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SpreadMonitor Ukraine

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This issue of SpreadMonitor Ukraine reports on activity in July-September of 2005. The SpreadMonitor Ukraine portfolio has been selected to provide insights into the bond market by presenting indicative spread data in combination with credit research and ratings. Spread data have been obtained from sources that Standard & Poor's believes are reliable, but that it cannot verify and guarantee as accurate. However, even if distorted by limited sample size, market liquidity, features of the securities, or data problems, reported indicative spreads provide the market context for Standard & Poor's credit research and ratings.

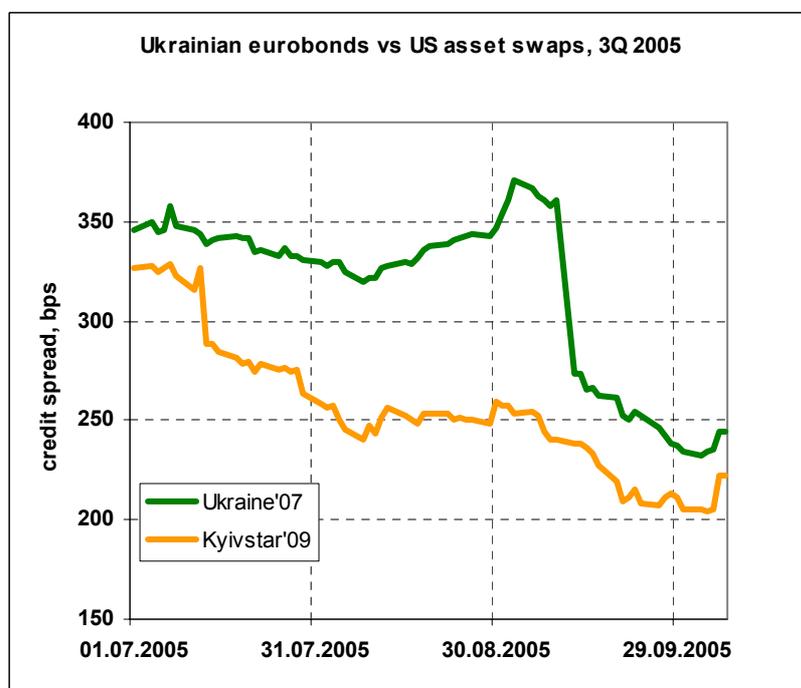
The still nascent, rapidly growing and evolving nature of the Ukraine domestic bond markets present particular challenges in calculating spreads. Where short duration, lack of liquidity, or specific characteristics of the securities (floating coupon rate, convertibility) do not allow for adequate spread calculations and comparisons, Standard & Poor's may not include such securities in the sample portfolio. The sample portfolio may change over time and might not give a full representation of the bond spreads of rated Ukrainian issuers. Please note that each selected bond for each credit is the benchmark product and, to avoid confusion due to different durations, Standard & Poor's has labeled the maturity on Eurobonds. Ratings indicated in graphs and tables are as of September 30, 2005.

Ukraine General Commentary

The ratings on Ukraine and the handful of leading entities in the country on which Standard & Poor's has published ratings and analysis to date remained unchanged despite a change of Prime Minister during the third quarter of 2005. Political and policy risk is significant in the Ukrainian environment and has been factored into the credit risk of every sector and entity. Price and spread volatility are not unexpectedly high as the markets digest specific developments.

Industrials

Standard & Poor's rates one company in Ukraine that has traded Eurobonds.



Source: Bloomberg, Standard & Poor's

The ratings on Ukraine-based mobile telecommunications operator **CJSC Kyivstar GSM (B+/Stable)** are constrained by the political and regulatory risks associated with operating in Ukraine (BB-/Stable/B). These risks have recently been demonstrated by court decisions related to the abridgement of decision-making powers of the company's management. This move was linked to a dispute between the company's shareholders: Telenor ASA (A-/Stable/A-2), which holds 56.52% of the company's shares, and Storm, which is controlled by the Russian-based Alfa Group and holds 43.48%. Such developments could have potential knock-on effects for the stability and development of the company if management decisions regarding long-term operational issues are hindered.

In addition, foreign-exchange risk remains a key rating constraint for Kyivstar, affecting in particular interest payments and equipment purchases. Furthermore, the achievement of sustainable free operating cash flow (FOCF) generation will remain subject to the inherent risks of operating in a dynamic and competitive

environment. Kyivstar will be free cash flow negative in the near term, due to the size and pace of its network capacity investments. The financial discipline of the company's management and shareholders, with which Standard & Poor's has been satisfied to date, therefore remains a key rating factor. The ratings are supported by the strong market performance and solid execution to date of the company's growth program. Kyivstar has successfully defended its strong market position and has maintained solid EBITDA profitability margins, although Kyivstar's half-year EBITDA margin dropped to 54% from 60% one year earlier. This was driven by increased costs, particularly marketing costs. The company has, however, materially grown funds from operations in an environment where the intensity of competition and penetration rates have increased. Significant growth potential in the 41%-penetrated domestic market remains, indicating further cash flow growth potential for mobile operators. Cumulative positive free cash flow generation over the medium term is expected to be higher than original expectations as a result of improved market dynamics. The stable outlook reflects Standard & Poor's expectation that Kyivstar is well placed to sustain its current credit quality, due to its solid business position, controlled business strategy, and manageable financial policy with regard to investments and dividend payments to shareholders. The stable outlook also assumes that the political environment and related economic situation in Ukraine will remain relatively stable.

Financial Institutions

Standard & Poor's rates 2 financial institutions in Ukraine and both have traded eurobonds.

On Sept. 1, 2005, Standard & Poor's revised its outlook on Ukraine-based Joint Stock Commercial Bank for Social Development **Ukrsotsbank (USB) (B-/C) to developing** from stable. At the same time, the 'B-' long-term and 'C' short-term ratings on the bank were affirmed. The outlook revision reflects the uncertainty related to the bank's ability to attract new capital in the next few months to support its fast-growing lending activities. In addition, USB's potential sale to a new strategic owner could have a significant impact on the bank's client base, business strategy, and capital support. USB is majority owned by the Interpipe group, a large Ukrainian industrial group, with Mr. Pinchuk as a beneficial owner. The group is involved in a number of legal disputes with the Ukrainian government regarding the privatization of its large assets. Bought by Interpipe from private owners in 2004, USB is exposed to a potential sale. USB's sizable concentration in both assets and liabilities, as well as vulnerability to the risky political and operating environment in the Ukraine (foreign currency BB-/Stable/B; local currency BB-/Stable/B) remain constraining rating factors. These risks are mitigated by USB's good commercial franchise and funding profile, which position the bank well to benefit from the growing Ukrainian economy. USB's core equity-to-assets ratio is reducing fast, having fallen to about 5.3% at end of July 2005 from 6.0% at year-end 2004 (in accordance with local accounting standards), due to modest internal capital generation compared with the rapid asset growth. A Ukrainian hryvnia (UAH) 300 million (\$59.4 million at UAH5.05 to \$1 as at Sept. 1, 2005) new share issue, originally planned for the third quarter of 2005, is now expected to take place in late 2005 or early 2006. This would represent a sizable 60% increase of the bank's equity base, thereby alleviating a severe strain on USB's asset expansion. On the other hand, if the new capital injection is not received, this would put additional pressure on the bank's capitalization.

The ratings on Ukraine-based **PrivatBank (B-/C) and (B-/C) counterparty credit and certificate of deposit ratings** with **stable outlook** reflect the reduced political risk and uncertainty in Ukraine (B+/Stable/B) following the inauguration of Viktor Yushchenko as Ukrainian president on Jan. 23, 2005 after period of high uncertainty during the election process and public demonstrations.

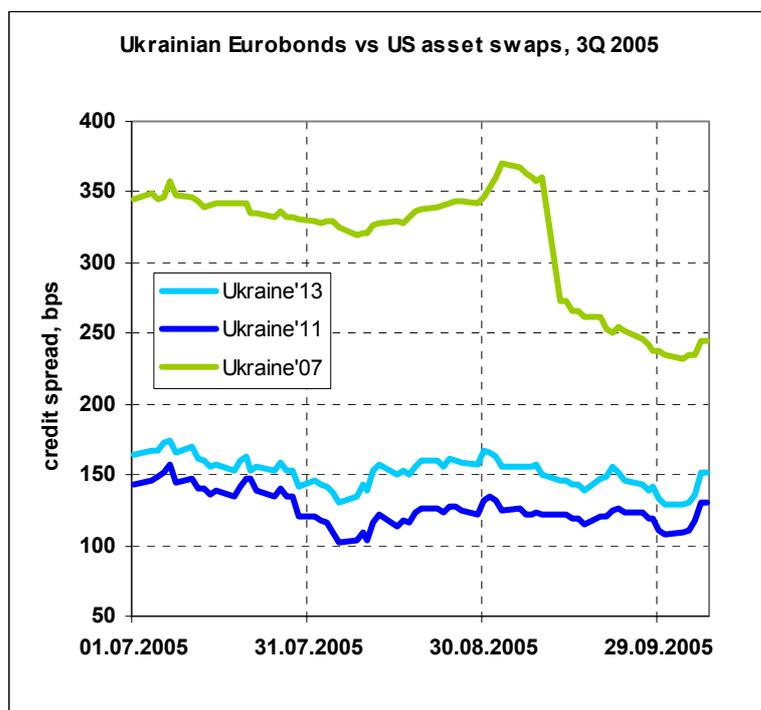
At the same time, Standard & Poor's affirmed its 'B-' long-term rating on the **Loan Participation Notes** issued by Credit Suisse First Boston International (A+/Stable/A-1) for the purpose of financing a loan to PrivatBank.

PrivatBank is the largest commercial bank in Ukraine, with assets of Ukrainian hryvnia (UAH) 14.2 billion (\$2.7 billion at UAH5.18 to \$1) at June 30, 2004. The bank has a 11.2% market share of customer loans, and 12.3% of customer deposits in Ukraine, and holds leading positions in retail banking (as at the end of 2004).

The stable outlook reflects Standard & Poor's expectations that the bank will increase the scope of its operations in strategic business areas, while avoiding any significant deterioration in capital leverage or loan quality. Sizable and long-standing improvement in capital adequacy, supported by higher recurring profitability, may have positive implications for the ratings and outlook on the bank. A weakening in core capitalization ratios would have negative ratings implications.

Public Finance

Standard & Poor's rates the central government of Ukraine and the City of Kyiv, that both trade eurobonds.



Source: Bloomberg, Standard & Poor's

Oct. 13, 2005 Standard & Poor's assigned its **'B+'** long-term foreign currency senior unsecured debt rating to the proposed loan participation notes, limited to a maximum amount of \$250 million, to be issued by Credit Suisse First Boston International (CSFBi; A+/Stable/A-1) to fund a loan to the Ukrainian City of Kyiv (Kiev; B+/Positive/--). The rating on the notes is equalized with the issuer credit rating on the city. The maturity of the notes will be 10 years, and the placement will take place by the end of Oct., 2005. CSFBi will not provide any payment guarantees, and debt servicing on the notes will depend solely on Kyiv's ability to repay the loan. The proceeds of the loan will be used for capital investments in public infrastructure, namely an important bridge construction project. The ratings on the city are constrained by Kyiv's growing foreign currency debt, limited fiscal flexibility due to the central government's control of major revenues, and evolving interbudgetary relations.

The rating on the city also reflects significant infrastructure financing needs and the room to improve management sophistication and transparency. These factors are mitigated by Kyiv's role as the capital of, and largest city in, Ukraine (foreign currency BB-/Stable/B; local currency BB/Stable/B). Ukraine's strong growth potential, and incipient reform of the economy will have a beneficial effect on Kyiv. The ratings on Kyiv are further supported by the city's strong financial performance and high liquidity.

Kyiv's rapidly growing debt exposes the city to high foreign exchange risk. Furthermore, significant additional debt funding will be required to upgrade and develop the city's infrastructure. This will lead to temporary large deficits after capital expenditures. Kyiv's debt, mostly denominated in foreign currency, is expected to reach 60% of budgeted revenues by the end of 2005, and then stabilize at this level. This high debt burden and foreign exchange risk exposure is to some extent mitigated by the debt's long-term structure and the city's good liquidity. Revenue predictability and flexibility are low, owing to the central government controls, an evolving interbudgetary system, and changing tax rates, types, and shares. Expenditure flexibility is also restricted, due to budgetary pressures and existing local and national regulations. In addition, there is a need to improve transparency of operations and finances, as well as management sophistication in financial and investment areas.

The positive outlook reflects Standard & Poor's expectations that the growing economy and investments will lead to significant growth in the city's revenues. Future positive rating actions will depend on the city's ability to keep debt growth in line with or below revenue growth, with stabilization of debt at less than 60%-70% of revenues. Rating actions will also depend on the improvement of the balance after capital expenditure from 2006, together with further improvement in transparency and management sophistication.

Sept. 8, 2005--Standard & Poor's said that its **BB-/Stable/B** foreign and **BB/Stable/B** local currency sovereign credit ratings on Ukraine would not be affected by today's decision by President Viktor Yushchenko to dismiss his government. The bickering between the Administration and the government, which escalated in recent weeks, made implementation of meaningful political and economic reform impossible. The change of government could provide a new impetus for improving the chances that Ukraine's long and arduous path toward political stability will be addressed more effectively.

The ratings on Ukraine continue to be supported by strong growth potential, relatively robust external liquidity, low government debt levels, and a better-than-expected fiscal performance thus far in 2005. The stable outlook balances the Administration's agenda to implement political and structural reform with the difficulties it faces in

Ukraine's challenging political calendar. However, Standard & Poor's expects that the gradual rehabilitation of state institutions after decades of corruption and mismanagement should increase private sector confidence, reduce tax evasion, and attract foreign direct investment. Ongoing efforts to reduce inflation, sustain output growth, and improve Ukraine's fiscal performance are the key economic challenges that must be addressed to ensure that its credit standing will not be compromised.

SpreadMonitor - Ukrainian portfolio

To get a general sector overview, we monitor the selected sample portfolio of credit products below. Please note that the spread for Eurobonds is used over the respective swaps curve.

Corporates

Eurobond issuer name	Selected security	Standard & Poor's Corporate Credit Ratings	Current spread (bps)	Quarterly change
CJSC Kyivstar GSM	US\$ 265 million 7.75% 2009	B+/Stable/--	222.22	-104.41

Public Finance

Eurobond issuer name	Selected security	Standard & Poor's Corporate Credit Ratings	Current spread (bps)	Quarterly change
Ukraine (Republic of)	US\$ 1.529 billion 11% 2007	BB-/Stable/--	224.08	-101.58
	US\$ 600 million 6.875% 2011	BB-Stable/--	129.93	-13.63
	US\$ 1 billion 7.65% 2013	BB-Stable/--	151,17	-13.28
City of Kyiv	US\$ 150 million 8.75% 2008	B+/Positive/--	---	---
	US\$ 200 million 8.625% 2011	B+/Positive/--	---	---
	US\$ 250 million loan participations 2015	B+ /Positive/--	---	---

Source: Bloomberg LP, MICEX, Cbonds, Standard & Poor's

* Highlighted in bold are ratings or outlooks that are new or have changed compared to last quarter.

Full list of Standard & Poor's ratings in Ukraine (as of August 1, 2005)

Issuer name	Date of most recent rating change	Foreign Currency Corporate Credit Rating	Local Currency Corporate Credit Rating	National Scale Rating
Sovereign Ukraine (Republic of)	08-Sept-2005	BB-Stable/--	BB/Stable/--	uaAA

* Highlighted in bold are ratings or outlooks that are new or have changed compared to last quarter.

Corporate finance				
CJSC Kyivstar GSM	18-Mar-2005	B+/Stable/--	B+/Stable/--	--

* Highlighted in bold are ratings or outlooks that are new or have changed compared to last quarter.

Financial Institutions				
PrivatBank	25-Jan-2005	B-/Stable/C	B-/Stable/C	--
Ukrasotsbank (OJSC)	01-Sept-2005	B-/Develop/C	B-/Stable/C	--
Ukrasots Finance B.V.				

* Highlighted in bold are ratings or outlooks that are new or have changed compared to last quarter.

Public Finance				
City of Kyiv	12-May-2005	B+/Positive/--	B+/Positive/--	--

* Highlighted in bold are ratings or outlooks that are new or have changed compared to last quarter.

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