

INTO THE IPO MARKET



CHAMBER BOARD MEMBER AND MANAGING PARTNER OF PRICEWATERHOUSECOOPERS, BORIS KRASNYANSKY, COMMENTS ON RAISING FUNDS FOR UKRAINIAN COMPANIES AS IPOs

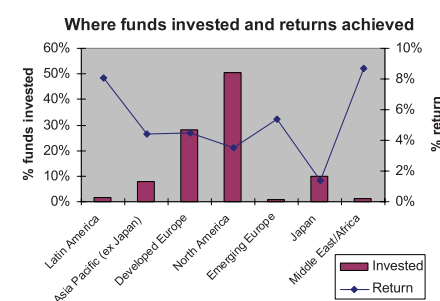
What are the additional benefits from IPOs?

The inflow of foreign investors brings several additional benefits that cannot be readily quantified, for example investors will want greater transparency, both financial and business ethics, consistent application of laws and taxation, and protection of property rights. These form the backbone of sustained stable economic growth and further progress in these areas can only assist in Ukraine's integration into the world economy. Foreign listings are often accompanied by foreign management, which also brings new business practices and innovative ideas and technologies, and more importantly question the historic business practices that local management take for granted.

However, an IPO is only one of several financing options. The Ukrainian markets are still evolving, other avenues including debt finance and strategic partnerships, have yet to be exhausted. An IPO is the most onerous method of attracting finance, especially if management are not accustomed to the level of scrutiny/transparency that being a public company entails. A strategic investor or venture capitalist may provide the short-term local expertise to maximize the value of the business before listing.

Which Exchange? The trend in which to access stock exchanges has been leaning towards the European (London) markets. Given the limited activity in Ukraine, we can look to the Russian markets. As an example, the early listings, e.g. VimpelCom, Tatneft, Rostelecom and more recently Mechel and Wimm-Bill-Dann were all in the United States, however since 2004 there have been no Russian companies listing in the US. While since 2005, the London markets has seen 12 Russian companies list including Sistema, Severstal, Pyaterochka, Evraz Holding, Rambler Media, Novatek, Urals Energy, Amtel, Novolipetsk Iron Company, Comstar, Cherkizovo and Rosneft.

The most common reasons cited by CIS companies and advisors as to why London is the preferred listing location include 1) its



proximity, 2) London is more in tune to emerging markets and the CIS 3) it is the most active market in Europe, and 4) the real and perceived burdens of Sarbanes Oxley if listing in the United States. There is no doubt that the increased financial and regulatory compliance required for a US listing is making this market less attractive to foreign companies. Furthermore the London market has been more proactive in encouraging AIM and Global Depository Receipts (GDRs) as alternative investment strategies. These alternative listings have less stringent compliance requirements and provide a company with the opportunity to experience life as a public company before transitioning to a full listing.

Which industry segment is most likely to list?

As can be seen from the above list of public companies, there is no single industry segment that is more likely to access foreign capital markets. However, the consumer and services sectors given Ukraine's 48 million population, the energy and resources sector, given Ukraine's wealth of natural resources, and the telecoms and technology sectors are traditionally the most likely to present an investment story that would attract foreign investors. While, manufacturing, construction and banking sectors are more likely to utilize other methods to raise financing.

Many companies have publicly announced their intention to access foreign markets including Systems Capital Management, Industrial Union of Donbas, Poltava GOK, Galnaftogas, Soyuz Vician, and others. ■

In February 2005, Ukrproduct, a Ukrainian dairy producer, raised nearly \$9 million on the Alternative Investment Market (AIM) in London and became the first Ukrainian entity to obtain a foreign listing. This was soon followed by Cardinal Resources, an oil and gas exploration company raising \$20 million and XXI Century, a real estate developer and property manager, which raised almost \$140 million by floating 32% of the company. Astarta, a sugar producer, became listed on the Warsaw Stock Exchange in 2006. These successful listings have increased the appetite of both investors and owners to access the IPO market.

What is driving the IPO market?

Investor confidence has grown following the Orange Revolution, the more progressive government policies, potential accession into the WTO and EU, the re-privatization of Kryvorizhstal and the acquisition of many banks by foreign investors. In isolation, these factors may have been ignored, however in unison they are having an exponential impact on investor confidence. Furthermore, investors look at the success of the Russian and other CIS markets and understand the untapped potential that Ukrainian companies have to offer.

As shown in the table below, very little capital is invested in the Emerging Europe markets, however the growth these markets have achieved over the last several years, means this market cannot be ignored. The Ukrainian KP Dragon index has grown 31% year to date November 2006.