Ukraine / Oil & Gas

Ukrnafta

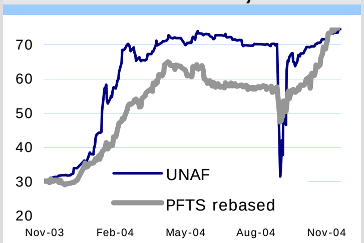
VIOC: The Ice Is Broken

BUY

3 Dec 2004	USD 14.5
12m Target	USD 32.0

Andriy Gostik
+380 44 206 8370
ag@con-cap.com

UNAF Mid-Market, UAH



Market Information	
Bloomberg	**UNAF UZ**
Reuters	**UNAF.PFT**
No of Shares, mn	**54.2**
Reg S GDR to Ord.	**1:6**
Market price, USD	**14.50**
52Wk H/L, USD	**5.67/14.50**
MCap, USD mn	**786.3**
Free Float, %	**8%**

Stock Ownership	
State	**50%+1**
Privat Group	**42%**
Minorities	**8%**

Ratios	
EBITDA Margin, 9M04	**56%**
EBIT Margin, 9M04	**45%**
Net Margin, 9M04	**31%**
Net Debt/Equity, 9M04	**0.03**

A vertically integrated oil company in the making, Ukrnafta is now better positioned than ever to benefit from record high oil prices. Value creation will stem mainly from a downstream still being augmented. Our 12-month target is USD 32.0, providing for a 121% upside. BUY

Ukrnafta's 9M04 sales grew 41% yoy, to USD 543.5 mn (as reported by the company). We attribute such dramatic growth to two factors: record prices for crude and proceeds from a now operating retail network. EBITDA margin for the period was 56.4%, while net margin equaled 31.2%.

The company begins a new upward extraction trend. Following a lackluster 2002, when oil & condensate output increased a mere 0.02% and gas output fell 1.15%, last year Ukrnafta achieved a 2.97% growth in oil & condensate and a 0.61% increase in gas output. Through 9M04, the company's oil & condensate production demonstrated a hefty 6% growth, while gas extraction rose a solid 4%.

June 2004 marked the start of Ukrnafta's retail operations. With average daily sales of about 10 cm of oil products per station, we estimate that net downstream sales will account for approximately 25% of Ukrnafta's total revenues in 2004.

Ukrnafta's stated objective is 947 gas stations by 2007. Management revealed its plans to have 400 gas stations by year end, to double this number in 2005 and subsequently buy another 147. Ukrnafta's retail network encompassed 295 stations as of October 2004. At present, the company's management is well on track to realizing this strategy. Having acquired 175 gas stations in 2003, Ukrnafta managed to purchase 120 more by 10M04.

Rig count was augmented by 46 wells in 9M04. 32 new oil wells and 14 new gas wells were opened, 10% above the planned number. Overall, in 2004 at least 60 new wells will be drilled.

We believe that the current political crisis in Ukraine will not be detrimental to Ukrnafta. Ukrnafta is the key national oil operator, balancing Russian crude imports, and will remain under the auspices of the state regardless of who is President. We do not think that under any scenario will there be a redistribution of property, license revocation or derailment of vertical integration plans as long as the state is the majority shareholder. Therefore, any negative political risks per se are not a source of meaningful concern for Ukrnafta's stakeholders.

KEY FINANCIAL DATA, USD mn

	Net Revenue	EBITDA	Net Income	DPS, USD
2003	469.4	319.5	166.9	0.347
2004E	782.0	462.4	255.6	0.943
2005E	1,794.5	745.4	432.7	2.793
Spot Exch Rate		5.31		

KEY RATIOS

	P/S	P/E	EV/EBITDA	Div Yield
2003	1.68	4.71	2.45	2.4%
2004E	1.01	3.08	1.89	6.5%
2005E	0.44	1.82	1.27	19.3%

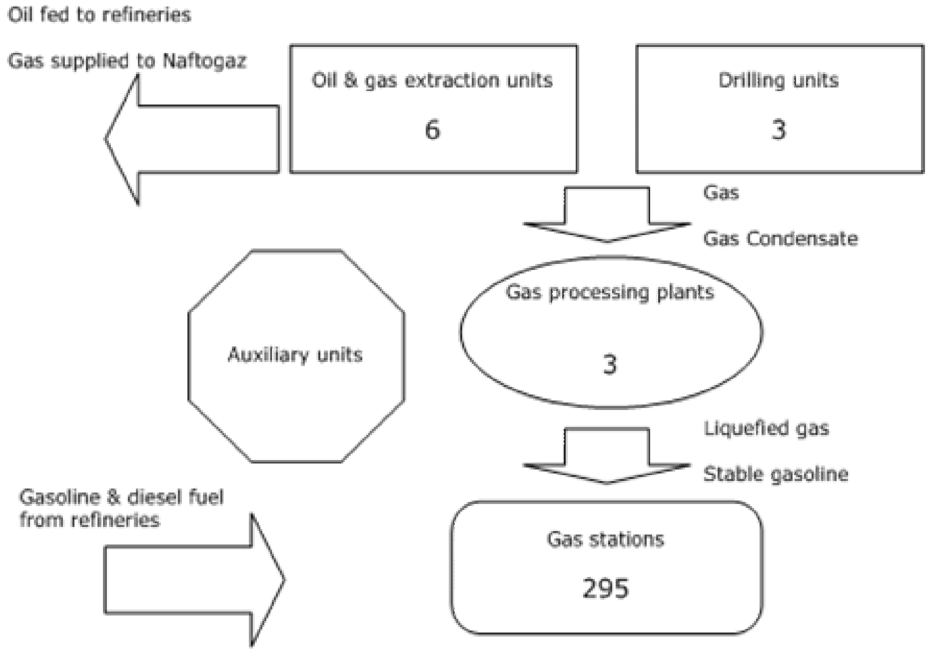
Company Profile

Structure

Ukrnafta is Ukraine's largest oil and second largest gas extractor

Ukrnafta is Ukraine's monopoly oil extractor and second largest gas extractor. Besides extraction, the company is involved in gas processing and the retail trade of light oil products. Ukrnafta's pipeline network is 3.2 ths km long.

Chart 1. Ukrnafta's Structure*



Source: Company Data
**** number of gas stations as of October 2004***

The company is on the way from a pure extractor to VIOC

Previously a pure extractor, Ukrnafta began to acquire gas stations in 2003 and first launched a retail business under its own brand on June 3, 2004. Its three gas processing plants (GPPs) enable the company to produce value-added products from the gas and gas condensate it extracts – liquefied gas and stable gasoline. Yet, the company does not possess in-house oil refining capacities and has to sell crude to refineries and then purchase gasoline and diesel fuel from them.

In addition to independent hydrocarbon extraction, Ukrnafta is involved in four JVs with foreign partners – UkrKarpatOil, Kashtan Petroleum, Boryslav Oil Company and Romgaz. Ukrnafta has also concluded Production Sharing Contracts (PSC) with a number of smaller companies.

Corporate Governance

Ukrnafta's corporate governance practice is shaped by the interplay of its two largest shareholders – Naftogaz and Privat

Ukrnafta's majority shareholders are Naftogaz Ukrainy (50% + 1 share) and Privat group (approximately 42%). The former is Ukraine's state-owned oil & gas monopoly that combines a number of extracting, refining and transporting companies under one umbrella. The latter is one of Ukraine's four largest business groups, whose assets are diversified across several industries. Naftogaz is uniquely positioned both as a state-owned corporation and a body with regulative powers in the industry. This enables Naftogaz to force Ukrnafta to sell gas to them at below-market prices. Companies associated with Privat group also own an undisclosed controlling stake in Naftokhimyk Prykarpattya (refinery) and in a number of oil and oil product traders.

Ukrnafta's corporate governance practices are largely dependent on the policies of its two key stakeholders and interactions between them. Namely, the company was unable to hold shareholder meetings in 2000 – 2002 due to confrontations between the two groups. The first AGM after the long break was held March 21, 2003, as Naftogaz and Privat group finally came to terms. As a result, a new management team loyal to Privat took control over the company. Naftogaz's concession of operating control to Privat, in our view, proved beneficial for Ukrnafta, who can now vertically integrate without minority shareholder objections.

The company is run by a management team loyal to Privat group

We regard the work of Ukrnafta's new management as highly efficient in terms of improved operating results and in the success of building downstream assets, as will be discussed below. Yet, its loyalty to Privat also raises corporate governance risks for minority shareholders and concerns of possible transfer pricing.

Current corporate government risks are those of transfer pricing and possible conflicts between Naftogaz and Privat

Despite the present apparent concord of Ukrnafta's key shareholders in running the company, the possibility of future conflicts between Naftogaz and Privat cannot be fully ruled out. A recent escalation of tension between the two occurred when Privat initiated a proposal to issue additional shares which allegedly would have diluted Naftogaz's stake, but was blocked by the latter.

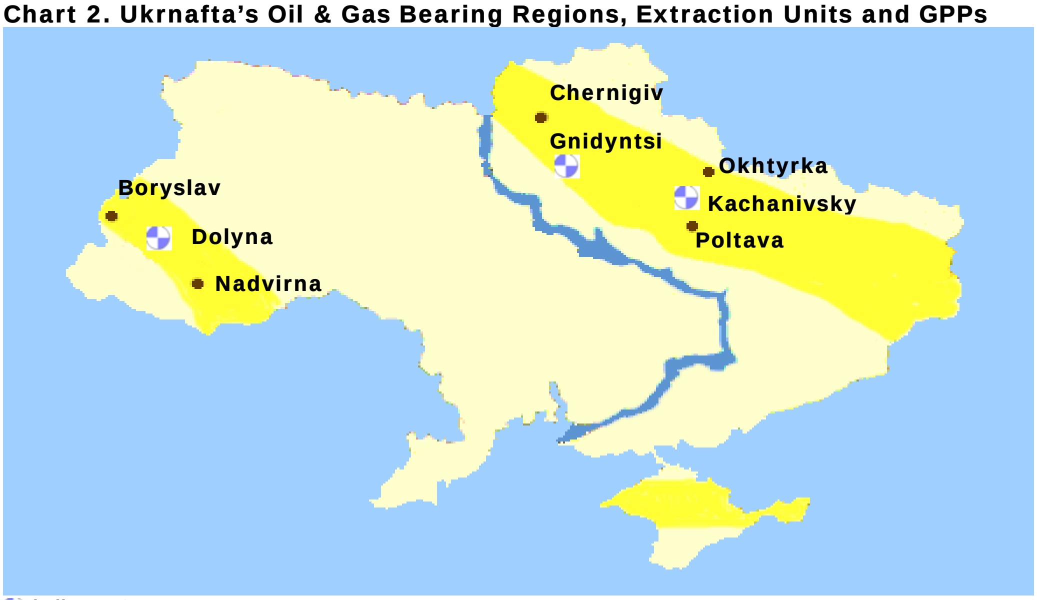
We believe that the current political crisis in Ukraine will not be seriously detrimental to Ukrnafta. Ukrnafta is the key national oil operator, balancing Russian crude imports, and will remain under the auspices of the state regardless of who is President. We do not think that under any scenario will there be a redistribution of property, license revocation or derailment of vertical integration plans as long as the state is the majority shareholder. Therefore, any negative political risks per se are not a source of meaningful concern for Ukrnafta's stakeholders.

Oil & Gas Reserves

Ukrnafta develops 99 oil & gas fields, predominantly in eastern and western Ukraine

Ukrnafta extracts from 99 oil & gas fields located in the oil-rich eastern (Sumy, Chernigiv, Poltava, Kharkiv and Dnipropetrovsk oblasts) and western (Lviv, Ivano-Frankivsk and Chernivtsi oblasts) regions of Ukraine. Of them, 52 fields are oil-bearing, 33 are gas-bearing and 14 are gas condensate-bearing.

Chart 2. Ukrnafta's Oil & Gas Bearing Regions, Extraction Units and GPPs



indicates GPP

At the AGM in March 2003, Ukrnafta's management detailed internal estimates of hydrocarbon reserves, showing 501.8 mn boe (104.7 mn mt of standard fuel) ABC1 reserves. ABC1 classification is adopted in the FSU. Reserves classified as category A comprised 19.9% of the total, category B accounted for 12.4% and the remaining 67.7% were categorized as C1 reserves.

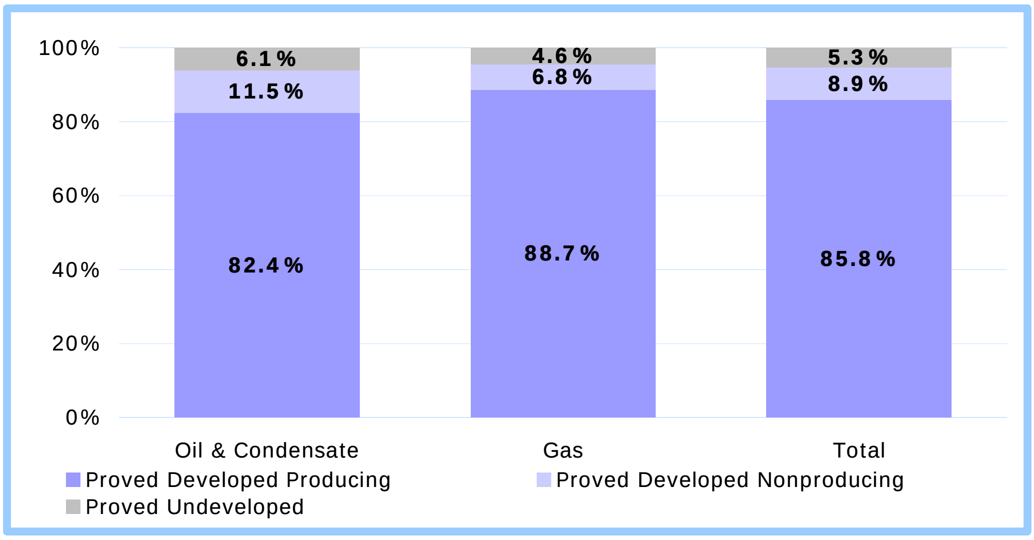
Although called 'industrial', ABC1 reserves are not directly comparable to proved reserves under SPE or SEC classifications. We use these numbers as a benchmark to estimate the speed at which reserves are being accreted/depleted. According to our calculations, Ukrnafta's ABC1 reserves as of 1H04 constituted 448.6 mn boe, or

11.1 years at current extraction rates.

Ukrnafta's audited proved reserves totaled 532.2 mn boe in 2003 (under SPE)

In 2003, Ukrnafta conducted an international audit of its reserves. Miller & Lents' estimates indicate that Ukrnafta's total proved hydrocarbon reserves amounted to 532.2 mn boe, according to SPE classification. Most reserves were classified as Proved, Developed, Producing due to the fact that the majority of Ukrnafta's fields are mature. Miller & Lents examined 78 of 99 fields that are referenced as 'Stage 1' (production development stage) fields and contain most of the company's proved hydrocarbon reserves. The remaining 11 fields are categorized as those in prospect & production development, thus they contain relatively less proved reserves.

Chart 3. Ukrnafta's Audited Proved Reserves



Source: Company Data

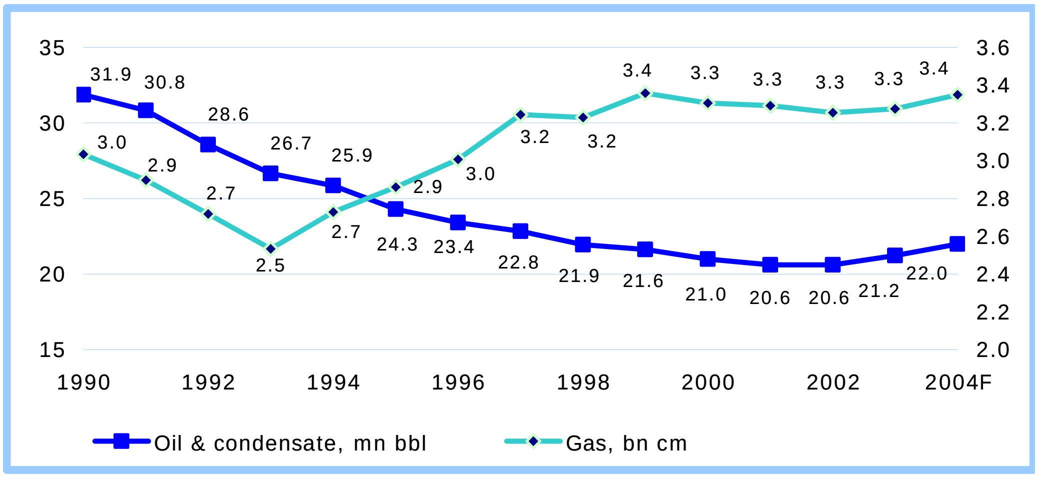
Oil & condensate proved reserves comprise 45.5% of the total, with an estimated remaining life of 11 years

Ukrnafta's oil & condensate reserves account for 45.5% of its total hydrocarbon reserves (242.4 boe) and gas reserves comprise the remaining 54.5% (289.8 mn boe, or 1738.5 bcf). At the 2003 extraction rate, this would imply a total proved reserve life of 13.2 years and an oil & condensate proved reserve life of 11.5 years. The largest portion of Ukrnafta's reserves, 77% of the total, is deposited in the Sumy and Poltava oblasts (eastern Ukraine), the former endowed with oil reserves and the latter with gas reserves.

Extraction

After new management took over operating control of Ukrnafta in 2003, the company managed to reverse its falling trend of oil & gas output:

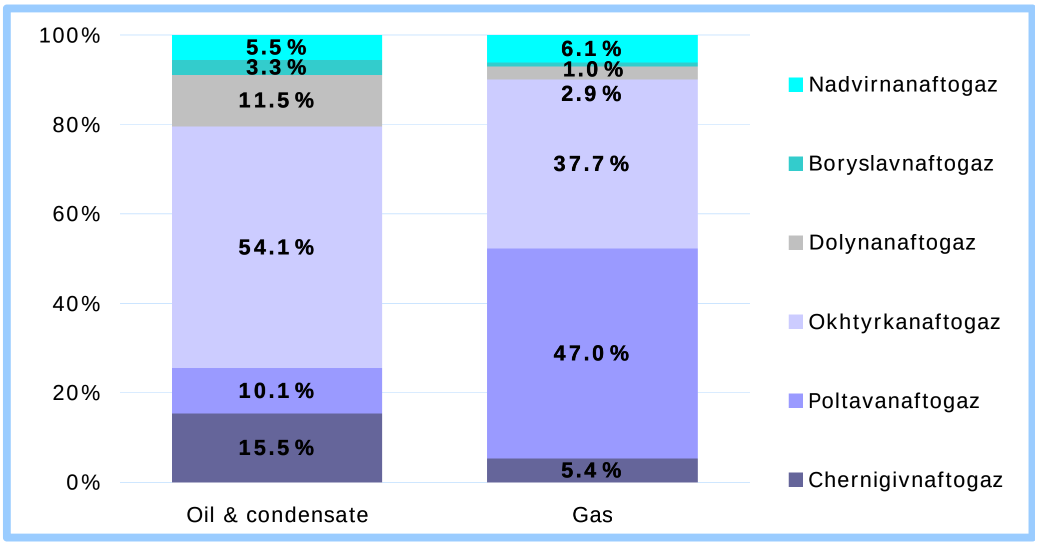
Chart 4. Ukrnafta's Oil and Gas Output Dynamics



Source: Company Data

Among Ukrnafta's six extraction departments, Okhtyrkanaftogaz (Sumy oblast) and Poltavanaftogaz (Poltava oblast) were the largest contributors to the company's total output in 2003:

Chart 5. Output Structure by Unit in 2003:



Source: Company Data

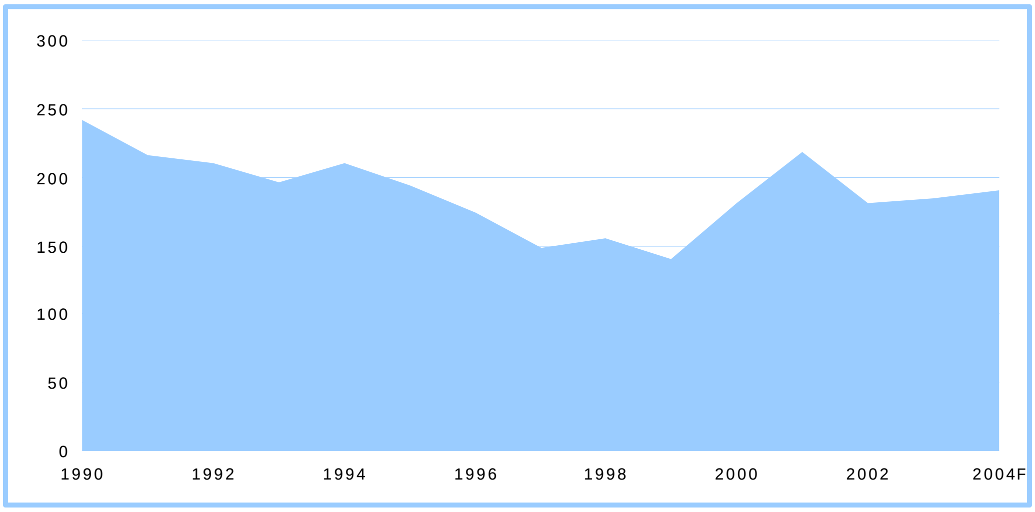
In addition, in 2003, Ukrnafta's JVs extracted 442.7 ths bbl of oil & condensate (2.1% of Ukrnafta's independent extraction) and 39.3 mn cm of gas (1.2% of independent extraction).

Technological advances and increased drilling enabled an increase in extraction output

UNAF continued increasing hydrocarbon extraction in 2004. 9M04 oil & condensate output grew by 6% (to 16.7 mn bbl) and gas by 4% yoy, an outstanding result given Ukraine's largely depleted hydrocarbon reserves. In 2004, Ukrnafta plans to extract 21,990 ths bbls of crude oil & condensate (up 3.6% yoy) and 3,350 mn cm of gas (up 2.3% yoy).

Enhanced extraction is buttressed by intensified drilling in 2003 – 2004 after a small slow down in 2002:

Chart 6. Ukrnafta's Drilling Dynamics, ths m



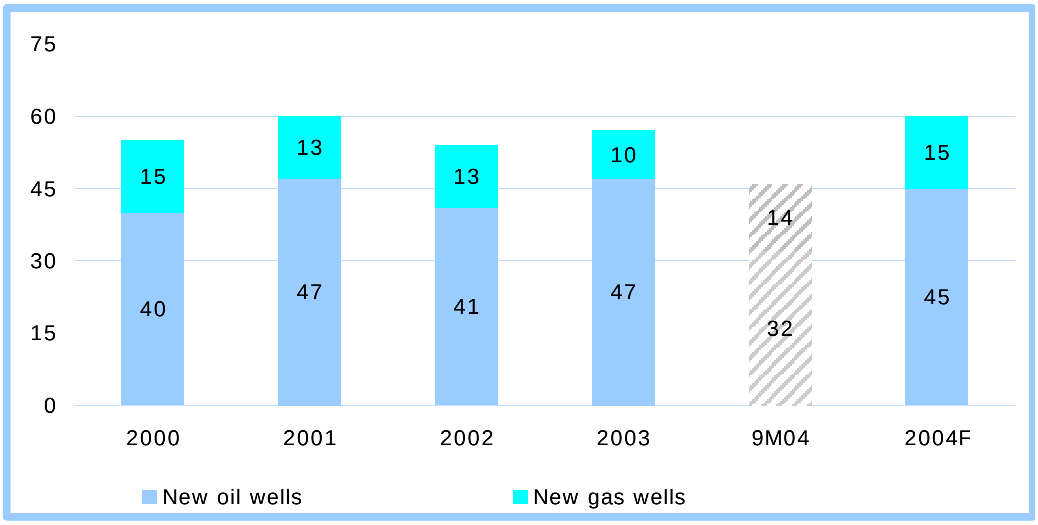
Source: Company Data

Ukrnafta's rig count stabilized in recent years and is showing modest growth

Efficiency of drilling also improved under new management as a result of new technology implementation and reinforced measures to prevent oil embezzlement.

9M04 rig count, with 32 oil & 14 gas wells opened, exceeded their planned number by four. Overall, in 9M04, Ukrnafta's operating well stock equaled 2,462 -- 2,218 oil wells and 244 gas wells.

Chart 7. Ukrnafta's Rig Count



Source: Company Data

Creation of a VIOC is indispensable, as upstream alone would not assure stable future cash flows for the company

Due to field depletion, UNAF operates a large number of stripper wells, which result in a low average daily well flow of 22.7 bpd (the average daily well flow for Russian VICs was 58.6 bpd in 2002 according to Renaissance Capital estimates). In terms of daily flow, Russian Tatneft is the best comparable (up to 30 bpd). It is easy to conclude that Ukrnafta's upstream operations will not assure a sustainable and profitable business, thus vertical integration is crucial.

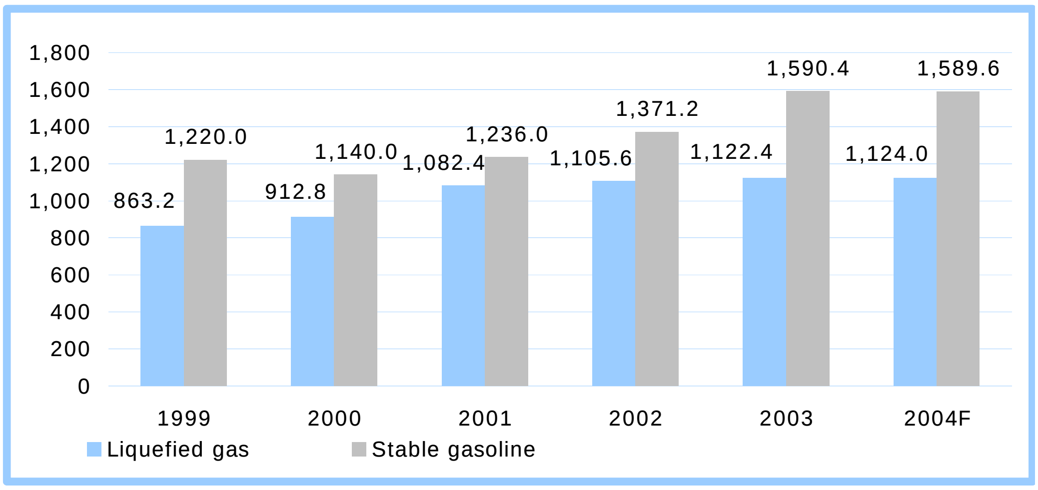
Ukrnafta's possible involvement in drilling/extraction abroad is an option to boost upstream output. In fact, negotiations were carried out with partners in Russia, Kazakhstan, Libya and Middle Eastern countries (Kuwait, Oman, Qatar, the United Arab Emirates. Yet, no concrete results have so far been achieved. We forecast that the main source of Ukrnafta's future revenues will be downstream assets.

Downstream Operations

Ukrnafta lacks oil refining capacities, but is endowed with the largest gas processing units

Presently Ukrnafta lacks oil refining capacities, but its gas processing units, represented by three GPPs with a throughput of 3,940 mn cm, are the largest producers of liquefied gas and stable gasoline in Ukraine. Their output capacity is close to 3.9 bn bbls. In addition, gas is processed at the Boryslavnaftogaz extraction unit. Liquefied gas and stable gasoline are widely used in Ukraine as a cheap alternative to automotive fuel and liquefied gas is used for heating, etc. by rural communities.

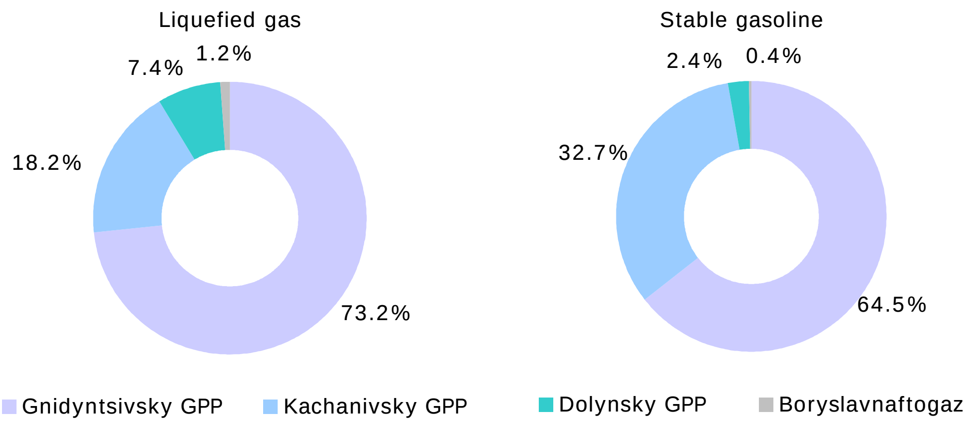
Chart 8. Ukrnafta's Gas Products Output Dynamics, ths bbl



Source: Company Data

In 9M04, liquefied gas output increased 15% yoy (to 950 ths bbls) and stable gasoline output grew 20% yoy (to 1,327 ths bbls).

Chart 9. Ukrnafta's Gas Products 2003 Output by Division



Source: Company Data

Ukrnafta's gas station network comprised 295 units as of the end of Oct 2004

Ukrnafta's management has declared its intention to create a vertically integrated oil company (VIOC), with Ukrnafta being the core. Under the framework of this strategy, the company started acquiring gas stations in 2003 and launched a retail business in June 2004. By October 2004, Ukrnafta's network comprised 295 gas stations, located mainly in the central and western parts of Ukraine. Most of them were acquired from companies related to Privat group (Sentoza, Avias, et al.), with an average purchase price of USD 0.9 mn.

Although detrimental, possible transfer pricing would be offset with incremental cash flows from the acquired retail business

While it is hard to estimate the fair market value of these acquisitions, due to the wide range of purchase prices for gas stations (USD 0.4 – USD 1.5 mn), depending on location and infrastructure, we suspect that some of the gas stations were bought at above-market prices. Although such transfer pricing clearly erodes company value, our analysis in subsequent sections of this report indicates that any negative impact is clearly offset by value creation from their synergy effect (Ukrnafta's brand + low-cost oil products = retail cash flows).

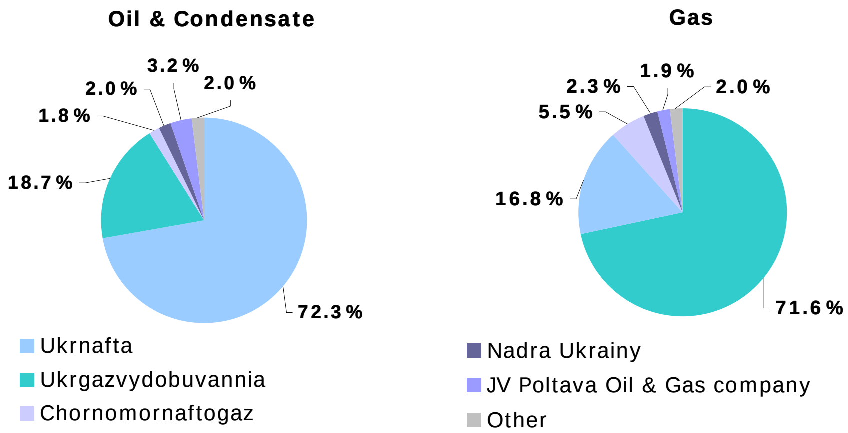
Ukrnafta: Industry Background

Ukrainian Oil Extractors

Ukrnafta extracts 91% of oil and 17% of gas in Ukraine

Ukrnafta accounts for over 91% of all oil extracted in Ukraine, with shares in the country's gas condensate and gas output of 28% and 17%, respectively. In January – September 2004, Ukraine's oil & gas output had the following structure by company:

Chart 10. Ukraine's Oil & Gas Output Breakdown by Company, 9M04



Source: Ukrainian News

Ukrnafta's crude enjoys strong demand due its superior quality to Urals and Ukraine's deficit of domestically extracted hydrocarbons

Ukraine is highly dependent on imported hydrocarbons and thus Ukrnafta is well positioned as the largest domestic oil operator. Ukrnafta's oil is superior to Urals in terms of sulphur content and viscosity. In addition, Ukrtatnafta, the largest refinery in Ukraine and the second largest in Europe (after Shell's Pernis refinery), operates capacities designed specifically for Ukrnafta's oil. This ensures not only stable demand for Ukrnafta's oil, but also a price premium.

Ukraine's Crude Refining

Light oil products in Ukraine are produced by six oil refineries and one gas condensate processing plant. Total refining capacities amount to 390.7 mn bbls annually.

Table 1. Ukraine's Refining Capacities

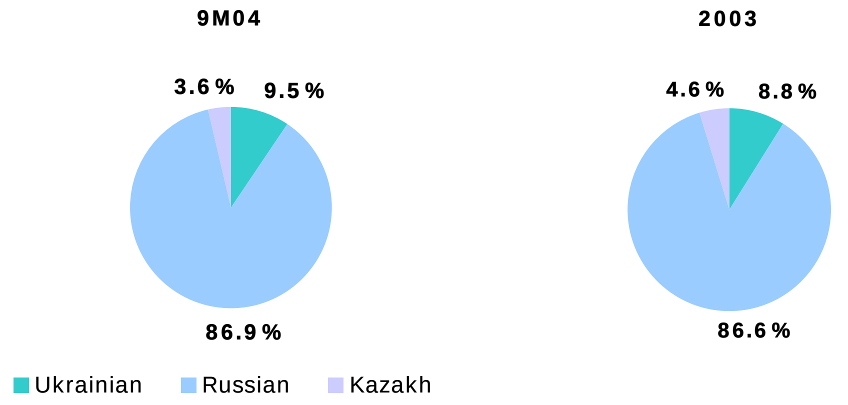
Crude oil	Key shareholders	Nameplate capacity, mn bbls/yr	Share in Ukraine's capacities, %	Oil condensate refined 2003, mn bbls	Capacity utilization level, 2003
Ukrtatnafta	Naftogaz(43%); Tatarstan (56%)	136.3	34.9%	48.6	35.6%
LiNOS	TNK-BP (78%+)	117.3	30.0%	45.5	38.8%
Kherson Refinery	Alliance Group (28%); Kazakhoil (20%)	52.0	13.3%	14.5	27.8%
Odesa Refinery	Lukoil (93%)	28.6	7.3%	20.8	72.6%
Galychyna refinery*	SPFU(25%); Privat (33%); Kontinium (40%)	31.5	8.1%	15.1	48.0%
Naftokhimyk Prykarpattya refinery	Privat (70%+); SPFU (26%)	19.1	4.9%	15.1	79.5%
Gas condensate & oil					
Shebelynka GPP	Naftogaz (100%)	5.9	1.5%	5.6	95.6%
Total		**390.7**	**100%**	**165.2**	**42.3%**

**SPFU stands for the State Property Fund of Ukraine*

Key players in Ukraine's refining industry are Russian majors, the state and Privat group

Most of Ukraine's refineries are owned/controlled by Russian oil majors (Ukrtatnafta, LiNOS, Kherson refinery, Odesa refinery) who feed them with Russian oil. Kazakh oil is supplied predominantly to the Kherson refinery.

Chart 11. Oil Fed to Ukrainian Refineries



Source: Ukrainian News

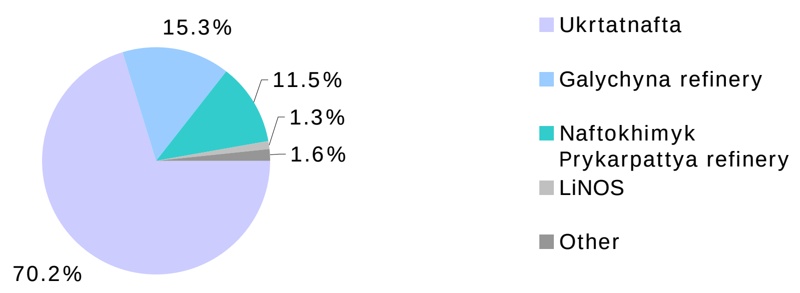
Previously, Ukrnafta sold its oil in auctions held once or twice per month where the main buyers were refineries. In a market with only a few buyers, prices for UNAF's oil were significantly affected by imported Russian oil and frequent collusion between buyers. Yet, in 2003 the situation changed, as Privat's traders bought at high prices any oil that Ukrnafta could not sell, thereby driving up the overall price. These traders either refined the oil at Naftokhimyk Prykarpattya or exported it, which Ukrnafta could not do directly due to regulations.

Oil auctions where Ukrnafta used to sell its oil were suspended until January 2005. The company operates under tolling agreements with refineries

In May 2004, the government suspended oil auctions to allow oil extracting companies to sell their crude directly to refineries, thus bypassing traders. This decision will remain in force until the end of 2004 and is aimed at the containment of rising oil products prices. After oil auctions were cancelled, Ukraine's main oil refineries (LiNOS, Ukrtatnafta, Kherson refinery and Odesa refinery) signed a memorandum to fix prices for gasoline. Ukrnafta, who started to operate its own gas station network in June 2004, also signed the agreement. Galychyna and Naftokhimyk Prykarpattya however did not join the memorandum, which suggests that Privat group was able to take advantage of considerable leeway in price setting at all stages of the value chain.

The major consumers of Ukrnafta's oil are Ukrtatnafta, Galychyna refinery and Naftokhimyk Prykarpattya. Ukrtatnata also refines Russian oil from Tatarstan as it cannot be fully loaded with Ukrainian oil.

Chart 12. Supply of Ukrnafta's Oil to Ukrainian Refineries, 2002*



*** The company did not disclose its 2003 supply structure**
Source: Company Data

Ukrtatnafta's refining facilities are in close proximity to Ukrnafta's core extraction units and are connected with them via a pipeline (213 km long) which brings significant cost savings compared to shipping oil by railroad to Galychyna or Naftokhimyk Prykarpattya. However, the latter two refineries are in the scope of

Privat's interest - it struggles to obtain control over Galyshyna and already controls Naftokhimyk Prykarpattya. These two refineries do not have a steady oil supply from Russia or Kazakhstan and therefore are fully dependent on Ukrainian oil.

We believe that the amount of Ukrnafta oil refined by Naftokhimyk Prykarpattya dramatically increased in 2003 – 9M04, as Privat-related oil traders sold it specifically to this refinery. Thereby Privat group 'enjoyed' transfer pricing schemes, selling crude to Naftokhimyk Prykarpattya at low prices and buying finished oil products also cheap. The benefits of transfer pricing are in part trickled down to Ukrnafta whose gas stations have an opportunity to buy oil products from Privat's traders or Naftokhimyk Prykarpattya.

Ukrtatnafta is the best choice for being Ukrnafta's refining downstream unit. However, Naftokhimyk Prykarpattya is the more realistic option

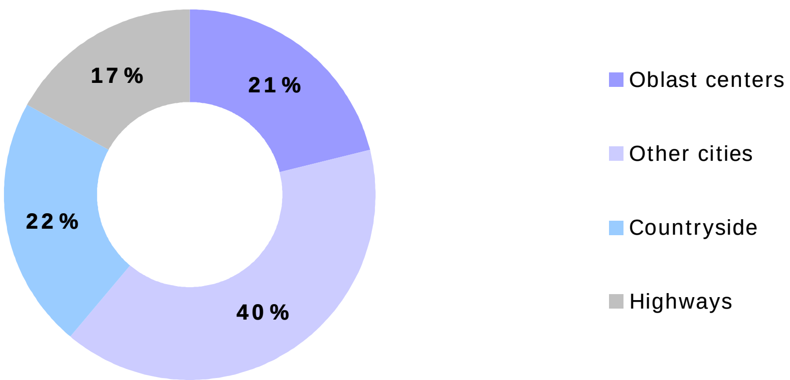
However, Naftokhimyk Prykarpattya's capacities are barely sufficient to refine all oil extracted by Ukrnafta and require modernization to improve their refining quality. In any case, capacities will have to be augmented if Ukrnafta engages in extraction projects abroad or if there is a need to refine Russian or Kazakh oil when Ukrnafta is able to sell more oil products than can be refined from its crude. As a result, Ukrnafta continues to refine oil at Ukrtatnafta, Galychyna and LiNOS.

Ukrnafta's plans to create a VIOC envisage the addition of in-house refining capacities. As the state's stakes of 43% in Ukrtatnafta and 25% in Galychyna were transferred to Naftogaz, the only feasible option left for Ukrnafta is the utilization of Naftokhimyk Prykarpattya. Ernst & Young prepared for Ukrnafta a business plan to create a JV with Naftokhimyk Prykarpattya, where Ukrnafta would have no less than a 50% interest. Negotiations with Naftokhimyk Prykarpattya are in progress.

Retail Segment

As of April 1, 2004, Ukraine's gas stations network consisted of 5,948 stations. Their distribution by location was as follows:

Chart 13. Distribution of Gas Stations by Location, 04.01.2004



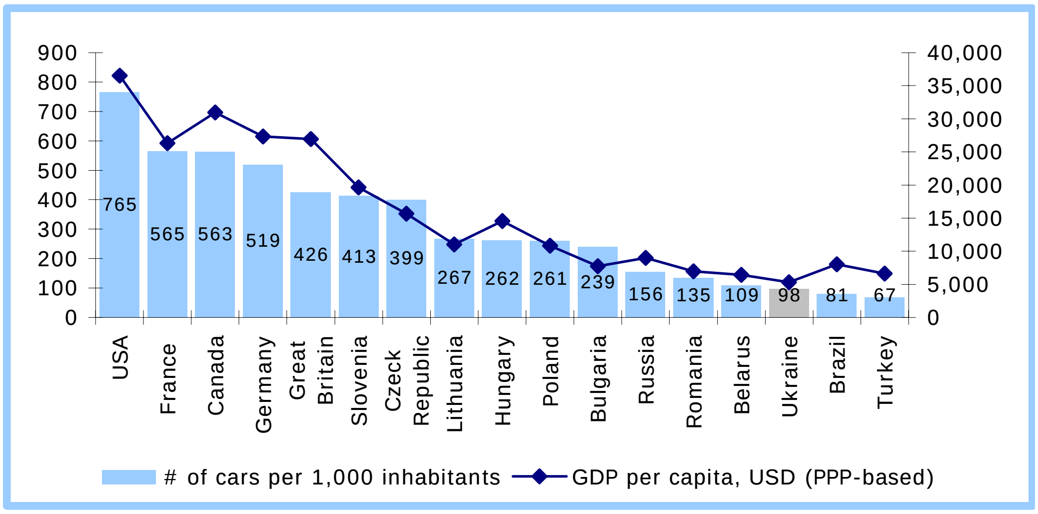
Source: Interfax

Ukraine's retail oil products market is characterized by a large number of low-yield gas station

Total Ukrainian retail gas station sales, 1Q04, equaled USD 600.4 mn, non-oil products sales inclusive (State Statistics Committee data). While the estimated annual average sales per gas station amounted to USD 0.4 mn, we find that approximately 48% of all gas stations have sales less than USD 0.1 mn (they had sales of below USD 19 ths in 1Q04). At the same time, 20 gas stations in 1Q04 had sales of USD 0.56 – 1.3 mn (USD 2.2 – 5.3 mn per year). Thus, in the Ukrainian market a small number of gas stations account for a major portion of sales, while a large number of gas stations generate low revenues, which suggests that the market will undergo further consolidation and only branded gas stations will thrive.

This notwithstanding, we believe that the official data underestimates real revenues. Further, we forecast that the average annual sales per gas station will grow to at least USD 1.0 mn in the medium term, as inefficient gas stations will be closed and demand for automobiles will grow from economic progression and middle class formation. Currently, Ukraine is at the low end of country ranking for number of cars per 1,000 inhabitants:

Chart 14. Country Ranking by Number of Cars per 1,000 Inhabitants, 2003

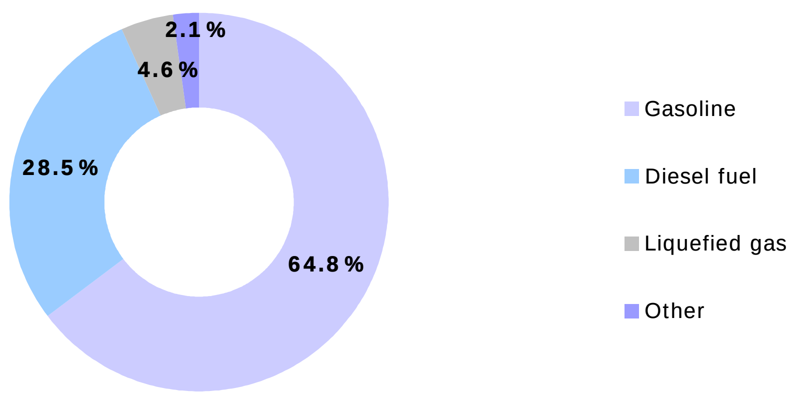


Source: RBK; IMF

98% of revenues of gas stations in Ukraine come from retailing oil products

As the chart below indicates, sales of automotive fuel account for 98% of total sales by Ukraine's gas stations in 1Q04. This exhibits a structure totally different from that found in developed countries, where a significant portion of gas station revenue comes from non-oil products (e.g. consumer goods, services, restaurants, car washes, etc). Based on official quarterly data, we estimate current market capacity at over USD 2.5 bn p.a. and expect increasing demand for both oil and non-oil products resulting from rising household incomes.

Chart 15. Retail Sales Structure, 1Q04



Source: Interfax

Russian majors and Privat group dominate the retail market for oil products

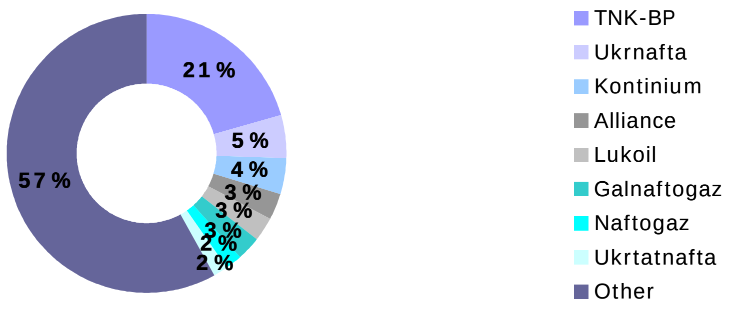
The major players in the Ukrainian retail market are TNK-BP, Lukoil, Alliance group, Privat group (including Ukrnafta), Kontinium, Naftogaz, Ukrtatnafta and Galnaftogaz (who is the only company that does not own any refining capacities).

Wide-spread franchising creates competition among brands while disguising the real owners

A common practice among Ukrainian oil product retailers is to operate under jobbing, or franchising, agreements (out of 1,220 gas stations in TNK-BP's network, only 40 stations are actually owned by TNK-BP). Among its jobbers were Sentoza, Avias and Alfa-Nafta (all three are associated with Privat bank), who have since sold a portion of their network to Ukrnafta. Currently, apart from Ukrnafta's 295 gas stations, Privat owns a network of over 400 gas stations, most of which operate under TNK-BP's brand.

Ukrainian Kontinium retails oil products from Galychyna refinery through a network of +/- 250 outlets. Russian Alliance group operated 186 gas stations at the end of 2003 (more recent information is not available). Lukoil's gas station network shrank from almost 200 (beginning 2004) to the current 162, as the company divested gas stations with low sales (below 10 cm per day). The same number of gas stations, 162, is the property of western Ukrainian company Galnaftogaz. State-owned Naftogaz operates 127 gas stations that sell the products of Shebelinka GPP. Ukrtatnafta has jobbing agreements with 80 – 100 gas stations.

Chart 16. Retail Market Breakdown by Number of Gas Stations, 2004



Source: Ukrainian News; RBK; Investgazeta; Dilova Stolytsia

Despite the apparent conclusion of low market concentration (57% of gas stations are seemingly controlled by minor players, "Other"), we believe that the actual concentration is much higher due to the affiliation of many non-brand-name gas stations with major Ukrainian business groups. We expect further consolidation of the market around the most known brand names.

Ukrnafta's management plans to have 947 stations by 2007 and 25% of the market

Ukrnafta plans to expand its retail network to 400 gas stations by year end and to acquire additional 400 stations in 2005. Ultimately, the company targets 947 gas stations by 2007. Management believes that this will allow Ukrnafta to control about 25% of Ukraine's retail market for oil products.

At the same time, Naftogaz's management has declared that their new VIOC will capture 40% of the market. This figure includes sales by Naftogaz and sales by Ukrnafta and Ukrtatnafta.

Ukrnafta will have to coordinate its retail policy with Naftogaz and Ukrtatnafta

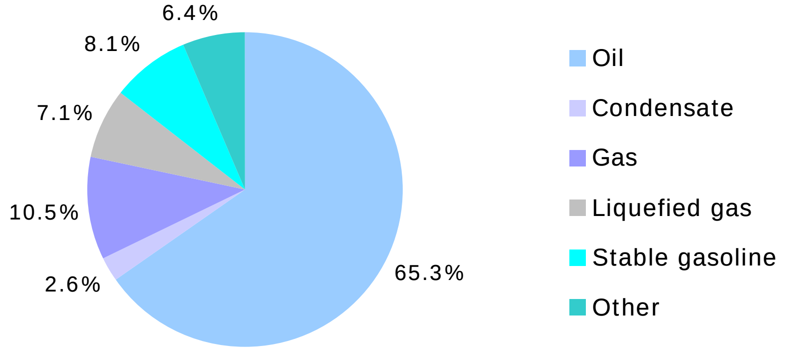
We deem this objective overambitious and think that 30% would be more realistic, with Ukrnafta accounting for 15-20% and the remaining 10% split between Naftogaz and Ukrtatnafta. Moreover, we do not view the possibility of competition between Ukrnafta and its parent company, Naftogaz, as a serious threat to Ukrnafta. In words of Yuriy Boyko, the CEO of Naftogaz, Naftogaz, Ukrnafta and Ukrtatnafta will coordinate their expansion & pricing policies and share the market region-wise. Although a limitation, this agreement between the companies also benefits Ukrnafta, as it enables the company to refine its crude at Ukrtatnafta's capacities within their tolling agreement.

Sales Drivers

Ukrnafta's 2003 revenue was adjusted to remove the non-sales component

We have adjusted Ukrnafta's 2003 P&L statement by removing USD 104.2 mn of Revenue that we reclassified as Other Income (in fact, the company sold a part of its capital goods such as pipes, spare parts for equipment, etc. as a result of the reorganization of its less efficient divisions in western Ukraine). Consequently, amended gross sales totaled USD 630.5 mn in 2003. Sales breakdown in the chart below demonstrates that crude oil constituted the major source of Ukrnafta's revenues in 2003.

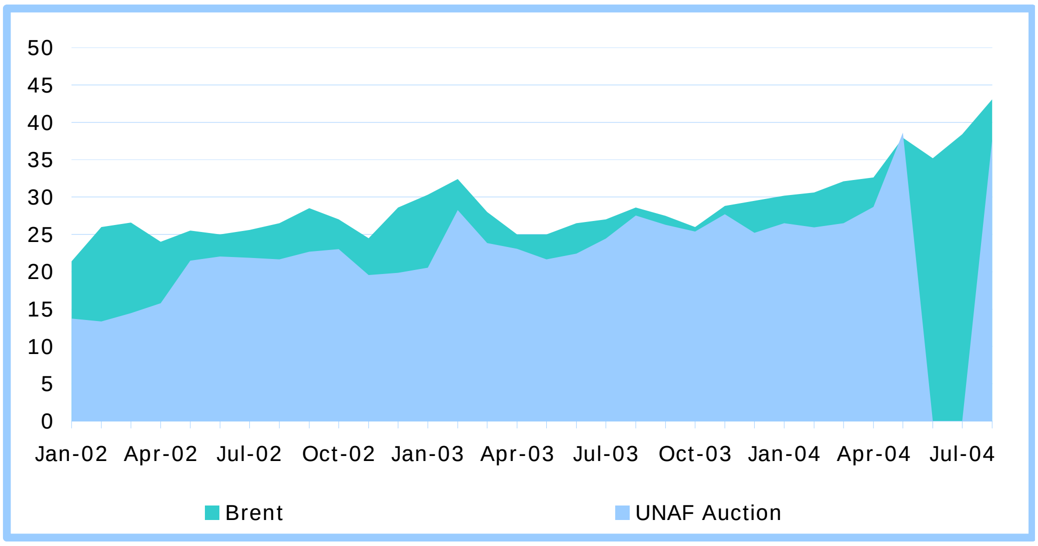
Chart 17. Ukrnafta' 2003 Sales Structure



Source: Company Data

Sales growth of 22% yoy came as a result of rising crude prices in 2003:

Chart 18. Ukrnafta's Gross Crude Auction Prices vs. Brent, USD / bbl



Source: Ukrainian News; Bloomberg

Two key factors affected the dynamics of Ukrnafta's auction price differential to Brent throughout 2002 -2003. First, in early 2002 increased supplies of cheap crude from Russia, due to the limitations of exporting Russian oil to the west, drove Ukrnafta's crude prices down. Subsequently, Russian supplies stabilized and Ukrnafta's oil price differential to Brent narrowed. Second, after new management entered early 2003, Privat's oil traders started to compete with refineries for Ukrnafta's crude sold in auctions. This raised the price and nearly eliminated any differential to Brent. In May 2004, due to sky-rocketing oil prices, the government ceased oil auctions. Auctions were resumed in August, however in September they were again postponed until January 2005.

As a result of the government suspending oil auctions, the company was prevented from taking full advantage of the recent crude price surge.

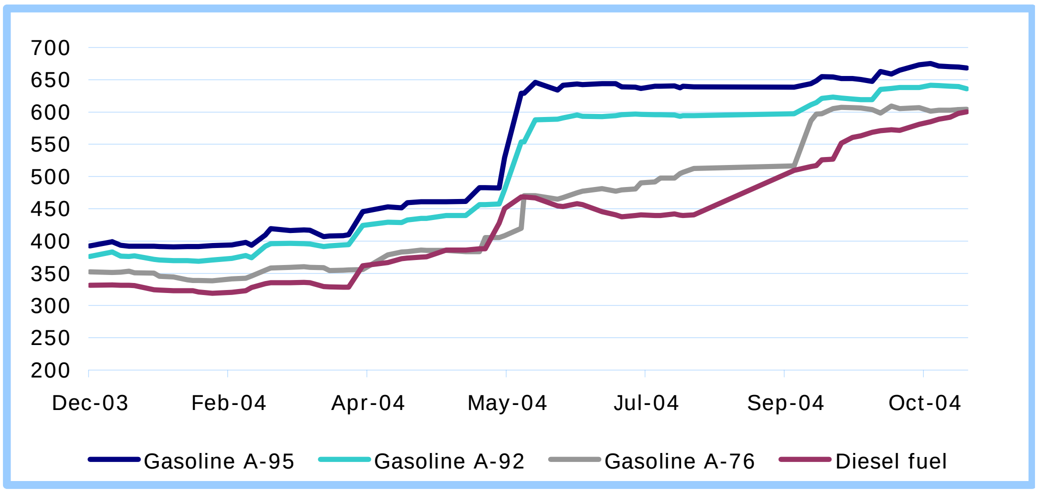
Ukrnafta's gas station network allows the company to capitalize on Ukrnafta's opportunity to buy cheap oil products from refineries (under tolling agreements)

Retail oil product sales will account for 25% of total revenues in 2004

and retail them. We expect that downstream oil sales (net of cost for products purchased under tolling agreements) will approximately equal 25% of Ukrnafta's revenues in 2004.

Ukrnafta's gas stations on average sell +/- 10 cm of oil products per day which classifies them as high-yield stations. We estimate that the average annual sales per station (gross) will amount to over USD 1.5 mn in 2004.

Chart 19. Bulk Oil Products Prices, USD/mt



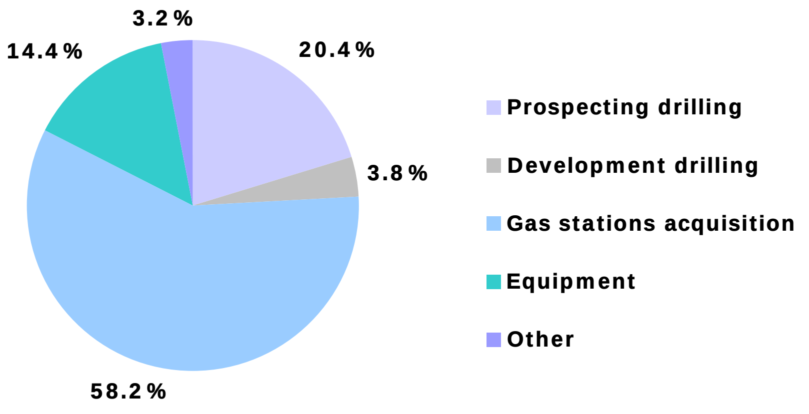
Source: Oil Products Manufacturers' League of Ukraine

Through 9M04 Ukrnafta's sales totaled USD 543.5 mn, up 40.8% yoy (9M03 sales are not adjusted for the non-sales component, but taken as reported).

Capital Investments

Due to the retail network expansion plans, Ukrnafta's CapEx increased dramatically in 2003: expenses for the acquisition of 175 gas stations (USD 292 mn) accounted for over 58% of total CapEx.

Chart 20. CapEx Structure, 2003

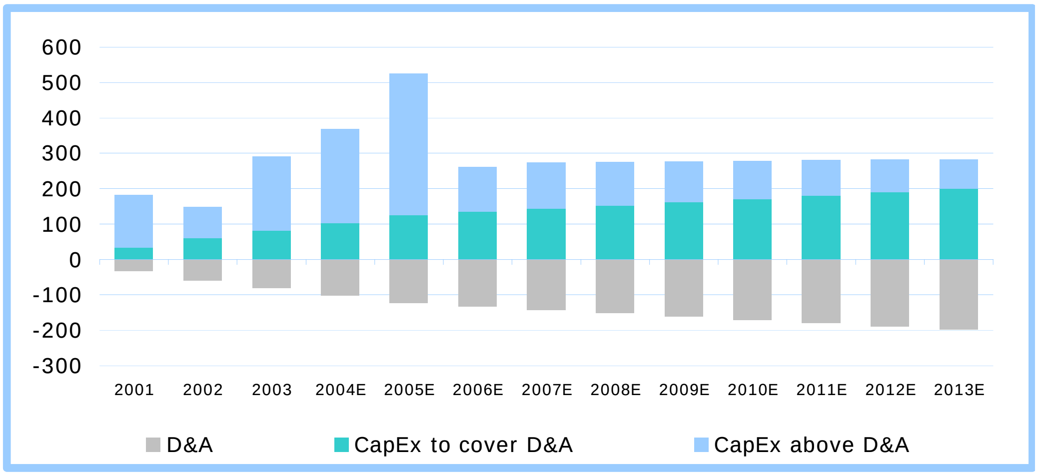


Source: Company Data

Gas stations acquisition accounted for over 52% of Ukrnafta's CapEx in 2003 and is expected to continue through 2005

We expect Ukrnafta's CapEx to grow until the company finishes creating its retail network, which we conservatively estimate at 750 gas stations, by 2007 (the management's objective is 947):

Chart 21. CapEx and Depreciation, USD mn



Source: Company Data; Concorde Capital Projections*
****We project average acquisition price per gas station at USD 0.9 mn***

Operations Modeling

Table 2. Key Projections

For the purposes of forecasting local currency is used

	2002	2003	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	CAGR 5Y	CAGR 10Y
GDP growth	4.6%	9.3%	12.0%	8.0%	6.0%	5.0%	4.5%	4.0%	4.0%	4.0%	4.0%	4.0%	6.3%	5.1%
Industrial production growth	7.0%	15.8%	14.0%	9.0%	6.5%	5.5%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	8.0%	6.5%
Output of crude oil, ' 000 bbls	17,813	18,820	19,697	20,485	21,100	21,100	21,100	21,100	21,100	21,100	21,100	21,100	2.3%	1.2%
Output of gas condensate, '000 bbl	3,055	2,623	2,502	2,204	2,025	2,025	2,025	2,025	2,025	2,025	2,025	2,025	-5.0%	-2.6%
Output of natural & oil gas, mn cm	3,255	3,275	3,350	3,350	3,384	3,384	3,384	3,384	3,384	3,384	3,384	3,384	0.7%	0.3%
Output of liquefied gas, ths bbls	1,106	1,122	1,124	1,124	1,124	1,124	1,124	1,124	1,124	1,124	1,124	1,124	0.0%	0.0%
Output of stable gasoline, ths bbls	1,371	1,590	1,590	1,590	1,590	1,590	1,590	1,590	1,590	1,590	1,590	1,590	0.0%	0.0%
Output of oil products for sale, ths bbls	0	0	8,035	17,217	17,217	17,217	17,217	17,217	17,217	17,217	17,217	17,217	nm	nm
Ukrnafta's ave. est. oil price (gross), USD/bbl	18.28	23.91	28.69	31.56	33.14	34.80	34.80	34.80	34.80	34.80	34.80	34.80	7.8%	3.8%
Ukrnafta's ave. est. condensate price (gross), USD/bbl	19.82	27.15	31.22	34.35	36.06	37.87	37.87	37.87	37.87	37.87	37.87	37.87	6.9%	3.4%
Ukrnafta's ave. est. gas price (gross), USD/ ' 000 cm	30.48	32.53	34.72	37.98	43.67	47.61	51.41	55.01	58.86	62.40	65.52	65.52	9.6%	7.3%
Ukrnafta's ave. est. liq. gas price (gross), USD/bbl	23.37	31.52	44.13	48.54	50.97	53.51	53.51	53.51	53.51	53.51	53.51	53.51	11.2%	5.4%
Ukrnafta's ave. est. stable gasoline price (gross), USD/bbl	27.75	32.37	42.08	46.28	48.60	51.03	51.03	51.03	51.03	51.03	51.03	51.03	9.5%	4.7%
Ukrnafta's ave. est. oil products price (gross), USD/bbl	-	-	69.36	97.10	99.04	103.99	103.99	103.99	103.99	103.99	103.99	103.99	nm	nm
Est. revenue from oil & condensate segment, UAH mn	1,774	2,282	2,946	3,348	3,611	3,791	3,792	3,791	3,791	3,791	3,791	3,791	**10.7%**	**5.2%**
Est. revenue from gas segment, UAH mn	405	409	461	496	581	631	683	730	781	828	869	869	**10.8%**	**7.8%**
Est. revenues from downstream gas products, UAH mn	336	455	611	672	706	741	741	741	741	741	741	741	**10.2%**	**5.0%**
Est. revenues from downstream oil products, UAH mn	-	-	1,355	7,411	7,359	7,618	7,618	7,618	7,618	7,618	7,618	7,618	**nm**	**nm**
Other, UAH mn*	151	216												
Net revenue, UAH mn*	2,047	2,503	4,177	9,601	9,846	10,263	10,303	10,338	10,377	10,413	10,444	10,444	**32.7%**	**15.4%**
Gross margin, %	*67.5%*	*75.0%*	65.0%	46.9%	48.3%	48.1%	48.2%	48.2%	48.3%	48.4%	48.5%	48.5%		
Gross profit, UAH mn*	1,383	1,877	2,715	4,505	4,751	4,936	4,964	4,988	5,015	5,040	5,061	5,061	21.5%	10.4%
EBITDA margin, %	*58.3%*	*68.1%*	*59.1%*	*41.5%*	*42.9%*	*42.7%*	*42.8%*	*42.9%*	*43.0%*	*43.0%*	*43.1%*	*43.1%*		
EBITDA, UAH mn*	1,193	1,704	2,469	3,988	4,222	4,387	4,412	4,435	4,460	4,482	4,503	4,503	**21.0%**	**10.2%**
EBIT margin. %	*42.6%*	*50.6%*	*46%*	*35%*	*36%*	*35%*	*35%*	*35%*	*34%*	*34%*	*33%*	*33%*		
EBIT, UAH mn*	872	1,267	1,923	3,323	3,505	3,621	3,598	3,571	3,546	3,519	3,488	3,437	23.2%	10.5%
Net margin, %	*21.8%*	*35.6%*	*32.7%*	*24.1%*	*24.7%*	*24.6%*	*24.3%*	*24.1%*	*23.9%*	*23.6%*	*23.3%*	*23.0%*		
Net Income, UAH mn	**446**	**890**	**1,365**	**2,315**	**2,436**	**2,523**	**2,509**	**2,492**	**2,476**	**2,457**	**2,434**	**2,400**	**23.0%**	**10.4%**
Dividend Declared, UAH mn	-	100.3	273.0	810.2	974.6	1,766.3	1,756.0	1,744.4	1,733.5	1,965.6	1,947.3	1,920.0	77.3%	34.3%

Source: Concorde Capital Projections

****These lines for 2003 were adjusted to exclude Other Income from Sales and Other Expenses from COGS, with net effect reported above the bottom line***

In our model presented above, we take a long-term view on the oil industry and base our forecasts on long-term averages, from 2007 on, rather than on point estimates year by year. With this in mind, we eliminate the necessity to predict price volatility by using long-term means of crude oil and oil products prices in our projections from 2007. We estimate that global oil prices will not move below USD 35/bbl.

In addition, we project flat hydrocarbon output from 2006 throughout the forecast period, which would display stabilization of extraction. This is quite consistent with our estimate of proved oil reserves life of 11.5 years and total proved reserves life of 13.2 years. We assume that a possible insignificant decline in extraction rates at the end of the forecast horizon will be offset by extraction abroad, so that crude oil and gas production is maintained.

An inevitable decline in extraction volumes after 2014, beyond the forecast period, is taken account of by applying a low stable growth rate of 1% to the company's future cash flow projections for valuation purposes.

Coupled with flat price forecasts, the projection of stable output levels results in flat revenues from Ukrnafta's key products, yet perfectly serves our valuation objectives.

Additional premises we utilized in the model are the following:

- Liberalization of Russia's gas market will subsequently liberalize Ukraine's; thus Ukrnafta's gas prices are forecasted to rise throughout our forecast horizon.
- Stable downstream product output relies on the assumption that by 2007 Ukrnafta will complete creation of its retail network and maintain sales.
- By 2007, Ukrnafta will have a retail network of 750 gasoline stations. Average acquisition price per station is estimated at USD 0.9 mn.
- Ukrnafta is assumed to continue working under tolling agreements with refineries, which will enable the company to buy oil products at low prices for further retail, while selling its crude to these refineries.
- Approximately 2/3 of retail products will be refined from Ukrnafta's crude under tolling agreements.
- Falling EBITDA margins from 2005 are a result of the changing structure of Ukrnafta's business, as margins from the retail downstream are forecasted to be lower than those of extraction.

Valuation

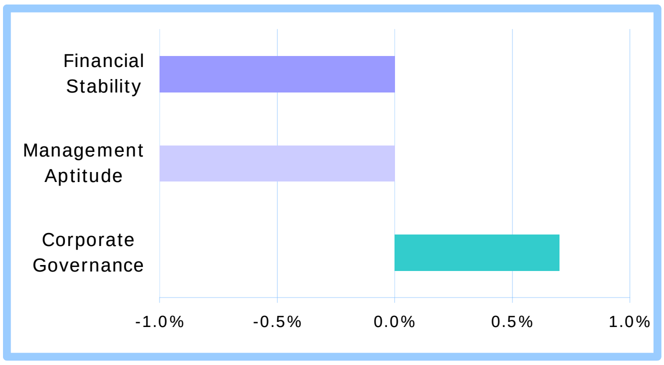
DCF APPROACH

For the purposes of DCF valuation, we determined Ukrnafta's WACC using our premium build-up approach. Company-specific risk is confined to three factors – financial stability, management aptitude and corporate governance, each respective premium within a range of [-1%; +1%]:

WACC calculation for 2004:

Debt/Equity eop	0.09
weight of debt	0.061
weight of equity	0.919
Average Interest Rate	**11.0%**
Ukr Eurobonds YTM	7.3%
Corp. bond premium	10.5%
Equity premium	5.5%
Company-specific Premium/Discount	-1.3%
Cost Of Equity	**22.0%**
WACC	**20.9%**

Company-Specific Risk Breakdown:



DCF analysis conducted below suggests that UNAF's stock fair value per share is currently USD 39.08, with a 12 month fair value of USD 45.67.

Table 3. Discounted Cash Flow Valuation

Valuation date **Dec 3, 2004**

For the purposes of forecasting local currency is used (UAH mn)

	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E
EBITDA	**2,469**	**3,988**	**4,222**	**4,387**	**4,412**	**4,435**	**4,460**	**4,482**	**4,503**	**4,503**
EBIT	1,923	3,323	3,505	3,621	3,598	3,571	3,546	3,519	3,488	3,437
Tax Rate	*29%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*
Taxed EBIT	1,365	2,326	2,453	2,535	2,518	2,500	2,483	2,463	2,442	2,406
Plus D&A	547	665	718	765	814	863	913	964	1,015	1,065
Less CapEx	(1,967)	(2,809)	(1,395)	(1,462)	(1,473)	(1,482)	(1,492)	(1,501)	(1,509)	(1,509)
Less change in OWC	(166)	168	(5)	(8)	(1)	(1)	(1)	(1)	(1)	0
FCFF	**(221)**	**350**	**1,771**	**1,830**	**1,859**	**1,881**	**1,903**	**1,925**	**1,946**	**1,962**
WACC	20.9%	18.2%	17.9%	16.6%	15.7%	15.4%	14.7%	14.0%	13.5%	13.2%

WACC to Perpetuity	12.0%	Terminal Value	**18,015**
Firm Value	**11,680**	Portion due to TV	41.7%
Less Net Debt	(431)	Perpetuity Growth Rate	1%
Equity Value	**11,248**	Implied Exit EBITDA Multiple	4.0 x
Fair Value per Share	**USD 39.08**	**12-mo Fair Value per Share**	**USD 45.67**

Source: Concorde Capital forecasts

Table 4. Sensitivity Analysis: Implied 12-Month Share Price, USD

10-Year Discount Rates	Perpetuity Growth Rate				
	0.0%	***0.5%***	***1.0%***	***1.5%***	***2.0%***
WACC – 3.0%	51.17	52.25	53.44	54.74	56.17
WACC – 2.0%	48.55	49.56	50.67	51.88	53.21
WACC – 1.0%	46.11	47.06	48.08	49.21	50.45
WACC + 0.0%	43.84	44.72	**45.67**	46.72	47.88
WACC + 1.0%	41.71	42.53	43.43	44.40	45.48
WACC +2.0%	39.73	40.49	41.32	42.24	43.24
WACC + 3.0%	37.87	38.58	39.36	40.21	41.15

Source: Concorde Capital calculations

Table 5. Sensitivity Analysis: Implied 12-Month Share Price, USD

WACC to perpetuity	Perpetuity Growth Rate				
	0.0%	***0.5%***	***1.0%***	***1.5%***	***2.0%***
9.0%	48.62	50.12	51.82	53.73	55.93
10.0%	46.66	47.89	49.26	50.80	52.52
11.0%	45.10	46.13	47.27	48.52	49.92
12.0%	43.84	44.72	**45.67**	46.72	47.88
13.0%	42.80	43.56	44.38	45.28	46.25
14.0%	41.95	42.61	43.33	44.10	44.93
15.0%	41.24	41.82	42.45	43.12	43.85

Source: Concorde Capital calculations

PEER COMPARISON

For the purposes of comparative valuation, we selected a peer group of Tatneft (Russia), MOL (Hungary) and OMV (Austria). All of these companies have features highly common with Ukrnafta, such as depleted or scarce reserves and comparable volumes of hydrocarbon output (except for Tatneft, whose crude output is 8 times higher).

Table 6. Comparative Valuation

Company	**Mcap, USD mn**	**P/S**		**EV/EBITDA**		**P/E**		**EV/Output (USD/boe)**	
		2003	**2004E**	**2003**	**2004E**	**2003**	**2004E**	**2003**	**2004E**
Ukrnafta	**786.3**	**1.7**	**1.0**	**2.4**	**1.9**	**4.7**	**3.1**	**35.6**	**38.4**
Tatneft	3507.7	0.7	0.6	5.0	4.0	10.3	5.4	22.9	24.0
Mol Magyar Olaj	6571.8	1.0	0.9	10.3	5.5	14.8	6.3	238.5	216.4
OMV	7288.7	0.8	0.6	7.1	6.0	16.4	9.5	199.3	184.7
Peer Average		**0.8**	**0.7**	**7.5**	**5.2**	**13.8**	**7.1**	**153.6**	**141.7**
Premium/ Discount		99%	45%	-67%	-64%	-66%	-56%	-77%	-73%
Implied Price, USD		**7.30**	**10.00**	**44.09**	**42.56**	**42.57**	**33.26**	**62.28**	**59.47**
Upside/ Downside		-50%	-31%	204%	193%	194%	129%	329%	310%
Premium/ Discount to Tatneft		137%	65%	-51%	-53%	-54%	-43%	55%	60%
Implied Price, USD		**6.11**	**8.80**	**29.48**	**32.89**	**31.73**	**25.40**	**9.29**	**10.08**
Upside/ Downside to Tatneft		-58%	-39%	104%	114%	119%	75%	-36%	-37%

Source: Companies' Data; Concorde Capital Estimates

UNAF trades at a premium to the peer group average on P/S (and on EV/Output multiple to Tatneft), which we believe is justified given Ukrnafta's pronounced superiority to its peers in terms of margins. Specifically, 2003 EBITDA margin for Ukrnafta was 68%, while Tatneft's was 17%, MOL's was 12%, and OMV's equaled 14%; respectively, 2003 net margins were 36%, 7%, 7% and 5%. The stock

EV/EBITDA is deemed to be the most appropriate metric for comparison valuation in this case

Our 12-mo target provides for some discount to our DCF-based value at USD 32.0

appears largely underpriced on EV/EBITDA and P/E multiples, both to the peer average and Tatneft alone. We deem the EV/EBITDA multiple is the most relevant for valuation by comparison as it values future cash flows best.

We express the caveat that our DCF valuation is completely dependent on Ukrnafta's ability to create a new vertically integrated business, although we view the creation of the VIOC as very likely. In addition, if the afore-mentioned political crisis causes undue economic decline, Ukrnafta's sales will suffer. At this point it is unclear how far things will go, although we are inclined to count on a positive economic outlook in the aftermath of the political crisis due to Ukraine's strong fundamentals. **Allowing for the above-mentioned uncertainties, our target price gravitates towards the range implied by the EV/EBITDA and P/E multiples and equals USD 32.0, close to the value derived from an EV/EBITDA comparison with Tatneft and 30% below the DCF-based 12-month fair value.**

Financial statements are reported according to Ukrainian Accounting Standards

Income Statement Summary, USD mn

	2002	2003	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E
Net Revenues*	**384**	**469**	**782**	**1,795**	**1,840**	**1,918**	**1,926**	**1,932**	**1,940**	**1,946**	**1,952**	**1,952**
Change y-o-y	*-21%*	*22%*	*67%*	*129%*	*3%*	*4%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Cost Of Sales*	(125)	(117)	(274)	(953)	(952)	(996)	(998)	(1,000)	(1,002)	(1,004)	(1,006)	(1,006)
Gross Profit*	260	352	508	842	888	923	928	932	937	942	946	946
Other Operating Income/Expenses, net	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)
SG&A	(29)	(26)	(39)	(90)	(92)	(96)	(96)	(97)	(97)	(97)	(98)	(98)
EBITDA*	**224**	**319**	**462**	**745**	**789**	**820**	**825**	**829**	**834**	**838**	**842**	**842**
EBITDA margin, %	58.3%	68.1%	59.1%	41.5%	42.9%	42.7%	42.8%	42.9%	43.0%	43.0%	43.1%	43.1%
Depreciation	(60)	(82)	(102)	(124)	(134)	(143)	(152)	(161)	(171)	(180)	(190)	(199)
EBIT*	**164**	**238**	**360**	**621**	**655**	**677**	**672**	**668**	**663**	**658**	**652**	**642**
EBIT margin, %	42.6%	50.6%	46.0%	34.6%	35.6%	35.3%	34.9%	34.5%	34.2%	33.8%	33.4%	32.9%
Interest Expense	(2)	(1)	(3)	(3)	(4)	(3)	(3)	(2)	(2)	(2)	(2)	(2)
Financial Income	9	11	3	0	0	0	0	0	0	0	0	0
Other income/(expense)*	(28)	(15)	0	0	0	0	0	0	0	0	0	0
PBT	**142**	**233**	**360**	**618**	**651**	**674**	**670**	**665**	**661**	**656**	**650**	**641**
Tax	(59)	(67)	(104)	(185)	(195)	(202)	(201)	(200)	(198)	(197)	(195)	(192)
Effective tax rate	*41%*	*29%*	*29%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*
Net Income	**84**	**167**	**256**	**433**	**455**	**472**	**469**	**466**	**463**	**459**	**455**	**449**
Net Margin, %	*21.8%*	*35.6%*	*32.7%*	*24.1%*	*24.7%*	*24.6%*	*24.3%*	*24.1%*	*23.9%*	*23.6%*	*23.3%*	*23.0%*
Dividend Declared	**-**	**19**	**51**	**151**	**182**	**330**	**328**	**326**	**324**	**367**	**364**	**359**

Balance Sheet Summary, USD mn

	2002	2003	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E
Current Assets	**197**	**238**	**336**	**655**	**672**	**700**	**703**	**705**	**708**	**710**	**713**	**713**
Cash & Equivalents	8	4	16	45	46	48	48	48	48	49	49	49
Trade Receivables	79	81	117	269	276	288	289	290	291	292	293	293
Inventories	58	62	94	215	221	230	231	232	233	234	234	234
Other current assets	52	91	109	126	129	134	135	135	136	136	137	137
Fixed Assets	**737**	**938**	**1,204**	**1,602**	**1,730**	**1,862**	**1,986**	**2,127**	**2,235**	**2,336**	**2,429**	**2,512**
PP&E, net	562	563	967	1,352	1,505	1,634	1,757	1,872	1,980	2,080	2,173	2,256
Other Fixed Assets	175	375	237	250	225	228	229	255	255	256	256	256
Total Assets	**935**	**1,175**	**1,539**	**2,257**	**2,402**	**2,562**	**2,688**	**2,832**	**2,943**	**3,046**	**3,141**	**3,224**
Shareholders' Equity**	**826**	**975**	**1,176**	**1,457**	**1,730**	**1,872**	**2,013**	**2,152**	**2,291**	**2,383**	**2,474**	**2,564**
Share Capital	3	3	3	3	3	3	3	3	3	3	3	3
Reserves and Other**	824	973	1,173	1,455	1,728	1,869	2,010	2,150	2,289	2,381	2,472	2,561
Current Liabilities*	**105**	**199**	**254**	**630**	**618**	**645**	**637**	**640**	**633**	**644**	**648**	**641**
ST Interest Bearing Debt	18	-	-	54	28	29	19	19	10	19	21	14
Trade Payables	36	77	125	278	285	297	298	300	301	302	303	303
Accrued Wages	3	3	5	11	11	12	12	12	12	12	12	12
Accrued Taxes	9	22	27	63	64	67	67	68	68	68	68	68
Other Current Liabilities**	39	98	98	224	230	240	241	242	242	243	244	244
LT Liabilities	**3**	**1**	**109**	**170**	**53**	**46**	**38**	**40**	**19**	**19**	**20**	**20**
LT Interest Bearing Debt	0	-	103	152	35	27	19	21	-	-	-	-
Other LT	3	1	5	18	18	19	19	19	19	19	20	20
Total Liabilities & Equity	**935**	**1,175**	**1,539**	**2,257**	**2,402**	**2,562**	**2,688**	**2,832**	**2,943**	**3,046**	**3,141**	**3,224**

UAH / USD Exchange Rates

	2002	2003	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E
Average	5.33	5.33	5.34	5.35	5.35	5.35	5.35	5.35	5.35	5.35	5.35	5.35
Year-end	5.33	5.33	5.35	5.35	5.35	5.35	5.35	5.35	5.35	5.35	5.35	5.35

*These lines for 2003 were adjusted to exclude Other Income from Sales and Other Expenses from COGS, with net effect included in Other Income / (expense)

**These lines for 2003 were adjusted to record USD 19 mn of dividends declared Nov 5, 2004

Financial statements are reported according to Ukrainian Accounting Standards

Cash Flow Statement Summary, USD mn

	2002	2003	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E
Net Income	84	167	256	433	455	472	469	466	463	459	455	449
Depreciation	60	82	102	124	134	143	152	161	171	180	190	199
Non-operating and non-cash items	7	0	1	14	(1)	(1)	(0)	(0)	(0)	(0)	(0)	0
Less Changes in working capital	(6)	60	(31)	31	(1)	(1)	(0)	(0)	(0)	(0)	(0)	0
Operating Cash Flow	**145**	**309**	**328**	**603**	**588**	**612**	**621**	**627**	**633**	**639**	**644**	**648**
Capital Expenditures, net	(149)	(291)	(368)	(525)	(261)	(273)	(275)	(277)	(279)	(281)	(282)	(282)
Other Investments, net	0	(4)	(0)	-	0	0	0	(26)	0	0	0	0
Investing Cash Flow	**(149)**	**(295)**	**(368)**	**(525)**	**(261)**	**(273)**	**(275)**	**(303)**	**(279)**	**(281)**	**(282)**	**(282)**
Net Borrowings/(repayments)	10	(18)	103	103	(144)	(7)	(17)	2	(30)	9	2	(7)
Dividends Paid	(0)	0	(51)	(151)	(182)	(330)	(328)	(326)	(324)	(367)	(364)	(359)
Other	(0)	0	0	0	0	0	0	0	0	0	0	0
Financing Cash Flow	**10**	**(18)**	**52**	**(49)**	**(326)**	**(337)**	**(345)**	**(324)**	**(354)**	**(358)**	**(362)**	**(366)**
Beginning Cash Balance	2	8	4	16	45	46	48	48	48	48	49	49
Ending Cash Balance	8	4	16	45	46	48	48	48	48	49	49	49
Net Cash Inflows/Outflows	**6**	**(4)**	**12**	**29**	**1**	**2**	**0**	**0**	**0**	**0**	**0**	**0**

Ratio Analysis and Per Share Data

	2002	2003	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E
Liquidity Ratios												
Current Ratio	1.87	1.19	1.32	1.04	1.09	1.09	1.10	1.10	1.12	1.10	1.10	1.11
Receivables Collection DOH (est.)	85	62	46	39	54	54	55	55	55	55	55	55
Inventories Processing DOH (est.)	114	110	75	52	73	72	73	73	72	72	71	71
Payment Period (est.)	127	176	135	77	108	107	109	109	109	109	110	110
Cash Conversion Cycle	72	(4)	(13)	14	19	19	19	18	18	17	16	16
Operating Efficiency Ratios												
Total Asset Turnover	0.41	0.44	0.58	0.95	0.79	0.77	0.73	0.70	0.67	0.65	0.63	0.61
Fixed Asset Turnover	0.52	0.56	0.73	1.28	1.10	1.07	1.00	0.94	0.89	0.85	0.82	0.79
Operating Profitability Ratios												
Operating Profit Margin	43%	51%	46%	35%	36%	35%	35%	35%	34%	34%	33%	33%
Net Margin	22%	36%	33%	24%	25%	25%	24%	24%	24%	24%	23%	23%
ROE	10%	19%	24%	33%	29%	26%	24%	22%	21%	20%	19%	18%
Financial Risk Ratios												
Debt-to-Equity Ratio	0.02	0.00	0.09	0.14	0.04	0.03	0.02	0.02	0.00	0.01	0.01	0.01
Total Debt-to-Assets Ratio	0.02	0.00	0.07	0.10	0.03	0.03	0.02	0.02	0.01	0.01	0.01	0.01
Interest Coverage	68.7	328.3	120	209.8	146.2	218.3	254.6	314.6	409.0	408.4	325.1	405.6
Du Pont Analysis												
Net Margin	21.8%	35.6%	32.7%	24.1%	24.7%	24.6%	24.3%	24.1%	23.9%	23.6%	23.3%	23.0%
Total Asset Turnover	0.41	0.44	0.58	0.95	0.79	0.77	0.73	0.70	0.67	0.65	0.63	0.61
Fin Leverage Multiplier	1.13	1.17	1.26	1.44	1.46	1.38	1.35	1.33	1.30	1.28	1.27	1.26
ROE = NM x TAT x FLM	10.1%	18.5%	23.8%	32.9%	28.6%	26.2%	24.1%	22.4%	20.8%	19.7%	18.7%	17.8%
Per Share Data, USD												
EPS	1.544	3.078	4.713	7.979	8.398	8.697	8.647	8.589	8.536	8.469	8.390	8.272
DPS	0.000	0.347	0.943	2.793	3.359	6.088	6.053	6.012	5.975	6.775	6.712	6.618
BPS	15.239	17.983	21.685	26.872	31.910	34.519	37.113	39.690	42.251	43.945	45.623	47.277

Exchange Rates, UAH/USD

	2002	2003	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E
Average exchange rate	5.33	5.33	5.34	5.35	5.35	5.35	5.35	5.35	5.35	5.35	5.35	5.35
Year-end exchange rate	5.33	5.33	5.35	5.35	5.35	5.35	5.35	5.35	5.35	5.35	5.35	5.35

Concorde Capital
72 Vel. Vasylkivska St,
2nd entry, 6th floor
Kiev 03150, UKRAINE

Tel +380 44 206 8366
Fax: +380 44 206 8367
www.con-cap.com
office@con-cap.com

General Director
Igor Mazepa im@con-cap.com

Managing Director
John Suggitt js@con-cap.com

Equity Sales
Marina Martyrosyan mm@con-cap.com

Olessia Kapustina ok@con-cap.com

Research:

Head of Research
Konstantin Fisun, CFA kf@con-cap.com

Oil & Gas, Pipes, Non-Ferrous Metals
Andriy Gostik ag@con-cap.com

Utilities (Telecommunications, Electricity)
Alexandr Parashchiy ap@con-cap.com

Ferrous Metals
Viktor Koval vk@con-cap.com

Chemicals
Maxim Bougriy mb@con-cap.com

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