



Nitrogen Fertilizer Producers

On The Edge

Stirol (SELL)

Market Price, USD	15.0
12M Target, USD	12.5
Upside/Downside	-16.4%

Dniproazot (SELL)

Market Price, USD	0.0041
12M Target, USD	0.0030
Upside/Downside	-26.8%

Azot Cherkasy (Susp)

Market Price, USD	1.56
12M Target, USD	N/R
Upside/Downside	N/A

Summary

We are downgrading our targets and recommendations for local nitrogen fertilizer stocks to reflect expected deterioration in their profitability in the near-term, as well as excessive investment risks. The new targets and recommendations are USD 12.5 per share (SELL) for Stirol and USD 0.003 per share (SELL) for Dniproazot. Coverage of Azot Cherkasy remains suspended due to lingering conflicts between its shareholders.

Profitability Decreases as Gas Prices Increase. As expected, higher gas prices translated into a decline of around 10 p.p. yoy in the sector's margins in 1H06, despite more transparent pricing. We do not believe the companies will be able to effectively resist gas price hikes in the short-term, and expect this year's profitability downturn to continue through 2007.

No Way Out in the Short-Term. We believe that the potential for improved efficiency is limited in the short-term, and expect producers to fight squeezing margins by adjusting their production chain. As ammonia production is going to become unprofitable based on the gas price for 2007, it is likely to be minimized in the near future, and completely substituted by imports in the mid or long-term. We think the companies will manage to keep producing their main export product, urea, which will be made from imported ammonia in the future. Although these changes might support the companies' value, we think recovery is unlikely to be seen in the next 12 months. We also do not believe the government will be able to support the businesses materially.

Selling Out - the Key to Survival? It looks like in the long-run, the only way for Ukrainian producers to survive is to integrate with the businesses capable to supplying cheap gas and/or ammonia. We still believe that Azot Cherkasy and Dniproazot are among the most likely take-over candidates. The State might, in turn, sell its stakes in Odessa Portside and Azot Severodonetsk. Potential buyers are CIS holdings with oil & gas assets in Russia and Central Asia. Although selling out might support the companies' value, it may also bring new risks to minority shareholders, from the revival of shady tolling schemes to share dilutions.

Valuation Summary

	Bloomberg Ticker	MCap, USD mln	Price, USD/share	12M Target, USD/share	Upside/Downside	Rec
Stirol	STIR UZ	405.5	15.0	12.5	-16.4%	SELL
Dniproazot	DNAZ UZ	144.1	0.0041	0.0030	-26.8%	SELL
Azot Cherkasy	AZOT UZ	193.9	1.56	N/R	N/A	Susp

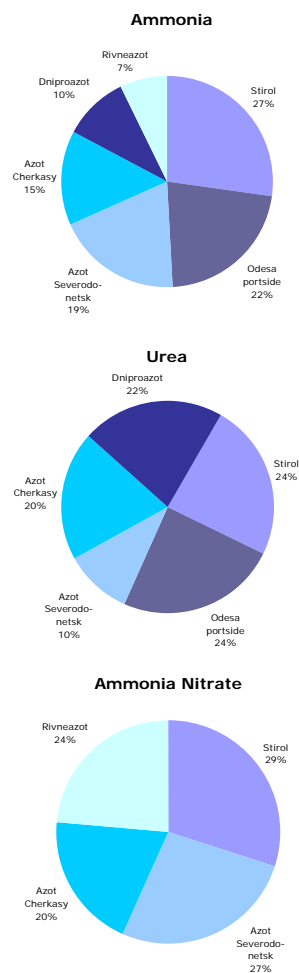
Key Financials & Ratios, 2007*

	Sales, USD mln	EBITDA Margin	Net Margin	EV/S	EV/EBITDA	P/E
Stirol	498.3	4.3%	1.2%	0.59	13.71	67.56
Dniproazot	200.4	7.7%	3.2%	0.85	10.98	22.78
Azot Cherkasy	373.0	12.4%	4.7%	0.57	4.63	11.06

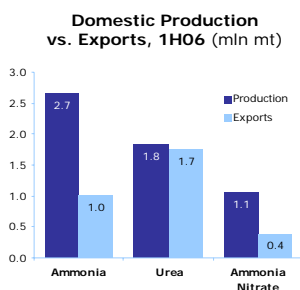
* based on the base case gas price forecast

Margins Declined On Higher Gas Price

Production of Nitrogen Fertilizers in Ukraine, 9M06



Source: Company data, Ukrainian News agency, Interfax



Source: Company data, Ukrainian News agency, Interfax

In general, the 1H06 performance of Ukrainian fertilizer producers fit our full-year forecast (see our March 7 report). Following the gas price increase in February, margins dropped considerably. Meanwhile, our expectation for lower sales due to gas consumption limits was not realized, because the limits were imposed only for a few short periods.

Margins Down, As Expected

As expected, in 1H06 higher gas prices translated into a severe decline in the sector's gross margins, despite higher yoy ammonia and urea prices. Dniproazot and Stirol's gross margins declined ~11 p.p. while their net margins dropped ~10 p.p. The effect on Azot Cherkasy is not visible from its UAS financials, because the company only started to show its true profits in 1Q06 (see our June 15 report). The 1H06 performance suggests that, in general, full-year profitability might slightly exceed our previous estimates.

We estimate that the gas price for the industry in 2006 will be 40% higher than the average in 2005, due to a nearly proportional hike in the price of imported gas. Currently, industrial enterprises, including producers of nitrogen fertilizers, pay USD 128.4/tcm on average. We estimate the yearly average gas price for industrial enterprises at USD 122.5/tcm – slightly lower than the current price due to a two-month lag in domestic price growth after January's import price hike. This figure is close to the price we forecasted in March, USD 126.7/tcm. In our forecast we assume the gas import price will be stable through the end of the year, based on the government's agreement with Gazprom.

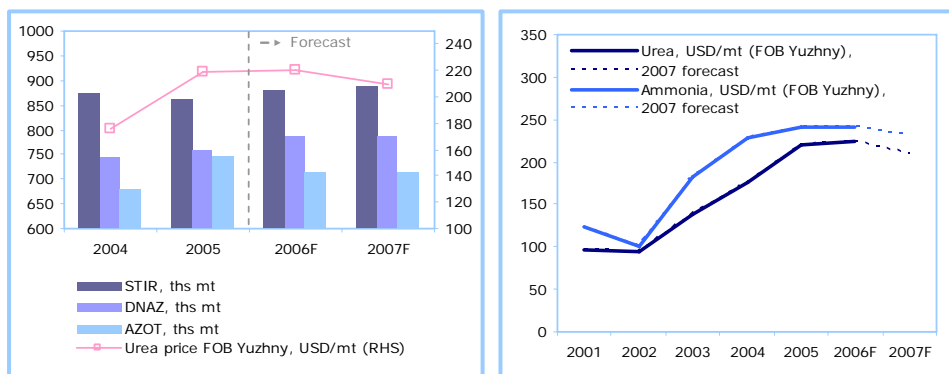
Profitability Threat Induces Transparency

The virtually exhausted short-term potential for output and price growth, as well as inflated gas prices, has motivated the companies to converge their prices with the market. We estimate that over 1H05-1H06, the companies' export prices almost reached the market level. AZOT led the way, having posted a 63% yoy build-up in revenues and substantially higher margins in 1H06.

1H06 Sales Higher Than Expected, Flat Next Year

In 1H06 the sector's modest production was unevenly supported on the price side. Stirol, which proved to be very flexible in its reaction to the market due to excessive ammonia capacity, could benefit from an 18.1% yoy increase in ammonia prices on the global market. Dniproazot and Azot Cherkasy concentrated mostly in urea and thus faced a mere 2.5% increase in urea prices.

We believe average fertilizer prices in 2006 will be close to last year's prices, which is slightly more optimistic when compared to both our earlier forecasts and the estimates of industry experts. In 2007 we forecast about a 3% decrease in ammonia and urea prices, due to expected capacity additions and tougher competition worldwide.

Urea Production and Prices


Source: Ukrainian News agency, Bloomberg, Concorde Capital estimates

This year we do not foresee any substantial capacity increases in Ukraine. Since there is high capacity utilization, the sector's output growth is likely to be modest, so we do not expect any significant revenue build-up in 2006, except due to the improved transparency discussed above.

Fortunately for the companies, the government has not imposed rigid gas consumption limits this year, except for short periods in March and June. As a result, in 2006, the companies are likely to post around 10-13% higher sales than we expected.

We expect 2007 revenues will be virtually flat. The decrease in fertilizer prices will be offset by minor growth in output, in particular from the sales of non-core products. For example, we expect Stinol to earn an extra ~USD 10 mln this year due to increased polystyrene capacity and production.

Short Term Prospects Cloudy

Next year, we expect the margins to continue narrowing due to an increase in the gas price for industrial consumers by more than one-third, to ~USD 160/tcm (USD 130/tcm at the border).

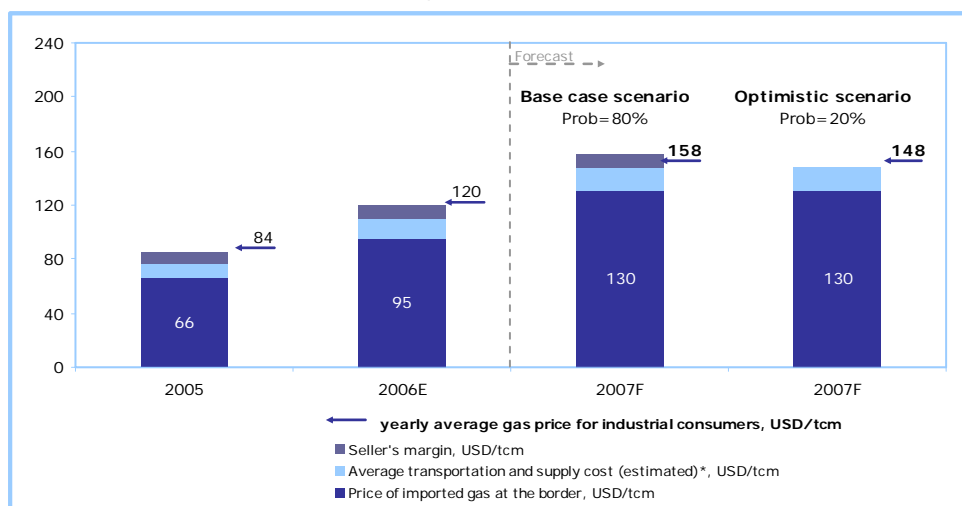
On Oct. 24, 2006 Ukraine announced it will pay USD 130/tcm for Russian gas at the border in 2007, which also implies increased prices for industrial enterprises, and in particular for fertilizer plants. At the time this report was being published, the extent of the increase was still unknown.

We account for the uncertainty in gas prices by introducing two scenarios:

"Base" scenario (80% probability) assumes a price of USD 130/tcm at the border and a respective price of USD 158/tcm for plants (excluding VAT but including transportation and supply costs).

"Optimistic" scenario (20% probability) assumes a price of USD 148/tcm for the industry, which is lower than the price in our base scenario by the estimated supplier's margin, USD 10/tcm or ~6%. The optimistic scenario takes into account the possibility of government support, either in the form of gas price discounts, subsidies, taxes and/or other favors.

Gas Price For Fertilizer Producers*, 2005-2007F



* The gas price differs for each plant, because of different transportation and supply costs. Here we provide the average price weighted by each plant's annual gas use. For the financial forecast, we estimated the gas price separately for each plant.

Source: National Energy Regulation Commission (NERC), Concorde Capital estimates

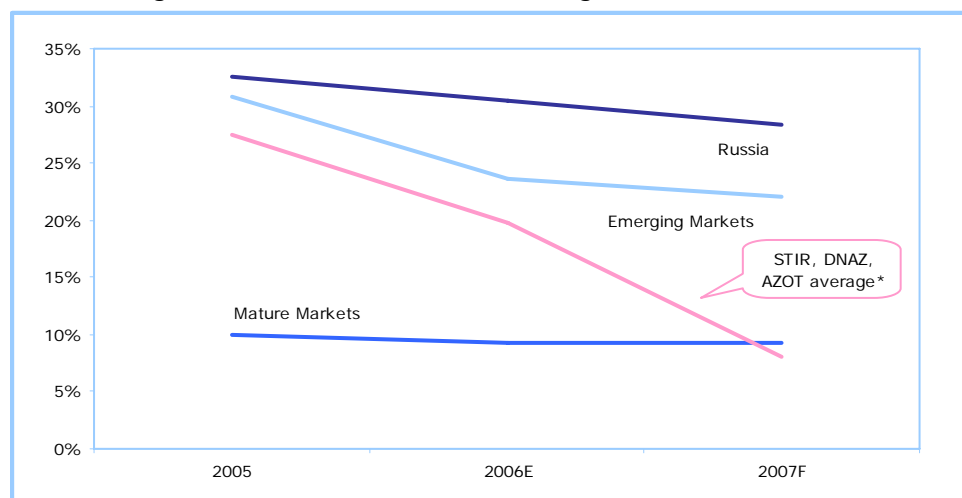
We believe there is a high probability that in 2007 Ukrainian fertilizer producers will underperform global peers in terms of profitability. Under our base case scenario, higher gas prices will result in the companies' EBITDA margins falling below 10% on average, which close to the bottom level worldwide.

Profitability: Revised Forecasts

	EBITDA Margin			Net Margin		
	2007F*	2006F Revised	Previous	2007F*	2006F Revised	Previous
Stirol	4.3%	18.1%	14.3%	1.2%	13.3%	7.2%
Dniproazot	7.7%	20.3%	16.3%	3.2%	12.6%	7.5%
Azot Cherkasy	12.4%	21.1%	17.4%	4.7%	11.1%	10.7%

* Based on the base case gas price forecast

Source: Concorde Capital estimates

EBITDA Margins of Fertilizer Producers vs Foreign Peers


* Calculated as a simple average of the three companies, except for in 2005, when we excluded AZOT, as it did not report its true profitability. STIR, DNAZ and AZOT margins for 2007F are based on the base scenario for gas prices. Source: Thomson One Banker, Company data, Concorde Capital estimates.

So far, we see neither sufficient modernization efforts, nor strong incentives for investment, and have not factored any efficiency improvements into our valuation. In practice, the slow pace of modernization conforms to our earlier forecast, when we explained our suspicion by high risks related to the pace and magnitude of future gas price growth. We stick to this view in this report as well.

No Cheaper Gas for the "Blue" Coalition

We expected that Russia would not decrease gas prices even if a "blue" coalition was formed, but things turned out even worse. Despite the arrival of a Russia-friendly government, which made clear signals that of its orientation and offered tasty business deals, Ukraine's neighbor has not been eager to fix the gas price for more than one year. As we mentioned, following this year's 44% price hike, the price will jump again in 2007 by 37%, to USD 130/tcm. It seems that the parties did not negotiate the prices for 2008 and on, but it is very likely that further increases are inevitable. We expect the gas price to increase to USD 160/tcm in 2008 and to USD 180/tcm in 2009.

"China Factor" May Add Fuel to the Fire

A planned reduction in China's export tax on fertilizers from 30% to 15% in November represents another threat to the competitiveness and profitability of Ukrainian producers.

Ways Out Exist in the More Distant Future

Although we forecast a severe drop in profitability in the short term, we expect the companies to support their margins by optimizing their production process and further diversification in longer-term. For details, see the next section.

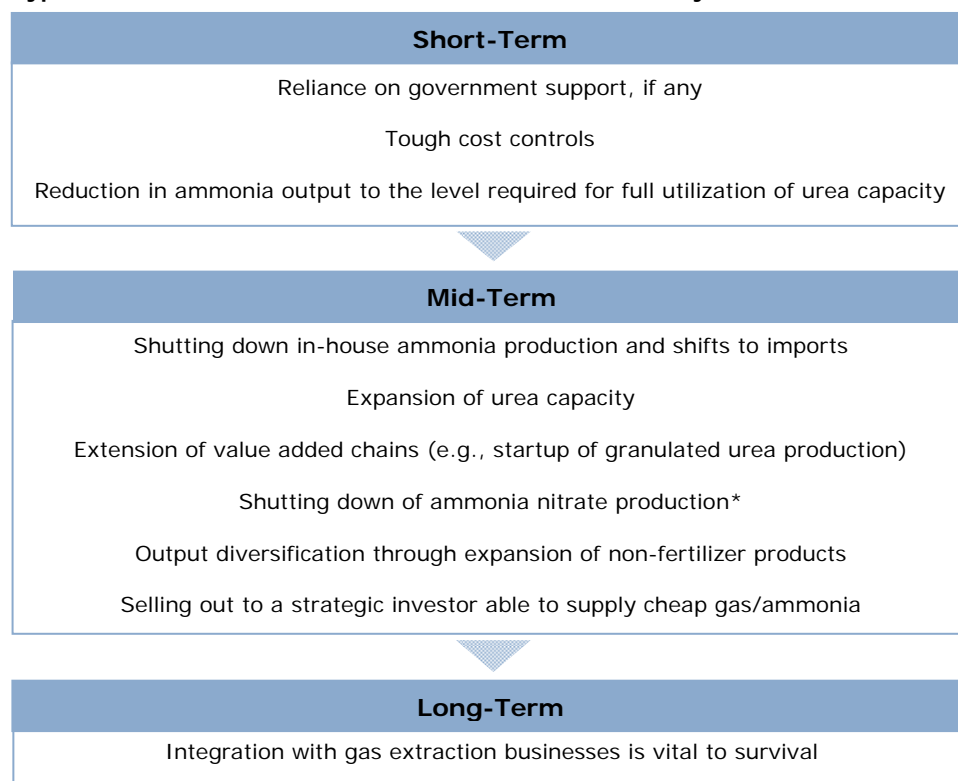
Ways Out

The deteriorating performance of fertilizer producers this year has not brought more certainty about the companies' ability to sustain rising gas prices. The inability of both the businesses and the government to secure gas supplies at affordable prices, insufficient modernization efforts, and the government's reluctance to support the industry, make us skeptical about the companies' short-term prospects.

We admit that there are ways for the fertilizers to remain in business, and perhaps some companies will make strategic moves in the mid-term to support their value. We believe that the pace of gas price increases, the availability of government support and the plants' cost-saving tactics will determine their ability to survive in the next 2-3 years, while in the long-term we foresee major structural changes in the industry. The luckiest plants are likely to get new owners, possibly Russian holdings engaged in natural gas extraction, and the others will have to be shut down.

We believe it will be extremely hard for the companies to resist cost inflation in the short run without support from the government, while in the mid-term and long-term, there are reasons for more optimism. The changes most likely to be observed over specific time periods are discussed below.

Hypothetical Evolution of the Ukrainian Fertilizer Industry



* Assuming the government does not subsidize domestic ammonia nitrate producers

Short-Term: Counting On Government Support

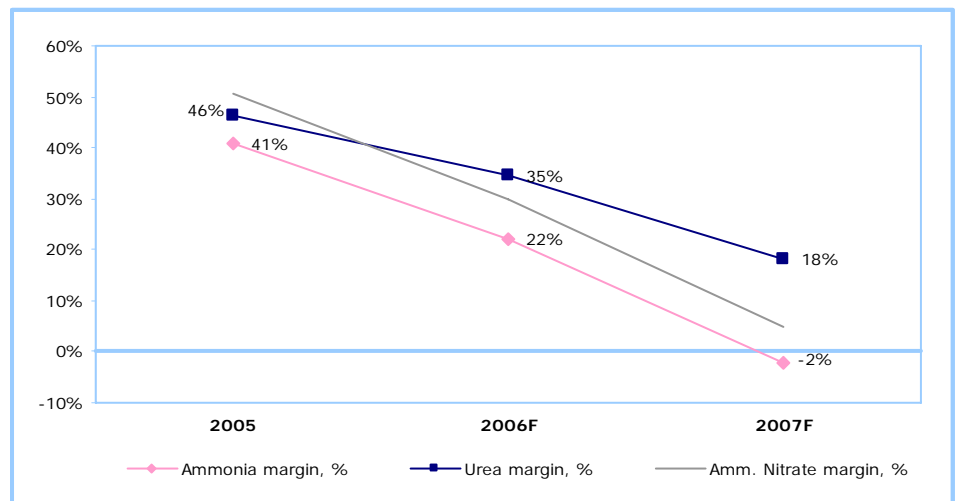
In the short term, the government might decide to subsidize the fertilizer industry, directly or indirectly. Yet, given that the business interests of the political elite currently in power do not include any assets in the fertilizer industry, government support is unlikely. During 2006 the businesses asked the government to introduce differentiated pricing many times, but there has been no reaction so far, except announced possibility of abolishing VAT on gas purchases and imported equipment. Moreover, subsidization is hardly feasible, as in fact there are no sectors in Ukrainian economy capable to sponsor lower gas prices for fertilizer producers.

Cuts in Ammonia Production Likely

We believe that Ukrainian producers are likely to cut ammonia production. According to our estimates, ammonia production will be unprofitable based on the announced 2007 gas prices. Since the share of gas in the cost of producing urea is roughly twice lower than in ammonia, urea is less sensitive to the gas price. We estimate that in 2006 ammonia margins will drop by 19 p.p., while urea margins will lose only 11 p.p. Likewise, in 2007 ammonia margins are expected to go negative, while urea margins are estimated to remain at ~18% on average. Since the plant's overall profitability depends on the share of each product in its sales, the less spare ammonia it produces, the more likely it is to maintain positive margins. See the next section for more details.

Noteworthy, urea's higher profitability and lower dependence on gas is the main reason why Dniproazot enjoys higher margins than Stirol, because it produces ammonia mostly for further processing into urea and minimizes its raw ammonia sales.

Profitability of N-Fertilizer Products Under Different Gas Prices*



* Gross margins were estimated based on the following assumptions: the base scenario for gas prices; market prices in 2006 and 2007: ammonia – USD 242/mt and USD 230/mt respectively, urea – USD 221/mt and USD 210/mt, ammonia nitrate – USD 149/mt and USD 134/mt; gas use per mt of ammonia – 1.3 tcm, ammonia use in urea and ammonia nitrate production – 0.58 mt and 0.5mt respectively.

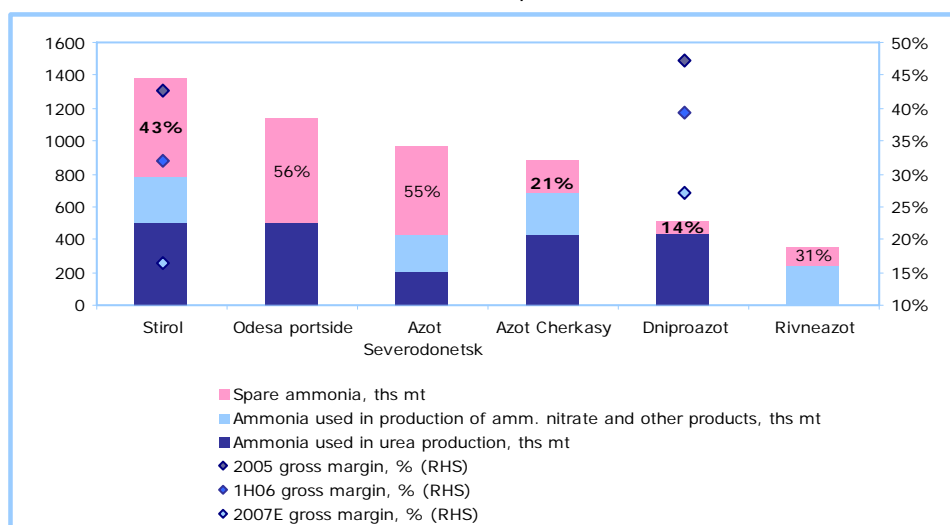
Source: Concorde Capital estimates

Mid-Term: Optimizing the Production Chain

We believe that in the mid-term, Ukrainian fertilizer producers can reduce the adverse effect of growing gas prices by optimizing their production process, since the potential for improving efficiency is limited in our view.

Specifically, in the mid-term, plants can economize on gas by shifting to imported Russian ammonia over in-house ammonia. This also implies changing the output mix in favor of urea. Production of ammonia nitrate is likely to shut down, if it is not supported by the government (through import barriers, subsidies, etc.). Plants producing spare ammonia (i.e. more than needed for urea production), like Stirol, may go in this direction in 2007, the first step in which is to minimize ammonia output. The second stage would be a complete shift to purchasing ammonia on the open market.

Use of Ammonia in the Production Process, ths mt*



* Production data as of 2005

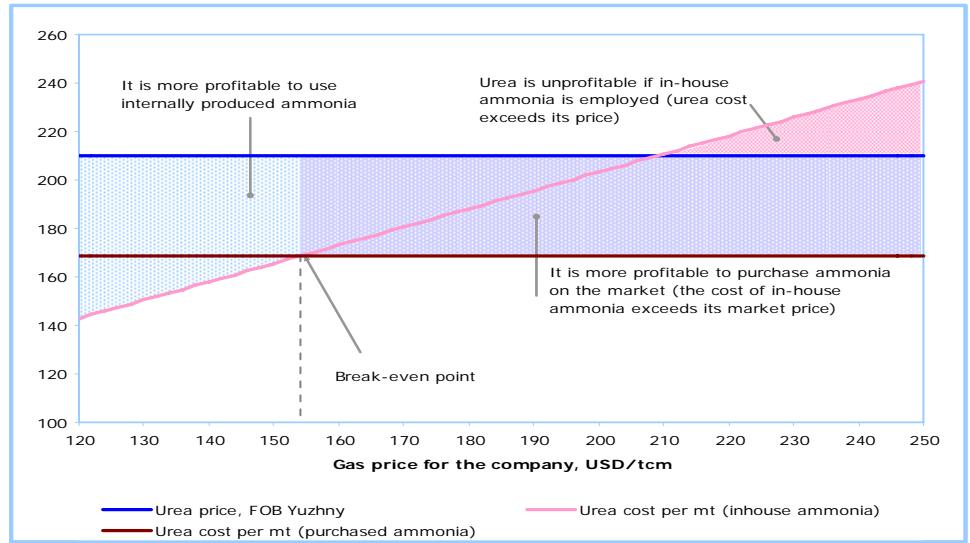
Source: Company data, Concorde Capital estimates

A simple calculation says that under our base scenario, with the gas price for the plant at USD 158/tcm, the cost of gas per ton of ammonia will increase to USD 205/mt (assuming the plant uses 1.3 tcm of gas per 1 mt of ammonia, as in the case of Stirol). About USD 30/mt are other production costs, so the total cost in 2007 would reach USD 235/mt. At the same time, in 2007 the market price for ammonia is forecasted to decrease to about USD 230/mt (-5% yoy), which implies a negative gross margin for this product. Even if the market price for ammonia remains flat, a producer can earn only a tiny margin of USD 5/mt.

The loss on ammonia will translate into lower urea profitability, as ~0.58mt of ammonia is used for each ton of urea. Under the above conditions and a forecasted urea price of USD 210/mt, the gross margin on urea will decrease from the current ~30% to roughly 18%. However, if ammonia is purchased on the market (at USD 230/mt), the cost of urea will be lower and will enable a company to earn about a 20% margin.

We estimate that, other things being equal, the gas price for a plant goes beyond USD 154/tcm, it will be more profitable to purchase ammonia on the market than to produce it internally.

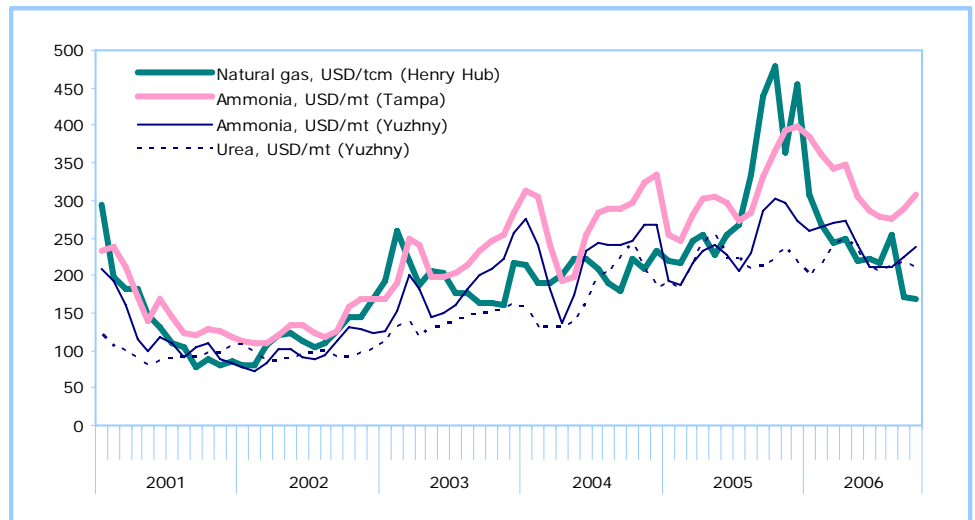
Profitability of Urea Production Under Different Gas Prices



Source: Concorde Capital estimates

We believe that a shift to purchasing ammonia will not only allow Ukrainian plants to retain a reasonable level of profitability, but will also provide a natural hedge against increases in gas prices in the future, since world market prices for nitrogen fertilizers are in fact supported by global gas prices.

Global Fertilizer Prices vs. the Gas Price



Source: Bloomberg, Concorde Capital estimates

Since the closure of ammonia production facilities will affect the companies' sales figures, the next step to support the value of the businesses is to increase urea capacity.

Notwithstanding its positive effects, the shift to purchasing ammonia on the market involves new risks for Ukrainian companies:

The shift by Ukrainian producers to purchase ammonia will enhance the market power of their rivals. Ammonia suppliers might manipulate prices for their Ukrainian competitors in product segments that use ammonia as an input (e.g. urea), which might lead to weakening the positions of the latter on the global market. Yet, this risk can be avoided if Ukrainian businesses integrate with suppliers of ammonia.

If Ukrainian producers integrate with Russian holdings, increases in Russian domestic gas prices might affect the profitability and competitiveness of both Russian and Ukrainian producers. For Ukrainian producers, one way to avoid this risk is to enter into holdings that have a gas extraction wing. From the other perspective, higher gas prices in Russia and Ukraine might fuel global fertilizer prices, as their ammonia exports account for 28% of world trade in ammonia (Russia – 18%, Ukraine - 10%).

Other ways to fight rising gas prices might be to improve efficiency (like to decrease gas use per ton of ammonia) and diversifying their business. However, we believe these are either not feasible or unable to support the businesses materially.

Room for Improved Efficiency is Limited

The need for modernization is unquestionable, but we believe that in the short-term it would be hard to achieve significant improvements in efficiency. Aside from a possible lack in time/funding/motivation, the major barrier to improved efficiency is the extremely large *extent* of needed renovations, due to inferior technology currently employed by Ukrainian producers.

We estimate that, depending on existing technologies, Ukrainian fertilizer producers can achieve, at best, a 10-15% improvement in their gas use per ton of ammonia during the next 3-5 years, provided they step up modernization. In the short-term, an improvement of 1.5-2.5% looks more realistic. Among the six Ukrainian fertilizer producers, the biggest improvement is achievable at Stirol, Azot Cherkasy and Azot Severodonetsk (not traded).

Gas Efficiency, cm of gas per mt of ammonia

	Nameplate	Actual (estimated)	ST Gas Usage Potential	ST improvement potential
Stirol	1257	1300	1250	4%
Azot Severodonetsk	1260	1265	1140	10%
Azot Cherkasy	1208	1185	1065	*10%
Dniproazot	1255	1140	1120	2%
Odessa Portside	1255	1120	1110	1%
Rivneazot	1145	1065	1055	1%

* Currently a brewing corporate conflict may affect the speed of AZOT's modernization plans
 Source: Company data, Concorde Capital estimates

Ukrainian ammonia producers use the first-generation and least efficient of all available technologies (see note below on ammonia production technology worldwide). Large-scale reconstruction involving replacing existing facilities with modern ones is necessary for any improvements in efficiency.

Ammonia Production Technology Worldwide

There are three generations of ammonia facilities used by the world's ammonia industry. The first generation is represented by the oldest and least efficient facilities. These use about 10 Gcal per ton of ammonia (1050-1250 cm of gas). Second generation facilities use around 8-9 Gcal and the third about 6.5-7.5 Gcal (750-850 cm of gas), 30% less than the first generation. About 25% of the world's ammonia facilities use third generation technologies, in some regions the ratio is up to 70% (Trinidad and Tobago).

Given that fundamental modernization demands a significant allocation of resources (time, funds, expertise, human resources), it is meaningful only in promising regions, where investing into efficiency brings high returns. These are regions with cheap gas and/or a capacious local market (e.g. Trinidad, China or South America). Entry barriers in the form of transportation costs and infrastructure, trade restrictions, etc. also contribute to the attractiveness of a plant's location. Ukraine definitely does not look like a promising region in this respect, as it not longer benefits from cheap gas, and its domestic market is too small to accommodate all of the fertilizers produced by local plants. It's the only advantage is its close proximity to Black Sea ports and ammonia transportation infrastructure, which might attract Russian fertilizer holdings, provided they can supply cheap gas.

We believe that Ukrainian companies will target so-called 'medium' and 'small' modernization (if any), which does not involve the construction of new facilities, but refurbishing existing ones. Although it will lead to comparatively minor improvements in efficiency, we think it can help the margins, at least in the short/mid-term. We estimate that 'medium' and 'small' modernization can bring a maximum efficiency improvement of 15% in the long-term and about 1.5% in the short term, on average. This means that Ukrainian companies won't be able to break the floor of 8.5-8.8 Gcal/mt (~950-1000 cm of gas) even in the long run. Moreover, even if the companies shift to the state-of-art technology and decrease their gas use per ton of ammonia by 30%, they will be still less competitive than their rivals from superior locations.

Recent shutdowns of Yara's Le Havre plant (Belgium) in July and Terra's Blytheville facility (U.S.), accompanied by intensified M&A activity in the sector (e.g. Yara's acquisition of the 760 ths mt ammonia plant in Burrup, Australia, and establishment of a strategic partnership with the Chinese BlueChemical; and the sale of Agrium's East Dubuque nitrogen facility in U.S.) indicate that Ukrainian plants won't be the only victims of tough competition. The global fertilizer industry seems to be experiencing significant structural changes.

Not only is the room for improved efficiency limited, but funding sources for modernization are rather shallow. In the first place, squeezing margins and expected decreases in profitability will strain the companies' cash flow. Secondly, substantially higher credit risks in the fertilizer industry will limit the availability of external financing.

Diversification: No Clear Incentives

Although diversification could support profitability, we do not see clear reasons why fertilizer producers would subsidize potentially unprofitable business segments on a permanent basis.

Current Diversification Level

Currently, the most diversified Ukrainian fertilizer producer is Azot Cherkasy: about 30% of its revenue comes from caprolactam, which is used in the production of chemical fibers. Gas makes up only a small portion of caprolactam's cost; the major input is oil derivatives, which gives AZOT a natural hedge against gas price hikes. However, the size of the effect might be small, as gas still makes up a significant part of AZOT's total costs, which means that outputs are more diversified than inputs, while it is the latter that matters for the cost-saving effects of diversification.

Thanks to the enlargement of STIR's polystyrene capacity in July and further increases planned by the end of this year, the share of non-fertilizer products in revenues is going to increase from the current 15% to 18-20% in 2007-2008. In addition to higher polystyrene capacity, theoretically it can start producing styrene (used in polystyrene production), which is currently imported from Russia. We do not expect this to happen, as there is a tight market for styrene's major input, synthetic rubber. Russia is the world's largest producer of it, and is perhaps a better location for styrene producers.

At DNAZ 'other' revenues do not exceed 15%.

Long-Term: Selling Out

We believe that in the long run, the only way for Ukrainian producers to survive is to integrate with businesses capable to supplying cheap gas.

The major problem with this is a lack of buyers. The only reasonable alternative is to sell out to Russian holdings, which theoretically could supply cheaper gas in exchange for gaining transportation advantages (Ukrainian plants are closer to the ports). The most likely candidate is Gazprom or its affiliates, which is so far the only company allowed to export gas from Russia. We also do not rule out the possibility acquisitions by CIS business groups with oil & gas assets in Central Asia.

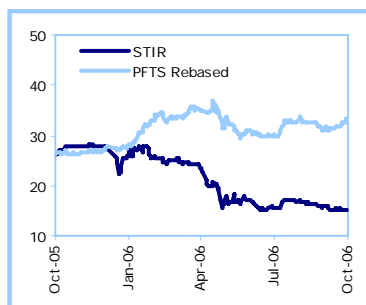
Although selling out might support the value of fertilizer businesses, there is a risk that the company might backtrack on transparency if a new owner also brings with it tolling schemes (which are so popular in Russia).

So far, no M&As have been made public, but we see a number of indirect signs that deals will happen in the next 1-2 years. We still believe that Azot Cherkasy and Dniproazot are among the most likely take-over candidates. The State might also consider privatizing its stakes in Odessa Portside and Azot Severodonetsk.

SELL

Market price	15.0
Target price	12.5
Upside/Downside	-16.4%

STIR Mid-market, USD



Source: PFTS

Market Information

Bloomberg	STIR UZ
Frankfurt/Xetra	SVX GR
No of Shares, mln	27.1
Reg S GDR to Ord.	1:1
MCap, USD mln	405.5
Free Float	6.0%
FF MCap, USD mln	24.3

Stock Ownership

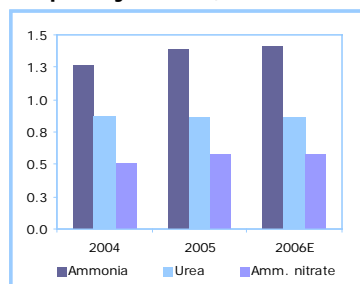
Stirolkhinvest and related companies	94%
Other	6.0%

Key Ratios

	EV/S	EV/EBITDA	P/E
2005	0.6	2.8	4.2
2006E	0.6	3.4	6.4
2007E*	0.6	13.7	67.6

* Under the base scenario

Output Dynamics, mln mt



Source: Company data, Concorde Capital estimates

Stirol

Despite generally favorable market conditions and more transparent pricing, the company faced a severe decline in profitability in 1H06, which will continue for the remainder of the year and throughout 2007. However, we foresee structural changes in Stirol's business in the long-term. We believe that starting in 2008, the company's is likely to start recovering due to a shift from producing ammonia in-house to purchasing it from Russian plants.

Profitability to Decline in the Short-Term

In 1H06 the company increased its sales by 8.3% yoy, primarily due to reshuffling its product mix in favor of ammonia, which prices grew faster than for urea (18.1% vs 2.5%). In 1H06 the company sold ammonia and urea at a ~1/1 proportion, while in the same period last year STIR's sales were skewed much farther toward urea.

The other contribution to growing revenue came from more transparent pricing this year. In 1H06 STIR's ammonia export price was only 2% below the market, while last year the spread exceeded 6%. For urea exports, the improvement was even more pronounced: the differential reduced from about 13% to 4%.

However, revenue growth could not offset the higher gas cost in 1H06, which resulted in 28.9% growth in COGS. In effect, the EBITDA margin reduced by more than 13 p.p. to 18.2%. The net margin decreased from 25.8% in 1H05 to 15.8%.

For the year, we expect annual sales growth of 9.1%, and lower margins: an EBITDA margin of 15.1% and net margin of 11.0%. Based on our base scenario for the company's gas price, in 2007 we expect an EBITDA margin of 4.3% and the net margin to barely stay positive at 1.2%. We also expect only moderate sales growth, about 3.7% yoy.

'Idle' Cash is Supporting Profitability

As of June 30, 2006, STIR still had significant outstanding cash on its books (USD 269 mln), which allowed the company to earn USD 6.5 mln in interest income (net) in 1H06.

As our forecast is short-term, we do not exclude these non-recurring items from Stirol's income statement. However, we incorporate the possibility of spending accumulated cash for the announced modernization program into our forecast, which also will result in lower income in the respective scenarios.

Financial Performance, 2004-2007F

	2004	2005	Gas price scenario				
			1Q06	2Q06	2006E	Optimistic	Base case
						2007F	2007F
Net Revenues	351.4	448.6	118.0	235.4	480.6	495.1	498.3
Change y-o-y	43.1%	27.7%	4.0%	8.3%	7.1%	3.0%	3.7%
Gross Profit	148.3	191.3	39.5	75.5	144.6	97.1	81.2
Change y-o-y	55.0%	29.0%	(15.8%)	(19.1%)	(24.4%)	(32.9%)	(43.8%)
SG&A	(37.8)	(55.5)	(14.2)	(29.1)	(57.7)	(59.4)	(59.8)
% of Net Revenues	10.8%	12.4%	12.0%	12.4%	12.0%	12.0%	12.0%
EBITDA	108.4	127.7	24.2	42.8	87.0	37.7	21.4
Change y-o-y	73.2%	17.8%	(28.4%)	(38.1%)	(31.9%)	(56.7%)	(75.4%)
Net Income	77.2	96.6	23.2	37.2	63.8	17.3	6.0
Change y-o-y	117.8%	25.1%	(35.3%)	(33.6%)	(33.9%)	(72.9%)	(90.6%)
Gross Margin	42.2%	42.6%	33.5%	32.1%	30.1%	19.6%	16.3%
EBITDA Margin	30.9%	28.5%	20.5%	18.2%	18.1%	7.6%	4.3%
Net Margin	22.0%	21.5%	19.7%	15.8%	13.3%	3.5%	1.2%

Source: Company data, Concorde Capital estimates

Ammonia Production Is Likely To Be Minimized/Stopped

Recently Stiro's owner, Nikolay Yankovsky, disclosed that his company might gradually turn away from ammonia production in the future. Stiro uses about 55% of ammonia for urea production and exports the remaining 45%. According to Yankovsky, ammonia sales will be unprofitable with a gas price of USD 165/tcm at the border (~USD 190/tcm for the company). It was not disclosed whether the company is just cutting ammonia production to a level needed to satisfy its urea production, or shutting down ammonia production all together.

Our analysis suggests that, on average, the production of ammonia is unprofitable with a gas price of USD 154/tcm (equivalent to USD 130/tcm at the border) and assuming the price of ammonia at USD 230/mt.

This might motivate Stiro, as well as other producers, to stop producing ammonia, and thus avoiding increases in the price of gas. Provided a plant can buy ammonia on the market, it can still produce urea, which will still be profitable under the above conditions.

In general, there are three ways to optimize production processes:

- Completely shift to purchasing ammonia externally. Since the company is connected to the Tolliatti-Gorlovka-Odessa ammonia pipeline, it can easily obtain ammonia produced in Russia. It would be reasonable to simultaneously increase urea capacity, OR
- Expand urea production so all in-house ammonia is utilized, OR
- Cut down ammonia production to the amount needed for internal use (urea production).

We factor the closure of ammonia production facilities and increased urea capacity/output into STIR's valuation starting in 2008.

We believe that the way to avoid gas cost inflation suggested above is relevant to all Ukrainian fertilizer producers, as discussed in the section "Ways Out."

Ammonia Nitrate Won't Survive Either

We estimate that the production of ammonia nitrate will also become unprofitable with gas price of USD 175-180/tcm (~USD 150-155/tcm at the border). As in the case of urea, if gas prices exceed ~USD 160/tcm for the plant, it is more efficient to produce ammonia nitrate from ammonia purchased externally. However, given the prices for ammonia and ammonia nitrate, the company will only be able to earn about a 7% gross margin on ammonia nitrate, which is much lower than the profitability of urea. It is likely that in 2008, when the gas price for Ukraine is expected to rise again, Stiro will discontinue its production of ammonia nitrate.

The decrease in profitability of ammonia nitrate and higher competition from Russian producers has already induced producers of fertilizers, and Stiro in particular, to decrease output of this product. While production trends for ammonia and urea was generally positive in 9M06, ammonia nitrate output dropped by 4%.

It is still possible that the government will support domestic fertilizer producers by regulating ammonia nitrate prices and restricting Russian imports. However, it is not in the interest of ruling party from a political standpoint, because higher prices for ammonia nitrate will harm Ukrainian farmers, which consume about half of locally produced ammonia nitrate.

For Stiro, starting in 2008, we assume zero ammonia nitrate output in our valuation and that all ammonia will be used for the production of urea.

Modernization Program To Change

For these reasons, talk about modernizing Stirol's ammonia production facilities are irrelevant. We think the management will revise its USD 280 mln development program to reflect new priorities.

So far, the pace of CapEx has been quite slow. Since its USD 125 mln Eurobond placement in 2005, the company increased its PPE by only USD 34 mln. The increase was primarily attributed to the implementation of two projects to increase polystyrene and granulated urea capacity:

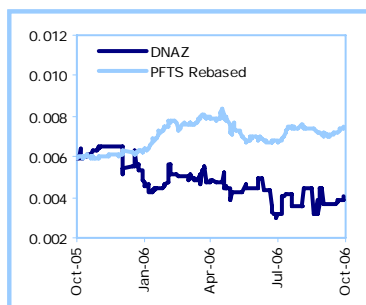
- In July the company began producing expandable polystyrene. Annual nameplate expandable polystyrene capacity was increased by 25 ths mt, to 50 ths mt. The company plans to launch one more production line with the same capacity of 25 ths mt per year by the end of 2006. We expect that Stirol, in effect, will be able to increase the share of polystyrene in total consolidated revenues from 6-7% in 2005 to about 10-12% next year.
- The other project to be completed by the end of 2006 is the USD 7.5mln production line of granulated urea, which has an annual capacity of about 600 ths mt. This will provide Stirol with the ability to produce higher value-added products.

SELL

Dniproazot

Market price	0.0041
Target price	0.0030
Upside/Downside	-26.8%

DNAZ Mid-market, USD



Source: PFTS

Market Information

Bloomberg	DNAZ UZ
Frankfurt/Xetra	UZB GR
No of Shares, mln	35158.4
Reg S GDR to Ord.	1:20
MCap, USD mln	144.1
Free Float	10.0%
FF MCap, USD mln	14.1

Stock Ownership

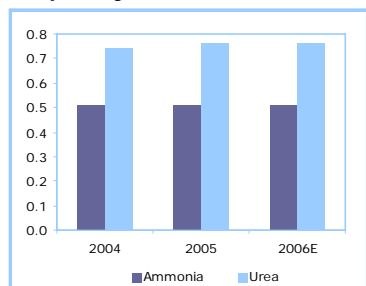
Privat Group	85.9%
Minority Stakes	14.1%

Key Ratios

	EV/S	EV/EBITDA	P/E
2005	0.9	3.5	4.9
2006E	0.8	4.1	5.6
2007E*	0.8	11.0	22.8

* Under the base scenario

Output Dynamics, mln mt



Source: Company data, Concorde Capital estimates

Although Dniproazot is less sensitive to gas price growth than Stirol (due to higher efficiency and a higher share of urea in its output mix), it has suffered from increasing gas prices and consequently squeezing margins. As in the case of Stirol, increased gas prices and hence ammonia production costs are likely to motivate DNAZ to shift to Russian ammonia, which means that the company is likely to revive its project to connect to the ammonia pipeline.

Margins Decline Mitigated by Improving Transparency...

This year DNAZ's 1H sales increased by 16.2% yoy, at a rate well above the industry average. We estimate that this increase in DNAZ's revenues came from higher prices, since its 1H output was virtually flat. In 1H06 the company seemed to price its products closer to the market.

Although Dniproazot's urea export price still lagged behind market levels, the price differential decreased from 15% in 1H05 to 6.5% in 1H06, supporting the company's sales and margins. In 1H06 DNAZ channeled about 18% of its urea exports through an affiliated trader, which is also the group's main profit center. It looks like the trader was purchasing urea from DNAZ domestically at a relatively fair price and than was reselling it to the group's off-shore traders at a loss. It looks paradoxical, but it none-the-less might have been meaningful for the group from a tax optimization point of view. DNAZ sold more of its products domestically and hence reduced its VAT receivable, while the group could also reduce its local income taxes.

In 1H06 Dniproazot's COGS grew 42.5% yoy, putting pressure on the company's profitability: the gross margin declined to 39.2% or by 11 p.p. compared to 1H05. The EBITDA margin reduced from 32.6% in 1H05 to 20.2% for the same period this year. The net margin dropped by a considerable 10 p.p. to 15.1%.

... Higher Efficiency, and a Favorable Output Mix

We forecast a 9.7% increase in DNAZ sales in 2006 and EBITDA and net margins of 20.3% and 12.6% respectively. In 2007, sales are expected to decrease slightly, due to a combination of stable output and lower fertilizer prices. We expect profitability to deteriorate further in 2007.

We expect DNAZ's margins to decrease slower than STIR's in the face of gas price increases. The company is less sensitive to gas price, as it is relatively more efficient and more focused on selling urea, which is a more profitable product compared with ammonia.

Financial Performance, 2004-2007F

	2004	2005	2006			Gas price scenario	
			1Q06	2Q06	2006E	Optimistic	Base case
						2007F	2007F
Net Revenues	156.1	186.4	53.4	105.7	204.4	200.4	200.4
Change y-o-y	23.2%	19.4%	14.6%	16.2%	9.7%	(2.0%)	(2.0%)
Gross Profit	74.0	87.8	20.6	41.4	81.7	60.7	54.6
Change y-o-y	48.0%	18.7%	(11.7%)	(9.7%)	(7.0%)	(25.6%)	(33.2%)
SG&A	(28.0)	(31.6)	(8.9)	(17.6)	(35.2)	(34.1)	(34.1)
% of Net Revenues	17.9%	17.0%	16.7%	16.7%	17.2%	17.0%	17.0%
EBITDA	40.7	49.1	10.9	21.3	41.5	21.7	15.5
Change y-o-y	27.4%	20.8%	(32.9%)	(28.0%)	(15.6%)	(47.7%)	(62.6%)
Net Income	19.9	29.7	7.8	16.0	25.8	10.9	6.3
Change y-o-y	19.5%	49.4%	(42.0%)	(30.1%)	(13.1%)	(57.5%)	(75.5%)
Gross Margin	47.4%	47.1%	38.5%	39.2%	40.0%	30.3%	27.2%
EBITDA Margin	26.0%	26.3%	20.5%	20.2%	20.3%	10.8%	7.7%
Net Margin	12.7%	15.9%	14.6%	15.1%	12.6%	5.5%	3.2%

Source: Company data, Concorde Capital estimates

Pipeline Is Needed Now More Than Ever

In 2006 Dniproazot planned to connect to the ammonia pipeline, but then froze the project for undisclosed reasons. DNAZ, like Stirol, can benefit from shifting to externally produced ammonia, yet it will require cheap transportation of ammonia to its urea production facilities. Otherwise extra transportation costs will offset the benefits of changing its output mix. We believe that closer to 2008 the company will attempt to negotiate supplies of ammonia from Russia, and if it succeeds, plans to connect to the pipeline is likely to be renewed.

For the discussion of the related risks please refer to the section "Ways Out."

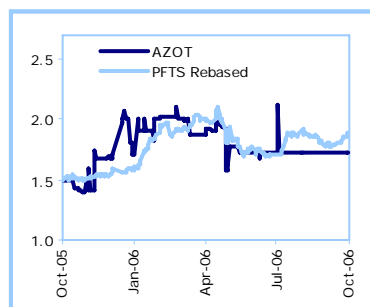
No Efficiency Improvement Envisioned In The Short-Term

The USD 6 mln investment planned for this year in energy-saving technologies is definitely insufficient. The targeted 12 mcm reduction in annual gas consumption (announced at the last AGM) is only about 1.5% of the plant's current yearly gas need. Thus, we do not factor efficiency improvement in our 2006-07 forecast.

Susp

Market price	1.64
Target price	N/R
Upside/Downside	N/A

AZOT Mid-market, USD



Source: PFTS

Market Information

Bloomberg	AZOT UZ
Frankfurt/Xetra	A9T GR
No of Shares, mln	124.3
Reg S GDR to Ord.	1:30
MCap, USD mln	203.8
Free Float	2.4%
FF MCap, USD mln	4.9

Stock Ownership

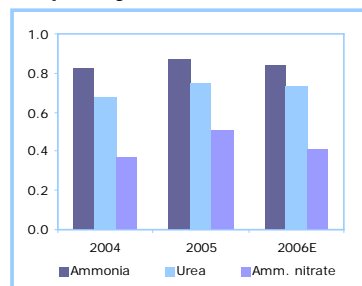
Privat Group	97.6%
Minorities	2.4%

Key Ratios

	EV/S	EV/EBITDA	P/E
2005	0.8	9.5	38.5
2006E	0.6	2.9	5.0
2007E*	0.6	4.8	11.6

* Under the base scenario

Output Dynamics, mln mt



Source: Company data, Concorde Capital estimates

Azot Cherkasy

For Azot Cherkasy, the major event this year was a significant improvement in transparency. We believe that the company started reporting true sales and margins in 1Q06. Yet its 1H06 margins would be even higher if not for gas price increases. We expect profitability to decrease further in 2007. Compared to its local peers, the company is less sensitive to the gas price, as it benefits from diversification in caprolactam, relatively low gas use and that almost 100% of its ammonia is processed into urea.

True Sales and Margins Revealed

In 1H06 AZOT's sales surged by a remarkable 62.6% yoy, from USD 112.5 mln to USD 182.9 mln. However, sales were driven by neither output growth (urea and ammonia production decreased by 6% and 14% respectively) nor by higher market prices (increases in the global prices of ammonia and urea global in 1H06 contributed insignificantly to AZOT's sales growth). Instead, sales grew due to removing tolling practices, which were employed until 4Q05.

Financial Performance, 2004-2007F

	2004	2005	1Q06	2Q06	2006E	Gas price scenario	
						Optimistic	Base case
						2007F	2007F
Net Revenues	233.7	267.2	98.0	182.9	363.9	373.0	373.0
Change y-o-y	0.4%	14.3%	54.6%	62.6%	36.2%	2.5%	2.5%
Gross Profit	56.4	62.1	30.5	56.8	120.2	96.9	87.4
Change y-o-y	117.2%	10.1%	68.7%	104.0%	93.7%	(19.4%)	(27.3%)
SG&A	(24.0)	(35.5)	(10.3)	(20.6)	(41.3)	(39.2)	(39.2)
% of Net Revenues	10.3%	13.3%	10.5%	11.3%	11.3%	10.5%	10.5%
EBITDA	15.2	23.5	19.8	35.1	76.8	55.6	46.1
Change y-o-y	45.2%	54.5%	123.6%	261.4%	226.2%	(27.6%)	(40.0%)
Net Income	1.2	5.3	10.6	17.9	40.6	24.6	17.5
Change y-o-y	597.7%	340.3%	212.8%	1633.7%	666.3%	(39.2%)	(56.8%)
Gross Margin	24.1%	23.2%	31.1%	31.1%	33.0%	26.0%	23.4%
EBITDA Margin	6.5%	8.8%	20.2%	19.2%	21.1%	14.9%	12.4%
Net Margin	0.5%	2.0%	10.8%	9.8%	11.1%	6.6%	4.7%

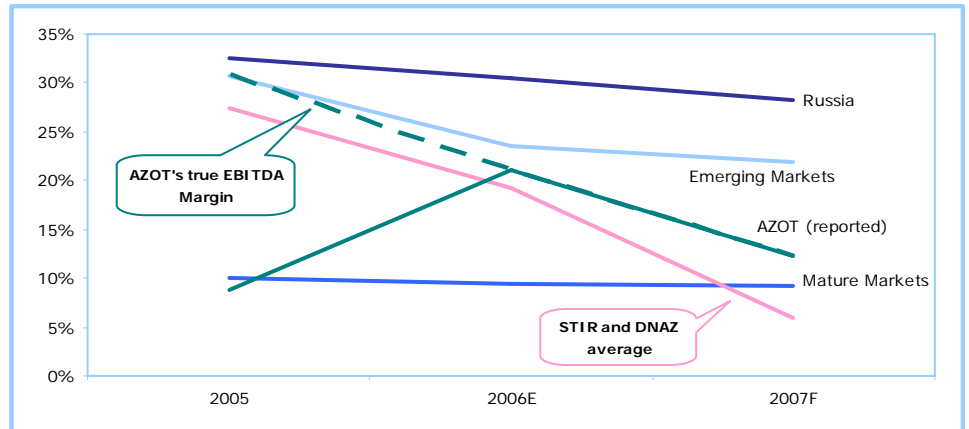
Source: Company data, Concorde Capital estimates

In 4Q05 quarterly sales surged 85.5% yoy, though the margins were still low. In the 1Q06, the company revealed its true profitability and reached its highest EBITDA and net margins ever: 20.2% and 10.6% respectively.

As expected, the improvement didn't reverse in 2Q06 and we believe it reflects a permanent change in the company's policy toward more transparency. We believe 1H06 margins adequately reflect the true profitability of the company, which is now much closer to its Ukrainian peers.

We forecast AZOT's 2006 EBITDA margin at 21.1% and net income margin at 11.1%, which is slightly higher to our previous forecast of 17.4% and 10.7%. In 2007 we expect the company's EBITDA and net margin to decrease to 12.4% and 4.7% respectively.

AZOT's EBITDA Margins vs. Peer-Averages



Source: Company data, Concorde Capital estimates

Recently we have suspended coverage of AZOT due to intensified corporate conflicts (for details please refer to our report from Sept. 12, 2006).

Valuation

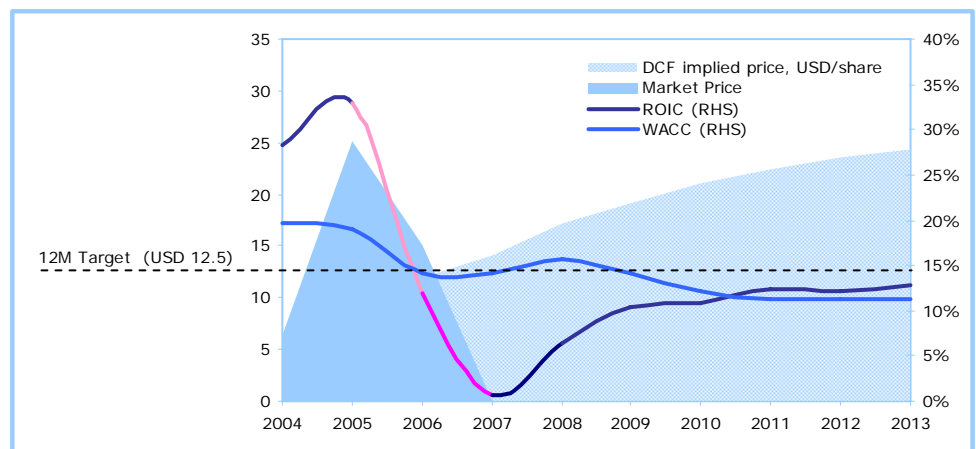
A comparison valuation suggests that despite the decline in the prices of fertilizer stocks this year, they are still overvalued under both gas price scenarios. We downgrade our targets and recommendations to reflect expected increases in the price of gas and, consequently, lower margins next year as well as excessive, in our view, investment risks.

The new targets and recommendations are USD 12.5/share (SELL) for Stiroil and USD 0.003/share (SELL) for Dniproazot. In September 2006 we suspended coverage of Azot Cherkasy due to lingering conflicts between its shareholders.

However, we do not rule out a recovery in value in the mid-term, due to possible structural changes in the companies' business. We capture this possibility by setting the targets slightly above the level suggested by the peer valuation, as the latter does not account for potentially beneficial developments beyond 2007. If those indeed happen, it is likely that deteriorating value in the short-term will be followed by a gradual recovery, thereby creating opportunities to buy on a weakness.

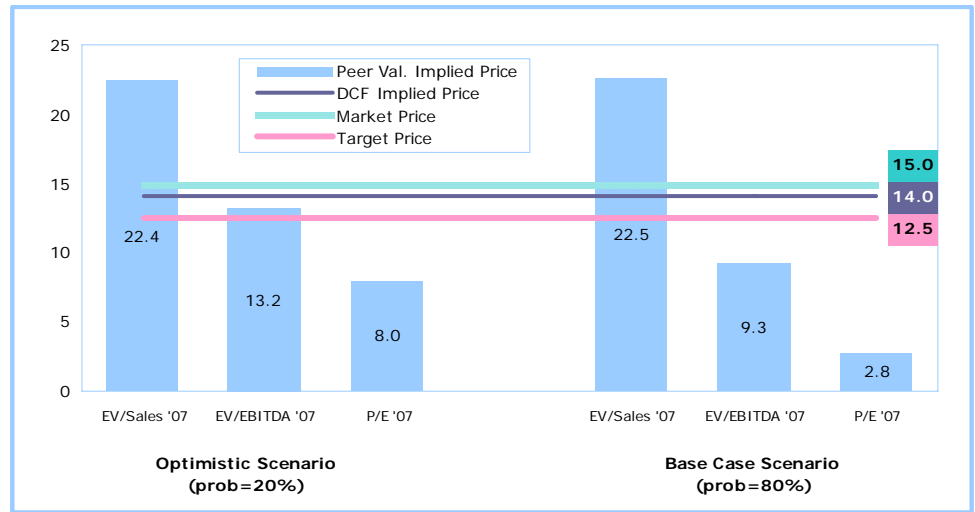
Specifically, in the case of Stiroil the possibility of recovering value materializes in the 12-month price implied by the DCF valuation (USD14.0 per share), which assumes that the company shuts down its ammonia and ammonia nitrate production facilities in 2008 and starts purchasing ammonia instead of producing it internally. We also assume it expands urea capacity by 16% to ~1190 ths mt, as planned.

Value Recovery After 2007, Stiroil's Case



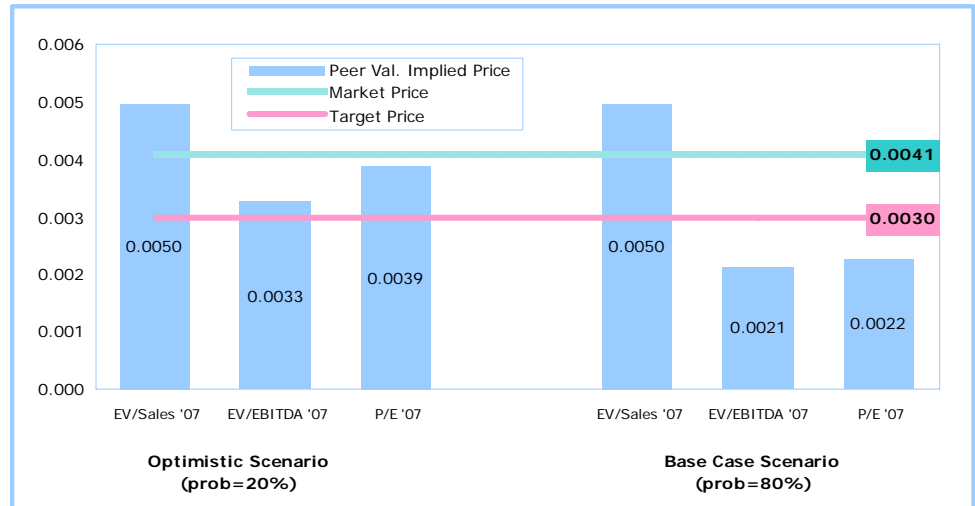
Source: Concorde Capital estimates

STIR Valuation Metrics



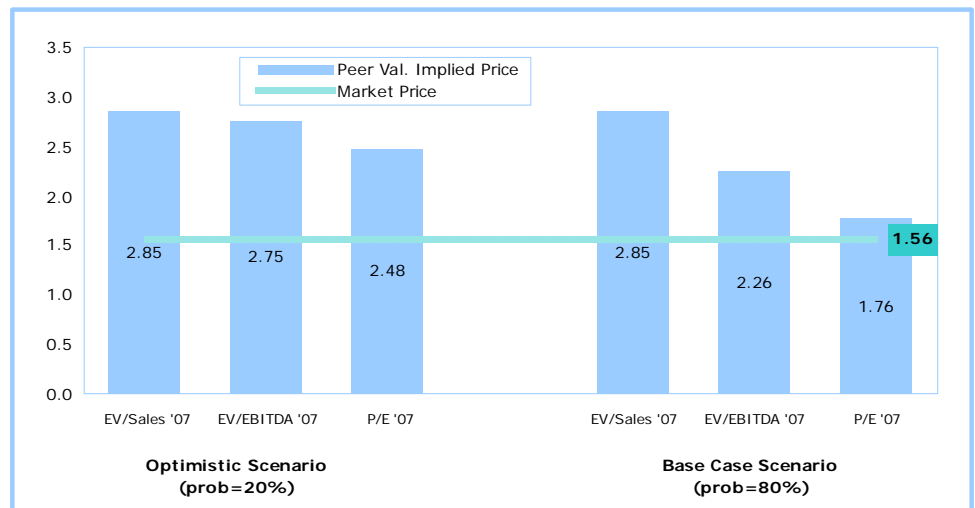
Source: Bloomberg, PFTS, Concorde Capital estimates

DNAZ Valuation Metrics



Source: Bloomberg, PFTS, Concorde Capital estimates

AZOT Valuation Metrics*



* We do not provide a target price for AZOT, as coverage of the company was suspended
 Source: Bloomberg, PFTS, Concorde Capital estimates

Appendix 1. STIR: Discounted Cash Flow Valuation

Valuation date: Oct. 27, 2007

Figures in local currency unless otherwise noted (UAH mln)

	2006F	2007F	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F
EBITDA	439	109	323	407	468	551	577	621	638	656
EBIT	372	25	214	275	313	382	396	427	434	441
Tax Rate	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Taxed EBIT	279	19	160	206	235	287	297	321	326	331
Plus D&A	67	84	110	133	155	168	182	194	204	215
Less CapEx	-285	-196	-259	-265	-258	-275	-277	-267	-230	-230
Less change in OWC	-117	-29	56	-39	-9	-5	34	-2	-1	-1
FCFF	-	-122	68	35	124	175	235	246	299	315
WACC	14.2%	14.1%	15.7%	14.2%	12.2%	11.2%	11.3%	11.3%	11.2%	11.2%
WACC To Perpetuity										12.0%
Terminal Value										3212
Firm Value		1884								PV of Terminal Value
Less Net Debt		38								1210
Equity Value		1923								Portion due to TV
										66.2%
										Perpetuity Growth Rate
										2.0%
12M Fair Value per Share		USD 14.0								Implied Exit P/EBITDA Multiple
										4.9x

Sensitivity of fair value per share, USD

WACC	Perpetuity Growth Rate					WACC to perpetuity	Perpetuity Growth Rate				
	1.0%	1.5%	2.0%	2.5%	3.0%		1.0%	1.5%	2.0%	2.5%	3.0%
WACC - 1.5%	14.5	15.0	15.5	16.1	16.7	9.0%	14.3	14.8	15.5	16.2	17.0
WACC - 1.0%	14.0	14.5	15.0	15.6	16.2	9.5%	13.8	14.4	14.9	15.6	16.3
WACC - 0.5%	13.6	14.0	14.5	15.1	15.7	10.0%	13.5	13.9	14.5	15.0	15.7
WACC + 0.0%	13.1	13.6	14.0	14.6	15.1	10.5%	13.1	13.6	14.0	14.6	15.1
WACC + 0.5%	12.7	13.1	13.6	14.1	14.6	11.0%	12.8	13.2	13.7	14.1	14.7
WACC + 1.0%	12.3	12.7	13.1	13.6	14.2	11.5%	12.5	12.9	13.3	13.7	14.2
WACC + 1.5%	11.9	12.3	12.7	13.2	13.7	12.0%	12.3	12.6	13.0	13.4	13.8

Source: Concorde Capital estimates

Appendix 2. Peer Valuation

Peer Group

		Sales		EBITDA Margin		Net Margin		EBITDA Growth		EV/S		EV/EBITDA		P/E	
		2006E	2007F	2006E	2007F	2006E	2007F	2006E	2007F	2006E	2007F	2006E	2007F	2006E	2007F
Mature Markets															
	Canada	3 987.1	3 921.5	14.6%	15.3%	4.7%	6.0%	-12.7%	3.0%	0.79	0.81	5.43	5.27	15.91	12.52
	Yara International ASA	11 295.0	11 956.8	4.5%	4.8%	2.0%	2.2%	46.7%	11.3%	0.48	0.48	10.51	9.96	20.94	18.27
	K & S AG	3 848.6	4 109.4	14.2%	14.1%	5.7%	5.9%	17.9%	5.7%	0.87	0.78	6.10	5.55	14.66	13.23
	Terra Industries Inc	1 885.0	1 944.4	8.9%	8.2%	n/a	n/a	-12.8%	-4.6%	0.47	0.46	5.32	5.58	n/a	n/a
	MM Mean			9.3%	9.3%	3.4%	3.8%	11.8%	3.2%	0.65	0.63	6.84	6.59	17.17	14.67
Emerging Markets															
	Yunnan Yuntianhua	404	526	30.2%	26.3%	19.9%	16.3%	-7.2%	13.6%	1.80	1.38	5.95	5.23	7.89	7.41
	Shandong Hualu Hengsheng	224	299	19.8%	22.2%	12.3%	12.3%	-4.5%	49.4%	2.53	1.90	12.80	8.57	15.61	11.77
	Sichuan Meifeng Chem	217	296	24.8%	18.1%	16.1%	12.3%	9.6%	-0.5%	1.86	1.37	7.52	7.55	10.85	10.44
	Engro Chemical Pakistan	317	322	19.6%	21.2%	11.8%	12.2%	-2.3%	9.9%	1.49	1.47	7.61	6.93	11.71	11.10
	EM Mean			23.6%	22.0%	15.0%	13.3%	-1.1%	18.1%	1.92	1.53	8.47	7.07	11.52	10.18
Russia															
	Acron	830	848	29.8%	29.1%	16.9%	16.4%	-0.4%	0.0%	1.77	1.75	5.94	6.02	9.37	9.43
	Azot Novomoskovsk	491	485	34.2%	31.3%	22.2%	20.6%	34.4%	-9.5%	1.35	1.28	3.95	4.10	5.62	6.13
	Azot Nevinnomysk	449	459	27.6%	24.4%	19.2%	16.6%	-31.1%	-9.7%	1.72	1.71	6.24	7.01	7.99	9.04
	Russia Mean			30.5%	28.3%	19.4%	17.9%	1.0%	-6.4%	1.61	1.58	5.38	5.71	7.66	8.20
	Global Mean			21.2%	19.9%	12.6%	11.6%	3.9%	5.0%	1.40	1.25	6.90	6.46	12.12	11.02

Peer Valuation Details

Base Case Scenario

		Sales		EBITDA Margin		Net Margin		EBITDA Growth		EV/S		EV/EBITDA		P/E	
		2006E	2007F	2006E	2007F	2006E	2007F	2006E	2007F	2006E	2007F	2006E	2007F	2006E	2007F
Stirol	Ukraine	481	498	18.1%	4.3%	13.3%	1.2%	-31.9%	-75.4%	0.61	0.59	3.38	13.71	6.35	67.56
<i>Implied price @ mean:</i>															
	Mature Markets									15.68	15.70	26.04	9.32	40.42	3.25
	Emerging Markets									38.16	32.22	31.26	9.70	27.10	2.25
	Russia									32.71	33.19	21.35	8.63	18.03	1.81
Dniproazot	Ukraine	204	200	20.3%	7.7%	12.6%	3.2%	-15.6%	-62.6%	0.83	0.85	4.11	10.98	5.59	22.78
<i>Implied price @ mean:</i>															
	Mature Markets									0.003	0.003	0.007	0.002	0.013	0.003
	Emerging Markets									0.010	0.008	0.009	0.002	0.008	0.002
	Russia									0.009	0.008	0.006	0.002	0.006	0.001
Azot Cherkasy	Ukraine	364	373	21.1%	12.4%	11.1%	4.7%	226.2%	-40.0%	0.61	0.60	2.91	4.85	5.03	11.62
<i>Implied price @ mean:</i>															
	Mature Markets									1.75	1.74	4.07	2.29	5.60	2.07
	Emerging Markets									5.47	4.43	5.07	2.46	3.76	1.44
	Russia									4.57	4.59	3.16	1.96	2.50	1.16

Optimistic Scenario

		Sales		EBITDA Margin		Net Margin		EBITDA Growth		EV/S		EV/EBITDA		P/E	
		2006E	2007F	2006E	2007F	2006E	2007F	2006E	2007F	2006E	2007F	2006E	2007F	2006E	2007F
Stirol	Ukraine	481	495	18.1%	7.6%	13.3%	3.5%	-31.9%	-56.7%	0.61	0.59	3.38	7.80	6.35	23.45
<i>Implied price @ mean:</i>															
	Mature Markets									15.68	15.63	26.04	13.26	40.42	9.36
	Emerging Markets									38.16	32.04	31.26	13.93	27.10	6.49
	Russia									32.71	33.01	21.35	12.04	18.03	5.23
Dniproazot	Ukraine	204	200	20.3%	10.8%	12.6%	5.5%	-15.6%	-47.7%	0.83	0.85	4.11	7.86	5.59	13.17
<i>Implied price @ mean:</i>															
	Mature Markets									0.003	0.003	0.007	0.003	0.013	0.005
	Emerging Markets									0.010	0.008	0.009	0.004	0.008	0.003
	Russia									0.009	0.008	0.006	0.003	0.006	0.003
Azot Cherkasy	Ukraine	364	373	21.1%	14.9%	11.1%	6.6%	226.2%	-27.6%	0.61	0.60	2.91	4.02	5.03	8.27
<i>Implied price @ mean:</i>															
	Mature Markets									1.75	1.74	4.07	2.79	5.60	2.91
	Emerging Markets									5.47	4.43	5.07	3.00	3.76	2.02
	Russia									4.57	4.59	3.16	2.40	2.50	1.63

Source: Thomson Financial, Concorde Capital estimates

Appendix 3. 1H06 Financials According to Ukrainian Accounting Standards

Income Statement Summary, USD mln	Stirol			Dniproazot			Azot Cherkasy		
	2Q05	2005	2Q06	2Q05	2005	2Q06	2Q05	2005	2Q06
Net Revenues	217.5	448.6	235.4	91.0	186.4	105.7	112.5	267.2	182.9
Change y-o-y	-	27.7%	8.3%	-	19.4%	16.2%	-	14.3%	62.6%
Cost Of Sales	(124.1)	(257.3)	(160.0)	(45.1)	(98.6)	(64.3)	(84.6)	(205.2)	(126.0)
% of Net Revenues	57.1%	57.4%	67.9%	49.6%	52.9%	60.8%	75.2%	76.8%	68.9%
Gross Profit	93.3	191.3	75.5	45.9	87.8	41.4	27.9	62.1	56.8
% of Net Revenues	42.9%	42.6%	32.1%	50.4%	47.1%	39.2%	24.8%	23.2%	31.1%
Other Operating Income/Costs, net	0.5	(8.1)	(3.6)	(4.0)	(7.1)	(2.5)	(3.1)	(3.1)	(1.1)
SG&A	(24.7)	(55.5)	(29.1)	(12.2)	(31.6)	(17.6)	(15.0)	(35.5)	(20.6)
% of Net Revenues	11.3%	12.4%	12.4%	13.4%	17.0%	16.7%	13.4%	13.3%	11.3%
EBITDA	69.1	127.7	42.8	29.6	49.1	21.3	9.7	23.5	35.1
EBITDA margin, %	31.8%	28.5%	18.2%	32.6%	26.3%	20.2%	8.6%	8.8%	19.2%
Depreciation	(6.5)	(14.0)	(7.5)	(2.8)	(5.9)	(3.0)	(5.8)	(13.5)	(10.2)
% of Net Revenues	3.0%	3.1%	3.2%	3.1%	3.1%	2.9%	5.2%	5.1%	5.6%
EBIT	62.6	113.8	35.3	26.8	43.2	18.3	3.9	10.0	24.9
EBIT margin, %	28.8%	25.4%	15.0%	29.5%	23.2%	17.3%	3.5%	3.8%	13.6%
Interest Expense	(1.4)	(3.5)	(11.5)	(1.2)	(1.6)	(0.5)	(2.0)	(3.4)	(1.2)
Financial income/(expense)	7.2	19.6	18.0	0.0	-	-	0.0	(0.0)	-
Other income/(expense)	(0.7)	(1.1)	2.6	(0.4)	(1.6)	(0.9)	1.8	1.8	(0.0)
PBT	67.7	128.8	44.4	25.2	40.1	16.9	3.7	8.4	23.7
Tax	(11.7)	(32.2)	(8.2)	(2.4)	(10.4)	(1.9)	(2.6)	(3.1)	(6.7)
Effective tax rate	17.3%	25.0%	18.6%	9.5%	26.0%	11.2%	71.7%	37.3%	28.5%
Net Income	56.0	96.6	37.2	22.9	29.7	16.0	1.0	5.3	17.9
Net Margin, %	25.8%	21.5%	15.8%	25.1%	15.9%	15.1%	0.9%	2.0%	9.8%
Dividend Declared	-	18.9	-	-	-	-	-	-	-

Balance Sheet Summary, USD mln	Stirol			Dniproazot			Azot Cherkasy		
	2Q05	2005	2Q06	2Q05	2005	2Q06	2Q05	2005	2Q06
Current Assets	241	398	436	184	200	212	184	94	91
Cash & Equivalents	131	282	269	6	2	3	2	0	4
Trade Receivables	17	21	22	32	45	40	55	14	1
Inventories	38	47	68	13	13	14	57	48	44
Other current assets	55	48	76	133	139	155	71	32	42
Fixed Assets	148	171	192	127	128	128	173	177	250
PP&E, net	107	109	103	109	111	109	133	162	233
Other Fixed Assets	40	62	90	17	17	18	41	15	17
Total Assets	389	568	628	310	328	340	357	272	341
Shareholders' Equity	298	343	352	240	249	264	131	174	249
Share Capital	62	64	63	69	70	70	166	211	211
Reserves and Other	178	180	253	96	97	100	21	21	129
Retained Earnings	57	98	36	75	83	95	(55)	(57)	(91)
Current Liabilities	88	100	151	28	55	54	184	97	46
ST Interest Bearing Debt	25	17	33	0	27	34	19	20	13
Trade Payables	10	18	8	10	10	1	142	61	13
Accrued Wages	0	0	0	1	1	1	1	1	1
Accrued Taxes	0	3	0	1	1	0	2	3	4
Other Current Liabilities	52	62	110	16	16	17	21	11	15
LT Liabilities	4	125	125	42	24	22	42	0	47
LT Interest Bearing Debt	1	125	125	25	2	-	7	0	28
Other LT	3	0	0	17	22	22	36	-	18
Total Liabilities & Equity	389	568	628	310	328	340	357	272	341
Net Debt	(105)	(140)	(112)	(127)	(274)	(159)	(128)	(286)	(267)

UAH/USD Exchange Rates	2Q05	2005	2Q06
Average	5.19	5.12	5.05
Year-end	5.10	5.05	5.05

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