UKRAINE /
Machine building

Industry report

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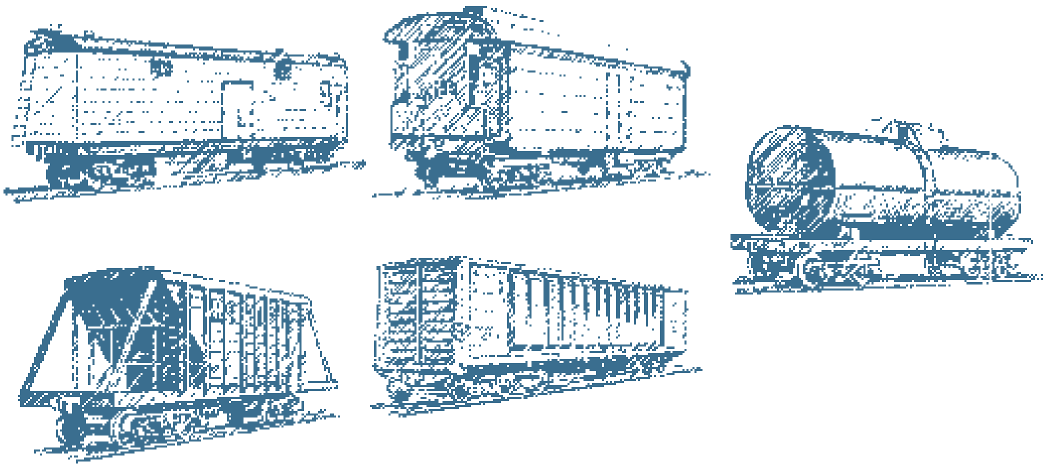
Railway Machinery

Demand Rolls On



Azovzahalmash	
(AZGM: BUY)	13.0
Upside/Downside	24%
Mariupol Heavy Machinery	
(MZVM: BUY)	40.0
Upside/Downside	48%
Stakhaniv Wagon	
(SVGZ: BUY)	12.5
Upside/Downside	25%
Dniprovahonmash	
(DNVM: BUY)	20.0
Upside/Downside	320%
Kryukiv Wagon	
(KVBZ: HOLD)	7.5
Upside/Downside	8%

January 28, 2008

CONTENTS

INVESTMENT THESIS

Investment summary

Company	Bloomberg
Azovzahalmash	AZGM UZ
Mariupol Heavy Machinery	MZVM UZ
Stakhaniv Wagon	SVGZ UZ
Kryukiv Wagon	KVBZ UZ
Dniprovahonmash	DNVM UZ

	Price	12M TP	Upside	Rec.
AZGM	10.5	13.0	24%	BUY
MZVM	27.1	40.0	48%	BUY
SVGZ	10.0	12.5	25%	BUY
KVBZ	6.9	7.5	8%	HOLD
DNVM	4.8	20.0	320%	BUY

	# shares mln	MCap USD mln	Free float %	Free float USD mln
AZGM	47	487	14	68
MZVM	15	417	13	54
SVGZ	13	377	12	45
KVBZ	115	794	2	16
DNVM	17	74	2	1.5

Key ratios

	EV/S	EV/EBITDA	P/E
AZGM*	1.0	5.2	7.2
MZVM*	0.8	4.6	6.2
SVGZ	0.9	9.0	14.9
KVBZ	1.5	9.7	13.7
DNVM	0.3	1.5	2.2

** Based on restated margins*

Key financials, 9M07, USD mln

	Sales	EBITDA	Net Income
AZGM	340	8	0.2
MZVM	367	5	0.7
SVGZ	174	9	5.4
KVBZ	290	41	28.5
DNVM	112	21	12.9

Railcar manufacturers outperformed the PFTS Index by more than two times over 2007, with Concorde's Ukrainian railcar producers index making 312%. We believe solid market fundamentals have set the stage for another strong year in 2008. We expect excess demand on the insulated CIS market to hold until 2011, leading to aggregate sales growth at 25% CAGR and EBITDA margins staying at 14-17%. We see an additional catalyst in pending equity placements and takeovers in the industry.

Mid-term outlook: High demand & low competition

The five domestic railcar producers continued to benefit from excess demand in the insulated CIS market, posting 48% yoy higher aggregated sales in 9M07. Demand is being stimulated by a rise in freight transportation (up 4-8% CAGR over last three years), high replacement needs (up to 86% of CIS freight railcars are past their recommended service life), and the emergence of new financing channels such as leasing. We estimate demand for railcars will remain robust until 2011 and forecast 2.4x increase of aggregated revenues of five Ukrainian railcar producers over 2007-2010.

Long-term outlook: Diversification is an issue

Having a broad product mix will gain additional importance in 3-4 years when new railcar production capacities come on-stream in the CIS (increasing production capacity +43% from 2006). Mariupol Heavy Machinery (53% of sales are from wagons) is best protected from volatility in demand for railcars, while the revenues of pure wagon producer Dniprovahonmash are likely to decline after 2010.

Corporate activity will keep the sector hot

We expect to see share offerings by Ukrainian railcar producers in the next 12-18 months. All five stocks in our coverage are to be watched closely. Consolidation will become more visible, both domestically and cross-border. Ukrainian wagon manufacturers' growing importance on the CIS market makes them attractive takeover targets for Russian players – the main candidates are Azovmash (Azovzahalmash and Mariupol Heavy Machinery) and Dniprovahonmash.

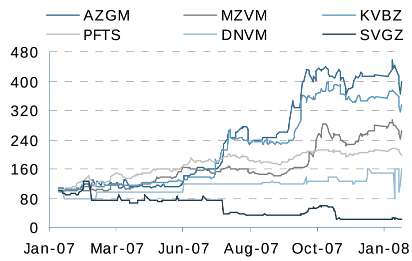
High margins deserve premium valuations

After triple digit performance in 2007, Ukrainian railcar makers trade close to their emerging market peers at around 1.2x EV/Sales '07. With low price-elasticity of CIS demand for railcars in the midterm, Ukrainian producers will keep their EBITDA margins 1.2-1.4x above the EM peer average, justifying premium valuations by EV/Sales.

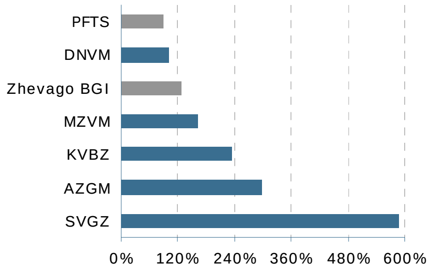
Recommendations

AZGM and MZVM remain our top sector picks; we upgrade SVGZ to BUY. Initiating coverage on DNVM with a BUY (320% upside), we caution about low liquidity (USD 1.5 mln free float). We believe that the market has slightly over-priced KVBZ: HOLD.

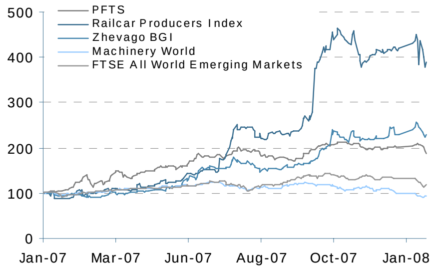
Stocks Performance, 12M



Sector Performance, 12M



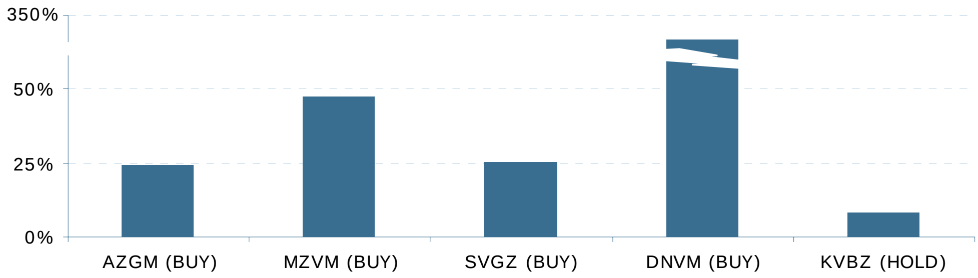
Indices Performance, 12M



Note: SVGZ is member of the Zhevago_BG Index basket. Railcar producers index includes AZGM, MZVM, SVGZ, KVBZ, DNVM. Source: PFTS, Bloomberg, Concorde Capital

Investment opportunities

Upside, %



Source: Concorde Capital

AZGM: BUY

- Emerging leader of the Azovmash group - higher growth and more investments in PPE than Mariupol Heavy Machinery since 3Q06
- Sales up 52% yoy in 9M07, after +36% yoy growth in 2006, backed by Russian demand for freight railcars
- We foresee favorable markets supported by insatiable demand in the CIS in the mid-term: orders will grow at 16% CAGR in 2008-2009
- In-house casting, which covers up to 90% of its needs, is a strong competitive advantage (casting deficit in the CIS is expected to continue into 2009)
- IPO and M&A play. CEO and major shareholder, Alexander Savchuk, is consolidating AZGM and MZVM. By late 2007, he accumulated a 100% stake in UPTK, holder of 79% and 49% stakes in these assets, respectively. We see process as a transparency driver in P&L

MZVM: BUY

- Sales growth at 7% CAGR for next five years is secured by demand for both freight railcars and machinery for the steel industry
- In-house casting, which covers up to 90% of its needs, is a strong competitive advantage (casting deficit in the CIS is expected to continue into 2009)
- Relevant maintenance CapEx is secured by controlling owner's interest in maintaining competitiveness on the growing markets and a positive relationship with the state, which holds 36% of shares
- IPO and M&A play. CEO and major shareholder, Alexander Savchuk, is consolidating AZGM and MZVM. By late 2007, he accumulated a 100% stake in UPTK, holder of 79% and 49% stakes in these assets, respectively. We see process as a transparency driver in P&L

SVGZ: BUY

- Highest production growth in the sector: +202% yoy in 9M07 after 70% yoy in 2006
- Increasing capacity by 2.5x by 2010 gives it the highest growth potential among Ukrainian railcar producers in the mid-term
- Management announced plans to launch metal construction, which we estimate could add 8% to revenues in 2008; in the mid-term, strong demand for new products will be driven by ongoing construction growth, including that related to Euro-2012 in Ukraine/Poland
- We expect EBITDA margin will grow +6.2 pp to 12.8% in 2009 thanks to launch of in-house casting production
- Possible KrAZ holding IPO (including SVGZ) will be an additional catalyst; management said they plan to make a final decision on IPO in 1H08

DNVM: BUY

- Impressive 9M07 financials (sales grew by 64% yoy; EBITDA by 304%) we attribute to: focus on the "hottest" freight railcar, gondolas; exposure to a casting producer; and progress in financial disclosure
- We project revenues to increase at 36% CAGR over 2007-2010, backed by demand in CIS
- TAS group (98% shareholder) is highly likely to place a 10%-15% stake in 2008-2009
- Attractive acquisition target for Russian rivals looking to expand their capacity
- Focus solely on railcar production runs risk of decreased sales with tightening competition in the CIS after 2010

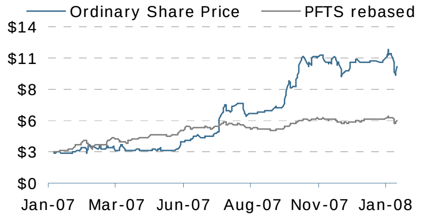
KVBZ: HOLD

- Concentration on freight railcars allowed the company to post the second largest revenue growth in the sector in 9M07 (+100% yoy), with the similar EBITDA growth to USD 41 mln
- Increasing production of passenger wagons and subway cars for the domestic market will allow it to maintain sales amidst tightening competition in the CIS after 2010
- We expect an ownership change in 2008-2009 via consolidation of a controlling stake in one set of hands, which will result in improved managerial efficiency
- Fairly priced by the market

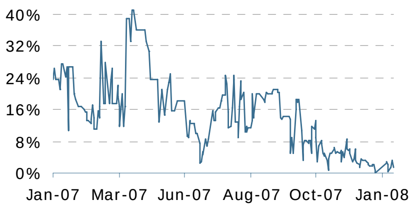
Stock Market Monitor

Azovzahalmash

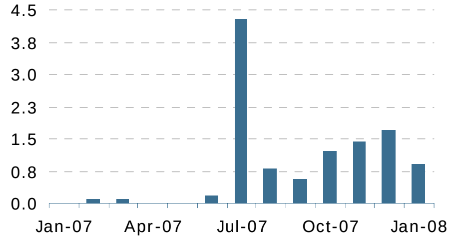
Stock performance



Spread, %

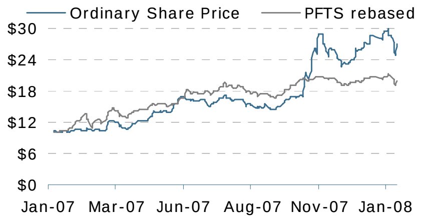


Trading volumes, USD mln

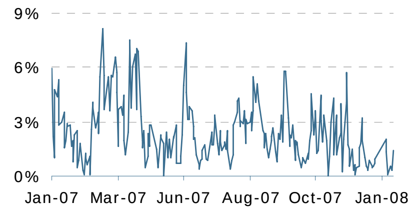


Mariupol Heavy Machinery

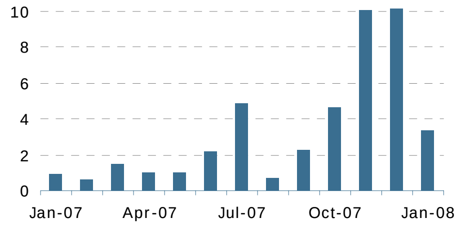
Stock performance



Spread, %

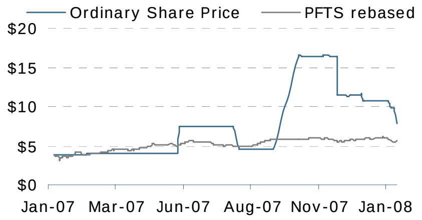


Trading volumes, USD mln



Dniprovahonmash

Stock performance



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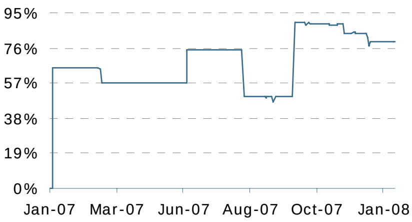
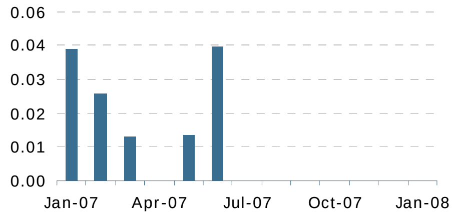
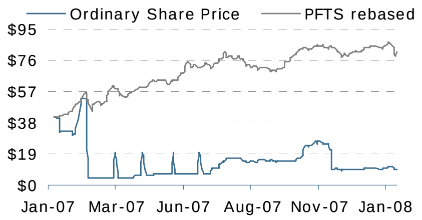


Trading volumes, USD mln

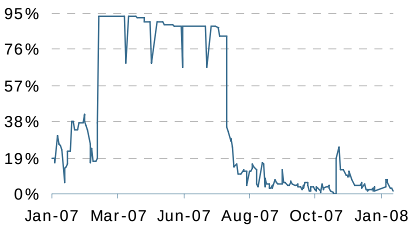


Stakhaniv Wagon

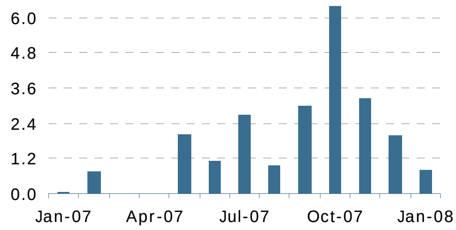
Stock performance



Spread, %

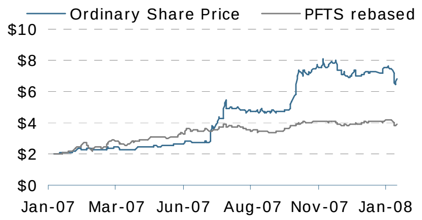


Trading volumes, USD mln

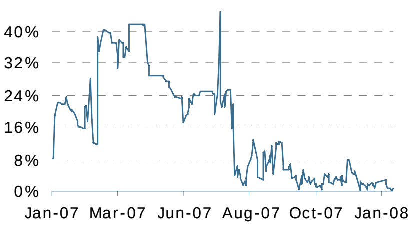


Kryukiv Wagon

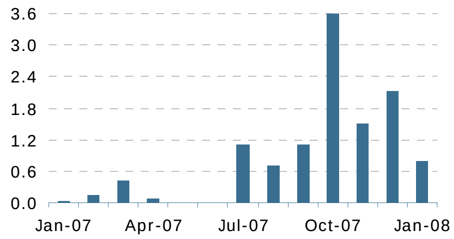
Stock performance



Spread, %



Trading volumes, USD mln

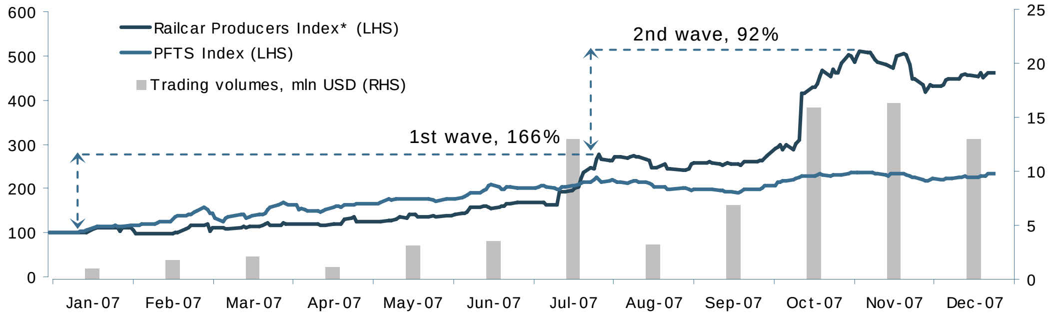


*Source: PFTS. Note: * PFTS mid-market prices*

Ready for the third wave

UP THE LONG LADDER

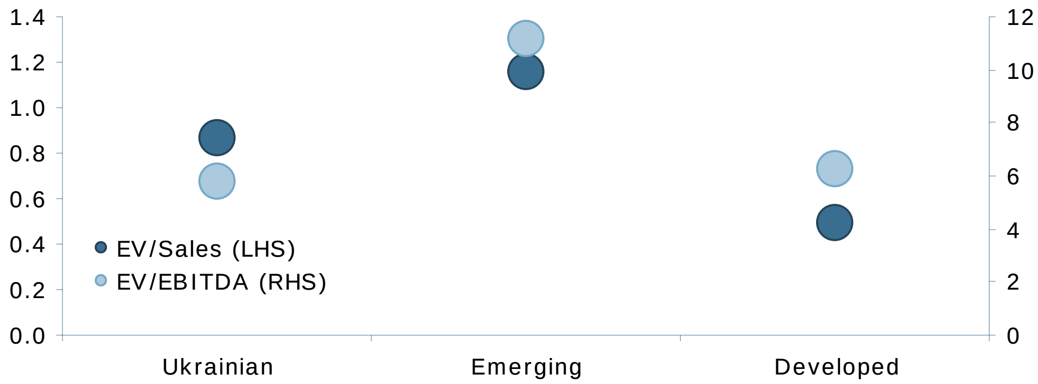
Railcar producers' performance and trading volumes, 2007



*Source: PFTS, Concorde Capital calculations; * AZGM, MZVM, SVGZ, KVBZ, DNVM*

After their October rally, Ukrainian railcar producers have surpassed their developed peers' EV/Sales multiples and are approaching those in emerging markets. We see the following drivers priming the sector for further appreciation: sales growth revealed in 2008 quarterly financials and expected announcements about public/private placements.

Average multiples for railcar producers, 2008E



Source: Bloomberg

We believe Ukrainian wagon producers' best benchmark is their emerging market peer group, which also benefit from protected markets and long-term state investment programs into transportation. We believe the 1.4x higher EBITDA margins of Ukrainian producers coupled with higher mid-term growth potential on the insulated CIS market justify premium valuations by EV/Sales.

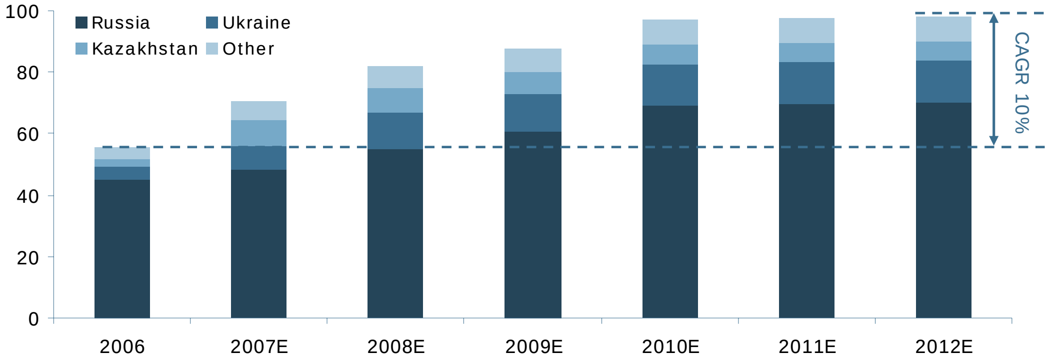
RAILCAR MARKET OVERVIEW

Railcar demand snapshot

PICKING UP STEAM, GROWTH PROJECTED AT 10% CAGR THROUGH 2012

After the collapse of the USSR, freight railcars were retired faster than they were replaced, leading the CIS cargo fleet to decrease by 18% overall over 1993-2002. Demand awakened in 2003-2004, driven by strengthening purchasing power of industrial companies doubling their orders. It has remained hardy in the interim and we expect it to swell another 77% by 2012, additionally empowered by orders from CIS railway monopolies. We estimate total needs for freight railcars in the CIS over 2007-2015 at 800 ths units (60% of the current fleet).

Demand for freight railcars, ths units

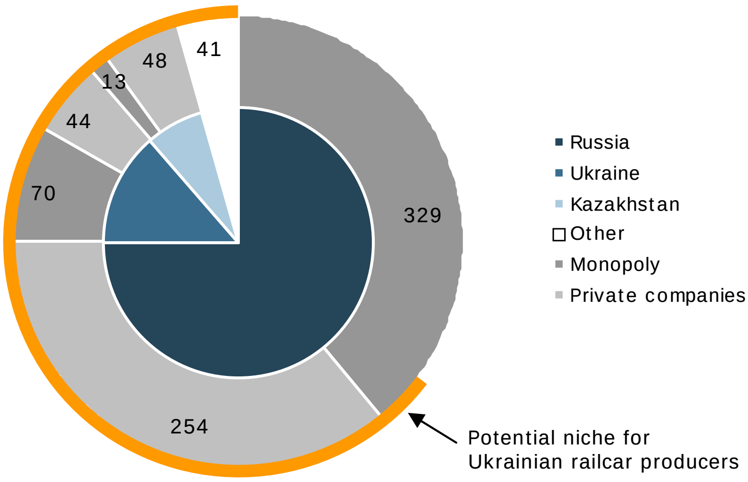


Source: RZD program 2030, KTZ program 2015, UZ, Concorde Capital estimates

CIS DEMAND SPLIT

Ukrainian producers, which benefit from higher quality and broader profile of their products over their CIS rivals (see page 19), have high chances to retain their current 60% share of the CIS market in 2007-2015, excluding Russian Railway (RZD) orders. We think that RZD, which is projected to contribute 41% to the demand in the region, will likely continue to give preference to the domestic railcar producers.

Freight wagons' demand split, ths units, 2007-2015



Source: Concorde Capital estimates

View on demand: 3x3

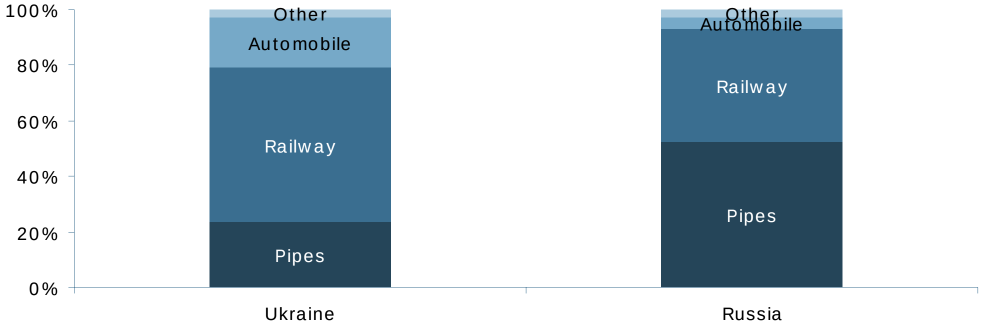
Three orders drivers

The rush of new freight railcar orders in the CIS is a function of mounting demand for transportation services and heavy replacement needs supported by the emergence of new financing.

#1 TRANSPORTATION GROWTH

Accounting for more than 41% and 56% of the Russian and Ukrainian freight markets in 2006, respectively, railways by volume of cargo carried are comparable with pipeline transportation only.

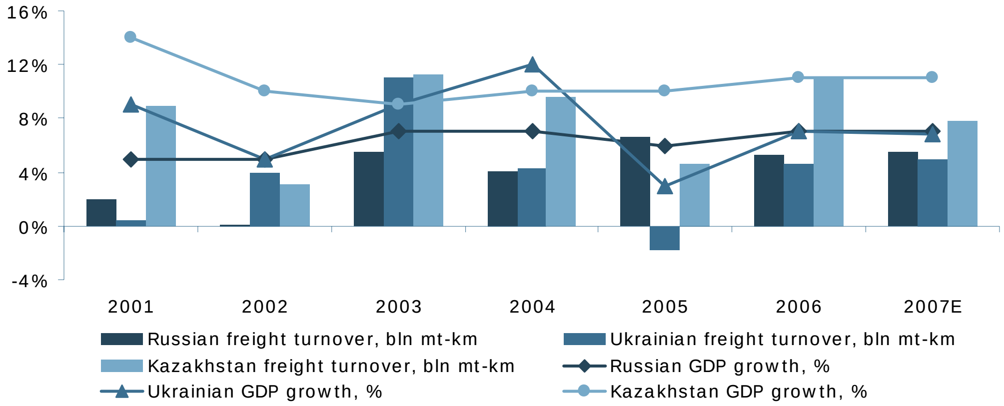
Cargo transportation breakdown, mln mt 2006, %



Source: Russian Federal Statistics Service, Statistic Committee of Ukraine

GDP growth at an average of 5-10% in Russia, Ukraine and Kazakhstan over the last six years resulted in average annual growth of 4% in railway transportation in Russia and Ukraine and 8% growth in Kazakhstan.

Growth in freight turnover and GDP



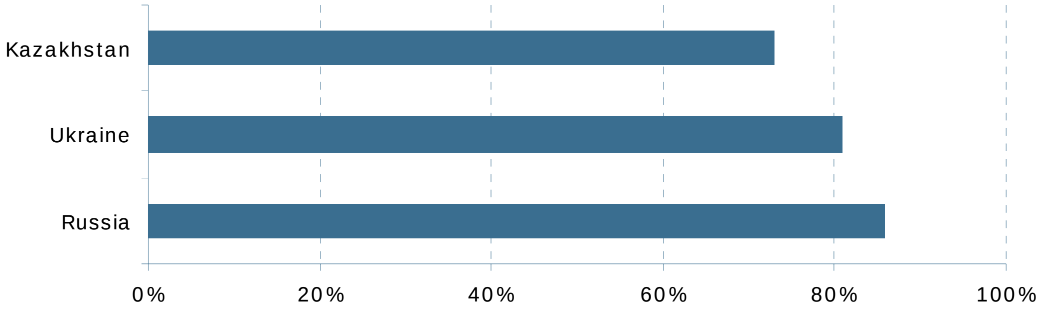
Source: World Bank, EBRD, IMF, State Statistics Committee

Increased railway utilization in the CIS has stimulated transportation companies to buy new railcars to support growth. Based on our estimates of continued sector expansion, Russia, Ukraine and Kazakhstan will increase their cargo fleets by up to 413 ths units by 2015 from 1350 ths units in 2006.

#2 HEAVY REPLACEMENT NEEDS

More than 70% of the CIS' cargo fleet has passed its useful life (according to technical requirements the service life of a freight wagon is 18-24 years).

Percentage of railcar fleet past service life



Source: RZD, UZ, KTZ

Replacements activity within the sector will be mainly driven by traditional market players, national railway monopolies, which will have to compete with the market newcomers, independent railcar operators. Liberalization of rail freight markets in Russia, Ukraine and Kazakhstan in 2003-2005 has led to the creation of cost efficient alternative railcar operators. Competitive pressure has prompted state monopolies (which have the highest rate of railcars past their service life) to invest in new wagon purchases in order to reduce operating costs.

Case study: 3-year wagons look uncompetitive on the market
In December 2007, Ukrzaliznytsya announced it would auction off 3 ths used freight railcars. Representatives of a private transportation company (controlled by Industrial Union of Donbas) said that they will be interested only in purchasing wagons less than three years old, due to lower maintenance costs.

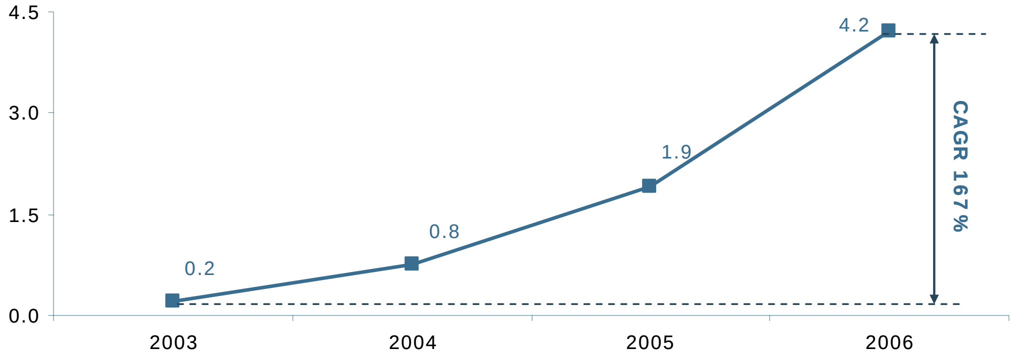
We estimate that according to technical standards for railcars, Russia, Ukraine and Kazakhstan collectively should replace about 790 ths units that will exceed their service life by 2015. Taking into consideration growing demand for freight rail services, we expect railway monopolies will do their best to postpone the retirement of old wagons via repairs, thus writing off only half of them by 2015.

#3 EMERGENCE OF FINANCING

By 2002, amid the CIS-wide economic recovery, railcar consumers' increased earnings allowed them to up purchases of new railcars.

Leasing companies, which first emerged in Russia in 2003, with their sufficient capital to meet demand for wagons, have eased the process of making new purchases. The railcar leasing market in Russia grew 120% yoy in 2006, much faster than Russia's aggregate leasing market (+50% yoy).

Russian leasing market for rolling stock, USD bln



Source: Russian B2B research

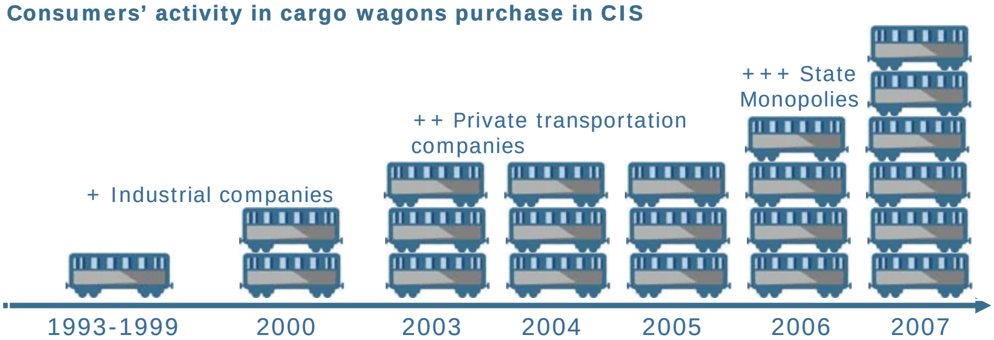
Railcar leasing is less developed in other CIS countries: Ukraine's has up to five wagon leasing companies, none of which are well-developed, in Kazakhstan only one - the Passenger Leasing Wagon Company (2005).

Three freight railcar consumers

We split CIS consumers of freight railcars into three groups: monopoly railway operators, independent operators and industrial companies. Ukrainian railcar manufacturers currently work with all of them, but focus on private operators and industrial companies.

After the fall of the Soviet Union, industrial companies were the first to start actively renewing purchases (2000). In 2003, private companies stepped into the railway transportation market, and only in 2006-2007 did railway monopolies begin to come up with financing for new wagons.

Consumers' activity in cargo wagons purchase in CIS



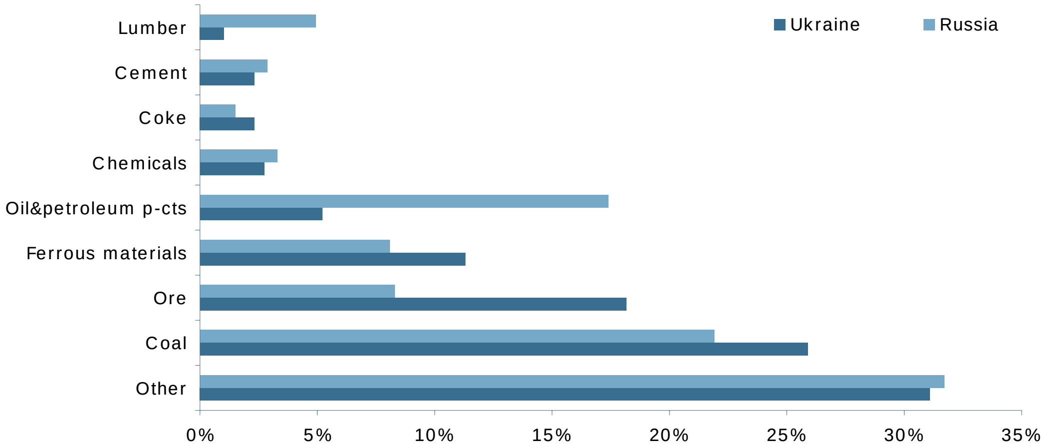
Source: Concorde Capital

INDUSTRIAL COMPANIES

When railway monopolies failed to meet demand growth for transportation services, as early as 2000, industrial players, out of necessity, began putting together their own railcar fleets.

In Russia, Ukraine and Kazakhstan, industrial customers transport mostly: coal, ore, oil and petroleum products, coke, and ferrous materials. Among the region's largest firms are Lukoil and Metaloinvest holding in Russia; and Interpipe, MMK Ilicha, and Mittal Steel in Ukraine.

Cargo carried by rail in Ukraine and Russia in 2006



Source: Russian Federal Statistics Service, Statistic Committee of Ukraine

We estimate industrial companies will generate demand for about 85 ths freight railcars by 2015 in Russia, Ukraine and Kazakhstan.

INDEPENDENT OPERATORS

Russia in 2003 and Kazakhstan in 2005 gave the “green light” to private transportation companies by separating cargo transportation tariffs into payments for railway system usage and payments for renting wagon. In Ukraine, a discount tariff system was implemented in 2004 for those using their own wagons, enabling the operation of independent firms.

Private transportation companies have gained significant market power over the last couple of years: they accounted for 35% of railway transportation in Russia, and 36% in Kazakhstan in 2006.

In Russia, independent firms have displaced RZD from the most profitable transportation goods and in 2006 transported: 53% of iron ore, 63% of oil and oil products, and 70% of chemicals. The profitability of large independent operators gives them an edge in investing in expansion.

Among the region's largest independent operators are Baltransservice, Transgarant and Eurosib CPb in Russia; and Lemtrans (SCM) in Ukraine.

We expect independent operators in Russia, Ukraine and Kazakhstan will buy about 256 ths wagons by 2015.

MONOPOLY RAILWAY OPERATORS

Monopoly railway operators have the largest potential for new purchases, but until recently have been hampered by insufficient investment budgets. Russian and Kazakh state railways started actively making new freight wagon purchases in 2007 (twice as much as 2006 orders), following the passage of development programs by their respective governments. In Ukraine, Ukrzaliznytsya has only a draft, but we expect the new government to approve it in 2008.

Program	Date Adopted	Validity	Cargo wagon purchases	Investments
Russian strategy of railway transport development	September 2007	2007-2030	996 ths	USD 53 bln
Ukrainian program by 2015	Draft	2008-2015	72 ths*	USD 5 bln
Kazakhstan strategy of railway transport development	February 2007	2007-2015	14 ths	USD 1 bln

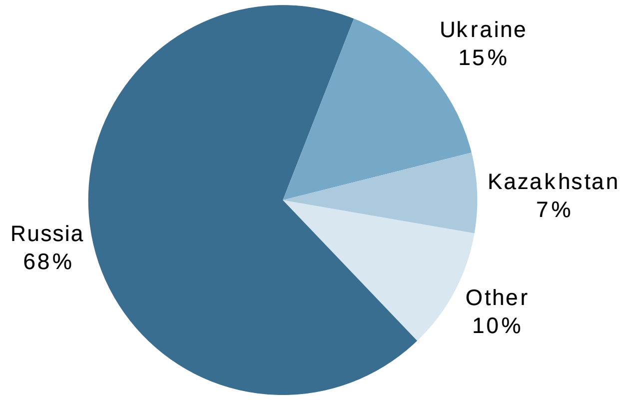
*Note: * Concorde Capital estimations based on statements by UZ representatives of plans to purchase about 8 ths units annually*
Source: RZD, KTZ, UZ

Based on the development programs in Russia, Kazakhstan and Ukraine, we expect the three monopolists (Russian Railways (RZD), Ukrzaliznytsya (UZ) and Kazakhstan Temir Zholy (KTZ)) to buy about 412 ths cargo wagons during 2007-2015.

Three main countries

Russia, Ukraine and Kazakhstan possess 90% of all FSU freight railcars.

FSU freight railcar split, 2006



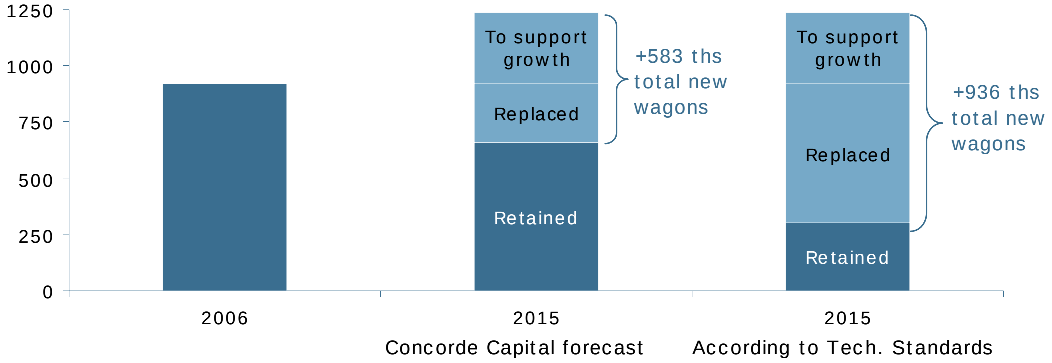
Source: RZD, UZ, KTZ, Concorde Capital estimates

For each country, we look at the development of their railcar fleets by 2015. We calculate how many new orders would result if wagons are replaced as soon as their service life ends; but make a more realistic forecast based on each country pursuing a slower replacement rate, with old wagons being reconstructed vs. retired to prolong their operational life.

RUSSIA

Russia is the main demand center in the CIS. We forecast it will purchase 583 new railcars overall by 2015, 44% of which will be orders from private companies. Though some 620 ths of RZD's railcars are due to pass their service life by 2015, we conservatively estimate only 266 ths units (43%) will be replaced by then due to repairs to worn out wagons.

Russian freight railcar fleet evolution forecast, ths units

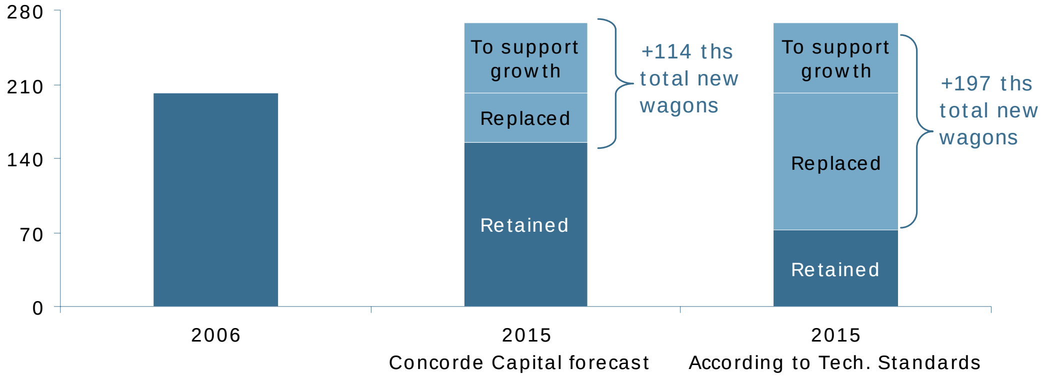


Source: RZD, Concorde Capital estimates

UKRAINE

We expect that the Ukrainian companies will purchase 114 ths units by 2015, 44 ths (39% of total) will be acquired by private firms. The draft of UZ's development program foresees 72 ths new wagons in that time.

Ukrainian freight railcar fleet evolution forecast, ths units

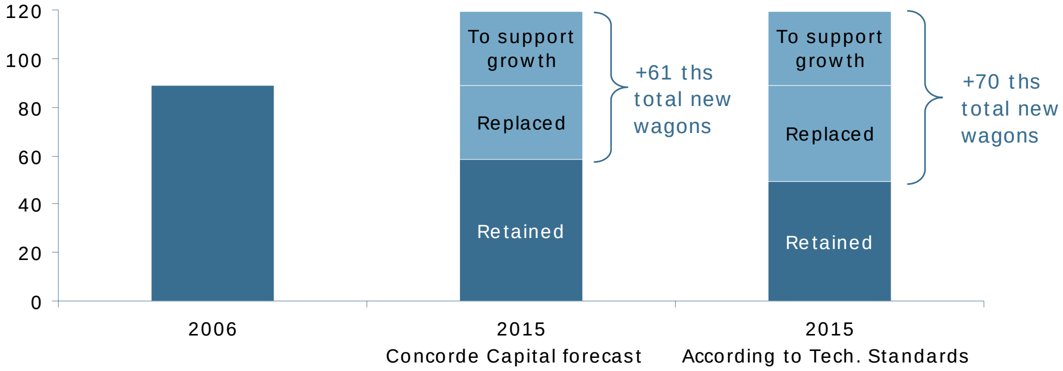


Source: UZ, Concorde Capital estimates

KAZAKHSTAN

Kazakhstan has a well-developed market of independent railway operators; 135 private companies account for 38% of the country's total fleet. As outlined in the state development program by 2015, KTZ plans to buy only 14 ths new railcars (decreasing its fleet from 56 ths to 37 ths, according to our estimates). Meanwhile, we forecast alternative operators to extend their reach with 47 ths new wagons by 2015 (+138% to their fleet in 2006), which would increase their share of the country's total fleet to 68%. Overall, we see total demand from Kazakhstan by 2015 at 61 ths railcars.

Kazakhstan freight railcars fleet evolution forecast, ths units



Source: KTZ, Concorde Capital estimates

Implications of CIS market insulation

Competition on the insulated CIS/Baltic market is limited to nine large producers and a number of overhaul plants with their own production facilities; the CIS wagon market is closed to foreign producers:

Unique track standards in the CIS and the Baltic states (railway track is wider than in other countries).

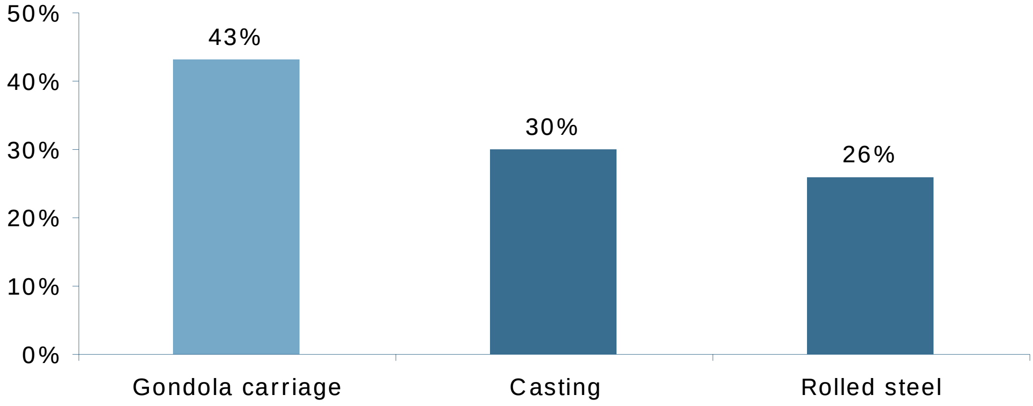
CIS certification requirements. CIS governments are unlikely to certify non-CIS wagons for protective reasons.

Reference: Certification process. In March 1993 all FSU countries signed an agreement according to which the use of freight railcars is possible only if equipment is certified by each signatory country. This means, due to Russia's geographical position (as the main CIS transit country), wagons not certified by it have a low chance of being competitive in the CIS.

Wagon producers' pricing power

Market insulation allows railcar manufacturers to exploit the current interplay of demand drivers. Ukrainian railcar producers share the belief that currently they can sell as many wagons as they produce. They have not been shy to leverage pricing power, which has been especially pronounced for gondola cars, whose price grew 43% from January 1, 2007 to November 1, 2007.

Average tank car wagon, casting and rolled steel price growth, YTD 2007 as of Nov.1



Source: Company data, Metal courier

Demand for freight railcars appeared to be price inelastic: all Ukrainian wagon producers raised sales in 2007. We expect that railcar producers will be able to preserve their high margins until 2010 when competition in the CIS is expected to pickup following a round of production capacity increases.

Assembly Parts: Deficit of casting

In 2007 Ukrainian and Russian freight railcar producers ran into problems with insufficient casting supplies, limiting production. We believe the casting shortage is temporary, and do not expect shortages of other assembly parts in the mid-term.

WHERE HAS ALL THE CASTING GONE?

RZD subsidiary Roszhelgossnab's rapid increase in assembling part purchases led to a casting shortage in the CIS in 2007, as the rest of CIS railcar producers were unable to fully satisfy the sector's growing needs. The resulting deficit restricted growth in railcar output in the CIS.

In Ukraine, no railcar manufacturer can 100% satisfy itself with casting: Azovmash is almost 90% self-sufficient; Dniprovahonmash is 15%; Stakhaniv Wagon and Kryukiv Wagon do not currently have in-house casting production.

Main CIS casting producers

Country	Company	Capacity, ths mt 2006	2009E
	Kremenchuk Steel Casting	83	137
Ukraine	AzovElektroSteel (Azovmash)	25	30
	Centrolit	0	10
	Altaywagon	0	50
	Bezitskiy casting plant (Transmashholding)	60	100
Russia	Uralwagonzavod	40	54
	Promtraktor-Promlit	25	80
	Usolmash	0	24
Total		**229**	**481**

Source: Company data, Concorde Capital estimates

We expect the casting shortage for non-integrated Ukrainian producers will be resolved by 2009 and see two possible scenarios:

- Most likely the largest Ukraine-based producer, Kremenchuk Steel Casting (which exported roughly 2/3 of its products to Russia in 2007) will balance the market by selling more domestically in 2008. The underlying assumption is higher competition for Kremenchuk in Russia stemming from a temporary certification of Chinese casting by Russia and raise of Russian casting capacity by 30-50% by yearend 2008.
- Launching in-house casting production. Azovmash has already announced plans to build extra casting facilities; and we expect Stakhaniv Wagon to launch in-house casting production by 2009.

OTHER INPUTS

Our analysis did not reveal any other potential issues with spare/assembly parts for Ukrainian railcar producers.

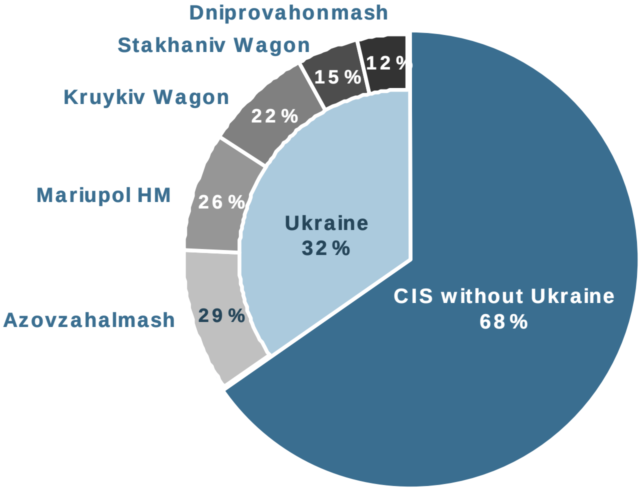
Case Study: Parts for freight railcar production. To produce railcars, manufacturers must have: rolled steel, fabricated metals, wheels and axes. All of these types products are produced by domestic companies (Zaporizhstal, Interpipe, DMK Petrovskogo, Mittal Steel Kryviy Rih, MMK Illicha, Alchevsk Iron & Steel), which have enough capacity to meet growing demand from railcar producers. Russian raw materials suppliers most likely will be able to meet growing demand, even after taking into account orders from their domestic wagon makers.

Competition and supply

Main market players

Nine companies occupy about 90% of the CIS wagon market: four are Russian and five - Ukrainian.

Market share in CIS of Ukrainian wagon companies in 2006



Source: Company data, Concorde Capital estimates

CIS wagon producer profiles

Company	Railcar production	Sales, USD mln	Export,%	Main types of railcars
Russia				
Uralwagonzavod	16,565	1,108	16%	Gondola cars
Altaywagon	7,244	316	6%	Gondola cars, cisterns, hoppers, platforms
VKM (Ruzkhimmash)	4,053	257	2%	Tank cars, gondola cars
Bryansk Heavy Machinery (Transmashholding)	1,950	n/a	n/a	Hoppers, platforms
Ukraine				
Azovmash (Azovzahalmash & Mariupol Heavy Machinery)	10,984	827	70%	Tank cars, gondola cars, platforms
Kryukiv Wagon	4,349	225	69%	Hoppers, gondola cars
Dniprovahonmash	2,638	96	90%	Gondola cars, platforms
Stakhaniv Wagon	2,107	91	99%	Hoppers, gondola cars

Source: Company data, mass media, data for 2006

Competitive advantages

Ukrainian railcar manufacturers have turned consumers' increasingly tighter technical requirements to their advantage.

SPECIALIZATION

Ukrainian freight railcar manufacturers have the most developed specialized cargo wagon production lines of any CIS producers.

Specialized wagons will be the next hot item for transportation companies, preferred to gondolas in terms of faster loading and unloading, better safety and larger capacity. We see robust demand for them in the mid-term.

We expect the share of specialized railcars sold in CIS to increase from 48% of all sales in 2007 to 58% in 2016; and specialized wagon production to rise by 57% in 2016 (vs. 11% growth in gondola output).

Case study: Russian vs. US cargo fleet structure
Russia currently has more gondolas than the U.S. - 33% vs. 15% of total freight cars. Many in the industry believe that the share of universal carriages in Russia's fleet should be closer to share in the U.S.

Specific industries are contributing to additional demand for specialized wagons:

- *Construction:* Demand for **hoppers** for transporting cement due to the Asian Winter Games 2011 in Almaty, the European Soccer Championship 2012 in Ukraine and Poland, and the 2014 Olympic Games in Sochi
- *Oil & Gas:* Transneft's transportation system exhausted its capacity, limiting oil exports. More new **tank cars** are required to transport oil by rail
- *Automotive:* The booming car markets in Russia and Ukraine (up 30-40% annually in 2006-2007) has prompted more orders for **wagons for transporting automobiles**

QUALITY

Quality is becoming especially important with tightening competition on the freight market. Two main Russian railcar producers, Uralwagon and Altaywagon, have faced controversial questions with their quality standards. The Railway Committee of FSU Countries issued a statement in summer 2007 noting the insufficient quality of Russian railcars and agreed to switch more toward non-Russian products. To date, there have been no official claims against Ukrainian railcar manufacturers.

Case study: Uralwagon. During 2004-2005, Uralwagonzavod sold 14 ths cargo wagons to RZD, the exploitation of which revealed quality issues. There were six incidents of Uralwagon railcars derailing in 2006. RZD stopped usage of the 14 ths wagons for technical review and according to Russian First Vice Prime Minister Sergey Ivanov, RZD does not use them.

State protection of Russian producers

In the mid-term (2008-2010), Russian state protection of domestic producers will not affect Ukrainian manufacturers due to abundant demand in the CIS. We expect Ukrainian freight railcar producers' share in the CIS market will increase from 37.2% in 2006 to 39.4% in 2009.

After 2010, we expect saturation: Russian railcar producers plan to increase production capacity 53% by 2010. We assume Russian railcar makers will resolve problems with the quality of their products by then and begin to erode Ukrainian manufacturers' market share.

Capacity vs. market share

CIS wagon producers' current annual production capacity is about 73 ths wagons. In 2006, they rolled out 55 ths units (roughly 80% capacity utilization).

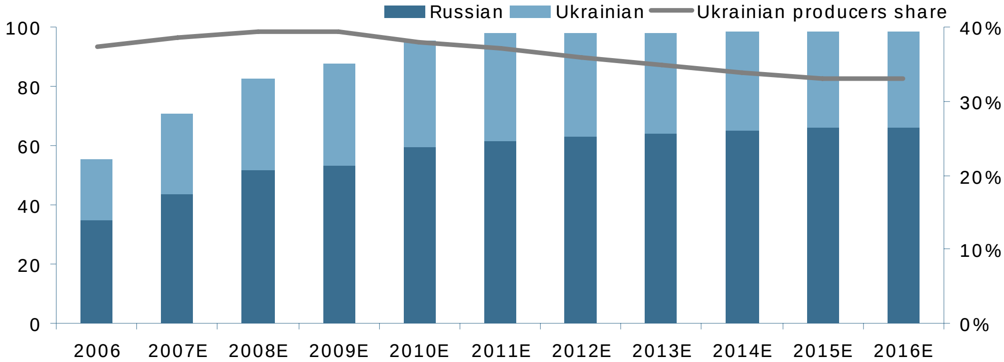
CIS railcar producers capacity outlook, ths units

Company	Capacity 2006	Capacity load in 2006	Capacity 2010E
Russia			
Uralwagonzavod	20.0	83%	25.0
Altaywagon	7.5	97%	10.0
VKM (Ruzkhimmash)	8.0	51%	12.0
Bryansk Heavy Machinery	2.0	98%	5.0
Concern Tractor plants	1.0	100%	7.0
Armavir	1.4	70%	2.0
Ukraine			
Azovmash	13.0	84%	15.0
Kryukiv Wagon	8.5	51%	8.5
Dniprovahonmash	5.0	57%	5.0
Stakhaniv Wagon	4.0	100%	10.0
Total	**70.4**	**80%**	**99.5**

Source: Company data, mass media

Total production capacity in the CIS is likely to grow to 99.5 ths by 2010 (+40% compared to 2006), if producers' plans are realized – and will start exceeding annual demand (98 ths, or +75% compared to 2006) by the end of this period. As the most of the increase in freight railcar production capacity will be in Russia, we expect Ukrainian producers' share of the CIS market to get eaten away and decline by 4.4 percentage points to 32.8% in 2016.

Railcar output by Ukrainian and Russian producers, ths units

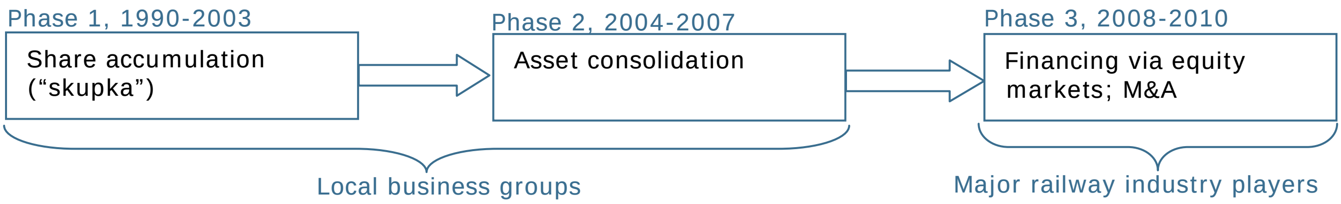


Source: Company data, Concorde Capital estimates

CONSOLIDATION IN THE RAILWAY INDUSTRY

Corporate evolution

We divide the corporate development of Ukrainian railcar producers into the three phases:



Ownership of Ukrainian railcar producers

Group	Stake in company
TAS (Sergiy Tigipko)	Dniprovahonmash (98%), Kryukiv Wagon (25%)
Finance & Credit (Konstantin Zhevago)	Stakhaniv Wagon (88%)
UPTK (Alexander Savchuk)	Azovzahalmash (73%), Mariupol Heavy Machinery (49%)

Source: Company data, Concorde Capital estimates

All for IPO, Few for takeover

We expect placements of 5-20% share blocks by railcar producers during 2008-2010 to serve as stocks' catalysts. While M&A activity is not out of the question, some local targets are more attractive than others.

AWASH WITH TALK OF IPOs

All five Ukrainian railcar producers have announced or signaled plans for mid-term public or private equity placements:

- Management told us of their intentions to take Stakhaniv Wagons as part of the KrAZ machine building holding this summer. We expect a final decision on the IPO to be made in 1H08
- After 100% of shares were concentrated by a private Azovmash shareholder in autumn 2007, unofficial information in July about an IPO of Azovzahalmash and Mariupol Heavy Machinery as part of the Azovmash holding has higher chances of being realized
- We view November's announcement by Kryukiv Wagon's CEO about plans to have Big-4 audit done and IFRS financials prepared as possible pre-IPO dressing
- Improved reporting practices and extensive media coverage of Dniprovahonmash's development plans could point toward the owner, TAS group's, preparation for an IPO

ACQUISITIONS IN THE OFFING?

We observe interest in Ukrainian assets by major CIS railway industry players:

- Transmashholding bought Ukrainian locomotive producer Luhanskteplovoz at privatization in March 2007. It might be eyeing another acquisition to expand freight railcar production capacity. Currently Transmashholding-controlled Bryansk Machinery has a railcar production capacity of 2 ths units p.a.

- In November RZD President Vladimir Yakunin declared interest in transportation and machine building companies in Ukraine and Kazakhstan.

We believe there are a couple of candidates for acquisition in the mid-term. The most probable should lack synergies within their current corporate structure and lack corporate conflicts. See below for a rating of each company's likelihood of being acquired:

Azovmash (AZGM & MZVM): Acquisition target
This self-sufficient machine building holding with a single private shareholder, CEO of Azovmash Alexander Savchuk, with closed freight railcar production cycle, production equipment for steel and mining, is an eye-catching asset for Russian machinery and metallurgical heavyweights.

Dniprovahonmash: 50/50
Currently the company's major shareholder, TAS group (Ukraine), is seeking ways to consolidate Dniprovahonmash and Kryukiv Wagon, where it holds a 25% stake. This would allow the group to build a well-diversified railway machinery holding with estimated capitalization of about USD 1 bln at IPO. We believe that if TAS group fails to create the holding, Dniprovahonmash will be sold to a Russian strategic investor.

Kryukiv Wagon: Chances of being acquired are low
A controlling stake in Kryukiv Wagon, in our view, might be interesting only for one of its four current major shareholders, which hold stakes of 24-25% and are currently at odds. We do not expect interest from outsiders (Russian producers): (1) it will be hard to concentrate a controlling stake; (2) Russia has sufficient domestic capacities to meet need for passenger wagons and subway cars that Kryukiv produces.

Stakhaniv Wagon: M&A unlikely
The company already has an efficient owner, Finance and Credit, and utilizes synergies within the group's machine-building assets, such as cost optimization (bulk purchase of steel for machine building companies), and production of metal construction for consumption by the main owner’s other assets.

Profitability analysis

Dispersion of EBITDA margins

Ukrainian railcar producers financials

	Sales, USD mln			EBITDA margin,%			Net margin,%		
	9M06	*9M07*	*YOY*	*9M06*	*9M07*	*chg,pp*	*9M06*	*9M07*	*chg,pp*
AZGM	224.4	340.0	+51.5%	3.0%	2.3%	-0.7	0.1%	0.1%	0.0
MZVM	373.2	367.0	-1.7%	1.9%	1.4%	-0.5	0.0%	0.2%	+0.2
SVGZ	57.6	174.0	+202.4%	7.2%	5.1%	-2.1	0.9%	3.1%	+2.2
KVBZ	145.1	289.8	+99.7%	13.9%	14.0%	+0.2	10.7%	9.8%	-0.8
DNVM	68.2	111.7	+63.8%	7.5%	18.5%	+11.0	3.4%	11.6%	+8.2

best in class worst in class

Source: Company data

Large dispersion in reported EBITDA margins for 9M07 can be explained by different product mixes (boom in demand for railcars was most pronounced for the only pure gondola producer, Dniprovahonmash); differences in SG&A costs (varying from 2.9% to 7.1% of sales); availability of in-house casting (see page 17) as well as management over-reporting costs.

Ukrainian railcar producers' expenses, common size

	COGS			SG&A			Social and salary expenses		
	9M06	*9M07*	*YOY*	*9M06*	*9M07*	*chg,pp*	*9M06*	*9M07*	*chg,pp*
AZGM	93%	93%	0.0	3.5%	3.7%	0.2	7.6%	7.0%	-0.6
MZVM	93%	93%	0.1	3.9%	4.0%	0.1	6.6%	7.0%	0.4
SVGZ	80%	87%	7.2	11.7%	7.1%	-4.6	17.6%	12.8%	-4.8
KVBZ	81%	83%	1.6	4.4%	2.9%	-1.6	13.0%	10.4%	-2.6
DNVM	85%	75%	-9.5	7.2%	6.1%	-1.1	14.4%	10.6%	-3.8

best in class worst in class

Source: Company data, Concorde Capital calculations

Space for increasing profitability

We believe the companies will start cleaning their P&L statements in the mid-term, as most of them are targeting share placements/IPOs in 2008-2010. We see two reserves for increasing profitability: removal of cost inefficiencies and the end of artificial cost inflation.

Below we estimate how much of the difference in EBITDA margins can be attributed to over-reporting costs (i.e. costs that are hard to explain). We take Dniprovahonmash, which reports the highest margins, as a benchmark.

SVGZ: EBITDA margin is 13.4 pp lower than DNVM

What is the difference:

- SG&A, wages and social expenses: **3 pp**
- Relative inefficiency due to casting deficit. SVGZ suffers the most from this issue, as it has no internal casting production and relies on supplies from Kremenchuk Steel Casting. We estimate this problem can explain up to **7 pp** lower EBITDA margin for Stakhaniv Wagon, (the company's COGS/Sales grew 7 pp yoy)
- The rest of the difference, **3 pp**, we attribute to less profitable product mix in comparison to Dniprovahonmash.

Conclusion: Stakhaniv Wagon's operating expenses look real. The company has space to cut costs by launching in-house casting production.

KVBZ: EBITDA margin is 4.5 pp lower than DNVM

Taking into account that KVBZ economized on SG&A and wages expenses, the company's EBITDA margin would have been 3.4 pp larger than for DNVM, all the other parameters being equal. **The difference of 7.7 pp should be explained.**

What is the difference:

- Relative inefficiency due to casting deficit. Unlike DNVM, KVBZ does not have its own facilities for small casting production. We believe this can explain **2 pp**
- Less profitable product mix in comparison to DNVM. Taking into account SVGZ's situation, we assume that this factor can explain **2 pp** – **3 pp** of the difference
- Higher R&D expenses (for launching subway car production) could explain another **1 pp**
- Inefficiencies related to close links with Ukrzaliznytsya and to Soviet-style management can easily "eat away" costs equal to **2 pp – 3 pp**, the remaining difference in margins with DNVM

Conclusion: Reported costs look real, though the company has room to decrease costs mainly by improving marketing on the domestic market (pricing negotiations with Ukrzaliznytsya).

AZGM & MZVM: EBITDA margin is 16 pp-17 pp lower than DNVM

Both AZGM and MZVM have smaller ratios of wages and social costs to sales than DNVM (**5.7 pp** to **6.0 pp**), thus other parameters being equal to DNVM, the companies' **EBITDA margins should have been larger by 22-23 pp**.

What is the difference:

- Relative inefficiency due to casting deficit can explain no more than **1 pp**, (four times lower difference than for SVGZ) as both companies currently receive up to 90% of casting in-house
- Less profitable product mix vs. DNVM. As the companies have a two-four times larger share of non-railcar products in their product mix than SVGZ, we believe this factor can explain about **6 pp** of the margin difference for AZGM and **7 pp - 8 pp** for MZVM
- The remainder of the difference (**15 pp** for AZGM and **13 pp–14 pp** for MZVM) is hard to justify, thus we assume that the companies hide about 13%-15% of their revenues with artificially inflated costs

Conclusion: Reported costs look unjustifiably high. We estimate EBITDA margins are artificially lowered by up to 15% for AZGM and up to 14% for MZVM. This is in line with views expressed in our September 2005, December 2006 and July 2007 reports. Both companies have high potential for value growth if management starts to report true margins.

COMPANY PROFILES

Azovzahalmash (AZGM UZ)

Machinery Diversified

http://www.azovmash.com.ua

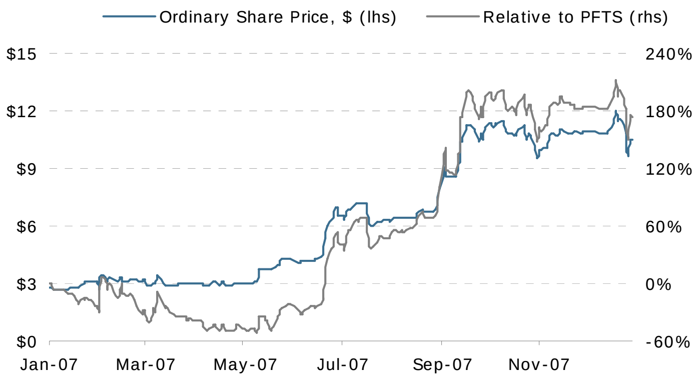
12M target (USD)	13.0
Upside*	24%

BUY

INVESTMENT CASE

- Emerging leader of the Azovmash group - higher growth and more investments in PPE than Mariupol Heavy Machinery since 3Q06
- Sales up 52% yoy in 9M07, after +36% yoy growth in 2006, backed by Russian demand for freight railcars
- We foresee favorable markets supported by insatiable demand in the CIS in the mid-term: orders will grow at 16% CAGR in 2008-2009
- In-house casting, which covers up to 90% of its needs, is a strong competitive advantage (casting deficit in the CIS is expected to continue into 2009)
- IPO and M&A play. CEO and major shareholder, Alexander Savchuk, is consolidating AZGM and MZVM. By late 2007, he accumulated a 100% stake in UPTK, holder of 79% and 49% stakes in these assets, respectively. We see process as a transparency driver in P&L

SHARE PRICE PERFORMANCE*



BUSINESS OVERVIEW

Part of the Azovmash Group, jointly with Mariupol Heavy Machinery (MZVM). Produces gondola cars, tank cars, tank containers and hoppers. Diversified into aviation refueling tanks and harbor cranes. Exports to Russia and other CIS countries account for over 70% of sales.
In 9M07, sales increased by 51.5% yoy to USD 340.0 mln.

MARKET INFORMATION

Market Price*, USD	10.48
Price impact**	n/a
52 Wk H/L USD	11.97/2.67
Chg 3m/6m/52w	-8%/62%/270%
Chg vs PFTS 3m/6m/52w	-5%/57%/173%
Chg YTD	-5%
Avg M Tr Vol 6M, USD ths	1345.9
MCap, USD mln	487.4
Free float	14%
FF Mcap, USD mln	68.2
No of shares, mln	46.5
Par Value, UAH	0.25
XETRA	n/a
DR Ratio	n/a
Avg M Tr Vol 6M, USD ths	n/a

STOCK OWNERSHIP

Azovmash	26.5%
UPTK	59.5%
Other	14.0%

CORPORATE GOVERNANCE

Concorde Rating***	BA

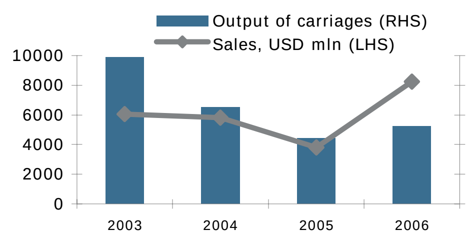
MARKET MULTIPLES****

	2007E	2008E
EV/Sales	1.2	1.0
EV/EBITDA	6.3	5.2
P/E	9.1	7.2
P/B	6.1	3.3
P/CF	8.8	7.0

KEY RATIOS****

	2006	2007E	2008E
EBITDA margin	3%	18%	18%
Net Margin	0.1%	12%	13%
ROE	1%	101%	59%
Net Debt/Equity	1.80	0.30	0.05

Output & Sales Dynamics



*Market information as of Jan 25, 2008, 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.

****on restated margins

Key forecasts

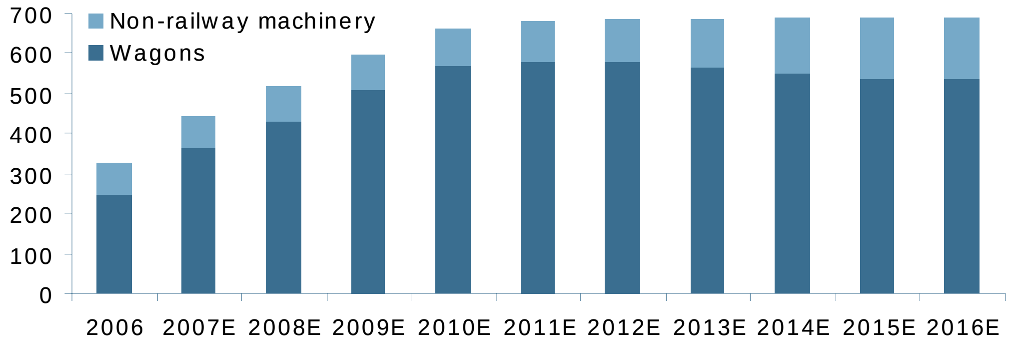
We estimate the company's true EBITDA and net margins based on our conversations with management and cost analysis on page 25.

For our model we use two forecast periods (see page 20):

Excess demand (2008-2010). The company's sales will grow at 19.6% CAGR; EBITDA margin will range between 18.1-17.0%.

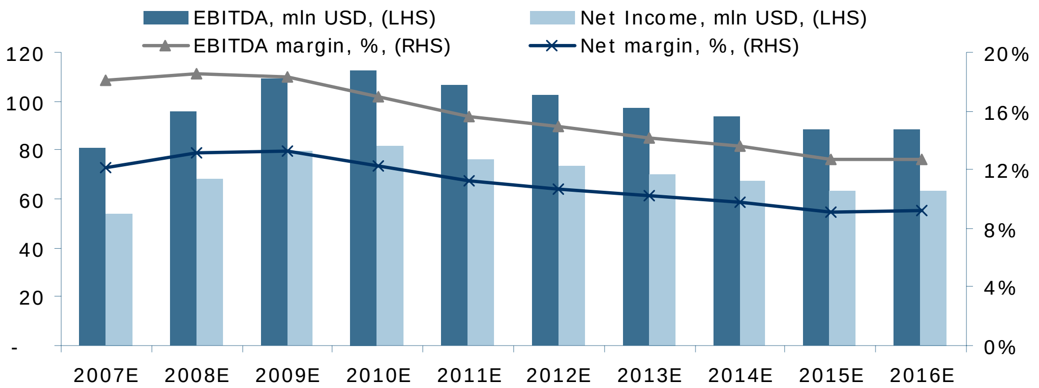
Saturation (2011-2016). During this period, the company's sales will grow at 0.8% CAGR: revenues for railcars will decrease by 5% while revenues from heavy machinery will increase by 61%. EBITDA margin will decrease to 12.7% in 2016.

Azovzahalmash sales split, USD mln



Source: Company data, Concorde Capital estimates

Profitability forecasts



Source: Company data, Concorde Capital estimates

DCF Valuation

DCF output, UAH mln, as of January 28

	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
EBITDA	**408**	**483**	**553**	**569**	**536**	**516**	**492**	**474**	**445**	**445**
EBIT	395	469	538	553	521	500	475	458	428	428
Tax Rate	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Taxed EBIT	296	352	404	415	390	375	357	343	321	321
Plus D&A	13	14	15	15	16	16	16	16	17	17
Less CapEx	(38)	(35)	(33)	(30)	(25)	(18)	(17)	(17)	(17)	(17)
Less change in OWC	(56)	(46)	(34)	(28)	(17)	(11)	(9)	(8)	(7)	(4)
FCFF	**215**	**285**	**351**	**373**	**364**	**362**	**347**	**335**	**314**	**317**
WACC	14.2%	14.9%	14.6%	13.4%	12.3%	11.3%	11.3%	11.4%	11.4%	11.5%
Discounted cash flow	189	250	308	289	251	224	193	167	141	128
Sum of discounted CF			1,702							

Perpetuity growth rate	1.0%
WACC to perpetuity	11.0%

Terminal value	1,289		3,203
		Implied exit EBITDA multiple	7.2 x
Firm value	**2,991**		
Portion due to TV	43%		
Less net debt	(36)		
Equity value	2,955		
Implied 12M price, USD	**12.9**		

Sensitivity analysis

Implied Share Price. USD

WACC Y1-10	**Perpetuity Growth Rate**				
	0.0%	***0.5%***	***1.0%***	***1.5%***	***2.0%***
-1.5%	13.3	13.6	13.9	14.2	14.6
-1.0%	12.9	13.2	13.5	13.9	14.3
-0.5%	12.6	12.9	13.2	13.5	13.9
0.0%	12.3	12.6	**12.9**	13.2	13.5
+0.5%	12.0	12.3	12.5	12.9	13.2
+1.0%	11.7	12.0	12.2	12.5	12.9
+1.5%	11.4	11.7	11.9	12.2	12.6

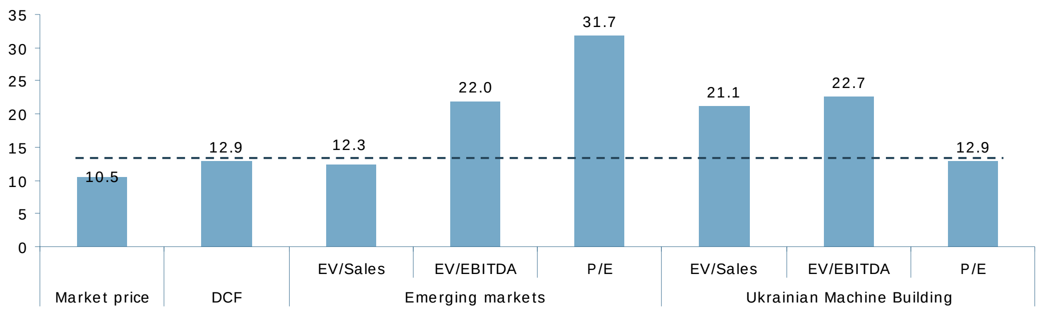
Implied Share Price, USD

WACC to perpetuity	**Perpetuity Growth Rate**				
	0.0%	***0.5%***	***1.0%***	***1.5%***	***2.0%***
9.5%	13.1	13.4	13.8	14.3	14.8
10.0%	12.8	13.1	13.5	13.9	14.3
10.5%	12.5	12.8	13.2	13.5	13.9
11.0%	12.3	12.6	**12.9**	13.2	13.5
11.5%	12.1	12.3	12.6	12.9	13.2
12.0%	11.9	12.1	12.4	12.6	12.9
12.5%	11.7	11.9	12.1	12.4	12.7

Valuation summary

We give more weight to the DCF implied price and set our 12M target for Azovzahalmash at USD 13.0. We confirm our BUY recommendation.

Valuation results, USD per share



Source: PFTS, Concorde Capital estimates. Note: line- target price

Income Statement Summary, USD mln

	2006	2007E	2008E	2009E	2010E	2011E	2012E
Net Revenues	**325**	**445**	**517**	**598**	**664**	**680**	**687**
Gross Profit	24	101	116	130	133	127	123
Gross margin	*7.5%*	*22.6%*	*22.5%*	*21.7%*	*20.1%*	*18.6%*	*17.9%*
EBITDA	**10**	**81**	**96**	**109**	**113**	**106**	**102**
EBITDA margin	3.0%	*18.1%*	*18.5%*	*18.3%*	*17.0%*	*15.6%*	*14.9%*
Depreciation	(2)	(3)	(3)	(3)	(3)	(3)	(3)
EBIT	**8**	**78**	**93**	**107**	**110**	**103**	**99**
EBIT margin	*2.5%*	*17.6%*	*18.0%*	*17.8%*	*16.5%*	*15.2%*	*14.4%*
Interest Expense	(6)	(6)	(2)	(1)	(1)	(1)	(1)
PBT	**2**	**72**	**91**	**106**	**109**	**102**	**98**
Tax	(2)	(18)	(23)	(26)	(27)	(25)	(25)
Effective tax rate	91%	25%	25%	25%	25%	25%	25%
Net Income	**0.2**	**54**	**68**	**79**	**82**	**76**	**74**
Net Margin	*0.1%*	*12.1%*	*13.2%*	*13.3%*	*12.3%*	*11.2%*	*10.7%*

Balance Sheet Summary, USD mln

	2006	2007E	2008E	2009E	2010E	2011E	2012E
Current Assets	**115**	**135**	**155**	**170**	**171**	**172**	**172**
Cash & Equivalents	1	1	2	2	2	2	2
Trade Receivables	52	58	67	78	76	77	79
Inventories	43	45	48	52	53	53	51
Other current assets	20	31	39	39	40	40	41
Fixed Assets	**34**	**34**	**38**	**42**	**44**	**46**	**47**
PP&E, net	29	32	37	41	44	46	47
Other Fixed Assets	5	2	1	1	0	0	0
Total Assets	**149**	**169**	**193**	**212**	**216**	**218**	**219**
Shareholders' Equity	**27**	**62**	**92**	**108**	**112**	**116**	**120**
Share Capital	2	2	2	2	2	2	2
Reserves and Other	24	59	90	106	110	114	117
Current Liabilities	**123**	**99**	**95**	**104**	**104**	**102**	**99**
ST Interest Bearing Debt	50	18	3	4	8	10	9
Trade Payables	43	43	48	52	45	42	39
Other Current Liabilities	28	30	38	44	48	50	51
LT Liabilities	**-**	**8**	**6**	**-**	**-**	**-**	**-**
LT Interest Bearing Debt	-	8	6	-	-	-	-
Other LT	-	-	-	-	-	-	-
Total Liabilities & Equity	**149**	**169**	**193**	**212**	**216**	**218**	**219**

Mariupol Heavy Machinery (MZVM UZ)

Machinery Diversified

http://www.azovmash.com.ua

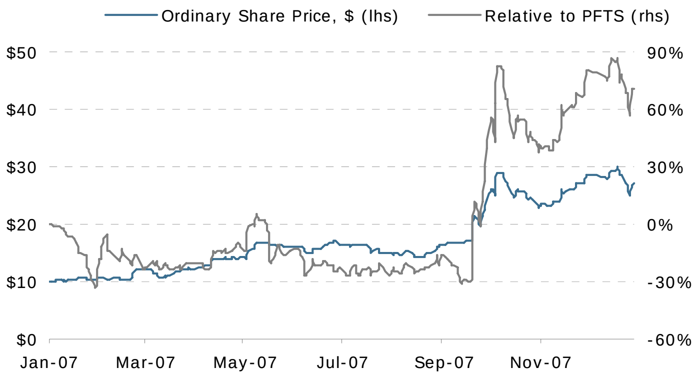
12M target (USD)	40.0
Upside*	48%

BUY

INVESTMENT CASE

- Sales growth at 7% CAGR for next five years is secured by demand for both freight railcars and machinery for the steel industry
- In-house casting, which covers up to 90% of its needs, is a strong competitive advantage (casting deficit in the CIS is expected to continue into 2009)
- Relevant maintenance CapEx is secured by controlling owner's interest in maintaining competitiveness on the growing markets and a positive relationship with the state, which holds 36% of shares
- IPO and M&A play. CEO and major shareholder, Alexander Savchuk, is consolidating AZGM and MZVM. By late 2007, he accumulated a 100% stake in UPTK, holder of 79% and 49% stakes in these assets, respectively. We see process as a transparency driver in P&L

SHARE PRICE PERFORMANCE*



BUSINESS OVERVIEW

Member of the Azovmash group that also includes Azovzahalmash (AZGM). Makes gondola cars, boxcars, tank cars and equipment. Sells products to the SCM-controlled Armavir Wagon Plant (Russia), and to Kazakhstan, Belarus, and Slovenia. Diversified into converters and blast-furnaces.
In 9M07, sales tapered off 1.7% yoy to USD 367.0 mln.

MARKET INFORMATION

Market Price*, USD	27.11
Price impact**	3
52 Wk H/L USD	29.95/10.10
Chg 3m/6m/52w	4%/64%/168%
Chg vs PFTS 3m/6m/52w	6%/59%/71%
Chg YTD	-5%
Avg M Tr Vol 6M, USD ths	5265.2
MCap, USD mln	417.2
Free float	13%
FF Mcap, USD mln	54.3
No of shares, mln	15.4
Par Value, UAH	0.25
XETRA	M9X
DR Ratio	1:1
Avg M Tr Vol 6M, USD ths	n/a

STOCK OWNERSHIP

Azovmash Group	50.0%
UPTK	24.0%
State	11.0%
Other	15.0%

CORPORATE GOVERNANCE

Concorde Rating***	A

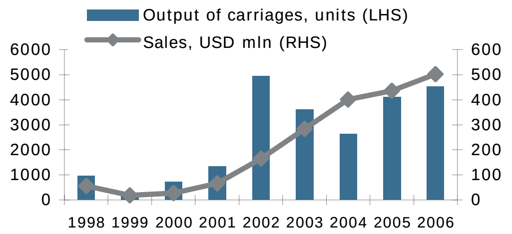
MARKET MULTIPLES****

	2007E	2008E
EV/Sales	0.9	0.8
EV/EBITDA	5.0	4.6
P/E	6.9	6.2
P/B	3.2	2.1
P/CF	6.5	5.8

KEY RATIOS****

	2006	2007E	2008E
EBITDA margin	2%	17%	17%
Net Margin	0.02%	12%	12%
ROE	0.1%	60%	41%
Net Debt/Equity	0.70	0.20	0.10

Output and Sales Dynamics



*Market information as of Jan 25, 2008, 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.

****on restated margins

Key forecasts

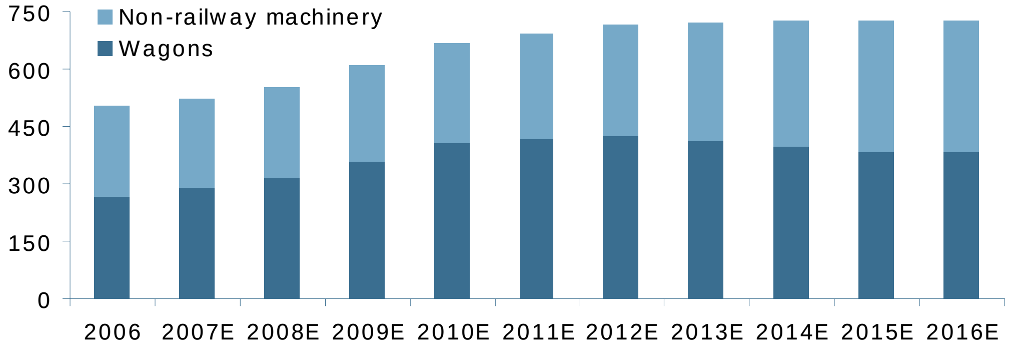
We estimate the company's true EBITDA and net margins based on our conversations with management and cost analysis on pg. 25.

For our model we use two forecast periods (see page 20):

Excess demand (2008-2010). The company's sales will grow at 7.4% CAGR, EBITDA margin will range between 17.2-16.4%

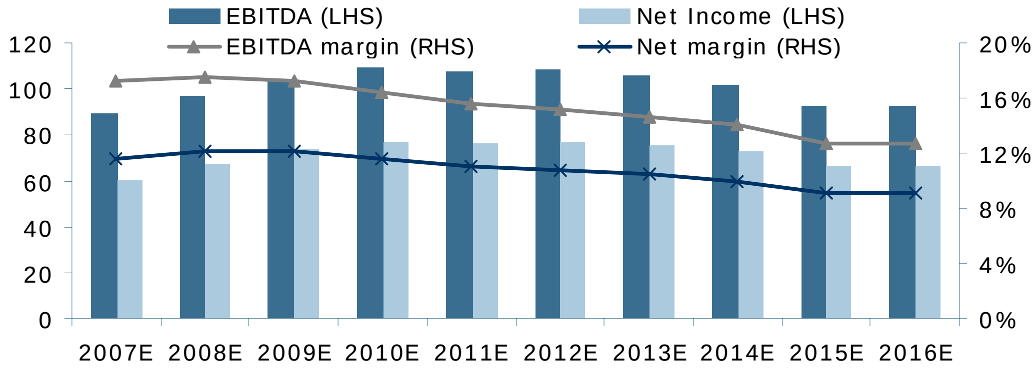
Saturation (2011-2016). The company's sales will grow at 1.5% CAGR: revenues from wagons will decrease by 5% while revenues from heavy machinery will increase by 31%. EBITDA margin will decrease to 12.7% in 2016.

Mariupol Heavy Machinery sales breakdown, USD mln



Source: Company data, Concorde Capital estimates

Profitability forecasts



Source: Concorde Capital estimates

DCF Valuation

DCF output, UAH mln, as of January 28

	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
EBITDA	**453**	**489**	**528**	**554**	**544**	**548**	**536**	**514**	**468**	**468**
EBIT	433	469	508	533	523	527	515	493	447	447
Tax Rate	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Taxed EBIT	325	352	381	400	392	395	386	370	335	335
Plus D&A	20	20	21	21	21	21	21	21	21	21
Less CapEx	(30)	(35)	(30)	(28)	(25)	(23)	(22)	(22)	(21)	(21)
Less change in OWC	(38)	(29)	(26)	(20)	(17)	(16)	(15)	(11)	(10)	(8)
FCFF	**276**	**308**	**345**	**372**	**372**	**377**	**370**	**358**	**325**	**327**
WACC	14.0%	14.0%	13.4%	12.5%	11.7%	11.0%	11.1%	11.2%	11.3%	11.4%
Discounted cash flow	244	272	306	294	263	240	212	184	150	136
Sum of discunted CF			1,785							

		Perpetuity growth rate	1.0%
		WACC to perpetuity	11.0%
Terminal value	1,373		3,308
		Implied exit EBITDA multiple	7.1 x
Firm value	**3,158**		
Portion due to TV	43%		
Less net debt	(130)		
Equity value	3,028		
Implied 12M price, USD	**39.0**		

Sensitivity analysis

Implied Share Price. USD

WACC Y1-10	**Perpetuity Growth Rate**				
	0.0 %	***0.5 %***	***1.0 %***	***1.5 %***	***2.0 %***
-1.5%	40.2	41.2	42.2	43.3	44.6
-1.0%	39.2	40.1	41.1	42.2	43.4
-0.5%	38.2	39.1	40.0	41.1	42.2
0.0%	37.2	38.0	**39.0**	40.0	41.1
+0.5%	36.3	37.1	38.0	39.0	40.0
+1.0%	35.3	36.1	37.0	37.9	39.0
+1.5%	34.5	35.2	36.1	37.0	38.0

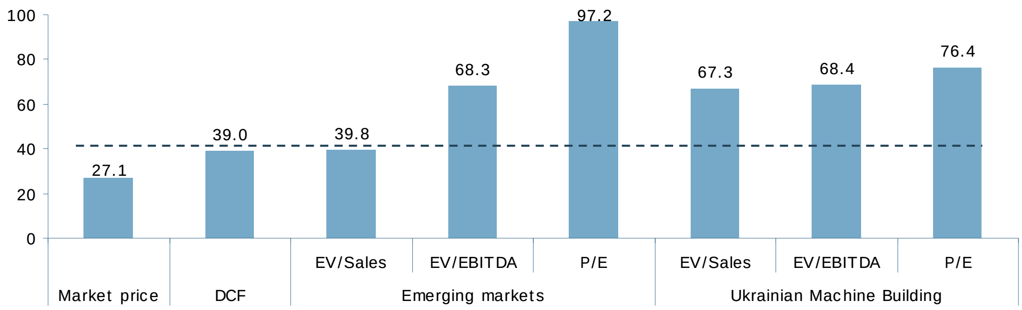
Implied Share Price, USD

WACC to perpetuity	**Perpetuity Growth Rate**				
	0.0 %	***0.5 %***	***1.0 %***	***1.5 %***	***2.0 %***
9.5%	39.7	40.8	42.1	43.5	45.1
10.0%	38.8	39.8	40.9	42.2	43.6
10.5%	38.0	38.9	39.9	41.0	42.3
11.0%	37.2	38.0	**39.0**	40.0	41.1
11.5%	36.5	37.3	38.1	39.1	40.1
12.0%	35.9	36.6	37.4	38.2	39.2
12.5%	35.3	36.0	36.7	37.5	38.3

Valuation summary

We give more weight to the DCF implied price and set our 12M target for Mariupol Heavy Machinery at USD 40. We confirm BUY.

Valuation results, USD per share



Source: PFTS, Concorde Capital estimates. Note: line- target price

Income Statement Summary, USD mln

	2006	2007E	2008E	2009E	2010E	2011E	2012E
Net Revenues	**502**	**521**	**554**	**608**	**669**	**693**	**716**
Gross Profit	36	115	122	131	136	134	135
Gross margin	*7.2%*	*22.1%*	*22.0%*	*21.5%*	*20.3%*	*19.3%*	*18.8%*
EBITDA	**10**	**90**	**97**	**105**	**110**	**108**	**108**
EBITDA margin	2.1%	*17.2%*	*17.5%*	*17.2%*	*16.4%*	*15.5%*	*15.2%*
Depreciation	(4)	(4)	(4)	(4)	(4)	(4)	(4)
EBIT	**7**	**86**	**93**	**101**	**106**	**104**	**104**
EBIT margin	*1.4%*	*16.5%*	*16.8%*	*16.6%*	*15.8%*	*14.9%*	*14.6%*
Interest Expense	(8)	(5)	(3)	(3)	(2)	(2)	(2)
PBT	**2**	**80**	**90**	**98**	**103**	**102**	**103**
Tax	(2)	(20)	(22)	(24)	(26)	(25)	(26)
Effective tax rate	96%	25%	25%	25%	25%	25%	25%
Net Income	**0.1**	**60**	**67**	**73**	**77**	**76**	**77**
Net Margin	*0.0%*	*11.6%*	*12.1%*	*12.1%*	*11.6%*	*11.0%*	*10.8%*

Balance Sheet Summary, USD mln

	2006	2007E	2008E	2009E	2010E	2011E	2012E
Current Assets	**182**	**172**	**174**	**174**	**180**	**179**	**184**
Cash & Equivalents	0	1	1	1	1	1	1
Trade Receivables	80	78	81	83	85	80	81
Inventories	65	55	54	48	48	50	52
Other current assets	36	39	39	43	47	49	50
Fixed Assets	**65**	**60**	**63**	**65**	**66**	**67**	**68**
PP&E, net	54	59	62	64	66	67	67
Other Fixed Assets	11	1	1	1	0	0	0
Total Assets	**247**	**232**	**237**	**239**	**247**	**246**	**251**
Shareholders' Equity	**65**	**84**	**97**	**104**	**112**	**120**	**127**
Share Capital	1	1	1	1	1	1	1
Reserves and Other	65	83	96	104	111	119	127
Current Liabilities	**147**	**126**	**118**	**115**	**116**	**108**	**113**
ST Interest Bearing Debt	14	10	6	9	7	3	7
Trade Payables	84	65	60	50	53	50	46
Other Current Liabilities	49	51	52	57	56	54	60
LT Liabilities	**35**	**22**	**23**	**19**	**19**	**19**	**11**
LT Interest Bearing Debt	33	21	21	18	17	17	9
Other LT	2	2	2	2	2	2	2
Total Liabilities & Equity	**247**	**232**	**237**	**239**	**247**	**246**	**251**

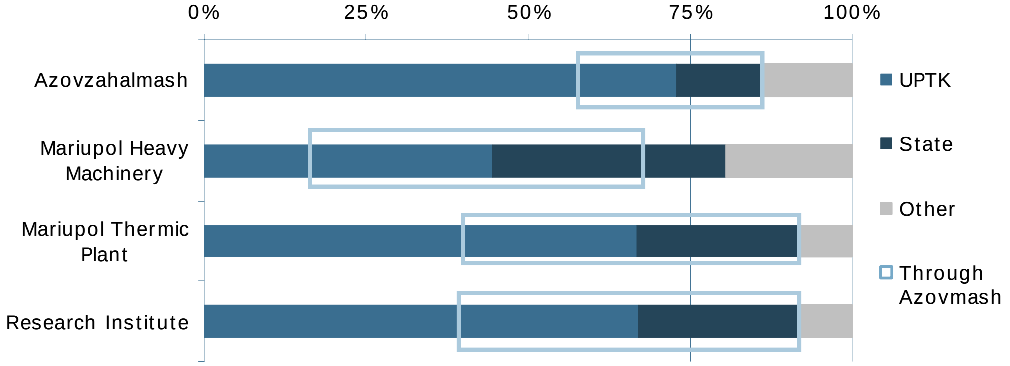
AZGM & MZVM: Two companies in one plant

Azovzahalmash (AZGM) and Mariupol Heavy Machinery (MZVM) were a single plant until 1994, and now, technologically speaking, form a single production complex.

Shareholder structure of Azovmash

Blocks of shares in AZGM and MZVM are split between three groups of shareholders: state, UPTK and Azovmash (which, in turn, is split between the state (50%+1) and UPTK (50%-1)). Besides MZVM and AZGM, two other entities are part of the Azovmash holding: the research institute and Mariupol Thermic Plant.

Ownership structure of Azovmash-related companies



Source: Company data

UPTK became an Azovmash shareholder in 2003. UPTK initially was controlled by three groups: 33% by Rinat Akhmetov (SCM), 33% by Vesprom (regional business group) and 34% by Alexander Savchuk (the top manager of Azovmash since 1986). In October 2007 Alexander Savchuk bought out the stakes of UPTK's two other shareholders and accumulated 100% of UPTK.

Reconsolidation of Azovmash?

Azovmash holding, which was split into four companies in the mid 1990s, is likely to be reconsolidated in the future, under UPTK's management. The only obstacle in the way of consolidation presently is less than 50% stake of UPTK stake in MZVM. The UPTK's owner, Savchuk, is seeking a compromise with the government.

We consider two scenarios for corporate changes at Azovmash in the mid-term:

Scenario#1: Consolidation (2008-2009), 80% probability
The state sells its stake in Azovmash or gives operating control to UPTK by transferring 25% of shares in Azovmash (as it was from August 2003 to August 2005), which will allow UPTK to reorganize Azovmash into a single holding. Afterwards, the IPO of a 10%-15% stake in the holding is possible. In connection with going public, we see the main owner shying away from artificially inflated costs, and raising reported margins (according to our estimations the real EBITDA margins of MZVM and AZGM are 16%-17%).

Scenario#2: Selling UPTK (2009-10), 20% probability
The state refuses to cooperate with UPTK. In this case, the most efficient action for UPTK's owner may be divestiture of the business.

In both scenarios, we see the potential for acquisition by a large CIS player (see page 23).

AZGM vs MZVM: What is the difference?

We distinguish between two companies by: (1) production specialization; and (2) private ownership in each plant.

Production specialization: AZGM focuses on railcars

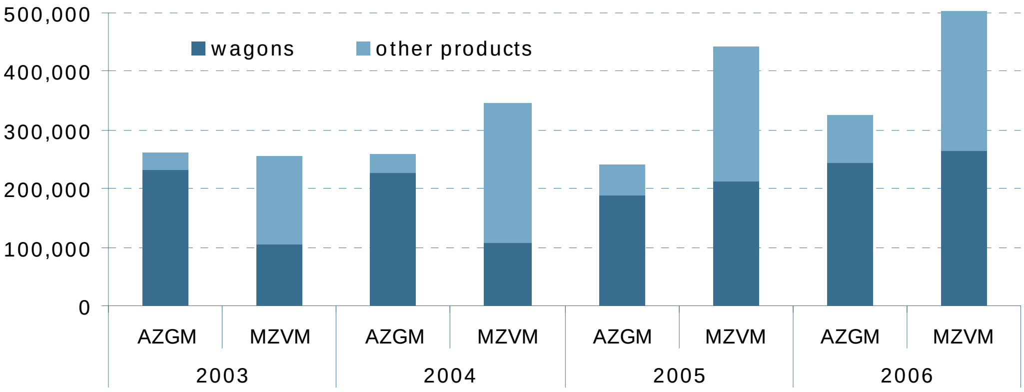
Our analysis of annual reports and our conversation with management yielded following product split between the two plants:

Products	AZGM	MZVM
Railcars	Higher capacity than MZVM, focuses on tank cars	Focuses on platforms and hoppers
Heavy machinery	Port cranes, armored bodies for military machines (BTR's);	Metallurgical equipment: converters, blast-furnaces
Other products	Boilers, fuel service trucks	Equipment for the nuclear industry

Source: Company data, Concorde Capital estimates

Mariupol Heavy Machinery has a lower share of wagons in its sales structure: 30%-60% vs. 75%-90% for Azovzahalmash.

Sales split of AZGM and MZVM, USD ths



Source: Company data

Differences in ownership structure: AZGM looks like a favorite

Since UPTK's stake is higher in Azovzahalmash than Mariupol Heavy Machinery and Azovmash's operations are controlled by UPTK, Azovzahalmash looks to be the favorite of the pair. July's AGMs and interim 2007 results of both companies showed that production growth and the group's CapEx were concentrated at Azovzahalmash (see our July 2007 report "Kind of two of a kind").

Even if Mariupol Heavy Machinery's standing as Azovmash's flagship has diminished, UPTK still is going to invest in the company's development. Otherwise, it will spoil its relationship with the state, the owner of 36% of MZVM (direct holder of an 11% stake and another 25% through Azovmash). UPTK seems to be maneuvering for the purchase or acquisition of operating control over the state's stake in Azovmash.

Stakhaniv Wagon (SVGZ UZ)

Machinery Diversified

http://stakhanovvz.com

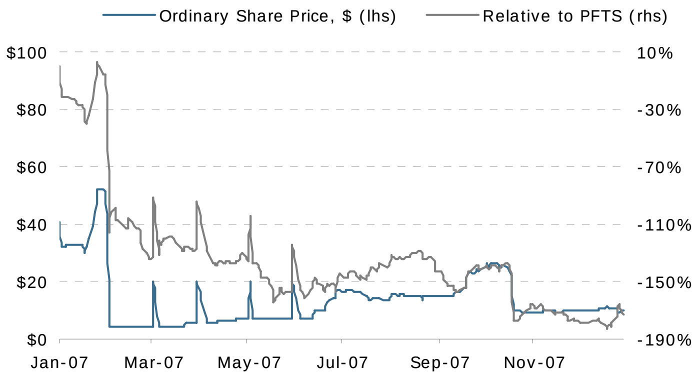
12M target (USD)	12.5
Upside*	25%

BUY

INVESTMENT CASE

- Highest production growth in the sector: +202% yoy in 9M07 after 70% yoy in 2006
- Increasing capacity by 2.5x by 2010 gives it the highest growth potential among Ukrainian railcar producers in the mid-term
- Management announced plans to launch metal construction, which we estimate could add 8% to revenues in 2008; in the mid-term, strong demand for new products will be driven by ongoing construction growth, including that related to Euro-2012 in Ukraine/Poland
- We expect EBITDA margin will grow +6.2 pp to 12.8% in 2009 thanks to launch of in-house casting production
- Possible KrAZ holding IPO (including SVGZ) will be an additional catalyst; management said they plan to make a final decision on IPO in 1H08

SHARE PRICE PERFORMANCE*



BUSINESS OVERVIEW

Specializes in the production of hopper cars for transporting mineral fertilizers. Also produces other types of freight cars, including gondolas for iron ore (have the highest demand of all railcars in Ukraine and Russia). Delivers cars for chemicals transportation to Uralkaliy (Russia), Azot Cherkasy (Ukraine) and several private Russian transportation companies. Plans to launch production of metal construction by 2008.
Exports to Russia (49% of total sales), Lithuania(20%), Kazakhstan (11%) and Estonia (9%).
In 9M07, net revenues increased to USD 174.0 mln (up USD 81.4 mln), EBITDA margin declined to 5.1% (down 2.1% yoy) and net margin rose to 3.1% (up 2.2% yoy).

MARKET INFORMATION

Market Price*, USD	9.87
Price impact**	3
52 Wk H/L USD	52.48/3.96
Chg 3m/6m/52w	-62%/-40%/-76%
Chg vs PFTS 3m/6m/52w	-59%/-45%/-173%
Chg YTD	-1%
Avg M Tr Vol 6M, USD ths	3034.1
MCap, USD mln	372.4
Free float	12%
FF Mcap, USD mln	44.7
No of shares, mln	37.7
Par Value, UAH	1.05
XETRA	n/a
DR Ratio	n/a
Avg M Tr Vol 6M, USD ths	n/a

STOCK OWNERSHIP

Finance & Credit	88.0%
Other	12.0%

CORPORATE GOVERNANCE

Concorde Rating***	P

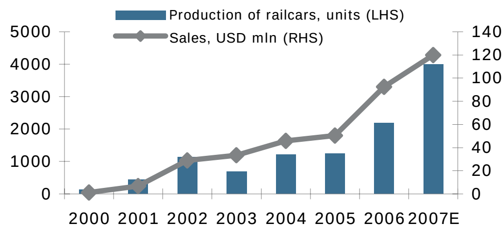
MARKET MULTIPLES

	2007E	2008E
EV/Sales	1.7	0.9
EV/EBITDA	25.2	9.0
P/E	51.1	14.8
P/B	17.0	7.9
P/CF	36.2	13.2

KEY RATIOS

	2006	2007E	2008E
EBITDA margin	8%	7%	10%
Net Margin	2%	3%	6%
ROE	30%	40%	65%
Net Debt/Equity	0.50	0.90	0.40

Output & Sales Dynamics



*Market information as of Jan 25, 2008, based on PFTS Bid prices

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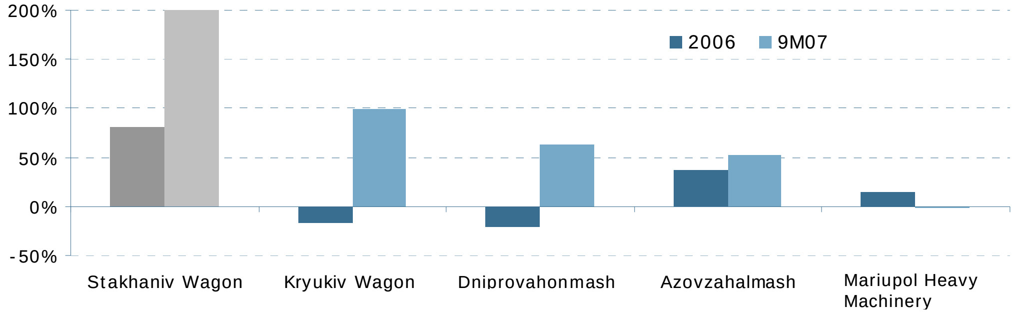
3: All other stocks (quoted)

*** 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.

The fastest growing Ukrainian wagon producer

Stakhaniv Wagon posted the largest yoy sales increase in 2006 and 9M07. We expect in the next two years the company will remain the sector's growth leader on the back of its expansion plans, which are the largest in the industry.

Ukrainian railcar producers' sales growth yoy



Source: Company data

Capital increases

On June 25 2007, Stakhaniv Wagon officially registered its 11-times charter fund increase via an additional share issue. The second additional share issue (voted for September 2007) will bring the company another USD 5.2 mln. Proceeds from the two share issues will be directed toward realizing the company's three-year CapEx program.

CapEx program to support production growth

Management approved a three-year USD 52 mln CapEx program in March 2007. The investments will allow Stakhaniv Wagon to increase annual railcar output to 10 ths railcars by 2010 from 4 ths in early 2007, and to re-launch the production of metal construction.

Relaunching production of metal construction

Stakhaniv Wagon produced metal constructions in Soviet times, and even delivered 40 ths tons of metal constructions for an English Channel tunnel (1988-92). Ukrainian construction firms will be the main consumers. We expect metal construction to result in a total of USD 658 mln in revenues during 2008-2016 (or 11% of total sales for the period).

Casting used to limit growth

Casting supply limitations appeared to be the company's main resistance factor on the way toward larger sales growth and a higher gross margin in 2007.

Management indicated to us that they have a solution to the casting shortage, but did not provide further details. The most likely scenario is creation of casting production inside the Finance and Credit group, which could happen by 2009. Internal casting facilities would also add up to 7 pp to its EBITDA margin.

Part of KRAZ holding?

This summer Finance & Credit group confirmed IPO plans of its machine building assets. The owner of AvtoKrAZ and Stakhaniv Wagon has not yet decided how to structure its assets. Management sees two scenarios: AvtoKrAZ holding as a truck construction facility; or broad machinery holding that includes AvtoKrAZ (KRAZ), Stakhaniv Wagon (SVGZ), Zaliv (SZLV), Berdichiv Progress and Uzhgorod Turbogaz.

We expect Finance and Credit will make a final decision in the 1H08. Inclusion of the company in an AvtoKrAZ holding would be an additional catalyst for the stock.

Key forecasts

Forecast revisions for Stakhaniv Wagon

		2007E	2008E	2009E	2010E	2011E	2012E
Wagon production, units	New	5,560	7,000	9,000	9,500	9,500	9,000
	Old	5,200	6,800	9,000	9,800	8,000	7,500
Metal construction, ths mt	New	0	15	25	30	35	35
	Old	0	15	15	30	30	30
Sales, USD mln	New	231	433	620	703	711	701
	Old	217	320	433	515	438	422
EBITDA margin	New	6.6%	10.1%	12.8%	13.8%	13.6%	11.8%
	Old	7.1%	8.6%	9.6%	10.6%	10.6%	10.6%

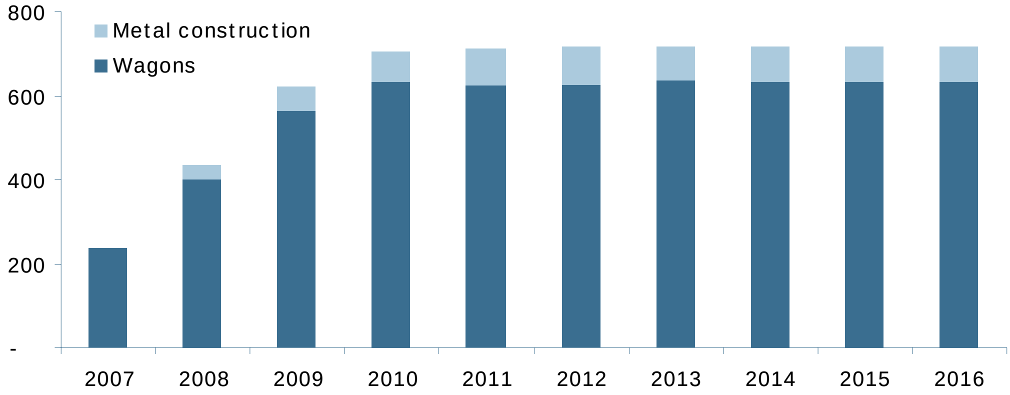
Source: Concorde Capital estimates

For our model we use two forecast periods (see page 20):

Excess demand (2008-2010). The company's sales will grow at 67.0% CAGR, EBITDA margin will grow from 6.6% to 13.8%. We expect management's plans for in-house casting production will stimulate a 7 pp EBITDA margin increase by 2009.

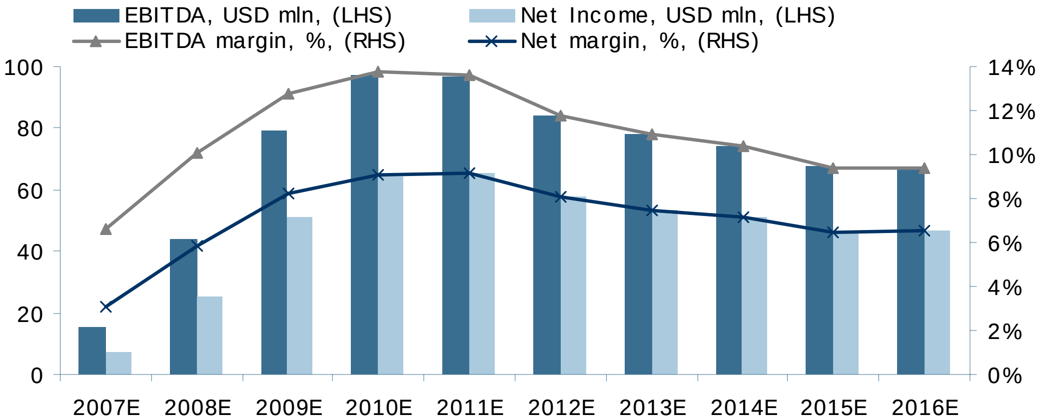
Saturation (2011-2016). The company's sales will grow at 0.3% CAGR: revenues from wagons will decrease by 0.4% while revenues from metal construction will increase by 22%. EBITDA margin will decrease to 9.4% in 2016.

Sales breakdown, USD mln



Source: Company data, Concorde Capital estimates

Profitability forecasts



Source: Concorde Capital estimates

DCF Valuation

DCF output, UAH mln, as of January 28

	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
EBITDA	**79**	**221**	**400**	**490**	**488**	**426**	**393**	**375**	**340**	**340**
EBIT	63	203	380	469	467	404	371	353	318	317
Tax Rate	0%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Taxed EBIT	63	152	285	351	350	303	279	265	238	238
Plus D&A	16	18	21	21	22	22	22	22	22	22
Less CapEx	(70)	(80)	(85)	(30)	(25)	(23)	(23)	(23)	(22)	(22)
Less change in OWC	(44)	(25)	(31)	(31)	(14)	(15)	(13)	(12)	(9)	(9)
FCFF	**(35)**	**66**	**189**	**312**	**333**	**287**	**265**	**252**	**229**	**229**
WACC	16.3%	13.4%	12.7%	12.4%	11.8%	10.9%	11.1%	11.2%	11.3%	11.4%
Discounted cash flow	(31)	58	169	248	237	184	153	131	107	96
Sum of discunted CF			1,327							

		Perpetunity growth rate	1.0%
		WACC to perpetuity	11.0%
Terminal value	972		
		Implied exit EBITDA	6.8 x
Firm value	2,298		
Portion due to TV	42%		
Less net debt	(98)		
Equity value	2,200		
Implied 12M price, USD	11,5		

Sensitivity analysis

Implied Share Price. USD

WACC Y1-10	Perpetuity Growth Rate *0.0%*	*0.5%*	*1.0%*	*1.5%*	*2.0%*
-1.5%	11.9	12.2	12.5	12.8	13.2
-1.0%	11.6	11.9	12.2	12.5	12.8
-0.5%	11.3	11.6	11.9	12.2	12.5
0.0%	11.0	11.3	**11.5**	11.8	12.2
+0.5%	10.8	11.0	11.3	11.5	11.9
+1.0%	10.5	10.7	11.0	11.2	11.5
+1.5%	10.2	10.5	10.7	11.0	11.3

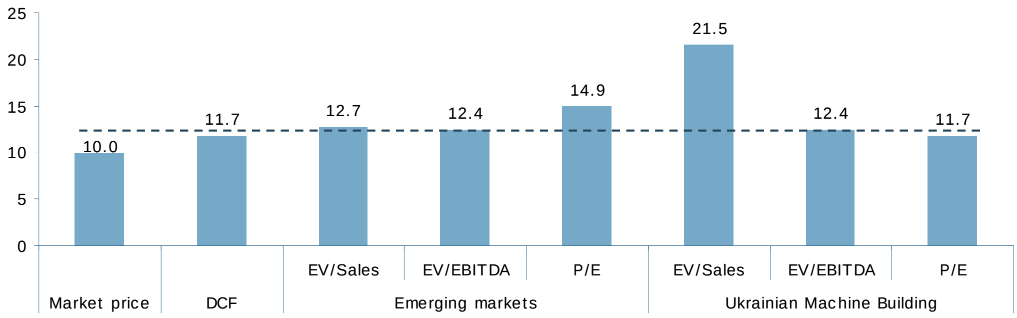
Implied Share Price, USD

WACC to perpetuity	Perpetuity Growth Rate *0.0%*	*0.5%*	*1.0%*	*1.5%*	*2.0%*
9.5%	11.7	12.1	12.4	12.8	13.3
10.0%	11.5	11.8	12.1	12.5	12.9
10.5%	11.3	11.5	11.8	12.1	12.5
11.0%	11.0	11.3	**11.5**	11.8	12.2
11.5%	10.8	11.1	11.3	11.6	11.9
12.0%	10.7	10.9	11.1	11.3	11.6
12.5%	10.5	10.7	10.9	11.1	11.4

Valuation summary

We give more weight to the DCF implied price and set our 12M target for Stakhaniv Wagon at USD 12.5 per share. We upgrade our recommendation to BUY.

Valuation results, USD per share



Source: PFTS, Concorde Capital estimates. Note: line- target price

Income Statement Summary, USD mln

	2006	2007E	2008E	2009E	2010E	2011E	2012E
Net Revenues	**90**	**237**	**433**	**620**	**703**	**711**	**715**
Gross Profit	15	34	76	124	146	144	132
Gross margin	*17.0%*	*14.5%*	*17.5%*	*20.0%*	*20.7%*	*20.3%*	*18.5%*
EBITDA	**7**	**16**	**44**	**79**	**97**	**97**	**84**
EBITDA margin	*7.5%*	*6.6%*	*10.1%*	*12.8%*	*13.8%*	*13.6%*	*11.8%*
Depreciation	(1)	(3)	(4)	(4)	(4)	(4)	(4)
EBIT	**6**	**12**	**40**	**75**	**93**	**92**	**80**
EBIT margin	*6.1%*	*5.3%*	*9.3%*	*12.1%*	*13.2%*	*13.0%*	*11.2%*
Interest Expense	(3)	(5)	(7)	(7)	(7)	(5)	(3)
PBT	**2**	**7**	**34**	**68**	**85**	**87**	**77**
Tax	-	-	(8)	(17)	(21)	(22)	(19)
Effective tax rate	0%	0%	25%	25%	25%	25%	25%
Net Income	**2**	**7**	**25**	**51**	**64**	**65**	**58**
Net Margin	*2.4%*	*3.1%*	*5.8%*	*8.2%*	*9.1%*	*9.2%*	*8.1%*

Balance Sheet Summary, USD mln

	2006	2007E	2008E	2009E	2010E	2011E	2012E
Current Assets	**53**	**100**	**118**	**151**	**168**	**169**	**173**
Cash & Equivalents	10	21	26	37	42	43	43
Trade Receivables	2	5	10	14	15	16	18
Inventories	10	26	41	57	61	62	64
Other current assets	31	47	41	43	49	48	49
Fixed Assets	**26**	**37**	**49**	**62**	**64**	**64**	**65**
PP&E, net	26	36	49	62	64	64	65
Other Fixed Assets	0	1	1	0	0	0	0
Total Assets	**80**	**137**	**167**	**213**	**231**	**233**	**238**
Shareholders' Equity	**15**	**21**	**39**	**57**	**79**	**95**	**110**
Share Capital	0	3	8	8	8	8	8
Reserves and Other	14	18	31	49	71	88	102
Current Liabilities	**63**	**115**	**127**	**154**	**150**	**136**	**127**
ST Interest Bearing Debt	17	41	45	58	48	36	25
Trade Payables	4	11	20	27	31	31	29
Other Current Liabilities	42	62	62	69	72	69	73
LT Liabilities	**2**	**2**	**2**	**2**	**2**	**2**	**2**
LT Interest Bearing Debt	-	-	-	-	-	-	-
Other LT	2	2	2	2	2	2	2
Total Liabilities & Equity	**80**	**137**	**167**	**213**	**231**	**233**	**238**

Kryukiv Wagon (KVBZ UZ)

http://www.kvsz.com

Miscellaneous Manufacturers

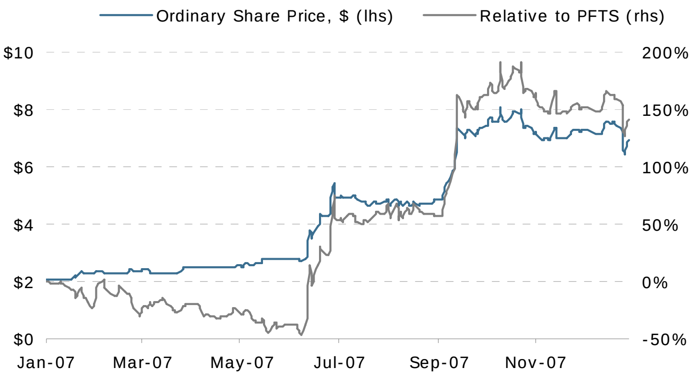
12M target (USD)	7.5
Upside*	8%

HOLD

INVESTMENT CASE

- Concentration on freight railcars allowed the company to post the second largest revenue growth in the sector in 9M07 (+100% yoy), with the similar EBITDA growth to USD 41 mln
- Increasing production of passenger wagons and subway cars for the domestic market will allow it to maintain sales amidst tightening competition in the CIS after 2010
- We expect an ownership change in 2008-2009 via consolidation of a controlling stake in one set of hands, which will result in improved managerial efficiency
- Fairly priced by the market

SHARE PRICE PERFORMANCE*



BUSINESS OVERVIEW

Only manufacturer in Ukraine that makes both passenger and freight wagons. Production capacity: 200 passenger and 8 ths freight wagons p.a. Exports ~ 70% of its output to the CIS and Iran. Pursuing strategy of diversifying its product line (into cargo wagons, passenger wagons, subway cars, escalators).
In 2006 produced a total of 4.42 ths wagons of 11 different types. In 9M07 net revenues increased by 99.7% yoy to USD 289.8 mln, EBITDA margin climbed to 14.0% from 13.9%, net margin dropped to 9.8% from 10.7%.

MARKET INFORMATION

Market Price*, USD	6.92
Price impact**	3
52 Wk H/L USD	8.10/2.04
Chg 3m/6m/52w	-7%/40%/238%
Chg vs PFTS 3m/6m/52w	-4%/35%/142%
Chg YTD	-5%
Avg M Tr Vol 6M, USD ths	1796.3
MCap, USD mln	793.6
Free float	2%
FF Mcap, USD mln	15.9
No of shares, mln	114.7
Par Value, UAH	0.75
XETRA	n/a
DR Ratio	n/a
Avg M Tr Vol 6M, USD ths	n/a

STOCK OWNERSHIP

Severstal Trans	25.0%
TAS Group	27.0%
Individuals	14.0%
Other	34.0%

CORPORATE GOVERNANCE

Concorde Rating***	BA

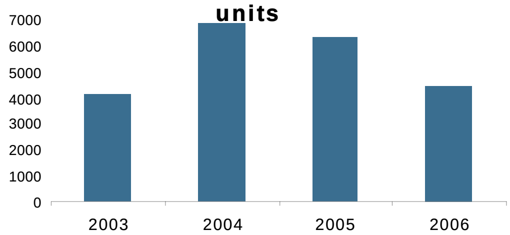
MARKET MULTIPLES

	2007E	2008E
EV/Sales	2.0	1.5
EV/EBITDA	13.4	9.7
P/E	19.3	13.7
P/B	5.0	3.6
P/CF	18.7	13.2

KEY RATIOS

	2006	2007E	2008E
EBITDA margin	13%	15%	16%
Net Margin	8%	10%	11%
ROE	17%	29%	31%
Net Debt/Equity	-0.01	-0.03	0.03

Freight Carriages Output, units



*Market information as of Jan 25, 2008, based on PFTS Mid prices

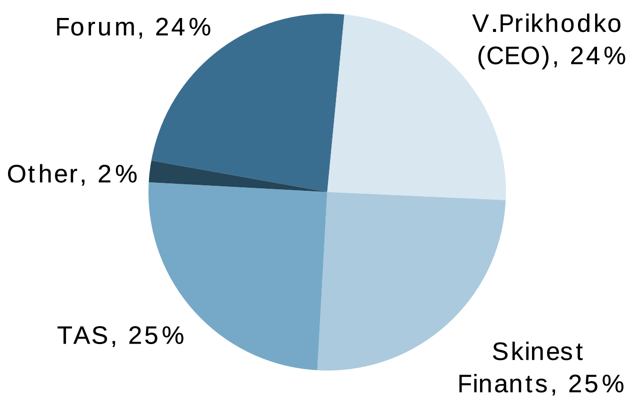
**** Price"impact" is the opinion of Concorde's trading desk on stocks to help investors estimate the reliability of quoted prices:**
1: Market price reaction remains within 10% in execution of a market order of about USD 10 mln in size
2: Market price reaction remains within 10% in execution of a market 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.

Corporate changes expected

The company is managed by Soviet-era CEO Vladimir Prikhodko, who has experience in railcar production and political power in the region. Corporate conflicts have erupted between the three current shareholders.

Shareholders structure, 2006



Source: Company data, Concorde Capital estimates

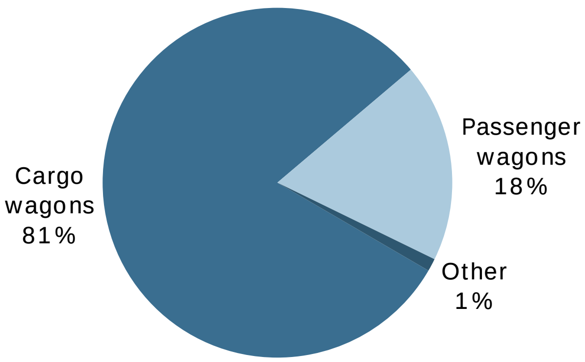
In November, the company's CEO announced plans to hire one of the Big Four auditors to conduct a financial audit according to international standards, perhaps signaling preparation for significant corporate events.

We expect the CEO to cooperate or sell his stake to one of the current shareholders, most probably TAS group, which would create synergies with Dniprovahonmash.

Product mix

Kryukiv Wagon is the only Ukrainian producer of both cargo and passenger railcars. The company's products include subway cars, motor graders, escalators and metal constructions.

Sales split, 2006



Source: Company data

Kryukiv Wagon's production line

Wagons	**Cargo wagons**	**Passenger wagons**	**Subway cars**
			
Competitors	Azovmash, Stakhaniv Wagon, Dniprovahonmash, Altaywagon, Uralwagon, VKM	Kharkiv wagon plant (2006 sales USD 8 mln), Tver	Metrowagonservis (Ukrainian assembly plant), Wagonmash (Russia), Metrowagonmash (Transmashholding, Russia)
Other products	**Motor graders, loaders**	**Escalators**	**Metal construction**
			
Competitors	Zoomlion (China), Uralwagon, Chelyabinsk stroitelno-doroznie mashinii (Russia, GAZ group)	Kirovskiy plant (Russia), Otis (USA), Schindler (Swiss), TyssenKrupp (Germany)	Novokramatorsk Heavy machinery, Stakhaniv Wagon

Source: Company data, mass media

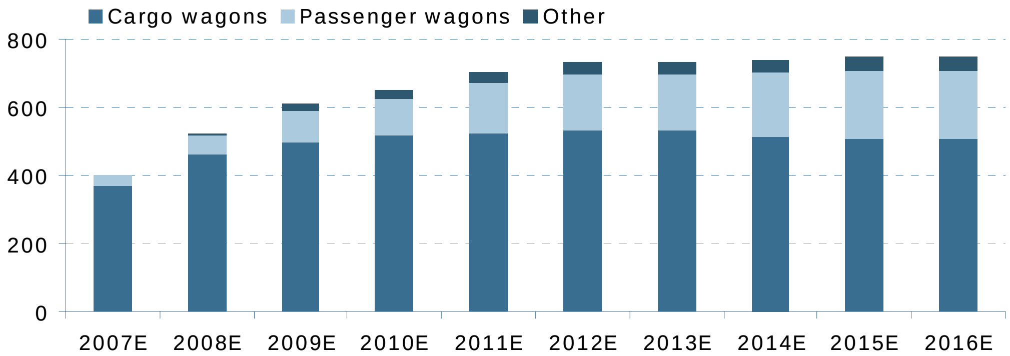
Key forecasts

For our model we use two forecast periods (see page 20):

Excess demand (2008-2010). The company's sales will grow at 29.9% CAGR, EBITDA margin will range between 14.7-16.6%.

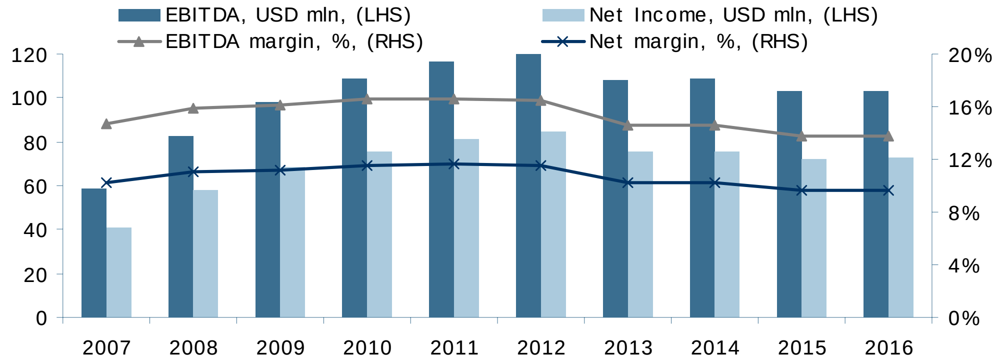
Saturation (2011-2016). The company's sales will grow at 2.3% CAGR: revenues from wagons will decrease by 3.3% while sales of passenger wagons and subway cars will increase by 36%. We expect its EBITDA margin will decrease to 13.5% in 2016.

Sales breakdown, USD mln



Source: Concorde Capital estimates

Profitability forecasts



Source: Concorde Capital estimates

DCF Valuation

DCF output, UAH mln, as of January 28

	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
EBITDA	**297**	**418**	**496**	**548**	**581**	**590**	**530**	**534**	**510**	**510**
EBIT	278	396	471	522	555	564	503	508	484	483
Tax Rate	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Taxed EBIT	209	297	353	392	417	423	378	381	363	363
Plus D&A	19	22	25	26	26	26	26	26	27	27
Less CapEx	(90)	(100)	(50)	(40)	(28)	(26)	(26)	(26)	(26)	(26)
Less change in OWC	(41)	(37)	(30)	(28)	(19)	(12)	(16)	(12)	(11)	(6)
FCFF	97	182	298	349	395	411	362	369	353	358
WACC	16.4%	16.1%	15.0%	13.3%	12.2%	11.2%	11.2%	11.3%	11.3%	11.4%
Discounted cash flow	84	159	262	271	273	256	202	186	159	145
Sum of discunted CF			1,754							

		Perpetunity growth rate	1.0%
		WACC to perpetuity	11.0%
Terminal value	1,464		3,614
		Implied exit EBITDA multiple	7.1 x
Firm value	**3,218**		
Portion due to TV	45%		
Less net debt	(33)		
Equity value	3,185		
Implied 12M Price, USD	**5.5**		

Sensitivity analysis

Implied Share Price. USD

WACC Y1-10	Perpetuity Growth Rate *0.0%*	*0.5%*	*1.0%*	*1.5%*	*2.0*
-1.5%	5.7	5.8	5.9	6.1	6.3
-1.0%	5.5	5.7	5.8	6.0	6.1
-0.5%	5.4	5.5	5.6	5.8	6.0
0.0%	5.2	5.4	**5.5**	5.6	5.8
+0.5%	5.1	5.2	5.4	5.5	5.7
+1.0%	5.0	5.1	5.2	5.4	5.5
+1.5%	4.9	5.0	5.1	5.2	5.4

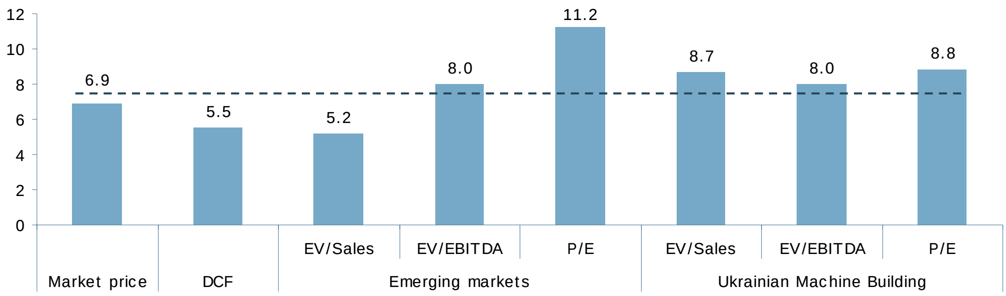
Implied Share Price, USD

WACC to perpetuity	Perpetuity Growth Rate *0.0%*	*0.5%*	*1.0%*	*1.5%*	*2.0*
9.5%	5.6	5.8	5.9	6.1	6.4
10.0%	5.5	5.6	5.8	6.0	6.2
10.5%	5.4	5.5	5.6	5.8	6.0
11.0%	5.2	5.4	**5.5**	5.6	5.8
11.5%	5.1	5.3	5.4	5.5	5.7
12.0%	5.1	5.2	5.3	5.4	5.5
12.5%	5.0	5.1	5.2	5.3	5.4

Valuation summary

Taking into account strong market momentum and progressive reporting standards (vs. its sector peers), we apply a higher weight to multiples-implied prices and set our 12M target for Kryukiv Wagon at USD 7.5 per share. We initiate coverage with a HOLD recommendation.

Valuation results, USD per share



Source: PFTS, Concorde Capital estimates. Note: line- target price

Income Statement Summary, USD mln

	2006	2007E	2008E	2009E	2010E	2011E	2012E
Net Revenues	**225**	**401**	**523**	**608**	**653**	**702**	**731**
Gross Profit	40	72	99	117	128	136	139
Gross margin	17.8%	17.9%	18.9%	19.2%	19.6%	19.4%	19.0%
EBITDA	**30**	**59**	**83**	**98**	**108**	**115**	**117**
EBITDA margin	13.1%	14.7%	15.8%	16.1%	16.6%	16.4%	16.0%
Depreciation	(2)	(4)	(4)	(5)	(5)	(5)	(5)
EBIT	**27**	**55**	**78**	**93**	**103**	**110**	**112**
EBIT margin	*12.2%*	*13.7%*	*15.0%*	*15.3%*	*15.8%*	*15.7%*	*15.3%*
Interest Expense	(1)	(0)	(1)	(2)	(3)	(3)	(2)
PBT	**26**	**55**	**77**	**91**	**101**	**107**	**110**
Tax	(7)	(14)	(19)	(23)	(25)	(27)	(27)
Effective tax rate	29%	25%	25%	25%	25%	25%	25%
Net Income	**18**	**41**	**58**	**68**	**75**	**80**	**82**
Net Margin	*8.1%*	*10.2%*	*11.1%*	*11.2%*	*11.6%*	*11.5%*	*11.3%*

Balance Sheet Summary, USD mln

	2006	2007E	2008E	2009E	2010E	2011E	2012E
Current Assets	**118**	**142**	**159**	**173**	**181**	**187**	**193**
Cash & Equivalents	4	7	8	9	10	11	11
Trade Receivables	25	35	43	49	49	53	55
Inventories	63	64	64	66	71	70	73
Other current assets	27	36	44	49	51	54	54
Fixed Assets	**44**	**56**	**71**	**76**	**79**	**79**	**79**
PP&E, net	34	47	64	74	77	78	78
Other Fixed Assets	10	9	8	2	2	1	1
Total Assets	**162**	**198**	**230**	**249**	**259**	**266**	**272**
Shareholders' Equity	**119**	**144**	**155**	**162**	**169**	**173**	**181**
Share Capital	17	17	8	8	8	8	8
Reserves and Other	102	127	147	154	161	165	174
Current Liabilities	**43**	**55**	**75**	**87**	**90**	**93**	**91**
ST Interest Bearing Debt	3	2	14	19	21	21	16
Trade Payables	11	18	21	25	26	28	30
Other Current Liabilities	29	35	40	43	43	43	45
LT Liabilities	-	-	-	-	-	-	-
LT Interest Bearing Debt	-	-	-	-	-	-	-
Other LT	-	-	-	-	-	-	-
Total Liabilities & Equity	**162**	**198**	**230**	**249**	**259**	**266**	**272**

Dniprovahonmash (DNVM UZ)

Machinery Diversified

http://www.dvmash.com

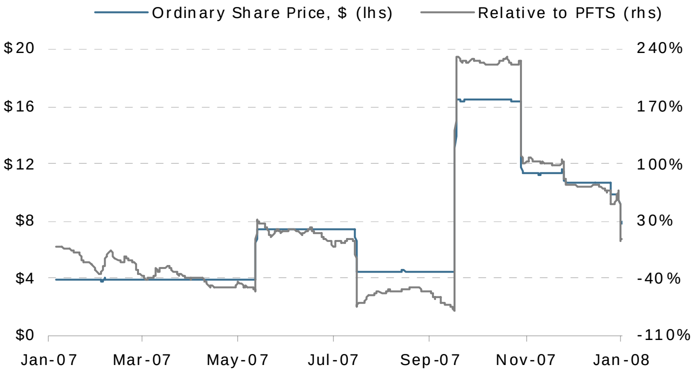
12M target (USD)	20.0
Upside*	321%

BUY

INVESTMENT CASE

- Impressive 9M07 financials (sales grew by 64% yoy; EBITDA by 304%) we attribute to: focus on the "hottest" freight railcar, gondolas; exposure to a casting producer; and progress in financial disclosure
- We project revenues to increase at 36% CAGR over 2007-2010, backed by demand in CIS
- TAS group (98% shareholder) is highly likely to place a 10%-15% stake in 2008-2009
- Attractive acquisition target for Russian rivals looking to expand their capacity
- Focus solely on railcar production runs risk of decreased sales with tightening competition in the CIS after 2010

SHARE PRICE PERFORMANCE*



BUSINESS OVERVIEW

Currently the third largest producer of freight cars in Ukraine (Capacity: 4 ths cars p.a.). Production capacities enable it to produce up to six types of freight cars simultaneously. Product portfolio consists of 150 types of freight cars (flat cars, gondola cars, dump cars, box and hopper cars and specialized cars). Target markets are CIS countries, China, India, Pakistan, Iran, and Baltic states. Exports make up over 80% of the company's total output, including 65% to Russia. In 2006 opened a subsidiary in Moscow.

In 9M07, net revenue increased by 63.8% yoy to USD 111.7 mln EBITDA margin improved to 18.5% from 7.5% and net margin to 11.6% from 3.4%.

MARKET INFORMATION

Market Price*, USD	4.8
Price impact**	n/a
52 Wk H/L USD	16.53/3.76
Chg 3m/6m/52w	-52%/7%/105%
Chg vs PFTS 3m/6m/52w	-49%/2%/8%
Chg YTD	-26%
Avg M Tr Vol 6M, USD ths	n/a
MCap, USD mln	74.0
Free float	2%
FF Mcap, USD mln	1.5
No of shares, mln	16.6
Par Value, UAH	0.5
XETRA	n/a
DR Ratio	n/a
Avg M Tr Vol 6M, USD ths	n/a

STOCK OWNERSHIP

TAS Group	99.0%
Other	1.0%

CORPORATE GOVERNANCE

Concorde Rating***	P

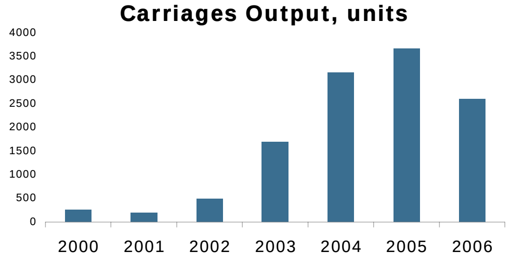
MARKET MULTIPLES

	2007E	2008E
EV/Sales	0.6	0.3
EV/EBITDA	3.2	1.6
P/E	4.1	2.4
P/B	1.9	1.2
P/CF	3.9	2.3

KEY RATIOS

	2006	2007E	2008E
EBITDA margin	7%	19%	18%
Net Margin	3%	12%	13%
ROE	12%	46%	63%
Net Debt/Equity	n/a	0.40	-0.02

Carriages Output, units



*Market information as of Jan 25, 2008, based on PFTS deal price

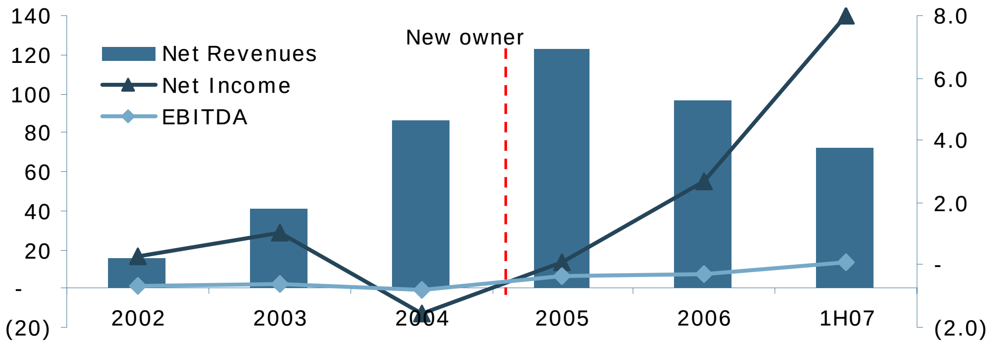
** **Price"impact" is the opinion of Concorde's trading desk on stocks to help investors estimate the reliability of quoted prices:**
1: Market price reaction remains within 10% in execution of a market order of about USD 10 mln in size
2: Market price reaction remains within 10% in execution of a market 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.

New owner, new financial outlook

In the mid-2005, TAS group bought a controlling stake in Dniprovahonmash and started strengthening the company's financial results via both eliminating cost inefficiencies and improving financial disclosure.

Sales, EBITDA and net income, USD mln



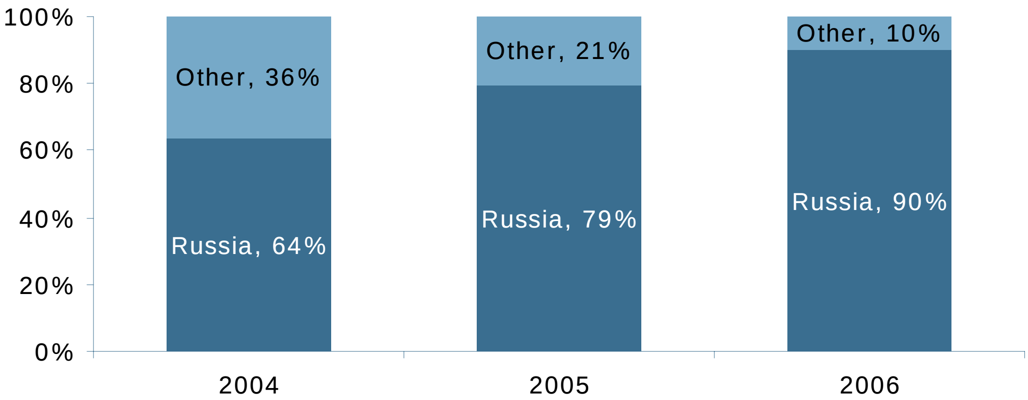
Source: Company data

Product mix

In 2007 Dniprovahonmash benefited the most from skyrocketing demand for railcars and focused on the "hot" type – gondolas.

Dniprovahonmash is the only Ukrainian heavy machinery plant that solely produces freight railcars. This makes it more sensitive to wagon demand, implying higher sales volatility in the future.

Sales destination



Source: Company data

The company became more dependent on Russian orders in 2006-2007, though it succeeded in diversifying sales between different Russian consumers.

Key forecasts

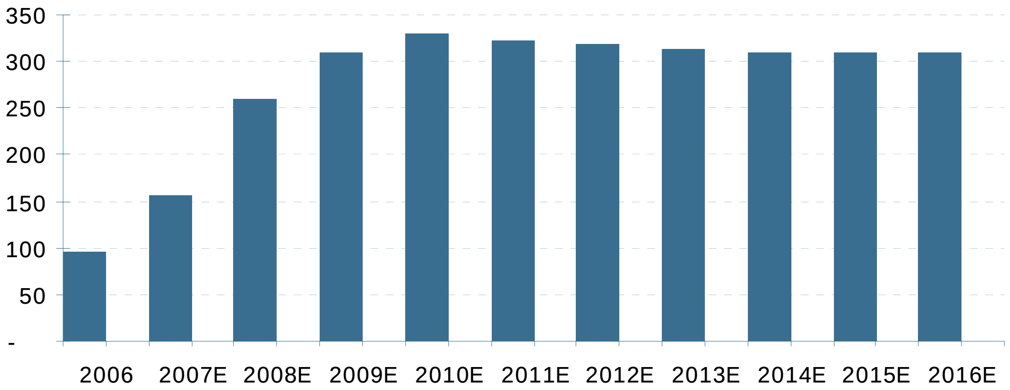
For our model we use two forecast periods (see page 20):

Excess demand (2008-2010). We expect the company's sales to grow at 36.1% CAGR, EBITDA margin will range between 19.2-14.7%.

Saturation (2011-2016). The company's sales will fall at 0.9% CAGR. We expect its EBITDA margin will decrease to 9.0% in 2016.

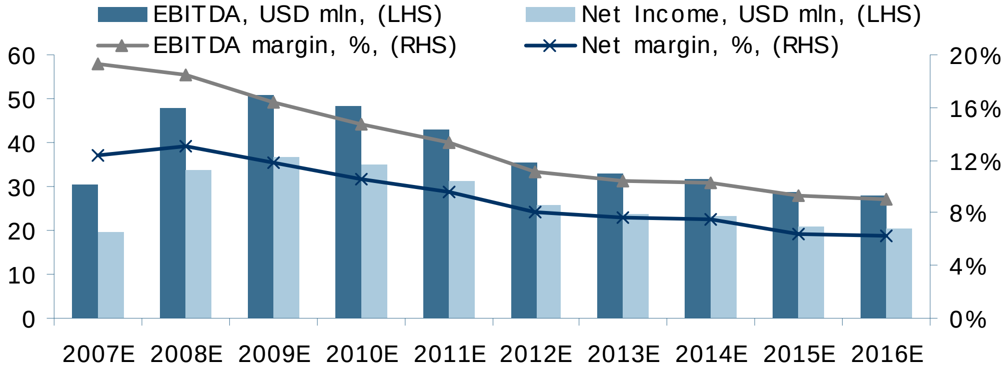
We set perpetuity growth rate for the company at 0.5% (against 1.0% for the other four companies), discounting the company's lack of product diversification.

Sales forecasts, USD mln



Source: Company data, Concorde Capital forecasts

Profitability forecasts



Source: Concorde Capital forecasts

DCF Valuation

DCF output, UAH mln, as of January 28

	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
EBITDA	**153**	**242**	**257**	**245**	**217**	**179**	**165**	**161**	**138**	**134**
EBIT	148	237	252	240	212	174	161	157	134	130
Tax Rate	0	0	0	0	0	0	0	0	0	0
Taxed EBIT	111	178	189	180	159	131	121	118	101	98
Plus D&A	5	5	5	5	5	4	4	4	4	4
Less CapEx	(5)	(6)	(8)	(9)	(8)	(6)	(5)	(4)	(4)	(4)
Less change in OWC	(32)	(34)	(38)	(17)	8	(2)	(2)	(3)	(6)	(7)
FCFF	**79**	**142**	**148**	**159**	**164**	**127**	**118**	**115**	**95**	**90**
WACC	14.3%	16.1%	14.8%	13.1%	12.3%	11.4%	11.5%	11.5%	11.5%	11.5%
Discounted cash flow	70	124	131	124	113	79	66	57	42	36
Sum of discunted CF			649							
							Perpetunity growth rate			0.5%
							WACC to perpetuity			11.0%
Terminal value			348							866
							Implied exit EBITDA multiple			6.5 x
Firm value			**997**							
Portion due to TV			35%							
Less net debt			5							
Equity value			1,003							
Implied 12M price, USD			**17.4**							

Sensitivity analysis

Implied Share Price. USD

WACC Y1-10	Perpetuity Growth Rate -0.5%	0.0%	0.5%	1.0%	1.5%
-1.5%	17.9	18.3	18.6	19.0	19.4
-1.0%	17.5	17.8	18.2	18.5	18.9
-0.5%	17.2	17.5	17.8	18.1	18.5
0.0%	16.8	17.1	**17.4**	17.7	18.1
+0.5%	16.4	16.7	17.0	17.3	17.7
+1.0%	16.1	16.3	16.6	16.9	17.3
+1.5%	15.7	16.0	16.3	16.6	16.9

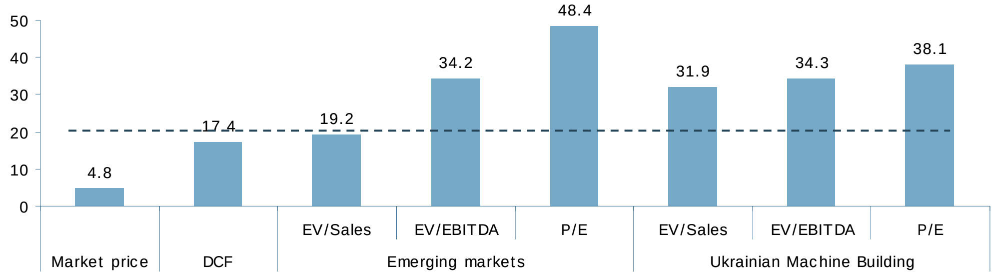
Implied Share Price, USD

WACC to perpetuity	Perpetuity Growth Rate -0.5%	0.0%	0.5%	1.0%	1.5%
9.5%	17.6	18.0	18.4	18.8	19.3
10.0%	17.3	17.6	18.0	18.4	18.9
10.5%	17.0	17.3	17.7	18.0	18.4
11.0%	16.8	17.1	**17.4**	17.7	18.1
11.5%	16.6	16.8	17.1	17.4	17.7
12.0%	16.4	16.6	16.9	17.1	17.4
12.5%	16.2	16.4	16.6	16.9	17.2

Valuation summary

We give more weight to the DCF implied price and set our 12M target for Dniprovahonmash at USD 20.0 per share. We initiate coverage with a BUY recommendation, but call your attention to the fact that there is a limited offer of share on the market.

Valuation results, USD per share



Source: PFTS, Concorde Capital estimates. Note: line- target price

Income Statement Summary, USD mln

	2006	2007E	2008E	2009E	2010E	2011E	2012E
Net Revenues	**96**	**157**	**259**	**310**	**329**	**322**	**318**
Gross Profit	15	40	63	70	68	62	54
Gross margin	*15.8%*	*25.5%*	*24.5%*	*22.4%*	*20.7%*	*19.3%*	*17.1%*
EBITDA	**7**	**30**	**48**	**51**	**48**	**43**	**35**
EBITDA margin	7.4%	*19.2%*	*18.5%*	*16.4%*	*14.7%*	*13.3%*	*11.1%*
Depreciation	(1)	(1)	(1)	(1)	(1)	(1)	(1)
EBIT	**6**	**29**	**47**	**50**	**47**	**42**	**34**
EBIT margin	*6.4%*	*18.6%*	*18.1%*	*16.1%*	*14.4%*	*13.0%*	*10.8%*
Interest Expense	(3)	(3)	(2)	(1)	(1)	(1)	(0)
PBT	**4**	**26**	**45**	**49**	**47**	**41**	**34**
Tax	(1)	(6)	(11)	(12)	(12)	(10)	(9)
Effective tax rate	31%	25%	25%	25%	25%	25%	25%
Net Income	**3**	**19**	**34**	**37**	**35**	**31**	**26**
Net Margin	*2.8%*	*12.3%*	*13.1%*	*11.9%*	*10.6%*	*9.6%*	*8.1%*

Balance Sheet Summary, USD mln

	2006	2007E	2008E	2009E	2010E	2011E	2012E
Current Assets	**55**	**66**	**82**	**94**	**100**	**98**	**98**
Cash & Equivalents	4	6	9	11	12	11	11
Trade Receivables	5	6	10	11	13	13	14
Inventories	20	28	35	41	44	43	44
Other current assets	26	26	27	31	31	30	29
Fixed Assets	**10**	**8**	**8**	**8**	**9**	**10**	**10**
PP&E, net	7	7	7	8	9	10	10
Other Fixed Assets	3	1	1	0	-	-	-
Total Assets	**64**	**74**	**90**	**103**	**108**	**107**	**108**
Shareholders' Equity	**22**	**42**	**66**	**75**	**80**	**83**	**85**
Share Capital	2	2	2	2	2	2	2
Reserves and Other	21	40	64	73	78	81	84
Current Liabilities	**42**	**30**	**23**	**26**	**27**	**22**	**21**
ST Interest Bearing Debt	37	21	8	9	8	4	2
Trade Payables	3	5	8	10	10	10	11
Other Current Liabilities	3	4	7	8	9	8	8
LT Liabilities	**-**	**2**	**2**	**2**	**2**	**2**	**2**
LT Interest Bearing Debt	-	-	-	-	-	-	-
Other LT	-	2	2	2	2	2	2
Total Liabilities & Equity	**64**	**74**	**90**	**103**	**108**	**107**	**108**

APPENDICES

Appendix A: Comparative valuation

	Price	MCap	EV/Sales		EV/EBITDA		P/E	
	USD	USD mln	2007E	2008E	2007E	2008E	2007E	2008E
Azovzahalmash	**10.5**	**487**	**1.2**	**1.0**	**6.3**	**5.2**	**9.1**	**7.2**
Mariupol Heavy Machinery	**27.1**	**417**	**0.9**	**0.8**	**5.0**	**4.6**	**6.9**	**6.2**
Stakhaniv Wagon	**10.0**	**377**	**1.7**	**0.9**	**25.5**	**9.0**	**51.7**	**14.9**
Dniprovahonmash	**4.8**	**74**	**0.6**	**0.3**	**3.0**	**1.5**	**3.8**	**2.2**
Kryukiv Wagon	**6.9**	**794**	**2.0**	**1.5**	**13.4**	**9.7**	**19.3**	**13.7**
Average			**1.2**	**0.9**	**10.6**	**6.0**	**18.2**	**8.8**
Developed market			2007E	2008E	2007E	2008E	2007E	2008E
American Railcar Industries	17.8	378	0.5	0.4	4.2	3.7	8.8	7.3
Freightcar America	35.6	421	0.2	0.3	2.4	3.5	8.5	17.2
Greenbrier Companies	18.3	295	0.6	0.4	6.0	3.6	13.4	5.2
Trinity Industries	25.4	2,068	0.9	1.0	5.9	6.4	7.6	7.7
Const Y Auxiliar De Ferr	355.5	1,219	0.8	0.6	8.2	5.4	14.9	12.3
Kinki Sharyo Company Ltd	2.5	174	0.3	0.3	5.4	3.5	22.6	7.0
United Group	13.6	2,222	0.7	0.6	10.2	8.9	30.5	13.9
Nippon Sharyo Ltd	1.4	249	0.6	0.5	18.4	17.9	71.0	31.5
Peer average			**0.6**	**0.5**	**7.6**	**6.6**	**22.2**	**12.8**
Emerging market			2007E	2008E	2007E	2008E	2007E	2008E
China Motor Corp	0.69	957	0.8	0.8	7.7	7.2	10.7	9.9
Jinxi Axle Company Ltd	3.1	319	2.1	1.7	20.1	16.5	39.8	29.0
Iochpe-Maxion SA	28.1	978	1.5	1.2	10.5	7.9	24.6	15.3
Altay Vagon	1772.4	199	0.6	n/a	9.7	n/a	28.4	n/a
Tverskoy Vagonostroitelniy	1872.0	468	0.9	0.8	7.2	11.5	23.9	32.7
Peer average			**1.2**	**1.1**	**11.0**	**10.8**	**25.5**	**21.7**
Ukrainian Machine-Building			2007E	2008E	2007E	2008E	2007E	2008E
Luhanskteplovoz	1.4	296	1.9	1.0	20.3	9.9	36.1	16.8
Motor Sich	320.5	666	2.0	1.8	9.0	7.6	21.7	16.0
Sumy Frunze	11.0	781	2.2	1.7	17.7	11.0	35.7	19.2
Turboatom	1.4	586	6.7	3.3	25.6	11.2	49.6	17.9
Druzhkivka Machinery	1.1	226	1.8	1.5	12.3	9.8	19.2	15.2
AvtoKraz	26.8	556	3.3	2.6	25.2	19.2	31.9	23.3
Bohdan Automobile Plant	0.2	774	1.1	n/a	12.2	n/a	11.1	n/a
Peer average			**2.7**	**2.0**	**17.5**	**11.5**	**29.3**	**18.1**
AZGM price								
Implied by Developed peer avg, USD/share			4.9	5.7	12.6	13.4	25.7	18.7
Implied by Emerging peers avg, USD/share			10.8	12.3	18.6	22.0	29.5	31.7
Implied by Ukrainian peers avg, USD/share			25.5	21.8	29.8	23.4	21.0	12.9
Upside/Downside to Developing avg			-53%	-46%	21%	28%	145%	78%
Upside/Downside to Emerging avg			3%	17%	78%	110%	181%	203%
Implied Upside			144%	108%	184%	123%	101%	23%
MZVM price								
Implied by Developed peer avg, USD/share			17.3	17.3	42.2	40.0	86.8	55.8
Implied by Emerging peers avg, USD/share			38.2	38.6	62.3	66.2	99.7	94.8
Implied by Ukrainian peers avg, USD/share			90.1	69.5	99.8	70.5	114.8	78.8
Upside/Downside to International avg			-36%	-36%	56%	48%	220%	106%
Upside/Downside to Developing avg			41%	42%	130%	144%	268%	250%
Upside/Downside to Ukrainian avg			232%	156%	268%	160%	324%	191%
SVGZ price								
Implied by Developed peer avg, USD/share			3.0	5.5	2.6	7.2	4.3	8.5
Implied by Emerging peers avg, USD/share			6.9	12.3	4.0	12.0	4.9	14.5
Implied by Ukrainian peers avg, USD/share			16.5	22.2	6.7	12.8	5.7	12.1
Upside/Downside to International avg			-69%	-45%	-74%	-28%	-57%	-14%
Upside/Downside to Developing avg			-31%	24%	-60%	20%	-51%	46%
Upside/Downside to Ukrainian avg			66%	122%	-33%	28%	-43%	21%
DNVM price								
Implied by Developed peer avg, USD/share			4.8	8.8	13.7	20.4	27.6	27.8
Implied by Emerging peers avg, USD/share			11.0	18.7	20.4	33.2	31.7	47.2
Implied by Ukrainian peers avg, USD/share			26.5	32.9	32.9	35.3	36.5	39.3
Upside/Downside to International avg			0%	85%	189%	329%	481%	485%
Upside/Downside to Developing avg			131%	293%	330%	598%	567%	894%
Upside/Downside to Ukrainian avg			457%	592%	593%	642%	668%	726%
KVBZ price								
Implied by Developed peer avg, USD/share			2.0	2.3	3.9	4.7	7.9	6.4
Implied by Emerging peers avg, USD/share			4.2	5.0	5.7	7.7	9.1	11.0
Implied by Ukrainian peers avg, USD/share			9.6	9.0	9.0	8.2	10.5	9.1
Upside/Downside to International avg			-71%	-66%	-43%	-32%	15%	-7%
Upside/Downside to Developing avg			-39%	-27%	-17%	12%	32%	58%
Upside/Downside to Ukrainian avg			38%	29%	30%	19%	52%	32%

Appendix B: Key peer financials

	MCap	Net Revenues			EBITDA margin			Net Margin		
	USD mln	2006	2007E	2008E	2006	2007E	2008E	2006	2007E	2008E
Azovzahalmash	487	325	445	517	3.0%	18.1%	18.5%	0.1%	12.1%	13.2%
Mariupol Heavy Machinery	417	502	521	554	2.1%	17.2%	17.5%	0.0%	11.6%	12.1%
Stakhaniv Wagon	377	91	237	433	7.5%	6.6%	10.1%	2.4%	3.1%	5.8%
Dniprovahonmash	74	96	157	259	7.4%	19.2%	18.5%	2.8%	12.3%	13.1%
Kryukiv Wagon	794	225	401	523	13.1%	14.7%	15.8%	8.1%	10.2%	11.1%
Average					**6.6%**	**15.2%**	**16.1%**	**2.7%**	**9.9%**	**11.0%**
Developed market										
American Railcar Industries	378	646	765	958	8.2%	11.2%	10.6%	5.4%	5.6%	5.4%
Freightcar America	421	1445	830	503	14.2%	8.5%	7.6%	8.9%	6.0%	4.9%
Greenbrier Companies	295	954	1224	1270	11.7%	10.5%	11.5%	4.2%	1.8%	4.5%
Trinity Industries	2068	3219	3742	3867	14.6%	15.8%	15.9%	7.1%	7.2%	7.0%
Const Y Auxiliar De Ferr	1219	1011	1263	1379	7.6%	9.3%	12.0%	4.3%	6.5%	7.2%
Kinki Sharyo Company Ltd	174	313	383	576	4.1%	5.0%	8.4%	1.4%	2.0%	4.3%
United Group	2222	2001	3446	3980	7.2%	7.3%	7.1%	3.6%	2.1%	4.0%
Nippon Sharyo Ltd	249	749	790	812	3.6%	3.0%	3.0%	1.1%	0.4%	1.0%
Peer average					**8.9%**	**8.8%**	**9.5%**	**4.5%**	**4.0%**	**4.8%**
Emerging market										
China Motor Corp	957	1,109	1,034	1,094	4.6%	10.8%	11.6%	8.9%	8.7%	8.8%
Jinxi Axle Company Ltd	319	106	150	184	11.1%	10.5%	10.3%	5.9%	5.3%	6.0%
Iochpe-Maxion SA	978	573	722	919	13.0%	13.8%	14.8%	4.6%	5.5%	7.0%
Altay Vagon	199	316	345	n/a	4.0%	6.3%	n/a	1.7%	2.0%	n/a
Tverskoy Vagonostroitelniy	468	571	618	753	10.5%	13.1%	6.7%	3.8%	3.2%	1.9%
Peer average					**8.7%**	**10.9%**	**10.9%**	**5.0%**	**4.9%**	**5.9%**
Ukrainian Machine-Building										
Luhanskteplovoz	296	88	165	321	5.5%	9.5%	10.0%	neg	5.0%	5.5%
Motor Sich	666	245	333	379	16.3%	22.9%	23.3%	3.9%	9.2%	11.0%
Sumy Frunze	781	306	367	495	7.8%	12.7%	15.0%	0.9%	6.0%	8.2%
Turboatom	586	52	87	174	14.3%	26.2%	29.7%	7.5%	13.6%	18.9%
Druzhkivka Machinery	226	86	131	157	7.7%	14.3%	15.0%	0.4%	9.0%	9.5%
AvtoKraz	556	147	179	223	14.9%	13.0%	13.7%	6.6%	9.7%	10.7%
Bohdan Automobile Plant	774	414	931	n/a	7.2%	9.1%	n/a	4.4%	7.5%	n/a
Peer average					**10.5%**	**15.4%**	**17.8%**	**4.0%**	**8.6%**	**10.6%**

Appendix C: Railcar specifications and functions

Type of wagon	Industries served	Typical Commodities
Gondola 	Energy, Construction, Steel, Waste/recycling, Forest products	Coal, petroleum/metallurgic coke, aggregates, taconite, glass cullet, woodchips
Tank car 	Chemical, Petroleum, Food, Agriculture	LPG, VCM, Polypropylene, Biofuels, caustic soda, Petroleum, phosphoric acid, crude petroleum, light fuel oil
Platform 	Most industries	For container transportation (all types of products), wood, cold-rolled steel
Dump car 	Energy, Construction, Steel, Forest Products, Waste/Recycling	Coal, aggregates, scrap metal, woodchips, solid waste, petroleum/metallury coke
Hopper 	Plastics, Food, Industrial, Energy, Agriculture, Construction	High density polyethylene, sugar, flour, cement, fly ash, sodium chlorate, grain, solid ferlitizer, sand, roofing granules, minerals

Source: Concorde Capital

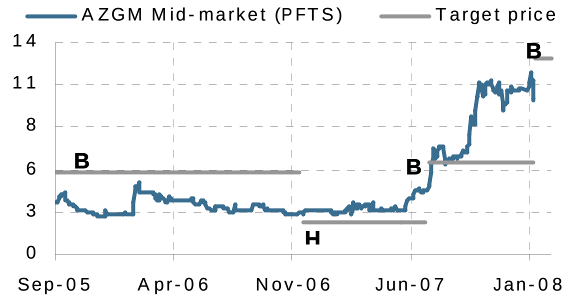
Disclosures

Analyst certification

I, Inna Perepelytsya, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

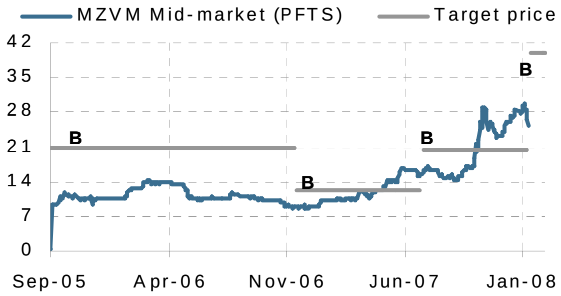
Azovzahalmash

Date	TP	MP	Rec'	Action
	USD	***USD***		
21-Sep-05	5.4	3.3	BUY	Initiating
06-Dec-06	2.1	2.5	HOLD	Downgrade
17-Jul-2007	6.1	4.3	BUY	Upgrade
28-Jan-08	13.0	10.5	BUY	Maintain



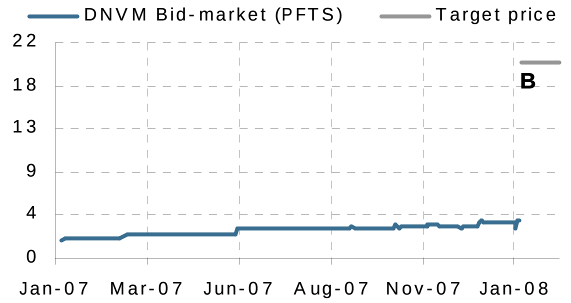
Mariupol Heavy Machinery

Date	TP	MP	Rec'	Action
	USD	***USD***		
21-Sep-05	20.7	10.0	BUY	Initiating
06-Dec-06	12.1	8.9	BUY	Maintain
17-Jul-2007	20.3	15.7	BUY	Maintain
28-Jan-08	40.0	27.1	BUY	Maintain



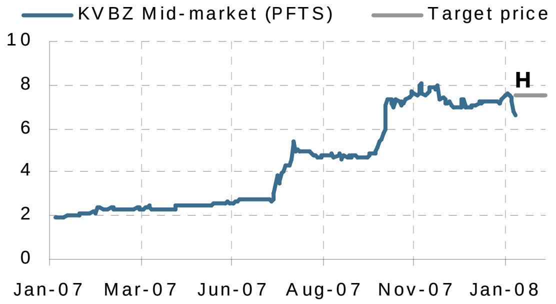
Dniprovahonmash

Date	TP	MP	Rec'	Action
	USD	***USD***		
28-Jan-08	20.0	4.8	BUY	Initiating



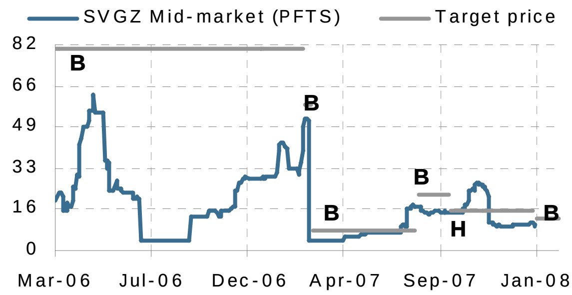
Kryukiv Wagon

Date	TP	MP	Rec'	Action
	USD	***USD***		
28-Jan-08	7.5	6.9	HOLD	Initiating



Stakhaniv Wagon

Date	TP	MP	Rec'	Action
	USD	***USD***		
03-Mar-06	80.5	35.6	BUY	Initiating
12-May-06	80.5	61.4	BUY	Maintain
23-Nov-06	80.5	25.3	BUY	Maintain
26-Feb-07	57.9	80.5	BUY	Maintain
28-Feb-07*	7.9	5.6	BUY	Maintain
02-Aug-07	22.0	17.8	BUY	Maintain
20-Sep-07*	15.8	15.3	HOLD	Downgrade
28-Jan-08	12.5	10.0	BUY	Upgrade



Note: Stakhaniv Wagon conducted two additional share issues in 2007.

Investment Ratings

The time horizon for target prices in Concorde Capital's research is 12 months unless otherwise stated. Concorde Capital employs three basic investment ratings: Buy, Hold and Sell. Typically, Buy recommendation is associated with an upside of 15% or more from the current market price; Sell is prompted by downside from the current market price (upside <0%); Hold recommendation is generally for limited upside within 15%. Though investment ratings are generally induced by the magnitude of upside, they are not derived on this basis alone. In certain cases, an analyst may have reasons to establish a recommendation where the associated range given above does not correspond. Temporary discrepancies between an investment rating and its upside at a specific point in time due to price movement and/or volatility will be permitted; Concorde Capital may revise an investment rating at its discretion. A recommendation and/or target price might be placed Under Review when impelled by corporate events, changes in finances or operations. Investors should base decisions to Buy, Hold or Sell a stock on the complete information regarding the analyst's views in the research report and on their individual investment objectives and circumstances.

Concorde Capital ratings distribution		
Buy	38	*36%*
Hold	29	*28%*
Sell	14	*13%*
Under Review	24	*23%*
Total	**105**	***100%***

Investment banking clients*		
Buy	7	*78%*
Hold	1	*11%*
Sell	0	*0%*
Under Review	1	*11%*
Total	**9**	***100%***

**Within the last twelve month period, Concorde Capital has obtained compensation from these companies.*

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