



CONCORDE CAPITAL

Suspended

26 Aug 2005

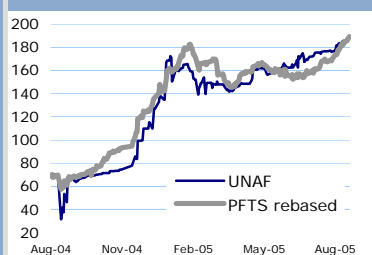
USD 37.0

12m Target

Pending

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UNAF Mid-Market, UAH



Market Information

Bloomberg	UNAF UZ
Reuters	UNAF.PFT

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

Market price, USD	37.00
52Wk H/L, USD	5.92/37.28
MCap, USD mln	1,789.5
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
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**Based on adjusted sales*

The recent buzz about a letter that says Ukrnafta is to be restructured by the government might result in the company losing its most productive assets. Though only speculation at present, we have suspended any recommendation on the stock until the issue is clarified. **PENDING**

Ukrnafta Faces Major Asset Stripping. A letter written by the Sumy oblast governor to the President has begun circulating unofficially. According to the letter, allegedly endorsed by President Yushchenko, a new state-owned entity may be created from Ukrnafta. The entity (Sumy Nafta) would be based on Ukrnafta's key oil drilling unit, Okhtyrkanaftogaz (52.6% of Ukrnafta's key oil condensate output and 35.5% of its gas output in 2004), key gas processing plant Kachanivsky GPP (19.3% of Ukrnafta's LPG production and 34% of the company's stable gasoline production in 2004) and a number of auxiliary units. If effected, the restructuring would dramatically change Ukrnafta's overall business, including its retail segment.

Privat Will Fight Tooth And Nail. A powerful business group like Privat will certainly oppose any asset stripping fiercely. A decision on a significant divestiture can only be approved at an AGM with 75% + 1 of the vote present. Privat which controls 42% of Ukrnafta could block the company's AGM which in order to be held requires 60% of all votes to be present.

Another Big Game Unfolding? While Privat is ready to fight for its asset, the government possesses levers sufficient to compel the group play by its rules. It is doubtful Privat would risk its entire business conglomerate in Ukraine for the dubious benefit of preventing asset stripping in a company where the group's position has significantly weakened lately. Ukrnafta paid its entire net income-2004 in dividends, which can be considered as some sort of compensation for Privat's losing operating control over Ukrnafta. If the government finds the right balance between stick and carrot again, Privat will likely step aside.

Implications For Valuation: Not Necessarily Bad? While there are too many unknowns to present a worthwhile valuation of the stock after the possible asset stripping, preliminary analysis shows that an immediate conclusion about the company's severe devaluation if restructuring does take place may prove superficial. If the company is restructured, the government would most likely receive full operating control over Ukrnafta and put an end to the transfer schemes practiced by Privat that have been destroying the company's value. The inflated CapEx that we projected for gas station acquisition from Privat's affiliated companies would be significantly reduced, and the EBITDA margin would improve due to the fact that hydrocarbons extracted by Ukrnafta would be sold at market prices. If this is the case, the stock's fair value may in fact even increase.

KEY FINANCIAL DATA*, USD mln

	Net Revenue	EBITDA	Net Income	DPS, USD
2004	736.0	459.0	253.3	4.670
2005E	1,475.6	640.8	334.0	2.463
2006E	2,287.6	866.3	485.9	2.240

Spot Exchange Rate 5.05

KEY RATIOS

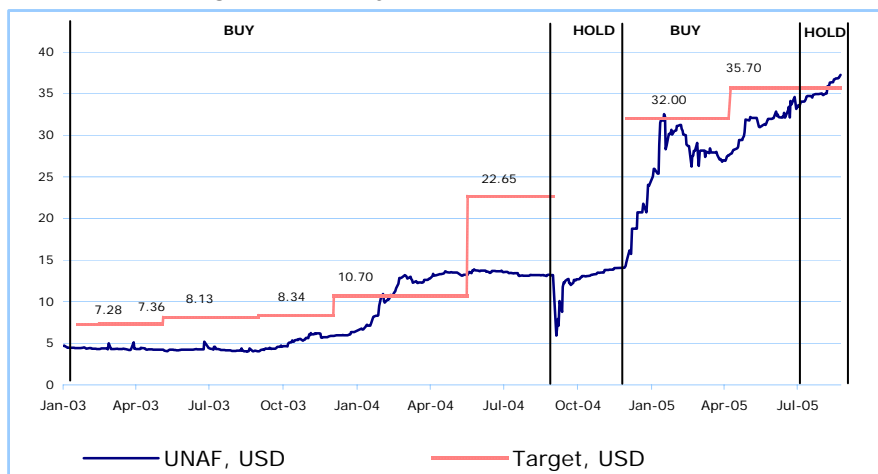
	P/S	P/E	EV/EBITDA	Div Yield
2004	2.73	7.92	4.54	12.6%
2005E	1.32	5.46	3.31	7.3%
2006E	0.88	4.13	2.52	6.1%

**Projections given do not provide for the possibility of asset stripping discussed in the note*

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
26-Aug-05	Pending	37.00

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