Research, Trading, IB, Asset Management

Ukraine/Machinery

July 28, 2010

Motor Sich: Ready For Flight

Motor Sich [MSICH], a leading CIS aviation engine manufacturer, is well poised to participate in an improving growth outlook for the CIS aerospace industry. While MSICH's industry position and growth prospects are particularly strong, in our opinion, its stock has yet to reflect the company's exceptional outlook. NRG rates the MSICH stock a BUY with an appreciation-target of 73% over the next 12 to 18 months.

Motor Sich is a dominant aviation engine manufacturer, with a 25% market share of the global helicopter fleet, as well as 10% of the world's fixed-wing aircraft market. While Russia remains MSICH's principal client, the Company has also made substantial sales inroads into China, Middle East and India.

MSICH's 2005-2009 CAGR in sales was 21%, and we estimate CAGR for 2010-2018 to expand at a mid-teen pace. The Company's sales growth will benefit from the improved relations with Russia and the launch of multiple new Ukraine-based programs (including the restart of production of the world's largest airplane, the An-124 "Ruslan" and the highly competitive cargo airplane, the An-70). Another substantial source of cash flow is the engine repair and modernization market. During the Soviet era, MSICH produced nearly a third of all engines, many of which are still in service, and are in dire need of upgrade and service. MSICH enjoys strong margins in this segment and there's no serious risk of profitability erosion, given the Company's incumbent product positions, inexpensive labor force and the benefits bestowed by the existing economies of scale.

Company's 1Q 2010 results demonstrate, the record high EBITDA and net margins (31% and 21%, respectively), were propelled by the increasing revenues, in a well cost-controlled environment. Moreover, given that MSICH's **capacity utilization is only 30%**, the top-line growth will disproportionately benefit the Company's operating profitability. **This offers ample opportunity for further upside earnings surprises**.

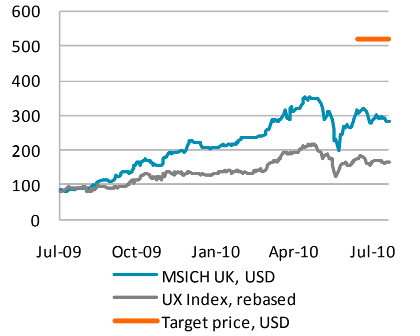
We also view the downside risk in MSICH stock as limited, and well worth exposure, given the huge upside potential. The improvement in Russo-Ukrainian relations and closer integration of the Ukrainian and Russian aerospace industries over the next years, vastly improves the domestic aviation industry's outlook. As an example of the Russo-Ukrainian rapprochement, the Russian President Medvedev had already ordered two An-148 with MSICH engines for his fleet of aircraft. During the turbulent 2008-2009 time-frame, MSICH exhibited exceptional resilience to the economic downdrafts. The Company's sales grew by 15% in 2009, while MSICH's gross margin also improved, reflecting largely effective cost management, but also partly as a result of hryvnia's devaluation.

MSICH deserves a premium valuation, given its relative immunity to the global economic volatility. As reflected in the Company's current order backlog, the production of aviation engines will remain on the rise, and should further benefit from growth in the developing countries. **The MSICH stock appears inexpensive relative to its peer group, and NRG valuation analysis yields a target price 73% above the current level.**

BUY

UX	MSICH
Bloomberg	MSICH UK Equity
Target price, USD	522
Current price, USD	302
Upside, %	73%

Market data



Stock information**

Market price, USD	302
Shares outstanding, mn	2.08
Market cap, USD mn	623
EV, USD mn	671
Free float, USD mn	150
Free float, %	24%
Daily turnover, USD mn	0.38
Price Lo/Hi 12M, USD	86/353
Change from 12M Lo/High	253%/-14%

Ownership structure

Management	76%
Free float	24%

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Key financials

Year	Net sales, USD mn	EBITDA, USD mn	Net income, USD mn	EBITDA margin	Net margin	P/E	EV/Sales	EV/ EBITDA	Net debt, USD mn	Debt / Equity	Net debt / EBITDA
2008	391.5	33.4	0.7	8.5%	0.2%	853.7	1.7	20.1	76.4	0.36	2.6
2009	463.5	148.5	91.8	32.0%	19.8%	6.8	1.4	4.5	58.6	0.26	0.4
2010E	533.9	160.8	100.6	30.1%	18.8%	6.2	1.3	4.2	9.4	0.18	0.2
2011F	632.5	179.4	113.3	28.4%	17.9%	5.5	1.1	3.7	(54.0)	0.14	neg.
2012F	716.7	195.6	123.6	27.3%	17.2%	5.1	0.9	3.4	(122.2)	0.12	neg.

Valuation: +60% by Relative valuation, +100% by DCF valuation.

MSICH is trading at an **attractive 2010E EV/EBITDA and P/E multiples of 4.2 and 6.2, yielding an upside of approximately 70% and 130% respectively**, vis-à-vis its global peers. Thus, even discounting MSICH's exceptional growth prospects, the stock is undervalued basis.

Figure 1. Relative valuation

	Share Price, USD	MCap, USD mln	EV, USD mln	EV/S		EV/EBITDA		P/E		EBITDA margin	
				2010E	2011F	2010E	2011F	2010E	2011F	2010E	2011F
MSICH	**301.9**	**623**	**671**	**1.3**	**1.1**	**4.2**	**3.7**	**6.2**	**5.5**	**30.1%**	**28.4%**
Global peers											
MTU AERO ENGINES HOLDING AG	59.8	3 112	3 301	1.0	0.9	6.8	6.2	14.8	12.5	14.1%	14.7%
VECTOR AEROSPACE CORP	6.9	317	353	0.7	0.6	5.8	5.2	9.1	7.8	11.3%	12.0%
BOMBARDIER INC 'B'	4.6	8 052	9 482	0.5	0.5	5.8	6.2	10.8	12.7	8.4%	8.4%
BAE SYSTEMS PLC	4.8	16 517	15 647	0.5	0.5	3.9	3.9	7.3	7.4	11.9%	12.1%
UNITED TECHNOLOGIES CORP	67.0	62 544	70 594	1.3	1.2	8.1	7.4	14.4	12.7	16.1%	16.7%
BOEING CO	63.2	47 956	50 634	0.8	0.7	7.6	6.7	16.7	13.5	10.2%	10.6%
LOCKHEED MARTIN CORP	73.7	27 328	29 093	0.6	0.6	5.5	5.5	10.0	9.8	11.3%	11.0%
MEGGITT PLC	4.8	3 283	4 589	2.5	2.4	8.3	7.7	12.9	11.3	30.4%	31.4%
SAFRAN SA	25.8	10 768	10 260	0.7	0.7	6.5	5.4	18.3	13.1	11.5%	13.1%
ZODIAC AEROSPACE	56.9	3 179	4 060	1.5	1.4	11.8	9.3	21.0	14.8	12.6%	14.6%
SICHUAN CHENGFA AERO-SCIEN-A	2.8	370	438	2.6	2.5	19.7	17.6	42.1	34.8	13.2%	14.5%
Global peers, median				**0.8**	**0.7**	**6.8**	**6.2**	**14.4**	**12.7**	**11.5%**	**12.1%**
				2010E	2011F	2010E	2011F	2010E	2011F		
Upside				-41%	-36%	67%	71%	132%	129%		
Fair price, USD				179	195	505	517	699	691		
Weights				**16.7%**	**16.7%**	**16.7%**	**16.7%**	**16.7%**	**16.7%**		
Fair price, USD			**464.2**								
Current price, USD			**301.9**								
Upside			**53.8%**								

Source: Bloomberg, NRG Capital

Our **DCF-valuation, which includes incremental growth opportunities, resulted in MSICH's stock's fair price of USD 579, implying an upside of nearly 100%** . Our ultimate "fair price" analysis, which incorporates the averages between multiple approaches, suggests a price target of approximately USD 522, implying an upside of nearly 75%.

Figure 2. DCF-valuation

USD mln	2010E	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F
FCF to Firm	**70**	**76**	**90**	**95**	**101**	**138**	**166**	**180**	**213**
EBIT	145	161	174	201	247	267	282	284	288
Income tax rate	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*
- Tax	(34)	(38)	(41)	(48)	(59)	(64)	(67)	(68)	(69)
+ Depreciation	16	19	21	24	28	32	36	41	46
- CapEx	(29)	(33)	(38)	(45)	(52)	(61)	(66)	(71)	(46)
- WC need	(28)	(33)	(25)	(38)	(62)	(35)	(19)	(6)	(7)
WACC	**13.8%**	**13.9%**	**13.9%**	**13.4%**	**13.4%**	**13.4%**	**13.4%**	**13.0%**	**13.1%**
Discount factor	0.88	0.77	0.68	0.60	0.53	0.46	0.41	0.36	0.32
FCFF Discounted	**62**	**59**	**61**	**57**	**53**	**64**	**68**	**65**	**68**

WACC to perpetuity	13.0%
Sum of FCF	***558***
Terminal growth rate	3.0%
Terminal value	2125
NPV of TV	**681**
TV contribution to EV	55%
EV	**1239**
Less Net Debt	**43**
Equity value	**1196**
Current Mcap	**623**
Fair share price, USD	**579.1**
Current price, USD	**301.9**
Upside	**91.8%**

Sensitivity analysis

Terminal growth rate

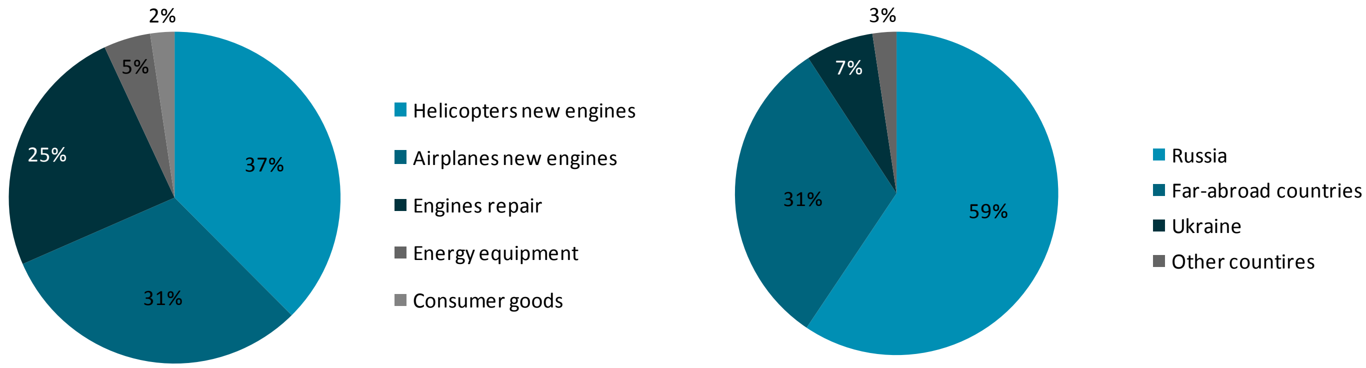
	USD per share	**1.0%**	**1.5%**	**2.0%**	**2.5%**	**3.0%**
WACC to perpetuity	**11.5%**	596.5	615.8	637.3	661.6	689.1
	12.0%	579.1	596.5	615.8	637.3	661.6
	12.5%	563.4	579.1	596.5	615.8	637.3
	13.0%	549.1	563.4	**579.1**	596.5	615.8
	13.5%	536.1	549.1	563.4	579.1	596.5
	14.0%	524.1	536.1	549.1	563.4	579.1
	14.5%	513.1	524.1	536.1	549.1	563.4

Source: Bloomberg, NRG Capital

Company overview

Motor Sich is one of the preeminent aviation engine manufactures in CIS, with a 100-year history and an extremely high market-share penetration in the region (90% of mid-weight and heavy-weight helicopters and 60% of fixed wing-aircraft). The Company's revenues from new engines sales account for approximately two-thirds of total. Reflecting a huge installed base of the previously-delivered engines, there is a stable demand for aviation repair services, spare parts, upgrades and maintenance. While this "aftermarket" segment generates nearly a quarter of MSICH's revenues, it enjoys much higher operating margins than new-engine sales. The Russia-based operations are responsible for a significant part of sales, including marketing to foreign markets, with a major emphasis on China, India, UAE and other middle-eastern regions.

Figure 3. MSICH's sales breakdown by sources and markets



Source: Company data, NRG Capital

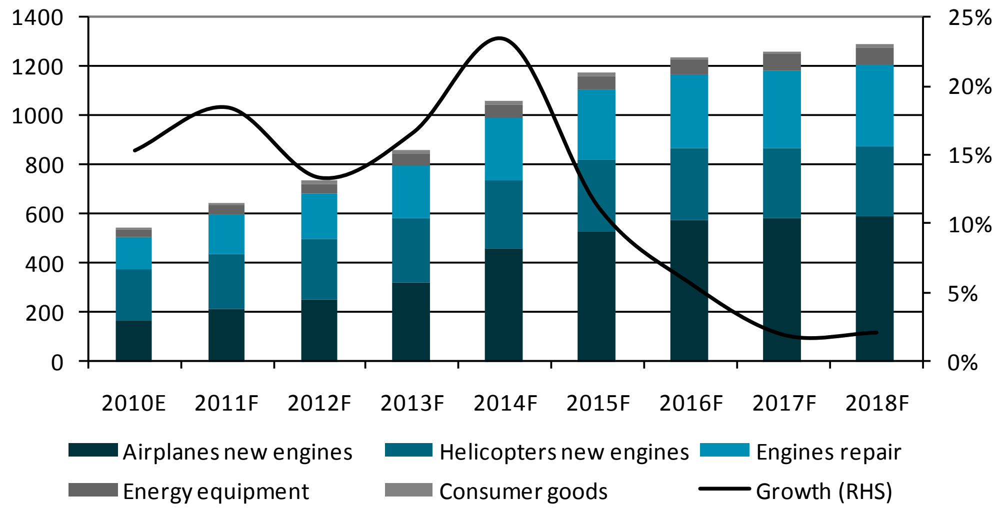
SWOT analysis

Strengths	**Weaknesses**
• The world-wide reputation for technical excellence • Dominant market position • Excellent price/quality position; cost/effectiveness of engines • Diversification of the revenues sources • Robust balance sheet, with low debt; high operating margins • Highly experienced staff	• The necessity of regular/high R&D and CapEx • Occasional shortages of young technical talent • Limited domestic market
Opportunities	**Threats**
• Participation in a number of new Russian-Ukrainian projects • Increasing of the capacity utilization rate would disproportionally boost profitability • Further diversification of the product line • Further diversification of geographic markets, based on cost-effective products	• Start-up of several helicopters engines companies in Russia • An increase in competition from American and Chinese companies, both potentially a long term issue • Possible funding/production delays on An-124 and An-70 programs

Sales: CAGR of 21% in 2005-2009, expected CAGR of 12% in 2010E-2018E

During 2005-2009 timeframe, the Company has more than doubled its sales, posting CAGR of over 20%. Our conservative estimates call for MSICH's sales to show 2010-2018 CAGR of at least 12%. This growth would be propelled by the gradual expansion of revenues in the helicopter markets and stronger lift in revenues from the fixed-wing aircraft engines, mostly owing to increasing "An" aircraft deliveries.

Figure 4. MSICH's net sales forecast, USD bn



Source: Company data, NRG Capital

Our conservative estimates reflect and assume the following:

• **Helicopter engines**: currently nearly 70% of all Russian new helicopters are equipped with MSICH's engines. Based on the existing order backlog, expected program funding and the likely foreign sales, we expect a low to mid-teen double digit revenue growth, reaching USD 0.3 bn by 2018, up from USD 0.2 bn in 2009.

• **Cargo aircraft**: The cargo aircraft programs with the greatest potential for MSICH's engines are the An- 124 and the An-70. The global demand for An-124's over the next 20 years is estimated at over 100. The An-70 is a highly versatile four-engine medium distance transport aircraft for use in any climate and weather conditions. We estimate this segment will generate USD 1.3 bn in revenues for MSICH over the next 9 years.

• **Passenger aircraft**: The best-seller An-148/158 is potentially the principal aircraft for the rapidly developing regional airlines for routes within the CIS. At the recent Farnborough Airshow there was a firm order for 20 aircraft, with 12 additional options, from a customer. The An-140 is another small regional aircraft, which appears especially successful in the Middle East markets. We expect MSICH's revenues from this segment over the decade to exceed USD 1.5 bn.

• **Light fighter jets**: The supersonic Yak-130, and the Chinese Yak-130 derivative, the L-15, are both significant MSICH's customers in the segment. Both airplanes are relatively new and because of their perceived cost-effectiveness, and home-based large captive markets, have a huge market potential. Furthermore, Russians need to replace its outdated trainers, while the Chinese plan to substantially expand its fighter-jet training fleet. We expect the MSICH's revenues from the segment to be exceed USD 1.0 bn by 2018.

• **Engine service and repair**: MSICH had delivered more than 30,000 aviation engines, the majority of which are still in use. This segment, as is the case with its western counterparts, is a terrific cash flow generator for the market suppliers, such as MSICH.

The subsequent pages introduce our view at the MSICH's sales, by each segment.

Helicopter engines: a stable gravy train

MSICH is the largest helicopter engines producer in the CIS, by far. Almost all of its new engines are supplied to the JSC Russian Helicopters (government-owned holding company that includes all helicopter manufacturing plants in **Russia), which equips nearly 70% of all of its new helicopters with MSICH's products**. The helicopter engines historically were, and continue to be, a stable cash flow generator for MSICH. NRG estimates the segment's sales account for nearly a third of all MSICH's 2010E revenues.

Currently **Russian helicopter production industry is experiencing a robust recovery**, after the severe decline in the Nineties, and a relative flatness in the first half of the past decade. According to Russian government sources, the "Program for helicopter sector development," **Russia (Russian Helicopter, as a whole) will increase the annual production to 500 helicopters by 2015, up from 183 in 2009**. This would translate into boosting its world's helicopter market share to 15%, up from the current 5%. The estimate is not unreasonable given the pipeline of new cost-effective products, and the fact that in the Eighties Russia owned 25% share of the world's helicopter market. The current and future demand for helicopters will be driven by:

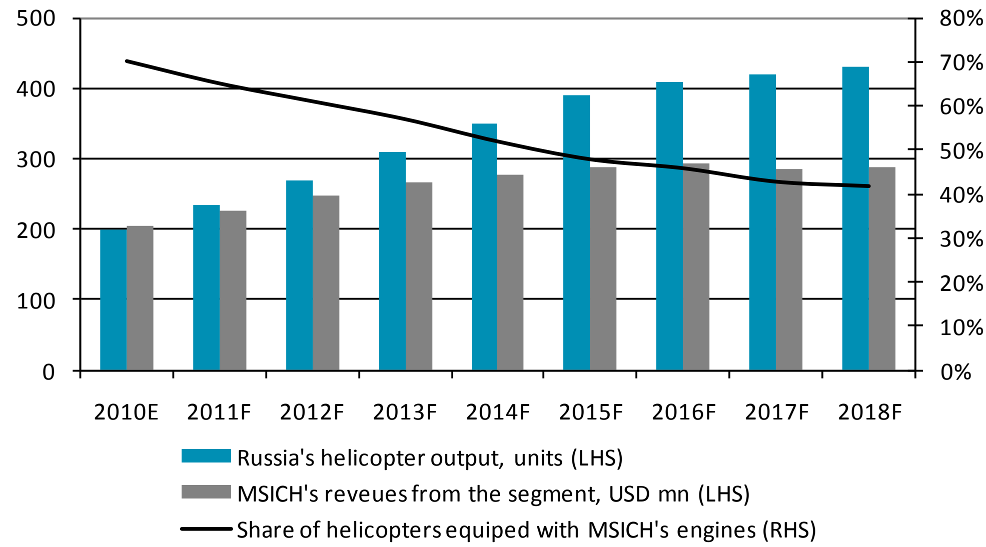
- **low penetration** of helicopter usage (14 helicopters per 1 mn of persons for Russia vs. 39 helicopters per 1 mn of persons in USA), and the rapidly rising incomes among the CIS and other developing regions;
- **severe aging of the Russian helicopter fleet**. Some 90% of Russian helicopters in service are more than 20 years old, and 25% – more than 30 years of age.

In our model, we conservatively expect the numbers of helicopters being produced to reach only 390 by 2015, which is still more than twice-larger than the 2009 output of 183 helicopters.

MSICH's best-selling engine, the TV-117VM, and its modification kit (including VK-2500), is being installed in most Russian helicopters. At this time, there are no competing alternatives for this product. Each helicopter comes equipped with two engines, priced at USD 600,000 per unit.

Although **at the moment Russia does not have its own production-ready alternative for helicopter engines** (more about Russian plans to launch own helicopters engines production on page 9), we fully reflect the risks of MSICH's engines partial substitution by Russian products. Consequently, we assume a declining market share for helicopters equipped with MSICH's engines, from the current 70%, to approximately 42% in 2018E.

Figure 5. Russia's helicopters output and MSICH's revenues



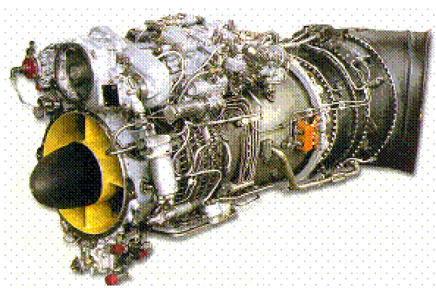
Source: Company data, NRG Capital

Mi-8,

Mi-24,

Ka-50...

... and a list of other Russian Helicopters are equipped with MSICH's TV-117VM engine.



Cargo planes: A giant reawakens

In the cargo-aircraft segment, the two **most-promising programs for MSICH are: the An-124 and the An-70. The An-124-100 ("Ruslan") is the second largest airplane in the world**, second only to another Antonov product – the behemoth An-225 ("Mriya"). An-124 is a one-of-a-kind aircraft, with a payload of 150 thd kg (330 thd lb). Before the airplane production was halted in the Nineties there were only 56 units delivered. Currently, the major An-124 operators are the Russian military and a Russian cargo carrier, the "Volga-Dnepr." The airplane is produced jointly by Ukraine and Russia, with **MSICH's as the exclusive supplier of the unique D-18T engines.**

An-124-100 "Ruslan"

According to Russian government sources, the **Ruslan production will be resumed in 2012**. The Russian military has expressed its intent to purchase **20 additional aircraft by 2020**. The Volga-Dnepr also intends to purchase **30 Ruslans over the next 20 years**. According to the Volga-Dnepr's CEO, the world-wide demand for the aircraft in the next 20 years will stand at over 100 airplanes. NRG conservatively expects the Ruslan production to be resumed only in 2013, with one aircraft delivered that year. We further expect the Ruslan's output to increase to 5 platforms per year by 2018, which we believe is conservative, given the rapidly growing demand for shipping of extra-large freights.

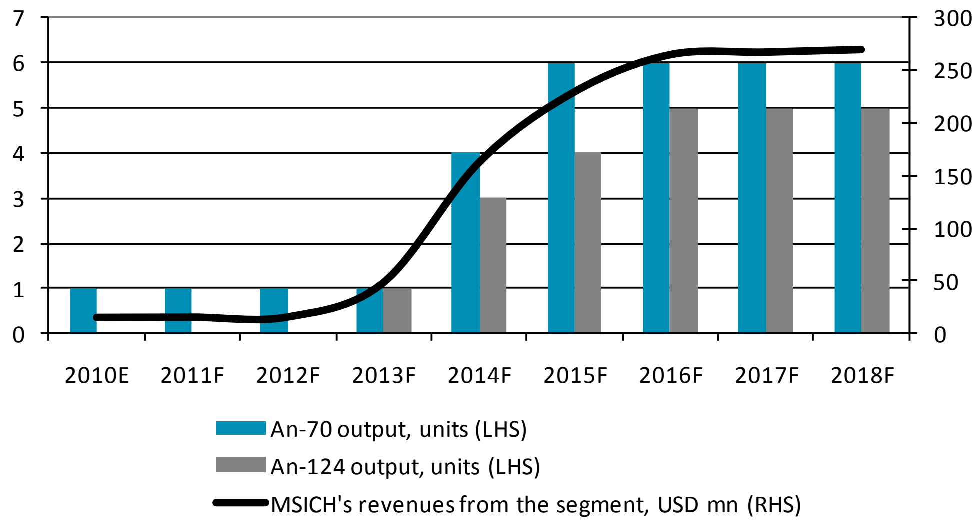
Despite low production volumes, the project offers excellent revenue prospects for MSICH. Ruslan is customarily equipped with 5 engines (one is a reserve); each costing USD 7 mn. Thus, production of even one aircraft per year would contribute approximately USD 35 mn of incremental revenues to MSICH, the exclusive supplier of engines for An-124.

The Antonov An-70 is the next-generation, four-engine medium-distance transport aircraft (with a payload of 47 metric tons), and is the **first large aircraft to be powered by propfan engines.** The aircraft is a **highly versatile military and transport aircraft, suitable for use in any climate and weather conditions, with capability to take-off from even 600 m runways**, in large part **due to** its extra-powerful and efficient **MSICH`s D-27T engines**.

An-70

The Ministries of Defense of the Ukraine and Russia are currently planning to replace the ageing An-12 fleet, which are of 1960s design-vintage, with the new An-70s. The Deputy Minister of Defense for Russia - V. Popovkin – stated that the Russian military is interested in purchasing at least 60 An-70's over the next ten years. According to Antonov's principal designer Mr. D. Kiva, both the An-124 and An-70 platforms will likely see production starts in 2010/2011.

Figure 6.An-70 and An-124 output, MSICH's sales



Source: Company data, NRG Capital

Passenger planes

In the passenger-aircraft segment, there are two promising projects: the **An-148/158** and the **An-140**.

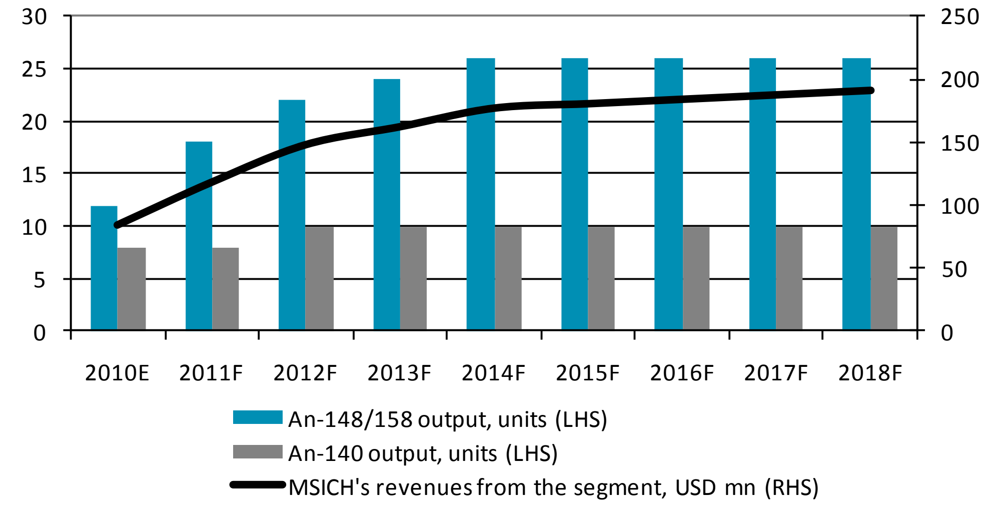
An-148

The **An-148** and its upgraded version, the **An-158**, with an enlarged capacity of **99 passengers, are both equipped with MSICH's engine D-436-148**. The An-148/158 are relatively new and fully-certified aircraft (the production was launched in 2007); and address the rapidly developing regional routes within the CIS. At a highly competitive price of only USD 25 mn, the aircraft represents a very attractive passenger-ferrying platform for the CIS-oriented airlines. This airplane is able to take off from practically any airport runway, in any adverse weather conditions (from +50 to -52 C). Currently, the list of **potential customers expressing interest in the aircraft** is very long, and growing. **These include, the Government Carrier "Russia", Illyushin Finance Company, Iranian air carriers, Administration of Russian and Bolivian Presidents**. At the recent Farnborough International Airshow (July 2010), Illyushin Finance Company placed **10 firm orders and 10 options for the new An-158**, while VEB-leasing placed **10 firm orders and two options at An-148**.

An-140

The Antonov **An-140** is a relatively new turboprop regional airliner (first flown in September 1997), with a capacity of 52 passengers. Apart from the main production line in Ukraine and Russia, the **aircraft is also manufactured under license in Iran** (as Iran-140). The airliner is **equipped with MSICH's venerable TV3-117 WMA-SBM1 engine**. Currently, Antonov manufactures approximately 19 an-140's per year.

Figure 7.An-148/158, An-140 output and MSICH's sales



Source: Company data, NRG Capital

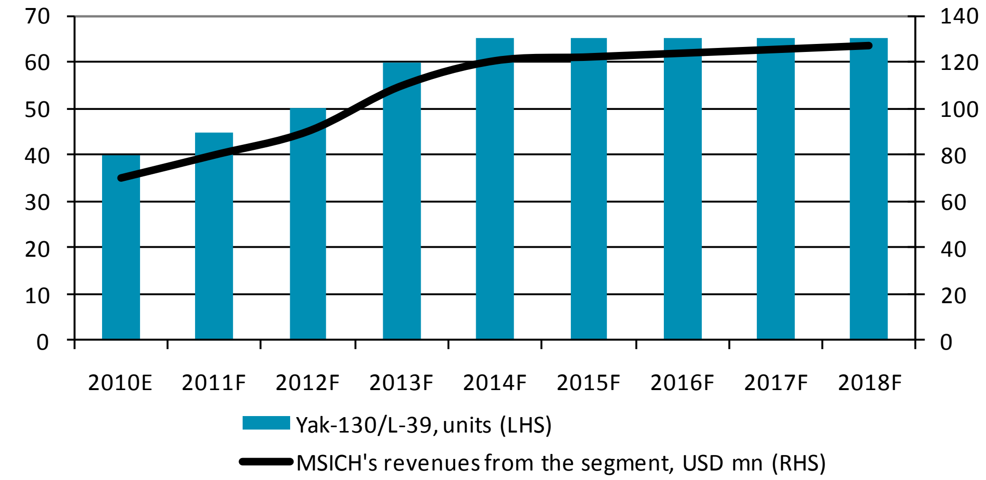
Light fighter jets

In the segment of military jet aircraft, MSICH's specializes in light and training jets. Currently, the most promising programs are Russia's new **Yak-130 jet fighter/trainer**, **and its Chinese-produced derivative, the L-15.** The Yak-130 is intended to replace the aging and outdated Russian-build L-29 and L-39 training jets, of which 5500 units were delivered. The jet is equipped with two **MSICH's AI-222-25 turbofan engines**, capable of producing max speed of 1050 km/h. Yak-130 flight was first flown in 1996, and the aircraft was introduced into full-production only in 2009. To date, Yak delivered 12 aircraft to Russian military, and there are approximately 60 more jets on order. The L-15 is the Chinese-derivative version of the Yak-130, which was developed under license and with assistance from the Yakovlev design bureau of Russia. In general, the main difference between the L-15 and the Yak-130, is the upgraded and more powerful engine, AI-222-25F, which allows the jet to reach a speed of more than 1500 km/h. The potential market for both jets is huge. Realistically, Russia must replace its dated trainer fleet, while China is expected to substantially expand its jet-trainer fleet.

Yak-130

L-15

Figure 8.Yak-130/L-39 output and MSICH's sales



Source: Company data, NRG Capital

Engine servicing and repair

During its history, MSICH had delivered nearly 30 thd aviation engines. **Approximately 90% of helicopters and 60% of the fixed-wing aircraft in use in CIS are equipped with MSICH's power-plants.** Taking into account this aging fleet, the potential engine-service market is massive. Given the MSICH's engine-product incumbency, in most cases, the Company enjoys a monopoly position on spare parts for its engines, and is an exclusive service/ maintenance provider. Unsurprisingly, this is a high margin activity for MSICH.

In our earnings model we assume the revenues from this sector to expand at a CAGR of 12% through 2018, reflecting, in part, the necessity to maintain, repair and modernize the ageing installed base.

Consumer goods

We expect the absolute volume of consumer goods sales, to stay at approximately the current level, thus contributing approximately 2% of annual revenues in the mid-term, and gradually declining to about 1%, as the other revenues grow substantially.

Risks: Downside risk in the stock is limited as most of the uncertainties are discounted in the current depressed valuation

The geopolitical risks have receded significantly after the 1Q/2010 elections. Given that more than 60% of MSICH's sales are into the Russian markets, the Company fortunes are sensitive to the Ukrainian-Russian relations. Since the 2004 "Orange Revolution" in Ukraine, the relations between Ukraine and Russia have deteriorated. Earlier in the decade, the Russian government had aimed to become self-sufficient in the production of aviation and military equipment, as a result of political friction. In fact, Mr. Putin had set forth an objective of launching a helicopter engine and missile-propelling plants in Russia, thereby gaining autonomy from Ukrainian suppliers. In January of 2008, Mr. Putin said that: "Russian aerospace engineering must be independent from Ukrainian political uncertainty." Thereafter, the Russian Government had initiated a helicopters engine development and production program, with an objective of becoming self-sufficient. Heretofore, the outside vendor situation had not changed and MSICH remains the paramount engine supplier to Russian customers, while the Russian potential competitors have yet to show material progress in launching indigenous helicopter engine products. **After the Ukrainian leadership-transformational elections in early 2010, there has been a dramatic shift in political climate between the two nations** regarding, among other things, cooperation in the aerospace markets. Ukraine and Russia are currently negotiating a greater integration of the nations' aerospace industries. **In June of 2010, the Prime Minister Putin stated that: "...Russia connect the prospect of further aerospace industry development with cooperation with Ukrainian partners … there are no alternatives of Russian and Ukrainian aerospace industries incorporating."** The political decision of greater integration of the aerospace industries between the two countries has been made, and currently the parties are resolving logistical and technical issues to facilitate greater cooperation. It appears obvious that under these circumstances, MSICH will remain the core engine supplier to Russian helicopters for the foreseeable future, while launching numerous joint projects (mainly related to "An's" production), which would create additional revenue sources for the Company. The MSICH's CEO Mr. V. Boguslaev stated recently that the Company would increase the output of helicopters engines in 2010 by at least 25% YoY.

The favorable outlook notwithstanding, in order to be ultra-conservative, the NRG had fully reflected possible risks of MSICH's engines substitution in its analysis, which would reduce the Company's share of the Russian helicopter market from 70% in 2010 to 42% in 2018. Therefore, in our opinion, investors in MSICH will have ample room for positive earnings surprises, as the Company reports its progress throughout the decade.

Furthermore, a sharp deceleration of the global economic recovery, and even a double-dip economic recession, would likely have only a minimal impact on the company. **The MSICH's 2009 performance illustrates the Company's stability even in a highly adverse macroeconomic climate.** After the Ukrainian GDP plunged by 15% and hryvnia devalued by some 40% against the USD, **MSICH registered 18% USD-denominated revenue growth, while concurrently posting a gross margin increase from approximately 36% to 43%.** The **orders for aviation engines were relatively stable,** showing low sensitive to the global economic and financial crisis. **The UAH devaluation also boosted the Company's gross margin**, because while most of the Company's revenues are FX-denominated, its costs are mostly incurred in UAH.

Figure 9. Balance sheet

USD mln	2006	2007	2008	2009	2010E	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F
Total Assets	**449**	**577**	**444**	**529**	**650**	**794**	**951**	**1 140**	**1 391**	**1 627**	**1 854**	**2 066**	**2 282**
Non-current Assets	**207**	**230**	**156**	**176**	**203**	**221**	**242**	**268**	**298**	**335**	**371**	**409**	**382**
PPE	142	156	106	116	128	142	160	180	205	235	264	294	294
CIP	27	27	18	27	31	34	38	43	49	56	63	71	44
LT Investments on equity basis	37	45	29	31	42	42	42	42	42	42	42	42	42
Other NCA	2	3	3	2	2	2	2	2	2	2	2	2	2
Current Assets	**241**	**348**	**288**	**353**	**447**	**573**	**709**	**872**	**1 093**	**1 292**	**1 482**	**1 657**	**1 900**
Accounts Receivable	64	98	84	119	133	158	179	209	258	287	303	308	314
Inventories	164	228	191	199	246	285	323	376	464	516	545	555	566
Cash & Equivalents	11	17	6	24	68	131	207	287	371	489	635	794	1 020
Other CA	2	5	7	11	0	0	0	0	0	0	0	0	0
Total Liabilities & Equity	**449**	**577**	**444**	**529**	**650**	**794**	**951**	**1 140**	**1 391**	**1 627**	**1 854**	**2 066**	**2 282**
Total Liabilities	**173**	**223**	**218**	**209**	**231**	**262**	**295**	**341**	**416**	**461**	**486**	**496**	**506**
Long-Term Liabilities	**12**	**21**	**16**	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**
Long-Term Debt	0	4	9	15	13	13	13	13	13	13	13	13	13
Other Long-Term Liabilities	12	17	8	16	17	17	17	17	17	17	17	17	17
Short-Term Liabilities	**161**	**202**	**201**	**179**	**200**	**232**	**265**	**311**	**385**	**431**	**456**	**466**	**476**
Accounts Payable	31	42	32	12	19	25	29	33	41	46	48	49	50
Accrued Expenses	66	88	95	99	118	143	165	194	241	270	287	293	300
Short-Term Debt	64	71	74	68	64	63	72	84	103	115	121	123	126
Equity	**276**	**354**	**226**	**320**	**419**	**532**	**656**	**799**	**975**	**1 166**	**1 367**	**1 570**	**1 776**
Share Capital	53	55	35	35	34	34	34	34	34	34	34	34	34
Additional Paid-in Capital	127	163	104	104	104	104	104	104	104	104	104	104	104
Retained Earnings and Reserves	96	137	88	181	281	394	517	661	837	1 028	1 229	1 432	1 638
Total Debt	**64**	**75**	**83**	**82**	**77**	**76**	**85**	**97**	**116**	**128**	**134**	**137**	**139**
Net Debt	**53**	**58**	**76**	**59**	**9**	**(54)**	**(122)**	**(190)**	**(254)**	**(361)**	**(501)**	**(658)**	**(881)**
Debt-to-Equity Ratio	0.23	0.21	0.36	0.26	0.18	0.14	0.13	0.12	0.12	0.11	0.10	0.09	0.08
Total debt/EBITDA	1.54	0.85	2.97	0.55	0.49	0.43	0.41	0.40	0.39	0.41	0.41	0.42	0.41
Net debt/EBITDA	1.21	0.68	2.59	0.45	0.21	neg.	neg.	neg.	neg.	neg.	neg.	neg.	neg.
Current Ratio	1.50	1.72	1.43	1.98	2.23	2.48	2.67	2.81	2.84	3.00	3.25	3.56	3.99
Quick Ratio	0.46	0.57	0.45	0.80	1.00	1.25	1.46	1.60	1.63	1.80	2.06	2.37	2.80

Figure 10. Income statement

USD mln	2006	2007	2008	2009	2010E	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F
Gross Revenues	**254**	**358**	**406**	**476**	**548**	**649**	**736**	**858**	**1 058**	**1 177**	**1 242**	**1 265**	**1 291**
VAT & other deductions	(8)	(10)	(14)	(12)	(14)	(17)	(19)	(22)	(27)	(30)	(32)	(32)	(33)
Net Sales	**246**	**348**	**391**	**463**	**534**	**632**	**717**	**836**	**1 031**	**1 147**	**1 210**	**1 233**	**1 258**
COGS	(151)	(196)	(252)	(265)	(310)	(376)	(434)	(510)	(634)	(711)	(754)	(772)	(790)
Gross Profit	**94**	**152**	**139**	**199**	**224**	**256**	**283**	**326**	**397**	**436**	**456**	**461**	**468**
General and Administrative Costs	(35)	(52)	(53)	(38)	(44)	(53)	(60)	(69)	(84)	(91)	(94)	(94)	(94)
Selling and Marketing	(24)	(27)	(29)	(28)	(31)	(36)	(40)	(46)	(56)	(62)	(61)	(62)	(62)
Other Profits	155	183	264	307	163	209	240	288	361	401	424	432	440
Other Expenditures	(168)	(195)	(273)	(303)	(170)	(218)	(251)	(301)	(374)	(419)	(445)	(455)	(466)
Operating Profit	**22**	**60**	**49**	**137**	**142**	**158**	**172**	**199**	**244**	**265**	**280**	**281**	**286**
OIBDA	**40**	**79**	**70**	**152**	**158**	**177**	**193**	**223**	**272**	**296**	**316**	**322**	**331**
Financial & other income (loss)	(1)	3	(36)	(3)	3	3	3	3	3	3	3	3	3
EBITDA	**39**	**82**	**33**	**148**	**161**	**179**	**196**	**226**	**275**	**299**	**319**	**325**	**334**
Depreciation	(18)	(19)	(20)	(15)	(16)	(19)	(21)	(24)	(28)	(32)	(36)	(41)	(46)
EBIT	**21**	**63**	**13**	**134**	**145**	**161**	**174**	**201**	**247**	**267**	**282**	**284**	**288**
Interest Expense	(7)	(37)	(53)	(84)	(85)	(79)	(77)	(84)	(94)	(103)	(108)	(109)	(110)
EBT	**14**	**56**	**3**	**123**	**134**	**151**	**165**	**191**	**235**	**254**	**269**	**270**	**274**
Income Tax	(6)	(15)	(2)	(32)	(34)	(38)	(41)	(48)	(59)	(64)	(67)	(68)	(69)
Net Income	**7**	**41**	**1**	**92**	**101**	**113**	**124**	**143**	**176**	**191**	**202**	**203**	**206**
Margins													
Gross	38.4%	43.7%	35.6%	42.9%	42.0%	40.5%	39.5%	39.0%	38.5%	38.0%	37.7%	37.4%	37.2%
EBITDA	15.9%	23.6%	8.5%	32.0%	30.1%	28.4%	27.3%	27.0%	26.6%	26.1%	26.3%	26.3%	26.5%
Net	3.0%	11.8%	0.2%	19.8%	18.8%	17.9%	17.2%	17.1%	17.1%	16.6%	16.7%	16.4%	16.4%

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