

July 11, 2007

HOLD

12M Target: USD 0.12

Inna Perepelytsya
+380 44 207 5030
pi@concorde.com.ua

Market information

Bloomberg	KRAZ UZ
Frankfurt/Xetra	A6X1 GR
No of Shares, mln	2,263
Reg S GDR to Ord.	1:100
Market price, USD	0.13
52Wk H/L, USD	0.13/0.07
MCap, USD mln	298
Free float	7%
FF MCap, USD mln	21
Mo avg tr volume*, USD mln	0.12

Note: 6M trailing, PFTS & Frankfurt

Stock ownership

Finance & Credit	93.0%
Other	7.0%

AvtoKrAZ's stock has grown 33% following news on July 2 of an upcoming IPO. In a meeting with us, management confirmed 2008 IPO plans and their forecast for a 20% sales increase in 2007, while refraining from commenting on recent financial figures according to UAS until completion of an audit. In anticipation of IFRS financials, we update our model based on available interim operating results. We re-iterate our HOLD recommendation with a new 12M target of USD 0.12.

Main conclusions of our meeting with the management:

- IPO plans were confirmed and a final decision on the structure of the initial public offering will be made in late autumn. Management sees two possible scenarios: AvtoKrAZ alone, including the seven companies under the AvtoKrAZ brand; or the entire KRAZ Industries Holding, which includes AvtoKrAZ, Stakhaniv Wagon (SVGZ), Zaliv (SZLV), Berdychiv Progress and Uzhgorod Turbogaz.
- Management reiterated their 20% yoy revenue growth forecast for 2007, on the back of 5% output growth.
- As part of their preparations for an IPO, management also told us that KPMG is expected to complete their audit of the company by August 2007. Until IFRS figures are known, management declined to comment on financial results according to local accounting standards.

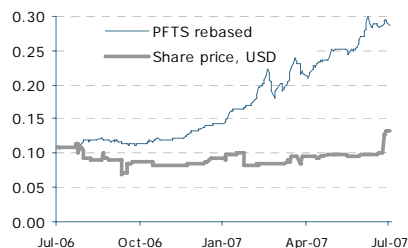
Officially reported data remains opaque. Financials according to local accounting standards still do not accurately depict AvtoKrAZ's business. We estimate reported 2006 sales are under-stated by 30% and reported EBITDA is under-stated by USD 45.7 mln. We look forward to IFRS financials to value AvtoKrAZ more accurately.

Valuation upgrade. The company remains overpriced on EV/Sales and EV/EBITDA, but undervalued on P/E. We continue to rely on our DCF model, which provides a 12M target of USD 0.12.

WATCH LIST:

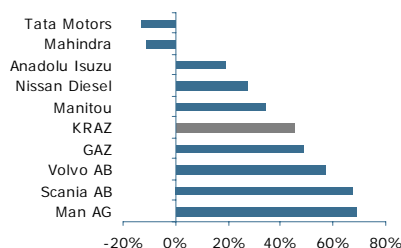
Disclosure of AvtoKrAZ's IFRS financials toward the end of August
Announcement of AvtoKrAZ group IPO structure in late autumn

Stock performance

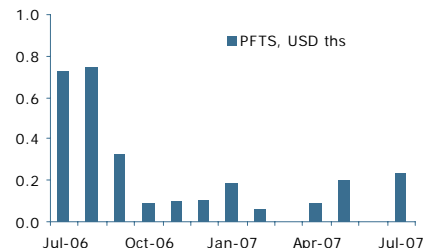


Source: PFTS, Bloomberg

Sector performance, YTD



Trading volume, USD mln



Key financials

	Sales, USD mln		EBITDA Margin		Net Margin	
	reported	adjusted	reported	adjusted	reported	adjusted
2005	119.7	137.1	3.8%	16.0%	8.2%	12.0%
2006	113.4	147.4	-13.9%	12.4%	10.1%	7.8%
2007E	-	178.7	-	13.0%	-	9.7%
2008E	-	220.8	-	13.7%	-	10.7%

Note: Based on adjusted financials
Spot exchange rate: 5.05

Market multiples*

	EV/S	EV/EBITDA	P/E
	2.4	15.1	18.2
	2.4	19.7	16.6
	1.7	14.1	17.1
	1.5	10.8	12.5

Forecast revision*

		2006	2007E	2008E	2009E
Trucks production, units	New**	4,008	4,200	5,000	5,400
	Old	3,346	4,370	5,546	6,172
	<i>Difference</i>	<i>-662</i>	<i>-170</i>	<i>-546</i>	<i>-772</i>
Sales, mln USD	New	147	179	223	241
	Old	149	199	257	292
	<i>Difference</i>	<i>2</i>	<i>-20</i>	<i>-34</i>	<i>-51</i>
EBITDA margin	New	12.4%	13.0%	13.7%	17.2%
	Old	16.2%	18.0%	17.0%	17.0%
	<i>Difference</i>	<i>3.8%</i>	<i>-5.0%</i>	<i>-3.3%</i>	<i>0.2%</i>
12M target USD	New	0.12			
	Old	0.11			

Source: Concorde Capital estimates

* Old model – October 16, 2006

** We downgrade our truck output forecast based on updated capacity prospects

Peer summary, USD mln

	Country	MCap mln USD	Net Revenues			EBITDA Mgn			Net Mgn		
			2006	2007E	2008E	2006	2007E	2008E	2006	2007E	2008E
KRAZ	Ukraine	298	147	179	223	12.4%	13.0%	13.7%	7.8%	9.7%	10.7%
Developed											
Volvo AB	Sweden	42,088	37,825	39,967	43,727	12.2%	12.1%	12.6%	6.3%	5.9%	6.4%
Scania AB	Sweden	20,703	10,853	11,449	12,351	34.9%	18.5%	18.7%	8.0%	9.8%	10.1%
Hino Motors	Japan	3,430	10,145	10,040	10,280	7.1%	6.3%	6.7%	2.4%	1.7%	1.9%
Nissan Diesel	Japan	1,321	4,092	3,797	3,775	9.6%	8.4%	9.3%	6.0%	3.8%	4.5%
Manitou	France	2,372	1,487	1,731	1,880	13.6%	13.9%	13.9%	7.8%	8.2%	8.2%
Man AG	Germany	21,043	17,207	19,476	20,614	11.3%	13.3%	12.9%	5.7%	7.2%	6.9%
Mean						14.8%	12.1%	12.3%	6.0%	6.1%	6.3%
Developing											
Anadolu Isuzu	Turkey	188	279	277	303	9.1%	10.1%	8.0%	5.9%	7.0%	6.9%
Ford Otomotive	Turkey	3,316	4,604	4,971	5,300	9.9%	11.5%	11.7%	7.7%	6.8%	7.2%
Mahindra	India	4,224	2,767	4,039	4,664	19.2%	13.8%	14.0%	10.3%	9.0%	8.9%
Qingling Motors	China	721	428	478	521	11.1%	9.4%	9.6%	2.3%	2.7%	3.1%
Tata Motors	India	6,337	5,195	8,093	9,489	14.1%	12.2%	12.0%	7.5%	7.0%	6.8%
Mean						12.7%	11.4%	11.1%	6.7%	6.5%	6.6%

Source: Bloomberg, Company data, Concorde Capital estimates

Peer multiples

	Country	Market Cap mln USD	EV/Sales		EV/EBITDA		P/E	
			2007E	2008E	2007E	2008E	2007E	2008E
KRAZ	Ukraine	298	1.8	1.5	14.1	10.8	17.1	12.5
Developed								
Volvo AB	Sweden	42088	1.3	1.1	10.4	8.8	18.0	15.2
Scania AB	Sweden	20703	2.1	2.0	11.4	10.9	18.4	16.7
Hino Motors	Japan	3430	0.5	0.5	8.2	7.7	20.1	17.4
Nissan Diesel	Japan	1321	n/a	n/a	n/a	n/a	9.2	7.8
Manitou	France	2372	1.3	1.1	9.1	8.2	16.8	15.3
Man AG	Germany	21043	1.1	1.0	8.1	7.6	14.9	14.7
Mean			1.2	1.2	9.4	8.6	16.2	14.5
Implied share price			0.09	0.10	0.08	0.10	0.13	0.16
Upside (downside)			-33.5%	-21.6%	-34.7%	-19.4%	-2.3%	19.8%
Developing								
Anadolu Isuzu	Turkey	188	0.6	0.6	6.5	7.9	9.7	9.1
Ford Otomotive	Turkey	3316	0.7	0.6	5.9	5.5	9.8	8.7
Mahindra & Mahindra	India	4224	1.2	0.9	8.9	6.7	11.6	10.2
Qingling Motors	China	721	0.8	0.7	8.4	7.2	55.2	44.4
Tata Motors	India	6337	0.9	0.7	7.1	6.1	11.2	9.9
Mean			0.8	0.7	7.4	6.7	19.5	16.4
Implied share price			0.05	0.06	0.06	0.08	0.15	0.18
Upside (downside)			-59.1%	-54.6%	-51.4%	-40.0%	17.2%	35.8%

Source: Bloomberg, Company data, Concorde Capital estimates

Income statement summary, USD mln

	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E
Net Revenues	137.1	147.4	178.7	223.3	241.1	267.2	295.3	310.1
Gross Profit	30.7	26.3	35.7	45.8	57.9	64.1	70.9	74.4
<i>Gross margin</i>	22.4%	17.8%	20.0%	20.5%	24.0%	24.0%	24.0%	24.0%
EBITDA	21.9	18.3	23.2	30.6	41.5	46.0	50.8	53.3
<i>EBITDA margin</i>	16.0%	12.4%	13.0%	13.7%	17.2%	17.2%	17.2%	17.2%
Depreciation	(2.8)	(11.8)	(11.4)	(11.5)	(11.4)	(11.3)	(11.1)	(10.9)
EBIT	19.1	6.5	11.8	19.1	30.0	34.6	39.7	42.4
<i>EBIT margin</i>	14.0%	4.4%	6.6%	8.5%	12.5%	13.0%	13.4%	13.7%
Interest Expense	(4.8)	(8.5)	(6.7)	(3.9)	(4.1)	(4.6)	(4.7)	(5.2)
PBT	9.8	12.6	20.4	29.9	26.1	30.2	35.1	37.4
Tax	-	(1.1)	(3.1)	(6.0)	(6.5)	(7.5)	(8.8)	(9.4)
<i>Effective tax rate</i>	0.0%	9.0%	15.0%	20.0%	25.0%	25.0%	25.0%	25.0%
Net Income	9.8	11.4	17.4	23.9	19.6	22.6	26.4	28.1
<i>Net Margin</i>	7.1%	7.8%	9.7%	10.7%	8.1%	8.5%	8.9%	9.1%

Balance sheet summary, USD mln

	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E
Current Assets	136.4	299.9	202.3	197.7	196.5	189.7	200.8	192.2
Cash & Equivalents	0.0	0.1	0.4	1.1	1.2	1.3	8.9	15.5
Trade Receivables	29.3	34.9	37.5	43.6	47.0	52.1	57.6	58.9
Inventories	30.3	33.5	39.3	48.0	51.8	56.1	60.5	62.0
Other current assets	76.8	231.5	125.1	105.0	96.4	80.2	73.8	55.8
Fixed Assets	283.9	260.6	240.1	241.6	243.1	244.3	244.3	245.0
PP&E, net	118.9	109.2	110.8	117.7	119.7	122.0	122.1	122.2
Other Fixed Assets	165.0	151.4	129.2	123.9	123.4	122.3	122.2	122.9
Total Assets	420.2	560.6	442.3	439.3	439.6	434.0	445.1	437.2
Shareholders' Equity	265.1	258.7	265.0	268.6	268.6	268.6	273.9	279.5
Share Capital	112.0	112.0	112.0	112.0	112.0	112.0	112.0	112.0
Reserves and Other	150.7	322.0	202.1	201.8	198.9	192.1	201.5	191.6
Current Liabilities	138.4	289.1	165.1	161.3	158.4	151.5	155.6	140.2
ST Interest Bearing Debt	27.9	49.8	19.7	24.6	26.5	29.4	32.5	34.1
Trade Payables	7.5	5.3	6.6	10.1	12.1	13.4	14.8	17.1
Other Current Liabilities	103.0	233.9	138.8	126.6	119.8	108.7	108.4	89.0
LT Liabilities	16.7	12.8	12.2	9.4	12.6	13.8	15.6	17.6
LT Interest Bearing Debt	5.1	12.3	10.6	7.8	11.0	12.2	14.0	16.0
Other LT	11.5	0.5	1.6	1.6	1.6	1.6	1.6	1.6
Total Liabilities & Equity	420.2	560.6	442.3	439.3	439.6	434.0	445.1	437.2

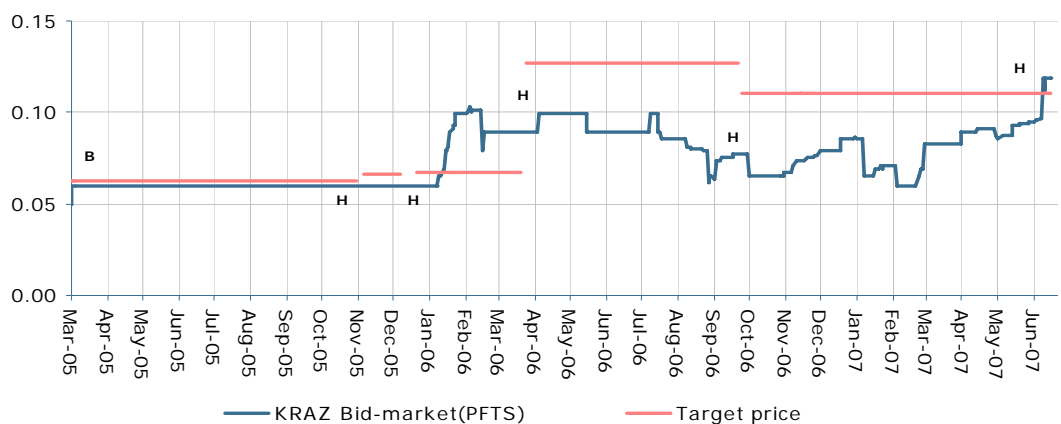
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Date	Target price, USD	Market Price, USD	Recommendation	Action
22-Mar-05	0.063	0.040	BUY	Initiating
30-Nov-05	0.066	0.065	HOLD	Downgrade
13-Jan-06	0.067	0.060	HOLD	Maintain
17-Apr-06	0.127	0.105	HOLD	Maintain
18-Oct-06	0.110	0.097	HOLD	Maintain
11-Jul-07	0.12*	0.130	HOLD	Maintain

* - Until December 2006 the company was covered by Olha Pankiv. In July 2007, Inna Perepelytsya took over coverage.

Recommendation history, USD



Concorde Capital Coverage Universe

Buy	33	39%
Hold	12	14%
Sell	5	6%
Under Review	24	29%
Not Rated	10	12%
Total	84	100%

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

Tel: +380 44 207 5030
 Fax: +380 44 206 8366
www.concorde.com.ua
office@concorde.com.ua

CEO
 Igor Mazepa im@concorde.com.ua

RESEARCH COVERAGE BY SECTOR

Head of Equity Sales
 Lucas Romriell lr@concorde.com.ua

Strategy
 Konstantin Fisun kf@concorde.com.ua
 Oleksandr Klymchuk ok@concorde.com.ua

Equity Sales
 Marina Martirosyan mm@concorde.com.ua
 Anastasiya Nazarenko an@concorde.com.ua
 Duff Kovacs, CFA dk@concorde.com.ua

Metals & Mining
 Eugene Cherviachenko ec@concorde.com.ua

Director of Research
 Konstantin Fisun, CFA kf@concorde.com.ua

Utilities (Telecom, Energy)
 Alexander Paraschiy ap@concorde.com.ua

Oil & Gas, Chemicals
 Vladimir Nesterenko vn@concorde.com.ua

Consumer/Retail Group
 Andriy Gostik, CFA ag@concorde.com.ua
 Olha Pankiv op@concorde.com.ua
 Alexander Romanov ar@concorde.com.ua
 Anna Dudchenko ad@concorde.com.ua

Machinery
 Olha Pankiv op@concorde.com.ua
 Eugene Cherviachenko ec@concorde.com.ua
 Inna Perepelytsya pi@concorde.com.ua

**Financial Services,
 Macroeconomics**
 Alexander Viktorov av@concorde.com.ua

Fixed Income
 Oleksandr Klymchuk ok@concorde.com.ua

Corporate Governance
 Nick Piazza np@concorde.com.ua

News/Production
 Nick Piazza np@concorde.com.ua
 Polina Khomenko pk@concorde.com.ua

Editor
 Brad Wells bw@concorde.com.ua

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