Outline:

1.1 Abstract.

1.2 Company overview.

1.3 Strategy.

2.1 Analyzing financial performance.

3.1 Conclusion.

1.1 Abstract.

Our project is devoted to the theme of analyzing financial performance of Petrokazakhstan company. For the purpose of preparing this valuation, we have analyzed certain publicly available financial, operational and other information relating to company. Except as expressly described herein, our group has not conducted any independent investigations to verify the accuracy and completeness of such information.

In preparing this project, we have reviewed and relied upon, among other things, the following items with respect to Petrokazakhstan: the audited financial statements, annual financial reports and certain publicly-available information related to the business, operations, financial performance and stock trading histories of Petrokazakhstan and other selected public upstream and integrated oil and natural gas companies operating internationally.

We have conducted comparison of financial ratios of 2002 and 2003 years in order to understand relationships between components of the financial statements and to show how we can interpretate these data.

1.2 Company overview.

The promotion of Kazakhstan began from the status of oil power. This begun when in 1899 there has hammered a first powerful fountain of oil. Chink was drilled in a natural boundary of Karachungul geographic area. After that in our territory it was open more than 250 oil fields and gas from which almost half is entered into commercial operation. KZ extracts more than 4 million tons of oil one year, thus volumes of extraction constantly growing. The increase in extraction is reached due to application of modern technologies of increase of petrol feedback, development of new oil fields and gas. Export of the Kazakhstan oil also is growing and even more dynamically, than extraction. One of the largest companies of Kazakhstan, who is engaged in it, is "PetroKazakhstan".

PetroKazakhstan Inc. (formerly known as Hurricane Hydrocarbons Ltd.) is a vertically integrated company Canadian based oil & gas company operating in the Republic of Kazakhstan. With production facilities located in the south Turgai basin, the company's crude oil production accounts for approximately 15% of the country's total production. PetroKazakhstan ranks as the second largest foreign owned oil producer and the third largest oil producer in the Republic of Kazakhstan. PetroKazakhstan Inc. also owns and operates the newest refinery in Republic of Kazakhstan and is the largest supplier of refined products to the domestic market.

PetroKazakhstan Kumkol resources – the upstream division of PetroKazakhstan Inc. – are located in south-central Kazakhstan in the KyzylOrda and Karaganda oblasts. PetroKazakhstan Inc. is also 50% partner in two joint ventures – KazgerMunai and Turgai Petroleum, which are also located in the south Turgai, South Kazakhstan oblast, and focuses on the refinery of crude oil produced by the upstream division as well for third party suppliers.

Hurricane Company was founded in 1991 starting its activity in Kazakhstan and participating in development of three oil fields in South Kazakhstan. In 1996 the Company acquired 100% of common shares of Hurricane Kumkol Munay (state owned oil production company). One of the acquisition conditions was to invest $100,000,000 within 5 years. In 1998 Hurricane bought 75% share in Shymkent refinery and becomes vertically integrated company.

In June 3, 2003 at the annual meeting of the shareholders company changed from Hurricane Hydrocarbons Ltd. To PetroKazakhstan Inc. 2003 was a year for branching out in corporate activities. In addition to growing production, a large number of time and effort was decided to expanding exploration, developing new export option for crude oil production, improving downstream margins by developing exports for refined products and optimizing the company's overall operations.

1.3 Strategy.

PetroKazakhstan strives to be the leading integrated oil and gas company in Central Asia and an exemplary corporate citizen. Our goal is to create superior value for our shareholders and the Republic of Kazakhstan while protecting the health and safety of our people and the environment. The primary elements of our strategy are to:

-Open new transportation routes to international markets and reduce our transportation costs.

-Increase our production and reserves through exploration and development of our existing fields and through selective acquisitions in Kazakhstan.

-Improve the operational performance of our refinery.

-Control and reduce our overhead and operating costs.

-Manage our environmental and social responsibilities to ensure that we earn support from all stakeholders for PetroKazakhstan's growth and operating plans.

2.1 Analyzing financial performance.

In order to know how we can use financial data to analyze Petrokazakhstan overall performance and assess its financial standing our group decided to use ratio analysis. Ratio analysis is an important way to state meaningful relationships between the components of the financial statements. To be most meaningful, the interpretation of ratios must include a study of underlying data. Ratios are guides that are useful in evaluating our company financial position and operations and making comparisons with results in previous years. The primary purpose of ratios is to point out areas needing further investigation. We also connected them with a general understanding of the company and its environment.

We have determined 4 types of financial ratios: leverage, liquidity, profitability and market value ratios. Below you can see our calculations (underlined ratios are of the year 2002).

Leverage ratios:

Debt ratio measures the proportion of total assets financed by the firm's creditors. The higher the ratio, the greater the amount of other people's money being used to generate profits.

Debt Ratio=Long Term Debt/ (Long Term Debt+Equity)=246655/(246655+577915) ≈0.3

Debt Ratio=*Long Term Debt/ (Long Term Debt+Equity)=281797/(281797+272544)=0.5*

Debt Equity Ratio=Long Term Debt/ Equity=246655/577915=0.427

Debt Equity Ratio=Long Term Debt/ Equity=281797/272544=1.033

Note: A company with a higher debt/equity ratio can offer greater returns to shareholders but be riskier.

The times interest earned ratio (or interest coverage ratio) measures the firm's ability to make contractual interest payments. The higher its value, the better able the firm is to fulfill its interest obligations.

Times Interest earned=(EBIT+Depreciation)/ Interest=(475267+81985)/35579=15.66

Times Interest earned=(EBIT+Depreciation)/ Interest=(517612+45088)/35473=15.86

Net Working capital	263172	Long-term Debt	246655

Long-term Assets	594148	Other Liabilities	32750
		Equity	577915
	857320	Total Capitalization	**857320**

The Ratio of debt to total capitalization=246655/857320=0.288

Net Working capital	151030	Long-term Debt	281797
Long-term Assets	435329	Other Liabilities	32018
		Equity	272544
	586359	Total Capitalization	**586359**

The Ratio of debt to total capitalization=281797/586359=0.48

Liquidity ratios:

Now lets investigate liquidity ratios of 2002 and 2003 years. Liquidity is a company's ability to pay bills when they are due and to meet unexpected needs for cash. These ratios all have to do with wo rking capital or some part of it, because it is out of working capital that debts are paid.

The current ratio, one of the most commonly cited financial ratios, measures the firm's ability to meet its short-term obligations. Generally, the higher the ratio , the more liquid the firm is considered to be.

Current ratio=Current assets/ Current Liabilities=431471/168299=2.56

Current ratio=Current assets/ Current Liabilities= 261,399/110369=2.37

*Current Assets = net of contingent liabilities on notes receivable

*Current Liabilities = all debt due within one year of statement data

Note: The current ratio reveals your business's ability to meet its current obligations. It should be supplemented with the other ratios listed below, however.

The quick ratio is similar to the current ratio except that it excludes inventory, which is generally the least liquid current asset. A quick ratio of Petrokazakhstan is recommended, but as with the current ratio.

Quick Ratio=(Cash+Short-term Securities+Receivables)/Current liabilities=(184660+150293)/168299=1.99

Quick Ratio=(Cash+Short-term Securities+Receivables)/Current liabilities=(74796+92431)/110369=1.52

Note: The Quick Ratio assumes that all assets are of equal liquidity. Receivables are one step closer to liquidity than inventory. However, sales are not complete until the money is in hand.

The cash ratio measures the extent to which a corporation or other entity can quickly liquidate assets and cover short-term liabilities, and therefore is of interest to short-term creditors.

Cash Ratio=(Cash+Short-term Securities)/Current liabilities=184660/168299=1.1

Cash Ratio*=(Cash+Short-term Securities)/Current liabilities=74796/110369=0.68*

Note: The Cash Ratio only tests short-term liquidity in terms of cash and short-term securities.

Now lets calculate interval measure ratio.This is another measure of liquidity. It looks at the number of days that liquid assets (for example, inventory) could service daily operating expenses (including salaries).

Interval Measure=(Cash+Short Term Securities+Receivables)/Average Expenditure from operations=(184660+150293)/(560072/365)=218.2

Interval Measure=(Cash+Short Term Securities+Receivables)/Average Expenditure from operations=(74796+92431)/(507997/365)=120.15

Profitabilty ratios:

The objective of profitability relates to a company`s ability to earn a satisfactory income so that investors and stochholders will continue t o provide capital to it. A company`s profitability is also closely linked to its liquidity because earnings ultimately produce cash flow. That is why, evaluating profitability is important to both investors and creditors.

Sales to Total Assets=Sales/Total Assets=1117324/1025619=1.09
Sales to Total Assets=Sales/Total Assets=825350/696728=1.18
This ratio, which uncovers management's ability to function in competitive situations while not excluding intangible assets, is inconclusive if studied by itself. But when viewed alongside Working Capital to Total Assets, Retained Earnings to Total Assets, and EBIT to Total Assets, it can confirm whether your business is in imminent danger. Note: A result of 200 percent is more reassuring than one of 100 percent.

Sales to Net Working Capital Ratio=1117324/((263172+151030)/2)=2.7
Sales to Net Working Capital Ratio=825350/151030=5.46

By analyzing changes in this figure over several years, we can identify whether it is necessary to examine company policies relating to cre dit extension, markups (or markdowns), purchasing, or general merchandising (where applicable).
Net Profit Margin=(Earnings available for Common)/ Sales=317456/1117324=0.284 (28.4%)
Net Profit Margin=Earnings available for common / Sales=162537/825350=0.19 6 (19.6%)
Note: An increase in net profit margin may result from higher sales, lower cost of goods sold, an increase in the proportionate volume of higher margin products, or any combination of these variables

This ratio tells how often a business' inven tory turns over during the course of the year. Because inventories are the least liquid form of asset, a high inventory turnover ratio is generally positive. On the other hand, an unusually high ratio compared to the average for your industry could mean a business is losing sales because of inadequate stock on hand

Inventory Turnover=COGS/Inventory=455798/((36920+40529)/2)=11.77
Inventory Turnover=COGS/Inventory=389691/((40529+29946)/2)=11.06

The Average Collection Period (ACP) is another litmus test for the quality of receivables business, giving us the average length of the collection period. As a rule, outstanding receivables should not exceed credit terms by 10 -15 days. If company allow various types of credit transactions, such as a retail outlet sell ing both on open credit and installment, then the ACP must be calculated separately for each category.
Average Collection Period=Average Receivables/ Average Daily Sales=((150293+92431)/2)/3061.16=39.64
Average Collection Period=Average Receivables/ Averag e Daily Sales=((92431+52287)/2)/1652.21=43.8
Note: Discounted notes which create contingent liabilities must be added back into receivables.

The return on total assets (ROA) measures the overall effectiveness of management in generating profits with its available assets. The higher the firm`s return on total assets, the better.
Return on Total Assets= Earnings available for Common / Total Assets=317456/1025619=0.309=31%
Return on Total Assets=Earnings available for common/TotalAssets=162537/696728=0.233=23 .3%
These values indicate that company earned 23.3 cents on each dollar of asset investment in the year 2002, and 31 cent in year 2003.

The return on common equity measures the return earned on the common stockholders` investment in the company. Generally , the higher this return, the better off are the owner.
Return on Equity= Earnings available for common/Equity=317456/577915=0.549
Return on Equity= Earnings available for common/Equity=162537/272544=0.596

Market Value Ratios :

The price/earnings ratio is commonly used to assess the owners appraisal of share value. It measures the amount that investors are willingto pay for each dollar of a firm`s earnings. The level of the P/E ratio indicates the degree of confidence that investors have in th firm`s future performance. The higher the P/E ratio, the greater is investor confidence.

P/E ratio=Stock Price/ Earnings per Share=27.5/4.154=6.62

(Price at June, 23)

P/E ratio=Stock Price/ Earnings per Share=27.15/4.154=6.54

The dividend yield ratio allows investors to compare the latest dividend they received with the current market value of the share as an indictor of the return they are earning on their shares. Note, though, that the current market share price may bear little resemblance to the price that an investor paid for their shares. We have taken a look at the history of a business's share price over the last year and current year and we will see that today's share price might be a lot higher or a lot lower than it was a year ago, two years ago and so on.

Dividend yield= Divident per Share/ Stock Price=14.56/27.5=0.5294

Dividend yield= Divident per Share/ Stock Price=12.23/27.15=0.4503

3.1 Conclusion.

Now lets compare ratios we have obtained for years 2002 and 2003 :

Ratio	2002	2003
Current ratio	2.37	2.56
Quick ratio	1.52	1.99
Cash ratio	0.68	1.1
Interval measure	120.15	218.2
Debt ratio	0.5	0.3
Debt equity ratio	1.033	0.427
Times interest earned	15.86	15.66
Ratio of debt to total capitalization	0.48	0.288

Sales to total assets	1.18	1.09
Sales to net working cap.	5.46	2.7
Net profit margin	19.6%	28.4%
Inventory turnover	11.06	11.77
Average collection period	43.8	39.64
Return on total assets	23.3%	31%
Return on equity	0.596	0.549
P/E ratio	6.54	6.62
Divident yield	0.4503	0.5294

In above-mentioned table you can see all important ratios of Petrokazakhstan company. We use these Petrokazakhstan`s ratios to perform a complete ratio analysis using both cross-sectional and time-series analysis approaches. Using these data, we can discuss the 4 key aspects of Petrokazakhstan`s performance-liquidity, debt, profitability, and market.

The overall liquidity of the company seems to exhibit a reasonably stable, or even increasing trend. The company liquidity seems to be good.

Petrokazakhstan`s indebtedness decreased over the 2002-2003 period and is currently at normal industry average.

Petrokazakhstan`s profitability relative to sales in 2003 was better than the average company in the industry, but less than in 2002 year.

Important liquidity ratio is the current ratio- current assets available to satisfy current liabilities. Petrokazakhstan`s current ratio of 2.37 implies that there are $2.32 of current assets available to meet each $1 of currently maturing obligations in 2002 and 2.56 in 2003. A more stringent test of short-term liquidity based on the quick ratio, uses only the most liquid current assets- cash, short-term investments, accounts recievable. Petrokazakhstan has $1.52 of liquid assets to cover each of $1 of current liabilities in 2002 and has $1.99 to cover each of $1 current liabilities in 2003.

Company has sufficient liquid assets to finance operations for 210.15 days in 2002 and 218.2 days in 2003 even if it receives no further cash.

Times interest earned ratio shows Petrokazakhstan`s 2002 earnings are 15.86 times its fixed (interest) commitments, for 2003 earnings are 15.66 times. Return on total assets of 23.3 % (2002) implies that a $1 investment generates $0.233 of annual earnings prior to substracting after tax interest. 31% in 2003 implies that it generates $ 0.31 of annual earnings.
Return on common equity of 59.6 % in 2002 and 54.9 % in 2003, suggests it earns $ 0.596 in 2002 and $ 0.549 annually for each $ 1 contributed by equity holders.
P/E ratio shows that it costs $ 6.54 in 2002 and $ 6.62 in 2003 to buy $ 1 of Petrokazakhstan`s earnings.
Average collection period for Petrokazakhstan receivables is approximately 43.8 days in 2002 and 39.64 days in 2003.
At the rate of 11.06 in 2002 and 11.77 in 2003 Petrokazakhstan`s inventories move through and out of a company.

So summarizing all above-mentioned information we can conclude that overall performance of company has improved in the year 2003.