

International Forum “IPO prospects for Ukrainian companies”

Selecting a platform for an IPO of Ukrainian companies



Introduction

- 2005 - 2006 offers a huge opportunity for quality Ukrainian issuers to tap the capital markets as regional equity markets continue to grow
- Companies must consider a number of issues to select the listing venue
- CIS companies that have already IPOed had different rationale behind the decision on the listing location than companies considering doing an IPO now
- ING is No1 ranked lead manager of CEE equity having completed 13 IPOs raising over US\$1.2bn since 2000

IPO Advantages and Disadvantages

Benefits

- 📄 Opens access to (both debt & equity) capital markets to fund future growth
- 📄 Provides attractive valuation and liquidity for shareholders
- 📄 Preserves operational and management control
- 📄 Creates high international profile and publicity
- 📄 Establishes a market value benchmark for any strategic negotiations
- 📄 Enables share incentive schemes for key employees

Challenges

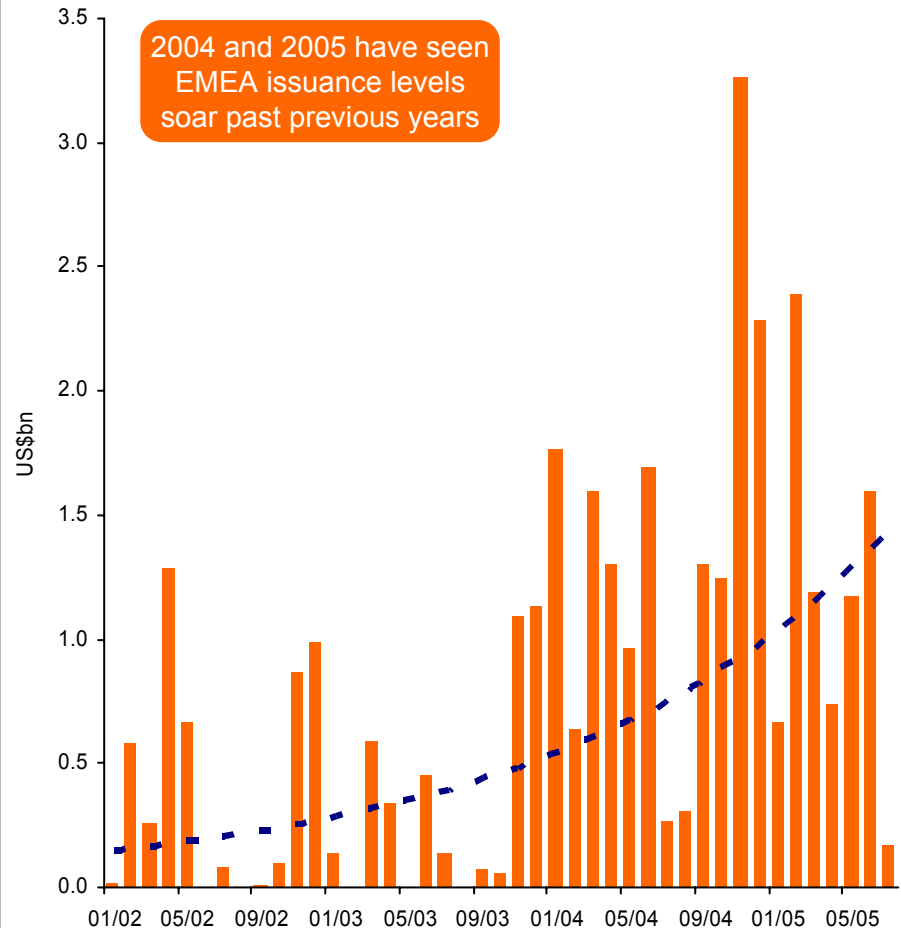
- 📄 Dependency on capital market conditions
- 📄 High degree of financial transparency and disclosure
- 📄 Corporate governance and observation of minority rights
- 📄 Compliance with listing rules and ongoing exchange obligations
- 📄 Offering size requirements
- 📄 3-year internationally audited accounts (for an international listing)

CIS market conditions

Market outlook

- Emerging Europe issuance in 2005 has continued on the high note that it ended on in 2004
- Starting 2005 Russia already has seen a wave of activity: Sistema (US\$1.56bn), Pyaterochka (US\$ 598m), Evraz Group (US\$ 422m), Novatek (US\$ 966m)
- Equity market in the CIS region has been very active as well:
 - first IPO of Ukrainian company Ukrproduct on AIM;
 - announcement of IPOs of Kazakhmys and KazMunayGas
 - Delisting of HansaBank
- Despite the high issuance volumes, the ECM climate remains unpredictable
- Investors are sensitive to good equity stories and realistic pricing

EMEA equity issuance volumes 2002 to date



Listing considerations













Structure and choice of venue for listing are defined by

- Reason for listing (capital raising vs listing only)
- Size of a deal
- Domicile of operations/ registered office
- Requirements of local legislation

Geographical choice of venue for international listing should be done based on the following

- Presence of comparable companies
- Access to targeted investors
- Listing requirements
- Liquidity of the market
- Cost of listing

Summary of typical CIS IPOs

	MTS	Wimm-Bill-Dann	36.6	Open Investments	Sistema	Pyaterochka
ING role	Global co-ordinator	Global co-ordinator	Global co-ordinator	Global co-ordinator	Co-lead manager	Co-lead manager
Size	US\$ 371m	US\$ 238m	US\$ 14m	US\$ 69m	US\$ 1.6bn	US\$ 598m
Country of incorporation	Russia	Russia	Russia	Russia	Russia	Netherlands
GDR						
Listings	NYSE	NYSE	MICEX	RTS	RTS/ LSE	LSE
Sector	Telecoms	Food & Diary	Healthcare/ Retail	Real Estate	Telecoms	Retail
Greenshoe				 (reverse)		
Pricing	Bottom half of range	Bottom half of range	Bottom half of range	Top half of range	Bottom half of range	Bottom half of range
Immediate aftermarket	+4%	+13%	+5.5%	+11%	+2%	-4%

Notes: Aftermarket price represents 3rd day of trading

Observations from recent CIS IPOs

Company

- Strong appetite for attractive CIS growth stories
- Investors keen to diversify their CIS allocations away from oil and gas sector
- Preference for simple ownership and group structures

Structure

- Local listing is important to avoid orphan stock status
- International demand is driven by key investors based in London
- International listing is preferable as well as demonstrates greater level of corporate governance
- GDR offering is important in attracting quality international demand
- A greenshoe option can be incorporated into the offer structure as an effective means of supporting performance of the shares in the aftermarket

Pricing

- Pricing above the middle of the range sends a strong signal to the market that the issue is well subscribed
- Pricing should allow for a modest first day premium; overpricing leads to poor aftermarket

Alternative venues – an overview

	Ukrainian stock market Underlying shares	Warsaw Stock Exchange	London AIM	London Stock Exchange (LSE) GDR	New York Stock Exchange (NYSE) ADR
Pros	<ul style="list-style-type: none"> 📄 Home market 📄 Ability to tap Ukrainian retail/ customer demand 📄 Ensures ongoing research coverage 	<ul style="list-style-type: none"> 📄 Poland is EU member state, covered by Prospectus Directive, allowing passporting to all EU states 📄 Strong IPO market 📄 Welcoming for smaller companies 	<ul style="list-style-type: none"> 📄 Successful growth market for smaller companies 📄 Least restrictive listing requirements 📄 Lowest listing costs 	<ul style="list-style-type: none"> 📄 A high profile international exchange, established and liquid stockmarket 📄 Concentration of CEE investors 📄 US investors accessed through a 144A 	<ul style="list-style-type: none"> 📄 Largest equity market in the world 📄 Auction system of trading results in efficient market for investors 📄 Where most large US investors trade international emerging markets stocks
Cons	<ul style="list-style-type: none"> 🚫 Selective investor base – size may not attract global sector funds, some international investors cannot invest 🚫 Currently not a high-profile international market 	<ul style="list-style-type: none"> 🚫 No history of regional listing 🚫 Few examples of foreign companies listing 	<ul style="list-style-type: none"> 🚫 Perceived as lower quality market than LSE 🚫 Narrow investor base focused on start-up companies and natural resources companies 	<ul style="list-style-type: none"> 🚫 Perception that the standards of disclosure are less than on the NYSE, a perception undermined by corporate scandals in the US 🚫 Few CIS shares listed (but most traded on the International Order Book) 	<ul style="list-style-type: none"> 🚫 Most stringent listing requirements 🚫 Following concerns over companies accounting standards, implementation of Sarbanes Oxley Act

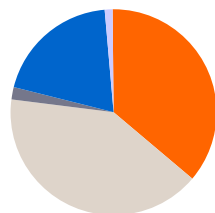
Mobile TeleSystems OJSC – MTS

US\$371m Initial Public Offering – NYSE listing

Issue type	Initial Public Offering
Launch date	30 May 2000
Pricing date	29 June 2000
Size	US\$371m (incl. greenshoe)
Number of ADS	15,010,612 ADSs
Greenshoe	2,251,592 ADSs
Pricing range	US\$19.00-S\$25.00
Priced	US\$21.50

- MTS is the largest mobile cellular operator in Russia by revenues and number of subscribers
- The deal was between six and seven times oversubscribed
- The quality of the demand was particularly strong, with 61% of the total demand coming from Tier I accounts; who were awarded 79% of the final allocations
- The listing decision was made taking into account the size of the company and the presence of comparable companies on NYSE

Geographic allocation



US	36%
UK	41%
Russia	2%
RoE	20%
RoW	1%

OMZ – United Heavy Machinery LSE listing

Transaction	London listing of DRs Trading on the IOB
Listing date	30 September 2003
Existing listings	RTS and MICEX
Market cap	US\$281m
Freefloat	c.30%

- OMZ is one of the largest Russian heavy engineering companies, both in terms of market capitalisation and revenue
- Listing on the London Stock Exchange was recommended as a step in OMZ's efforts to increase the transparency for investors and customers
- ING organised a 2 week roadshow to promote, market and sell the equity story to new investors. In addition ING initiated research coverage on OMZ to improve the Company's profile and articulate the investment case
- Following the listing and trading of OMZ's DRs in London, the average daily value traded has more than tripled


Russia 09/03

OMZ
London listing of Depositary Receipts



Advisor
Industrial Manufacturing

Prof 2: 200603
LISTING PARTICULARS DATED 25 September 2003



OMZ (URALMASH-IZHORA GROUP)
(Incorporated as an open joint-stock company under the laws of the Russian Federation)

Introduction to the Official List
of
Up to 2,000,000 Rule 144A American Depositary Receipts and up to 11,500,000
Level 1 American Depositary Receipts
each representing one ordinary share of the Parent Company

Applications have been made to the Financial Services Authority in its capacity as competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000 (the "FSMA") for a block listing of up to 2,000,000 Rule 144A American Depositary Receipts (each a "Rule 144A ADR") and up to 11,500,000 Level 1 American Depositary Receipts (each a "Level 1 ADR") and, together with the Rule 144A ADRs, the "ADRs") to be admitted to listing on the Official List of the Financial Services Authority (the "Official List") and trading on the London Stock Exchange plc (the "London Stock Exchange") under the listed securities (the "Introduction"). Admission to the Official List together with admission to trading on the London Stock Exchange is subject to final acceptance conditional listing on a stock exchange. Application has been made for the ADRs to be quoted on the London Stock Exchange's International Order Book.

This document (the "Listing Particulars") contains listing particulars issued in compliance with the listing rules made under section 71 of the FSMA by the UK Listing Authority (the "Listing Authority"). A copy of these Listing Particulars has been delivered to the Registrar of Companies in England and Wales as required by section 81 of the FSMA.

Each ADR represents one ordinary share, nominal value 0.1 roubles per ordinary share (the "Share") of open joint stock company (State-owned, Multinationality, Jointly) (Limited liability Group) (the "Parent Company") or "OMZ". The Shares are currently traded on the Russian Trading System ("RTS") and on the Moscow Interbank Currency Exchange ("MICEX"). Each Rule 144A ADR represents one share in the deposit agreement (the "Rule 144A Deposit Agreement") dated 13 January 1999 between the Parent Company and the Bank of New York acting as depositary (the "Depositary") and each Level 1 ADR represents one share in the deposit agreement (the "Level 1 Deposit Agreement") dated 10 January 2001 between the Parent Company and the Depositary.

The Shares and the ADRs have not been, and will not be, registered under the United States Securities Act of 1933 (the "Securities Act") or with any securities regulatory authority in any State of the United States and may not be offered or sold within the United States or to, or for the account or benefit of, US persons except pursuant to an exemption from, or as a transaction not subject to, the registration requirements of the Securities Act.

The ADRs are of a special nature and should normally only be bought and traded by investors who are particularly knowledgeable in investment matters. For a discussion of certain factors regarding the Company, the ADRs and the Shares which should be considered by prospective purchasers, see the section headed "Investment Considerations".

ING INVESTMENT BANKING
Authorised adviser

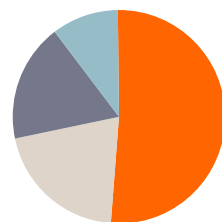
JSFC Sistema

US\$1.56bn Initial Public Offering – LSE listing

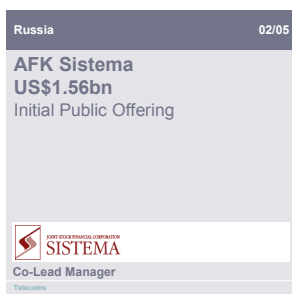
Issue type	Initial Public Offering
Launch date	26 January 2005
Pricing date	8 February 2005
Size	US\$1.56bn (incl. greenshoe)
Greenshoe	11.95m GDRs (15%)
Pricing range	US\$15.00-US\$19.50
Priced	US\$17.00

- Russian conglomerate, JSFC Sistema, is the largest private sector consumer services company in Russia and the CIS with interests in TMT, real estate, banking and insurance
- Existing shares of Sistema were listed on RTS since October, 2004
- The JSFC Sistema offering was the largest IPO to have come out of Russia since the ING-led IPO of MTS on the NYSE in June 2000 and was the largest listing on the LSE since Orange in 2001
- Although its largest stake MTS (50.4%) was listed on NYSE, Sistema preferred listing on LSE. Sistema felt the additional benefits of NYSE listing would not outweigh the costs of NYSE listing and the compliance with Sarbanes-Oxley ('SOX') which could be a problem for a diversified conglomerate such as Sistema

Geographic demand



■ Czech Republic	51%
■ Netherlands	21%
■ Russia	18%
■ UK	10%

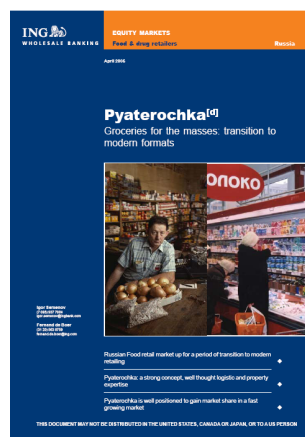
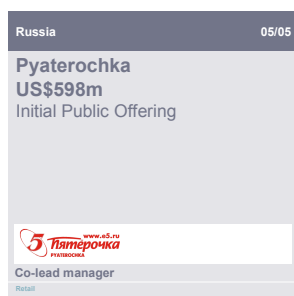


Pyaterochka

US\$597.6m Initial Public Offering – LSE listing

Issue type	Initial Public Offering
Launch date	25 April 2005
Pricing date	6 May 2005
Size	US\$598m (excl. greenshoe)
Number of shares	46.0m GDRs
Greenshoe	6.9m GDRs (15%)
Price range	US\$13-US\$16
Priced	US\$13

- Pyaterochka is the largest grocery retailer in Russia in terms of sales. It positions itself in the discount market
- The lead banks cited a challenging bookbuild, typified by an uncharacteristically low level of hedge fund interest for a Russian IPO. Trading closed down 3.8% on the first day
- The greenshoe was not exercised
- The Federal Service of Financial markets (FSFM) reacted to the IPO reporting it is going to close the loophole that lets Russian issuers conduct IPOs in the West ignoring listing in Russia



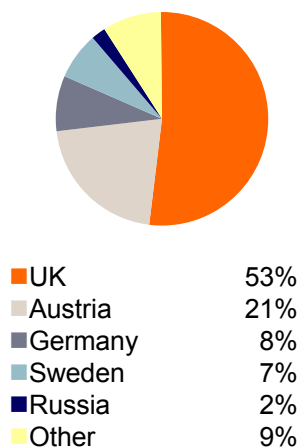
Open Investments

US\$69m Initial Public Offering – RTS listing + GDR

Issue type	Initial Public Offering
Launch date	3 November 2004
Pricing date	15 November 2004
Size	US\$68.8m
Number of shares	1,383,358 shares
Reverse Greenshoe	125,760 shares
Pricing range	US\$42.75-US\$52.25
Priced	US\$49.75

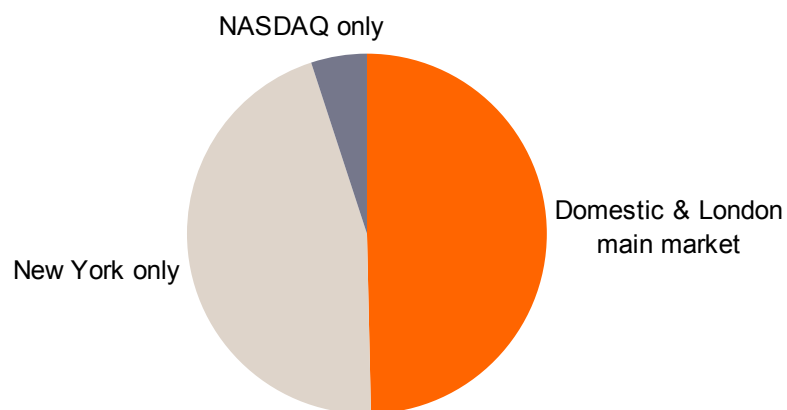
- Open Investments is a Moscow-based real estate development, management and investment company.
- Before the IPO Russian regulations changed to allow an offering of both locally listed shares and GDRs
- This was the first Russian IPO to take advantage of the change of regulations and 36% of investors selected delivery of GDRs, highlighting the added value of this instrument
- In order to facilitate immediate trading, investors purchased existing company shares from Interros, which upon completion of the offering purchased 1,383,358 new shares through a closed subscription.

Geographic demand

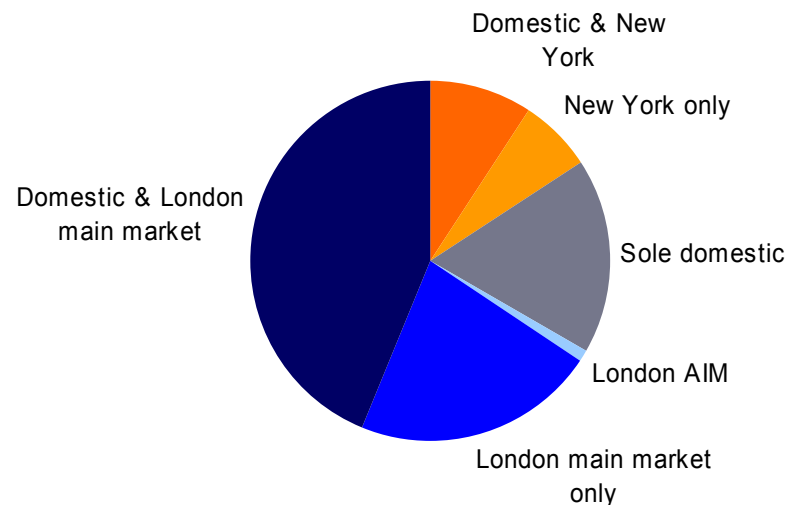


Listing of CIS IPOs

Listing location by US\$ amount raised for CIS IPOs
1995-2001 (IPO>US\$10m)



Listing location by US\$ amount raised for CIS IPOs
2002-2005 (IPO>US\$10m)



- Number of IPOs being listed locally only has increased after 2001
- After introduction of Sarbanes-Oxley Act in 2002, Russian companies preferred London (main or AIM) as an international listing venue either as a sole listing or dual listing option together with domestic listing
- ING's recommendation is a dual listing, which is the preferred option for investors

ING: the leading investment bank for Ukrainian companies

Recognised market leader in Central & Eastern European equity distribution

- Central & Eastern European local presence in 10 countries
- Top market maker in Central & Eastern European GDRs and ADRs

Extensive track record in placing Central & Eastern European equity

- No. 1 manager of Central & Eastern European equity issues
- Recent involvement in Central and Eastern European ECM transactions include the 2004 Initial Public Offerings of Open Investments (US\$69m) and Globe Trade Centre (US\$127m) and secondary offerings for CME (US\$243m) and ING Bank Slaski (US\$240m) in 2005
- In June ING lead managed Romania's first ever IPO, a US\$15m offering for Flamingo International
- We are currently advising a private Kazakh company on their London IPO planned for 2005

Ukrainian transactions expertise

- ING was privileged to advise the Ukrainian government on its US\$2.7bn debt restructuring in 2000 as well as advised or participated in a number of government initiatives including:
 - › member of the electricity sector privatisation working group headed by Mrs. Julia Tymoshenko in 2001
 - › members of State Property Fund initiative group developing legislation on the sale of minority stakes to foreign portfolio investors in 2001
 - › Oschad Bank restructuring advisory in 2000