Ukraine / Glass Industry
Vetropack Gostomel Glass

Unbreakable

Buy

June 13 2006	**USD 181.5**
12m Target	**USD 224.9**
12m diluted	**USD 2.6**

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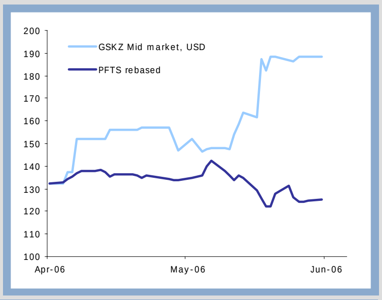
GSKZ Mid-Market, USD



Market Information	
Bloomberg	GSKZ UZ
No of Shares, mln	**0.495**
Reg S GDR to Ord.	
Market price, USD	**181.5**
MCap, USD mln	**90.0**
Free Float, %	**25%**

Stock Ownership	
Vetropack	75.0%
Management	13.5%
Inv. banks	4.0%
Private individuals	7.5%

Ratios 2005	
EBITDA Margin	32.5%
EBIT Margin	22.4%
Net Margin	16.7%
Net Debt/Equity	0.76

**Based on adjusted sales*

We are initiating coverage of Vetropack Gostomel Glass, Ukraine's largest producer of glass bottles. Our 12-month target price of USD 224.9 (a 24% upside) implies MCap of USD 111.6 mln. We will adjust the target to USD 2.6 after a planned increase in the company's charter fund takes place – BUY.

New Owner Brings Expansion Plans. Attracted by GSKZ's high profit margins and the potential for developing Ukraine's market, Vetropack AG (Switzerland, ~2% of the world glass packaging market) bought a 75% stake in Gostomel Glass from GSKZ's management in February 2006. The first step the Vetropack took after acquiring the company was starting work on the launch of a fifth furnace to increase GSKZ's capacity 85% by the end of 2007, and to upgrade two furnaces to make them more energy-efficient.

New Capacity: Late But Expedient. The company's new furnace will start operating in late 2007 – after major capacity increases by other market participants. Despite the tardiness of the new furnace, we expect it to increase the company's value. The fuller loading of capacities will be triggered by internal demand growing at 3.5% 10Y CAGR, the elbowing out of imports and an increase in GSKZ's market share.

Dealing With The Threat Of Overcapacity: Ahead Of The Pack. We expect that starting from 2007-08 the market will turn from supply-driven to demand-driven, squeezing the profitability margins of all players. However, we believe GSKZ is better prepared for the change in market conditions than most of its Ukrainian peers. Energy-saving furnaces, modern production lines, its own energy-generating station, glass cullet workshop, and stable relations with large customers give the company a leg up on other companies that have just started to improve efficiency or are looking to enter the market.

Expansion Backed By EBRD Financing. Most of GSKZ's capacity expansion in 2006-07 will be financed by a loan for up to USD 68 mln from the EBRD. While GSKZ has a history of cooperation with EBRD, the loan is significantly larger than those disbursed before, and, in our opinion, is backed by Vetropack guarantees, which make it cheaper. Its compliance with EBRD covenants implies that GSKZ is financially stable and transparent.

WATCH: GSKZ plans to issue an additional 43.789 mln shares at USD 0.07 par. Subscription for existing shareholders proportionately to their holding in the company will be conducted on June 14-28 2006. The unsold shares will be offered to all at the second stage of subscription on June 29-July 1 2006,

KEY FINANCIAL DATA, USD mln

	Net Revenue	**EBITDA**	**Net Income**
2004	46.2	15.2	8.4
2005E	52.5	17.3	7.9
2006E	57.0	18.8	6.7

Spot Exchange Rate

KEY RATIOS

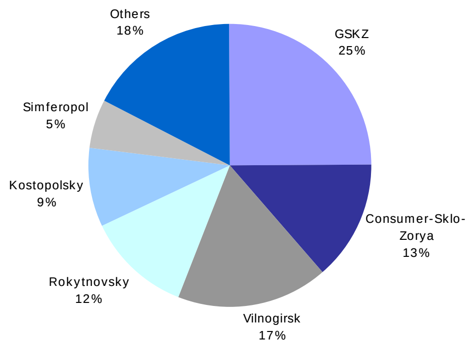
	P/S	**EV/EBITDA**	**P/E**
2004	1.9	7.4	10.7
2005E	1.7	7.2	11.4
2006E	1.6	7.9	13.4

At A Glance

Vetropack Gostomel Glass (GSKZ) is Ukraine's largest producer of glass packaging. In 2005 the company controlled 16% of Ukraine's total glass packaging capacity.

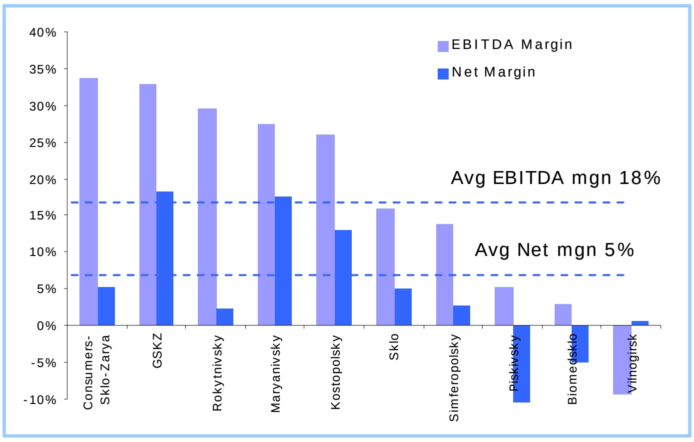
Last year GSKZ posted the largest net margin and second-largest EBITDA margin among Ukrainian producers of glass bottles. The company's sales grew at 62% far above the average of its peers – about 43% in 2005. This allowed it to increase its market share in bottle production (in unit terms) from 19% in 2004 to 25% last year.

Ukraine Bottle Production In 2005, Units



Source: Ministry of Industrial Policy

Profitability Margins Of Bottle Producers, 2005



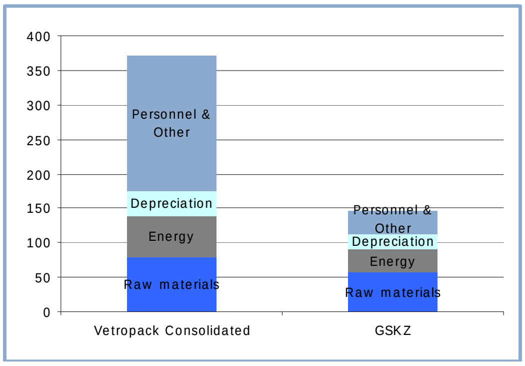
Good Choice

In February 2006, Vetropack (Switzerland) entered Ukraine by acquiring 75% of GSKZ. This was the company's first acquisition in Ukraine and we see good reasons for its attraction to Ukraine's glass packaging industry in general and GSKZ in particular.

Ukraine's glass industry is well positioned in terms of inputs. All silica sand used in production is mined in Ukraine. The soda ash producers, Lysychansk Soda and Krym Soda satisfy 99.9% of the domestic glass market's demand. The largest threat to the industry is further increases in gas and energy prices, which accounted for 23% of GSKZ's production costs in 2005. Starting from February 20th, 2006 gas price for industrial consumers rose by 44% to USD 108, and we expect the price to be USD 128 for the 1H06.

GSKZ's energy costs per mt of glass are 44% less than the consolidated production costs of Vetropack Group. Its material and staffing costs are also both lower by 26% and 86% respectively.

Vetropack vs GSKZ Costs, USD / mt



Source: Vetropack Group annual report, GSKZ data, Concorde Capital estimates

GSKZ is diversified into all types of glass packaging, except for jars, but the market for the latter is saturated - overall the production of glass jars in Ukraine declined last year. GSKZ produces bottles for vodka, beer, wine, soft drinks and pharmaceuticals.

In April 2005, the company launched a new green glass furnace, where it makes bottles for the Stella Artois, Becks, and Tuborg beer brands (Sun Interbrew Ukraine), which up to that point had been imported. It also makes bottles for Coca-Cola, Obolon (a local beer producer with 26% of the market), Nemiroff, Soyuz-Viktan, Olimp, Myagkov and Knyazhyy Grad (Ukraine's major vodka brands, account for ~32% of the local glass market), Unipharma and Galychpharm (pharmaceuticals).

Bucking Against Profitability Decline

We expect GSKZ to benefit in the mid-term from being ahead of Ukraine's other market participants in terms of modernizing equipment and the introduction of energy-saving technologies. The specifics of the company's product (close to commodity) leads to differentiation being triggered by the customer (e.g. beverage producers), and thus prevents significant innovation from the side of the bottle producer. Thus the ability to cut costs is an advantageous feature.

Modern Furnaces And Production Lines bring benefits in terms of waste and energy consumption (23% of production costs in 2005) reduction, as GSKZ furnaces consume about half, on average, of the energy per mt of glass its Ukrainian peers consume. Two of the company's four furnaces in energy-saving terms are compatible with world standards, while the other two will be upgraded in 2006-07.

Cullet Workshop. GSKZ consumes ~15-20% more recycled glass per 1 mt of glass than the average for Ukrainian producers. This brings additional benefits in terms of energy consumption, as every 10% increase in the consumption of recycled glass decreases the company's need for electricity by 2.5%. Last year GSKZ launched a workshop for the processing of recycled glass, which satisfies 100% of the company's demand for this input.

Power Station. The station, launched in 2004 supplies ~57% of the total electricity consumed by the company at cheaper than market prices.

In our opinion, these competitive advantages will dissipate in the long-term, as the barriers to enter the market are low, especially for global producers, willing to settle in Ukraine. However, in the meantime these advantages will allow GSKZ it to reap the benefits of a producer-driven market more efficiently, adding to the company's value.

Value Drivers And Risks

Growth Potential

We estimate that the company's net revenue will increase at 11.7% 10Y CAGR, triggering 7.1% 10Y CAGR in earnings per share.

Internal Demand. We project the internal demand for glass packaging to grow at 3.5% 10Y CAGR. We assume that Ukraine's annual consumption of glass packaging per person will increase by 50% in ten years, reaching the consumption level of eastern Europe. This will be backed by an increase in the production of beverages (beer production is expected to grow 10% in 2006).

Elbowing Out Imports, Exports Looking To Grow. These two factors will account for 1.6% 10Y CAGR. Currently imports account for 26% of consumption, which is likely to decrease threefold in ten years, as new production capacities open. Lack of capacity is the major reason for the large share of imports. Export growth is expected to grow moderately from 2% currently to 5% in the long-run. While exports are expedient due to the significant cost benefits GSKZ has over world peers we do not expect rapid growth in this area, as the world market is saturated.

GSKZ To Increase Market Share. We expect GSKZ to increase its market share in the glass packaging market from its current 17% to 25% in the mid-term. In our opinion, this will come at the expense of smaller players who are slow to invest in capacity development.

Overcapacity The Main Risk

Significant investments in capacity increases by Ukraine's main producers of glass packaging poses a major risk of overcapacity. We expect GSKZ's margins to gradually decline to world levels, washing out its current profits. In our opinion, GSKZ is better prepared to face the stiffer market conditions, expected starting from 2007-08, as it has upgraded one of its furnaces to decrease energy consumption, is investing in cost-cutting operations, is pursuing a cost-leadership strategy and thus is pulling ahead of its major competitors.

Operating Model

	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
GDP growth	*3%*	*3%*	*4%*	*6%*	*6%*	*6%*	*6%*	*6%*	*6%*	*6%*	*6%*	*6%*
Industrial production growth	*3%*	*4%*	*5%*	*6%*	*6%*	*6%*	*6%*	*6%*	*6%*	*6%*	*6%*	*6%*
Ukraine's glass Packaging market												
Internal demand, ths mt	**1077**	**1147**	**1222**	**1307**	**1372**	**1441**	**1484**	**1529**	**1559**	**1591**	**1606**	**1615**
Imports, ths mt	**281**	**254**	**216**	**173**	**130**	**117**	**111**	**105**	**100**	**97**	**94**	**94**
Exports, ths mt	705	719	733	748	770	794	817	842	867	893	920	948
Demand for Ukraine-made glass, ths mt	**1024**	**1125**	**1242**	**1376**	**1491**	**1580**	**1637**	**1695**	**1739**	**1782**	**1809**	**1828**
Change	*7%*	*10%*	*10%*	*11%*	*8%*	*6%*	*4%*	*4%*	*3%*	*2%*	*2%*	*1%*
GSKZ												
Ann. capacity additions plans, ths mt	75	15	0	161	0	73	0	0	0	0	0	0
Capacity, ths mt	**190**	**212**	**219**	**380**	**380**	**453**	**453**	**453**	**453**	**453**	**453**	**453**
Waste, %	6%	6%	6%	6%	6%	6%	6%	5%	5%	5%	5%	5%
Production, ths mt, excl. waste	**175**	**189**	**195**	**288**	**302**	**331**	**349**	**367**	**382**	**398**	**402**	**404**
Change	62%	8%	3%	47%	5%	10%	5%	5%	4%	4%	1%	1%
Capacity utilization	98%	95%	95%	80%	84%	77%	81%	85%	89%	92%	93%	94%
Market share	*17%*	*17%*	*16%*	*22%*	*22%*	*23%*	*24%*	*24%*	*25%*	*25%*	*25%*	*25%*
Price/ mt, USD	264	272	286	306	333	357	364	369	369	369	369	369
Revenues, USD mln	**46**	**52**	**56**	**88**	**101**	**118**	**127**	**135**	**141**	**147**	**148**	**149**
Change	64%	12%	8%	57%	14%	17%	7%	7%	4%	4%	1%	1%
EBITDA margin	*33%*	*33%*	*33%*	*32%*	*32%*	*32%*	*30%*	*29%*	*27%*	*25%*	*24%*	*23%*

DCF Valuation

Valuation Date June 6 2006

For the purposes of forecasting local currency is used (UAH mln)

	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
EBITDA	**87**	**94**	**144**	**164**	**193**	**194**	**200**	**191**	**187**	**178**	**170**
EBIT	61	63	107	126	154	155	161	152	149	140	133
Tax Rate	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*
Taxed EBIT	46	48	80	94	115	116	121	114	111	105	99
Plus D&A	25	31	36	38	39	39	39	39	39	38	38
Less CapEx	(178)	(179)	(100)	(74)	(48)	(47)	(44)	(38)	(37)	(36)	(34)
Less change in OWC	6	(12)	(30)	(12)	(30)	(6)	(9)	(9)	3	(1)	-
FCFF	**-**	**(112)**	**(14)**	**47**	**76**	**103**	**107**	**106**	**116**	**106**	**103**
WACC	-	10.7%	10.3%	10.4%	10.4%	10.4%	10.0%	9.9%	10.1%	10.2%	10.4%

WACC to perpetuity	10.5%	Disc. Terminal value	485
Firm Value	781	Portion due to TV	62.1%
Less Net Debt	-224	Perpetuity Growth Rate	2.0%
Equity Value	558	Implied Exit EBITDA Multiple	x7.3

12 Mo Fair Value per Share **USD 224.9**

Share Price Sensitivity

Implied Share Price, US$

WACC to perpetuity	**Perpetuity Growth Rate**				
	1.0%	***1.5%***	***2.0%***	***2.5%***	***3.0%***
9.0%	233.21	247.93	264.76	284.17	306.82
9.5%	221.78	234.86	249.68	266.61	286.15
10.0%	211.65	223.35	236.51	251.42	268.47
10.5%	202.61	213.14	**224.91**	238.16	253.17
11.0%	194.49	204.03	214.63	226.48	239.81
11.5%	187.16	195.85	205.46	216.13	228.05
12.0%	180.53	188.48	197.22	206.88	217.62

Source: Company Data, Concorde Capital Estimates

Peer Comparison

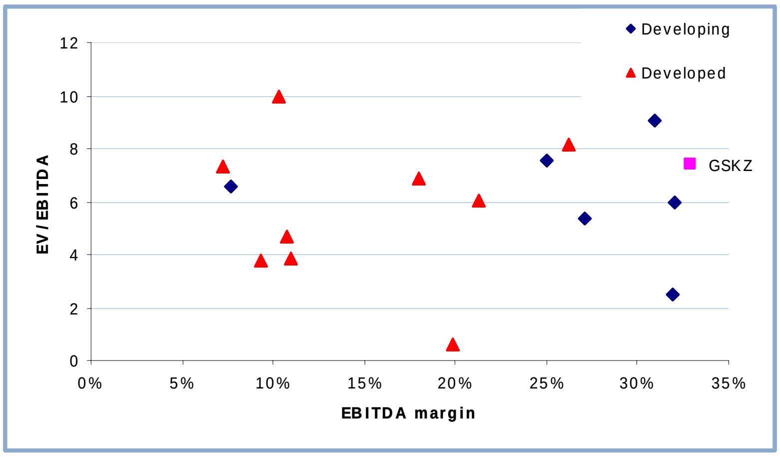
	Country	Market Cap	Net Revenues		EBITDA Mgn		Net Mgn		EV/Sales		EV/EBITDA		P/E	
			2005	2006E	2005E	2006E	2005E	2006E	2005E	2006E	2005E	2006E	2005E	2006E
Gostomel Glass	**Ukraine**		**46.2**	**52.5**	**33%**	**33%**	**18%**	**15%**	**2.4**	**2.1**	**7.4**	**6.5**	**10.7**	**11.4**
Developing														
Anadolu Cam Sanayii AS	TURKEY	518.0	394.5	429.8	27%	34%	10%	15%	1.5	1.4	5.4	4.3	13.2	8.2
Consol Limited	SOUTH AFRICA	647.6	336.5	404.2	32%	33%	15%	16%	1.9	1.6	6.0	4.8	12.5	10.0
Cristalerias De Chile	CHILE	634.9	367.1	n/a	25%	n/a	12%	n/a	1.9	n/a	7.6	n/a	14.1	n/a
CSG Holdings	CHINA	718.6	284.3	n/a	31%	n/a	14%	n/a	2.8	n/a	9.1	n/a	18.2	n/a
Rigolleau SA	ARGENTINA	51.8	62.1	n/a	32%	n/a	16%	n/a	0.8	n/a	2.5	n/a	5.4	n/a
Mulia Industrindo	INDONESIA	28.3	276.3	n/a	8%	n/a	outlier	n/a	0.5	n/a	6.6	n/a	neg	n/a
Developed														
Owens Illinois Inc	UNITED STATES	2,610.1	7,079.0	7,426.1	10%	18%	-9%	3%	1.0	1.0	10.0	5.4	neg	12.3
Toyo Seikan Limited	JAPAN	3,936.0	6,543.2	6,195.3	11%	10%	2%	2%	0.4	0.4	3.9	4.5	33.1	41.3
Rexam PLC	UNITED KINGDOM	4,995.1	5,557.1	6,734.6	18%	17%	7%	6%	1.2	1.1	6.8	6.4	13.0	12.1
Ishizuka Glass Company Limited	JAPAN	106.7	524.4	n/a	9%	n/a	1%	n/a	0.4	n/a	3.8	n/a	27.7	n/a
Vetropack	SWITZERLAND	413.8	411.2	432.1	21%	21%	9%	9%	1.3	1.2	6.0	5.8	11.4	10.9
Vidrala SA	SPAIN	529.1	346.6	390.3	26%	24%	9%	9%	2.1	1.9	8.1	7.8	16.6	15.5
Nihon Yamamura Glass Company	JAPAN	333.7	682.0	n/a	11%	n/a	2%	n/a	0.5	n/a	4.7	n/a	23.1	n/a
Kum BI Corp.	KOREA (SOUTH)	47.9	88.0	n/a	20%	n/a	12%	n/a	0.1	n/a	0.6	n/a	4.6	n/a
Fuji Glass Company Limited	JAPAN	12.3	24.7	n/a	7%	n/a	2%	n/a	0.5	n/a	7.3	n/a	24.8	n/a
Average developed					15%	18%	4%	6%	0.8	1.1	5.7	6.0	19.3	18.4
Median developed					11%	18%	2%	6%	0.5	1.1	6.0	5.8	19.8	12.3
Average developing					26%	34%	13%	15%	1.6	1.5	6.2	4.5	12.7	9.1
Median developing					29%	34%	14%	15%	1.7	1.5	6.3	4.5	13.2	9.1
GSKZ Target price by mean developed									33.5	50.9	129.3	140.1	327.7	293.2
GSKZ Target price by median developed									4.2	45.6	138.9	133.2	337.1	195.3
GSKZ Target price by mean developing									100.2	92.5	144.2	89.3	215.2	144.3
GSKZ Target price by median developing									111.1	92.5	147.7	89.3	223.5	144.3

Source: Thomson Financial, GSKZ Data, Concorde Capital Estimates

Valuation Summary

GSKZ looks overvalued by all multiples except for P/E (2006 is not representative for developing countries due to the lack of data). In our opinion, GSKZ deserves a higher valuation than its peers by EV/EBITDA and P/E multiples, as it posted the highest profitability margins out of the entire group in 2005, and will continue posting higher than group's average margins for the next few years.

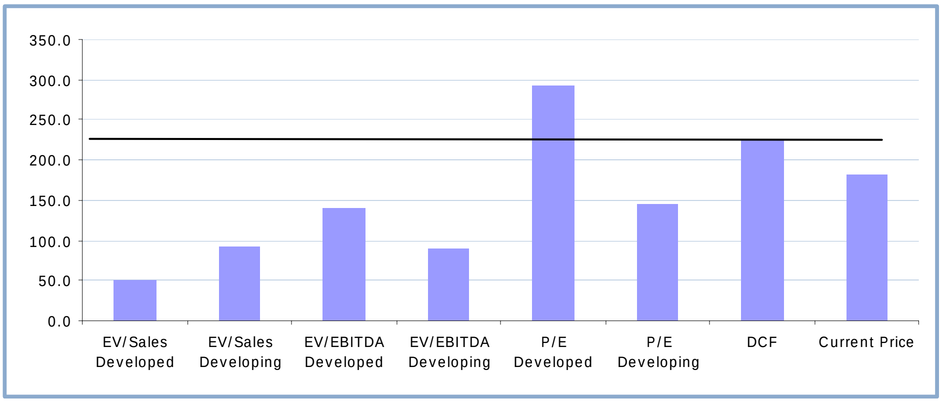
EBITDA Margin vs EV/EBITDA



Source: Thomson Financial, GSKZ Data, Concorde Capital Estimates

Peer comparison does not take into account the major developments that have a conflicting impact on GSKZ's implied price. First, the company's sales which have been augmented since late 2007 due to its almost doubling capacity - planned from the end-2007. Second, the dip in profitability margins that we expect in the mid-term. Thus, valuation by EV/S can underestimate the fair stock value, while P/E overestimates it. We set our target price at USD 224.9, based on DCF valuation.

Valuation Summary, Implied Share Price, USD



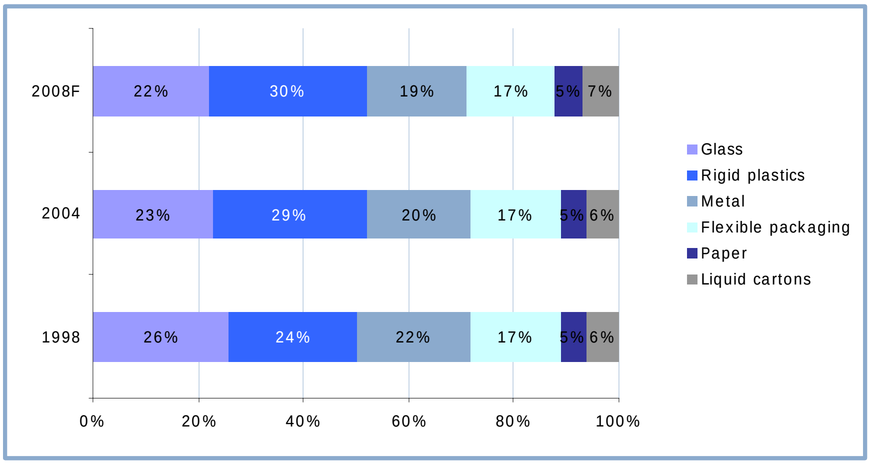
Source: Concorde Capital Calculations

Market: Glass Still Wanted

Ukraine vs World: More Potential Ahead

The global market for glass packaging is projected to grow at 2.5% (in unit terms) 2004-08 CAGR – slower than the world market for consumer goods packaging overall, which is expected to post 3.6% CAGR over the same period. Traditional types of packaging like glass and metal are losing their market shares to rigid plastics, but still, in real terms their consumption is growing.

Global Market For Rigid Packaging

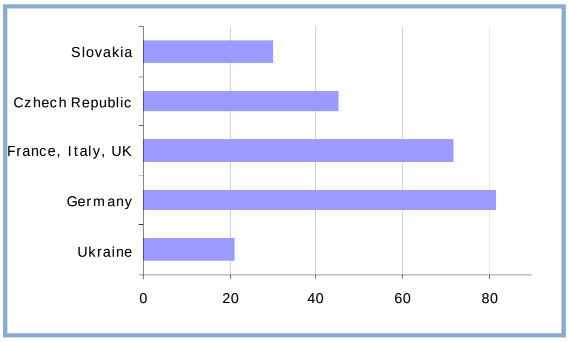


Source: Euromonitor IMS as cited by Ownes-Illinois, Investor Day, New York, November 15, 2005.

The categories, included in calculating market size are: beer, wine, spirits, FAB, CSD, other NAB (fruit/vegetable juice, bottled water, functional drinks, RTD Coffee/tea), food (dairy products, sweet and savory snacks, ready meals, soup, pasta, canned food, oils and fats, sauces, dressings and condiments, baby food and spreads), hot drinks, cosmetics, OTC healthcare.

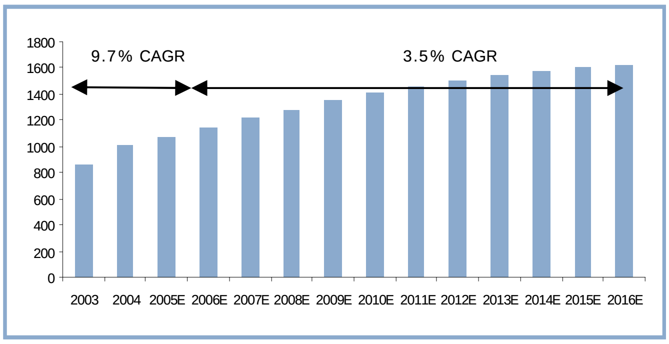
GDP per capita is the major driver for packaging consumption. In these terms, we view growth potential at Ukraine's market for glass packaging, as being higher than in the developed world. Consumption of glass packaging per capita in Ukraine is 30-50% lower than that in Eastern Europe, and far lower than elsewhere in the world.

Glass Packaging Consumption, kg per capita



Source: Investment Newspaper

Ukrainian Glass Packaging Consumption, ths mt



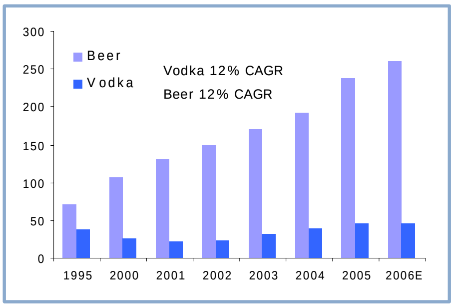
Source: Concorde Capital Estimates

Beverages To Flood The Market

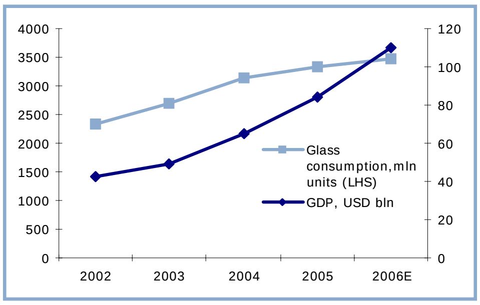
Production of beer and vodka, the industries that are the two main consumers of GSKZ's bottles, has been growing at 17% and 12% CAGR respectively for the past five years. While the beer market is in its growth stage (over 10% production growth projected in 2006), vodka production and consumption has stabilized. The market for non-alcoholic drinks is far from saturated. It has experienced 10-13% growth for the past few years, and we expect growth at 8-10% annually in the near future.

As the food market becomes more competitive, the demand for packaging as a differentiation tool is growing. This resulted, for example, in alcohol producers requiring exclusive vodka bottles. Local producers of glass bottles reacted to this change in demand, and though at first all bottles from this segment were imported, in 2005 over 70% of them were made domestically. This resulted in glass packaging companies opening design bureaus to offer different products to their customers.

Production Of Beverages In Ukraine, mln dal



Ukraine's Glass Packaging Consumption vs GDP

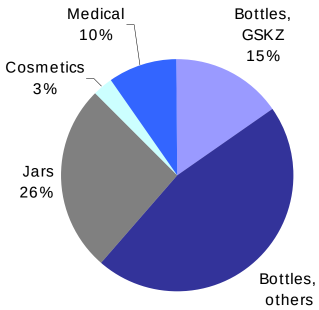


Source: State Statistics Committee, Concorde Capital estimations

Bottles Top Jars

The jar segment looks saturated, last year jar production decreased by 16%. Production of bottles, one of Gostomel Glass's specialties grew at the fastest pace in 2005.

Ukraine's Glass Packaging Market



Production, mln units

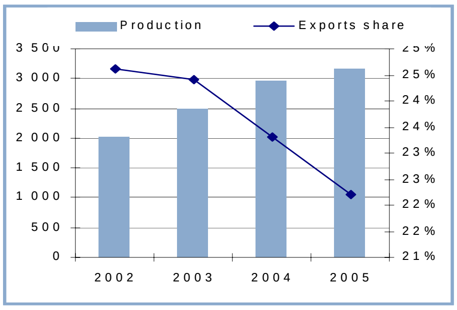
	2005	2005/04
Bottles	1,938.1	21%
Bottles, GSKZ	**491.1**	**62%**
Bottles, others	1,447.0	11%
Jars	838.2	-16%
Cosmetics	92.0	-1%
Medical	305.0	19%

Source: Ministry of Industrial Policy

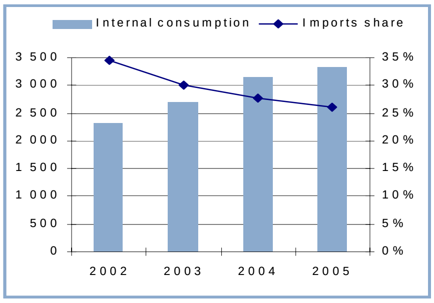
Imports To Be Pushed Out

Imports of glass packaging, while growing in real terms, are losing ground as their share in total consumption dropped from 35% in 2002 to 26% in 2005.

Production vs Exports



Consumption vs Imports



Source: Ministry of Industrial Policy

Bottles were imported due to lack of internal capacity (e.g. green glass, as most of the capacities are flint; or light glass). As capacities grow, practically all imports will be replaced.

Concentration Ahead

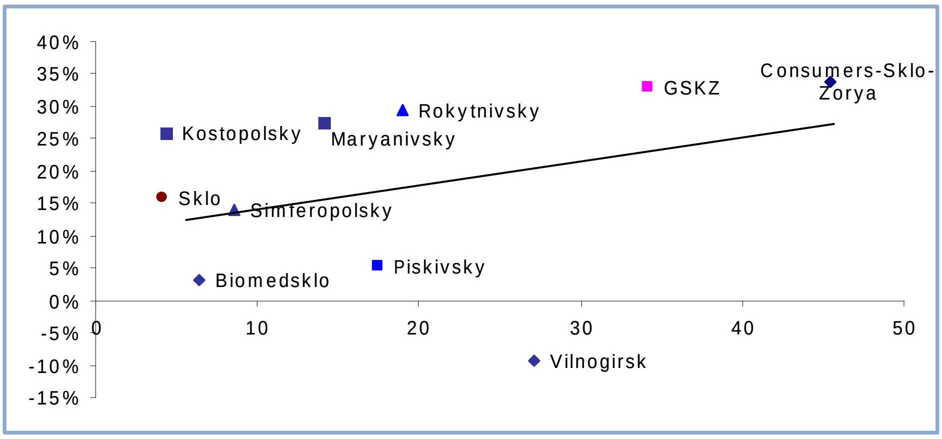
Economy Of Scale Matters

The graph below, reflects the presence of economy of scales in Ukraine's glass packaging industry. Its presence is noticeable for two reasons:

1. Operational leverage is high. A significant percentage of gas and energy costs (23% of GSKZ's production costs) are used for maintaining a stable temperature in the furnace, irrespective of its load. Glass melting furnaces operate constantly at a temperature close to 1600C. Minor repairs are made without decreasing the temperature, and "cold" renovations are conducted once every ten years.

2. Having a steady flow of orders is important. Large customers ensure the stable flow of orders for glass packaging makers, which prevents significant volatility in the load for the company's furnaces. Due to the current deficit of production facilities, for large customers it is more expedient to place orders with larger producers to prevent delays in deliveries. Thus, large glass packaging producers have a less volatile flow of orders, which implies better performance in terms of earnings.

Sales, USD mln vs EBITDA Margin In 2005

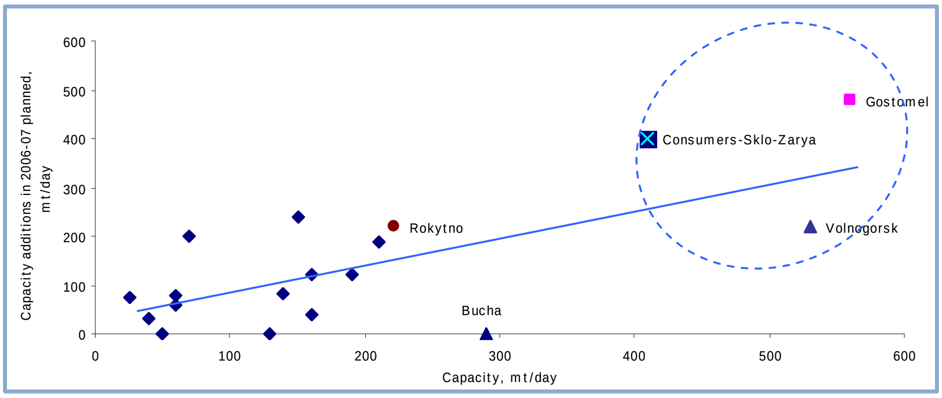


Source: Company Data

Large Producer – Large Expansion

Ukraine's largest players have announced plans to increase production to above the industry average over the next two years and we expect concentration in the industry to increase. This tendency is already becoming evident. While in 2004, the five largest producers accounted for 74% of the total amount of glass produced in Ukraine, in 2005, their share grew to 77%.

Existing Capacity vs Planned Increases In 2006-07



Source: Glass of Ukraine

Foreign Acquisitions Underway

High profits and the prospect of growth has attracted foreign investments. Three distinct strategies are evident:

- The acquisition of several medium-sized companies (The Yioula Glassworks Group (Greece) bought controlling stakes in Buchansky Glass and Biomedsklo, and announced plans to increase its holdings in Ukraine's glass packaging industry to four companies).
- The purchase of large players and then increasing their capacities (Saint-Gobain (Germany) bought Consumers Sklo Zorya, and Vetropack acquired control of Gostomel Glass).
- Greenfield projects (an undisclosed Slovak company plans to invest USD 50 mln in the construction of Krasnoperekopsk Glass in Crimea).

We see similarities between the development pattern of Ukraine's glass packaging and the cement industry, summarized below.

	Cement	**Glass Packaging**
Market	Growing. Consumption of cement per capita in Ukraine is 35% lower than in Europe	Growing. Consumption of glass packaging per capita is 74% lower than in Europe
Product characteristics	Commodity	Commodity with slight differentiation features
Current share of foreign-control in total capacity	~90%	42%

Global producers have been buying cement plants one by one for the last decade, increasing their ownership to 90% of Ukraine's total cement assets. This year consolidation inside one of the groups began, as Heidelberg Cement, the largest foreign owner of cement assets in Ukraine, consolidated its three assets Kryvyy Rih Cement, Doncement and Dniprocement under the roof of the former.

In our opinion, the cement industry can be taken as a benchmark for what will happen with glass packaging. We will most probably see more foreign acquisitions in the near future, including by the players, already present in Ukraine.

Producers To Lose Power

While at present, the lack of capacities allows glass packaging producers to define prices and enjoying excessive returns, the situation is going to change after capacities are increased by 35% and 30% as planned in 2006-07. This will lead to a increase in competition between the existing players, and will cause decreases in profitability margins, which now for market leaders are higher than those, posted by most of their international peers.

New Capacity To Boost GSKZ Value

GSKZ's management has announced plans to increase the capacity of one of its furnaces in 2006, and build a new furnace by the end of 2007. These moves will increase GSKZ's total capacity by 86% to 380 ths mt. The management estimates CapEx required for these projects to be USD 50 mln.

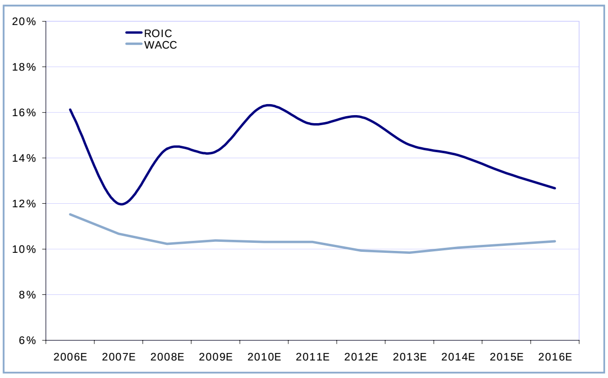
GSKZ Capacity & Planned Changes

Furnace #	Glass Colour	Destination	Annual capacity, ths mt	Note
1	Amber	Beer, wine	37	Existing
2	Flint	Cosmetic	26	Existing
3	Flint	Vodka, liqeuers, soft	67	Existing
3	Flint	Vodka, liqeuers, soft	15	Upgrade to be finished by July 2006
4	Green	Beer, wine	77	Existing, launched in mid-2005
5		Not defined	161	Launch planned by end-2007
Total				
End 2005			204	
End 2006			219	
End 2007			380	

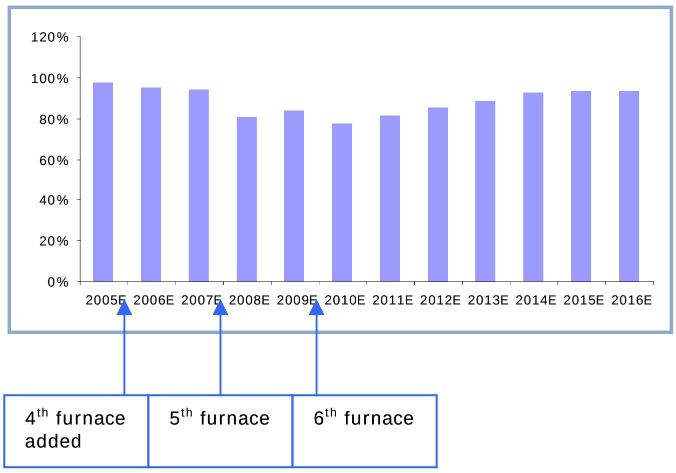
Source: Company Data

The fifth furnace will be launched after major increases in capacities by GSKZ's competitors, thus its potential returns will be lower than early investments. Nevertheless, we believe that GSKZ's overall capacity load will be such that the additional furnace will add to the company's value

GSKZ ROIC & WACC



GSKZ Capacity Load



Source: Company data, Concorde Capital Estimates

Debt As A Major Source Of Financing

We believe that the presence of Vetropack as the majority shareholder allowed GSKZ to significantly increase its share of debt financing, and decrease its costs.

To finance investment projects in 2006-07 the company will raise up to USD 68 mln in debt (EBRD loan disbursed on May 31 2006), and plans to attract USD 3 mln in equity through an increase in its charter fund.

The decision to increase the company's charter fund by USD 3 mln (88 times) was made at its AGM on March 8. The company plans to issue an additional 43.789 mln shares at USD 0.07 par. Subscription for existing shareholders will be conducted on June 14-28 2006, those willing to buy the leftovers can do so on June 29-July 1 2006. Assuming the private individuals (non-managerial staff) which now own 7.5% of the company's stock, do not subscribe, this will decrease the share of minority shareholders (all non-Vetropack) from 25% to 17.5%.

As a result, GSKZ's Net debt/Equity ratio will increase from 0.76 at the end of 2005 to 1.11 by the end of 2007.

All financial statements according to Ukrainian Accounting Standards

Income Statement Summary, USD mln

	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
Net Revenues	**46.2**	**52.5**	**57.0**	**89.7**	**102.6**	**120.6**	**129.4**	**138.2**	**143.9**	**149.8**	**151.3**	**151.3**
Change y-o-y	*64%*	*14%*	*8%*	*57%*	*14%*	*17%*	*7%*	*7%*	*4%*	*4%*	*1%*	*0%*
Cost Of Sales	(26.0)	(29.9)	(32.5)	(52.0)	(59.5)	(69.9)	(77.7)	(84.3)	(90.6)	(95.8)	(98.3)	(99.8)
Gross Profit	20.2	22.6	24.5	37.7	43.1	50.6	51.8	53.9	53.2	53.9	52.9	51.4
Other Operating Income/Costs, net	(0.2)	-	-	-	-	-	-	-	-	-	-	-
SG&A	(4.8)	(5.3)	(5.7)	(9.0)	(10.3)	(12.1)	(12.9)	(13.8)	(15.1)	(16.5)	(17.4)	(17.4)
EBITDA	**15.2**	**17.3**	**18.8**	**28.7**	**32.8**	**38.6**	**38.8**	**40.1**	**38.1**	**37.4**	**35.5**	**34.0**
EBITDA margin, %	*33%*	*33%*	*33%*	*32%*	*32%*	*32%*	*30%*	*29%*	*27%*	*25%*	*24%*	*23%*
Depreciation	(5.1)	(5.1)	(6.1)	(7.3)	(7.7)	(7.9)	(7.9)	(7.8)	(7.8)	(7.7)	(7.6)	(7.5)
EBIT	**10.2**	**12.3**	**12.7**	**21.4**	**25.2**	**30.7**	**31.0**	**32.2**	**30.3**	**29.7**	**27.9**	**26.5**
EBIT margin, %	*22%*	*23%*	*22%*	*24%*	*25%*	*25%*	*24%*	*23%*	*21%*	*20%*	*18%*	*18%*
Interest Expense	(1.9)	(2.5)	(4.0)	(5.3)	(5.5)	(5.2)	(5.0)	(4.6)	(4.1)	(3.6)	(3.2)	(2.9)
Financial income/(expense)	1.8	-	-	-	-	-	-	-	-	-	-	-
Other income/(expense)	0.7	-	-	-	-	-	-	-	-	-	-	-
PBT	**10.8**	**9.7**	**8.7**	**16.1**	**19.7**	**25.5**	**25.9**	**27.6**	**26.2**	**26.1**	**24.7**	**23.6**
Tax	(2.4)	(2.4)	(2.2)	(4.0)	(4.9)	(6.4)	(6.5)	(6.9)	(6.5)	(6.5)	(6.2)	(5.9)
Effective tax rate	*22%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*
Extraordinary Income/(loss)	-	-	-	-	-	-	-	-	-	-	-	-
Net Income	**8.4**	**7.3**	**6.5**	**12.1**	**14.8**	**19.1**	**19.5**	**20.7**	**19.6**	**19.6**	**18.5**	**17.7**
Net Margin, %	*18%*	*14%*	*11%*	*13%*	*14%*	*16%*	*15%*	*15%*	*14%*	*13%*	*12%*	*12%*
Dividend Declared	**-**	**-**	**-**	**-**	**-**	**9.6**	**11.7**	**12.4**	**11.8**	**13.7**	**14.8**	**14.2**

Balance Sheet Summary, USD mln

	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
Current Assets	15.6	15.8	18.2	29.6	33.9	42.8	45.9	49.7	52.5	53.2	53.7	53.7
Cash & Equivalents	2.1	2.1	2.3	3.6	3.1	3.6	3.9	4.1	4.3	4.5	4.5	4.5
Trade Receivables	3.5	4.2	5.7	10.8	13.3	19.3	20.7	24.9	26.6	29.2	29.5	29.5
Inventories	8.6	7.9	8.5	12.6	14.4	16.3	17.5	16.6	17.3	15.0	15.1	15.1
Other current assets	1.4	1.6	1.7	2.7	3.1	3.6	3.9	4.1	4.3	4.5	4.5	4.5
Fixed Assets	**45.5**	**69.2**	**98.9**	**112.1**	**119.3**	**121.3**	**122.8**	**123.9**	**123.7**	**123.4**	**122.9**	**122.2**
PP&E, net	35.5	66.0	98.3	111.1	118.2	120.0	121.5	122.5	122.3	121.8	121.3	120.6
Other Fixed Assets	9.9	3.2	0.6	0.9	1.0	1.2	1.3	1.4	1.5	1.5	1.5	1.5
Total Assets	61.1	85.0	117.1	141.6	153.2	164.1	168.7	173.6	176.2	176.5	176.6	175.9
Shareholders' Equity	32.5	42.8	49.3	61.4	76.2	85.7	93.5	101.8	109.7	115.5	119.2	122.8
Share Capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reserves and Other	6.7	6.8	6.8	6.8	6.8	6.8	6.8	6.8	6.8	6.8	6.8	6.8
Retained Earnings	25.7	33.0	39.5	51.6	66.4	75.9	83.7	92.0	99.9	105.7	109.4	113.0
Current Liabilities	9.1	7.1	6.0	10.3	13.9	17.7	19.7	21.7	22.7	24.0	24.2	24.2
ST Interest Bearing Debt	5.0	1.6	0.6	0.9	2.1	3.6	3.9	4.1	4.3	4.5	4.5	4.5
Trade Payables	2.5	3.7	3.4	6.3	8.2	9.6	11.0	12.2	12.7	13.5	13.6	13.6
Accrued Wages	0.0	-	-	-	-	-	-	-	-	-	-	-
Accrued Taxes	0.2	0.3	0.3	0.4	0.5	0.8	0.9	1.2	1.4	1.5	1.5	1.5
Other Current Liabilities	1.4	1.6	1.7	2.7	3.1	3.6	3.9	4.1	4.3	4.5	4.5	4.5
LT Liabilities	19.5	35.0	61.8	70.0	63.2	60.6	55.6	50.0	43.8	37.0	33.2	28.8
LT Interest Bearing Debt	19.5	35.0	61.8	70.0	63.2	60.6	55.6	50.0	43.8	37.0	33.2	28.8
Other LT	0.0	-	-	-	-	-	-	-	-	-	-	-
Total Liabilities & Equity	**61.1**	**84.9**	**117.1**	**141.7**	**153.2**	**164.1**	**168.8**	**173.5**	**176.2**	**176.5**	**176.6**	**175.8**

Cash Flow Statement Summary, USD mln

	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
Net Income	8.4	7.3	6.5	12.1	14.8	19.1	19.5	20.7	19.6	19.6	18.5	17.7
Depreciation	5.1	5.1	6.1	7.3	7.7	7.9	7.9	7.8	7.8	7.7	7.6	7.5
Non-operating and non-cash item	(2.6)	9.8	(0.1)	(0.4)	(0.1)	(0.1)	(0.1)	0.1	(0.1)	(0.1)	(0.1)	0.1
Changes in working capital	1.7	1.3	(2.4)	(6.1)	(2.4)	(6.1)	(1.2)	(1.8)	(1.7)	0.6	(0.3)	-
Operating Cash Flow	**12.6**	**23.5**	**10.1**	**12.9**	**19.9**	**20.8**	**26.0**	**26.9**	**25.6**	**27.8**	**25.7**	**25.4**
Capital Expenditures, net	(12.8)	(35.5)	(35.7)	(20.1)	(14.8)	(9.6)	(9.3)	(8.8)	(7.6)	(7.3)	(7.1)	(6.8)
Other Investments, net	-	-	-	-	-	-	-	-	-	-	-	
Investing Cash Flow	**(12.8)**	**(35.5)**	**(35.7)**	**(20.1)**	**(14.8)**	**(9.6)**	**(9.3)**	**(8.8)**	**(7.6)**	**(7.3)**	**(7.1)**	**(6.8)**
Net Borrowings/(repayments)	(1.0)	12.0	25.8	8.5	(5.6)	(1.0)	(4.7)	(5.3)	(6.0)	(6.6)	(3.8)	(4.4)
Dividends Paid	-	-	-	-	-	(9.6)	(11.7)	(12.4)	(11.8)	(13.7)	(14.8)	(14.2)
Other	0.0	-	-	-	-	-	-	-	-	-	-	-
Financing Cash Flow	**(1.0)**	**12.0**	**25.8**	**8.5**	**(5.6)**	**(10.6)**	**(16.4)**	**(17.8)**	**(17.8)**	**(20.3)**	**(18.6)**	**(18.6)**
Beginning Cash Balance	3.2	2.1	2.1	2.3	3.6	3.1	3.6	3.9	4.1	4.3	4.5	4.5
Ending Cash Balance	2.1	2.1	2.3	3.6	3.1	3.6	3.9	4.1	4.3	4.5	4.5	4.5
Net Cash Inflows/Outflows	**(1.2)**	**(0.0)**	**0.2**	**1.3**	**(0.5)**	**0.5**	**0.3**	**0.3**	**0.2**	**0.2**	**0.0**	**-**

UAH/USD Exchange Rates

	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
Average	5.12	5.05	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Year-end	5.05	5.05	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00

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