Ukraine / Oil & Gas

Ukrnafta

Update

BUY

11 Apr 2005 USD 27.8

12m Target USD 35.7

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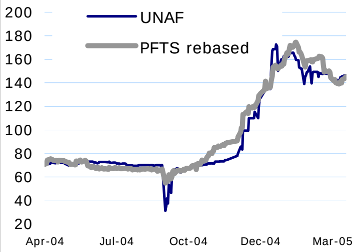
UNAF Mid-Market, UAH



Market Information	
Bloomberg	UNAF UZ
Reuters	UNAF.PFT

No of Shares, mn	**54.2**
Reg S GDR to Ord.	**1:6**

Market price, USD	**27.75**
52Wk H/L, USD	5.92/32.42
MCap, USD mn	**1,504.8**
Free Float, %	**8%**

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

Ratios 2004*	
EBITDA Margin	62%
EBIT Margin	49%
Net Margin	34%
Net Debt/Equity	0.06

**based on adjusted sales*

While the company's upstream operations exhibited a slowdown in 1Q05, downstream business remains the strong cornerstone of Ukrnafta's growth potential. It is unlikely that Ukrnafta will enjoy the full benefits of the tolling scheme with Naftokhimyk Prykarpattya that it did last year. Increased extraction royalties become an additional burden. The result is a decrease in UNAF's DCF-based valuation from USD 45.7 to USD 35.7. This negative notwithstanding, we maintain our BUY rating, as the implied upside to current market price is 28.6%. Our new price target is 11.7% above our previous conservative target of USD 32.0 which was based on a comparison with Tatneft, that we feel is less relevant now and switch to DCF.

Higher hydrocarbon extraction royalties in 2005. The government needs to fund an inflated 2005 budget, and has turned to taxing oil and gas monopolies to make ends meet. If we assume the government will repeal this new tax after 2005, our conclusion is that Ukrnafta's valuation will be little affected. However, if the current tariffs are maintained throughout our forecast horizon, there will be a negative impact on company valuation. Projected price upside for tax repeal scenario is 37.7%, and that for the non-repeal scenario is 15.2%. Our probability forecast for repeal and ongoing taxes are 60% and 40%, respectively.

Mandatory oil auctions complicate vertical integration. Last year, Ukrnafta had the unprecedented benefit of operating under a special tolling agreement with the Naftokhimyk Prykarpattya refinery. This had been the missing link in Ukrnafta's vertical integration. The re-introduction of oil auctions in 2005 eliminates this advantage, as the company will now have to sell its oil to the highest bidder so that it will no longer be guaranteed its own supply of oil for refining at Naftokhimyk Prykarpattya. We expect that Ukrnafta will eventually negotiate favorable terms that will enable it to create a full-cycle oil business again.

Downstream operations remain key sales driver. In 1Q05, Ukrnafta's management confirmed its plans to increase the number of gas stations from 389 to 800 by year end. Intermediate term, we anticipate a shift in the company's business structure, with the lion's share of revenue coming from its retail oil product business. Another strategic direction is downstream gas operations. LPG and stable gasoline sales are on the rise, and the construction of a fourth gas processing plant is under way.

KEY FINANCIAL DATA, USD mn*

	Net Revenue	EBITDA	Net Income	DPS, USD
2004	736.0	459.0	253.3	0.374
2005E	1407.4	639.4	339.5	0.438
2006E	2091.4	802.8	450.3	0.581
Spot Exch Rate		5.27		

**Scenario 1 projections are shown*

KEY RATIOS

	P/S	P/E	EV/EBITDA	Div Yield
2004	2.04	5.94	3.45	1.3%
2005E	1.07	4.43	2.71	1.6%
2006E	0.72	3.34	2.02	2.1%

Operating Results

2005 Upstream Operations To Lose 2004 Luster

Ukrnafta reported a slight improvement in its upstream oil operations in 1Q05. Namely, crude oil and condensate output amounted to 739.9K mt (~5,423.5K bbl), 2.6% above the targeted volume. Daily output comprised 8,221 mt (60,260 bbl) a day, up 0.2% yoy. As for the company's gas segment, output fell sharply in 1Q05 – by 7.4% yoy, to 8,588.8K cm per day, (514.2 mn cm for the period).

A decline in Ukrnafta's upstream operations in Jan–Feb was due to the company's stronger emphasis on downstream

A slowdown in upstream operations was due to temporary factors. Currently, Ukrnafta is paying more attention to its downstream business and is further funneling funds into the acquisition of gas stations and constructing processing capacity at the expense of drilling and extraction. Its 2005 plans envisage lower extraction rates. Planned oil & condensate output is 3,070K mt (~22,503.1K bbl), up 1.5% yoy, a slowdown compared to a 4.5% rise last year. Gas output, which grew 2.3% in 2004, will remain at last year's level of 3,350 mn cm.

Upstream operations are planned to be intensified by the end of 2005

Ukrnafta plans to increase drilling significantly in 2005. Its targeted drilling volume, 190 km, is 14.9% higher than the drilling volume in 2004 (165.42 km), which was down 10.6% from 2003 level and 2.7% below the planned level for that year. The company also aims to raise its reserve replacement rate to 61.3% in 2005. Last year, reserve replacement reached a new high of 57.1% (44.8% in 2003), primarily due to the supplementary exploration of existing wells and revaluation of reserves stemming from higher oil prices. In 1Q05, Ukrnafta put 11 new wells into operation, and it plans for a total of 60 ones in 2005, the same number as in 2004 (43 oil wells and 17 gas wells, three more than in 2003, were opened last year).

Downstream Lies The Promised Land

The downstream gas product business is on the rise

In 2004, Ukrnafta posted a record high output of LPG and stable gasoline production at 158.94K mt (up 13% yoy) and 222.94K mt (up 12% yoy), respectively. We believe the company will be able to at least maintain this production level in 2005. In fact, the company plans to increase LPG output by 0.4%, to 159.52K mt, and stable gasoline output - by 1.6%, to 226.53K mt. In 1Q05, LPG production grew 11.0% yoy to 43.5K mt, and stable gasoline production rose 3.5% yoy to 53.2K mt.

Expanding its gas station network remains a priority for Ukrnafta

Ukrnafta's downstream oil operations are developing further. As of March 28, 2005, 312 gas stations were in operation, while the acquisition of a total of 389 stations was finalized. By the end of 2004, 295 retail units were in operation. The reported average sales per station amount to 8-10 mt a day, making them high-yield. The average acquisition price has grown from USD 0.9 mn in early 2003 to USD 1.1 mn per station. Ukrnafta plans to have 800 units in its chain by year end, up 171% yoy.

It will provide the company with a significant revenue source and hedge against oil price volatility

The creation of a full-fledged retail chain will allow the company to effectively hedge against the risk of fluctuating oil prices. Ukrnafta, which is required to sell oil domestically via auctions, suffered frequently in the past from falling crude prices due to the influx of cheap Russian oil, or a collusion of buyers. Conversely, the retail oil market is more stable. The price for oil products is set to gradually rise on the back of the growing purchasing power of Ukrainians and the increasing number of cars purchased. Oil products prices exhibit rigidity towards downward movements. When domestic crude prices fell in response to external supply shocks, refineries maintained high bulk oil products prices. Thus, operating its own gas stations, coupled with Privat's control over the Naftokhimyk Prykarpattya refinery, will allow Ukrnafta to significantly mitigate downward oil price risk.

Table 1. Ukrnafta's Operations After Privat Took Control In 2003

Upstream operations	**2002**	***% chg***	**2003**	***% chg***	**2004**	***% chg***	**2005P**	***% chg***
Oil & condensate, ths bbl	20,612.0	*0.0%*	21,223.3	*3.0%*	22,177.6	*4.5%*	22,503.1	*1.5%*
Gas, mn cm	3,254.8	*-1.1%*	3,274.6	*0.6%*	3,350.0	*2.3%*	3,350.0	*0.0%*
Gas downstream operations								
LPG	138.2	*2.1%*	140.3	*1.5%*	158.9	*13.3%*	159.5	*0.4%*
Stable gasoline	171.4	*10.9%*	198.8	*16.0%*	222.9	*12.1%*	226.5	*1.6%*

Source: Company Data

Sales & Royalty Analysis

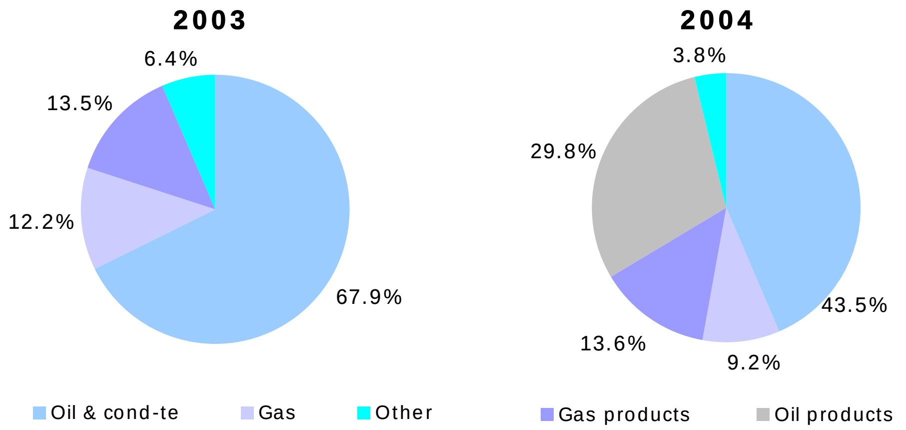
A Tiny Adjustment Exercise…

In 2004, Ukrnafta's revenues were driven by the addition of a downstream oil unit and growth in gas product sales. Also, just as in 2003, the reported revenues included items that require analytical adjustment. A discussion of this follows.

Ukrnafta's reported 2004 and 2003 revenues were adjusted for non-core items

Ukrnafta's reported 2004 gross revenues of USD 1,079.5 mn included sales of non-hydrocarbon products (over 9% of total). A significant portion of this was proceeds from urea sold under a tolling agreement with Dniproazot and from forex operations. We are inclined to treat this sales item as non-recurring. Therefore, for analytical purposes we adjusted Ukrnafta's P&L by removing it from sales, separating respective cost from total COGS and adding the net amount to other income. The same procedure was applied to the company's 2003 P&L, as discussed in our December 2004 report. In our previous forecasts, we did not account for the possibility of significant non-hydrocarbon product sales in 2004, which came as a surprise. True adjusted revenue growth comprised 57% as opposed to a reported 48%. The adjusted revenue breakdown was as follows:

Chart 1. Ukrnafta's 2004 Gross Sales Structure



Source: Company Data

Auctions: Better Without Than With?

In 2004, Ukrnafta split its crude sales between two refineries

Due to the suspension of oil auctions in 2004, Ukrnafta's crude sales were split almost equally between two refineries: Naftokhimyk Prykarpattya and Ukrtatnafta controlled by Privat and Naftogaz, respectively. Naftogaz and Privat are Ukrnafta's key shareholders, so this allocation was a compromise solution. Gas condensate was sold to the Shebelinka gas processing plant, which is 100%-owned by Naftogaz. Overall, the company reported 2004 oil & condensate sales of 2,735.8K mt (~20,053.4K bbl), up 3.6% yoy. Ukrnafta then ordered oil products from the three refineries for further retail through its gas station chain. Retail sales that first entered Ukrnafta's P&L only in 2004 comprised a hefty 30% of total revenues.

A tolling scheme with Naftokhimyk Prykarpattya enabled Ukrnafta's full vertical integration in 2004

From June 2004, Ukrnafta supplied oil to Naftokhimyk Prykarpattya under a tolling agreement. Operating under this scheme, the company accomplished the vertical integration of its business. Expenses other than transportation included only processing and storage fees. The company paid a fixed amount of USD 12.2 per tonne of oil processed and a monthly fee for storing oil products equal to 2% of their market value. We estimate that more than 60% of Ukrnafta's retail sales were sales of oil products made under the tolling agreement. Tolling agreements could not be realized with Uktatnafta, due to changes in its articles of association. Our calculations suggest that Ukrnafta's payment to Naftokhimyk Prykarpattya hardly exceeded USD 23 mn, whereas the value of oil products produced must have exceeded USD 330 mn, 61% above the estimated price at which Ukrnafta could sell its feedstock oil. Thus tolling, which became possible only with the cancellation of mandatory auctions, enabled the company to receive full retail markup.

After the resumption of auctions in 2005, in January–February Ukrnafta sold 505.3K mt (~3,688.4K bbl) of oil and 14.8K mt of condensate (~118.4K bbl). The auction's gross price averaged USD 39.4/bbl for oil and USD 46.9/bbl for condensate. While auctions boost Ukrnafta's crude price (in 2004, the estimated average price for Ukrnafta's oil was only USD 31.4/bbl), they hamper the realization of the vertical integration scheme with Naftokhimyk Prykarpattya. In our view, the net effect of the auctions is negative for the company.

In 2005, the integration scheme with the refinery will only be possible through Privat's affiliated traders

A roundabout way of dealing with this hurdle, is by using Privat-related trading companies -- mainly Nafto-Trade and Alfa-Nafta -- to purchase Ukrnafta's oil at auctions by overbidding the competition, selling it to Naftokhimyk Prykarpattya and then selling the oil products from Naftokhimyk Prykarpattya to Ukrnafta. This multi-step process inevitably results in some portion of revenues being lost for Ukrnafta and is complicated by the requirement that oil purchases at auctions be prepaid by the buyer. The latter may lead to situations where Privat traders are unable to pay in advance and Ukrnafta's crude is bought by other parties, so Naftokhimyk Prykarpattya does not receive Ukrnafta's oil for refining.

From the minority investor standpoint, auctions assure greater transparency of Ukrnafta's operations and make the company's cash flows more predictable. However, they engender unnecessary intermediary links that impair the efficiency of the company's operations. Privat group is now actively lobbying for the cancellation of mandatory auctions, or that some terms of their conduct be more favorable to Ukrnafta. This would enable Ukrnafta to boost its cash flows, but at the same time, would result in much greater difficulty in monitoring the company, which would pave the way to both top-line and earnings surprises.

Gas Segment

Ukrnafta's upstream gas business remains unprofitable, while downstream operations thrive

In 2004, the gas business remained unattractive for Ukrnafta. Average gas prices were estimated at around USD 33.8/ '000 cm, and the price for gas sold to Naftogaz is estimated at only USD 25.9/ '000 cm. A portion of gas extracted was processed at the company's gas processing plants (GPPs) into LPG and stable gasoline. Almost all produced LPG and stable gasoline was sold. Specifically, sales of LPG rose 14.0% yoy to 156.6K mt, and sales of stable gasoline grew 12.4% yoy to 220.7K mt. In dollar terms, sales of gas products surged 56% last year to USD 134.4 mn, comprising 13.6% of Ukrnafta's adjusted sales.

Royalties: More Than A Nuisance

The royalty burden will significantly increase in 2005

In 2004, extraction royalties caused Ukrnafta to incur expenses in the amount of USD 65.3 mn, or 6% of its gross sales. In 2005, we expect the amount of royalties to triple for Ukrnafta. The State Budget Law for 2005, approved by the Verkhovna Rada in March, suspended the introduction of the Law On Differentiated Royalties which was favored by oil and gas extractors. Instead, it increased the royalty burden considerably by raising royalty rates, compared to the rates effective in 2004, and changing the basis for royalties computation. Volumes extracted, instead of volumes sold, have now become the basis for royalty charges.

Royalties for crude oil extraction were set at USD 56.5 per mt (up 87.5%), and also increased to USD 56.5 per mt (up 188.3%) for condensate. Gas extraction royalties remained at USD 5.8 per thousand cubic meters, and in addition royalties for gas extracted from deep deposits (over 5 km) were introduced. These measures, if maintained throughout the forecast horizon, will impact Ukrnafta's profitability and its valuation. Therefore, in our model below **we consider two scenarios**. The **first scenario assumes that high royalties will apply only in 2005** to help fund the inflated 2005 budget, and from 2006 going forward royalties will be returned to their 2004 levels. The **second scenario** applies to a downside case, when current **royalty level will be maintained throughout the forecast horizon**.

High oil prices and downstream operations mitigate the detrimental effect of high royalties

The royalty burden will be partly offset by high oil prices in the future. Additionally, Ukrnafta's downstream segment will hedge against the possible worsening of upstream operations that will help prevent drastic fluctuations in the company's operating cash flows.

Capital Investments

Planned CapEx for 2005 is USD 500 mn and 80% of these funds will be spent for Ukrnafta's retail network

Ukrnafta's downstream expansion strategy envisages a network of 800 gas stations in place by 2008, with an addition of 147 more stations by 2009. CapEx for 2005 is estimated by Ukrnafta's management at USD 500 mn, 80% of which will be spent on gas station acquisition. In 2005, Ukrnafta will be able to use USD 140 mn for this purpose, within the credit line opened earlier by Deutsche Bank at 10.7% and secured with Ukrnafta's gas stations as collateral.

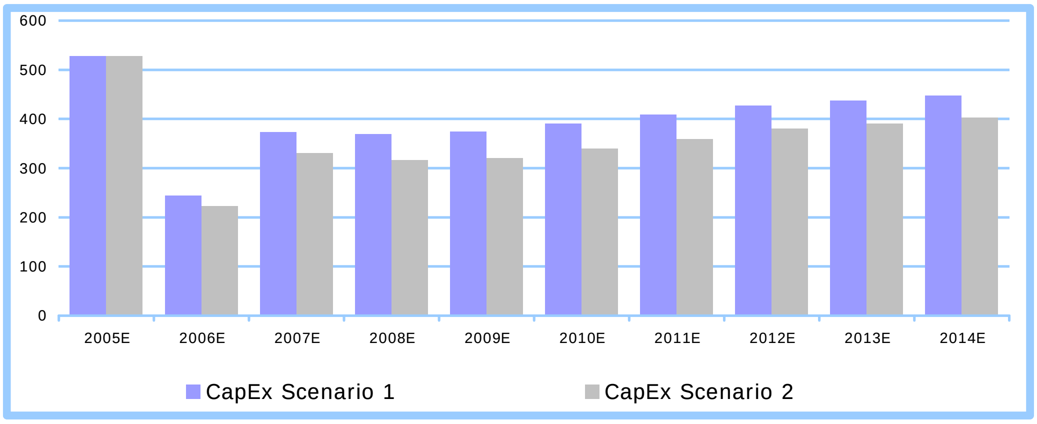
Another major project in 2005 will be the construction of the Gamaliyivka gas processing plant in the Poltava region. The plant's projected throughput of 2 bn cm of gas will increase Ukrnafta's existing gas processing capacity by 50%. The new GPP will be able to produce 200K mt of LPG and 40K mt of stable gasoline. Ukrnafta's three existing GPPs can produce a total of up to 490K of LPG and stable gasoline. The LPG/stable gasoline market is deemed as very promising by Ukrnafta. Demand for these products is growing, as they are increasingly used as a cheap substitute for gasoline.

Another major investment will be the construction of a new gas processing plant

Construction of the plant will be carried out by Canadian Propak Systems in two stages and cost Ukrnafta a total of EUR 200 mn. The first stage will comprise 40% of total cost and will be financed with trade credits from Propak Systems, bank loans and from Ukrnafta's cash flows. In 2005, it will require an investment of EUR 30 mn. The second stage is to be self-financed through cash flows generated by the GPP, after the first stage is completed. Ukrnafta estimates the payback period for the project will be up to two years.

Our projections of Ukrnafta's CapEx schedule excluding CapEx on the Gamaliyivka GPP are as follows.

Chart 2. Scenario 1 and Scenario 2 CapEx, USD mn



Source: Company Data; Concorde Capital Projections*
We project average acquisition price per gas station at USD 1.1 mn from 2005 onward

Operations Modeling: Assumptions

Table 2. Key Assumptions

	2003	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	CAGR 5Y	CAGR 10Y
GDP growth	9.3%	12.0%	7.0%	6.0%	5.0%	4.5%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	5.3%	4.6%
Industrial production growth	15.8%	12.5%	9.0%	6.5%	5.5%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	6.2%	5.6%
Output of crude oil, ' 000 bbls	18,820	19,697	20,288	20,694	21,004	21,319	21,319	21,106	20,895	20,686	20,479	20,274	1.6%	0.3%
Output of gas condensate, '000 bbl	2,623	2,707	2,421	2,223	2,133	2,039	1,786	1,768	1,751	1,733	1,716	1,699	-8.0%	-4.6%
Output of natural & oil gas, mn cm	3,275	3,350	3,400	3,434	3,434	3,434	3,434	3,434	3,434	3,434	3,434	3,434	0.5%	0.2%
Output of LPG, '000 bbls	1,122	1,272	1,276	1,276	1,276	1,276	1,276	1,276	1,276	1,276	1,276	1,276	0.1%	0.0%
Output of stable gasoline, '000 bbls	1,590	1,784	1,812	1,812	1,812	1,812	1,812	1,812	1,812	1,812	1,812	1,812	0.3%	0.2%
Output of oil products for sale, '000 bbls	0	5,442	13,194	18,824	21,085	21,739	21,739	21,739	21,739	21,739	21,739	21,739	31.9%	14.9%
Ukrnafta's avg. est. oil price (gross), USD/bbl	23.91	31.08	35.75	37.53	37.53	31.90	32.54	34.17	35.88	37.67	37.67	37.67	0.9%	1.9%
Ukrnafta's avg. est. condensate price (gross), USD/bbl	27.15	35.02	40.28	42.29	42.29	35.95	36.67	38.50	40.43	42.45	42.45	42.45	0.9%	1.9%
Ukrnafta's avg. est. gas price (gross), USD/ ' 000 cm	32.53	33.83	37.01	42.56	46.39	50.10	53.60	57.36	60.80	63.84	67.03	70.38	9.6%	7.6%
Ukrnafta's avg. est. LPG price (gross), USD/bbl	31.52	42.87	49.30	51.76	51.76	44.00	44.88	47.12	49.48	51.95	51.95	51.95	0.9%	1.9%
Ukrnafta's avg. est. stable gasoline price (gross), USD/bbl	32.37	45.31	52.11	54.72	54.72	46.51	47.44	49.81	52.30	54.92	54.92	54.92	0.9%	1.9%
Ukrnafta's avg. est. oil products price (gross), USD/bbl	-	71.59	90.21	94.27	98.51	102.94	107.58	112.42	117.48	122.76	128.29	134.06	8.5%	6.5%

Source: Company Data; Concorde Capital Projections

In the table above, we have modified some of the assumptions we employed in our December 2004 report. The new assumptions are as follows:

- Oil prices are allowed greater variability, exhibiting a slow upward trend.
- Instead of a stable price assumption, we now project that the average price for oil products will grow at a steady 4.5% rate on the back of an increasing number of car owners and rising consumer demand.
- Oil output will begin to fall after 2008 at a 1% annual rate, due to reserve depletion as opposed to the previously assumed flat output. Audit data by Miller & Lents suggests that Ukrnafta's extraction operations will continue for the following 75 years, but decline in output is inevitable.

Scenario Analysis

Scenario 1: Royalties Reduced After 2005

In this scenario we assume that Ukraine's future budgets will not spend as much on social projects as in 2005, which coupled with pressure from both state-owned and private oil industry players, will result in a reduction of royalties for hydrocarbon extraction back to 2004 levels.

Table 3. P&L Pro Forma Projections Scenario 1
For the purposes of forecasting local currency is used

	2003	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	CAGR 5Y	CAGR 10Y
Revenue, UAH mn														
- from oil & condensate segment	2,282	2,268	2,026	2,183	2,188	1,885	1,899	1,975	2,052	2,134	2,112	2,091	-3.5%	-0.8%
- from gas segment	409	477	507	602	649	705	752	805	853	896	941	988	9.5%	7.5%
- from downstream gas products	455	710	825	867	867	737	751	789	828	870	870	870	1.1%	2.1%
- from downstream oil products	-	1,562	6,744	9,876	11,504	12,376	12,922	13,487	14,078	14,695	15,340	16,014	52.6%	26.2%
Other*	216	185											**n/m**	**n/m**
Net Sales, UAH mn*	2,503	3,915	7,393	10,875	12,267	12,715	13,224	13,817	14,428	15,063	15,616	16,195	**27.6%**	**15.3%**
Gross margin, %	*75.0%*	*69.3%*	*50.6%*	*43.5%*	*40.1%*	*38.0%*	*37.4%*	*37.3%*	*36.9%*	*36.0%*	*35.1%*	*34.5%*		
EBITDA margin, %	*68.1%*	*62.4%*	*45.4%*	*38.4%*	*35.0%*	*32.9%*	*32.3%*	*32.2%*	*31.8%*	*30.9%*	*30.0%*	*29.4%*		
Net margin, %	*35.6%*	*34.4%*	*24.1%*	*21.5%*	*19.6%*	*18.2%*	*17.7%*	*17.4%*	*17.0%*	*16.2%*	*15.4%*	*14.8%*		

Source: Company Data; Concorde Capital Projections
****These lines for 2003 and 2004 were adjusted to exclude non-recurring items from Sales***

The following additional assumptions have been made to model Ukrnafta's P&L.

- We conservatively project Ukrnafta's retail network to consist of 750 gasoline stations by 2007, as opposed to the management's forecast of 800 outlets. By 2008, the number will total 947. The average acquisition price per station is estimated at USD 1.1 mn (USD 0.9 mn in the previous model).
- Construction of the Gamaliyivka gas processing plant is not considered in this model, as the information for respective projections is insufficient and the project conservatively enters Ukrnafta's valuation at an implied NPV=USD 0 mn.
- Ukrnafta will refine 50% of its crude at Naftokhimyk Prykarpattya under a tolling agreement and sell another 50% to other market participants.

The last assumption is of extreme importance for the company's valuation. Our model suggests that Ukrnafta's future profitability and fair value will be significantly affected by the company's ability to obtain cheap oil products for sales through its retail chain. A fifty-fifty assumption, in our view, best reflects the reality. In 2004, Ukrnafta refined nearly half its crude at Naftokhimyk Prykarpattya, but we estimate that only around 35% of the sold oil volume was refined within the tolling agreement, which took effect in June 2004. We assume that this scheme will continue in the future. If oil auctions prevent Ukrnafta from directly realizing its tolling scheme, it could be effectively implemented with the help of Privat-related traders as facilitating intermediaries.

Refining of nearly all Ukrnafta's crude oil at Naftokhimyk Prykarpattya is hardly feasible at the moment due to the refinery's limited storage and processing capacity.

DCF Valuation For Scenario 1:

In our underlying DCF analysis, we developed a declining WACC series and assume perpetuity growth rate at 4.5%, on par with a projected growth rate for an average oil product price.

Table 4. Discounted Cash Flow Valuation Scenario 1

Valuation date **Apr 11, 2005**

We use local currency for our forecasts (UAH mn)

	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
EBITDA	**3,358**	**4,174**	**4,290**	**4,187**	**4,274**	**4,445**	**4,592**	**4,656**	**4,682**	**4,767**
EBIT	2,655	3,441	3,502	3,341	3,370	3,478	3,557	3,547	3,497	3,503
Tax Rate	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*
Taxed EBIT	1,858	2,409	2,452	2,339	2,359	2,435	2,490	2,483	2,448	2,452
Plus D&A	704	733	788	845	904	967	1,035	1,108	1,185	1,264
Less CapEx	(2,775)	(1,267)	(1,942)	(1,922)	(1,944)	(2,034)	(2,126)	(2,220)	(2,273)	(2,328)
Less change in OWC	(240)	(969)	(407)	(477)	(190)	(217)	(227)	(164)	(143)	(150)
FCFF	**(453)**	**906**	**891**	**785**	**1,128**	**1,151**	**1,171**	**1,207**	**1,217**	**1,238**
WACC	17.2%	16.5%	16.0%	15.6%	14.9%	14.4%	13.9%	13.4%	12.4%	11.9%

WACC to Perpetuity	10.5%	Terminal Value	**21,569**
Firm Value	**9,685**	Portion due to TV	59.4%
Less Net Debt	(621)	Perpetuity Growth Rate	4.5%
Equity Value	**9,064**	Implied Exit EBITDA Multiple	4.5 x
Fair Value per Share	**USD 31.65**	**12-mo Fair Value per Share**	**USD 38.20**

Source: Concorde Capital forecasts

Table 5. Scenario 1 Implied 12-Month Share Price, USD

10-Year Discount Rates	Perpetuity Growth Rate				
	3.5%	***4.0%***	***4.5%***	***5.0%***	***5.5%***
WACC – 1.5%	38.10	39.97	42.15	44.73	47.82
WACC – 1.0%	36.89	38.69	40.78	43.26	46.24
WACC – 0.5%	35.72	37.45	39.47	41.85	44.72
WACC + 0.0%	34.60	36.26	**38.20**	40.50	43.26
WACC + 0.5%	33.52	35.12	36.99	39.20	41.85
WACC +1.0%	32.48	34.02	35.82	37.95	40.50
WACC + 1.5%	31.48	32.96	34.70	36.74	39.20

Source: Concorde Capital calculations

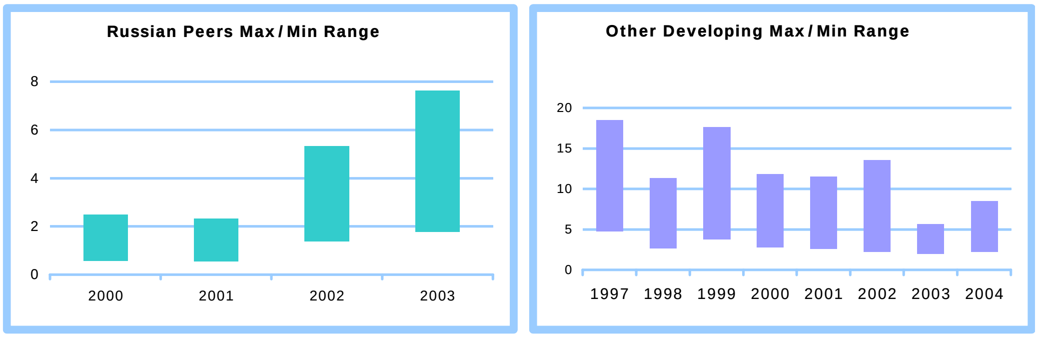
Table 6. Scenario 1 Implied 12-Month Share Price, USD

WACC to perpetuity	Perpetuity Growth Rate				
	3.5%	***4.0%***	***4.5%***	***5.0%***	***5.5%***
9.0%	39.97	42.68	45.99	50.13	55.45
9.5%	37.88	40.15	42.87	46.20	50.36
10.0%	36.11	38.04	40.32	43.06	46.41
10.5%	34.60	36.26	**38.20**	40.50	43.26
11.0%	33.29	34.74	36.41	38.37	40.68
11.5%	32.15	33.42	34.88	36.57	38.53
12.0%	31.14	32.27	33.56	35.03	36.72

Source: Concorde Capital calculations

Our implied exit P/EBITDA multiple of 4.4x corresponds to an EV/EBITDA of 4.5x in the table above, and fits well within the range of historical P/EBITDA multiples for Ukrnafta's peers:

Chart 3. Historical P/EBITDA For Peers



Include Surgutneftegaz, Sibneft, Lukoil & Tatneft
Include MOL, OMV, Petrobras Petroleo and Petrobras Energia

Source: Bloomberg; Concorde Capital calculations

In scenario 1, the DCF-based current fair stock value is USD 31.65 per share and 12-month fair value is USD 38.20 per share, 37.7% higher than the current market price of USD 27.75.

Scenario 2: Royalties Intact After 2005

In scenario 2, royalties set for 2005 are maintained throughout the forecast period.

Table 7. P&L Pro Forma Projections Scenario 2

We use local currency for our forecasts (UAH mn)

	2003	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	CAGR 5Y	CAGR 10Y
Net revenue, UAH mn*	2,503	3,915	7,393	10,238	11,628	12,031	12,559	13,179	13,818	14,479	15,045	15,637	**26.3%**	**14.9%**
Gross margin, %	*75.0%*	*69.3%*	*50.6%*	*40.0%*	*36.8%*	*34.5%*	*34.1%*	*34.2%*	*34.1%*	*33.4%*	*32.6%*	*32.2%*		
EBITDA margin, %	*68.1%*	*62.4%*	*45.4%*	*34.9%*	*31.7%*	*29.4%*	*29.0%*	*29.1%*	*29.0%*	*28.3%*	*27.5%*	*27.1%*		
Net margin, %	*35.6%*	*34.4%*	*24.1%*	*18.7%*	*17.1%*	*15.5%*	*15.2%*	*15.2%*	*15.1%*	*14.5%*	*13.8%*	*13.3%*		

Source: Company Data; Concorde Capital Projections
****Sales for 2003 and 2004 were adjusted to exclude non-recurring items***

Table 8. Discounted Cash Flow Valuation Scenario 2

Valuation date **Apr 11, 2005**

We use local currency for our forecasts (UAH mn)

	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
EBITDA	**3,358**	**3,569**	**3,683**	**3,537**	**3,641**	**3,839**	**4,012**	**4,101**	**4,140**	**4,237**
EBIT	2,655	2,841	2,913	2,724	2,785	2,935	3,054	3,084	3,059	3,090
Tax Rate	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*
Taxed EBIT	1,858	1,989	2,039	1,907	1,950	2,055	2,138	2,159	2,141	2,163
Plus D&A	704	728	771	813	856	904	958	1,018	1,081	1,147
Less CapEx	(2,775)	(1,159)	(1,718)	(1,649)	(1,665)	(1,766)	(1,870)	(1,975)	(2,033)	(2,093)
Less change in OWC	(240)	(839)	(400)	(447)	(192)	(220)	(231)	(171)	(146)	(153)
FCFF	**(453)**	**719**	**691**	**624**	**949**	**972**	**995**	**1,030**	**1,043**	**1,063**
WACC	17.2%	16.4%	15.8%	15.3%	14.7%	14.2%	13.7%	13.2%	12.3%	11.8%

WACC to Perpetuity	10.5%	Terminal Value	**18,519**
Firm Value	**8,218**	Portion due to TV	61.1%
Less Net Debt	(621)	Perpetuity Growth Rate	4.5%
Equity Value	**7,598**	Implied Exit EBITDA Multiple	4.4 x
Fair Value per Share	**USD 26.40**	**12-mo Fair Value per Share**	**USD 31.97**

Source: Concorde Capital forecasts

Under scenario 2, the DCF-based current fair stock value is USD 26.40 per share, and 12-month fair value is USD 31.97 per share, 15.2% above the current market price.

Peer Comparison

We have selected the same peer group we used in our December report but for Tatneft, which does not disclose its operating and financial results in a sufficient detail. Thus, we no longer use Tatneft for Ukrnafta's valuation purposes. Moreover, with the changes in Ukraine's politics and business environment, we feel that Ukrainian stock market should not be valued at a discount to the Russian market, which limits the use of Russian peers in comparison valuation.

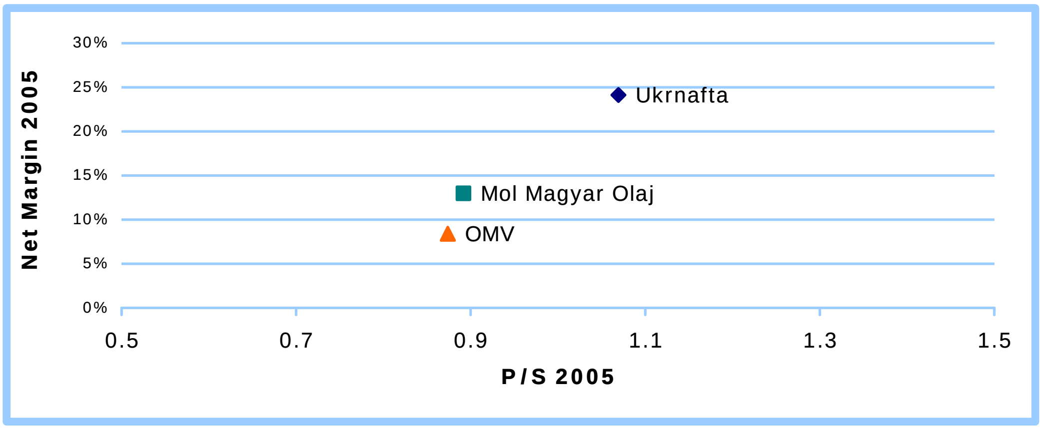
Table 9. Comparative Valuation

Company	MCap, USD mn	P/S		EV/EBITDA		P/E		EV/Output (USD/boe)	
		2004	2005E	2004	2005E	2004	2005E	2004	2005E
Ukrnafta	**1,504.8**	**2.0**	**1.1**	**3.4**	**2.7**	**5.9**	**4.4**	**37.6**	**40.6**
Mol Magyar Olaj	8,648.4	0.9	0.9	5.6	5.5	8.4	6.9	273.9	252.1
OMV	9,066.4	0.9	0.9	7.3	7.0	10.9	10.4	78.4	78.7
Peer Average		**0.9**	**0.9**	**6.4**	**6.2**	**9.7**	**8.6**	**176.1**	**165.4**
Premium/ Discount		126%	21%	-47%	-56%	-39%	-49%	-79%	-75%
Implied Price, USD		12.31	22.91	53.17	69.21	45.15	54.13	136.80	130.30
Upside/ Downside		-56%	-17%	92%	149%	63%	95%	393%	370%

Source: Companies' Data; Concorde Capital Estimates

We argue that Ukrnafta's seeming 'expensiveness' relative to its peers in terms of P/S is fully justified by the company's higher margins. Moreover, it is under-priced based on EV/EBITDA, P/E and EV/Output multiples. We consider forward-looking EV/EBITDA and P/E multiples as the most appropriate for comparison valuation. They imply a price range of USD 54.13 – 69.21 for Ukrnafta's shares.

Chart 4. P/S & Net Margin Comparison



Source: Concorde Capital calculations; Bloomberg; Company data

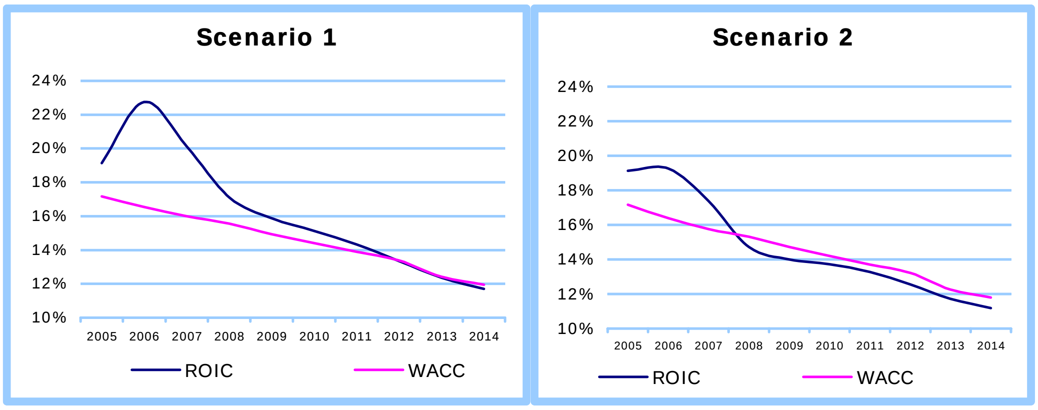
Valuation Conclusions

We find that Ukrnafta's relative valuation lacks adequate representation due to the difficulty in selecting companies with similar revenue profiles and cost structures. This is particularly true when we exclude Tatneft from our consideration. In our December 2004 report, we based our target price for Ukrnafta (USD 32.0) on its comparison with Tatneft, which was the most conservative method at that point.

On the other hand, our DCF model appears more robust, due to new and more detailed information on Ukrnafta's business. The most crucial change in our model compared to the previous report was the introduction of our "fifty–fifty assumption," whereby, Ukrnafta will refine 50% of its crude output at Naftokhimyk Prykarpattya and sell the remaining oil to other market players. Previously, we assumed that 100% of crude sales would be made under a tolling agreement. The revision of our assumption was one of the reasons why Ukrnafta's current DCF value (USD 38.2 in Scenario 1), fell compared to our previous DCF-based estimate (USD 45.67). Another factor was the impact of increased extraction royalties, which, if maintained, would further dampen Ukrnafta's DCF-based value to USD 31.97 per share (Scenario 2).

ROIC/WACC analysis comparing the two scenarios indicates that if extraction royalties remain high, the company will begin to destroy value as early as 2008. This stems from the susceptibility of the Ukrainian oil and gas industry to increase its fiscal burden, due to a high level of hydrocarbon reserve depletion. However, our oil and gas price assumptions are critical for the validity of these conclusions.

Chart 5. ROIC / WACC Analysis



Source: Company Data

We have taken a balanced view in determining our 12-month target price for UNAF and set it at USD 35.7, which corresponds to a 60% probability of Scenario 1 and 40% probability of Scenario 2. Thus, our new target is entirely DCF-based and much more conservative than the price implied by relative valuations. The resulting upside to the current market price of USD 27.75 is 28.7%.

Scenario 1

Financial statements are reported according to Ukrainian Accounting Standards

Income Statement Summary, USD mn

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Net Revenues*	**469**	**736**	**1,407**	**2,091**	**2,359**	**2,445**	**2,543**	**2,657**	**2,775**	**2,897**	**3,003**	**3,114**
Change y-o-y	*22%*	*57%*	*91%*	*49%*	*13%*	*4%*	*4%*	*4%*	*4%*	*4%*	*4%*	*4%*
Cost Of Sales*	(117)	(226)	(695)	(1,181)	(1,413)	(1,515)	(1,591)	(1,666)	(1,750)	(1,854)	(1,950)	(2,039)
Gross Profit*	352	510	713	910	946	930	952	991	1,025	1,043	1,053	1,075
Other Operating Income/Expenses, net	(7)	(5)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)
SG&A	(26)	(46)	(70)	(105)	(118)	(122)	(127)	(133)	(139)	(145)	(150)	(156)
EBITDA*	**319**	**459**	**639**	**803**	**825**	**805**	**822**	**855**	**883**	**895**	**900**	**917**
EBITDA margin, %	68.1%	62.4%	45.4%	38.4%	35.0%	32.9%	32.3%	32.2%	31.8%	30.9%	30.0%	29.4%
Depreciation	(82)	(92)	(134)	(141)	(152)	(163)	(174)	(186)	(199)	(213)	(228)	(243)
EBIT*	**238**	**367**	**505**	**662**	**674**	**643**	**648**	**669**	**684**	**682**	**673**	**674**
EBIT margin, %	50.6%	49.9%	35.9%	31.6%	28.6%	26.3%	25.5%	25.2%	24.7%	23.6%	22.4%	21.6%
Interest Expense	(1)	(6)	(20)	(18)	(11)	(7)	(6)	(8)	(10)	(12)	(14)	(15)
Financial Income	11	10	-	-	-	-	-	-	-	-	-	-
Other income/(expense)*	(15)	(12)	-	-	-	-	-	-	-	-	-	-
PBT	**233**	**360**	**485**	**643**	**662**	**636**	**642**	**661**	**674**	**670**	**659**	**659**
Tax	(67)	(107)	(146)	(193)	(199)	(191)	(192)	(198)	(202)	(201)	(198)	(198)
Effective tax rate	*29%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*
Net Income	**167**	**253**	**340**	**450**	**463**	**445**	**449**	**462**	**472**	**469**	**461**	**461**
Net Margin, %	*35.6%*	*34.4%*	*24.1%*	*21.5%*	*19.6%*	*18.2%*	*17.7%*	*17.4%*	*17.0%*	*16.2%*	*15.4%*	*14.8%*
Dividend Declared	**19**	**20**	**24**	**32**	**46**	**111**	**225**	**231**	**236**	**234**	**231**	**231**

Balance Sheet Summary, USD mn

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Current Assets	**238**	**422**	**725**	**1,067**	**1,238**	**1,333**	**1,399**	**1,461**	**1,526**	**1,593**	**1,652**	**1,713**
Cash & Equivalents	4	24	43	63	83	86	89	93	97	101	105	109
Trade Receivables	81	137	242	356	401	452	470	492	513	536	556	576
Inventories	62	196	341	523	613	648	687	717	749	782	811	841
Other current assets	91	65	100	125	142	147	153	159	166	174	180	187
Non-Current Assets	**938**	**1,123**	**1,576**	**1,712**	**1,948**	**2,159**	**2,364**	**2,575**	**2,791**	**3,011**	**3,225**	**3,435**
PP&E, net	563	849	1,112	1,244	1,453	1,660	1,860	2,063	2,271	2,483	2,691	2,895
Other Non-Current Assets	375	274	464	469	495	499	504	512	519	527	534	540
Total Assets	**1,175**	**1,545**	**2,301**	**2,779**	**3,186**	**3,492**	**3,763**	**4,036**	**4,317**	**4,604**	**4,877**	**5,148**
Shareholders' Equity**	**975**	**1,235**	**1,579**	**1,998**	**2,415**	**2,748**	**2,973**	**3,204**	**3,440**	**3,675**	**3,905**	**4,136**
Share Capital	3	3	3	3	3	3	3	3	3	3	3	3
Reserves and Other**	973	1,232	1,576	1,995	2,412	2,746	2,970	3,202	3,437	3,672	3,902	4,133
Current Liabilities*	**199**	**208**	**491**	**598**	**674**	**675**	**702**	**720**	**740**	**799**	**829**	**860**
ST Interest Bearing Debt	-	-	49	21	23	24	25	27	29	58	60	62
Trade Payables	77	111	256	314	354	342	356	372	388	406	420	436
Accrued Wages	3	4	9	13	14	15	15	16	17	17	18	19
Accrued Taxes	22	22	43	63	71	73	76	80	83	87	90	93
Other Current Liabilities**	98	70	135	188	212	220	229	226	222	232	240	249
LT Liabilities	**1**	**102**	**231**	**183**	**98**	**68**	**88**	**112**	**137**	**130**	**143**	**153**
LT Interest Bearing Debt	-	101	221	162	74	44	62	85	109	101	113	122
Other LT	1	1	10	21	24	24	25	27	28	29	30	31
Total Liabilities & Equity	**1,175**	**1,545**	**2,301**	**2,779**	**3,186**	**3,492**	**3,763**	**4,036**	**4,317**	**4,604**	**4,877**	**5,148**

UAH/USD Exchange Rates

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Average	5.33	5.32	5.25	5.20	5.20	5.20	5.20	5.20	5.20	5.20	5.20	5.20
Year-end	5.33	5.31	5.20	5.20	5.20	5.20	5.20	5.20	5.20	5.20	5.20	5.20

*These lines for 2003 and 2004 were adjusted to exclude non-recurring items from sales and associated with them expenses from COGS, with net effect included in Other Income / (expense) and reported above the line
**These lines for 2003 were adjusted to record USD 19 mn of dividends declared Nov 5, 2004

Scenario 1

Financial statements are reported according to Ukrainian Accounting Standards

Cash Flow Statement Summary, USD mn

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Net Income	167	253	340	450	463	445	449	462	472	469	461	461
Depreciation	82	92	134	141	152	163	174	186	199	213	228	243
Non-operating and non-cash items	0	14	(30)	(33)	(33)	(37)	(5)	(8)	(7)	(4)	(2)	(4)
Less Changes in working capital	60	(187)	(46)	(186)	(78)	(92)	(37)	(42)	(44)	(32)	(28)	(29)
Operating Cash Flow	**309**	**172**	**398**	**372**	**504**	**479**	**581**	**599**	**620**	**646**	**659**	**671**
Capital Expenditures, net	(291)	(261)	(528)	(244)	(373)	(370)	(374)	(391)	(409)	(427)	(437)	(448)
Other Investments, net	(4)	(2)	2	-	-	-	-	-	-	-	-	-
Investing Cash Flow	**(295)**	**(263)**	**(527)**	**(244)**	**(373)**	**(370)**	**(374)**	**(391)**	**(409)**	**(427)**	**(437)**	**(448)**
Net Borrowings/(repayments)	(18)	101	166	(87)	(86)	(28)	20	24	27	20	14	11
Dividends Paid	-	-	(19)	(21)	(24)	(78)	(224)	(228)	(234)	(235)	(233)	(231)
Other	-	10		-	-	-	-	-	-	-	-	-
Financing Cash Flow	**(18)**	**110**	**147**	**(108)**	**(110)**	**(106)**	**(204)**	**(204)**	**(207)**	**(215)**	**(218)**	**(219)**
Beginning Cash Balance	8	4	24	43	63	83	86	89	93	97	101	105
Ending Cash Balance	4	24	42	63	83	86	89	93	97	101	105	109
Net Cash Inflows/Outflows	**(4)**	**20**	**18**	**20**	**20**	**3**	**3**	**4**	**4**	**4**	**4**	**4**

Ratio Analysis and Per Share Data

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Liquidity Ratios												
Current Ratio	1.19	2.03	1.48	1.78	1.84	1.97	1.99	2.03	2.06	1.99	1.99	1.99
Receivables Collection DOH (est.)	63	54	49	52	59	64	66	66	66	66	66	66
Inventories Processing DOH (est.)	113	147	118	119	133	137	138	138	137	135	134	132
Payment Period (est.)	239	152	96	88	86	84	80	80	79	78	77	77
Cash Conversion Cycle	(63)	50	71	83	105	117	124	125	124	123	123	122
Operating Efficiency Ratios												
Total Asset Turnover	0.40	0.54	0.73	0.82	0.79	0.73	0.70	0.68	0.66	0.65	0.63	0.62
Fixed Asset Turnover	0.50	0.71	1.04	1.27	1.29	1.19	1.12	1.08	1.03	1.00	0.96	0.94
Operating Profitability Ratios												
Operating Profit Margin	51%	50%	36%	32%	29%	26%	25%	25%	25%	24%	22%	22%
Net Margin	36%	34%	24%	22%	20%	18%	18%	17%	17%	16%	15%	15%
ROE	17%	23%	24%	25%	21%	17%	16%	15%	14%	13%	12%	11%
Financial Risk Ratios												
Debt-to-Equity Ratio	0.00	0.08	0.17	0.09	0.04	0.02	0.03	0.03	0.04	0.04	0.04	0.04
Total Debt-to-Assets Ratio	0.17	0.20	0.31	0.28	0.24	0.21	0.21	0.21	0.20	0.20	0.20	0.20
Interest Coverage	328.3	63.3	24.9	35.8	59.0	94.0	99.8	81.0	66.4	55.3	48.5	45.2
Du Pont Analysis												
Net Margin	35.6%	34.4%	24.1%	21.5%	19.6%	18.2%	17.7%	17.4%	17.0%	16.2%	15.4%	14.8%
Total Asset Turnover	0.40	0.54	0.73	0.82	0.79	0.73	0.70	0.68	0.66	0.65	0.63	0.62
Fin Leverage Multiplier	1.20	1.23	1.37	1.42	1.35	1.29	1.27	1.26	1.26	1.25	1.25	1.25
ROE = NM x TAT x FLM	17.1%	22.9%	24.1%	25.2%	21.0%	17.2%	15.7%	15.0%	14.2%	13.2%	12.2%	11.5%
Per Share Data, USD												
EPS	3.078	4.670	6.261	8.304	8.547	8.206	8.282	8.528	8.696	8.647	8.503	8.503
DPS	0.347	0.374	0.438	0.581	0.855	2.052	4.141	4.264	4.348	4.323	4.252	4.252
BPS	17.983	22.770	29.114	36.836	44.529	50.683	54.824	59.088	63.436	67.760	72.011	76.263

Exchange Rates, UAH/USD

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Average exchange rate	5.33	5.32	5.25	5.20	5.20	5.20	5.20	5.20	5.20	5.20	5.20	5.20
Year-end exchange rate	5.33	5.31	5.20	5.20	5.20	5.20	5.20	5.20	5.20	5.20	5.20	5.20

Scenario 2

Financial statements are reported according to Ukrainian Accounting Standards

Income Statement Summary, USD mn

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Net Revenues*	**469**	**736**	**1,407**	**1,969**	**2,236**	**2,314**	**2,415**	**2,534**	**2,657**	**2,784**	**2,893**	**3,007**
Change y-o-y	*22%*	*57%*	*91%*	*40%*	*14%*	*3%*	*4%*	*5%*	*5%*	*5%*	*4%*	*4%*
Cost Of Sales*	(117)	(226)	(695)	(1,181)	(1,413)	(1,515)	(1,591)	(1,666)	(1,750)	(1,854)	(1,950)	(2,039)
Gross Profit*	352	510	713	788	823	799	824	868	907	931	944	968
Other Operating Income/Expenses, net	(7)	(5)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)
SG&A	(26)	(46)	(70)	(98)	(112)	(116)	(121)	(127)	(133)	(139)	(145)	(150)
EBITDA*	**319**	**459**	**639**	**686**	**708**	**680**	**700**	**738**	**772**	**789**	**796**	**815**
EBITDA margin, %	68.1%	62.4%	45.4%	34.9%	31.7%	29.4%	29.0%	29.1%	29.0%	28.3%	27.5%	27.1%
Depreciation	(82)	(92)	(134)	(140)	(148)	(156)	(165)	(174)	(184)	(196)	(208)	(221)
EBIT*	**238**	**367**	**505**	**546**	**560**	**524**	**536**	**564**	**587**	**593**	**588**	**594**
EBIT margin, %	50.6%	49.9%	35.9%	27.8%	25.0%	22.6%	22.2%	22.3%	22.1%	21.3%	20.3%	19.8%
Interest Expense	(1)	(6)	(20)	(19)	(14)	(12)	(12)	(13)	(15)	(18)	(20)	(21)
Financial Income	11	10	-	-	-	-	-	-	-	-	-	-
Other income/(expense)*	(15)	(12)	-	-	-	-	-	-	-	-	-	-
PBT	**233**	**360**	**485**	**527**	**546**	**512**	**524**	**551**	**572**	**575**	**569**	**573**
Tax	(67)	(107)	(146)	(158)	(164)	(154)	(157)	(165)	(172)	(173)	(171)	(172)
Effective tax rate	*29%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*
Net Income	**167**	**253**	**340**	**369**	**382**	**359**	**367**	**386**	**400**	**403**	**398**	**401**
Net Margin, %	*35.6%*	*34.4%*	*24.1%*	*18.7%*	*17.1%*	*15.5%*	*15.2%*	*15.2%*	*15.1%*	*14.5%*	*13.8%*	*13.3%*
Dividend Declared	**19**	**20**	**24**	**26**	**38**	**90**	**183**	**193**	**200**	**201**	**199**	**200**

Balance Sheet Summary, USD mn

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Current Assets	**238**	**422**	**725**	**1,004**	**1,174**	**1,261**	**1,328**	**1,394**	**1,461**	**1,531**	**1,591**	**1,654**
Cash & Equivalents	4	24	43	59	78	81	85	89	93	97	101	105
Trade Receivables	81	137	242	335	380	428	447	469	492	515	535	556
Inventories	62	196	341	492	581	613	652	684	717	752	781	812
Other current assets	91	65	100	118	134	139	145	152	159	167	174	180
Non-Current Assets	**938**	**1,123**	**1,576**	**1,686**	**1,882**	**2,047**	**2,207**	**2,379**	**2,560**	**2,751**	**2,939**	**3,127**
PP&E, net	563	849	1,112	1,226	1,397	1,559	1,715	1,878	2,052	2,234	2,416	2,597
Other Non-Current Assets	375	274	464	461	485	487	493	500	509	517	524	530
Total Assets	**1,175**	**1,545**	**2,301**	**2,690**	**3,056**	**3,307**	**3,535**	**3,773**	**4,022**	**4,282**	**4,531**	**4,781**
Shareholders' Equity**	**975**	**1,235**	**1,579**	**1,922**	**2,266**	**2,535**	**2,718**	**2,911**	**3,111**	**3,312**	**3,511**	**3,712**
Share Capital	3	3	3	3	3	3	3	3	3	3	3	3
Reserves and Other**	973	1,232	1,576	1,919	2,263	2,532	2,715	2,908	3,108	3,310	3,509	3,709
Current Liabilities*	**199**	**208**	**491**	**563**	**639**	**639**	**667**	**687**	**708**	**769**	**799**	**830**
ST Interest Bearing Debt	-	-	49	20	21	23	24	25	28	56	58	60
Trade Payables	77	111	256	295	335	324	338	355	372	390	405	421
Accrued Wages	3	4	9	12	13	14	14	15	16	17	17	18
Accrued Taxes	22	22	43	59	67	69	72	76	80	84	87	90
Other Current Liabilities**	98	70	135	177	201	208	217	215	213	223	231	241
LT Liabilities	**1**	**102**	**231**	**205**	**152**	**134**	**151**	**175**	**202**	**201**	**221**	**239**
LT Interest Bearing Debt	-	101	221	186	129	111	127	150	176	174	192	209
Other LT	1	1	10	20	22	23	24	25	27	28	29	30
Total Liabilities & Equity	**1,175**	**1,545**	**2,301**	**2,690**	**3,056**	**3,307**	**3,535**	**3,773**	**4,022**	**4,282**	**4,531**	**4,781**

UAH/USD Exchange Rates

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Average	5.33	5.32	5.25	5.20	5.20	5.20	5.20	5.20	5.20	5.20	5.20	5.20
Year-end	5.33	5.31	5.20	5.20	5.20	5.20	5.20	5.20	5.20	5.20	5.20	5.20

*These lines for 2003 and 2004 were adjusted to exclude non-recurring items from sales and associated with them expenses from COGS, with net effect included in Other Income / (expense) and reported above the line
**These lines for 2003 were adjusted to record USD 19 mn of dividends declared Nov 5, 2004

Scenario 2

Financial statements are reported according to Ukrainian Accounting Standards

Cash Flow Statement Summary, USD mn

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Net Income	167	253	340	369	382	359	367	386	400	403	398	401
Depreciation	82	92	134	140	148	156	165	174	184	196	208	221
Non-operating and non-cash items	0	14	(30)	(23)	(25)	(29)	(6)	(10)	(9)	(6)	(3)	(5)
Less Changes in working capital	60	(187)	(46)	(161)	(77)	(86)	(37)	(42)	(44)	(33)	(28)	(29)
Operating Cash Flow	**309**	**172**	**398**	**325**	**428**	**400**	**488**	**508**	**532**	**560**	**574**	**587**
Capital Expenditures, net	(291)	(261)	(528)	(223)	(330)	(317)	(320)	(340)	(360)	(380)	(391)	(403)
Other Investments, net	(4)	(2)	2	-	-	-	-	-	-	-	-	-
Investing Cash Flow	**(295)**	**(263)**	**(527)**	**(223)**	**(330)**	**(317)**	**(320)**	**(340)**	**(360)**	**(380)**	**(391)**	**(403)**
Net Borrowings/(repayments)	(18)	101	166	(65)	(55)	(16)	17	24	29	25	20	19
Dividends Paid	-	-	(19)	(21)	(24)	(64)	(181)	(188)	(197)	(201)	(200)	(200)
Other	-	10	-	-	-	-	-	-	-	-	-	-
Financing Cash Flow	**(18)**	**110**	**147**	**(85)**	**(79)**	**(80)**	**(165)**	**(164)**	**(168)**	**(175)**	**(180)**	**(180)**
Beginning Cash Balance	8	4	24	43	59	78	81	85	89	93	97	101
Ending Cash Balance	4	24	42	59	78	81	85	89	93	97	101	105
Net Cash Inflows/Outflows	**(4)**	**20**	**18**	**16**	**19**	**3**	**4**	**4**	**4**	**4**	**4**	**4**

Ratio Analysis and Per Share Data

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Liquidity Ratios												
Current Ratio	1.19	2.03	1.48	1.78	1.84	1.97	1.99	2.03	2.06	1.99	1.99	1.99
Receivables Collection DOH (est.)	63	54	49	53	58	64	66	66	66	66	66	66
Inventories Processing DOH (est.)	113	147	118	115	125	130	132	133	132	131	130	129
Payment Period (est.)	239	152	96	85	81	79	76	76	76	75	74	74
Cash Conversion Cycle	(63)	50	71	83	102	115	122	123	122	122	122	121
Operating Efficiency Ratios												
Total Asset Turnover	0.40	0.54	0.73	0.79	0.78	0.73	0.71	0.69	0.68	0.67	0.66	0.65
Fixed Asset Turnover	0.50	0.71	1.04	1.21	1.25	1.18	1.14	1.11	1.08	1.05	1.02	0.99
Operating Profitability Ratios												
Operating Profit Margin	51%	50%	36%	28%	25%	23%	22%	22%	22%	21%	20%	20%
Net Margin	36%	34%	24%	19%	17%	15%	15%	15%	15%	14%	14%	13%
ROE	17%	23%	24%	21%	18%	15%	14%	14%	13%	13%	12%	11%
Financial Risk Ratios												
Debt-to-Equity Ratio	0.00	0.08	0.17	0.11	0.07	0.05	0.06	0.06	0.07	0.07	0.07	0.07
Total Debt-to-Assets Ratio	0.17	0.20	0.31	0.29	0.26	0.23	0.23	0.23	0.23	0.23	0.22	0.22
Interest Coverage	328.3	63.3	24.9	28.2	38.8	45.1	46.0	42.5	38.1	33.4	29.8	27.8
Du Pont Analysis												
Net Margin	35.6%	34.4%	24.1%	18.7%	17.1%	15.5%	15.2%	15.2%	15.1%	14.5%	13.8%	13.3%
Total Asset Turnover	0.40	0.54	0.73	0.79	0.78	0.73	0.71	0.69	0.68	0.67	0.66	0.65
Fin Leverage Multiplier	1.20	1.23	1.37	1.43	1.37	1.33	1.30	1.30	1.29	1.29	1.29	1.29
ROE = NM x TAT x FLM	17.1%	22.9%	24.1%	21.1%	18.2%	14.9%	14.0%	13.7%	13.3%	12.5%	11.7%	11.1%
Per Share Data, USD												
EPS	3.078	4.670	6.261	6.803	7.043	6.612	6.764	7.115	7.382	7.426	7.339	7.394
DPS	0.347	0.374	0.438	0.476	0.704	1.653	3.382	3.557	3.691	3.713	3.669	3.697
BPS	17.983	22.770	29.114	35.441	41.780	46.739	50.121	53.678	57.369	61.082	64.752	68.449

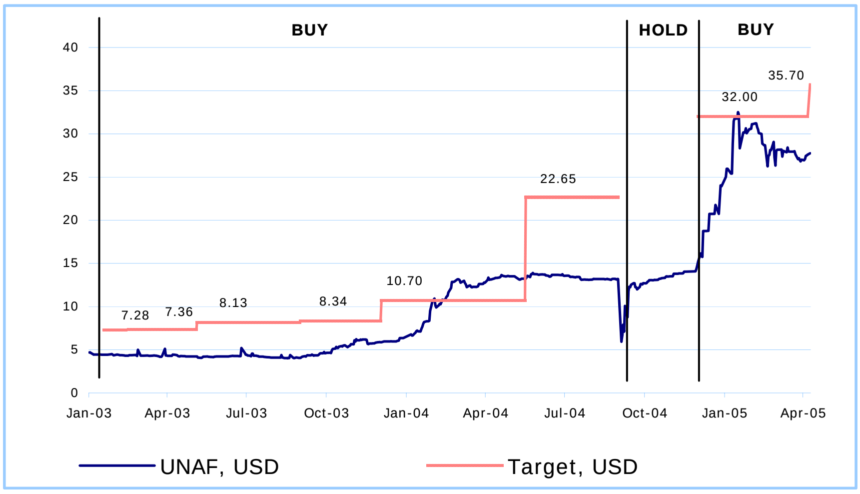
Exchange Rates, UAH/USD

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Average exchange rate	5.33	5.32	5.25	5.20	5.20	5.20	5.20	5.20	5.20	5.20	5.20	5.20
Year-end exchange rate	5.33	5.31	5.20	5.20	5.20	5.20	5.20	5.20	5.20	5.20	5.20	5.20

Analyst Certification

I, Andriy Gostik, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

Stock Price And Target Price History, USD



Andriy Gostik

Date	Target Price, USD	Closing Price, USD
20-Jan-03	7.28	4.43
17-Feb-03	7.36	4.32
07-May-03	8.13	4.23
03-Sep-03	8.34	4.05
05-Dec-03	10.70	5.87
19-May-04	22.65	13.23
06-Sep-04	Pending	5.93
03-Dec-04	32.00	15.17
11-Apr-05	35.70	27.75

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