CEE oil sector: solid USD earnings, but partly due to US currency depreciation

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18.03.2008

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MOL: Slightly better than expected results at all levels

Unipetrol: Figures negatively affected by long shutdowns, but outlook positive (Buy recommendation with target price of CZK 358)

Petrom: Reports 22% decrease in Q4 07 bottom line

INA: Yet to publish Q4 07 results at the end of March

Earnings & profits

Higher average Brent oil price generated very solid figures in USD but part of the increase in the oil price in USD per barrel is attributed to the US dollar's depreciation, say analysts of Erste Bank. They point out all CEE companies have the same FX exposure - profits in both upstream and downstream are linked to the USD, but inputs are mainly in local currencies.

“Oil prices in Euro terms look much more stable than in USD terms, which is also a traditional OPEC argument for <<why to not raise production>>”, says Jakub Zidon, Oil & Gas analyst at Erste Group. “We can also say that the last increase above USD 100 per barrel level could be attributed to the strong deprecation of the USD vs. the EUR. Local currencies also strengthened vs. the EUR in 2007, partly offsetting the negative impact of high oil prices on downstream players”, adds Zidon.

The analysts of Erste Bank do not see too much room for an increase/decrease of the oil price in EUR terms and expect the price of crude to remain at a similar level of EUR 60/bbl at the beginning of this year. The potential decrease in USD terms would therefore be related to an appreciation of the US currency. The current RON depreciation is seen positive for OMV, as FX expenses added some 70% to the increase in crude oil production costs. For MOL, the bigger issue is still the high middle distillates exposure.

Companies in brief

“Despite the refinery shutdowns and still sub-optimal performance of Petrom, OMV remains our top pick (with a Buy recommendation), due to the almost 70% share in its portfolio held by the exploration and production segment and its presence in the swiftly increasing gas segment. As expected, MOL is enjoying high diesel margins, although we do not see potential growth drivers for the future. Therefore, we maintain our Hold recommendation for the Hungarian title,” states Jakub Zidon, the Oil & Gas analyst at Erste Group.

Unipetrol is another story entirely, as the company was strongly hit by the longer than expected shut-down of its Litvinov plant (the cold box will be installed in April/May, prompting us to slightly decrease our 2008 projection). However, we anticipate a recovery for petrochemicals in 2008 (polymer margins already went up in January and February). Unipetrol remains our No. 2 pick, with a Buy recommendation and target price of CZK 358,” adds Zidon.

The Erste Group analysts recommend as followed:

Company	Current	Current

	recommendation	target price
OMV	Buy	EUR59.70
Unipetrol	Buy	CZK 358.0
Petrom	Accumulate	RON 0.608
MOL	Hold	HUF 24,125
INA	Hold	HRK 3,030

Valuation
Following the market correction of the last few weeks, the CEE peers' 2008 and 2009 EV/EBITDA ratios are currently traded around the 4.6x mark, which is well below their Western peers' (with 2008 and 2009 EV/EBITDA of 5.8x and 5.7x, respectively). Erste Bank analysts deem this to make sense at the moment, as investors see CEE stocks as having a higher level of risk. Nevertheless, they expect CEE sector still to provide higher profit growth in the coming years and more significant growth potential for CEE stocks in the coming months.

As for the P/E level, CEE stocks are traded with P/Es of 8.1x in terms of 2008 earnings and 7.6x using 2009 estimated earnings, while the sector's European peers are traded at P/Es of 11.6x for 2008 and 11.5x for 2009.

Outlook for 2008 and beyond
Erste Bank analysts expect crude oil price to remain above EUR 50 per barrel, while refinery margins to be further under pressure due to very weak gasoline spreads. "We would highlight OMV (due to its strong upstream exposure, with a rising gas segment) and MOL (which should enjoy strong middle distillates margins in the short term). Unipetrol should profit from the strong petrochemical segment. However, the first sign of better performance will likely be seen as of the second quarter of this year," strengthens Zidon.

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"Oil prices in Euro terms look much more stable than in USD terms, which is also a traditional OPEC argument for <<why to not raise production>>", says Jakub Zidon, Oil & Gas analyst at Erste Group. *"We can also say that the last increase above USD 100 per barrel level could be attributed to the strong deprecation of the USD vs. the EUR. Local currencies also strengthened vs. the EUR in 2007, partly offsetting the negative impact of high oil prices on downstream players",* adds Zidon.

March 17, 2008

Earnings Review

4Q 2007

CEE oil & gas

- OMV: Nice upstream figures, while refinery suffered due to shutdowns
- MOL: Slightly better than expected results at all levels
- PKN Orlen: Mixed 4Q07 results, but operating level rather poor (Hold recommendation with lower target price of PLN 44.6)
- Lotos: Good net level due to one-off revaluation, while much worse at operating level (Accumulate recommendation with lower target price of PLN 40.5)
- Unipetrol: Figures negatively affected by long shutdowns, but outlook positive (Buy recommendation with target price of CZK 358)
- Petrom: Reports 22% decrease in Q4 07 bottom line
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Investment case

Based on the macro environment of high oil prices and prevailing pressure on downstream margins, the last quarter of 2007 confirmed that OMV is best equipped for this market situation. The CEE oil & gas sector is characterized by strong exposure to the R&M segment, as OMV has a significant stake in upstream. As for the refineries, we have seen negative surprises on the operating level. However, MOL, with its strong middle distillates yields, should be highlighted as the biggest beneficiary of the current strong diesel demand in the region.

Despite the refinery shutdowns and still sub-optimal performance of Petrom, OMV remains our top pick (with a Buy recommendation), due to the almost 70% share in its portfolio held by the exploration and production segment and its presence in the swiftly increasing gas segment. As expected, MOL is enjoying high diesel margins, although we do not see potential growth drivers for the future. Therefore, we maintain our Hold recommendation for the Hungarian title. The Polish refiners have suffered from the weak margin environment. Given the similar outlook for the coming years, we lower our 12M target prices for PKN Orlen and Lotos to PLN 44.6 and PLN 40.5, respectively, while raising PKN to Accumulate and keeping Accumulate for Lotos. In the case of Lotos, the more significant decrease in target price also contributed to the higher risk related to its huge capex program ("PKRT" - the biggest potential growth driver in 2009-10). Unipetrol is another story entirely, as the company was strongly hit by the longer than expected shut-down of its Litvinov plant (the cold box will be installed in April/May, prompting us to slightly decrease our 2008 projection). However, we anticipate a recovery for petrochemicals in 2008 (polymer margins already went up in January and February). Unipetrol remains our No. 2 pick, with a Buy recommendation and target price of CZK 358. Petrom's restructuring is still ongoing, but is still not very visible, mainly due to increasing production costs (more on this later). We think that, in buying OMV shares, investors get two things (the second one for free) - the restructuring of Petrom and the strongly rising gas segment. Only INA has yet to report its 4Q results; this is planned for the end of March.

Recommendations and target prices

Company	Previous recomm.	Current recom.	Previous target price	Current target price	Report released
Lotos	Accumulate	Accumulate	PLN 55.9	PLN 40.5	14/03/2008
MOL	Hold	Hold	HUF 24,800	HUF 24,125	24/01/2008
OMV	Accumulate	Buy	EUR49.20	EUR59.70	24/01/2008
PKN Orlen	Hold	Accumulate	PLN 53.5	PLN 44.6	14/03/2008
Unipetrol	Buy	Buy	CZK 367.0	CZK 358.0	14/03/2008
Petrom	Accumulate	Accumulate	RON 0.608	RON 0.608	29/05/2007
INA	Hold	Hold	HRK 3,030	HRK 3,030	28/02/2007

Source: Erste Bank

Review of main segments and outlook for 2008

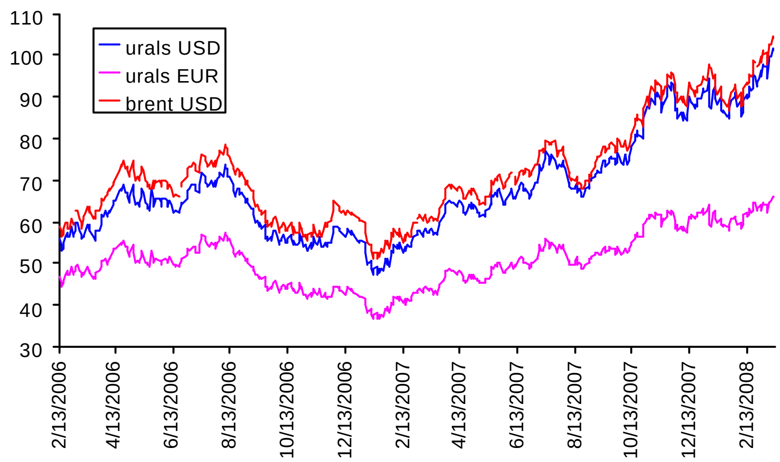
We will take a close look at FY07, with a particular focus on the last quarter, while also delving into 2008. We have made a deep analysis of all sector segments:

E&P

As expected, the very solid figures were driven by the higher average Brent oil price (which increased significantly q/q from 74.75 USD/bbl in 3Q07 to 88.45 USD/bbl). In the case of OMV, operating profit in upstream was also supported by the higher production in 4Q07 (323 kbpd) on a q/q basis (317 kbpd), while production volumes for MOL were lower, mainly as a consequence of the Szoreg disposal. As for 2008, OMV plans to increase production based on start-ups in New Zealand and Kazakhstan in 2H08 and a slight increase in production in Yemen and Romania. MOL sees relatively stable production.

We see the impact of high oil prices on the segmental operating profit as a more interesting issue. A strong increase in oil would imply a more significant increase in upstream profit. But we would like to point out that part of the increase in the oil price in USD per barrel is attributed to the US dollar's depreciation. All CEE companies have the same FX exposure - profits in both upstream and downstream are linked to the USD, but inputs are mainly in local currencies.

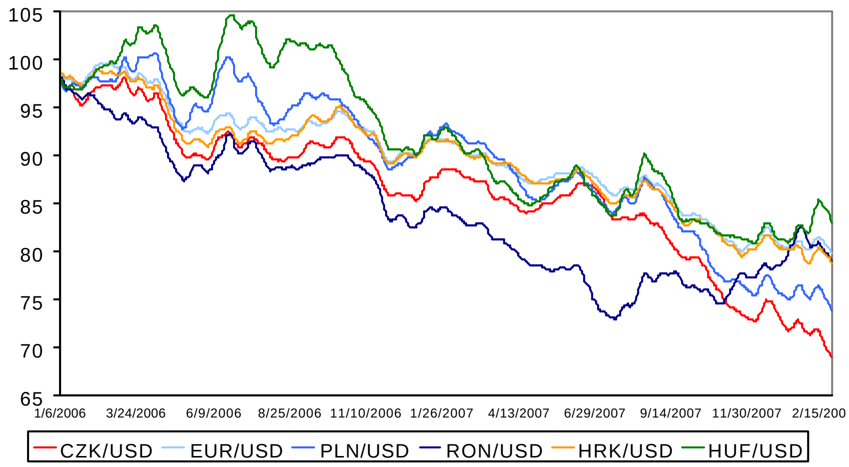
Oil price development in last two years



Source: Bloomberg

As you can see above, oil prices in euro terms look much more stable than in USD terms (this is also a traditional OPEC argument - "why to not raise production"). As expected, OPEC left production quotas unchanged at its meeting in Vienna on March 5, as lower than expected crude oil inventory data in the US and a rebel attack in Colombia sent the crude oil price slightly up to new record levels. However, we can also say that the last increase above USD 100 per barrel level could be attributed to the strong deprecation of the USD vs. the EUR. Local currencies also strengthened vs. the EUR in 2007, partly offsetting the negative impact of high oil prices on downstream players.

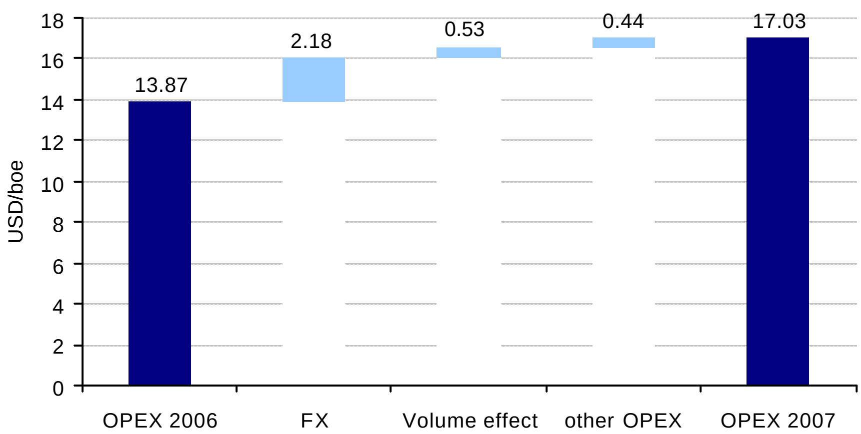
Development of local currencies in last two years



Source: Bloomberg

We do not see too much room for an increase/decrease of the oil price in EUR terms and expect the price of crude to remain at a similar level of EUR 60/bbl at the beginning of this year. The potential decrease in USD terms would therefore be related to an appreciation of the US currency. The current RON deprecation is positive for OMV, as FX expenses added some 70% to the increase in crude oil production costs. For MOL, the bigger issue is still the high middle distillates exposure, while Lotos' exposure to upstream is quite small.
R&M

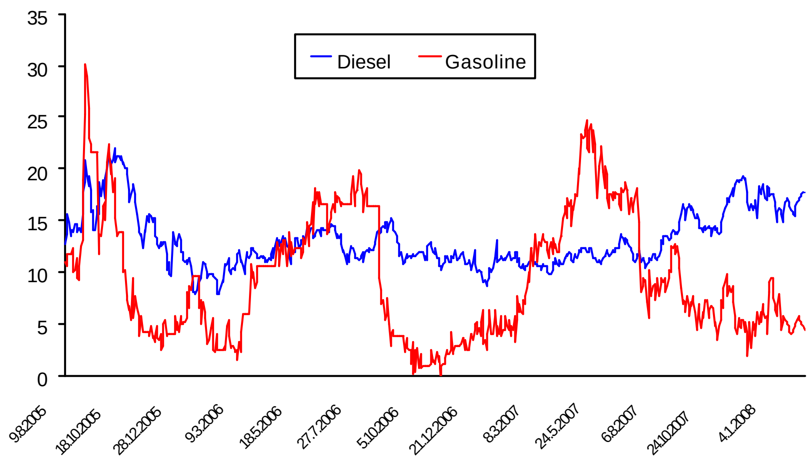
E&P OPEX in Petrom



Source: OMV

We have seen a slight recovery of refining margins, as Reuters reported that average NW Brent refining margins reached 5.25 USD/bbl, up both q/q and y/y from 2.85 USD/bbl in 4Q06 and 3.53 USD/bbl last quarter. The main issue was the fact that middle distillates margins significantly outperformed gasoline margins, as diesel crack spreads increased by some 50% y/y in 4Q07, while gasoline spreads went down by 55% compared to last year.

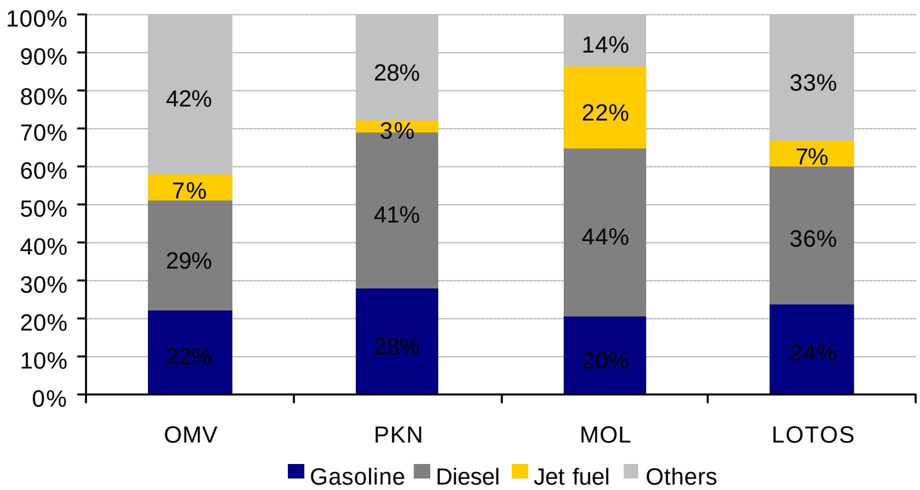
Diesel and gasoline margins in USD/bbl



Source: Reuters

Middle distillates (mainly diesel and heating oil) are strong because of the longer and bigger than expected refinery shutdowns, specification changes to diesel in the UK (the European heating oil pool is now a direct competitor for the diesel pool in terms of desulfurization capacity) and low regional inventories. Therefore, on the company-specific margin front, refiners with the greatest leverage to diesel markets saw their indicator margins improving most significantly in 4Q07; importantly, diesel margins could remain significantly above gasoline margins, as the more difficult import possibilities will keep the middle distillates yield up (the strong European demand is usually co-supplied by cargos mainly from the "East" and then desulfurized in Europe). Finally, as we head into the 2008 driving season, we think that, given the lack of new refining capacity coming on-stream in 1H08, the middle distillates margins in particular should remain an anchor for the whole depressed refinery sector.

Refinery products



Source: Companies' 2007 results

Based on the refinery breakdown, we would predict that the Polish refiners should suffer from low gasoline margins. Moreover, Lotos surprisingly reported lower refinery margins on a q/q basis (Lotos positively surprised the market in 3Q07, when it was the only refiner to increase its margins in the third quarter), while PKN's segment operating profit was also negatively influenced by the shutdowns at the Lithuanian and Czech refineries. Looking at inventories, gasoline stocks rose by 1.6mn to 234.3mn barrels, which is a very comfortable level ahead of the summer. However, supplies of distillate fuels fell by 2.33mn barrels to 117.6mn in March. As the outlook for gasoline spreads remains negative for the 2008-09 period, we lowered our valuation for both Lotos and PKN Orlen.

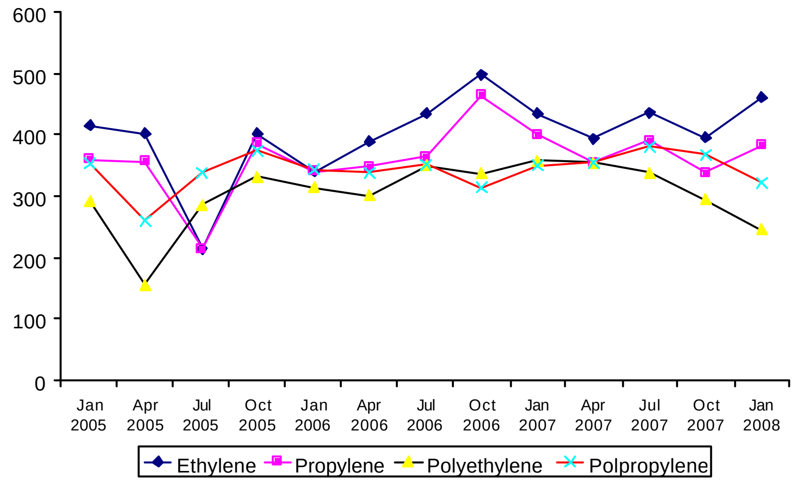
Gas segment

The gas segment is starting to be important for OMV, as it went up by 61% y/y (we mentioned in our report from January 24 that the gas segment would be one of the company's profit drivers in the future). The strong contribution from EconGas, supported by Petrom, stood behind the significant y/y improvement. However, the figures were positive due to the seasonal strength of the business. For MOL, segment EBIT growth in 4Q07 was mainly due to higher domestic transmission revenues and a cost savings effect. However, the weight of this segment is not substantial in MOL's portfolio. The outlook for 2008 remains positive for the gas segment, as the price and volumes should again increase compared to last year.

Petchem segment

The petrochemical business negatively surprised us with the 4Q results, as operating profit dropped on average by 25% q/q, as a rise in base material costs and declining end-product prices squeezed margins. In 4Q07, the average quarterly margin decreased (margins on benzene decreased by 37%, while ethylene margins went slightly up by 1.5%) in October and November, but a turnaround has been seen since December (confirmed in January and February). The outlook for 2008 remains positive, as the margins are expected to be strong. Amplified by the longer than expected shutdown of its petchem plant, Unipetrol (which is heavily exposed to this segment) suffered the most in 4Q. However, we see the current share price drop to below CZK 260 as a great buying opportunity, as production should significantly increase this year (just a 14-day s/d scheduled for the re-installation of the cold box).

Petrochemical margins' development



Source: Unipetrol

Outlook for 2008 and beyond

1H07 was quite favorable for downstream business, as the crude oil price was around USD 60-70 per barrel. However, with the increasing oil price in the second half of the year, we had to change our positive view on the refiners. As a result of the above-mentioned factors, we lowered our 12M target prices for solely downstream players PKN Orlen, Lotos and Unipetrol. We expect the crude oil price to remain above EUR 50 per barrel, while refinery margins should be further under pressure due to very weak gasoline spreads. We would highlight OMV (due to its strong upstream exposure, with a rising gas segment) and MOL (which should enjoy strong middle distillates margins in the short term). Unipetrol should profit from the strong petrochemical segment. However, the first sign of better performance will likely be seen as of the second quarter of this year.

Key forecast factors

		2005	2006	2007	2008e	2009e	2010e	2011e	2012e
Ural-crack refining margin	USD/bbl	5.3	6	5	4	4	4	4	4
European Brent price	USD/bbl	54.5	68	72.3	75	68	65	65	65
European Brent price	EUR/bbl	43.8	54.1	51.9	52.4	52.3	53.3	55.6	56.5
Complex petchem margins	EUR/ton	380	400	435	425	425	425	425	425
Ural-Brent differential	USD/bbl	4.1	3	2.5	2.5	2	2	1.5	1.5
HUF/USD average		199.7	210.5	183.4	181.1	196.2	204.9	204.9	204.9
PLN/USD average		3.23	3.1	2.76	2.49	2.67	2.75	2.79	2.75
CZK/USD average		23.8	22.9	20.3	18.3	19.8	20.6	21	20.9
EUR/USD average		1.27	1.29	1.37	1.43	1.3	1.22	1.17	1.15

Sources: Erste Bank, Bloomberg

Valuation

Following the market correction of the last few weeks, the CEE peers' 2008 and 2009 EV/EBITDA ratios are currently traded around the 4.6x mark, which is well below their Western peers' (with 2008 and 2009 EV/EBITDA of 5.8x and 5.7x, respectively). This would make sense at the moment, as investors see CEE stocks as having a high level of risk. The CEE sector should still provide higher profit growth in the coming years. We therefore expect more significant growth potential for CEE stocks in the coming months. As for the P/E level, CEE stocks are traded with P/Es of 8.1x in terms of 2008 earnings and 7.6x using 2009 estimated earnings, while the sector's European peers are traded at P/Es of 11.6x for 2008 and 11.5x for 2009.

Looking at each company individually, PKN Orlen looks to be the cheapest oil & gas company in our universe, as it is currently traded at 38.4 and some 16% below our updated 12M target price of PLN 44.6. However, we think OMV and Unipetrol (both with Buy recommendations and target prices of EUR 59.7 and CZK 358, respectively), which are also traded below their CEE peers' multiples, provide more potential fundamental upside. In our view, the discount of 10% for OMV and 15% for Unipetrol on 2008 EV/EBITDA vs. the regional peers is not justifiable.

Our Lotos valuation suggests an Accumulate recommendation with 19% potential upside to the target price. However, looking at 2008 and 2009 multiples, Lotos seems fairly valued. This could be explained by the fact that a substantial part of our DCF model is related to the last two years of the 2008-12 period and the terminal value, which should play a positive role in the refinery capacity increase planned for 2010. MOL is traded above its CEE peers at the moment, mainly due to the ongoing buyback program and its nig exposure to the currently strong middle distillates yields. The slight premium is therefore justifiable. However, from the long-term point of view, we are still missing a growth driver. We therefore stick to our Hold recommendation and target price of HUF 24,125. INA has yet to post its 4Q results; we plan to look at it in a more detailed manner after the results are published (preliminarily scheduled for the end of March).

Peer Group

(EUR mn)	Market Cap.	EBITDA 2007e	2008e	2009e	Sales 2007e	2008e	2009e	EPS 2007e	2008e	2009e
ENI SpA	88,197.8	25,332	27,367	27,515	87,170	90,123	88,524	2.58	2.69	2.63
Repsol	24,246.3	8,573	8,906	9,171	55,923	57,144	60,075	2.42	2.41	2.45
Royal Dutch Shell	153,089.2	38,077	35,396	35,193	243,345	238,236	237,348	2.76	2.79	2.71
Total SA	119,776.5	29,287	31,704	31,702	141,168	145,136	149,512	5.37	5.70	5.74
BP	131,470.7	27,318	30,041	29,852	194,496	201,627	192,636	0.63	0.76	0.76
Norsk Hydro ASA	8,627.4	1,614	1,571	1,685	12,144	11,431	11,767	0.86	0.68	0.74
Cepsa	18,382.3	1,505	1,526	1,633	16,084	18,481	19,797	2.84	2.68	2.72
Statoil	53,819.1	22,166	27,167	25,457	65,854	70,187	69,594	1.79	2.05	2.01
Hellenic Petroleum	3,129.7	496	449	483	8,538	8,708	8,672	0.80	0.73	0.75
MOL	9,083.6	1,769	1,613	1,623	10,256	11,542	11,590	8.55	8.65	8.49
PKN	4,799.1	1,434	1,483	1,620	17,741	20,804	21,764	1.37	1.30	1.30
Unipetrol	1,867.0	441	541	543	3,495	3,200	3,249	1.09	1.47	1.46
OMV	13,980.0	3,771	3,351	3,951	19,955	17,800	19,245	6.35	5.70	6.92
Petrom	6,538.8	882	1,209	1,234	3,431	3,977	4,190	0.01	0.01	0.01
INA	3,414.5	366	461	471	3,229	3,767	3,019	15.70	21.75	22.37
Lotos	1,151.3	312	282	288	3,625	3,725	4,204	1.78	1.23	1.10

Sources: Erste Bank, JCF, prices as of March 13, 2008

	EV/EBITDA 2007e	2008e	2009e	EV/Sales 2007e	2008e	2009e	P/E 2007e	2008e	2009e
ENI SpA	4.6x	3.8x	3.8x	1.3x	1.2x	1.2x	8.6x	8.2x	8.4x
Repsol	4.4x	3.9x	3.8x	0.7x	0.6x	0.6x	9.3x	9.3x	9.2x
Royal Dutch Shell	4.9x	4.1x	4.2x	0.8x	0.6x	0.6x	8.1x	8.0x	8.3x
Total SA	5.1x	4.1x	4.1x	1.1x	0.9x	0.9x	9.0x	8.5x	8.4x
BP	6.5x	5.0x	5.0x	0.9x	0.7x	0.8x	11.1x	9.2x	9.1x
Norsk Hydro ASA	7.0x	7.1x	6.7x	0.9x	1.0x	1.0x	10.5x	13.2x	12.1x
Cepsa	13.0x	12.7x	12.1x	1.2x	1.0x	1.0x	24.7x	26.1x	25.8x
Statoil	3.2x	2.5x	2.7x	1.1x	1.0x	1.0x	10.9x	9.5x	9.7x
Hellenic Petroleum	8.8x	8.9x	8.6x	0.5x	0.5x	0.5x	11.3x	12.4x	12.1x
WE average	**6.4x**	**5.8x**	**5.7x**	**0.9x**	**0.8x**	**0.8x**	**11.5x**	**11.6x**	**11.5x**
MOL	4.8x	4.7x	4.3x	1.2x	1.0x	0.9x	9.6x	9.5x	8.7x
PKN	3.1x	2.8x	2.5x	0.5x	0.4x	0.4x	7.4x	6.9x	6.4x
Unipetrol	3.7x	3.7x	3.6x	0.7x	0.6x	0.6x	8.7x	8.3x	8.3x
OMV	3.2x	3.3x	2.6x	1.0x	0.8x	0.8x	7.0x	7.8x	6.4x
Petrom	6.9x	5.8x	5.3x	1.9x	1.9x	2.0x	11.4x	8.2x	7.9x
INA	7.8x	7.5x	6.9x	1.4x	1.0x	1.2x	8.7x	8.3x	8.3x
Lotos	4.1x	4.3x	3.6x	0.4x	0.4x	0.5x	7.1x	7.9x	5.7x
CEE average	**4.8x**	**4.6x**	**4.1x**	**1.0x**	**0.8x**	**0.9x**	**8.6x**	**8.1x**	**7.4x**

Sources: Erste Bank, JCF, prices as of March 13, 2008

Lotos Group

Accumulate

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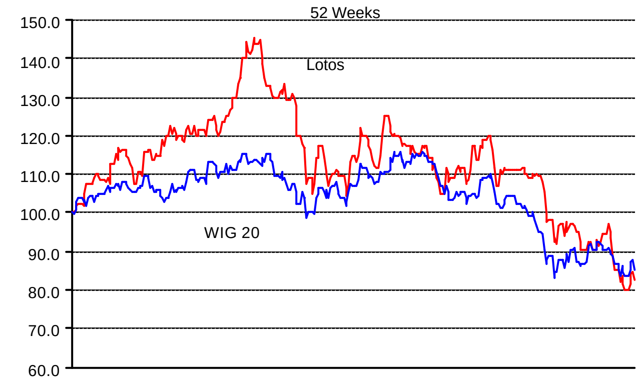
POLAND / Oil & gas

Share price (PLN)	33.1	Reuters	LTOS.WA	Free float	41.2%
Number of shares (mn)	113.7	Bloomberg	LTS PW	Shareholders	Nafta Polska 51.9%
Market cap. (PLN/EUR mn)	3,763.5 / 1,061.7	**Target price (PLN)**	**40.5**		State Treasury 6.9%
Enterprise value (PLN/EUR mn)	4,977.1 / 1,402.2	Ex-dividend date	-		
Average daily turnover 3M (pcs)	180,101	Index weight (WIG 20)	1.77%	Homepage:	www.lotos.pl

PLN mn	2007p	2008e	2009e	2010e
Net sales	13,132.5	13,569.4	12,749.3	15,485.0
EBITDA	1,030.3	1,207.6	1,246.3	1,515.6
EBIT	719.0	693.2	659.0	898.7
Net profit	762.3	530.3	473.5	661.1
EPS (PLN)	6.7	4.7	4.2	5.8
CEPS (PLN)	9.0	9.2	9.3	11.2
BVPS (PLN)	54.0	57.8	60.9	65.8
Div/share (PLN)	1.5	1.5	1.5	1.5
EV/EBITDA (x)	4.1	4.1	4.3	3.6
P/E (x)	4.9	7.1	7.9	5.7
P/CE (x)	3.7	3.6	3.5	2.9
Dividend yield	4.5%	4.5%	4.5%	4.5%
Operating margin	5.5%	5.1%	5.2%	5.8%
Net margin	5.8%	3.9%	3.7%	4.3%



Performance	12M	6M	3M	1M
in PLN	-7.5%	-28.0%	-25.7%	-10.5%
in EUR	-0.8%	-23.5%	-24.2%	-8.9%

Lotos Q4 07 results - better than expected at net level due to higher crude oil reserves, while much worse at operating level

Lotos managed to post Q4 07 results above our expectation, as it more than doubled fourth-quarter profit mainly due to higher value of its crude reserves based on higher oil prices. Q4 07 net profit came in at PLN 231mn, some 13% above our expectation, while EBIT at PLN 158mn (compared to our estimation of PLN 231mn and market consensus of PLN 254mn!!!) and revenues at PLN 3.99bn (43% increase y/y).

Despite the stronger PLN on y/y basis (strengthened by 14% y/y vs. US dollar), company was able to deliver higher revenues. The company also (surprisingly) announced that its refinery margins decreased on q/q (unlike the Reuters margins calculation, showing an increase in Q4 vs. Q3) from USD 5.5 to USD 5.2/bbl.

We have to say that the strong performance at net profit level is attributed mainly to the crude reserves revaluation, which should be taken as one-off item. As the further increase of oil price is not expected in coming months, net profit level will likely be under pressure. Also the financial income was boosted by PLN 67.5mn attributable to hedging of currency exposure transactions connected with operating activities and PLN 67.8mn related to 2008. At EBIT level, the figure was negatively influenced by one-off transactions, related to valuation impairment for the risk that a part of expenditure incurred on the heavy residue gasification project remain not used due to delays and charge on account of goodwill related to transaction of some part of business in the total amount of PLN 55mn. Moreover, the company suffered more than we expected from the decrease of refinery margins.

Earnings Review

Quarterly overview

PLN mn, IFRS consolidated.	Q4 2006	Q4 07e	Q4 07a	y/y	Diff. To Erste	market consensus	2006	2007e	2007a
Sales	3,156	3,755	3,988	*43.40%*	*6.21%*	3,769	12,813	12,592	13,133
EBIT	84	231	158	*39.10%*	*-31.60%*	254	804	738	719
Net profit	84	186	231	*53.70%*	*24.19%*	226	715	670	794
EBIT margin (%)	*2.66%*	*6.15%*	*3.96%*	--	--	*n.a.*	*6.27%*	*5.86%*	*5.47%*
Net margin (%)	*2.66%*	*4.95%*	*5.79%*	--	--	*n.a.*	*5.58%*	*4.53%*	*6.05%*

Source: Lotos, Erste Bank Estimation

All in all, there were mainly two reasons for the weak operating level - surprisingly lower refinery margins on q/q basis (you may remember that Lotos positively surprised the market already in Q3 07, when reported - as the only refinery company - the increase in margins in the third quarter) and one-off impairments. On the other hand, at net profit level the figure was strong due to positive revaluation of the crude reserves and higher than expected financial income. Therefore, the overall impression is rather neutral.

As for 2008, the company has not yet provided any guidance for this year, but already said that it expects the macro environment to remain difficult for the downstream players. As the current share price is substantially below our target price, we do not expect any further decrease. But we would be also cautious with buying the stock, as the outlook remains rather negative this year.

Adjustment of estimates, due to worse refinery outlook

In 2007, we saw that Lotos was not well equipped for the current environment of high oil prices (which put the refinery margin under pressure, in general) and low gasoline crack spreads (which are expected to remain significantly below the middle distillates margins). We therefore decrease our margin outlook for Lotos, implying lower operating profit in the years to come. We have already seen that Lotos could have problems with financing of its huge capex program, which seems very ambitious, given the current size of the company. Also, the plan to increase crude oil self-sufficiency to 40% by 2010 from the current 12-14% is unlikely to be met, in our view. Our updated margin and FX forecasts lead us to lower our operating profit estimate to PLN 693mn and PLN 659mn for 2008 and 2009, respectively.

Change in our forecast - 2008 - 2009

Lotos

PLN mn	**2008**		*change*	**2009**		*change*
	old	**new**		**old**	**new**	
EBIT	738.2	693.2	*-6.1%*	800.2	659.0	*-17.6%*
Net profit	570.3	530.3	*-7.0%*	568.0	473.5	*-16.6%*

Source: Erste Bank estimates

Valuation

We again valued the company with a two-stage DCF model. Besides the changes to our mid-term operating profit estimates, we also made some minor adjustments to our valuation model. Basically, we updated our model, using "just" the 2008-12 period as a base. We have slightly adjusted the cost of equity to reflect the changed risk-free rate. The calculation of the terminal value (stage II) in our model is unchanged. Overall, the adjustments in our valuation model and our forecasted figures result in a lower target price of PLN 40.5 (from PLN 55.9). Nonetheless, we maintain our Accumulate recommendation. In the last few weeks, the stock price of Lotos has slumped, but the company is still traded in line with its CEE peers. Despite relatively good potential growth drivers (the likely capacity increase and planned greater exposure to the upstream segment), investors are more likely to see risk factors at Lotos.

Lotos WACC calculation

Lotos WACC calculation	2008-2012e	terminal value
Risk-free rate	6.3%	5.0%
Premium to equity	5.5%	5.0%
Beta	1.50	1.00
Cost of equity	14.6%	10.0%
Debt premium	0.25%	0.25%
Cost of debt	6.6%	5.3%
Effective tax rate (%)	19.0%	19.0%
Effective cost of debt (%)	5.3%	4.3%
Debt to assets (%)	15.0%	30.0%
WACC	**13.2%**	**8.3%**

Source: Erste Bank estimates

DCF Valuation (PLN mn)	2008e	2009e	2010e	2011e	2012e
EBITDA	1,160	1,237	1,492	1,709	1,683
Taxes on EBIT	-123	-123	-166	-209	-206
Depreciation	514	587	617	609	599
EBITDA tax adjusted	1,037	1,114	1,326	1,500	1,477
Capital expenditures	-1,625	-1,385	-918	-479	-444
Change in working capital	728	48	-310	-429	23
Terminal value					9,155
Free cash flow	140	-223	98	592	10,211
Discounted free cash flow	124	-174	67	361	5,502
Net present value (enterprise)	5,730				
Net debt	1,214				
Value of non-core assets	38				
Value of minority stake	-391				
Value of equity	4,164				
Fair value of equity per share (PLN)	**36.6**				
12-months target value (PLN)	**40.5**				

Source: Erste Bank

OMV

Buy

AUSTRIA / Oil & gas

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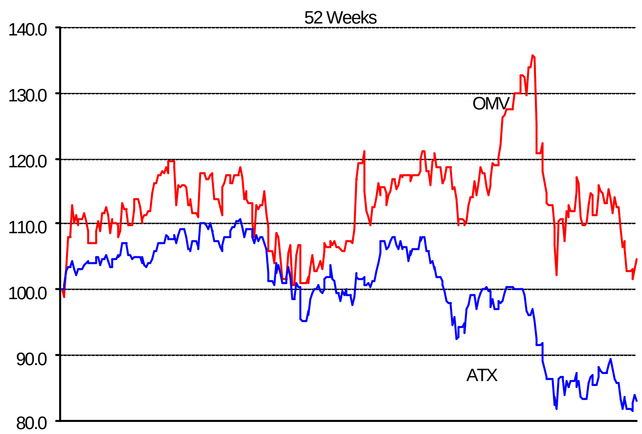
Share price (EUR)	44.6	Reuters	OMVV.VI	Free float	50.9%
Number of shares (mn)	297.9	Bloomberg	OMV AV	Shareholders	OIAG (31.5%)
Market cap. (EURmn)	13,284.1	**Target price (EUR)**	**59.7**		IPIC (17.6%)
Enterprise value (EURmn)	11,968.4	Ex-dividend date	05/19/2008		
Average turnover 3M (pcs)	52,905	Index weight (ATX)	18.9%	Homepage:	www.omv.com

EUR mn	2007p	2008e	2009e	2010e
Net sales	20,042.0	19,955.2	17,800.4	19,245.5
EBITDA	3,161.9	3,770.8	3,351.1	3,950.7
EBIT	2,184.5	2,959.3	2,497.2	3,072.2
Net profit	1,578.8	1,891.4	1,699.6	2,065.7
EPS (EUR)	5.29	6.35	5.70	6.92
CEPS (EUR)	8.48	9.26	8.62	9.91
BVPS (EUR)	27.24	31.78	35.19	39.96
Div/share (EUR)	1.25	1.96	2.26	0.00
EV/EBITDA (x)	5.0	3.2	3.3	2.6
P/E (x)	8.4	7.0	7.8	6.4
P/CE (x)	5.3	4.8	5.2	4.5
Dividend yield	2.8%	4.4%	5.1%	0.0%
Operating margin	10.9%	14.8%	14.0%	16.0%
Net margin	7.9%	9.5%	9.5%	10.7%



Performance	12M	6M	3M	1M
in EUR	4.7%	-2.5%	-12.2%	-7.1%

Nice upstream figures, while refinery suffered due to the shut-downs

OMV reported better than expected Q4 07 results on clean EBIT level (EUR 688mn vs. our expectation of EUR 643mn and market consensus of EUR 652mn), which is adjusted by one-offs. At other levels, the released figures lagged behind our and market expectations, mainly due to the two major refinery shutdowns. Net profit after minorities was EUR 318mn vs. market expectation of EUR 418mn and our forecast of EUR 489mn. Looking at first sight, OMV beats the expectation at clean EBIT level, which was positively influenced by the strong upstream figures and gas segment and offset really poor refinery numbers. Company also announced that it will propose a dividend of EUR 1.25.

Quarterly numbers

EURmn, IFRS	Q406a	Q4 07e	Q4 07a	y/y	Diff to Erste	Market consensus
Revenues	5,156	5,231	5,728	*11.09%*	*9.50%*	5733
Clean EBIT	562	643	688	*22.42%*	*7.00%*	652
EBIT	394	613	492	*24.87%*	*-19.74%*	646
Net profit after minorities	295	493	318	*7.80%*	*-35.50%*	418

EURmn, IFRS	Q406a	Q4 07e	Q4 07a	y/y	Diff to Erste	Market consensus
E&P	484	518	648	*33.88%*	*25.10%*	587
R&M	49	85	-9	*n.a.*	*n.a.*	13
Gas	40	55	79	*97.50%*	*43.64%*	73
Corporate costs	-11	-15	-30	*172.73%*	*100.00%*	-18
Clean EBIT	**562**	**643**	**688**	**15.30%**	**8.30%**	**652**

Source: OMV, Erste Bank Estimation

Earnings Review

As was expected, OMV delivered nice figures in **Exploration and Production (E&P)**, as clean EBIT was 34% above last year and also well above our and market expectation. OMV reported higher production in 4Q 2007 (323 kbpd) on q/q basis (317 kbpd), as the relatively cold weather in 4Q support the production in preparation for heating season. Very solid figures were driven by higher average Brent oil price (average price increased significantly q/q from 74.75 USD/bbl (3Q 2007) to 88.45 USD/bbl) and weaker RON vis-à-vis USD, which had a positive impact on production costs there.

In Refining and Marketing (R&M), clean EBIT was EUR -9mn, which was definitely below our and market expectations and also substantially worse on y/y basis (last year the quarterly figure was EUR 49 mn). There was negative impact of two major refinery shutdowns (Burghausen and Petrobrazi), "supported" also be weak petrochemical margins. All the above mentioned negative effects were not offset by positive inventory effects. Based on Reuters calculations, the NW Brent margin was 5.25 USD/bbl, vs. 2.85 USD/bbl in 4Q06. The lower increase in OMV's margins is attributable to the company's greater exposure to lower gasoline margins.

In Gas segment, clean EBIT reached EUR 79mn, above our expectation. Gas segment is starting to be important for OMV, as we mentioned in our report dated on January 24. Mainly the strong contribution of EconGas, supported by Petrom stood behind the significant y/y improvement.

Net income from associated companies fell behind Q4/06 reflecting the reduced Borealis at equity result due to a weaker margin environment. Net income after minorities of EUR 318 mn was 8% above last year's level.

As for the outlook for 2008 - OMV said that it again expects to deliver robust earnings, supported by new field developments in the upstream, benefits of optimization programs in the downstream, further expansion of the international gas business and the gas logistics business and continued modernization at Petrom. According to CEO of the company, oil price should remain high, but also volatile, while margins should be further under pressure.

All in all, we have to say that despite two major refinery shut-downs, OMV reported solid results, as adjusted by one-offs (clean EBIT) was above our and market expectations. Therefore, the company confirmed that it is best equipped for the current market environment of high oil prices and relatively low refinery margins. As the outlook remains similar for this year (based on the comments of company CEO and our expectation), we also remain positive on the company and keep your Buy recommendation with target price of EUR 59.7.

Earnings Review

MOL — Hold

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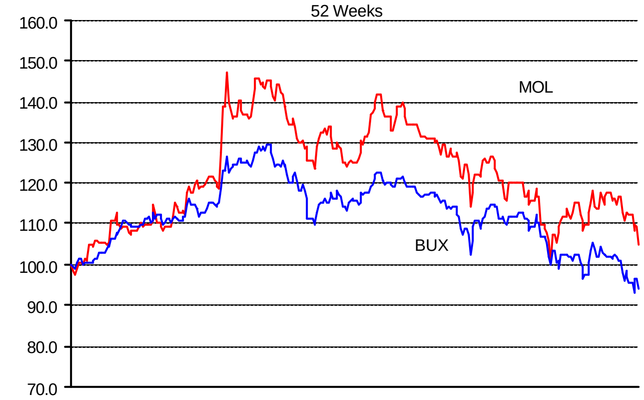
HUNGARY / Oil & gas

Share price (HUF)	21,350.0	Reuters	MOLB.BU	Free float	64.6%
Number of shares (mn)	109.0	Bloomberg	MOL HB	Shareholders	OMV (20.1%)
Market cap. (HUF/EUR mn)	1,842,705.9 / 7,126.3	**Target price (HUF)**	**24,125**		BNP Paribas (8.2%), OTP (9.2%)
Enterprise value (HUF/EUR mn)	2,291,718.6 / 8,880.2	Ex-dividend date	14/05/2007		CEZ (7.0%), Magnolia (5.5%)
Average daily turnover 3M (pcs	278,596	Index weight (BUX)	30.52%	Homepage:	www.mol.hu

HUF mn	2007p	2008e	2009e	2010e
Net sales	2,515,076	2,675,222	2,480,718	2,652,417
EBITDA	446,722	481,818	520,629	546,774
EBIT	299,994	324,076	352,184	371,216
Net profit	186,314	191,838	195,601	212,893
EPS (HUF)	2,169	2,223	2,255	2,442
CEPS (HUF)	3,901	4,071	4,215	4,473
BVPS (HUF)	10,053	11,413	12,751	14,281
Div/share (HUF)	800	800	1,000	1,000
EV/EBITDA (x)	5.2	4.8	4.7	4.3
P/E (x)	9.8	9.6	9.5	8.7
P/CE (x)	5.5	5.2	5.1	4.8
Dividend yield	3.7%	3.7%	4.7%	4.7%
Operating margin	11.9%	12.1%	14.2%	14.0%
Net margin	7.4%	7.2%	7.9%	8.0%



Performance	12M	6M	3M	1M
in HUF	4.7%	-16.3%	-14.6%	-9.1%
in EUR	-0.3%	-17.5%	-16.0%	-7.5%

Slightly better than expected results at all levels

MOL published its 4Q and FY07 IFRS consolidated results today. Sales, EBIT and net profit were better than we expected and above market expectations. MOL posted sales of HUF 785.3bn, compared to our expectation of HUF 726.3bn, while restated operating profit increased y/y by 100% to HUF 91.7bn, higher than our estimate of HUF 84.3bn and significantly above the market expectation of HUF 67.7bn (however, the company released three kinds of operating profit). Net profit was HUF 73.5bn, also above our expectation of HUF 63.9bn. The main reasons for the remarkable profit improvement were the strong increase in downstream and petrochemical sales volumes (up 20% and 9%, respectively), strong crude prices and high diesel crack spreads.

Quarterly numbers

IFRS consolidated, HUF bn	Q4 2007a	Q4 2007e	Q4 2006		2007a	2006a	
Total sales	785.3	726.3	627.6	*25.10%*	2,890.80	2,890.80	*0.00%*
Operating profit (restated)	91.7	84.3	45.9	*99.80%*	246.1	398.2	*-38.20%*
Net income	73.5	63.9	24.5	*200.00%*	126.6	343	*-63.10%*
Operating margin	*11.68%*	*11.61%*	*7.31%*		*8.50%*	*13.80%*	
Net margin	*9.36%*	*8.80%*	*3.90%*		*4.40%*	*11.90%*	
Operating profit upstream (E&P)	20.1	18.1	17.8	*12.90%*	69	123.5	*-44.10%*
Operating profit downstream (R&M)	38.4	39.4	19.5	*96.90%*	127.9	171.5	*-25.40%*
Operating profit gas	9.6	8.3	8.1	*18.50%*	25.1	25.9	*-3.10%*
Operating profit petrochemicals	4	11	10.1	*-60.40%*	40.6	23.3	*74.20%*
Operating profit corporate and other	16.8	7.1	-9.9	*n.a.*	21.2	-42.1	*-150.40%*

Source: MOL, Erste Bank Estimation

In the E&P business, the economic environment was definitely much more favorable for upstream players due to the high oil prices, as the average Brent price was USD 88.5/bbl, some USD 29 higher y/y. The higher prices adjusted for the negative impact of the weaker USD exchange rate resulted in an HUF 12bn operating profit increase. Upstream operating profit increased by 29% y/y to HUF 20.1bn. Production volumes were lower, mainly as a consequence of the Sz?reg disposal. Profits were impacted by non-recurring cost items in 4Q, but that was broadly expected.

In the R&M business, 4Q07 operating profit doubled both in USD and HUF terms (up 129% and 97%, respectively), due to favorable crack spreads (also, the favorable product slate in terms of the diesel share in the company portfolio), higher sales volumes and the positive effect of inventory holding. We have seen a slight recovery of refining margins, as Reuters reported that the average NW Brent refining margins reached 5.25 USD/bbl, up both q/q and y/y from 2.85 USD/bbl in 4Q06 and 3.53 USD/bbl last quarter. Operating profit in this segment reached HUF 38.4bn.

Petrochemical business negatively surprised us, as operating profit here dropped 62% to HUF 3.9bn, because of a rise in base material costs, while declining end-product prices squeezed margins. The operating profit of MOL Natural Gas Transmission increased by 2% to HUF 31.3bn in FY07, as cost savings offset the decrease in transmission revenues. The excess profit realization was ensured by the remarkable EBIT growth in 4Q07 (+9% compared to the base), mainly due to higher domestic transmission revenue.

The corporate and other operating profit of HUF 21.6bn in FY07 includes a one-off gain of HUF 14.4bn on the acquisition of a 42.25% minority interest in TVK, as a result of the excess of book value over the consideration for the minority interest acquired in the period.

Overall, the results were slightly better than we expected. We therefore expect some slightly positive reaction to the figures. On the other hand, we should also point out that the current macro environment (high crude oil price, high middle distillate yields, not strong HUF appreciation) is quite favorable for MOL compared to its CEE peers; excluding OMV (a largely upstream player), it could almost not be better. We keep our Hold recommendation with target price of HUF 24,125.

Earnings Review

Polski Koncern Naftowy — Accumulate

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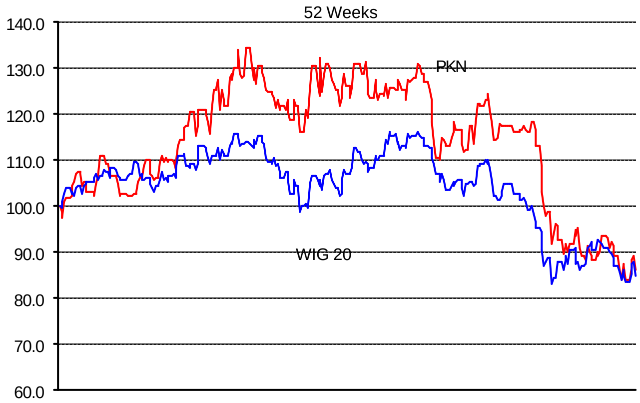
POLAND / Oil & gas

Share price (PLN)	38.4	Reuters	PKNA.WA	Free float	72.5%
Number of shares (mn)	427.7	Bloomberg	PKN PW	Shareholders	Nafta Polska (17.6%)
Market cap. (PLN/EUR mn)	16,424.0 / 4,633.3	**Target price (PLN)**	**44.6**		Treasury (10.4%)
Enterprise value (PLN/EUR mn)	17,308.7 / 4,881.5	Ex-dividend date	28/07/2006		
Average daily turnover 3M (pcs)	1,339,432	Index weight (WIG20)	12.66%	Homepage:	www.orlen.pl

PLN mn	2007p	2008e	2009e	2010e
Net sales	63,793.0	66,330.0	66,918.7	69,013.1
EBITDA	5,039.1	5,575.8	5,645.6	5,851.4
EBIT	2,620.7	3,192.1	3,202.3	3,354.5
Net profit	2,322.6	2,208.0	2,382.3	2,562.0
EPS (PLN)	5.4	5.2	5.6	6.0
CEPS (PLN)	10.9	11.2	11.3	11.8
BVPS (PLN)	49.6	52.8	56.4	60.4
Div/share (PLN)	0.0	2.0	2.0	2.0
EV/EBITDA (x)	5.0	3.1	2.8	2.5
P/E (x)	7.1	7.4	6.9	6.4
P/CE (x)	3.5	3.4	3.4	3.2
Dividend yield	0.0%	5.2%	5.2%	5.2%
Operating margin	4.1%	4.8%	4.8%	4.9%
Net margin	3.6%	3.3%	3.6%	3.7%



Performance	12M	6M	3M	1M
in PLN	-14.1%	-31.9%	-27.4%	-5.9%
in EUR	-6.2%	-27.5%	-26.0%	-4.2%

Mixed 4Q07 results, but operating level rather poor

PKN posted mixed results, as net profit came in above the market consensus and our expectation, while, on the operating level, the figure was rather disappointing, due to the shutdowns, tightening Brent/Ural spread, strong PLN and generally tough macro environment for downstream players. Revenue amounted to PLN 16,902mn, while the market expected PLN 17,170mn (2% below the consensus and 11% above our expectation). The y/y decrease was due to the company having refined more fuel and raised gasoline sales. EBIT arrived at PLN 120.4mn, vs. the mkt. exp. of PLN 236mn and our PLN 435mn estimate. The figure was strongly influenced by the shutdowns at PKN refineries and the unfavorable macro environment (the decrease of the Brent/Ural spread by 15% y/y, weak refining margins and drop in the majority of petrochemical product margins). On the other hand, net profit came in at PLN 600.9mn, vs. the PLN 354mn expected by the market, but this was again (like Lotos) boosted by the huge revaluation of FX credits (which added PLN 505mn to the result), caused by the strengthening of the PLN.

From the segment point of view, not surprisingly, the refinery part went down by 48% (on a q/q basis) to PLN 241mn on the EBIT level, despite the slight increase in the company's refinery margins from USD 3.91/bbl in 3Q07 to USD 4.34/bbl in 4Q07. The shutdowns of refineries lowered the segment operating profit by PLN 301mn. The petrochemical segment (segment EBIT went down by 81% q/q in 4Q07) was negatively influenced by the shutdown at the Litvinov plant and the average quarterly decrease (margins on benzene decreased by 37%, while ethylene margins went slightly up by 1.5%). However, the development of petrochemicals saw a recovery in 2008; we therefore think that this segment could drive the results in 1Q08. The results were also negatively influenced by the decrease of retail consumption of gasoline in Poland by 6.2% y/y (a 1% decrease is also expected for 1Q08), as the figure went down 41% and 62% on the y/y and q/q bases, respectively. Overall, operating profit came in at a weak level - 49% below the market consensus.

Quarterly numbers

PLN mn, IFRS consolidated.	Q4 2006	Q4 07e	Q4 07a	y/y	Diff. To Erste	consen sus	2006	2007a
Sales	13,115	15,236	16,902	*28.90%*	*10.90%*	17,244	52,896	63,793
EBIT	173	435	120	*-30.60%*	*-72.40%*	165	2,577	2,621
Net profit	76	270	601	*690.80%*	*122.60%*	294	2,406	2,392
EBIT margin (%)	*1.30%*	*2.90%*	*0.70%*	--	--	*1.00%*	*4.90%*	*4.10%*
Net margin (%)	*0.60%*	*1.80%*	*3.60%*	--	--	*1.70%*	*4.50%*	*3.70%*

Source: PKN Orlen, Erste Bank estimates

The results were similar to the Lotos release - a positive surprise on the net level, but a negative surprise on the operating level. As the net profit level was boosted by a strong contribution from financial income (some PLN 505mn positive exchange surplus), we recommend looking at the operating performance. This basically confirms the poor performance of the whole refinery segment, as all refinery, petrochemical and retail margins went down y/y. Clean EBIT of PLN 696mn (excluding one-off shutdowns at Unipetrol and Mazeikiu Nafta) in 4Q is also below the 3Q figure of PLN 846mn. The results confirmed that PKN is the worst equipped for the environment of high oil prices. Given that the outlook for 2008 is quite similar to that for 2007, we do not favor PKN Orlen among the CEE peers. We expect a slightly negative reaction to the 2007 figures.

Adjustment of estimates, due to worse refinery outlook

As with its Polish peer Lotos, PKN Orlen suffered from margin compression in 2007. However, the outlook remains quite unfavorable for 2008. We expect some 30% y/y improvements on the EBIT level, but this will mainly be driven by the better performance of PKN subsidiaries Unipetrol and Mazeikiu Nafta. The "core Polish business" should suffer further, as PKN has the greatest exposure among its CEE peers to the currently low-yielding gasoline products (28% share in its product portfolio). The impact of the worse refinery outlook (for the Polish and Lithuanian refineries) and further scheduled refinery and petrochemical shutdowns (at Unipetrol) led us to lower our EBIT forecast by 7%.

Change in our forecast - 2008 - 2009

PKN Orlen

PLN mn	**2008**		*change*	**2009**		*change*
	old	**new**		**old**	**new**	
EBIT	3,433	3,192	*-7.0%*	3,498	3,202	*-8.5%*
Net profit	2,162	2,208	*2.1%*	2,514	2,382	*-5.2%*

Source: Erste Bank estimates

Valuation

Looking at the valuation, PKN Orlen looks fairly undervalued compared to its regional peers. Based on a peer valuation, we would say that the drop in PKN's share price was an overreaction. We again valued the company with a two-stage DCF model. Besides the changes to our mid-term operating profit estimate, we also made some minor adjustments in our valuation model. We updated our model, using "just" the 2008-12 period as a base. We have slightly adjusted the cost of equity to reflect the changed risk-free rate. The calculation of the terminal value (stage II) in our model is unchanged. According to our calculation, which already includes a reduction of our mid-term estimates, after the recent significant drop in its share price, PKN offers upside potential of nearly 20%. We therefore raise our recommendation from Hold to Accumulate, despite the decrease of the target price to PLN 44.6 per share.

PKN Orlen WACC calculation

	2008-2012	terminal value
Risk-free rate	6.1%	5.0%
Premium to equity	5.5%	5.0%
Beta	1.20	1.0
Cost of equity	12.7%	10.0%
Debt premium	0.25%	0.25%
Cost of debt	6.4%	5.3%
Effective tax rate (%)	19.0%	19.0%
Effective cost of debt (%)	5.1%	4.3%
Debt to assets (%)	25.0%	30.0%
WACC	**10.8%**	**8.3%**

Source: Erste Bank

DCF Valuation (PLN mn)	2008e	2009e	2010e	2011e	2012e
EBITDA	5,576	5,646	5,851	5,801	5,701
Taxes on EBIT	-508	-519	-548	-285	-66
Depreciation	2,384	2,443	2,497	2,512	2,526
EBITDA tax adjusted	5,068	5,126	5,304	5,515	5,635
Capital expenditures	-2,490	-2,269	-2,348	-2,539	-2,563
Change in working capital	3,532	-41	-492	-378	-634
Terminal value					20,209
Free cash flow	6,110	2,816	2,464	2,598	22,647
Discounted free cash flow	5,514	2,294	1,811	1,723	13,555
Net present value (enterprise)	24,897				
Net debt	8,081				
Value of non-core assets and min.interest	236				
Value of equity	17,053				
Fair value of equity per share (PLN)	**40.7**				
12-months target value (PLN)	**44.6**				

Source: Erste Bank

Earnings Review

Unipetrol **Buy**

CZECH REPUBLIC / Oil & gas

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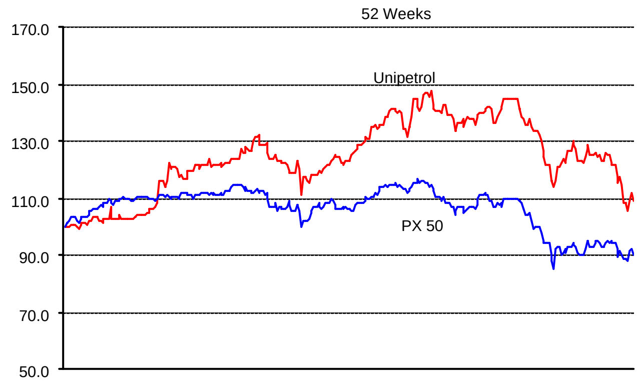
Share price (CZK)	255.5	Reuters	UNPEsp.PR	Free float	37.0%
Number of shares (mn)	181.3	Bloomberg	UNIP CP	Shareholders	PKN Orlen (63%)
Market cap. (CZK/EUR mn)	46,324.7 / 1,850.0	**Target price (CZK)**	**358.0**		
Enterprise value (CZK/EUR mn)	45,741.5 / 1,827.4	Ex-dividend date	19/08/1999		
Average daily turnover 3M (pcs)	758,318	Index weight (PX)	5.59%	Homepage:	www.unipetrol.cz

CZK mn	2007e	2008e	2009e	2010e
Net sales	88,778.5	76,147.7	73,610.4	73,760.0
EBITDA	8,045.0	12,227.5	12,433.5	12,427.9
EBIT	4,847.3	8,097.5	8,262.2	8,173.2
Net profit	1,242.9	5,339.3	5,558.8	5,564.4
EPS (CZK)	6.9	29.4	30.7	30.7
CEPS (CZK)	23.7	52.0	53.6	54.1
BVPS (CZK)	230.6	260.0	290.7	321.4
Div/share (CZK)	0.0	0.0	0.0	0.0
EV/EBITDA (x)	6.0	3.7	3.7	3.6
P/E (x)	37.3	8.7	8.3	8.3
P/CE (x)	10.8	4.9	4.8	4.7
Dividend yield	0.0%	0.0%	0.0%	0.0%
Operating margin	5.5%	10.6%	11.2%	11.1%
Net margin	1.4%	7.0%	7.6%	7.5%



Performance	12M	6M	3M	1M
in CZK	9.5%	-11.1%	-22.3%	-12.0%
in EUR	21.4%	-2.5%	-18.1%	-10.4%

Figures negatively affected by long shutdowns, but outlook is positive

Unipetrol disclosed worse than expected figures, as it reported 2007 net profit of CZK 1.24bn, vs. the market consensus of CZK -1.44bn and our estimate of CZK -1.41mn. EBIT came in at CZK 4.85bn (up 28% y/y), but well below the market consensus of CZK 5.19bn and our exp. of CZK 5.27bn. Sales were CZK 88.18bn, vs. the market expectation of CZK 87.83bn and our forecast of CZK 88.64bn. At first glance, the results are really poor, but both the top and bottoms lines were negatively influenced by longer than expected maintenance shutdown in Litvinov (because of a technical fault). It is worth mentioning that this factor had a more negative impact than we anticipated. Total impact of last year complex S/D (fixed costs and lost margin) and later failures of ethylene unit and POX unit amounted to CZK 1.2bn in 3Q and CZK 1.7bn in 4Q, i.e. CZK 2.9bn in 2H vs. our expectation of CZK 2.5bn at EBIT level.

Quarterly numbers

CZK mn, IFRS consolidated.	Q4 2006	Q4 07e	Q4 07a	y/y	2006	2007e	2007a	consensus	y/y	Diff. To Erste
Sales	22,834	21,014	21,149	*-7.40%*	94,642	88,643	88,179	87,829	*-6.80%*	*-0.50%*
EBIT	-699	-230	-657	*-6.00%*	3,782	5,274	4,847	5,186	*28.20%*	*-8.10%*
Net profit	-1,219	-393	-557	*-54.30%*	1,693	1,407	1,243	1,440	*-26.60%*	*-11.70%*
EBIT margin (%)	*-3.10%*	*-1.10%*	*-3.10%*	*--*	*4.00%*		*5.50%*	*n.a.*	*--*	*--*
Net margin (%)	*-5.30%*	*-1.90%*	*-2.60%*	*--*	*1.80%*		*1.40%*	*n.a.*	*--*	*--*

Source: Unipetrol, Erste Bank estimates

Petrochemical segment was heavily affected by the shutdown in Litvinov, as the problems with ethylene unit and hydrogen supplies led to lower EBIT by CZK 2.2bn in the whole 2H 2007. In Q4 07, petrochemical sales went down 28%, the average quarterly margins' decrease (margins on benzene decreased by 37%, while ethylene margins went slightly up by 1.5%) and segmental EBIT incurred a loss CZK 508mn. Overall, Gross petrochemical margins decreased in October and November, while has been improving since December (confirmed in Jan and Feb). The outlook for 2008 remains positive, as the margins are expected to be strong and the production should significantly increase, as there is just a 14-days s/d scheduled (re-installation of the cold box), capacity increase by some 20% in average and some 9pp growth in the utilisation.

Refinery part was negatively influence by both increase of cured oil price and problems with hydrogen supplies and also posted quarterly loss of CZK 235mn. Given the expectation of still high crude oil prices in 2008, the outlook for refinery segment remains quite unfavourable. As for the retail segment, strong revenues were due to high prices in the market, reflecting mainly continuing shortage of diesel in the market. Retail sales went up by 11%, as the market share went up slightly over 15% in 2007. This was based on the results of the ongoing filing station rebranding (Benzina Plus and Benzina) and gradually changes in the concept (CO-CO to DO-DO). The outlook for marketing is quite positive across the whole region.

As mentioned earlier, one-off item (longer than expected outages due to technical problems had the negative impact on the financial performance in 2H 2007. But 2007 year is already over, we remain positive on Unipetrol in 2008 and beyond. The outlook of healthy petrochemical margins is predicted (we see recovery at the beginning of 2008 from quite poor Q4 07), the production has been gradually stabilized since mid-November (refining) and December (petrochemicals) and the utilization should grow by some 9pp on higher capacity this year.

Adjustment of estimates, additional plant shutdown and slight decrease in petrochemical margins

Unipetrol was negatively influenced by the longer than expected shutdowns in 2H07, which almost led to an operating loss in this period (Unipetrol posted relatively mild EBIT of CZK 0.3bn in 2H07, with an operating loss in the last quarter of CZK 0.7bn). According to the company, the total impact of last year's complex S/D and later failures of the ethylene and POX units amounted to CZK 1.2bn in 3Q and CZK 1.9bn in 4Q, i.e. CZK 2.9bn in 2H, as the ratio of fixed maintenance costs and the lost margin was 30% vs. 70%. However, the outlook for 2008 remains positive, as margins are expected to be strong and production and utilization should increase by 15% and 9pp, respectively. An additional 14-day plant shutdown (re-installation of the cold box), which is preliminarily scheduled for April/May, is the main reason for our lower estimates for this year. Unipetrol's operating profit "guidance" of CZK 4.8bn cannot be taken seriously, as it is based on the company's conservative business plan. A simple calculation shows that Unipetrol already posted operating profit of CZK 4.5bn in 1H07 (additionally lowered by CZK 439mn provisioning for the former subsidiary Kaucuk). In 2008, there will be just a 14-day S/D of the petchem unit, and the company itself predicts an increase in petchem production and utilization this year. We also slightly decrease our petrochemical margins' forecast to EUR 425 per ton from last year's EUR 435/ton.

Change in our forecast - 2008 - 2009

Unipetrol

CZK mn	**2008**		*change*	**2009**		*change*
	old	**new e**		**old**	**new e**	
EBIT	9,023	8,098	*-10.3%*	8,859	8,262	*-6.7%*
Net profit	6,693	5,339	*-20.2%*	6,645	5,559	*-16.3%*

Source: Erste Bank estimates

Valuation

We are using the same valuation approach as for PKN and Orlen, i.e. a two-stage DCF model (the first stage now includes "just" 2008-12). We made a reduction in our operating profit forecast (based on one additional shutdown), which led us to a slightly lower target price of CZK 358. We maintain our Buy recommendation. We think that the current share price of around CZK 250-260 is definitely a good buying opportunity. Although the company suffered from the really poor performance in 2H07, the outlook is rather positive and the first positive indicators should be delivered some 2-3 weeks before the 1Q results are published. The peer valuation also confirms that Unipetrol is currently undervalued, as it is traded at a 5% discount to CEE competitors on the P/E level and a 10% discount on the EV/EBITDA level.

Unipetrol WACC calculation

	2008-2012	terminal value
Risk-free rate	4.6%	4.5%
Premium to equity	5.5%	5.0%
Beta	1.30	1.00
Cost of equity	11.8%	9.5%
Debt premium	0.25%	0.25%
Cost of debt	4.9%	4.8%
Effective tax rate (%)	24.0%	19.0%
Effective cost of debt (%)	3.7%	3.8%
Debt to assets (%)	20.0%	30.0%
WACC	**10.1%**	**7.8%**

Source: Erste Bank

DCF Valuation (CZK mn)	2008e	2009e	2010e	2011e	2012e
EBITDA	12,227	12,433	12,428	12,542	12,277
Taxes on EBIT	-1,700	-1,652	-1,553	-1,558	-1,492
Depreciation	4,130	4,171	4,255	4,340	4,427
EBITDA tax adjusted	10,527	10,781	10,875	10,984	10,785
Capital expenditures	-7,500	-7,000	-7,000	-7,000	-7,000
Change in working capital	1,358	438	2	-34	80
Terminal value					74,845
Free cash flow	4,385	4,220	3,877	3,950	78,710
Discounted free cash flow	3,981	3,479	2,902	2,684	48,569
Net present value (enterprise)	61,615				
Net debt	-1,555				
Value of non-core assets	177				
Minority interests	-1,081				
Value of equity	59,156				
Fair value of equity per share (CZK)	**326**				
12-month target value (CZK)	**358**				

Source: Erste Bank

Earnings Review

Petrom — Accumulate

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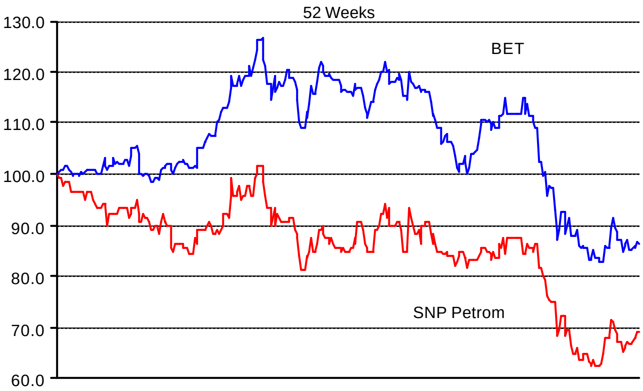
ROMANIA / Oil & gas

Share price (RON)	0.41	Reuters	SNPP.BX	Free float	6.2%
Number of shares (mn)	56,644	Bloomberg	SNP RO	Shareholders	OMV (51.01%)
Market cap. (RON/EUR mn)	23,054.2 / 6,216.6	**Target price (RON)**	**0.6080**		AVAS (20.647%)
Enterprise value RON/EUR mn)	21,004.2 / 5,648.4	Ex-dividend date	5/2/2007		Property Fund (20.11%), EBRD (2.03%)
Average daily turnover 3M (pcs)	4,392,644	Index weight (BET)	19.52%	Homepage:	www.petrom.ro

RON mn	2007p	2008e	2009e	2010e
Total revenues	11,337	11,676.0	11,336.5	12,313.1
EBITDA	3,045.4	3,724.4	4,176.9	4,913.0
EBIT	2,373.5	2,961.7	3,431.7	4,155.9
Net profit	2,171.0	2,512.9	3,007.3	3,644.0
EPS (RON)	0.038	0.044	0.053	0.064
CEPS (RON)	0.043	0.052	0.057	0.059
BVPS (RON)	0.237	0.259	0.285	0.318
Div/share (RON)	0.018	0.019	0.022	0.027
EV/EBITDA (x)	6.9	5.8	5.3	4.2
P/E (x)	10.6	9.2	7.7	6.3
P/CE (x)	9.5	7.9	7.1	6.9
Dividend yield	4.4%	4.7%	5.4%	6.5%
Operating margin	20.9%	25.4%	30.3%	33.8%
Net margin	19.1%	21.5%	26.5%	29.6%



Performance	12M	6M	3M	1M
in RON	-31.0%	-18.6%	-18.6%	9.4%
in EUR	-38.0%	-26.1%	-22.6%	7.9%

Petrom reported a drop in its 2007 financial results, which was in line with the company's guidance. For 2007, the company reported EBIT of RON 1,965mn, down 29%, due to lower oil production and RON appreciation against the USD. According to company representatives, Petrom managed to stop the production decline in the course of the year and continued to improve the operational efficiency, based on the restructuring programs and investments in all business segments. Throughout 2007, the company's investments rose by 30% y/y to RON 3,820mn, but Petrom is still in the midst of a significant investment program that will continue until 2011, to be reflected by an improvement of the bottom line.

Quarterly numbers

RON mn	Reported 4Q 07	Reported 4Q 06	4Q y/y	2007	2006	y/y	Consensus 2007	2007/ Consensus 2007
EBIT	332	317	4.70%	1,965	2,777	-29.20%	1,742	12.80%
EBITDA	754	551	36.80%	3,111	3,596	-13.50%	n/a	n/a
Net Profit	230	289	-20.40%	1,778	2,285	-22.20%	1,693	5.00%
Turnover	3,613	3,403	6.20%	12,284	13,078	-6.10%	10,649	15.40%
Investments*	1,444	1,376	4.90%	3,820	2,937	30.10%	3,751	1.80%

** The investments include increases of Petrom share participations*
Source: Company data, Erste Bank

The 2007 results are not a surprise, given the results reported for the first 6M and 9M of 2007. In terms of figures budgeted for the entire year, the final results were over the company's estimates. For 2008, the company will focus on the E&P segment, where the key objective will be the integration of Petromservice, which should be reflected in good cost control and a reduced level of production costs. In 2008, the company will launch another key project, which consists of building its own power plant (based in Ploiesti, where main refinery Petrobrazi is located).

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Rating history

INA

Date	Product	Rating	Price	Target price
28. Feb 07	CR/IC	Initial coverage - Hold	2,920.00	3,030.00
2. Oct 07	SR	Hold	2,818.00	3,030.00
25. Jan 08	SR	Hold	2,540.00	3,030.00

Lotos

Date	Product	Rating	Price	Target price
25. Sep 06	SR	Accumulate Maintained	48.10	56.70
2. Oct 07	SR	Accumulate	45.60	55.90

MOL

Date	Product	Rating	Price	Target price
17. Jan 07	CR	Upgrade from Hold to Accumulate	20,670.00	24,800.00
2. Oct 07	SR	under review	28,150.00	--

OMV

Date	Product	Rating	Price	Target price
23. Nov 06	CR	Downgrade from Buy to Accumulate	42.30	49.20
2. Oct 07	SR	Accumulate	47.40	--

Petrom

Date	Product	Rating	Price	Target price
29. May 07	IC/CR	Accumulate	0.54	0.61
2. Oct 07	SR	Accumulate	0.50	0.61
21. Jan 08	COR	Accumulate	0.44	0.61

PKN

Date	Product	Rating	Price	Target price
25. Sep 06	SR	downgrade from Accumulate to Hold	49.40	53.40
2. Oct 07	SR	Hold	56.60	62.00

Unipetrol

Date	Product	Rating	Price	Target price
20. Nov 06	CR	rating remains Buy	209.10	262.00
2. Oct 07	SR	Buy	305.60	367.00

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(5) Erste Bank and/or its affiliate(s) have other significant financial interests in relation to the covered company.

Company	Disclosure	Comment
INA	--	--
Lotos Group	--	--
MOL	--	--
OMV	2	--
PKN Orlen	--	--
Unipetrol	2,4	--

Erste Bank rating definitions

Buy	> +20% to target price
Accumulate	+10% < target price < +20%
Hold	0% < target price < +10%
Reduce	-10% < target price < 0%
Sell	< -10% to target price

Our target prices are established by determining the fair value of stocks, taking into account additional fundamental factors and news of relevance for the stock price (such as M&A activities, major forthcoming share deals, positive/negative share/sector sentiment, news) and refer to 12 months from now. All recommendations are to be understood relative to our current fundamental valuation of the stock. The recommendation does not indicate any relative performance of the stock vs. a regional or sector benchmark.

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