

**INITIATING  
COVERAGE**

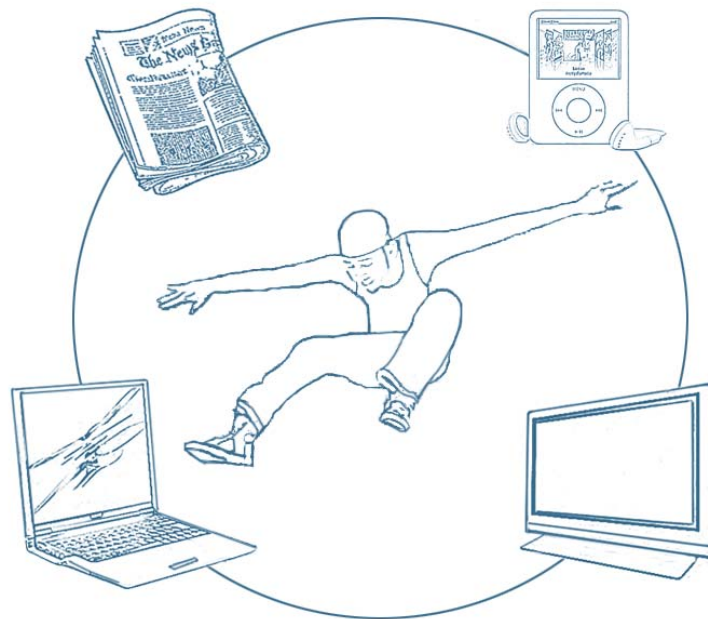
**Olha Pankiv**  
op@concorde.com.ua

**Oksana Lyashuk**  
ol@concorde.com.ua

+380 44 391 5577

# United Media Holding

A True Media Mix



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# United Media Holding

Media/Ukraine

www.umh.ua

**BUY**
**12M target**
**USD 11.9**  
**EUR 7.6**

## INVESTMENT CASE

**United Media Holding, one of Ukraine's largest media groups with exposure to print, radio and Internet, raised USD 45 mln by placing a 15% stake with portfolio investors in May. The funds will be spent on the acquisition of a TV channel and Internet portal in early July, as well as on the expansion of UMH's press retail chain. We initiate coverage of the stock with target price of USD 11.9 per share (25% upside) and a BUY recommendation.**

### Exposure to unsaturated CIS media markets

UMH's stock provides investors with an opportunity to catch the momentum on the fast-growing Ukrainian and Russian media markets: Media advertising expenditures posted 49% and 31% CAGR over 2004-07 in Ukraine and Russia. We expect both markets to double from their current sizes by 2010-11: per capita advertising expenditures in Ukraine last year were a mere 20% of the average in other Central and Eastern Europe countries, while Russia's was 50% lower.

### Present in publishing, radio and on the Internet

UMH is diversified in terms of its media presence. It is Ukraine's largest publishing house with a 12.6% share of advertising in print media, and 26% of the national audience in 2007. It owns the second-largest FM radio network in the country, and is the leader on Kyiv's FM radio market. The company's Internet business is currently comprised of 23 websites.

### TV, Internet and expansion abroad are key growth drivers

UMH's strategy foresees transformation from a print and radio play into a major multimedia operator in the Russian-speaking post-Soviet space. To achieve this, the company:

- Entered TV in March 2008, signing preliminary agreements to purchase Menu TV and three additional TV broadcasting licenses
- Launched two new websites this March (real estate and movies); Is finalizing negotiations to acquire a Ukrainian Internet portal; Preparing to launch ten more websites in 2008. UMH has set its sights on the #3 position of the Internet ad market and growing its market share from 0.5% in 2007 to 7.5% in 2008
- Is expanding its business geographically. After placement, UMH expanded the presence of its core brand, Telenedelya, into its 25<sup>th</sup> Russian region and in 2H08 will launch operations in four more Russian cities, including St. Petersburg.

### Price catalysts: acquisitions and IPO

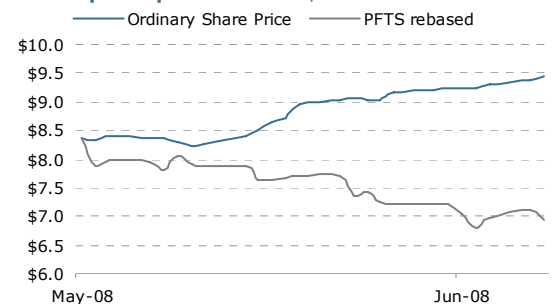
UMH has a proven record of successful acquisitions. In 2007, it purchased the rights to three publications from Karavan Media, and acquired two radio networks – Radio ONE and Retro FM. We expect the company's ongoing M&A activity to produce catalysts for its market price. Currently, UMH is in talks to acquire two more TV channels: one in Ukraine and another in Russia. Its strategy also envisages purchasing Internet projects on a continual basis. UMH is targeting an IPO in 2010-11.

## Market information\*

Frankfurt/Xetra	A65 GR
Market price per GDR, USD	9.5
EUR	6.1
Market Cap, USD mln	344.5
EUR mln	219.0
No of shares, mln	18.1
DR/Ord. ratio	2:1
Free float, %	15%
Free float, USD mln	51.7
EUR mln	32.9

\* Shares of Cyprus-registered shell company Advantest Public Ltd which owns 100% in United Media Holding N.V. were placed

## Share price performance, USD



## Stock ownership

Integrity International Holding Ltd	80.9%
Institutional investors	15.0%
Torbock Holdings Ltd	4.1%

## Key financials\*, USD mln

	2008E	2009E	2010E
Net revenue	153.2	212.1	265.5
EBITDA	(1.2)	21.9	42.8
Net income	(17.0)	3.2	18.3
Net Debt	71.1	90.6	93.5

\* consolidated

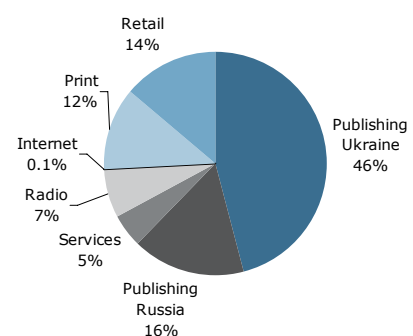
## Market multiples\*

	2008E	2009E	2010E
EV/Sales	2.7	2.1	1.7
EV/EBITDA	neg	19.8	10.2
P/E	neg	107.6	18.8

\* based on consolidated financials

Source: Concorde Capital estimates

## Revenue breakdown, 2007



Source: Company data

## EXECUTIVE SUMMARY

## Media market boom in the CIS

The high growth pace of ad spending, the major revenue contributor for media businesses, is a prevailing trend in the Ukrainian and Russian media industries. Both countries saw advertising market growth in excess of 30% CAGR in 2004-07 and we expect it to continue at 24% CAGR over 2007-10.

There is ample room for growth due to low ad market saturation: per capita advertising expenditures were USD 25 in Ukraine and USD 61 in Russia, versus USD 122 on average for all other Central and Eastern European countries, and USD 356 for Western European nations. In our view, ad market growth in Ukraine and Russia will significantly outpace GDP growth due the low share of ad spending in GDP - 0.7% in Russia and 0.8% in Ukraine - compared to the other CEE countries' average of 1.3%.

## Exposure to the fast growing CIS media industry

UMH is the second public media stock in Ukraine and seventh providing exposure to CIS media markets. In our view, it offers investors an attractive opportunity to get an exposure to the CIS' media sector and capitalize on its secular growth.

### Media stocks with exposure to CIS markets

Company	Free Float		MCap, USD mln	Stock exchange
	%	USD mln		
Central European Media	76	2,916	3,837	NASDAQ
CTC Media	25	951	3,804	NASDAQ
RBC	49	617	1,260	RTS
Trader Media East	33	327	1,000	LSE
Rambler	45	186	413	LSE
KP Media	20	20	101	PFTS

Source: Bloomberg, Company data

## UMH's profile

United Media Holding is Ukraine's major media group with assets in print media, radio and the Internet; it is currently diversifying into TV. The company owns Ukraine's largest publishing house and holds 26% of press readership and 12% of press advertising. It is the most active market player in terms of entering new publishing segments. Its press retail network is the largest in the country. Apart from Ukraine, UMH's publishing operations currently reach into Russia, Kazakhstan and Belarus. UMH holds a 27% stake in Ukraine's radio ad market, is #1 in terms of radio audience in Kyiv and #2 in Ukraine.

## Expanding abroad

The company is targeting further expansion into the capacious CIS market, total population of 270 mln, where ad market growth is expected to be 26% CAGR over 2007-10. UMH's core product in the CIS (outside Ukraine) is the Telenedelya TV guide. UMH ranked third in Russia's TV guide ad segment with a market share of 6.1% in 2007. We project the share of foreign operations in UMH's publishing revenues to grow to 38% in 2012 from 26% in 2007.

## Diversification into TV and Internet is a top priority

To get exposure to the ad market's largest segment, TV, UMH is planning a number of TV acquisitions in Ukraine and Russia. It has signed a preliminary agreement to purchase national Ukrainian satellite channel Menu TV and three other satellite licenses and is in negotiations to acquiring a TV channel in Russia.

At the same time, the company is planning to boost its share in Internet advertising, the fastest growing ad market segment. It currently has 23 websites (19 sites supporting press projects, two web 2.0 sites, one real estate and one movie site). In 2008, it is going to launch 10 new Internet projects, mainly in the segments where the company's publishing business has a strong presence (sports, news, women, automotive, celebrities, etc). This year, UMH is targeting the acquisition of a stake in an Internet portal.

### **Valuation summary**

We set our 12M target price for UMH's stock at USD 11.9, which implies 25% upside to its current price. The target is an average of share prices implied by DCF and 2009F EV/Sales multiple.

## VALUATION

## Valuation methods

We set our 12M target for UMH at USD 11.9 based on DCF and peer comparison. We give equal weights to the 12-month fair values derived from DCF and valuation implied by the 2009F EV/Sales metric.

### DCF

#### Assumptions

##### Advertising market forecasts

	2007	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F
<b>Ukraine</b>											
Nominal GDP, USD bln	143	182	214	245	279	314	349	385	421	460	502
Media advertising market, USD mln	1158	1529	1911	2216	2571	2957	3341	3742	4116	4495	4909
Media advertising per capita, USD	25	33	42	49	58	67	76	85	94	102	112
<b>Russia</b>											
Nominal GDP, USD bln	1262	1514	1741	1968	2184	2424	2667	2907	3168	3453	3764
Media advertising market, USD mln	8703	11235	13908	16552	19615	22557	25489	28548	31403	34293	37448
Media advertising per capita, USD	61	79	99	118	140	162	184	207	228	250	275

##### Revenue and EBITDA projections, USD mln

	2007	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F
<b>Total Revenues</b>	<b>114</b>	<b>153</b>	<b>212</b>	<b>265</b>	<b>326</b>	<b>384</b>	<b>439</b>	<b>505</b>	<b>569</b>	<b>611</b>	<b>636</b>
Publishing (Ukraine)	52	66	80	92	105	118	130	141	149	154	159
Publishing (Russia)	18	30	44	56	66	72	78	84	90	96	102
Radio	8	11	15	21	26	30	33	37	41	45	45
Internet	0	2	3	6	9	13	18	23	29	34	34
TV	0	1	7	12	26	38	51	74	91	99	99
Wholesale	6	7	7	8	9	10	10	10	10	10	10
Retail	16	24	34	46	57	72	88	102	125	138	152
Print	14	10	18	18	19	20	21	22	24	25	25
Other	1	2	4	5	8	10	10	10	10	10	10
<b>EBITDA</b>	<b>(3.8)</b>	<b>(1.2)</b>	<b>21.9</b>	<b>42.8</b>	<b>58</b>	<b>86</b>	<b>106</b>	<b>130</b>	<b>150</b>	<b>163</b>	<b>171</b>
EBITDA margin, %	-3.0%	-0.8%	10.3%	16.1%	17.8%	22.3%	24.2%	25.8%	26.3%	26.7%	26.9%

Source: Concorde Capital estimates

In our DCF model, we included those acquisition projects with the highest degree of implementation, under management guidance:

- Acquisition of a 51% stake in Menu TV channel. Preliminary agreement was signed in March 2008
- Acquisition of a 25% stake in one of Ukraine's major Internet portals, expected to be finalized in early July

We did not take into account other potential acquisitions, which, if successful, would add value on top of our valuation range. These include:

- Acquisition of two more TV channels, negotiations are currently underway
- Other major Internet-based acquisitions

Though management says it is planning to buy out stakes of minority partners in UMH businesses, due to uncertainty in price and timing, we did not include them in our model.

We expect UMH's acquisition of 30 additional regional frequencies for Avtoradio and ONE in 2008-10 to increase its market share in radio advertising to 30% from 27% in 2007.

In line with management's plans, we project UMH's retail network to increase by 2.9 times to 2.4 ths points of sales by 2013.

We assume no further major acquisitions in Ukraine's publishing segment, and expect organic growth as current projects mature. Growth in Russian sales will be driven by geographical expansion of regional editions of the Telenedelya TV guide.



**DCF model**

UMH's equity in 12 months should be worth USD 466 mln (implying a price of USD 12.9 per GDR), according to our DCF analysis. DCF is our preferred valuation method, as in our view, it better captures value of future cash flows from new projects launched in 2006-07 and expected to mature after 2009.

**As of June 26**

*For the purpose of forecasting, local currency is used (UAH mln) unless otherwise noted*

	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F
<b>EBITDA</b>	<b>109</b>	<b>207</b>	<b>281</b>	<b>410</b>	<b>510</b>	<b>626</b>	<b>718</b>	<b>767</b>	<b>805</b>
EBIT	78	172	242	370	468	583	674	721	758
Tax Rate	25%	25%	25%	25%	25%	25%	25%	25%	25%
Taxed EBIT	58	129	181	277	351	437	505	541	568
Plus D&A	31	35	39	41	42	43	45	46	47
Less CapEx	(109)	(109)	(94)	(47)	(46)	(46)	(46)	(46)	(46)
Less change in OWC	(31)	(26)	(26)	(29)	(29)	(35)	(31)	(15)	(12)
<b>FCFF</b>	<b>(51)</b>	<b>30</b>	<b>101</b>	<b>241</b>	<b>317</b>	<b>399</b>	<b>472</b>	<b>526</b>	<b>557</b>
WACC	15%	14%	13%	12%	11%	11%	11%	11%	11%
							Perpetuity growth rate		3.0%
							WACC to perpetuity		11.0%
Terminal Value	2,731								7,174
							Implied exit EBITDA multiple		8.9x
<b>Firm value</b>	<b>3,987</b>								
Portion due to TV									69%
Less Net Debt									(396)
Less minorities									(1,329)
Equity Value									2,262
<b>Implied GDR price, USD</b>									<b>12.9</b>

**Sensitivity analysis**
**Implied MCap, UAH mln**

WACC	Perpetuity Growth Rate				
	2.0%	2.5%	3.0%	3.5%	4.0%
-3.0%	2,788	2,982	3,200	3,447	3,730
-2.0%	2,480	2,659	2,861	3,090	3,351
-1.0%	2,197	2,363	2,549	2,761	3,003
+0.0%	1,935	2,089	<b>2,262</b>	2,458	2,683
+1.0%	1,694	1,837	1,997	2,179	2,387
+2.0%	1,471	1,603	1,752	1,921	2,114
+3.0%	1,265	1,388	1,526	1,683	1,862

**Implied share price, UAH mln**

WACC to perpetuity	Perpetuity Growth Rate				
	2.0%	2.5%	3.0%	3.5%	4.0%
<b>8.0%</b>	3,076	3,419	3,830	4,333	4,961
<b>9.0%</b>	2,586	2,837	3,131	3,479	3,896
<b>10.0%</b>	2,219	2,413	2,634	2,889	3,187
<b>11.0%</b>	1,935	2,089	<b>2,262</b>	2,458	2,683
<b>12.0%</b>	1,709	1,835	1,974	2,130	2,305
<b>13.0%</b>	1,525	1,629	1,745	1,872	2,013
<b>14.0%</b>	1,372	1,461	1,558	1,664	1,780

## Peer valuation

In our view, peer valuation can be viewed as the lower bound of the company's estimated value. Sales generating potential of the company's new projects is not fully reflected in 2008-09E financials, and UMH's profitability during the early stages of project realization will be temporarily depressed. This makes forward-looking 2008-09E EV/EBITDA and P/E multiples not indicative of the company's value and 2008-2009E EV/Sales multiple a very conservative valuation metric.

We conservatively estimate UMH's equity value by relative valuation at USD 389 mln (implied price of USD 10.8 per DR) based on 2009E EV/Sales.

### Peer valuation summary

Company	Country	Current Price, USD	# of shares	Current Mcap, USD mln	EV/Sales		
					2007	2008	2009
UMH	Ukraine	9.4	36.2	340.4	5.3	4.0	2.9
KP Media	Ukraine	8.9	11.4	101.3	4.6	3.0	2.4
RBC Information Systems	Russia	9.0	140.0	1,260.0	5.7	4.5	3.4
Rambler Media Limited	Russia	26.8	15.4	413.3	5.8	3.2	2.2
CTC Media Inc	Russia	25.0	152.1	3,803.7	7.1	5.5	4.1
Central European Media Enterprise	Bermuda	90.7	42.3	3,836.5	4.9	4.2	3.5
Trader Media East Limited	Netherlands	20.0	50.0	1,000.0	3.7	3.5	2.9
<b>Average</b>					<b>5.3</b>	<b>4.0</b>	<b>3.1</b>
UMH							
Implied equity value, USD mln					538.6	544.5	568.9
Minority share, USD mln					174.5	177.3	179.7
Implied equity value less minorities, USD mln					364.1	367.2	389.2
Implied price per DR					10.1	10.1	10.8

Source: Bloomberg, Thomson Financials, Concorde Capital estimates, Company data

We chose UMH's peer group based on exposure to the media sectors in Ukraine and Russia, as believe that multiples at which these stocks trade better capture the two markets' above-the-global-average growth prospects.

## **MEDIA MARKETS IN UKRAINE AND RUSSIA**

## Advertising: fuelling media revenues

Advertising is by far the most important revenue source for all media segments, except for publishing, for which copy sales are also a large sales generator. In Ukraine and Russia, copy sales account for half of revenues in the publishing segment, on par with advertising.

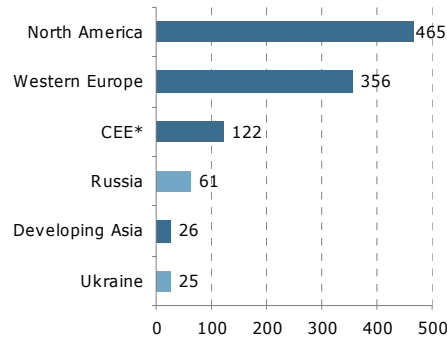
### Immense growth potential

The advertising markets in both Ukraine and Russia are in a rapid growth stage, posting 49% and 31% CAGR respectively in 2004-07, compared to 6% on average for Western European countries.

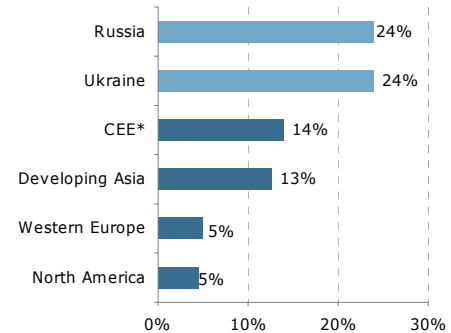
In our opinion, the ad markets in the two countries are far below saturation. Per capita expenditures for advertising (TV, press, radio, movies and outdoor) were USD 25 in Ukraine and USD 61 in Russia, compared to USD 122 on average for other CEE countries, and USD 356 in Western Europe in 2007.

We expect the Ukrainian and Russian markets to continue growing at a pace of 24% CAGR over 2007-10, faster than other CEE states' average, which ZenithOptimedia projects at 14% CAGR during that period.

Per capita media ad spending, 2007



2007-10E CAGR in ad spending



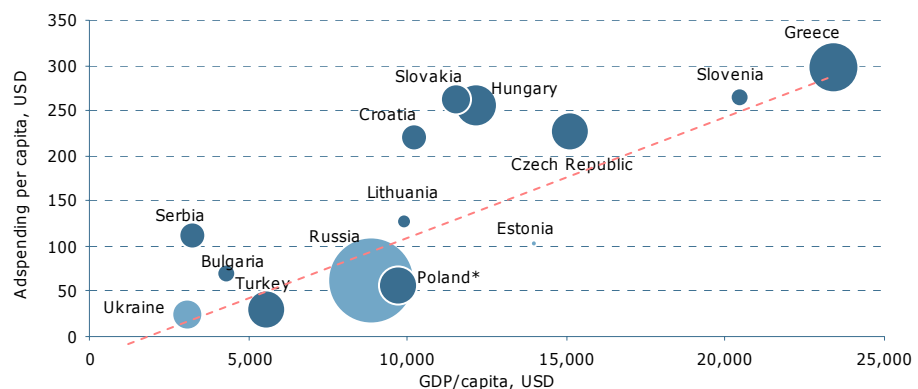
\*Excluding Ukraine and Russia

Source: ZenithOptimedia, Pan-Ukrainian Advertising Coalition, Concorde Capital estimates

Current shares of advertising expenditures in GDP (0.7% in Russia and 0.8% in Ukraine) are low compared to other CEE countries' average of 1.3%, and, in our opinion, will catch up in less than five years.

To reach the average of other CEE countries, Ukraine's GDP would need to triple, while per capita advertising expenditures grow fivefold. In Russia, where GDP per capita is close to the CEE average, per capita advertising expenditures are still twice smaller than for its CEE peers.

Per capita media ad expenditures vs. per capita GDP, CEE\*\*



\* 2005/07 CAGR for Poland and Moldova

\*\* Bubbles represent relative size of media advertising markets

Source: ZenithOptimedia, Pan-Ukrainian Advertising Coalition

## Reshuffling the media ad market structure

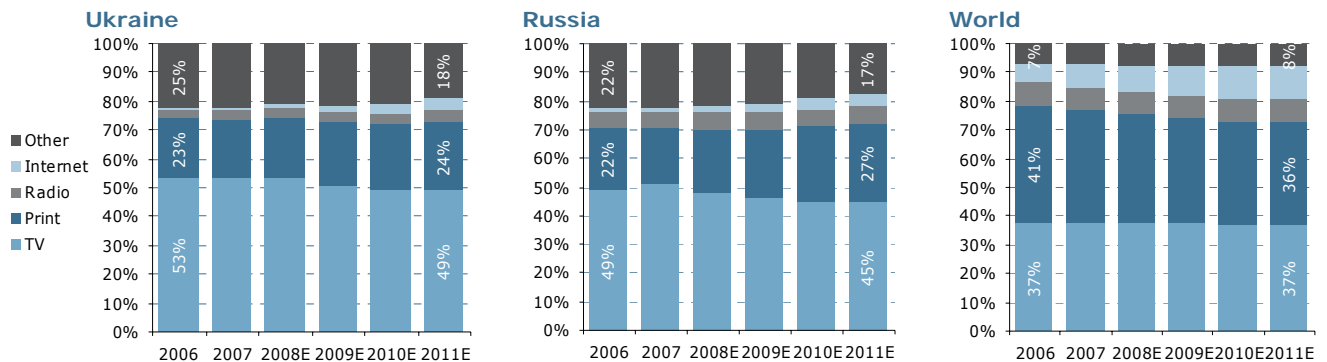
The two tendencies in media advertising in Ukraine and Russia over the next decade, in our view, will be:

- Midterm, advertising in print, radio and the Internet will overtake TV's market share in the next three-four years, as the government toughens television regulations
- Long term, massive digitalization of TV and radio in four-five years will increase supply of TV advertising, and will change the trend towards increasing of TV share

### Mid-term: threat to TV dominance in advertising

The share of TV in total Ukrainian and Russian advertising expenditures is more than twice as high as in Western Europe and comprised 54% and 51% of the countries' respective media advertising markets in 2007.

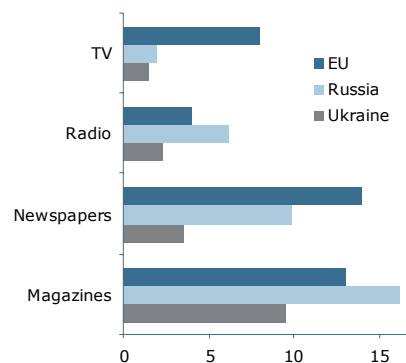
#### Media ad market structure, %



Source: Pan-Ukrainian Advertising Coalition, ZenithOptimedia, Concorde Capital estimates

The reason for TV's dominance in Ukraine and Russia is relatively relaxed legislation concerning TV advertising, which drives the cost per thousand contacts (CPT) down on TV.

#### Cost per thousand contacts (CPT) by media, USD, 2007



Source: TNS, GfK, Initiative Media, Company Data, Expert magazine

Unlike in the EU, where time limitation on advertising on TV is 9 min of commercials per hour, in Ukraine the allowed limit is 12 min, 33% higher. We expect this to change in the next two years, with respective government bodies bringing TV regulations in line with European standards. Scarcer time for commercials will lead TV advertising costs to rise significantly and push advertisers to reorient to other media.

**Case Study: Reform in Russian TV advertising.** In Russia, new TV advertising regulations went into effect in January this year. Russian regulators cut TV advertising time by 25% to 9 min per hour, which led to price inflation for TV commercials of over 60%. Leading Russian advertisers are now actively switching to other media.

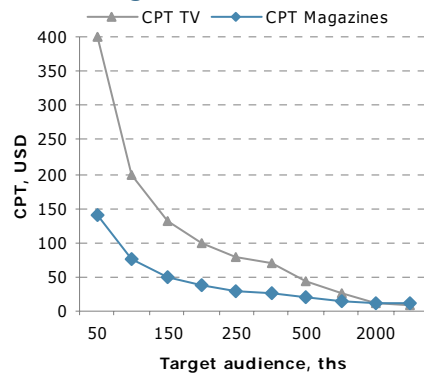
**Time limitations of advertising legislation in Russia and Ukraine\***

	<b>Russia</b>	<b>Ukraine</b>
TV	max 9 min/hour	max 12 min/hour, not more than 15% of daily air time
Radio	max 20% of daily air time	max 12 min/hour, not more than 15% of daily air time
Print	max 40% of issue	not limited

\* Russian Law 'On Advertising' of March 13 2006; Ukrainian Law 'On Advertising' of July 13, 2003

Non-FMCG companies (financial services, automobiles, real estate) with relatively small target audiences will be the first to decrease their TV advertising, as TV does not practically allow for audience segmentation. The smaller the size of a target audience, the higher the cost per thousand targeted contacts on TV relative to other media.

**CPT in TV & magazines depending on size of target audience, USD, Ukraine**



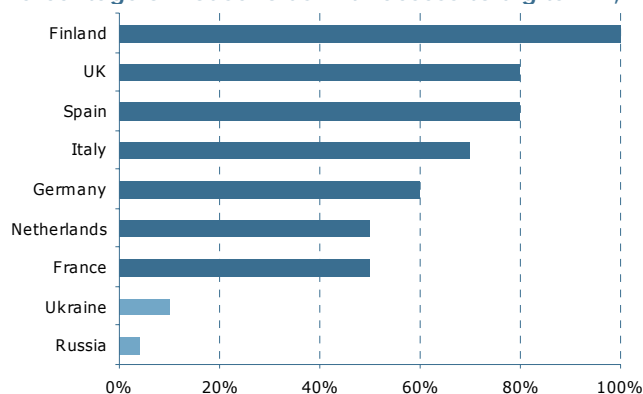
Source: TNS, GfK, Initiative Media, Company Data, Expert magazine

**Digitalization of TV & radio to increase competition in the longer term**

In accordance with the 2006 Geneva Agreement, Ukraine and Russia committed to switching off analog TV and radio broadcasting by 2015, and transitioning to digital. When this happens, we expect intensified competition in the industry as the supply of TV and radio advertising rises in the country. We project that starting from 2012 TV and radio advertising shares would take off thanks to the digitalization becoming widespread.

The scarcity of TV and radio frequencies is a major barrier for entry into analog radio and TV markets. At the same time, digital compression systems allow for transmitting up to eight TV or radio channels in the spectrum used for one analog channel, and propagation of digital media should be accompanied by new players entering the industry.

**Percentage of households with access to digital TV, 2006\***



\* Data for Ukraine is for 2007

Source: [www.media.parliament.org.ua](http://www.media.parliament.org.ua), Informa Telecoms & Media, GfK Ukraine; Concorde Capital estimates

We expect that massive digitalization will start no earlier than four-five years from now. Currently, demand for digital TV and radio in Ukraine and Russia is low, mainly due to high installation costs, such as buying or renting a decoder or a radio set. Digital TV penetration in the two countries is limited primarily to high-end consumers and remains low – est. 4% in Russia and 10% in Ukraine - while digital radio is non-existent.

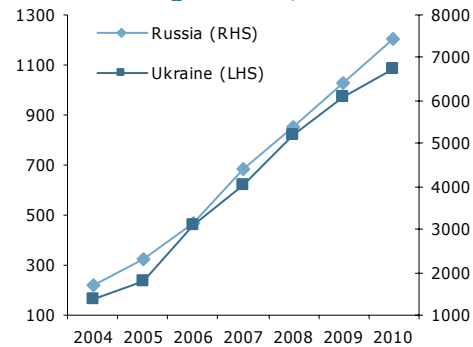
Digitalization will trigger the development of niche TV and radio channels due to the abundance of TV and radio frequencies, and improve advertisers' ability to target specific audiences.

## TV: the largest segment of ad market

With the largest share in advertising, television contributed the most to the overall advertising market growth, posting 56% and 38% 2004/07 CAGR in Ukraine and Russia. In line with our projections of ad market changes, we expect TV ad market in both countries to grow at 19% CAGR over 2007-2012, slower than the total ad market.

TV advertising in both countries is heavily concentrated on national channels, which last year collected over 90% of TV advertising revenues. Growth of regional TV advertising is currently hampered by the absence of reliable data on their audiences, whereas national channels employ an effective audience measurement system. However, monitoring should improve as regional markets become more mature, which will lead to a growth in ad spending.

TV advertising markets, USD mln



Source: ZenithOptimedia, Concorde Capital estimates

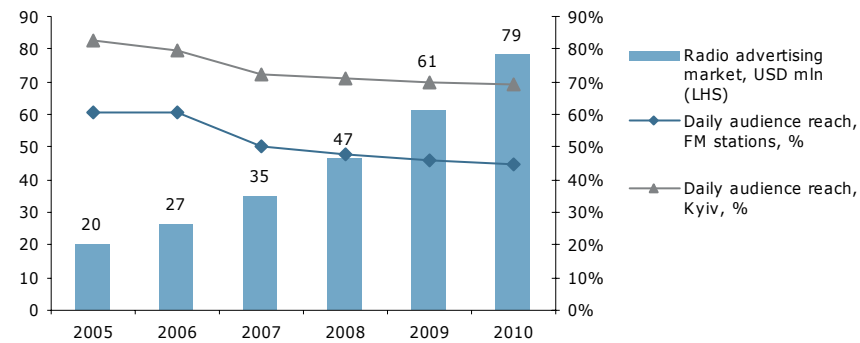


## Radio: an alternative way to reach a large audience

With the second-highest audience reach (~70% weekly) and second-lowest cost per thousand contacts (CPT), radio offers a good alternative for advertisers that are anticipating a jump in TV costs after the government imposes more limits on advertising time.

Our projections for growth in radio ads are 28% CAGR for Ukraine and 22% CAGR for Russia in 2007-2012. The share of radio in total advertising expenditures in Ukraine was 3% in 2007, compared to Russia's 5%, and the world's average of 8%. We expect that in one to two years, CPT in Ukrainian radio will grow from USD 2 currently to USD 5-6, in line with that currently in Russia, which will trigger increase in share of radio advertising to 4% of total advertising expenditures in Ukraine.

Daily audience reach by FM radio, %\*

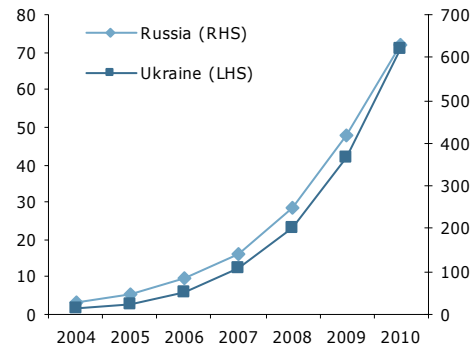


\* Audience aged 12-65 in cities with populations of over 50 ths  
Source: MMI TNS

### Internet: the fastest growing ad market segment

Internet advertising grew by 108% yoy in Ukraine and 60% yoy in Russia over 2007, and we see potential for further growth, as this medium holds only 1% of ad market in Ukraine and 2% in Russia, versus the EU average of 9%. We expect the Ukrainian internet ad market to grow at 54% CAGR in 2007-12 and the Russian market at 31% CAGR.

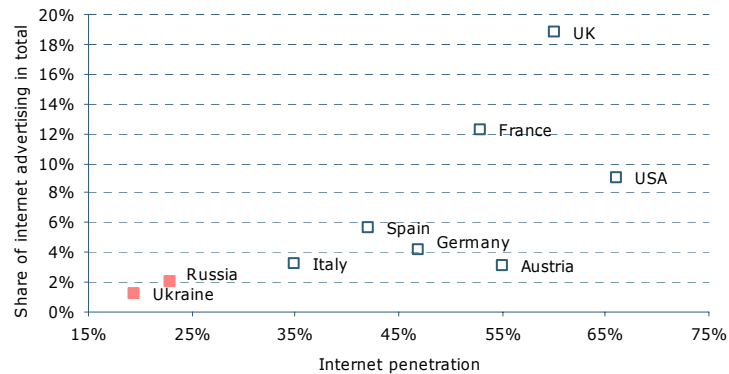
Internet advertising, USD mln



Source: ZenithOptimedia, Ukraine's Advertising Coalition, Concorde Capital estimates

Growth in internet advertising will be driven by increasing penetration, which was 19% in Ukraine and 23% in Russia in 2007, compared to 58% on average for EU countries.

Internet penetration & advertising, 2007



Source: ZenithOptimedia, Paul Budde Communication based on industry data, comScore World Metrix

Context advertising (displayed in search results, keyed to keyword searches) is gaining momentum in both countries, driven by its promotion by search engines themselves. Market players estimate it amounts to 15-30% of total Internet advertising, and say its growth pace is double of banner advertising.

**Case study: the Internet as the last shelter for alcohol & tobacco ads**

We think that tobacco and alcohol producers will be gradually forced out of all old media formats (print media, TV, radio) due to upcoming changes in legislation restricting alcohol and tobacco advertising. This will allow the Internet, lagging in terms of reach, to capitalize on additional advertisers. Currently, legislation in Russia with respect to alcohol and tobacco ads is much closer to stricter EU standards, than in Ukraine. We expect Ukraine to tighten its regulations shortly. At the same time, neither Russian nor Ukrainian legislation covers Internet advertising.

**Major limitations of advertising legislation in Russia and Ukraine\***

	Russia	Ukraine
<b>Alcohol advertising</b>		
TV	banned (except beer allowed from 10 pm to 7 am)	allowed from 11 pm to 6 am
Radio	banned (except beer allowed from 12 am to 9 am)	allowed from 11 pm to 6 am
Print	allowed except for covers, first and last pages	allowed except for covers, first and last pages, to be banned from 2010
Outdoor	banned	allowed, to be banned from 2009
<b>Tobacco advertising</b>		
TV	banned	banned
Radio	banned	banned
Print	allowed except for covers, first and last pages	allowed except for covers, first and last pages, to be banned from 2009
Outdoor	banned	allowed, to be banned from 2009

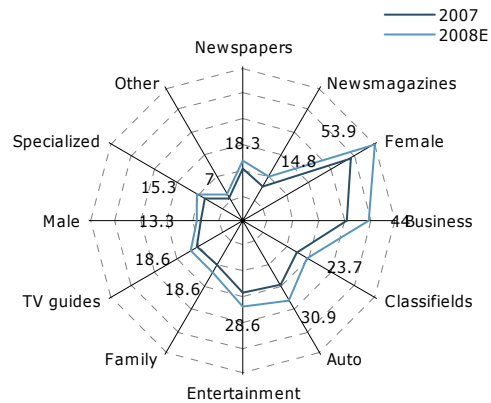
\* Russian Law 'On Advertising' of March 13 2006; Ukrainian Law 'On Advertising' of July 13, 2003

## Press advertising – growing ahead of the market

The share of press advertising was 20% of the total ad market in Ukraine and Russia in 2007, which is twice lower than the global average. We expect press advertising to grow at 25% CAGR in Ukraine and 29% CAGR in Russia over 2007-12, which is faster than the 24% projected overall market growth. By 2012, we expect press advertising to reach 27% of the market in both Ukraine and Russia.

Faster-than-the-market growth in press advertising will be observed both in traditional segments and new ones.

### Advertising expenditures by publication segment in Ukraine, USD mln



Source: Ukraine's Advertising Coalition

Traditional segments still carry most of the press advertising, and are unsaturated. Last year, 63% of all print advertising revenues in Ukraine were concentrated in the five largest publishing segments, including female, business, classifieds, automobiles and entertainment. Advertising in automobiles and female magazines grew by 77% and 49% yoy in 2007 – far above the press market's total of 30%. Ukraine's Advertising Coalition expects advertising in news, automobile and family magazines to grow faster than the overall press ad market in 2008.

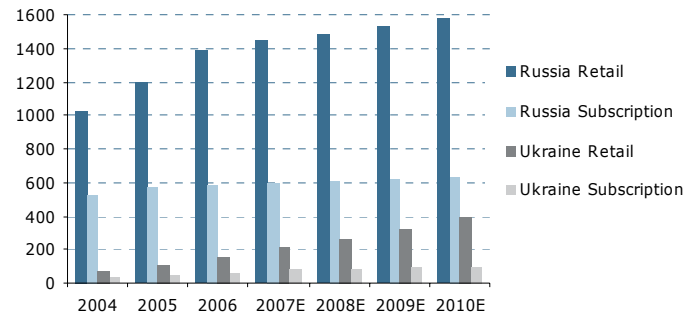
Ukraine's six largest press companies in 2006-07 together launched 60 new publications, revenues of which made up 9% of the companies' total advertising sales for the period. Last year, Ukrainian publishers actively developed news magazines, and also started launching personal finance titles.

## Copy sales: room for growth

### Ukraine's market to double in the mid-term

Based on the data from industry players, we estimate the Ukrainian copy sales market at USD 300 mln (including ~70% retail, 30% in subscriptions). This implies annual press expenditures of USD 6.3 per capita in Ukraine, 44% of that in Russia. We expect copy sales to double in the country to reach the level in Russia in the next three to five years.

Ukrainian and Russian copy sales markets, USD mln



Source: Rospechat, UMH, Concorde Capital estimates

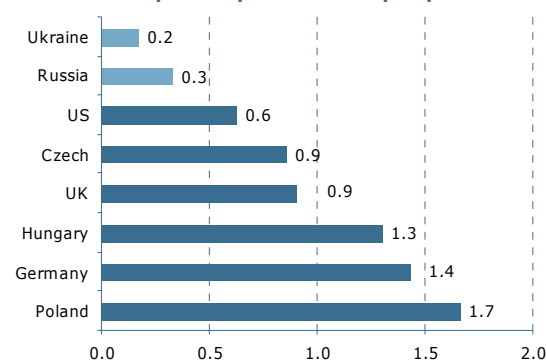
After 2010-2012, we project that publishers in both countries will face a decline in copy sales revenues – in line with the trend currently visible in the developed world. Those currently active on the Internet will be the best prepared to make the change.

### Retail development – the major trigger for copy sales

The development of press retail will be the biggest driver of growth in copy sales in Ukraine and Russia. Currently, both press retail markets are unsaturated and highly dispersed.

The supply of press retail facilities is relatively low in the two countries: 0.17 points of sales per 1 ths people in Ukraine and 0.30 points of sales per 1 ths people in Russia. This is significantly lower than 1.7 points of sales per 1 ths people in neighboring Poland. Press supply is especially low outside of large cities. Lack of capacities increases the bargaining power of retailers, enabling them to limit access to certain publications to the final consumer, and ask for payments to enter their networks, in addition to an up to 60% markup.

Press retail points per 1 ths of people



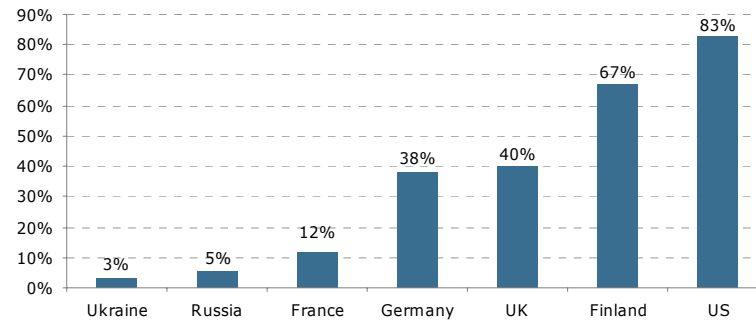
Source: Ukrainian Association of Press Publishers and Distributors, Distripress

Major publishing groups, the most interested in lowering the bargaining power of current retail networks, have already started moving into press retail, and we expect concentration to build-up in their hands.

Kiosks are the most popular type of press sales points. Yet, their installation is complicated by the slew of land and construction permits required from local authorities, which limits the entrance of new players into press retail. Kiosks remain an option primarily for large publishers who are already present in the retail market.

Alternatively, the evolution of supermarket chains in Ukraine and Russia creates the potential for growth in press retail via outlets there.

**Share of supermarkets in press distribution, 2006**



Source: *Distripres*, *Concorde Capital estimates*

## PLAYERS AND STRATEGIES

## Ukraine

### Main media players

Ukraine's media market is dominated by several large media groups, with four largest holdings (Inter, East One, CME and UMH) accounting for over 60% of the country's total media advertising market, according to our estimates. That said, dominance of nation-wide TV channels on the ad market smears the picture: high concentration in the TV segment does not imply the same level of concentration in other segments.

	TV	Radio	Publishing		Internet
			Newspapers	Magazines	
<b>Inter</b>	Inter Enter Megasport K1, K2, NTN			Chistaya Pribyl	www.inter.ua www.podrobnosti.ua other supporting TV channels
<b>CME</b>	1+1 Kino City				www.1plus1.net www.int.1plus1.tv other supporting TV channels
<b>Interpipe</b>	ICTV STB New channel 11 Channel M1, M2	Russkoe Radio Kiss FM Hit FM	Facty i Commentarii Sobytiya i lyudi		www.ictv.ua www.stb.ua www.novy.tv other supporting TV channels
<b>MediaDim</b>	Tonis		Hazeta 24		www.24.ua
<b>UMH</b>		Europa Plus Vzrosloye radio Avtoradio MusicRadio Retro FM Djem FM Radio One	Komsomolskaya pravda Argumenty i Fakty Express gazeta Komanda Futbol others	Telenedelya TimeOut Votre Beaute Ukraina za Rulem others	www.football.ua www.highway.ua www.kp.ua www.focus.in.ua www.dengi-ua.com others
<b>Burda</b>				Burda Dobrye Sovety Liza Otdohni! MINI others	www.burda.ua
<b>Blits</b>			Business Buhgalteriya	Natali	www.business.kiev.ua www.buhgalteria.com.ua www.natali.ua www.blitz-price.com.ua
<b>KP Media</b>			Kyiv Post 15 minutes	Korrespondent Afisha Pink Pani Interior Magazine others	www.BigMir.net www.Korrespondent.net www.Pink.com.ua www.Afisha.ua www.Ricardo.com.ua www.Novynar.com.ua

Source: Company data

	Leadership
	Presence

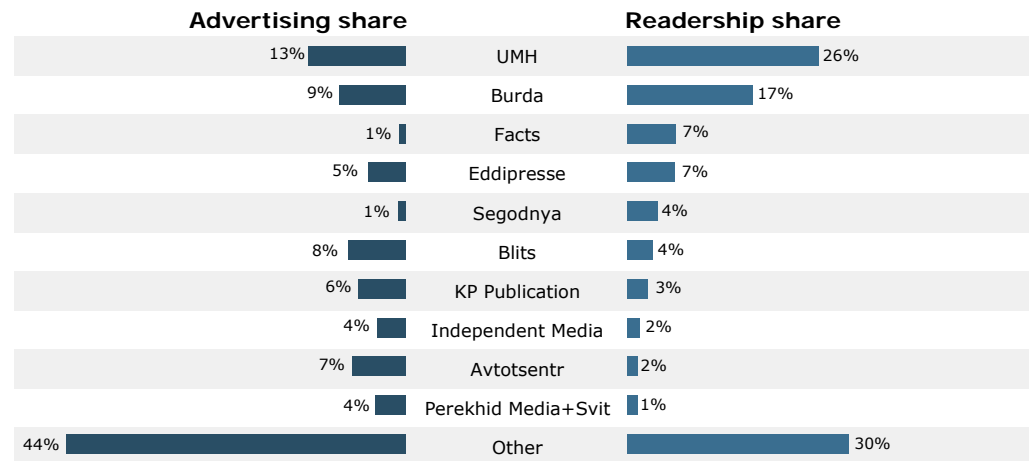


## Publishing

Ukraine's press market is highly dispersed, with the five largest players (in terms of readership) accounting for only 28% of advertising. UMH is the leader in terms of both.

Competition on the market will grow as foreign publishers move in. In 2007 publishing house Radionova (Russia), Forward Media Group (Russia), ECEM Media gmbh (Switzerland) and Vorarlberg Medienhaus (Austria) entered the Ukrainian market.

### Print media market structure in Ukraine by publishers

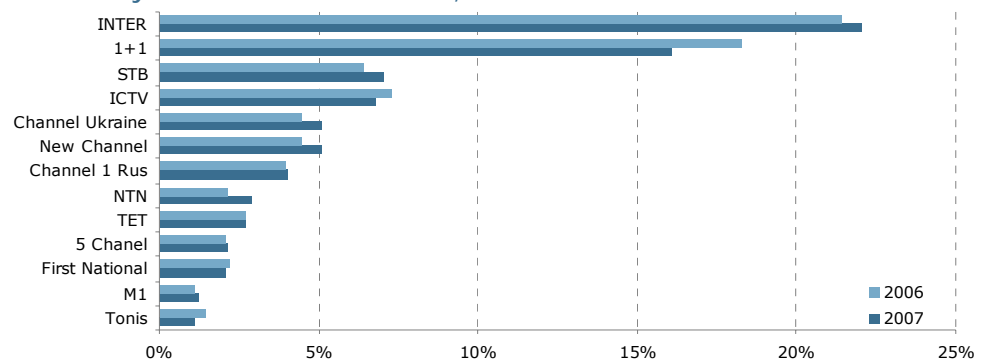


Source: TNS, Monitoring of Media in Ukraine, Company Data

## TV

The Ukrainian TV market is concentrated in the hands of three major players. Inter group, which controls Inter, Megasport, K1, K2 and other channels, is number one in the market. Last year, it increased its audience share to 26% after acquisition of NTN and widened the gap to its closest rival East One. The latter controls three channels – ICTV, STB and Novy, jointly combing for 19% of the audience last year. 1+1 group, the #3 player, controlled by Central media Enterprise (CME), decreased its audience by 2pp to 16%.

### Audience by TV channel in 2006-2007, audience 18+



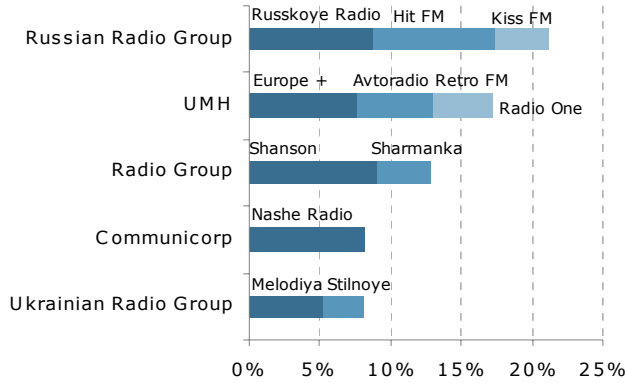
Source: Media Resources Management

## Radio

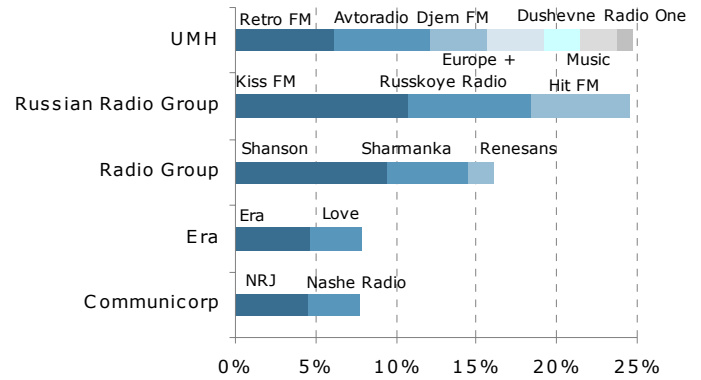
The Russian Radio Group (controlled by East One) and UMH, the two largest FM radio players account for ~60% of the radio advertising market

Radio frequencies in Ukraine have practically been exhausted, turning large players' attention to acquisitions of smaller regional companies with licenses cities of interest.

### Radio audience in Ukraine



### Radio audience in Kyiv



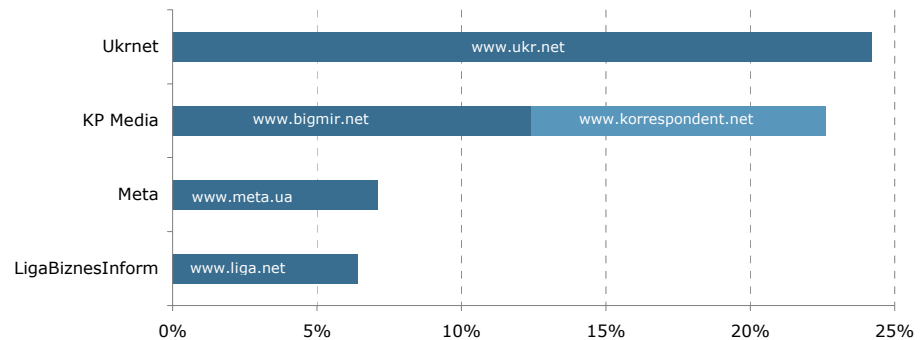
Source: Company data

## Internet

Ukraine's Internet market is highly concentrated in the hands of the two largest companies: Ukr.net (internet portal) and KP Media (owns bigmir.net portal and Korrespondent website) held 47% of the Internet advertising market at the beginning of 2007.

In our view, the market's high growth potential will readily allow for new players to emerge.

### TOP-4 internet resources in terms of advertising revenue



Source: www.MI6.com.ua, ZenithOptimedia report, December 2007, Concorde Capital estimates

## Russia

### Diversification trends

The largest media holdings in the Russian market are better diversified than in Ukraine, though we observe concentration around TV assets. Large print media holdings are diversified primarily into Internet.

#### Main media holdings

	TV	Radio	Print		Internet
			Newspapers	Magazines	
<b>RSTRC*</b>	RTR-Planeta Rossiya Sport Kultura	Radio Rossii Mayak Yunost Orfei Nostalgia Kultura			www.vgtrk.com www.rian.ru Rfn.ru www.rutv.ru www.rtr-sport.ru other
<b>Gazprom-Media</b>	NTV NTV-plus NTV-Mir TNT	Ekho Moskv City FM Relax FM Popsa Next Detskoye radio	Izvestiya Chas Pik Tribuna Sportivnaya tribuna Zhyzn na dache – udachnaya zhizn	7 Days Caravan of Histories Itogi Shtab-kvartira Collection of Caravan of Histories	www.7days.ru www.karavan.ru www.itogi.ru www.izvestia.ru www.ntv.ru others
<b>Prof-Media</b>	2x2 Rambler TV TV3 MTV Russia VH1 Russia	Avtoradio Energy Yumor FM Alla Etnika.101	Byelorusskaya gazeta	Finansovyi director Komercheskiy director Industriya reklamy Afisha Afisha-Mir other	Rambler.ru Ferra.ru Lenta.ru Price.ru Afisha.ru, others
<b>HFS &amp; IMG**</b>			Antenna Antenna-Telesem Va-bank Va-bank Remont	Elle, Elle Girl Marie Claire Maxim Psychologies Happy Parents others	www.wday.ru www.hfs.ru www.intermediagroup.ru
<b>Independent Media</b>			The Moscow Times The St.Petersburg Times Vedomosti Na Rublevke	Cosmopolitan Esquire Harper's Bazaar Men's Health Real Estate Catalogue other	www.rb.ru Ameno.ru Webpark.ru www.cosmo.ru www.mhealth.ru www.bazaar.ru
<b>Burda</b>				Burda Dobrye Sovety Liza Otdohni! Playboy others	www.burda.ru www.playboy.com.ru www.quattroruote.ru www.ichip.ru
<b>Media Partner</b>			Komsomolskaya Pravda Sovetskiy sport Ekspres gazeta Teleprogrammy Goodok Strela	RZHD-Partner	www.reklamotiv.ru www.kp.ru www.sovsport.ru www.eg.ru www.tv-programma.ru

Source: Company data

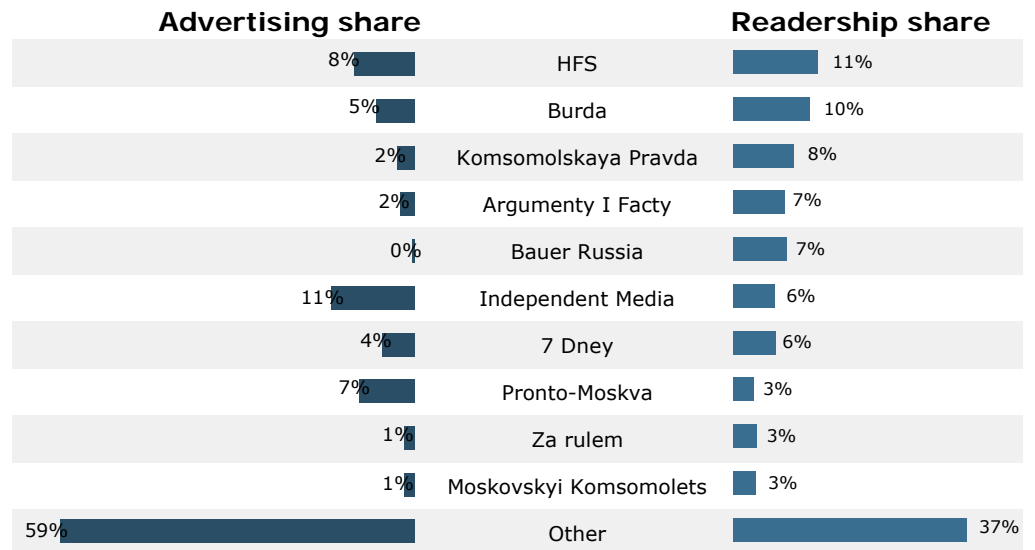
\*VGTRK – Russia State TV and Radio Company

\*\*HFS & IMG – Hachette Filipacchi Shkulev and InterMediaGroup

## Publishing

Intensifying competition is already evident in Russia, where the ten largest holdings control less than 50% of the market.

### Print media market structure in Russia by publishers



Source: TNS

## UMH'S BUSINESS

## Company business segments

UMH, Ukraine's major media group, is diversified into print, radio, and Internet media and is establishing its presence in TV. In addition, UMH owns printing facilities and Ukraine's largest press retail network.

### Publishing

The company is a leader on Ukraine's publishing market, accounting for 26% of print media readership and 12.6% of print advertising in 2007. UMH has a publishing presence in Russia, Belarus and Kazakhstan.

### Radio

UMH's seven radio stations allow the company to reach the largest Kyiv audience and have the second largest national audience. The company captures 27% of radio advertising in Ukraine.

### Internet

The company manages 23 websites, including those supporting its print publications, as well as social journalism and blogs, real estate and movie sites. In January 2007, UMH signed an agreement with SUP (Russia) to be the exclusive seller of advertisement on www.livejournal.com in Ukraine.

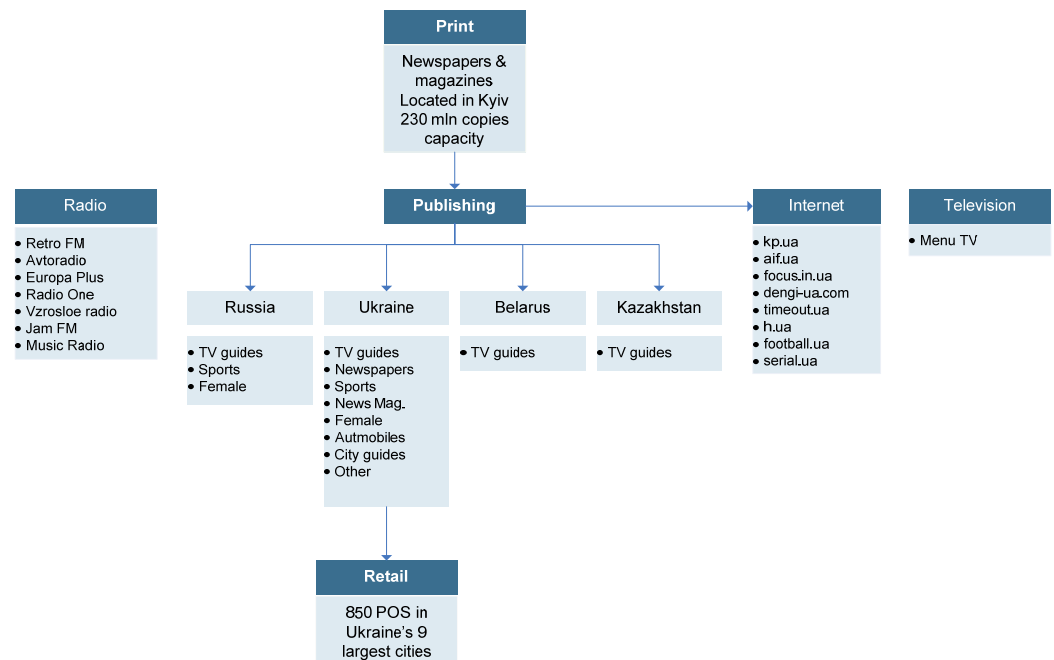
### Printing

Printing services are an ancillary business for UMH: 50% of its printing facilities are loaded with its own publications, while the rest cater to third parties. UMH capitalizes on the current lack of quality printing facilities in Ukraine, earning ~50% EBITDA margin in this segment. Printing made up 3% of UMH's net revenues in 2007, and after the new workshop is launched in May 2008, we see this segment growing to reach up to 7% of total revenues by 2010.

### Retail

UMH owns the largest press retail network in Ukraine. The company controls 10% of the highly dispersed press retail market.

### UMH's business segments



Source: Company data

## Business model

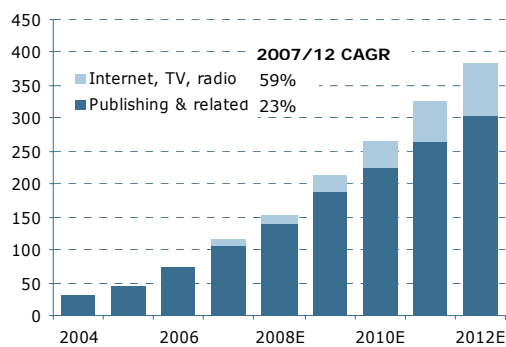
### Diversification into non-publishing businesses

Currently, UMH's core business segment is publishing. In 2007, revenues from copy sales and press advertising jointly accounted for 62% of total sales. Publishing-related services, including third-party print and retail, made up an additional 31%.

The company views its experience as a media content provider as a competitive advantage and intends to grow revenues by selling content through multiple media channels. UMH plans to transform into a major multimedia player in the CIS.

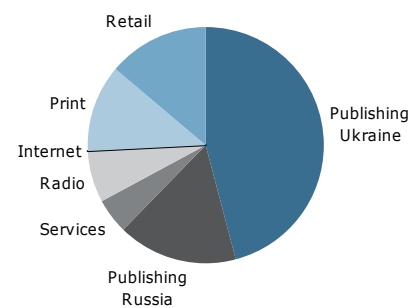
Diversification of business operations will already take place in 2008: UMH is entering TV and actively developing on the Internet this year. According to our estimates, the share of revenues unrelated to publishing will triple by 2012 to 21%.

Sales dynamics by segment, USD mln



Source: Company data, Concorde capital estimates

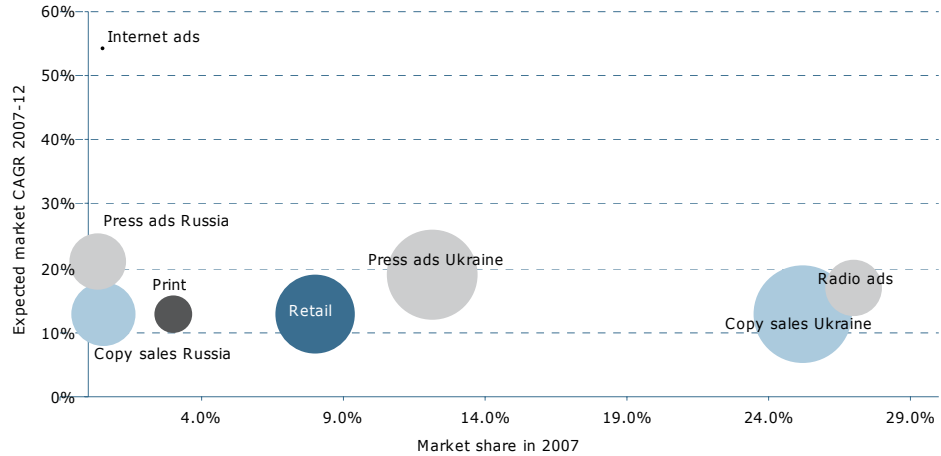
Sales breakdown, 2007



## Investment plans for 2008

The addition of TV, the only missing piece in its media mix, is UMH's top priority in 2008. The company is planning to invest USD 18 mln this year to acquire TV assets in Ukraine and Russia.

### UMH business segments



\* Bubbles represent relative size of business segment in UMH revenues in 2007  
 Source: Company data, Concorde Capital estimates

Out of its existing business segments, UMH is emphasizing the development of its fast growing internet segment this year. The company is planning to invest USD 6.5 mln on acquisitions and new launches this year.

UMH's publishing business will be driven by further expansion into the Russian market (estimated operational expenditures for start-ups are USD 11 mln) and development of its press retail network (USD 12.0 mln).

### CapEx plans for 2008

Medium	USD mln	Purpose
TV	6.1	51% of Menu TV plus three additional satellite licenses*. Preliminary agreement signed in March 2008
TV	11.8	Acquisition of two channels in Russia. Negotiations expected to be finalized by May 2008
Publishing	1.5	Purchase of minority stake in Luhansk publishing projects
Internet	6.5	25% ownership of Internet portal. Deal expected to be finalized by May 2008, ten website launches
Press retail	6.0	Acquisition of Euroinform informational service
Press retail	12.0	250 new points of sale, investments in existing chain, purchase of minority stakes
Radio	5.5	Eight broadcast frequencies for Avtoradio and Evropa+, equipment for Retro and ONE networks
<b>Total</b>	<b>49.4</b>	

\* See pp.36 for more details. Source: Company data



## New publishing projects in Ukraine: benefits ahead

UMH's portfolio of mature products (launched before 2006) ensures leadership in three segments of press advertising: TV guides, newspapers and sports. Three segments contributed 40% of the company's total advertising revenues in Ukraine in 2007. Free newspapers contributed an additional 18%.

### Mapping UMH in Ukraine's press ad market

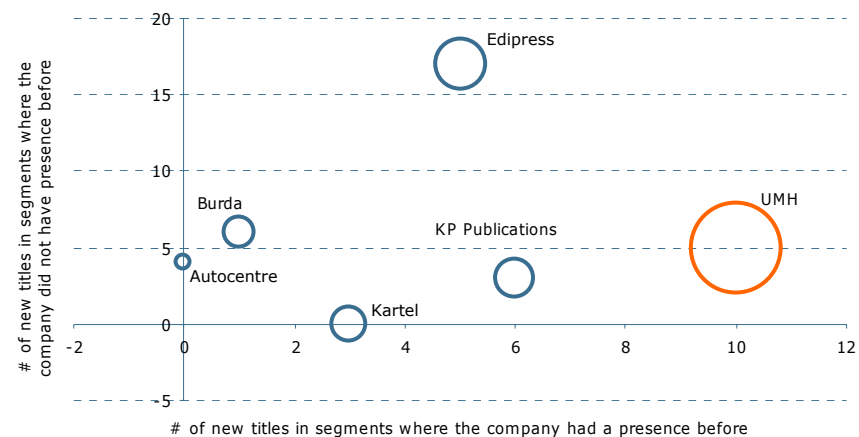
Segment	Share of segment in press ad market	Share of UMH in segment	UMH's position in segment
Female	18%	0%	9
News & business magazines	15%	7%	7
Automobile	10%	5%	4
<b>Newspapers</b>	<b>7%</b>	<b>40%</b>	<b>1</b>
<b>TV guides</b>	<b>7%</b>	<b>66%</b>	<b>1</b>
Health	1%	12%	4
<b>Sports</b>	<b>1%</b>	<b>93%</b>	<b>1</b>
City guides	<1%	8%	4
Architectural	<1%	22%	3

Source: *Monitoring of Media in Ukraine 2007. Measured as gross advertising revenues*

Most of UMH's publications in segments where it does not hold leading positions have either been acquired or launched less than two years ago. UMH is currently concentrating on their development. Last year, it strengthened positions in female magazines, the largest segment in terms of advertising dollars, by acquiring rights for Akademia, Votre Beaute and S Toboy magazines in Ukraine.

After 15 new launches in 2006-07, UMH covers practically all segments of the Ukrainian publishing market. The company claims it has been Ukraine's most active player in terms of entering new segments over this span.

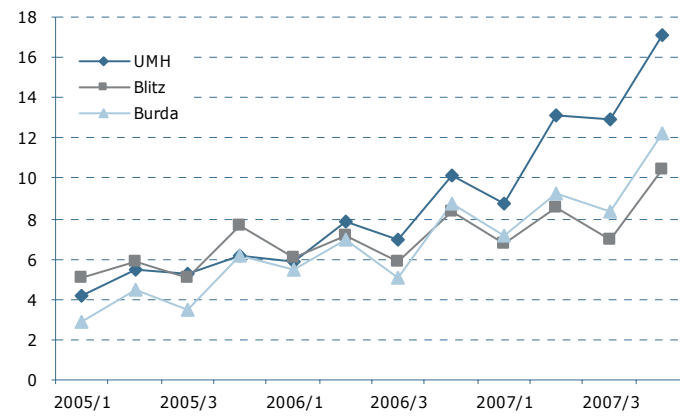
### New title launches by publishing houses in 2006-07\*



\* Size of bubble represents the relative size of revenues received from products launched in 2007  
 Source: *Monitoring of Media in Ukraine, Company data*

The company's portfolio of new publications consists entirely of magazines, which furthers UMH's plans to increase sales per person. Currently UMH's share in Ukrainian advertising is only half of audience share. This ratio is typical for publishing houses that specialize in newspapers. We see the move into magazines as beneficial, as we believe that newspaper sales are more susceptible to readers switching over to the Internet.

We expect that as new projects mature, the company will put more distance between it and Burda, its closest rival in Ukraine. This trend has become vivid since mid-2006.

**Gross ad revenues of Ukraine's Top-3 publishing houses, USD mln**


Source: *Monitoring of Media in Ukraine, Company data*

## Expansion of UMH publications in the CIS markets

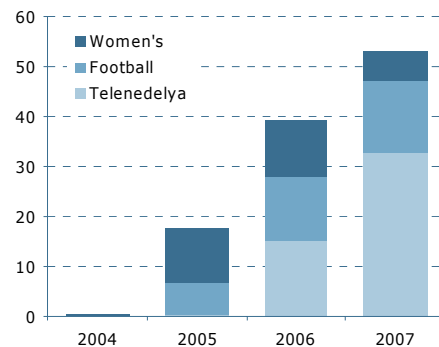
UMH's strategy foresees expansion into the vast CIS market, with its 270 mln population, practically all Russian-speaking and sharing strong cultural ties. ZenithOptimedia projects 26% average CAGR over 2007/10 in six CIS countries' (Ukraine, Russia, Belarus, Uzbekistan, Moldova and Georgia) advertising expenditures.

Since 2004, UMH has been present in Russia; last year it started operations in Belarus and Kazakhstan. According to our estimates, share of publishing revenues coming from non-Ukrainian operations will grow from 26% in 2007 to 38% in 2012.

Telenedelya, a TV guide, is UMH's core product outside of Ukraine. The company is planning to concentrate on expanding Telenedelya's regional editions. UMH launched its first Russian edition of Telenedelya in a regional city, Samara (273 ths circulation) in 2005, and in 2007 circulation of Telenedelya in Russia reached 32.8 mln. By now, regional editions of Telenedelya have been published in 25 Russian cities, including Moscow. The company also published Telenedelya in Belarus and Kazakhstan.

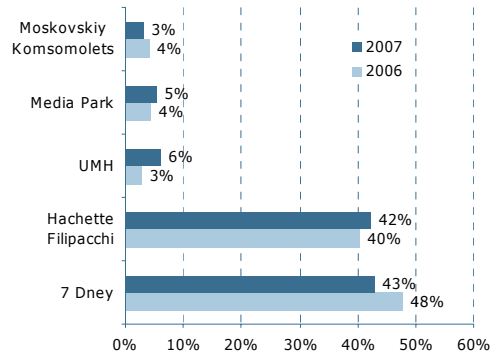
UMH increased its share in the TV guide advertising segment in Russia from 3.1% in 2006 to 6.1% in 2007, and held the third-largest share in the segment. We expect UMH to grow its position to 10% by 2010 due to further expansion.

**Circulation by magazine segment in Russia, mln copies**



Source: Company data, TNS Gallup AdFact

**Share of TV guide publishing houses in total ad revenues, Russia**



In 2008-09, UMH plans to invest USD 15 mln to expand regional Telenedelya issues in Russia. In autumn 2008, Telenedelya will be launched in four cities, including St. Petersburg. Seven more cities will be added in 2009. UMH is also considering Barnaul, Irkutsk, Penza, Belgorod, Izhevsk, Astrakhan, Syktyvkar, etc.

## TV: just getting in

UMH expects to pique advertisers' interest in niche TV channels, thanks to its ability to reach a specialized target audience.

In March 2008 it signed a preliminary agreement to purchase a 51% stake in the satellite channel, Menu TV, plus three additional satellite licenses. Menu TV is Ukraine's only culinary TV channel, and is broadcast on cable networks 24 hours a day in over 140 cities in all of Ukraine's regions. According to GfK, technical coverage of the channel in Ukrainian cities with populations of over 50 ths is 16% (4.5 mln people). The three other licenses will be used for launching Shopping TV, Real Estate TV and Design TV.

The company's management has revealed plans to enter TV production, in order to generate programming internally to run on its channels, as well as for syndication. UMH gained experience in this sphere during promotional events for UMH media: "Disco of 80s" organized by Avtoradio and broadcasted on New Year's night 2008 on ICTV, and Telenedelya's "Peoples' TV star" annual awards. Management plans to keep up the practice of cobranding TV programs with its publication titles.

## Internet: aggressive market share growth

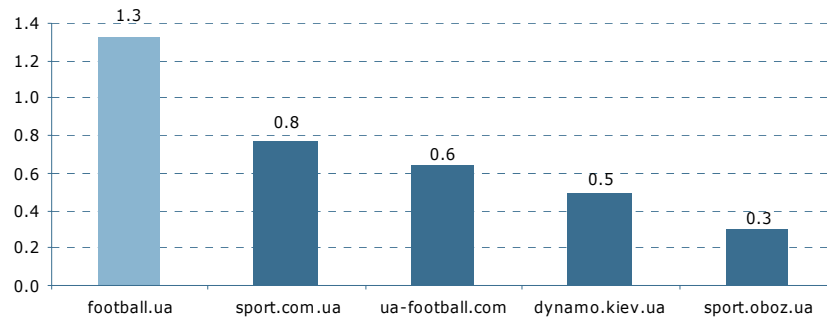
A new manager UMH brought in to run its Internet department last year changed the unit's strategy, which is now to increase profitability and grow in areas not directly related to the company's publishing projects. UMH intends to increase its market share in Internet ads from 0.5% in 2007 to 8% this year. We expect 10% in the long-run.

In 2007, the company started two so-called 'web 2.0' sites (social journalism and blogs). Already, UMH has launched two websites (real estate and movies) out of the 12 planned to start this year. Other launches will be focused on TV, women, automotive, news, tennis, formula1, fashion, celebrities, etc.

UMH is currently wrapping up negotiations on the acquisition of an Internet portal. We expect the acquisition to allow the company to increase its market share in Internet advertising from 0.5% in 2007 to 7.5% in 2008, and become the country's third-largest Internet player.

UMH is the reigning leader in sports with its *football.ua* website.

### Ukrainian sports websites, top-5 in last 30 days (May 26-June 25), mln unique users



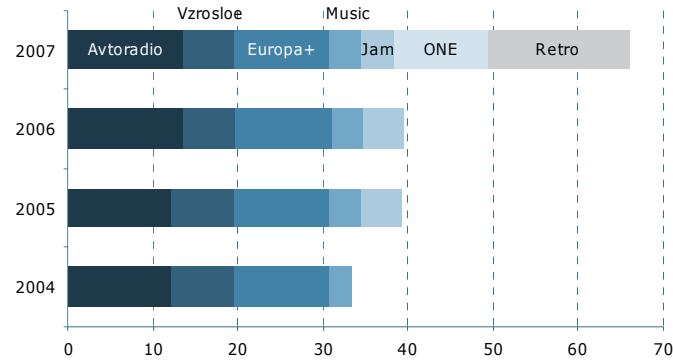
Source: *bigmir.net*

Nineteen existing websites supporting the company's publishing products are undergoing changes to attract the interest of advertisers, including the addition of social networking features, such as blogs, forums, online voting, etc.

### Radio: collecting frequencies

The company plans to overtake leadership in network FM stations from Russian Radio Group, and to preserve its first place position among Kyiv listeners. This will be achieved mainly through increasing coverage of its Europa+ and Avtoradio networks.

Audience coverage by UMH radio stations, mln people



Source: Company data

UMH is projecting expenditures of USD 23 mln over 2008-10 to acquire ~30 companies that own radio frequencies in cities with populations over 100 ths and adding them to its portfolio of 100 frequencies and 20 currently controlled through by franchising agreements. We expect UMH's share in radio advertising to rise from 27% last year to 30% starting from 2010.

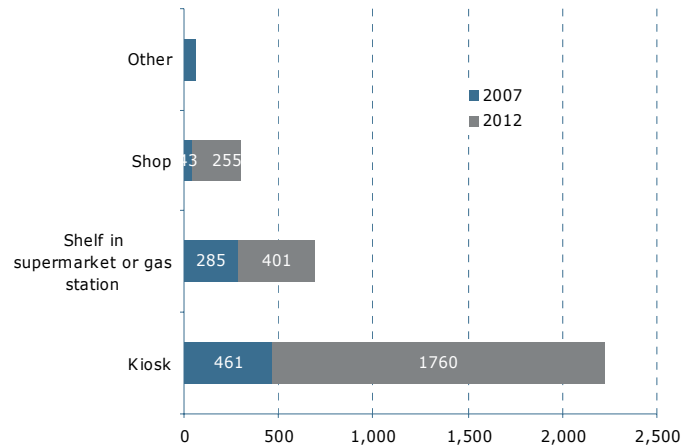
### Retail: building up its network

UMH, which currently owns Ukraine's largest press retail network of 850 points of sale (7.4 ths m<sup>2</sup>), intends to grow its network to 2.4 ths by 2013. According to our estimates, this will result in market share growth from 10% currently to 16%. In 2008 alone the company plans to add another 250 points of sale.

Retail will be developed in the following directions:

- Kiosk networks
- Shelves in supermarkets
- Shops in malls

#### Expansion plan for points of sale network



Source: Company data

To improve profitability of its retail segment, UMH intends to develop sales of supplementary goods (books, DVDs, stationary) as well as provide marketing services (press placement services, advertising at kiosks). Management plans for these ancillary goods and services to contribute ~50% of retail segment revenues in the mid-term.

### **Printing facilities: threefold capacity increase**

Last year, UMH invested USD 28 mln into in-house printing facilities, increasing their capacities threefold. In July 2008 UMH plans to launch new printing capacities on a trial basis, and expects full-scale operations to start in September.

The company does not consider printing as its core business and does not intend to further invest into it in the foreseeable future.

The management expects to triple revenues from third-party printing services in 1-2 years time, and believes the new equipment would allow them to increase in-house printing of UMH's own publications to ~50%, up from 10-15% currently. In particular, UMH will shift printing of its core Telenedelya publication to the new workshop, as it allows for printing on higher quality chalk-covered paper, while existing capacities are for newsprint only.

This will help improve the efficiency of the company's operations – e.g. control over timing and printing expenditures.



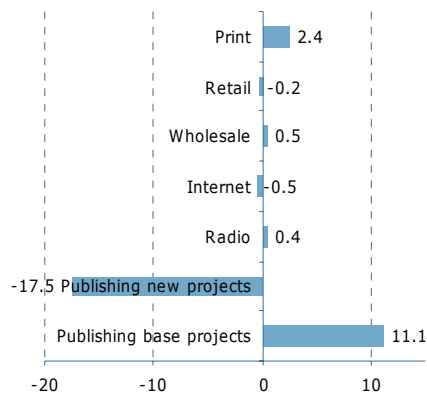
## Profitability outlook

According to management accounts, last year UMH posted EBITDA of USD -3.8 mln on sales of USD 114 mln. In our view, UMH's profitability was worsened due to numerous new project launches in 2006-07. We expect a gradual increase in the company's EBITDA margin from 2% in 2008 to 18% by 2010 as the new launches mature. In 2007 the company's EBITDA margin for mature projects was 25%. Mature projects contributed 55% to total revenues last year.

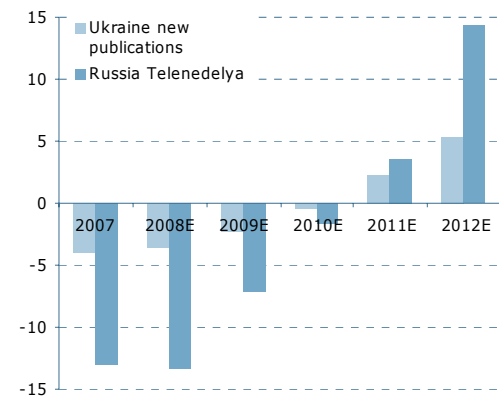
The Russian and Belarusian launches of Telenedelya are primarily responsible for negative EBITDA last year. At the same time, revenues coming from these markets posted the fastest growth, having tripled yoy to USD 14.3 mln in 2007, 13% of UMH's total revenues last year.

UMH's history of successful launches reveals the company's ability to grow its project's profitability. We share management's expectation that most of its new projects will breakeven by 2010. As the projects mature, we expect increases in advertising sales per contact and a decrease in marketing expenditures to trigger profitability growth.

**UMH EBITDA by segment, USD mln, 2007**



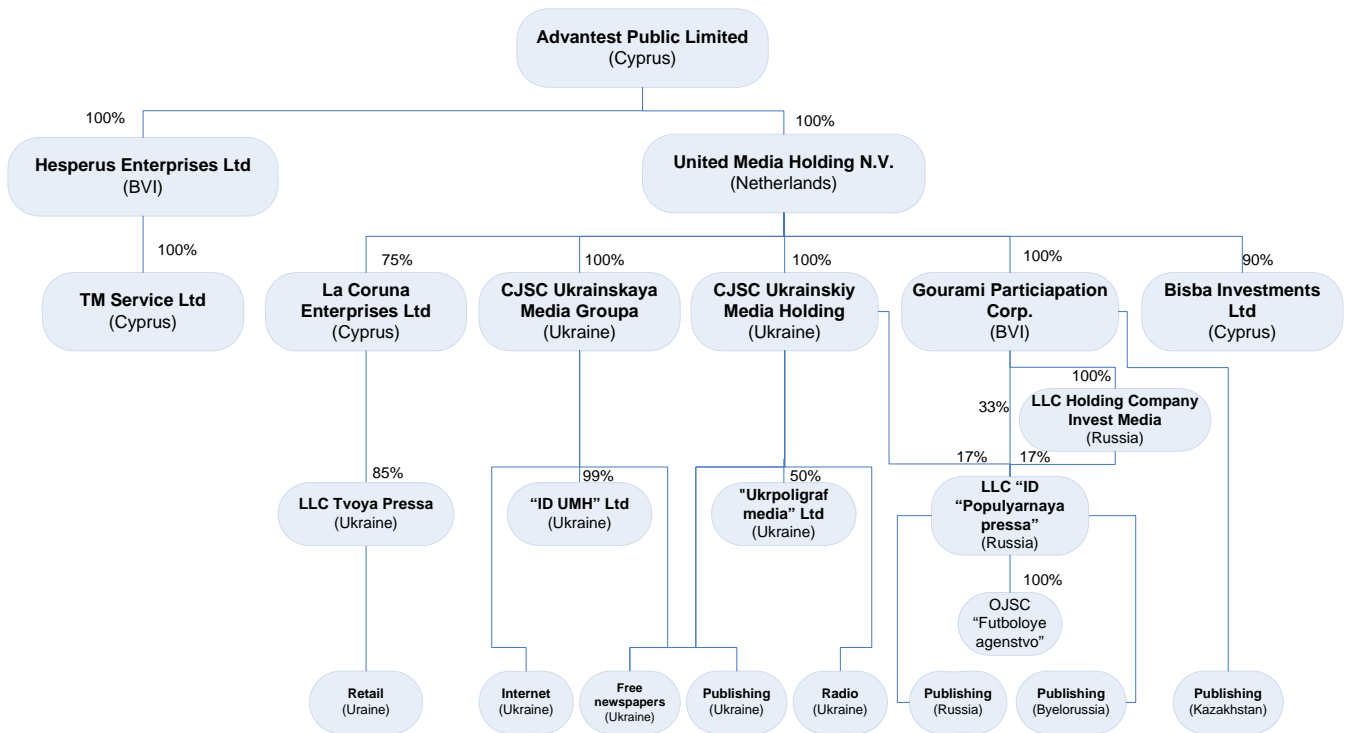
**EBITDA dynamics for new publications, USD mln**



Source: Company data, Concorde Capital estimates

## Legal structure

UMH's media assets are owned by Cyprus-registered Advantest Public Limited, which placed a 15% equity stake in May 2008.



## Management team

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**Borys Lozhkin, 36, President**, is one of the company's founders and its principal shareholder. In 1994, he began a publishing business with CJSC Telenedelya that later evolved into UMH. He founded the first commercial press retail network in Ukraine and first commercial TV channel in Kharkiv in 1990. In 1990-1991, he founded his own newspaper – *ATB*. He is a member of the Board of the World Association of Newspapers (WAN) and an Honored Journalist of Ukraine. He holds a Ph.D. degree in Philology from the Kharkiv State Pedagogical University. He also obtained a degree in management from the International Institute of Humanization and Education Development (USA).

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**Grygoriy Shverk, 50, First Vice-President**, has held his position since 1996. He initiated and directed the launch of the Ukrpolygraphmedia publishing house. Since 2001, he has been responsible for UMH's sports publications. In 2004, he took over the development and supervision of media products in Russia, Belarus and Kazakhstan. He graduated from the Kharkiv Polytechnical Institute with a degree in economics.

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**Sergiy Chuhanin, 38, Executive Director**. His core responsibilities include managing operating activities. He exercises direct control over real estate issues related to the company's expansion. Since 2002, he has also been in charge of UMH's free weekly newspapers. He has a degree in economics from the Dnipropetrovsk State University.

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**Tetyana Efimenko, 39, Publishing House Director**, has held this position since 2003. She exercises control over the launch and development of publications in Ukraine. She is also in charge of the legal and functional restructuring of the Publishing House, as well as supervision of the business processes in the publishing house and development of UMH's media products in Ukraine. She obtained an economics degree from the Kharkiv State University.

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**Sergii Kuznetsov, 32**, the Chief Financial Officer of United Media Holding. He joined the company in June 1999. He holds a degree from the Kharkiv Aviation Institute.

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**Vadim Goryainov, 42, member of the board of Populyarnaya Press**, which controls UMH publications in Russia. From 2005 to 2007, he worked as chairman of the board at New Printing House and before that as general director at publishing house Prof-Media. He holds a degree from the Military Krasnoznamenny Institute (Moscow).

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**Valentin Reznichenko, 35, Vice-President at United Media Holding**. He has led the radio division since 2000. Under his management, the division has grown from one station to seven. Before coming to UMH, he served as the Head of Ukrainian Media Corporation, where he had worked since 1996.

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## Risks

**General macroeconomic risks.** A slowdown in GDP growth or economic activity could have a negative impact on the media sector, since there is a relatively tight relationship between spending on advertising, which is the major source of revenues in the media market, and GDP growth. We consider the risk of economic slowdown as a remote possibility, with real GDP growth estimated at 6.8% in 2008 and 6.5% in 2009-2010. Moreover, we expect a 24% CAGR in ad spending in Ukraine and Russia in 2007-10, which is higher than GDP growth, since ad spending as a percentage of GDP is lower in Ukraine and Russia than the CEE average.

**Competition.** The entry of new players and aggressive expansion by existing ones could result in lower ad prices, costly promotional schemes and a decrease in audience that could hurt margins and cause erosion in market share in advertising and copy sales. In our view, UMH is well positioned to withstand competition in the publishing, retail and radio segments due to its strong market positions and established audiences there. UMH's important competitive advantage is its experience as a content provider with its reputable media and journalism staffs. In the TV segment, competition will be limited in the mid-term by the absence of frequency space. On the other hand, the company's Internet segment is still maturing and competition is not strong.

**Execution risks in expansion.** UMH is entering the TV broadcasting market and expanding its activities on the Internet. Although, its new businesses have some synergies with print media, it is possible that the ventures do not generate interest or have heavy cost structures. We expect that execution risks in expansion will be mitigated by UMH's strategic focus on niche TV channels and products, which will leverage their ability to target advertiser's most coveted audiences. UMH has a proven track record of integrating acquired assets into its media mix and entering new market segments.

**Newsprint cost inflation risk.** Increase in paper prices could hurt the company's margins since newsprint accounts for around 20% of UMH's production costs. That said, inflation in newsprint costs will have the same effect on all print media players, since this risk affects the whole market. We expect that if it does occur, print producers will increase the price of print goods, transferring additional production costs related to newsprint inflation to consumers.

# FINANCIAL STATEMENTS

**Income Statement Summary, USD mln\***

	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F
<b>Net Revenues</b>	<b>153</b>	<b>212</b>	<b>265</b>	<b>326</b>	<b>384</b>	<b>439</b>	<b>505</b>	<b>569</b>	<b>611</b>	<b>636</b>
Change y-o-y	99.0%	38.5%	25.1%	22.7%	17.8%	14.4%	15.1%	12.6%	7.4%	4.0%
Cost Of Sales	(107)	(130)	(153)	(186)	(209)	(231)	(257)	(286)	(304)	(315)
Gross Profit	47	82	112	139	175	208	248	283	307	321
% of Net Revenues	3%	3%	2%	2%	1%	1%	1%	1%	1%	1%
SG&A	(48)	(60)	(70)	(81)	(89)	(102)	(118)	(133)	(143)	(149)
<b>EBITDA</b>	<b>(1.2)</b>	<b>21.9</b>	<b>42.8</b>	<b>58</b>	<b>86</b>	<b>106</b>	<b>130</b>	<b>150</b>	<b>163</b>	<b>171</b>
EBITDA margin. %	-0.8%	10.3%	16.1%	17.8%	22.3%	24.2%	25.8%	26.3%	26.7%	26.9%
Depreciation	(5)	(6)	(7)	(8)	(8)	(8)	(9)	(9)	(9)	(10)
<b>EBIT</b>	<b>(6)</b>	<b>16</b>	<b>36</b>	<b>50</b>	<b>77</b>	<b>98</b>	<b>122</b>	<b>141</b>	<b>154</b>	<b>162</b>
EBIT margin. %	-4.2%	7.4%	13.4%	15.4%	20.2%	22.3%	24.1%	24.7%	25.2%	25.4%
Interest Expense	(10.3)	(11)	(10)	(9)	(9)	(12)	(15)	(15)	(18)	(21)
<b>PBT</b>	<b>(17)</b>	<b>5</b>	<b>26</b>	<b>41</b>	<b>68</b>	<b>86</b>	<b>107</b>	<b>126</b>	<b>136</b>	<b>141</b>
Tax	-	(1)	(6)	(10)	(17)	(21)	(27)	(31)	(34)	(35)
Effective tax rate	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
<b>Net Income</b>	<b>(16.6)</b>	<b>3.8</b>	<b>19</b>	<b>31</b>	<b>51</b>	<b>64</b>	<b>80</b>	<b>94</b>	<b>102</b>	<b>106</b>
Net Margin. %	-10.9%	1.8%	7.2%	9.4%	13.3%	14.7%	15.9%	16.6%	16.7%	16.6%

**Balance Sheet Summary, USD mln\***

	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F
<b>Current Assets</b>	<b>39</b>	<b>52</b>	<b>63</b>	<b>76</b>	<b>146</b>	<b>248</b>	<b>347</b>	<b>471</b>	<b>610</b>	<b>749</b>
Cash & Equivalents	5	5	5	5	63	153	238	349	478	612
Trade Receivables	29	40	50	62	73	83	96	108	116	121
Inventories	5	7	8	9	10	12	13	14	15	16
Other current assets	-	-	-	-	-	-	-	-	-	-
<b>Fixed Assets</b>	<b>68</b>	<b>84</b>	<b>98</b>	<b>109</b>	<b>111</b>	<b>112</b>	<b>113</b>	<b>113</b>	<b>114</b>	<b>114</b>
PP&E. net	68	84	98	109	111	112	113	113	114	114
Other Fixed Assets	0	-	-	-	-	-	-	-	-	-
<b>Total Assets</b>	<b>107</b>	<b>136</b>	<b>162</b>	<b>185</b>	<b>257</b>	<b>360</b>	<b>460</b>	<b>585</b>	<b>723</b>	<b>863</b>
<b>Shareholders' Equity</b>	<b>13</b>	<b>17</b>	<b>36</b>	<b>67</b>	<b>118</b>	<b>183</b>	<b>263</b>	<b>357</b>	<b>460</b>	<b>566</b>
Share Capital	50	50	50	50	50	50	50	50	50	50
Reserves and Other	(36)	(32)	(13)	17	69	133	214	308	410	516
<b>Current Liabilities</b>	<b>39</b>	<b>45</b>	<b>49</b>	<b>60</b>	<b>69</b>	<b>77</b>	<b>87</b>	<b>97</b>	<b>104</b>	<b>108</b>
ST Interest Bearing Debt	15	15	13	16	19	22	25	28	31	32
Trade Payables	20	25	29	35	40	44	49	54	58	60
Accrued Wages	-	-	-	-	-	-	-	-	-	-
Accrued Taxes	4	5	7	8	10	11	13	14	15	16
Other Current Liabilities	-	-	-	-	-	-	-	-	-	-
<b>LT Liabilities</b>	<b>55</b>	<b>74</b>	<b>76</b>	<b>58</b>	<b>70</b>	<b>100</b>	<b>110</b>	<b>130</b>	<b>160</b>	<b>190</b>
LT Interest Bearing Debt	55	74	76	58	70	100	110	130	160	190
Other LT	-	-	-	-	-	-	-	-	-	-
Bridge Financing	0	0	0	0	-	-	-	-	-	-
<b>Total Liabilities &amp; Equity</b>	<b>107</b>	<b>136</b>	<b>162</b>	<b>185</b>	<b>257</b>	<b>360</b>	<b>460</b>	<b>585</b>	<b>723</b>	<b>863</b>

**Cash Flow Statement, USD mln\***

	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F
Net Income	(17)	4	19	31	51	64	80	94	102	106
Depreciation	5	6	7	8	8	8	9	9	9	10
Non-operating and non-cash items	(3)	0	(0)	0	(0)	0	(0)	0	(0)	0
Changes in working capital	-	(6)	(6)	(5)	(6)	(6)	(7)	(6)	(4)	(3)
<b>Operating Cash Flow</b>	<b>(15)</b>	<b>4</b>	<b>21</b>	<b>33</b>	<b>53</b>	<b>67</b>	<b>82</b>	<b>97</b>	<b>107</b>	<b>113</b>
Capital Expenditures. net	(32)	(22)	(22)	(19)	(9)	(10)	(10)	(10)	(10)	(10)
Other Investments. net	0	-	-	-	-	-	-	-	-	-
<b>Investing Cash Flow</b>	<b>(32)</b>	<b>(22)</b>	<b>(22)</b>	<b>(19)</b>	<b>(9)</b>	<b>(10)</b>	<b>(10)</b>	<b>(10)</b>	<b>(10)</b>	<b>(10)</b>
Net Borrowings/(repayments)	7	19	1	(15)	15	33	13	23	32	31
Dividends Paid	-	-	-	-	-	-	-	-	-	-
Other	44	-	-	-	-	-	-	-	-	-
<b>Financing Cash Flow</b>	<b>50</b>	<b>19</b>	<b>1</b>	<b>(15)</b>	<b>15</b>	<b>33</b>	<b>13</b>	<b>23</b>	<b>32</b>	<b>31</b>
Beginning Cash Balance	1	5	5	5	5	63	153	238	349	478
Ending Cash Balance	5	5	5	5	63	153	238	349	478	612
<b>Net Cash Inflows/Outflows</b>	<b>4</b>	<b>1</b>	<b>0</b>	<b>(0)</b>	<b>58</b>	<b>90</b>	<b>86</b>	<b>110</b>	<b>130</b>	<b>134</b>

**Exchange Rates, UAH/USD**

	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F
Average exchange rate	4.99	4.95	4.85	4.85	4.80	4.80	4.80	4.80	4.70	4.70
Year-end exchange rate	4.95	4.90	4.85	4.85	4.80	4.80	4.80	4.80	4.70	4.70

Source: Concorde Capital estimates

\* Pro-forma financials are combined, including parent and minorities

## APPENDICES

## Appendix: Main publication titles

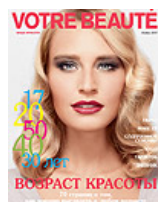


**Telenedelya** – UMH's flagship brand. Ukraine's leading weekly TV guide with 55% of the segment's advertising and 30% of TV guide readership in 2007. Average monthly circulation in Ukraine is 1.6 mln copies. Regional inserts are published in eight Ukrainian oblasts.

Published in Russia since 2005. Russia's third-largest TV guide with 6.1% of the segment's advertising in 2007.



**Komsomolskaya Pravda v Ukraine** – Daily newspaper published through a licensing agreement with KP-Russia. Held the largest share of advertising among newspapers in Ukraine in 2007 – 28%. Average monthly circulation was 2.0 mln in 2007.



**Votre Beauté** – women's magazine. Holds up to 10% of women's audience. Issued 10 times a year. Average monthly circulation was 25 ths in 2007.



**Focus** – Weekly newsmagazine launched in 2006. Holds 5% of advertising and readership in the segment. Average monthly circulation was 93 ths in 2007.



**Football** – Weekly sports magazine that accounted for 42% of advertising in sports publications in 2007, second after Komanda, UMH's other sports publication. First by readership in the segment with 59% of the market last year. Average monthly circulation was 511 ths in 2007.

Published in Russia since 2005; 1.2 mln circulation in 2007. Second-largest sports title by audience with 36% of the market last year.



**Ukraina Za Rulem** – Monthly magazine published through a licensing agreement with Za rulem-Russia. Held 3% of the segment's ad share in 2007 and 14% of automobile segment readership in 2007. Monthly circulation of 32 ths.



**TimeOut-Kiev** – Weekly city guide published through a licensing agreement with Time Out UK. First published in 2006. Average monthly circulation was 30 ths in 2007. Controls 8% of advertising and 6% of readership in its segment.



**Arhideya** – Architectural and home design magazine. Issued 10 times a year. Publication rights acquired in 2007 from Karavan Media (Ukraine). 20% of the segment's advertising market share.



**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

**Head of Equity Sales**

Roman Nasirov

rn@concorde.com.ua

**Equity Sales**

Anastasiya Nazarenko  
Duff Kovacs, CFA  
Marina Martirosyan  
Andriy Supranonok

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

**Director of Research**

Konstantin Fisun, CFA

kf@concorde.com.ua

**RESEARCH**

**Strategy**

Konstantin Fisun  
Oleksandr Klymchuk

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

**Metals & Mining**

Eugene Cherviachenko  
Andriy Gerus

ec@concorde.com.ua  
ga@concorde.com.ua

**Utilities (Telecom, Energy)**

Alexander Paraschiy

ap@concorde.com.ua

**Oil & Gas, Chemicals,  
Pharmaceuticals**

Vladimir Nesterenko

vn@concorde.com.ua

**Real Estate/Construction**

Andriy Gostik, CFA  
Alexander Romanov

ag@concorde.com.ua  
ar@concorde.com.ua

**Consumer-related**

Olha Pankiv  
Anna Dudchenko

op@concorde.com.ua  
ad@concorde.com.ua

**Machinery**

Eugene Cherviachenko  
Inna Perepelytsya

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

**Financial Services, Retail**

Alexander Viktorov

av@concorde.com.ua

**Macroeconomics**

Polina Khomenko

pk@concorde.com.ua

**Fixed Income**

Oleksandr Klymchuk

ok@concorde.com.ua

**Editor**

Brad Wells

bw@concorde.com.ua

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