

INITIATING  
COVERAGE

**Andriy Gostik, CFA**  
ag@concorde.com.ua  
+380 44 391 5577

**Alexander Romanov**  
ar@concorde.com.ua  
+380 44 391 5577

# TKS Management

## Restoring Ukraine's European Legacy



# CONTENTS

<b>Investment Thesis</b>	<b>3</b>
<b>Market Overview</b>	<b>5</b>
Macro background	6
Retail property	7
Office real estate	9
Residential property market	10
TKS Management's market footprint	13
<b>Profile and Strategy</b>	<b>16</b>
Business overview	17
Strategy	19
Legal structure	20
Management team	21
<b>Project Portfolio</b>	<b>22</b>
<b>Valuation</b>	<b>32</b>
Valuation summary	33
Sum-of-the-parts	33
Relative valuation	35
<b>Financial Statements</b>	<b>36</b>
<b>Risks</b>	<b>39</b>
<b>Legal Environment</b>	<b>41</b>
<b>Appendices</b>	<b>44</b>
Appendix A: Projects DCF Analysis	45

# INVESTMENT THESIS

# TKS Management LLC

<http://www.tks.ua/>

## BUY

### INVESTMENT CASE

TKS Management LLC, a first mover into untapped real estate markets in Western Ukraine, has successfully raised USD 39.6 mln in equity capital via the private placement of a 22% stake in July. The proceeds will be used to fund its existing portfolio of 14 projects (total space of 146.3 ths m<sup>2</sup> by 2011) and finance a new pipeline. We estimate the stock's fair value at EUR 17.6 per GDR, which implies a 17% upside to the current market price. **BUY.**

#### Booming industry, Untapped markets

The real estate boom is spreading to the country's regional markets. TKS Management operates in Western Ukraine, which has traditionally been overlooked by large players due to its remoteness from main hubs of business and industrial activity. Western Ukraine's retail spree and pick-up in housing prices, coupled with a lack of quality premises have put the area in the limelight. Competition is currently limited, mainly local.

#### Proximity to Europe fuels demand

TKS Management benefits from increasing trade and tourist flows, as its key markets border the EU, its development sites sit on important transportation junctures and are situated in popular resort destinations. Its stronghold, Ukraine's most European city and tourist favorite, Lviv will host the Euro-2012 Football Championship with expected economic effects including a surge in business activity, as well as recreation and infrastructure development.

#### Auchan's chosen partner

TKS Management setup a JV with Auchan in Lviv, opening the door to Ukraine for the Big Name. Auchan's anchor hypermarket will make the shopping center unique in the region. The company has inked agreements with Furshet (Ukraine's third largest retailer, 20% owned by Auchan) to lease retail premises currently under construction. An existing property already built by TKS is operated by Furshet.

#### Optimal project mix

Projects in the portfolio are selected to match the timing of cash flows from selling residential properties with the timing of CapEx for new commercial premises. Commercial to residential ratio of 40% / 60% in the portfolio produces an optimal mix of cash flow generation and value appreciation.

#### In control of construction

TKS Management performs ~70% of construction works for its projects itself, saving ~10-15% on construction cost. Control over the construction process enables it to deliver projects on time. Proven construction experience is evidenced by the track record of 68.1 ths m<sup>2</sup> of space constructed from 2003 to date in retail, residential and hotel segments.

#### Current portfolio alone suggests upside for stock price

Our target price is based on the value of the company's current portfolio only not including new additions to it expected already by the end of 2007. Using DCF, we arrived at TKS Management's portfolio valuation of USD 149 mln. With the proceeds from placement of USD 39.6 mln, our 12 month post-money target price for the company's stock is EUR 17.6 per GDR, which implies a growth potential of 17%.

## Real Estate / Ukraine

12M target

EUR 17.6

USD 23.7

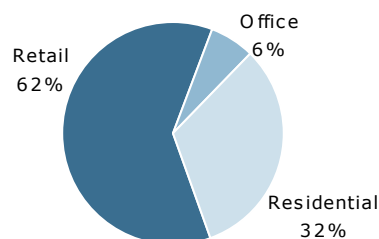
### MARKET INFORMATION\*

Frankfurt/ XETRA	37W1 GR
Market price per GDR, EUR	15.05
USD	20.27
Chg YTD	1.4%
MCap, EUR mln	135.5
USD mln	182.4
DR/ Ord. ratio	2:1
No of shares, mln	4.5
Free float	22%
Free float, EUR mln	29.8
USD mln	40.1

Source: Bloomberg

\* Shares of the Cyprus-registered shell company Waymore Holdings PLC which owns 100% in TKS Management LLC were placed

### PORTFOLIO NPV STRUCTURE BY SEGMENT



Source: Concorde Capital estimates

### STOCK OWNERSHIP

Strikewell Investments Limited*	78%
Other	22%

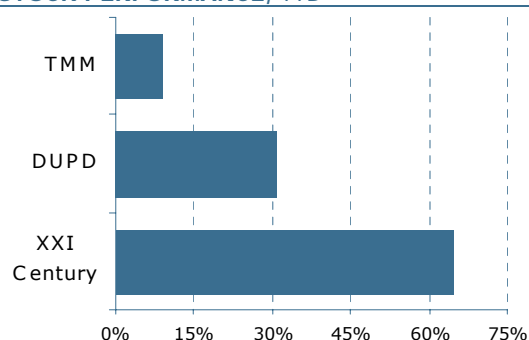
\*Beneficiaries of Strikewell Investments Limited are Ukrainian individuals Ivan Torsky and Volodymyr Hovirko

### KEY FINANCIALS, USD mln

	2007F	2008E	2009E
Revenue	2	4	23
EBITDA	2	4	19
Net Income	(0)	1	15
Book Value	50	52	68
Debt/Equity	0.25	0.25	0.25

Source: Concorde Capital estimates

### STOCK PERFORMANCE, YTD\*



\*TMM and DUPD were listed in May 2007

Source: Bloomberg

## MARKET OVERVIEW

## Macro background

**Ukraine's economy: Seven years of solid growth.** Ukraine's sound economic development in the past seven years supported by strong export commodity markets and growing domestic consumption resulted in a 7% GDP CAGR. Real disposable income nearly tripled for the period, with growth accelerating in the last three years at a CAGR of 20%. Domestic consumption bolstered by rising incomes posted a 16% CAGR in 2004-06. We expect GDP growth in 2007-2010 will continue to promote further increase in disposable income and provide a supportive background for demand for real estate.

**Inflation: Under control.** Ukraine's CPI in 2001-06 never exceeded 13% p.a., which, in our view, indicates the National Bank's increased ability to keep inflation within reasonable bounds. The country's economy was able to shoulder the doubling of imported natural gas prices in 2006 without a significant impact on inflation or the economy as a whole. In 2007, we expect CPI to total 10.5%, an improvement over 2006, due to the current government's efforts to tighten budgets for social payments.

### Ukraine's key macroeconomic indicators

	2003	2004	2005	2006	2007E
GDP (eop, change in %)	9.6	12.1	2.6	7.1	7.3
CPI (eop, change in %)	8.2	12.3	10.4	11.6	10.5
PPI (eop, change in %)	11.2	24.3	9.6	14.2	18.7
Current account balance (% of GDP)	5.8	10.6	3.1	-1.5	-3.7
Exchange rate (UAH/USD, eop)	5.33	5.31	5.05	5.05	5.05
Budget deficit (% of GDP)	0.2	2.9	1.7	0.7	1.9
FDI (USD mln, cumulative, eop)	6,794	9,047	16,890	21,186	26,685

*Source: State Statistical Committee, CASE Ukraine and Concorde Capital estimates*

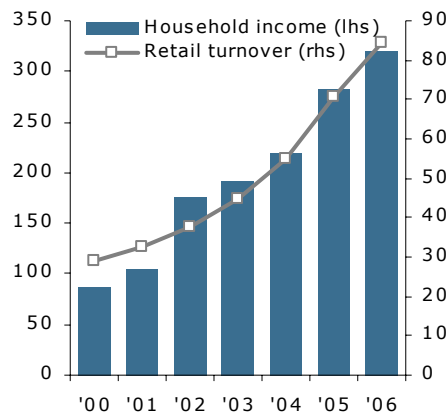
**Steady foreign direct investment inflow signals investor confidence.** The inflow of FDI to Ukraine amounted to USD 4.3 bln in 2006, resulting in FDI stock of USD 21.2 bln at the beginning of 2007 according to the State Statistics Committee. We expect to see another USD ~5.5 bln in 2007.

# Retail property

## Demand fueled by retail trade growth

**Retail in a stage of explosive growth.** With 23% CAGR in 2002-06 in real terms, retail is one of the most dynamic sectors of the Ukrainian economy, making Ukraine the fastest growing retail market in Central and Eastern Europe (CEE). Total retail turnover jumped up 25% and reached USD 24.5 bln in 2006 in nominal terms. In 2006, for the second consecutive year, A.T. Kearney ranked Ukraine among the five most promising retail markets within GEM, following India, Russia, Vietnam but ahead of China.

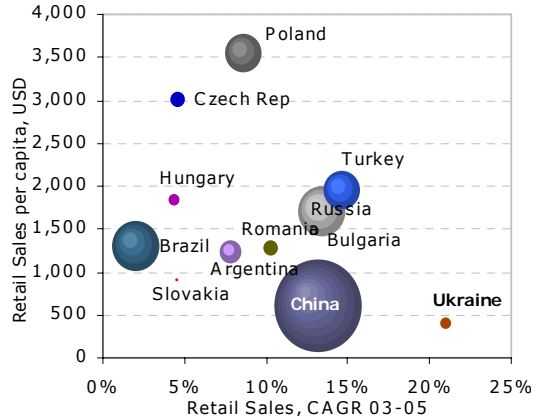
**Retail vs. Income in Ukraine, UAH bln\***



\* adjusted for CPI

Source: State Statistic Committee

**Ukraine's vs. Global retail sector market**

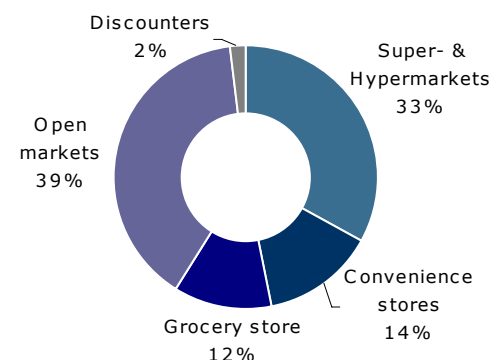


Bubble size represents retail turnover

Source: Bloomberg, National Statistic Agencies

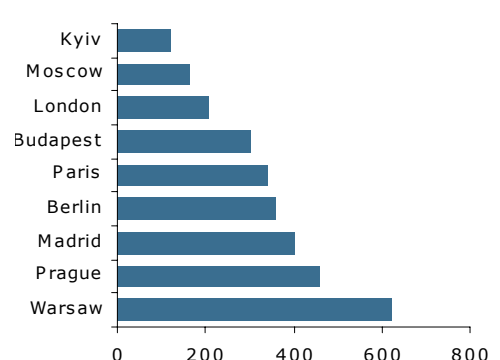
**Shift to modern retail formats calls for retail premises construction.** Over the last few years, Ukrainians shifted their preferences toward civilized trade formats: super and hypermarkets have experienced the highest growth rates in volume terms, expanding their market share from 8-10% in 2002 to 33% in 2005 whereas the share of open markets dropped from 50% to 39% for the same period.

**Retail trade by formats in Ukraine, '05**



Source: State Statistic Committee

**Retail stock per '000 inhabitants '05, m<sup>2</sup>**



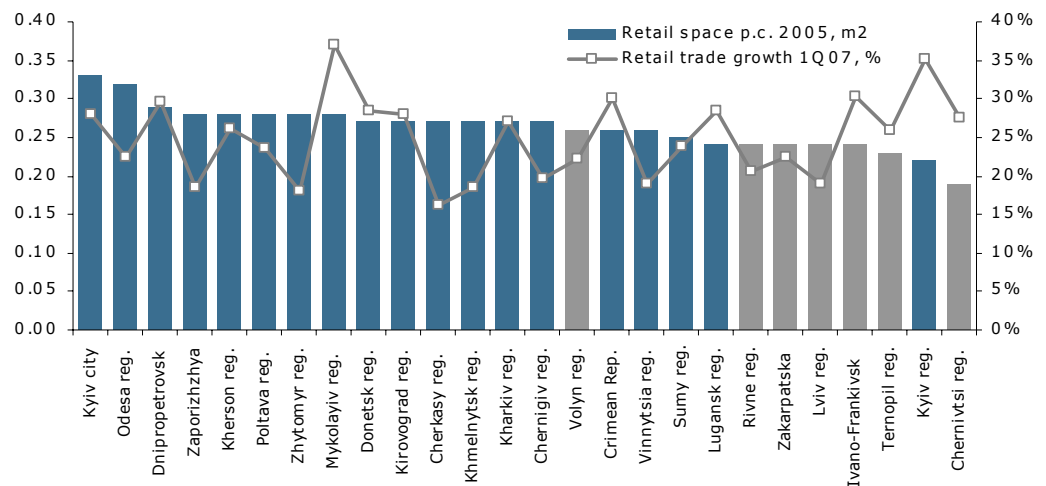
Source: Jones Lang LaSalle, DTZ

New retail formats require appropriate premises. At the same time, a legacy from Soviet times, Ukraine has one of the lowest ratios of modern retail stock per capita across Europe. The country's most dynamic hub of retail activity, Kyiv, has the lowest amount of retail space per capita among any European capital. The deficit of quality retail space in Kyiv resulted in a vacancy rate as low as 2.5% and caused growth of rental rates by 30%-40% by the end of 2006.

Given that modern trade is quickly gaining market share, the supply of quality retail space cannot catch up with vastly increasing demand. We expect that in the mid-term, the Ukrainian retail sector will continue to enjoy double-digit growth, sharpening the need for modern retail property. Market experts estimate current demand to exceed supply by about 40%. As supply is unlikely to fully cover demand, rental rates should remain high in near future.

### Retail property market in the west of Ukraine

Western Ukrainian regions (Lviv, Volyn, Ivano-Frankivsk, Ternopil, Khmelnytsk, Rivne, Zakarpatska and Chernivtsi) are the least saturated with retail space. While retail trade in Ukraine's western regions grew in line with the rest of the country at c. 20-25% per year in 2005-1Q07, retail space per capita was 10% lower than in Ukraine on average and 28% lower than in Kyiv.



Source: RetailStudio; State Statistics Committee

The retail market in Ukraine's western regions is starting to gain momentum due to the expansion of national retail operators westward from their traditional bases in Kyiv and the central regions. Currently, Ukraine's eight regions in the west account for 23% of the country's total population. At the same, Ukraine's 'big four' retail operators, Metro, Furshet, Velyka Kyshenya and ATB, have only about 7% of their outlets located in Western Ukraine.

On the other hand, a number of foreign entrants, including French Auchan, German Praktiker and Russian Vester, consider Western Ukraine to be strategic for establishing their presence in the country thanks to low saturation of the region's market and its proximity to the border with young EU members, Poland, Hungary and Romania. We expect to see dramatic growth in the demand for retail space in the near term as nation-wide retail chains begin to focus on Ukraine's western regions. The largest city in the region, Lviv, has already made it on the list of most attractive regional centers for retail expansion, with over 30 national and regional retailers opening stores there since the beginning of the year.

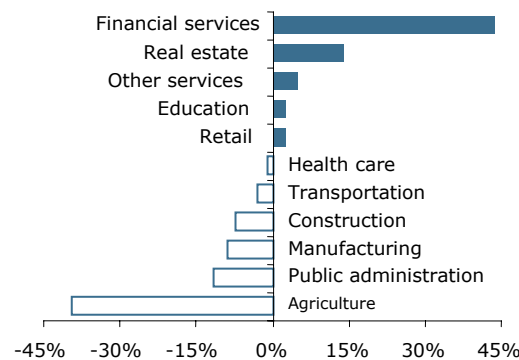


# Office real estate

## Economic growth and structural shifts fuel demand

Escalating business activity in Ukraine's large cities has created high demand for office premises while the supply of quality office space is lagging far behind. Among fundamental drivers of the demand are general economic growth and the change in the economy's profile.

### Employment change in Ukraine, 2001-06

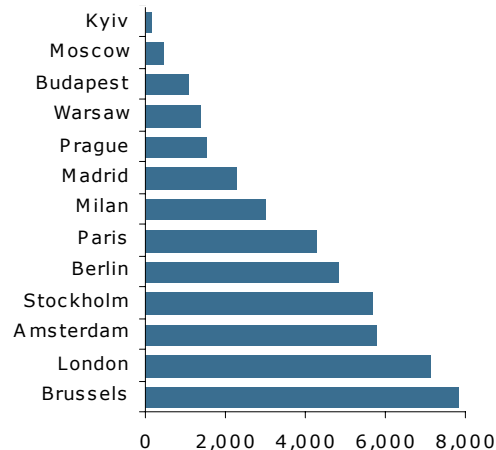


Source: State Statistical Committee

Ukraine's GDP grew at 7% CAGR in 2000-2006 thanks to strong export commodity markets and growing domestic consumption. At the same time, development of service-related sectors dramatically changed the employment profile in the country, with work force moving from manufacturing and agriculture to service industries concentrated primarily in large cities. Specifically, over 2001-2006 the financial services industry saw a cumulative 44% growth in work force employed followed by real estate and other service industries.

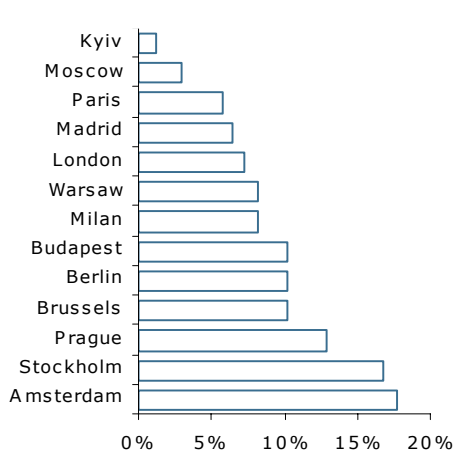
Ukraine's largest and most economically developed city, Kyiv represents the largest market for office space. In per capita terms, Kyiv has the fewest amount of office space among other European capitals.

### Office stock per '000 inhabitants in 2005, m<sup>2</sup>



Source: Jones Lang LaSalle, Colliers

### Office vacancy rates in 2005, %



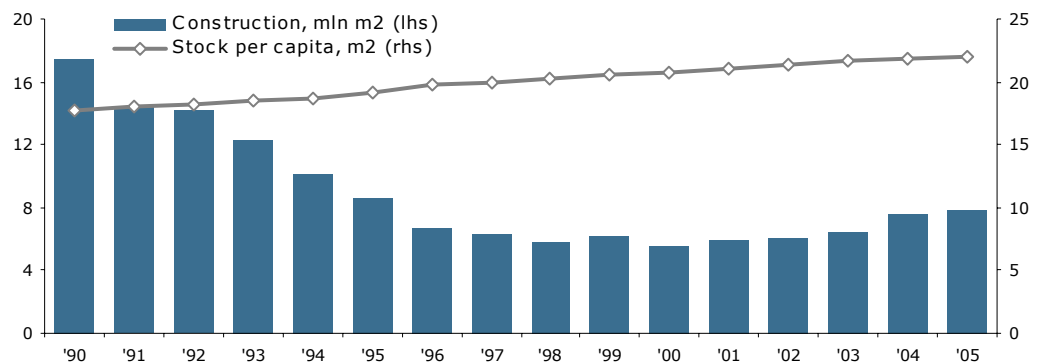
Driven by consolidation in Ukraine's traditionally developed industries and the dynamic development of newly emerging industries, demand for offices has been escalating in the country's regional centers. Coupled with the shortage of quality office space, this segment appears to us to be one of the most promising in Ukraine's in large cities.

# Residential property market

## Housing stock in low supply

Ukraine's residential construction has been rising at a CAGR of 7.1% since 2000 but annual additions to housing stock still have been far smaller than in 1990. Severe housing shortages, a legacy from the Soviet Union, still remain an issue. This is most obvious when comparing Ukraine with European countries: Ukraine's per capita residential real estate stock of 22 m<sup>2</sup> in 2005 is about half of the European average, which amounts to ~40 m<sup>2</sup> per capita. Thus given the current rate of housing stock augmentation and assuming no population growth, it would take Ukraine more than one hundred years to catch up to European countries in terms of residential stock per capita.

### Residential real estate construction and stock in Ukraine

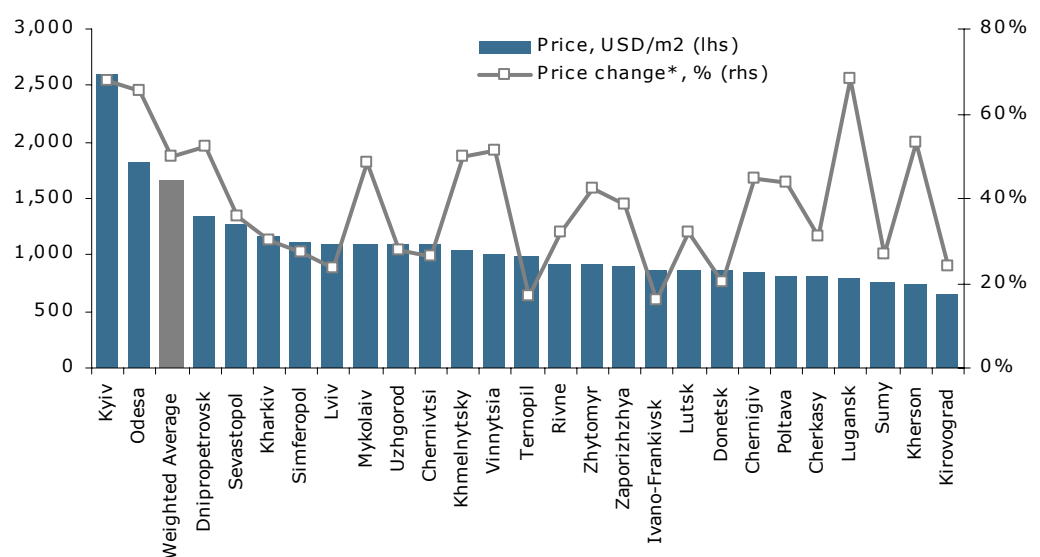


Source: State Statistics Committee

## Price appreciation wave spreading to regions

The housing supply/demand imbalance has been putting upward pressure on prices for residential real estate, sending them skyrocketing up for the past five years. In 2006 alone, the appreciation of residential real estate in Ukraine's major cities averaged 50%, ranging from 16.0% in Ivano-Frankivsk to 68% in Kyiv and Luhansk.

### Housing prices in 2006



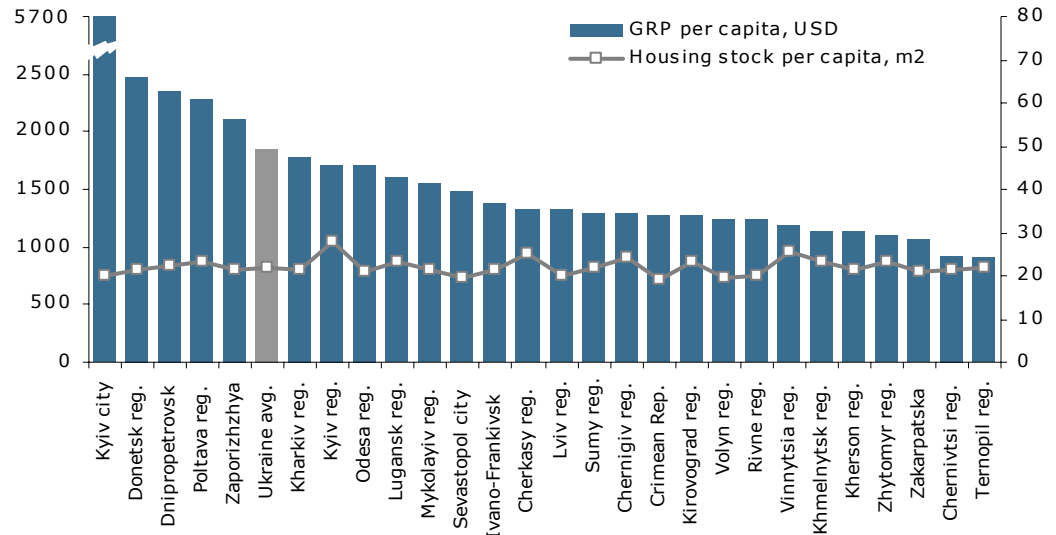
\* Price changes are from Jan 2006 to Jan 2007

Source: Planeta Obolon

The consensus opinion on the market has 2005 and 2006 as the years of record high growth in housing prices in Kyiv. We observe that the wave of price appreciation that started in Kyiv is now intensifying in the regional markets. All of

Ukraine's regions experience a housing stock shortage to about the same extent. Differences in the gross regional products resulted in lags in housing price appreciation in certain regions. We expect prices for homes in the regions to continue rising across the board in at least the next three-four years, due mainly to growing household incomes and increased mortgage availability.

#### GRP and housing stock per capita by region, 2005

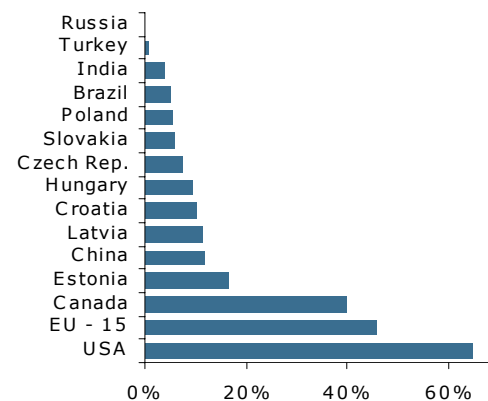


Source: State Statistics Committee

#### Greater mortgage availability to further fuel demand

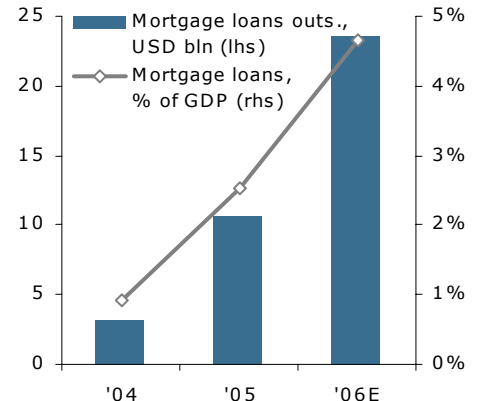
The current law on mortgage financing came into force in January 2004. Prior to that, purchasing a home using bank loans was quite complicated, did not provide for long enough maturity, required a significant down payment and interest rates were too high to make this type of transaction widespread. From 2000 to 2006, effective interest rates on mortgage loans shrank by nearly three times and at the end of last year averaged ~13.4% for dollar-denominated and 18.2% for hryvnya-denominated loans, according to Prostobank Consulting.

#### Outstanding Housing Debt '04, % of GDP



Source: World Bank

#### Mortgage financing in Ukraine



Source: Ukrainian National Mortgage Association, Concorde Capital estimates

The enhanced availability of mortgage loans starting from 2004 resulted in a tripling of their amount in 2005 and estimated doubling in 2006. Housing mortgage loans comprise the lion's share of mortgage lending, accounting for 60-65% of the total mortgage pool. Credit is becoming a major source of financing for the purchase of housing in Ukraine. According to the ARCO Real Estate Agency, in the past five years the number of deals using mortgage financing grew from 5% to 55% and as of April 2006 more than 60% of housing purchases in Kyiv were made using loans.

We believe that there is enormous potential for the further increase of mortgage financing in Ukraine. By the end of 2006, the amount of mortgage credit outstanding constituted less than 5% of the country's GDP, on par with Russia, whereas in developed economies this figure is 40-50%. We would expect Ukraine's mortgage to GDP ratio to reach ~15% in the next three-four years, on par with that of China, Thailand, Chile and Estonia in 2004. This would more than triple the amount of funds available for purchasing of housing.

# TKS Management's market footprint

## Lviv

Lviv is the largest city in Western Ukraine. It is located 80 km from the Polish border and has a population of 762 ths. Lviv region has a high population density with 120 people/km<sup>2</sup>, as opposed to the countrywide average of 80 people/km<sup>2</sup>. The city is an important center of education, culture and tourism, and is included on UNESCO's World Heritage list. It has a developed infrastructure (international airport, railway terminal, etc) and is a junction of major transnational thoroughfares connecting Ukraine with the EU. Lviv is among the six Ukrainian cities that will host the European Football Championship in 2012.



A shift to modern retail formats has been taking place in Lviv in the past few years. According to Colliers International, the city has only about 4 ths m<sup>2</sup> of quality retail space (5.2 m<sup>2</sup> per 1,000 inhabitants), while total retail space is estimated at about 47 ths m<sup>2</sup> (59 m<sup>2</sup> per 1,000 inhabitants). Since the beginning of 2007, over 30 new retail outlets have been opened in Lviv, mostly by regional operators. Rental rates grew more than 50% in 2006 and are now in the range of USD 30-50/m<sup>2</sup>, according to local market experts. Vacancy rates are close to zero in high quality premises and do not exceed 5% in others. At the moment, Lviv is the only major Ukrainian city without a large modern shopping center and is among the most attractive markets for developers of retail premises.

Retail projects already declared in Lviv imply that the supply of new retail space might amount to a cumulative of 120-150 ths m<sup>2</sup> over the next three-four years, which, if realized as planned would make total quality retail stock per capita equal to one third of that currently in Warsaw. We think developers able to secure a major retail operator or a big international player as an anchor will be the most successful in the Lviv market as it approaches saturation.

Similar to other regional centers, Lviv's residential market also has seen positive price dynamics. In 2006, prices for housing on Lviv's primary market went up 20-30%.

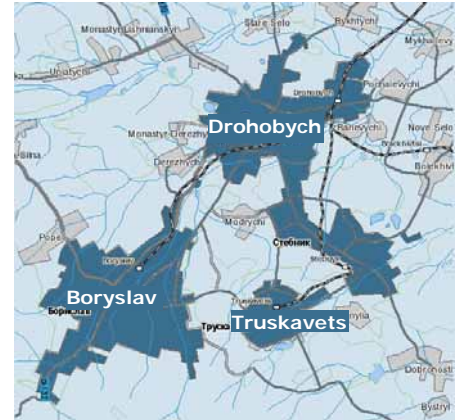
### Lviv's European heritage

1256	Founded
1272-1349	Galytsko-Volynske Kingdom
1349-1772	Polish-Lithuanian Commonwealth
1356	Magdeburg rights
1772-1918	Austro-Hungarian Empire
1918-1939	Poland
1944-1991	USSR
1991-present	Ukraine
2012	Euro-2012 host city



## Truskavets

Truskavets is Ukraine's famous mineral water resort area, and is situated 100 km south of Lviv in a picturesque pre-Carpathian valley. Each year the town hosts ~170-200 ths people, one fifth of which are visitors from abroad. Truskavets' developed recreational infrastructure includes 23 sanatoriums, 15 hotels, 10 rest shelters and 19 villas. By railway, the town is connected to major cities in Ukraine, the CIS and the Baltic states.



Residential stock per capita in Truskavets is 19 m<sup>2</sup>. Yet, given the town's size of 30 ths people, most demand for apartments in Truskavets comes from wealthy individuals from large Ukrainian cities or abroad. Apart from buying apartments for personal use, individual investors purchase residential real estate to let out as an alternative to hotels. On the other hand, condominiums as a format for residential housing are gaining popularity.

At present, the retail potential of Truskavets is being overlooked by large players. Among the big-four, only Furshet, Ukraine's third largest retailer is present with one outlet. We think that despite the small population, Truskavets' retail market is able to absorb more modern format retail space given the influx of visitors from all over the country and abroad.

## Drohobych

Drohobych is Lviv region's second largest city and is located 86 km from the region's capital. It has a population of 100 ths. It has convenient transportation links with Poland, Slovakia, Hungary and Romania. Drohobych's industrial potential of 47 enterprises makes it the second largest industrial center in the region after Lviv. Oil refining, chemical, machine-building and metal & wood processing industries form the base of the city's economy.

Currently, the only modern format retail outlet in the city is a Silpo store operated by Ukraine's second largest retailer, Fozzy Group. Given its size and industrial potential, in our view Drohobych clearly has room for the further development of modern format retail trade.

## Boryslav

Boryslav is situated on an oil-and-gas bearing deposit in the pre-Carpathian area of Lviv region and its economy is based on the extraction and refining of hydrocarbons. Oil extracted here goes to the Galychyna Refinery located in neighboring Drohobych, while natural gas is processed at the local Boryslav gas processing plant. The city's population is 40 ths people and their involvement in the hydrocarbon business suggests that Boryslav's population is wealthier than in less developed neighboring cities of similar sizes. There are presently no modern format retail outlets in Boryslav.

## Novovolynsk

Novovolynsk is the third largest city in Volyn region, which is north of Lviv region. It has a population of 58 ths. Machine building, wood processing, and the food and construction industries account for a total of 32 plants and factories that shape the city's economy. Novovolynsk is located just 5 km from the Polish border and the Lviv - Volodymyr-Volynsky - Brest transnational highway passes through it.

By the end of 2006, FDI into Novovolynsk reached USD 33 mln, or USD 576 per capita, Volyn region's second highest indicator after Lutsk, the region's capital. In 2006, retail turnover in the city net of inflation increased 29%. Retail trade is

booming in Novovolynsk; 9 new outlets opened in 2006. Yet among national operators, only consumer electronics retailer Foxtrot is present in the city, while nation-wide food retail brands have yet to arrive.

## PROFILE AND STRATEGY

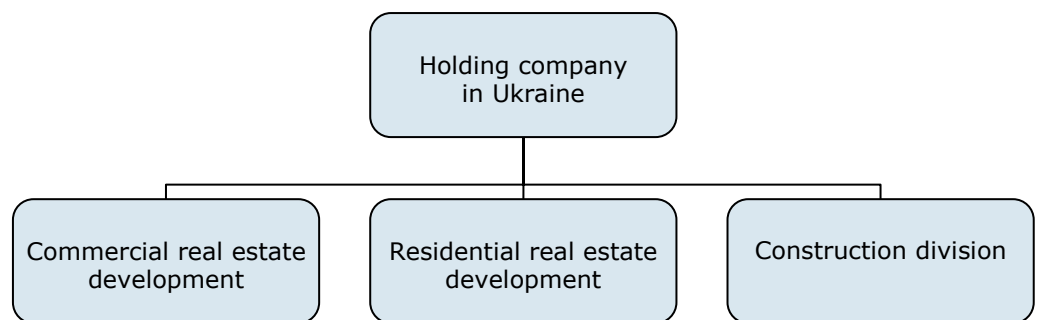


## Business overview

TKS Management LLC established itself as a real estate development and construction leader in Western Ukraine. It emerged from a diversified service holding that catered to the resort industry. In 2000, the predecessor of TKS Management LLC received debt financing from a Canadian partner that helped with the foundation of the company's real estate division. In 2001, it purchased construction capacities and its first land plots. In 2003, the company redefined its strategy, spinning off its other divisions to better focus on development and construction.

From 2003 to date, TKS Management LLC has completed the construction of 68,100 m<sup>2</sup> in property, including 24,800 m<sup>2</sup> in residential, 28,300 m<sup>2</sup> in hotel and 15,000 m<sup>2</sup> in retail segments. An additional 146,311 m<sup>2</sup> should be constructed by 2011 from its current portfolio of 14 projects.

### TKS Management's Business Structure

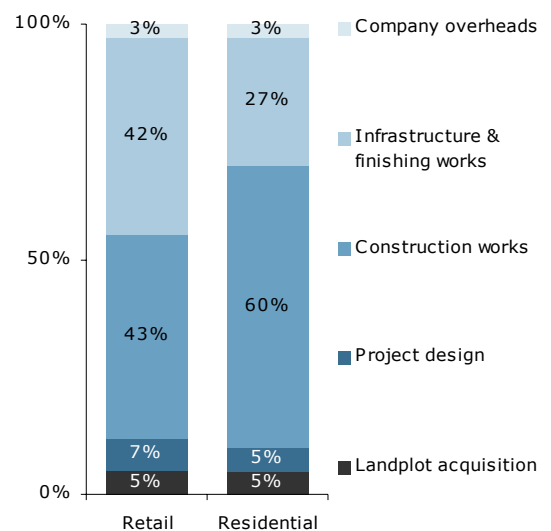


Source: Company data

**Development division.** Development of real estate projects (both commercial and residential) is, by large, performed by the holding company in Ukraine. TKS' development team is responsible for project planning and execution from the concept and project design approval stages to the control of execution and financing. The holding company outsources the development of blueprints to third-party organizations, working chiefly with Ukrainian and Polish design bureaus.

**Construction division.** TKS' construction division is responsible for realizing concepts outlined by its development team with the goal of utilizing TKS holding's available resources in the most efficient way. Usually, the construction company retains an in-house sub-constructing team to build the cast structure of the construction and perform works that require high specialization. Finishing and low value-added works are performed by external organizations that can offer competitive pricing. As a result, the company performs 50-70% of construction work using internal resources, which allows it to save ~10-15% on construction costs compared to other developers.

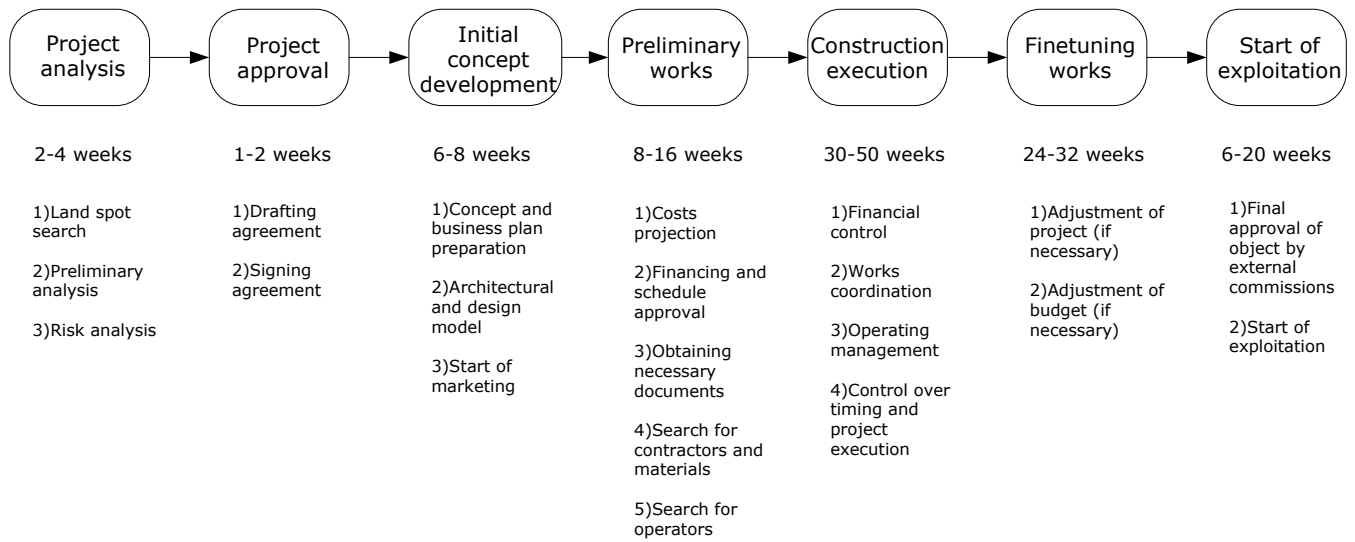
### Construction cost structure



Source: Company data

The company operates two in-house concrete production facilities that fully meet its need for this feedstock. The capacity of the company's concrete plant is more than 770,000 m<sup>3</sup> of concrete and 40,000 m<sup>2</sup> of shuttering board. The company's has ~80 equipment units (concrete mixers, tower cranes, excavators, bulldozers, truck mixers, etc).

## Project development process



Source: Company data

## Strategy

TKS Management is committed to pursuing the following strategic objectives.

**Building a balanced portfolio.** TKS Management aims to structure its project portfolio in a way that ensures an optimal mix of cash flow generation and value appreciation. It attempts to select projects to match the timing of cash flows from the sale of residential properties and the timing of CapEx for new commercial real estate. Currently, commercial projects account for 41% and 68% of the portfolio in terms of area and NPV, respectively, and include retail and office premises, while residential projects are cottages in the vicinity of Lviv and business class properties and condominiums in adjacent resort areas. The company's strategy is to have a portfolio of 400 ths m<sup>2</sup> in commercial properties and 250 ths m<sup>2</sup> in residential real estate by 2010.

**First mover expansion.** The company is seeking to further unfold its real estate business within its current domain of Lviv and Volyn regions, as well as in adjacent regions, targeting large and mid-sized cities. While major Ukrainian developers are busy fighting for scarce land plots in Kyiv and limit their regional presence mainly to large cities in central and eastern Ukraine, TKS Management will be able to lay claim to the most attractive land plots in Western Ukraine. As a first mover, the company is able to gain a dominant or significant market share in its targeted regions. TKS Management's strong footprint in Ukraine's west will make it a natural choice for big Ukrainian retail names expanding there, as well as for foreign entrants. The company is already cooperating with Auchan and Furshet.

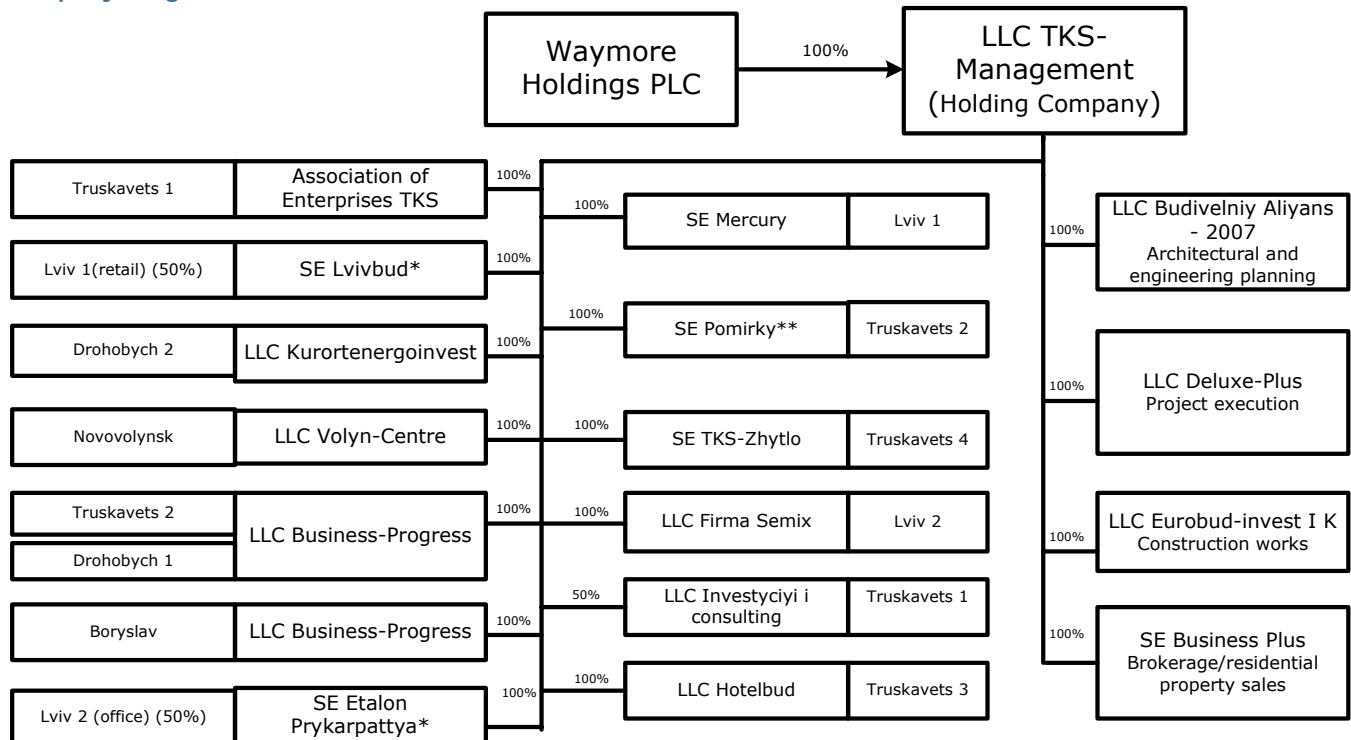
**Superior cost control and project management.** TKS Management sees its competitive advantages as lower construction costs and more efficient project management and it is planning to enhance them. The company intends to build up its construction capacities to keep up with its increasing need due to portfolio expansion. To optimize its project selection process and better manage its project portfolio, the company has embarked upon implementing a SAP-based ERP system; integration of this process is now in the final stage.

TKS Management intends to tap capital markets to help realize its strategic plans. The company already raised USD 39.6 mln in equity through a private placement of shares in July 2007. These funds will be used to complete projects from TKS Management's current portfolio and to create a pipeline of new projects that will then be added to the portfolio. The company is preparing itself for an IPO in late 2009 and its objective is to build a large quality portfolio of projects by that time. In the meanwhile, it will employ leverage to finance its expansion.

## Legal structure

TKS Management LLC, registered in Ukraine in 2006, is wholly owned by a Cyprus-registered entity, Waymore Holdings PLC whose shares were placed with institutional investors in July 2007. Controlling shareholder of Waymore Holdings PLC having a 78% stake is another Cyprus-registered company, Strikewell Investments Limited, whose ultimate beneficiaries are two Ukrainian individuals - Mr. Ivan Torsky and Mr. Volodymyr Hovirko.

### Company's legal structure



\* SE Lvivbud and SE Etalon Prykarpattya own 50% of Lviv 1 retail and Lviv 2 office properties through ownership in LLC Levy Mista and LLC Grand Elite

\*\* SE Pomirky owns 100% of Truskavets 2 residential property project through ownership in LLC Elite

Note: SE stands for Subsidiary Enterprise, LLC stands for Limited Liability Company

Source: Company data

TKS Management LLC is the holding company that develops commercial and residential real estate projects and operates commercial real estate properties.

TKS Management LLC owns the 14 projects in its current portfolio either via direct ownership in legal entities that own the projects or through Mutual Investment Agreements (MIAs) with companies - owners of the projects that are related to TKS Management.

## Management team



**Ivan Torsky, 38**, is the cofounder and General Director of TKS Management. He is responsible for the company's strategic development. Mr. Torsky oversaw consolidation of TKS Management's separate businesses into a single holding company. Under his leadership, the company became Western Ukraine's leading real estate player.

**Ruslan Eynes, 35**, is the Director of the Corporate Finance Department. Mr. Eynes has organized financing for TKS Management's completed and ongoing projects. Under his guidance, the company is implementing SAP. Mr. Eynes graduated with degree in Accounting from the Kharkiv Finance and Economics Institute in 1998. Prior to that, in 1994, he earned a degree in Radiophysics and Electronics from the Lviv Franko University.

**Oksana Homyk, 29**. As Director of the Development Department, she is responsible for project concept development. Ms. Homyk joined the company in 2000, working her way up from an analyst to the commercial director position and finally to her current post. Prior to joining the company, Ms. Homyk had experience of working in commercial banking. Ms. Homyk holds a degree in Finance from the Lviv National Polytechnic University (2001).

**Roman Mishko, 63**, is the Chief Engineer of the Development Department and is responsible for the coordination of engineering. With more than 46 years of experience, Mr. Mishko has completed numerous development projects in Ukraine and Lviv region with a total area of 12 mln m<sup>2</sup>. He was awarded an Honor Certificate from the State Construction Agency of Ukraine. Mr. Mishko holds an engineering degree from the Lviv Polytechnic University (1961). He is a member of Ukraine's Academy of Construction.

## PROJECT PORTFOLIO

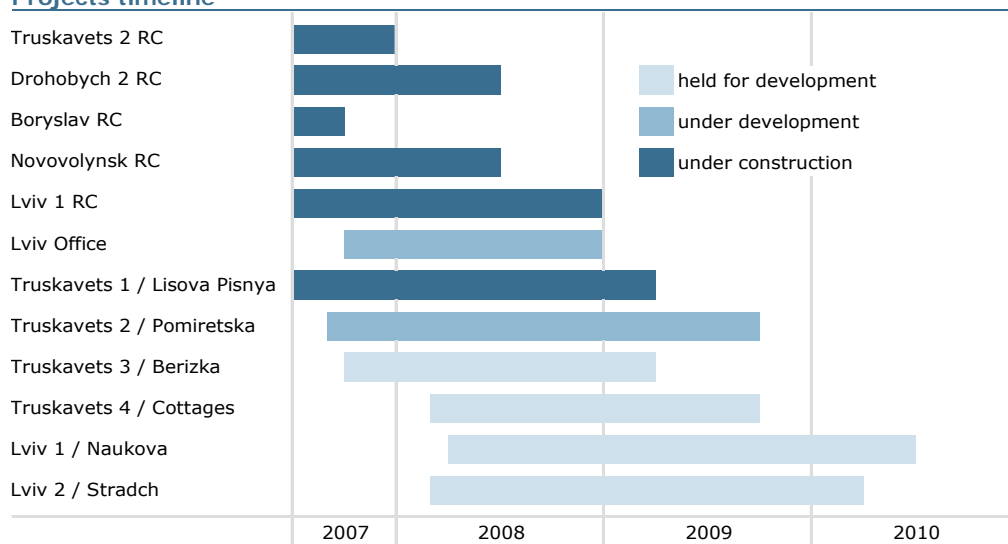
The company's portfolio, a total of 14 projects, includes commercial and residential property in the largest city in western Ukraine, Lviv, (four projects); retail centers in Lviv region's second largest city, Drohobych (two projects); retail (two) and residential (four) projects in the renowned mineral water resort destination of Truskavets and retail centers in Boryslav and Novovolynsk. We estimate the total NPV of the current portfolio at USD 149.7 mln.

#### Current portfolio

Project Name	Type	Stage	Total Area, m <sup>2</sup>
Truskavets 1 RC	Retail	In operation	6,675
Truskavets 2 RC	Retail	Under construction	1,500
Drohobych 1 RC	Retail	In operation	3,528
Drohobych 2 RC	Retail	Under construction	11,000
Boryslav RC	Retail	Under construction	3,000
Novovolynsk RC	Retail	Under construction	8,300
Lviv 1 RC	Retail	Under construction	22,500
Lviv Office	Office	Under development	7,500
Truskavets 1 / Lisova Pisnya	Residential	Under construction	9,411
Truskavets 2 / Pomiretska	Residential	Under development	18,800
Truskavets 3 / Berizka	Residential	Held for development	12,400
Truskavets 4 / Cottages	Residential	Held for development	10,600
Lviv 1 / Naukova	Residential	Held for development	23,300
Lviv 2 / Stradch	Residential	Held for development	18,000

Source: Company data

#### Projects timeline



Source: Company data

#### Current land bank

Project	Land plot area, ha	Ownership
Lviv 1 RC & Office	1.1	owned
Lviv 1 RC & Office	1.3	leased
Lviv 1 / Naukova	3.3	leased
Lviv 2 / Stradch	67.8*	leased
Truskavets 1 RC	0.6	owned
Truskavets 1 / Lisova Pisnya	0.7	owned
Truskavets 2 / Pomiretska	1.9	owned
Truskavets 3 / Berizka	0.3	owned
Truskavets 4 / Cottages	13.0	leased
Drohobych 1 RC	0.7	owned
Drohobych 2 RC	2.3	leased
Novovolynsk RC	2.3	leased
Boryslav RC	0.8	leased
<b>Total</b>	<b>96.1</b>	

\* 20.5 ha occupied by lakes, 24 ha allotted for construction, the rest is being meliorated

Source: Company data

## Truskavets retail projects

Two retail projects from the company's portfolio are located in Truskavets. Currently, one shopping center is already in operation and the company is reconstructing another.

**Truskavets 1 RC (TKS Megamarket)** represents an existing shopping center. After the project's commission, 2,200 m<sup>2</sup> was sold to Furshet, a nation-wide retail chain. Furshet became an anchor tenant, thus ensuring strong daily footfall to the shopping center. TKS Management continues to own the space under the gallery.

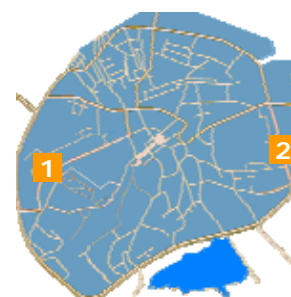
TKS Megamarket is located in close proximity to several major resort hotels and health centers – major attractions for city visitors.

**Truskavets 2 RC (Na Poli)** involves the reconstruction and expansion of an existing building. After the reconstruction, gross leasable area will total 1,400 m<sup>2</sup>. A major part of the area will be leased by Furshet for the next 10 years, according to a preliminary agreement. The remaining area of 465 m<sup>2</sup> will host a gallery of smaller shops.

The project has a favorable location in the most populated residential community in the city, with ~18,000 people, guaranteeing solid visitor flow to the center.

Project	Truskavets 1 RC	Truskavets 2 RC
City	Truskavets	Truskavets
Type	Retail	Retail
Total area, m <sup>2</sup>	6,675	1,500
Leasable area, m <sup>2</sup>	3,759	1,400
Rental rate, USD/m <sup>2</sup>	21	11
Stage	In operation	Under construction
Start of construction	Jan-05	Jul-07
Construction completion	May-06	Dec-07
NPV, USD mln	10.9	1.8

Source: Company data, NPV by Concorde Capital



Truskavets 1 RC (June 2007)



Source: Company

Truskavets 2 RC (visualization)



Source: Company



## Drohobych retail projects

**Drohobych 1 RC (Matador)** is an existing shopping center with a parking lot that can accommodate 200 cars. The anchor tenant of the center is food retail chain Furshet. TKS has signed a preliminary lease agreement with the chain for 10 years.

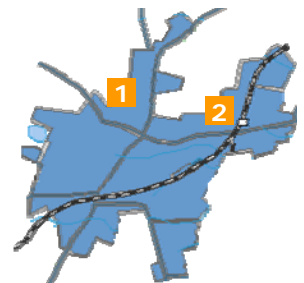
The shopping center is located in the western part of Drohobych in a residential district with a population of ~12,000 people.

**Drohobych 2 RC** project will provide the town with a new shopping center and parking lot for 300 cars. The center will host a couple of anchor tenants – Furshet (3,000 m<sup>2</sup>), and a consumer electronics chain (1,200 m<sup>2</sup>). The center will also include an entertainment area of 1,100 m<sup>2</sup> with restaurants. The remaining area will host a gallery of smaller shops.

The center has a superior location in a residential district with a population of ~40,000 people in the eastern part of Drohobych. The central bus station's location just 500 m away will intensify visitor flows.

Project	Drohobych 1 RC	Drohobych 2 RC
City	Drohobych	Drohobych
Type	Retail	Retail
Total area, m <sup>2</sup>	3,528	11,000
Leasable area, m <sup>2</sup>	3,528	9,213
Rental rate, USD/m <sup>2</sup>	9	15
Stage	In operation	Under construction
Start of construction	Jan-07	May-07
Construction completion	May-07	Jun-08
NPV, USD mln	4.5	12.5

Source: Company data, NPV by Concorde Capital



**Drohobych 1 RC (May '07)**



Source: Company

**Drohobych 2 RC (visualization)**



Source: Company

## Boryslav and Novovolynsk retail projects

**Boryslav RC** is a project that provides for the construction of a shopping center with a parking lot for 180 cars. Furshet will be an anchor tenant in the center and has signed a preliminary lease agreement for 10 years. The remaining space will be occupied by smaller shops.

The center will replace an existing open market that served the most populated area of the town (~18,000 residents).

**Novovolynsk RC** project involves the construction of a shopping center with a parking lot for 200 cars. Furshet will be the center's anchor tenant, utilizing 3,000 m<sup>2</sup> according to a preliminary lease agreement signed by the company. The shopping center will also host a consumer electronics retail chain, small shops, a café.

The center is located in a residential area with population of ~18,000. The nearby Lviv-Kovel highway will stimulate strong daily footfall to the center.

Project	Boryslav RC	Novovolynsk RC
City	Boryslav	Novovolynsk
Type	Retail	Retail
Total area, m <sup>2</sup>	3,000	8,300
Leasable area, m <sup>2</sup>	3,000	6,640
Rental rate, USD/m <sup>2</sup>	9.2	14
Stage	Under construction	Under construction
Start of construction	Jul-07	Jul-07
Construction completion	Sep-07	Jun-08
NPV, USD mln	2.7	7.6

Source: Company data, NPV by Concorde Capital

**Boryslav RC (visualization)**



Source: Company

**Novovolynsk RC (visualization)**



Source: Company

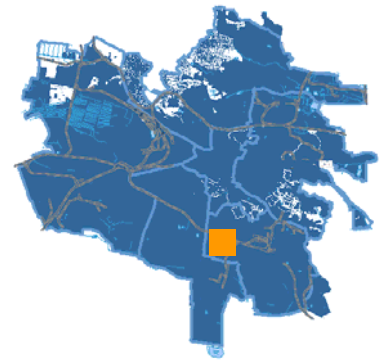
## Lviv retail center

**Lviv 1 RC** is a joint project with Auchan and Mr. Balenko, the principal owner of the Furshet retail chain. The total area of the project is 45,000 m<sup>2</sup>, out of which 50% will be owned by the company, 30% will be owned by Auchan, and the remaining 20% will be owned by Mr. Balenko. Auchan will be an anchor tenant in the adjacent shopping mall, ensuring a continuous flow of visitors to the gallery of smaller shops and boutiques.

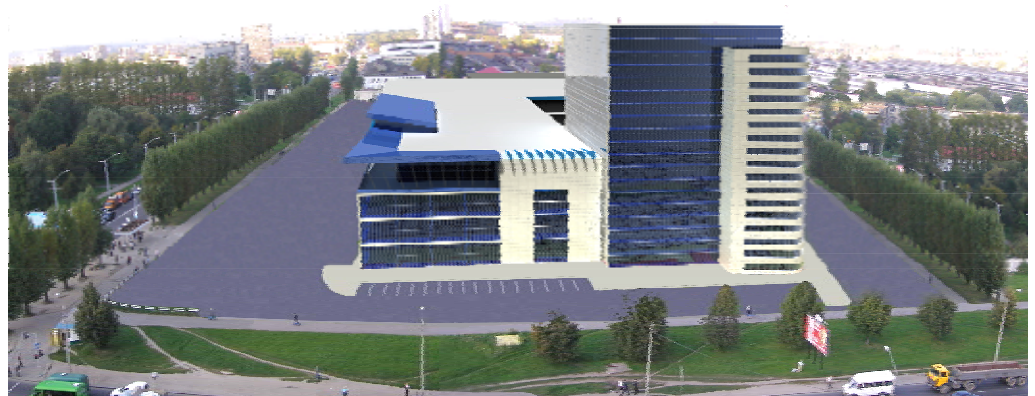
The project is located in the southern part of Lviv at the crossroads of the city's major highways – Stryiska, Khutorivka, and Naukova – connecting outlying neighborhoods with the city center. The site is conveniently accessible by both public transportation and private vehicles.

Project	Lviv 1 RC
City	Lviv
Type	Retail
Total area, m <sup>2</sup>	22,500
Leasable area, m <sup>2</sup>	17,100
Rental rate, USD/m <sup>2</sup>	30
Stage	Under construction
Start of construction	Jul-07
Construction completion	Dec-08
NPV, USD mln	52.1

Source: Company data, NPV by Concorde Capital



### Lviv 1 RC (visualization)



Source: Company

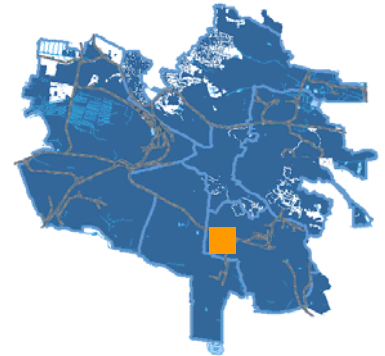
## Lviv office center

**Lviv Office Center** is a joint project with Mr. Balenko. The project envisages construction of office center with a total area of 15,000 m<sup>2</sup> out of which 50% will be owned by the company.

The project is located next to Lviv 1 RC project in the southern part of Lviv at the crossroads of the city's major highways – Stryiska, Khutorivka, and Naukova – connecting outlying neighborhoods with the city center. The site is conveniently accessible by both public transportation and private vehicles.

Project	Lviv Office
City	Lviv
Type	Office
Total area, m <sup>2</sup>	7,500
Leasable area, m <sup>2</sup>	6,375
Rental rate, USD/m <sup>2</sup>	18
Stage	Under development
Start of construction	Oct-07
Construction completion	Dec-08
NPV, USD mln	9.6

Source: Company data, NPV by Concorde Capital



**Lviv Office (visualization)**



Source: Company

**Lviv RC/Office (landplot)**



Source: Company

## Truskavets residential projects

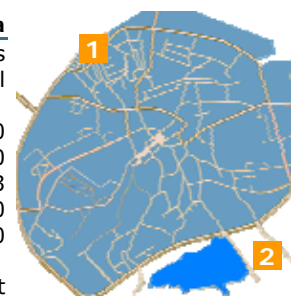
**Truskavets 1 / Lisova Pisnya** is a business class residential complex with 216 apartments and a total salable area of 15,000 m<sup>2</sup>, out of which 50% is owned by the company. The project is located at the highest point in Truskavets and the apartments on the upper floors will have a picturesque view of the nearby forest and mountains.

**Truskavets 2 Pomiretska** involves the construction of a business class residential complex with 250 apartments and retail premises. The land plot is located in the outskirts of Truskavets in a green area near the lake.

Project	Truskavets 1 / Lisova Pisnya	Truskavets 2 / Pomiretska
City	Truskavets	Truskavets
Type	Residential	Residential
Total area, m <sup>2</sup>	9,411	18,800
Sellable area*, m <sup>2</sup>	7,470	14,940
Selling price, USD/m <sup>2</sup>	750	833
Leasable area, m <sup>2</sup>		2,000
Rental rate, USD/m <sup>2</sup>		10
Stage	Under construction	Under development
Start of construction	Apr-07	Sep-07
Construction completion	Mar-09	Sep-09
NPV, USD mln	1.8	7.0

\* At start of sales

Source: Company data, NPV by Concorde Capital



**Truskavets 1 (June '07)**



Source: Company

**Truskavets 2 (visualization)**



Source: Company



**Truskavets 3 / Berizka** project involves the construction of a multi-story housing complex. All apartments will be leased out to a third party hotel operator. Visitors to local mineral water health resorts will be the complex's main tenants.

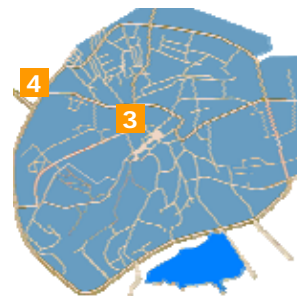
The site has a particularly convenient location at the center of Truskavets. A newly constructed mineral water resort is just within 150 meters; a park is 200 meters away. The object has good vehicle accessibility and the railway station is nearby.

**Truskavets 4 / Cottages** project provides for the construction of a community of 80 cottages on a land plot that is 12.9 ha in size.

The site is located near the Truskavets-Boryslav thoroughfare and is entirely surrounded by a forest. There is also a lake in the nearby area.

Project	Truskavets 3 / Berizka	Truskavets 4 / Cottages
City	Truskavets	Truskavets
Type	Residential	Residential
Total area, m <sup>2</sup>	12,400	10,600
Sellable area, m <sup>2</sup>		9,600
Selling price, USD/m <sup>2</sup>		1,000
Leasable area, m <sup>2</sup>	12,400	
Rental rate, USD/m <sup>2</sup>	15	
Stage	Held for dev-ment	Held for dev-ment
Start of construction	Oct-07	Mar-08
Construction completion	Mar-09	Sep-09
NPV, USD mln	12.0	4.6

Source: Company data, NPV by Concorde Capital



**Truskavets 3 / Berizka (visualization)**



Source: Company

**Truskavets 4 / Cottages (visualization)**



Source: Company

## Lviv residential projects

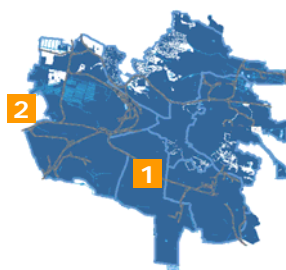
**Lviv 1 / Naukova** project will create a country club area on a land plot of 4.5 ha in Lviv. Beside cottages, it will include a restaurant, plus fitness and SPA centers.

The site is located in a calm dormitory area of Lviv. At the center of the land plot, there is a lake that will be surrounded by the cottages. Nearby highways that connect outlying areas to downtown Lviv provide for convenient vehicle access to the site.

**Lviv 2 / Stradch** project involves building of a cottage community of 200 houses on a 67 ha land plot that is located in a picturesque area of Lviv region that is surrounded by a forest and a lake. The nearby Lviv-Rava-Ruska highway provides for fast connection to the city of Lviv.

Project	Lviv 1 / Naukova	Lviv 2 / Stradch
City	Lviv	Lviv
Type	Residential	Residential
Total area, m <sup>2</sup>	23,300	18,000
Sellable area, m <sup>2</sup>	21,000	18,000
Selling price, USD/m <sup>2</sup>	1,500	1,000
Stage	Held for dev-ment	Held for dev-ment
Start of construction	Apr-08	Mar-08
Construction completion	Jun-10	Mar-10
NPV, USD mln	14.3	8.5

Source: Company data, NPV by Concorde Capital



**Lviv 1 / Naukova (visualization)**



Source: Company

**Lviv 2 / Stradch (visualization)**



Source: Company

## VALUATION



## Valuation summary

We valued the company by applying two methods: sum-of-the-parts (SOTP) and a NAV-based relative valuation. Our 12M target price for TKS Management's stock is estimated at EUR 17.60 per GDR and derived by the SOTP approach based solely on the company's current portfolio of projects.

## Sum-of-the-parts

The SOTP method produced a current fair value for TKS Management's equity equal to USD 170 mln and a 12-month fair value of USD 213 mln, resulting in a target price of EUR 17.60 per GDR. Our SOTP is based on a DCF analysis applied to separate projects, with an adjustment for the company's cash and debt position. A drawback of the SOTP is that it does not factor in the company's ability to generate new projects, but rather assumes that the company's business is limited to its current portfolio.

### Sum-of-the-Parts valuation

	Current, USD mln	12M target, USD mln
Project portfolio valued by DCF	149.7	195.8
Cumulative discounted corporate profit taxes	(4.6)	(5.0)
Net Cash / (Debt)	25.0	22.5
<b>Equity value</b>	<b>170</b>	<b>213</b>

Source: Concorde Capital estimates

## DCF Mechanics

### Portfolio value

Project Name	Total Area m <sup>2</sup>	Const. Cost USD/m <sup>2</sup>	Salable Area* m <sup>2</sup>	Selling Price USD/m <sup>2</sup>	NLA m <sup>2</sup>	Rental Rate USD/m <sup>2</sup>	NPV USD mln
Truskavets 1 RC	6,675	n/a			3,759	20.8	10.9
Truskavets 2 RC	1,500	250			1,400	10.9	1.8
Drohobych 1 RC	3,528	n/a			3,528	9.2	4.5
Drohobych 2 RC	11,000	450			9,213	15.1	12.5
Boryslav RC	3,000	300			3,000	9.2	2.7
Novovolynsk RC	8,300	450			6,640	14.0	7.6
Lviv 1 RC	22,500	550			17,100	30.0	52.1
Lviv Office	7,500	550			6,375	18.0	9.6
Truskavets 1 / Lisova Pisnya	9,411	333	7,470	750			1.8
Truskavets 2 / Pomiretska	18,800	375	14,940	833	2,000	10.0	7.0
Truskavets 3 / Berizka	12,400	500			12,400	15.0	12.0
Truskavets 4 / Cottages	10,600	417	9,600	1,000			4.6
Lviv 1 / Naukova	23,300	458	21,000	1,300			14.3
Lviv 2 / Stradch	18,000	458	18,000	1,000			8.5
<b>Total/ Average</b>	<b>156,514</b>	<b>455</b>	<b>71,010</b>	<b>1,027</b>	<b>65,415</b>	<b>18.6</b>	<b>149.7</b>

\* At the start of sales

Source: Company data, NPV by Concorde Capital

Based on historical data and industry trends, we assumed 13% CAGR for the period 2007F-2010E for selling prices, rental rates, and the cost of construction.

We assumed exit yields for commercial property equal to 10% and 11% for Lviv and Lviv region, respectively. Our assumptions about exit yields reflect two facts: 1) yields have been converging in the CEE to reach current 6-8% in Eastern European capitals and Kyiv appears to be following this path, and 2) yields in Ukraine's regions are 2-3 percentage points higher than in Kyiv.

Different discount rates were used for different categories of projects depending on their location, type of property, and development stage. We employed a premium build-up approach to estimate the company's WACC and used these discount rates to value property in operation, while discount rates applied to projects classified as under construction, under development and held for development were calculated with premiums to WACC of 2%, 4% and 6%, respectively.

### WACC Calculation

	2007F	2008E	2009E	2010E
Average interest rate	14.0%	13.0%	12.0%	11.0%
Tax rate for debt	25%	25%	25%	25%
Ukrainian Eurobonds, YTM	6.0%	6.0%	5.8%	5.5%
Equity premium	9.0%	8.0%	7.0%	6.0%
Company specific premium/discount	1.0%	1.0%	1.0%	1.0%
Cost of equity	16.0%	15.0%	13.8%	12.5%
Debt/Equity, eop	30%	30%	30%	30%
Weight of debt	0.173	0.173	0.173	0.173
Weight of equity	0.769	0.769	0.769	0.769
WACC	15%	14%	13%	12%
Discount rates for projects				
- in operation	15%	14%	13%	12%
- under construction	17%	16%	15%	14%
- under development	19%	18%	17%	16%
- held for development	21%	20%	19%	18%

Source: Concorde Capital estimates

The DCF yielded current value of the company's portfolio of USD 149.7 mln.

### Consolidated DCF\*

	2007F	2008E	2009E	2010E
Income, residential	3.2	33.2	37.8	11.2
Income, non-residential	0.8	3.6	17.4	20.6
Total Income	4.0	36.8	55.1	31.7
OpEx	(0.0)	(0.1)	(0.4)	(0.6)
NOI	4.0	36.8	54.7	31.2
Construction Expense	(13.1)	(37.3)	(18.2)	(4.6)
VAT Impact	(2.2)	(3.9)	2.8	3.4
Cash Flow	(11.4)	(4.5)	39.3	30.1
TV as % of NPV	79%			
<b>NPV**</b>	<b>149.7</b>	<b>195.8</b>		

\* Detailed valuation by project is given in Appendix A

\*\* Current and 12M target respectively

Source: Concorde Capital estimates

## Tax assumptions

We assume the effective corporate income tax rate for TKS Management at 10% to reflect the company's efforts to employ tax optimization techniques. TKS Management is going to accumulate profit at a special purpose vehicle (SPV) – a corporate fund 100% owned by the company. According to Ukrainian legislation, a corporate fund is exempt from income tax until its closure.

Controlling shareholders of TKS Management see their business as a going concern and do not plan to exit the business in the near future. That said, TKS Management's structure provides for that possibility and should TKS Management decide to stop its operations, profits from the corporate fund would be transferred to the Cypriot holding company and distributed to all shareholders. This operation is exempt from capital gain tax in Cyprus due to the fact that TKS Management's property is not Cyprus-based, while due to the holding company's non-resident status in Ukraine, no taxes will need to be paid in Ukraine either.

## Relative valuation

TKS Management's portfolio was valued at USD 150.1 mln by an independent appraiser, Bureau Veritas, which also consults Auchan on their real estate projects.

Based on recent placement statistics from Russian and Ukrainian developers, the companies were valued by the market, on average, at a premium of over 70% to their NAV at floatation.

### Relative valuation at the time of placement

Company	MCap, USD mln	NAV*, USD mln	P/NAV
RGI International	609.7	291.6	2.09
Sistema Hals	2,364.6	1,509.5	1.57
XXI Century	388.6	211.9	1.83
Mirland	942.4	853.3	1.10
AFI Development	7,334.0	3,690.0	1.99
PIK Development	12,300.0	8,800.0	1.40
TMM	800.0	399.6	2.01
<b>Average</b>			<b>1.71</b>

\* In this report, we understand NAV as the value of a portfolio derived by a reputed independent appraiser

Source: Bloomberg

In our view, the market must have ascribed more value to the companies than appraisers did based mainly on expectations that the developers will generate more value than locked into their appraised projects due to the pipeline of un-appraised projects.

We think that a 30% premium would be better applicable to TKS Management than the peer group's average of 71%. A pre-IPO play, the company recently held a private placement of its shares on the Frankfurt Stock Exchange with less strict listing requirements and is still in the process of laying the groundwork to go public in 2009. Application of the 30% premium to NAV values TKS Management's equity at USD 195 mln.

## FINANCIAL STATEMENTS

## Assumptions used in financial projections

We forecasted TKS Management's financials based on the company's current project portfolio and construction schedule and using management's guidance. We attempted to make a compilation of the company's pro-forma statements following the prescriptions of IFRS.

**The key principles we employed in our projections are as follows:**

- Revenue from sales of premises and corresponding cost of sales are recognized at the time when the title is transferred to the buyer of the premises. The schedule of project completion can be thought of as an approximate guide in such revenue recognition;
- Pre-payments from buyers are capitalized on the balance sheet as Advances from Customers;
- Un-finished construction projects are capitalized as Inventory (construction work in progress). Upon their completion, they are either transferred to the Investment Property account or sold and written off of the balance sheet;
- For 2007F, we credited to the company's equity account the amount of net proceeds the company received from the placement of its shares.

### Income statement summary, USD mln

	2007E	2008F	2009F	2010F
<b>Net Revenues</b>	<b>2</b>	<b>4</b>	<b>23</b>	<b>101</b>
<i>Change y-o-y</i>	<i>n/a</i>	<i>125.5%</i>	<i>543.4%</i>	<i>333.9%</i>
Cost Of Sales	-	-	(4)	(40)
Gross Profit	2	4	20	61
Other Operating Income/Costs. net	-	-	-	-
SG&A	(0)	(0)	(0)	(1)
<b>EBITDA</b>	<b>2</b>	<b>4</b>	<b>19</b>	<b>61</b>
<i>EBITDA margin. %</i>	<i>98.0%</i>	<i>98.0%</i>	<i>82.7%</i>	<i>59.7%</i>
D&A	(0)	(0)	(0)	(0)
<b>EBIT</b>	<b>1</b>	<b>3</b>	<b>19</b>	<b>60</b>
<i>EBIT margin. %</i>	<i>86.1%</i>	<i>92.2%</i>	<i>81.5%</i>	<i>59.2%</i>
Interest Expense	(2)	(2)	(2)	(3)
Financial income	-	-	-	-
Other income/(expense)	-	-	-	-
<b>PBT</b>	<b>(0)</b>	<b>1</b>	<b>17</b>	<b>57</b>
Tax	-	(0)	(2)	(6)
<i>Effective tax rate</i>	<i>10%</i>	<i>10%</i>	<i>10%</i>	<i>10%</i>
<b>Net Income</b>	<b>(0)</b>	<b>1</b>	<b>15</b>	<b>51</b>
<i>Net Margin. %</i>	<i>-16.8%</i>	<i>29.4%</i>	<i>64.5%</i>	<i>50.6%</i>

### Balance sheet summary, USD mln

	2007E	2008F	2009F	2010F
<b>Current Assets</b>	<b>57</b>	<b>68</b>	<b>114</b>	<b>119</b>
Cash & Equivalents	39	39	71	89
Trade Receivables	2	4	11	22
Inventories	17	25	31	7
Other current assets	0	0	1	1
<b>Fixed Assets</b>	<b>15</b>	<b>41</b>	<b>52</b>	<b>56</b>
PP&E. net	7	8	9	14
Investment Property & Other Fixed Assets	8	33	42	42
<b>Total Assets</b>	<b>73</b>	<b>109</b>	<b>166</b>	<b>175</b>
<b>Shareholders' Equity</b>	<b>50</b>	<b>52</b>	<b>68</b>	<b>121</b>
Share Capital	39	39	40	40
Reserves and Other	12	13	28	80
<b>Current Liabilities</b>	<b>10</b>	<b>44</b>	<b>80</b>	<b>27</b>
ST Interest Bearing Debt	4	3	3	4
Trade Payables	1	3	7	22
Accrued Wages	-	-	-	-
Accrued Taxes	-	-	-	-
Advances from Customers & Other	5	38	70	-
<b>LT Liabilities</b>	<b>13</b>	<b>13</b>	<b>18</b>	<b>28</b>
LT Interest Bearing Debt	13	13	18	28
Other LT	0	0	0	0
<b>Total Liabilities &amp; Equity</b>	<b>73</b>	<b>109</b>	<b>166</b>	<b>175</b>

### Cash flow statement summary, USD mln

	2007E	2008F	2009F	2010F
Net Income	(0)	1	15	51
D&A	0	0	0	0
Non-operating and non-cash items	(2)	(8)	(6)	0
Changes in working capital	(6)	25	21	(42)
<b>Operating Cash Flow</b>	<b>(8)</b>	<b>18</b>	<b>31</b>	<b>11</b>
Capital Expenditures. net	(1)	(18)	(4)	(5)
Other Investments. net	-	-	-	-
<b>Investing Cash Flow</b>	<b>(1)</b>	<b>(18)</b>	<b>(4)</b>	<b>(5)</b>
Net Borrowings/(repayments)	9	(0)	4	11
Dividends Paid	-	-	-	-
Equity Financing & Other	39	-	-	-
<b>Financing Cash Flow</b>	<b>48</b>	<b>(0)</b>	<b>4</b>	<b>11</b>
Beginning Cash Balance	0	0	0	0
Ending Cash Balance	39	39	71	89
<b>Net Cash Inflows/Outflows</b>	<b>39</b>	<b>0</b>	<b>31</b>	<b>16</b>

### UAH/USD Exchange rates

	2007E	2008F	2009F	2010F
Average exchange rate	5.05	5.03	4.95	4.88
Year-end exchange rate	5.05	5.00	4.90	4.85

## RISKS

## Major risks faced by the company

**General macroeconomic and political risks.** Within the last five months, Ukraine has faced political instability due to the upcoming parliamentary election scheduled for late September 2007. Nevertheless, the political landscape in Ukraine is not expected to change drastically. With a 7.9% YTD increase in real GDP, the Ukrainian economy has continued on the path of resilient growth, showing that Ukrainian business is marching to a different beat than the political drum.

**Delays in completing projects.** The company might not successfully complete development and construction work within budget and in time. To mitigate the risk, TKS Management has established a General Construction office whose ultimate objective is to better control timeframes of project execution. SAP-based ERP system is an additional factor that will help the company mitigate the risk of delays.

**Low diversification in the tenant mix.** Furshet will become an anchor tenant for all but one retail center TKS is developing. On one hand, the company's existing agreement with Furshet mitigates the risk of low occupancy in retail centers, but on the other hand, it diminishes the bargaining power of TKS with regard to a change in rental rates in the future. TKS Management is determined to further extend its tenant base and is currently in negotiations with Russian food retailer Vester and German apparel retailer Peek&Cloppenburg.

**Deterioration of its relationships with authorities.** The development process in Ukraine is characterized by a high level of bureaucracy and presumes a lobbying relationship with local authorities. Weakening connections might result in delays in obtaining necessary paperwork to complete a project. The well established connections of TKS' beneficiary suggest that this risk should not be a serious concern.

**Unforeseen construction-related costs.** Although the company accounts for construction cost inflation in its estimates and is able to manage its costs relatively well due its in-house construction division, it still faces the risk of additional construction-related and facilitation payments. This type of risk is inherent in the Ukrainian real estate market and we believe TKS is well positioned to cope with it due to its established position in the market.



## LEGAL ENVIRONMENT

## Ownership

**Real estate ownership.** Ukraine recognizes the private ownership of real estate by Ukrainian residents, foreign individuals, foreign legal entities and others. Ukraine's Constitution, together with its Civil Code, Land Code and other applicable laws, uphold and protect the right to own private property.

Land is categorized by its approved use – residential, industrial and agricultural. Currently the majority of land in Ukraine is not privately owned, but is held by the government. Entities with foreign ownership (wholly or in part) are prohibited from owning some land privately: (1) land plots outside settlements that do not have any structures and (2) agricultural land.

**State registration of immovable property.** Ownership rights to real estate property are completed following the registration of the sale and purchase agreement with the appropriate local authority; the land purchase agreement must be registered with the local Department for Land Resources.

**Ownership liability.** Owners of land plots and buildings must comply with various environmental, public health, fire, residential, urban planning and other requirements. The owner of a building is generally liable for any issues connected to the building.

## Mortgage financing

Real-estate mortgages apply to land and other real estate, as well as to unfinished construction. Mortgages for privately-owned land have been permitted since January 2002.

## Leasing

**Land leases.** All Ukrainian and foreign individuals, entities and states can lease land in Ukraine. Subleasing arrangements are permitted, subject to the lessor's consent. There are two types of land leases: short-term (up to five years) and long-term (up to 50 years, the maximum lease term permitted under Ukrainian law).

Land lease agreements must be in writing and must contain provisions on: subject matter of the lease; term of the agreement; amount of the rent, and the terms and means of its payment; purposes of the lease; terms of maintenance of the leased land plot; terms of transfer of the leased land plot by the lessor to the lessee; terms for returning the leased land plot by the lessee to the lessor; a description of all existing restrictions and encumbrances; provisions allocating the risk of damage or loss; and liability.

Every land lease agreement must be registered with the appropriate state authorities and notarized. Leases can be extended an infinite number of times. The lessee has a pre-emptive right to extend the lease, provided it fulfilled its obligations under the original lease.

The lessee has a first-refusal right in the event that the lessor seeks to sell the leased property. However, a lessee has no right to extend the lease if the lessor decides to no longer lease the property. If a lessee wants to change the formal designated use of a leased land plot, they must apply to the government or local authority that granted the original lease.

**Leasing buildings and structures.** The lease of a building (or other structure) or part thereof must be concluded in writing, and must be notarized and registered with the government if entered into for a period of more than three years.

## Construction activities

**Obtaining land plots for construction.** Construction activities are regulated by the Cabinet of Ministers, parliament and municipal authorities. Construction on allocated land plots can only be carried out by the owner or lessee after obtaining a construction permit. The permit is issued for the expected term of construction, but it can be extended.

A lessee must transfer certain amount of the developed space upon completion to the city council, which the city may either retain for its use or sell to fund infrastructure improvements. The stake that has to be transferred is stipulated in municipal budgets. For 2007, Kyiv City Council set the stake from housing transferred by construction companies into the property of the city at the level of 15%-20% of the housing's area for land plots allocated after January 1, 2007.

After construction is completed, the owner is entitled to operate the building after its formal commissioning. The owners must register with local authorities to receive a title for the real estate.

**Licensing of construction activities.** Construction activities are subject to mandatory licensing. Construction licenses are issued for a term of five years. The term of the license can be extended.

## Taxation

Owners of land and those with permanent rights to use land must pay a land tax of 1 percent per annum of the formal valuation of the land. This tax rate is higher for certain (limited) land plots.

The formal valuation of a land is performed by authorized licensing organizations in accordance with methodology that takes into account the location of the land and the purpose for which the land is to be used.

Real-estate activities are subject to the following taxes:

- corporate profit tax (25%) on worldwide income (for Ukrainian companies) and on income earned in Ukraine (for foreign companies)
- value added tax (20%), which is applied the contracted value of services
- withholding tax (15%) on the proceeds of real estate sales of a foreign company or on the income from real estate sales of a foreign company's representative office in Ukraine; the tax rate varies for foreign companies that are based in countries that have signed a double taxation treaty with Ukraine (the appropriate tax rate is specified in the treaty)

## APPENDICES

## Appendix A: Projects DCF Analysis, ths USD

### Truskavets 1 RC

	'07E III	'07E IV	'08E I	'08E II	'08E III	'08E IV	'09E I	'09E II	'09E III	'09E IV	'10E I	'10E II	'10E III	'10E IV
Total income	0.23	0.24	0.25	0.26	0.26	0.27	0.28	0.29	0.30	0.31	0.31	0.32	0.33	0.34
OpEx	(0.00)	(0.00)	(0.00)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
NOI	0.23	0.24	0.24	0.25	0.26	0.27	0.27	0.28	0.29	0.30	0.31	0.32	0.33	0.34
Construction expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VAT Impact	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash Flow	0.23	0.24	0.24	0.25	0.26	0.27	0.27	0.28	0.29	0.30	0.31	0.32	0.33	0.34
Annual discount rate	15%	15%	14%	14%	14%	14%	13%	13%	13%	13%	12%	12%	12%	12%
Cash Flow discounted	0.22	0.22	0.22	0.22	0.22	0.22	0.22	0.22	0.22	0.22	0.22	0.22	0.22	0.22
Discounted TV	7.84													TV 12.01
TV as % of NPV	72%												Exit Yield	11%
<b>NPV</b>	<b>10.9</b>				<b>11.5</b>									

Source: Concorde Capital estimates

### Truskavets 2 RC

	'07E III	'07E IV	'08E I	'08E II	'08E III	'08E IV	'09E I	'09E II	'09E III	'09E IV	'10E I	'10E II	'10E III	'10E IV
Total income	-	-	0.05	0.05	0.05	0.05	0.05	0.06	0.06	0.06	0.06	0.06	0.07	0.07
OpEx	-	-	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
NOI	-	-	0.05	0.05	0.05	0.05	0.05	0.06	0.06	0.06	0.06	0.06	0.06	0.07
Construction expense	(0.08)	(0.08)	-	-	-	-	-	-	-	-	-	-	-	-
VAT Impact	(0.02)	(0.02)	0.01	0.01	0.01	0.00	-	-	-	-	0.00	-	-	-
Cash Flow	(0.09)	(0.09)	0.06	0.06	0.06	0.05	0.05	0.06	0.06	0.06	0.06	0.06	0.06	0.07
Annual discount rate	17%	17%	16%	16%	16%	16%	15%	15%	15%	15%	14%	14%	14%	14%
Cash Flow discounted	(0.09)	(0.09)	0.05	0.05	0.05	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04
Discounted TV	1.44													TV 2.35
TV as % of NPV	81%												Exit Yield	11%
<b>NPV</b>	<b>1.8</b>				<b>2.2</b>									

Source: Concorde Capital estimates

### Drogobych 1 RC

	'07E III	'07E IV	'08E I	'08E II	'08E III	'08E IV	'09E I	'09E II	'09E III	'09E IV	'10E I	'10E II	'10E III	'10E IV
Total income	0.10	0.10	0.10	0.11	0.11	0.11	0.12	0.12	0.12	0.13	0.13	0.13	0.14	0.14
OpEx	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
NOI	0.10	0.10	0.10	0.10	0.11	0.11	0.11	0.12	0.12	0.12	0.13	0.13	0.14	0.14
Construction expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VAT Impact	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash Flow	0.10	0.10	0.10	0.10	0.11	0.11	0.11	0.12	0.12	0.12	0.13	0.13	0.14	0.14
Annual discount rate	15%	15%	14%	14%	14%	14%	13%	13%	13%	13%	12%	12%	12%	12%
Cash Flow discounted	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09
Discounted TV	3.26													TV 4.99
TV as % of NPV	72%												Exit Yield	11%
<b>NPV</b>	<b>4.5</b>				<b>4.8</b>									

Source: Concorde Capital estimates

### Drogobych 2 RC

	'07E III	'07E IV	'08E I	'08E II	'08E III	'08E IV	'09E I	'09E II	'09E III	'09E IV	'10E I	'10E II	'10E III	'10E IV
Total income	-	-	-	-	0.47	0.48	0.50	0.51	0.53	0.54	0.56	0.58	0.60	0.61
OpEx	-	-	-	-	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
NOI	-	-	-	-	0.46	0.47	0.49	0.50	0.52	0.53	0.55	0.57	0.58	0.60
Construction expense	(1.11)	(1.15)	(1.18)	(1.22)	-	-	-	-	-	-	-	-	-	-
VAT Impact	(0.22)	(0.23)	(0.24)	(0.24)	0.09	0.09	0.10	0.10	0.10	0.11	0.11	0.11	0.11	-
Cash Flow	(1.34)	(1.38)	(1.42)	(1.46)	0.55	0.57	0.59	0.60	0.62	0.64	0.66	0.68	0.70	0.60
Annual discount rate	17%	17%	16%	16%	16%	16%	15%	15%	15%	15%	14%	14%	14%	14%
Cash Flow discounted	(1.29)	(1.27)	(1.27)	(1.26)	0.46	0.45	0.45	0.45	0.45	0.45	0.45	0.44	0.44	0.37
Discounted TV	13.14													TV 21.40
TV as % of NPV	105%												Exit Yield	11%
<b>NPV</b>	<b>12.5</b>				<b>20.4</b>									

Source: Concorde Capital estimates

### Boryslav RC

	'07E III	'07E IV	'08E I	'08E II	'08E III	'08E IV	'09E I	'09E II	'09E III	'09E IV	'10E I	'10E II	'10E III	'10E IV
Total income	-	0.09	0.09	0.09	0.09	0.10	0.10	0.10	0.10	0.11	0.11	0.11	0.12	0.12
OpEx	-	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
NOI	-	0.08	0.09	0.09	0.09	0.09	0.10	0.10	0.10	0.11	0.11	0.11	0.12	0.12
Construction expense	(0.90)	-	-	-	-	-	-	-	-	-	-	-	-	-
VAT Impact	(0.18)	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.01	-	-	-
Cash Flow	(1.08)	0.10	0.10	0.11	0.11	0.11	0.12	0.12	0.12	0.13	0.12	0.11	0.12	0.12
Annual discount rate	17%	17%	16%	16%	16%	16%	15%	15%	15%	15%	14%	14%	14%	14%
Cash Flow discounted	(1.04)	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.08	0.07	0.07	0.07
Discounted TV	2.61												TV	4.25
TV as % of NPV	97%												Exit Yield	11%
<b>NPV</b>	<b>2.7</b>				<b>4.0</b>									

Source: Concorde Capital estimates

### Novovolynsk RC

	'07E III	'07E IV	'08E I	'08E II	'08E III	'08E IV	'09E I	'09E II	'09E III	'09E IV	'10E I	'10E II	'10E III	'10E IV
Total income	-	-	-	-	0.31	0.32	0.33	0.34	0.35	0.36	0.37	0.39	0.40	0.41
OpEx	-	-	-	-	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
NOI	-	-	-	-	0.31	0.32	0.33	0.34	0.35	0.36	0.37	0.38	0.39	0.40
Construction expense	(0.93)	(0.96)	(0.99)	(1.02)	-	-	-	-	-	-	-	-	-	-
VAT Impact	(0.19)	(0.19)	(0.20)	(0.20)	0.06	0.06	0.07	0.07	0.07	0.07	0.07	0.08	0.08	0.16
Cash Flow	(1.12)	(1.15)	(1.19)	(1.22)	0.37	0.38	0.39	0.40	0.42	0.43	0.44	0.45	0.47	0.56
Annual discount rate	17%	17%	16%	16%	16%	16%	15%	15%	15%	15%	14%	14%	14%	14%
Cash Flow discounted	(1.08)	(1.07)	(1.06)	(1.05)	0.31	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.34
Discounted TV	8.78												TV	14.30
TV as % of NPV	116%												Exit Yield	11%
<b>NPV</b>	<b>7.6</b>				<b>13.7</b>									

Source: Concorde Capital estimates

### Lviv 1 RC

	'07E III	'07E IV	'08E I	'08E II	'08E III	'08E IV	'09E I	'09E II	'09E III	'09E IV	'10E I	'10E II	'10E III	'10E IV
Total income	-	-	-	-	-	-	1.84	1.89	1.95	2.01	2.07	2.13	2.19	2.26
OpEx	-	-	-	-	-	-	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)	(0.05)
NOI	-	-	-	-	-	-	1.80	1.85	1.91	1.97	2.03	2.09	2.15	2.21
Construction expense	(2.06)	(2.12)	(2.19)	(2.25)	(2.32)	(2.39)	-	-	-	-	-	-	-	-
VAT Impact	(0.41)	(0.42)	(0.44)	(0.45)	(0.46)	(0.48)	0.36	0.37	0.38	0.39	0.41	0.42	0.34	-
Cash Flow	(2.48)	(2.55)	(2.63)	(2.70)	(2.79)	(2.87)	2.16	2.23	2.29	2.36	2.43	2.51	2.49	2.21
Annual discount rate	17%	17%	16%	16%	16%	16%	15%	15%	15%	15%	14%	14%	14%	14%
Cash Flow discounted	(2.38)	(2.36)	(2.34)	(2.33)	(2.31)	(2.29)	1.67	1.66	1.65	1.65	1.64	1.64	1.58	1.36
Discounted TV	53.31												TV	86.82
TV as % of NPV	102%												Exit Yield	10%
<b>NPV</b>	<b>52.1</b>				<b>71.6</b>									

Source: Concorde Capital estimates

### Lviv Office

	'07E III	'07E IV	'08E I	'08E II	'08E III	'08E IV	'09E I	'09E II	'09E III	'09E IV	'10E I	'10E II	'10E III	'10E IV
Total income	-	-	-	-	-	-	0.41	0.42	0.44	0.45	0.46	0.48	0.49	0.51
OpEx	-	-	-	-	-	-	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
NOI	-	-	-	-	-	-	0.40	0.41	0.43	0.44	0.45	0.47	0.48	0.50
Construction expense	-	(0.85)	(0.88)	(0.90)	(0.93)	(0.96)	-	-	-	-	-	-	-	-
VAT Impact	-	(0.17)	(0.18)	(0.18)	(0.19)	(0.19)	0.08	0.08	0.09	0.09	0.09	0.09	0.10	0.28
Cash Flow	-	(1.02)	(1.05)	(1.08)	(1.11)	(1.15)	0.48	0.50	0.51	0.53	0.54	0.56	0.58	0.78
Annual discount rate	19%	19%	18%	18%	18%	18%	17%	17%	17%	17%	16%	16%	16%	16%
Cash Flow discounted	-	(0.94)	(0.93)	(0.91)	(0.90)	(0.89)	0.36	0.36	0.36	0.35	0.35	0.35	0.35	0.45
Discounted TV	11.23												TV	19.42
TV as % of NPV	117%												Exit Yield	10%
<b>NPV</b>	<b>9.6</b>				<b>14.6</b>									

Source: Concorde Capital estimates

### Truskavets 1 / Lisova Pisnya

	'07E III	'07E IV	'08E I	'08E II	'08E III	'08E IV	'09E I
Total income	0.59	0.60	0.62	0.64	0.66	0.68	0.70
OpEx	-	-	-	-	-	-	-
NOI	0.59	0.60	0.62	0.64	0.66	0.68	0.70
Construction expense	(0.31)	(0.32)	(0.33)	(0.34)	(0.35)	(0.36)	(0.37)
VAT Impact	-	-	-	-	-	-	-
Cash Flow	0.27	0.28	0.29	0.30	0.31	0.32	0.33
Annual discount rate	17%	17%	16%	16%	16%	16%	15%
Cash Flow discounted	0.26	0.26	0.26	0.26	0.25	0.25	0.25
<b>NPV</b>	<b>1.8</b>			<b>0.9</b>			

Source: Concorde Capital estimates

### Truskavets 2 / Pomiretska

	'07E III	'07E IV	'08E I	'08E II	'08E III	'08E IV	'09E I	'09E II	'09E III	'09E IV	'10E I	'10E II	'10E III	'10E IV
Total income	0.50	1.54	1.58	1.63	1.68	1.73	1.78	1.84	1.89	0.08	0.08	0.08	0.09	0.09
OpEx	-	-	-	-	-	-	-	-	-	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
NOI	0.50	1.54	1.58	1.63	1.68	1.73	1.78	1.84	1.89	0.08	0.08	0.08	0.08	0.09
Construction expense	(0.28)	(0.87)	(0.90)	(0.92)	(0.95)	(0.98)	(1.01)	(1.04)	(1.07)	-	-	-	-	-
VAT Impact	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash Flow	0.22	0.67	0.69	0.71	0.73	0.75	0.77	0.80	0.82	0.08	0.08	0.08	0.08	0.09
Annual discount rate	19%	19%	18%	18%	18%	18%	17%	17%	17%	17%	16%	16%	16%	16%
Cash Flow discounted	0.21	0.61	0.61	0.60	0.59	0.59	0.58	0.57	0.57	0.05	0.05	0.05	0.05	0.05
Discounted TV	1.78													TV
TV as % of NPV	26%												Exit Yield	11%
<b>NPV</b>	<b>7.0</b>				<b>5.8</b>									

Source: Concorde Capital estimates

### Truskavets 3 / Berizka

	'07E III	'07E IV	'08E I	'08E II	'08E III	'08E IV	'09E I	'09E II	'09E III	'09E IV	'10E I	'10E II	'10E III	'10E IV
Total income	-	-	-	-	-	-	-	0.69	0.71	0.73	0.75	0.77	0.80	0.82
OpEx	-	-	-	-	-	-	-	(0.05)	(0.05)	(0.05)	(0.05)	(0.05)	(0.05)	(0.05)
NOI	-	-	-	-	-	-	-	0.64	0.66	0.68	0.70	0.72	0.74	0.76
Construction expense	-	(1.06)	(1.10)	(1.13)	(1.16)	(1.20)	(1.23)	-	-	-	-	-	-	-
VAT Impact	-	(0.21)	(0.22)	(0.23)	(0.23)	(0.24)	(0.25)	0.13	0.13	0.14	0.14	0.14	0.15	0.55
Cash Flow	-	(1.28)	(1.32)	(1.35)	(1.40)	(1.44)	(1.48)	0.77	0.79	0.82	0.84	0.87	0.89	1.31
Annual discount rate	21%	21%	20%	20%	20%	20%	19%	19%	19%	19%	18%	18%	18%	18%
Cash Flow discounted	-	(1.16)	(1.14)	(1.13)	(1.11)	(1.09)	(1.08)	0.54	0.53	0.52	0.52	0.51	0.51	0.72
Discounted TV	14.85													TV
TV as % of NPV	124%												Exit Yield	11%
<b>NPV</b>	<b>12.0</b>				<b>18.5</b>									

Source: Concorde Capital estimates

### Truskavets 4 / Cottages

	'07E III	'07E IV	'08E I	'08E II	'08E III	'08E IV	'09E I	'09E II	'09E III
Total income	-	-	0.54	1.66	1.71	1.76	1.81	1.86	1.92
OpEx	-	-	-	-	-	-	-	-	-
NOI	-	-	0.54	1.66	1.71	1.76	1.81	1.86	1.92
Construction expense	-	-	(0.25)	(0.76)	(0.78)	(0.81)	(0.83)	(0.86)	(0.88)
VAT Impact	-	-	-	-	-	-	-	-	-
Cash Flow	-	-	0.29	0.89	0.92	0.95	0.98	1.01	1.04
Annual discount rate	21%	21%	20%	20%	20%	20%	19%	19%	19%
Cash Flow discounted	-	-	0.25	0.74	0.73	0.72	0.71	0.70	0.69
<b>NPV</b>	<b>4.6</b>				<b>4.3</b>				

Source: Concorde Capital estimates

**Lviv 1 / Naukova**

	'07E III	'07E IV	'08E I	'08E II	'08E III	'08E IV	'09E I	'09E II	'09E III	'09E IV	'10E I	'10E II
Total income	-	-	-	3.31	3.41	3.52	3.62	3.73	3.84	3.96	4.08	4.20
OpEx	-	-	-	-	-	-	-	-	-	-	-	-
NOI	-	-	-	3.31	3.41	3.52	3.62	3.73	3.84	3.96	4.08	4.20
Construction expense	-	-	-	(1.30)	(1.34)	(1.38)	(1.42)	(1.46)	(1.50)	(1.55)	(1.59)	(1.64)
VAT Impact	-	-	-	-	-	-	-	-	-	-	-	-
Cash Flow	-	-	-	2.02	2.08	2.14	2.21	2.27	2.34	2.41	2.48	2.56
Annual discount rate	21%	21%	20%	20%	20%	20%	19%	19%	19%	19%	18%	18%
Cash Flow discounted	-	-	-	1.68	1.65	1.63	1.61	1.58	1.56	1.54	1.53	1.51
<b>NPV</b>	<b>14.3</b>			<b>15.2</b>								

Source: Concorde Capital estimates

**Lviv 2 / Stradch**

	'07E III	'07E IV	'08E I	'08E II	'08E III	'08E IV	'09E I	'09E II	'09E III	'09E IV	'10E I
Total income	-	-	0.76	2.36	2.43	2.50	2.58	2.66	2.74	2.82	2.90
OpEx	-	-	-	-	-	-	-	-	-	-	-
NOI	-	-	0.76	2.36	2.43	2.50	2.58	2.66	2.74	2.82	2.90
Construction expense	-	-	(0.35)	(1.08)	(1.11)	(1.15)	(1.18)	(1.22)	(1.25)	(1.29)	(1.33)
VAT Impact	-	-	-	-	-	-	-	-	-	-	-
Cash Flow	-	-	0.41	1.28	1.32	1.36	1.40	1.44	1.48	1.53	1.57
Annual discount rate	21%	21%	20%	20%	20%	20%	19%	19%	19%	19%	18%
Cash Flow discounted	-	-	0.36	1.06	1.05	1.03	1.02	1.00	0.99	0.98	0.97
<b>NPV</b>	<b>8.5</b>			<b>8.5</b>							

Source: Concorde Capital estimates



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

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

#### CEO

Igor Mazepa

im@concorde.com.ua

#### RESEARCH COVERAGE BY SECTOR

#### Head of Equity Sales

Lucas Romriell

lr@concorde.com.ua

#### Strategy

Konstantin Fisun  
 Oleksandr Klymchuk

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

#### Equity Sales

Marina Martirosyan  
 Anastasiya Nazarenko  
 Duff Kovacs, CFA  
 Tatyana Chub  
 Zack Watson

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

#### Metals & Mining

Eugene Cherviachenko

ec@concorde.com.ua

#### Utilities (Telecom, Energy)

Alexander Paraschiy

ap@concorde.com.ua

#### Director of Research

Konstantin Fisun, CFA

kf@concorde.com.ua

#### Oil & Gas, Chemicals

Vladimir Nesterenko

vn@concorde.com.ua

#### Consumer/Retail Group

Andriy Gostik, CFA  
 Olha Pankiv  
 Alexander Romanov  
 Anna Dudchenko

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

#### Machinery

Olha Pankiv  
 Eugene Cherviachenko  
 Inna Perepelytsya

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

#### Financial Services

Alexander Viktorov

av@concorde.com.ua

#### Macroeconomics

Alexander Viktorov  
 Polina Khomenko

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

#### Fixed Income

Oleksandr Klymchuk

ok@concorde.com.ua

#### Corporate Governance

Nick Piazza

np@concorde.com.ua

#### News/Production

Nick Piazza  
 Polina Khomenko

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

#### Editor

Brad Wells

bw@concorde.com.ua

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