

Unipetrol, a.s.

Czech Republic / Chemistry

BUY (no change)

Long Term: **Buy** (no change)

Although we are convinced that Unipetrol shares are undervalued, we are aware of possible threats coming from negotiation between Chemapol Group, Unipetrol and banks about the Chemapol's destiny. However we do not think, that the banks will succeed in loading all problematic chemical companies onto Unipetrol, we are very cautious in our recommendation. **Thus we recommend to BUY the Unipetrol shares only for investors willing to carry higher risk.** For the rest of clients we recommend to wait until the result of negotiation is known.

(Intermediate Rating: < 6 months; Long Term Rating: > 6 months)

DATE: December 9, 1998

PRICE: CZK 58

Key Data

ISIN	CZ0009091500
Reuters code	UNPE.PR
Share capital (CZK)	18,133,476,400
Nominal value (CZK)	100
# shares listed on PSE	181,334,764
Listed issue as % of share cap.	100%
Market cap. (CZKbn)	10.5
Market cap. (\$m) [\$1=CZK30.24]	347.8
Free float	37
100-day aver. daily trad. volume	450,355
52-week price range (CZK)	49/100

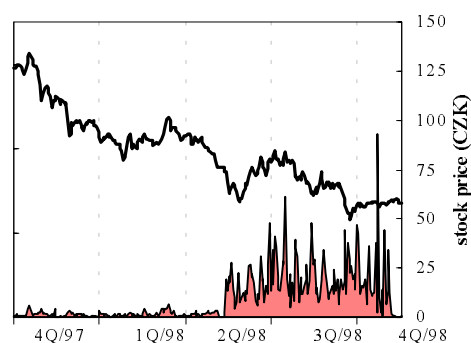
Estimates

	1997	1998E	1999E	2000E
Net profit (CZKbn)	1.11	3.15	2.27	2.57
EPS (CZK)	6.13	17.38	12.54	14.21
P/E	9.46	3.34	4.63	4.08
EPS* (adjusted) (CZK)	-0.23	10.74	5.90	7.58
P/E*	-257.66	5.40	9.83	7.66
EBITDA per share	39.60	45.58	41.61	46.57
P/EBITDA per share	1.46	1.27	1.39	1.25
EV/EBITDA	3.60	3.21	4.10	4.15
CFPS (CZK)*	17.49	29.47	27.07	30.19
P/CFPS	3.32	1.97	2.14	1.92
P/BV per share	0.39	0.36	0.35	0.34
Price/Sales per share	0.16	0.19	0.18	0.17
Gross dividend (CZK)	1.33	0	0	0
Dividend yield	2.29	0.00	0.00	0.00

* CFPS is computed as (net income + depreciation) per share

Highlights

- ❑ Oil and petrochemical product prices are continuously decreasing;
- ❑ Unipetrol's involvement in solving Chemapol Group's problems is not clear. This is currently the greatest threat for the company;
- ❑ Unipetrol approved a huge investment plan amounting to CZK 30bn. by 2001;
- ❑ The subsidiaries are to be centralized;
- ❑ The decision of including Chemicke zavody Sokolov into the holding will take effect soon



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SWOT ANALYSIS

■ Strengths <ul style="list-style-type: none"> ■ Profit orientation of Ceska Rafinerska and its foreign ownership ■ The product potfolio partially enables it to offset the impact of oil prices to Unipetrol's performance ■ Since the opening of the IKL pipeline the company has access to all kinds of crude oil 	■ Weaknesses <ul style="list-style-type: none"> ■ Insufficient marketing ■ Inter-divisional disputes, mainly concerning product transfer prices ■ Necessity of modernisation ■ Unfinished privatisation of holding
■ Opportunities <ul style="list-style-type: none"> ■ Ongoing investments will help to gain a better market position ■ Expansion to Central European markets ■ Privatisation or sale of Paramo, Koramo, Cepro, Spolana 	■ Threats <ul style="list-style-type: none"> ■ Unipetrol's involvement in solving Chemapol's problems ■ Acquiring Chemicke zavody Sokolov ■ Continuing the trend of diminishing Ceska Rafinerska's market share

PRIVATISATION & OWNERSHIP

Recently the government announced a privatisation scenario. FNM's stake is to be sold in 2000. Unipetrol subsidiaries will probably go through the capital injections untill the holding's privatisation; they should find strategic partners, who would bring know-how and fresh capital to finance both ongoing and approved investments. Also the holding's management will not be against the decrease in their shares in subsidiaries at the expense of financial help from new partners.

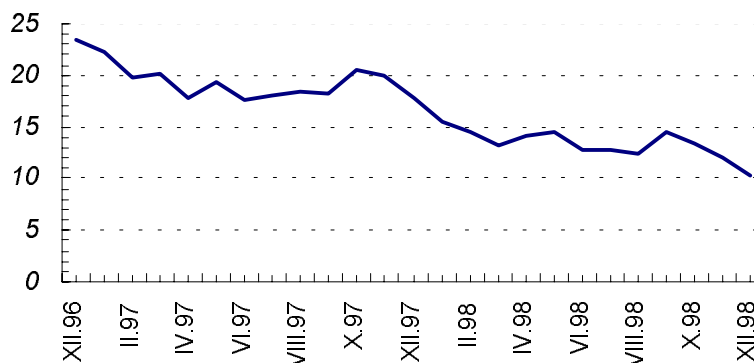
Shareholder's structure as of 29/05/98	No. of shares	%
NPF	114 224 038	62,99
Restitucni investment fund	5 899 597	3,25
CHASE NOMINEES LIMITED	5 574 132	3,07
Sporitelni privatizacni Cesky investment fund.	3 993 695	2,20
Sporitelni privatizacni – Vseobecny inv. fund	2 129 070	1,17
STATE STREET BANK AND TRUST COMPANY	1 835 965	1,01

DOWNSTREAM & FUEL MARKET

Oil prices declined

The worldwide excess of production and inventories of crude oil had negative effect on oil prices, that dropped about 40 percent in the course of 1998. Worldwide oil demand dropped to the lowest figure since 1993.

BRENT – USD/bbl



Increasing refinery capacity in Europe and problems in Asia connected with further redirection of exports from Middle East to Europe caused higher competition and pressure on refining margins. Despite higher refinery utilisation, Europe is currently oversupplied. We do not expect reversal in oil prices until the second half of 1999.

Weak demand for fuels in our market

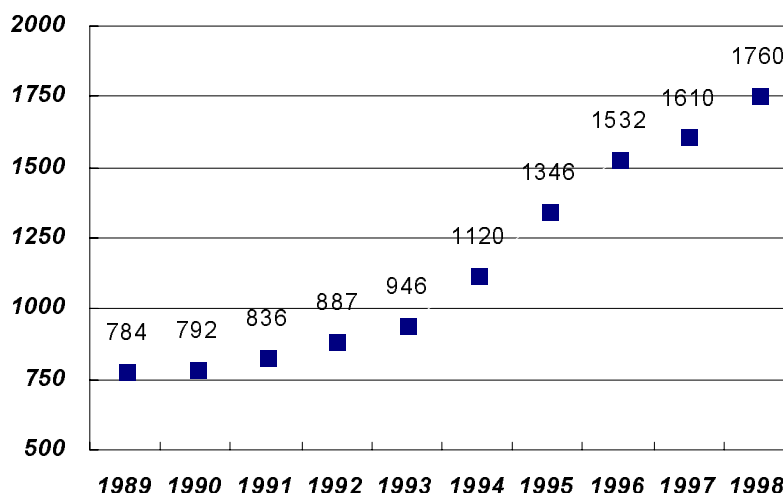
The Czech Republic's fuel market is suffering from weaker demand, we estimate an 8 percent decline 98/97 in petrol and 5 percent in naphta . Naphta sales have already declined since 1997.

Naphta	Sales in th tonnes	Index	domestic prod.	%	Index	imported	%	Index
1995	1982		1467.6	74%		514.7	26%	
1996	2285.3	115.3	1815.4	79%	123.7	469.9	21%	91.3
1997	2239.6	98.0	1649.9	74%	90.9	589.7	26%	125.5

Petrol	Sales in th tonnes	Index	domestic prod.	%	Index	imported	%	Index
1995	1675.8		1086.1	65%		589.5	35%	
1996	1846.7	110.2	1237.1	67%	113.9	609.6	33%	103.4
1997	1937.2	104.9	1221.7	63%	98.8	715.5	37%	117.4

Fuel retailers market

The number of petrol stations in the Czech Republic has been gradually increasing in the past ten years. Nevertheless, we do not expect a further continuation of this trend, although relative ratios of petrol stations' density are lower compared to our neighbouring countries (e.g. Germany and Austria). Czechs fill up less frequently with a lower amount than their western neighbours. More than 100 pumps (especially these of state Benzina sp) do not meet ecological requirements, so they are expected to be closed in the early 1999.

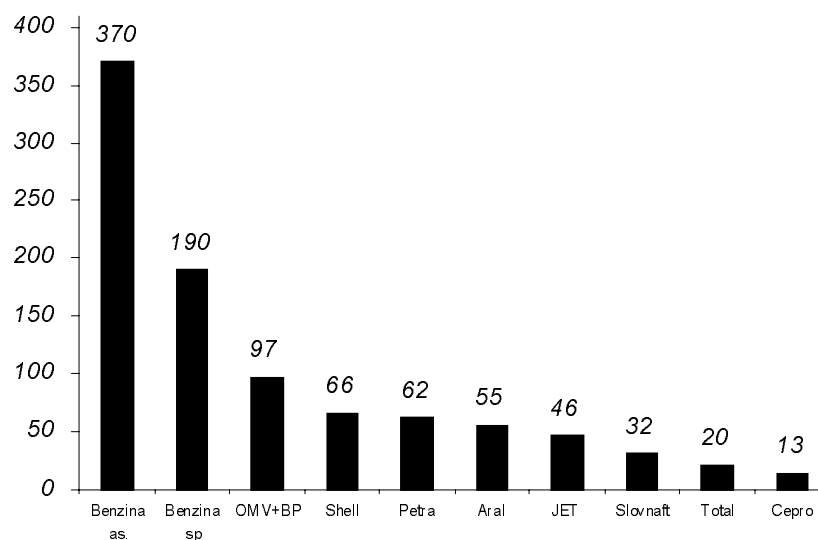
Number of petrol stations in Czech Republic

* 1760 is the total number of registered petrol stations

Tough competition in fuels

Unipetrol (through Benzina,as. a retail chain) currently holds about 370 petrol stations, including pumps of recently liquidated Torol and K-Petrol. OMV is Benzina's biggest competitor in the Czech fuel retailers market, because we do not consider pumps of the state Benzina sp. competitive due to their obsolescence. OMV focuses on buying the stations from companies that are leaving Czech market. The recent purchase of fourteen BP stations has strengthened OMV's position (+14pumps). Slovnaft, a Slovak oil manufacturer, extended its market share on Czech fuel market to 17 percent (25% in naphta and 10 in petrol). Slovnaft wants to increase its current share, due to higher production of fuel since 1999, for which it has to find outlets.

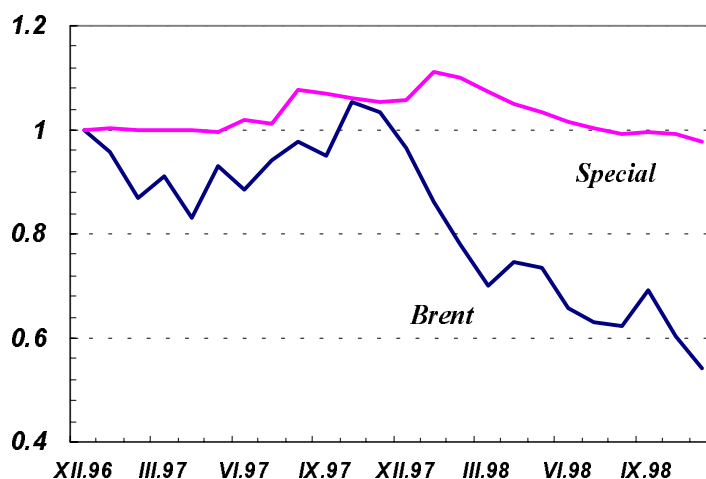
Ceska Rafinerska is gradually losing its market share. CRC held 63 percent in automotive fuels and 66 percent in naphta in the end of 1997. **We estimate, that losing especially southern and eastern parts of Moravian market (due to the expansion of Slovnaft and OMV) will cut CRC's market share to 52 percent in automotive fuels and 55 percent in naphta at the end of 1998.** CRC will focus more on exports. The target is 20 percent in 2000, i.e. nearly double compared to current exports.

Owners of filling stations – Czech market 1998

The disapproval of consumer tax raise

The disapproval of consumer tax raise, which was also supposed to hit fuels may help the demand for fuels to revive, provided that fuel producers will reflect the lower input price to fuel products. Nevertheless we calculated, that the impact of lower oil price to prices of fuels is not adequate. The decisive criteria for CRC, when adjusting prices weekly, is the price and demand for oil products in international markets. **This profitability-orientation of CRC is the main reason for loosing its market share in the Czech market.** CRC average prices for retailers are 1-5% higher than the prices of other retailers; especially Slovnaft (through its retailer Camoil) is much cheaper in Moravia. CRC is to remain at higher domestic prices until the launching of visbreaking.

SPECIAL/BRENT in CZK relatively



* Special was the most used petrol in Czech Republic in 1997

Threats coming from Russia

Unipetrol is dependent on Russian crude oil (80 % of their supply comes from Russia). Nevertheless the risk is connected with ongoing investments in Russia. The company is aware of the threats and revises investment plans. Petrochemical holding is not under any direct threat from the Russian crisis, although certain risks do exist in relation to the holding's planned "eastern" investments in the long run. Oil imports for Unipetrol's subsidiary Ceska Rafinerska (CRC) are from 80% covered by supplies of Russian oil. Because of its current large oil surpluses, there exists no direct threat to CRC or to the holding as a whole.

Marketing

Marketing of Unipetrol products is in its very beginning stages. The world chemical giants spend a substantial part of their money in the marketing of products, so Unipetrol is well behind them. As CRC is not the owner of the stations, it has to do promotion through other retailers. First agreements with Benzina, Conoco, Agip and Shell will bring positive change. Kralupol, the marketing branch responsible for LPGs, which is co-owned by Shell, is an example of the improvement of performance in this field.

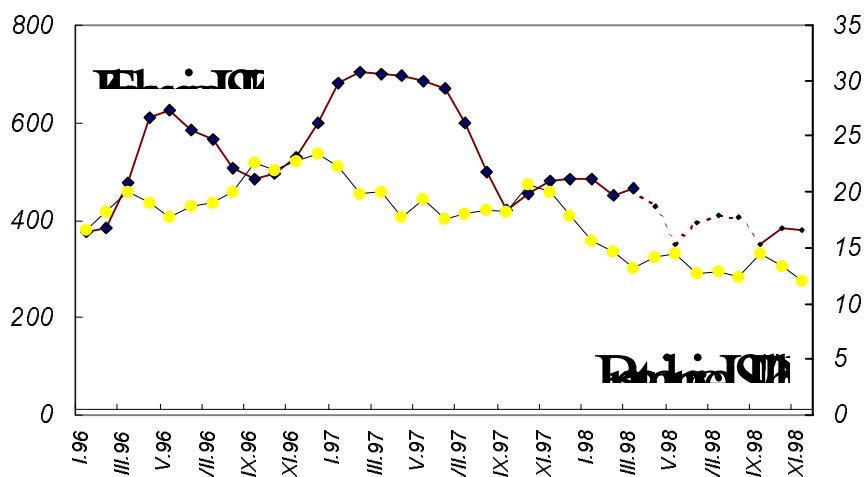
PETROCHEMICALS

Low prices of petrochemicals

The petrochemicals industry is suffering from the economic situation in Asia and the Pacific; operating margins are affected by the resulting supply/demand imbalance. As to the Chemopetrol products, lower prices of petrochemicals, mainly of polyethylen (PE) and polypropylen (PP) are caused by lower demand from Eastern territories and by the additional supply from former SNS countries. A Similar situation is in agrochemicals (ammonia, urea, etc.), where the prices

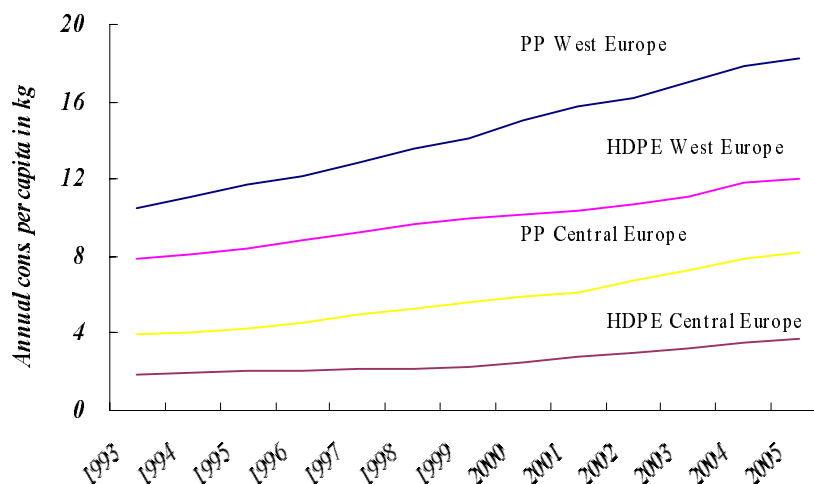
dropped more substantially. Nevertheless we expect growth in the consumption of PE and PP, especially in CEFTA countries. Forecasted growth of PE production made Chemopetrol invest in their production. This step is in accordance with similar investment of larger petrochemical companies (e.g. Shell, Dow).

Oil (BRENT) price relative to ethylen price



The chart of the ethylen price (we estimated the ethylen prices from III/98) shows an opposite trend from BRENT. Similar trends can be seen in other petrochemicals, therefore we expect a reversal in petrochemical prices in the first quarter of 1999. We support the opinion, that long-term increasing demand for PP and HDPE should stop the current price drop.

Consumption of PP and HDPE in Europe.



source: Chemopetrol 98

Competition in petrochemicals

The Unipetrol market position in CEFTA is very stable and especially in PP and HDPE should strengthen in next few years. On the other hand, we expect weaker production of styren. Unipetrol will focus on the Central European market, because the competition there is lower than in the West.

97 Ethylen units – Chemopetrol peers	Country	Capacity (kt/year)
Chemopetrol	Czech Republic	450
BSL Boehlen	Germany	330
TVK	Hungary	290
OMW	Austria	345
Petrochemia	Poland	300
Slovnaft	Slovakia	200

Product capac. (kt/year)	Ethylen	Propylen	HDPE	PP	Benzen
Czech Republic	450	220	125	115	210
Poland	300	220	0	90	130
Bulgaria	450	230	20	80	145
Romania	300	85	60	60	80
Hungary	300	55	190	95	140
Slovakia	240	105	0	43	92

The further strategy in the Agrochemicals division is being discussed and is influenced by situation in Lovochemie, the viscose fibres and fertilizers producer, which is Chemopetrol's main ammonium buyer. Synthesia is the main customer in urea. Ethylen is taken by Czech Spolana and other chemicals (C4 fraction and ethylbenzen) by Kaucuk. Kaucuk is one of the 5 European producers of synthetic rubber. The companies supply tire-producers and have enough orders until the year of 2000. As for styren and polystyren, markets are not as easily accessible.

1997 Market shares of main Unipetrol petrochemical products in %			
Product	Producer	West Europe	CEFTA
ethylen	Chemopetrol	2.3	33
benzen	Chemopetrol	2.4	22.4
styren	Kaucuk	2.3	57.9
butadien	Kaucuk	4	69.2
HDPE	Chemopetrol	3.2	39.7
PP	Chemopetrol	1.7	28
GP/Hi PS	Kaucuk	2.7	43.9
Expandable PS	Kaucuk	3.6	40
ammonium	Chemopetrol	1.8	7.7
urea	Chemopetrol	3.9	10.4

DARING INVESTMENT PLANS

Investments in Czech chemistry were (as well as in other CE countries) focused on fulfilling ecology requirements in previous years. **The current investment plan considers mainly capacity and modernization investments amounting to CZK30bn until 2001 and more than CZK50bn until 2008.**

Olephins in Litvinov

Chemopetrol plans to pay for technologies and to extend capacity for HDPE (high density polyethylen) and PP (polypropylen) with total costs of CZK8.4bn. in the period 1999-2002. American firms Amoco and Union Carbide will intensify Chemopetrol's PE production (to capacity of 320 th tonnes) and add technologies to PP production (to 250 th tonnes). The effect will be more than doubling of the

production of plastics (from the current 230 th. tonnes to 570 th. tonnes in 2001). The production of HDPE should grow about 200 th. tonnes/year. Chemopetrol will be selling some of its excess ethylen capacities to Germany, and the rest to CE Europe. **The company already succeeded in making long-term agreements on selling a substantial part of new PP and PE capacities.** Investments will be paid partly from Chemopetrol retained earnings, partly from a syndicated loan.

Further investments (CZK4bn) into the benzene unit are prepared for 2002. The multinational company Air Products (AP) will construct a production line for battery vehicles filling with hydrogen. The construction, which is based on the contract for supply and delivery of gas in the period of 15 years, will cost roughly CZK60m. Chemopetrol has to finish modernization of its energy source – heat station T700 too.

Styren in Kralupy

Kaucuk invests CZK2.1bn into styren and CZK750m into block and expendable polystyren production, which should be completed in 1999. Kaucuk's capacity for expanded polystyren should grow to 35 th. tonnes/year, the overall capacity of the unit will be 130 th. tonnes/year. Prices of polystyren materials, except expanded polystyren, were gradually declining and hit their three-year-minimum during 1997; the development was under influence of cheap goods from Asia. Expandable polystyrens amount to 22 percent of polystyren sales.

CRC builds visbreaking in Litvinov

Ceska Rafinerska started in September building a **visbreaking unit** – technology coming from the Shell unit enables manufacturing difficult oil fractions and is necessary for competition. Its daily capacity will be 2500 tons of oil and it should be completed in 1999. A new sulfur production machinery will also be built. CRC overall investments will amount to CZK13bn. in period 1997-2002.

... and FCC in Kralupy

Dutch engineering firm Fluor Daniel will built in Kralupy **Fluid Catalytic Cracker unit (FCC)**, which should increase the quality of auto-fuels and lower emissions from gas-engines (the unit will cost CZK 6-7bln.). The FCC together with visbreaking (overall costs CZK1.5bn.) will cost Unipetrol CZK1.5bn this year. The unit will enable the increase in production of light products (petrols and naphtha from 1.3 m tonnes/y to 2.0 m*t/y) and is to be opened in May 2001 with a daily capacity of 3.800 tonnes/day. In addition to growth in light products, it also means lower production of undesirable heating oils to the 30% of its current 1m tonnes.

Funds

The investment costs will be partially covered from retained profits, partially from a syndicated loan(s) by foreign banks, that is negotiated and to be obtained. Unipetrol has hired Benson Oak, a loan advisor that is supposed to review finance proposals from investment banks. By above mentioned investments IOC will partially repay their promise to invest an additional USD480m. CRC also plans to take USD200m in five-year syndicated loan, which the company will take at the end of 1999 or the beginning of 2000.

Unipetrol will acquire other companies

The long term talks about including **Chemicke zavody Sokolov (CHZS)** into Unipetrol are tending toward an early conclusion. CHZS is a producer of acryl acid, its esters, and other products. CHZS have huge liabilities and bad bottom line - expected 98 loss CZK100m stems from interest costs amounting to more than CZK300m per year. This burden is, despite free-payment transfer, high enough to worsen Unipetrol's consolidated figures. Unipetrol is negotiating with the National Property Fund (74 %) about two conditions of incorporation of CHZS into Unipetrol: adequate resolution of loans at Konsolidacni bank and ecological burdens elimination plan. Unipetrol has already financially helped CHZS, but **Unipetrol shareholders are not willing to have less money for investments due to the repayment of the huge CHZS loans.**

Cepro is the Czech state oil products transmitter and the second largest supplier of fuels with more than 23 % of the fuel market. Besides pipelines Cepro also has large storage capacities. Cepro's privatisation could have an immediate impact on Unipetrol companies, if the owner is other than Unipetrol. **Unipetrol, aware of threats coming from a foreign owner, wants Cepro included into holding.** The

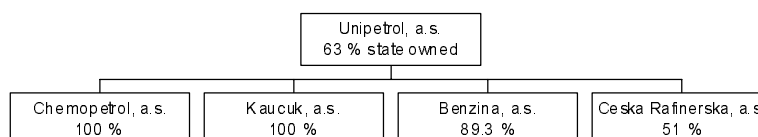
government announced that the privatisation will be held after 2002. The main problem with Cepro is that the company business influences Ceska Rafinerska. Customers are currently looking more to other (foreign) fuel suppliers.

***Unipetrol's involvement
in solving Chemapol
Group's problems***

Unipetrol is likely to help partially in solving Chemapol Group's problems. Chemapol Group is a Czech chemical conglomerate possessing chemical companies representing the spine of Czech chemistry. As Chemapol group's overall liabilities are more than CZK40bn. and equity is converting to zero, the creditors (the biggest Czech banks) want to rescue as much as they can. They prepared the Aliachem project, which was supposed to overtake Group's cleanest chemical subsidiaries. The establishment of Aliachem has been postponed due to the inability of banks to cooperate. The banks believe that the state (the main owner of banks and Unipetrol) will push through the project of including the chemical division of Chemapol Group (or Aliachem itself) into Unipetrol. **We do not believe that the state will load all problematic chemical companies onto Unipetrol and will take on the responsibility for Czech chemical industry's jeopardy.** Any synergistic effects (as in widening the product range) from including all Aliachem companies into the Unipetrol group are very unlikely. Moreover, these days Unipetrol is negotiating a USD1bn. loan to finance its daring investments. The Aliachem companies (Moravske Chemicke zavody, Synthesia, FSG, Technoplast and Spolana) are barely profitable because of their huge financial costs. Unipetrol, if it overtook Aliachem, would have to forget about the investments into its own production and would have to solve the other companies problems. **The most likely scenario is overtaking some of the Aliachem and Chemapol companies by Unipetrol,** which has already shown interest especially in Spolana, because it is the main Chemopetrol costumer of ethylen. Unipetrol is also interested in Koramo and Moravske chemicke zavody. The case of Chemicke zavody Sokolov and protecting shareholders from the worsening value of Unipetrol shares because of including heavily indebted companies into Unipetrol can serve as an example of the Unipetrol expansion. We expect that this attitude will prevail also through the involvement of Unipetrol in solving Chemapol Group's problems.

HOLDINGS STRUCTURE & KEY DIVISIONS

***Holdings structure
(key divisions)***



***Divisions are likely
to centralize***

The autonomy and efficiency of the holdings are the two factors, that are the serious constraints on future development. As the management of subsidiaries is not willing to follow every decision of holding, there is substantial pressure to change the current holdings' layout. The divisional layout of Unipetrol's companies is likely to be centralized, but the change is still not sufficiently prepared. There are some indications from division managers of disbelief to "non-experienced" management of holdings. The centralisation is starting at Chemopetrol, and other holding's subsidiaries should follow. Divisional companies are now responsible for planning and efficiency, the holding for coordination, optimalization and financing.

Ceska rafinerska (CRC) is the biggest local refinery and dominant producer of fuels. The capacity of the refining unit is 8.3 mio tonnes per year, and the capacity utilized is around 75 percent (6.35m. tonnes of 1997 is a 8 percent down comparing to 1996). One unit is in Kralupy and the second in Litvinov. Ceska

Ceska rafinerska

rafinerska produces in its two refineries fuels, air oils, asphalt, sulphur, etc. CRC market share is 25 percent in CEFTA countries, but only 1.5 percent in Western Europe. Ceska Rafinerska is the only subsidiary which has foreign strategic partners: Agip, Conoco and Shell (IOC consortium) have together a 49 percent share in CRC, the majority remaining at Unipetrol. The company is financially healthy, which is due to their strategic owners, and profited from selling the stake by increasing share capital through a cash deposit USD170 mil. Ceska Rafinerska manufacture 90 percent of crude oil from Russia and IKL. Since the opening of the IKL pipeline the company has access to all kinds of crude oil. Pricing is the biggest problem also for Ceska Rafinerska, because prices of products, which are paid by petrochemicals producers (mainly Chemopetrol and Kaucuk) grew significantly compared to the era before subsidiary separation.

CRC sales of main product groups and comparison of sales 97/96 in th.tonnes	Domestic sales in th. tonnes	Exports in th. tonnes	Index of sales 97/96	% Share on the Czech market 97	% Index 97/96
LPG	74	42	1.09	45	73%
Automotive gasoline	1222	0	0.99	63	94%
Aircraft fuel	138	3	0.92	84	89%
Diesel fuel	1467	408	0.95	66	94%
Light fuel oils	109	0	0.81	60	92%
Heavy fuel oils	823	400	0.91	72	97%
Bitumen	206	146	1.05	66	97%

Ceska rafinerska posted 3Q98 CAS net profit of CZK1.65 bn (up 29% y-o-y). The company benefited from a decline in their raw material prices, that was not entirely offset by a decline in their product prices. Another important factor there was also higher utilisation of capacities in 1998. We expect this year revenues under Kc35bn. The fall in revenues is due to declining oil prices on world markets. Year-end 98 pretax profit has been planned at Kc2.6bn but is likely to be higher. Recently the shareholders at the extraordinary general meeting approved the FCC Unit. **The approval was provided by the agreement of subsidiaries on product-transfer prices for next year.** All prices, with the exception of gas-oil (raw material for Chemopetrol) prices and visbreaking resins, will remain the same as for this year. The product-transfer prices are set flexibly and are derived from world (Rotterdam) prices. Flexible price policy enables CRC to maintain stable profit margins. Following a gas-oil price change, **cash flow for Chemopetrol should improve by about CZK 400-500 mil. annually**, on the expense of Ceska Rafinerska. It means that more profit will be accrued by Unipetrol shareholders, less by IOC. CRC currently employs 1250 people.

Chemopetrol

Chemopetrol Litvinov, the largest Czech petrochemical company, is closely tied to Ceska Rafinerska, which is Chemopetrol's dominant supplier. Chemopetrol is divided into three main divisions-Petrochemie, Agro, Fenoly. Approximately 40 percent of Chemopetrol's main products (PP, PE, ethylen, propylen, ammony etc.) is exported. Chemopetrol's 3Q net profit of CZK1.2bn., 68 percent growth y-o-y, gives us hope that it will reach its planned yearly figures – a pretax profit of CZK905m. Chemopetrol's LT loans are mainly in DEM, so the strong koruna enables supporting the company's bottom line with a forex gains. The lower product prices have had a negative impact on company's sales and in 2H98 also in gross margins. The effect of petrochemical product prices was reduced by favourable input prices conditions and succesful cost savings.

In order to stay competitive **Chemopetrol will cut its workforce** (4196) of more than 200 people by the end of 1998. A Similar reduction is planned for the next two years, and the number of employees should stabilise between 3000-3500. The dismissals will mostly apply to white-collar workers; new capacities, which will require new qualified people, should run as of 2002.

Kaucuk

Kaucuk is divided into Petrochemie and Servis. Main quality products are plastics and elastomers. The company's sales split to mainly polystyren plastics, ABS polymers and sales of SBR (butadien -styren rubbers).

Founding new trade representation in Bratislava may indicate an attack on the Slovak market. Doubling Slovak sales may bring Kaucuk CZK200m more in company's sales, i.e. additional 3 % relatively to 97 sales. Entering this market and looking for other Central European markets, e.g. Hungary, is a part of the holding's strategy.

Kaucuk plans a net profit of CZK108m. The expectation has been justified by this year's interim figures. Kaucuk more than doubled its 3Q net profit (CZK178m.) by slightly higher y-o-y sales. Kaucuk currently employs 2054 people, the plan for the end of 1998 is 2000 people.

Benzina

Benzina is a retailer and fuel operator. Benzina also took over Torol's and K-Petrol's former petrol station chain and currently operates 370 pumps. (22 percent of the retailers' market) that are now modernized. The company has issued two tranches of bonds to cover the cost of modernization. We expect, that Benzina will post a significant loss as for 1998. The loss is partially a result of tough market conditions, reflected in Benzina's operating margin decreasing to 3.9% in 3Q98. Moreover, the company has to make this year provisions for financial investments amounting CZK400m. The company intends to sell nonrentable assets to improve its cash position. Benzina currently employs 580 people (the plan for the end of 1998 is 510).

Other subsidiaries

Among Unipetrol's other subsidiaries a few are (were) problematic: Universal bank (Unipetrol and Chemopetrol hold 21.6% together) recently closed its branch offices and is in the process of withdrawing the banking licence. Unipetrol already made provisions on this investment, as well as for liquidated TOROL and K-Petrol (former fuel retailers). Unipetrol also holds stakes in smaller companies, such as Chemopetrol-Doprava and B.U.T.

CONSOLIDATED BALANCE SHEET (Czech Accounting Principles - CZKbn)

	1997	3Q/98	1998E
Cash and cash equivalents	6.53	6.76	5.41
Receivables	11.58	9.91	10.90
Inventory	4.93	4.57	4.80
Current assets	23.05	21.24	21.11
Fixed assets (incl. Goodwill)	38.38	40.81	44.89
L/T investments	0.08	0.07	0.07
Other assets	2.02	0.97	1.25
TOTAL ASSETS	63.53	63.10	67.32
Accounts payable, trade	6.84	3.24	4.86
Current portion of bank loans	4.44	5.52	4.97
Other current liabilities	4.80	3.72	5.14
Current liabilities	16.08	12.47	14.96
Long-term liabilities	12.27	11.61	12.42
Reserves	1.57	0.91	1.10
Other liabilities	0.58	1.60	1.60
Minority equity	6.03	7.24	7.96
Total non- capital liabilities	36.54	33.84	38.05
Share capital	18.13	18.13	18.13
Share premium	0.58	0.48	0.48
Retained earnings & stat. reserves	3.02	6.74	6.75
Badwill	5.25	3.91	3.91
SHAREHOLDERS EQUITY	26.99	29.26	29.27
Total liabilities & shareholders equity	63.53	63.10	67.32

We return to Czech accounting principles because the company does not calculate quarterly according to IAS.

Unipetrol had at the end of 1997 CZK10.9bn long-term bank loans (out of which 73 percent was in DEM, rest in USD and CZK). We have also mentioned the substantial growth in short-term receivables, which are overdue more than 180 days. The overdue S/T receivables amounted at the end of 1997 CZK1.34bn. Nevertheless, the company managed in three quarters 1998 to lower its trade receivables at about 20 percent to less than CZK7bn. The company's payables (trade) totaled CZK 3.2bn, i.e. a decrease to less than half of 1997 figure.

CONSOLIDATED INCOME STATEMENT (Czech Accounting Principles - CZKbn)

	1997	3Q/98	1998E	1999E	2000E
Sales	65.56	40.09	56.13	57.25	62.98
Cost of goods sold	55.37	31.96	44.80	47.04	51.75
Value added (gross profit)	10.18	8.13	11.33	10.21	11.23
Personnel expenses	-2.40	-1.79	-2.40	-2.47	-2.62
Depreciation	-2.06	-1.65	-2.19	-2.63	-2.89
Net provisioning	-0.28	-0.30	-0.34	-0.39	-0.44
Other operating expenses/revenues	-0.32	-0.20	-0.32	-0.37	-0.42
Operating profit	5.12	4.20	6.07	4.35	4.86
Net financial operations	-2.77	-0.58	-1.44	-1.73	-2.08
of which: interest revenues	0.53	0.50	0.60	0.57	0.54
interest expenses	1.31	1.35	1.80	1.89	1.99
Income from ordinary activities	2.34	3.62	4.63	2.62	2.78
Extraordinary revenues	0.47	0.06	0.35	0.40	0.45
Extraordinary expenses	0.35	0.04	0.18	0.25	0.30
Extraordinary profit / (loss)	0.11	0.02	0.17	0.15	0.15
EBT	2.46	3.64	4.80	2.77	2.93
Income tax	1.49	-0.06	1.90	0.80	0.76
Net income before minorities	0.96	3.70	2.90	1.96	2.17
less Minority interests	1.00	1.21	0.95	0.90	0.80
plus Share on profit from holding	0.00	0.00	0.00	0.00	0.00
Badwill / (Goodwill)	1.15	1.20	1.20	1.20	1.20
Net income after minorities	1.11	3.69	3.15	2.27	2.57

Sales

Unipetrol posted 3Q/98 CZK40bn sales which is a 9 percent decline y-o-y. Operating profit was CZK4.2bn representing operating margin 10.5% (7.7% in 3Q97). 3Q97 data are a little bit confusing due to not including all current activities in the statement.

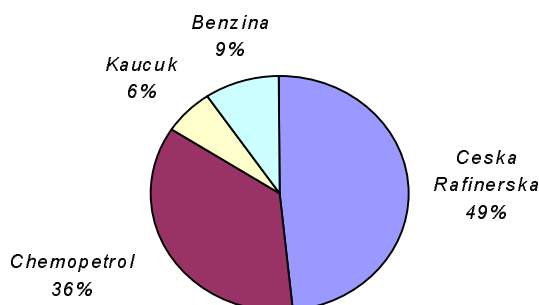
CZKbn.	3Q/98	3Q/97
Sales	40090	44070
consolidated EBIT	4196	3379
consolidated Net profit (after minorities)	3692	1633

Margins

The 3Q operating margins were a pleasant surprise for us, because we had expected greater margin deterioration in the course of the third quarter. The market situation in petrochemical product prices still has not proved its effect on Chemopetrol and Kaucuk results. Especially Chemopetrol's operating margin of 11.6% (9.5% at the same period last year) should deteriorate by the end of

the year. On the contrary, the CRC refineries and Benzina should profit from a favourable oil market situation. This fact should support Unipetrol's overall profitability and keep the group's operating profit margin at the end of the year at about 10%.

EBIT Brakdown per subsidiary – 3Q/98



Extraordinary items

The 1998 consolidated net profit after minority interests (we expect CZK3.15bn) makes by the current price an expected P/E 3.3. Nevertheless, investors should be aware of Unipetrol's extraordinary items. Therefore we calculate also adjusted P/E: as the earnings we take net profit minus badwill. Even adjusted expected P/E 5.4 confirms our opinion that Unipetrol shares are traded very low. We adjust P/E because of **a strong buffer stemming from accounting of badwill**. This non-cash item makes annual extraordinary revenues CZK1.2bn (independent of company performance). The total amount of badwill (currently CZK4.8bn.) will be written off by 2001. The badwill (revaluation) was computed as the difference between purchase and book values of Unipetrol's subsidiaries.

Dividends

The holding's representatives announced that there is a proposed zero dividend for 1998 (last year CZK 1.33/share was paid), because of approved investment plan. We do not expect any dividend will be paid before 2000.

EUROPEAN COMPARISON & EVALUATION

Unipetrol is trading at a significant discount compared to the average level of its refining and chemicals peers. The average discount stemming from expected P/E comparison 1998 is 60 percent (75 percent from non-adjusted P/E). The discount as of 1999 is 19 percent (62 percent respectively).

<i>As of December 4, 1998</i>		<i>Price</i>	<i>P/E 98e</i>	<i>P/E 99e</i>
Eni (It) - ITL	Refiners	9958	14.1	13.7
Elf (Fr) -FFR	Refiners	684	22.6	21.1
Repsol (SP)	Refiners	8000	17.6	14.8
Total (Fr) - FFR	Refiners	711	25.4	23.3
OMV (AU) - ATS	Refiners	1108	13.4	12
Slovnaft (SK) - SKK	Refiners	1155	7.5	7.3
Tiszai Vegyi Kombinat (HU)	Chemicals	2805	4.3	4.1
Borsodchem (HU)-HUF	Chemicals	4800	4.8	4.1
average			13.7	12.6
Unipetrol (CZ) - CZK	Ref./Chemicals	58	3.3	4.6
adjusted P/E			5.4	9.8
	<i>% discount</i>	<i>P/E</i>	76%	63%
	<i>% discount</i>	<i>P/E adjusted</i>	61%	22%

Source: Barra, Prague Securities

When we exclude Unipetrol's western peers, the discounts are substantially lower, but still high enough to prove a relative undervaluation of Unipetrol's shares.

<i>As of December 4, 1998</i>	<i>Price</i>	<i>P/E 98e</i>	<i>P/E 99e</i>	<i>Mk/Cap. USDm</i>
OMV	1108	13.4	12	2603
Slovnaft	1155	7.5	7.3	280
Tiszai Vegyi Kombinat	2805	4.3	4.1	297
Borsodchem	4800	4.8	4.1	238
average		7.5	6.9	855
Unipetrol (CZ) - CZK	58	3.3	4.6	348
adjusted P/E		5.4	9.8	
<i>% discount</i>	<i>P/E</i>	55%	33%	
<i>% discount</i>	<i>P/E ad.</i>	28%	-43%	

Source: Barra, Prague Securities

RECOMMENDATION

Although this year company's performance is significantly better compared to last year's one, the company's share plunged to half of 1997 price. Unipetrol's shares are very liquid and have, at least in the last quarter, low volatility. We consider Unipetrol's relative undervaluation as a sufficient reason for buying the company's shares. **Despite the current external and internal threats, we highly evaluate company's ability to make profits and management decision to heavily invest in all productions.** We expect that the stable Unipetrol's position in Central European market will enable the company to keep its current profitability in the long term. Thus we recommend to **BUYING** the Unipetrol's shares.