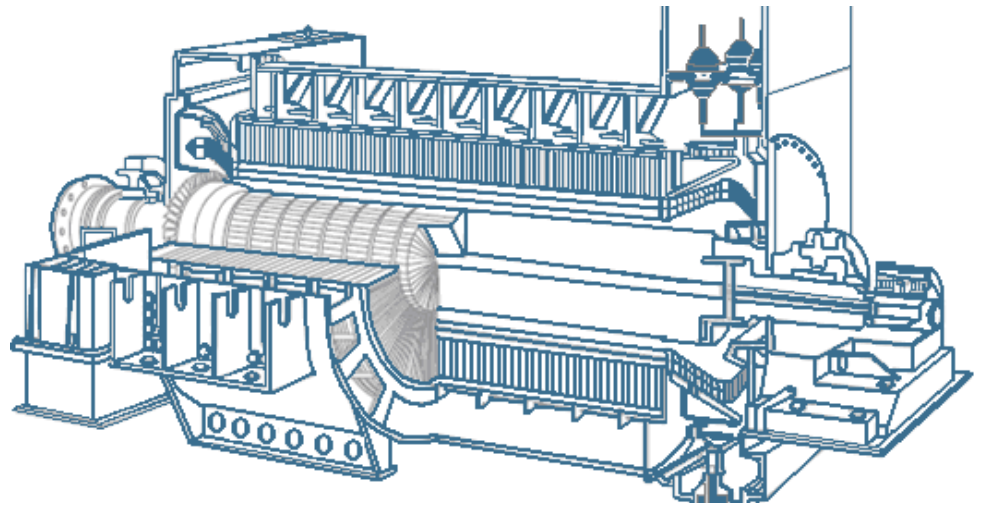


INITIATING
COVERAGE

Inna Perepelytsya
pi@concorde.com.ua
+380 44 391 5577

Power Engineering

They've Got the Power



CONTENTS

Investment case	4
Stock Market Monitor	6
Introduction	7
Power engineering: Broad-based demand	9
Russian companies need Ukraine	12
Power engineering holding?	13
MID CAPS	15
Zaporizhtransformator	16
Demand	17
Competition	18
Capacity and CapEx	19
Sales and order book	19
Financial notes	20
Low liquidity...	21
Valuation	22
Sumy Frunze	25
Demand	26
Competition	28
Sales and order book	29
2007 order book	30
Financial notes	32
Valuation	35
Turboatom	37
Demand	38
Competition	40
After-market business	41
Sales forecasts	43
Financial notes	44
Privatization?	45
Valuation	46
SMALL CAPS	49
Poltava Turbomechanical Plant	50
Constar	53
Sumy Nasosenergomash	56
Rivne High-Voltage Insulator Plant	59

Power Engineering

Ukraine / Machine Building

We initiate coverage of the listed Ukrainian power engineering companies with BUY recommendations for the two liquid stocks, Sumy Frunze and Turboatom, as well as three small caps, Sumy Nasosenergomash, Rivne High-Voltage Equipment and Constar. We assign HOLD ratings to Zaporizhtransformator and Poltava Turbomechanical Plant.

Growing domestic and Russian orders in the pipeline

With the recent adoption of long-term investment programs by major energy market players in Ukraine and Russia, totaling over USD 650 bln, we expect demand for energy equipment in these markets to triple in the next two-four years. With the insufficient Russian capacity to meet domestic energy infrastructure needs, Ukrainian power engineering companies have an opportunity to fully load capacity and invest in expansion.

Market diversification to sustain growth

Ukrainian producers have solidified positions in Asian and Latin American markets, which now account for 15-30% of some companies' sales. The rapid growth of these markets has outpaced the capacity increases of international power engineering companies. In the last five years, the top seven global players ceded 10% of their combined market share to emerging market producers. We expect Ukrainian companies to continue snapping up new orders there in the mid-term.

Asset consolidation would be a trigger

The major private shareholder, Konstantin Grigorishyn, in the three largest listed companies in the sector has been accumulating shares since the mid-1990s. Grigorishyn has designs for creating a Ukrainian power engineering holding (following privatization of the remaining state-controlled sector giants), which we estimate has a 40% probability of realization. This holding would allow Sumy Frunze, Turboatom and Zaporizhtransformator to benefit from a scale effect.

Acquisition targets for Russian holdings

In addition to close cooperation with Ukrainian producers, Russian engineering holdings have expanded their influence in Ukraine via acquisitions, and already have controlling stakes in Rivne High-Voltage Equipment and Sumy Nasosenergomash. We believe the three largest companies are all possible targets for further takeovers separately and that Russian players would also be interested in Grigorishyn's potential holding.

Low free float, but relief expected

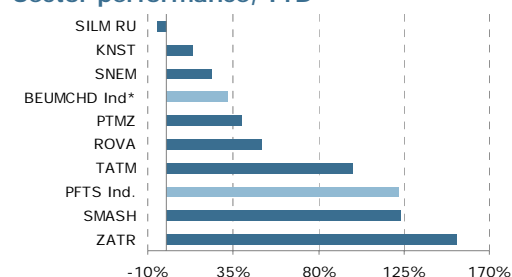
Only two stocks – Sumy Frunze and Turboatom – have more or less significant volumes and acceptable spreads; the rest of the sector suffers from low liquidity. In the mid-term, we see Grigorishyn's corporate activity resulting in a release of free float, either through an IPO of a holding or via equity placements by the individual companies.

Company	Bloomberg
Zaporizhtransformator	ZATR UZ
Sumy Frunze	SMASH UZ
Turboatom	TATM UZ
Poltava Turbomechanical	PTMZ UZ
Kryviy Rih Turbine Plant Constar	KNST UZ
Sumy Nasosenergomash	SNEM UZ
Rivne High-Voltage Equipment	ROVA UZ

	Price	12M TP	Upside	Rec.
ZATR	0.40	0.40	0%	HOLD
SMASH	7.99	9.70	21%	BUY
TATM	0.82	1.20	46%	BUY
PTMZ	0.19	0.19	1%	HOLD
KNST	9.00	13.50	50%	BUY
SNEM	0.42	0.80	91%	BUY
ROVA	0.40	2.6	550%	BUY

	# of sh., mln	MCap, USD mln	Free float % USD mln	
ZATR	2,210	884	1	8.8
SMASH	71	568	7	39.8
TATM	422	346	3	10.4
PTMZ	147	28	6	1.5
KNST	3	24	19	4.7
SNEM	31	13	12	1.6
ROVA	10	4	10	0.5

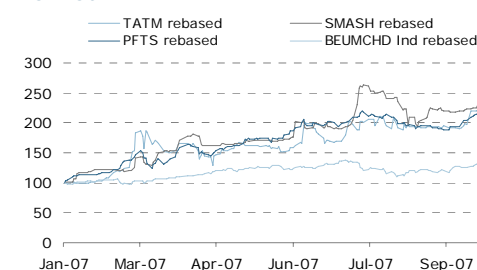
Sector performance, YTD



Source: PFTS, Bloomberg

*The Bloomberg Europe Machinery-Diversified Index is a capitalization-weighted index of the leading machinery-diversified stocks in Europe

Market



Source: PFTS, Bloomberg

Note: Rebased to 100 = Jan. 1, 2007

Investment case

Market multiples

Company	Ticker	MCap USD mln	EV/S		EV/EBITDA		P/E	
			2007E	2008E	2007E	2008E	2007E	2008E
Mid caps								
Zaporizhtransformator	ZATR	884	2.6	2.1	12.4	8.9	18.1	12.7
Sumy Frunze	SMASH	568	1.7	1.4	13.1	9.4	25.8	16.5
Turboatom	TATM	346	4.0	2.0	15.6	6.7	29.4	10.6
Average		599	2.8	1.8	13.7	8.3	24.4	13.3
Small caps								
Poltava Turbomechanical	PTMZ	28	0.8	0.7	11.7	10.6	20.6	18.8
Kryviy Rih Turbine Plant Constar	KNST	24	1.2	1.0	11.9	6.9	49.4	12.4
Sumy Nasosenergomash	SNEM	13	0.6	0.5	6.3	5.9	11.6	9.7
Rivne High-Voltage Equipment	ROVA	4	0.2	0.1	2.4	1.8	3.4	2.2
Average		17	0.7	0.6	8.1	6.3	21.3	10.8

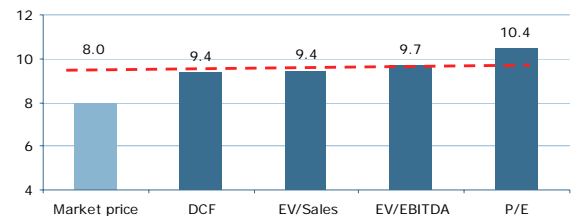
Source: PFTS, Concorde Capital estimates

Mid caps:

SMASH: BUY

- Diversified product portfolio across different industries (oil and gas, generation, chemicals, water) will ensure stable growth at 9.4% CAGR until 2016
- Key short & mid-term sales driver is gas pipeline construction in Russia and the Middle East. We estimate related equipment orders will contribute USD 120 mln annually to Sumy Frunze's sales
- Construction of new nuclear power plants in Russia until 2015 is expected to result in equipment orders totalling up to USD 100 mln
- Government plans to create zirconium pipe plant on the company's territory, which could add USD 150 mln to annual revenues. Would be additional catalyst, as it is unaccounted for in our forecasts
- Operational control is being consolidated by Grigorishyn; we expect decline in artificial SG&A this year; new CFO and Vice-President arrived in summer 2007

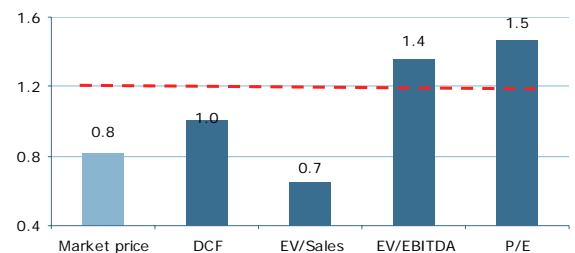
Valuation results, USD



TATM: BUY

- Privatization of the state's 75.22% stake (60% probability) to Grigorishyn or Russian Power Machines, or IPO of a state holding that includes Turboatom (40% probability) in 2008-2009 will be a value trigger
- Cooperation with Power Machines resulted in signing of long-term contracts in September worth over USD 65 mln with Mexican and Chinese hydroelectric power stations. Turboatom's CEO said joint contracts are being prepared for more orders to Latin American and Asian clients
- As the fourth largest global supplier of turbines to nuclear power plants, the company will massively benefit from the upswing in demand for construction and modernization of NPPs in the CIS and Middle East
- Rosenergoatom order for 2007-2009 of more than USD 100 mln is two times more than Turboatom's total sales in 2006; we expect further turbine orders for Russian/Ukrainian nuclear power plant projects totaling about USD 500 mln for next ten years

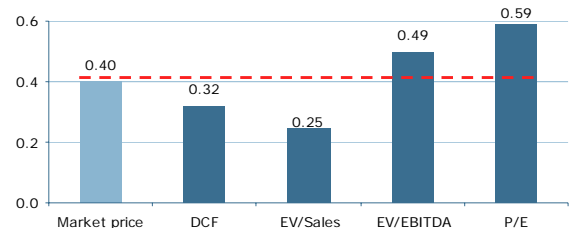
Valuation results, USD



ZATR: HOLD

- After top-line growth of 47% CAGR over 2004-2006, the company is heading to ~75% surge in 2007, with 23% expected in 2008. We expect domestic sales to double given Ukrainian power distribution companies' planned USD 4.6 bln CapEx for 2008-2011
- CapEx of USD 20 mln in 2007 will increase annual production capacity ~50% from 24 GVA to 36 GVA
- 2006 margins were the largest of any of its listed Ukrainian or international peers
- Overpriced on DCF and market multiples; illiquid, very limited free float: Grigorishyn has concentrated more than 98% of shares

Valuation results, USD



Note: Red line – target price

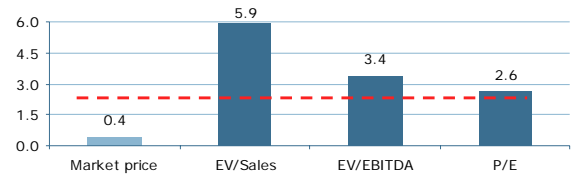
Source: PFTS, Concorde Capital estimates

Small caps:

ROVA: BUY

- We expect 2007-2008 sales growth of 20% CAGR, boosted by more orders from Belarus, Kazakhstan, Turkmenistan and the Baltics – where the company has established new representative offices
- Massively undervalued on market multiples, though keep in mind risks related to the way the company holds its production assets: through an 80% owned closed JSC

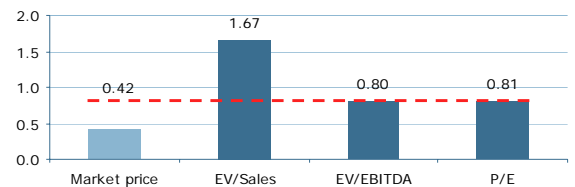
Valuation results



SNEM: BUY

- Construction of new nuclear power plants in Russia until 2015 is expected to result in equipment orders totalling up to USD 25 mln
- EBRD water-supply system modernization project completed in Uzbekistan for USD 2 mln in 2007; more orders expected from participation in other EBRD and World Bank projects in the CIS
- Parent company, Hydraulic Machines, is planning an IPO in 2008

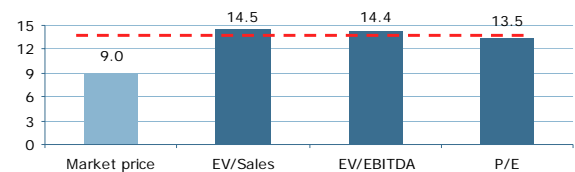
Valuation results



KNST: BUY

- After arrival of new 60% shareholder in 2006, the company turned a profit; EBITDA margin increased from -1.7% in 2005 to 16.6% in 2006. We believe the company will continue to report positive margins in the mid-term
- We expect exports to Europe, which began in 2006, will increase to 5% of sales in two years from 3% currently

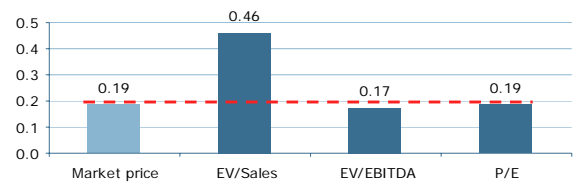
Valuation results



PTMZ: HOLD

- With modernization of production facilities completed this year, we forecast sales growth of 15% yoy in 2007
- Demand in the CIS for modernized locomotives will drive sales of braking systems for locomotive compressors, which account for up to 20% of the company's total sales
- Ukrainian government program to reconstruct thermal power plants calling for investments of USD 15 bln by 2016, will secure long-term equipment orders
- Artificially low margins may be the result of transfer pricing, up to 80% of sales are through its parent company

Valuation results

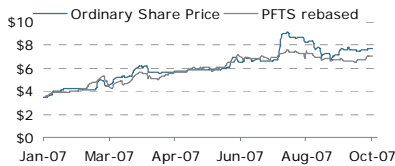


Source: PFTS, Concorde Capital estimates
Note: Red line – target price

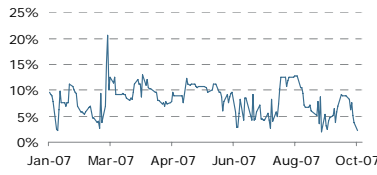
Stock Market Monitor

Sumy Frunze

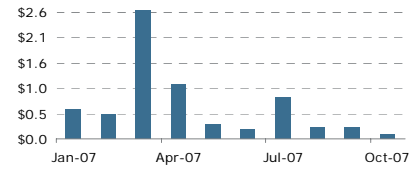
Stock performance



Spread, %

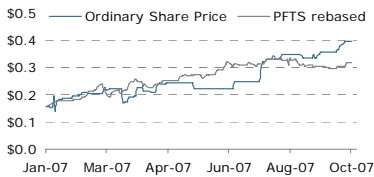


Monthly trading volumes, mln

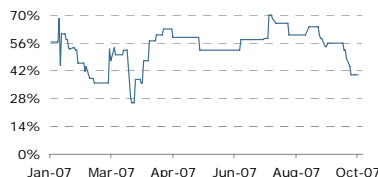


Zaporizhtransformator

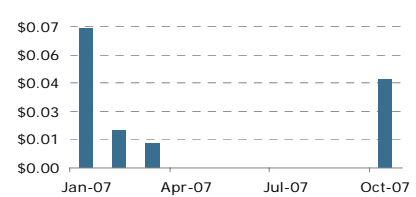
Stock performance



Spread, %

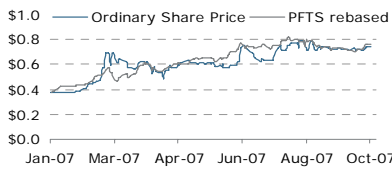


Monthly trading volumes, mln

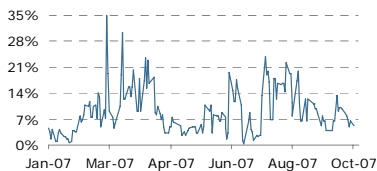


Turboatom

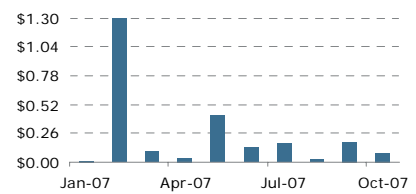
Stock performance



Spread, %

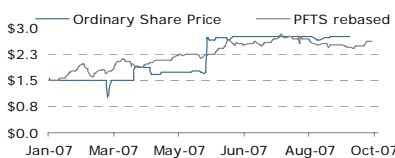


Monthly trading volumes, mln

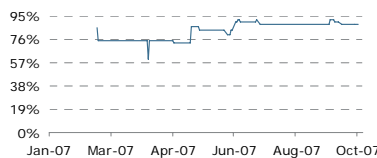


Rivne High-Voltage Equipment

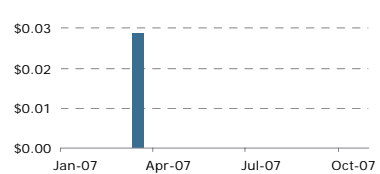
Stock performance



Spread, %

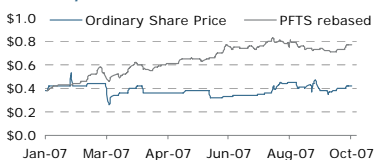


Monthly trading volumes, mln

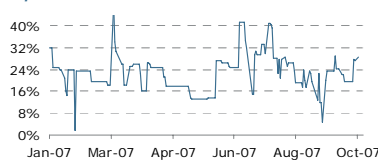


Sumy Nasosenergomash

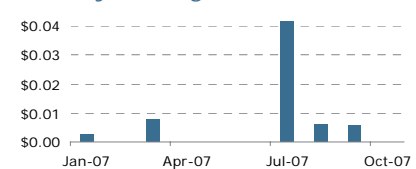
Stock performance



Spread, %

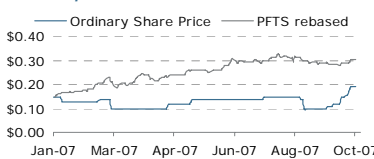


Monthly trading volumes, mln

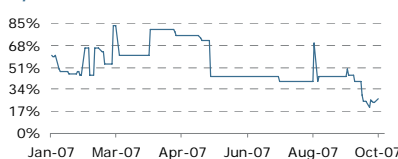


Poltava Turbomechanical

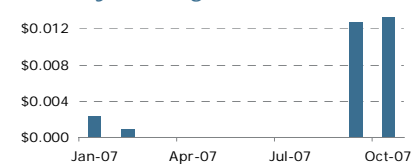
Stock performance



Spread, %



Monthly trading volumes, mln



Source: PFTS, Concorde Capital
* PFTS mid-market prices

Introduction

During Soviet times, the Ukrainian and Russian power engineering sectors were responsible for supplying fuel and energy equipment to the entire Former Soviet Union (FSU).

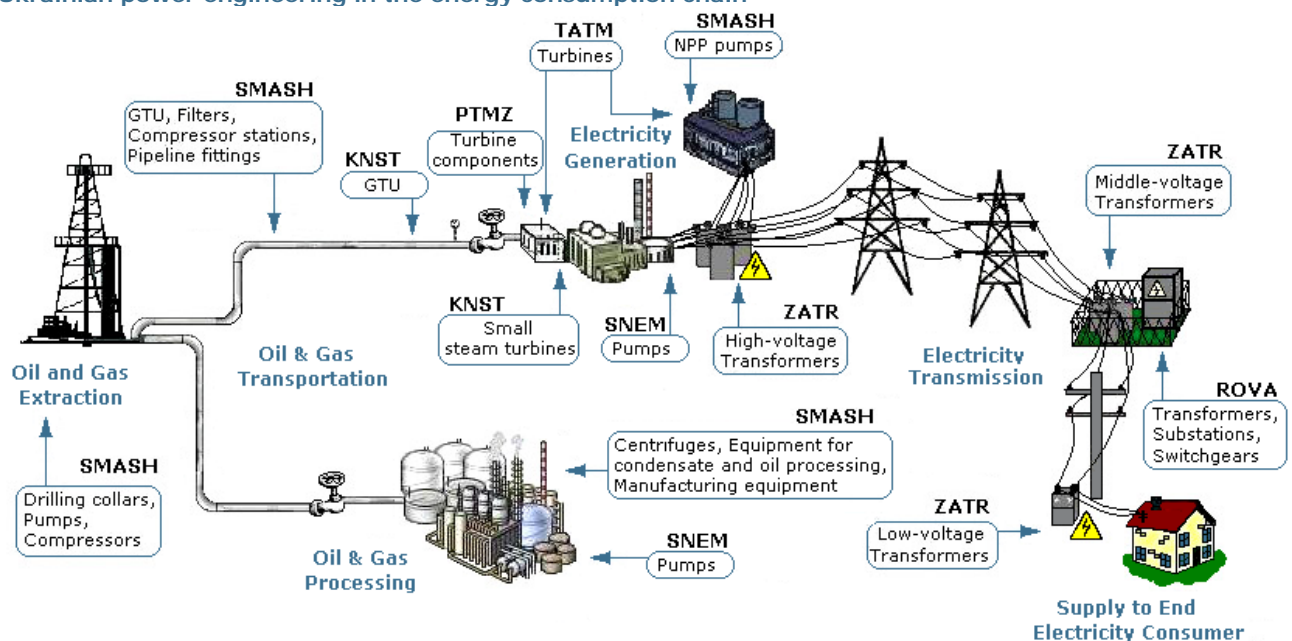
Snapshot of key data

Company	2006 Sales, USD mln	Main products	Main Shareholder(s)
Sumy Frunze	306	Gas transmission units (GTUs), pumps, kellites	Grigorishyn
Zaporizhtransformator	205	Transformers	Grigorishyn
Turboatom	52	Turbines (steam, gas and hydro)	State and Grigorishyn
Poltava Turbomechanical	33	Turbines' components, air compressors, brake systems	Ukrrosmetall
Sumy Nasosenergomash	30	Pumps	Hydraulic Machines (Russian)
Rivne High-Voltage Equipment	28	Transformers, switchgears, substations	Visokovoltnyi Soyuz (Russian)
Kryvyi Rih Turbine Plant Constar	17	Gas transmission units, steam turbines (small)	Not-disclosed

Source: Company data

The seven companies we include in our report produce equipment for every step of the energy production and distribution chain.

Ukrainian power engineering in the energy consumption chain



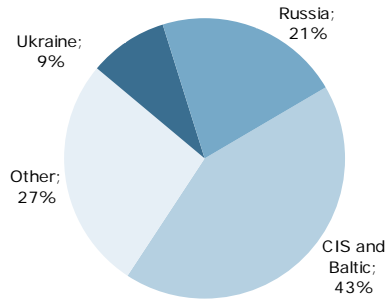
Source: Company data

The major Ukrainian companies in the sector that have not yet been privatized include Elektrotiyazhmash and Zorya Mashproyekt.

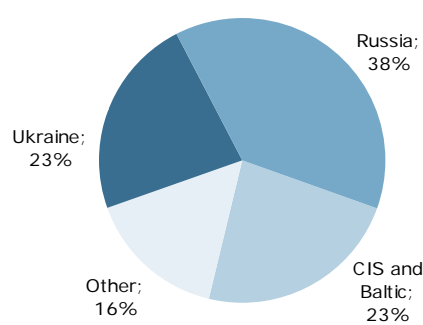
While power engineering companies were originally designed to satisfy the needs of the FSU, sales are now diversified into other emerging markets (Asia and Latin America).

Sales destinations, 2006

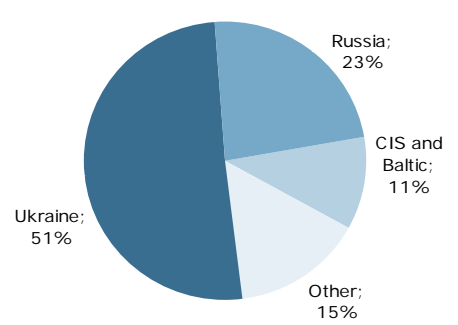
Sumy Frunze



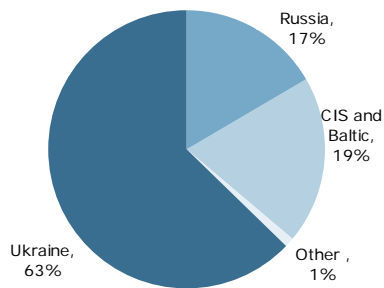
Zaporizhtransformator



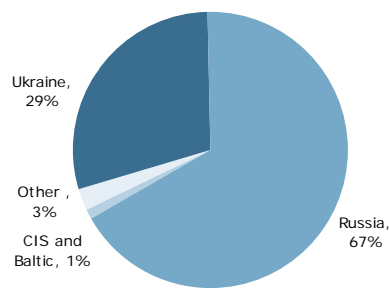
Turboatom



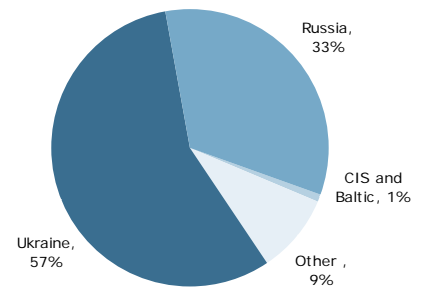
Rivne High-Voltage Equipment plant



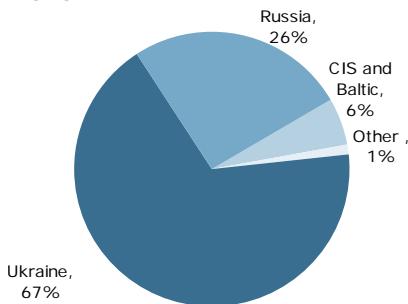
Sumy Nasosenergomash



Poltava Turbomechanical



Kryviy Rih Turbine Plant Constar



Source: Company data, Concorde Capital estimates

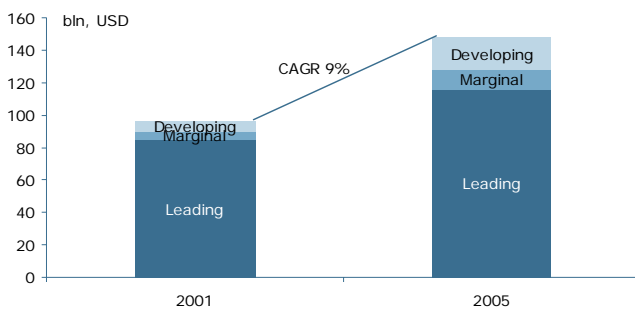
Power engineering: Broad-based demand

We expect Ukrainian power engineering companies to post double-digit annual sales growth over next ten years on increasing demand in all the companies' target markets. International and domestic orders will fully load Ukrainian producers in the short-term. Sector companies have an opportunity, by increasing capacities, to further expand order books.

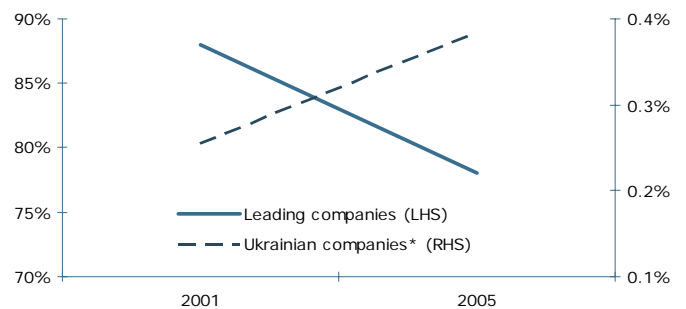
Leaders' share of the global market is on the decline

Global demand for electricity equipment grew so fast over the last five years that the top seven players (ABB, Alstom, Areva, GE, Mitsubishi, Siemens and Toshiba) were unable to respond by increasing capacity and have consequently, as a group, lost about 10% of their market share. The gap was supplied mainly by producers from emerging markets, including Ukraine.

Suppliers of energy machinery, by group of origin



Global market share



Source: ABS, Company data, Concorde Capital estimates

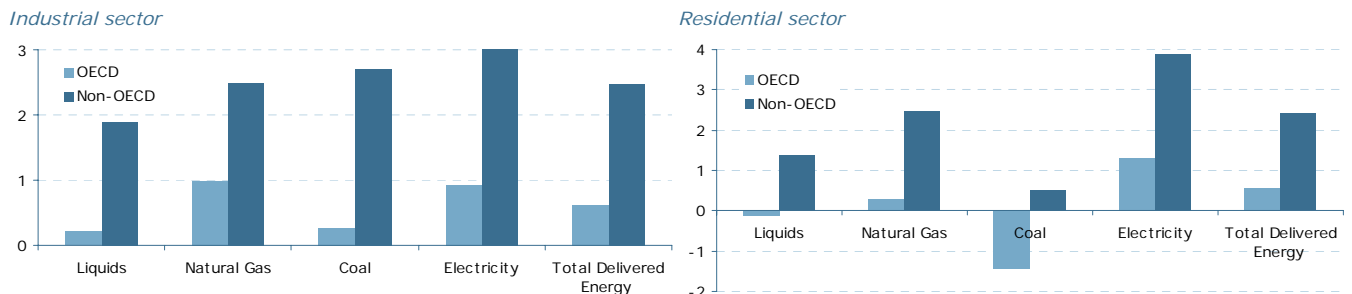
Note: Leading - ABB, Alstom, Areva, GE, Mitsubishi, Siemens and Toshiba; Marginal - smaller US and EU companies; Developing - companies located in the developing world; Ukrainian - Zaporizhtransformator, Turboatom, Sumy Frunze, Constar, Sumy Nasosenergomash, Rivne High-Voltage, Poltava Turbomechanical

As global leaders are mostly targeting developed markets where growth opportunities are less than in developing countries, we expect Ukrainian power engineering companies, in light of their market orientation, to continue outpacing them in terms of sales.

Energy consumption favors Ukrainian equipment producers

Consumption is expected to grow for all types of energy by 2030 in non-OECD countries (Ukrainian producers' key markets), according to the EIA.

Growth in energy delivered to end users, % 2004-2030



Source: Energy Information Administration (EIA)

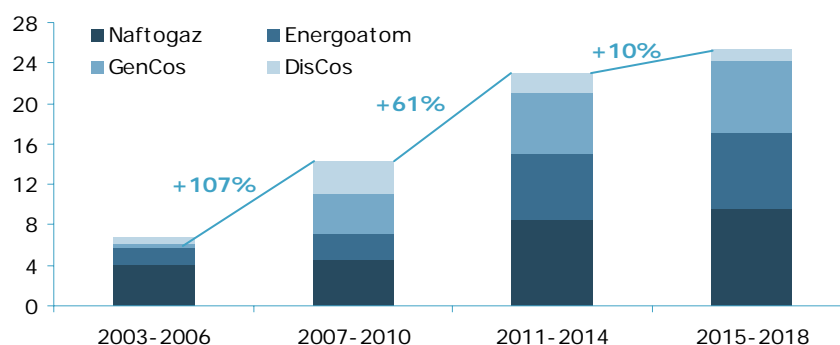
Ukraine: Newly adopted CapEx programs will boost domestic demand

After a decade of under-investment in energy, Ukraine has adopted several documents (passed over 2006-2007) that provide for a significant inflow of cash earmarked for energy infrastructure.

Program	Date Adopted	Validity	Investments
Energy Strategy Until 2030	March 2006	2007-2030	USD 150 bln
Naftogaz Ukraine program to modernize the gas transmission system	September 2006	2007-2011	USD 5 bln
Nation-wide program of investments in Ukrainian distribution networks	September 2007	2008-2011	USD 21 bln

Source: Cabinet of Ministers, mass media

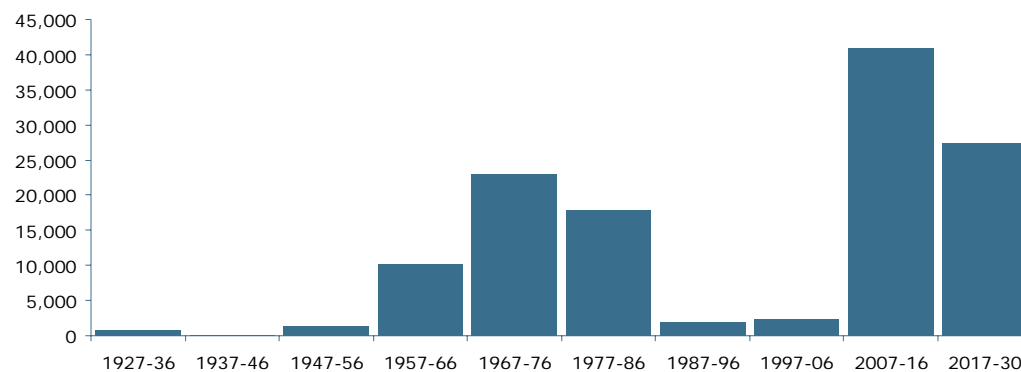
Electricity companies, Naftogaz and Energoatom investments, USD bln



Source: Company data, Energy Strategy until 2030, Concorde Capital estimates

Most electricity generation and distribution objects were constructed in the 30-year span from the 1950s to 1980s, and now require reconstruction or replacement. An expected increase in electricity demand and the need to increase reliability of supplies is driving the need for this new wave of investments.

Incremental electrical capacity in Ukraine, MW



Source: Energy Strategy until 2030, Ministry of Fuel and Energy, Concorde Capital estimates

We expect about a 15% average annual increase in orders for energy equipment in Ukraine over the next ten years. Domestic equipment suppliers will retain their dominant positions on their home market: according to our estimates, Sumy Frunze, Zaporizhtransformator and Turboatom's order books will grow a combined 8% CAGR by 2016.

Russian energy sector raises orders

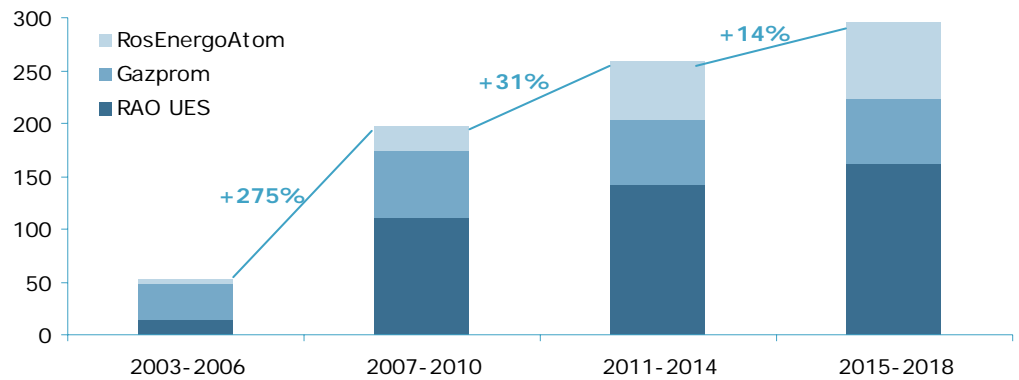
The Russian energy sector has already started to feel the strain of a much larger energy deficit than Ukraine, and thus has developed energy investment programs.

<u>Program</u>	<u>Date Adopted</u>	<u>Validity</u>	<u>Investments</u>
Gazprom investment program until 2030	April 2007	2007-2030	USD 343-420 bln
RAO UES investment program	February 2007	2007-2011	USD 134 bln
Program of nuclear industry development	October 2007	2007-2015	USD 32 bln

Source: Gazprom, RAO UES, mass media

In early 2007 energy monopolies RAO UES, Gazprom and RosEnergAtom announced investment plans for 2007-2010 that are almost four times larger than over the last three years.

RAO UES, Gazprom and RosEnergAtom investments, USD bln



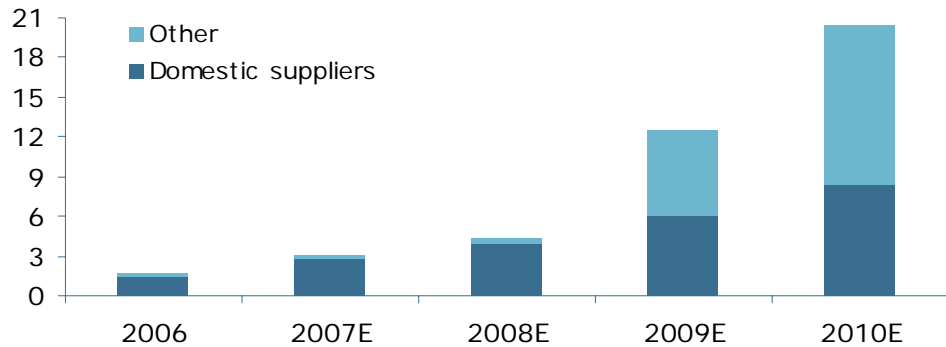
Source: Company data, Concorde Capital estimates

Since Russia is one of the largest markets for Ukrainian power engineering equipment, we expect increased Russian demand to boost the sector's sales by 18% CAGR by 2016.

Russian energy companies need Ukraine

An expected four-fold increase in Russian energy investments over next five years requires corresponding deliveries of power engineering equipment. Russian companies, which export more than 50% of their products, do not plan to decrease exports in the mid-term since they have already committed to orders that will nearly load capacity in the mid-term. They will have insufficient capacity remaining to satisfy domestic demand.

Russia turbine needs and suppliers



Source: Power Machines data, RAO UES, Concorde Capital estimates

Acquisition of Ukrainian competitors

We see two ways for development in Russia. First, joint ventures like global heavyweight Alstom's recent agreement with a Russian company to produce low-speed turbines.

Case study: Alstom's Russian JV

In early 2007, global major Alstom created a joint venture with Atomenergomash (state-controlled Russian company), which will control 51% of the project, to produce low-speed turbines for nuclear power plants for an estimated EUR 300 mln. Currently, Russia does not have the technology to make this type of turbine. The first turbine is expected to be produced no earlier than 2011.

Other candidates to increase their presence on the Russian market are Ukrainian companies, which have historical business links and whose products perfectly meet Russian requirements in terms of quality and price.

From the Russian point-of-view, however, cooperation with Ukrainians on long-term joint projects is more risky due to political instability. Instead, Russia has actively pursued acquisitions in the machinery sphere:

- Purchase of Luhanskteplovoy by Russian Transmashholding, 2007
- Negotiations for Motor Sich by Russian Oboronprom, 2006-2007
- Purchase of small Ukrainian power engineering companies, Sumy Nasosenergomash and Rivne High-Voltage Equipment by Russian holdings in 2004-2006

We believe Russian machinery holdings are targeting Ukrainian power engineering companies for acquisition. The most probable candidates are state-controlled Turboatom and Elektroyazhmash. Other likely candidates include Zaporizhtransformator and Sumy Frunze.

The July 2007 visit of Power Machines' CEO to several Ukrainian companies, including Turboatom and Sumy Frunze can also be viewed as a step toward acquisition.

Power engineering holding?

The three largest listed Ukrainian power engineering companies share their major private shareholder - Konstantin Grigorishyn. He was the first to see potential in the power engineering sector during Ukrainian privatizations of the mid-1990s, and has since focused on accumulating shares. Two years ago, he declared plans to create a Ukrainian power engineering holding.

Grigorishyn's assets are currently split between several businesses, though energy and energy machinery is a distinct, core direction.

Grigorishyn's (Energy Standard) assets structure

Electricity distribution	Energy machine building		Other
Operating control: Cherkasyoblenergo Luhansk Energy Union Minority Stakes: Kharkivoblenergo Vinnitsaoblenergo Volynoblenergo Common ownership with Privat Group: Ternopiloblenergo Poltavaoblenergo Chernigivoblenergo Sumyoblenergo Lvivoblenergo Prvkarpatoblenergo	Operating control: Sumy Frunze Zaporizhtransformator Zaporizhya Small Transformer Plant Plant Super (High capacity transformers) Science Institute Transformator* Zaporizhya cable plant (winding wires)	Minority Stakes: Transformer Research and Design Institute Turboatom	Operating control: Sevmorzavod (shipbuilding) Plant Iskra (light bulbs) Minority Stake: Bank BIG Energy 30% of shares

Source: Company data, media reports

*State Property Fund plans to sell in December 2007 of 46.04% of shares

Most of these assets are owned through a series of SPVs, and managed through Energy Standard, which Grigorishyn wholly-owns. Several conflicts with former partners and incomplete privatizations have hampered creation of a full-cycle energy machinery holding.

To complete the holding, Grigorishyn has announced intentions to:

- Buy out the state's 75.2% stake in Turboatom
- Acquire state-owned Elektrotyazhmash (turbo and hydro generators)
- Acquire state-owned Zorya Mashproyekt (gas turbine production)
- Acquire state-owned company Kharkiv Elektromechanical plant (equipment for generators, electric drivers)

If Grigorishyn is able to realize his ambitious plans, the aggregate capitalization of the holding would exceed USD 2,5 bln. We expect Grigorishyn will then make a placement of the power engineering holding in 2009-2010 on one of the major stock exchanges, with the MCap at placement substantially higher than the current sum-of-the-parts.

Possible Energy Standard holding

Company	Sales, USD mln		Current MCap, USD mln
	2006	2007E	
Zaporizhtransformator	205	361	884
Sumy Frunze	306	367	568
Turboatom	52	87	346
Subtotal	563	815	1,798
Currently state owned (best case scenario):			
Zorya Mashproyekt	153	170	230
Elektrovazhmash	60	69	90
Total	776	1,054	2,118

Source: PFTS, Concorde Capital estimates

Triggers for the holding's capitalization increase:

- Synergy effect: cost optimization, common participation in tenders, vertical integration
- Improvement of financial reporting practices (higher reported margins)
- Increase in liquidity: the holding would definitely jump into the blue chip category

Case study: Power Machines

Power Machines, one of the biggest power engineering companies in Russia, was created in 2000 from four separate companies: Leningrad Metzavod, Elektrosila, Turbine Blade Plant and Kaluzhskiy Turbine Plant. The four separately traded companies had a combined MCap of USD 107 mln as of October 2002. At Power Machines' placement of a 17% stake in October 2003, the MCap for the consolidated holding was USD 274 mln.

Alternatives to a holding

If Grigorishyn's designs for the privatization of state-controlled companies fail, we see other alternative scenarios that will add liquidity to the market:

- Private or public placement of Sumy Frunze and/or Zaporizhtransformator
- Placement/sale of 15% stake in Turboatom by Grigorishyn, if Turboatom is included in a state energy/machinery holding.

MID CAPS

Zaporizhtransformator ZATR UZ Electrical Components & Equipment

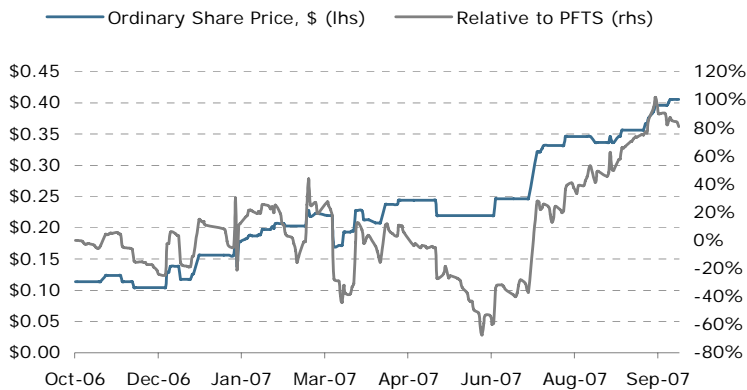
www.ztr.ua

HOLD

12M target (USD) 0.40
Upside 0%

INVESTMENT CASE

- After top-line growth of 47% CAGR over 2004-2006, the company is heading to ~75% surge in 2007, with 23% expected in 2008. We expect domestic sales to double given Ukrainian power distribution companies' planned USD 4.6 bln CapEx for 2008-2011
- CapEx of USD 20 mln in 2007 will increase annual production capacity ~50% from 24 GVA to 36 GVA
- 2006 margins were the largest of any of its listed Ukrainian or international peers
- Overpriced on DCF and market multiples; illiquid, very limited free float: Grigorishyn has concentrated more than 98% of shares



BUSINESS OVERVIEW

Only producer of high-voltage transformers for electric power stations in the CIS and a leading transformer producer in the world. Manufactures power transformers, electric transformers, heavy-current distributors, power blocks and monitoring systems for transformers. Exports to 83 countries (sales focus on the Russian market). More than 85% of energy companies in the CIS are equipped with transformers produced by Zaporizhtransformator. In 1H07, increased net revenue 125.4% yoy to USD 157.0 mln and improved EBITDA margin to 29.0% from 15.1% in 1H06.

MARKET INFORMATION

Market Price[*], USD	0.40
Price impact ^{**}	3
52 Wk H/L USD	0.41/0.1
Chg 3m/6m/52w	65%/95%/257%
Chg vs PFTS 3m/6m/52w	53%/45%/80%
Chg YTD	159%
Avg M Tr Vol 6M, USD mln	0.01
Mcap, USD mln	884.2
Free float	1.3%
FF Mcap, USD mln	11.5

No of shares, mln	2210
Par Value, UAH	0.01

XETRA	YXZ1 GR
DR Ratio	n/a
Avg M Tr Vol 6M, USD ths	n/a

STOCK OWNERSHIP

Energy Standard Group	99%
Other	1%

CORPORATE GOVERNANCE

Concorde Rating ^{***}	BA
--------------------------------	----

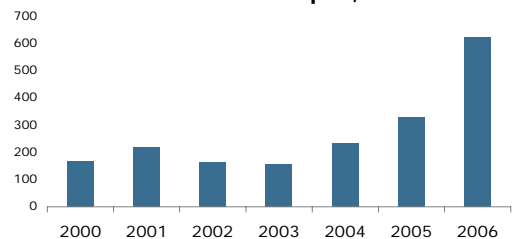
MARKET MULTIPLES

	2007E	2008E
EV/Sales	2.6	2.1
EV/EBITDA	12.4	8.9
P/E	18.1	12.7
P/B	14.2	9.9

KEY RATIO

	2006	2007E	2008E
EBITDA margin	19%	21%	23%
Net Margin	11%	13%	16%
ROE	80%	91%	47%
Net Debt/Equity	0.7	0.7	0.4

Transformer Output, units



*Market information as of Oct 09, 2007, based on PFTS Mid prices

** Price "impact" is the opinion of Concorde's trading desk on stocks to help investors estimate the reliability of quoted prices:

- 1: Market price reaction remains within 10% in execution of a market order of about USD 10 mln in size
- 2: Market price reaction remains within 10% in execution of a market order of about USD 1 mln in size
- 3: All other stocks (quoted)

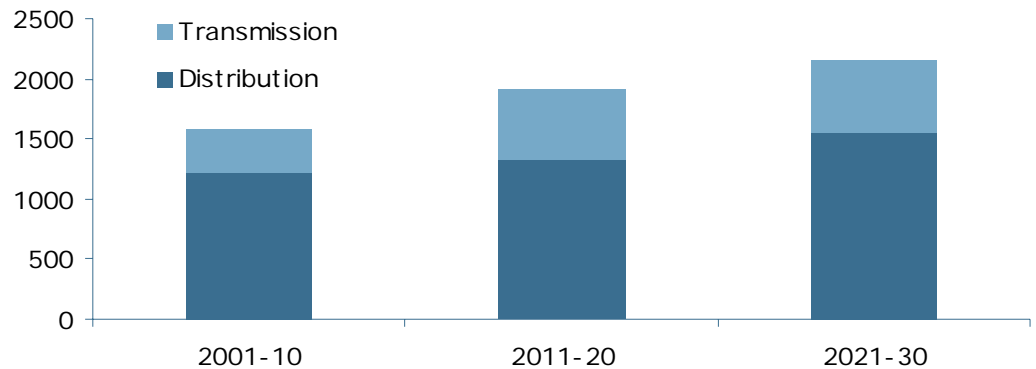
*** The rating is based on Concorde Capital's corporate governance survey. Q denotes quality corporate governance standards, AA - above average standards, A - average, BA - below average and P - poor.

Demand

Global transformer market set to balloon

The world market for electricity transmission and distribution equipment is estimated by the International Energy Agency at more than USD 5 trillion between 2001 and 2030, three times more than the previous 30 years.

Global investments into electricity transmission & distribution, USD mln



Source: IEA

We see strong factors behind the IEA's growth forecast:

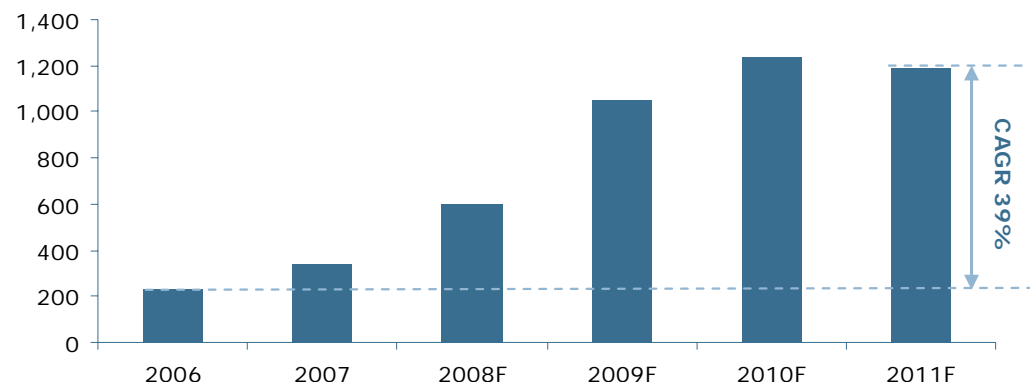
- Increases in electricity demand, especially in emerging markets.
- International market liberalization, which boosts cross-border power trading, thus the need to extend capacity.
- Replacement of obsolete equipment in the FSU. Transformers have a ~20-25 year lifespan and are now in need of replacement. The poor efficiency of old transformers is also stimulating replacements.

Zaporizhtransformator is well positioned to benefit from growth in global demand for transformers, as the company is export-oriented and has business relationships with clients from all around the world (exports less Russia account for 40% of sales).

Ukraine: 3x increase in demand expected

Domestic orders only loaded 15% of Zaporizhtransformator's capacity in 2005 and 2006; the rest was made up by exports. With the significant increase in the investment programs into Ukrainian power distribution networks over 2008-2011, we expect local demand to increase three times in just the next two years.

Annual investments for upgrading distribution networks*



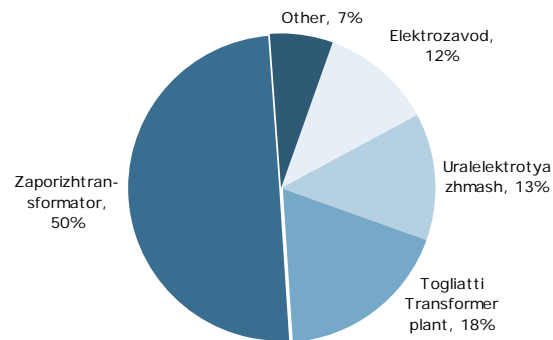
Source: National Electricity Regulatory Commission, Ministry of Fuel and Energy, Concorde Capital
 * Electricity distribution companies' investment program adopted in September 2007

Competition

Ukraine. Local competition does not pose a threat to Zaporizhtransformator and consists only of smaller capacity transformer producers: Ukrelektroaparat and Grigorishyn's Zaporizhya high-voltage transformer plant Super.

CIS. Compared to Zaporizhtransformator, which exports 75% of its products, CIS peers are oriented toward their respective domestic markets: Uralelektrotayzhmash (Russia, Electrozavod (Russia), Togliatti transformer plant (Russia), Minsk transformer plant (Belarus).

CIS transformer producers by installed capacity, GVA



Source: Company data, Concorde Capital estimates

International. The global market for transmission and distribution equipment is concentrated, with the major players (ABB, Siemens, VA Tech and GE) taking up about 50%.

On its key markets, we do not believe global transformer producers pose a threat to Zaporizhtransformator:

- The company's product prices are at least 10% less than international peers
- More than 85% of CIS energy companies are equipped with Zaporizhtransformator transformers. CIS customers are familiar with model service requirements and have lengthy operating experience
- 5% of Argentinean electricity is distributed by Zaporizhtransformator transformers, the company's transformers well known in Uruguay, Chile, Brazil and Mexico. Specially for this region Zaporizhtransformator produces 60 Hz transformers (CIS countries uses 50 Hz transformers).

In other markets, Zaporizhtransformator cooperates with international transformer producers to gain exposure; has established a chain of representative offices in Russia, Austria and Kazakhstan; and cooperates with intermediary companies in Ukraine, Russia, Greece, Argentina and Egypt.

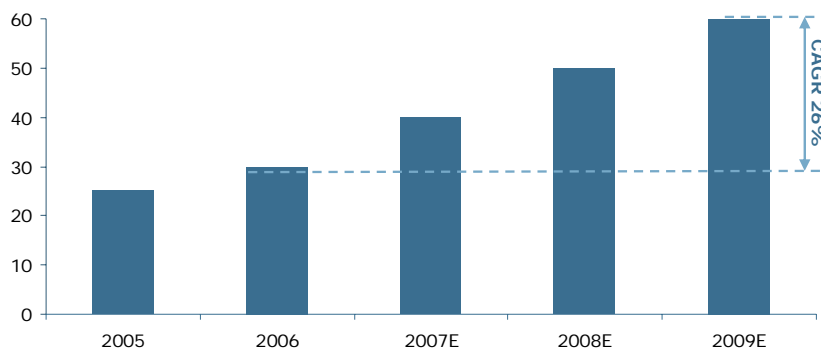
Case study: Vietnamese Contracts with Siemens

Since 2002, Zaporizhtransformator has signed nine contracts with global major Siemens to deliver transformers to Vietnam. The most recent was announced in June and is worth USD 4.5 mln.

Capacity and CapEx

In order to maintain its market position and increase sales, management approved a plan in January 2007 to increase production capacity from 24 GVA in 2006 to 60 GVA by 2009. In 2007 alone, the company is planning to spend USD 20 mln on CapEx (compared to USD 5 mln in 2006).

Zaporizhtransformator's capacity, GVA



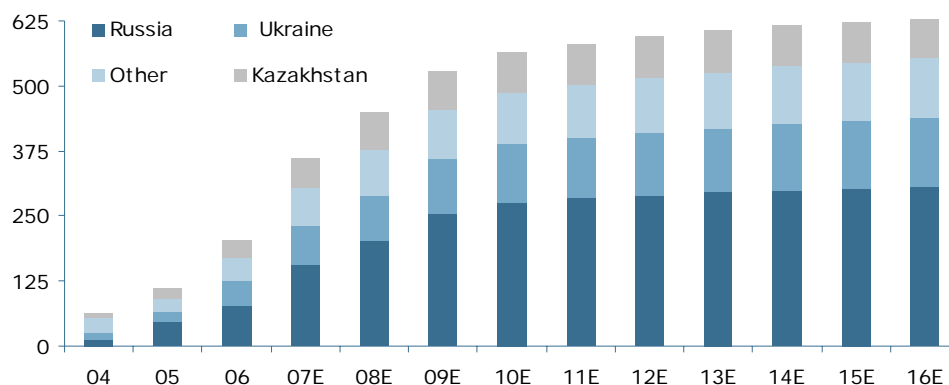
Source: Company data

Sales and order book

After growing its top-line more than five times in the last seven years, we expect Zaporizhtransformator's top-line to rise another three times to USD 617 mln by 2016.

Exports have historically accounted for more than 75% of Zaporizhtransformator's sales. We expect this focus to continue, as non-Ukrainian market demand is strong.

Sales destinations, USD mln



Source: Company data, Concorde Capital estimates

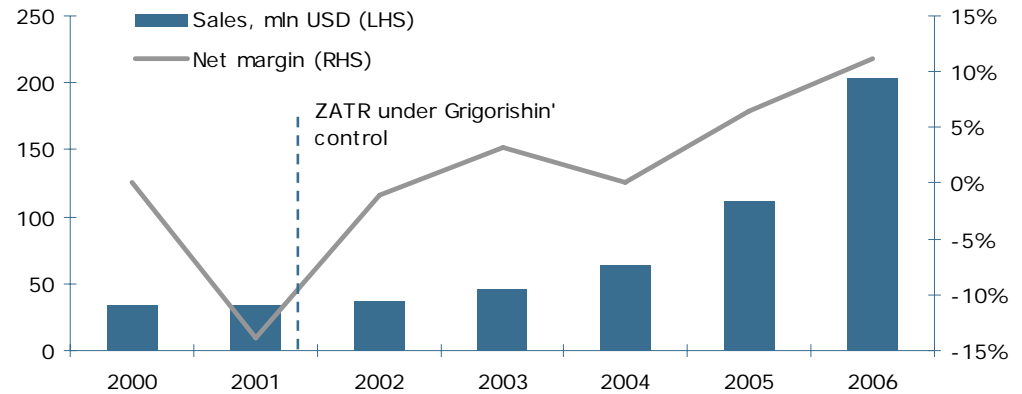
2007 order book

- One 25 MVA transformer to Sevastopol distribution company for USD 0.7 mln
- Modernization of fourteen 58 MVA transformers of distribution system for Almaty Power Consolidated (Kazakhstan) for USD 12.8 mln
- Six transformers and nine reactors for KEGOC (Kazakhstan) for more than USD 20 mln estimated
- Four transformers and three single-phase oil reactors to state-run Uzbekenergo (Uzbekistan) for USD 13 mln
- Three transformers to Siemens Indonesia for USD 4.5 mln
- Nine transformers to Vietnamese government for USD 20 mln
- 34 transformers to Moscow distribution system (two-year contract 2007-2008 for estimated USD 50-60 mln)
- Up to eight high-voltage transformers to Ukrainian transmission line Kahovska (two year 2007-2008 contract for USD 5 mln)

Financial notes

Since Konstantin Grigorishyn gained control over the company in late 2001, the company's margins have been in an uptrend. Thinking in a broader context, Zaporizhtransformator's story can serve as a good guide for how the reported financials of Sumy Frunze and Turboatom are likely to improve if Grigorishyn obtains full control over these companies.

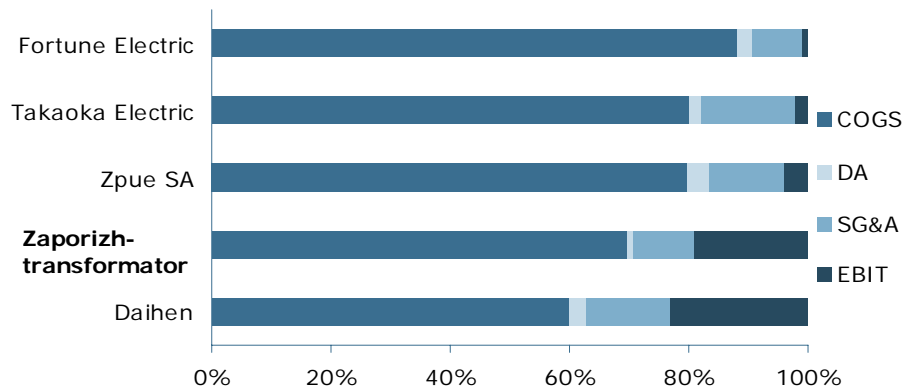
Financial performance



Source: Company data, Concorde Capital estimates

The significant increase of sales over the last two years allowed the company to become one of the most profitable companies in its sector.

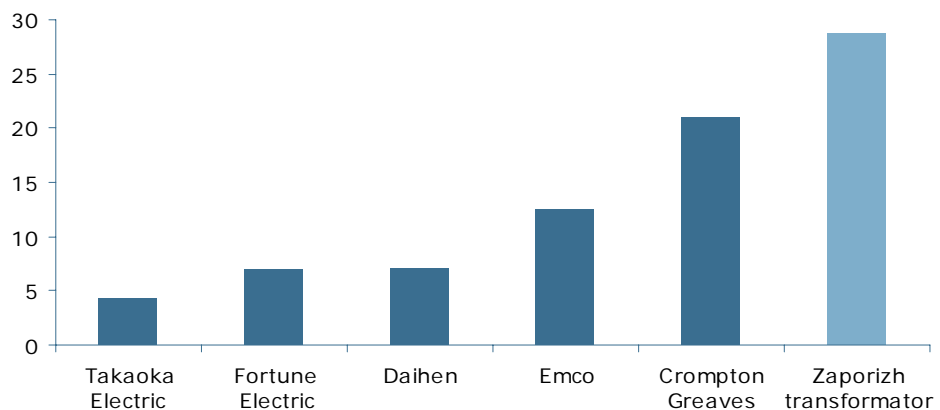
Operating profit breakdown by peer, 2006



Source: Bloomberg, Concorde Capital estimates

Zaporizhtransformator increased ROIC from 8.7% in 2005 to 28.8% in 2006, which is the highest ROIC among its global peer group.

Return on Invested Capital



Source: Bloomberg, Concorde Capital estimates

Low liquidity...

For institutional investors, the main catch is poor liquidity. Since Grigorishyn's arrival, he has actively bought out free float and concentrated 98.6% of shares.

In the mid-term, we see two scenarios, both of which will improve liquidity:

- IPO of broad power machinery holding in 2009-2010 (see page 13)
- Equity placement of Zaporizhtransformator in 2009-2010, as a separate entity (if Grigorishyn fails to create a power engineering holding)
- IPO of a transformer holding that includes Zaporizhtransformator (see more on this below)

Large margins reported by the company according to local accounting standards, as well as IFRS audits by PricewaterhouseCoopers since 2002 indicate that Grigorishyn has had an eye toward an IPO.

Another alternative: Transformer holding

We do not exclude the possibility that Grigorishyn will create a holding on the basis of his Zaporizhya-based transformer production companies.

Aside from Zaporizhtransformator, he controls other transformer-related assets in Zaporizhya:

- Small Universal Power Transformer Plant (81% held by Zaporizhtransformator)
- Zaporizhya Cable Plant, producer of winding wires for Zaporizhtransformator (25% held by Zaporizhtransformator)
- Super High-voltage Transformer Plant
- Peretvoruvach Science Institute, producer of automatic systems for industry, transport, special equipment for production power semi-conductors

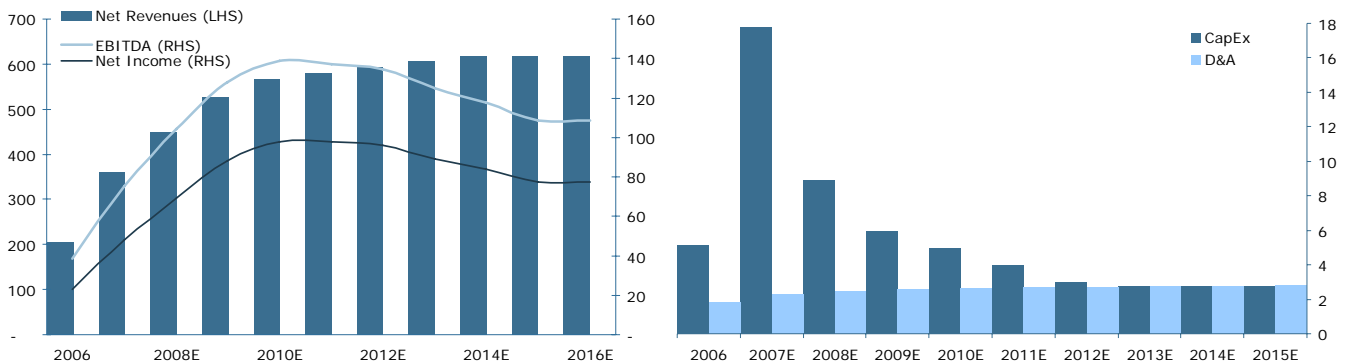
Valuation

DCF

Our operating model is based on the following assumptions:

- The company's production capacity increases from 24 GVA in 2006 to 60 GVA by 2009, according to the management's plan
- The average annual price of transformers grows 3% CAGR until 2016
- Increases in transformer demand on the company's markets will lead to sales to increase an average of 13% annually until 2016
- EBITDA margin increases to 25.6% by 2010 due to scale effect. As the transformers market saturates, we expect Zaporizhtransformator's EBITDA margin to level off at 17.6% by 2016

Operating model summary, USD mln



DCF output, UAH mln, as of October 9

	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
EBITDA	380	526	646	702	693	678	630	595	548	548
EBIT	368	514	633	688	679	664	616	581	534	534
Tax Rate	0	0	0	0	0	0	0	0	0	0
Taxed EBIT	276	385	475	516	509	498	462	435	400	400
Plus D&A	11	12	13	13	14	14	14	14	14	14
Less CapEx	(90)	(45)	(30)	(25)	(20)	(15)	(14)	(14)	(14)	(14)
Less change in OWC	(35)	(25)	(22)	(15)	(13)	(9)	(12)	(11)	(6)	(4)
FCFF	162	328	436	489	490	489	450	424	395	396
WACC	14%	15%	14%	13%	12%	11%	11%	11%	11%	11%
Discounted cash flow	158	318	372	370	331	296	246	208	174	158
Sum of discounted CF	2 473									
							Perpetuity growth rate			2.0%
							WACC to perpetuity			11.0%
Terminal value		4 493								4 493
							Implied exit EBITDA multiple			8.2x
Firm value		4 258								
Portion due to TV		42%								
Less net debt		(229)								
Equity value		4 029								
Implied 12M price, USD		0.36								

Sensitivity analysis

Implied Share Price, US\$					
WACC Y1-10	Perpetuity Growth Rate				
	1.0%	1.5%	2.0%	2.5%	3.0%
-1.5%	0.37	0.38	0.39	0.40	0.41
-1.0%	0.36	0.37	0.38	0.39	0.40
-0.5%	0.35	0.36	0.37	0.38	0.39
+0.0%	0.34	0.35	0.36	0.37	0.38
0.5%	0.33	0.34	0.35	0.36	0.37
1.0%	0.32	0.33	0.34	0.35	0.36
1.5%	0.32	0.32	0.33	0.34	0.35

Implied Share Price, USD					
WACC to perpetuity	Perpetuity Growth Rate				
	1.0%	1.5%	2.0%	2.5%	3.0%
9.5%	0.36	0.37	0.39	0.40	0.42
10.0%	0.35	0.36	0.38	0.39	0.40
10.5%	0.35	0.36	0.37	0.38	0.39
11.0%	0.34	0.35	0.36	0.37	0.38
11.5%	0.34	0.34	0.35	0.36	0.37
12.0%	0.33	0.34	0.35	0.35	0.36
12.5%	0.33	0.33	0.34	0.35	0.36

Peer valuation

Peer summary, USD mln

	Country	MCap USD mln	Net Revenues			EBITDA Mgn			Net Mgn		
			2006	2007E	2008E	2006	2007E	2008E	2006	2007E	2008E
Zaporizhtransformator	Ukraine	884	205	359	443	19%	21%	23%	11%	13%	16%
Emco Ltd	India	289	91	157	235	11.4%	13.4%	13.2%	4.7%	6.4%	6.4%
Crompton Greaves Ltd	India	3 088	926	1792	2178	9.4%	9.9%	10.3%	5.6%	5.6%	6.2%
Daihem Corp	Japan	981	726	859	890	11.0%	13.2%	13.5%	4.9%	5.7%	6.1%
Fortune Electric Co Ltd	Taiwan	324	162	206	222	8.4%	17.5%	n/a	4.2%	n/a	n/a
Takaoka Electric MFG Co Ltd	Japan	158	385	390	407	6.9%	n/a	n/a	2.2%	2.4%	1.9%
Average			458	681	787	9.4%	13.5%	12.3%	4.3%	5.0%	5.1%

Peer multiples

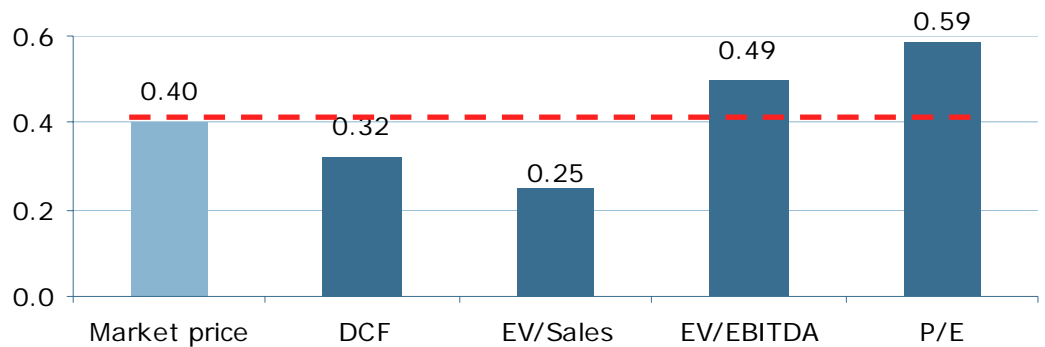
	Country	MCap USD mln	EV/Sales		EV/EBITDA		P/E	
			2007E	2008E	2007E	2008E	2007E	2008E
Zaporizhtransformator	Ukraine	884	2.6	2.1	12.4	8.9	18.1	12.7
Emco Ltd	India	289	2.0	1.4	15.2	10.7	28.8	19.1
Crompton Greaves Ltd	India	3 088	1.7	1.4	17.7	14.0	30.8	22.9
Daihem Corp	Japan	981	1.2	1.1	9.3	8.2	19.9	18.2
Fortune Electric Co Ltd	Taiwan	324	1.7	n/a	9.6	n/a	12.7	12.3
Takaoka Electric MFG Co Ltd	Japan	158	0.5	n/a	n/a	n/a	17.1	20.9
Average			1.4	1.3	13.0	11.0	21.9	18.7
ZATR implied share price			0.21	0.25	0.42	0.49	0.48	0.59
Upside (downside)			-47%	-38.3%	5%	24%	21%	47%

Source: Company data; PFTS, Bloomberg, Thomson Financial, Concorde Capital estimates

Valuation summary

We give more weight to the DCF implied price, set our 12M target for Zaporizhtransformator at USD 0.40, and initiate coverage with a HOLD recommendation.

Valuation results, USD



Note: Red line – target price

Source: PFTS, Concorde Capital estimates

INCOME STATEMENT SUMMARY, UUSD mln, according to UAS

	2003	2004	2005	2006	2007E	2008E	2009E
Net Revenues	45.8	63.8	109.6	204.7	360.6	447.5	528.8
<i>Change yoy</i>	24.9%	39.3%	N/M	86.7%	76.2%	24.1%	18.1%
Gross Profit	12.0	13.2	27.4	62.2	110.4	142.3	169.2
EBITDA	5.8	4.7	11.8	38.3	75.2	104.1	128.0
<i>margin</i>	12.7%	7.3%	10.7%	18.7%	20.9%	23.3%	24.2%
Depreciation	(1.2)	(1.2)	(1.5)	(1.8)	(2)	(2)	(3)
EBIT	4.6	3.5	10.3	36.5	73	102	125
<i>margin</i>	10.0%	5.5%	9.4%	17.8%	20.2%	22.7%	23.7%
Financial Expense, net	(3.1)	(3.5)	(3.6)	(5.5)	(8.4)	(8.9)	(7.7)
Other income/(expense)	0.4	0.4	2.4	(0.8)	(0)	(0)	-
PBT	1.9	0.5	9.1	30.4	64.2	92.3	117.7
Tax	(0.5)	(0.4)	(2.0)	(7.6)	(16)	(23)	(29)
<i>Effective tax rate</i>	24.0%	88.4%	22.1%	24.9%	25.0%	25.0%	25.0%
Net Income	1.5	0.1	7.1	22.8	48.1	69.3	88.3
<i>Net Margin</i>	3.2%	0.1%	6.5%	11.2%	13.3%	15.5%	16.7%

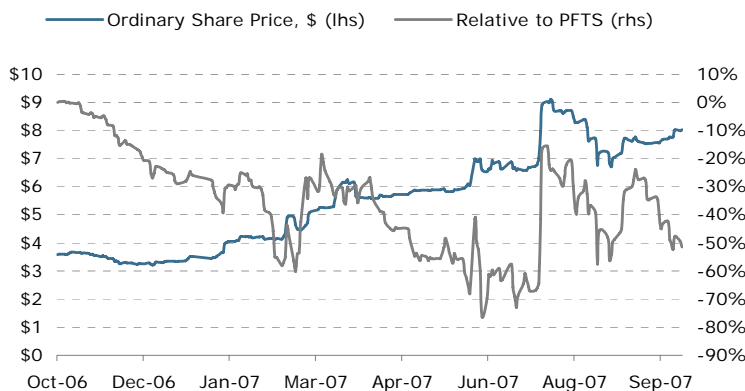
BALANCE SHEET SUMMARY, USD mln, according to UAS

	2003	2004	2005	2006	2007E	2008E	2009E
Current Assets	32.3	43.6	73.2	91.9	113.8	123.6	128.4
Cash & Equivalents	0.4	1.2	3.6	8.9	12.6	13.4	13.3
Trade Receivables	14.1	15.8	19.2	18.2	22.0	28.2	30.7
Inventories	11.3	18.5	35.6	47.9	62.6	64.1	63.3
Other	6.5	8.1	14.9	16.9	16.6	17.9	21.2
Fixed Assets	31.5	30.3	40.1	44.4	62.5	65.8	69.4
PP&E, net	16.8	17.3	27.8	32.0	47.5	54.6	58.1
Other	14.7	13.1	12.2	12.4	15.0	11.3	11.3
Total Assets	63.8	74.0	113.3	136.2	176.3	189.5	197.8
Shareholders' Equity	24.2	22.8	39.9	57.6	62.4	89.1	97.0
Share Capital	0.8	0.8	4.4	4.4	4.4	4.4	4.4
Other	23.4	22.0	35.5	53.2	58.0	84.7	92.7
Current Liabilities	33.6	28.5	38.1	49.9	76.7	76.0	76.9
ST Interest Bearing Debt	16.3	7.4	13.5	20.5	36.1	31.3	31.7
Trade Payables	11.3	12.5	13.5	12.9	17.5	17.4	18.0
Other	6.0	8.6	11.1	16.5	23.1	27.3	27.2
LT Liabilities	6.0	22.6	35.2	28.8	37.3	24.3	23.8
LT Interest Bearing Debt	5.6	22.6	35.2	28.1	35.8	23.4	23.2
Other	0.4	-	-	0.7	1.4	1.0	0.6
Total Liabilities & Equity	63.8	74.0	113.3	136.2	176.3	189.5	197.8

Sumy Frunze

SMASH UZ
Machinery Diversified
www.frunze.com.ua
12M target (USD)
9.70
Upside
20.7%
BUY
INVESTMENT CASE

- Diversified product portfolio across different industries (oil and gas, generation, chemicals, water) will ensure stable growth at 9.4% CAGR until 2016
- Key short & mid-term sales driver is gas pipeline construction in Russia and the Middle East. We estimate related equipment orders will contribute USD 120 mln annually to Sumy Frunze's sales
- Construction of new nuclear power plants in Russia until 2015 is expected to result in equipment orders totaling up to USD 100 mln
- Government plans to create zirconium pipe plant on the company's territory, which could add USD 150 mln to annual revenues. Would be additional catalyst, as it is unaccounted for in our forecasts
- Operational control is being consolidated by Grigorishyn; we expect decline in artificial SG&A this year; new CFO and Vice-President arrived in summer 2007


BUSINESS OVERVIEW

One of the largest engineering companies in Ukraine. Product portfolio: pumps, compressors, centrifuges fit gas-main pipelines, heavy-drilling pipes and mobile filling stations. The only Ukrainian producer of gas pumping units (50-60% of total sales) for gas-main pipelines and pumping equipment for nuclear power plants in the CIS. Has subsidiaries in: Russia, Turkmenistan, Kazakhstan and Azerbaijan. Major customers: Gazprom, Naftogaz Ukrainy and Turkmennaftogaz. Exports around 90% of its total output to more than 20 countries

In 1H07, net revenue increased 23.6% yoy to USD 138.2 mln, EBITDA climbed up 28.0% yoy to USD 9.7 mln and net income decreased by 56.4% to USD 0.6 mln.

MARKET INFORMATION

Market Price[*], USD	7.99
Price impact ^{**}	3
52 Wk H/L USD	9.11/3.21
Chg 3m/6m/52w	22%/43%/128%
Chg vs PFTS 3m/6m/52w	11%/-7%/-49%
Chg YTD	133%
Avg M Tr Vol 6M, USD mln	0.5

Mcap, USD mln	568.0
Free float	7.0%
FF Mcap, USD mln	39.8

No of shares, mln	71
Par Value, UAH	10

XETRA	M9Y1 GR
DR Ratio	1:20
Avg M Tr Vol 6M, USD ths	n/a

STOCK OWNERSHIP

Energy Standard Group	71.4%
Ogres Komertsbank	9.8%
V. Lukyanenko (CEO)	7.5%
Other	11.3%

CORPORATE GOVERNANCE

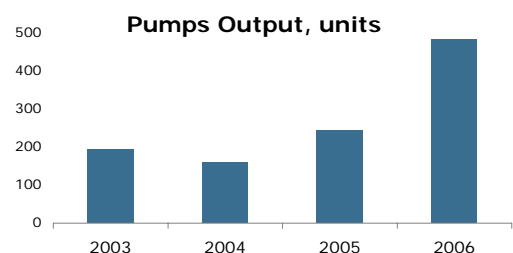
Concorde Rating ^{***}	BA
--------------------------------	----

MARKET MULTIPLES

	2007E	2008E
EV/Sales	1.7	1.4
EV/EBITDA	13.1	9.4
P/E	25.8	16.5
P/B	2.8	2.6

KEY RATIO

	2006	2007E	2008E
EBITDA margin	10%	13%	15%
Net Margin	5%	6%	8%
Net Debt/Equity	0.2	0.2	0.2



*Market information as of Oct 09, 2007, based on PFTS Mid prices

** Price "impact" is the opinion of Concorde's trading desk on stocks to help investors estimate the reliability of quoted prices:

1: Market price reaction remains within 10% in execution of a market order of about USD 10 mln in size
 2: Market price reaction remains within 10% in execution of a market order of about USD 1 mln in size
 3: All other stocks (quoted)

*** The rating is based on Concorde Capital's corporate governance survey. Q denotes quality corporate governance standards, AA - above average standards, A - average, BA - below average and P - poor.

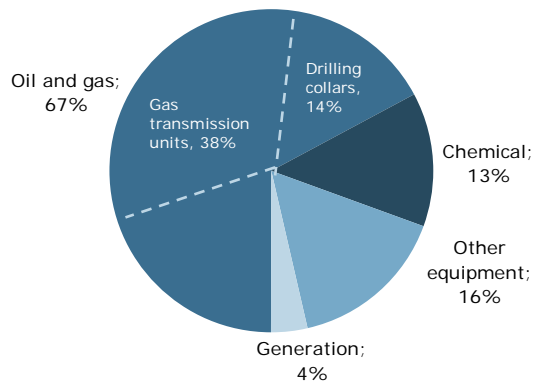
Demand

Sales and market breakdown

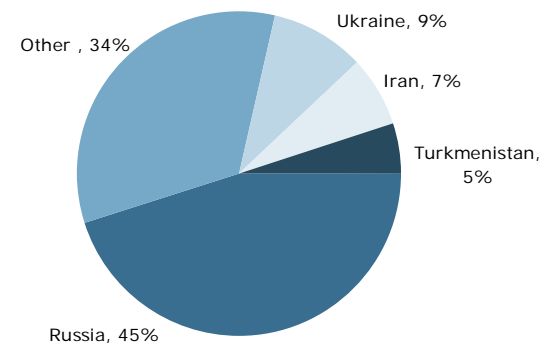
Sumy Frunze is diversified in terms of product types and sales destinations. More than 65% of Sumy Frunze's revenues come from oil and gas companies that operate in the CIS and Asia.

Sales structure in 2006, %

by type of products



by destination

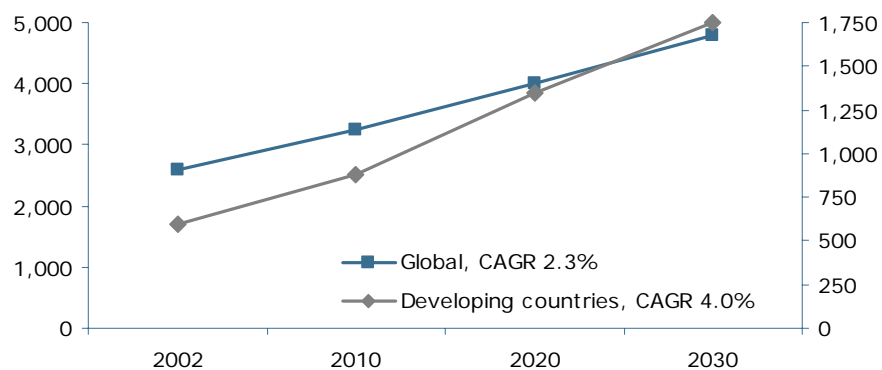


Source: Company data

Key markets

According to the International Energy Agency, growth in global oil and gas markets through 2030 will require more than USD 8 trillion in investments (2005-2030) to bring oil and gas to consumers. The IEA indicates that the highest growth in demand will come from developing countries – Sumy Frunze's target markets.

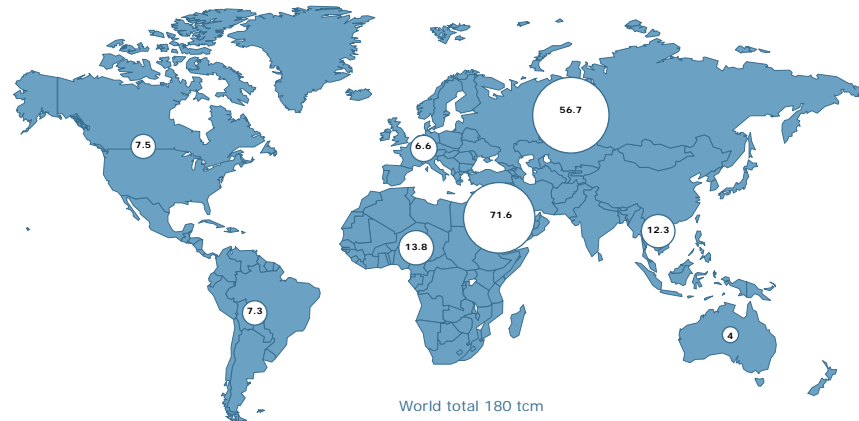
Global natural gas primary demand, bcm



Source: IEA

Russia and Iran, which in 2005 accounted for more than 60% of Sumy Frunze's revenues, hold 42% of world proven gas reserves. Total needs for gas compressor units in the two countries, according to our estimates, will exceed USD 5 bln over 2007-2011. We believe that Sumy Frunze will participate in more pipeline projects in these countries, which we expect to bring in more than USD 120 mln annually.

World proven reserves of natural gas in 2004, tcm



Source: Cedigaz

Russia. The Russian gas supply system is the largest in the world (155 ths km, more than 1400 GCUs), and Sumy Frunze’s gas compressor units account for about 40% of total installed GCU capacity.

Gazprom’s investment program for 2007-2010 foresees reconstruction of 5 ths km of gas pipelines, replacement or modernization of 500 gas transmission units, 300 gas compressor stations and more than 900 km of pipe-bends. The new program includes about USD 4 bln in expenditures specifically for the purchase and reconstruction of GCUs, Sumy Frunze’s main product. We estimate Sumy Frunze will annually receive at least 1% of Gazprom’s investments in orders.

Iran. Sumy Frunze entered the Iranian market ten years ago and has built stable relations with local state-controlled oil and gas companies.

Representatives of Sumy Frunze said the company is planning to participate in tenders to supply equipment for upcoming Iranian gas transportation projects. Iran plans to construct seven pipelines in 2008-2012, which will require about 200 gas transmission units (worth about USD 1 bln), according to Sumy Frunze. We conservatively assume that the company will win Iranian tenders totalling about USD 200 mln in our forecasts and valuation.

Risks related to Iran's nuclear program

Iran has signalled its intent to continue a nuclear enrichment program, which it says it is entitled to under the Nuclear Non-Proliferation Treaty of 1970. The international community has responded with the UN Security Council imposing sanctions against Iran. The US is said to have plans for many contingencies, including military solutions. In the event of armed conflict, pipeline construction and business operations would be frozen. However, hoping to avoid a situation similar to the prolonged strife in Iraq, the US and international peers have insisted on a peaceful resolution. We believe that global business penetration and local economic development, which is much stronger and farther along than in Iraq, makes compromise the most likely outcome.

Competition

Sumy Frunze's diversified product portfolio means that it competes with different categories of companies within the sector.

Gas-compressor units (GCUs) and compressors. In Russia the company competes for GCU orders with airplane engine producers, particularly NPO Saturn. In non-CIS countries, Sumy Frunze's competitors are global players such as Siemens and MAN.

Drilling collar competition exists from Russia (Tyazhpromarmatura, Motovilihinskiye zavody) and the USA (Smith International).

Pumping equipment. Sumy Frunze's pumps for nuclear power plants are sold almost exclusively in the CIS region, where no analogues exist. In terms of other pumps, CIS competition is tight, but Sumy Frunze offers a wider variety of products (thanks to its strong R&D department).

Summary: Competitors by type of product

Industry	Type of products	Competitor	Country
Oil and gas	Gas-compressor units	Constar	Ukraine
		NPO Iskra	Russia
		NPO Saturn	Russia
		Ufa-Avigas	Russia
		Nevskiy plant	Russia
	Compressors	Siemens	Germany
		MAN	USA
		NPO Iskra	Russia
		Nevsky plant	Russia
		Cameron International Corporation	USA
Drilling collars	Tyazhpromarmatura	Russia	
	Motovilihinskiye zavody	Russia	
	Smith International	USA	
Chemical, Generation	Pumps, centrifuges	Sumy Nasosenergomash	Ukraine
		Livhydromash	Russia
		Neftemash	Russia
		Kataysky pump plant	Russia
	Water pumps	Rubynsk pump plant	Russia
		Weir Group	UK
		Sulzer	Switzerland
		Livhydromash	Russia
		Uralhydromash	Russia
		Moldovahydromash	Moldova

Source: Company data, Concorde Capital estimates

Sumy Frunze's competitive advantages:

- Competitive prices (at least 10-20% lower than other producers)
- Efficient production line (the company produces gas transmission units in six months, which is 50% faster than the industry standard), which is especially beneficial to turnkey projects
- Product portfolio offers wide variety of equipment to single client (for example, Sumy Frunze has contracts with chemical producers for pumps and centrifuges), and has the ability to specialize orders at its R&D department

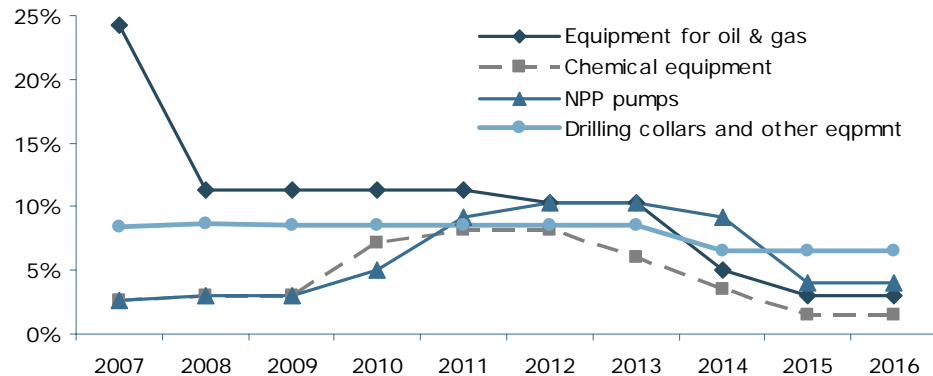
Sales and order book

Growing investments in oil & gas companies in the CIS and Middle East will help Sumy Frunze to increase sales annually by 9.4% by 2016. The company currently has about 25% unutilized capacity and USD 115 mln investment program in ten years will provide another 50% increase to support this growth.

Sales growth by type of products

Due to exposure to different niches and less dependence on trends affecting a single industry, we expect the company's sales growth to be relatively stable in the long-term.

Sumy Frunze's estimated production growth for different types of products



Source: Concorde Capital forecast

Sales forecasts by product types:

- Oil and Gas equipment - annual growth of 10% over the next seven years; after 2014 it will see stable growth of 3%
- Drilling collars and other equipment - stable 5% growth, mainly due to price increases
- Chemical equipment - sales peaks in 2009-2013 with yearly increases of 7% or more. Demand comes from Russia, whose chemical and petrochemical industry development program until 2015 requires estimated investments of USD 52.1 bln
- Generation equipment - With construction of 10 new nuclear power plant blocks in Russia, total NPP pump sales grow 10% annually during 2011-2014

Enough capacity to meet demand

Sumy Frunze's capacity is not fully loaded; the company can increase production a further 25% without the need for additional CapEx.

Sumy Frunze capacity and utilization, 2006

Type of product	Capacity	
	units	utilization
Gas transmission units	over 100	60-70%
Drilling collars	5,000	~ 90%
Pumps	~ 800	~ 60%

Source: Company data, Concorde Capital estimates

We expect Sumy Frunze to boost its utilization rate and invest USD 115 mln on CapEx over 2007-2016, which will allow it to achieve production growth of 2.4 times in ten years.

2007 order book

(Italics indicates orders we expect company to receive, not formally announced)

Oil and gas

- gas compressor units to Gazprom for USD 5 mln
- bundling equipment for GCUs to Samara-Aviagaz (Russia) for USD 4.5 mln
- equipment for gas fields to Caspian Gas Corp (Kazakhstan) for USD 30 mln
- 4 gas transmission units to ZEROMAX GmbH (Swiss company with operations in Uzbekistan) for USD 4 mln
- equipment for compressor stations reconstruction to Bulgargaz (Bulgaria), up to USD 7 mln
- 9 power-generating 12MW units and 4 compressor lines to PC Surgutneftegaz (Russia) for USD 60 mln
- *6 turbo compressor units and technological equipment for Gazprom*
- *participation in construction of gas pipeline Nabucco (expected to come on stream in 2011)*
- *centrifugal compressors and spare parts for NPO Iskra (Russia), which we estimate over next two years at a total of about USD 5 mln*

Electricity

- 11 units of 12MW power generators to PC Surgutneftegaz (Russia) (three-year contract 2006-2008 for estimated total of USD 110 mln)
- *pumps for blocks #3 and #4 of Taiwanese nuclear power plant for estimated USD 40 mln (Sumy Frunze already sold 80 pumps for blocks #1 and #2)*

Chemical

- equipment modernization and reconstruction for Ukrainian Krymsoda (four-year contract 2005-2009 for total of USD 30 mln)
- equipment modernization and reconstruction, cogeneration units and pumps production for Stinol (ten-year contract 2004-2014, for total of USD 15-18 mln)
- centrifuges and pumping equipment to Bulgarian client for up to USD 5 mln

Getting into the state's zirconium pipe business?

The President's plans to create independent equipment producers for the country's nuclear power generation have indicated a possible boon to Sumy Frunze. According to the program, which was announced at the beginning of the year, a new zirconium pipe producer will be created on territory owned by Sumy Frunze. The government forecasted the annual revenue for the new plant at about USD 150 mln.

The Ministry of Fuel and Energy is currently carrying out a technical assessment and feasibility study. Until the final business plan is approved, it is unclear exactly how Sumy Frunze will benefit from the new plant, but we see three possibilities:

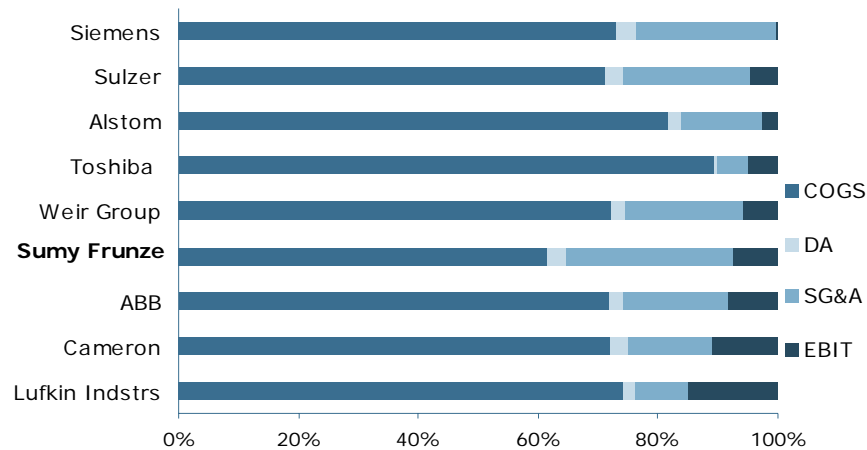
- Serve as a constructing contractor (additional USD 3-7 mln to sales annually for next two-three years);
- Receive rent payments (less than USD 1 mln per year);
- Participate in plant's operation as one of the founders through a joint venture (additional USD 40-75 mln to sales p.a).

We did not include additional revenues from the project into our sales forecast for Sumy Frunze. As more details of the plans become public and the project gets closer to launching, we will adjust our projections accordingly.

Financial notes

Sumy Frunze has comparable margins to its peers, even though its COGS are the lowest in the sector. The company reports the highest common-size SG&A expenses, which is explained by cost over-reporting.

Common size financials, 2006



Source: Bloomberg, Concorde Capital estimates

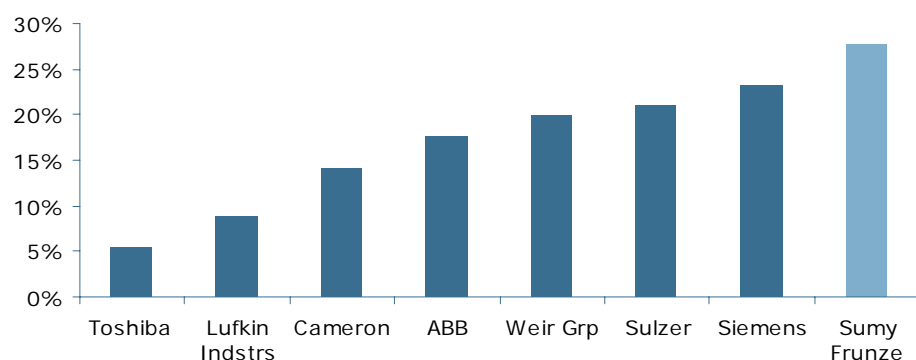
We expect a decrease in reported SG&A expenses in 2008, as Grigorishyn strengthens operating control over the company in the next two years and prepares it for an IPO.

Case study: Grigorishyn's operational control over the company

In the last year and a half, Grigorishyn succeeded in concentrating a more than 70% stake in Sumy Frunze and has already started replacing key personnel: a new CFO was appointed in June 2007 and Vice President in August. Look for more changes in the company's corporate structure at the company's AGM, which has been postponed this year after being held in April for the last seven years.

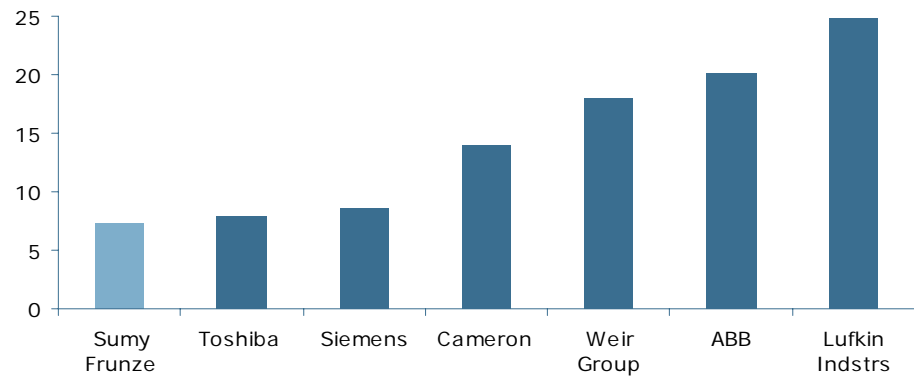
We think that the increased influence of Grigorishyn in the company will lead to a positive change similar to that of Zaporizhtransformator, with its significant improvement in reported margins.

SG&A/Sales, 2006



Source: Bloomberg, Concorde Capital estimates

Return on invested capital, % 2006



Source: Bloomberg, Concorde Capital estimates

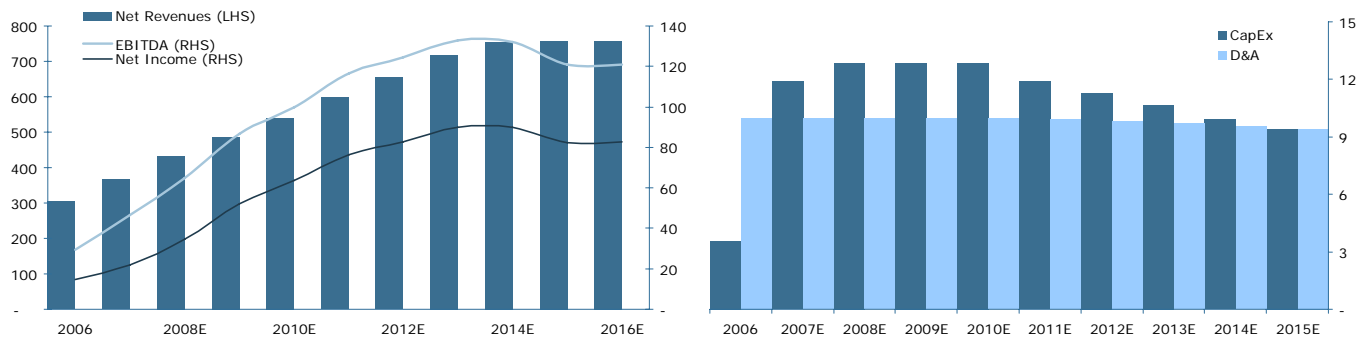
Valuation

DCF

Our operating model is based on the following assumptions:

- Demand grows as projected on page 29
- Average product price increases 3% CAGR by 2016
- EBITDA margin grows to 15.0% in 2008 from 9.7% in 2006, assuming that Grigorishyn receives control over the company in 2007-2008. We see the main driver as a decrease in SG&A/Sales ratio to 19% by 2012 from 28% in 2006. From 2013, we expect that increasing competition will lead to EBITDA decrease to 16.5% by 2016
- We expect the company will invest about USD 12 mln annually by 2013 then slow down to USD 9 mln by 2016.

Operating model summary, USD mln



DCF output, UAH mln, as of October 9

	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
EBITDA	235	324	433	500	582	623	665	661	605	605
EBIT	185	273	383	449	532	573	616	613	557	558
<i>Tax Rate</i>	<i>25%</i>	<i>25%</i>	<i>25%</i>	<i>25%</i>	<i>25%</i>	<i>25%</i>	<i>25%</i>	<i>25%</i>	<i>25%</i>	<i>25%</i>
Taxed EBIT	130	197	283	337	399	430	462	460	418	419
Plus D&A	50	50	50	50	50	50	49	48	47	47
Less CapEx	(60)	(65)	(65)	(65)	(60)	(57)	(54)	(50)	(48)	(47)
Less change in OWC	(53)	(69)	(66)	(50)	(44)	(39)	(31)	(21)	(5)	(5)
FCFF	67	113	203	273	345	383	426	437	413	414
WACC	15.7%	15.5%	14.5%	13.0%	12.1%	11.2%	11.2%	11.3%	11.3%	11.4%
Discounted cash flow		110	171	204	230	230	230	212	180	162
Sum of discounted CF		1 730								
							Perpetuity growth rate			2.0%
							WACC to perpetuity			11.0%
Terminal value		1 836								4 691
							Implied exit EBITDA multiple			7.8 x
Firm value		3 566								
Portion due to TV		51%								
Less net debt		(203)								
Equity value		3 363								
Implied 12M price, USD		9.37								

Sensitivity analysis

Implied Share Price, US\$					
WACC Y1-10	Perpetuity Growth Rate				
	1.0%	1.5%	2.0%	2.5%	3.0%
-1.5%	9.64	9.94	10.26	10.63	11.04
-1.0%	9.35	9.64	9.95	10.31	10.70
-0.5%	9.08	9.35	9.66	10.00	10.38
+0.0%	8.81	9.08	9.37	9.70	10.06
0.5%	8.56	8.81	9.09	9.41	9.76
1.0%	8.31	8.55	8.83	9.13	9.47
1.5%	8.07	8.31	8.57	8.86	9.19

Implied Share Price, USD					
WACC to perpetuity	Perpetuity Growth Rate				
	1.0%	1.5%	2.0%	2.5%	3.0%
9.5%	9.51	9.87	10.28	10.75	11.29
10.0%	9.25	9.58	9.94	10.35	10.82
10.5%	9.02	9.31	9.64	10.00	10.42
11.0%	8.81	9.08	9.37	9.70	10.06
11.5%	8.63	8.87	9.13	9.43	9.76
12.0%	8.46	8.68	8.92	9.19	9.49
12.5%	8.31	8.51	8.73	8.97	9.24

Peer valuation

Peer summary, USD mln

	Country	MCAp USD mln	Net Revenues			EBITDA Mgn			Net Mgn		
			2006	2007E	2008E	2006	2007E	2008E	2006	2007E	2008E
Sumy Frunze	Ukraine	568	306	367	431	9.8%	12.7%	15.0%	4.7%	6.0%	8.0%
Lufkin Industries	USA	867	605	601	654	19.3%	20.3%	21.7%	12.1%	12.1%	13.0%
Cameron International	USA	10 251	3 743	4 425	5 104	16.4%	18.2%	19.2%	8.5%	10.4%	10.9%
ABB	USA	61 354	24 412	26 709	30 466	12.9%	14.6%	14.9%	5.7%	8.4%	8.8%
Weir Group	UK	3 434	1 731	1 907	2 004	10.3%	11.9%	12.7%	4.7%	3.8%	4.1%
Sulzer	Switzerland	5 085	2 295	2 737	3 013	14.2%	13.3%	13.7%	7.9%	7.6%	7.9%
Siemens	Germany	123 630	107 389	110 522	117 832	7.1%	8.9%	9.6%	3.5%	4.5%	5.2%
Nikkiso	Japan	586	493	568	587	10.8%	n/a	n/a	5.9%	6.3%	6.6%
Torishima Pump Manufacturing	Japan	416	278	345	370	6.1%	n/a	n/a	3.0%	2.9%	4.3%
Shandong Molong Petroleum	China	848	130	226	261	19.8%	17.0%	16.7%	13.7%	10.8%	11.1%
United Heavy Machinery	Russia	285	641	781	825	7.8%	9.1%	9.0%	2.2%	3.5%	3.6%
Average			14 172	14 882	16 111	12.5%	14.2%	14.7%	6.7%	7.1%	7.6%

Peer multiples

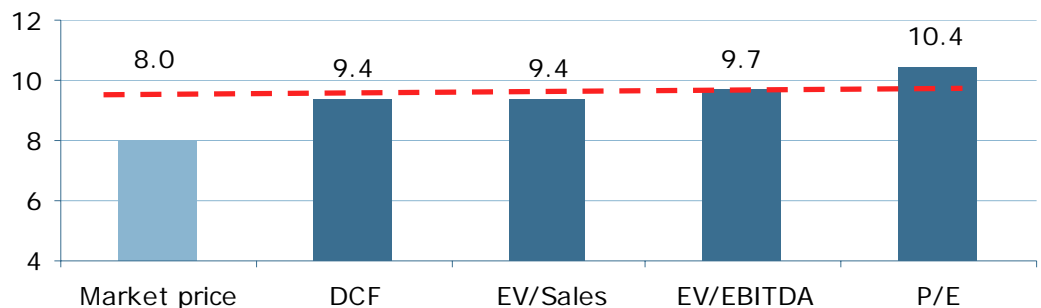
	Country	MCAp USD mln	EV/Sales		EV/EBITDA		P/E	
			2007E	2008E	2007E	2008E	2007E	2008E
Sumy Frunze	Ukraine	568	1.7	1.4	13.1	9.4	25.8	16.5
Lufkin Industries	USA	867	1.3	1.2	6.4	5.5	11.9	10.2
Cameron International	USA	10 251	2.3	1.9	12.5	9.8	22.3	18.4
ABB	USA	61 354	2.2	1.9	14.9	12.4	27.2	23.0
Weir Group	UK	3 434	1.8	1.7	15.3	13.5	46.8	41.6
Sulzer	Switzerland	5 085	1.8	1.6	13.3	11.6	24.4	21.4
Siemens	Germany	123 630	1.2	1.1	13.1	11.3	24.7	20.3
Nikkiso	Japan	586	n/a	n/a	n/a	n/a	16.3	15.0
Torishima Pump Manufacturing	Japan	416	n/a	n/a	n/a	n/a	41.6	26.0
Shandong Molong Petroleum	China	848	3.7	3.2	21.9	19.3	34.9	29.3
United Heavy Machinery	Russia	285	0.6	0.6	7.1	6.7	10.4	9.6
Average			1.9	1.6	13.1	11.3	26.0	21.5
SMASH implied share price			9.0	9.4	8.0	9.7	8.1	10.4
Upside (downside)			12%	18%	0%	21%	1%	30%

Source: Company data; PFTS, Bloomberg, Thomson Financial, Concorde Capital estimates

Valuation summary

We give more weight to the DCF implied price, set our 12M target for Sumy Frunze at USD 9.7, and initiate coverage with a BUY recommendation.

Valuation results, USD



Note: Red line – target price

Source: PFTS, Concorde Capital estimates

INCOME STATEMENT SUMMARY, USD mln

	2005	2006	2007E	2008E	2009E
Net Revenues	315.4	305.5	367.0	431.4	486.6
<i>Change yoy</i>	<i>N/M</i>	<i>-3.1%</i>	<i>20.1%</i>	<i>17.5%</i>	<i>12.8%</i>
Gross Profit	139.9	117.9	141.3	168.2	189.8
EBITDA	24.0	29.6	46.6	64.7	86.6
<i>margin</i>	<i>7.6%</i>	<i>9.7%</i>	<i>12.7%</i>	<i>15.0%</i>	<i>17.8%</i>
Depreciation	(9.8)	(10.0)	(10.0)	(10.0)	(10.1)
EBIT	14.2	19.5	36.6	54.7	76.5
<i>margin</i>	<i>4.5%</i>	<i>6.4%</i>	<i>10.0%</i>	<i>12.7%</i>	<i>15.7%</i>
Financial Expense, net	(2.0)	(4.4)	(7.1)	(6.7)	(6.1)
Other income/(expense)	(2.5)	7.4	1.4	-	-
PBT	10.6	23.1	31.3	47.9	70.4
Tax	(7.9)	(8.6)	(9.4)	(13.4)	(18.3)
<i>Effective tax rate</i>	<i>74.4%</i>	<i>37.1%</i>	<i>30.0%</i>	<i>28.0%</i>	<i>26.0%</i>
Net Income	2.7	14.5	21.9	34.5	52.1
<i>Net Margin</i>	<i>0.9%</i>	<i>4.8%</i>	<i>6.0%</i>	<i>8.0%</i>	<i>10.7%</i>

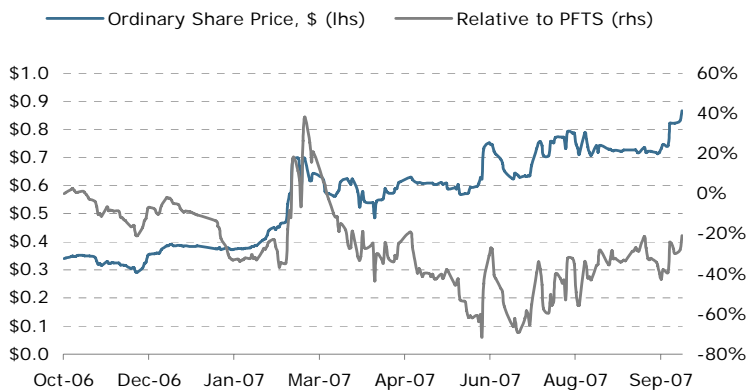
BALANCE SHEET SUMMARY, USD mln

	2005	2006	2007E	2008E	2009E
Current Assets	227.9	237.0	261.7	294.3	323.5
Cash & Equivalents	6.1	1.3	4.9	6.5	7.8
Trade Receivables	24.9	20.1	22.0	25.5	28.7
Inventories	160.3	172.1	193.0	219.2	243.7
Other	36.6	43.5	41.8	43.1	43.3
Fixed Assets	160.1	146.6	151.7	156.6	162.4
PP&E, net	113.1	108.9	114.9	119.9	125.4
Other	47.0	37.6	36.8	36.7	37.0
Total Assets	388.1	383.6	413.5	450.9	485.9
Shareholders' Equity	172.2	183.6	201.1	220.3	238.6
Share Capital	140.8	140.8	140.8	142.3	142.3
Reserves and Other	31.4	42.7	60.2	78.1	96.3
Current Liabilities	153.5	137.1	142.0	154.3	164.3
ST Interest Bearing Debt	29.2	47.9	42.2	38.8	34.1
Trade Payables	28.0	14.7	17.6	18.4	20.8
Other	96.3	74.5	82.2	97.1	109.5
LT Liabilities	62.3	62.9	70.4	76.2	83.0
LT Interest Bearing Debt	-	0.1	6.1	7.2	10.0
Other	62.3	62.8	64.2	69.0	73.0
Total Liabilities & Equity	388.1	383.6	413.5	450.9	485.9

Turboatom

TATM UZ
Power Equipment Manufacturer
www.turboatom.kharkov.ua
12M target (USD)
1.20
Upside
46.4%
BUY
INVESTMENT CASE

- Privatization of the state's 75.22% stake (60% probability) to Grigorishyn or Russian Power Machines, or IPO of a state holding that includes Turboatom (40% probability) in 2008-2009 will be a value trigger
- Cooperation with Power Machines resulted in signing of long-term contracts in September worth over USD 65 mln with Mexican and Chinese hydroelectric power stations. Turboatom's CEO said joint contracts are being prepared for more orders to Latin American and Asian clients
- As the fourth largest global supplier of turbines to nuclear power plants, the company will massively benefit from the upswing in demand for construction and modernization of NPPs in the CIS and Middle East
- Rosenergoatom order for 2007-2009 of more than USD 100 mln is two times more than Turboatom's total sales in 2006; we expect further turbine orders for Russian/Ukrainian nuclear power plant projects totaling about USD 500 mln for next ten years


BUSINESS OVERVIEW

One of the largest producers of turbine equipment for thermal, hydroelectric and nuclear power plants in the CIS. Capacity: 8 GW of thermal power turbines and 2 GW of hydraulic turbines p.a. Ranked fourth in the world. Provides 13% of global nuclear power turbines (produces low-speed 1 GW turbines). A total of 114 turbines (capacity above 50 GW), 400 hydro-turbines (capacity :32 GW) for 26 nuclear power plants and 285 steam turbines (capacity above 50 GW) for thermal power plants were produced by the company. Exports 60-70% to the CIS, Asia, Europe and Latin America.

State Property Fund holds a 75.22% share in the company, though this year operating control was transferred to the newly created Ukratomprom state concern. The question of privatization is expected to be cleared up after the political disposition of the new government later this year. In 1H07, revenues increased 37.6% yoy to USD 28.9 mln and net income rose 173.6% yoy to USD 4.5 mln.

*Market information as of Oct 09, 2007, based on PFTS Mid prices

** Price"impact" is the opinion of Concorde's trading desk on stocks to help investors estimate the reliability of quoted prices:

- 1: Market price reaction remains within 10% in execution of a market order of about USD 10 mln in size
- 2: Market price reaction remains within 10% in execution of a market order of about USD 1 mln in size
- 3: All other stocks (quoted)

*** The rating is based on Concorde Capital's corporate governance survey. Q denotes quality corporate governance standards, AA - above average standards, A - average, BA - below average and P - poor.

MARKET INFORMATION

Market Price* , USD	0.82
Price impact**	3
52 Wk H/L USD	0.87/0.29
Chg 3m/6m/52w	37%/61%/156%
Chg vs PFTS 3m/6m/52w	25%/10%/-21%
Chg YTD	131%
Avg M Tr Vol 6M,USD mln	0.8
Mcap , USD mln	346.4
Free float	3.14%
FF Mcap, USD mln	10.4
No of shares , mln	422
Par Value, UAH	0.25
XETRA	n/a
DR Ratio	n/a
Avg M Tr Vol 6M, USD ths	n/a

STOCK OWNERSHIP

State	75.2%
Grigorishyn	14.6%
Other	9.2%
Megabank	1%

CORPORATE GOVERNANCE

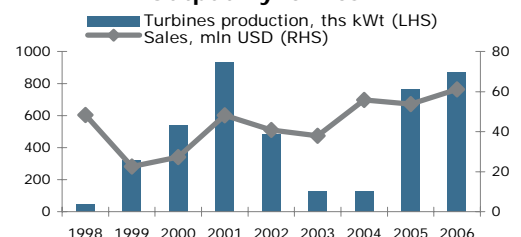
Concorde Rating***	A
--------------------	---

MARKET MULTIPLES

	2007E	2008E
EV/Sales	4.0	2.0
EV/EBITDA	15.1	6.7
P/E	29.4	10.6
P/B	2.0	1.8

KEY RATIO

	2006	2007E	2008E
EBITDA margin	21%	26%	30%
Net Margin	9%	14%	19%
Net Debt/Equity	-0.1	-0.01	-0.01

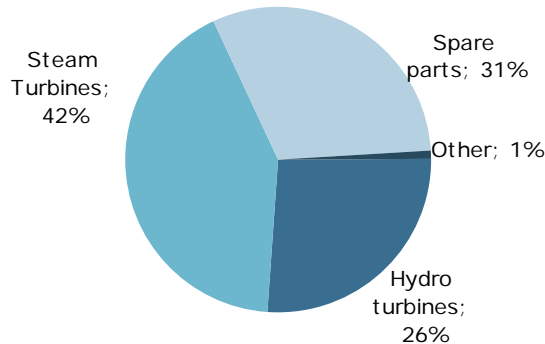
Output Dynamics


Demand

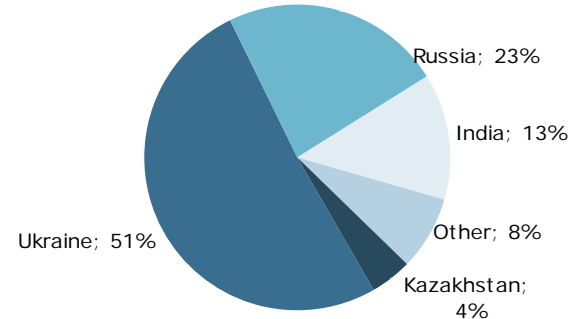
Turboatom is a specialized producer of turbines for power plants.

Sales structure in 2006, %

by type of products



by destination

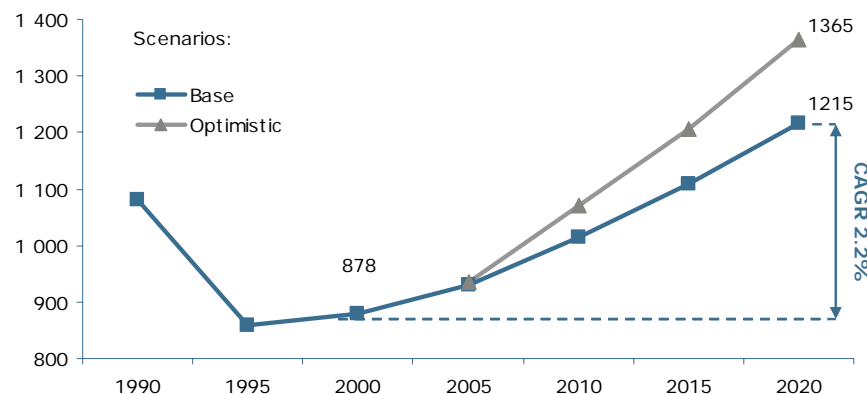


Source: Company data

Key markets

Russia. Electricity consumption will grow 1.4 times by 2020 compared to 2000, according to the base scenario of the Russian state energy strategy.

Russian electricity production forecasts, GWh

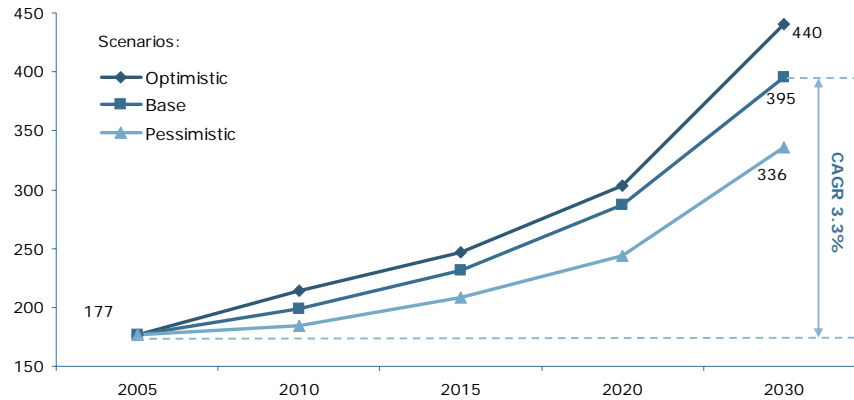


Source: Russian Energy Strategy until 2020

In order to meet growing demand, Russian energy companies (incl. nuclear industry and RAO UES) have approved ambitious investment programs calling for total financing of USD 134 bln to replace worn out electricity equipment and construct new plants.

Russia's major turbine producer, Power Machines, does not have enough capacity (even after increasing production capacity) to satisfy domestic demand: in the next four years it can only meet 60% of its country's need. Currently, the company is looking for subcontractors to fulfill contract obligations. We see Turboatom as the best candidate to help fill the gap: 95% of Russian nuclear power plants and several thermal power stations are already equipped with Turboatom turbines and its products are 40-50% cheaper than international competitors.

Ukraine. Electricity consumption in Ukraine will grow 2.2 times by 2030, according to the Ukrainian state energy strategy.

Electricity production forecasts, GWh


Source: *Ukrainian Energy Strategy until 2030*

As in Russia, Ukraine must not only build new power plants, but modernize existing energy objects. According to the Ministry of Energy, domestic energy assets are 40% worn out, notably those controlled by the National Energy Company of Ukraine (generation and distribution companies) - 75% on average; and Energoatom (all nuclear power stations) - 33%. We expect Turboatom will participate in hydro, nuclear and thermal power generation projects, which will bring in about USD 467 mln during 2007-2016.

India. India is now sixth in the world by electricity consumption, and one of the main markets for Turboatom (13% of sales in 2006). Turboatom has already delivered turbines to two Indian nuclear power plants – Kaiga and Rajasthan, contracts for hydroelectric power stations are expected in the mid-term.

Case study: Kaiga project incident

In 2002 Turboatom signed a contract with NPP Kaiga as general contractor for turbines and generators for USD 71 mln. On August 25, equipment at the plant malfunctioned. According to Turboatom's CEO, (1) turbine and generation equipment at the power plant was working in a testing regime when the incident occurred and (2) the turbine was broken due to a breach in operational protocols. NPP Kaiga has not filed any claims against Turboatom or Elektrotiyazhmash (subcontractor) as of mid September. We expect that the equipment will be repaired by the two Ukrainian companies Turboatom and Elektrotiyazhmash, at the Indian plant's expense.

Other countries. Orders from other emerging markets will make up more than USD 600 mln of the company's revenues in the next ten years. Turboatom is cooperating with Power Machines to help fulfill its contract obligations abroad, and in doing so, is expanding international sales.

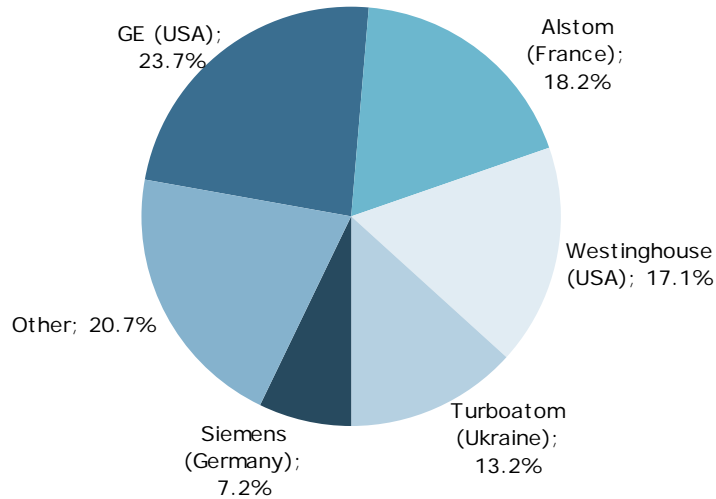
Case study: Mexico El Kahon Hydroelectric Power Plant

Turboatom supplied two 380 MW hydroelectric turbines and Power Machines supplied generators for the Mexico El Kahon hydroelectric power station in 2004-2006. In August 2007 Turboatom and Power Machines announced the joint delivery of equipment to Mexican La Esca hydroelectric power plant for USD 35.5 mln, and to Chinese hydroelectric power stations Shansigou and Impan for USD 30 mln. Turboatom's CEO said that the two companies have said they are also preparing joint contracts for further orders in Latin America and Asia.

Competition

The world turbine market has few big players each with stable markets and clients. Turboatom is fourth in terms of total capacity of supplied turbines for nuclear power plants.

Main NPP turbine producers (by installed capacity), %



Source: Company data

CIS monopoly in low speed turbines

Turboatom has a monopoly position in the production of low speed turbines for nuclear power plants in the CIS. In 2011 a joint venture between Russian Atomenergomash and French Alstom is set to launch low-speed turbine production in Russia. We believe that beginning in 2012, Turbatom will cooperate with the JV to deliver spare parts and thus remain the main supplier in this segment. Alstom representatives visited the company a month ago and discussed options for future cooperation.

After-market business

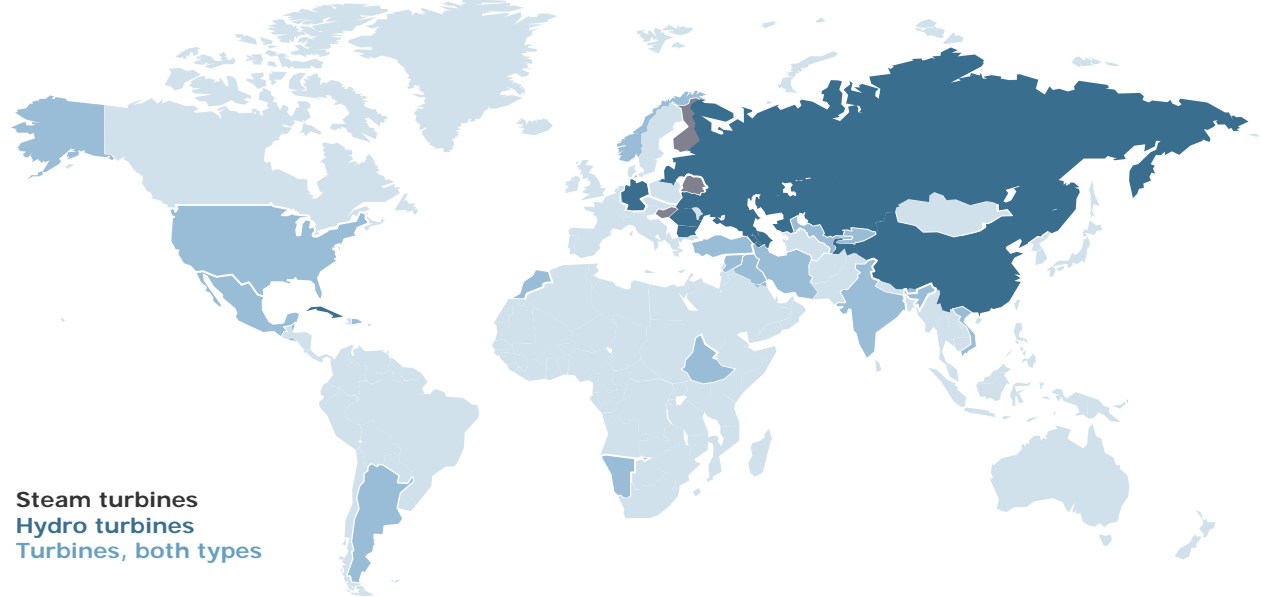
Turbine modernization and/or reconstruction is typically provided by the original producer, especially for NPP turbines. So after-market services are a substantial part of revenues, accounting for about 30% of Turboatom's revenues, and we believe the company will maintain this level. We estimate revenues from the modernization of Turboatom-installed NPP turbines at more than USD 450 mln over the next 10 years.

Case study: Russian NPP's modernization

Turboatom's turbines make up 95% of Russian NPP stations' installed capacity (forty-three 24 GW turbines). In early 2007, Turboatom received an order to modernize 21 turbines (we expect another order for the remaining 22 turbines by 2011). Negotiations are underway for the deliver of new turbines for NPP projects under construction.

The company has supplied turbines to 35 countries all over the world since 1930. According to technical requirements, turbines must be modernized after ten years of use, and NPP turbines must be reconstructed or changed after a maximum of 15 years.

Map of Turboatom's supplied turbines



Source: Company data

2007 order book

Nuclear power plants

- Modernization of 21 turbines at Russian NPPs (four-year contract 2007-2010 for USD 120 mln)
- Modernization four blocks of the Paksh NPP (Hungary) (four-year contract 2007-2010, worth total of USD 10 mln)
- Turbine modernization (increasing capacity from 200 MW to 230MW) at Narora NPP (India) for USD 5 mln

Thermal power plants

- Modernization of one turbine at power unit #2 of the Zuiv thermoelectric power station (Vostokenergo, Ukraine) for USD 14.4 mln
- Six 325MW turbines to thermal power plant Asku for Euro-Asian Energy Corporation (Kazakhstan) (five-year contract 2007-2012, worth USD 84 mln)

Hydroelectric power plants

- Modernization of 46 hydroelectric turbines at Ukrhydroenergo (seven-year agreement 2006-2012, estimated at USD 120-140 mln)
- Construction of 3 hydraulic units at Dnister pump and storage plant (four-year contract 2007-2011, for estimated USD 60 mln)
- Joint participation with Power Machines in a Mexican hydroelectric power plant's project for USD 35.5 mln, and to two Chinese hydroelectric power stations' projects for USD 30 mln (2007-2012)

Sales forecasts

According to our estimates, the company's sales will increase to USD 236 mln by 2016 from USD 52 mln in 2006 (CAGR 16.3%); current production capacity is sufficient to support such an increase in sales.

Turboatom's revenues from projects, USD mln

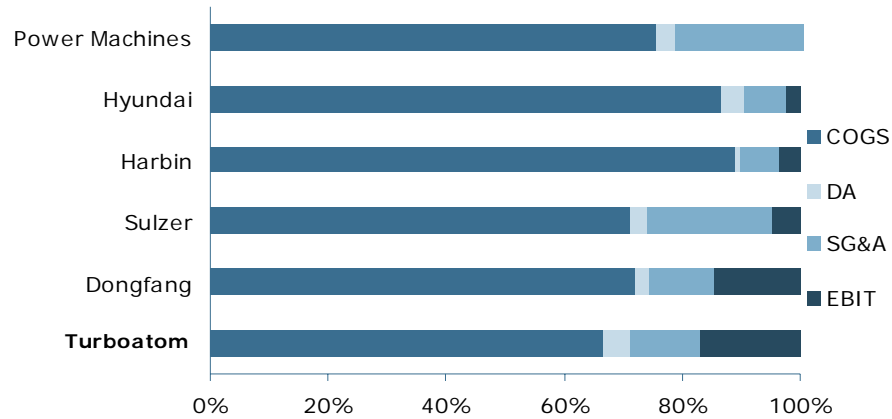
Projects	'07	'08	'09	'10	'11	'12	'13	'14	'15	'16
Ukraine total	47	68	69	55	44	32	32	37	20	30
Ukrhydroenergo rehabilitation project	20	30	30	25	25					
Dnister pump and storage plant		15	18	12	8	4	3			
Yuznoukrainskaya NPP	20	10								
Rivnenska NPP (#1,2 - modernisation)						12	12	15		
Zuiiv TPP #2	7	7								
Government Energy strategy till 2030 realization plan 2006- 2010										
Thermal power plants										
Reconstruction block #11 Pridnirovaska TPS (DNEN)			2	2						
Reconstruction block #7 Starobeshivska TPS (DOEN)	4	4								
Reconstruction block #8 Dobrotvirska TPS (ZAEN)	2	4								
Reconstruction block #1 Zmiivska TPS (CEEN)			4	3	3					
Reconstruction block #8, 9 Zmiivska TPS (CEEN)			3	9						
Reconstruction block #5 and 7 Kurahivska TPS (ShidEn)			1	1						
NPP and storage plants										
Kanivska storage plant construction					8	10	9			
New blocks #3,4 construction at Khmelniaska NPP						6	8	7		
Tashlik storage plant construction #3-6			3	3						
Other Ukrainian projects								15	20	30
Export	40	106	137	160	175	192	196	195	215	208
Russia	20	50	79	107	108	145	145	126	126	120
Modernisation 21 NPP turbines	20	30	30	30						
Modernisation 22 NPP turbines					18	45	45	6	6	
Kamska Hydro power plant		10	24	27						
Other projects (including turbines for new NPP)		10	25	50	90	100	100	120	120	120
Other countries	20	56	58	53	67	47	51	69	89	88
Modernisation 10 turbines of NPP Narora in India		2	3	10	15	12	8			
Modernisation four block of NPP Paksh in Hungary	1	3	4	2						
Modernisation HPS in Mexico	5	15	20							
Modernisation HPS in China		10	10	10						
Modernisation HPS Salto-Grande in Argentina			2	3	3	2				
Other projects (in the CIS, Asia and LA)	14	26	19	28	49	33	43	69	89	88
Total sales	87	174	206	215	219	224	228	232	235	238

Source: Company data, media reports, Concorde Capital estimates

Financial notes

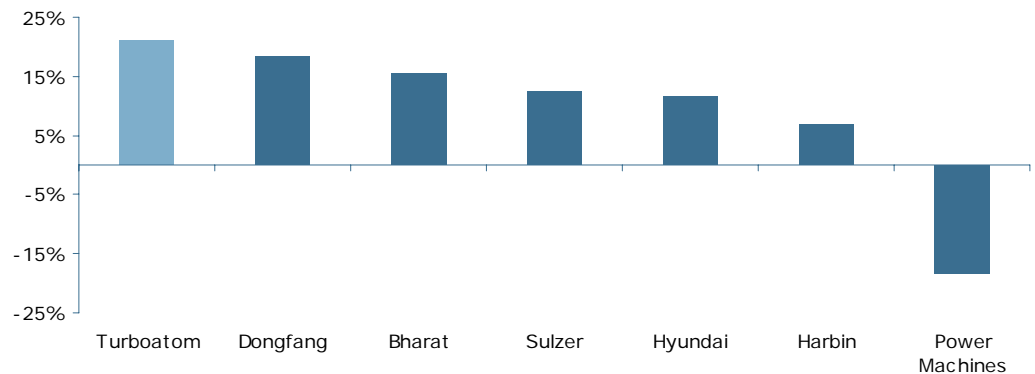
As with the other Ukrainian engineering companies, Turboatom has the lowest cost of sales in its segment. The company's margins are among the largest of its peer group. Low capacity load resulted in depressed ROIC. An expected increase in revenues over the next couple of years will allow the company to show higher ROIC, raising it from 3.9% in 2006 to 19.8% in 2009.

Common size financials, 2006



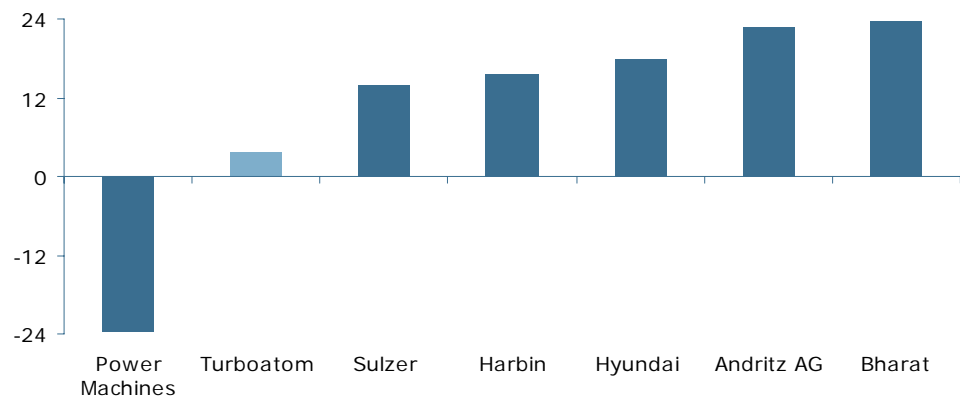
Source: Bloomberg

EBITDA margins, 2006



Source: Bloomberg

Return on invested capital, % 2006

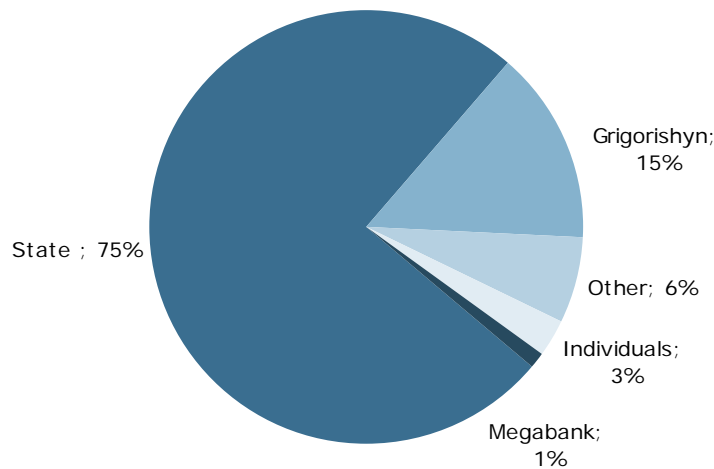


Source: Bloomberg

Privatization?

The State Property Fund holds 75.22% of Turboatom shares. The company's two most active private shareholders are Grigorishyn and Megabank.

Shareholder structure, 2006



Source: Company data

State control has two negative effects on Turboatom:

- Management instability due to political changes/policies and lobbying by influential minority shareholders

Case study: Privatization attempts and corporate conflicts

The sale of state's stake was postponed several times over 1999-2002.

In June 2006, Turboatom was included in the state machine building corporation Ukrenergomash; minority shareholder Megabank disputed the company's inclusion in the holding and won its case.

In summer 2007, Turboatom was included in the State Corporation Ukratomprom (includes nuclear generation companies, uranium producers, research institutes and Turboatom). A Presidential decree cancelled creation in September 2007. The question about the creation of Ukratomprom is currently being contested in court.

Grigorishyn and the State Property Fund are both vying for operational control over the company. Grigorishyn is currently appealing the company's last AGM on August 28, which appointed Megabank's Chief Executive as CEO of Turboatom, changed the company's register and enlarged its supervisory board.

- Lack of long-term strategy and reliance on short-term orders (for at least the last five years, Turboatom has utilized less than half of its production capacity).

We expect that that shareholder conflict between Grigorishyn and the SPF/Megabank will be solved in the short-term, and see two ways that it will be resolved:

- **Privatization** of up to total 75.2% stake (60% probability). Power Machines and Grigorishyn are the most probable investors.
- **Inclusion into state holding** with other state engineering companies (40% probability); we expect the holding will exert strong management control over the company.

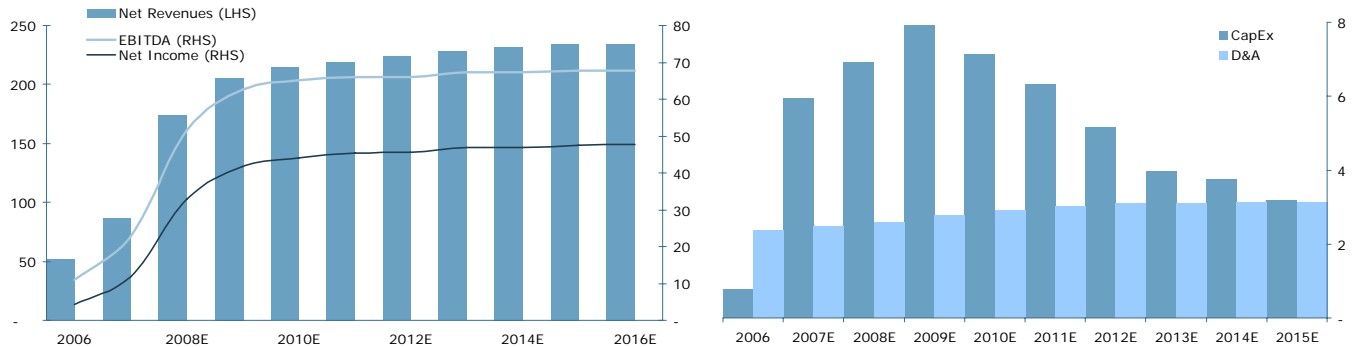
Valuation

DCF

Our operating model is based on following assumptions:

- average annual sales increase 58% during 2007-2009, then 2% over the following seven years
- EBITDA margin grows due to the scale effect of sales increases by 2013. Order growth will stabilize after 2013 as the share of spare parts in total production is stepped up to supply the Atomenergomash-Alstom joint venture, more than making up for a decrease in more-profitable sales of turbines

Operating model summary, USD mln



DCF output, UAH mln, as of October 9

	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
EBITDA	115	261	316	329	334	334	340	340	342	342
EBIT	103	248	302	314	319	318	324	324	326	326
Tax Rate	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Taxed EBIT	64	178	227	235	239	239	243	243	245	244
Plus D&A	13	13	14	15	15	16	16	16	16	16
Less CapEx	(30)	(35)	(40)	(36)	(32)	(26)	(20)	(19)	(16)	(16)
Less change in OWC	(57)	(69)	(69)	(28)	(15)	(9)	(5)	(5)	(4)	(2)
FCFF	(11)	87	132	187	208	220	234	235	241	242
WACC	15.4%	14.6%	14.5%	13.1%	12.2%	11.3%	11.3%	11.3%	11.4%	11.4%
Discounted cash flow		84	112	140	139	132	126	114	105	94
Sum of discounted CF		1 045								
							Perpetuity growth rate			2.0%
							WACC to perpetuity			11.0%
Terminal value		1 069								2 741
							Implied exit EBITDA multiple			8.0 x
Firm value		2 114								
Portion due to TV		51%								
Less net debt		23								
Equity value		2 137								
Implied 12M price, USD		1.00								

Sensitivity analysis

WACC Y1-10	Implied Share Price, US\$				
	Perpetuity Growth Rate				
	1.0%	1.5%	2.0%	2.5%	3.0%
-1.5%	1.03	1.06	1.09	1.12	1.16
-1.0%	1.00	1.03	1.06	1.09	1.13
-0.5%	0.97	1.00	1.03	1.06	1.10
+0.0%	0.95	0.97	1.00	1.03	1.07
0.5%	0.92	0.95	0.97	1.01	1.04
1.0%	0.90	0.92	0.95	0.98	1.01
1.5%	0.87	0.90	0.92	0.95	0.98

WACC to perpetuity	Implied Share Price, USD				
	Perpetuity Growth Rate				
	1.0%	1.5%	2.0%	2.5%	3.0%
9.5%	1.02	1.05	1.09	1.14	1.19
10.0%	0.99	1.02	1.06	1.10	1.14
10.5%	0.97	1.00	1.03	1.06	1.10
11.0%	0.95	0.97	1.00	1.03	1.07
11.5%	0.93	0.95	0.98	1.01	1.04
12.0%	0.91	0.93	0.96	0.98	1.01
12.5%	0.90	0.92	0.94	0.96	0.99

Peer valuation

Peer summary, USD mln

	Country	MCap USD mln	Net Revenues			EBITDA Mgn			Net Mgn		
			2006	2007E	2008E	2006	2007E	2008E	2006	2007E	2008E
Turboatom	Ukraine	346	52	87	172	21.0%	26.2%	29.7%	8.5%	13.6%	18.9%
Sulzer	Switzerland	5 085	2 236	2 855	3 206	12.4%	14.0%	14.5%	7.9%	7.9%	8.3%
Andritz AG	Austria	3 691	3 573	4 471	4 867	8.1%	7.4%	7.8%	4.4%	4.4%	4.8%
Bharat Heavy Electricals	India	27 337	3 809	5 413	6 776	15.4%	20.7%	20.8%	10.0%	14.1%	14.3%
Hyundai Heavy Industries	Korea	39 601	17 758	17 850	21 172	11.5%	14.8%	16.5%	4.3%	9.6%	11.3%
Dongfang Electrical Machinery	China	4 666	691	691	3 657	18.3%	10.8%	13.2%	16.0%	7.4%	9.4%
Harbin Power Equipment	China	3 957	3 757	3 779	3 878	6.9%	8.6%	9.2%	3.5%	4.8%	5.0%
Power Machines	Russia	1 668	595	743	946	neg	8.7%	10.8%	neg	neg	1.5%
Average			4 631	5 115	6 357	12.1%	12.1%	13.3%	7.7%	8.0%	7.8%

Peer multiples

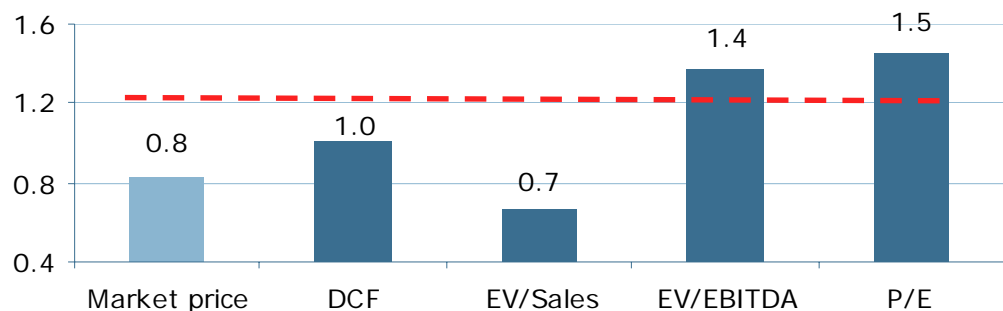
	Country	MCap USD mln	EV/Sales		EV/EBITDA		P/E	
			2007E	2008E	2007E	2008E	2007E	2008E
Turboatom	Ukraine	346	4.0	2.0	15.1	6.7	29.4	10.6
Sulzer	Switzerland	5 085	1.7	1.5	12.2	10.3	22.5	19.1
Andritz AG	Austria	3 691	0.7	0.6	9.4	7.9	18.6	15.7
Bharat Heavy Electricals	India	27 337	4.8	3.7	23.3	18.0	35.9	28.2
Hyundai Heavy Industries	Korea	39 601	2.1	1.7	14.3	10.6	23.1	16.6
Dongfang Electrical Machinery	China	4 666	6.1	1.1	11.9	8.7	19.2	13.6
Harbin Power Equipment	China	3 957	1.1	0.9	12.9	10.2	22.0	20.5
Siloviye Mashiny	Russia	1 668	2.6	1.4	29.7	12.7	neg	92.1*
Average			2.7	1.6	16.3	11.2	23.5	18.9
TATM implied share price			0.57	0.66	0.88	1.36	0.66	1.46
Upside (downside)			-31%	-20%	7%	66%	-20%	78%

Source: Company data; PFTS, Bloomberg, Thomson Financial, Concorde Capital estimates

Valuation summary

We give more weight to the DCF implied price, set our 12M target for Turboatom at USD 1.20, and initiate coverage with a BUY recommendation.

Valuation results, USD



Note: Red line – target price

Source: PFTS, Concorde Capital estimates

INCOME STATEMENT SUMMARY, USD mln

	2003	2004	2005	2006	2007E	2008E	2009E
Net Revenues	34.0	51.9	53.7	52.0	87.0	174.0	205.5
<i>Change y-o-y</i>	<i>(0.1)</i>	<i>52.5%</i>	<i>N/M</i>	<i>-3.1%</i>	<i>67.2%</i>	<i>100.0%</i>	<i>18.1%</i>
Gross Profit	14.5	13.6	12.1	17.4	29.6	59.2	70.9
EBITDA	11.7	9.5	7.4	10.9	22.8	51.7	62.6
<i>margin, %</i>	<i>34.5%</i>	<i>18.3%</i>	<i>13.9%</i>	<i>21.0%</i>	<i>26.2%</i>	<i>29.7%</i>	<i>30.5%</i>
Depreciation	(2.6)	(2.4)	(2.5)	(2.4)	(2.5)	(3)	(3)
EBIT	9.2	7.0	4.9	8.6	20.3	49	60
<i>margin, %</i>	<i>26.9%</i>	<i>13.6%</i>	<i>9.1%</i>	<i>16.5%</i>	<i>23.4%</i>	<i>28.2%</i>	<i>29.1%</i>
Interest Expense	(0.0)	(0.1)	(0.1)	(0.1)	(1.5)	(3.6)	(4.2)
Other income/(expense)	0.8	0.4	(0.1)	(1.1)	(1.2)	(1)	-
PBT	10.0	7.3	5.8	8.7	19.0	45.6	55.7
Tax	(5.6)	(2.8)	(1.8)	(4.3)	(7.2)	(13)	(14)
<i>Effective tax rate</i>	<i>55.8%</i>	<i>38.6%</i>	<i>32.1%</i>	<i>49.3%</i>	<i>38.0%</i>	<i>28.0%</i>	<i>25.0%</i>
Net Income	4.4	4.5	3.9	4.4	11.8	32.8	41.8
<i>Net Margin, %</i>	<i>13.0%</i>	<i>8.7%</i>	<i>7.3%</i>	<i>8.4%</i>	<i>13.6%</i>	<i>18.9%</i>	<i>20.3%</i>

BALANCE SHEET SUMMARY, USD mln

	2003	2004	2005	2006	2007E	2008E	2009E
Current Assets	77.6	83.4	110.4	112.9	150.2	212.1	238.1
Cash & Equivalents	18.9	22.8	23.8	19.3	26.2	38.3	41.2
Trade Receivables	8.9	11.4	22.3	22.6	34.8	66.1	74.0
Inventories	28.6	38.9	42.9	52.8	63.2	74.6	94.2
Other	21.3	10.4	21.3	18.3	26.1	33.1	28.8
Fixed Assets	72.8	85.0	70.4	82.7	97.2	101.5	106.7
PP&E, net	30.8	29.1	34.3	43.1	56.2	60.8	67.3
Other	42.0	55.9	36.1	39.6	41.0	40.7	39.4
Total Assets	150.5	168.4	180.8	195.6	247.4	313.7	344.8
Shareholders' Equity	139.9	144.6	154.1	162.0	172.5	193.9	216.8
Share Capital	19.8	19.9	20.9	20.9	20.9	20.9	20.9
Reserves and other	120.1	124.7	133.2	141.1	151.6	173.0	195.9
Current Liabilities	9.0	23.8	26.6	32.2	56.3	94.9	101.1
ST Interest Bearing Debt	-	-	-	-	5.0	7.5	4.2
Trade Payables	1.8	5.6	4.9	4.1	6.9	13.8	16.2
Other	7.1	18.2	21.7	28.1	44.5	73.6	80.8
LT Liabilities	1.6	-	-	1.4	18.6	24.9	26.9
LT Interest Bearing Debt	0.1	-	-	-	18.4	25.7	28.7
Other	1.5	-	-	1.4	0.2	(0.9)	(1.8)
Total Liabilities & Equity	150.5	168.4	180.8	195.6	247.4	313.7	344.8

QUARTERLY ANALYSIS, USD mln

	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07
Net Revenues	13.5	7.5	19.1	13.6	11.9	9.1	12.2	18.8	13.0	15.9
<i>Change y-o-y</i>	<i>10.8%</i>	<i>-37.1%</i>	<i>56.3%</i>	<i>-12.4%</i>	<i>-11.3%</i>	<i>20.0%</i>	<i>-36.2%</i>	<i>38.4%</i>	<i>8.8%</i>	<i>75.5%</i>
EBITDA	2.5	(3.2)	6.9	1.3	2.4	2.2	3.6	2.7	3.5	3.5
<i>margin, %</i>	<i>18.6%</i>	<i>-43.1%</i>	<i>36.1%</i>	<i>9.5%</i>	<i>20.2%</i>	<i>24.1%</i>	<i>29.7%</i>	<i>14.4%</i>	<i>26.9%</i>	<i>22.2%</i>
EBIT	1.9	(3.9)	6.2	0.8	2.0	1.6	3.0	2.0	2.8	2.9
<i>margin, %</i>	<i>13.9%</i>	<i>-52.1%</i>	<i>32.4%</i>	<i>5.8%</i>	<i>16.4%</i>	<i>17.6%</i>	<i>24.9%</i>	<i>10.6%</i>	<i>21.5%</i>	<i>18.6%</i>
Net Income	0.8	(4.2)	6.7	0.7	0.9	0.8	1.4	1.4	1.3	3.2
<i>Net Margin, %</i>	<i>5.6%</i>	<i>-55.3%</i>	<i>35.0%</i>	<i>5.1%</i>	<i>7.5%</i>	<i>8.5%</i>	<i>11.2%</i>	<i>7.3%</i>	<i>9.9%</i>	<i>20.4%</i>

SMALL CAPS

Poltava Turbomechanical Plant

PTMZ UZ

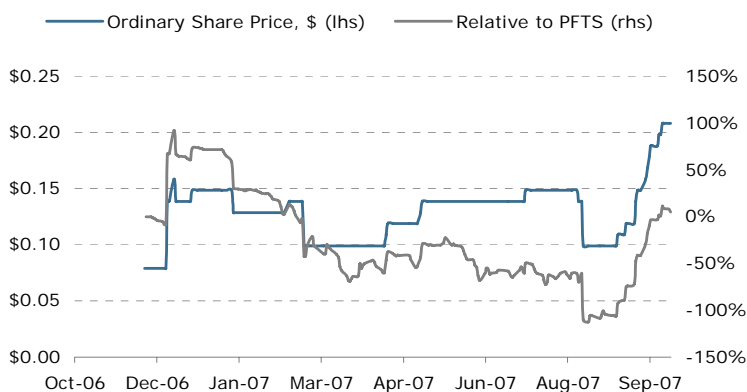
Power Equipment Manufacturer

www.ptmz.poltava.ua
HOLD

12M target (USD) **0.19**
Upside **1.0%**

INVESTMENT CASE

- With modernization of production facilities completed this year, we forecast sales growth of 15% yoy in 2007
- Demand in the CIS for modernized locomotives will drive sales of braking systems for locomotive compressors, which account for up to 20% of the company's total sales
- Ukrainian government program to reconstruct thermal power plants calling for investments of USD 17.8 bln by 2016, will secure long-term equipment orders
- Artificially low margins may be the result of transfer pricing, up to 80% of sales are through its parent company



BUSINESS OVERVIEW

Developer and manufacturer of highly efficient energy saving compressor equipment and is one of the oldest plants in Ukraine. Produces various types of compressor equipment, pistons, rotor compressors, compressor stations and plants, welding plants, piston compressors/air engines, power equipment and spare parts for its equipment.

Developed close partnerships with Ukrainian industrial enterprises: MMK Illicha, Azovstal, Zaporizhstal, Dnipropetsstal, ALPA, Energomashservice, Sumyoblenergo, Poltavaoblenergo and more. Approximately 80% of its products are exported to Russia, other CIS countries and the Middle East.

In 1H07, increased sales 23% yoy to USD 18.8 mln, EBITDA margin declined 6.8% yoy to 5.8% and net margin fell 5.7% yoy to 3.5%.

MARKET INFORMATION

Market Price* , USD	0.19
Price impact**	3
52 Wk H/L USD	0.21/0.08
Chg 3m/6m/52w	50%/110%/n/a
Chg vs PFTS 3m/6m/52w	38%/60%/n/a
Chg YTD	40%
Avg M Tr Vol 6M, USD mln	0.003

Mcap , USD mln	27.7
Free float	5.6%
FF Mcap, USD mln	1.5

No of shares , mln	147
Par Value, UAH	0.01

XETRA	n/a
DR Ratio	n/a
Avg M Tr Vol 6M, USD ths	n/a

STOCK OWNERSHIP

Ukrtechnosynthes	93.4%
Other	5.6%

CORPORATE GOVERNANCE

Concorde Rating***	N/R
--------------------	-----

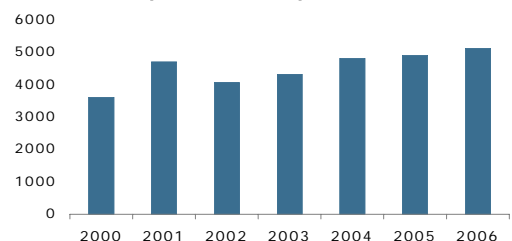
MARKET MULTIPLES

	2007E	2008E
EV/Sales	0.8	0.7
EV/EBITDA	11.7	10.6
P/E	20.6	18.8

KEY RATIO

	2006	2007E	2008E
EBITDA margin	8%	7%	7%
Net Margin	5%	4%	4%

Compressor Output, units



*Market information as of Oct 09, 2007, based on PFTS Bid prices

** Price "Impact" is the opinion of Concorde's trading desk on stocks to help investors estimate the reliability of quoted prices:

1: Market price reaction remains within 10% in execution of a market order of about USD 10 mln in size
 2: Market price reaction remains within 10% in execution of a market order of about USD 1 mln in size
 3: All other stocks (quoted)

*** The rating is based on Concorde Capital's corporate governance survey. Q denotes quality corporate governance standards, AA - above average standards, A - average, BA - below average and P - poor.

INCOME STATEMENT SUMMARY, USD mln

	2002	2003	2004	2005	2006	2007E	2008E
Net Revenues	14.0	17.1	22.4	26.3	33.3	n/a	n/a
<i>Change y-o-y</i>	<i>N/M</i>	<i>22.2%</i>	<i>31.3%</i>	<i>17.0%</i>	<i>26.6%</i>	<i>n/a</i>	<i>n/a</i>
Gross Profit	4.7	5.3	6.3	8.1	8.3	n/a	n/a
EBITDA	1.6	2.2	2.4	3.6	2.7	n/a	n/a
<i>margin, %</i>	<i>11.8%</i>	<i>12.8%</i>	<i>10.5%</i>	<i>13.6%</i>	<i>8.1%</i>	<i>n/a</i>	<i>n/a</i>
Depreciation	(0.7)	(0.7)	(0.8)	(0.9)	(0.8)	n/a	n/a
EBIT	0.9	1.5	1.5	2.7	1.9	n/a	n/a
<i>margin, %</i>	<i>6.8%</i>	<i>8.5%</i>	<i>6.8%</i>	<i>10.2%</i>	<i>5.8%</i>	<i>n/a</i>	<i>n/a</i>
Interest Expense	-	(0.1)	-	-	-	n/a	n/a
Other income/(expense)	0.2	(0.7)	0.1	(0.0)	(0.1)	n/a	n/a
PBT	1.2	0.6	1.6	2.6	1.9	n/a	n/a
Tax	(0.5)	(0.5)	(0.3)	(0.2)	(0.0)	n/a	n/a
<i>Effective tax rate</i>	<i>42.6%</i>	<i>79.3%</i>	<i>17.3%</i>	<i>8.7%</i>	<i>2.0%</i>	<i>n/a</i>	<i>n/a</i>
Net Income	0.7	0.1	1.3	2.4	1.6	n/a	n/a
<i>Net Margin, %</i>	<i>4.9%</i>	<i>0.8%</i>	<i>6.0%</i>	<i>9.2%</i>	<i>4.9%</i>	<i>n/a</i>	<i>n/a</i>

BALANCE SHEET SUMMARY, USD mln

	2002	2003	2004	2005	2006	2007E	2008E
Current Assets	9.6	10.1	12.8	18.5	20.0	n/a	n/a
Cash & Equivalents	1.2	0.3	0.3	0.1	0.0	n/a	n/a
Trade Receivables	1.5	4.3	5.6	7.0	6.6	n/a	n/a
Inventories	5.1	5.1	5.9	10.4	11.7	n/a	n/a
Other	1.7	0.5	1.0	1.1	1.7	n/a	n/a
Fixed Assets	12.8	11.8	11.6	7.9	7.1	n/a	n/a
PP&E, net	12.5	11.3	11.2	7.2	6.7	n/a	n/a
Other	0.3	0.4	0.5	0.7	0.4	n/a	n/a
Total Assets	22.4	21.9	24.4	26.4	27.1	n/a	n/a
Shareholders' Equity	19.4	19.9	21.2	20.1	21.2	n/a	n/a
Share Capital	0.1	0.1	0.1	0.3	0.3	n/a	n/a
Retained Earnings	4.1	4.3	5.7	8.3	10.0	n/a	n/a
Other	15.3	15.5	15.4	11.5	10.9	n/a	n/a
Current Liabilities	3.0	2.0	3.3	4.5	3.0	n/a	n/a
ST Interest Bearing Debt	-	-	0.9	1.3	0.1	n/a	n/a
Trade Payables	0.1	0.7	0.9	1.5	1.5	n/a	n/a
Other	2.8	1.3	1.4	1.7	1.4	n/a	n/a
LT Liabilities	-	-	-	1.8	2.9	n/a	n/a
LT Interest Bearing Debt	-	-	-	1.8	2.9	n/a	n/a
Other	-	-	-	-	-	n/a	n/a
Total Liabilities & Equity	22.4	21.9	24.4	26.4	27.1	n/a	n/a

QUARTERLY ANALYSIS, USD mln

	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07
Net Revenues	5.7	7.5	6.6	6.5	6.8	8.4	9.4	8.6	8.8	10.0
<i>Change y-o-y</i>	<i>15.9%</i>	<i>23.7%</i>	<i>15.5%</i>	<i>12.5%</i>	<i>19.1%</i>	<i>13.1%</i>	<i>43.5%</i>	<i>31.8%</i>	<i>28.1%</i>	<i>18.9%</i>
EBITDA	0.8	0.9	1.0	0.9	0.8	1.1	1.2	(0.4)	0.5	0.6
<i>margin, %</i>	<i>13.1%</i>	<i>11.9%</i>	<i>15.4%</i>	<i>14.1%</i>	<i>11.7%</i>	<i>13.4%</i>	<i>12.6%</i>	<i>-4.8%</i>	<i>5.3%</i>	<i>6.2%</i>
EBIT	0.5	0.7	0.8	0.7	0.6	0.9	1.0	(0.6)	0.3	0.4
<i>margin, %</i>	<i>9.3%</i>	<i>8.9%</i>	<i>12.1%</i>	<i>10.4%</i>	<i>8.8%</i>	<i>11.1%</i>	<i>10.7%</i>	<i>-7.1%</i>	<i>3.2%</i>	<i>4.4%</i>
Net Income	0.5	0.6	0.7	0.6	0.5	0.9	0.9	(0.7)	0.2	0.5
<i>Net Margin, %</i>	<i>8.7%</i>	<i>7.8%</i>	<i>10.5%</i>	<i>9.8%</i>	<i>7.9%</i>	<i>10.3%</i>	<i>9.5%</i>	<i>-7.7%</i>	<i>2.2%</i>	<i>4.6%</i>

Peer valuation

Peer summary, USD mln

	Country	Mcap USD mln	Net Revenues			EBITDA Mgn			Net Mgn		
			2006	2007E	2008E	2006	2007E	2008E	2006	2007E	2008E
Poltava Turbomechanical plant	Ukraine	28	33	38	42	8.1%	7.0%	7.0%	4.9%	3.5%	3.5%
Sumy Frunze	Ukraine	568	306	367	431	9.8%	12.2%	13.2%	4.7%	5.6%	6.2%
Lufkin Industries Inc	USA	867	605	601	654	19.3%	20.3%	21.7%	12.1%	12.1%	13.0%
Gardner Denver Inc	USA	2173	1669	1795	1880	17.2%	17.8%	17.5%	8.0%	8.3%	9.1%
Cameron International Corp.	USA	10251	3743	4425	5104	16.4%	18.2%	19.2%	8.5%	10.4%	10.9%
Caterpillar Inc	USA	51989	41517	41909	44770	15.6%	15.6%	16.0%	8.5%	8.8%	8.9%
Weir Group	UK	3434	1731	1907	2004	10.3%	11.9%	12.7%	4.7%	3.8%	4.1%
Pfeiffer Vacuum Technology AG	Germany	825	237	269	295	27.6%	27.1%	27.0%	16.5%	16.1%	17.4%
Sulzer	Switzerland	5085	2295	2737	3013	14.2%	13.3%	13.7%	7.9%	7.6%	7.9%
Schoeller-Bleckmann AG	Austria	1469	316	405	469	25.9%	27.5%	27.9%	14.4%	15.8%	15.7%
Atlas Copco AB	Sweden	22131	6846	8644	9683	22.5%	21.2%	21.6%	30.4%	12.9%	12.8%
Teikoku Electric MC	Japan	259	115	134	149	11.9%	n/a	n/a	5.5%	7.4%	8.4%
Nikkiso Company Limited	Japan	586	493	568	587	10.8%	n/a	n/a	5.9%	6.3%	6.6%
Kawasaki Heavy Industries Ltd	Japan	6534	11208	11965	12067	4.5%	7.2%	8.2%	1.2%	2.4%	2.9%
IHI Corporation	Japan	3676	9552	10092	10386	5.3%	6.1%	6.8%	0.5%	1.5%	1.9%
Torishima Pump MC	Japan	416	278	345	370	6.1%	n/a	n/a	3.0%	2.9%	4.3%
Shandong Molong PM	China	848	130	226	261	19.8%	17.0%	16.7%	13.7%	10.8%	11.1%
United Heavy Machinery	Russia	285	641	781	825	7.8%	9.1%	9.0%	2.2%	3.5%	3.6%
Saturn Research & Production Co	Russia	478	328	392	406	24.0%	21.7%	22.9%	10.3%	7.1%	10.3%
Average			4556	4865	5186	14.9%	16.4%	16.9%	8.8%	8.0%	8.6%

Peer multiples

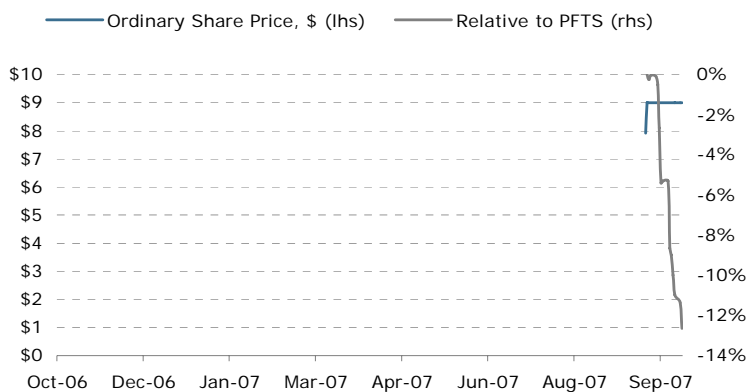
	Country	MCap USD mln	EV/Sales		EV/EBITDA		P/E	
			2007E	2008E	2007E	2008E	2007E	2008E
Poltava Turbomechanical plant	Ukraine	28	0.8	0.7	11.7	10.6	20.6	18.8
Sumy Frunze	Ukraine	568	1.7	1.4	13.1	9.4	25.8	16.5
Lufkin Industries Inc	USA	867	1.3	1.2	6.4	5.5	11.9	10.2
Gardner Denver Inc	USA	2173	n/a	n/a	n/a	n/a	14.6	12.6
Cameron International Corp.	USA	10251	2.3	1.9	12.5	9.8	22.3	18.4
Caterpillar Inc	USA	51989	1.5	1.2	9.6	7.4	14.2	13.0
Weir Group	UK	3434	1.8	1.7	15.3	13.5	46.8	41.6
Pfeiffer Vacuum Technology AG	Germany	825	2.7	2.4	9.8	8.9	19.0	16.1
Sulzer	Switzerland	5085	1.8	1.6	13.3	11.6	24.4	21.4
Schoeller-Bleckmann AG	Austria	1469	3.8	3.2	13.7	11.6	23.0	20.0
Atlas Copco AB	Sweden	22131	2.8	2.4	13.4	11.3	19.9	17.9
Teikoku Electric Manufacturing Company	Japan	259	1.9	n/a	n/a	n/a	26.2	20.6
Nikkiso Company Limited	Japan	586	n/a	n/a	n/a	n/a	16.3	15.0
Kawasaki Heavy Industries Ltd	Japan	6534	0.7	0.7	10.1	8.6	22.7	19.0
IHI Corporation	Japan	3676	0.6	0.6	9.1	8.2	24.5	18.5
Torishima Pump Manufacturing Company	Japan	416	n/a	n/a	n/a	n/a	41.6	26.0
Shandong Molong Petroleum Machinery	China	848	3.7	3.2	21.9	19.3	34.9	29.3
United Heavy Machinery	Russia	285	0.6	0.6	7.1	6.7	10.4	9.6
Saturn Research & Production Co	Russia	478	1.7	1.6	7.9	7.2	17.2	11.5
Average			1.9	1.7	11.6	9.9	23.1	18.7
PTMZ implied share price, USD			0.48	0.46	0.19	0.17	0.21	0.19
Upside (downside)			153%	146%	0%	-7%	12%	0%

Source: Company data; PFTS, Bloomberg, Thomson Financial, Concorde Capital estimates

Constar

KNST UZ
Machinery Diversified
www.constar.com.ua
12M target (USD)
13.50
Upside
50%
BUY
INVESTMENT CASE

- After arrival of new 60% shareholder in 2006, the company turned a profit; EBITDA margin increased from -1.7% in 2005 to 16.6% in 2006. We believe the company will continue to report positive margins in the mid-term
- We expect exports to Europe, which began in 2006, will increase to 5% of sales in two years from 3% currently



Note: Listed on the PFTS on September 17

BUSINESS OVERVIEW

Specializes in engineering and manufacturing gas turbine units, gas-compressor engines, engines units and components and relative equipment. Clients include oil and gas, chemical, metal and electricity industries. Revenue structure: ~ 50% repair services, 16% gas-compressor engine units and components. Target markets: Russia, CIS, Baltic and European countries. Exports make up 33% of the total output, including 26% to Russia.

In 1H07, net revenue increased by 18.3% yoy to USD 9.6 mln, EBITDA margin dropped to 9.1% from 24.2% in 1H06, net margin declined to negative 0.5% from 14.2 in 1H06.

MARKET INFORMATION

Market Price* , USD	9.00
Price impact**	3
52 Wk H/L USD	9/7.92
Chg 3m/6m/52w	n/a
Chg vs PFTS 3m/6m/52w	n/a
Chg YTD	n/a
Avg M Tr Vol 6M, USD mln	n/a

Mcap , USD mln	23.8
Free float	20%
FF Mcap, USD mln	4.8

No of shares , mln	3
Par Value, UAH	63

XETRA	n/a
DR Ratio	n/a
Avg M Tr Vol 6M, USD ths	n/a

STOCK OWNERSHIP

Aldhelm Trade Ltd	24.9%
Moorridge Holdings Ltd	16.8%
Morston Services Ltd	24.9%
Millenium Trade Bank Ltd	1.3%
Other	20.4%

CORPORATE GOVERNANCE

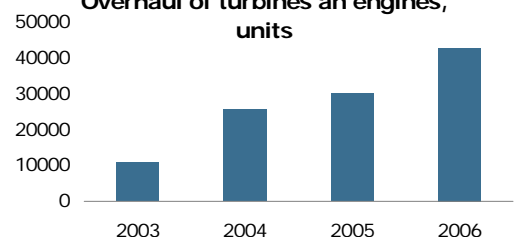
Concorde Rating***	N/R
--------------------	-----

MARKET MULTIPLES

	2007E	2008E
EV/Sales	1.2	1.0
EV/EBITDA	11.9	6.9
P/E	49.4	12.4

KEY RATIO

	2006	2007E	2008E
EBITDA margin	17%	10%	15%
Net Margin	1%	2%	7%

Overhaul of turbines an engines, units


*Market information as of Oct 09, 2007, based on PFTS Bid prices

** Price"impact" is the opinion of Concorde's trading desk on stocks to help investors estimate the reliability of quoted prices:

1: Market price reaction remains within 10% in execution of a market order of about USD 10 mln in size
2: Market price reaction remains within 10% in execution of a market order of about USD 1 mln in size
3: All other stocks (quoted)

*** The rating is based on Concorde Capital's corporate governance survey. Q denotes quality corporate governance standards, AA - above average standards, A - average, BA - below average and P - poor.

INCOME STATEMENT SUMMARY, USD mln

	2003	2004	2005	2006	2007E	2008E
Net Revenues	5.3	10.1	15.8	17.2	n/a	n/a
<i>Change y-o-y</i>	<i>N/M</i>	<i>90.3%</i>	<i>56.6%</i>	<i>9.5%</i>	<i>n/a</i>	<i>n/a</i>
Gross Profit	2.3	4.1	5.6	6.9	n/a	n/a
EBITDA	0.5	(0.1)	(0.3)	2.9	n/a	n/a
<i>margin, %</i>	<i>9.0%</i>	<i>-1.4%</i>	<i>-1.7%</i>	<i>16.6%</i>	<i>n/a</i>	<i>n/a</i>
Depreciation	(1.1)	(1.0)	(1.0)	(1.1)	n/a	n/a
EBIT	(0.6)	(1.1)	(1.3)	1.8	n/a	n/a
<i>margin, %</i>	<i>-11.8%</i>	<i>-11.2%</i>	<i>-8.2%</i>	<i>10.4%</i>	<i>n/a</i>	<i>n/a</i>
Interest Expense	(0.3)	(0.4)	(0.5)	(0.6)	n/a	n/a
Other income/(expense)	(0.0)	(0.3)	0.1	0.1	n/a	n/a
PBT	(1.0)	(1.8)	(1.7)	1.3	n/a	n/a
Tax	-	(0.5)	-	-	n/a	n/a
<i>Effective tax rate</i>	<i>0.0%</i>	<i>-26.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>n/a</i>	<i>n/a</i>
Net Income	(1.0)	(2.2)	(1.7)	0.1	n/a	n/a
<i>Net Margin, %</i>	<i>-18.1%</i>	<i>-22.1%</i>	<i>-11.0%</i>	<i>0.8%</i>	<i>n/a</i>	<i>n/a</i>

BALANCE SHEET SUMMARY, USD mln

	2003	2004	2005	2006	2007E	2008E
Current Assets	16.2	15.9	14.6	15.2	n/a	n/a
Cash & Equivalents	0.1	0.2	0.1	0.1	n/a	n/a
Trade Receivables	1.3	1.0	0.8	1.0	n/a	n/a
Inventories	12.0	12.1	12.0	12.0	n/a	n/a
Other	2.8	2.5	1.6	2.1	n/a	n/a
Fixed Assets	26.5	25.7	27.8	27.9	n/a	n/a
PP&E, net	25.8	24.6	26.6	26.4	n/a	n/a
Other	0.7	1.0	1.3	1.6	n/a	n/a
Total Assets	42.6	41.5	42.4	43.1	n/a	n/a
Shareholders' Equity	34.8	32.8	33.0	33.3	n/a	n/a
Share Capital	0.1	31.4	33.0	33.0	n/a	n/a
Retained Earnings	2.9	0.8	(0.7)	(0.6)	n/a	n/a
Other	31.8	0.5	0.7	0.9	n/a	n/a
Current Liabilities	7.8	8.6	9.3	4.5	n/a	n/a
ST Interest Bearing Debt	4.0	4.0	4.0	0.8	n/a	n/a
Trade Payables	1.8	1.3	0.6	0.8	n/a	n/a
Other	2.0	3.3	4.7	2.8	n/a	n/a
LT Liabilities	0.0	0.2	-	5.3	n/a	n/a
LT Interest Bearing Debt	-	-	-	5.2	n/a	n/a
Other	0.0	0.2	-	0.2	n/a	n/a
Total Liabilities & Equity	42.6	41.5	42.4	43.1	n/a	n/a

QUARTERLY ANALYSIS, USD mln

	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07
Net Revenues	3.4	3.2	3.9	5.4	4.2	3.8	4.1	5.1	6.1	3.5
<i>Change y-o-y</i>	<i>35.8%</i>	<i>18.3%</i>	<i>31.9%</i>	<i>171.9%</i>	<i>26.3%</i>	<i>20.3%</i>	<i>5.9%</i>	<i>-5.0%</i>	<i>43.4%</i>	<i>-9.4%</i>
EBITDA	0.4	(0.6)	0.2	(0.3)	1.6	0.3	0.5	0.5	1.5	(0.7)
<i>margin, %</i>	<i>12.1%</i>	<i>-19.7%</i>	<i>6.2%</i>	<i>-5.2%</i>	<i>38.7%</i>	<i>8.1%</i>	<i>11.1%</i>	<i>9.1%</i>	<i>25.3%</i>	<i>-19.3%</i>
EBIT	0.2	(0.9)	(0.0)	(0.6)	1.4	0.0	0.2	0.2	1.3	(1.0)
<i>margin, %</i>	<i>5.0%</i>	<i>-27.6%</i>	<i>-0.4%</i>	<i>-10.4%</i>	<i>32.5%</i>	<i>1.2%</i>	<i>4.6%</i>	<i>3.6%</i>	<i>20.8%</i>	<i>-28.0%</i>
Net Income	0.1	(1.1)	(0.2)	(0.5)	1.3	(0.1)	(0.1)	(0.9)	1.2	(1.3)
<i>Net Margin, %</i>	<i>2.5%</i>	<i>-33.4%</i>	<i>-5.5%</i>	<i>-9.9%</i>	<i>29.9%</i>	<i>-3.1%</i>	<i>-2.4%</i>	<i>-17.8%</i>	<i>19.8%</i>	<i>-36.0%</i>

Peer valuation

Peer summary, USD mln

	Country	MCap USD mln	Net Revenues			EBITDA Mgn			Net Mgn		
			2006	2007E	2008E	2006	2007E	2008E	2006	2007E	2008E
Constar	Ukraine	24	17	24	28	16.6%	10.0%	15.0%	0.8%	2.0%	6.9%
Sulzer	Switzerland	5 085	2 295	2 737	3 013	12.1%	14.6%	15.5%	7.7%	8.3%	8.8%
Andritz AG	Austria	3 691	3 573	4 471	4 867	8.1%	7.4%	7.8%	4.4%	4.4%	4.8%
Bharat Heavy Electricals	India	27 337	3 809	5 413	6 776	15.4%	20.7%	20.8%	10.0%	14.1%	14.3%
Hyundai Heavy Industries	Korea	39 601	17 758	17 850	21 172	11.5%	14.8%	16.5%	4.3%	9.6%	11.3%
Dongfang Electrical Machinery	China	4 666	691	691	3 657	18.3%	10.8%	13.2%	16.0%	7.4%	9.4%
Harbin Power Equipment	China	3 957	3 757	3 757	3 878	6.9%	8.6%	9.2%	3.5%	4.8%	5.0%
Nikkiso	Japan	586	493	493	587	10.8%	n/a	n/a	5.9%	6.3%	6.6%
Sulzer (from SMASH)	Switzerland	5 085	2 295	2 295	3 013	14.2%	13.3%	13.7%	7.9%	7.6%	7.9%
Motor Sich	Ukraine	498	245	245	379	16.0%	23.0%	23.0%	3.0%	9.0%	11.0%
NPO Saturn	Russia	478	293	293	480	7.4%	19.3%	20.5%	neg	6.0%	4.1%
Power Machines	Russia	1 668	595	595	946	neg	8.7%	10.8%	neg	neg	1.5%
Average			3 255	3 531	4 433	12.1%	14.1%	15.1%	7.0%	7.8%	7.7%

Peer multiples

	Country	MCap USD mln	EV/Sales		EV/EBITDA		P/E	
			2007E	2008E	2007E	2008E	2007E	2008E
Constar	Ukraine	24	1.2	1.0	11.9	6.9	49.4	12.4
Sulzer	Switzerland	5 085	1.8	1.6	12.2	10.3	22.5	19.1
Andritz AG	Austria	3 691	0.7	0.6	9.4	7.9	18.6	15.7
Bharat Heavy Electricals	India	27 337	4.8	3.7	23.3	18.0	35.9	28.2
Hyundai Heavy Industries	Korea	39 601	2.1	1.7	14.3	10.6	23.1	16.6
Dongfang Electrical Machinery	China	4 666	1.3	1.1	11.9	8.7	19.2	13.6
Harbin Power Equipment	China	3 957	1.1	0.9	12.9	10.2	22.0	20.5
Nikkiso	Japan	586	n/a	n/a	n/a	n/a	16.3	15.0
Sulzer (from SMASH)	Switzerland	5 085	1.8	1.6	13.3	11.6	24.4	21.4
Motor Sich	Ukraine	498	1.5	1.3	6.7	5.8	16.6	11.9
NPO Saturn	Russia	478	1.9	1.6	9.9	7.8	19.6	24.2
Power Machines	Russia	1 668	2.6	1.4	29.7	12.7	neg	92.1*
Average			2.0	1.6	14.4	10.3	21.8	18.6
Constar implied share price Upside (downside)			16.0 78%	14.5 61%	11.2 25%	14.4 60%	4.0 -56%	13.5 50%

Source: Company data; PFTS, Bloomberg, Thomson Financial, Concorde Capital estimates

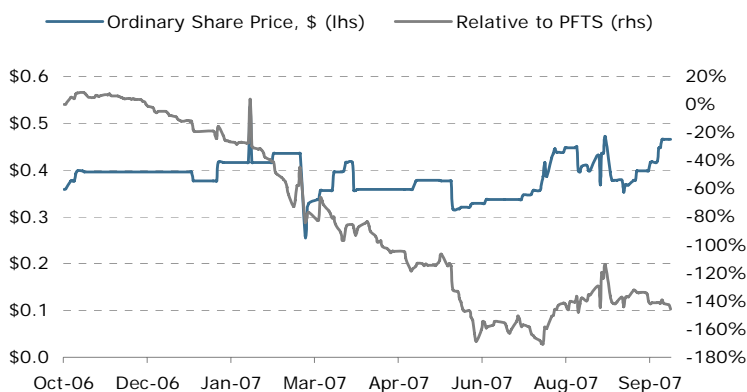
Sumy Nasosenergomash

SNEM UZ
Power Equipment Manufacturer

www.nempump.com

12M target (USD)
0.80
Upside
90.5%
BUY
INVESTMENT CASE

- Construction of new nuclear power plants in Russia until 2015 is expected to result in equipment orders totaling up to USD 25 mln
- EBRD water-supply system modernization project completed in Uzbekistan for USD 2 mln in 2007; more orders expected from participation in other EBRD and World Bank projects in the CIS
- Parent company, Hydraulic Machines, is planning an IPO in 2008


BUSINESS OVERVIEW

One of the leaders of the Ukrainian pump engineering industry. Produces pumps for several growing branches of the economy: nuclear power generation; modern thermal power generation; petrochemical, electronic, and electrical engineering; light and food industries. Exports its products to Russia, Belarus, Kazakhstan, Uzbekistan, Lithuania and has a dealer in the U.S. In 1H07, net revenue increased by 19.3% yoy to USD 13.8 mln and EBITDA margin improved to 11.1% from negative 2.0% in 1H06.

MARKET INFORMATION

Market Price* , USD	0.42
Price impact**	3
52 Wk H/L USD	0.53/0.26
Chg 3m/6m/52w	38%/30%/26%
Chg vs PFTS 3m/6m/52w	27%/-20%/-151%
Chg YTD	24%
Avg M Tr Vol 6M, USD mln	0.01

Mcap , USD mln	12.9
Free float	12%
FF Mcap, USD mln	1.6

No of shares , mln	31
Par Value, UAH	0.8

XETRA	n/a
DR Ratio	n/a
Avg M Tr Vol 6M, USD ths	n/a

STOCK OWNERSHIP

Hydraulic Machines Ltd	82%
Other	18%

CORPORATE GOVERNANCE

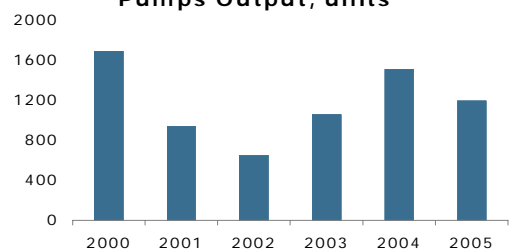
Concorde Rating***	N/A
--------------------	-----

MARKET MULTIPLES

	2007E	2008E
EV/Sales	0.6	0.5
EV/EBITDA	6.3	5.9
P/E	11.6	9.7

KEY RATIO

	2006	2007E	2008E
EBITDA margin	8%	9%	9%
Net Margin	2%	4%	4%

Pumps Output, units


*Market information as of Oct 09, 2007, based on PFTS Bid prices

** Price"impact" is the opinion of Concorde's trading desk on stocks to help investors estimate the reliability of quoted prices:

1: Market price reaction remains within 10% in execution of a market order of about USD 10 mln in size
 2: Market price reaction remains within 10% in execution of a market order of about USD 1 mln in size
 3: All other stocks (quoted)

*** The rating is based on Concorde Capital's corporate governance survey. Q denotes quality corporate governance standards, AA - above average standards, A - average, BA - below average and P - poor.

INCOME STATEMENT SUMMARY, USD mln

	2002	2003	2004	2005	2006	2007E	2008E
Net Revenues	12.3	11.7	17.5	20.3	29.7	n/a	n/a
<i>Change yoy</i>	<i>N/M</i>	<i>-4.9%</i>	<i>49.5%</i>	<i>16.4%</i>	<i>46.3%</i>	<i>n/a</i>	<i>n/a</i>
Gross Profit	2.5	2.5	6.5	7.4	7.4	n/a	n/a
EBITDA	0.5	0.5	3.7	3.6	2.4	n/a	n/a
<i>margin</i>	<i>3.7%</i>	<i>4.3%</i>	<i>21.0%</i>	<i>17.5%</i>	<i>8.2%</i>	<i>n/a</i>	<i>n/a</i>
Depreciation	(0.5)	(0.5)	(0.4)	(0.4)	(0.5)	n/a	n/a
EBIT	0.0	0.0	3.2	3.1	2.0	n/a	n/a
<i>margin</i>	<i>0.0%</i>	<i>0.4%</i>	<i>18.4%</i>	<i>15.3%</i>	<i>6.7%</i>	<i>n/a</i>	<i>n/a</i>
Financial Expense, net	(0.5)	(0.2)	(0.2)	(0.7)	(0.6)	n/a	n/a
Other income/(expense)	0.0	(0.1)	(0.1)	0.3	(0.1)	n/a	n/a
PBT	(0.4)	(0.3)	2.9	2.6	1.3	n/a	n/a
Tax	(0.1)	(0.2)	(0.7)	(0.8)	-	n/a	n/a
<i>Effective tax rate</i>	<i>-25.6%</i>	<i>-68.0%</i>	<i>22.6%</i>	<i>28.8%</i>	<i>0.0%</i>	<i>n/a</i>	<i>n/a</i>
Net Income	(0.5)	(0.5)	2.3	1.9	0.5	n/a	n/a
<i>Net Margin</i>	<i>-4.4%</i>	<i>-4.1%</i>	<i>13.0%</i>	<i>9.2%</i>	<i>1.7%</i>	<i>n/a</i>	<i>n/a</i>

BALANCE SHEET SUMMARY, USD mln

	2002	2003	2004	2005	2006	2007E	2008E
Current Assets	10.4	8.5	14.3	18.8	19.1	n/a	n/a
Cash & Equivalents	0.0	0.1	0.6	0.2	0.0	n/a	n/a
Trade Receivables	1.6	0.2	0.2	0.5	2.5	n/a	n/a
Inventories	7.2	6.9	10.2	15.7	12.7	n/a	n/a
Other	1.6	1.3	3.2	2.4	3.8	n/a	n/a
Fixed Assets	6.7	6.4	6.3	5.3	4.8	n/a	n/a
PP&E, net	4.5	4.3	4.4	4.4	3.9	n/a	n/a
Other	2.2	2.2	1.9	0.8	0.9	n/a	n/a
Total Assets	17.1	14.9	20.6	24.1	23.9	n/a	n/a
Shareholders' Equity	8.1	10.5	12.8	14.0	14.5	n/a	n/a
Share Capital	4.6	4.6	4.6	4.6	4.9	n/a	n/a
Retained Earnings	-	2.0	4.3	6.3	6.7	n/a	n/a
Other	3.4	3.9	3.9	3.1	2.9	n/a	n/a
Current Liabilities	9.0	4.4	7.8	8.0	9.4	n/a	n/a
ST Interest Bearing Debt	3.7	0.9	4.6	3.8	4.7	n/a	n/a
Trade Payables	0.6	1.7	0.7	0.3	0.5	n/a	n/a
Other	4.7	1.7	2.5	4.0	4.2	n/a	n/a
LT Liabilities	-	-	-	2.0	-	n/a	n/a
LT Interest Bearing Debt	-	-	-	2.0	-	n/a	n/a
Other	-	-	-	-	-	n/a	n/a
Total Liabilities & Equity	17.1	14.9	20.6	24.1	23.9	n/a	n/a

QUARTERLY ANALYSIS, USD mln

	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07
Net Revenues	3.1	(2.4)	14.2	5.3	5.2	6.3	8.4	9.8	6.4	7.4
<i>Change yoy</i>	<i>-10.1%</i>	<i>-139.0%</i>	<i>208.3%</i>	<i>61.1%</i>	<i>67.2%</i>	<i>-368.3%</i>	<i>-41.0%</i>	<i>83.6%</i>	<i>22.8%</i>	<i>16.4%</i>
EBITDA	0.3	(0.2)	2.5	0.9	(1.0)	0.7	0.6	2.1	0.4	1.1
<i>margin</i>	<i>11.1%</i>	<i>8.7%</i>	<i>17.7%</i>	<i>16.9%</i>	<i>-18.6%</i>	<i>11.7%</i>	<i>6.8%</i>	<i>21.4%</i>	<i>5.9%</i>	<i>15.5%</i>
EBIT	0.2	(0.1)	2.2	0.8	(1.1)	0.6	0.5	2.0	0.3	1.0
<i>margin</i>	<i>7.3%</i>	<i>4.5%</i>	<i>15.4%</i>	<i>14.8%</i>	<i>-20.7%</i>	<i>9.9%</i>	<i>5.4%</i>	<i>20.2%</i>	<i>4.2%</i>	<i>14.1%</i>
Net Income	0.0	0.1	1.5	0.3	(1.3)	(0.1)	0.3	1.5	0.2	0.6
<i>Net Margin</i>	<i>0.8%</i>	<i>-2.5%</i>	<i>10.6%</i>	<i>5.2%</i>	<i>-24.1%</i>	<i>-1.1%</i>	<i>3.6%</i>	<i>15.6%</i>	<i>2.6%</i>	<i>8.6%</i>

Peer valuation

Peer summary, USD mln

	Country	Mcap USD mln	Net Revenues			EBITDA Mgn			Net Mgn		
			2006	2007E	2008E	2006	2007E	2008E	2006	2007E	2008E
Sumy Nasosenergomash	Ukraine	13	30	32	33	8.2%	8.9%	9.0%	1.7%	3.5%	4.0%
Sumy Frunze	Ukraine	568	306	367	431	9.8%	12.2%	13.2%	4.7%	5.6%	6.2%
Lufkin Industries Inc	USA	867	605	601	654	19.3%	20.3%	21.7%	12.1%	12.1%	13.0%
Gardner Denver Inc	USA	2173	1669	1795	1880	17.2%	17.8%	17.5%	8.0%	8.3%	9.1%
Cameron International Corp.	USA	10251	3743	4425	5104	16.4%	18.2%	19.2%	8.5%	10.4%	10.9%
Caterpillar Inc	USA	51989	41517	41909	44770	15.6%	15.6%	16.0%	8.5%	8.8%	8.9%
Weir Group	UK	3434	1731	1907	2004	10.3%	11.9%	12.7%	4.7%	3.8%	4.1%
Pfeiffer Vacuum Technology AG	Germany	825	237	269	295	27.6%	27.1%	27.0%	16.5%	16.1%	17.4%
Sulzer	Switzerland	5085	2295	2737	3013	14.2%	13.3%	13.7%	7.9%	7.6%	7.9%
Schoeller-Bleckmann AG	Austria	1469	316	405	469	25.9%	27.5%	27.9%	14.4%	15.8%	15.7%
Atlas Copco AB	Sweden	22131	6846	8644	9683	22.5%	21.2%	21.6%	30.4%	12.9%	12.8%
Teikoku Electric MC	Japan	259	115	134	149	11.9%	n/a	n/a	5.5%	7.4%	8.4%
Nikkiso Company Limited	Japan	586	493	568	587	10.8%	n/a	n/a	5.9%	6.3%	6.6%
Kawasaki Heavy Industries Ltd	Japan	6534	11208	11965	12067	4.5%	7.2%	8.2%	1.2%	2.4%	2.9%
IHI Corporation	Japan	3676	9552	10092	10386	5.3%	6.1%	6.8%	0.5%	1.5%	1.9%
Torishima Pump MC	Japan	416	278	345	370	6.1%	n/a	n/a	3.0%	2.9%	4.3%
Shandong Molong PM	China	848	130	226	261	19.8%	17.0%	16.7%	13.7%	10.8%	11.1%
United Heavy Machinery	Russia	285	641	781	825	7.8%	9.1%	9.0%	2.2%	3.5%	3.6%
Saturn Research & Production Co	Russia	478	328	392	406	24.0%	21.7%	22.9%	10.3%	7.1%	10.3%
Average			4556	4865	5186	14.9%	16.4%	16.9%	8.8%	8.0%	8.6%

Peer multiples

	Country	MCap USD mln	EV/Sales		EV/EBITDA		P/E	
			2007E	2008E	2007E	2008E	2007E	2008E
Sumy Nasosenergomash	Ukraine	12.9	0.6	0.5	6.3	5.9	11.6	9.7
Sumy Frunze	Ukraine	568	1.7	1.4	13.1	9.4	25.8	16.5
Lufkin Industries Inc	USA	867	1.3	1.2	6.4	5.5	11.9	10.2
Gardner Denver Inc	USA	2173	n/a	n/a	n/a	n/a	14.6	12.6
Cameron International Corp.	USA	10251	2.3	1.9	12.5	9.8	22.3	18.4
Caterpillar Inc	USA	51989	1.5	1.2	9.6	7.4	14.2	13.0
Weir Group	UK	3434	1.8	1.7	15.3	13.5	46.8	41.6
Pfeiffer Vacuum Technology AG	Germany	825	2.7	2.4	9.8	8.9	19.0	16.1
Sulzer	Switzerland	5085	1.8	1.6	13.3	11.6	24.4	21.4
Schoeller-Bleckmann AG	Austria	1469	3.8	3.2	13.7	11.6	23.0	20.0
Atlas Copco AB	Sweden	22131	2.8	2.4	13.4	11.3	19.9	17.9
Teikoku Electric Manufacturing Company	Japan	259	1.9	n/a	n/a	n/a	26.2	20.6
Nikkiso Company Limited	Japan	586	n/a	n/a	n/a	n/a	16.3	15.0
Kawasaki Heavy Industries Ltd	Japan	6534	0.7	0.7	10.1	8.6	22.7	19.0
IHI Corporation	Japan	3676	0.6	0.6	9.1	8.2	24.5	18.5
Torishima Pump Manufacturing Company	Japan	416	n/a	n/a	n/a	n/a	41.6	26.0
Shandong Molong Petroleum Machinery	China	848	3.7	3.2	21.9	19.3	34.9	29.3
United Heavy Machinery	Russia	285	0.6	0.6	7.1	6.7	10.4	9.6
Saturn Research & Production Co	Russia	478	1.7	1.6	7.9	7.2	17.2	11.5
Average			1.9	1.7	11.6	9.9	23.1	18.7
SNEM implied share price, USD			1.81	1.67	0.90	0.80	0.83	0.81
Upside (downside)			334%	299%	116%	92%	98%	93%

Source: Company data; PFTS, Bloomberg, Thomson Financial, Concorde Capital estimates

Rivne High-Voltage Insulator Plant

ROVA UZ

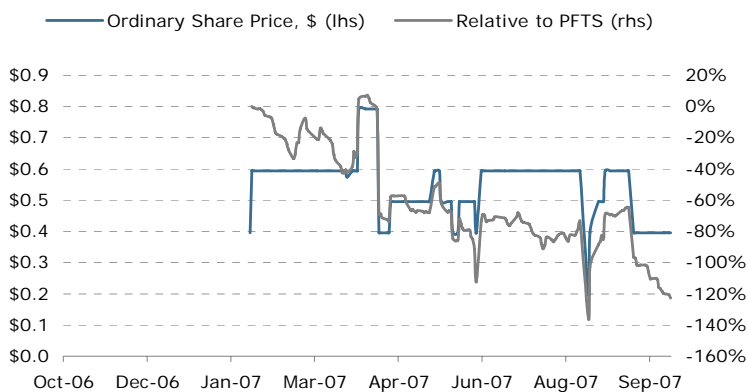
Electrical Components & Equipment

www.rzva.ua

12M target (USD)
2.60
Upside
550%
BUY

INVESTMENT CASE

- We expect 2007-2008 sales growth of 20% CAGR, boosted by more orders from Belarus, Kazakhstan, Turkmenistan and the Baltics – where the company has established new representative offices
- Undervalued on market multiples, though keep in mind risks related to the way the company holds its production assets: through an 80% owned closed JSC



BUSINESS OVERVIEW

Ukraine's leading manufacturer of high voltage power distribution equipment. Capacities: 0.4 to 110 kV. Only producer of fully-equipped 110/35/10 kV transformer substations in Ukraine. Quality control system complies with the ISO 9001 standard. The plant has a wide range of domestic customers and exports half of its production. Export destinations: CIS, China, India, Syria, Libya, Cuba, Yemen, Vietnam, Bulgaria, Pakistan and Iran. In 1H07, net revenues decreased by 20.9% yoy to USD 10.2 mln, EBITDA margin declined to 4.7% yoy (from 11.8% in 1H06) and net margin decreased to negative 1.4% (from 6.5% in 1H06).

MARKET INFORMATION

Market Price* , USD	0.40
Price impact**	3
52 Wk H/L USD	0.79/0.2
Chg 3m/6m/52w	-33%/-50%/n/a
Chg vs PFTS 3m/6m/52w	-45%/-100%/n/a
Chg YTD	n/a
Avg M Tr Vol 6M, USD mln	

Mcap , USD mln	3.9
Free float	12.7%
FF Mcap, USD mln	0.5

No of shares , mln	9
Par Value, UAH	0.05

XETRA	n/a
DR Ratio	n/a
Avg M Tr Vol 6M, USD ths	n/a

STOCK OWNERSHIP

CJSC Vysokovoltny Soyuz	87.3%
Other	12.7%

CORPORATE GOVERNANCE

Concorde Rating***	N/R
--------------------	-----

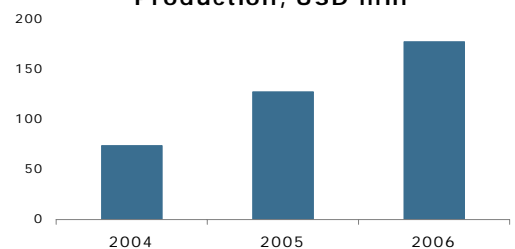
MARKET MULTIPLES

	2007E	2008E
EV/Sales	0.2	0.1
EV/EBITDA	2.4	1.8
P/E	3.4	2.2

KEY RATIO

	2006	2007E	2008E
EBITDA margin	7%	8%	9%
Net Margin	2%	4%	5%

Production, USD mln



*Market information as of Oct 09, 2007, based on PFTS Bid prices

** Price"impact" is the opinion of Concorde's trading desk on stocks to help investors estimate the reliability of quoted prices:

1: Market price reaction remains within 10% in execution of a market order of about USD 10 mln in size
 2: Market price reaction remains within 10% in execution of a market order of about USD 1 mln in size
 3: All other stocks (quoted)

*** The rating is based on Concorde Capital's corporate governance survey. Q denotes quality corporate governance standards, AA - above average standards, A - average, BA - below average and P - poor.

INCOME STATEMENT SUMMARY, USD mln

	2002	2003	2004	2005	2006	2007E	2008E
Net Revenues	10.3	14.7	14.1	26.3	27.8	n/a	n/a
<i>Change yoy</i>	<i>N/M</i>	<i>42.6%</i>	<i>-3.8%</i>	<i>86.1%</i>	<i>5.8%</i>	<i>n/a</i>	<i>n/a</i>
Gross Profit	2.6	3.5	2.9	7.3	5.0	n/a	n/a
EBITDA	0.5	1.5	0.9	3.8	1.9	n/a	n/a
<i>margin</i>	<i>4.4%</i>	<i>10.1%</i>	<i>6.2%</i>	<i>14.6%</i>	<i>6.8%</i>	<i>n/a</i>	<i>n/a</i>
Depreciation	(0.3)	(0.3)	(0.4)	(0.4)	(0.5)	n/a	n/a
EBIT	0.1	1.1	0.5	3.4	1.4	n/a	n/a
<i>margin</i>	<i>1.4%</i>	<i>7.7%</i>	<i>3.5%</i>	<i>13.1%</i>	<i>5.0%</i>	<i>n/a</i>	<i>n/a</i>
Financial Expense, net	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	n/a	n/a
Other income/(expense)	(0.1)	(0.0)	(0.1)	(0.1)	(0.3)	n/a	n/a
PBT	(0.2)	0.9	0.0	3.1	0.8	n/a	n/a
Tax	(0.2)	(0.5)	(0.3)	(1.0)	(0.2)	n/a	n/a
<i>Effective tax rate</i>	<i>-90.4%</i>	<i>58.3%</i>	<i>556.6%</i>	<i>33.2%</i>	<i>18.9%</i>	<i>n/a</i>	<i>n/a</i>
Net Income	(0.3)	0.4	(0.2)	2.1	0.5	n/a	n/a
<i>Net Margin</i>	<i>-3.1%</i>	<i>2.4%</i>	<i>-1.5%</i>	<i>7.8%</i>	<i>1.9%</i>	<i>n/a</i>	<i>n/a</i>

BALANCE SHEET SUMMARY, USD mln

	2002	2003	2004	2005	2006	2007E	2008E
Current Assets	2.8	4.0	6.5	8.5	10.1	n/a	n/a
Cash & Equivalents	0.0	0.0	0.1	0.0	0.0	n/a	n/a
Trade Receivables	0.5	0.6	1.9	1.7	3.0	n/a	n/a
Inventories	1.5	2.1	3.1	3.8	5.3	n/a	n/a
Other	0.7	1.3	1.4	3.1	1.9	n/a	n/a
Fixed Assets	6.4	6.1	5.9	6.7	7.3	n/a	n/a
PP&E, net	3.2	3.0	3.0	3.3	3.4	n/a	n/a
Other	3.2	3.0	2.9	3.3	3.9	n/a	n/a
Total Assets	9.1	10.1	12.3	15.2	17.5	n/a	n/a
Shareholders' Equity	6.8	7.3	7.4	10.1	10.6	n/a	n/a
Share Capital	3.7	4.1	4.4	4.7	4.7	n/a	n/a
Retained Earnings	(0.5)	(0.1)	(0.3)	2.2	3.1	n/a	n/a
Other	3.6	3.2	3.3	3.3	2.8	n/a	n/a
Current Liabilities	2.3	2.8	4.9	5.1	6.8	n/a	n/a
ST Interest Bearing Debt	1.6	1.4	2.4	2.1	2.4	n/a	n/a
Trade Payables	0.2	0.4	1.1	1.4	3.1	n/a	n/a
Other	0.5	1.0	1.4	1.6	1.3	n/a	n/a
LT Liabilities	0.0	0.0	0.0	0.0	0.0	n/a	n/a
LT Interest Bearing Debt	-	-	-	-	-	n/a	n/a
Other	0.0	0.0	0.0	0.0	0.0	n/a	n/a
Total Liabilities & Equity	9.1	10.1	12.3	15.2	17.5	n/a	n/a

QUARTERLY ANALYSIS, USD mln

	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07
Net Revenues	4.3	6.2	6.3	9.5	6.0	6.9	4.4	10.5	7.1	3.1
<i>Change yoy</i>	<i>#DIV/0!</i>	<i>#DIV/0!</i>	<i>-35.8%</i>	<i>120.4%</i>	<i>41.9%</i>	<i>10.5%</i>	<i>-29.6%</i>	<i>10.1%</i>	<i>17.4%</i>	<i>-54.5%</i>
EBITDA	0.4	1.0	1.4	1.1	0.5	1.0	0.1	0.3	0.4	0.1
<i>margin</i>	<i>8.6%</i>	<i>15.8%</i>	<i>22.2%</i>	<i>11.4%</i>	<i>8.0%</i>	<i>15.2%</i>	<i>1.7%</i>	<i>2.6%</i>	<i>5.6%</i>	<i>2.9%</i>
EBIT	0.3	0.9	1.3	1.0	0.4	0.9	(0.0)	0.1	0.3	(0.0)
<i>margin</i>	<i>6.4%</i>	<i>14.3%</i>	<i>20.6%</i>	<i>10.2%</i>	<i>6.1%</i>	<i>13.6%</i>	<i>-1.0%</i>	<i>1.4%</i>	<i>3.7%</i>	<i>-1.2%</i>
Net Income	0.1	0.6	1.0	0.4	0.1	0.8	(0.4)	0.1	0.2	(0.3)
<i>Net Margin</i>	<i>1.7%</i>	<i>10.1%</i>	<i>15.8%</i>	<i>3.9%</i>	<i>0.9%</i>	<i>11.4%</i>	<i>-8.4%</i>	<i>0.5%</i>	<i>2.8%</i>	<i>-10.9%</i>

Peer valuation

Peer summary, USD mln

	Country	Mcap USD mln	Net Revenues			EBITDA Mgn			Net Mgn		
			2006	2007E	2008E	2006	2007E	2008E	2006	2007E	2008E
Rivne High-voltage power equipment plant	Ukraine	4	28	33	40	6.8%	7.5%	8.5%	1.9%	3.5%	4.5%
Zaporizhtransformator	Ukraine	884	205	359	443	18.6%	20.9%	23.3%	11.2%	13.6%	15.7%
Emco Limited	India	289	91	157	235	11.4%	13.4%	13.2%	4.7%	6.4%	6.4%
Crompton Greaves Ltd	India	3088	926	1792	2178	9.4%	9.9%	10.3%	5.6%	5.6%	6.2%
Daihem Corp	Japan	981	726	859	890	11.0%	13.2%	13.5%	4.9%	5.7%	6.1%
Fortune Electric Co Ltd	Taiwan	324	162	206	222	8.4%	17.5%	17.1%	4.2%	12.4%	11.9%
Takaoka Electric MFG Co Ltd	Japan	158	385	390	407	6.9%	n/a	n/a	2.2%	2.4%	1.9%
Average			416	627	729	11.0%	15.0%	15.5%	5.5%	7.7%	8.0%

Peer multiples

	Country	MCap USD mln	EV/Sales		EV/EBITDA		P/E	
			2007E	2008E	2007E	2008E	2007E	2008E
Rivne High-voltage power equipment plant	Ukraine	4	0.2	0.1	2.4	1.8	3.4	2.2
Zaporizhtransformator	Ukraine	884.1	2.6	2.1	12.4	8.9	18.1	12.7
Emco Limited	India	289.1	2.0	1.4	15.2	10.7	28.8	19.1
Crompton Greaves Ltd	India	3088.4	1.7	1.4	17.7	14.0	30.8	22.9
Daihem Corp	Japan	981.1	1.2	1.1	9.3	8.2	19.9	18.2
Fortune Electric Co Ltd	Taiwan	324.0	1.7	n/a	9.6	n/a	12.7	12.3
Takaoka Electric MFG Co Ltd	Japan	158.3	0.5	n/a	n/a	n/a	17.1	20.9
Average			1.6	1.5	12.9	10.5	21.2	17.7
ROVA implied share price			5.3	5.9	3.0	3.4	2.5	3.2
Upside (downside)			1216%	1369%	656%	744%	524%	701%

Source: Company data; PFTS, Bloomberg, Thomson Financial, Concorde Capital estimates

Concorde Capital
2 Mechnikova Street
21st Floor
Kyiv 01601, UKRAINE

Tel.: +380 44 391 5577
Fax: +380 44 391 5571
www.concorde.com.ua
office@concorde.com.ua

CEO

Igor Mazepa

im@concorde.com.ua

RESEARCH COVERAGE BY SECTOR

Equity Sales

Marina Martirosyan
 Anastasiya Nazarenko
 Duff Kovacs, CFA
 Zack Watson

mm@concorde.com.ua
 an@concorde.com.ua
 dk@concorde.com.ua
 zw@concorde.com.ua

Strategy

Konstantin Fisun
 Oleksandr Klymchuk

kf@concorde.com.ua
 ok@concorde.com.ua

Metals & Mining

Eugene Cherviachenko
 Andriy Gerus

ec@concorde.com.ua
 ga@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
 Olha Pankiv
 Alexander Romanov
 Anna Dudchenko

ag@concorde.com.ua
 op@concorde.com.ua
 ar@concorde.com.ua
 ad@concorde.com.ua

Machinery

Olha Pankiv
 Eugene Cherviachenko
 Inna Perepelytsya

op@concorde.com.ua
 ec@concorde.com.ua
 pi@concorde.com.ua

Financial Services, Retail

Alexander Viktorov

av@concorde.com.ua

Macroeconomics

Alexander Viktorov
 Polina Khomenko

av@concorde.com.ua
 pk@concorde.com.ua

Fixed Income

Oleksandr Klymchuk

ok@concorde.com.ua

Corporate Governance

Nick Piazza

np@concorde.com.ua

News/Production

Nick Piazza
 Polina Khomenko

np@concorde.com.ua
 pk@concorde.com.ua

Editor

Brad Wells

bw@concorde.com.ua

Disclaimer

This report has been prepared by Concorde Capital investment bank for informational purposes only. Concorde Capital does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that Concorde Capital might have a conflict of interest that could affect the objectivity of this report.

Concorde Capital, its directors and employees or clients might have or have had interests or long /short positions in the securities referred to herein, and might at any time make purchases and/or sales in them as a principal or an agent. Concorde Capital might act or has acted as a market-maker in the securities discussed in this report. The research analysts and/or corporate banking associates principally responsible for the preparation of this report receive compensation based upon various factors, including quality of research, investor/client feedback, stock picking, competitive factors, firm revenues and investment banking revenues.

Prices of listed securities referred to in this report are denoted in the currency of the respective exchanges. Investors in financial instruments such as depository receipts, the values or prices of which are influenced by currency volatility, effectively assume currency risk.

Due to the timely nature of this report, the information contained might not have been verified and is based on the opinion of the analyst. We do not purport this document to be entirely accurate and do not guarantee it to be a complete statement or summary of available data. Any opinions expressed herein are statements of our judgments as of the date of publication and are subject to change without notice. Reproduction without prior permission is prohibited. © 2007 Concorde Capital