



## *Analyst's Notebook*

Ukraine/Oil & Gas  
January 31, 2006

**\*\*Editor's Note:** In order to keep our coverage of the Ukrainian market as up to date as possible Concorde Capital is launching a new product – Analyst's Notebook. Unlike our more in-depth desk notes and reports, Analyst's Notebook provides rapid feedback on breaking news in the Ukrainian market. Analyst's Notebook gives you our analysts' first impressions of a situation and may set the table for further investigation. Our analysts will use their experience in their sectors to take a look at the situation and provide insight or speculate on possible scenarios. We want to emphasize however, this product consists mostly of the analyst's intuition and may require further analysis.

### **Privat Wins Battle For Galychyna Refinery?**

**In a nutshell:** According to various sources, **Privat Group recently acquired 40% of the Galychyna Refinery from Kontinium Group**, thereby increasing its stake to 73%.

The battle for Galychyna has been simmering for some time, however, Privat shocked the market by buying out Kontinium as most expected the opposite to happen.

No official word has been given, but two facts lead us to believe the deal was made:

- Kontinium stopped pushing for the auction of Privat's 33% stake, which had been scheduled for January 27, but was canceled. Yet, when it was cancelled, Privat said nothing, therefore, it seems likely that Privat itself initiated the court ruling that blocked the sale.
- On February 28, 2006 Galychyna is planning to hold an AGM for the first time since 2003. On the agenda is the distribution of profits for 2001-04 and the reappointment of the Board of Directors and the Supervisory Board. That may indicate that an ownership reshuffle is in the cards.

**Now Privat controls two of Ukraine's three refineries, Naftokhymyk Prykarpattya and Galychyna, in addition to its 42% stake in Ukrnafta.**

#### **What will Privat do with its refineries?**

Nothing - might be the best solution for Privat until the Parliamentary Elections and new Government is appointed. The next step depends on Privat's power in regards to Ukrnafta:

- If Privat is comfortable with the new Cabinet, which may mean new representatives from the government on UNAF's Board, it will likely merge the refineries with Ukrnafta. Giving the company the benefits of downstream integration and allowing it to avoid selling its crude at commodity auctions.
- However, if the new government is hostile to Privat, the group might retain its stakes in both refineries, in an attempt to gain leverage on the state's wing of Ukrnafta's management. Another option is to sell the refineries to foreign companies to raise cash for alternative acquisitions (e.g., the Nikopol Ferroalloy Plant).

If they are sold, we believe both refineries will be offered at one time, as separately they are less attractive. If only one refineries is sold, other will have to struggle for crude supplies.

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