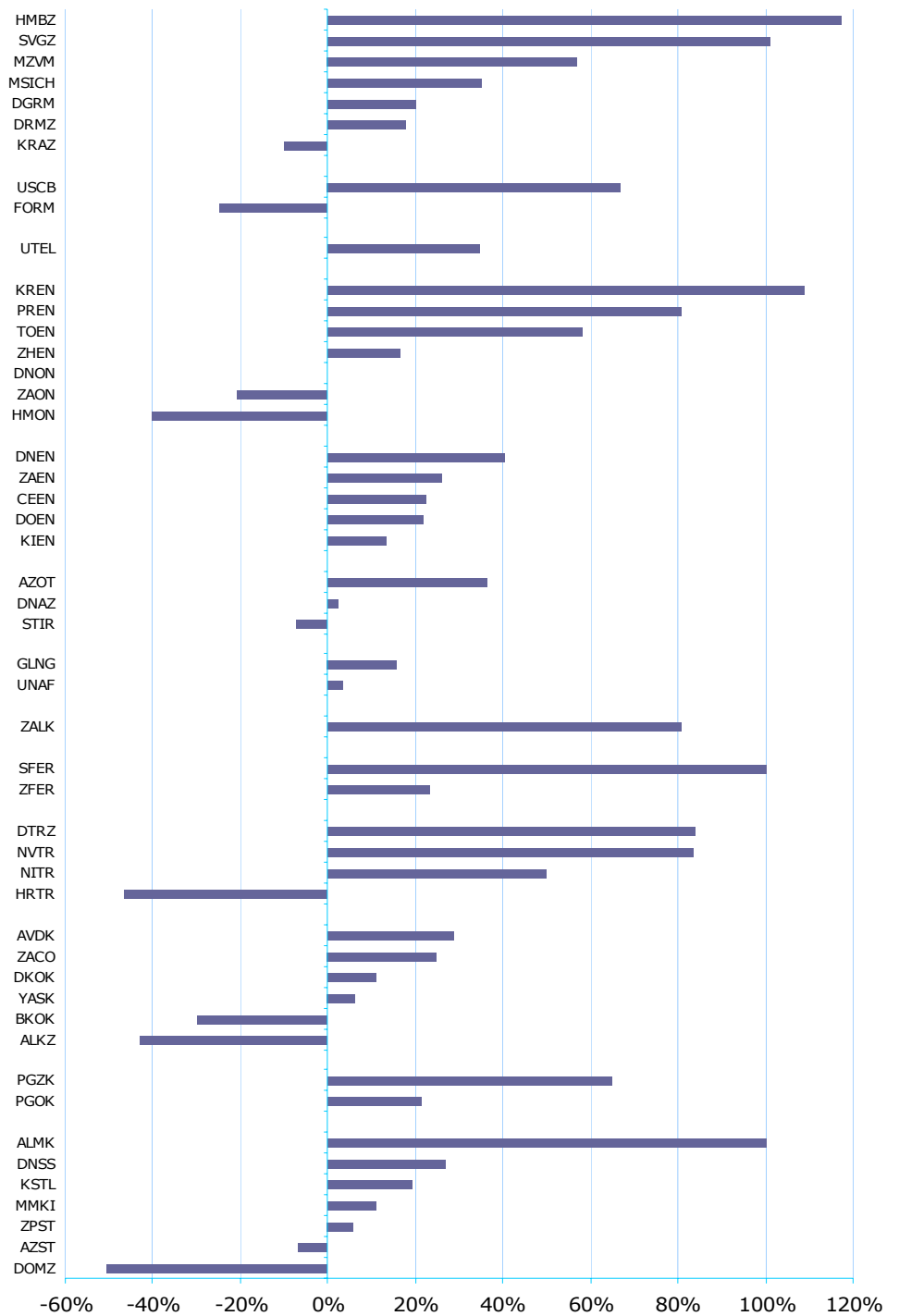
### **Important Drivers To Watch:**

- UTEL privatization
- Electricity sector reform
- Adoption of the new law on Securities which has already passed the second reading
- Implementation of the governmental strategic program of Energy Development

## UKRAINIAN STOCKS: OUR PICKS

MZVM	Major producer of freight carriages and equipment for metallurgy; Strong demand from Ukraine and Russia in both segments; The stock is a market darling, though we are still waiting for transparency to materialize
NITR	The 2 <sup>nd</sup> largest pipe-maker in Ukraine. One of the three producers of rail wheels and rims in the CIS. In-house smelting capacities; Investment program will replace open hearth with EAF by 2009; Export to Russia not subject to duties, strong lobby in Russia; Improving financial disclosure
AZOT	Diversification into caprolactam (with relatively low gas share in costs) helps smooth the impact of the gas price hike; Fresh stock on the market, cheap
DNSS	One of two Ukrainian EAF steel producers (not reliant on gas); Monopoly producer of specialty steels in Ukraine, limited competition; Transparent financials
UTEL	Pre-privatization activity adds value to the company; Re-entering the mobile segment can begin as early as end of this year; We expect premium valuations at privatization
DTRZ	"dirt cheap" by EV/Sales, EV/Output, though P&L is manipulated; IUD's IPO in the mid-term will help improve transparency; Fastest production growth among Ukraine's pipe makers in 2005: 32% Diversified away from oil & gas
DRMZ	Monopoly producer of power supports for coal mines; Stable customer base due to relation to SCM which hold three coal mines, including the largest one in Ukraine; Strategic Energy program of the Government foresees the state's help in re-equipment and launch of new coal mines
USCB	Banca Intesa will buy out shares from minorities at acquisition price (which was so far the highest one paid for Ukrainian banks); Ukraine's #4 in asset terms, low-cost deposit base, Eurobonds outstanding; Growth to be sustained by focus on high-return retail
SFER	The only Ukrainian ferroalloy producer that increased output in 2005. 28% yoy; Launched new product - SiMn, which demands less electricity, thus offsetting electricity tariff increases in 2005; We have observed less transfer pricing since 2005 and are hoping for transparency turnaround
SVGZ	Producer of railway carriages - Russia and Ukraine to replace up to 80% of their ragged freight fleets; Will benefit from becoming a part of the machine-building holding which is being created now by the new owner, Finance & Credit group
KIEN	Changing mode of operations to buy electricity from wholesale market will improve profitability; Though 100% gas-fueled, costs from the gas price hike are carried by consumers; Risks of asset split overestimated
ZAEN	The sole exporter among GenCos, which keeps up capacity load Individual export license expected in 2006 - a profitability booster, if granted
AVDK	The largest coke producer in Ukraine (market share 19%); Access to cheap coking coal through its major shareholder SCM
PGZK	Ukraine's largest sinter producer among ore extractors; Transfer pricing was a major concern but is fading; We believe that the current instability around the company is artificial - to help conduct a share issue increasing charter fund three-fold
ZAKO	Ukraine's only coke maker without transfer pricing; Share in total Ukrainian coke output - 10%; Likely acquisition target by Zaporizhstal (ZPST accounts for 55% of their sales)

## Upside Panel



Source: Concorde Capital estimates, PFTS

# STOCK UNIVERSE

Ticker	Rec'	Upside	Target USD	Mkt Pr USD	Price Impact	MCap USD mn	EV USD mn	FF % USD mn	Sales 2005E	2006E	EBITDA 2005E	2006E	Net Income 2005E	2006E	P/S 2005E	2006E	EV/EBITDA 2005E	2006E	P/E 2005E	2006E		
<b>STEEL</b>																						
Azovstal	AZST	Hold	-7%	0.55	0.59	2	1,872.8	1,980.8	4%	74.9	2,420.2	2,236.0	378.7	316.0	226.9	185.0	0.77	0.84	5.23	6.27	8.26	10.12
Mittal Steel Kryvyi Rig	KSTL	Buy	19%	0.93	0.78	2	3,010.4	2,635.4	5%	150.5	2,189.6	1,935.0	488.9	484.0	278.6	289.0	1.37	1.56	5.39	5.45	10.81	10.42
Mariupol Illich	MMKI	Hold	11%	0.80	0.72	2	2,413.2	2,214.2	7%	168.9	2,909.0	2,665.0	531.0	464.6	306.9	267.0	0.83	0.91	4.17	4.77	7.86	9.04
Zaporizhstal	ZPST	Hold	6%	1.30	1.23	2	1,037.7	955.7	4%	41.5	1,556.0	1,411.0	251.0	201.6	149.0	94.0	0.67	0.74	3.81	4.94	6.96	11.04
Alchevsk Iron & Steel	ALMK	Buy	100%	0.08	0.04	3	431.0	548.0	7%	30.2	988.8	1,071.0	140.9	150.0	84.3	86.0	0.44	0.40	3.89	3.65	5.11	3.65
DniproSpetsStal	DNSS	Buy	27%	236.7	186.9	3	200.9	212.2	5%	9.0	467.4	492.3	31.4	49.2	11.3	25.8	0.43	0.41	8.48	5.14	17.82	7.80
Donetsk Metal Plant	DOMZ	Sell	-51%	0.10	0.20	3	73.4	74.5	30%	22.0	322.6	330.0	5.4	7.5	2.1	4.0	0.23	0.22	13.82	9.91	34.43	18.34
<b>MINING &amp; COKE</b>																						
Yuzhny GOK	PGZK	Buy	65%	0.33	0.20	3	428.7	460.7	2%	8.6	248.0	320.0	44.0	65.0	5.5	15.0	1.73	1.34	10.47	7.21	77.95	28.58
Poltavsky GOK	PGOK	Buy	21%	16.0	13.2	2	1,452.0	1,576.2	9%	130.7	678.0	707.2	319.0	333.0	199.0	207.5	2.14	2.05	4.94	4.66	7.30	7.00
Avdiivka Coke	AVDK	Buy	29%	5.5	4.26	2	824.3	1,290.3	15%	123.6	1,245.9	1,220.9	214.4	198.0	137.4	119.0	0.66	0.68	6.02	4.21	6.00	6.93
Alchevsk Coke	ALKZ	Sell	-43%	0.04	0.07	3	210.8	236.6	5%	10.8	140.7	139.4	18.1	21.0	6.1	7.5	1.50	1.51	13.07	11.27	34.56	28.11
Donetsk Coke	DKOK	Hold	11%	0.30	0.27	3	67.1	66.5	8%	5.1	64.7	62.1	13.8	12.0	7.2	6.5	1.04	1.08	4.82	5.54	9.32	10.32
Zaporizh Coke	ZACO	Buy	25%	2.00	1.60	2	190.9	180.9	8%	15.3	348.4	353.8	30.0	32.0	18.3	20.0	0.55	0.54	6.03	5.65	10.43	9.55
Baglykoks	BKOK	Sell	-30%	0.14	0.20	2	136.9	136.9	1%	1.4	134.6	140.0	8.7	9.0	7.1	7.4	1.02	0.98	15.74	15.13	19.28	18.54
Yasinivsky Coke	YASK	Hold	6%	0.50	0.47	2	128.6	128.5	11%	14.1	230.0	240.0	19.0	21.0	10.1	12.0	0.56	0.54	6.76	6.12	12.73	10.72
<b>PIPES</b>																						
Khartsyzk Tube	HRTR	Sell	-47%	0.16	0.30	2	764.6	771.6	3%	22.9	252.0	267.1	49.8	52.8	28.4	30.1	3.03	0.62	15.49	3.25	26.92	5.47
Nyzhnyodniprovsky Pipe	NITR	Buy	50%	18.0	12.0	2	646.6	686.5	21%	135.8	641.5	735.5	125.2	144.0	80.0	94.0	1.01	0.88	5.49	4.77	8.08	6.88
Dnipropetrovsk Pipe	DTRZ	Buy	84%	86.7	47.1	2	49.8	55.1	5%	2.4	138.2	135.4	3.1	15.3	0.3	8.1	0.36	0.37	17.76	3.96	165.85	6.14
Novomoskovsk Pipe	NVTR	Buy	83%	11.0	6.0	2	72.0	74.5	15%	10.8	128.8	157.0	5.7	17.6	1.4	10.3	0.56	0.46	13.03	4.23	51.8	6.99
<b>FERROALLOYS</b>																						
Nikopol Ferroalloy	NFER	U/R	Pend'g	1.35	2	409.8	413.8	2%	8.2	480.0	550.0	15.4	38.5	0.0	16.5	0.85	0.75	26.87	10.70	n/m	24.80	
Zaporizhzhya Ferroalloy	ZFER	Buy	23%	0.16	0.13	3	296.3	321.3	8%	23.7	274.3	332.6	-19.2	49.7	-28.5	27.6	1.08	0.89	neg	6.57	neg	10.74
Stakhanov Ferroalloy	SFER	Buy	100%	0.006	0.003	2	43.1	73.6	2%	0.9	87.6	127.7	-1.8	10.3	-8.2	1.1	0.49	0.34	neg	8.20	neg	39.20
<b>NON-FERROUS METALS</b>																						
Zaporizhzhya Aluminum	ZALK	Buy	81%	0.30	0.17	2	103.4	193.5	3%	3.1	220.4	230.5	28.4	26.5	5.5	12.00	0.47	0.45	6.82	7.30	18.80	8.60
<b>OIL &amp; GAS</b>																						
Ukrnafta	UNAF	Hold	3%	60.0	58.0	1	3,145.3	3,425.7	8%	251.6	1,271.1	2,287.6	669.4	866.3	388.7	485.9	2.47	1.37	5.12	3.83	8.09	6.47
Galnaftogaz	GLNG	Buy	16%	0.0141	0.0122	2	195.2	233.8	23%	45.7	319.5	389.9	18.2	31.8	7.6	15.1	0.61	0.50	12.82	7.90	25.67	12.93
Galychyna Refinery	HANZ	N/R	Pend'g	0.2	3	212.1	234.7	2%	4.2	296.9	550.5	4.7	9.9	0.1	1.0	0.71	0.39	49.42	23.69	n/m	217.09	
Naftokhimik Prykarpattya	NAFP	N/R	Pend'g	3.0	3	39.0	94.1	6%	2.3	265.1	273.0	30.2	31.1	23.9	24.6	0.15	0.14	3.12	3.03	1.63	1.58	
<b>CHEMICALS</b>																						
Azot Cherkasy	AZOT	Buy	36%	3.0	2.2	2	248.6	253.4	6%	14.9	367.2	362.8	114.7	63.0	77.5	38.7	0.68	0.69	2.21	3.84	3.21	6.42
DniproAzot	DNAZ	Hold	2%	0.005	0.004	3	154.7	175.1	10%	15.5	184.2	173.6	64.9	28.3	39.2	13.1	0.84	0.89	2.70	6.49	3.95	11.85
Stirol	STIR	Hold	-7%	22.3	24.0	1	651.0	529.2	6%	35.8	451.4	418.6	160.1	59.8	110.1	30.2	1.44	1.56	3.31	9.06	5.91	21.56
<b>UTILITIES: GenCos</b>																						
Centrenerg	CEEN	Buy	22%	0.82	0.67	2	247.5	351.0	19%	46.2	352.0	427.0	38.0	44.0	11.0	18.0	0.70	0.58	9.24	7.83	22.50	13.75
Dniproenergo	DNEN	Buy	40%	99.0	70.5	2	276.6	310.4	16%	44.9	385.0	413.0	58.2	69.5	8.1	11.0	0.72	0.67	5.33	4.40	34.15	24.92
Donbasenergo	DOEN	Buy	22%	6.6	5.42	2	128.2	205.1	14%	18.2	251.0	285.0	52.4	51.3	19.0	14.0	0.51	0.45	3.91	4.00	6.74	9.15
Kievenergo	KIEN	Buy	13%	1.7	1.5	2	162.5	224.5	9%	14.6	352.0	373.0	23.6	31.7	9.1	12.0	0.46	0.44	9.51	6.99	17.86	13.55
Zakhidenergo	ZAEN	Buy	26%	34.0	27.0	1	345.3	378.5	30%	103.3	481.4	505.1	23.3	84.5	4.1	39.0	0.72	0.68	16.24	7.99	84.23	8.85
<b>UTILITIES: Oblenergos</b>																						
Dniprooblenergo	DNON	Hold	0%	39.9	40.0	3	239.7	238.7	9%	21.6	814.2	960.8	12.3	13.2	-0.1	1.8	0.29	0.25	19.4	18.2	neg	133.1
Khmelnytskoblenergo	HMKN	Sell	-40%	0.18	0.30	3	40.4	40.9	18%	7.3	57.6	68.0	4.2	4.9	0.6	1.1	0.70	0.59	9.7	8.4	67.3	36.7
Krymenergo	KREN	Buy	109%	0.38	0.18	3	31.5	32.4	25%	7.9	144.5	163.3	7.3	8.1	-0.2	0.4	0.22	0.19	4.4	4.0	neg	78.7
Prikarpatoblenergo	PREN	Buy	81%	0.47	0.26	3	26.9	26.9	13%	3.5	92.5	163.3	3.6	7.6	1.9	2.3	0.29	0.24	3.5	3.5	14.2	11.7
Ternopiloblenergo	TOEN	Buy	58%	0.25	0.16	3	9.7	10.7	8%	0.8	33.5	37.2	3.5	4.1	0.9	1	0.29	0.26	3.0	2.6	10.7	9.7
Zaporizhoblenergo	ZAON	Sell	-21%	0.57	0.72	3	129.1	129.0	10%	12.9	351.2	389.8	4.8	4.7	1.3	1.2	0.37	0.33	26.9	27.4	99.3	107.6
Zhytomiroblenergo	ZHEN	Buy	17%	0.7	0.6	3	73.4	72.9	8%	5.9	70.1	79.2	10.3	10.6	4.0	4.1	1.05	0.93	7.1	6.9	18.4	17.9
<b>TELECOM</b>																						
Ukrtelecom	UTEL	Buy	35%	0.26	0.19	2	3,558.0	3,742.0	3%	106.7	1,242.0	1,438.0	489.0	548.0	193.0	221.0	2.86	2.47	7.65	6.99	18.44	16.10
<b>BANKING</b>																						
Aval	BAVL	U/R	Pend'g	0.09	2	1,405.3	n/a	7%	91.3	291.3	364.1	n/a	n/a	38.9	52.7	4.82	3.86	n/a	n/a	36.1	26.7	
Forum	FORM	Hold	-25%	9.50	12.6	2	466.2	n/a	10%	46.6	42.6	68.8	n/a	n/a	5.7	8.6	10.9	6.8	n/a	n/a	82.5	54.2
Ukrsotsbank	USCB	Buy	88%	0.45	0.27	2	999.0	n/a	5%	50.0	153.6	243.7	n/a	n/a	24.1	43.4	5.2	3.4	n/a	n/a	41.5	23.0
<b>MACHINE BUILDING</b>																						
Motor Sich	MSICH	Buy	35%	115.0	85.0	2	176.6	219.1	5%	8.8	211.0	235.0	36.2	40.0	11.9	14.1	0.84	0.75	6.05	5.48	14.84	12.53
Sunny Frunze	SMASH	U/R	Pend'g	4.6	2	327.0	344.3	25%	81.7	290.0	356.1	30.5	39.2	13.6	17.8	1.13	0.92	11.29	8.79	24.04	18.37	
Turbosatom	TATM	U/R	Pend'g	0.42	2	177.4	153.6	6%	9.8	54.0	61.0	8.3	11.0	4.3	5.5	3.20	2.91	18.51	13.99	41.27	32.32	
Odesa Cable	OCAB	N/R	N/R	0.7	2	39.2	42.0	n/a	n/a	60.7	n/a	8.5	n/a	4.6	n/a	0.65	n/a	8.52	n/a	4.94	n/a	
Mariupol Heavy Machinery	MZVM	Buy	57%	20.7	13.2	2	203.1	250.3	15%	30.5	412.2	474.0	14.8	40.0	2.5	11.5	0.49	0.43	16.91	8.69	81.25	17.66
LutsK Automobile	LUAZ	N/R	N/R	0.11	3	366.1	362.1	8%	30.4													

## SECTOR FOCUS

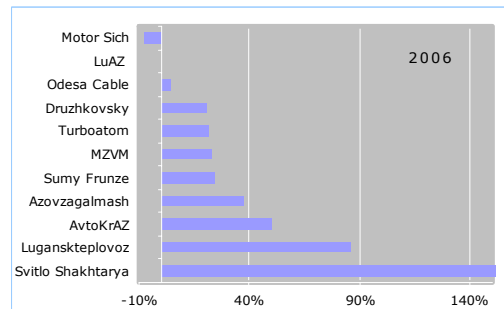
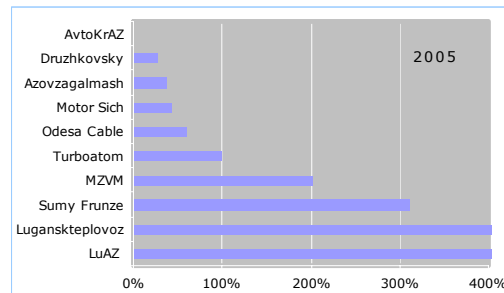
Note: in this section we give total MCap by segment as well as free float available in the Premiere and Second Tiers. We do not necessarily have recommendations and target prices for all the stocks.

We also chart changes in stock prices: for 2005 and 2006 ytd as of 24.03.06. All are calculated on bid prices from the PFTS. Extremes in the range of hundreds or thousands %, caused by illiquidity, are truncated to avoid misrepresentation.

# Machine Building

**SECTOR MCAP: USD 2.0 bln**  
**FF MCAP (Tier1+Tier2): USD 145 mln**

## Change in PFTS Bid Price



We are very bullish about the fundamental attractiveness of this industry. In January-February 2006, on the back of a 0.6% decline in all industry output, machine-building posted a 8.6% yoy growth. Large scale infrastructural projects in oil-rich Russia, urgent need for deep economy-wide modernization in many Ukrainian industries and exposure to developing markets will drive Ukrainian machine-building growth in the mid to long term.

New names are expected to drive the market. Look for companies from the **coal machinery** sector. Backed by a strategic state program to support national coal mining, this sector will see orders from both private and state-owned mines to re-equip depleted mining facilities. Druzhkovsky came to the market last year and will retain momentum. Svitlo Shakhtarya is on the upsurge; however free float, though substantial, is difficult to bring to the

market via *skupka* due to counteraction by the major shareholder. Donetskirmash has been on the PFTS since the beginning of March, Yasynuvatsky is new on the market. **Target MCap:** Yasynuvatsky USD 70 mln, Svitlo Shakhtarya USD 100 mln, Dongirmash USD 30 mln, Druzhkovsky USD 82 mln.

**Low transparency** is the biggest problem for most companies in Ukrainian machine-building. Profit & Loss statements in the sector are highly non-reliable. The companies inflate costs and depress revenues through transfer pricing to show close to zero profitability. Generally, we believe P&L will become more reliable in the mid-term and our approach is to value stocks on a "**cheap after stealing**" basis. Note that last year's market darling, MZVM, was also valued on this assumption and that the market seems to support our optimism. Our recommendation is - **monitor interim reporting on a quarterly basis to identify positive changes early.**

**MZVM.** One of our favorites, will benefit from the large-scale renovation of Ukraine and Russia's fleets of railway carriages, 80% of which need to be replaced. Another source of growth is the imminent large-scale refurbishment of the Ukrainian steel industry caused by the higher gas price environment. The state will sell a 11% block of MZVM at an auction in the near future. Originally the auction was planned for March, 29<sup>th</sup> on one of the regional stock exchanges. However it was postponed formally to conduct the valuation of the stock. Informally, we think it has to do with SCM's strong interest in the block and their behind-the-scenes talks with the State Property Fund.

**INDUSTRY INTEGRATION** looks like all the rave. Last year ANTONOV corporation was created, combining four Ukrainian plane-makers, to strengthen the competitive power of Ukrainian aviation. **Motor Sich** (MSICH) will definitely benefit, as new orders for Antonov-148 engines will help mitigate Russia's recent threats to stop buying Ukrainian helicopter engines. Though we do not believe that starting its own serial production of helicopter engines is economically feasible for Russia, Motor Sich will be increasingly looking into other markets to offset its over-dependence on one country. In particular, MSICH views the Chinese market as an interesting target. An order from NATO for use of Ukraine-made An-124-100 Ruslan planes for strategic transportation purposes raised the issue of reviving the production of super-heavy carrying cargo planes, including Ruslan and Mriya (An-224), engines for which are also made by Motor Sich.

**State corporation in turbine production** is another integration project being mulled over by the state. The government announced their plan to combine several wholly state-owned enterprises into a legal structure with the working name "Ukrenergomash." Turboatom would be the core asset of this structure. However, 25% of the company is in hands of private investors, so the future of the undertaking is not clear. Even less clear is the privatization of Turboatom. At this point there is not too much clarity about the corporation - and it remains to be seen whether Turboatom would be better off alone or in the new structure.

**KRAZ INDUSTRIES** is a private integration project and seems to have more direction than the state's turbine plan. Finance&Credit bank, the center of a business group has announced plans to create a machine-building holding. The core asset will be AvtoKrAZ holding (heavy-duty trucks). Other participants: Stakhanov Wagon Works (train carriages), Uzhgorod Turbogas (gas power station equipment), Berdychiv Progres (chemical, mining filters) and the shipyards - Zaliv, Kyiv Shipbuilding & Repair. Production of most of the companies is heavily steel-consuming. A holding structure will help optimize costs (estimated economy of 6% on steel purchases). The creation of the holding is good news for AvtoKrAZ but the company is clearly overvalued at current levels. On the other hand, the holding may be a big booster for Stakhanov Wagon Works shares.

#### INDUSTRY MULTIPLES:

##### Power equipment

	EV/S		EV/EBITDA		P/E	
	2005E	2006E	2005E	2006E	2005E	2006E
TATM	2.8	2.7	18.5	4.0	41.3	32.3
SMASH	1.1	1.3	11.3	8.8	24.0	18.4
MSICH	1.1	1.0	6.2	5.6	14.8	12.5
World Peer Average	1.3	1.1	10.7	9.2	25.8	21.0

##### Coal machinery

	EV/S		EV/EBITDA		P/E	
	2005E	2006E	2005E	2006E	2005E	2006E
DRMZ	1.2	0.8	12.8	10.2	33.6	27.1
DGRM	1.2	1.0	28.7	15.4	125.0	16.7
HMBZ	0.9	0.8	3.4	2.9	5.7	6.0
World Peer Average	1.8	1.6	9.0	7.8	16.1	13.7

##### Railroad machinery

	EV/S		EV/EBITDA		P/E	
	2005E	2006E	2005E	2006E	2005E	2006E
MZVM	0.6	0.5	16.9	8.7	81.3	17.7
AZGM	0.7	0.5	12.3	6.9	30.9	15.0
SVGZ	0.5	0.4	30.4	6.3	neg	13.8
LTPL	1.8	0.6	36.9	5.3	neg	10.2
World Peer Average	1.1	1.0	14.3	10.2	50.4	30.7

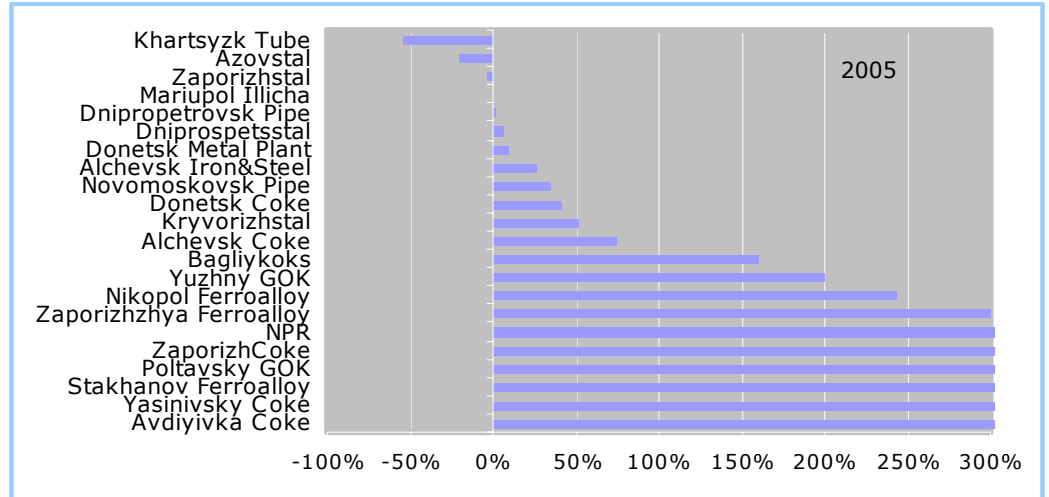
##### Automotive

	EV/S		EV/EBITDA		P/E	
	2005E	2006E	2005E	2006E	2005E	2006E
KRAZ	1.4	1.1	7.9	6.5	11.1	8.1
LuAZ	1.9	1.0	9.6	6.2	11.6	8.7
Developed Markets Avg	0.8	0.7	6.8	6.5	11.8	11.8
EM Average	1.1	1.0	8.3	7.7	18.1	16.8

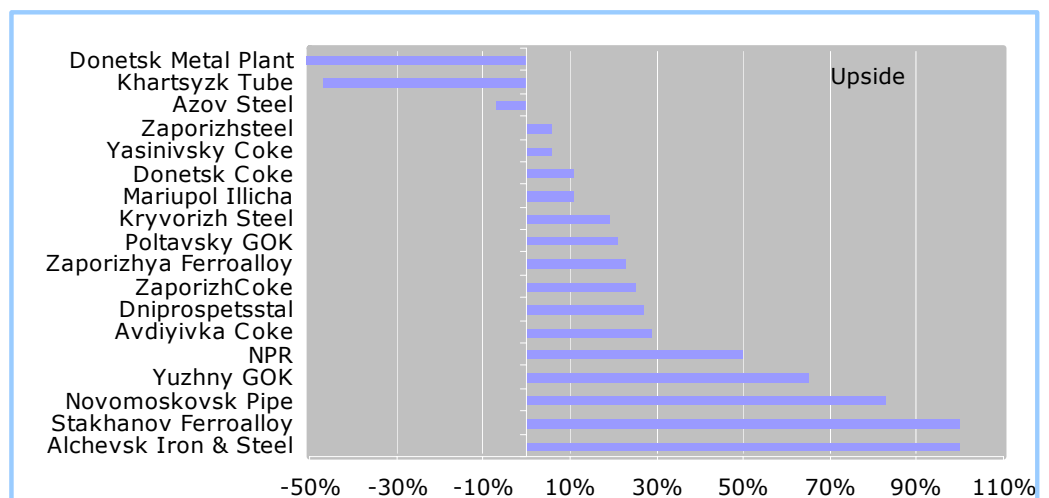
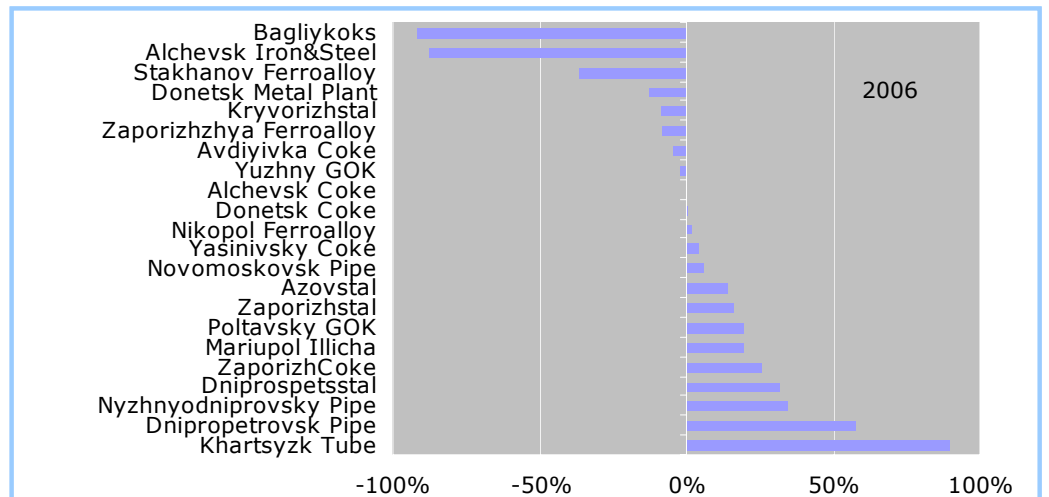
## Metals

	MCAP, USD bln	FF MC (Tier 1+2), USD mln
<b>STEEL</b>	9.2	417
<b>MINING &amp; COKE</b>	4.5	213
<b>PIPES</b>	1.2	124
<b>FERROALLOYS</b>	0.8	20
OTHER	0.3	0

### Change in PFTS Bid Price:



\* truncated at 300%



In this sector we see the most upside in PIPES, followed by COKE, GOKs and FERROALLOYS. STEEL SMELTERS are mostly fairly valued.

**Our top picks:** DNSS, ALMK, NITR, NVTR, DTRZ, AVDK, ZACO, SFER, PGZK



**STEEL**

In the new reality of increased gas prices (which accounts for 5-7% of the costs for Ukrainian smelters) it will be important for the companies to quickly and efficiently implement gas-substituting technologies. Overall, we estimate that it will take three to five years for Ukrainian steel smelters to substantially reduce the influence of the gas factor, decreasing total industry consumption from 9.2 bln cm to ~4 bln cm of natural gas.

In the short term, the industry is to a significant extent hedged against dramatic hikes in gas prices, as natural gas will be substituted primarily with coal and/or coke in blast furnaces. Though coke is not a cheap option, it is not, in contrast to gas, a scarce resource in Ukraine. On the other side, "first aid" technical improvements in blast furnace processes can be implemented as early as this year. Thus we believe that the increase in gas prices, all other things kept constant, will not reduce profitability margins for Ukrainian smelters by more than 4%.

All Ukrainian producers have scheduled investment programs for 2006-2012 to 1) reconstruct blast furnaces for pulverized coal injection (PCI) technology; 2) replace open hearth furnaces for oxygen converters; 3) introduce con-casting machines. Ukrainian companies differ in their ability to tackle the gas price increase. We rank them in the following order starting from the most capable:

- KSTL (it is an integrated producer; facilities are relatively new; Mittal has already has a plan and the financial resources needed for the CapEx program)
- AZST (has its own coal mines; merger with coke producer Markokhim last year)
- ALMK (large-scale investment program already running, the company will be the core in an integrated holding targeted for IPO by the owner, IUD)
- MMKI (lacks the financial strength of larger business groups)
- ZPST (the most obsolete capacities)

The premium paid by Mittal for KSTL at its privatization tender in October 2005 encouraged valuations in other Ukrainian steel stocks. Today, big steel smelters are priced near what we believe is fair. The only big stock with a **BUY** recommendation is KSTL, due to synergies from being part of the Mittal steel group. DOMZ is overvalued, given it only has rolling capacities.

In the wake of the KSTL acquisition, the market started paying attention to takeover rumors. Independent MMKI and ZPST are considered potential acquisition targets, especially after negotiations (reportedly not about acquisition) of Arcelor and MMKI in late 2005. DNSS looks like a good take-over candidate. The company is exposed to a unique market segment, relatively independent from the mainstream; and utilizes gas-independent EAF technology – an appealing object for Ukrainian business groups with assets in steel due to the current tight conditions.

**Industry Multiples (steel)**

	EV/S		EV/EBITDA		P/E	
	2005E	2006E	2005E	2006E	2005E	2006E
AZST	0.8	0.9	5.7	6.2	8.3	10.0
KSTL	1.2	1.4	5.4	5.4	10.8	10.4
MMKI	0.8	0.8	4.1	4.7	7.8	9.0
ZPST	0.6	0.7	3.7	4.9	7.5	11.0
ALMK	0.6	0.5	3.9	3.7	5.1	5.0
DOMZ*	0.2	0.2	13.7	9.8	34.4	18.3
DNSS**	0.6	0.5	8.5	5.1	17.8	7.8
World Peer Average	1.2	1.2	4.9	5.3	7.2	8.7
Russian Peer Average	1.0	1.1	3.0	3.6	4.8	5.9
Peer Average for DNSS	0.7	0.6	7.1	6.0	16.9	14.9

\*do not rely on EV/S multiple for DOMZ, as it lacks smelting capacities and cost structure is different;

\*\* Peer group for DNSS is different from regular steel makers due to its specialty product mix.

## FERROALLOYS

Watch for PRIVAT to maintain its recent tendency of improved disclosure at SFER and ZFER. We expect both companies to let shareholders share more profits in the near future. Both have shifted their production basket towards more manganese alloys to offset growing electricity tariffs. In the longer term, SFER is ready to construct its own electricity generator, while ZFER may pursue other options – like switching to cheap producers through direct contracts with the Zaporizhya nuclear power plant or DniproGES hydro power plant.

Watch the Nikopolsky (NFER) saga. We expect the 50+1% stock the state took back from Interpipe to be sold at premium valuation at an open tender. Privat already owns ferroalloy assets in Europe and North America. If Privat wins the battle for NFER – this will create the largest transnational player on the Mn ferroalloy market. PRIVAT's ownership is also beneficial for NFER due to the fact that PRIVAT owns two manganese GOKs supplying cheap raw materials (previously NFER faced hostile price policies for Mn ore on the part of PRIVAT and had to buy expensive ore abroad).

### Industry Multiples (ferroalloys)

	EV/S		EV/EBITDA		P/E	
	2005E	2006E	2005E	2006E	2005E	2006E
NFER	0.9	0.7	26.5	10.6	n/m	24.8
ZFER	1.2	1.0	neg	6.6	neg	10.7
SFER	0.8	0.7	neg	8.1	neg	39.2
World Peer Average	0.9	1.0	6.2	5.0	9.7	21.3

## PIPES

Three of four stocks we cover in this segment are **BUYs**.

NITR, a Ukrainian 'Premiere League' stock, has reduced transfer pricing. This, coupled with the long-term stability of its share on the Russian market due to broad lobbying abilities, makes us very positive on the stock.

Unlike NITR, Khartsizk Pipe is vulnerable to the Russia factor and is the only pipe stock with a sell recommendation. We believe HRTR will lose its share in the Russian market to local producers in the mid-term. It is possible SCM will decide to divest Khartsizk to a Russian buyer – which would give the company a second wind.

3<sup>rd</sup>-tier stocks, DTRZ and NVTR continue non-transparent accounting while being undervalued big on EV/Output multiples. As our general view is that transfer pricing will be progressively pressed out of the economy, we see an upside in these two stocks. (DTRZ' owner, IUD, has already improved transparency at their other asset – ALMK, and Interpipe, the owner of NVTR, has done the same with NITR.)

### Industry Multiples (pipes)

	EV/S		EV/EBITDA		P/E	
	2005E	2006E	2005E	2006E	2005E	2006E
HRTR	3.1	2.9	15.1	14.6	26.9	25.4
NITR	1.0	0.9	5.4	4.7	8.1	6.9
NVTR	0.6	0.5	13.0	4.2	51.8	7.0
DTRZ	0.4	0.5	16.2	3.6	149.6	5.5
World Peer Average	1.1	1.0	12.3	6.1	62.8	10.0

## IRON ORE

**Poltavsky GOK** appreciated 560% in 2005. We still favor the stock. Liquidity – it is the only relatively liquid stock among Ukrainian GOKs. The major shareholder, Finance & Credit group is constructing its own steel mill to load half of PGOK's capacity. The company is a candidate for an IPO. If this decision is taken, the company will be consolidated with its trader where currently profits are accumulated through transfer pricing schemes.

**Yuzhny GOK** (aka Pivdenny GOK) is another investable stock in the sector. Though less liquid, with poorer corporate governance practices due to PRIVAT group ownership, the stock provides upside. Rumors have it that PRIVAT recently sold 20% of its holding in the company, probably to another major shareholder, SMART group. In any case the stock can be considered a take-over candidate – either by a local or Russian metal group.

#### Industry Multiples (Iron Ore)

	EV/S		EV/EBITDA		P/E	
	2005E	2006E	2005E	2006E	2005E	2006E
PGZK	1.9	1.5	10.5	7.2	78.0	28.6
PGOK	2.3	2.2	4.9	4.7	7.3	7.0
World Peer Average	2.2	1.9	8.4	6.4	48.5	19.9
Russian Peer Average	2.9	2.3	11.6	9.2	7.1	5.3

#### COKE

We believe the number of separate coke producing enterprises in Ukraine is too high not to end in mergers and acquisitions. The first one was recorded last year; Markokhim was merged into Azovstal. A short period between the announcement and the deal offered arbitrage opportunities for those who bought MCHI on the market to swap shares for AZST. It is widely believed that Bagliy Coke (#8 in Ukraine in terms 2005 output) has been put up for sale by PRIVAT group. The move would be quite logical, given PRIVAT's excess coking capacities. Yasinovsky seems another candidate. MMKI already rents part of their capacity (two coke batteries of Yasinovsky Coke which accounted for 75% of the company's coke production in 2005) and may additionally bid for Bagliy Coke to become fully self-sufficient in coke. IUD may decide to merge Alchevsk Coke with ALMK.

The operations of many coke producers are spoiled by non-transparent practices. This problem is typical mostly of coke makers associated with steel smelting business groups. Be aware that a significant portion of the companies' revenues (27%-40% depending on company) comes from non-core activity. ALKZ, DKOK and AVDK are especially active in selling steel from related parties.

#### Industry Multiples (Coke)

	EV/S		EV/EBITDA		P/E	
	2005E	2006E	2005E	2006E	2005E	2006E
YASK	0.6	0.6	6.8	6.1	12.7	10.7
AVDK	1.0	0.7	6.0	4.2	6.0	6.9
ZACO	0.5	0.5	6.0	5.7	10.4	9.5
DKOK	1.0	1.1	4.8	5.5	9.3	10.3
World Peer Average	1.0	0.9	15.6	14.2	8.9	8.1

#### Waiting for an IPO

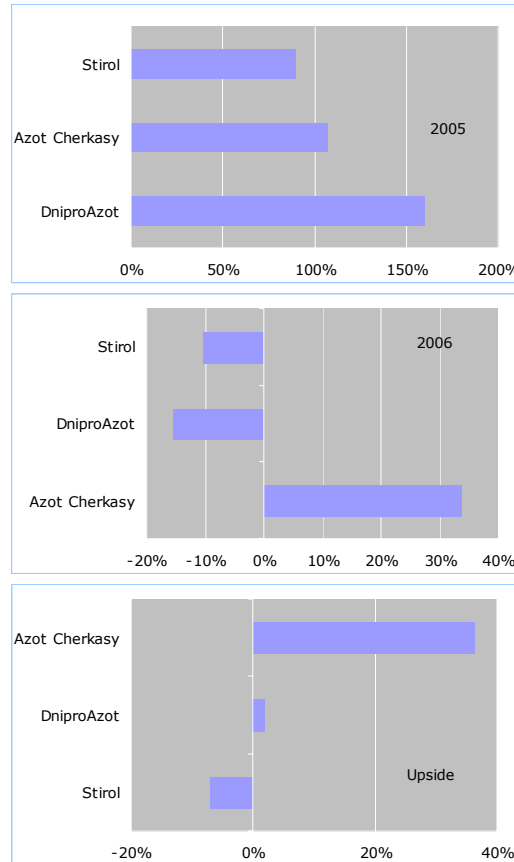
The head of IUD, Sergey Taruta, announced plans to conduct an IPO in 2007. Later the company was not as forthcoming with a date. We estimate that 2008 may prove to be a more realistic date. **Alchevsk Iron & Steel** and **Alchevsk Coke** will be part of the holding. Pick ALMK (Remarkably, ALMK improved its disclosure transparency in 2005 – their profitability is now on par with their local peers); Alchevsk Coke is a complicated non-transparent horse, with a substantial portion of its sales being IUD's steel resold. The share issue approved by ALKZ's shareholders in September 2005 had a 14x dilutive effect on those shareholders who did not subscribe for the additional shares.

SCM restructured their assets having created a holding to consolidate energy assets and assets in metallurgy separately. Though the group has not announced plans for an IPO in the metals & mining sector, they have many options open including: consolidation of all their assets in this sector and going public on a foreign exchange.

# Nitrogen Fertilizers

**SECTOR MCAP: USD 0.7 bln**  
**FF MCAP (Tier1+Tier2): USD 54 mln**

## Change in PFTS Bid Price



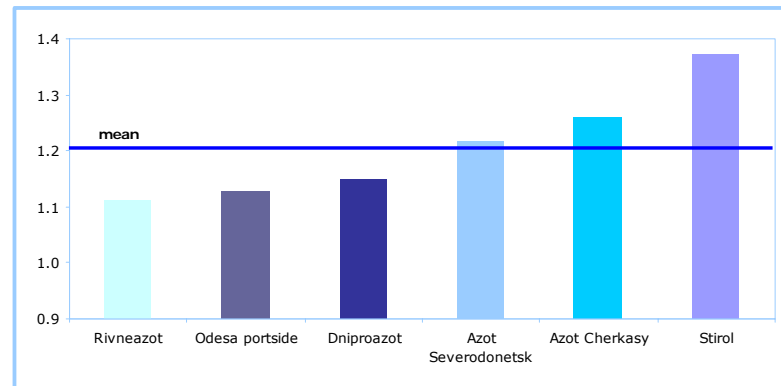
## FAREWELL TO CHEAP GAS

For Ukraine, prices for natural gas, the major input for nitrogen fertilizers will never again differ greatly from world prices. As a result of the new gas agreement with Gazprom, the annual average gas price for Ukrainian industrial consumers will grow by at least 53% yoy in 2006, boosting production costs in the nitrogen fertilizer industry. On average, we expect EBITDA margins to be halved in 2006.

## Expansion, modernization put on hold

In an effort to cut excess consumption, the government set gas consumption limits, thereby restraining nitrogen fertilizer output. Economic and political uncertainty has caused the companies to suspend their investment programs for 2006. Even if they throw their modernization plans into high gear later this year, we do not expect any substantial decreases in gas consumption per ton of ammonia in 2006.

## Gas consumption per ton of ammonia\*



Source: Dniproazot  
 \* actual data based on 1H 2005 performance

## THE GOVERNMENT STANDS DOWN

**No Differentiation.** The Government is reluctant to differentiate gas prices for different industries - it is quite likely that all the businesses will pay the same price in 2006. The Cabinet and the National Electricity Regulation Commission's (NERC) recent decisions on establishing uniform gas prices for industrial consumers support our expectations. Government officials argue that uniform pricing will minimize corruption and significantly simplify monitoring and control procedures.

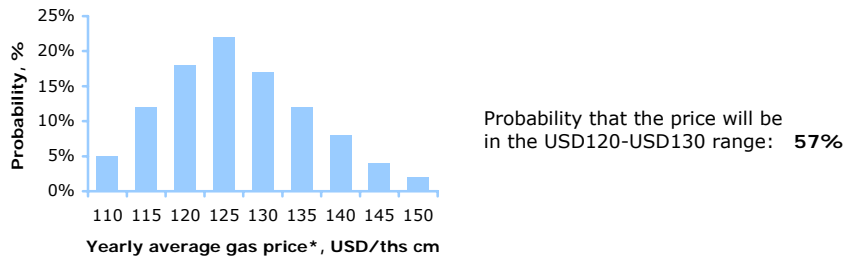
**Elections To Bring No Relief.** We don't think things will improve after the elections, regardless of their results. Political instability and the increasing budget deficit make government subsidization unlikely. Even if the new Cabinet succeeds in nullifying the current gas agreement, the process would take too long to affect this year's average gas price. In addition, Russia is unlikely to lower the price for gas even if a 'blue'

coalition is formed in the government.

### GAS TURBULENCE

There is a great deal of uncertainty with regards to gas pricing in 2006. We modeled nine different scenarios with different yearly average gas prices in 2006. Probability-weighted end-point gas price for industrial consumers in 2006 is USD 126.7 per ths cm

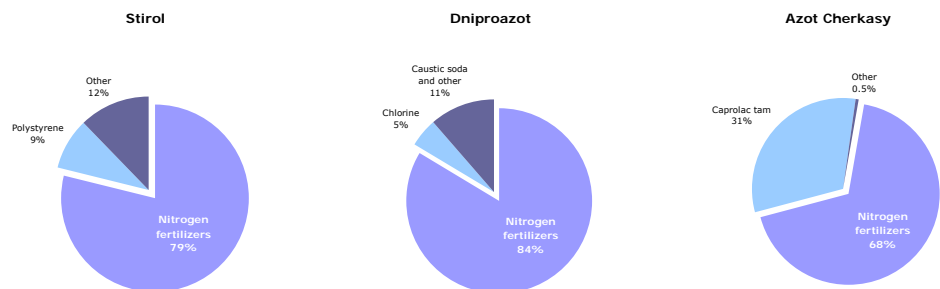
#### Industrial Gas Price Scenarios



Source: Concorde Capital research.  
\* transportation cost included

**Dniproazot (DNAZ).** DNAZ has the largest share of fertilizers in its product mix. This is to some extent compensated by highest gas-efficiency among the three companies. It is the most gas-efficient of the three companies, consuming about 1.15 ths cm of gas per ton of ammonia produced. The resulting ~40% share of natural gas in the company's COGS is 10 p.p. lower than for Stirol, which makes its margins less sensitive to gas prices. DNAZ maintains quite high, by Ukrainian standards, disclosure and posts true financials – in contrast to many other companies owned by Privat Group. Given the current macro conditions we would not be surprised to see Privat put the plant for sale in the near future.

#### Revenue Breakdown By Product Line. 2004



Source: Company data, Concorde Capital estimates

**Stirol (STIR).** Our analysis reveals that Stirol's financial stance and stock target price is the most sensitive to gas prices, while Dniproazot and Cherkasy may weather gas price increases relatively better. We recently downgraded STIR to Hold. Its IPO which could be a good trigger for the stock was put on hold in the wake of the gas turbulence. Stirol is sitting on a pile of cash (1/3 of total assets) which was accumulated for a potential acquisition (one of the possibilities was the Odessa Portside Plant). We are watching to see what the management will do with the excess cash accounts.

**Cherkasy Azot (AZOT).** Due to corporate conflicts and extremely poor disclosure, the company only traded marginally on the stock market. It is a good alternative to Stirol and Dniproazot for those who still want exposure to Ukrainian fertilizers. Due to its well diversified product mix, the company can continue to be profitable even if the gas price goes above USD 160/th s cm. About 1/3 of Azot's revenues falls on caprolactam, a product with a non-significant ~2% share of natural gas in its production costs. This makes AZOT the least sensitive to gas price increases in

Ukraine. An expected 12% increase in caprolactam revenues this year will support Azot's profitability. We expect Azot to surprise the market by disclosing real profits in the near future, which would be a good support for its stock price. The company has been systematically cooking its books:

	Stirol			Dniproazot			Azot Cherkasy		
	2003	2004	9M05	2003	2004	9M05	2003	2004	9M05
EBITDA Margin	25.5%	30.9%	28.3%	25.2%	26.0%	29.1%	4.5%	6.5%	6.2%
Net Margin	14.4%	22.0%	22.3%	13.1%	12.7%	20.7%	0.1%	0.5%	-1.6%

From our interviews with the management we know that they are on the verge of switching to transparent corporate policies. If it were not for the "pain in the gas", they would have reported true P&L as early as the end of 2005.

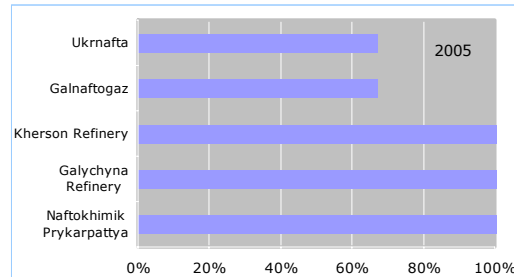
#### INDUSTRY MULTIPLES

	EV/S		EV/EBITDA		P/E	
	2005E	2006E	2005E	2006E	2005E	2006E
STIR	1.2	1.3	3.3	9.1	5.9	21.6
DNAZ	1.0	1.1	2.7	7.1	3.9	11.8
AZOT	0.8	0.7	2.2	3.8	3.2	6.4
Mature Markets Avg	1.6	1.4	7.1	7.5	12.3	13.5
EM Average	3.3	2.5	11.9	9.2	10.6	8.9

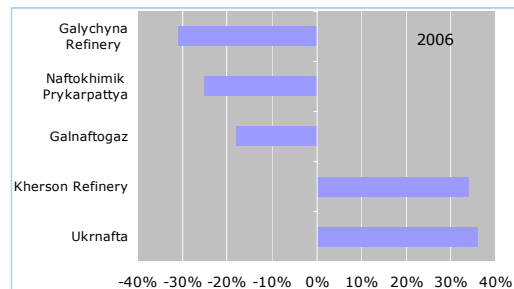
## Oil & Gas

**SECTOR MCAP: USD 3.7 bln**  
**FF MC (Tier1+Tier2): USD 300 mln**

### Change in PFTS Bid Price



\* truncated at 100%



into a formal vertically integrated oil company (VIOC), an IPO seems like a logical next step. We watch for further moves from PRIVAT.

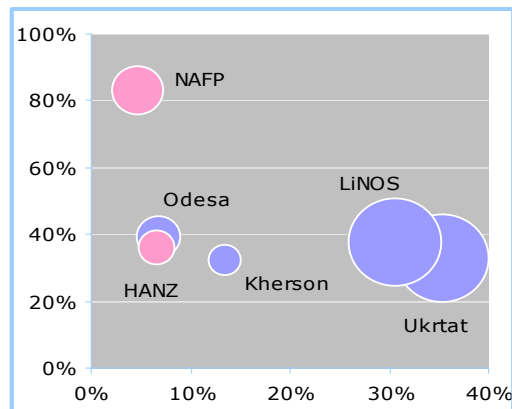
**Ukrnafta (UNAF).** At the moment we are conducting deeper analysis of UNAF's operations and choose a HOLD recommendation for the time being, though market multiples suggest a refreshing upside.

So far we have received mixed signals. The company continues expansion, however faces diminishing marginal returns. Growth opportunities in the extraction business are limited, while the retail market offers volume in exchange for reduced profitability, the total number of gas stations at the end of 2005 fell short of our forecast by more than 50%. The effect of expected growth of oil and gas prices in 2006 is likely to be partially offset by the removal of tolling schemes with Naftokhimik Prykarpattya, as demanded by law. All-in-all, we estimate UNAF's margins will gradually reduce from 52% to ~30% in the mid-term.

On the positive side, the company's value may be boosted by developments in its overseas oil extraction (e.g. Nigerian project, currently on hold), or/and by the start of construction on the Hamaliyivsky gas processing plant (announced but not yet started).

**Galnaftogaz (GLNG).** Pre-IPO story. The major shareholders conducted a series of equity placements in 2005-2006, bringing free float to 23.4%. The company stands out among Ukrainian corporations in terms of exemplary corporate governance and disclosure. Galnaftogaz speeds up the rate of expansion of its network. The management increased their plans for new gas stations in 2006 by almost a third - from 41 to 53. The stock retains a moderate upside even without expectations of IPO premium.

Ukrnafta (UNAF) and Galnaftogaz (GLNZ) are the most liquid stocks in the segment. UNAF is the only stock giving exposure to extraction, GLNG is the only retail oil products stock.

**OIL REFINING**
**Load (Y-axis) v. Output Share (X-axis)**


Source: Nefterynok, Concorde Capital estimates  
 \*bubble size represents oil refined in 2005

Overall, Ukraine's oil refineries are in a blue period. Oil traders are open about the fact that selling Belarusian, Bulgarian and Romanian petrol may be more profitable than to produce it in Ukraine. Two Russian-owned refineries have shut down for modernization (Kherson and Odesa). The other runs at 30-40% capacity. Higher fuel imports triggered by the cancellation of import duties put serious pressure on local producers, with their outdated technologies and lower product quality. Ukrainian refineries operate at low margins and try to secure sales volumes by adjusting to local demand faster than foreign producers. To survive in this tough environment modernization is the key to improving production efficiency and quality.

**Ukraine's Refining Capacities**

	Key shareholders	Nameplate capacity, mn bbls/yr	Share in Ukraine's capacities	Oil condensate refined 2005, mn bbls	Capacity utilization, 2005
<b>Crude oil</b>					
Ukrtatnafta	Naftogaz(43%); Tatarstan (56%)	135.1	35.36%	43.9	32.54%
LiNOS	TNK-BP (78%+)	117.3	30.71%	44.1	37.57%
Kherson Refinery	Alliance Group (28%); Ukrnaftoproduct (60%)	52.0	13.60%	6.4	32.24%
Odesa Refinery	Lukoil (93%)	26.3	6.89%	10.2	38.85%
Galychyna Refinery	Privat (73%); State (25%)	25.7	6.72%	7.8	35.73%
Naftokhimyk Prykarpattya	Privat (70%+); State (26%)	18.3	4.80%	15.1	82.67%
<b>Gas condensate &amp; oil</b>					
Shebelynka GPP	Naftogaz (100%)	7.3	1.92%	6.7	95.60%
<b>Total</b>		<b>381.9</b>	<b>100.0%</b>	<b>134.2</b>	<b>35.15%</b>

Source: Ukrainian News. Interfax. UNIAN

WATCH for developments concerning PRIVAT's two refineries. **Naftokhimik Prykarpattya** is the smallest in Ukraine, but operates at the highest capacity due to its affiliation with PRIVAT group. Ukrnafta covers about 70% of NAFP's nameplate capacity. The company is ready to start an investment project to improve product quality. **Galychina** was acquired by PRIVAT group early in the year. Naftokhimik Prykarpattya has already demonstrated disclosure improvement in 2005. Depending on the strategy of PRIVAT in regards to their recent acquisition, Galychina could become another example of improved transparency. Currently we are working on a deeper analysis of the refining industry to come out with specific recommendations.



**INDUSTRY MULTIPLES**
**Upstream**

	EV/S		EV/EBITDA		P/E	
	2005E	2006E	2005E	2006E	2005E	2006E
UNAF	2.6	1.4	5.1	3.8	8.1	6.5
Mature Markets Median	2.7	2.0	5.6	4.7	11.9	10.3
EM Median	1.5	1.3	5.3	4.9	8.8	8.4

**Refineries**

	EV/S		EV/EBITDA		P/E	
	2005E	2006E	2005E	2006E	2005E	2006E
NAFP	0.3	0.3	3.1	3.0	1.6	1.6
HANZ	0.8	0.4	49.4	23.7	n/m	217.1
Mature Markets Avg	0.5	0.5	6.8	6.6	11.1	12.3
EM Average	0.4	0.4	4.8	5.1	7.4	7.9

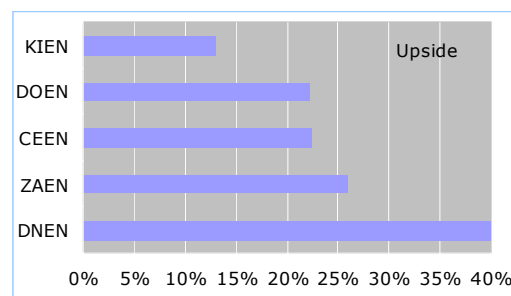
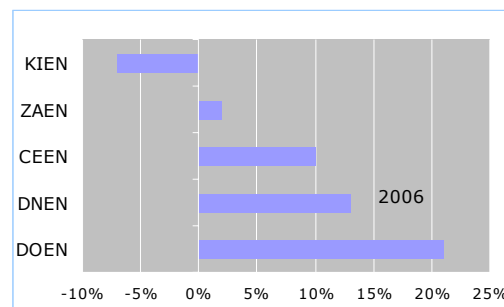
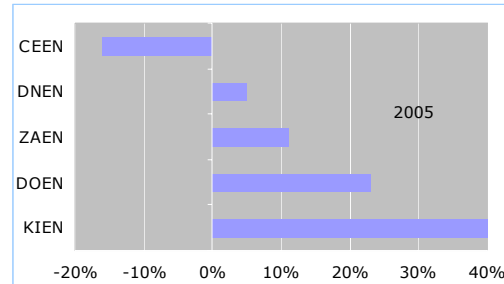
**Retail**

	EV/S		EV/EBITDA		P/E	
	2005E	2006E	2005E	2006E	2005E	2006E
GLNG	0.7	0.6	12.8	7.9	25.7	12.9
Developed Markets Avg	0.4	0.3	8.4	7.4	21.0	22.9
EM Average	0.4	0.3	9.7	8.4	11.6	9.2

# Electricity

**SECTOR MCAP: USD 2.3 bln**  
**FF MCAP (Tier1+Tier2): USD 230 mln**

## Change in PFTS Bid Price



## GAS: SOMEBODY ELSE'S PROBLEM

All Ukrainian generators are undervalued at current price levels. The market seems to have misjudged the impact of the higher gas prices – there has been a downward trend since September when Russia began the revision of gas prices for Ukraine. In fact, the gas price hike, though painful for many industries, seems to bode well within the electricity sector. The government has announced its goal of cutting gas consumption in the economy by 10% in 2006. In response some Oblenergos have already started marketing and lobbying for the increase of electricity consumption instead of gas for the budget sector and population (remote country regions and new construction).

On the other hand, thermal power generators are quite hedged against gas price instability. Co-generating companies (like Kievenergo) have always received gas at special discounts and will continue to enjoy this benefit. Pricing policies for the other generation companies allows them to compensate cost increases with corresponding raise in their electricity tariffs. In the long term, they will increase the efficiency of their power units through the strategic investment program adopted by the government. According to the program, loans to finance these investments will be effectively repaid by customers through a special tariff surcharge. DOEN and CEEN have already started retooling with in the framework of this plan.

The state has a special reason for helping GenCos renovate their coal-fueled power blocks – to lessen the country's dependency on expensive imported gas, according to the government's strategic plan of energy development until 2030.

## DEBT RELIEF

The main problem facing thermal energy companies is their enormous overdue debt which has been accumulating since the mid 1990's. In July last year, a debt offsetting law was adopted for the electricity sector. The first stage is debt reconciliation (the government issued the procedure for this process in February), during the second stage (expected in late 2006) the debt will be re-structured and then gradually paid off over a long term period from a special surcharge to electricity tariffs. The following companies should benefit the most from the procedure:

Generation: DNEN, CEEN, DOEN

Distribution: MYON, ODEN, DOON, HOEN, VIEN, KREN

## PRIVATIZATION

Clearing energy companies' debt accounts has been set as the pre-condition to prepare these companies for privatization. Thus, after debt the offsetting process is finished, we can expect the next wave of Oblenergo privatization, and even the

privatization of thermal generators.

### CONSOLIDATION

This year, **SCM** announced plans to structure its assets in the energy segment to target an IPO. SCM controls the most efficient generating asset in the industry in terms of costs and fuel consumption, Vostokenergo, a closely held company operating in the Eastern regions of Ukraine. The re-structuring of "Donbass Fuel and Energy Company" in early 2006 from an association to a holding company (consolidating Vostokenergo, several coal mines and electricity distribution companies) supports SCM's claims to be moving towards an IPO. Though this is not likely to happen in the near future, it is good news for the market and helps form long term positive expectations.

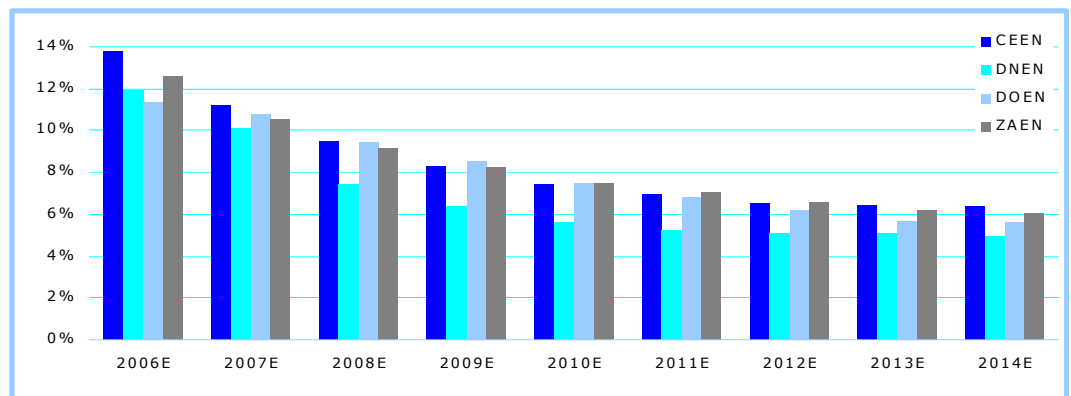
It is possible that **PRIVAT** will be able to create a utility holding if they are able to win the corporate conflict against Grigorishin concerning several distribution companies. With some luck, they can consolidate control over 70%-80% in six Oblenergots (OE) and create a structure that would likely seek an IPO. Utilities to watch: SumyOE, LvivOE, PoltavaOE, ChernigivOE, PrykarpatyaOE, TernopilOE.

### GENCO WACC

**GENCOs SECTOR MCAP: USD 1.1 bln**  
**FF MCAP (Tier1+Tier2): USD 210 mln**

What many overlook is that GenCos enjoy the lowest cost of capital among all Ukrainian stocks we follow, due to the fact that their investment programs are financed by loans repaid through a special tariff surcharge effectively making their long-term debt interest-free. With GenCos assuming more debt, efficiently their cost of capital will be reducing. Please refer to our electricity sector report of September 26, 2005 for more details.

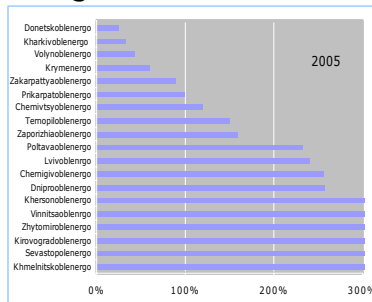
### WACC Estimations for GenCos



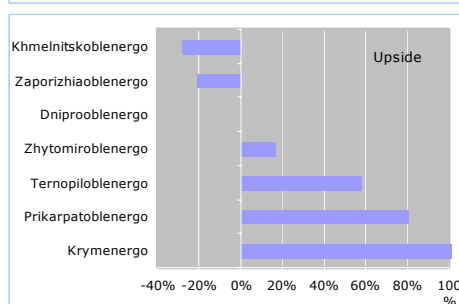
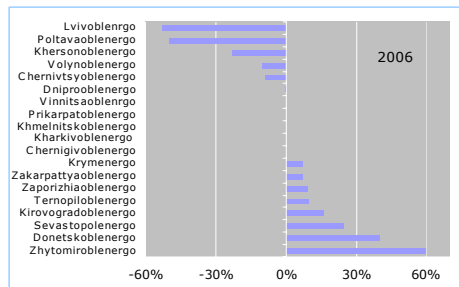
Source: Concorde Capital research

### INDIVIDUAL EXPORT LICENSES ON THE HORIZON

The state monopoly on electricity exports may come to an end in 2006, as the Fuel & Energy Ministry has initiated liberalization of electricity exports. Currently Ukrinterenergo is the sole authorized exporter to Western Europe. In fact, today Zakhidenergo does not have direct access to export cash flows, the only benefit of producing export electricity is being able to keep its capacities nearly fully loaded. If ZAEN obtains an export license, it will be able to re-buy electricity from the wholesale electricity market (WEM) and then export it for the profit which currently is made by Ukrinterenergo. Other GenCos (especially DOEN, VSEN and CEEN) potentially have possibility to sell their electricity to Russia. WATCH.

**OBLENERGO SPECIAL**
**SECTOR MCAP: USD 1.2 bln**  
**FF MCAP (Tier1+Tier2): USD 22 mln**
**Change in PFTS Bid Price**


\* truncated at 300%

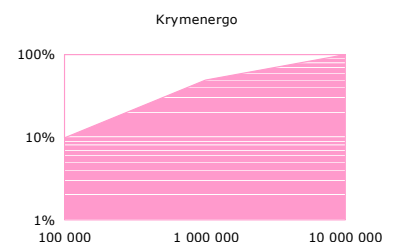


The sector is definitely not for investors with weak hearts. The risks are high – both regulatory and from the corporate governance side.

Watch the sector for major **regulatory changes**. The NERC is currently working on the introduction of a fair tariff setting procedure to eliminate the imbalance between the profitability allowed for the five fully private companies and the other 22. Profit hiding is widespread in the sector. Minority shareholders and even certain holders of significant blocks see value created by the Oblenergos bypassing them. What we refer to as *Value Alfa* (see our Oblenergo report from 15 Dec, 2005) is a unique process where skillful management of distributing companies can take advantage of the shortcomings of existing regulation to the benefit of a controlling group and to the detriment of other shareholders. This leaves the ground ripe for acute corporate conflicts in six Oblenergos, with armed people in black masks dropping in from time to time. The latest event of this nature was at Chernigivoblenergo in the late February. Our *guesstimation* is that we may see changes in regulation and the solution of corporate conflicts in 2007.

In the late 2005, signals about **possible M&A activity** in the segment cheered up the market and instilled trust in the sector's future. So far it looks like CEZ and AES, who bided for five Oblenergos, can not agree upon the price with the owner, VSE. Recently Alexander Babakov who controls VSE, said he is not going to sell these Oblenergos now, hoping for higher capitalization in the future. We tend to share his optimism, taking into account the expected growth of electricity consumption and changes in tariff policy.

**WARNING:** please remember that distribution company stocks are characterized by low liquidity and scarce free float. Pricing for these stocks can shift drastically. Our pricing for most Oblenergos is indicative.



**INDUSTRY MULTIPLES**

**GenCos and Integrated**

	EV/S		EV/EBITDA		P/E	
	2005E	2006E	2005E	2006E	2005E	2006E
CEEN	1.0	0.8	9.2	7.8	22.5	13.8
DNEN	0.8	0.6	5.1	4.3	32.6	23.8
DOEN	0.8	0.6	3.9	4.0	6.7	9.1
KIEN	0.6	0.6	9.2	6.7	17.0	12.9
ZAEN	0.9	1.3	9.7	8.0	29.7	8.9
Russian Peer Average	2.14	2.11	19.4	n/a	n/a	n/a
Average CEE	1.76	1.7	7.1	6.7	19.0	17.6

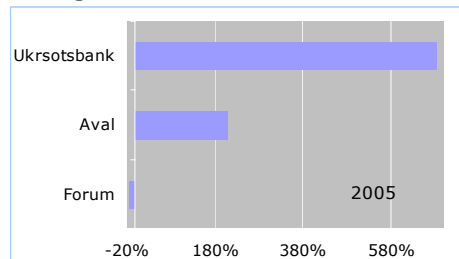
**Oblenergo**

	P/S		EV/EBITDA		P/E	
	2005E	2006E	2005E	2006E	2005E	2006E
DNON	0.29	0.25	19.4	18.2	neg	133.1
HMON	0.70	0.59	9.7	8.4	67.3	36.7
KREN	0.22	0.19	4.4	4.0	neg	78.7
PREN	0.29	0.24	3.5	3.5	14.2	11.7
TOEN	0.29	0.26	3.0	2.6	10.7	9.7
ZAON	0.37	0.33	26.9	27.4	99.3	107.6
ZHEN	1.05	0.93	7.1	6.9	18.4	17.9
Average CEE	0.91	0.9	5.0	5.0	11.5	10.5

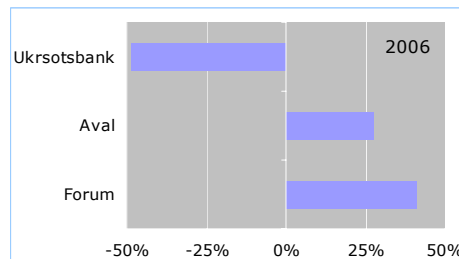
# Banks

**SECTOR MCAP: USD 2.9 bln**  
**FF MCAP (Tier1 + Tier2): USD 140 mln**

## Change in PFTS Bid Price



\* truncated at 300%



## The Next Frontier For Foreign Banks

Market saturation for further acquisitions in the CEE has caused international banks to eye Ukraine as a new frontier. Ukraine has become the last chance to get a foothold in a region with a rapidly growing market of significant capacity. In 2005, several large international banking groups entered/ increased their exposure to Ukraine.

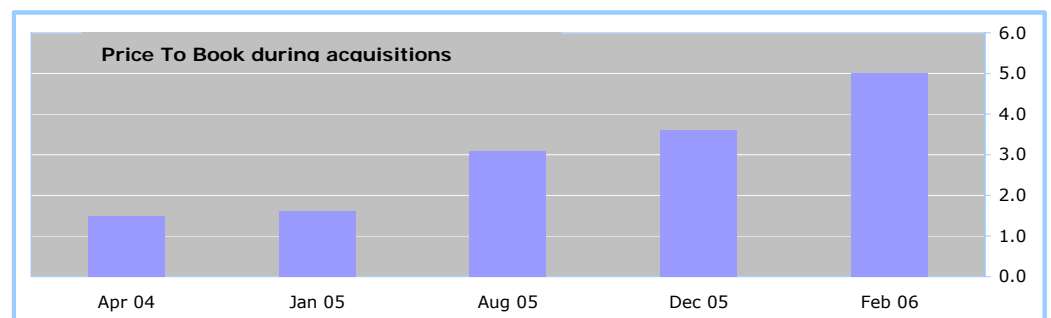
## Growth Accelerates

Despite the economic slowdown in 2005, the Ukrainian banking system flourished, posting 5-year records: total assets (+58% yoy), loans (+61%), deposits (+64%). The rapid extension was mainly due to a retail boom: in 2005, banks more than doubled their lending to individuals (+127% yoy). At the same time steadily growing personal incomes and confidence in the banking system as a whole led to a strong inflow of funds from population: retail deposits grew 76% yoy to USD 14.4 bln (54% of total deposits).

In 2005, Ukrainian banks intensified their efforts to raise funds abroad through syndicated loans and Eurobond placements. The USD1.3 bln raised in 2005 is expected to double in 2006. Access to cheaper and long-term foreign borrowings as well as desire to become an attractive acquisition target drive Ukrainian banks towards more transparency. As a result the aggregate reported net income of Ukrainian banks surged 72% yoy (+52% in 2004; +20% in 2003).

## Paying Up To Enter The Market

Competition for the promising market has caused intense bidding, making the price paid for Ukrainian banks to rise sharply. The acquisition P/B records parade during 2005-2006 (x3.1 P/B for Ukrainian bank #2 bank Aval in mid 2005 to x5.0 for Ukrsotsbank, #4 in assets terms, in early 2006) was a good growth vitamin for the stock market. Bank Aval was one of the top-10 best performing stocks in 2005 and in 1Q06; it was the third most traded stock on the PFTS in 2005.



Date	Buyer	Target	Acquired stake	P/E	P/B
Feb 06	Banca Intesa (Italy)	Ukrsotsbank	USD 1.16 bln for 88% stake	56.7	5.0
Dec 05	BNP Paribas (France)	Ukrsibbank	~USD 350 mln for 51%	61.8	3.6
Aug 05	Raiffeisen International (Austria)	Aval	USD 1.03 bln for 93.5%	26.4	3.1
Jan 05	PKO Bank Polski (Poland), Vilniaus Bankas (Lithuania),	Kredyt Bank	USD 30 mln for 66.7%	30.5	1.6
Apr 04	(member of SEB group)	Azhio	EUR 23.3 mln for >90%	24.5	1.5

Source: Ukrainian News, Interfax, Concorde Capital calculations

Following Banca Intesa's acquisition of Ukrsotsbank, and the upcoming sale of Brokbiznesbank (#10 in terms of assets), global banking majors are setting their sights on banks from second/third tier. Foreign banks are expected to continue their spending spree in Ukraine over the next 1-1.5 year period to bring their share in Ukraine's banks' capital from 28% to 40-45% by the end of 2007.

**Bank Aval (BAVL).** Aval is to be merged with Raiffeisenbank-Ukraine to create the largest bank in the country with a 12.3% market share. Synergy-related benefits will emerge through division of corporate and retail segments between the two banks. Raiffeisen will be able to provide Aval with sufficient capital to support further growth, introduce European corporate governance standards as well as abolish Aval's murky reporting practices that used to seriously understate the bank's profits in the past.

Fundamental growth is there, the only thing lacking is clarity about BAVL's free float. Whether, when and for what price remain the three questions about the buy-back of shares from minority shareholders by Raiffeisen. We believe the procedure will be fair; we do not also exclude the possibility of BAVL's free float being traded without total buy-back.

**Ukrsotsbank (USCB).** In February, 2006, Banca Intesa acquired a 88% stake in Ukrsotsbank. Along with acquisition-related benefits, Ukrsots is expected to keep its above-average growth rates and maintain a leading position in Ukraine's banking sector. The rapid increase of high-return products in Ukrsotsbank's lending structure (consumer loans), combined with low-cost liabilities (due to the large portion of demand deposits and increasing share of foreign borrowings) give Ukrsotsbank its competitive advantage.

A recent five-fold share issuance complicated by minority legal claims led to a major correction in the stock's price. At current levels the stock offers a respectable upside.

**Bank Forum (FORM).** Forum's major shareholder is eyeing an IPO or strategic sale within a year or two. In the meantime the bank is expanding into the higher-yield retail segment: the bank's consumer lending grew 167% CAGR in 2001-05 and there is still potential for growth: retail loans represent a mere 8% of the bank's gross loan portfolio. To sustain its twice-market growth rate, the bank is going to increase its share capital by 67.6% through a USD 50 mln additional share issue to USD 123 mln. The previous issue, in the late 2005, was connected to the private placement of a 10% block among portfolio investors according to formula "Buy Fair + Subscribe Cheap" ("*BF+SC*", see p.25). The funds that participated at equity placement subscribed then for cheap shares pro rata and automatically received a lower P/B to effectively reduce the average cost of their shares.

At the current market price we do not see any upside for a marginal investor. At the same time, existing shareholders can consider participation in the equity placement coupled with the subsequent subscription to new share issue ("*BF+SC*") should the bank select this strategy again. WATCH.

#### INDUSRY MULTIPLES

	P/B		P/S		P/E	
	2005E	2006E	2005E	2006E	2005E	2006E
BAVL*	4.8	3.6	4.8	3.9	36.1	26.7
FORM	5.8	4.5	10.9	6.8	82.5	54.2
USCB	5.2	3.4	5.8	3.6	41.5	23.0
EM Peer Average	3.7	3.2	21.0	18.2	19.2	15.4

\* future capital increase is accounted for

# Telecommunications

**SECTOR MCAP: USD 3.6 bln**  
**FF MCAP (Tier1): USD 106 mln**

## UKRTELECOM FOR SALE

It looks like this year we will see privatization of the national incumbent operator. The company is being primed for sale.

The state is seriously considering increasing the block for sale from 43% to a controlling stake – legislation was changed to enable this.

Ukrtelecom became the sole owner of a 3G license in Ukraine. The license was given for free and without any tender. Ukrtelecom, after the divestiture of its mobile arm UMC to MTS in 2003 missed the explosive stage of mobile market development. Now UTEL needs to fend off mobile cannibalization, given the current penetration rate of 67%. Ukrtelecom has already prepared an ambitious plan of mobile development to 2010. Even with a bit of skepticism about some aspects of the management's plan, we believe that re-entering the mobile segment will create substantial value for shareholders.

Another important preparatory move was initiated by the Ministry of Transport & Communications - to allow Ukrtelecom set its tariffs independently. Currently the company is restricted by the sticky tariffs set by the NCRC, leaving it unable to compete price-wise with mobile operators in LD.

Overall we consider UTEL an opportunity to buy into growth, with a possible privatization premium. While valuing the company we rely on our DCF model - "short-sighted" multiples just cannot capture the growth ahead.

## SCM: BUILDING A TELECOM ARMADA

**System Capital Management** has been consolidating assets in telecommunications: they acquired the largest independent operators in the fixed segment, Farlep and Optima Telecom. In addition, they have interests in mobile operators, Astelit (45.6%) and DCC (49%). Their appetite reaches as far as participation in the privatization tender for Ukrtelecom. We have no doubt that SCM will be able to mobilize funds needed to compete with international majors on the tender. Another issue is whether the Antimonopoly Committee will okay the monopolization of the fixed line market. Should SCM succeed in buying and integration of Ukrtelecom, the latter's value will receive a hefty boost.

## NO MOBILE STOCKS

Unfortunately you can not find publicly traded mobile companies in Ukraine. Those seeking exposure to the Ukrainian mobile market – do it through Russian and Norwegian operators MTS, Golden Telecom, Telenor.

### Industry Multiples

	EV/S		EV/EBITDA		P/E	
	2005E	2006E	2005E	2006E	2005E	2006E
UTEL	3.0	2.7	7.7	7.0	18.4	16.1
Average CEE	2.3	2.2	5.8	5.3	17.3	15.4
Russian Peer Average	1.8	1.7	6.4	6.2	23.1	19.8



## COMPANY PROFILES

## AvtoKRAZ

**HOLD**

Current price **USD 0.10** Target price **USD 0.09**

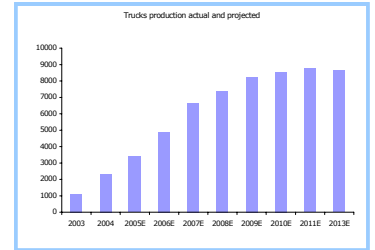
### Market Information

Bloomberg Ticker	<b>KRAZ UZ</b>
No of Shares, mln	2,226.3
Market price, USD	0.10
MCap, USD mln	222.6
Free float	12.0%
FF MCap, USD mln	26.7

### Stock Ownership

Finance & Credit	95%
Other	5%

- Has a monopoly in the production of heavy trucks in Ukraine
- After posted 90% sales increase in 2004, we estimate 2005 growth at 85%. AvtoKRAZ is actively targeting developing markets in the CIS, Vietnam and South America.
- Synergy expected from the creation of Ukraine's largest machine-building holding



### KEY FINACIAL DATA, USD mln

	Sales	EBITDA	Net Income	P/S	EV/EBITDA	P/E
<b>2004</b>	71.2	12.1	8.0	3.1	20.1	27.8
<b>2005E</b>	181.6	32.6	20.0	1.2	7.9	11.1
<b>2006E</b>	252.3	43.3	27.5	0.9	6.5	8.1

Spot Exchange Rate 5.05

## Azovzagalmash

**BUY**

Current price **USD 4.16** Target price **USD 5.40**

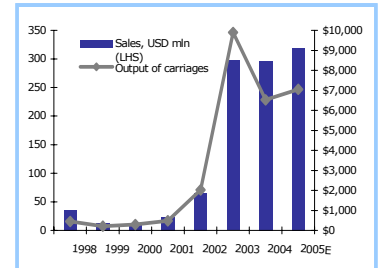
### Market Information

Bloomberg Ticker	<b>AZGM UZ</b>
No of Shares, mln	43.6
Market price, USD	4.16
MCap, USD mln	181.37
Free float	1.0%
FF MCap, USD mln	1.81

### Stock Ownership

Azovmash	26.2%
UITC	18.4%
Ardemar Marine Ltd	20.2%
CJSV "AZGM Employees"	24.1%
Other	11.1%

- Managed by Azovmash. Works in close cooperation with MZVM. Produces freight carriages, metallurgical machinery, cranes.
- Officially reported profitability margins are negligible, but began to improve in 2005. We view transfer pricing, and expect transparency in the mid-term.



### KEY FINACIAL DATA, USD mln

	Sales	EBITDA	Net Income	P/S	EV/EBITDA	P/E
<b>2005E</b>	294.1	16.7	5.9	0.6	12.3	30.9
<b>2006E</b>	411.8	29.8	12.1	0.4	6.9	15.0

Spot Exchange Rate 5.05

## Dnipropetrovsky Switch

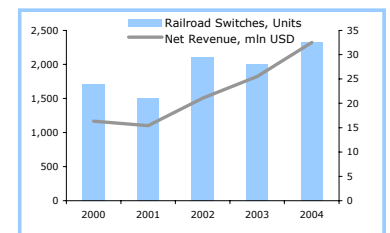
**BUY**

Current price **N/A** Target price **USD 118**

### Market Information

Bloomberg Ticker	N/A
No of Shares, mln	0.25
Market price, USD	N/A
MCap, USD mln	N/A
Free float	12.0%
FF MCap, USD mln	N/A

- A key player in the nation-wide program to modernize the railways. Exports - 20% of sales. Stable demand from Ukrzaliznytsya
- 12.6 mln CapEx program in 2006-07 to increase steel and founding production by 2.5 and 5 times.



### KEY FINACIAL DATA, USD mln

	Sales	EBITDA	Net Income	Sales Growth	EBITDA mgn	Net mgn
<b>2003</b>	25.7	3.4	1.7	0.22	13%	7%
<b>2004</b>	32.5	3.9	1.8	0.27	12%	5%
<b>2005E</b>	37.9	4.0	1.9	0.17	11%	5%

Spot Exchange Rate 5.05

## Dongirmash

**BUY**

 Current price **USD 0.55** Target price **USD 0.66**

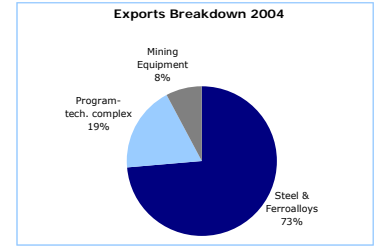
### Market Information

Bloomberg Ticker	N/A
No of Shares, mln	45.5
Market price, USD	0.55
MCap, USD mln	25.0
Free float	20%
FF MCap, USD mln	5.0

### Stock Ownership

Ukrvuglemash	19%
Gorlivsky	
Mashynobudivnyk	19%
IUD	17%
Other	45%

- A diversified producer, with coal mining machinery making up to 70% of total output. The company also produces machinery for metallurgical plants, the cement industry, railways and electrical power stations.
- Low reported profitability margins due to transfer pricing. More transparency is expected in the mid-term in line with the overall policies of SCM and IUD.



### KEY FINACIAL DATA, USD mln

	Sales	EBITDA	Net Income
2004	56.6	2.7	1.5
2005E	36.5	1.5	0.2
2006E	44.1	2.8	1.5
Spot Exchange Rate	5.05		

### KEY RATIOS

	P/S	EV/EBITDA	P/E
2004	0.4	9.2	0.4
2005E	0.7	28.7	0.7
2006E	0.6	15.4	0.6

## Druzhkivsky

**BUY**

 Current price **USD 0.34** Target price **USD 0.40**

### Market Information

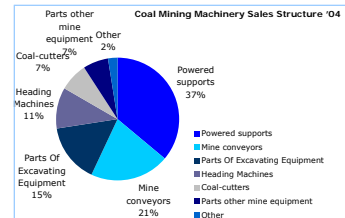
Bloomberg Ticker	DRMZ UZ
No of Shares, mln	207.5
Market price, USD	0.34
MCap, USD mln	70.6
Free float	12%
FF MCap, USD mln	8.5

### Stock Ownership

SCM	65%
IUD	12%
Other	23%

### Ratios, 2005E

EBITDA Margin	9.5%
Net Margin	3.2%
Net Debt/ Equity	25.4%



- Has a monopoly in the production of powered supports for coal mines in Ukraine.
- Expected to become a consolidation center in the industry. Aggregated sales of the candidates: Druzhkivsky, Dongirmash and Svitlo Shakhtarya would make USD 177.5 mln in 2006.



### KEY FINACIAL DATA, USD mln

	Sales	EBITDA	Net Income
2004	122.8	7.4	2.5
2005E	66.5	6.3	2.1
2006E	93.7	7.7	2.6
Spot Exchange Rate	5.05		

### KEY RATIOS

	P/S	EV/EBITDA	P/E
2004	0.6	9.5	0.6
2005E	1.1	12.8	1.1
2006E	0.8	10.5	0.8

## Luganskteplovoz

N/R

Current price  
USD 0.47

Target price  
N/R

### Market Information

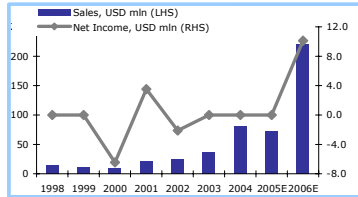
Bloomberg Ticker	LTPL UZ
No of Shares, mln	219.2
Market price, USD	0.47
MCap, USD mln	103.0
Free float	24%
FF MCap, USD mln	24.7

### Stock Ownership

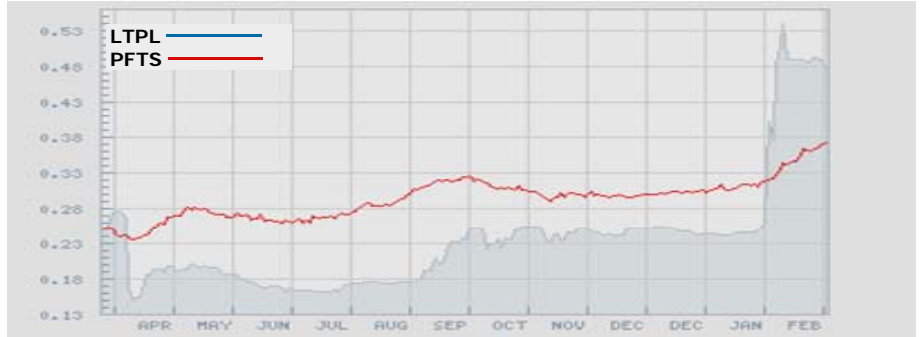
SPF	76%
Other	24%

### Ratios, 2005E

EBITDA Margin	4.9%
Net Margin	0.0%
Net Debt/ Equity	0.39



- Has a monopoly in the production of locomotives in Ukraine.
- Ukrzaliznytsya's announced order for 22 electric trains for USD 137 mln will triple Luganskteplovoz's sales in 2006.
- A 76% state-owned stake will be sold in 2006. Transmashholding, a large Russian producer of railway equipment, and AvtoKrAZ are the most likely winners. The starting price for the stake is USD 98 mln (P/S 0.6).



### KEY FINACIAL DATA, USD mln

	Sales	EBITDA	Net Income
2004	77.2	6.4	0.0
2005	65.3	3.2	0.0
2006E	202.3	22.3	10.1

### KEY RATIOS

	P/S	EV/EBITDA	P/E
2004	1.3	16.8	2465.8
2005	1.5	35.5	neg
2006E	0.5	5.1	9.8

Spot Exchange Rate 5.05

## Mariupol Heavy Machinery

BUY

Current price  
USD 13.2

Target price  
USD 20.7

### Market Information

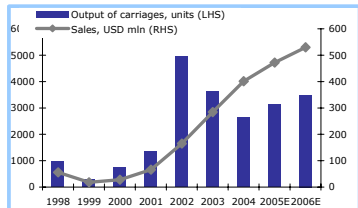
Bloomberg Ticker	MZVM UZ
No of Shares, mln	15.4
Market price, USD	13.2
MCap, USD mln	203.1
Free float	15.0%
FF MCap, USD mln	30.5

### Stock Ownership

Azovmash Group	50%
Ardemar Marine Ltd	19%
SPF	11%

### Ratios, 2005E

EBITDA Margin	3.6%
Net Margin	0.6%
Net Debt/ Equity	0.65



- A major producer of freight carriages and products from the metallurgical machine building segment. An Azovmash-managed company.
- Enjoying favorable market conditions, as Ukraine and Russia badly need to replace 80% of their worn out park of railway carriages.
- Poor transparency of financial reporting.
- The sale of the last state-owned stake (11%) in MZVM, planned for March 29th, was postponed to revalue the stake's starting price.



### KEY FINACIAL DATA, USD mln

	Sales	EBITDA	Net Income
2004	343.5	3.4	0.1
2005E	412.2	14.8	2.5
2006E	474.0	28.8	11.5

### KEY RATIOS

	P/S	EV/EBITDA	P/E
2004	0.6	65.3	3.1
2005E	0.5	16.9	2.8
2006E	0.4	8.7	2.4

Spot Exchange Rate 5.05

## Motor Sich

**BUY**

 Current price  
**USD 85**

 Target price  
**USD 115**
**Market Information**

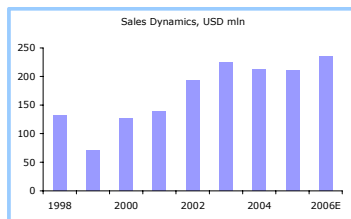
Bloomberg Ticker	<b>MSICH UZ</b>
No of Shares, mln	2.1
Market price, USD	85
MCap, USD mln	176.6
Free float	5.0%
FF MCap, USD mln	8.8

**Stock Ownership**

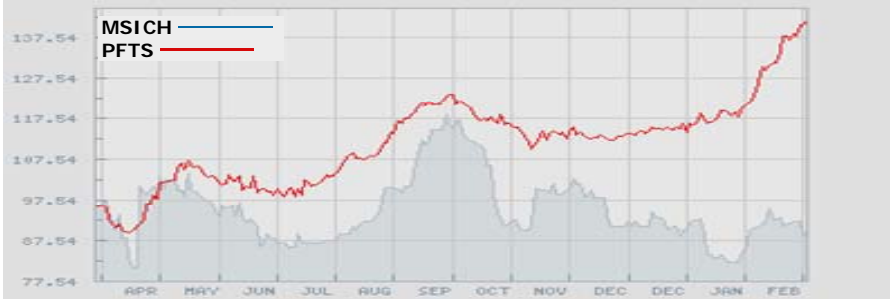
Garant Invest	45.7%
Treasury Stock	15.7%
Physical Persons	14.8%
Other	23.8%

**Ratios, 2005E**

EBITDA Margin	17.2%
Net Margin	5.6%
Net Debt/ Equity	0.17



- Has a monopoly in the production of helicopter engines in the CIS, producer of engines for Ukrainian and Russian plane-makers.
- Exports account for over 80% of the company's sales, half of which go to Russia. Motor Sich is also taking a look at the Chinese market for possible future development.
- Orders for the An-148 new regional plane are increasing. The most recent number we heard was 24 planes in 2006-08. This would bring USD 67 mln of additional sales to Motor Sich.


**KEY FINANCIAL DATA, USD mln**

	Sales	EBITDA	Net Income
2004	204.3	31.6	10.0
2005E	211.0	36.2	11.9
2006E	235.0	40.0	14.1

**KEY RATIOS**

	P/S	EV/EBITDA	P/E
2004	0.9	6.1	17.7
2005E	0.8	6.1	14.8
2006E	0.8	5.5	12.5

Spot Exchange Rate 5.05

## Odessa Cable

**N/R**

 Current price  
**USD 0.7**

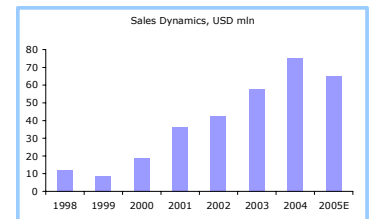
 Target price  
**N/R**
**Market Information**

Bloomberg Ticker	<b>OCAB UZ</b>
No of Shares, mln	56.0
Market price, USD	0.7
MCap, USD mln	39.2
Free float	2%
FF MCap, USD mln	0.8

**Stock Ownership**

Management	98%
Others	2%

- Largest producer of fiber cables and copper rolled wire in Ukraine.
- Ukrtelecom is the company's largest customer. About 40% of production is exported to Russia and other CIS states.


**KEY FINANCIAL DATA, USD mln**

	Sales	EBITDA	Net Income
2003	50.6	6.3	3.1
2004	65.3	4.5	1.1
2005E	60.7	8.5	4.6

**KEY RATIOS**

	P/S	EV/EBITDA	P/E
2003	0.9	7.6	14.3
2004E	0.7	11.3	40.2
2005E	0.7	5.5	9.6

Spot Exchange Rate 5.05

## Stakhanovsky Wagon

**BUY**

 Current price  
**USD 40.0**

 Target price  
**USD 80.5**
**Market Information**

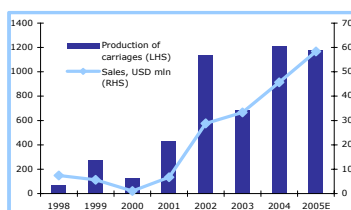
Bloomberg Ticker	<b>SVGZ UZ</b>
No of Shares, mln	1.2
Market price, USD	40.0
MCap, USD mln	45.9
Free float	6%
FF MCap, USD mln	2.8

**Stock Ownership**

Finance & Credit	77.8%
Other	22.2%

**Ratios, 2005E**

EBITDA Margin	1.8%
Net Margin	-0.4%
Net Debt/ Equity	neg



- Specializes in the production of hopper carriages for mineral fertilizers, and gondola carriages.
- Finance & Credit bought SVGZ from Alyans group (Russia) in mid-2005, and plans to include it in the KrAZ Industries holding, which will integrate producers of trucks, ship hulls and rail carriages.
- Will benefit from orders from Russia and Ukraine, planning to invest heavily to renew up to 80% of their outdated freight fleets.


**KEY FINANCIAL DATA, USD mln**

	Sales	EBITDA	Net Income
2004	40.8	-1.8	-2.5
2005E	97.9	1.8	-0.4
2006E	120.0	8.8	4.0

**KEY RATIOS**

	P/S	EV/EBITDA	P/E
2004	1.1	neg	neg
2005E	0.5	30.4	neg
2006E	0.4	6.3	13.83

Spot Exchange Rate 5.05

## Sumy Frunze

**U/R**

 Current price **USD 4.6** Target price **N/R**

### Market Information

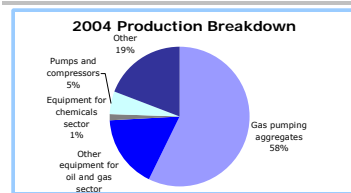
Bloomberg Ticker	<b>SMASH UZ</b>
No of Shares, mln	71.1
Market price, USD	4.6
MCap, USD mln	327.0
Free float	25.0%
FF MCap, USD mln	81.7

### Stock Ownership

Tecline Invest	25.0%
Torberg Beteiligungen	23.6%
Dastime Group	12.7%
Ogres Komerbanka	9.8%
Hambay Trading	8.9%
CEO	7.5%
Other	12.5%

### Ratios, 2005E

EBITDA Margin	10.5%
Net Margin	4.7%
Net Debt/ Equity	3.7



- Unique position in the oil, gas and chemical equipment segment brings orders from Russia and the CIS.
- Separation of units, not directly related to the company's major products (a workshop for industrial clothing production, a transportation unit, canteens, etc) will make them more flexible in terms of earning of additional revenues.
- The company looks fairly valued compared to world peers.



### KEY FINANCIAL DATA, USD mln

	Sales	EBITDA	Net Income
2004E	217.3	26.3	11.3
2005E	290.0	30.5	13.6
2006E	356.1	39.2	17.8

### KEY RATIOS

	P/S	EV/EBITDA	P/E
2004E	1.5	13.4	28.9
2005E	1.1	11.3	24.0
2006E	0.9	8.8	18.4

Spot Exchange Rate 5.05

## Svitlo Shakhtarya

**BUY**

 Current price **USD 0.41** Target price **USD 0.89**

### Market Information

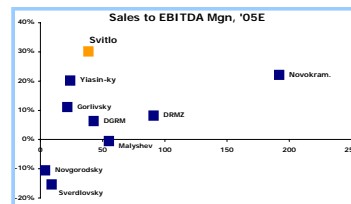
Bloomberg Ticker	<b>HMBZ UZ</b>
No of Shares, mln	111.8
Market price, USD	0.41
MCap, USD mln	45.8
Free float	40%
FF MCap, USD mln	18.3

### Stock Ownership

Management	25%
Gorlivsky	
Mashynobudivnyk	15%
Merco Services	11%
Ukrvuglemash	9%
Other	40%

### Ratios, 2005E

EBITDA Margin	27%
Net Margin	22%
Net Debt/ Equity	-0.23



- Highest profitability margins of all Ukraine's machine-building companies (27% EBITDA, 17% Net margin).
- Largest producer of conveyors for coal mining (47%). Jointly controls the Ukrainian market with Donetskirmash (41%).
- Will benefit from the privatization of mines, expected to start in 2006, and increased state support for coal mining, in line with the government's new policy to replace gas with coal.



### KEY FINANCIAL DATA, USD mln

	Sales	EBITDA	Net Income
2004	38.4	11.6	7.4
2005E	36.6	10.0	8.1
2006E	39.7	11.9	7.6

### KEY RATIOS

	P/S	EV/EBITDA	P/E
2004	1.2	3.3	1.2
2005E	1.3	3.4	1.3
2006E	1.2	2.9	1.2

Spot Exchange Rate 5.05

## Turboatom

### U/R

Current price **USD 0.42** Target price **N/R**

#### Market Information

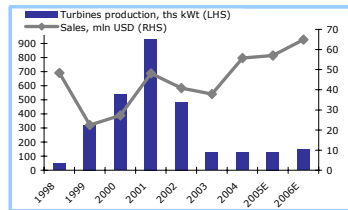
Bloomberg Ticker	<b>TATM UZ</b>
No of Shares, mln	422.5
Market price, USD	0.42
MCap, USD mln	177.4
Free float	5.5%
FF MCap, USD mln	9.8

#### Stock Ownership

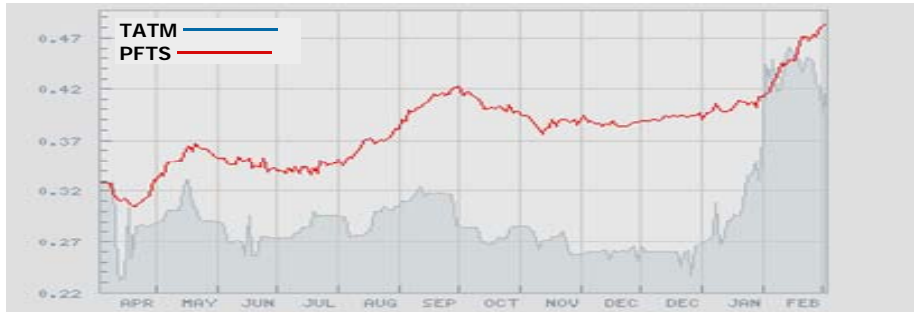
SPF	75.2%
Energy Standard	14.6%

#### Ratios, 2005E

EBITDA Margin	15.4%
Net Margin	8.0%
Net Debt/ Equity	-0.16



- Major producer of steam turbines for thermal and atomic power plants, hydraulic turbines for hydro power plants, gas turbines for thermal power plants, etc.
- Privatization of 75.2% state-owned stake postponed until after 2006. Participation of Turboatom in energy machine-building holding, created by the government, is not likely.
- Long-term contract with Russia pending for production of turbines for atomic stations after the presidents of the two countries negotiated this opportunity



#### KEY FINANCIAL DATA, USD mln

	Sales	EBITDA	Net Income
2004	52.1	9.5	4.5
2005E	54.0	8.3	4.3
2006E	61.0	11.0	5.5

#### KEY RATIOS

	P/S	EV/EBITDA	P/E
2004	3.4	16.3	3.4
2005E	3.3	18.5	3.3
2006E	2.9	14.0	2.9

Spot Exchange Rate

5.05

## Alchevsk Coke

**SELL**

Current price **USD 0.07** Target price **USD 0.04**

### Market Information

Bloomberg Ticker	ALKZ UZ
No of Shares after add. issue, mln	3,012.0
No of Shares before add. issue, mln	212.0
Market price, USD	0.07
MCap, USD mln	210.8
Free float	5.1%
FF MCap, USD mln	10.8

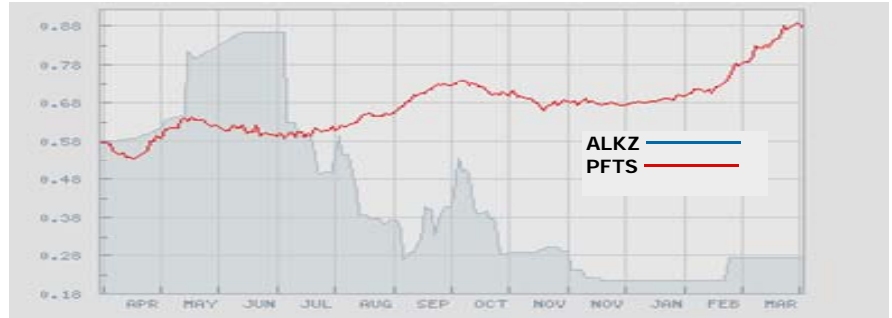
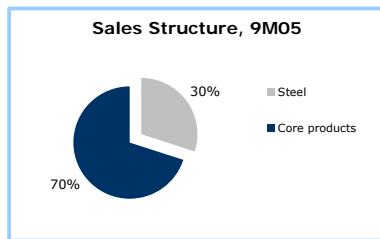
- Ukraine's #3 coke producer (14.0% of total output in 2005)
- Controlled by the Industrial Union of Donbas (IUD)
- Will likely be merged with IUD's steel maker ALMK
- Official sales vastly under-reported
- A significant portion of revenues come from sale of steel produced by ALMK
- Coke output 2005 up 3% yoy

### Stock Ownership

IUD	95%
Minorities	5%

### Ratios, 2005E

EBITDA Margin	13%
Net Margin	5%
Net Debt/ Equity	0.37



### KEY FINANCIAL DATA, USD mln

	Sales	EBITDA	Net Income
2004	168.0	10.2	3.6
2005E	140.7	18.1	6.1
2006E	139.4	21.0	7.5

### KEY RATIOS

	P/S	EV/EBITDA	P/E
2004	1.3	81.4	231.3
2005E	0.0004	47.5	136.8
2006E	0.1	41.0	111.2

Spot Exchange Rate 5.05

## Alchevsk Iron & Steel

**BUY**

Current price **USD 0.04** Target price **USD 0.08**

### Market Information

Bloomberg Ticker	ALMK UZ
No of Shares, mln	10775.3
Market price, USD	0.04
MCap, USD mln	431.0
Free float	7%
FF MCap, USD mln	30.2

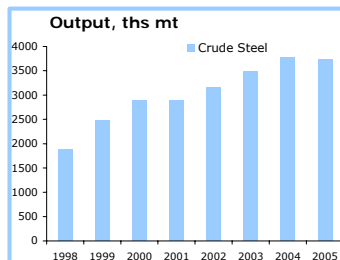
- Extensive modernization (USD 1.8 bln) that will double capacities by 2010 in progress: state-of-the-art concaster already installed
- Improved financials: EBITDA margin grew from 5.6% in 9M04 to 14.3% in 9M05
- In-house combined cycle plant to be constructed by Mitsubishi will fully meet electricity needs

### Stock Ownership

IUD	90.3%
Other	9.7%

### Ratios, 2005E

EBITDA Margin	14%
Net Margin	9%
Net Debt/ Equity	0.74



### KEY FINANCIAL DATA, USD mln

	Sales	EBITDA	Net Income
2004	801.0	41.0	8.0
2005E	988.8	140.9	84.3
2006E	1071.0	150.0	86.0

### KEY RATIOS

	P/S	EV/EBITDA	P/E
2004	0.5	10.5	53.9
2005E	0.4	3.9	5.1
2006E	0.4	3.7	5.0

Spot Exchange Rate 5.05



## Avdiivka Coke

**BUY**

Current price **USD 4.26** Target price **USD 5.50**

### Market Information

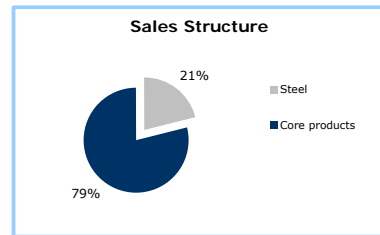
Bloomberg Ticker	<b>AVDK UZ</b>
No of Shares, mln	193.6
Market price, USD	4.26
MCap, USD mln	824.8
Free float	15%
FF MCap, USD mln	123.7

### Stock Ownership

SCM	82%
Minorities	18%

### Ratios, 2005E

EBITDA Margin	17%
Net Margin	11%
Net Debt/ Equity	0.77



- Ukraine and Europe largest coke producer (19.2% of Ukraine's total output in 2005) controlled by SCM
- Has access to cheap coking coal through its control over three mining companies and two coal refineries
- Has majority stakes in two coal machinery companies
- Diversified customer base
- Output in 2005 down 23% yoy due to slack in demand



### KEY FINANCIAL DATA, USD mln

	Sales	EBITDA	Net Income
2004	1,398.6	210.5	188.7
2005E	1,245.9	214.4	137.4
2006E	1,220.9	198.0	119.0

### KEY RATIOS

	P/S	EV/EBITDA	P/E
2004	0.6	4.4	6.1
2005E	0.7	6.0	6.0
2006E	0.7	6.9	4.2

Spot Exchange Rate 5.05

## Azovstal

**HOLD**

Current price **USD 0.59** Target price **USD 0.55**

### Market Information

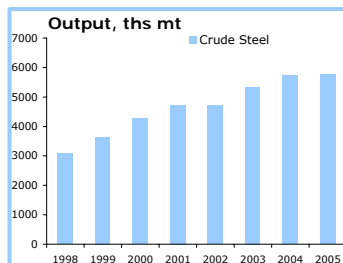
Bloomberg Ticker	<b>AZST UZ</b>
No of Shares, mln	3,174.2
Market price, USD	0.59
MCap, USD mln	1,872.8
Free float	4%
FF MCap, USD mln	74.9

### Stock Ownership

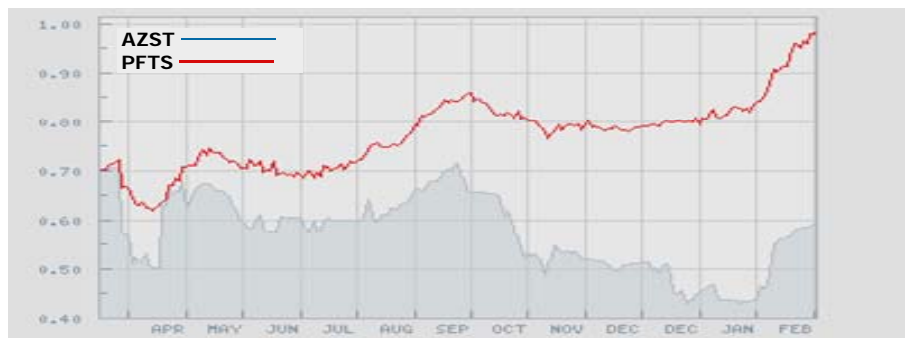
SCM	96.0%
Other	4.0%

### Ratios, 2005E

EBITDA Margin	16%
Net Margin	9%
Net Debt/ Equity	0.10



- Completed merger with a coke producer Markokhim in 2005
- Placed Eurobonds in Feb 2006 worth USD 175 mln
- Embarked on USD 800 mln investment program to upgrade equipment
- Production of rolled steel was down 14.5% yoy in 2005



### KEY FINANCIAL DATA, USD mln

	Sales	EBITDA	Net Income
2004	1,751.0	272.0	181.0
2005E	2,420.2	378.7	226.9
2006E	2,236.0	316.0	185.0

### KEY RATIOS

	P/S	EV/EBITDA	P/E
2004	1.1	7.3	10.3
2005E	0.8	5.2	8.3
2006E	0.8	6.3	10.1

Spot Exchange Rate 5.05

## Bagliykoks

### SELL

Current price **USD 0.20** Target price **USD 0.14**

#### Market Information

Bloomberg Ticker **BKOK UZ**  
 No of Shares, mln 684.5  
 Market price, USD 0.20  
 MCap, USD mln 136.9  
 Free float 1.0%  
 FF MCap, USD mln 1.4

#### Stock Ownership

Privat Group 99%  
 Other 1%

#### Ratios, 2005E

EBITDA Margin 6%  
 Net Margin 5%  
 Net Debt/ Equity 0.0

- Ukraine's #8 coke producer (4.4% of total output in 2005)
- Controlled by Privat group
- Tolling schemes significantly reduced in 2005 which resulted in a five fold increase of reported sales
- Lacks coking coal
- Likely takeover candidate



#### KEY FINANCIAL DATA, USD mln

	Sales	EBITDA	Net Income
2004	29.0	2.0	0.5
2005E	134.6	8.7	7.1
2006E	140.0	9.0	7.4

#### KEY RATIOS

	P/S	EV/EBITDA	P/E
2004	4.7	68.5	273.8
2005E	1.0	15.7	19.3
2006E	1.0	15.2	18.5

Spot Exchange Rate 5.05

## Dnipropetrovsk Pipe

### BUY

Current price **USD 47.13** Target price **USD 86.65**

#### Market Information

Bloomberg Ticker **DTRZ UZ**  
 No of Shares, mln 1.1  
 Market price, USD 47.13  
 MCap, USD mln 49.76  
 Free float 5%  
 FF MCap, USD mln 249%

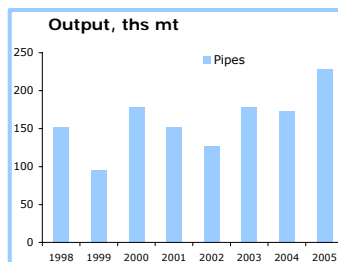
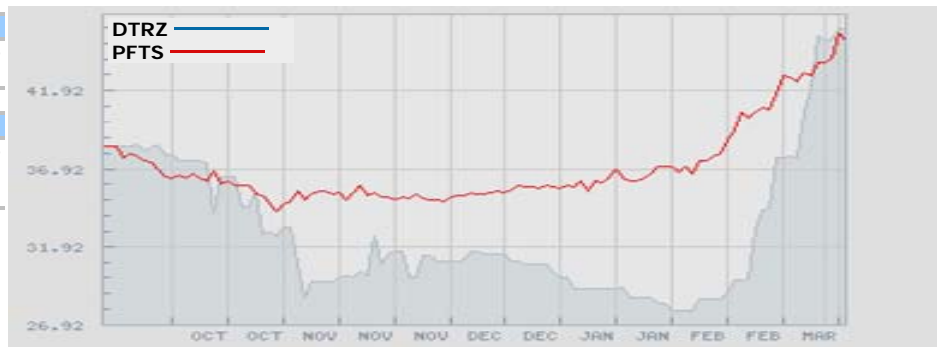
#### Stock Ownership

IUD 95.0%  
 Other 5%

#### Ratios, 2005E

EBITDA Margin 11%  
 Net Margin 6%  
 Net Debt/ Equity 1.96

- Third in Ukraine in terms of design capacity (583 ths mt of pipes annually) and third in output in 2005 (9.5% share in 2005)
- Fastest production growth in 2005 (32% yoy)
- Caters to different industries, not pegged to oil & gas like most others
- Exports to Russia subject to duties
- Profitability improves slowly



#### KEY FINANCIAL DATA, USD mln

	Sales	EBITDA	Net Income
2004	85.2	2.6	0.4
2005E	138.2	3.1	0.3
2006E	135.4	15.3	8.1

#### KEY RATIOS

	P/S	EV/EBITDA	P/E
2004	0.6	18.2	112.2
2005E	0.4	16.2	149.6
2006E	0.4	3.6	5.5

Spot Exchange Rate 5.05

## DniproSpetsStal

**BUY**

Current price **USD 186.9** Target price **USD 236.7**

### Market Information

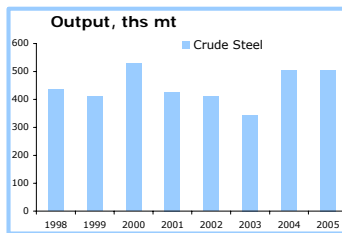
Bloomberg Ticker	<b>DNSS UZ</b>
No of Shares, mln	1.1
Market price, USD	186.9
MCap, USD mln	200.9
Free float	4.5%
FF MCap, USD mln	9.0

### Stock Ownership

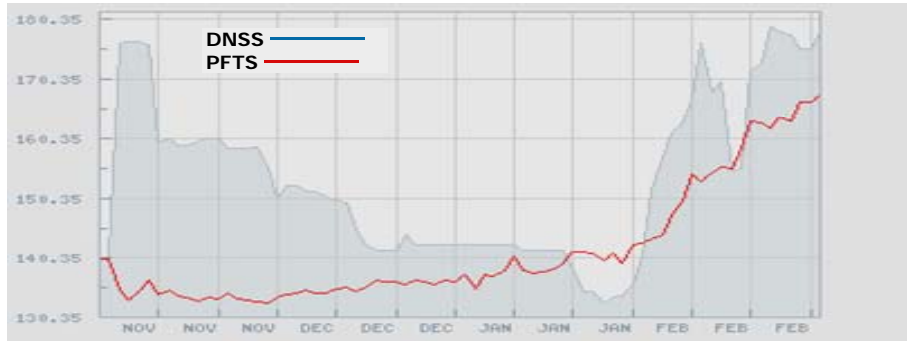
Interpipe/ Grigorishyn	60.0%
Kyiv Group	34.2%
Minorities	5.8%

### Ratios, 2005E

EBITDA Margin	10%
Net Margin	5%
Net Debt/ Equity	0.56



- Monopoly producer of specialty steels in Ukraine (crude steel production in 2005 of 506.2 ths mt)
- Uses an EAF steel smelting process which is not reliant on gas
- Competition thinner than for ordinary steels
- Shareholder conflicts are present, but are expected to be resolved in 2007



### KEY FINACIAL DATA, USD mln

	Sales	EBITDA	Net Income
2004	305.0	31.7	16.9
2005E	467.4	31.4	11.2
2006E	492.3	49.2	25.7

### KEY RATIOS

	P/S	EV/EBITDA	P/E
2004	0.7	7.1	10.7
2005E	0.4	7.8	16.1
2006E	0.4	4.7	7.0

Spot Exchange Rate 5.05

## Donetsk Coke

**HOLD**

Current price **USD 0.27** Target price **USD 0.30**

### Market Information

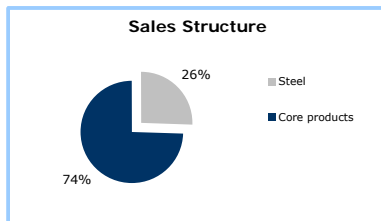
Bloomberg Ticker	<b>DKOK UZ</b>
No of Shares, mln	249.1
Market price, USD	0.27
MCap, USD mln	67.3
Free float	7.6%
FF MCap, USD mln	5.1

### Stock Ownership

SCM	79%
MMKI	13%
Minorities	8%

### Ratios, 2005E

EBITDA Margin	21%
Net Margin	11%
Net Debt/ Equity	-0.01



- Ukraine's #7 coke producer (5.3% of total output in 2005)
- Controlled by System Capital Management (SCM)
- Extensively uses tolling schemes
- Significant portion of revenues come from sale of steel produced by SCM-controlled steel makers
- Coke output in 2005 down 30% yoy



### KEY FINACIAL DATA, USD mln

	Sales	EBITDA	Net Income
2004	108.9	35.3	24.3
2005E	64.7	13.8	7.2
2006E	62.1	12.0	6.5

### KEY RATIOS

	P/S	EV/EBITDA	P/E
2004	0.6	1.9	2.8
2005E	1.0	4.8	9.3
2006E	1.1	5.5	10.3

Spot Exchange Rate 5.05

## Donetsk Metal Plant

SELL

Current price  
USD 0.2

Target price  
USD 0.1

### Market Information

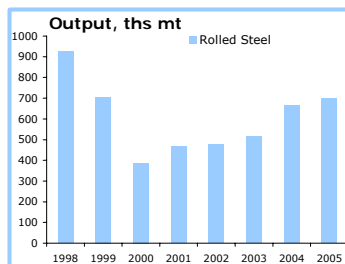
Bloomberg Ticker	DOMZ UZ
No of Shares, mln	362.2
Market price, USD	0.2
MCap, USD mln	73.4
Free float	30%
FF MCap, USD mln	22.0

### Stock Ownership

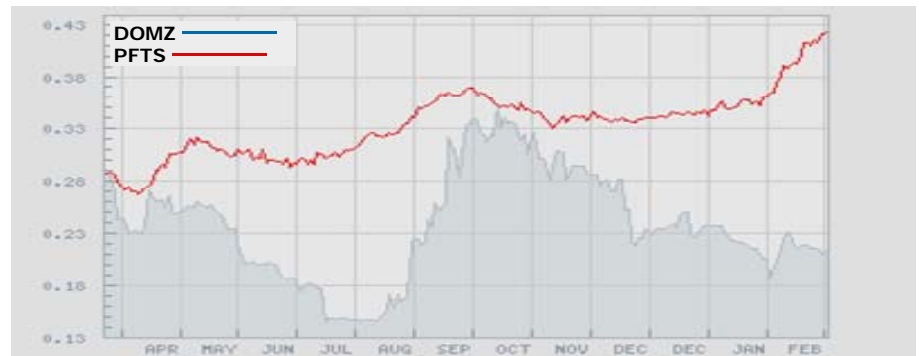
Concern Energo	70%
Minorities	30%

### Ratios, 2005E

EBITDA Margin	2%
Net Margin	1%
Net Debt/ Equity	0.01



- Producer of rolled steel products and metal hardware; #11 in Ukraine in rolled steel output in 2005 (698.3 ths mt)
- Does not have its own steel making capacities and buys semis from Donetskstal which operates assets previously spun off from DOMZ
- Controlled by a second-tier business group Concern Energo which does not have iron ore assets, thus a potential acquisition target together with Donetskstal



### KEY FINANCIAL DATA, USD mln

	Sales	EBITDA	Net Income
2004	355.5	25.8	16.3
2005E	322.6	5.4	2.1
2006E	330.0	7.5	4.0

### KEY RATIOS

	P/S	EV/EBITDA	P/E
2004	0.2	3.0	4.5
2005E	0.2	13.8	34.4
2006E	0.2	9.9	18.3

Spot Exchange Rate 5.05

## Donetsk Metal Rolling

HOLD

Current price  
USD 0.05

Target price  
USD 0.06

### Market Information

Bloomberg Ticker	DMPZ UZ
No of Shares, mln	571.8
Market price, USD	0.05
MCap, USD mln	28.59
Free float	7%
FF MCap, USD mln	2.1

### Stock Ownership

Vtorsyrovyna	79.0%
Bumprom Ltd.	9.4%
Board members	4.4%

- Pure steel rolling mill with no smelting capacities; #15 in Ukraine in rolled steel output in 2005 (145.9 ths mt)
- Strong niche player with superior distribution
- Its owners will construct an electric mini steel mill with a capacity of 280 ths mt in 2006-2007, which will meet DMPR's needs in semis
- Transfer pricing not detected

### KEY FINANCIAL DATA, USD mln

	Sales	EBITDA	Net Income
2004	60.4	9.3	8.7
2005E	60.3	5.2	4.5
2006E	61.8	5.7	3.9

	EV/S	EV/EBITDA	P/E
2004	0.5	2.9	3.3
2005E	0.6	6.7	6.4
2006E	0.5	5.7	7.3

Spot Exchange Rate 5.05

## Khartsyzk Tube

**SELL**

Current price **USD 0.30** Target price **USD 0.16**

### Market Information

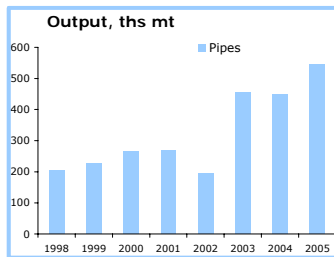
Bloomberg Ticker **HRTR UZ**  
 No of Shares, mln 2,548.8  
 Market price, USD 0.30  
 MCap, USD mln 764.6  
 Free float 3%  
 FF MCap, USD mln 22.9

### Stock Ownership

SCM 64.5%  
 SCM Limited Cyprus 26.7%  
 Azovstal 5.3%  
 Other 3.5%

### Ratios, 2005E

EBITDA Margin 20%  
 Net Margin 11%  
 Net Debt/ Equity 0.08



- The largest Ukrainian pipe maker in terms of installed capacity (1.6mln mt of pipes annually) and the largest in terms of production in 2005 (22.7% in total output)
- Key supplier of large diameter gas main pipes for Gazprom
- Enjoys the benefits of a quasi-vertical integration with Azovstal within SCM holding which controls both companies.
- Will likely face fierce competition from Russia in the future (new Russian entrants into LD segment + antidumping investigations)
- Extensive transfer pricing and use of tolling schemes



### KEY FINANCIAL DATA, USD mln

	Sales	EBITDA	Net Income
2004	109.0	8.8	0.4
2005E	252.0	49.8	28.4
2006E	267.1	52.8	30.1

### KEY RATIOS

	P/S	EV/EBITDA	P/E
2004	7.0	88.0	1960.6
2005E	3.0	15.5	26.9
2006E	2.9	14.6	25.4

Spot Exchange Rate 5.05

## Mariupol Illicha

**HOLD**

Current price **USD 0.72** Target price **USD 0.80**

### Market Information

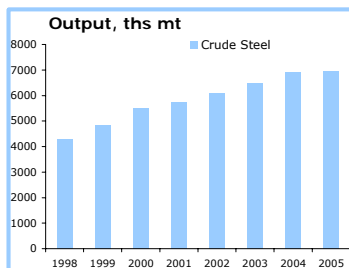
Bloomberg Ticker **MMKI UZ**  
 No of Shares, mln 3,351.7  
 Market price, USD 0.72  
 MCap, USD mln 2,413.2  
 Free float 7%  
 FF MCap, USD mln 168.9

### Stock Ownership

Management 93.0%  
 Other 7.0%

### Ratios, 2005E

EBITDA Margin 18%  
 Net Margin 11%  
 Net Debt/ Equity -0.13



- Reduced dependency on coke suppliers (leasing capacities of Yasynivsky Coke since Jan 2006 which may meet up to 50% of its needs)
- Production in 2005 on par with 2004 despite industry slowdown
- Investment in gas free technologies (projected. USD 139 in 2006)
- Attractive takeover target for steel majors



### KEY FINANCIAL DATA, USD mln

	Sales	EBITDA	Net Income
2004	2,640.1	585.5	378.6
2005E	2,909.0	531.0	306.9
2006E	2,665.0	464.6	267.0

### KEY RATIOS

	P/S	EV/EBITDA	P/E
2004	0.9	3.9	6.4
2005E	0.8	4.2	7.9
2006E	0.9	4.8	9.0

Spot Exchange Rate 5.05

## Mittal Steel Kriviy Rig

**BUY**

 Current price **USD 0.78** Target price **USD 0.93**

### Market Information

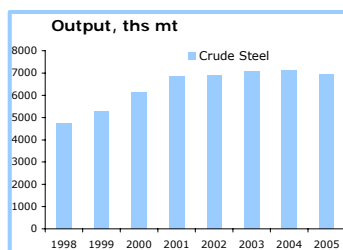
Bloomberg Ticker	<b>KSTL UZ</b>
No of Shares, mln	3,859.5
Market price, USD	0.78
MCap, USD mln	3010.4
Free float	5%
FF MCap, USD mln	150.5

### Stock Ownership

Mittal Steel	93.0%
The State	1.7%
Other	5.2%

### Ratios, 2005E

EBITDA Margin	22%
Net Margin	13%
Net Debt/ Equity	-0.30



- Across-the-board cost saving measures and production expansion due to a new strategic investor Mittal Steel are expected
- Synergy with other Mittal plants (coal from Kazakhstan, coke from Poland/ Kazakhstan, sale of steel semis to Europe)
- Posed to be the first to adopt gas free technologies among Ukrainian steel majors due to Mittal's management



### KEY FINANCIAL DATA, USD mln

	Sales	EBITDA	Net Income
2004	1,905.6	553.7	379.7
2005E	2,189.6	488.9	278.6
2006E	1,935.0	484.0	289.0

### KEY RATIOS

	P/S	EV/EBITDA	P/E
2004	1.6	5.1	7.9
2005E	1.4	5.4	10.8
2006E	1.6	5.4	10.4

Spot Exchange Rate 5.05

## Nikopol Ferroalloy

**U/R**

 Current price **USD 1.35** Target price **Pend'g**

### Market Information

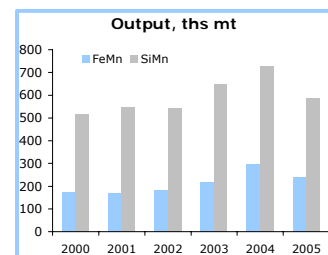
Bloomberg Ticker	<b>NFER UZ</b>
No of Shares, mln	303.5
Market price, USD	1.35
MCap, USD mln	409.8
Free float	2%
FF MCap, USD mln	8.2

### Stock Ownership

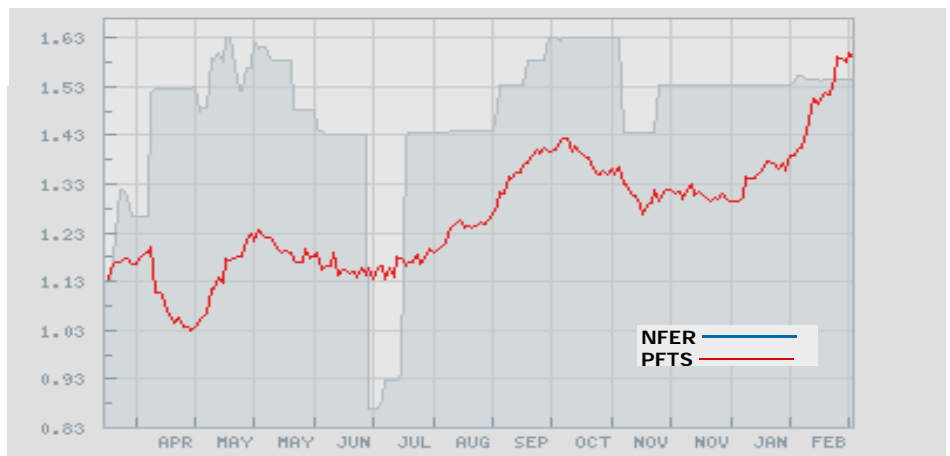
State/Interpipe	71%
Privat group	27%
Minorities	2%

### Ratios, 2005E

EBITDA Margin	3%
Net Margin	0%
Net Debt/ Equity	0.03



- Re-privatization expected
- A primary acquisition target for Privat group, which owns two manganese GOKs and ferroalloy plants
- The world's largest manganese ferroalloy producer (10% in 2003).
- Produced 57% and 70% of Ukraine's total SiMn and FeMn respectively



### KEY FINANCIAL DATA, USD mln

	Sales	EBITDA	Net Income
2004	414.8	26.1	13.3
2005E	480.0	15.4	0.0
2006E	550.0	38.5	16.5

### KEY RATIOS

	P/S	EV/EBITDA	P/E
2004	1.0	16.2	30.9
2005E	0.9	26.9	n/m
2006E	0.7	10.7	24.8

Spot Exchange Rate 5.05

## Novomoskovsk Pipe

### BUY

Current price **USD 6.0** Target price **USD 11.0**

#### Market Information

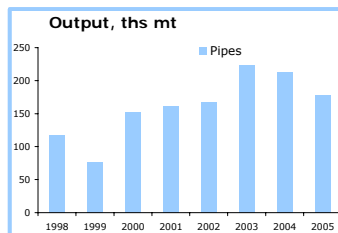
Bloomberg Ticker	<b>NVTR UZ</b>
No of Shares, mln	12.0
Market price, USD	6.0
MCap, USD mln	72.0
Free float	15%
FF MCap, USD mln	10.8

#### Stock Ownership

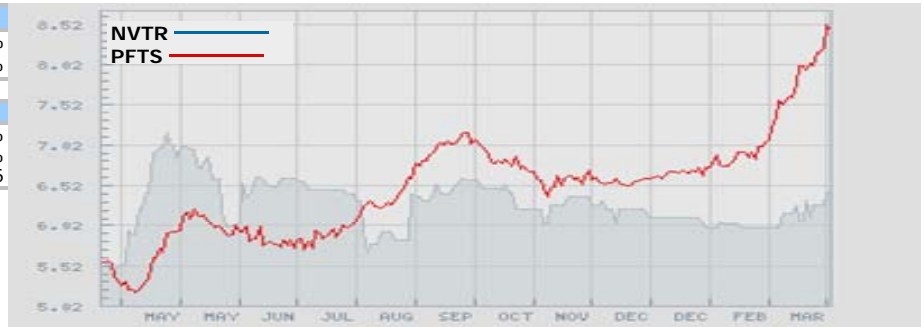
Interpipe	76.0%
Other	24%

#### Ratios, 2005E

EBITDA Margin	4%
Net Margin	1%
Net Debt/ Equity	0.06



- One of the largest producers of welded pipes for oil and gas main pipelines in the CIS
- Ukraine's fifth largest producer in terms of output in 2005 (7.4% in total production)
- #2 in Ukraine in pipe capacity (1,337 ths mt pipes p.a.)
- Exports to Russia not subject to duties (Interpipe Group clout)
- Excess capacity problems



#### KEY FINANCIAL DATA, USD mln

	Sales	EBITDA	Net Income
2004	121.3	5.4	2.2
2005E	128.8	5.7	1.4
2006E	157.0	17.6	10.3

#### KEY RATIOS

	P/S	EV/EBITDA	P/E
2004	0.6	13.8	32.7
2005E	0.6	13.0	51.8
2006E	0.5	4.2	7.0

Spot Exchange Rate

5.05

## Nyzhnyodniprovsky Pipe Rolling

### BUY

Current price **USD 12.0** Target price **USD 18.0**

#### Market Information

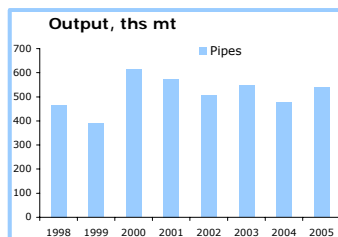
Bloomberg Ticker	<b>NITR UZ</b>
No of Shares, mln	53.9
Market price, USD	12.0
MCap, USD mln	646.62
Free float	21%
FF MCap, USD mln	135.8

#### Stock Ownership

Interpipe & mgmt	79.0%
Other	21%

#### Ratios, 2005E

EBITDA Margin	20%
Net Margin	12%
Net Debt/ Equity	0.15



- #2 in Ukraine in terms of output in 2005 (22.5% share in total production)
- Specializes in high quality pipes for the oil & gas industry
- One of three makers of railroad wheels & rims in the CIS
- Will replace existing in-house open hearth steel production with EAF shops by 2009 which will eliminate gas usage and secure its supply of steel semis for pipe and wheel production
- Exports to Russia not subject to duties (Interpipe Group clout)



#### KEY FINANCIAL DATA, USD mln

	Sales	EBITDA	Net Income
2004	494.7	42.6	19.3
2005E	641.5	125.2	80.0
2006E	735.5	144.0	94.0

#### KEY RATIOS

	P/S	EV/EBITDA	P/E
2004	1.3	18.6	33.5
2005E	1.0	5.5	8.1
2006E	0.9	4.8	6.9

Spot Exchange Rate

5.05

## Pivdenny GOK

### BUY

Current price **USD 0.20** Target price **USD 0.33**

#### Market Information

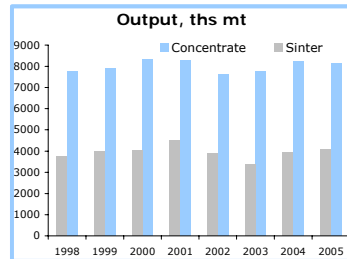
Bloomberg Ticker	<b>PGZK UZ</b>
No of Shares, mln	2,144
Market price, USD	0.20
MCap, USD mln	428.7
Free float	2%
FF MCap, USD mln	8.6

#### Stock Ownership

Privat Bank group	46%
SMART Group	46%
Other	8%

#### Ratios, 2005E

EBITDA Margin	18%
Net Margin	2%
Net Debt/ Equity	0.16



- Ukraine's largest sinter producer among ore extractors and #4 concentrate producer
- Controlled jointly by the Privat and SMART groups
- Transfer pricing has been a major issue but is fading
- Privat is likely to sell its stake to a strategic investor
- Share issue to increasing charter fund three-fold is in progress



#### KEY FINACIAL DATA, USD mln

	Sales	EBITDA	Net Income
2004	160.0	-21.0	-54.0
2005E	248.0	44.0	5.5
2006E	320.0	65.0	15.0

#### KEY RATIOS

	P/S	EV/EBITDA	P/E
2004	2.7	neg	neg
2005E	1.7	10.5	78.0
2006E	1.3	7.2	28.6

Spot Exchange Rate 5.05

## Poltavsky GOK

### BUY

Current price **USD 13.2** Target price **USD 16.0**

#### Market Information

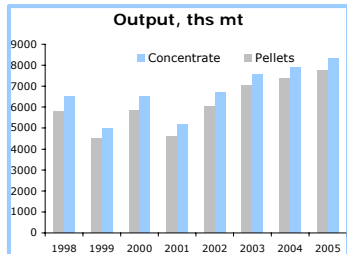
Bloomberg Ticker	<b>PGOK UZ</b>
No of Shares, mln	110.0
Market price, USD	13.2
MCap, USD mln	1452.0
Free float	9%
FF MCap, USD mln	130.7

#### Stock Ownership

Finance & Credit	76%
Dem DECOMetal	15%
Minorities	9%

#### Ratios, 2005E

EBITDA Margin	30%
Net Margin	16%
Net Debt/ Equity	0.42



- Ukraine's largest pellet producer
- Controlled by Finance & Credit group favored by new authorities
- Exports account for over 90% of its production
- Will increase sales by ~30% after a steel mill is constructed by Finance & Credit group in ~3 yrs in close proximity to PGOK
- IPO candidate in 2007-2008



#### KEY FINACIAL DATA, USD mln

	Sales	EBITDA	Net Income
2004	273.0	47.0	7.0
2005E	534.0	160.0	84.0
2006E	557.0	166.9	87.6

#### KEY RATIOS

	P/S	EV/EBITDA	P/E
2004	5.3	33.6	207.4
2005E	2.7	9.9	17.3
2006E	2.6	9.3	16.6

Spot Exchange Rate 5.05



## Stakhanov Ferroalloy

**BUY**

 Current price  
**USD 0.003**

 Target price  
**USD 0.006**
**Market Information**

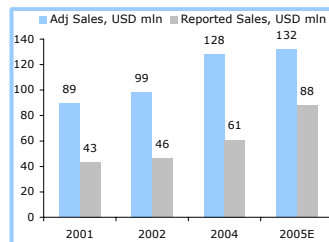
Bloomberg Ticker	<b>SFER UZ</b>
No of Shares, mln	14,356.9
Market price, USD	0.003
MCap, USD mln	43.1
Free float	2%
FF MCap, USD mln	0.9

**Stock Ownership**

Privat group (est.)	98%
Minorities	2%

**Ratios, 2005E**

EBITDA Margin	-2%
Net Margin	-9%
Net Debt/ Equity	1.69



- Produced 66% of Ukraine's FeSi and 10% of its SiMn in 2005.
- SFER has started to produce less electricity intensive SiMn and successfully overcame difficulties with tariff increases.
- If the government continues to increase tariffs the company may construct their own electricity capacities
- Since 2003 SFER has posted negative margins, hiding its real profits
- We believe this will improve due to government pressure and changes in Ukrainian business environment


**KEY FINANCIAL DATA, USD mln**

	Sales	EBITDA	Net Income
2004	61.0	1.6	-5.6
2005E	87.6	-1.8	-8.2
2006E	127.7	10.3	1.1

**KEY RATIOS**

	P/S	EV/EBITDA	P/E
2004	0.7	37.8	neg
2005E	0.5	neg	neg
2006E	0.3	8.2	39.2

Spot Exchange Rate 5.05

## Yasnyivsky Coke

**HOLD**

 Current price  
**USD 0.47**

 Target price  
**USD 0.50**
**Market Information**

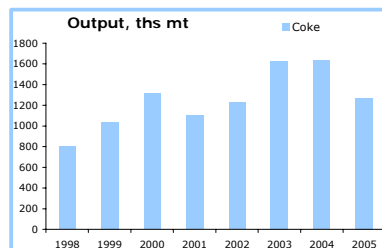
Bloomberg Ticker	<b>YASK UZ</b>
No of Shares, mln	273.6
Market price, USD	0.47
MCap, USD mln	128.6
Free float	11%
FF MCap, USD mln	14.1

**Stock Ownership**

Concern Energo	89%
Minorities	11%

**Ratios, 2005E**

EBITDA Margin	8%
Net Margin	4%
Net Debt/ Equity	0.0



- Ukraine's #6 coke producer (6.8% of total output in 2005)
- Controlled by a mid-size business group Concern Energo
- Tolling schemes with Donetskstal, Concern Energo's steel asset, are common
- This year, Mariupol Ilicha is leasing YASK's two coke batteries which accounted for 75% of the company's coke production in 2005


**KEY FINANCIAL DATA, USD mln**

	Sales	EBITDA	Net Income
2004	191.7	20.5	11.6
2005E	230.0	19.0	10.1
2006E	240.0	21.0	12.0

**KEY RATIOS**

	P/S	EV/EBITDA	P/E
2004	0.7	6.3	11.1
2005E	0.6	6.8	12.7
2006E	0.5	6.1	10.7

Spot Exchange Rate 5.05

## Zaporizhzya Aluminum

### BUY

Current price **USD 0.17** Target price **USD 0.30**

#### Market Information

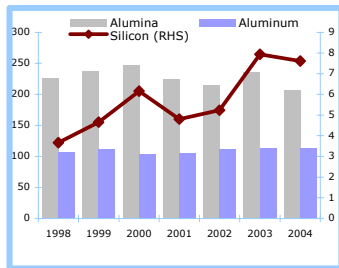
Bloomberg Ticker **ZALK UZ**  
 No of Shares, mln 622.7  
 Market price, USD 0.17  
 MCap, USD mln 103.4  
 Free float 3%  
 FF MCap, USD mln 3.1

#### Stock Ownership

SUAL 97.5%  
 Minorities 2.5%

#### Ratios, 2005E

EBITDA Margin 13%  
 Net Margin 2%  
 Net Debt/ Equity 1.13



- ZALK is the only full-cycle aluminum producer in Ukraine, with designed capacities of 100 ths mt annually
- We expect the company to successfully negotiate with the government for special electricity tariffs
- The global aluminum market will remain bullish in the mid-term



#### KEY FINANCIAL DATA, USD mln

	Sales	EBITDA	Net Income
2004	217.2	27.9	9.7
2005E	220.4	28	5.5
2006E	230.5	27	12

#### KEY RATIOS

	P/S	EV/EBITDA	P/E
2004	0.5	4.8	10.7
2005E	0.5	6.8	18.8
2006E	0.4	7.3	8.6

Spot Exchange Rate

5.05

## Zaporizh Coke

### BUY

Current price **USD 1.6** Target price **USD 2.0**

#### Market Information

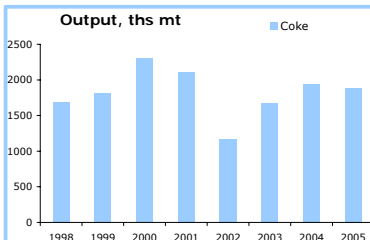
Bloomberg Ticker **ZACO UZ**  
 No of Shares, mln 119.3  
 Market price, USD 1.6  
 MCap, USD mln 190.9  
 Free float 8%  
 FF MCap, USD mln 14.5

#### Stock Ownership

SCM 51%  
 Zaporizhstal 42%  
 Minorities 8%

#### Ratios, 2005E

EBITDA Margin 9%  
 Net Margin 5%  
 Net Debt/ Equity -0.13



- Ukraine's #5 coke producer (10.0% of total output in 2005)
- The company's two major shareholders SCM and Zaporizhstal countervail each other which prevents transfer pricing
- The largest consumer is Zaporizhstal (55% of revenues)
- Output in 2005 down only 3.4% yoy as opposed to 14.3% industry wide as Zaporizhstal needs most of ZACO's production
- Likely acquisition target for Zaporizhstal
- Lacks its own coking coal mines



#### KEY FINANCIAL DATA, USD mln

	Sales	EBITDA	Net Income
2004	344.0	47.9	33.5
2005E	348.4	30.0	18.3
2006E	353.8	32.0	20.0

#### KEY RATIOS

	P/S	EV/EBITDA	P/E
2004	0.6	3.9	5.7
2005E	0.5	6.0	10.4
2006E	0.5	5.7	9.5

Spot Exchange Rate

5.05

## Zaporizhzhya Ferroalloy

BUY

Current price  
USD 0.13

Target price  
USD 0.16

### Market Information

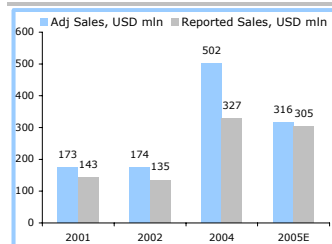
Bloomberg Ticker	ZFER UZ
No of Shares, mln	2,279.6
Market price, USD	0.13
MCap, USD mln	296.3
Free float	8%
FF MCap, USD mln	23.7

### Stock Ownership

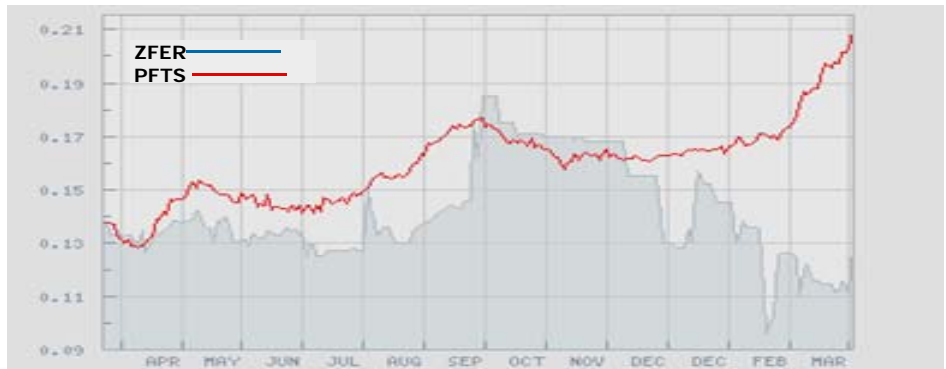
Privat group	50%
Kyiv group	40%
Minorities	10%

### Ratios, 2005E

EBITDA Margin	-7%
Net Margin	-10%
Net Debt/ Equity	0.83



- The second largest domestic ferroalloy producer
- Produces all kinds of manganese based ferroalloys and FeSi
- ZFER softened the effect of electricity tariff growth by reducing electricity intensive products (FeSi) in 2005
- This year we expect ZFER to agree with the government on a zero class tariff, which will give the company reduced electricity costs



### KEY FINANCIAL DATA, USD mln

	Sales	EBITDA	Net Income
2004	328.2	-20.1	-29.6
2005E	274.3	-19.2	-28.5
2006E	332.6	49.7	27.6

### KEY RATIOS

	P/S	EV/EBITDA	P/E
2004	0.9	neg	neg
2005E	1.1	neg	neg
2006E	0.9	6.6	10.7

Spot Exchange Rate 5.05

## ZaporizhStal

HOLD

Current price  
USD 1.23

Target price  
USD 1.30

### Market Information

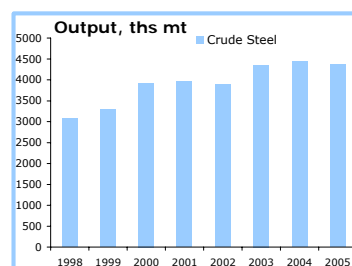
Bloomberg Ticker	ZPST UZ
No of Shares, mln	843.7
Market price, USD	1.23
MCap, USD mln	1,037.7
Free float	4%
FF MCap, USD mln	41.5

### Stock Ownership

Zakhid-Rezerv	28.5%
Global Steel Inv.	22.6%
Airol Beteiligungen	17.0%
Other	31.9%

### Ratios, 2005E

EBITDA Margin	16%
Net Margin	10%
Net Debt/ Equity	-0.10



- Ownership restructuring in progress; one shareholder group to operate the company instead of three as in the past
- Modernization program (est. USD 1.1 bln) to replace open hearths with a converter shop by 2012 in process
- CapEx likely to be funded by a syndicated facility of USD 300 mln
- Will be behind its Ukrainian peers in implementing gas free technology as currently all its steel is produced with open hearths



### KEY FINANCIAL DATA, USD mln

	Sales	EBITDA	Net Income
2004	1332.4	236.5	152.8
2005E	1556.0	251.0	149.0
2006E	1,411.0	201.6	94.0

### KEY RATIOS

	P/S	EV/EBITDA	P/E
2004	0.8	4.1	6.8
2005E	0.7	3.8	7.0
2006E	0.7	4.9	11.0

Spot Exchange Rate 5.05

## Galnaftogaz

**BUY**

 Current price  
 USD 0.0122

 Target price  
 USD 0.0141

- The only public oil products retailer in Ukraine.
- Operates 180 filling stations, markets high-quality oil products, both exported and made by domestic refineries
- Plans to double its branded station network by 2009
- Nearly doubled its sales in 2005
- Preparing for an IPO in early 2007

### Market Information

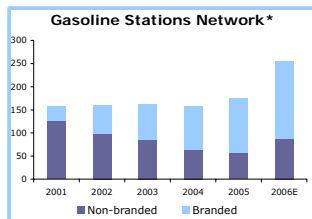
Bloomberg Ticker	<b>GLNG UZ</b>
No of Shares, mln	16,000.0
Market price, USD	0.0122
MCap, USD mln	195.2
Free float	23%
FF MCap, USD mln	45.7

### Stock Ownership

FIE Holding and affiliated companies	73%
The Antonov Family	4%
Other	23%

### Ratios, 2005E

EBITDA Margin	6%
Net Margin	2%
Net Debt/ Equity	0.81



\* 2006E - management case forecast



### KEY FINACIAL DATA, USD mln

	Sales	EBITDA	Net Income
2004	241.3	8.4	2.7
2005E	319.5	18.2	7.6
2006E	389.9	31.8	15.1

Spot Exchange Rate

5.05

### KEY RATIOS

	P/S	EV/EBITDA	P/E
2004	0.8	26.1	73.5
2005E	0.6	12.8	25.7
2006E	0.5	7.9	12.9

## Galychna Refinery

**N/R**

 Current price  
 USD 0.28

 Target price  
 Not Rated

- The oldest Ukrainian refinery. Nameplate capacity - 3.2 mln t/year, #5 of 6 domestic refineries
- The plant was idle for 146 days in 2005
- Capacity utilization to improve, as in Feb 2006 the company was taken over by Privat

### Market Information

Bloomberg Ticker	<b>HANZ UZ</b>
No of Shares, mln	870.7
Market price, USD	0.28
MCap, USD mln	241.4
Free float	2%
FF MCap, USD mln	4.8

### Stock Ownership

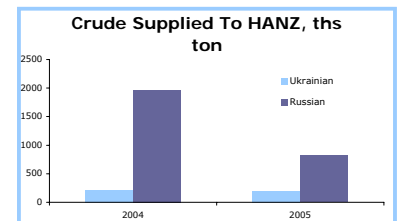
Privat Group	73%
State	25%
Other	2%

### KEY FINACIAL DATA, USD mln

	Sales	EBITDA	Net Income
2003	294.8	7.7	0.3
2004	578.0	1.0	1.0
2005E	296.9	4.7	0.1

Spot Exchange Rate

5.05



	Sales Growth	Margins EBITDA	Net
2003	N/A	2.6%	0.1%
2004	96%	0.2%	0.2%
2005E	-49%	1.6%	0.0%

## Kherson Refinery

**N/R**

 Current price  
 USD 0.94

 Target price  
 Not Rated

- #3 in terms of nameplate capacity (7.1 mln t a year) among Ukrainian refineries
- In 2005 output decreased by 3x
- Needs modernization, its refining depth is the lowest in the industry
- There are rumors that the owners are seeking potential buyers

### Market Information

Bloomberg Ticker	<b>HNPk UZ</b>
No of Shares, mln	131.7
Market price, USD	0.94
MCap, USD mln	123.8
Free float	12%
FF MCap, USD mln	15.4

### Stock Ownership

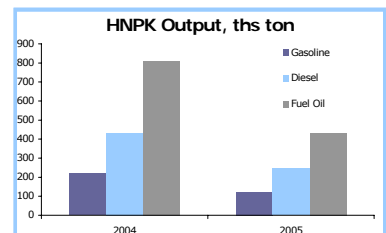
KazMunaiGaz	60%
Alyans Group	28%
Other	12%

### KEY FINACIAL DATA, USD mln

	Sales	EBITDA	Net Income
2003	20.8	4.1	0.7
2004	25.2	3.3	0.004
2005E	17.4	1.9	-1.0

Spot Exchange Rate

5.05



	Sales Growth	Margins EBITDA	Net
2003	N/A	19.6%	3.2%
2004	21%	12.9%	0.01%
2005E	-31%	10.9%	-6%

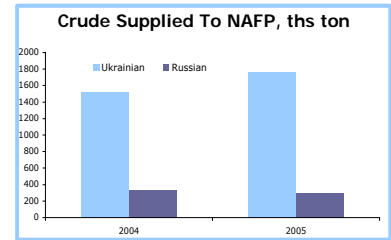
## Naftokhimik Prykarpattya

N/R

Current price  
USD 2.97

Target price  
Not Rated

- The smallest Ukrainian refinery, nameplate capacity - 2.6 mln t a year
- The only refinery to increase its output in 2005
- Has to modernize in 2006 to comply with regulatory limits on sulfur content



### Market Information

	NAFP UZ
Bloomberg Ticker	NAFP UZ
No of Shares, mln	13.1
Market price, USD	2.97
MCap, USD mln	39.0
Free float	6%
FF MCap, USD mln	2.2

### KEY FINACIAL DATA, USD mln

### Stock Ownership

Privat Group	68%
State	26%
Other	6%

	Sales	EBITDA	Net Income
2003	180.5	6.8	4.8
2004	427.8	8.0	3.6
2005E	265.1	30.2	23.9

	Sales Growth	Margins EBITDA	Net
2003	N/A	3.8%	2.6%
2004	137%	1.9%	0.8%
2005E	-38%	11.4%	9.0%

Spot Exchange Rate

5.05

## Ukrnafta

HOLD

Current price  
USD 58.0

Target price  
Pending

- The largest oil & gas extracting company in Ukraine, accounts for 72% of total domestic extraction (3.1 mln ton in 2005)
- Expanding its retail business: gasoline sales to reach 65-70% of total sales by 2009
- Sales to improve due to the ban on tolling embedded in the state budget law

### Market Information

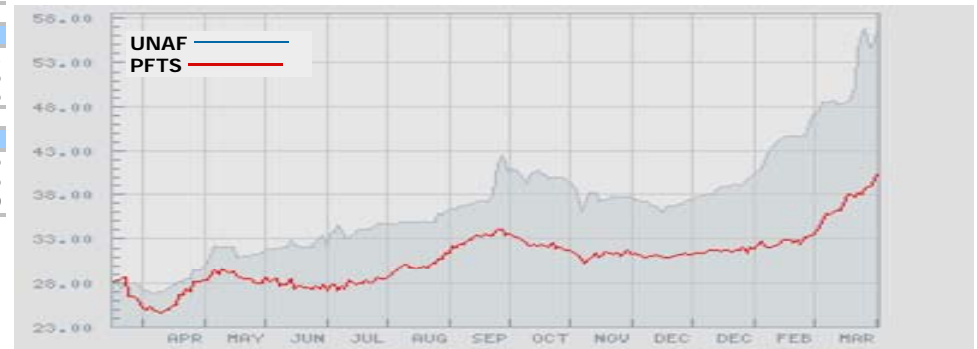
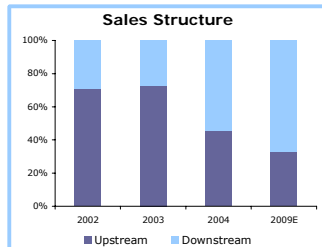
	UNAF UZ
Bloomberg Ticker	UNAF UZ
No of Shares, mln	54.2
Market price, USD	58.0
MCap, USD mln	3,145.3
Free float	8%
FF MCap, USD mln	251.6

### Stock Ownership

State	50%+1
Privat Group	42%
Minorities	8%

### Ratios, 2005E

EBITDA Margin	53%
Net Margin	31%
Net Debt/ Equity	0.09



### KEY FINACIAL DATA, USD mln

	Sales	EBITDA	Net Income
2004	736	459	253
2005E	1,271	669	389
2006E	2,288	866	486

### KEY RATIOS

	P/S	EV/EBITDA	P/E
2004	4.3	7.0	12.4
2005E	2.5	5.1	8.1
2006E	1.4	3.8	6.5

Spot Exchange Rate

5.05

## Centrenergy

### BUY

Current price **USD 0.67** Target price **USD 0.82**

#### Market Information

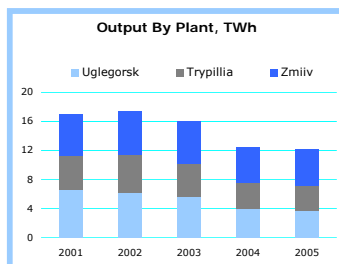
Bloomberg Ticker	<b>CEEN UZ</b>
No of Shares, mln	369.4
Market price, USD	0.67
MCap, USD mln	247.5
Free float	19%
FF MCap, USD mln	46.2

#### Stock Ownership

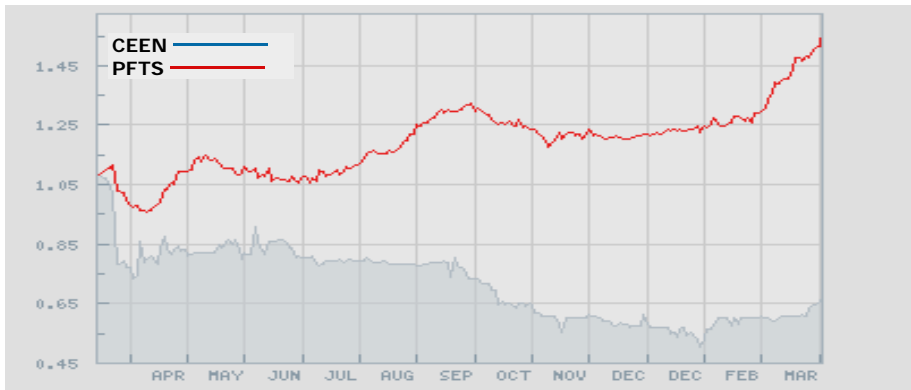
NC ECU	78.3%
Others	21.7%

#### Ratios, 2005E

EBITDA Margin	11%
Net Margin	3%
Net Debt/ Equity	0.26



- Owns three power plants with a total capacity 7.55 GW (3.0 GW - gas fuelled, 4.55 GW coal fuelled)
- The company has just finished reconstruction of a 300 MW power unit, which will increase the company's power stability and decrease fuel costs
- CEEN is participating in the process of debt offsetting, which will move the company away from the threat of bankruptcy



#### KEY FINANCIAL DATA, USD mln

	Sales	EBITDA	Net Income
2004	307.0	38.8	-6.5
2005E	352.0	38.0	11.0
2006E	427.0	44.0	18.0

#### KEY RATIOS

	P/S	EV/EBITDA	P/E
2004	0.8	9.2	neg
2005E	0.7	9.2	22.5
2006E	0.6	7.8	13.8

Spot Exchange Rate 5.05

## Dniproenergo

### BUY

Current price **USD 70.5** Target price **USD 99.0**

#### Market Information

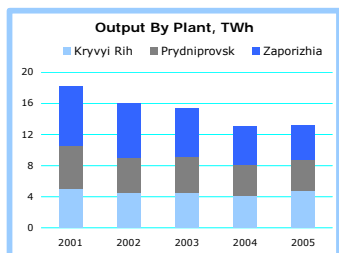
Bloomberg Ticker	<b>DNEN UZ</b>
No of Shares, mln	3.9
Market price, USD	70.5
MCap, USD mln	276.64
Free float	16%
FF MCap, USD mln	44.9

#### Stock Ownership

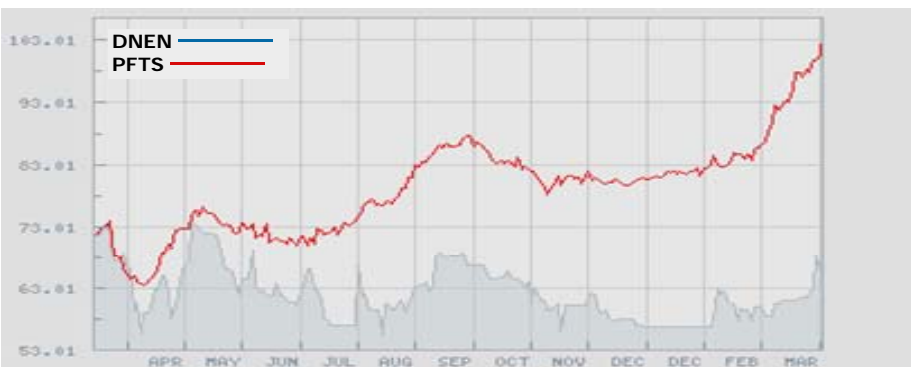
NC ECU	76%
Others	24%

#### Ratios, 2005E

EBITDA Margin	15%
Net Margin	2%
Net Debt/ Equity	0.57



- The largest thermal generator in Ukraine with an installed capacity of 2.4 GW - gas fuelled, 5.76 GW coal fuelled
- Operates in the highly industrialized Dniporpetrovsk and Zaporizhia regions
- Has the lowest level of fuel consumption among thermal power companies. Its capacity utilization level is the lowest among GenCos
- Its main problem is debt, which led to the process of financial recovery
- Currently the company is participating in the process of debt offsetting



#### KEY FINANCIAL DATA, USD mln

	Sales	EBITDA	Net Income
2004	328.0	49.5	-5.3
2005E	385.0	58.2	8.1
2006E	413.0	69.5	11.1

#### KEY RATIOS

	P/S	EV/EBITDA	P/E
2004	0.8	6.5	neg
2005E	0.7	5.3	34.2
2006E	0.7	4.5	24.9

Spot Exchange Rate 5.05

## DniproOblenergo

**HOLD**

 Current price **USD 40.0**      Target price **USD 39.9**
**Market Information**

Bloomberg Ticker	<b>DNON UZ</b>
No of Shares, mln	6.0
Market price, USD	40.0
MCap, USD mln	239.7
Free float	9%
FF MCap, USD mln	21.6

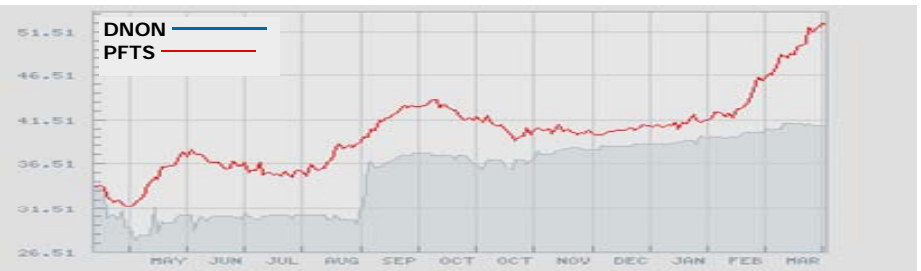
**Stock Ownership**

State (NC ECU)	75.0%
Grigorishyn	15.9%
Other	9.11%

**Ratios, 2005E**

EBITDA Margin	2%
Net Margin	-0.01%
Net Debt/ Equity	N/M

- The largest and the most liquid energy distribution company
- Increased payment collection levels and reduced electricity losses
- Debt problem is going to be solved in the nearest future
- Main risk associated with the company is its large share of industrial consumers, who could start arranging electricity supplies by themselves


**KEY FINANCIAL DATA, USD mln**

	Sales	EBITDA	Net Income
<b>2004</b>	716.5	9.0	-11.3
<b>2005E</b>	814.2	12.3	-0.1
<b>2006E</b>	960.8	13.2	1.8

**KEY RATIOS**

	P/S	EV/EBITDA	P/E
<b>2004</b>	0.3	26.3	neg
<b>2005E</b>	0.3	19.4	neg
<b>2006E</b>	0.2	18.2	133.1

 Spot Exchange Rate **5.05**

## Donbassenergo

**BUY**

 Current price **USD 5.42**      Target price **USD 6.60**
**Market Information**

Bloomberg Ticker	<b>DOEN UZ</b>
No of Shares, mln	23.6
Market price, USD	5.42
MCap, USD mln	128.2
Free float	14%
FF MCap, USD mln	18.2

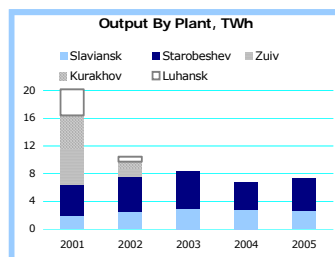
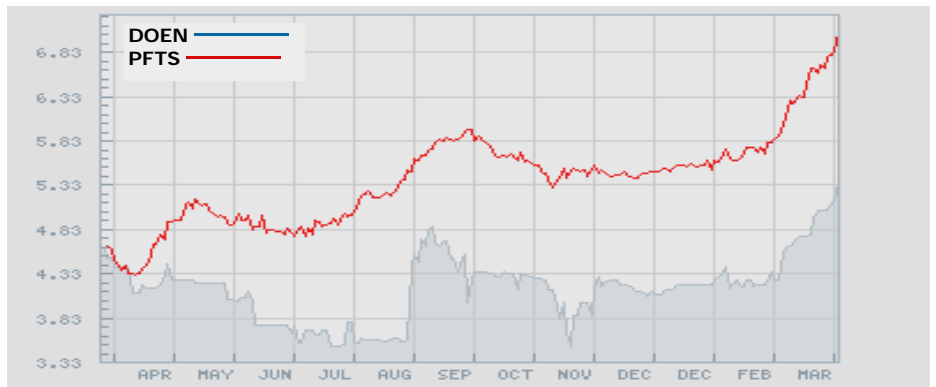
**Stock Ownership**

NC ECU	85.8%
Others	14.2%

**Ratios, 2005E**

EBITDA Margin	21%
Net Margin	8%
Net Debt/ Equity	1.00

- DOEN owns two coal-fueled thermal power plants with a total of capacity 2.55 GW
- Newly constructed power unit with CFB technology allows it to burn coal refuse
- Has started building another CFB power unit
- DOEN's costs decreased due to the scale effect related to electricity output growth in 2005
- The company is now beyond the threat of bankruptcy
- The company restructured its payables in 2003-2004, and is now beyond the threat of bankruptcy


**KEY FINANCIAL DATA, USD mln**

	Sales	EBITDA	Net Income
<b>2004</b>	170.0	24.8	0.2
<b>2005E</b>	251.0	52.4	19.0
<b>2006E</b>	285.0	51.3	14.0

**KEY RATIOS**

	P/S	EV/EBITDA	P/E
<b>2004</b>	0.8	8.3	712.0
<b>2005E</b>	0.5	3.9	6.7
<b>2006E</b>	0.4	4.0	9.2

 Spot Exchange Rate **5.05**

## Khmelnitskoblenergo

**SELL**

 Current price **USD 0.30**      Target price **USD 0.18**
**Market Information**

Bloomberg Ticker	<b>HMON UZ</b>
No of Shares, mln	134.6
Market price, USD	0.30
MCap, USD mln	40.4
Free float	18%
FF MCap, USD mln	7.3

**Stock Ownership**

State (NC ECU)	70.0%
VS Energy (Babakov)	11.8%
Other	18.2%

- The most efficient energy distribution company, among those controlled by the state. Its management is among the most qualified and innovative
- The company's debt problem (debt payable is 51% of sales) is going to be solved in the nearest future
- Will be one of the most attractive privatization targets if there is a new round of privatizations

**KEY FINANCIAL DATA, USD mln**

	Sales	EBITDA	Net Income
<b>2004</b>	51.2	3.4	0.1
<b>2005E</b>	57.6	4.2	0.6
<b>2006E</b>	68.0	4.9	1.1

**KEY RATIOS**

	P/S	EV/EBITDA	P/E
<b>2004</b>	0.8	12.0	400.9
<b>2005E</b>	0.7	9.7	67.3
<b>2006E</b>	0.6	8.4	36.7

Spot Exchange Rate      5.05

## Kievenergo

**BUY**

 Current price **USD 1.5**      Target price **USD 1.7**
**Market Information**

Bloomberg Ticker	<b>KIEN UZ</b>
No of Shares, mln	108.4
Market price, USD	1.5
MCap, USD mln	162.5
Free float	9%
FF MCap, USD mln	14.6

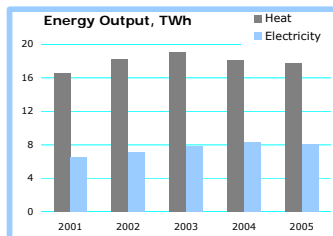
**Stock Ownership**

NC ECU	50.0%
Kiev City Council	12.7%
Khmelnitskiy	26.5%
Others	10.8%

**Ratios, 2005E**

EBITDA Margin	7%
Net Margin	3%
Net Debt/ Equity	0.24

- The only vertically integrated electricity Ukrainian company, which produces and supplies electricity and heat in Kyiv city.
- Operates two combined heat and power plants (CHPPs) with a total electricity generation capacity of 1 GW.
- Gas price growth will only partially affect the company's costs, as it enjoys a special "social" tariff.
- Electricity production costs for KIEN are much lower than for thermal power plants.
- Expected to sell electricity on the electricity market, together with other thermal generation companies (to increase revenue from electricity generation by 15-20%)


**KEY FINANCIAL DATA, USD mln**

	Sales	EBITDA	Net Income
<b>2004</b>	310.8	19.3	9.4
<b>2005E</b>	352.0	23.6	9.1
<b>2006E</b>	373.0	31.7	12.0

**KEY RATIOS**

	P/S	EV/EBITDA	P/E
<b>2004</b>	0.5	10.0	17.3
<b>2005E</b>	0.5	9.5	17.9
<b>2006E</b>	0.4	7.0	13.5

Spot Exchange Rate      5.05

## Krymenergo

**BUY**

 Current price **USD 0.18**      Target price **USD 0.38**
**Market Information**

Bloomberg Ticker	<b>KREN UZ</b>
No of Shares, mln	173.0
Market price, USD	0.18
MCap, USD mln	31.5
Free float	25%
FF MCap, USD mln	7.9

**Stock Ownership**

State (NC ECU)	70%
Other	30%

- The company showed the most dramatic decrease in electricity losses in 2003-2004 (about 16% of the total electricity supply), which demonstrates the efficiency of the company's new management.
- Still, the company is looking forward to the debt offsetting process to relieve it of this burden (almost 2x).

**KEY FINANCIAL DATA, USD mln**

	Sales	EBITDA	Net Income
<b>2004</b>	119.1	-2.6	-8.9
<b>2005E</b>	144.5	7.3	-0.2
<b>2006E</b>	163.3	8.1	0.4

**KEY RATIOS**

	P/S	EV/EBITDA	P/E
<b>2004</b>	0.3	-11.8	neg
<b>2005E</b>	0.2	4.4	neg
<b>2006E</b>	0.2	4.0	78.7

Spot Exchange Rate      5.05



## Prikarpatoblenergo

### BUY

Current price Target price  
**USD 0.26 USD 0.47**

#### Market Information

Bloomberg Ticker	<b>PREN UZ</b>
No of Shares, mln	103.6
Market price, USD	0.26
MCap, USD mln	26.9
Free float	13%
FF MCap, USD mln	3.5

- One of the most efficient Ukrainian distribution companies, with high rate of payment collection (about 105%), absence of excessive electricity losses and no debts. The most valuable target for rival control groups: Grigorishin, Surkis and Kolomoiskiy.

#### Stock Ownership

State (NC ECU)	25.0%
Surkis	27.6%
Grigorishyn	33.6%
Other	13.8%

#### KEY FINANCIAL DATA, USD mln

	Sales	EBITDA	Net Income
<b>2004</b>	74.7	3.6	-0.3
<b>2005E</b>	92.5	7.6	1.9
<b>2006E</b>	110.0	8.7	2.3

#### KEY RATIOS

	P/S	EV/EBITDA	P/E
<b>2004</b>	0.4	7.3	neg
<b>2005E</b>	0.3	3.5	14.2
<b>2006E</b>	0.2	3.5	11.7

Spot Exchange Rate 5.05

## Ternopiloblenergo

### BUY

Current price Target price  
**USD 0.16 USD 0.25**

#### Market Information

Bloomberg Ticker	<b>TOEN UZ</b>
No of Shares, mln	61.1
Market price, USD	0.16
MCap, USD mln	9.7
Free float	8%
FF MCap, USD mln	0.77

- The company which is 50% state owned, but in fact is controlled by Surkis/Kolomoiskiy management. Belongs to the pool of well-performing companies, but has a relatively high amount of debt (50% of sales), which are planned to be set off soon.

#### Stock Ownership

State (NC ECU)	51.0%
Grigorishyn	40.1%
Other	8.9%

#### KEY FINANCIAL DATA, USD mln

	Sales	EBITDA	Net Income
<b>2004</b>	31.0	0.9	-2.0
<b>2005E</b>	33.5	3.5	0.9
<b>2006E</b>	37.2	4.1	1.0

#### KEY RATIOS

	P/S	EV/EBITDA	P/E
<b>2004</b>	0.3	11.5	neg
<b>2005E</b>	0.3	3.0	10.7
<b>2006E</b>	0.3	2.6	9.7

Spot Exchange Rate 5.05

## Zakhidenergo

### BUY

Current price Target price  
**USD 27.0 USD 34.0**

#### Market Information

Bloomberg Ticker	<b>ZAEN UZ</b>
No of Shares, mln	12.8
Market price, USD	27.0
MCap, USD mln	345.3
Free float	30%
FF MCap, USD mln	103.3

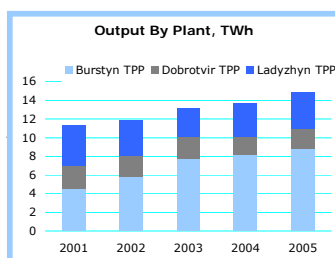
- ZAEN owns three coal-fueled thermal power plants with a total capacity of 4.6 GW, located in western Ukraine.
- Two power plants are used to export to UCTE countries. ZAEN receives special treatment from the regulators, with a special tariff policy.
- The company is unlikely to suffer from gas price growth, as all of its costs are compensated from electricity tariffs.
- ZAEN has the lowest amount of debt among generation companies.

#### Stock Ownership

NC ECU	70.1%
Others	29.9%

#### Ratios, 2005

EBITDA Margin	5%
Net Margin	1%
Net Debt/ Equity	0.13



#### KEY FINANCIAL DATA, USD mln

	Sales	EBITDA	Net Income
<b>2004</b>	368.4	21.0	10.9
<b>2005</b>	481.8	23.3	4.1
<b>2006E</b>	505.1	84.5	39.0

#### KEY RATIOS

	P/S	EV/EBITDA	P/E
<b>2004</b>	0.9	17.8	31.7
<b>2005</b>	0.7	16.2	84.2
<b>2006E</b>	0.7	8.0	8.9

Spot Exchange Rate 5.05

## ZaporizhiaOblenergo

### SELL

Current price **USD 0.72** Target price **USD 0.57**

- The company supplies one of the largest industrial regions, which makes the company dependent on large industrial consumers. The company has solved all its problems except its large indebtedness (56% of sales). Look for this problem to be solved next.

#### Market Information

Bloomberg Ticker **ZAON UZ**  
 No of Shares, mln 179.4  
 Market price, USD 0.72  
 MCap, USD mln 129.1  
 Free float 10%  
 FF MCap, USD mln 12.91

#### Stock Ownership

State (NC ECU) 60.2%  
 Surkis 10.1%  
 Grigorishyn 18.7%  
 Other 11.0%

#### Ratios, 2005E

EBITDA Margin 1%  
 Net Margin 0.4%  
 Net Debt/ Equity -0.005



#### KEY FINANCIAL DATA, USD mln

	Sales	EBITDA	Net Income
2004	274.7	1.0	-3.0
2005E	351.2	4.8	1.3
2006E	389.8	4.7	1.2

Spot Exchange Rate 5.05

#### KEY RATIOS

	P/S	EV/EBITDA	P/E
2004	0.5	121.3	neg
2005E	0.4	26.9	99.3
2006E	0.3	27.4	107.6

## Zhytomirolenergo

### BUY

Current price **USD 0.60** Target price **USD 0.70**

- A private company controlled by VSE holding. One of the best performing companies on the Ukrainian energy market. It is one of five companies (privatized in 2001) which benefit from preferential tariffs allowing for profits on invested capital. As a result, the company's profits are higher than for other, not private Oblenergos.

#### Market Information

Bloomberg Ticker **ZHEN UZ**  
 No of Shares, mln 122.4  
 Market price, USD 0.60  
 MCap, USD mln 73.4  
 Free float 8%  
 FF MCap, USD mln 5.88

#### Stock Ownership

VS Energy (Babakov) 91.6%  
 Other 8.4%

#### KEY FINANCIAL DATA, USD mln

	Sales	EBITDA	Net Income
2004	60.1	10.2	4.3
2005E	70.1	10.3	4.0
2006E	79.2	10.6	4.1

Spot Exchange Rate 5.05

#### KEY RATIOS

	P/S	EV/EBITDA	P/E
2004	1.2	7.0	16.9
2005E	1.0	7.1	18.4
2006E	0.9	6.9	17.9

## Azot Cherkasy

**BUY**

 Current price **USD 2.2**      Target price **USD 3.0**
**Market Information**

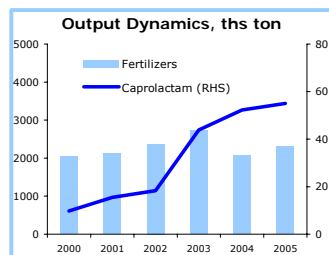
Bloomberg Ticker	<b>AZOT UZ</b>
No of Shares, mln	124.3
Market price, USD	2.2
MCap, USD mln	248.6
Free float	6%
FF MCap, USD mln	14.9

**Stock Ownership**

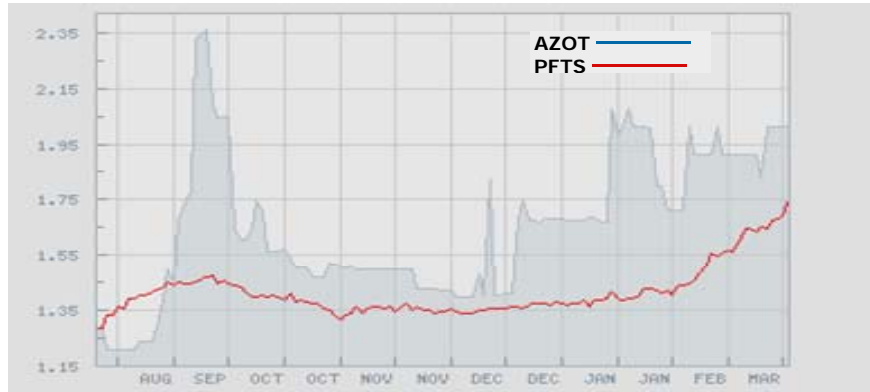
Ukrsib Group	77%
Cliringovy Dom	17%
Others	6%

**Ratios, 2005E**

EBITDA Margin	31%
Net Margin	21%
Net Debt/ Equity	-0.03



- The second largest Ukrainian producer of nitrogen fertilizers
- Highly diversified – caprolactam brings in about 1/3 of its total revenues
- The least sensitive to gas prices compared to its other traded rivals
- True sales and profitability are larger than reported
- The conflict with Cliringovy Dom (minority shareholder) ending


**KEY FINACIAL DATA, USD mln**

	Sales	EBITDA	Net Income
2004	281.0	66.0	42.1
2005E	367.2	114.7	77.5
2006E	362.8	63.0	38.7

**KEY RATIOS**

	P/S	EV/EBITDA	P/E
2004	0.9	2.7	3.5
2005E	0.7	2.2	3.2
2006E	0.7	3.8	6.4

Spot Exchange Rate      5.05

## Crimsoda

**N/R**

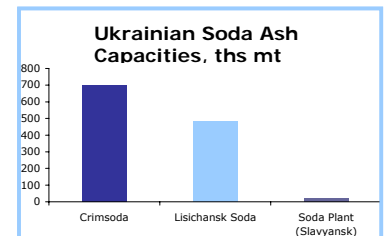
 Current price **USD 0.50**      Target Price **N/R**
**Market Information**

Bloomberg Ticker	<b>KSOD UZ</b>
No of Shares, mln	219.6
Market price, USD	0.50
MCap, USD mln	108.7
Free float	11%
FF MCap, USD mln	11.4

**Stock Ownership**

RSI Erste Beteiligungsgesellschaft	89%
Other	11%

- The largest producer of soda ash in Ukraine (80% of domestic output)
- Licensed to explore 2000+ sq km of the only inexhaustible salt deposit among the world's 5 largest deposits
- To boost grade A soda ash capacity by 1.5x in 2006. Margins to improve


**KEY FINACIAL DATA, USD mln**

	Sales	EBITDA	Net Income
2003	47.4	5.4	0.6
2004	70.3	16.7	10.6
2005E	89.7	24.3	13.8

Spot Exchange Rate      5.05

	Sales Growth	Margins EBITDA	Net
2003	73%	11.5%	1%
2004	48%	23.8%	15%
2005E	28%	27.1%	15%

## Dneproshina

N/R

Current price **USD 18.0** Target Price **N/R**

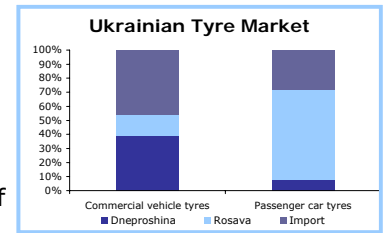
### Market Information

Bloomberg Ticker	<b>DNSH UZ</b>
No of Shares, mln	2.99
Market price, USD	18.0
MCap, USD mln	53.7
Free float	22%
FF MCap, USD mln	11.6

### Stock Ownership

FPG Neftekhimprom (Russia)	77%
Other	23%

- The leading Ukrainian producer of tires for commercial vehicles with a 75% share in domestic output. One of the CIS's major tire producers
- Heavily competes with imports (46% of the domestic market)
- Quality needs to be improved to fend off foreign rivals



### KEY FINACIAL DATA, USD mln

	Sales	EBITDA	Net Income
2003	91.9	4.3	0.2
2004	115.8	13.0	5.8
2005E	132.8	7.0	2.0

	Sales Growth	Margins EBITDA	Net
2003	73%	4.7%	0%
2004	26%	11.2%	5%
2005E	15%	5.3%	1%

Spot Exchange Rate 5.05

## Dniproazot

HOLD

Current price **USD 0.0044** Target price **USD 0.0045**

### Market Information

Bloomberg Ticker	<b>DNAZ UZ</b>
No of Shares, mln	35158.4
Market price, USD	0.0044
MCap, USD mln	154.7
Free float	10%
FF MCap, USD mln	15.5

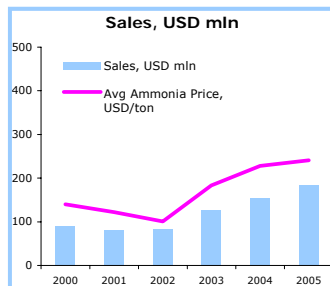
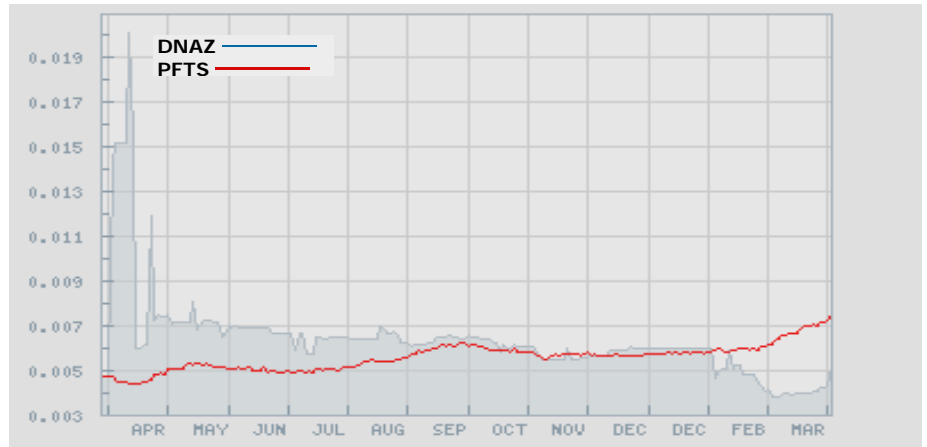
### Stock Ownership

Privat Group	84.4%
Others	15.6%

### Ratios, 2005E

EBITDA Margin	35%
Net Margin	21%
Net Debt/ Equity	0.11

- The 5th largest Ukrainian producer of nitrogen fertilizers
- Diversifying into caustic soda and chlorine (~15% of revenues)
- Transparency improving
- More efficient in gas consumption than its traded competitors
- Potentially could reduce transportation costs by connecting to ammonia pipeline



### KEY FINACIAL DATA, USD mln

	Sales	EBITDA	Net Income
2004	155.8	40.6	19.8
2005E	184.2	64.9	39.2
2006E	173.6	28.3	13.1

### KEY RATIOS

	P/S	EV/EBITDA	P/E
2004	1.0	4.5	7.8
2005E	0.8	2.7	3.9
2006E	0.9	6.5	11.8

Spot Exchange Rate 5.05

# Stirol

HOLD

Current price  
USD 24.0

Target price  
USD 22.3

## Market Information

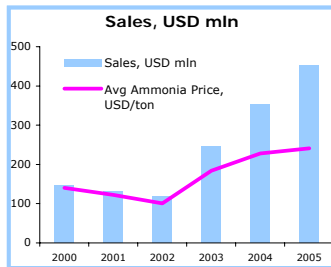
Bloomberg Ticker	STIR UZ
No of Shares, mln	27.1
Market price, USD	24.0
MCap, USD mln	651.0
Free float	6%
FF MCap, USD mln	35.8

## Stock Ownership

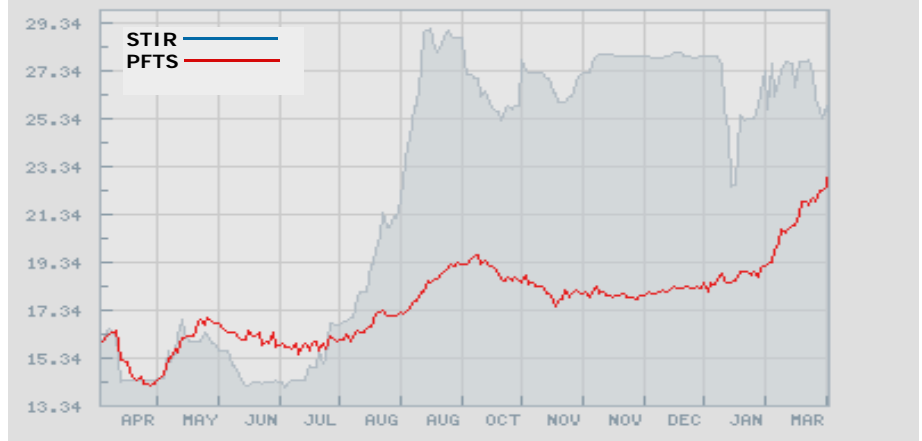
Stirolkhiminvest	82.1%
Other Stirol-related	11.0%
Others	6.9%

## Ratios, 2005E

EBITDA Margin	35%
Net Margin	24%
Net Debt/ Equity	-0.36



- The largest domestic producer of nitrogen fertilizer
- About 20% of revenue comes from non-fertilizer sales
- The most transparent and investor-friendly company among Ukrainian chemical names
- Less efficient in terms of gas consumption compared to local rivals



## KEY FINACIAL DATA, USD mln

	Sales	EBITDA	Net Income
2004	352.7	108.8	77.5
2005E	451.4	160.1	110.1
2006E	418.6	59.8	30.2

## KEY RATIOS

	P/S	EV/EBITDA	P/E
2004	1.8	5.4	8.4
2005E	1.4	3.3	5.9
2006E	1.6	9.1	21.6

Spot Exchange Rate 5.05

## Aval

U/R

Current price **USD 0.1** Target price **Pend'g**

### Market Information

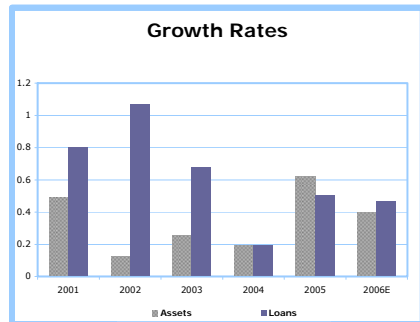
Bloomberg Ticker **BAVL UZ**  
 No of Shares, mln 14950  
 Market price, USD 0.1  
 MCap, USD mln 1405.3  
 Free float 7%  
 FF MCap, USD mln 91.3

### Stock Ownership

Raiffeisen Bank 93.5%  
 Other 6.5%

### Ratios, 2005E

Net Margin 13.4%



- Ukraine's second-largest bank in terms of assets with market share of 9%
- The bank is going to merge with Raiffeisenbank (Ukraine), establishing the largest bank institution in Ukraine with a major market share of 12.3% in asset terms
- Strong profitability: Aval's ROE and net income margin of 25% and 17%, are well above the industry averages of 10.4% and 13.6% respectively
- With 2005 retail loans of USD 852 mln and the third-largest branch-network, Aval is the #2 retail bank in Ukraine



### KEY FINANCIAL DATA, USD mln

	Sales	Net Income
2004	243.5	32.9
2005E	291.3	38.9
2006E	364.1	52.7

### KEY RATIOS

	P/S	P/E	P/B
2004	3.8	28.4	5.6
2005E	4.8	36.1	4.8
2006E	3.9	26.7	3.6

Spot Exchange Rate 5.05

## Forum

HOLD

Current price **USD 12.6** Target price **USD 9.5**

### Market Information

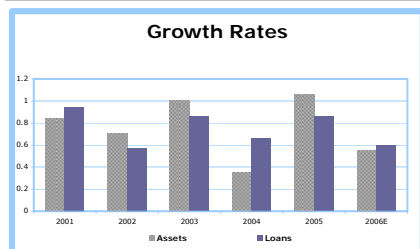
Bloomberg Ticker **FORM UZ**  
 No of Shares, mln 37.0  
 Market price, USD 12.6  
 MCap, USD mln 466.2  
 Free float 10%  
 FF MCap, USD mln 46.6

### Stock Ownership

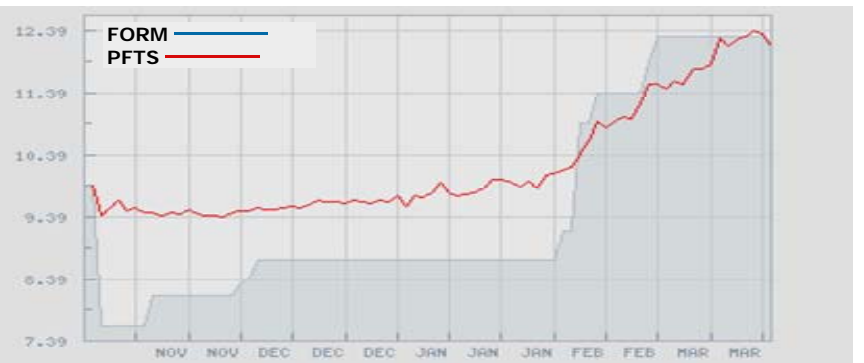
Provita Co 65.0%  
 Elmals Co 14.8%  
 Global Portfolio Funds 10%  
 Other 10.2%

### Ratios, 2005E

Net Margin 13.3%



- The #13 bank in Ukraine with a market share of 1.8% in terms of assets
- Fast growing: assets +79% CAGR (2002-05) and loans +75%, above the market average of 45%
- Profitability intact: stable increase in net income margin from 9.8% in 2002 to 17.2% in 2005; ROE in 2005 was 10.9%, marginally above the industry average of 10.4%
- Long-standing cooperation with the EBRD
- Placement of 10% stake among private foreign investors



### KEY FINANCIAL DATA, USD mln

	Sales	Net Income
2004	23.8	3.723
2005	42.6	5.652
2006E	68.8	8.6

### KEY RATIOS

	P/S	P/E	P/B
2004	19.6	125.2	10.2
2005	10.9	82.5	5.8
2006E	6.8	54.2	4.5

Spot Exchange Rate 5.05

# Ukrtsotsbank

**BUY**

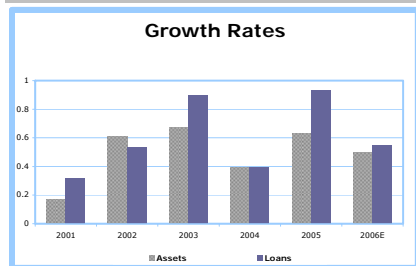
 Current price **USD 0.27**      Target price **USD 0.45**
**Market Information**

Bloomberg Ticker	<b>USCB UZ</b>
No of Shares, mln	3,700
Market price, USD	0.27
MCap, USD mln	999.0
Free float	5%
FF MCap, USD mln	50.0

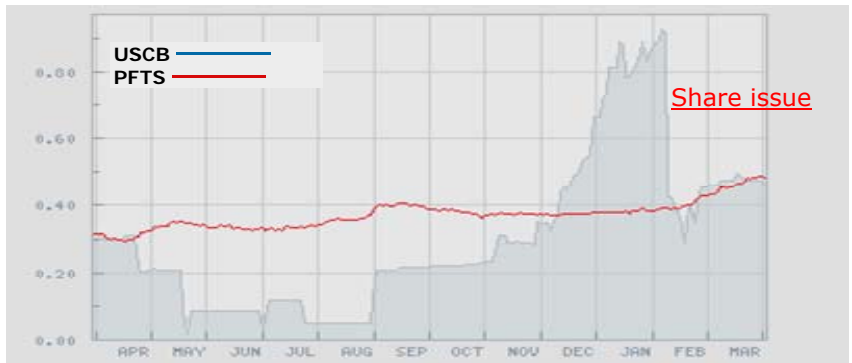
**Stock Ownership**

Banca Intesa	88%
Tempsford Investments	7.6%
Other	4.4%

**Ratios, 2005E**

 Net Margin **15.7%**


- Strategic acquisition: Italian Banca Intesa acquired a 88% stake in the bank (x5.0 P/B – the highest price ever paid for a Ukrainian bank)
- The #4 bank in Ukraine with a market share of 5.0% in terms of assets
- Low-cost funding: the bank benefits from its sizeable demand deposit base and steady increasing portion of foreign borrowings
- Focus on high-return retail


**KEY FINANCIAL DATA, USD mln**

	Sales	Net Income
2004	111.8	21.1
2005	152.9	24.1
2006E	243.7	43.4

**KEY RATIOS**

	P/S	P/E	P/B
2004	8.9	47.4	6.5
2005	6.5	41.5	5.2
2006E	4.1	23.0	3.4

 Spot Exchange Rate **5.05**

## Ukrtelecom

### BUY

Current price **USD 0.190** Target price **USD 0.256**

#### Market Information

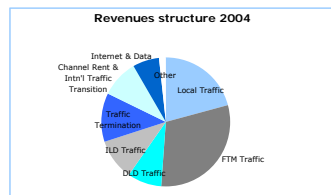
Bloomberg Ticker **UTEL UZ**  
 No of Shares, mln 18,726.2  
 Market price, USD 0.190  
 MCap, USD mln 3,558.0  
 Free float 3%  
 FF MCap, USD mln 106.7

#### Stock Ownership

State 93%  
 Legal entities 5%  
 Individuals 2%

#### Ratios, 2005E

EBITDA Margin 39%  
 Net Margin 16%  
 Net Debt/ Equity 0.15



- The monopoly owner of the national backbone, the company provides services to ~90% of fixed line users.
- Its 100% subsidiary, Utel, dominates the international long distance segment.
- Ready to start entering the mobile market as early as late 2006 by providing mobile service of the third generation
- Ukrtelecom's privatization by a strategic investor is expected in 2006 and should change the marketing policy of the company to strengthen its market position.



#### KEY FINANCIAL DATA, USD mln

	Sales	EBITDA	Net Income
2004E	1,146	508	201
2005E	1,242	489	193
2006E	1,438	548	221

#### KEY RATIOS

	P/S	EV/EBITDA	P/E
2004E	3.1	7.3	17.7
2005E	2.9	7.7	18.4
2006E	2.5	7.0	16.1

Spot Exchange Rate 5.05



## Appendix

**Depository Receipts on Ukrainian Stocks**

	SYMBOL	DR:Ord	INDUSTRY	Since
AVTOKRAZ - REG S	--	1:100	Industrial Engineer.	Apr-05
AZOT OJSC - REG S	--	1:30	Chemicals	Jul-98
AZOVSTAL	AZVSY	1:10	Industrial Metals	Apr-99
CENTERENERGO	CTEUY	1:10	Electricity	Oct-00
CENTRENERGO - REG S	--	1:10	Electricity	May-98
CONCERN GALNAFTOGAZ - REG S	--	1:500	General Retailers	May-05
CRIMEAN SODA PLANT OJSC - REG S	--	1:10	Chemicals	Jul-05
DNIPROAZOT JSC - REG S	--	1:20	Chemicals	Dec-02
DNIPROENERGO	DNOEY	4:01	Electricity	Apr-99
DNIPROKOKS JSC - REG S	--	1:20	Industrial Metals	Dec-02
DNIPROSHYNA OJSC - REG S	--	1:01	Automobiles & Parts	May-04
DONETSK METALLURGICAL PLANT - REG S	--	1:100	Industrial Metals	Nov-04
FORUM BANK, JSCB - REG S	--	1:01	Banks	Oct-05
ILLICH IRON AND STEEL WORKS - REG S	--	1:20	Industrial Metals	Jul-98
KHARTSYZSK PIPE PLANT - REG S	--	1:50	Industrial Engineer.	Mar-04
KHMELNITSKOBLENERGO	KHMGY	1:40	Electricity	Jan-00
KONDFIL KHMELNITSKY CONFECTIONARY JSC - REG S	--	1:10	Food Producers	Dec-02
KRYVYI RIH CEMENT OJSC - REG S	--	1:10	Construct.&Materials	Apr-04
LUAZ, LUTSKIY AUTOMOBILE PLANT JSC - REG S	--	1:100	Automobiles & Parts	Jan-06
MARGANETSKY GOK	MARGY	1:100	Industrial Metals	Aug-03
MARIUPOL HEAVY MACHINERY PLANT AZOV-REG S	--	1:01	Industrial Engineer.	Dec-04
MOTOR SICH - REG S	--	5:01	Industrial Engineer.	Nov-04
NAFTOKHIMIK PRYKARPATYA REFINERY JSC - REG S	--	1:01	OilEquip.,Serv.&Dist	Dec-02
NIKOPOL FERROALLOY PLANT (JSC) - REG S	--	1:25	Industrial Metals	Dec-01
NYZHNIODNIPROVSKY PIPE ROLLING PLANT	NVTRY	1:06	Automobiles & Parts	Apr-99
ODESKABLE OJSC - REG S	--	1:50	Tech.Hardware&Equip.	Mar-04
OJSC POLTAVA GOK - REG S	--	1:01	Industrial Metals	Sep-98
OJSC SUMY NVO FRUNZE - REG S	--	1:20	Electron.&ElectricEq	Jul-98
OJSC ZAPOROZHSTAL IRON AND STEEL WORKS - REG S	--	1:10	Industrial Metals	Sep-98
OJSC ZHYDACHIV PULP & PAPER MILL - REG S	--	1:400	Forestry & Paper	Sep-98
ORDZHONIKIDZEVSKY GOK	ORDZY	1:100	Industrial Metals	Dec-02
STAKHANOV FERROALLOY PLANT JSC - REG S	--	1:100	Industrial Metals	Dec-02
STIROL	STRYL	1:01	Chemicals	Apr-99
SUKHA BALKA JSC - REG S	--	1:25	Industrial Metals	Dec-02
UKRHUODOZHPROM JSC - REG S	--	1:15	Personal Goods	Dec-02
UKRNAFTA	UKRNY	1:06	Oil & Gas Producers	Apr-99
UKRNAFTOGAZ JSC - REG S	--	5:01	Gas,H2O&Multiutility	Feb-03
UKRTELECOM JSC - REG S	--	1:50	Fixed Line Telecom.	Nov-02
XXI CENTURY INVESTMENTS PUBLIC LIMITED - REG S	--	1:01	Real Estate	Dec-05
YASINOVATSKY MACHINE BUILDING PLANT JSC - REG S	--	1:10	Industrial Engineer.	Mar-06
ZAKHIDENERGO JSC - REG S	--	4:01	OilEquip.,Serv.&Dist	Jun-03
ZAPORIZHZHYA FERROALLOY PLANT (JSC) - REG S	--	1:100	Industrial Metals	Dec-02
ZAPOROZHTRANSFORMATOR, OJSC	ZRTFY	1:100	Electron.&ElectricEq	Jul-00
ZHYTOMYRGAZ JSC - REG S	--	2:01	Gas,H2O&Multiutility	Dec-02

Source: Bank of New York

**Concorde Capital**  
**3V Sportyvna Square**  
**2nd entrance, 3rd floor**  
**Kyiv 01023, UKRAINE**

Tel +380 44 207 5030  
Fax: +380 44 207 5031  
www.concorde.com.ua  
office@concorde.com.ua

**CEO**

Igor Mazepa

im@concorde.com.ua

**Managing Partner**

John David Suggitt

js@concorde.com.ua

**Director, Equity Sales**

Peter Bobrinsky

pb@concorde.com.ua

**Equity Sales**

Marina Martirosyan  
Lucas Romriell  
Alexis Stenbock-Fermor  
Anastasiya Nazarenko

mm@concorde.com.ua  
lr@concorde.com.ua  
asf@concorde.com.ua  
an@concorde.com.ua

**Director of Research**

Konstantin Fisun, CFA

kf@concorde.com.ua

**Utilities (Telecom, Energy)**

Alexander Paraschiy

ap@concorde.com.ua

**Metals & Mining**

Andriy Gostik  
Eugene Cherviachenko

ag@concorde.com.ua  
ec@concorde.com.ua

**Machine Building, Construction, Consumer Goods**

Olga Pankiv

op@concorde.com.ua

**Banking & Macroeconomics, Retail**

Alexander Viktorov

av@concorde.com.ua

**Oil & Gas, Chemicals**

Vladimir Nesterenko

vn@concorde.com.ua

**Politics**

Nick Piazza

np@concorde.com.ua

**Junior Analyst**

Polina Khomenko

pk@concorde.com.ua

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