

IN THE BELLY OF THE BEAR

Selected UK-incorporated companies operating in Russia and the FSU

| COMPANY | EPIC CODE | PRICE (P) | CAPITALISATION (£M) | PE RATIO | PEG RATIO | LISTING | INCORPORATED | OPERATIONS BASED | OPERATIONS INCLUDE |
|-----------------------------|-----------|-----------|---------------------|----------|-----------|---------|--------------|------------------|--------------------|
| Kazakhmys | KAZ | 12.46 | 5,824.7 | 8.2 | 0.7 | Main | UK | Kazakhstan | Mining |
| Sibir Energy | SBE | 4.70 | 1,489.2 | 0.0 | 0.0 | Aim | UK | Russia | Oil & gas |
| Peter Hambro Mining | POG | 9.55 | 775.6 | 47.0 | 1.4 | Aim | UK | Russia | Mining |
| Max Petroleum | MXP | 1.94 | 627.0 | 0.0 | 0.0 | Aim | UK | Kazakhstan | Oil & gas |
| Aricom | TIO | 0.52 | 482.3 | 0.0 | 0.0 | Aim | UK | Russia | Mining |
| Oriel Resources | ORI | 0.70 | 445.5 | 0.0 | 0.0 | Aim | UK | Kazakhstan | Mining |
| Regal Petroleum | RPT | 2.16 | 308.6 | 13.5 | 0.0 | Aim | UK | Ukraine | Oil & gas |
| Oxus Gold | OXS | 0.46 | 169.0 | 121.7 | 0.1 | Aim | UK | Uzbekistan | Mining |
| Volga Gas | VGAS | 2.97 | 158.9 | 0.0 | 0.0 | Aim | UK | Russia | Oil & gas |
| Dragon-Ukrainian Properties | DUPD | 1.27 | 132.1 | 0.0 | 0.0 | Aim | UK | Ukraine | Real estate |
| Timan Oil & Gas | TMAN | 0.66 | 106.9 | 0.0 | 0.0 | Aim | UK | Russia | Oil & gas |
| Hambleton Mining | HMB | 0.17 | 71.0 | 0.0 | 0.0 | Aim | UK | Kazakhstan | Mining |
| Baltic Oil Terminals | BTC | 1.28 | 61.0 | 0.0 | 0.0 | Aim | UK | Russia | Oil & gas |
| Victoria Oil & Gas | VOG | 0.37 | 46.1 | 0.0 | 0.0 | Aim | UK | Kazakhstan | Oil & gas |
| Aurum Mining | AUR | 0.85 | 40.6 | 0.0 | 0.0 | Aim | UK | Kyrgyzstan | Mining |
| Mobile Credit Baltic | MCRB | 1.73 | 24.3 | 0.0 | 0.0 | Aim | UK | Baltics | Consumer finance |
| Zirax | ZRX | 0.13 | 22.8 | 16.2 | 1.0 | Aim | UK | Russia | Chemicals |
| Ukrproduct Group | UKR | 0.57 | 23.6 | 21.7 | 0.3 | Aim | UK | Ukraine | Dairy products |
| Trans-Siberian Gold | TSG | 0.32 | 13.2 | 0.0 | 0.0 | Aim | UK | Russia | Mining |
| Anglo Asian Mining | AAZ | 0.13 | 12.4 | 0.0 | 0.0 | Aim | UK | Azerbaijan | Mining |
| Cardinal Resources | CDL | 0.11 | 12.0 | 0.0 | 0.0 | Aim | UK | Ukraine | Oil & gas |
| Kryso Resources | KYS | 0.14 | 9.1 | 0.0 | 0.0 | Aim | UK | Tajikistan | Mining |

Prices as at close on 1 Aug 2007

93,500 tonnes of copper concentrate. Kazakhmys already has a relatively high level of reserves, and projects are under way to extend existing mines.

Still, the company is keen to reduce its dependence on a single commodity, so it expects to make acquisitions where opportunities present themselves in neighbouring regions with similar levels of political and economic stability. For the foreseeable future, though, the company's fortunes, and its share-price performance, will be tied to movements in the price of copper – and, indirectly, to industrial demand for copper from emerging industrial economies, such as China, which remains buoyant.

Right now, copper is trading at around \$8,000 per metric tonne, having recovered from a slump of close to \$5,000 per tonne in February, on concerns about the durability of growth in the Chinese economy.

So the share price now stands at more than double the float price in October 2005. Forecasts for the next couple of years appear to show profits plateauing, but further strength in the copper price could change all that. And with the shares trading on prospective multiples of earnings and cash flow of only eight times, and with the balance sheet looking highly liquid, future uncertainties seem unlikely to weigh heavily on the price. Long-term buy.

UKRPRODUCT GROUP (UKR)

There is money to be made from even the most humble products if the cost structure is right and production is efficient.

Ukrproduct operates four facilities in the Ukraine where it makes

a variety of processed dairy-based products, including skimmed milk powder, hard cheese, processed cheese and packaged butter. The company's results suffered from an embargo in Russia on dairy products from the Ukraine, but this situation now appears to have abated.

Hard cheese is a new product line for the company, and initial sales from this segment, as well as ongoing high prices for skimmed milk powder, should produce a sharp recovery in profits in the current year – more or less back to the levels seen in 2005. Ukrproduct's broker expects pre-tax profit to rise from £1.33m to around £1.91m, with £2.31m pencilled in for 2008.

A recently issued trading statement from the company noted that sales across all of its business segments were strong, with margins sustained or – in the case of skimmed milk powder – improving. Indeed, demand for skimmed milk powder on the world market continues to be robust and Ukrproduct has managed to sell its production from newly expanded capacity in full, with a similar experience seen in the first two months of the second half. Trading performance has been ahead of management expectations, too, auguring well for full-year profits.

The attractive aspect of Ukrproduct's operation is its high return on capital and return on equity, both in excess of 25 per cent. This, compared with a relatively low payout in dividends so far, suggests that management is keen on channelling these high returns back into productive corporate investment, which should reinforce the company's growth while product prices remain firm.

Attractive ratios like this: ROE around 25 per cent, market capitalisation around 55 per cent of sales, and a 2008 PER in the region of 11 times, all make the shares look attractive. Buy.