Ukraine / Oil & Gas

Ukrnafta

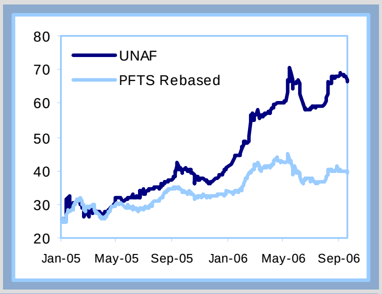
Quit While You're Ahead

SELL

21 Sep 2006	USD 65.3
12M Target	USD 56.0

Vladimir Nesterenko
+380 44 207 50 37
vn@concorde.com.ua

UNAF Mid-Market, USD



Market Information	
Bloomberg	UNAF UZ
Franfurt/Xetra	UKAA GR

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

Market price, USD	**65.3**
52Wk H/L, USD	70.4/36.0
MCap, USD mln	**3 541.1**
Free Float, %	8%
FF MCap, USD mln	283.3

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

Ratios 2005	
EBITDA Margin	54%
EBIT Margin	45%
Net Margin	34%
Net Debt/Equity	7%

We are bearish on Ukrnafta, as it has exhausted its catch-up potential and we see stagnation of the company's value. The company's risks were aggravated after the arrival of the new government. We believe UNAF's value will be affected by a ~25% increase in royalties and lagging retail fuel sales. We downgrade UNAF to SELL, with a lower target of USD 56.0 per share.

Yet Another Royalty Hike on the Way. It appears the government plans on continuing to milk Ukrnafta: according to its draft 2007 budget, the company will suffer from another royalty hike of around 25%. The increase will result in a lower contribution from the company's highly profitable upstream segment to UNAF's operating income, putting pressure on the company's profitability and free cash flows.

Upstream Outperforms, Retail Lagging. As we expected, Ukrnafta has discontinued tolling practices, which significantly contributed to its 84% yoy gross sales growth in 1H06. The increase could have been higher if not for weak average sales per station. Although roaring prices completely offset the lower-than-expected volumes in the short term, our fine-tuned retail sales estimates suggest slower growth in the future.

1H06 Profitability Seems Overstated. We were surprised by the company's high reported margins in 1H06, despite its rapid retail expansion. After a closer look it appears that the high margins were due to Ukrnafta purchasing fuel from an affiliated refinery below market prices. We believe the refinery is too weak to continue under-pricing its fuel for long and forecast UNAF's markups to normalize in the mid term.

New Government Brings Higher Risks The government, in its efforts to stabilize domestic fuel prices, has agreed with major fuel market players on price caps in exchange for higher fuel import duties and other favors. We believe retailers that have their own refineries will reap the benefits, while those without refineries or with insufficient capacity (like Ukrnafta) will end-up with smaller markups. The possibility of Ukrnafta's management being reshuffled is another threat.

KEY FINANCIAL DATA*, USD mln

	Net Revenue	EBITDA	Net Income	DPS, USD
2004	736.0	459.0	253.1	4.67
2005	1 087.9	585.9	364.9	6.73
2006F	1 701.9	704.4	430.9	4.77
2007F	2 052.6	622.2	344.3	3.81
Spot Exchange Rate	5.05			

** Financials and ratios are converted to USD at the average annual exchange rate*

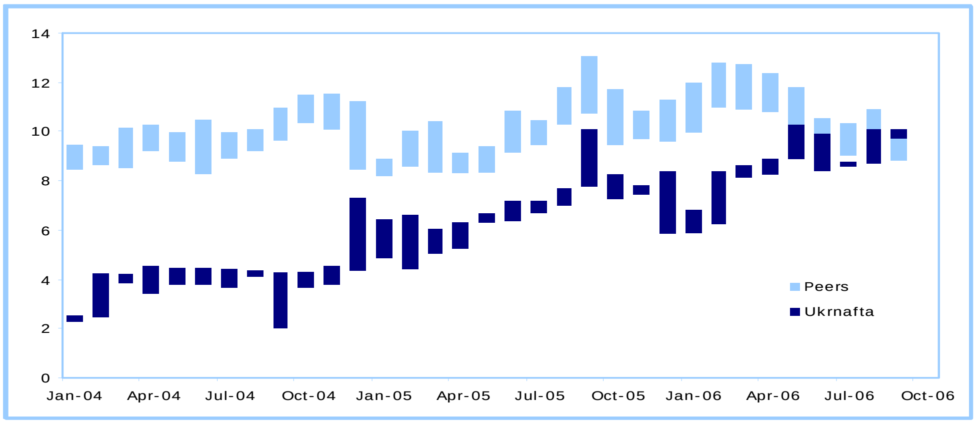
KEY RATIOS

	P/S	EV/EBITDA	P/E	Div Yield
2004	4.81	7.88	13.99	7.1%
2005	3.25	6.17	9.70	10.3%
2006F	2.08	5.17	8.22	7.3%
2007F	1.73	6.12	10.28	5.8%

Quit While You're Ahead

Since 2004 Ukrnafta stock has significantly outpaced the growth of its peers – the company's stock growth rate was 4.5 times higher than its peers' and 8.5 times higher than Urals'. Until 2006, UNAF's growth was driven mainly by a catch-up effect to international peers. Although the gap was closed in 1H06, the stock price jumped by 14% in August on the back of UNAF's nice-looking 1H06 results and expectations of greater political stability, not to mention the lack of reasonable alternatives in the Ukrainian stock market.

Ukrnafta Historical P/E Ranges vs Peer Average*

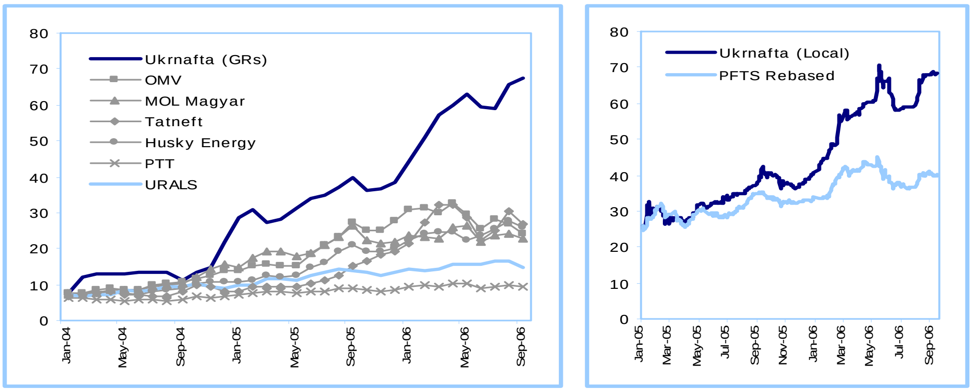


** P/E ranges are based on the monthly average P/E maximums and minimums*
Source: Bloomberg, Concorde Capital calculations

In May UNAF quotes reacted to the announced 100% dividend payout (yielding 10%) by a proportional build-up in just two days. The stock corrected down to the pre-AGM level after the ex-dividend date.

The second jump came in early August, in response to the new government and good-looking financial and operating results. In contrast to what we expected, this second hike has yet to peter out. We believe that the inertia UNAF's stock gained due to the seemingly positive political event and, in fact, questionable financials, is not justified by the company's fundamentals. The bubble should burst soon, providing a good opportunity to rake in profits at the current high price.

Ukrnafta vs Peers, Urals and PFTS, USD (rebased)



Source: Bloomberg, Concorde Capital estimates

We revised our forecast for Ukrnafta and downgrade its valuation to USD 56.0 per share, which is a 14% downside to the current market price. Taking into account stagnation of the company's value in the short term and higher risks, we have issued a SELL recommendation.

Note that there is a high probability that Ukrnafta will pay dividends in 2007 (forecast DPS of USD 4.8, yielding 7.3%).

Fundamentals Suggest Downside

Ukrnafta's fundamentals suggest that its stock is currently overvalued by the market. Notwithstanding better than expected 1H06 results and high fuel and hydrocarbons prices, the company's value is going to be hurt by another increase in royalties and lagging fuel sales from its newly acquired gasoline stations.

Tolling Has Gone, Transfer Pricing Brought Inflated Margins
1H06 interim financials indicate that UNAF is likely to outperform our forecast from May (see our report of May 15, 2006). As expected, the company has discontinued tolling, which significantly contributed to its 84% yoy sales growth in 1H06. However, we were surprised to see that the company managed to retain relatively high margins, despite expanding its retail segment (which is far less profitable than upstream). After a closer look it appeared that the company's true profitability was in fact lower.

It looks like UNAF's margins were artificially inflated through a transfer pricing scheme with Naftokhimik Prykarpattya (NAFP), the refinery controlled by Ukrnafta's second-largest shareholder, Privat group. NAFP's 1H06 operating and financial results suggest that the refinery has been selling fuel to UNAF 15-20% below the market. Therefore, UNAF was able to economize on wholesale fuel purchases, while benefiting from a roughly 30% yoy build-up of average retail prices in 1H06.

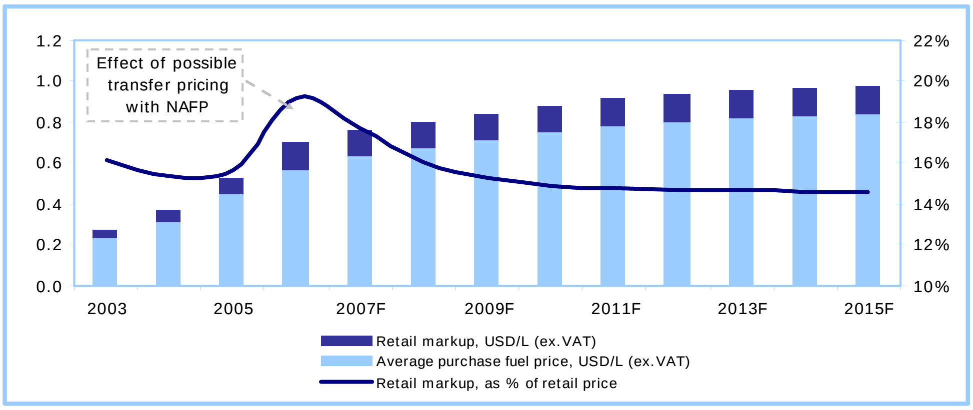
UNAF's Income Statement: Actual and Forecast

	1H05	1H06	2005	2006 Previous Forecast	2006 New Forecast
Gross Revenue, USD mln	**681.2**	**1 253.0**	**1 628.0**	**2 607.1**	**2 869.1**
% growth, yoy		*83.9%*		*60.1%*	*76.2%*
Net Revenue, USD mln	**469.2**	**827.2**	**1 087.9**	**1 622.5**	**1 701.9**
% growth, yoy		*76.3%*		*49.1%*	*56.4%*
EBITDA, USD mln	**240.1**	**378.2**	**586.0**	**585.1**	**704.4**
EBITDA Margin, %	*51.2%*	*45.7%*	*53.9%*	*36.1%*	*41.4%*
% growth, yoy		*57.5%*		*-0.1%*	*20.2%*
Net Income, USD mln	**140.3**	**224.5**	**364.9**	**343.2**	**430.9**
Net Margin, %	*29.9%*	*27.1%*	*33.5%*	*21.2%*	*25.3%*
% growth, yoy		*60.0%*		*-5.9%*	*18.1%*

Source: Company data, Concorde Capital estimates

We have improved our forecast for UNAF's profitability in 2006, but we do not think UNAF will continue milking the refinery for long, as NAFP's financials have already weakened quite substantially. Given that the refinery requires urgent modernization, Privat group will have to leave more profit on the refinery's books. We forecast that in the next three years UNAF's retail markup will decrease from 2006F's abnormal 19.1% to a more reasonable 15.3%, closer to the industry average.

UNAF's Retail Markups, estimated



Source: Company data, Concorde Capital estimates

Another Royalty Hike in 2007

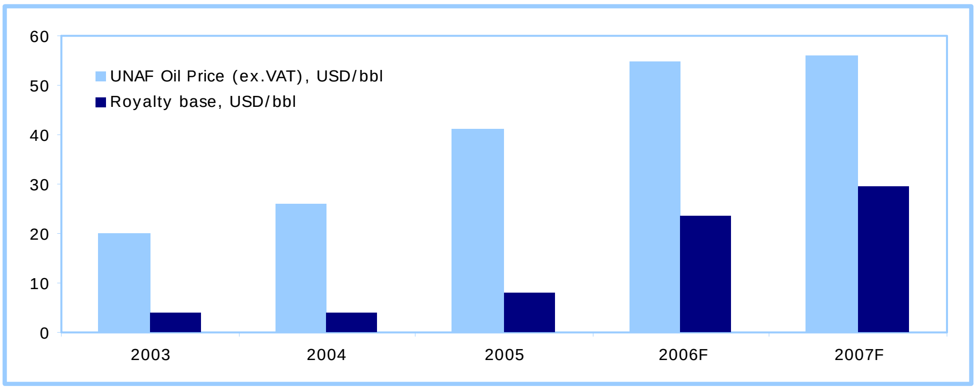
Contrary to our expectations, UNAF is likely to experience another royalty hike in 2007, of around 25%, which will be the third increase in three years. The increase is embedded in the Cabinet's draft of the 2007 budget. We believe the royalty is likely to remain in the final budget.

We do not expect the increase in royalties to be offset by higher oil prices. We believe OPEC will do all it can to support high global oil prices, and assume they will be flat after a minor 2% downward correction in 2007. UNAF's oil price is forecast to grow by a modest 3% in 2007 and by 0.5-1% thereon, catching up with the Urals.

We doubt the increase in the royalty base will recede in the future, while effective royalties may decrease if oil prices go down, as implied by the mechanism of their calculation (embedded in our model).

The increase in royalty base is going to hurt UNAF's EBITDA and will also result in a lower relative contribution of its highly profitable upstream segment to operating income, compared to what we expected before.

Oil and Condensate Royalty Base Revisions*



** In general, royalties depend on deposit depth. We provide the most applicable royalty level based on the average estimated depth of Ukrnafta's wells. Starting in Jan. 06, royalties were also pegged to oil auction prices, and a bit later – to import prices. For details see our ANB of June 7.*

Source: State budget laws 2003-2006, draft budget law for 2007, company data, Ukrainian News

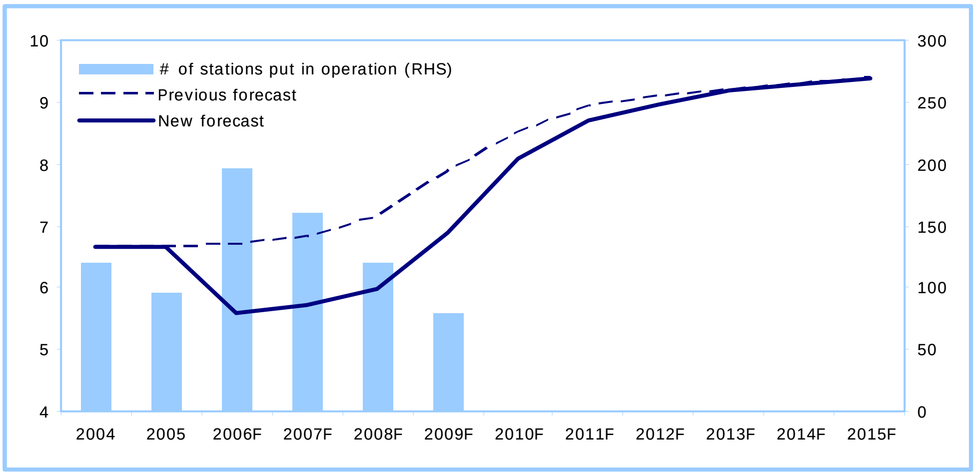
Lower Than Expected Retail Sales

Ukrnafta is likely to reach its target of 588 stations by the end of the year (currently the network includes more than 550 outlets), but at the expense of lower daily fuel sales per station (SPS). We estimate that this year UNAF will have smaller daily SPS than we expected, about 5.6mt instead of the previously assumed 6.7mt. It appears that in our previous forecast we overestimated the SPS of *newly acquired stations*. In fact those stations were selling much less, about 3.5mt/day. The figure looks consistent with information we have on the fuel sales of Galnaftogaz, another growing fuel retailer we cover. Its non-branded stations sell about 2-3mt/day.

In our revised model, we downgrade our SPS assumption for newly purchased stations. We also introduce the assumption that the SPS of new outlets will be lower in the future, as consolidation in the market will leave less and less efficient locations available for acquisition.

Ukrnafta's overall daily SPS should build up gradually as UNAF decreases its expansion pace. We do not alter our expectation that SPS will reach slightly more than 9mt/day by the end of the forecast period, which looks consistent with the current 8-10mt SPS for global majors and with the 10mt we expect for Galnaftogaz.

Ukrnafta Daily Fuel Sales Per Station (SPS), mt/day



Source: Company data, Concorde Capital estimates

Good Upstream Performance To Bring No Relief

We expect Ukrnafta to report slightly better than forecasted oil and condensate output in 2006 (3.5% yoy growth, instead of the previously assumed 1.9%). We also upgraded our forecast of UNAF's oil and gas prices, which have been growing much faster than we anticipated in our previous review. Although the cumulative effect of higher output and prices positively contributed to UNAF's valuation, those could not completely offset higher royalties and lagging sales per station.

UNAF's Operating Results: Actual and Forecast

	1H05	1H06	2005	2006 Previous Forecast	2006 New Forecast
Production					
Oil & condensate, ths mt	**1 497.3**	**1 581.6**	**3 120.7**	**3 180.0**	**3 229.9**
% growth, yoy		*5.6%*		*1.9%*	*3.5%*
Natural and oil gas, mln cm	**1 558.0**	**1 679.4**	**3 271.7**	**3 380.0**	**3 435.3**
% growth, yoy		*7.8%*		*3.3%*	*5.0%*
# of Fuel Stations	**391**	**518**	**391**	**588**	**588**
		32.5%		*50.4%*	*50.4%*
Prices (est, net)					
Crude oil, USD/bbl	***36.5***	***49.9***	***41.2***	***44.0***	***54.6***
% growth, yoy		*36.8%*		*6.8%*	*32.7%*
Natural gas, USD/ths cm			***55.4***	***89.5***	***95.6***
% growth, yoy				*61.6%*	*72.5%*
Oil products, USD/L	***0.46***	***0.60***	***0.53***	***0.62***	***0.70***
% growth, yoy		*29.7%*		*16.1%*	*31.9%*

Source: Company data, Concorde Capital estimates

The Future of the Greenfield Gas Processing Project is Still Foggy

Recently Ukrnafta held a tender for the construction of a 2bln cm gas processing plant in Gamaliyivka. The two companies that made it to the final round were domestic Sumy Frunze and Canadian PROPAK Systems. The competition is not over yet, but it seems that the latter has the edge. Sumy Frunze is more likely to be a sub-contractor for PROPAK.

Although construction of a new gas processing plant may indeed slightly improve UNAF's value, we doubt Ukrnafta will manage to build the plant in 2007 as planned, for two reasons:

- The tender, if completed, still has to be approved by Ukrnafta's Supervisory Board. Last year the same tender was not. This year the tender was announced before the new government was formed. We expect the government to change its representatives on Ukrnafta's Supervisory Board soon. The new people are likely to be less loyal to Privat group, and may block the project, since the government needs dry gas more than gas products.

- Ukrnafta may lack money for the project (around USD 60 mln needed), as it has paid 100% of its profits in dividends for two years in a row. The company will have to either economize on its retail expansion (less likely), or to seek third-party financing. The impact of a cash washout is already visible. To continue retail expansion and to buildup working capital (affected by high dividend liability) the company had to attract considerable financing in 2Q06, about USD 120 mln.

New Cabinet Brings More Risks

In our view, the arrival of the "blue" government in early August means greater risks for Ukrnafta. In addition to the proposed increase in royalties, which is likely to be passed by the Rada, other risks have popped up since our previous report:

Tougher Regulation Threatens Retail Margins

The government, in its efforts to stabilize domestic fuel prices, agreed with major fuel market players on price caps in exchange for higher fuel import duties and other favors. We believe businesses with their own refining capacities will reap the largest rewards, while it is unclear whether pure retailers should count on any favors. It looks like independents have simply chosen the lesser of two evils.

Although the agreement is not legally enforceable, fuel prices at the largest Ukrainian retail chains have stabilized at the agreed level. Ukrnafta is one of the companies that signed the agreement. Igor Kolomoyskiy, a member of Ukrnafta's board and the main beneficial owner of Privat group's 42% stake in the company, put his own signature on the memorandum.

The immediate effect has been negligible so far, as prices are set at their fair level. We expect the government to keep the caps on, which is likely to dampen profitability in retail.

In return for capping retail prices, integrated retailers managed to lobby for the revival of import duties for fuel, which is in line with our expectations (see our ANB of June 7). That would put more pressure on the profitability of non-integrated retailers, through higher wholesale prices.

Though less than pure retailers, Ukrnafta is still exposed to this risk, as it is becoming more of a fuel retailer than oil extractor and the effective capacity of its affiliated refineries is limited.

Expected Management Reshuffle May Hurt UNAF's Strategy

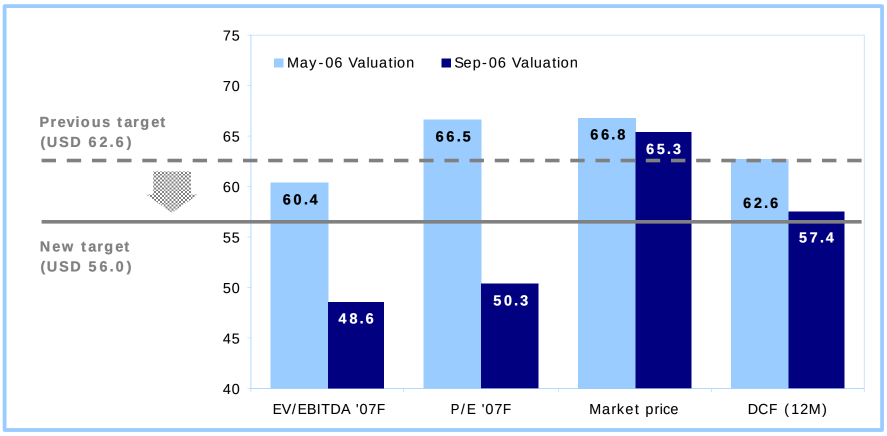
We expect the newly formed government to change the representatives of Naftogaz Ukrayiny in Ukrnafta's Board, sooner or later. The new people may be less loyal to Privat group and block certain strategic decisions. For example, the Cabinet may push the company to sell natural gas below market, or block the development of its gas processing business.

If the parties do not develop a common strategy, UNAF's business could suffer from another corporate conflict, similar to those UNAF experienced when Yuriy Boiko (currently Fuel and Energy Minister) headed Naftogaz Ukraiyny. His vague statement about it being better to privatize the government's 50%+1 stake if it is hard to find a compromise with private owners make us fear for the company. Privat will definitely oppose privatization: it won't accumulate enough money to purchase the Government's stake, and will be reluctant to see a new controlling shareholder take the helm.

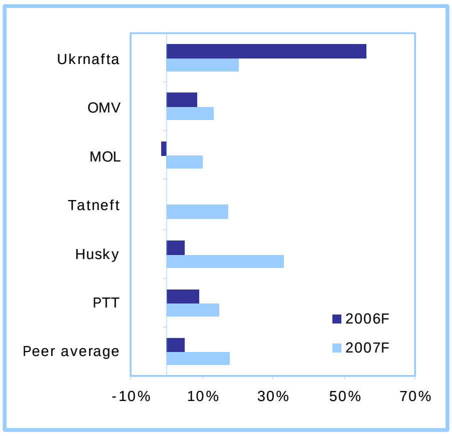
Valuation

Both DCF and peer valuation suggest that Ukrnafta is currently overvalued by the market. The stock is now traded at about 32% premium to its peers, and with 17% premium to our target. We downgrade our recommendation to SELL, and set UNAF 12-month target at USD 56 per share, slightly below the price implied by our DCF valuation, to account for higher risks.

Ukrnafta's Value-Meter, USD Per Share



Sales Growth Rates, UNAF vs Peers



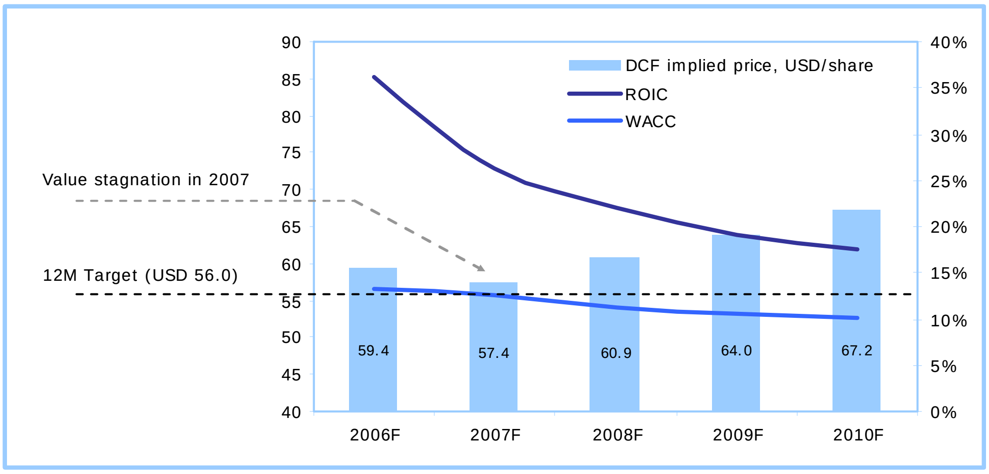
Source: Concorde Capital estimates, PFTS

Ukrnafta's peers are valued more cheaply than they were just several months ago. Until about the middle of this year, oil stocks were growing rapidly on the back of high oil prices, and what we observe now could be a downward correction. Slowing growth in the US might have encouraged investors to shift to safer assets, partly at the expense of oil businesses.

Whatever the future of global oil is, it is still very uncertain, and so peer comparison might be misleading. In setting the twelve month target, we rely on our DCF valuation.

The inclusion of the factors discussed in this report affecting UNAF's profitability into our DCF spreadsheets points to stagnation of the company's value in 2007. The DCF implied price at twelve months from now is USD 57.4, which is 3.4% lower than the DCF implied price at the current day (USD59.4). However, our model suggests the gradual recovery of Ukrnafta's value starting in 2008.

Development of UNAF's Fair Price Implied by DCF Valuation



Source: Concorde Capital estimates

We expect Ukrnafta to pay dividends next year, and have assumed a 60% payout ratio in our spreadsheets. The implied DPS is USD4.8, yielding 7.3%.

Discounted Cash Flow Valuation

Valuation date: Sep 21, 2007

We use local currency for our forecasts (UAH mln)

	2006F	2007F	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F
EBITDA	**3575**	**3173**	**3379**	**3528**	**3701**	**3798**	**3828**	**3822**	**3808**	**3817**
EBIT	2924	2398	2488	2530	2605	2627	2586	2511	2430	2371
Tax Rate	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*
Taxed EBIT	2193	1799	1866	1898	1954	1970	1939	1884	1822	1778
Plus D&A	651	775	891	998	1096	1171	1242	1310	1378	1446
Less CapEx	-1326	-2321	-2207	-2077	-1938	-1595	-1531	-1490	-1485	-1489
Less change in OWC	207	62	32	16	40	19	-1	-4	-25	-3
FCFF	**-**	**314**	**582**	**835**	**1152**	**1565**	**1649**	**1700**	**1690**	**1733**
WACC	13.3%	12.6%	11.3%	10.5%	10.0%	10.2%	10.4%	10.6%	10.8%	11.1%
WACC To Perpetuity										**10.5%**
Terminal Value										23799

Firm Value	**17007**	PV of Terminal Value	10271
Less Net Debt	-1121	**Portion due to TV**	**60.4%**
Equity Value	**15886**	Perpetuity Growth Rate	3.0%
12-mo Fair Value per Share	**USD57.4**	Implied Exit EBITDA Multiple	6.2x

Source: Concorde Capital estimates

Sensitivity of fair value per share, USD

10-Year Discount Rates	Perpetuity Growth Rate				
	2.0%	**2.5%**	**3.0%**	**3.5%**	**4.0%**
WACC – 1.5%	58.3	60.7	63.5	66.7	70.4
WACC – 1.0%	56.4	58.7	61.4	64.5	68.0
WACC – 0.5%	54.5	56.8	59.4	62.3	65.8
WACC + 0.0%	52.8	54.9	**57.4**	60.3	63.6
WACC + 0.5%	51.0	53.2	55.6	58.3	61.5
WACC +1.0%	49.4	51.4	53.8	56.4	59.4
WACC + 1.5%	47.8	49.8	52.0	54.6	57.5

WACC to perpetuity	Perpetuity Growth Rate				
	2.0%	**2.5%**	**3.0%**	**3.5%**	**4.0%**
9.0%	59.1	62.3	66.0	70.5	75.8
9.5%	56.7	59.5	62.7	66.5	71.0
10.0%	54.6	57.1	59.9	63.1	66.9
10.5%	52.8	54.9	**57.4**	60.3	63.6
11.0%	51.1	53.1	55.3	57.8	60.7
11.5%	49.7	51.5	53.4	55.7	58.2
12.0%	48.4	50.0	51.8	53.8	56.0

Source: Concorde Capital estimates

Peer Comparison

Valuation date: Sep 20, 2007

	Market Cap, USD	**EV/S**			**EV/EBITDA**			**P/E**		
		2005	**2006F**	**2007F**	2005	**2006F**	**2007F**	2005	**2006F**	**2007F**
Ukrnafta	3 541	3.3	**2.1**	**1.9**	6.2	**5.2**	**6.1**	9.7	**8.2**	**10.3**
OMV AG	14 488	0.8	0.7	0.6	4.3	4.2	3.4	10.1	9.0	7.3
MOL Magyar Olaj Gazipari	9 624	1.0	1.0	0.8	6.0	5.7	4.7	8.4	8.5	7.7
Tatneft	8 784	n/a	0.9	0.7	n/a	4.5	4.2	n/a	7.8	6.9
Husky Energy Inc	26 687	3.2	3.1	2.3	8.0	7.8	5.9	15.6	14.3	11.2
PTT Public Company Limited	16 116	0.9	0.9	0.7	5.8	5.6	5.1	8.2	7.6	6.7
Mean		1.5	**1.3**	**1.0**	6.0	**5.6**	**4.7**	10.6	**9.4**	**7.9**
Implied target		27.9	**39.2**	**34.4**	63.7	**70.4**	**48.6**	71.1	**74.9**	**50.3**
Upside/Downside		-57%	-40%	-47%	-2%	8%	-26%	9%	15%	-23%

	ROE	**EBITDA Margin**			**Net Margin**			**Sales Growth**	
	2005	2005	**2006F**	**2007F**	2005	**2006F**	**2007F**	**2006F**	**2007F**
Ukrnafta	35.4%	53.9%	**41.4%**	**30.3%**	33.5%	**25.3%**	**16.8%**	**56.4%**	**20.6%**
OMV AG	15.9%	18.0%	17.7%	18.9%	7.8%	8.1%	8.8%	8.5%	13.1%
MOL Magyar Olaj Gazipari	23.1%	16.2%	17.4%	17.3%	10.0%	10.0%	10.1%	-1.6%	10.0%
Tatneft	n/a	n/a	20.1%	17.7%	n/a	12.0%	11.6%	n/a	17.2%
Husky Energy Inc	26.6%	40.0%	39.1%	38.8%	19.6%	20.2%	19.5%	5.3%	32.9%
PTT Public Company Limited	28.8%	15.1%	15.2%	14.1%	8.6%	8.6%	8.5%	9.1%	15.0%
Mean	23.6%	22.3%	**21.9%**	**21.4%**	11.5%	**11.8%**	**11.7%**	**5.3%**	**17.6%**

Source: Thomson Financial, Concorde Capital estimates

Financial Statements According To UAS

Income Statement Summary, USD mln

	2004	2005	2006F	2007F	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F
Net Revenues*	**736**	**1 088**	**1 702**	**2 053**	**2 538**	**3 184**	**3 893**	**4 251**	**4 464**	**4 642**	**4 722**	**4 803**
Change y-o-y	*N/M*	*48%*	*56%*	*21%*	*24%*	*25%*	*22%*	*9%*	*5%*	*4%*	*2%*	*2%*
Cost Of Sales*	(226)	(397)	(878)	(1 285)	(1 693)	(2 260)	(2 879)	(3 188)	(3 374)	(3 535)	(3 607)	(3 680)
Gross Profit*	510	691	824	768	845	924	1 014	1 064	1 090	1 107	1 115	1 123
Other Operating Income/Expenses, net	(5)	3	-	-	-	-	-	-	-	-	-	-
SG&A	(46)	(108)	(119)	(146)	(183)	(232)	(288)	(319)	(339)	(357)	(368)	(375)
EBITDA*	**459**	**586**	**704**	**622**	**663**	**692**	**726**	**745**	**751**	**749**	**747**	**748**
EBITDA margin, %	62.4%	53.9%	41.4%	30.3%	26.1%	21.7%	18.6%	17.5%	16.8%	16.1%	15.8%	15.6%
Depreciation	(92)	(100)	(128)	(152)	(175)	(196)	(215)	(230)	(244)	(257)	(270)	(284)
EBIT*	**367**	**486**	**576**	**470**	**488**	**496**	**511**	**515**	**507**	**492**	**476**	**465**
EBIT margin, %	49.9%	44.7%	33.8%	22.9%	19.2%	15.6%	13.1%	12.1%	11.4%	10.6%	10.1%	9.7%
Interest Expense	(6)	(11)	(12)	(22)	(32)	(42)	(48)	(49)	(44)	(38)	(30)	(21)
Financial Income	10	24	24	24	24	24	24	24	24	24	24	24
Other income/(expense)*	(12)	(13)	(13)	(13)	(13)	(13)	(13)	(13)	(13)	(13)	(13)	(13)
PBT	**360**	**486**	**575**	**459**	**466**	**465**	**473**	**477**	**473**	**465**	**457**	**455**
Tax	(107)	(121)	(144)	(115)	(117)	(116)	(118)	(119)	(118)	(116)	(114)	(114)
Effective tax rate	*30%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*
Net Income	**253**	**365**	**431**	**344**	**350**	**349**	**355**	**357**	**355**	**349**	**343**	**341**
Net Margin, %	*34.4%*	*33.5%*	*25.3%*	*16.8%*	*13.8%*	*10.9%*	*9.1%*	*8.4%*	*7.9%*	*7.5%*	*7.3%*	*7.1%*
Dividend Declared	**253**	**365**	**259**	**207**	**210**	**209**	**213**	**214**	**213**	**209**	**206**	**205**

Balance Sheet Summary, USD mln

	2004	2005	2006F	2007F	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F
Current Assets	**422**	**341**	**591**	**688**	**871**	**1 121**	**1 393**	**1 530**	**1 612**	**1 680**	**1 713**	**1 745**
Cash & Equivalents	24	15	51	62	76	96	117	128	134	139	142	144
Trade Receivables	137	39	186	205	254	318	389	425	446	464	472	480
Inventories	196	160	219	257	339	452	576	638	675	705	721	736
Other current assets	65	127	135	164	203	255	311	340	357	371	378	384
Non-Current Assets	**1 123**	**1 255**	**1 484**	**1 798**	**2 071**	**2 302**	**2 488**	**2 582**	**2 645**	**2 686**	**2 709**	**2 720**
PP&E, net	849	1 056	1 274	1 577	1 835	2 047	2 212	2 295	2 352	2 387	2 408	2 417
Other Non-Current Assets	274	199	210	221	236	255	276	287	293	299	301	304
Total Assets	**1 545**	**1 595**	**2 076**	**2 486**	**2 942**	**3 423**	**3 882**	**4 112**	**4 257**	**4 366**	**4 422**	**4 465**
Shareholders' Equity**	**981**	**1 030**	**1 192**	**1 329**	**1 469**	**1 609**	**1 751**	**1 894**	**2 036**	**2 175**	**2 312**	**2 449**
Share Capital	3	3	3	3	3	3	3	3	3	3	3	3
Reserves and Other**	979	1 028	1 189	1 327	1 467	1 606	1 748	1 891	2 033	2 172	2 310	2 446
Current Liabilities*	**462**	**477**	**730**	**829**	**1 004**	**1 237**	**1 496**	**1 626**	**1 701**	**1 763**	**1 789**	**1 817**
ST Interest Bearing Debt	-	-	-	-	-	-	-	-	-	-	-	-
Trade Payables	111	43	175	257	339	452	576	638	675	707	721	736
Accrued Wages	4	6	10	12	15	19	23	26	27	28	28	29
Accrued Taxes	22	16	51	62	76	96	117	128	134	139	142	144
Other Current Liabilities**	324	412	495	498	574	670	780	835	866	889	897	909
LT Liabilities	**102**	**88**	**153**	**328**	**469**	**577**	**635**	**593**	**521**	**428**	**321**	**199**
LT Interest Bearing Debt	101	88	152	327	468	575	633	590	518	425	319	196
Other LT	1	1	1	1	1	2	2	3	3	3	3	3
Total Liabilities & Equity	**1 545**	**1 595**	**2 076**	**2 486**	**2 942**	**3 423**	**3 882**	**4 112**	**4 257**	**4 366**	**4 422**	**4 465**

Exchange Rates, UAH / USD

	2004	2005	2006F	2007F	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F
Average	5.32	5.12	5.05	5.08	5.10	5.10	5.10	5.10	5.10	5.10	5.10	5.10
Year-end	5.31	5.05	5.05	5.10	5.10	5.10	5.10	5.10	5.10	5.10	5.10	5.10

** 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 2004-2005 were adjusted to record dividends declared*

Financial Statements According To UAS (Cont'd)

Cash Flow Statement Summary, USD mln

	2004	2005	2006F	2007F	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F
Net Income	253	365	431	344	350	349	355	357	355	349	343	341
Depreciation	92	100	128	152	175	196	215	230	244	257	270	284
Non-operating and non-cash items	15	(13)	13	51	(3)	1	(4)	(2)	2	4	4	1
Less Changes in working capital	(187)	80	41	12	6	3	8	4	(0)	(1)	(5)	(1)
Operating Cash Flow	**172**	**532**	**613**	**559**	**527**	**548**	**574**	**589**	**600**	**609**	**612**	**625**
Capital Expenditures, net	(261)	(259)	(261)	(455)	(433)	(407)	(380)	(313)	(300)	(292)	(291)	(292)
Other Investments, net	(2)	9	(13)	(11)	(15)	(19)	(21)	(11)	(6)	(5)	(2)	(2)
Investing Cash Flow	**(263)**	**(250)**	**(274)**	**(466)**	**(447)**	**(427)**	**(401)**	**(324)**	**(307)**	**(298)**	**(294)**	**(294)**
Net Borrowings/(repayments)	101	(18)	66	175	141	107	57	(42)	(72)	(93)	(106)	(123)
Dividends Paid		(279)	(369)	(257)	(207)	(210)	(209)	(213)	(214)	(213)	(209)	(206)
Other	10	5	0	0	0	0	0	0	0	0	0	0
Financing Cash Flow	**110**	**(292)**	**(302)**	**(82)**	**(66)**	**(102)**	**(151)**	**(255)**	**(287)**	**(306)**	**(316)**	**(328)**
Beginning Cash Balance	N/A	25	15	51	62	76	96	117	128	134	139	142
Ending Cash Balance	24	15	51	62	76	96	117	128	134	139	142	144
Net Cash Inflows/Outflows	**20**	**(10)**	**36**	**11**	**15**	**19**	**21**	**11**	**6**	**5**	**2**	**2**

Ratio Analysis and Per Share Data

	2004	2005	2006F	2007F	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F
Liquidity Ratios												
Current Ratio	0.91	0.71	0.81	0.83	0.87	0.91	0.93	0.94	0.95	0.95	0.96	0.96
Receivables Collection DOH (est.)	68	30	24	35	33	33	33	35	36	36	36	36
Inventories Processing DOH (est.)	315	166	79	68	64	64	65	69	71	71	72	72
Payment Period (est.)	179	72	45	61	64	64	65	69	71	71	72	72
Cash Conversion Cycle	204	124	58	41	33	33	33	35	36	36	36	36
Operating Efficiency Ratios												
Total Asset Turnover	0.48	0.69	0.93	0.90	0.93	1.00	1.07	1.06	1.07	1.08	1.07	1.08
Fixed Asset Turnover	0.66	0.92	1.24	1.25	1.31	1.46	1.63	1.68	1.71	1.74	1.75	1.77
Operating Profitability Ratios												
Operating Profit Margin	50%	45%	34%	23%	19%	16%	13%	12%	11%	11%	10%	10%
Net Margin	34%	34%	25%	17%	14%	11%	9%	8%	8%	8%	7%	7%
ROE	26%	36%	39%	27%	25%	23%	21%	20%	18%	17%	15%	14%
Financial Risk Ratios												
Debt-to-Equity Ratio	0.10	0.09	0.13	0.25	0.32	0.36	0.36	0.31	0.25	0.20	0.14	0.08
Total Debt-to-Assets Ratio	0.36	0.35	0.43	0.47	0.50	0.53	0.55	0.54	0.52	0.50	0.48	0.45
Interest Coverage	63.3	46.3	47.9	21.8	15.3	11.9	10.6	10.5	11.4	13.1	16.0	22.6
Du Pont Analysis												
Net Margin	34.4%	33.5%	25.3%	16.8%	13.8%	10.9%	9.1%	8.4%	7.9%	7.5%	7.3%	7.1%
Total Asset Turnover	0.48	0.69	0.93	0.90	0.93	1.00	1.07	1.06	1.07	1.08	1.07	1.08
Fin Leverage Multiplier	1.57	1.56	1.65	1.81	1.94	2.07	2.17	2.19	2.13	2.05	1.96	1.87
ROE = NM x TAT x FLM	25.8%	36.3%	38.8%	27.3%	25.0%	22.7%	21.1%	19.6%	18.1%	16.6%	15.3%	14.3%
Per Share Data, USD												
EPS	4.667	6.730	7.946	6.349	6.452	6.428	6.541	6.590	6.543	6.433	6.321	6.289
DPS	4.667	6.730	4.767	3.810	3.871	3.857	3.925	3.954	3.926	3.860	3.793	3.774
BPS	18.091	18.999	21.975	24.515	27.095	29.667	32.283	34.919	37.537	40.110	42.638	45.154

Analyst Certification

I, Vladimir Nesterenko, hereby certify that the views expressed in this research report accurately reflect our 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.

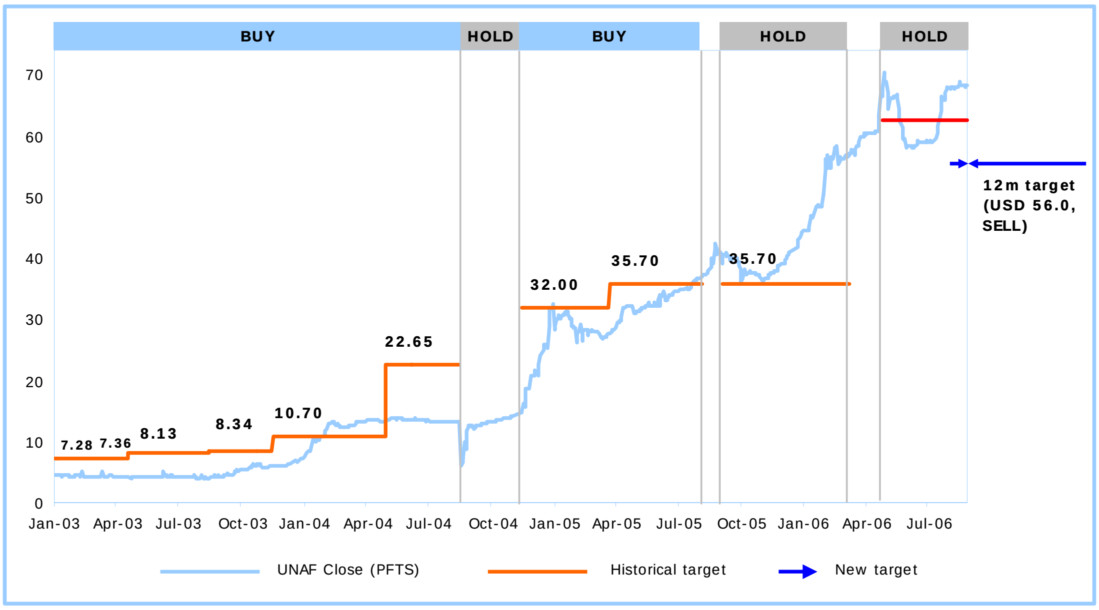
Date	Target price, USD	Closing price, USD
20-Jan-03*	7.28	4.43
17-Feb-03	7.36	4.32
07-May-03	8.13	4.23
03-Sep-03	8.34	4.05
05-Dec-03	10.70	5.87
19-May-04	22.65	13.23
06-Sep-04	Pending	5.93
03-Dec-04	32.00	15.17
11-Apr-05	35.70	27.75
26-Aug-05	Pending	37.00
22-Sep-05	35.70	39.20
28-Mar-06**	Pending	57.28
15-May-06	62.60	66.83
21-Sep-06	56.00	65.30***

** This stock was covered by analysts currently engaged with Concorde Capital prior to legal inception of the company in Oct 2004, recommendations are supported by research*

*** From January 2003 to December 2005 the company was covered by Andriy Gostik, who now focuses on another sector. In January 2006, Vladimir Nesterenko took over coverage.*

**** Closing price as of Sep 20, 2006*

Price, Target and Recommendation History, USD



Concorde Capital
3V Sportyvna Square
2nd entrance, 3rd floor
Kyiv 01023, UKRAINE

Tel +380 44 207 5030
Fax: +380 44 207 5031
www.concorde.com.ua
office@concorde.com.ua

CEO
Igor Mazepa im@concorde.com.ua

Equity Sales
Lucas Romriell lr@concorde.com.ua
Marina Martirosyan mm@concorde.com.ua
Anastasiya Nazarenko an@concorde.com.ua
Elena Petrashko ep@concorde.com.ua

Director of Research
Konstantin Fisun, CFA kf@concorde.com.ua

Chief Strategist
Tom Warner tw@concorde.com.ua

Utilities (Telecom, Energy)
Alexander Paraschiy ap@concorde.com.ua

Metals & Mining
Andriy Gostik ag@concorde.com.ua
Eugene Cherviachenko ec@concorde.com.ua

Machine Building, Construction, Consumer Goods
Olga Pankiv op@concorde.com.ua

Banking & Macroeconomics, Retail
Alexander Viktorov av@concorde.com.ua

Oil & Gas, Chemicals
Vladimir Nesterenko vn@concorde.com.ua

Corporate Governance
Nick Piazza np@concorde.com.ua

Fixed Income
Oleksandr Klymchuk ok@concorde.com.ua

Junior Analyst
Polina Khomenko pk@concorde.com.ua