

Concern 'Galnaftogaz'

Sector: Oil & Gas Distribution

12-mo target price (per 1000 shares): **\$12.13**

Ticker PFTS	Free float	# Ord. Shares	#1 shareholder	#2 shareholder	52Wk High/Low (per 1000 shares)	Current price (per 1000 shares)
GLNG	23.7%	16'000m	70.9% F.I.E.H.	5.4% Vitaly Antonov	\$10.00/\$8.12	\$8.48
Year	Net sales*	Net income*	EBITDA*	Assets	Equity	Mcap
2005	\$283.1m	\$5.5m	\$16.1m	\$99.6m	\$45.6m	\$135.7m

* Estimation by UkrSotsbank

US\$ mln.	F2006	E2005	2004
Net Sales	397.8	283.1	245.9
Net Income	11.6	5.5	2.9
EBIT	22.8	12.5	6.2
EBITDA	27.9	16.1	9.2
Assets	184.8	138.1	99.6
Liabilities	118.5	83.4	54.0
Equity	66.3	54.7	45.6
Equity Value	231.5	181.6	133.3
EV/Net Sales, x	0.58	0.64	0.54
EV/EBIT, x	10.15	14.53	21.50
EV/EBITDA, x	8.30	11.28	14.49

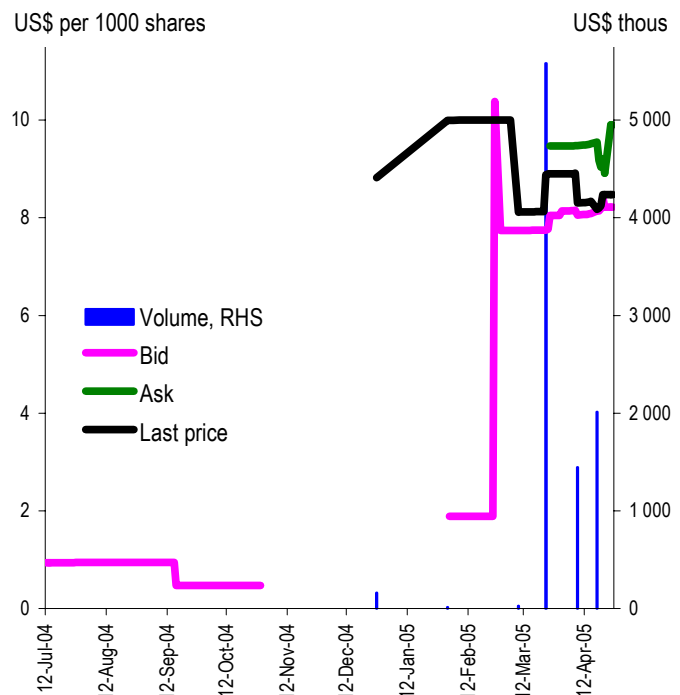
Estimation and forecast by UkrSotsbank

RESUME

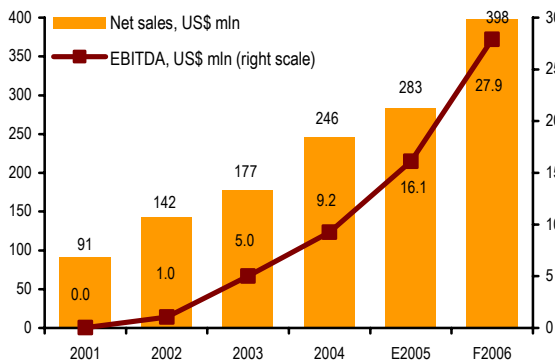
- **Concern 'Galnaftogaz'**, headquartered in the city of Lviv western Ukraine, **owns the gasoline station network ranked 4th in terms of the quantity of own stations**. As of April 1st 2005, the company's network consists of **163 gasoline stations**, including 97 top class gasoline stations under the OKKO brand and 61 unbranded gasoline stations. There are 5 gasoline stations under reconstruction. In terms of quantity of gasoline stations, including rented ones, the company holds 6th place among competitors in Ukraine.
- **The average daily volume of oil products sold at an average gasoline station** of the Concern 'Galnaftogaz' network (including branded and unbranded stations) stood at 5.5 tons after 12-month period of 2004 (from January till December). The same figure for an average OKKO branded gas station stood at **7.9 tons**. By this figure Concern 'Galnaftogaz' belongs to the top tier of companies, which are in the retail gasoline business in Ukraine.

According to our estimates, the Equity Value of the Concern 'Galnaftogaz' amounts to **\$145.4 mln**, expected to rise to **\$194.1 mln** in a 12-month period. Hence, the **growth potential** of the Concern 'Galnaftogaz' stock is about **43%** (Mcap **\$135.7 mln**) for the upcoming 12-month period.

Galnaftogaz Share Price History



Consolidated revenues and EBITDA



LATEST NEWS

Apr. '05 – Ukrainian govt has reached crucial agreement with oil majors such as TNK-BP, Lukoil, Naftogaz of Ukraine, Ukrnafta and Ukratnafta (in total they hold a 60% share of the retail gasoline market). According to the agreement the gasoline price of the most popular A-95 gasoline will drop to UAH2.99 from UAH3.30 per liter. The agreement will last till June 1st when this year's sowing season comes to an end. In May, it is likely to cause a decline in the retail margin, according to our calculation from current 12% to 7%. But we are expecting that a rise in gasoline price will occur this summer and it will compensate oil traders their lowered earnings in May. While assessing the company's EV, we have taken into account that company's annual average retail margin will lower to 11.5%. However, Concern Galnaftogaz's financial results will improve substantially thanks to UAH appreciation and quick growth of its sale volumes this year.

Oct. '04 – Concern 'Galnaftogaz' and Black Sea Trade & Development Bank signed a \$23 mln 7-year loan agreement

Jun. 14, '04 – Concern 'Galnaftogaz' adopted corporate governance code, an unprecedented move in corporate Ukraine during its recent modern history. The code was jointly developed with IFC (International Finance Corporation) incorporating international practice of corporate governance and OECD corporate governance principles in particular.

OPEN JOINT-STOCK COMPANY 'CONCERN 'GALNAFTOGAZ'

Business Profile

The joint-stock company "Concern Galnaftogaz" was created on October 30, 2001 as a result of a merger of JSC "Ivano-Frankivsknaftoproduct", JSC "Zakarpatnaftoproduct-Uzhgorod" and JSC "Zakarpatnaftoproduct-Khust". Constant growth of volumes of activity and firm performance of the accepted obligations have made "Concern Galnaftogaz" one of leading traders of petroleum products in the markets of the western and central Ukraine.

The basic business of the JSC "Concern Galnaftogaz" is the retail and wholesale trade of petroleum products. During formation of own retail network under the uniform trademark "OKKO" retail capacities of five former regional traders (in Lviv, Zakarpattia, Ivano-Frankivsk, Vinnitsa and Rivne areas) have been incorporated. The further expansion of the network occurred by construction of new and reconstruction of existing refueling complexes of the European level of quality to include the full assortment of ancillary goods and services.

For the expansion of the network in other regions separate enterprises were founded: in Kyiv it is "Resource - 2" Ltd, in the Ternopil area - Joint-Stock Company "Terra - Petroleum". The advantages of these enterprises are that all their gas stations are modern and provide a high return on investment.

The project of introduction of new clearing system for fuel - fuel smart - cards OKKO-card of which it is possible to take advantage practically in all territory of Ukraine was rather successful.

In order to increase efficiency of the basic business the related enterprises, which serve the basic business, have been created the subsidiaries, which are employed in capital construction, the transportation services, security services and other enterprises.

The JSC "Concern Galnaftogaz" subsidiaries operate the Company's gas stations. The basic sources of their revenue are:

- The income of retail sales of petroleum products;
- The income of small wholesale sales of petroleum products;
- The income of sales of the ancillary goods and services at the gas station;
- Other income

The margin on retail sales of petroleum products is formed between the large wholesale purchase price at oil refineries and the market price of gasoline at the gas stations.

The wholesale sales are carried out from oil tank storages to the agricultural enterprises and small network owners, which do not have sufficient volumes of business to work directly with the manufacturers. Such sales can be carried out on conditions of the commission.

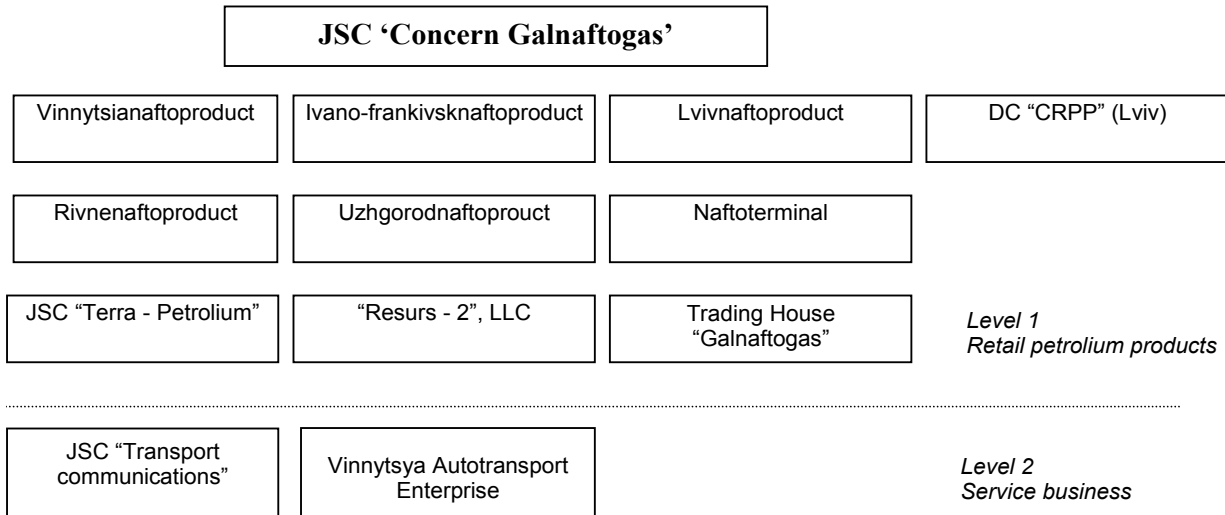
The ancillary goods and services include all goods offered in shops at the gas stations; ancillary services include services of car washes, car repair shops, and restaurants. The ancillary goods, taking into account the experience of other European countries are an extremely important aspect of petroleum products business.

Other income includes receipts from rent, transport, laboratory services and other receipts.

The basic functions of JSC "Concern Galnaftogaz" consist in consolidation of all available property and conducting major investment projects. The revenue of JSC "Concern Galnaftogaz" consists basically the rent receipts paid by subsidiaries for the use of property and the trademark, and also receipts from large wholesale sales of petroleum products. The additional source of income is the trade discounts due to centralized wholesale purchases of the ancillary goods and lubricants. As the JSC "Concern Galnaftogaz" wholly owns its subsidiaries, on the level of the subsidiary there is a reserve in a form of earnings that are currently left within the subsidiaries' disposal.



Structure of business of the OJSC 'Concern Galnaftogaz'



At present the supply of petroleum products is carried out from:

- Kremenchutsky (Ukraine) oil refining factories;
- Lisichansky (Ukraine) oil refining factories;
- Majejkyaysky (Lithuania) oil refining factories;
- Mozirsky (Belarus) oil refining factories;
- Samarsky (Russia) oil refining factories.

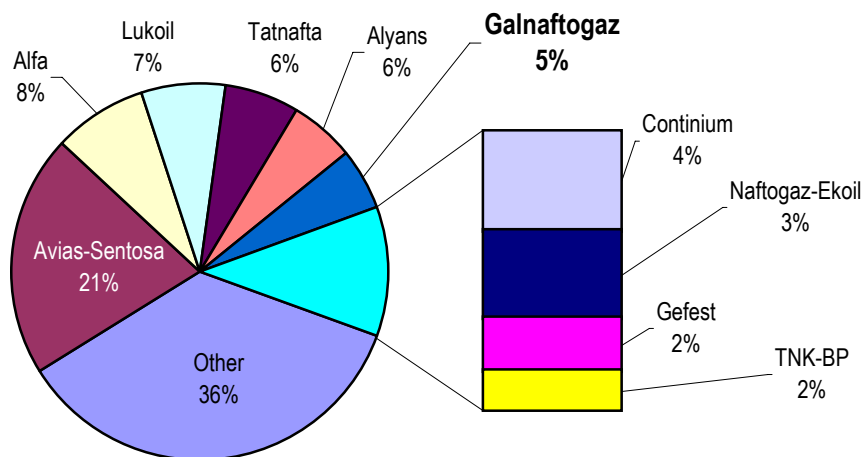
Petroleum products in railway tanks are delivered to the oil tank storages, which are the property of JSC "Concern Galnaftogaz", and further are taken by own motor transport to the gas stations.

Facilities and infrastructure

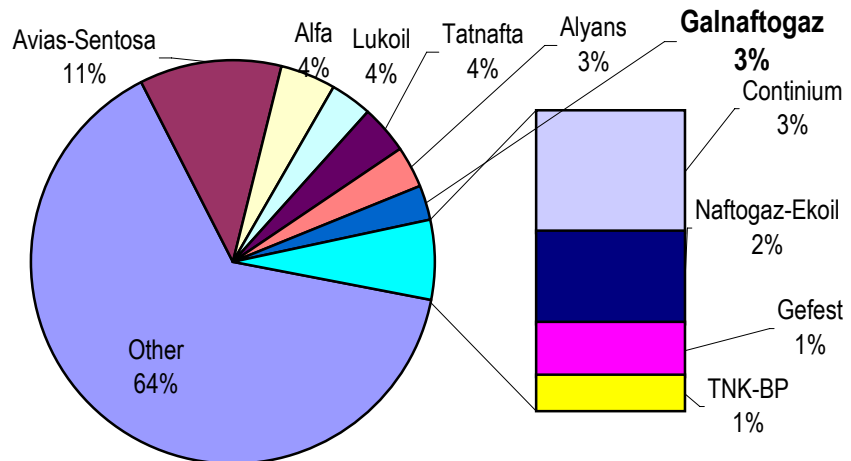
Gas stations.

The quantity of the working gas stations on April 1, 2005 makes 158, 97 of them are the gas stations OKKO. There are 5 gasoline stations under reconstruction. Underperforming objects are in process of liquidation or sales. These are so-called auto-block-points and the gas station, which realization is insufficient for to cover of expenses and ensure a reasonable profit. The total capacity of all gasoline stations amounts to 730 thousand tons per year.

Breakdown of Ukraine's gasoline retailers by volumes oil products (in tons) sold during 2003



Breakdown of Ukraine's gasoline retailers by number of gasoline stations as of Jan. 1st, 2004



The tank storages

In the petroleum business the ownership of tank storages is an essential competitive advantage as it allows saving on transportation expenses for the delivery of petroleum products from the supplier to the gas station. At the disposal of the company there are 15 own and 2 rented tank storage, with the total capacity of 196 thousand sqm 6 tank storages on December 14, 2004 have been temporarily shut down because of the inexpediency of the further operation in the current market conditions.

The tank storages lower the risks of for the company when the stations stay idle, they also provide continuous operation for the network of gasoline stations. Efficiently placed gas stations are perceived to be those which are situated in 150 km or 300 km distance from the point of oil storage facility, depending respectively on whether the oil delivering vehicle is made by a manufacturer from the former Soviet Union or by a manufacturer from Western world. Taking into account the fact that Ukrainian oil refineries are rarely placed (the main suppliers of oil products for the company are Kremenchuh oil refinery and Lisichansk oil refinery), there is obvious need for own oil storage facilities. Moreover, the oil storage facilities allow the company to price flexibly the oil products at retail point, that is at a gasoline station.

The vehicles

For the maintenance of activity of the gas station the park of motor transport (gasoline road tankers) was formed, and now incorporates 108 units. The quantity of automobiles and trucks equals 178 and 152 accordingly.

The head office of the Company

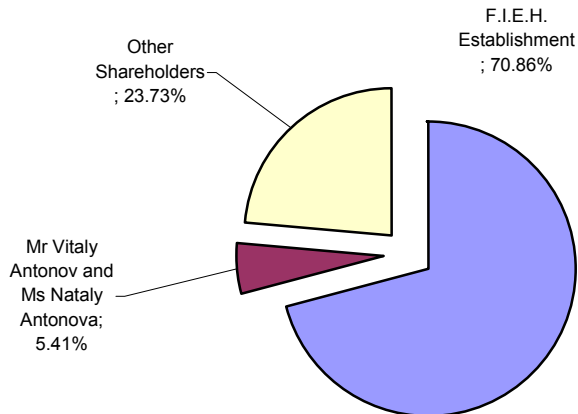
Is situated at the address: 1, Plastova street. Lviv. It is equipped with the most modern office equipment and telecommunications. The offices of the Company are located in Kyiv, Uzhgorod, Vinnitsa, Ivano-Frankivsk, Ternopil, and district centers throughout the Western Ukraine.

STRUCTURE OF SHAREHOLDING CAPITAL

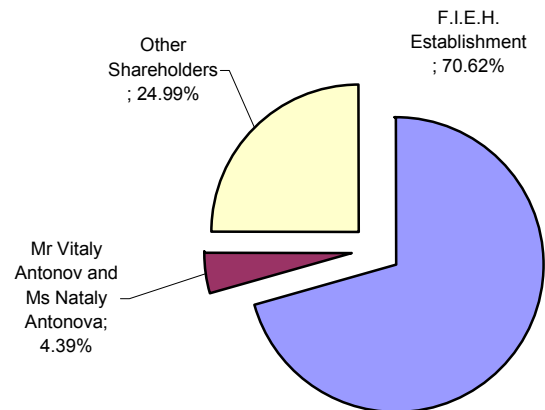
The statutory fund of Concern Galnaftogaz now amounts to Hr 160 mln after additional share issue registered by SSMSC in November 2004. Prior to that its statutory fund was at Hr 130 mln.

The shareholding capital of the Concern Galnaftogaz is divided into 16 billion ordinary share with a par value of Hr 0.01 or 1 kopeyka. Each share has a voting right.

April 24, 2005



June 01, 2005
(estimated)

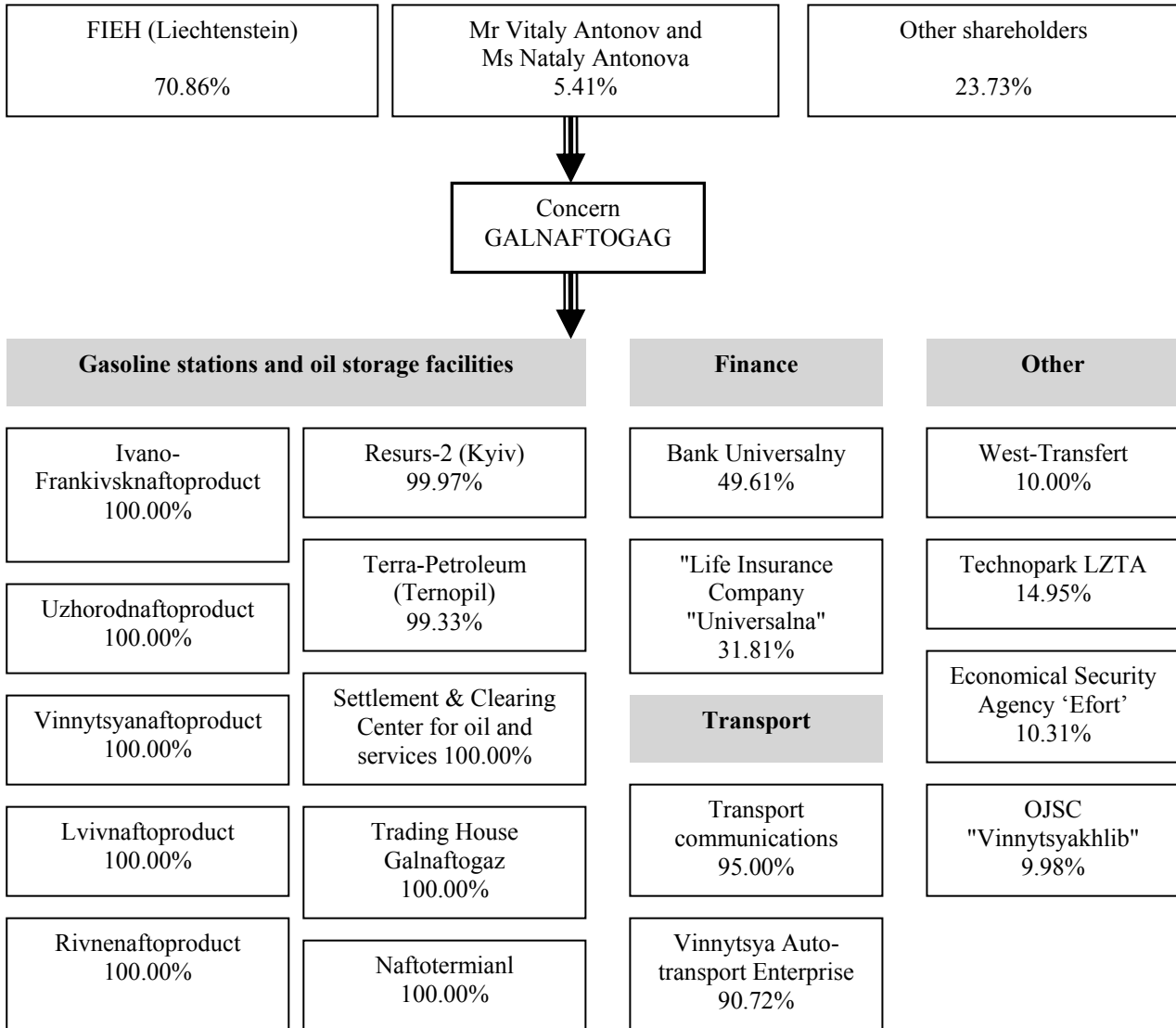


Financial & Investment Energy Holding (F.I.E.H.) Establishment – the company was created in 1997, its head office is situated at Liandstrasse, 153, 9491, Ruggell, Liechtenstein. F.I.E.H. The main shareholder of the OJSC 'Concern Galnaftogaz' is represented by Mr Marcus Buhel, a citizen of Liechtenstein and former prime minister of this country. He determines strategic priorities in the management and development of the company.

Mr Vitaly Antonov and Ms Nataly Antonova – are members of Supervisory Board of OJSC 'Concern Galnaftogaz'. Mr Vitaly Antonov is heading the council of OJSC 'Concern Galnaftogaz'.

More than 13 thousand **private individuals and business entities** totally owns stake in OJSC 'Concern Galnaftogaz'. Their stakes in size separately are not significant.

Shareholding structure of OJSC 'Concern Galnaftogaz' as of April 24, 2005



There is a plan to sell a 14% stake in OJSC 'Concern Galnaftogaz' to investors during May of 2005. After this sale F.I.E.H. Establishment will own a 70.62% stake. The company is planning to sell these shares via GDR (Reg S).

Thus, we expect that total free-float of the Concern Galnaftogaz's stock to be at 24.99% as of June 1st, 2005.

Concern announced it is to make an IPO in the beginning of 2007 aiming to raise \$50 mln of equity.

RISKS

Risk of rising wholesale price on oil products. The company hedges this risk by both means: (1) increasing the share of sale of ancillary products and (2) having the branchy network of the oil product storage facilities. Moreover, the experience of gasoline this summer in Ukraine, when the wholesale price on the most popular A-95 gasoline soared 42.5% from Hr 2597 to Hr 3700 per ton during short period of time, showed that it did not affected much Galnaftogaz's financial results. Thus, there was a short contraction of amount of gasoline sold at a average gas station per day – from 5.5 tons to 5 tons. However, in a 6-week period after the price surge the amount of gasoline sales rebounded to the level seen before the crisis. The retail markup of Galnaftogaz did not changed and resulted in increased profitability of Galnaftogaz's business (one should agree that it is more profitable to get the margin of 15% selling gasoline at Hr 3.05 per litre than at Hr 2.15 per liter.

Operation risks. This type of risk is hedged via insurance companies OJSC 'Universalna Insurance Company' (<http://www.universalna.com>) and 'Credo-Classic' (www.credo-classic.com.ua). In return, these risks reinsured in such insurance companies as Munich Re (Germany, A+/Stable reliability rating by S&P), Hannover Re (Germany, AA-/Stable) and Lloyd's (UK, A/Stable).

Political risks. The owners and management of the company are equally distant from any political party and do not take part in politics. Political indifference is a clause of company's recently adopted corporate governance code.

Tax risks. These risks are managed by financial managers of the company and controlled by independent auditors as well as by experts of international consulting company Ernst & Young. Financial statements by international standards IFRS

FINANCING SOURCES FOR INVESTMENT PROGRAMS (CAPEX)

Galnaftogaz's investment programs

Major line of company's capital expenditures is the expansion of network of gasoline stations under the brand OKKO. Expansion in country's capital Kyiv and into Central and Eastern oblasts of Ukraine is a priority of Concern Galnaftogaz.

In this regard, the detailed lines of company's capital expenditures are:

- New OKKO-branded gasoline station construction;
- Reconstruction of old gas stations into new OKKO-branded ones;
- Installation of petrol pumps on gasoline stations, which are already in company's business;
- Construction of car wash facilities;
- Purchase of land plots;
- Reconstruction of oil storage facilities;
- Purchase of transport vehicles;
- Current repair and computerization of gasoline stations, which are already in company's business;
- Purchase of office equipment;
- Purchase of gasoline stations, which are in business and owned by other companies.

The last line of CAPEX is hard to forecast because it depends on availability of attracting propositions.

Galnaftogaz's investment program on expansion of gasoline station network (including reconstruction), 2005-08

Oblast	Qty of gas stations	Price of 1 gas station, US\$	Volume, US\$
Kyiv-Odesa road	4	1 127 358.5	4 509 434
Kyiv-Kharkiv road	2	954 717.0	1 909 434
Lviv	29	638 950.3	18 529 559
Kyiv-Chop road	3	1 123 765.0	3 371 295
City of Kyiv	5	799 950.4	3 999 752
Rivne	6	495 309.5	2 971 857
Zakarpatya	10	575 797.4	5 757 974
Kharkiv	5	723 449.8	3 617 249
Kyiv oblast	5	733 677.2	3 668 386
Zaporizhzhya	5	780 943.4	3 904 717
Poltava	8	638 836.8	5 110 694
Zhytomyr	6	653 533.5	3 921 201
Volyn	11	710 523.6	7 815 760
Kirovohrad	7	580 458.7	4 063 211
Chernivtsi	3	650 000.0	1 950 000
Chernihiv	5	634 896.8	3 174 484
Khmelnitsky	14	551 482.5	7 720 755
Cherkassy	14	633 610.3	8 870 544
Ivano-Frankivsk	9	500 938.1	4 508 443
Vinnitsya	7	512 999.1	3 590 994
Ternopil	13	401 789.6	5 223 265
Total	171	632 684.3	108 189 008

Total 2005-2008 CAPEX of Galnaftogaz amounts to an estimated volume of \$122.6 mln. Thus, about 89% of CAPEX will be channeled into gas station network expansion.

Reconstruction and upgrading of existing gas stations to the level of OKKO-branded gas station is the second CAPEX line in terms of volume. Company plans to build gas station of three types: a highway complex, gas station for a city, and mini gas station.

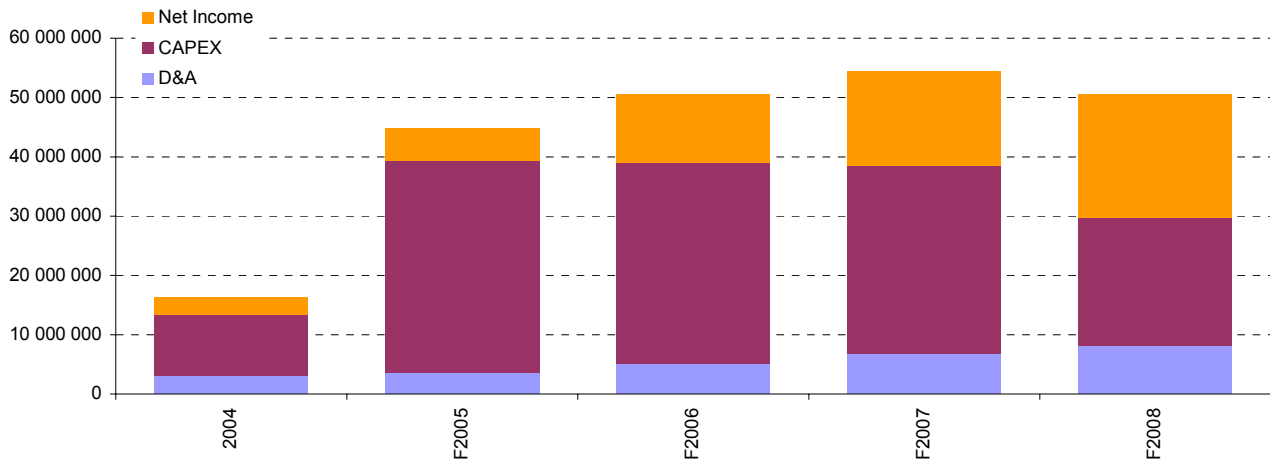
Financing source #1: own funds – amortization and profit

The company plans to lower the markup slowly in trading oil products: from current 12% to 10% in 2014. Selling minor wholesale volumes of gasoline, the company plans to have a markup of 5% while amount of sales in this business area to remain the same. We emphasize the important feature of the market – while the margin will be contracting the expected price increase will offset the margin contraction. This will result in the increase of the amount of markup in hryvnias per 1 ton of oil products. Quick rise of sales of ancillary products at the gas stations is also anticipated (10% per annum by conservative approach, 14% per annum by Galnaftogaz's expectation). The likely rise in purchase power capacity of Ukraine's population will result in the increase of sales of ancillary products at gasoline stations as well it will result in oil product price increase.

In total, we expect a stable growth of Galnaftogaz's profitability providing the possibility for the company to finance its CAPEX by own funds, including amortization, during the observed period of time. Thus, during 2005-2009 we estimate company's total EBITDA of

\$173.5 mln, and **\$460.2 mln** from 2005 till 2014. Depreciation and amortization allocations for these periods, by our estimates, amount to **\$32.4 mln** and **\$74.1 mln** respectively.

Forecast of CAPEX, Depreciation & Amortization and Net Income, US\$



Financing source #2: own funds – shareholding capital, IPO

From 2008 till 2010 it is expected that the authoritative international financial institutions such as EBRD and IFC are becoming Galnaftogaz’s shareholders via acquiring company’s shares of \$10-15 mln worth.

In the beginning of 2007, the company plans to raise \$50 mln via IPO on either London Stock Exchange or Warsaw Stock Exchange. The placement is to be made among both the current shareholders by the means of reinvestment of major share of profit and new shareholders, including foreign investors.

Separately, we have to make a remark that Russian and Ukrainian companies of the retail gasoline market are interesting in obtaining sizable stakes in the company (from 5% to 50% and more).

Financing source #3: debt capital – Ukraine-based banks, int’l credit institutions and corporate bonds

Galnaftogaz’s financial policy stipulates the contraction of high-cost domestic long-term and short-term borrowings and extension of borrowings from international credit institutions and banks. Among the latter group of creditors are EBRD, IFC, and Greece-base Black Sea of Trade and Development (BSTDB).

The company has a long-term record of cooperation with international credit institutions. Thus, first loan agreement (\$1.2 mln) between EBRD and Galnaftogaz was signed on October 30, 2001.

During 2005-2007 the company plans to obtain loans in total of \$35-40 mln from EBRD and IFC for acquiring, constructing and reconstructing OKKO-branded gasoline stations. Galnaftogaz has already signed mandate letters with these credit institutions.

In October 2004 the company signed a **\$23 mln** loan agreement with **BSTDB**.

In December 2004 Galnaftogaz’s indebtedness on EBRD and BSTDB loans amounted to **\$10.6 mln**, and it set to reach **\$24.7 mln** as of April 2005 as above mentioned agreements come into effect.

Galnaftogaz loan portfolio, estimation as of January 1, 2005

Creditor	Up to 1 yr	3 yrs	5 yrs	Total
Raiffeisenbank Ukraine			47 414 790	47 414 790
Credit Bank Ukraine	7 100 000			7 100 000
Domestic corporate bonds		30 000 000		30 000 000
EBRD via Nadra Bank		3 396 196	6 771 936	10 168 132
BSTDB			47 970 000	47 970 000
Total, UAH	7 100 000	33 396 196	102 156 725	142 652 922
Total, US\$	1 332 083	6 265 703	19 166 365	26 764 150

MANAGEMENT OF THE OJSC 'CONCERN GALNAFTOGAZ'

Strategic management

Strategic management is carried out by Supervisory Board, which consists of:

- Mr Vitaly Antonov, President of Ukrainian Investment Group, UIG;
- Mr Vasyl Danylayk, Executive Director of UIG;
- Ms Natalya Antonova, Vice-President of UIG;
- Mr Oleksandr Pavlenko, Vice-President of UIG.
- Mr Marcus Buhel, CEO of FIEH.

All of them head the specific business area within Ukrainian Investment Group, the management company.

Operational management

Operational management is carried out by the Board of Directors headed by executive director Mr Yuriy Kuchabsky. The board also includes financial director, director on the development of gasoline stations network, director of legal department, head of accounting department, director of the department on transport and logistics, and marketing director.

Corporate governance code

Concern Galnaftogaz is the first company in Ukraine which adopted corporate governance code. The move took place in June 2004. The code was developed in conjunction with the experts of IFC, International Financial Corporation, adopting internal practice of corporate governance and OECD corporate governance principles in particular.

According to the Code the company bears responsibility before shareholders and employees, which secure its stable business activity and further development.

The corporate governance code's priorities are (1) respect the rights and legal interests of shareholders, employees, suppliers and other persons and entities, which are interested in the activities of the company, (2) transparency, efficiency, financial strength and profitability of the company.

The basis for efficient business activity of the company and for its investment attractiveness is trust between all the participants of corporate relationships.

The company guarantees to protect the rights and legal interests of shareholders as well as to treat equally every shareholder both major and minor one, foreign and domestic ones.

If a decision on additional share issue is adopted the company provides equal preferable right for all shareholders to buy shares of the new issue in quantity, which is proportional to the current stake in the equity capital as of the day when the decision took place.

Aiming to prevent illegal usage of insider information by the company's executives and other insiders, the company develops and adopts on regular basis all needed internal procedures and documents.

The company carries out its business activity by following principles:

- To carry out the business activity in the accordance with Ukrainian legislation and internal standards of conscientious management aiming to provide highest level of protection of shareholders and investors from any influences, actions, etc., which may lead to limitation of their rights and interests;
- Taking into account the role of strategic investors, the company makes every effort to maximize their participation in the company's business;
- Taking into account the fact that there is a considerable quantity of minority shareholders in the company, it carries out a policy of the highest level assistance to such shareholders in the company's management and in protecting their rights and legal interests.

There is a position of corporate secretary within the company. Corporate secretary is responsible to efficiently organize and inform the activities of supervisory and executive boards of the company as well as properly inform shareholders and interested persons.

Corporate secretary carries out (1) preparation and conducting of AGMs, sessions of Supervisory Board and the Board of Directors of the company, (2) providing timely and reliable information on company to shareholders and management.

Ms Olha Litvin holds a position of corporate secretary in the company. Born in 1979, she has a lawyer background. She may be reached at tel./fax +38 (032) 298-96-30, e-mail OLytvyn@uigroup.com.ua.

The principles of social responsibility consists of (1) political neutrality, (2) industrial security, protection of environment and employees' work, (3) single policy on employees' compensation and motivation, (4) maintaining culture and sports as well as conducting philanthropy activity.

The company has set a rule in its internal documents to audit its financial statements according to international standards and taking into account the requirements of Securities Market Commission (SSMSC).

Corporate governance code was adopted at the AGM, all further changes and additions to the code will be adopted via AGMs.

Company's employees

Total workforce of OJSC 'Concern Galnaftogaz' and its daughter enterprises amounts to more than 2 thousand employees.

ANALYSIS OF THE SECTOR

The trends of European market of oil products

In the most European countries the retail market of oil products has matured. Modest increase of volume of oil products sold at the market (in tons) during the 1990s was offset by the contraction of margins of the oil products retailers. The main driving force in the sector is a number of vehicles. As number of cars per 1 thousand inhabitants becomes more than 400 the further market expansion is highly doubtful. Another obstacle is the intensifying trend on obtaining economical vehicles, which consume less fuel. This trend resulted in the increased share of diesel fuel in the structure of oil products consumption. **Only Southern and Eastern Europe has a room and potential for a considerable rise of oil products sales.**

Descending rates of demand growth for petroleum products in Europe have led to the fierce competition. Falling margins provoke the necessity of increase in sales in order to maintain a normal level of profits. Dealers carry out actions on optimization of available retail networks, with the purpose of increasing throughput of the average gas station.

The entrance of hypermarkets and supermarkets in retail trade of petroleum products has lowered the market share of traditional dealers, mainly due to the price competition. In return the oil companies try to gain competitive advantage by provision of ancillary services and to aim to differentiate themselves from new competitors. Among these actions it is necessary to note the schemes of customer loyalty, increased effort on customer retention, an emphasis on convenience and quality of the gas station. A new direction in this aspect is the supply of fuel with cleaning additives - with the purpose to differentiate the offered product.

Prominent aspect of strategy of the companies - operators of the gas stations is the development of the direction of the ancillary goods and services. The decreasing fuel margins caused by aggravation of competition, have led to the situation that only a small amount of the gas stations with the greatest throughput make adequate profit. During long time the car washes, car service depots were considered as a supplement to the core business, however in modern conditions these additional services define the viability of the gas station. Operators of the gas stations offer various ancillary services: from car rentals to hotel services. The assortment of the goods in stores at the gas station, which now is comparable with small supermarkets, has extended considerably.

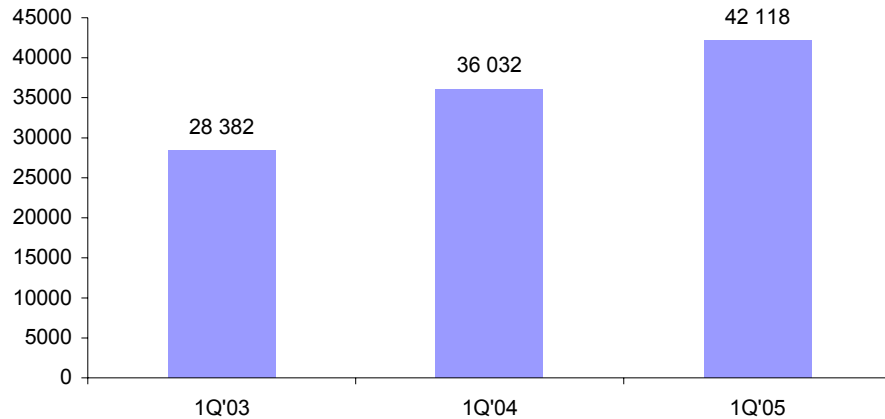
Another direction of development of the gas stations in Europe is the further automation of work, which is realized in distributions of fuel, payments and information systems. At a modern station the presence of control system of distribution of fuel on fuel-dispensers in a must. Information systems at the gas stations collect the information about sales of petroleum products and the ancillary goods and provide the delivery of the accounting information to the central office via the electronic channels. Together with the automation of the clearing systems by use of the plastic cards, all of the above enabled to introduce unmanned stations on which there is no necessity for the permanent presence of personnel. Besides the use of bank cards the certain popularity is attributed to the specifically fuel cards.

Overview of the Ukrainian market of petroleum products

Infrastructure and prospects of the market

Car market in Ukraine grows robustly as volume of new cars sold on the market has been stably growing. This is a result of deficit existing here since 1980s when Ukraine was a part of former USSR. Thus, in the 1st quarter of 2005 the growth rate of sales increased by 17% comparing to the same period of previous year.

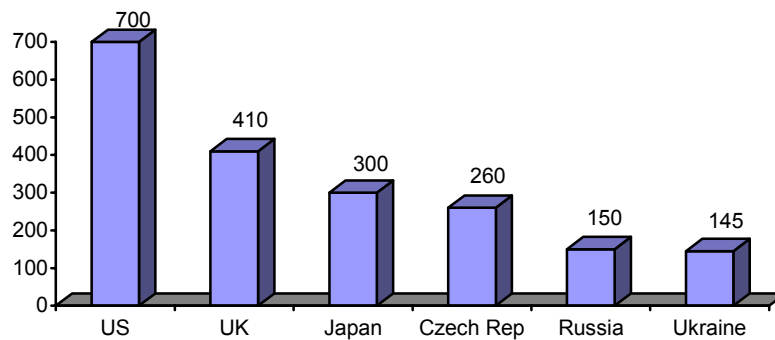
Number of cars sold at the Ukrainian market



Source: Interior Ministry of Ukraine

According to the statistical data from 1992 till 2002 the vehicle pool of Ukraine has doubled and on January 01, 2001 totaled 7.0 million items. The basic source of updating of the park was the imported cars. According to the State Customs Service during 1995-2002 about 300 thousand cars were imported to Ukraine annually. According to the expert forecasts until 2010 the total number of vehicles can double. Expert estimations are based on the expectations of growth of quantity of automobiles per capita to the level of the countries of Central and the East Europe.

Number of automobiles on 1000 inhabitants, on the beginning of 2003



Source: JSC "Concern Galnaftogaz"

As of 2001 Ukraine had 168.7 thousand km. of general-purpose highways, while only 7.7 % from them are the interregional roads. Three international transport corridors " Berlin - Krakow - Kyiv ", " Trieste - Budapest - Lviv ", " Helsinki - Kyiv - Odessa " runs through the territory of Ukraine. However high-grade functioning of these highways is restrained by their poor condition.

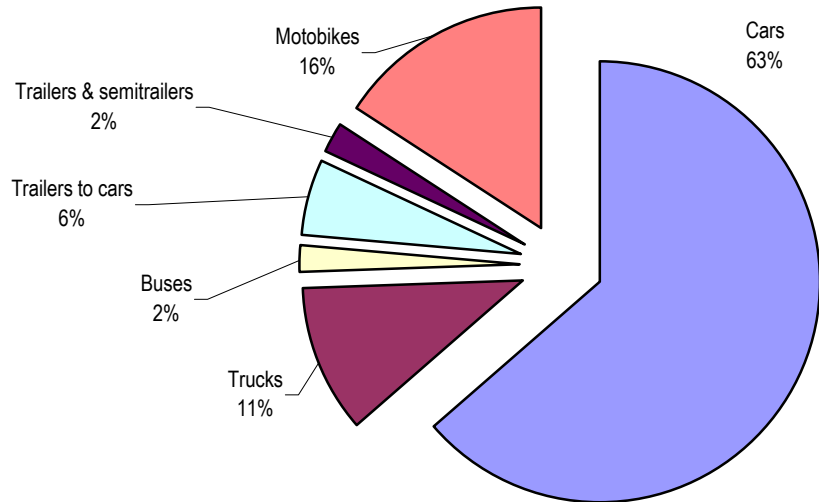
According to State Statistics Committee of Ukraine as of beginning of 2001 there were 3931 gas stations, and according to the estimation of the consulting company UPECO - 6290 gas stations.

Thus, according to different estimations the **ratio of total number of cars per station equals 1654 and 1033 respectively**. On the other hand the capacities of the big gas stations allow serving approximately 1200 automobiles daily.

In the structure of the Ukrainian gas stations there is the significant share of outdated stations (by some estimations up to 75 %). According to interrogations of the traders more modern is the refueling infrastructure of the Western areas of Ukraine.

The **ratio of the total number of stations per highway length equals 43 and 27 km.** of the ways respectively. The most densely populated are the Dnipropetrovsk, Donetsk, Lviv and Odessa regions. Rivne, Chernigiv, Zhitomir regions record the lowest ratio.

Breakdown of the transport vehicle universe in Ukraine by type of vehicle as January 1, 2004

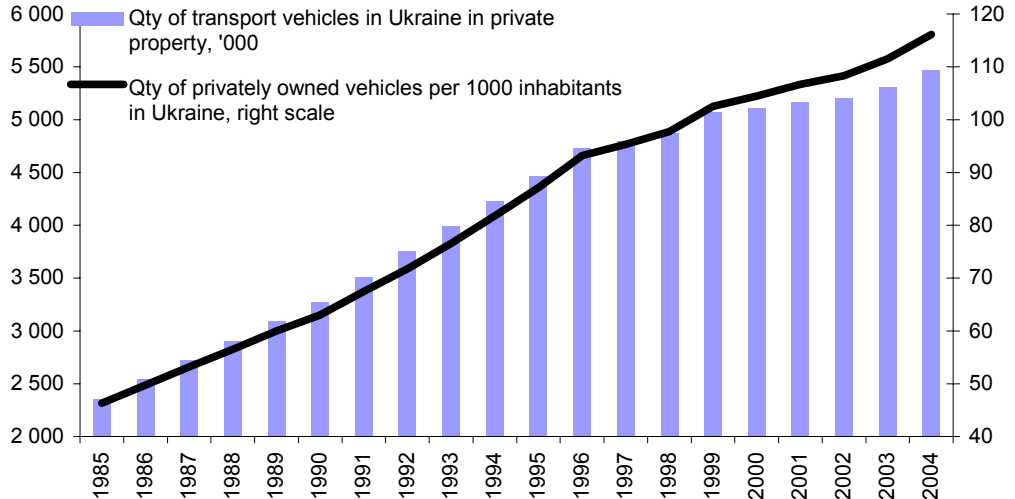


Source: JSC "Concern Galnaftogaz"

During 2003 155 thousand new cars were sold, up by 44.8% than in 2002. According to preliminary data, the number of new cars sold in Ukraine will exceed the level seen in 2003 by 50%. Thus, we may expect the rise in the cars outstanding in Ukraine in 2014 by 1.3-1.7 mln units, up to 6.8-7.2 mln. Taking into account the expected decrease of Ukrainian population the ratio of cars per 1000 inhabitants, according to our estimates, will reach 160 units in 2014.

The target of this trend is to move the number of cars per 1000 inhabitants in Ukraine up to the levels seen in Eastern and Central European countries (Czech Rep., Hungary, Poland) – 250 cars per 1000 inhabitants.

Transport vehicle universe in Ukraine



Source: Ukraine's State Statistics Committee, Ukrsotsbank

Thus the rapid growth of vehicle pool and insufficient amount of modern stations provide the grounds for expansion of modern station networks.

Manufacturing and imports

Volumes of oil refining and petroleum products manufacturing in Ukraine during last years have been growing, thereby reducing imports. Thus, compared with 2001 volumes of oil refining have increased 26 % (15.38 to 19.42 million ton); volumes of domestic oil production practically have not changed. Thus the Russian oil companies provided the increase of deliveries of oil on Ukrainian refineries.

Petroleum products manufacturing in 2002-04 years

Oil Refinery	Owned by...	Oil refined, mln tons			Gasoline production, mln tons			Diesel oil production, mln tons		
		2002	2003	11 M 04	2002	2003	11 M 04	2002	2003	11 M 04
Kremenchuk	Naftogaz of Ukraine & Tatneft	6.88	6.6286	5.9851	1.52	1.5378	1.3223	1.99	1.9804	1.7951
Lisichansk	TNK-BP	5.83	6.2026	6.0822	1.71	1.815	1.7597	1.55	1.6145	1.5313
Odessa	Lukoil	2.49	2.8312	2.2301	0.33	nm	0.2935	0.71	0.7678	0.6018
Kherson	KazakhOil	1.67	nm	1.5906	0.24	nm	0.2116	0.49	nm	0.4178
Drogobych	Privatbank	1.68	nm	2.9388	0.37	nm	0.4306	0.51	nm	0.6215
Nadvirna	Naftogaz of Ukraine & Privatbank	0.87	nm	1.6615	0.16	0.3144	0.3111	0.31	nm	0.5914
TOTAL		19.42	21.1893	19.5073	4.33	4.742	4.3288	5.56	6.056	5.5589

Source: State Statistics Committee of Ukraine. JSC "Concern Galnaftogaz"

Production facilities of Ukrainian oil refineries are physically worn out, and do not meet the world standards of depth of oil refining. Capacity utilization in 2002 made approximately 37 %. The assortment of product does not coincide to a certain extent with the demand structure, which is characterized by increasing share of high-octane grades. Petroleum products of Ukrainian manufacture are not famous for their high quality.

Four out of six oil refining factories are the property of Russian oil companies, which supply the oil and operate retail networks (except for Joint-Stock Company "Ukratnafta" which does not own any retail facilities). It has given an opportunity to restore manufacturing on them and to replace import of ready petroleum products by import of raw material.

The retail gasoline market is on the final stages of formation and consolidation. The large retail structures are formed mainly under the manufacturers with the purpose since that's the only way to ensure the stable supply of fuel. A consolidation of retail capacities is under way - whether in the form of franchising, creation of the partner unions or the purchase of assets of the small dealers. More and more attention is paid to the issue of the product quality as well as the quality of service on site.

Gasoline stations market

Only 7 companies in Ukraine in the 1st quarter owned a network with 50 and more gasoline stations. There were 38 companies which owned network where number of gasoline stations ranges from 20 to 50. The concentration of gasoline stations in the ownership of large companies in Ukraine was quite weak after a 3-mhth period 2004 (from January to march): only 7 companies owned networks where number of gasoline stations ranged from 50 to 99, 18 companies had network with number of gas stations from 30 to 48, 20 companies (from 20 to 29 gas stations), and 1485 companies owned just one gasoline station.

The following data was published by Ukraine's State Statistics Committee after a state statistic inspection of 2267 companies, which in the 1st quarter of 2004 owned, rented, used or managed 5948 gasoline stations.

Breakdown of Ukrainian businesses by number of gasoline stations

Qty of gasoline stations	Qty of companies	Share in Total, %		Share in turnover, %	
		Companies	Gasoline stations	Total	Retail
Total	2267	100.0	100.0	100.0	100.0
From 99 to 50	7	0.3	7.8	10.1	7.9
From 48 to 30	18	0.8	11.1	17.0	19.5
From 29 to 20	20	0.9	7.7	12.6	15.9
From 18 to 10	47	2.1	10.7	14.7	16.0
From 9 to 5	131	5.8	14.0	13.8	12.7
4	74	3.3	5.0	3.9	3.6
3	144	6.3	7.3	5.6	5.1
2	341	15.0	11.5	8.5	8.2
1	1485	65.5	24.9	13.8	11.1

Source: State Statistics Committee of Ukraine.

According to Ukraine's State Statistics Committee, 7 largest oil products retailers in total own a 7.8% share of total quantity of gasoline stations in Ukraine and a 10.1% share of total turnover. The second tier companies which own network with number of stations ranging from 20 to 48, in total they own a 17.8% share of total quantity and a 29.6% share in turnover.

At the same time, the quantity of owners of network consisting of 4 and less amounted to 2044. Their share in total quantity of gasoline stations amounted to 48.7% while their share in the total turnover stood at 31.8%.

There are 178 companies, which owned networks with number of gas stations from 5 to 18. Their total share in total quantity was 24.7% and in total turnover was 28.5%.

Ukraine's State Statistics Committee also reported that more than a half of the total turnover (53%) of oil product sales in 1Q04 was generated by a 3% share of companies, which totally owned a 30% share of total quantity of gasoline stations in the country. Among them are 6 companies which had a turnover of Hr 55-105 mln, another 21 companies had a Hr 21.9-40.3 mln turnover. 1801 companies had a turnover of less than Hr 1 mln each. And 340 companies ended the period with a turnover of Hr 5 mln each.

Breakdown of Ukrainian businesses by turnover

Turnover, Hr mln	Qty of companies	Share in Total, %		Share in turnover, %	
		Companies	Gasoline stations	Total	Retail
Total	2267	100.0	100.0	100.0	100.0
From 105.5 to 54.9	6	0.3	6.3	14.2	11.1
From 40.3 to 21.9	21	0.9	10.9	18.9	23.4
From 19.9 to 10.1	44	1.9	12.7	20.1	21.2
From 9.9 to 5.1	55	2.4	8.5	12.2	12.2
From 5.0 to 1.0	340	15.0	18.8	21.6	19.7
0.9 and less	1801	79.5	42.8	13.0	12.4

Source: State Statistics Committee of Ukraine.

According to Ukraine's State Statistics Committee there are 20 largest gasoline stations with quarterly turnover from Hr 3 mln to Hr 7 mln, among them are 7 stations in Kyiv and those which situated in the western oblasts bordering new EU member countries Zakarpatska, Lvivska and Volynska oblasts where there are 8, 4 and 1 gasoline stations respectively. Nearly a one half of all gasoline stations (48%) has Hr 0.1 mln turnover.

According to Ukraine's State Statistics Committee data there were 3094 gasoline stations directly owned by the oil product retailers. The remaining number of gasoline stations 2854 were rented, used or managed.

The investigation covered 1788 business entities including corporate entities (79%) and individual persons (21%), which owned respectively 5309 (89%) and 639 (11%) gasoline stations. Nearly all business entities (99%) had a private ownership owning 5142 gasoline stations.

The concentration of Ukrainian gasoline retail market is more higher thanks to usage of jobber schemes and to the fact many gasoline retailers and owners of gasoline stations are affiliated with other retailers.

The companies which own the oil refineries in Ukraine have the largest market share. Among them are TNK-BP (including jobber gas stations), Lukoil, Alliance, Ukrainian business group Privatbank and Continium, state-owned Naftogaz of Ukraine (the Ukrainian vertically integrated oil and gas company), and Ukrainian company Concern Galnaftogaz.

OPERATING RESULTS

While expanding its network of gasoline stations Concern Galnaftogaz increases revenues from oil product sales. During 2004 the company sold oil product via its network (including branded and unbranded gas stations) by 13.0% more than 2003. The network of OKKO branded gasoline stations increased the volume of oil products sold by 25.0%.

As total volumes of sales have increased, there was a sign of increased efficiency of the network. The average daily volume of oil products sold via an average gasoline stations has been increasing. However, gasoline price hike in May has interrupted this trend for a while but did not prevent it from further rise.

Sales of oil products via network of gasoline stations of OJSC 'Concern Galnaftogaz', tons

	2003												12 months
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
Sales (total), tons													Total
All network of gas stations	15 382	16 911	19 626	20 454	21 419	21 763	24 813	26 740	26 809	27 734	24 018	24 428	270 097
OKKO branded gas stations	10 729	11 935	13 376	14 154	14 798	15 344	17 870	19 040	18 669	20 044	17 647	18 928	192 534
Average sales per gas station													Average
All network of gas stations	3.06	3.75	4.11	4.46	4.61	4.84	5.27	5.57	5.69	5.73	5.17	5.18	4.92
OKKO branded gas stations	5.67	6.99	6.96	7.49	7.71	7.87	8.48	8.77	8.76	8.98	8.17	8.14	7.99
	2004												12 months
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
Sales (total), tons													Total
All network of gas stations	20 224	21 239	24 807	24 704	23 890	23 384	26 860	28 528	29 057	28 042	27 113	27 334	305 182
OKKO branded gas stations	16 013	16 717	19 396	19 042	18 315	18 106	21 040	22 689	23 115	21 808	21 670	22 675	240 586
Average sales per gas station													Average
All network of gas stations	4.35	4.92	5.33	5.42	5.07	5.16	5.59	5.86	6.21	5.80	5.83	5.65	5.48
OKKO branded gas stations	6.8	7.49	8.02	8.14	7.57	7.64	8.08	8.51	8.86	7.90	8.03	7.78	7.95
	2005												'05-'04
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
Sales (total), tons													Total
All network of gas stations	22 524	21 745	25 096	-	-	-	-	-	-	-	-	-	3 095
OKKO branded gas stations	19 296	18 749	-	-	-	-	-	-	-	-	-	-	5 315
Average sales per gas station													Average
All network of gas stations	4.60	4.92	5.12	-	-	-	-	-	-	-	-	-	-0.01
OKKO branded gas stations	6.55	7.05	-	-	-	-	-	-	-	-	-	-	-0.36

Source: Concern 'Galnaftogaz'. Calculation by UkrSotsbank

Despite the rising volume of gasoline retail trade observed in the 1st quarter of 2005, the relative indicators, such as average sales per gas station, have lowered comparing to the same period of 2004. This occurred due to some deterioration of economic situation in the country during the public protests during 2004 presidential elections.

Some negative impact on the sales is made by the government's regulation of the gasoline market. The government headed by Ms Tymoshenko has struck the deals with major Russian suppliers of oil products into Ukrainian market such as TNK-BP and Lukoil. The latter agreed to fix a price tag for the most popular gasoline A-95 at UAH 2.99 per liter. Prior these agreements the average price for 1 liter of A-95 gasoline amounted to UAH 3.30.

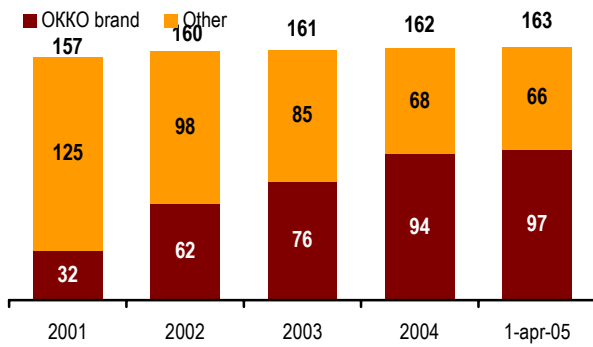
At the same time, taking into account the season of growing car travel activity in the country (usually lasting from spring till summer) and stably growing number of motor vehicles in use, we expect the relative indicators of gasoline business performance, such as average sales per gas station, will rebound on the upward track already in April-May.

Breakdown of Net Sales of OJSC 'Concern Galnaftogaz'

	2004		F2005		F2006		F2007		F2008	
	'000 US\$	Share, %	'000 US\$	Share, %	'000 US\$	Share, %	'000 US\$	Share, %	'000 US\$	Share, %
Oil products (retail)	227 486	92.51%	250 625	88.54%	356 720	89.66%	482 084	90.37%	599 903	90.77%
Oil products (wholesale)	7 825	3.18%	16 032	5.66%	16 709	4.20%	17 465	3.27%	18 339	2.77%
Natural Gas	0	0.00%	200	0.07%	210	0.05%	221	0.04%	232	0.04%
Other products	9 679	3.94%	14 316	5.06%	21 931	5.51%	31 308	5.87%	39 904	6.04%
Other services	204	0.08%	243	0.09%	267	0.07%	294	0.06%	323	0.05%
Other revenues	704	0.29%	1 651	0.58%	2 009	0.50%	2 102	0.39%	2 199	0.33%
TOTAL NET SALES	245 898	100.00%	283 068	100.00%	397 847	100.00%	533 474	100.00%	660 900	100.00%

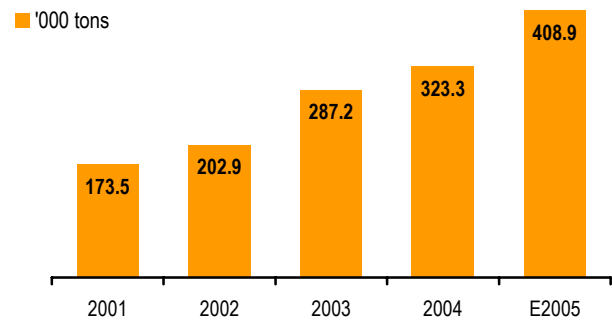
Source: Concern 'Galnaftogaz'. Calculation and forecast by UkrSotsbank

Quantity of gasoline stations in the Concern 'Galnaftogaz' network



Source: Concern 'Galnaftogaz'

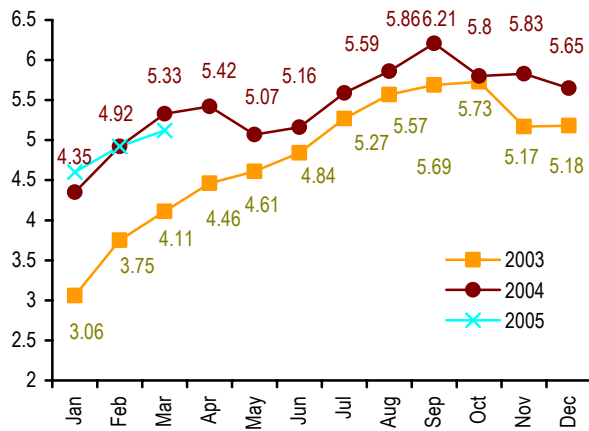
Volume of oil products sold via the gasoline station network of Concern 'Galnaftogaz'



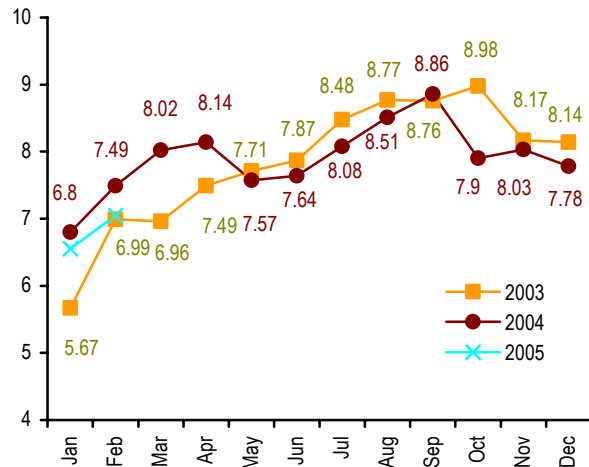
Source: Concern 'Galnaftogaz'

Average daily sales of oil products at the gasoline stations of Concern 'Galnaftogaz', tons

a) all network (branded and unbranded gas stations)



b) OKKO branded gasoline stations



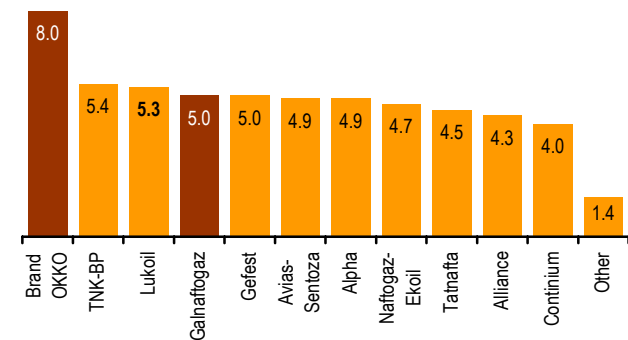
Source: Concern 'Galnaftogaz'

Market position of Concern 'Galnaftogaz' in 2003

Company name	Mkt share %	Oil products sold, tons	Qty of gas stations	Avg daily sales per gas station, tons
Other companies	35.5%	1 862 480	3556	1.4
Avias-Sentoza	21.0%	1 100 000	620	4.9
Alpha	8.1%	425 000	240	4.9
Lukoil	7.2%	380 000	196	5.3
Tatnafta	6.3%	330 000	200	4.5
Alliance	5.5%	290 000	182	4.3
Galnaftogaz	5.5%	286 200	161	5.0
Brand OKKO	-	-	84	8.0
Continium	3.9%	207 320	140	4.0
Naftogaz-Ekoil	3.4%	180 000	105	4.7
Gefest	2.1%	109 500	60	5.0
TNK-BP	1.5%	79 500	40	5.4
TOTAL:	100.0%	5 250 000	5 500	2.6

Source: Concern 'Galnaftogaz'

Ukraine's gasoline retailers ranked by the average daily sales per gas station, tons



Source: Concern 'Galnaftogaz'

FINANCIAL FIGURES

As compared with Ukrsotsbank's previous equity research on OJSC 'Concern Galnaftogaz' our financial expectations and valuations were reviewed toward more conservative scenario. Majority of basic figures were lowered. It does not mean though that achievement of higher figures is unlikely. We rather aimed to consider possible consequences of slow development of the gasoline market and the company. We also aimed to provide shareholders with an opportunity to obtain unexpectedly higher gain of holding the stock, if quicker growth of the company's business becomes a reality (the company itself anticipate the quicker growth of its business, such a stance was also laid down in the business plan of the company, when it applied for loans to international financial institutions such as EBRD and IFC).

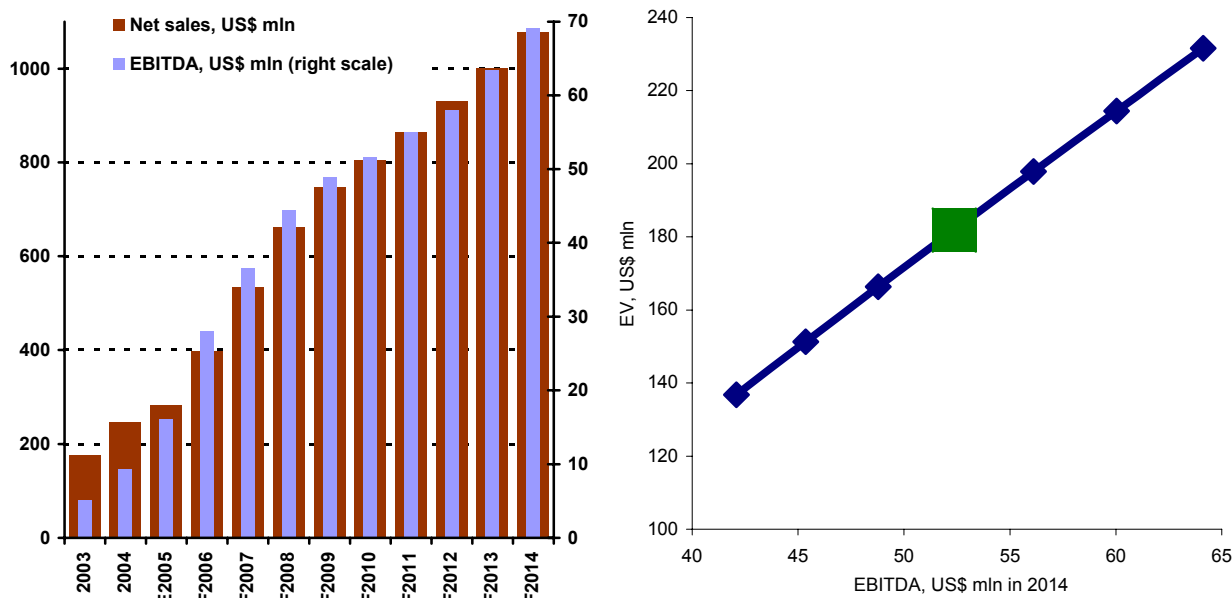
Nevertheless, thanks to the high growth rate of the retail gasoline market in Ukraine, our conservative approach have not led to a decrease of company's valuation (EV) from its previous level, actually the current valuation exceeds the latter.

Concern 'Galnaftogaz' financial figures, US\$ mln

	2003	2004	E2005	F2006	F2007	F2008	F2009	F2010	F2011	F2012	F2013	F2014
Revenue	206.87	297.57	339.68	477.42	640.17	793.08	896.31	964.37	1037.63	1116.49	1201.42	1292.13
VAT	30.16	51.68	56.61	79.57	106.69	132.18	149.39	160.73	172.94	186.08	200.24	215.36
Net sales	176.72	245.90	283.07	397.85	533.47	660.90	746.93	803.64	864.69	930.41	1001.18	1076.78
Operation profit	2.37	3.40	7.40	15.47	21.28	27.87	32.06	35.26	38.76	41.81	47.33	53.07
Tax on profit (25%)	0.29	0.48	1.85	3.87	5.32	6.97	8.02	8.82	9.69	10.45	11.83	13.27
Net income	2.08	2.93	5.55	11.60	15.96	20.90	24.05	26.45	29.07	31.35	35.50	39.80
Interest	3.18	2.78	5.09	7.32	8.34	8.43	8.19	7.62	7.69	7.76	7.87	7.90
EBIT	3.31	6.18	12.49	22.79	29.62	36.30	40.25	42.88	46.46	49.57	55.20	60.97
D&A	1.81	3.05	3.57	5.16	6.86	8.12	8.65	8.66	8.47	8.31	8.16	8.16
EBITDA	5.12	9.24	16.06	27.95	36.48	44.42	48.90	51.54	54.93	57.88	63.36	69.12
EBITDA margin	2.9%	3.76%	5.67%	7.03%	6.84%	6.72%	6.55%	6.41%	6.35%	6.22%	6.33%	6.42%
EBIT margin	1.9%	2.52%	4.41%	5.73%	5.55%	5.49%	5.39%	5.34%	5.37%	5.33%	5.51%	5.66%
Net income margin	1.2%	1.19%	1.96%	2.92%	2.99%	3.16%	3.22%	3.29%	3.36%	3.37%	3.55%	3.70%
Assets	63.06	99.59	138.13	184.79	221.38	246.18	264.45	284.19	305.82	328.96	355.55	385.20
Debt	31.55	54.03	83.43	118.48	114.11	124.28	125.72	126.94	128.23	129.41	131.15	131.65
Equity	31.51	45.55	54.70	66.31	107.27	121.90	138.73	157.25	177.60	199.55	224.40	253.55

Source: Concern 'Galnaftogaz'. Calculation and forecast by Ukrsotsbank

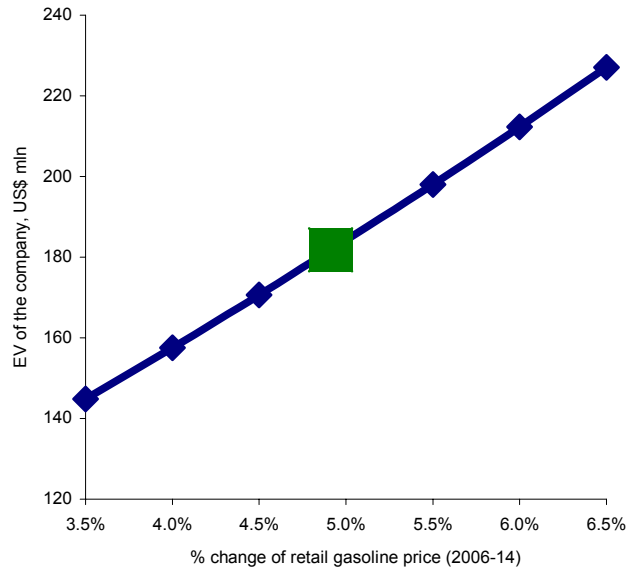
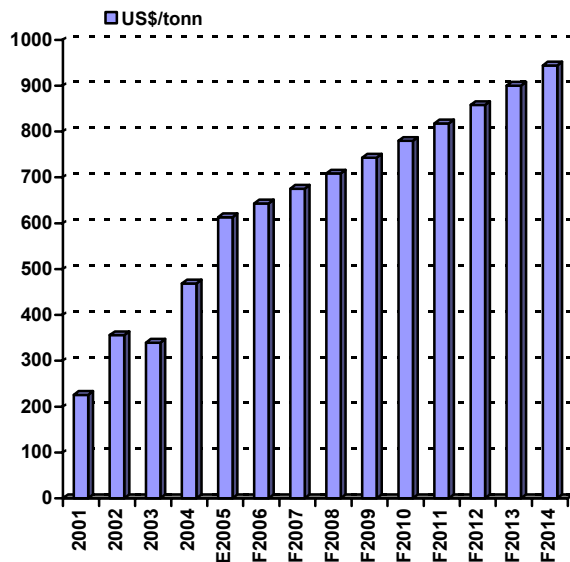
Charts on changes of net sales and EBITDA of OJSC 'Concern Galnaftogaz' and on correlation between expected EBITDA (in 2014 year) and equity value of company (EV)



To forecast future financial results of OJSC 'Concern Galnaftogaz' the following facts and assumptions were used (conservative approach).

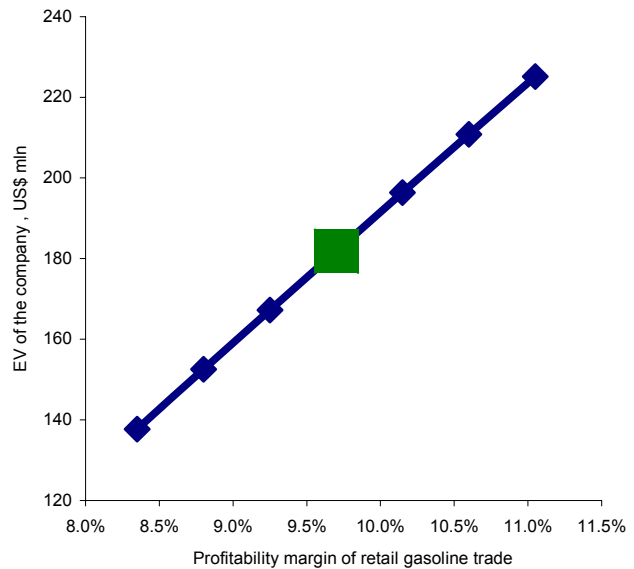
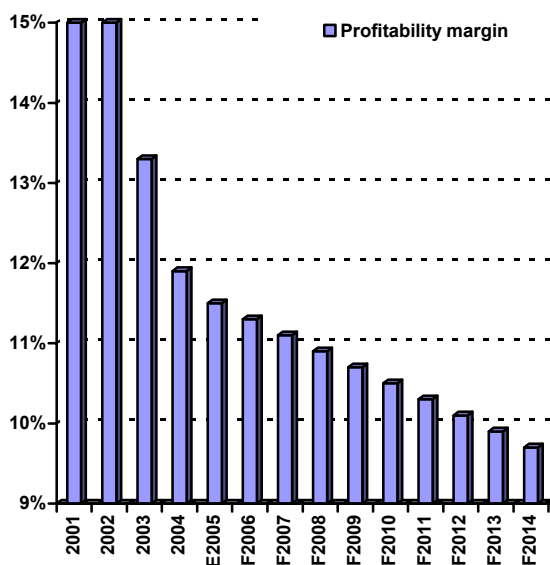
1. Considerable rise in oil products prices (+38% in 2004) will be substituted by a more slow increase. In our financial model we laid the foundation of a 4.9% increase in average in the forthcoming years (except 2005, when we expect an increase of 30.8% in annual average price due to (1) higher annual average price for crude oil comparing to 2004, and (2) local currency appreciation). If the price increase exceeds our expectation, it will improve markedly the financial results of OJSC 'Concern Galnaftogaz'.

Charts on the changes of expected retail gasoline price and on correlation between annual percentage change of retail gasoline price (2006-14) and equity value of the company (EV)



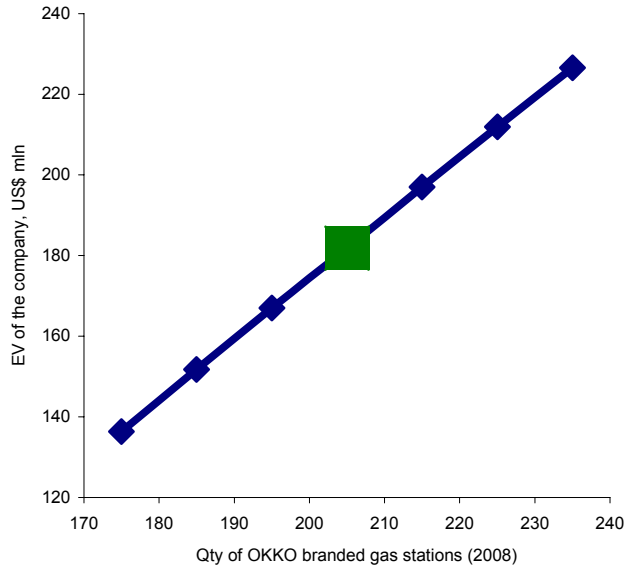
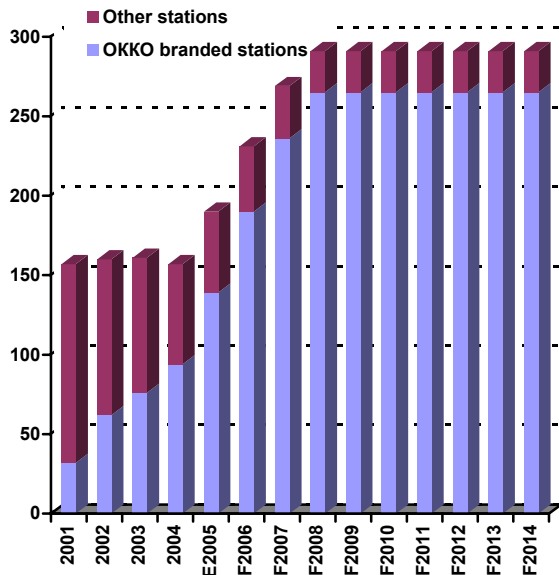
2. Average margin (level of profitability) of the core business of OJSC 'Concern Galnaftogaz' – retail trade of oil products via own network of gasoline stations – will decrease from the current level of 12% to 10% in 2014.

Charts on change of profitability of retail trade of oil products via network of gasoline stations of OJSC 'Concern Galnaftogaz' and on correlation between the level of profitability (from 11.5% in 2005 to 9.7% in 2014) and equity value of the company (EV)



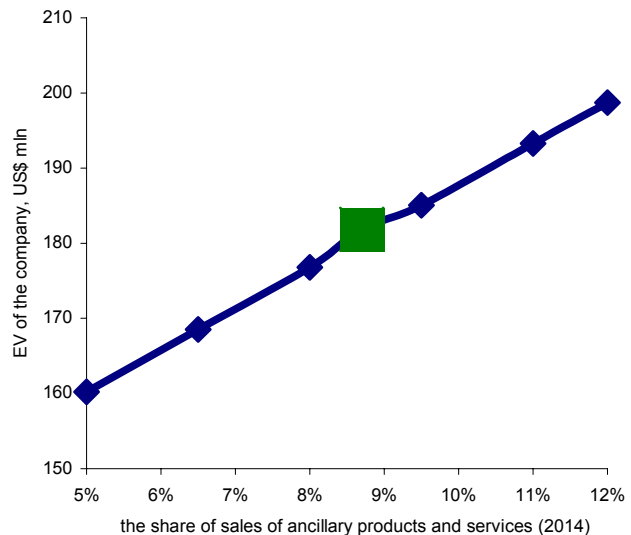
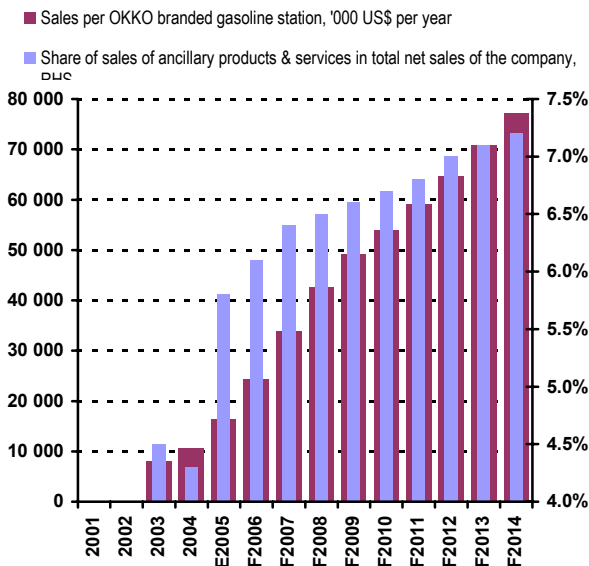
3. We expect that the network of gasoline stations will expand further: the number of OKKO branded gasoline stations will reach 265 units in 2008 while the number of unbranded gas stations will decrease to 26 units. It's also expected that the major increase in quantity of stations will take place during 2005-06 thanks to obtaining funds from already signed loan agreements with EBRD, IFC, Black Sea Trade & Development Bank (Greece). We also expect a fast growth during 2007-08 thanks to IPO. Beginning from 2005, it's expected the development of the network of gasoline stations will enter more stable phase in its expansion when 20 new OKKO branded gasoline stations to be launched annually and at the same time annual decrease of unbranded stations set to be 5 units.

Charts on change of quantity of gasoline stations in the network of OJSC 'Concern Galnaftogaz' and on correlation between the number of OKKO branded stations (2005-08) and equity value of the company (EV)



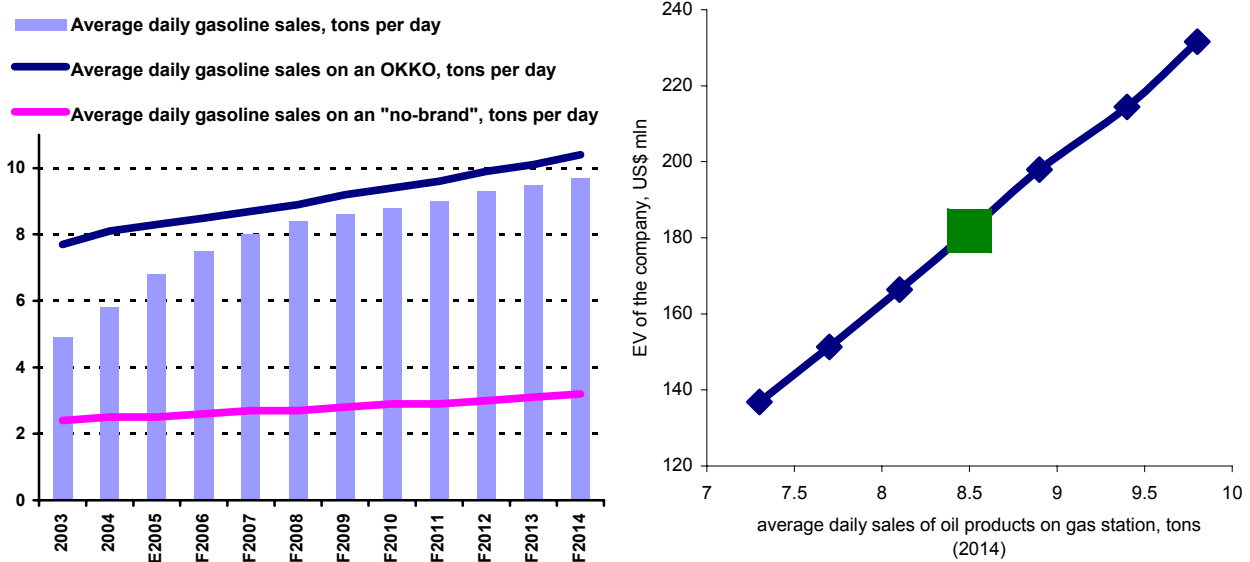
4. The share of sales of ancillary products and services at the gasoline stations of OJSC 'Concern Galnaftogaz' will rise from 4.3% in 2004 to 7.2% in 2014.

Charts on change of volume of sales of ancillary products and services via gasoline station network of OJSC 'Concern Galnaftogaz' and on correlation between the share of sales of ancillary products & services (2014) and equity value of the company (EV)



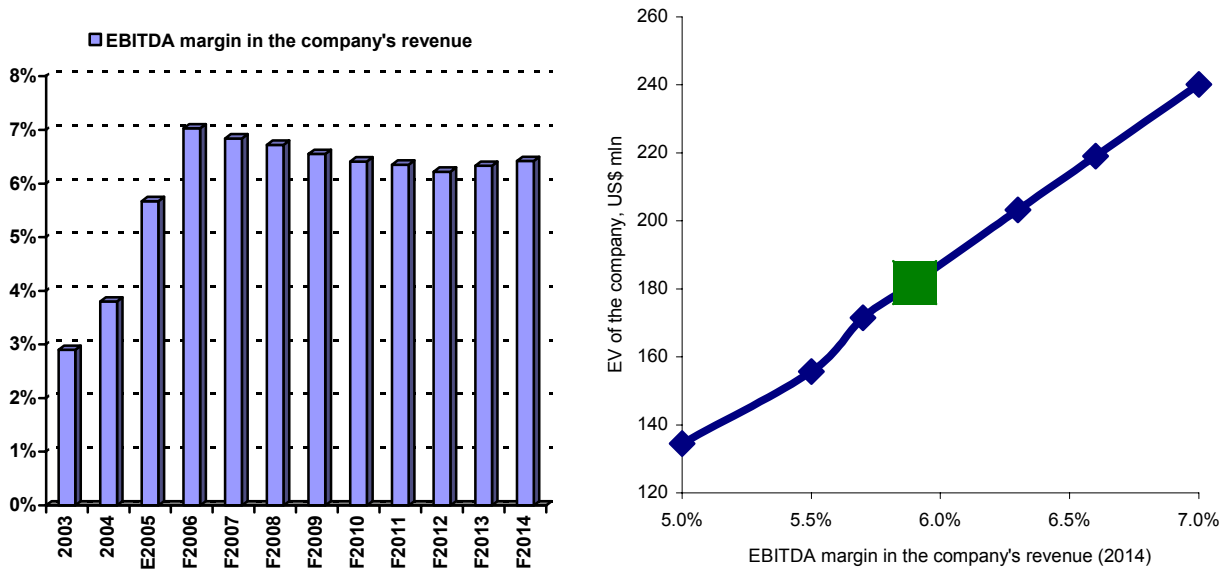
5. Average daily sales of oil products in the network of gasoline stations owned by OJSC 'Concern Galnaftogaz' initially will rise with a growth rate achieved during 2003-2004, after that it will slow and stand at 10.4 tons per day in 2014. Now this figure is 6 tons per day. The growth of average figure will occur thanks to (1) sale of gasoline at the OKKO-branded gas stations of the company from 8.1 tons per day (2004) to 10.4 tons per day (2014) and (2) a wider network of OKKO-branded gas stations as new gas stations will be constructed and launched.

Charts on average daily sales of gasoline via the network of gasoline stations of OJSC 'Concern Galnaftogaz' and on correlation between average daily gasoline sales at a OKKO branded station (2014) and equity value of the company (EV)



6. EBITDA margin in revenue of the company will stabilize at a 6.5% level after a faster growth to be seen in 2005-06 years.

Charts on EBITDA margin in the company's revenue and on correlation between EBITDA margin (2014) and equity value of the company (EV)



COMPARABLE DEALS

The key trend of the retail oil product market in the developed countries (US, EU, etc.) is a merger of this business with giant retailer chains selling wide range of consumer products. Today ordinary gasoline station in the west equipped not only with gasoline pumps but with a store selling ancillary products and a providing additional services. There is an obvious trend toward providing additional services and ancillary products at a gasoline station. Moreover, giant retail companies acquire companies with gasoline stations or enter partnership agreements with gasoline retailers aiming to boost their consumer base by providing additional product (gasoline) at discount.

At the moment, there is trend in the US of increased competition between ordinary gasoline retailers and those which are a part of giant retailers¹.

For example, in Australia the experts say that 'the only people able to make a decent profit selling gasoline ... are the people who sell everything else, whether it's beer, groceries, clothes, or furniture'. High taxes on petroleum products squeezes margins of Australians gasoline retailers, therefore the only people there, who are interested in selling gasoline, are the supermarket chains selling consumer goods.

The confirmation of above mentioned trends are the deals on acquiring gas station network by consumer goods retailers from oil companies. Thus, int'l oil company ConocoPhillips sold a 1663 units network under the brand of Circle K to Canadian supermarket chain Alimentation Couche-Tard for \$830 mln, valuing one gasoline station at \$500 thousand.

The strategy of the OJSC 'Concern Galnaftogaz' to expend its business by providing ancillary products and services is a timely and a wise one, possibly giving it an advantage over local competitors.

Data on some deals on gasoline station businesses

	Acquired Company	Buyer	Qty of gas stations	Sum, US\$ mln	Date (mm/yyyy)	Price per gas station ⁽¹⁾
Executed deals						
1	The Sri Lankan unit of Indian Oil Corp.	IPO at Colombo bourse	150	35 (for a 25% stake)	11.2004	\$ 933.3
2	Royal Dutch/Shell Group (Spain)	DISA Corporacion Petrolifera SA	338	605.3	09.2004	\$ 1 790.8
3	ConocoPhillips (Mobil brand, USA)	Getty Petroleum Marketing (Lukoil)	795	265.75	03.2004	\$ 334.3
4	ConocoPhillips (Mobil brand, USA)	Sunoco Inc	385	187.4	03.2004	\$ 486.8
5	Tango (Petroplus Intl NV, Holland)	Kuwait Petroleum Nederland BV	65	92.296	02.2004	\$ 1 419.9
6	Avanti Tankstellenbetriebs GmbH (Avanti AG, Austria)	OMV AG	139	66.6	10.2003	\$ 479.1
7	Shell (Australia)	Coles Myer (Australia)	584	60	10.2003	\$ 102.7
8	ConocoPhillips (Circle K brand, USA)	Alimentation Couche-Tard	1663	830	10.2003	\$ 499.1
9	MV Properties SRL (Romania)	Lukoil (Russia)	75	121.0	09.2003	\$ 1 613.3
10	BP plc (Germany)	OMV AG	313	404.5	07.2003	\$ 1 292.3
11	Beopetrol a.d. Beograd (Serbia & Montenegro)	Lukoil (Russia)	203	224.9 (for a 75% stake)	06.2003	\$ 1 477.2
12	Fas Mart Convenience Stores Inc. (USA)	Gmul Investment Ltd (Israel)	169	44.75 ⁽²⁾	03.2003	\$ 264.8
13	BP plc (Germany)	PKN Orlen SA (Poland)	494	141.5	02.2003	\$ 286.4
14	Petra AS (Czech Rep)	OMV AG	36	11.4	08.2002	\$ 316.7
15	Mepco Express (USA)	Delek Group (Israel)	234	147	04.2002	\$ 628.2
16	Transpetrol a.s.	OMV Slovensko s.r.o.	13	18.4	01.2002	\$ 1 415.4
Expected deals						
	ENI (Brazil)	n/a	1700	200		\$ 117 647
	BP (Malasia & Singapore)	Oman Gov't	270	131		\$ 485 185
	Name of the company was not disclosed, USA	GPM Holdings Inc. (Israel)	240	95		\$ 395 833

Notes:

⁽¹⁾ Calculation by Ukrsofsbank

⁽²⁾ Annual revenues in 2002 – US\$ 360 mln, hence P/S=0.12

⁽³⁾ Calculation of average value of deals made since June 2003 (1-11)

The current shareholders of the company OJSC 'Concern Galnaftogaz' received offers on selling gasoline stations, but the policy of strategic investors does not plan to sell a controlling stake in the forthcoming years. On the contrary, strategic investors plan to enter public capital markets – the local one and then the int'l one – via IPO in the beginning of 2007.

¹ Supermarket chain Publix expands its gasoline business in Orlando, Fla., area // Knight Ridder Tribune Business News. Washington: Jul 28, 2004. pg. 1

DCF-VALUATION

Key factors of the model (trends for the upcoming 5-year and 10-year period)

	2004	2009	2014
Volume of oil products sold, tons/year (retail)	323 253	912 921	1 032 886
Volume of oil products sold, tons/year (wholesale)	20 560	29 982	29 982
Average retail price, US\$ / ton (without VAT)	469	743	944
Quantity of OKKO branded gasoline stations	94	265	265
Quantity of other gasoline stations	70	26	26
Average sales at the OKKO branded gasoline station, tons/day	8.1	9.2	10.4
Average sales at the unbranded gasoline station, tons/day	2.5	2.8	3.2
Share of sales of ancillary products and services in total sales, %	4.3	6.6	7.2

WACC determination

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
COE (Cost of equity)	15.0%	14.5%	15.4%	15.3%	15.2%	14.6%	14.0%	13.4%	12.8%	12.2%	11.8%
risk-free rate (US T-bonds)	4.0%	5.0%	6.0%	6.0%	6.0%	5.5%	5.0%	4.5%	4.0%	3.5%	3.2%
spread (Ukraine eurobonds 2013 minus US T-bonds)	3.5%	2.0%	1.9%	1.8%	1.7%	1.6%	1.5%	1.4%	1.3%	1.2%	1.1%
equity premium	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
the levered systematic risk of equity (beta)	1	1	1	1	1	1	1	1	1	1	1
COD (Cost of debt)	11.5%	9.7%	9.0%	8.5%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Weight of equity, %	45.7%	39.6%	34.0%	43.9%	41.0%	41.9%	42.9%	44.1%	45.4%	47.3%	49.8%
Weight of debt, %	54.3%	60.4%	66.0%	56.1%	59.0%	58.1%	57.1%	55.9%	54.6%	52.7%	50.2%
WACC	11.5%	10.1%	9.7%	10.3%	9.8%	9.6%	9.4%	9.3%	9.1%	8.9%	8.9%

Free cash flow analysis

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Volume of oil products sold, tons (wholesale)	20 560	29 931	29 982	29 982	29 982	29 982	29 982	29 982	29 982	29 982	29 982
Average price, US\$ / ton	380.6	535.6	557.3	582.5	611.7	642.2	674.3	708.1	743.5	780.6	819.7
Volume of oil products sold, tons (retail)	323 253	408 894	554 492	714 041	846 814	909 354	924 777	940 402	957 329	978 450	1 002 911
Average price, US\$ / ton	468.6	612.9	643.3	675.1	708.4	743.1	779.6	817.8	857.9	899.9	944.0
Qty of OKKO gas stations	94	139	190	236	265	265	265	265	265	265	265
Qty of other gas stations	63	51	41	33	26	26	26	26	26	26	26
Total Qty	157	190	231	269	291	291	291	291	291	291	291
Average daily oil products sales at OKKO stations, tons / day	8.1	8.3	8.5	8.7	8.9	9.2	9.4	9.6	9.9	10.1	10.4
Average daily oil products sales at other stations, tons / day	2.5	2.5	2.6	2.7	2.7	2.8	2.9	2.9	3.0	3.1	3.2
Total average daily oil products sales, tons / day	5.8	6.8	7.5	8.0	8.4	8.6	8.8	9.0	9.3	9.5	9.7
Sales of ancillary products, US\$	10 586	16 410	24 417	33 924	42 658	49 243	53 929	59 072	64 718	70 916	77 114
Share of sales of ancillary products in total sales	4.3%	5.8%	6.1%	6.4%	6.5%	6.6%	6.7%	6.8%	7.0%	7.1%	7.2%
Net sales, US\$	245 898	283 067	397 846	533 473	660 899	746 926	803 638	864 688	930 412	1 001 180	1 076 778
	118	675	811	766	511	755	976	557	001	293	565
DA (Depreciation & Amortization), US\$	3 054	3 574	5 156	6 859	8 123	8 653	8 656	8 469	8 313	8 155	8 155
	220	672	337	200	926	053	386	719	886	553	553
CAPEX (Capital Expenditure), US\$	10 358	35 728	33 781	31 557	21 486	500 000	500 000	500 000	500 000	500 000	500 000
	248	701	833	089	512	000	000	000	000	000	000
EBITDA, US\$	9 238	16 062	27 949	36 478	44 423	48 902	51 537	54 925	57 884	63 356	69 123
	965	435	031	846	741	387	406	209	833	835	518
EBIT, US\$	6 184	12 487	22 792	29 619	36 299	40 249	42 881	46 455	49 570	55 201	60 967
	745	762	694	645	815	334	020	489	947	283	965
Tax rate	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Change in Working Capital, US\$	-5 379	6 580	-4 745	-5 664	-7 518	-5 506	-3 828	-4 055	-4 131	-4 388	-4 662
	213	011	518	460	105	884	590	771	486	845	235
FCFF (Free Cash Flow for the Firm), US\$	2 713	-29 368	-6 785	3 181	21 380	43 846	44 145	46 867	49 123	53 445	58 043
	743	218	458	305	380	937	741	107	582	359	761
Exchange rate UAHUSD	5.3192	5.1000	5.1500	5.3045	5.4636	5.6275	5.7964	5.9703	6.1494	6.3339	6.5239
Discount factor	0.908	0.908	0.827	0.747	0.675	0.611	0.553	0.502	0.456	0.415	0.378
Discounted FCFF, US\$	-27 958	-26 667	-5 608	2 375	14 440	26 797	24 432	23 517	22 383	22 156	21 911
	842	536	784	467	369	492	616	130	123	020	144
Dividend declare, US\$	0	0	0	0	0	6 271	7 214	7 934	8 721	9 406	10 649
						283	119	551	434	415	706

DCF valuation

US\$	2005	2006
Sum of discounted FCFF	95 516 091	125 737 041
Terminal growth rate	0%	0%
Terminal (assets) value	463 089 686	573 145 519
Present value of terminal (assets) value	191 975 964	216 358 719
Enterprise value	287 492 055	342 095 760
Net debt	54 034 090	83 428 725
Equity value	233 457 965	258 667 035

Terminal (assets) value based on 7xEBITDA

US\$	2005	2006
Terminal (assets) value	443 497 848	483 864 627
PV of terminal (assets) value	164 830 882	182 655 761
Sum of discounted FCFF	95 516 091	125 737 041
Enterprise value	260 346 973	308 392 802
Net debt	54 034 090	83 428 725
Equity value	206 312 882	224 964 076

ASSETS VALUATION

Gasoline station

The value of a gasoline station may be calculated by the following formulae:

$$V = (S \times P \times I_s - C + SRM \times I_{srm}) \times 12 / N, \text{ where}$$

S – volume of gasoline sold via the gasoline station, tons per month

P – retail gasoline price, US\$ per ton

I_s – retail market markup, %

C – direct costs of the gasoline station, US\$ per month

SRM – sales of ancillary products, US\$ per month

I_{srm} – markup on ancillary products, %

N – interest rate of ordinary loan in US\$ in Ukraine, %

Total value of all gasoline stations of the company, calculated by above formulae, amounted to **\$199.2 mln.**

Oil storage facilities

In the valuation of oil storage facilities the spending approach was used in determining the market value of these assets. The key factor, which affects the price, is a property factor (i.e. quantity, technical state, petrol tanks, a point of pouring in, certification labs, etc.) and a geographical situation of the storage facilities. The majority of the oil storage facilities have strategic placements in the region. Total value of the company's oil storage facilities amounts to **\$29.7 mln.**

Transport vehicles and other non-current assets

In the company's value consists of value of transport enterprise based in the town of Lviv (CJSC 'Transport communication') as well as those vehicles owned by OJSC 'Concern Galnaftogaz' and its daughter companies. The value of office equipment: communication and PC equipment. Total value of the transport vehicles and other non-current assets amounted to **\$5.0 mln.**

Company's land plots

In the evaluation of the land plots the comparable and spending approaches were applied. The value of a land plot depends on region, where it is situated, as well as on status of the town (if the plot is within a town's border), and on the status of a road (if the plot borders the road). The real costs of the OJSC 'Concern Galnaftogaz' spent to buy the plot also were included into the valuation. Total value of the land plots owned by the company amounted to **\$2.2 mln.**

Asset, Sum valuation, US\$ '000	2005	2006
Oil stations	199 161	262 620
Oil storage	29 700	30 902
Autos & other	5 000	6 000
Land	2 200	3 200
Total assets valuation	236 061	302 722
Net debt	54 034	83 429
Equity value	182 027	219 293

EUROPEAN RECENT ACQUISITIONS BASED VALUATION

Valuation Benchmark

	Qty	Multiple, US\$ '000	Equity value, US\$ '000
No oil stations, 2005	164	945.7	155 095
No oil stations, 2006	190	945.7	179 683

COMPARABLE COMPANIES BASED VALUATION

Public market multiples

	US\$ mln		Multiple		Equity value, US\$ mln	
	2005	2006	2005	2006	2005	2006
Net sales	283.07	397.85	0.65	0.65	184.00	258.60
EBITDA	16.06	27.95	10.00	9.00	160.62	251.54
EBIT	12.49	22.79	12.00	10.00	149.88	227.93

Notes:

- Financial figures of the company grow quickly, showing high-grade changes taking place within the company: growing share of OKKO branded gasoline stations, increasing sales due to both network expansion and rising volumes of oil products sales at a gas station a day. The last factor is backed by the growing ratio of cars per 1000 inhabitants in Ukraine. The total rise of revenues is backed by the increase of retail gasoline price on the local market, while retail markup of the retail gasoline businesses remained the same.

Galnaftogaz vs Peers

Company	EV/Sales, [X]			EV/EBITDA, [X]			EV/EBIT, [X]		
	2003	E2004	F2005	2003	E2004	F2005	2003	E2004	F2005
Petrol Ofisi (POAS), Turkey	0.3	0.4	0.4	7.1	Nm	Nm	14.0	Nm	Nm
Petrol AD (PET), Bulgaria	1.0	0.6	0.6	16.8	8.3	7.7	Nm	12.9	13.6
MOL Hungarian, Hungary	0.9	0.8	0.9	7.3	5.5	5.5	15.7	10.5	12.5
OMV, Austria	0.8	0.7	0.8	5.8	5.0	5.5	9.7	8.1	9.6
Hellenic Petroleum, Greece	0.6	0.5	0.5	7.5	7.0	6.7	12.6	12.4	12.1
PKN Orlen, Poland	0.6	0.5	0.6	5.2	4.8	4.8	8.5	7.7	8.6
Turpras, Turkey	0.3	0.2	0.3	4.3	3.9	4.3	4.5	2.0	2.1
Petroplus, Holland	0.1	0.1	0.1	Nm	8.9	6.6	Nm	20.2	12.1
Motor Oil	0.6	0.7	0.6	9.2	9.1	6.9	11.8	11.5	9.3
ERG, Ital	0.5	0.5	0.5	6.5	7.1	7.7	10.0	7.1	7.7
Lukoil, Russia	1.0	1.0	1.0	4.3	5.8	5.5	5.1	7.6	7.2
Average	0.61	0.55	0.57	7.4	6.5	6.1	10.2	10.0	9.5
Galnaftogaz	-	0.65	0.65	-	10.0	10.0	-	12.0	12.0

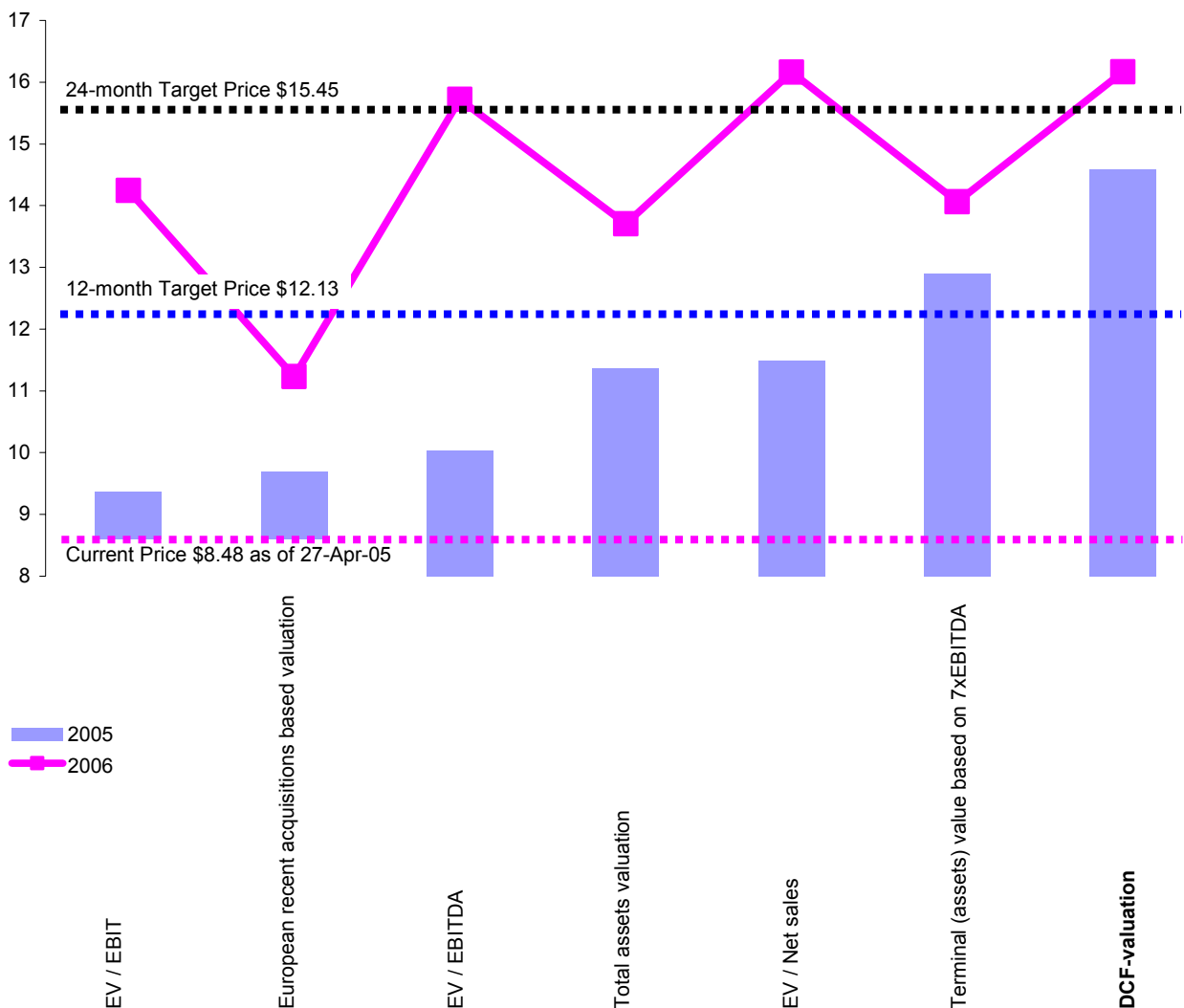
Notes: Concern Galnaftogaz cannot be fully compared with any above mentioned companies. Main differences are (1) it does not have own neither oil producing assets nor oil refineries, (2) it concentrates mainly on storage, transport and retail and wholesale trade of oil products, including via its own network of gasoline stations.

SUMMARY VALUATION

Equity Valuation OJSC 'Concern Galnaftogaz'

	2005		2006	
	EV, US\$ mln	per 1000 shares	EV, US\$ mln	per 1000 shares
DCF-valuation	233.46	14.59	258.67	16.17
Terminal (assets) value based on 7xEBITDA	206.31	12.89	224.96	14.06
European recent acquisitions based valuation	155.10	9.69	179.68	11.23
Total assets valuation	182.03	11.38	219.29	13.71
EV / Net sales	184.00	11.50	258.60	16.16
EV / EBITDA	160.62	10.04	251.54	15.72
EV / EBIT	149.88	9.37	227.93	14.25
Average	181.63	11.35	231.52	14.47

Equity Valuation OJSC 'Concern Galnaftogaz', US\$ per 1000 shares





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