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## Worth and Value in Ukrainian Industry

Oil and metallurgical companies hold the leading positions in our rating of the investment attractiveness of Ukrainian industrial enterprises listed on the First Securities Trading System



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# In

February 2006, *Expert Ukraine* calculated its first rating of the investment attractiveness of open joint stock companies. The rating included industrial enterprises whose

shares traded in 2005 on the First Securities Trading System (PFTS, the first national trading platform). The purpose of this research is to assess the performance of stock issuers and their investment attractiveness, assess and compare the performance of the largest indus-

trial enterprises, and to set a good example by encouraging companies to reveal information of this kind, which will help them go public. We did not seek to disclose the most profitable or undervalued issuers.

### Oil and metallurgical companies in the lead

Ratings calculations revealed that the domestic stock market is becoming more sensitive to changes in the performance fundamentals of publicly listed companies. There are still

anomalies, such as when the quotation of a company with healthy fundamentals slumps, or when the share listing of a company with weak fundamentals suddenly skyrockets. Nevertheless, such cases are few and far between.

The influence of fundamentals on the investment attractiveness of the issuers (the industrial enterprises which, by the definition of Ukrainian standards, are actively traded) was assessed on the basis of analysis of their financial statements for 2004. The rating is based on the set of fundamentals with which the issuers entered 2005. The maximum number of points for each enterprise was 32. These indicators were then compared to the stock market performance of each company's shares at year-end 2005, which allowed us to test the rating model and uncover regularities between the rating's results and each company's one-year return, or the annual change in share price.

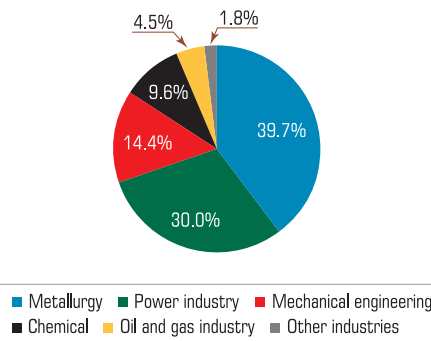
The 63 industrial sector companies with the highest market capitalisation were rated. We found 22 companies with robust fundamentals (see table). The highest scorer was the old-established leader of the equity market, Ukrnafta. The company could have received more points had it not been for its excess absolute liquidity, insufficient return on equity (by Ukrainian standards), and growth of administrative costs. Besides, this oil company has yet to adopt a more transparent information policy. Nevertheless, Ukrnafta is the only company within Segment A. (For Segment A, we deliberately set Western-based standards for evaluation of the quality of corporate governance, and exclusive standards for assessment of return indicators.)

Metallurgical complexes — Illich Mariupol Metallurgical Complex (MMC), and Zaporizhstal — hold second and third positions. MMC failed to take the top spot due to its absence of long-term resources in liabilities at the beginning of 2005, excess absolute liquidity, and comparatively low returns on sales. Zaporizhstal faced similar problems.

The upper part of the rating is occupied by metallurgical enterprises and their commodity suppliers. 2004 was the heyday for metallurgy and metal working, which could not but positively affect the fundamentals of these enterprises and, consequently, their stock-market performance. Petrochemical companies also hold some of the leading positions:

Fig.1  
Metallurgical and energy companies account for almost 70% of companies on the rating list

Rated companies: Breakdown by industry



the price for hydrocarbons has shot through the roof over the last two years. In 2004, these companies had the highest returns on sales: 53% for Concern Galnaftogaz, 31% for Ukrnafta, and about 22% for Donetskkoks, Stirol, and the Northern Mining and Concentration Complex (Pivnichny GZK). Finally, the largest metallurgical enterprise Krivorizhstal had a roughly 20% ROS. Ukrtelecom with its 17.4% ROS holds the seventh position, outstripping a number of metallurgical and chemical companies. This demonstrates that cross-subsidy allows for ample coverage of the losses incurred from local telecommunications serv-

ices using money made from especially international communications services.

The majority of power distribution companies occupy the lower ranks of the table. Seven out of twelve regional power distributors exhibited zero or negative ROS, and none of the rest managed above 10%. The Ukrainian energy distribution sector clearly needs more investment. This could be accomplished, for example, by raising heating and electricity tariffs, which was not done in 2005. Overregulation of the energy sector now perpetuates the poor performance of the regional power distribution companies, which previously formed the core of the PFTS index.

Soaring prices for Russian gas this year give Ukrainian energy companies an opportunity to "catch the tide": by unfreezing the prices, they can fix their fundamentals. Petrochemical companies can certainly benefit from skyrocketing energy prices. Metallurgical companies will, however, experience a decrease in their ROS.

### Ordinary anomalies

It is by no means all the companies in our rating that have been able to match a high return on sales with a robust stock market performance. We compared the rating results (summarised as points) with which the companies entered 2005, and their 1-year return, using PFTS quotations (Fig. 2). The 1-year

## Some unsolved problems

are still holding the

stock market back

return is defined as the profit that an investor could receive if selling a share one year after he purchased it. In other words, it corresponds to the annual change in the share price, or to the growth rate of the bid price at the end of 2005 compared to the ask price at the beginning of that year. 1-year return calculated on the basis of transaction prices had to be disregarded in this rating, because it does not reflect the real market dynamics: share prices show dependence on the volume of stock traded, and issuers conduct transactions irregularly (once a month, or even less frequently).

## We Need Each Other



'We need each other' was a sentiment born out of the process of communication between our staff and clients, and the phrase has become a favourite maxim at Continent Insurance Company.

We are extremely proud that, during two years of patient, hard work, our customers and staff have achieved an understanding of mutual necessity. We always have been, and always will be, working in the spirit of our corporate motto: 'Continent Insurance Company is civilized insurance.' We will continue to serve as an example for the promotion and strengthening of the culture of insurance. Almost two years ago, Continent was the first Ukrainian insurance company to introduce a completely new approach to individual risk insurance – the project approach. Our specialists scrutinize all the risk factors in each case, and draw up comprehensive policy-packages that are individually tailored and to provide complete and optimal cover for each client's insurance needs. And, because of our project approach, such a policy package costs much less than purchasing the policies separately. In other words, the project approach to individual risk insurance provides maximum safety at minimal cost.

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## Rating of Ukrainian industrial companies with highest market capitalization listed on First Securities Trading System (PFTS)

Short version. For full version, see «Эксперт Украина», 20 February 2006, V.7(58), p. 72.

#	Company	Shares market indicators in PFTS				Ratings total sum of points
		Market capitalization 31.12.2005	1-Year Return	Volume (UAH millions)	Buy & sell margin	
1	Ukrnafta	2219.6	53.33%	208.8	0.68%	25
2	Illich Mariupol Metallurgical Complex	1805.3	-3.55%	27.6	0.74%	23
3	Zaporizhstal	864.6	-4.54%	107.7	0.97%	23
4	Northern Mining and Concentration Complex*	1536.8	349.92%	0.8	365.12%	22
5	Stirol	760.6	72.23%	40.4	9.25%	22
6	Concern Galnaftogaz	179.4	22.64%	110.3	12.68%	22
7	Mittal Steel Kryviy Rih (Krivorizhstal)	3171.7	32.25%	6.4	2.44%	21
8	Donetskkoks	63.4	56.29%	14.1	13.04%	21
9	Ukrtelecom	2569.8	-5.41%	83.8	0.87%	20
10	Azovstal	1477.1	-10.17%	46.7	4.35%	20
11	Avdeyevsk Coke-Chemical Plant	819.5	650.00%	75.6	6.02%	20
12	Crimea Soda Plant	101.6	37.00%	5.7	22.35%	20
13	Nyzhnyodniprovsk Pipe Plant. (NTZ)	487.6	266.27%	87.4	5.87%	19
14	AvtoKrAZ	189.4	40.49%	0.7	400.00%	19
15	Kremenchug Steelmaking Factory	150.3	0.52%	6.5	733.33%	19
16	Zaporizhkoks	153.6	52.50%	12.3	8.00%	18
17	Yasinovsky Coke-Chemical Plant	62.9	803.85%	69.8	6.67%	18
18	DniproAzot	198.4	-40.00%	27.2	19.23%	17
19	Alchevsk Metallurgical Industrial Complex*	183.5	-43.40%	269.6	596.67%	17
20	Zaporizhzhia Aluminium Complex	109.7	20.27%	7.1	15.09%	17
21	Donetsk Metallurgical Plant	89.7	19.05%	52.3	11.61%	17
22	Novomoskovsk Pipe Producing Plant	76.0	21.86%	32.0	6.67%	17
23	Nikopol Ferroalloy Plant	543.4	305.75%	4.0	58.33%	16
24	Zakhidenerho	341.9	77.63%	68.0	2.27%	16
25	Khartsyzsk Pipe Plant	104.3	42.86%	1.1	257.14%	16
26	Dniproshyna	46.4	100.00%	12.6	12.19%	16
27	Slavutych Brewery	321.0	-87.38%	29.2	23.53%	15
28	Dniprospetsstal	152.2	7.95%	14.1	7.25%	15
29	Turboatom	129.3	146.15%	15.3	6.00%	15
30	Zhytomyroblenerho	72.7	300.00%	4.5	100.00%	15
31	Marganets Mining and Concentration Complex	185.9	0.65%	0.2	257.14%	14
32	Azovobshchemash	121.6	98.68%	7.2	11.20%	14
33	Prykarpattyaoblenerho	58.5	89.40%	18.2	614.29%	14
34	Baltsem	24.0	-91.44%	0.1	6,900.00%	14
35	Odessa Oil Refinery	216.1	277.78%	363.6	175.00%	13
36	Motor-Sich	197.5	2.13%	68.7	56.52%	13
37	Yenakievsky Metallurgical Plant	57.0	-3.33%	11.6	5.56%	13
38	Druzhkovka Mechanical-Engineering Plant	51.4	14.15%	16.9	25.00%	13
39	Alchevsk Coke-Chemical Plant	45.1	-34.60%	2.6	414.29%	13
40	Poltava Mining and Concentration Complex	888.7	461.22%	118.1	7.48%	12
41	Kievoblenerho	170.4	49.81%	14.7	2.45%	12
42	Lutsky Car Plant*	169.1	4.17%	0.5	207.02%	12
43	Bahlykoks	89.8	55.56%	0.9	207.69%	12
44	Lvivoblenerho	49.9	232.50%	29.9	105.88%	12
45	Stakhanov Ferroalloy Plant	17.7	-29.41%	4.5	50.00%	12
46	Sumy Frunze NPO	241.7	9.46%	70.4	4.73%	11
47	Mariupol Heavy Engineering Plant	167.6	129.79%	100.2	3.77%	11
48	Donbasenerho	104.2	0.00%	13.1	2.27%	11
49	Kirovohradoblenerho	62.9	33.05%	14.3	40.00%	11
50	Khmelnitskoblenerho	53.3	66.67%	6.4	200.00%	11
51	Chernihivoblenerho	47.3	99.57%	8.8	200.00%	11
52	Krymenerho	34.6	168.33%	11.9	86.67%	11
53	Southern Mining and Concentration Complex	287.6	42.55%	10.6	6.87%	10
54	Luhanskteplovov	53.2	154.00%	55.3	3.33%	10
55	Kharkiv Tractor Plant	40.6	145.16%	1.4	46.60%	10
56	Dniproenerho	271.2	110.10%	49.3	39.60%	9
57	Poltavaoblenerho	142.2	-97.50%	12.2	2300.00%	9
58	Zaporizhzhia Ferroalloy Plant	137.4	144.00%	78.3	18.33%	9
59	Kharkivoblenerho	68.6	89.39%	0.1	70.00%	9
60	Tsentrenerho	219.4	-40.00%	20.4	10.71%	8
61	Azot (Cherkasy)	167.6	100.00%	22.6	76.97%	7
62	Khersonoblenerho	42.2	296.55%	8.3	99.33%	7
63	Dniproblenerho	234.3	364.81%	25.2	0.51%	6
<b>Mean Value</b>			<b>98.85%</b>		<b>237.42%</b>	
<b>Group sum of points</b>		<b>23700.3</b>		<b>2608.1</b>		

\*Provided that these companies had no transactions in 2004. their 2004 end-year capitalization was calculated on the basis of their first transaction made in 2005.  
Sources: PFTS. companies' reports; calculations by Expert



## Fundamental indicators of companies' performance, 2004

	P/B	ROE	P/E	Debt ratio	Long-term debt ratio	Liquidity	ROS
	99.00%	20.56%	20.72%	80.00%	32.63%	203.00%	30.88%
	162.83%	31.39%	19.28%	86.67%	1.35%	363.81%	14.37%
	124.00%	21.97%	17.70%	82.00%	21.00%	231.00%	11.50%
	165.39%	54.60%	33.01%	46.69%	0.05%	110.03%	21.82%
	154.40%	32.05%	20.76%	79.39%	8.40%	287.10%	21.98%
	273.69%	7.70%	2.81%	58.35%	70.34%	273.77%	52.58%
	131.41%	34.26%	26.07%	90.05%	0.00%	490.39%	19.93%
	55.04%	34.88%	63.37%	76.82%	0.00%	213.17%	22.30%
	233.00%	13.76%	0.01%	77.00%	46.88%	138.00%	17.40%
	228.24%	22.09%	9.68%	56.40%	28.41%	153.00%	10.35%
	22.87%	40.27%	176.08%	37.40%	64.46%	108.49%	13.48%
	86.39%	17.36%	20.09%	81.48%	0.71%	153.31%	15.10%
	63.00%	10.40%	50.00%	40.00%	50.00%	134.00%	3.90%
	2,062.34%	7.16%	0.35%	50.80%	2.65%	150.16%	15.59%
	561.00%	4.13%	0.74%	64.60%	49.24%	220.43%	1.80%
	22.46%	55.97%	249.16%	49.57%	0.00%	98.94%	9.73%
	69.80%	22.50%	32.23%	49.85%	0.00%	89.14%	6.06%
	0.72%	9.56%	1,334.21%	76.24%	67.79%	723.96%	12.72%
	632.35%	11.56%	1.83%	30.14%	0.00%	59.37%	1.06%
	118.32%	12.99%	10.98%	51.56%	24.64%	145.26%	4.44%
	69.32%	21.25%	30.66%	46.85%	10.50%	145.75%	4.59%
	174.84%	5.67%	3.24%	73.50%	18.83%	214.29%	1.81%
	98.17%	11.33%	11.54%	66.94%	3.98%	186.22%	3.20%
	98.00%	4.30%	4.40%	55.00%	52.00%	181.00%	3.00%
	184.37%	0.63%	0.34%	64.36%	4.21%	118.49%	0.44%
	42.00%	12.31%	29.60%	61.00%	41.00%	148.00%	4.90%
	195.88%	14.67%	7.49%	47.22%	52.19%	98.59%	9.80%
	140.85%	17.08%	12.12%	48.34%	1.57%	96.19%	5.54%
	48.18%	3.13%	6.50%	85.86%	0.00%	351.20%	8.70%
	31.17%	8.65%	27.75%	71.14%	15.49%	142.15%	6.36%
	317.92%	-9.35%	-2.94%	80.61%	1.44%	243.05%	-7.66%
	275.63%	35.19%	12.77%	27.60%	0.01%	102.45%	3.26%
	37.81%	9.89%	26.16%	60.17%	43.12%	122.00%	4.57%
	126.76%	-18.88%	-14.89%	73.46%	0.00%	384.15%	-11.22%
	195.12%	-0.34%	-0.18%	92.20%	37.41%	238.65%	-1.28%
	64.43%	4.07%	6.30%	67.88%	6.40%	161.59%	4.97%
	24.83%	-2.22%	-8.95%	100.00%	0.79%	81.58%	-0.88%
	121.07%	7.08%	5.85%	26.47%	0.06%	86.83%	2.03%
	81.70%	5.70%	6.98%	41.68%	43.05%	136.68%	2.15%
	93.33%	5.66%	6.06%	43.62%	37.11%	112.30%	2.74%
	47.45%	0.48%	1.02%	56.69%	17.26%	86.91%	0.39%
	85.67%	13.74%	16.04%	40.84%	0.05%	157.14%	3.49%
	120.06%	2.07%	1.73%	36.04%	0.00%	110.25%	1.73%
	19.84%	11.75%	59.23%	45.01%	28.47%	87.59%	4.57%
	15,408.33%	-258.54%	-1.68%	4.64%	17.45%	71.54%	-9.13%
	80.03%	6.90%	8.62%	46.88%	34.54%	156.04%	4.59%
	6.45%	0.12%	1.87%	31.91%	1.24%	97.46%	0.02%
	42.00%	12.00%	0.29%	29.00%	60.00%	159.00%	0.11%
	57.20%	-1.90%	-3.33%	79.05%	21.25%	104.65%	-2.61%
	28.92%	0.19%	0.67%	62.47%	0.00%	65.46%	0.40%
	107.46%	-2.79%	-2.60%	65.23%	34.16%	71.78%	-1.54%
	295.01%	-39.44%	-13.37%	7.51%	0.72%	62.67%	-5.83%
	176.68%	-28.90%	-16.35%	45.24%	20.50%	113.29%	-30.68%
	29.07%	0.15%	0.52%	38.89%	0.00%	88.77%	0.05%
	24.11%	-33.16%	-137.51%	31.12%	8.49%	70.43%	-17.69%
	340.00%	-8.90%	0.00%	11.50%	9.00%	44.00%	-1.60%
	7.60%	-5.35%	-70.43%	65.40%	19.14%	76.66%	-2.91%
	59.03%	-68.34%	-115.77%	17.15%	35.24%	117.91%	-7.73%
	49.16%	-25.24%	-51.33%	28.88%	10.00%	54.15%	-10.30%
	49.00%	-1.64%	-0.03%	44.00%	38.00%	124.00%	-2.10%
	36.50%	1.45%	3.98%	26.88%	19.89%	97.12%	0.51%
	49.42%	-5.69%	-11.52%	23.40%	37.51%	126.69%	-2.96%
	-234.04%	0.00%	-23.09%	-7.06%	1.22%	70.11%	-2.25%
	<b>390.04%</b>	<b>2.70%</b>	<b>30.27%</b>	<b>52.85%</b>	<b>19.87%</b>	<b>157.32%</b>	<b>4.33%</b>

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EXPERT UKRAINE №1 MAY 2006

Generally, the correlation is positive. Figure 2 clearly shows a correlation between an increase in rating points and a positive 1-year return on equity. However, as in any other model of this kind, there are anomalies: in this case, comprising slightly over ten out of 63 companies. For instance, notwithstanding its high rating of 23 points (Segment B), Mariupol Metallurgical Complex's 1-year return in 2005 was negative (-35.71%). Further deviations are represented by other companies with lower ratings, such as Poltava Mining and Concentration Complex (Poltavsky GZK), that with its 12 rating points (Segment C), exhibited a positive 1-year return of 455%, a share performance unmatched by any of the higher-rated companies. However, the most striking anomaly is represented by Dniproblenerho: a loss-making, overleveraged company with a mere 6 rating points (Segment D) had a 257% 1-year return by 2005 year-end.

The existence of such anomalies is typical of any equity market. The fact that only the performance of one Ukrainian company in six betrays such irrationality is a big success. Quotations do not always depend on fundamentals — what often matters more is the relationship of a given company with the authorities or competitors. Most deviations in the Ukrainian market are due to factors that cause uncertainty about the future, such as an attempt by outsiders to take control over a given company. For instance, on 10 January 2006, the shares of Mittal Steel Kryviy Rih (Krivorizhstal) were bought and sold on PFTS at 3.76 and 4.20 hryvnias respectively. The asked price was more than a third less than the price that Mittal Steel paid for the company. This has to do with the fact that more than 90% of the company's stock is in the hands of a single owner, to the effect that only a mere 0.05% is traded on PFTS. Minority shareholders have a vague idea about the new owner's policy

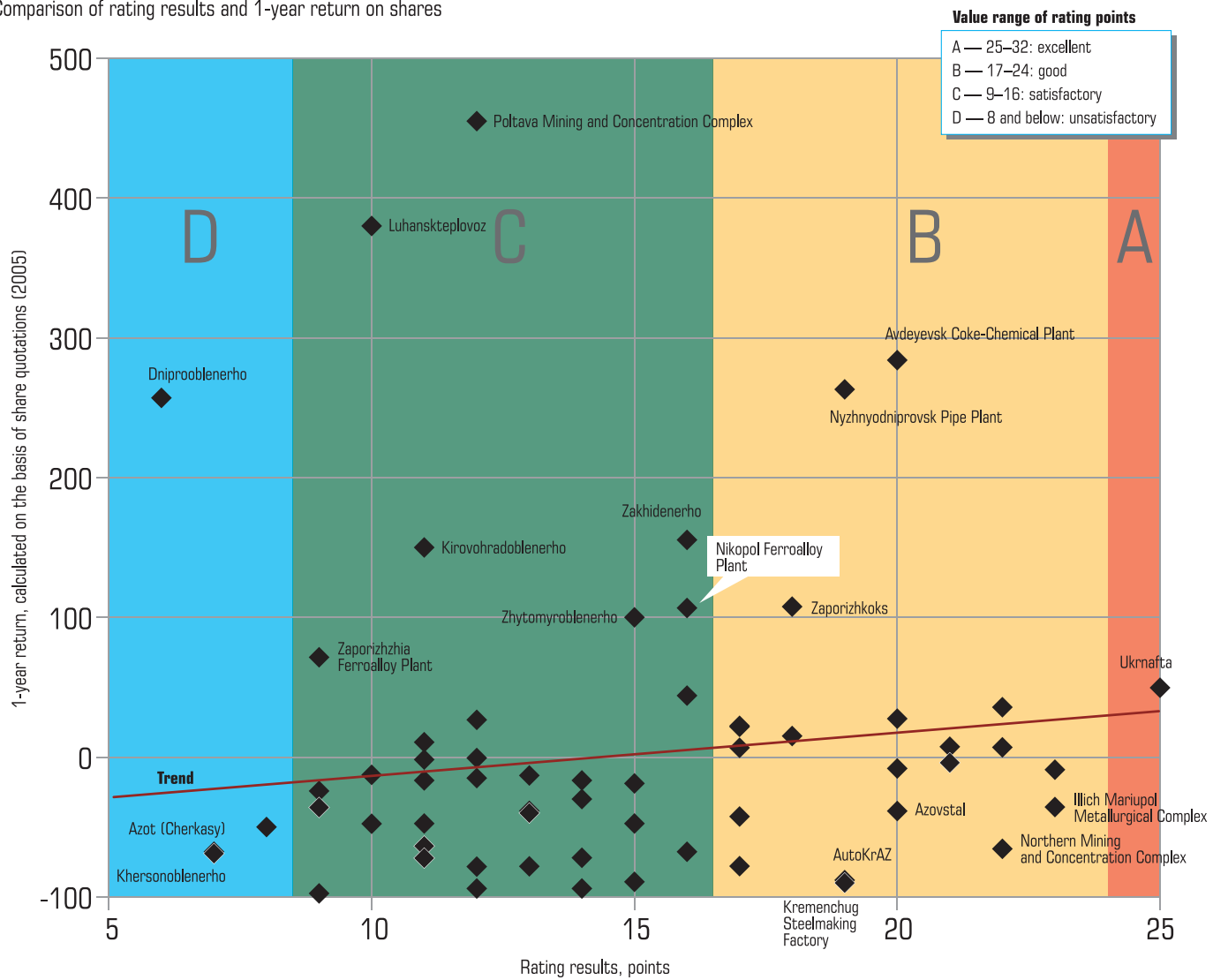
towards small blocks. It is possible that, in accordance with European standards of corporate ethics, Mittal Steel will bid for share redemption at the price it paid the Ukrainian government for them, similar to the offer that Raiffeisen International has recently made to the minority shareholders of Aval bank. If no such offer comes from Mittal Steel, and they do not feel inclined to support the shares on PFTS, the share price is likely to slump, irrespective of the actual performance of Krivorizhstal. The more the number of such anomalies, the worse it is for market development.

Some anomalies are of a technical character: for instance, Northern Mining and Concentration Complex has been trading its stock on PFTS only since 12 December 2005. However, we had to include this company in our rating due to its high market capitalisation. The 1-year return indicates a 65.8% decrease in its share price, but a short-term adjustment has to be made for this company.

Increase in rating points is matched by growth in 1-year return on shares

Fig. 2

Comparison of rating results and 1-year return on shares



Source: Expert

## Systemic problems

Research by *Expert* showed that the as yet tiny Ukrainian equity market is ready to play by the international economic laws and rules. At last year-end, the volume of PFTS shares traded amounted to UAH 3.83bn (\$748m). An unquestionable achievement of the Ukrainian stock market in 2005 was the doubling of its value to \$27bn (roughly 33% of GDP).

Despite this impressive growth rate, unsolved problems are still holding the market back. One of them is the problem with liquidity illustrated by high buy and sell margins, and by the small size of most companies' traded stock. This is one of the major miscalculations of Ukrainian privatisation. The systemic problems that impede the progress of the national stock market are still of an administrative kind. The state has yet to work out a clear, comprehensive programme for the development of an efficient, domestic financial market.

Firstly, Ukraine still does not have a law to regulate the norms of corporate governance of joint stock companies. There are more than ten thousand issuers of stock in the country, of which less than 300 are listed on PFTS, and only two or three dozen companies can say that their stock comprises highly realisable assets.

Secondly, the depositary system has not been working smoothly so far. On the one hand, the conflict between the National Depositary and Inter-Regional Stock Union (MFS) is still on-going; on the other, the issuers continue to have two or more registrars with several versions of shareholder registers. All this sounds absurd to a foreign investor.

Thirdly, the system of disclosure is malfunctioning. Unlike in the rest of the world, in Ukraine listed companies do not release statements quarterly — whatever is released only reaches the investors 9–12 months after the end of the financial year, making such information useless as a basis for investment decisions.

Fourthly, the system of personal income tax encourages Ukrainians to deposit their savings within the banking system. Thus, a tax deferral of bank deposits until 2010 discriminates against non-bank issuers competing for the population's savings.

## Offshore dead-end

There is yet another fundamental problem with the national stock market; namely, the non-transparency of shareholder structures, which is typical for 33 out of 63 issuers. Owners' names can be concealed in at least in two situations: firstly, when MFS act as nominee shareholder, and as such is the only owner identified in the database of the Stock Market Infrastructure Development Agency (ARIFR); and secondly, when offshore companies are among the stockholders. Thus, we do not formally know who the owners of Bikontia Enterprises Ltd. (Cyprus) are, and this company possesses 18.67% of Zaporizhoblenerho's stock. It also remains undisclosed what role the Cyprus-

## What we calculate, and how we do it

The Ukrainian industrial enterprises with the largest market capitalisation listed on the First Securities Trading System (PFTS), are assigned a rating position on the basis of 14 statistical indicators, 12 design ratios, and eight fundamental factors. We also accounted for the companies' stock sales and for their quality of corporate governance.

The research logic is based upon the adjusted Du Pont formula with its four indicator groups:

1. Influence of external environment: commodity markets, markets for final products, and other resource markets. In the absence of a tax planning scheme, it becomes the principal market factor influencing costs, revenue and net profit. This group of indicators encompasses the complete set of marketing questions connected with the potential for procurement and sale of final products. To simplify the model, we assume that industrial specificities are included in profitability and financial ratios, and therefore do not analyse them separately. The leading indicator of this group is return on sales.

2. Financial autonomy is defined by a company's financial security and debt ratio. In the Du Pont formula, this indicator group is limited to debt ratio only, but we expanded it by making adjustments for quality of accounts payable, current liabilities due term, etc. Debt ratio remains its main indicator.

3. Net profitability includes a group of indicators specifying a company's ability to yield profit on the basis of resources at its disposal. The main indicator of this group is return on equity.

4. Quality of corporate governance. Even in the Ukrainian market, the best indicator of the quality of corporate governance is the profit that can potentially be distributed among its stockholders. The return on equity ratio was added as an indicator, which in conjunction with the capitalisation rate points to three fundamentals: the ratio of current and future earnings, the equity-to-share-capital ratio, and the price-to-book ratio.

The calculation of points in each group has several specific features. Companies that had not completed a listing on either a Ukrainian or international equity trading platform were omitted from the ratings. In this case, points from the ratio of current earnings were not added. All calculations, as well as information on the presence or absence of foreign offshore stockholders, were made exclusively on the basis of databases of certified agencies or exchanges where issuers submit official information. We factored in whether accounts were published in due time, and whether the Securities and Stock Market State Commission or ARIFR had any reclamations on these. The publishing of quarterly reports disseminated through stock exchanges is treated as a positive trend.

As an indicator of investors' rate of return, we used prime-rate index (Rp) — the lending rate for the best borrower bidding for a bank loan. For such a rate, we used the household mortgage loan rate of one of Ukraine's largest, fully foreign-owned banks, Raiffeisen Ukraine.

If companies get an equal number of points, the one with the larger market capitalisation is ranked higher. The maximum number of points is 32. Companies that received less than six points in each of the four indicator groups were not rated. The range of points corresponded to four segments: Segment A (32–25 points) — excellent; Segment B (24–17 points) — good; Segment C (16–9 points) — satisfactory, and Segment D (less than 8) — unsatisfactory.

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registered companies Acretrend Holdings Ltd. and Mint Data Holdings Ltd. play in the activity of Southern Mining and Concentration Complex, of which they own respectively 22.17% and 19.17% of the stock. Moreover, we have doubts about LEXGAIN Ltd., which holds 21.63% of Poltavsky Mining and Concentration Complex's stock. This company has a London address, but could in reality be registered at some tiny British island territory, lost in the list of offshore zones established by Resolution #77 of the Cabinet of Ministers on 24 February 2003. It is equally difficult to unearth the relationship between Turboatom and Jersonet Group Inc., a company which is registered in the Virgin Islands and which holds 14.55% of Turboatom's stock. Even if the Anti-Monopoly Committee starts investigating, or a minority shareholder goes to court in a move to obtain a transparent list of share-

holders, these actions will yield little in terms of revealing the names of the insiders and associated individuals. Any investigation is bound to run into an "offshore wall".

If one of the Ukrainian principal shareholders decides to dispose of his securities, he does not have to sell his block because it is enough to sell the offshore company to which the stock is 'attached'. In other words, the offshore problem is closely linked to the problem of having an underdeveloped domestic stock market. Therefore, if Ukraine wants a robust stock market, it needs to promptly introduce a reform of corporate relationships which will qualitatively change the conditions of economic development. The country also needs to incite long-term investment, for instance by encouraging people to look beyond bank deposits and real estate when placing their savings. ■