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Vladimir Nesterenkovn@concorde.com.ua
+380 44 391 5577

Ukraine's gas consumption* '07, bcm		
Industry	34.2	48%
- energy	8.4	
- metallurgy	9.8	
- other	16.0	
Population and Budget enterprises	17.9	25%
MHE**	10.5	15%
Technological use	8.5	12%
Total consumption	71.1	

** Municipal heating enterprises

Source: Energobusiness

Gas prices for Ukraine*, USD/tcm			
	2007		**2008
Imports (Rus border)	130.0		179.5
Population***	52.0 - 212.9	63.8 -	259.7
MHE	113.2		140.2
Budget enterprises	142.6		199.7
Industry	142.6		199.7

* Net of VAT, charges, distribution and other costs, except prices for MHE and the population, which include the abovementioned items

** As of September

*** Differentiated by category of consumer

Source: Gas of Ukraine

Tymoshenko signs gas accord with Putin

After failure to reach a favorable agreement on the gas issue early this year, Prime Minister Yulia Tymoshenko returned from her visit to Russia with a much-sought and now much-lauded deal. The preliminary memorandum with Russia outlines a gradual, three-year transition to market prices, and specifies direct supplies of Russian gas through Naftogaz of Ukraine (i.e. sans current intermediary RosUkrEnerg). However, the direct agreement between Gazprom and Naftogaz Ukrainy is still needed to implement the deal.

The new gas price formula?

Though an official formula was not announced, according to the newspaper Ukrainska Pravda, which cited undisclosed sources, the following pricing formula received the assent of both parties at the meeting:

$$P_{\text{new}} = P + 1/3 (P_{\text{eur}} - T - P), \text{ where:}$$

- P_{new} – new gas price at Ukrainian-Russian border
 P – current gas price at Ukrainian-Russian border
 P_{eur} – European average gas price*
 T – price of gas transit via Ukrainian territory

*As stated in the article, we assume this price is net of transportation cost through European territory

Positive development, though subject to political risk

We consider the news positive for two main reasons. First, given this formula, the price can be ~USD 60 lower than we previously expected (USD 320-340). Second, the gas price outlook for the next three years can become more certain would the binding agreement between Gazprom and Naftogaz Ukrainy be signed.

Keeping in mind political risks including the dissolution of the Verkhovna Rada and a possible change in the Prime Minister, for now, we keep our 2009 price forecast unchanged. Conversely, if Tymoshenko manages to retain her post as Prime Minister, the preliminary memorandum could turn into a binding agreement.

Concorde Capital, Head office

2 Mechnikova Street, 21st Floor
Parus Business Centre
Kyiv 01601, Ukraine
Tel.: +380 44 391 5577
Fax: +380 44 391 5571

www.concorde.ua

Concorde Capital

4 Fourth Lesnoy Pereulok, 5th Floor
Capital Plaza
Moscow 125047, Russia
Tel.: +7 495 642 87 15
Fax: +7 495 225 85 00

office@concorde.com.ua

CEO

Igor Mazepa

im@concorde.com.ua

RESEARCH

Head of Equity Sales

Roman Nasirov

rn@concorde.com.ua

Strategy

Konstantin Fisun
Oleksandr Klymchuk

kf@concorde.com.ua
ok@concorde.com.ua

Equity Sales

Anastasiya Nazarenko
Marina Martirosyan
Andriy Supranonok
Marina Cherednichenko
Alyona Degrik

an@concorde.com.ua
mm@concorde.com.ua
sap@concorde.com.ua
cmg@concorde.com.ua
dav@concorde.com.ua

Metals & Mining

Eugene Cherviachenko
Andriy Gerus

ec@concorde.com.ua
ga@concorde.com.ua

Utilities (Telecom, Energy)

Alexander Paraschiy

ap@concorde.com.ua

Director of Research

Konstantin Fisun, CFA

kf@concorde.com.ua

**Oil & Gas, Chemicals,
Pharmaceuticals**

Vladimir Nesterenko

vn@concorde.com.ua

Real Estate/Construction

Andriy Gostik, CFA
Alexander Romanov

ag@concorde.com.ua
ar@concorde.com.ua

Consumer-related

Olha Pankiv
Anna Dudchenko

op@concorde.com.ua
ad@concorde.com.ua

Machinery

Inna Perepelytsya

pi@concorde.com.ua

Financial Services, Retail

Alexander Viktorov

av@concorde.com.ua

Economics

Polina Khomenko
Andrii Parkhomenko

pk@concorde.com.ua
pav@concorde.com.ua

Fixed Income

Oleksandr Klymchuk

ok@concorde.com.ua

Editor

Brad Wells

bw@concorde.com.ua

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