Foyil Securities

INVESTMENT RESEARCH
UKRAINE

Motor Sich

	Last Price	Bloomberg Ticker
Local shares	UAH 536	MSICH UZ

February 26, 2007 — Analyst: Yuri Belinsky

Sector: **Machinery** — **ybelinsky@foyil.com**

The sky's the limit

BUY

Motor Sich should raise its net sales by 16% CAGR in 2007-2010 for the following reasons. Its participation in successful aircraft projects and the need of CIS and other countries to replace their aircraft fleets will raise its sales of aircraft engines by 13% CAGR over the period. Sales of turbine blowers and turbine electric generators will grow at 26% CAGR due to the CIS pipelines' strong demand for turbine blowers and the growing need for generators in Russia. Sales of engine maintenance services should grow by 19% CAGR thanks to increased global sales efforts. The Company's bottom line will also benefit from synergies with the Progress R&D bureau and from the UAH 423m 2007-2010 modernization program. As a result, net profit should rise by 28% CAGR in 2007-2010. Given Motor Sich's bright outlook, we believe that the stock presents 40%-50% upside.

Year-end December	Net Sales USD m	Net Sales UAH m	EBITDA UAH m	Net Income UAH m	EPS UAH	P/E	EV/Sales	EV/EBITDA	ROE %	Dividend yield
2005	213	1,090	205	49	23.8	22.6	1.18	6.3	3.6%	0.24%
2006e	253	1,276	245	65	31.4	17.1	1.01	5.3	4.6%	0.59%
2007e	296	1,493	291	85	40.7	13.2	0.86	4.4	5.7%	1.14%
2008e	345	1,744	341	113	54.2	9.9	0.74	3.8	7.1%	1.52%
2009e	404	2,041	405	149	71.9	7.5	0.63	3.2	8.7%	2.01%
2010e	463	2,337	456	176	84.9	6.3	0.55	2.8	9.5%	2.38%

Share Price	12 months High	12 months Low	Market Cap	Major Shareholders		Net debt/ Equity 12.5%	P/Bk: 0.79	UAH/USD spot rate: 5.05
UAH 536	UAH 536	UAH 275	UAH 1,114m	Management and related companies:	90%	Nom. value (UAH): 135		Free Float: 10%
USD 106	USD 106	USD 54	USD 221m			Shares outstand: 2.08m		2007 AGM: March 22

Aircraft engine and energy equipment sales should enjoy strong growth

Motor Sich will raise sales of aircraft engines by 13% CAGR in 2007-2010 thanks to its participation in successful aircraft projects and the global need to replace aircraft fleets. The Company is applying its engine technology to making energy-related equipment, such as turbine blowers and turbine electric generators. Since CIS pipelines evince a strong demand for turbine blowers and Russia has a growing need for generators, their sales will grow at 26% CAGR in 2007-2010.

International sales of engine maintenance and new engines will rise as well

As 25% of helicopters and 10% of aircraft worldwide use Motor Sich engines, we expect the Company's sales of engine maintenance services to grow by 19% CAGR in 2007-2010, thanks to an increased number of service centers (six worldwide). International (non-CIS) sales of engines will reach UAH 1.6bn in 2007-2010 thanks to the good price/quality ratio of Motor Sich's engines.

Russia should buy more helicopter engines

We expect that the holding company that is currently being created by four Russian engine-making companies will acquire 51% of Motor Sich in 2008. As Russia accounts for 100% of Motor Sich's helicopter engine sales, the acquisition will help Motor Sich to raise its sales of helicopter engines at 8% CAGR in 2007-2010.

No transfer pricing, partnership with an R&D bureau and modernization should help raise profits

We believe that Motor Sich abandoned transfer pricing for good in 2006. This, together with the synergies created from its partnership with the Progress R&D bureau and the UAH 423m 2007-2010 modernization program, will help raise the Company's EBITDA at 16% CAGR and net profit at 28% CAGR in 2007-2010.

Valuation - stock presents 40%-50% price upside

Based on 2007e numbers, the stock trades at a 58% discount on P/E, 17% discount on P/Sales and 59% discount on EV/EBITDA ratios to local peers. To global peers, the stock trades at a 24% discount on 2007e P/E, 19% discount on 2007e P/Sales and 46% discount on 2007e EV/EBITDA ratios. We deem these discounts unjustified given Motor Sich's bright outlook. Our DCF model puts the Company's equity value at UAH 778 per share, or 45% above the current market price. We believe that at the current price of UAH 536 per share, the stock presents 40%-50% upside.

Foyil Securities
Tel: +380-44-537-7575
Fax: +380-44-537-7574
email: fsne@foyil.com

8 Illinska Street, Entrance Two
04070 Kyiv
Ukraine
www.FOYIL.com

CONTENTS

Yuri Belinsky
Machinery analyst

INVESTMENT CASE — BUY

Benefiting from the strong aviation market

- ►► As Ukraine, other CIS countries, China, India, and other traditional buyers of CIS-designed aircraft need to buy more military and civil aircraft, Motor Sich is on the verge of a major increase in sales of aircraft engines. Motor Sich's sales of new aircraft engines should increase at 13% CAGR over the period 2007-2010.
- ►► The major aircraft engine projects in 2007-2010 will be: the AI-222 engine for Russian and Chinese training jets (should bring UAH 1.45bn in net sales to Motor Sich over 2007-2010), the D-436-148 engine for the new Antonov An-148 passenger jet (UAH 1.04bn), the modernized D-18 engine for the world's second biggest cargo airplane, the An-124 "Ruslan", which will be made by Motor Sich's JV with the Russian air freighter Volga-Dniepr, (UAH 170m), and the D-27 engine for the An-70 cargo airplane (UAH 107m).

Expertise in engine technologies to be applied to energy equipment

- ►► Motor Sich is applying its engine technologies to making energy equipment, mainly turbine blowers and electric generators. The Company's sales of turbine blowers for oil and gas pipelines should grow as a result of Ukrainian, Russian, Kazakhstani, and other CIS pipeline operators actively extending their pipelines as part of several new major pipeline projects. The prime destination of the Company's sales of gas-turbine electric generators, used as main or reserve independent sources of electricity supply, is Russia and in particular Siberia, which is experiencing electricity shortages. We expect net sales of turbine blowers and electricity generators to grow by 26% CAGR in 2007-2010, and their share in the Company's total net sales should grow from 10% in 2006 to 13% in 2010.

The Company's international presence should help raise revenues from engine maintenance and sales

- ►► Motor Sich should increase its net sales of engine maintenance and repairs by 19% CAGR in 2007-2010, which will help raise their share within the overall net sales from 35% in 2006 to 37% in 2010. This will happen thanks to an increased number of international service centers (six worldwide) and the Company's efforts to reclaim the global maintenance and repairs market, since 25% of helicopters and 10% of aircraft worldwide use Motor Sich engines.
- ►► Motor Sich will also be able to increase its international sales of engines and their prices thanks to the excellent price/quality/fuel use ratio of its engines and increased international sales efforts. Sales of engines to China, India, the Middle East, and Latin America will grow in 2007-2010 and amount to UAH 1.6bn over the period.

Acquisition by a Russian consortium will ensure further sales of helicopter engines

- ►► Several Russian engine-making companies are in the process of creating a consortium. At the same time, the Russian government is considering plans to start making engines in Russia for military helicopters, which would cut Motor Sich's sales of helicopter engines. This has prompted Motor Sich's majority shareholder to offer to sell a controlling stake to the consortium, which we expect to happen in 2008. This will ensure further sales of helicopter engines to Russia, which constitute 100% of Motor Sich's helicopter engine sales. However, due to the slower-than-average sales growth of helicopter engines in 2007-2010 (8% CAGR), their share in the total sales will drop from 17% in 2006 to 12.4% in 2010. The total net sales should grow by 16% CAGR in 2007-2010.

Share placement in Europe

- ►► Motor Sich intends to sell 5% of its shares on European marketplaces in February-March 2007 in order to gauge the share price prior to acquisition by the proposed Russian consortium. To raise the interest of investors, the Company has dropped transfer-pricing practices and posted increased 2006 results. We believe that in 2007-2010 the Company will continue abstaining from transfer-pricing schemes, which, together with the synergies generated from the cooperation with the Progress R&D bureau and with the UAH 423m 2007-2010 modernization program, will help boost net profit from UAH 65m in 2006 to UAH 176m in 2010.

Valuation: stock presents 40%-50% price upside

- ►► Motor Sich's net sales should grow at 16% CAGR, EBITDA at 16% CAGR and net profit at 28% CAGR in 2007-2010. Based on 2007e numbers, the stock trades at a 58% discount on P/E, 17% discount on P/Sales and 59% discount on EV/EBITDA ratios to local peers. Due to growth of the Company's top and bottom lines, those discounts widen on 2008e numbers to 61%, 24% and 61%. The stock's 24% discount on 2007e P/E, 19% discount on 2007e P/Sales and 46% discount on 2007e EV/EBITDA ratios to global peers widen to 32%, 27% and 50% on 2008e numbers. We deem the discounts unjustified given Motor Sich's bright outlook. Our DCF model puts the equity value at UAH 778 per share, or 45% above the current market price. We believe the share presents upside of 40%-50%.

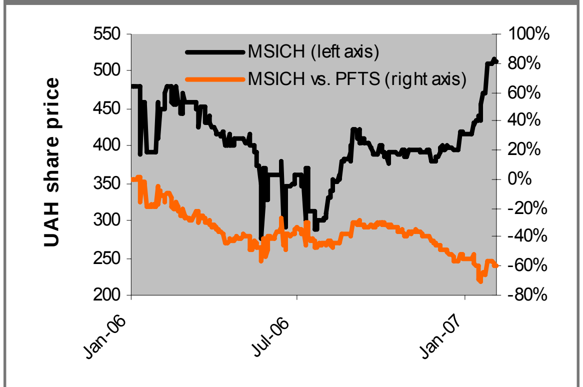
VALUATION

Multiples valuation

Motor Sich trades at deep discounts to local and global peers on P/E, P/Sales and EV/EBITDA

In our multiples valuation, we compare Motor Sich with the Ukrainian energy equipment makers Sumy NVO Frunze, Poltava Turbo-mechanical Plant and Nasosenergomash. They are Motor Sich's closest local peers, as Motor Sich is now raising its sales of energy equipment and intends to increase the share of energy equipment in its total sales from 10% in 2006 to 13% in 2010. We also compare Motor Sich with Russian and other international engine and aircraft/helicopter makers as international peers.

Chart 1. Motor Sich's share performance



Source: Bloomberg

Thanks to its engagement in numerous aircraft and helicopter projects and the growing demand for its engine repair services and energy equipment, we expect Motor Sich's net sales in 2007-2010 to grow at 16% CAGR. Thanks to the 2007-2010 modernization program and synergies arising from the cooperation with the Progress R&D bureau, we expect Motor Sich's EBITDA to grow at 16% CAGR and net profit to grow at 28% CAGR over 2007-2010. The stock trades at a 58% discount on 2007e P/E, 17% discount on 2007e P/Sales and 59% discount on 2007e EV/EBITDA ratios to its local peers. Thanks to the growth of the Company's top and bottom lines, the discounts widen when based on 2008e numbers to 61%, 24% and 61% correspondingly. The stock's 24% discount on 2007e P/E, 19% discount on 2007e P/Sales and 46% discount on 2007e EV/EBITDA ratios to international peers widen to 32%, 27% and 50% based on 2008e numbers. We consider these discounts unjustified given Motor Sich's excellent outlook for future operating and financial performance.

Motor Sich multiples valuation

Company	Country	Local share price	Mcap USD m	P/E			Price/Sales			EV/EBITDA		
				2006e	2007e	2008e	2006e	2007e	2008e	2006e	2007e	2008e
Sumy NVO Frunze	Ukraine	UAH 21.25	299	71.78	63.77	50.53	1.02	0.95	0.89	12.5	15.3	14.7
Poltava turbo-mechanical plant	Ukraine	UAH 1.35	39	13.8	12.6	11.9	1.3	1.2	1.1	10.7	9.7	8.0
Nasosenergomash	Ukraine	UAH 2.75	17	236.0	17.3	13.3	0.63	0.57	0.52	11.6	7.7	6.3
Local peer average				**107.2**	**31.2**	**25.2**	**0.97**	**0.90**	**0.84**	**11.6**	**10.9**	**9.7**
United Technologies	USA	USD 68.51	68,760	18.6	16.4	14.6	1.46	1.35	1.29	10.55	9.65	8.93
BAE Systems	GB	GBP 434	27,269	17.2	16.2	14.4	0.93	0.95	0.89	9.64	9.47	8.60
Textron	USA	USD 96.35	12,087	18.1	15.6	13.4	1.03	0.96	0.89	14.68	12.79	11.60
Bombardier	Canada	CAD 4.76	7,034	n.a.	45.1	34.0	n.a.	0.49	0.51	n.a.	10.9	9.4
Saab	Sweden	SEK 205.5	3,218	16.5	15.0	13.9	1.07	0.98	0.96	8.54	7.42	7.11
Irkut	Russia	USD 1.04	1,017	9.52	7.72	6.05	0.96	0.88	0.78	4.1	3.7	3.4
NVO Saturn	Russia	USD 0.1025	408	n.a.	n.a.	n.a.	1.25	1.01	0.896	7.7	6.3	5.8
Kazan Helicopters	Russia	USD 1.45	224	8.60	5.58	5.57	0.88	0.74	0.795	7.2	5.2	5.5
Global peer average				**14.7**	**17.4**	**14.6**	**1.08**	**0.92**	**0.88**	**8.9**	**8.2**	**7.5**
Motor Sich	**Ukraine**	**UAH 536.00**	**220.6**	**17.1**	**13.2**	**9.9**	**0.87**	**0.75**	**0.64**	**5.3**	**4.4**	**3.8**
Premium / (discount) to local peers				**(84%)**	**(58%)**	**(61%)**	**(10%)**	**(17%)**	**(24%)**	**(55%)**	**(59%)**	**(61%)**
Premium / (discount) to global peers				**16%**	**(24%)**	**(32%)**	**(19%)**	**(19%)**	**(27%)**	**(41%)**	**(46%)**	**(50%)**

Source: Company Data; Bloomberg; Foyil Estimates

DCF analysis

DCF-derived value is UAH 778 a share, 45% above the current share price

We build our DCF model on our Free Cash Flow forecast, assumptions of the Company's beta (1.28) and long-term growth rate of 2.0%. We expect Motor Sich's Free Cash Flow to rise from UAH 75m in 2005 to UAH 193m in 2010 on the back of growing revenues and profits despite the considerable UAH 423m of CAPEX invested into equipment modernization. The Company's terminal value is calculated as the FCF of 2010 multiplied by a long-term growth rate and a perpetuity factor. Our DCF-derived value of Motor Sich comes to UAH 778 a share, suggesting a 45% upside from the current price.

Target Price Calculation (UAH m)	
PV of future FCF	1,792
Net Debt	176
Total NPV	1,616
Shares Outstanding (m)	2.08
Price Per Share (UAH)	**778**

Risk Premium And Beta Estimates	
Long-term Risk-free rate	5.1%
Ukraine Default Spread	1.3%
Ukraine Equity Market Volatility	1.1%
Ukraine Bond Market Volatility	1.1%
Excess PFTS Volatility Factor	0.96
Ukraine Country Risk Premium	1.3%
US Standard Equity Premium	4.5%
Ukraine Equity Risk Premium	5.8%
Adjusted Beta	1.28

Assumptions	
Risk-free rate	5.1%
Ukraine Equity Risk Premium	5.8%
Long-term Growth Rate	2.0%
Tax Rate (2004 onward)	25.0%
Cost of Debt	12%
Beta levered	1.28
Beta unlevered	1.14

DCF Output

UAH m	2007e	2008e	2009e	2010e
Free Cash Flow	75	125	164	193
Terminal Value				2,149
Total Free Cash Flow	75	125	164	2,342
Discount Factor	0.89	0.80	0.72	0.64
Time Zero Money (UAH m)	**67**	**99**	**117**	**1,509**

Definitions:

- Long-term Risk-free rate - historic returns on U.S. T-bonds, 1928-2004, geometric average
- Ukraine Default Spread - spread between the yields of a Ukrainian Eurobond and a U.S. T-bond
- Ukraine Equity Market Volatility - standard deviation of PFTS Index (taken as a proxy for Ukrainian equity market) returns in the period from August 2004 to July 2006.
- Ukraine Bond Market Volatility - standard deviation of the 2013 ten-year Ukrainian Eurobond (taken as a proxy for the Ukrainian bond market) yield to maturity in the period from August 2004 to July 2006.
- Excess PFTS Volatility Factor - ratio of Ukraine Equity Market Volatility to Ukraine Bond Market Volatility.
- Ukraine Country Risk Premium - Ukraine Default Spread multiplied by Excess PFTS Volatility Factor.
- U.S. Standard Equity Risk Premium - historic difference between U.S. common stock and T-bond returns, 1928-2004, geometric average.
- Ukraine Equity Risk Premium - U.S. Standard Equity Risk Premium plus Ukraine Country Risk Premium.

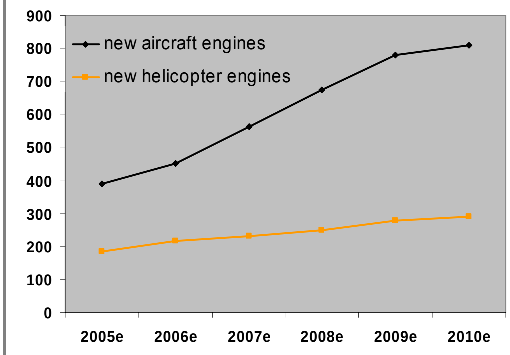
RISKS

Aircraft engine orders decline

Risk of losing aircraft engine orders is low

We expect Motor Sich's sales of brand new aircraft engines to grow at 13% CAGR in 2007-2010 and bring the Company UAH 2.8bn over the period, or 71% more than what aircraft engines sales brought to the Company over 2003-2006. This increase should result from several major engine projects for which Motor Sich has already signed contracts. While it is possible that these contracts could be cancelled, the respective aircraft makers who have promised buy the engines have contracts to supply aircraft to end users in place. Therefore, we consider the risk of Motor Sich losing the aircraft engine contracts, which we expect in 2007-2010, as low. Moreover, we believe that the current engine projects will continue to bring revenues to Motor Sich after the year 2010, since they are intended for newly designed or modernized aircraft with long life spans. **Probability: Low**

Chart 2. MSICH engine sales, UAH m



Source: Foyil Estimates

The Russian government stops buying engines for military aircraft and helicopters

Helicopter engine sales to Russia should continue

In the helicopter engine sector, Motor Sich is 100% tied to Russian helicopter manufacturers, which makes the Company dependent on Russian government procurement policies. Motor Sich's position is especially vulnerable in the sub-segment of military helicopter engines because the Russian government has direct influence over the procurement plans of Russian military helicopter manufacturers. In 2006, the Russian government was considering shifting production of all parts for Russian-made military equipment to Russia. In particular, four Russian engine-makers - Klimov Plant, Chernyshov Machine-building Plant, Saliut, and Ufa Engine-making Plant - are currently creating a holding company (consortium) which, according to Russian government plans, might initiate production of the key VK-2500 helicopter engine. At the moment, Russian helicopter makers buy this engine from Motor Sich. Sales of brand new engines for military helicopters should amount to 10% of Motor Sich's total net sales in 2007-2010. To prevent the loss of these orders, Motor Sich's majority shareholders have decided to sell a 51% stake to the proposed Russian consortium (see p.11). We expect that the acquisition of Motor Sich's 51% stake will occur in 2008. Thus, the chances of losing sales in this sub-segment for Motor Sich are low. **Probability: Low**

SWOT ANALYSIS

Strengths	Weaknesses	Opportunities	Threats
Excellent price/quality/fuel consumption ratio of engines	Weak position in negotiations with Russian partners on military helicopter and aircraft engines	Current aircraft engine projects should bring sales after the year 2010	Aircraft engine projects being cancelled
Product and geographic diversification to increase over 2007-2010	Orientation on helicopter makers of one country (Russia) in helicopter engine segment	New aircraft engine projects should materialize	Russian government might suspend purchases of engines for military helicopters
		Ukrainian government to start buying and renovating military aircraft and helicopters in 3-4 years	

MOTOR SICH'S PROFILE

History and main activity

Motor Sich is located in the southern Ukrainian industrial city of Zaporizhzhia. The Company's history dates back to 1907 with the manufacture of agricultural equipment before switching to making aircraft engines in 1915. Since then Motor Sich has made engines for more than 20 types of aircraft and 16 types of helicopters made by Ukrainian, Russian and Uzbekistani aviation plants.

Product range

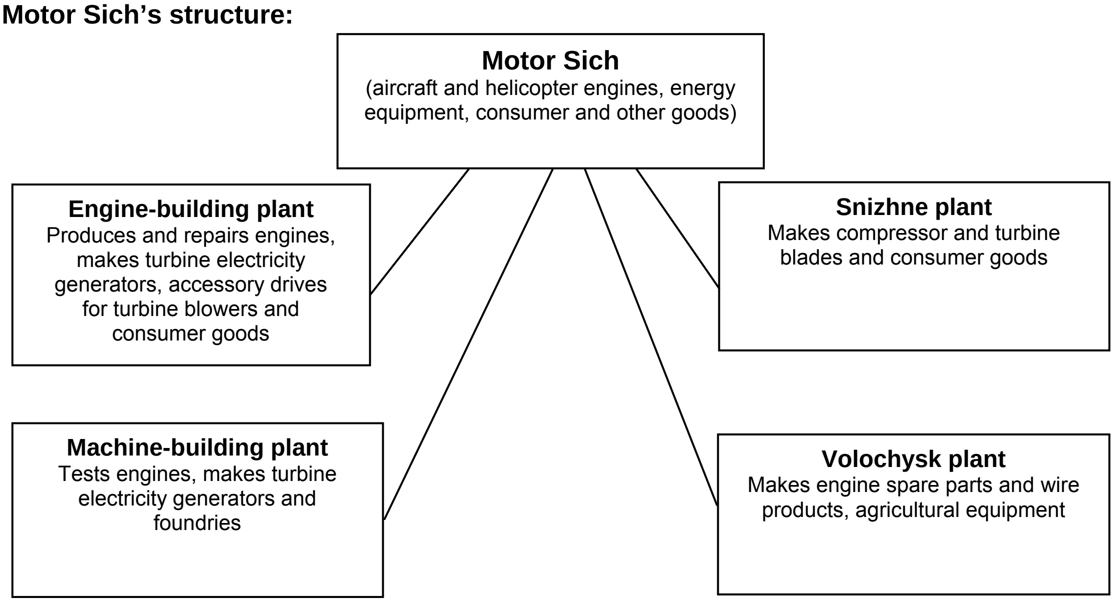
Engines and energy equipment are two major segments of Motor Sich's product range

Motor Sich builds engines for 11 types of aircraft. The Company is especially strong in the segment of engines for mid-range CIS-made passenger and cargo aircraft. The new projects in this segment include the D-436-148 engine for the An-148 passenger and cargo plane, the D-27 engine for the An-70 cargo plane, and the AI-22 engine for the Tu-324 passenger jet. In the 1980s-90s, Motor Sich also supplied engines for the An-225 "Mriya" and An-124 "Ruslan", which are world's biggest and second biggest cargo aircraft respectively. The Company is currently modernizing its D-18 engine for the An-124 "Ruslan". The third aircraft engine segment in which Motor Sich possesses competitive advantages over other CIS aviation engine makers is the AI-222 engine for Russian, Czech and Chinese military training jets.

Motor Sich is launching production of engines for 15 new types of Russian-made helicopters. In particular, it is initiating production of the Klimov Plant-designed (Russia) VK-2500 engine and the Progress design bureau (Ukraine) designed AI-450 engine for a wide range of Kamov and Mil helicopters. In total, Motor Sich manufactures, tests, maintains and repairs 55 types of engines for 61 different aircraft and helicopters that are currently in use in 109 countries.

Motor Sich uses its engine technologies to produce energy-related equipment as well. In particular, Motor Sich makes gas turbine blowers used in the transportation of oil and natural gas by oil and gas pipe networks. The Company also makes gas-turbine electric generators used for electricity supply. Motor Sich's product range also includes consumer goods, agricultural equipment, medical instruments, and bone implants. As of 2006, aviation engine production and maintenance occupied the lion's share of Motor Sich's sales structure (see chart 5 on p.13). In the future, the Company intends to increase the share of energy equipment, engine maintenance and other products in the total sales. Exports account for 84% of the total Company's sales, while exports of aviation engines account for 91% of the Company's total sales of aviation engines.

Motor Sich's structure:



Company's partners

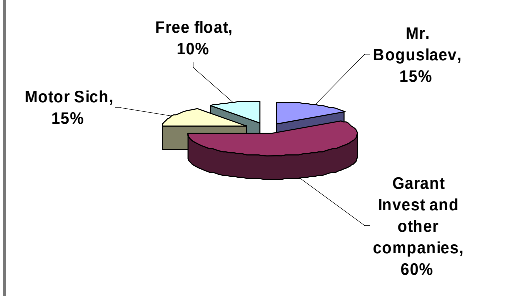
Motor Sich mainly makes engines designed and modernized by the Zaporizhzhia-based Progress design bureau and Russia's Klimov Plant. However, the Company is increasingly using its own R&D facilities and personnel to modernize engines. Progress has been closely related to Motor Sich since the 1930s. The two companies signed an agreement in December 2006 to unite their R&D and marketing divisions. Motor Sich makes engines for aircraft and helicopters made by Ukraine's Aviant plant and Kharkiv aircraft building plant, Russia's Irkut, Sokol, Voronezh, Kazan and Ulan-Ude plants and Uzbekistan's Tashkent plant.

Ownership

The Company's major shareholder will offer some shares in Europe to test the waters of investor interest

The Motor Sich's CEO and Ukrainian MP Mr. Vyacheslav Boguslaev controls 90% of the Company's shares. He directly owns 15% of the shares and controls another 60% through Garant Invest LLC and other companies, while the remaining 15% belong to Motor Sich itself. The Company intends to make a public offering of 5% of its shares (of the 15% that belong to the Company) on European stock markets in February-March 2007. At the second stage of the offering, Motor Sich may put up for sale the remaining 10%. We expect that after this placement Motor Sich's majority shareholder will sell 51% of the Company's shares to a Russian consortium (see p.11).

Chart 3. Motor Sich's ownership structure



Source: SEC, Foyil Estimates

AIRCRAFT ENGINES SALES - MAIN SALES DRIVER IN 2007-2010

Top selling AI-222 engine for military training jets

The AI-222 engine for training jets was a best seller in 2007-2010

Motor Sich's biggest aircraft engine project in 2007-2010 will be the AI-222 engine for the new military training and light combat jet Yak-130. The Yak-130 will replace the popular Czech-built L-39, which has been in service in the former Soviet bloc for more than 20 years. The Yak-130 is a prototype of a fifth generation combat jet and can be used to train pilots to fly military jets used by former Soviet bloc and NATO countries. We estimate that Motor Sich will supply six AI-222 engines to Russia's Sokol aviation plant, which makes the Yak-130 for Russia and Algeria. The AI-222 family has engines to suit a variety of jets, in particular Motor Sich's partner Progress design bureau is currently carrying out certification of a high-powered AI-222 engine for a Chinese training jet. In 2007-2010, we expect Motor Sich to sell 200 engines for the Chinese project at USD 1.5m per engine. In total, AI-222 type engines should bring the Company UAH 1.45bn in net sales over 2007-2010.

An-148 project is huge for Motor Sich's aircraft engine sales

The main driver of the growth of the Ukrainian and CIS aircraft manufacturing industries is the rising volume of air passenger and cargo transportation in the CIS. In 2007-2010, the volume will grow by 9% annually while the operational life of the CIS fleet of passenger and cargo aircraft will expire in 5-8 years on average. These two factors will oblige CIS air carriers to increase purchases of new aircraft in the next three to five years. In the passenger segment, we believe that in 2007-2012 CIS air carriers will need to buy up to 1,000 mid-sized regional aircraft with payloads of up to 80 passengers and ranges of up to 7,000 km. In response to this demand, Ukraine's Antonov design bureau has designed the An-148 regional aircraft, for which Motor Sich provides the D-436-148 engine.

D-436-148 for the An-148 is the other top selling engine

The An-148 is tailored to the outdated equipment employed at CIS airports, which gives the plane an advantage over international competitors. We expect that many CIS airports, especially smaller provincial ones, will remain underfinanced in the next three to five years, and so will not be able to renovate their radars and electronics. This deficiency hampers the use of Boeing, Airbus, Bombardier, Embraer, and other aircraft in the CIS, thus putting An-148 sales prospects in the region of good. The Antonov design bureau is currently finishing certification of the An-148 for use in the CIS, while Motor Sich is doing likewise for its D-436-148 engine for the An-148. This engine is better suited to the CIS climate than competing engines are, particularly for use at low temperatures - it can start at the outdoor temperature of -45°C, while rival engine have trouble starting at below -30°C. Despite the incomplete certification, three Ukrainian and Russian aircraft makers have signed contracts to supply 41 An-148 aircraft in the next three years to Ukrainian, Russian and Kazakhstani air carriers. This will bring Motor Sich UAH 940m in net sales from such engines, as engines make up about 23% of the total cost of the aircraft.

The An-148 corresponds to all modern international avionics, aviation electronics and safety requirements, and the Antonov design bureau intends to obtain European certification for the plane in 2008. The plane has good selling potential beyond the CIS, as it is cheaper to buy (USD 20m) than its Canadian and Brazilian competitors Bombardier and Embraer (USD 26m), and cheaper to maintain, as maintenance costs run 23%-25% lower. Given that the An-148 has a better price/quality/fuel use ratio than its international competitors, we believe that it has good potential internationally, including not only its usual markets of Asia and Africa, but also in Europe and Northern America. Overall, we estimate that in 2007-2010 various manufacturers will sell 45 An-148s, which will bring Motor Sich UAH 1.03bn in net sales.

An-124 "Ruslan" revisited by the joint venture with Volga-Dniepr

Resumption of "Ruslan" production to benefit Motor Sich

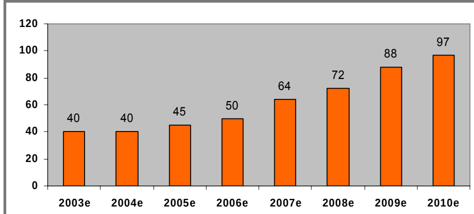
The cargo airplane An-124 "Ruslan", which is the world's second largest by payload capacity only to the An-225 "Mriya", can carry up to 150 tons and has a range of up to 12,000 km. Thanks to its unique carrying capacities, the "Ruslan" is the world's monopoly carrier of large and odd-sized freight, which has won it long-term contracts with NATO. Motor Sich's joint venture with the Russian airfreight company Volga-Dniepr, which owns the largest fleet of "Ruslan" aircraft in the world (tens units are currently in operation), intends to capitalize on this aircraft's vast potential and will resume manufacturing it in 2008. The JV will start its work with modernizing the D-18 engine for the An-124, which is Motor Sich's responsibility. The JV will make four "Ruslan" aircraft in 2007-2010, which will bring UAH 170m in net sales to Motor Sich from the sales of the engines. The JV will make 12 "Ruslan" aircraft by 2015 and 80 by 2040, which represent a major long-term source of revenues for Motor Sich.

Long-awaited An-70 will realize its big potential

An-70 project to bring revenues until 2010, has a long-term potential

Another Ukrainian aircraft project, the An-70 cargo plane, is designed for a payload of up to 47 tons and has a unique short take-off distance of 600-900 meters on unpaved airfields. It can carry military equipment used by Ukrainian, CIS and NATO countries. The project has a protracted history of design and testing, but now Ukraine's Ministry of Defense has decided to support it by ordering two An-70s. This will raise the profile of the An-70 on international markets, especially in China and India, which need this kind of mid-sized cargo aircraft. In total, we think that the MoD will purchase five An-70s in 2007-2010. We believe that the An-70 has a great future, but it is difficult to quantify the number of aircraft that might be sold to other countries, especially in light of the recent refusal of Russia to continue the project. Therefore, we limit our assumption of sales of the D-27 engine for the An-70 to domestic orders, which will bring UAH 107m in net sales in 2007-2010.

Chart 4. MSICH production of engines, units



Source: Company Data, Foyil Estimates

Aircraft engine sales to grow in 2007-2010 and beyond

Sales of aircraft engines to rise by 71% in 2007-2010 versus 2003-2006

Overall, we estimate that Motor Sich will manufacture 314 engines for the abovementioned projects in 2007-2010, and the net sales from these engines should reach UAH 2.76bn over the period. The Company also makes engines for the Tu-324, Yak-48, An-3, An-38, BE-132MK, and An-74TK-300 aircraft. We estimate that the volume of net sales of engines for these aircraft will reach UAH 60m over 2007-2010. Overall, the number of aircraft engines should reach 321, compared to the estimated 175 engines in 2003-2006. Motor Sich's net sales from aircraft engines should amount to UAH 2.82bn over 2007-2010, or 71% more than in 2003-2006 (estimated USD 1.65bn). The expected volume of the production of engines in 2007-2010 is still much less than what the Company is capable of handling, since it used to make about 250 aircraft engines annually during Soviet times.

Despite the hardships of the 1990s, the Company has preserved its technical capacity and highly qualified personnel, which means that Motor Sich can increase engine output from 2010 onwards with the necessary CAPEX to rehabilitate its fixed assets (see p.14). To increase sales further, Motor Sich will also have to raise its worldwide marketing efforts, which is feasible, given the plans to merge with the proposed Russian engine-making consortium and enhanced international network (see p.11). We also believe that Motor Sich's sales of engines to the Ukrainian Ministry of Defense will start growing in three-four years, which will be a major growth driver, given Ukraine's pressing need to renew its currently 90% obsolete military aviation equipment. The Company's engagement in the An-148, An-70 and An-124 projects, which have long life spans, supports the long-term deal flow. We also expect Motor Sich to get new engine contracts after 2010 thanks to its strengthening position as a maker of high-quality engines.

PRODUCT DIVERSIFICATION - THE OTHER MAJOR DRIVER OF SALES

Use of engine technologies to produce energy equipment

Share of energy equipment in total sales to rise over 2007-2010

Motor Sich is well positioned to capitalize on its expertise in engine technologies and use them in other industries. The major application of engine technologies is the design and construction of oil and gas turbine blowers used in pipelines for oil and gas transportation. We consider the Company management's plans to increase sales of gas turbine blowers in partnership with the large Ukrainian energy equipment maker Sumy NVO Frunze to Ukrainian, Kazakhstani, Russian, and other CIS pipeline operators to be realistic, as they are actively extending their pipelines as part of several new major pipeline projects. The Company also uses its technologies in the manufacturing of gas-turbine electric generators for use by industrial customers and residential associations as the main or reserve independent source of electricity supply. Motor Sich will increase its sales of electricity generators to Russia, particularly Siberia, which is experiencing electricity shortages. Gas turbine blowers and electricity generators will bring Motor Sich UAH 898m in net sales in 2007-2010, which is nearly twice more than in 2003-2006 (estimated UAH 454m).

Growth of other product sales

Sales of consumer and medical products will grow the fastest in 2007-2010

Motor Sich is also developing its consumer goods division, which makes chainsaws and separators for food processing, and has seven service centers across Ukraine for their maintenance and repair. The Company also makes agricultural equipment, including mini-tractors, and small boats. Again, in these segments the Company applies its know-how and experience in engine-making. Motor Sich is also increasing production of other consumer and industrial equipment, such as heaters, food processing equipment, boilers, asphalt concrete cutters, lifting jacks, etc., and construction materials. Another forward-looking segment for the Company is medical equipment (surgical, dentistry, etc.) and bone implants.

The Company's efforts in these segments have good chances to pay back, as it has the infrastructure to increase revenues from sales of these kinds of products: five retail stores and 16 concessions in department stores across Ukraine, where it sells its consumer goods, industrial, agricultural and medical equipment. We expect Motor Sich to generate UAH 190m in 2007-2010 in net sales of consumer and medical products. According to our estimates, sales of these products will grow by 64% in 2007-2010 from UAH 116m in 2003-2006.

GROWTH OF INTERNATIONAL ENGINE MAINTENANCE AND SALES

Share of engine maintenance to grow thanks to a strong international presence

As the other major diversification effort, Motor Sich will raise the volume of engine maintenance and repair services. 60% of civil aircraft and 90% of helicopters in the CIS, and 25% of helicopters and 10% of aircraft worldwide use Motor Sich engines. Motor Sich is aware of problems arising from unauthorized repairs and maintenance of its aviation engines, which lead to accidents, and is making efforts to reclaim the maintenance and repairs market. Thanks to an increased number of international service centers (six worldwide) and the simultaneous decrease of unauthorized maintenance of Motor Sich's engines worldwide, the share of engine maintenance and repairs in the net sales will grow from 35% in 2006 to 37% in 2010. We expect engine maintenance and repairs to bring UAH 2.65bn in net sales over 2007-2010, or 65% more than in 2003-2006 (estimated USD 1.61bn).

Along with increasing the volume of maintenance services, the better international presence will help raise international sales of brand new engines. We expect Motor Sich's sales of engines to China, India, the Middle East, and Latin America, which are rapidly enlarging their aircraft fleets (for example China's air fleet will quadruple by 2025), to grow in 2007-2010 and to reach UAH 1.6bn over the period. We believe that Motor Sich will also raise the prices of its engines sold internationally. Currently, the Company engines are cheaper than Northern American and Western European analogs, mainly because of Motor Sich's weaker bargaining power and thanks to Motor Sich's lower personnel expenses. We expect that in 2007-2010 the Company will have to raise personnel expenses and thus increase its engine prices. We believe that this will not harm the Company's international sales because Motor Sich's engines enjoy a strong competitive quality and high fuel efficiency.

Acquisition by a Russian company and growth of helicopter engine sales to Russia

As a result of the growth of aircraft engines sales and product diversification efforts, the Company will reduce its dependence on sales of helicopter engines to Russia. Motor Sich makes engines for the following Russian-made civil and military helicopters: MI-17, MI-14, MI-24M, MI-28N, MI-8, MI-8T, KA-29, KA-31, KA-32, KA-50, KA-52, KA-50-2, KA-60, KA-62, and KA-226. The Company also engages in modernization of these engines together with their designers, in particular Russia's Klimov Plant. We expect that sales of Russian helicopters, primarily on their traditional markets, i.e. the CIS, Middle East and Asia, will grow by 15% annually in 2007-2010. Motor Sich has made its competitive position as an engine provider for Russian helicopters even stronger, as it has designed more effective and efficient VK-2500 and VK-1500 engines for a wide range of military and civil helicopters.

Motor Sich inclined to sell 51% to a Russian engine-making consortium

However, Russia is considering launching production of its own helicopter engines, which, by our estimates, would cut Motor Sich's sales of helicopter engines by 10% annually starting from 2010. This is prompting the Company's major shareholder to sell a 51% stake in Motor Sich to a Russian engine-making holding consortium, which is currently being created by four Russian engine-making companies - Klimov Plant, Chernyshov Machine-building Plant, Saliut, Ufa Engine-making Plant. In 2006, these Russian companies approached Motor Sich with acquisition offers, but the parties disagreed on price. The offered prices were not disclosed to the public, but Mr. Boguslaev, as the biggest shareholder, evidently valued Motor Sich's equity higher than the market price (about UAH 450 per share at the time). We expect the acquisition to take place (most likely in 2008) and the net sales from helicopter engines to grow to UAH 1.05bn over 2007-2010 from UAH 778m over 2003-2006 (35% up).

ACQUISITION AND SHARE PLACEMENT IN EUROPE TO BENEFIT SHAREHOLDERS

Offering shares in Europe: instrument in acquisition negotiations

Offer of shares will precede acquisition and increase transparency

Prior to acquisition, Motor Sich is planning to sell GDRs for 5% of the Company's shares on European stock markets (primarily the Frankfurt Stock Exchange) to gauge the share price. Motor Sich has selected Deutsche Bank as a sponsor of the issue in order to maximize the share price, since Deutsche Bank has the expertise and access to an international client base. Prior to the placement, the Company will hold a road show, where it will present information about its current status and forecasts. We believe that in light of this forthcoming European share placement, the Company dropped it transfer-pricing practices in 2006 (see p.13) and will not return to them in the future. This will benefit minority shareholders. Motor Sich intends to make the share placement as transparent as possible and be the official recipient of the proceeds from the placement (as opposed to making the intermediary the official recipient of the proceeds). The Company will declare the proceeds in Ukraine and not off shore, which is a common practice for many Ukrainian companies.

COOPERATION WITH PROGRESS BUREAU TO BRING ABOUT SYNERGIES

Ivchenko Corporation to bring synergies

In January 2007, Motor Sich announced the creation of the Ivchenko Corporation (named after the creator of a number of Motor Sich's engines, Olexander Ivchenko) with the Progress design bureau. The two companies have always been closely related, as Progress, since its creation in the 1930s, has been designing aviation engines and gas turbines for Motor Sich. The corporation will have a closed manufacturing cycle and joint marketing department, which will create synergies for both companies by cutting costs and increasing productivity. The two companies will remain independent and will not create a JV or another legal entity. We estimate that as a result of the creation of the corporation, Motor Sich's marketing and R&D expenses will drop by 10% in 2007 (although they should grow in 2008-2010 from the 2007 base), which will bring UAH 10m to the bottom line in 2007-2010. The corporation will also eliminate Progress as a competitor on international markets.

ANALYSIS OF FINANCIAL STATEMENTS

INCOME STATEMENT

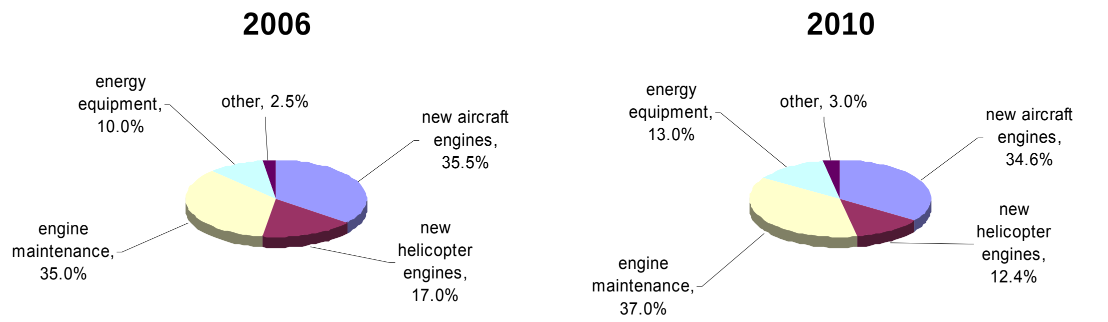
Poor 9M 2006 compensated by 4Q 2006

2006e results up y-o-y…

Motor Sich's nine months 2006 financial results were unexpectedly poor. In particular, net sales were down by 9% y-o-y to UAH 688m, which was the result of shifts in fulfilling engine contracts towards the year-end. The 9M 2006 EBITDA was down by 33% to UAH 72m and net income down by 93% to UAH 1.9m. This implied a 9M 2006 EBITDA margin of 10.5% (14.2% in 9M 2005) and a 9M 2006 net income margin of 0.3% (3.7% in 9M 2005). The decline in the bottom line was, in particular, the result of a 16% y-o-y growth in personnel expenses to UAH 197m and a 42% increase of the interest expense to UAH 25m.

Although the 9M 2006 results were poor, we expect the Company to post UAH 1.28bn FY2006 net sales, or 17% up y-o-y because the Company in 4Q 2006 caught up with delivering engines and other products and services according to the contracts signed for 2006. According to information submitted by the Company to the SEC, the FY2006 net income grew by 32% y-o-y to UAH 65m (5.1% FY2006e net margin). We expect the FY2006 EBITDA to rise to UAH 245m (20% up y-o-y) suggesting a FY2006e EBITDA margin of 19.2%. We believe that the growth in the 2006 net income is the result of both better performance in 4Q 2006 and the Company dropping its transfer-pricing practices. In particular, the COGS margin dropped from 58.4% in 2005 to an estimated 56.5% in 2006.

Chart 5. Structure of Motor Sich sales by product, 2006 vs. 2010



Source: Company, Foyil Estimates

Financial outlook for 2007-2010

… followed by a strong growth forecast for 2007-10

Based on our estimates of Motor Sich's sales of different products, we estimate the Company's net sales in 2007-2010 to grow at 16% CAGR annually (up from 3.4% CAGR in 2003-2006) and reach UAH 2.3bn in 2010.

Net sales by product

UAH m	2003	2004	2005	2006e	CAGR	2007e	2008e	2009e	2010e	CAGR
New aircraft engines	416	389	389	453	2.9%	562	674	779	809	12.9%
New helicopter engines	193	183	185	217	4.0%	233	249	279	290	7.6%
Engine maintenance	403	378	382	447	3.5%	511	590	688	865	19.1%
Gas turbines and generators	114	105	107	128	3.7%	153	195	247	304	25.8%
Other	29	28	27	32	3.4%	34	37	48	70	26.7%
Total net sales	**1,155**	**1,083**	**1,090**	**1,276**	**3.4%**	**1,493**	**1,744**	**2,041**	**2,337**	**16.1%**

Source: Company Data, Foyil Estimates

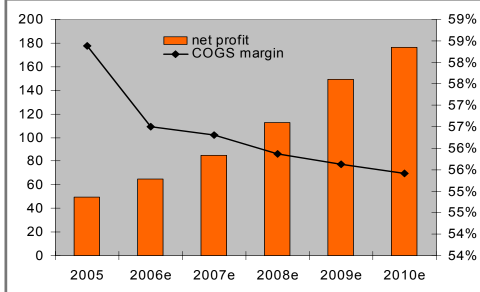
We expect consumer and medical products to become the fastest growing product group within the Company's net sales in 2007-2010 (27% CAGR), which will increase its share within the total net sales from 2.5% in 2006 to 3.0% in 2010 (see chart 5). As a result of the growth of sales of turbine blowers and electricity generators at 26% CAGR in 2007-2010, their share in the Company's total sales will grow from 10% in 2006 to 13% in 2010. The net sales of engine maintenance and repair services should grow at 19% CAGR in 2007-2010, which will raise their share in the total net sales from 35% in 2006 to 37% in 2010. We expect the net sales of aircraft engines to grow at 13% CAGR in 2007-2010, but their share of the total sales will drop from 35.5% in 2006 to 34.6% in 2010. The share of helicopter engines in the total sales should drop from 17% in 2006 to 12.4% in 2010 due to the slower-than-average growth of sales of helicopter engines in 2007-2010 (8% CAGR).

We expect that the budget of Motor Sich's program for modernization of manufacturing and management processes will amount to UAH 423m over 2007-2010. As a result, Motor Sich should cut the COGS margin from 58.4% in 2005 to 56.3% in 2007 and 55.4% in 2010, which will be the main driver of the Company's profits. We expect that this will become possible thanks also to the Company continuing to abstain from transfer-pricing and other tax evasion schemes in light of tightening tax authority monitoring. The forthcoming European share placement and the subsequent acquisition of Motor Sich's 51% stake by a Russian consortium will be strong factors in raising the transparency of the Company's financials, because the majority shareholder needs to raise the Company's value, as will the higher management standards of the prospective strategic owner.

Net profit to grow by 28% CAGR over 2007-2010

Motor Sich should raise its administrative expenses by 20% CAGR in 2007-2010 to ensure higher standards of administration in the environment of growing white-collar salaries. We expect the Company to raise sales and marketing expenses by 18% CAGR in 2007-2010 in order to intensify its domestic and international sales and marketing efforts. This will happen despite the 10% drop in marketing expenses in 2007 as a result of the creation of the Ivchenko Corporation. However, thanks to the decline of the COGS margin and the synergies arising from the creation of the Ivchenko Corporation with the Progress R&D bureau, we expect Motor Sich's EBITDA to grow at 16% CAGR over 2007-2010 and net profit to grow at 28% CAGR over the period and reach UAH 456m and UAH 176m in 2010. The EBITDA margin should grow from 18.8% in 2005 to 19.5% in 2010 and the net income margin from 4.5% in 2005 to 7.6% in 2010.

Net profit (UAH m) and COGS margin (%)



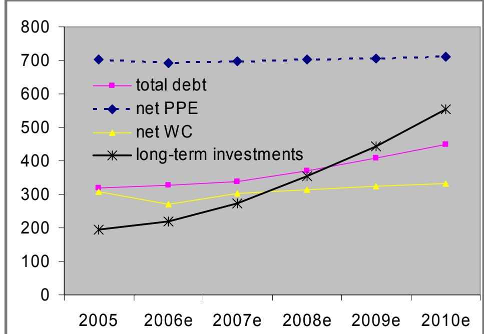
Source: Company, Foyil Estimates

BALANCE SHEET

In 2007-2010 Motor Sich will fund a CAPEX program, net working capital growth and investment in a JV with Volga-Dniepr

We expect Motor Sich's assets to grow at 7.5% CAGR over 2007-2010. The main use of the Company's funds should be the modernization program, whose budget will amount to UAH 423m over 2007-2010, to keep CAPEX above depreciation by 4.5% on average annually, which the Company will need to renovate its fixed assets. Another major use of funds will be Motor Sich's long-term investments into the JV with Volga-Dniepr, which we estimate at UAH 335m over 2007-2010. We expect the Company's working capital to grow by UAH 61m over the period, presenting the third major use of funds.

Total debt and use of funds, UAH m



Source: Company, Foyil Estimates

The growth of assets should be financed in particular by the Company's retained earnings, which will increase on the back of the rising net profit and despite the forecast increase of dividend payments. In particular, we expect the dividend payout ratio to stay at 15% over 2007-2010, which will raise the DPS from an estimated UAH 3.1 in 2006 to UAH 12.7 in 2010. We also expect the Company to increase its use of short-term debt financing. The rising debt financing should raise the Company's net debt-to-equity ratio from the estimated 12.5% in 2006 to 18.8% in 2010. This will raise the Company's interest expense, although the growth will be softened by a decline in the cost of debt. As a result, the interest expense will rise at 3% CAGR over 2007-2010.

Motor Sich — UAH Financial Statements

Income Statement

UAH m	2004	2005	y-o-y chg	2006e	2007e	5 yr est	CAGR %
Net Sales	1,083	1,090	1%	1,276	1,493	2,337	16.5
COGS less depreciation	(603)	(637)	5%	(721)	(840)	(1,295)	15.3
Administrative & selling expense	(247)	(215)	(13%)	(293)	(343)	(555)	20.9
Other operating expense	(65)	(34)	(48%)	(17)	(19)	(31)	(1.8)
EBITDA	167	205	23%	245	291	456	17.3
Depreciation expense	(88)	(90)	3%	(93)	(98)	(104)	3.0
Profit from operations	79	115	45%	152	192	352	25.0
Net financial inc / (exp)	(19)	(25)	28%	(36)	(37)	(41)	10.4
Non-operating income/ (exp)	11	(4)	nm	(1)	(6)	(12)	22.6
Profit before tax	71	86	22%	114	149	299	28.3
Tax payments	(17)	(37)	119%	(49)	(64)	(123)	27.4
Net income	54	49	(8%)	65	85	176	29.0

Cash Flow Statement

Cash Flow Statement	2004	2005	y-o-y chg	2006e	2007e	5 yr est	CAGR %
Net income	54	49	(8%)	65	85	176	29.0
Depreciation	88	90	3%	93	98	104	3.0
(Increase) in NWC	16	2	(90%)	35	(31)	(10)	N.M.
Operating cash flows	158	141	(11%)	194	152	271	13.9
(Increase) in PP&E	(98)	(86)	(12%)	(95)	(97)	(103)	3.7
Capital expenditures	(5)	(4)	(20%)	(5)	(5)	(6)	8.4
Borrowing/(Repayment)	(55)	(53)	(3%)	(7)	(11)	(41)	(5.1)
Dividends announced	(2)	(3)	13%	(7)	(13)	(26)	57.9
Net change in cash	(2)	(4)	127%	81	26	95	N.M.
Cash earnings	142	139	(2%)	159	183	281	15.0

Per Share Data

Per Share Data	2004	2005	y-o-y chg	2006e	2007e	5 yr est	CAGR %
Shares Outstanding, m	2.08	2.08	0%	2.08	2.08	2.08	0.0
Nominal value (UAH)	135	135	0%	135	135	135	0.0
EPS	25.6	23.8	(7%)	31.4	40.7	84.9	29.0
CEPS	68.2	67.1	(2%)	76.4	88.0	135.1	15.0
DPS for previous year	0.00	1.15	N.M.	1.30	3.14	10.79	56.5
Book value per share	629	651	4%	680	715	894	6.5

Ratio Analysis

Ratio Analysis	2004	2005	Hist Avg	2006e	2007e	5 yr est	Est. Avg %
EBITDA margin	15.4%	18.8%	17.1%	19.2%	19.5%	19.5%	19.4%
Operating margin	7.3%	10.5%	8.9%	11.9%	12.9%	15.0%	13.3%
Net income margin	5.0%	4.5%	4.8%	5.1%	5.7%	7.6%	6.1%
Asset turnover	0.56	0.53	0.55	0.56	0.63	0.78	0.66
Return on Assets	2.80%	2.40%	2.60%	2.85%	3.56%	5.89%	4.10%
Leverage	1.47	1.52	1.50	1.62	1.60	1.61	1.61
Return on Equity	4.07%	3.65%	3.86%	4.61%	5.70%	9.50%	6.60%

Balance sheet

UAH m	2004	2005	Common Size 2004%	Common Size 2005%
Assets				
Cash & cash equivalents	48	72	2.5%	3.5%
Accounts receivable	61	112	3.2%	5.4%
Inventories	669	708	34.8%	34.4%
Receivables from budget	13	15	0.7%	0.7%
Other current assets	145	120	7.5%	5.8%
Total current assets	935	1,027	48.6%	49.9%
Property, plant and equipment	645	703	33.5%	34.2%
Investments	195	194	10.2%	9.5%
Intangible assets	1	3	0.0%	0.2%
Other non-current assets	148	129	7.7%	6.3%
Total Assets	1,924	2,057	100.0%	100.0%
Liabilities & Stockholders' Equity				
Accounts payable	117	108	6.1%	5.2%
Short-term debt	267	320	13.9%	15.6%
Prepaids	165	183	8.6%	8.9%
Salaries payable	0	2	0.0%	0.1%
Payables to budget	6	6	0.3%	0.3%
Other short-term liabilities	23	28	1.2%	1.4%
Long-term debt	0	0	0.0%	0.0%
Other long-term liabilities	40	56	2.1%	2.7%
Total shareholders' equity	1,306	1,354	67.9%	65.8%
Total liabilities & equity	1,924	2,057	100.0%	100.0%

Ratio Analysis

Ratio Analysis	2004	2005	2006e	2007e
Net debt (Cash)/Equity	16.8%	18.3%	12.5%	16.3%
Inventory turnover days	388	395	373	344
A/R turnover days	29	29	33	31
Current ratio	1.62	1.59	1.52	1.46
NWC/Sales	28.5%	28.1%	21.3%	20.3%
Enterprise Value	1,333	1,362	1,290	1,356
Net Debt (Cash)	219	248	176	242
Capital Employed	1,573	1,674	1,741	1,823

UAH/USD exchange rates

	2004	2005	2006e	5 yr est
Average exchange rate (IS)	5.31	5.12	5.05	5.05
Year-end exchange rate (BS)	5.30	5.05	5.05	5.05

Comments:

All 2004-2005 figures are originally presented in UAH, and are based on Ukrainian Accounting Standards. The US Dollar Financial Statements are derived by converting amounts in UAH Financial Statements into USD using the historical and projected currency exchange rates shown in the table above (Source: Bloomberg, Foyil Estimates).

Motor Sich — USD Financial Statements

Income Statement

USD m	2004	2005	y-o-y chg	2006e	2007e	5 yr est	CAGR %
Net Sales	204	213	4%	253	296	463	16.8
COGS less depreciation	(114)	(124)	9%	(143)	(166)	(256)	15.6
Administrative & selling expense	(47)	(42)	(10%)	(58)	(68)	(110)	21.2
Other operating expense	(12)	(7)	(46%)	(3)	(4)	(6)	(1.6)
EBITDA	32	40	27%	49	58	90	17.6
Depreciation expense	(17)	(18)	6%	(19)	(19)	(21)	3.2
Profit from operations	15	22	50%	30	38	70	25.4
Net financial inc / (exp)	(4)	(5)	33%	(7)	(7)	(8)	10.7
Non-operating income/ (exp)	2	(1)	nm	(0)	(1)	(2)	22.9
Profit before tax	13	17	26%	23	29	59	28.7
Tax payments	(3)	(7)	127%	(10)	(13)	(24)	27.8
Net income	10	10	(5%)	13	17	35	29.3

Balance sheet

USD m	2004	2005	Common Size 2004%	Common Size 2005%
Assets				
Cash & cash equivalents	9	14	2.5%	3.5%
Accounts receivable	11	22	3.2%	5.4%
Inventories	126	140	34.8%	34.4%
Receivables from budget	2	3	0.7%	0.7%
Other current assets	27	24	7.5%	5.8%
Total current assets	176	203	48.6%	49.9%
Property, plant and equipment	122	139	33.5%	34.2%
Investments	37	39	10.2%	9.5%
Intangible assets	0	1	0.0%	0.2%
Other non-current assets	28	26	7.7%	6.3%
Total Assets	363	407	100.0%	100.0%
Liabilities & Stockholders' Equity				
Accounts payable	22	21	6.1%	5.2%
Short-term debt	50	63	13.9%	15.6%
Prepaids	31	36	8.6%	8.9%
Salaries payable	0	0	0.0%	0.1%
Payables to budget	1	1	0.3%	0.3%
Other short-term liabilities	4	6	1.2%	1.4%
Long-term debt	0	0	0.0%	0.0%
Other long-term liabilities	7	11	2.1%	2.7%
Total shareholders' equity	246	268	67.9%	65.8%
Total liabilities & equity	363	407	100.0%	100.0%

Cash Flow Statement

Cash Flow Statement	2004	2005	y-o-y chg	2006e	2007e	5 yr est	CAGR %
Net income	10	10	(5%)	13	17	35	29.3
Depreciation	17	18	6%	19	19	21	3.2
(Increase) in NWC	3	0	(89%)	7	(6)	(2)	N.M.
Operating cashflows	30	28	(7%)	38	30	54	14.3
Purchase of PP&E	(18)	(17)	(9%)	(19)	(19)	(20)	4.0
Capital expenditures	(1)	(1)	(17%)	(1)	(1)	(1)	8.7
Borrowing/(Repayment)	(10)	(10)	1%	(1)	(2)	(8)	(4.9)
Dividends paid	(0)	(1)	17%	(1)	(3)	(5)	58.3
Net change in cash	(0)	(1)	135%	16	5	19	N.M.
Cash earnings	27	27	2%	31	36	56	15.3

Per Share Data

Per Share Data	2004	2005	y-o-y chg	2006e	2007e	5 yr est	CAGR %
Shares Outstanding, m	2.08	2.08	0.00	2.08	2.08	2.08	0.0
Nominal value (USD)	25.42	26.37	4%	26.73	26.73	26.73	0.3
EPS	4.8	4.6	(4%)	6.2	8.1	16.8	29.4
CEPS	12.8	13.1	2%	15.1	17.4	26.7	15.3
DPS for previous year	0.00	0.23	N.M.	0.26	0.62	2.14	56.5
Book value per share	119	129	9%	135	142	177	6.5

Ratio Analysis

Ratio Analysis	2004	2005	2006e	2007e
Net debt (Cash)/Equity	16.8%	18.3%	12.5%	16.3%
Inventory turnover days	388	391	373	344
A/R turnover days	29	29	33	31
Current ratio	1.62	1.59	1.52	1.46
NWC/Sales	28.5%	28.5%	21.3%	20.3%
Enterprise Value	251	270	255	269
Net Debt (Cash)	41	49	35	48
Capital Employed	297	331	345	361

Ratio Analysis

Ratio Analysis	2004	2005	Hist Avg	2006e	2007e	5 yr est	Est. Avg %
EBITDA margin	15.4%	18.8%	17.1%	19.2%	19.5%	19.5%	19.4%
Operating margin	7.3%	10.5%	8.9%	11.9%	12.9%	15.0%	13.3%
Net income margin	5.0%	4.5%	4.8%	5.1%	5.7%	7.6%	6.1%
Asset turnover	0.56	0.52	0.54	0.56	0.63	0.78	0.66
Return on Assets	2.80%	2.37%	2.58%	2.85%	3.56%	5.89%	4.10%
Leverage	1.47	1.52	1.50	1.62	1.60	1.61	1.61
Return on Equity	4.07%	3.60%	3.83%	4.61%	5.70%	9.50%	6.60%

UAH/USD exchange rates

	2004	2005	2006e	5 yr est
Average exchange rate (IS)	5.31	5.12	5.05	5.05
Year-end exchange rate (BS)	5.30	5.05	5.05	5.05

Comments:

All 2004-2005 figures are originally presented in UAH, and are based on Ukrainian Accounting Standards. The US Dollar Financial Statements are derived by converting amounts in UAH Financial Statements into USD using the historical and projected currency exchange rates shown in the table above (Source: Bloomberg, Foyil Estimates).

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Sales Direct: +380-44-537-7573
General Line: +380-44-537-7575
Fax: +380-44-537-7574
fsne@foyil.com

8 Illinska Street,
Entrance Two
04070 Kyiv, Ukraine
www.FOYIL.com