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Gas Distribution Companies

For Daredevils Only

Companies Covered

DonteskOblGaz
Ivano-FrankivskGaz
OdessaGaz
KharkivGaz
KhmelnitskGaz
KyivOblGaz
LuhanskGaz
DnipropetrovskGaz
LvivGaz
PoltavaGaz

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Investment Summary

With this report we are initiating coverage of Ukrainian gas distribution companies or GasCos, a sector that has long been overlooked by portfolio investors due to its peculiar regulatory climate, low profitability, high indebtedness and lack of liquidity. As these problems are in the process of being solved, we believe GasCos provide an interesting long-term opportunity for investors who are willing to tolerate the still significant risks.

Increasing M&A activity in the gas distribution sector and upcoming gas sector reforms are the main factors pushing GasCos liquidity and value appreciation.

There are 44 GasCos in Ukraine, each with a local monopoly in a particular territory, which can be a city, region or district. Their main business is to transport and supply gas within their territories. GasCos earn regulated tariffs for their transport and supply services. They also engage in other business including LNG trading, gas equipment service, building and repairing pipelines.

Although the Ukrainian government is planning to significantly reduce gas consumption by two times over the next 25 years, GasCos will see only a slow and gradual reduction in the long term, as they supply gas mainly to households and public institutions which are planned to reduce gas consumption by not more than 25% over the next 25 years. In any case, GasCos' sales will grow with the convergence of gas tariffs to the EU level (the expected growth of the domestic tariff is at least 200%).

We expect GasCos' profitability to improve due to a recent increase in tariffs and the efforts underway to improve chronic payment discipline problems in the heating sector. The government has initiated a program to clear GasCos' debts, and plans are being developed to revamp the sector's archaic regulatory framework.

The main risks associated with GasCos is that they do not fully own the gas networks they operate (while taking networks away from them is almost impossible), and could lose their gas supply business (risk is remote). We accounted for these risks in our valuation section.

We have identified 10 GasCos that we think are interesting investment targets. These companies have shown relatively good financial performance over the last period, and they are of adequate size, with target MCap exceeding USD 20 mln. Note that our target prices imply a 95% discount to EU companies by EV/Gas multiples.

The absence of a liquid market for GasCo stocks makes it difficult to talk about market prices. We give indicative prices for some of the stocks we recommend based on rough estimates from our sales desk. Investors should be aware that the market impact of block trades can be significant.

10 Recommended GasCos

| | Sales, USD mln | | EBITDA margin 2005 | Target MCap USD mln | Target P/S | Target Price USD | Current Price Range USD | Recommend. |
|--------------------|-------------------|-------|--------------------------|---------------------------|---------------|------------------------|-------------------------------|------------|
| | 2005 | 2006E | | | | | | |
| DniporpetrovskGaz | 63.8 | 100.3 | -10.4% | 39.0 | 0.39 | 45.2 | n/a | BUY |
| DonetskOblGaz | 52.4 | 82.9 | 0.5% | 36.0 | 0.43 | 0.052 | 0.035 | BUY |
| Ivano-FrankivskGaz | 43.9 | 63.7 | 2.5% | 25.0 | 0.39 | 1.65 | 0.20 - 0.50 | BUY |
| KharkivOblGaz | 51.0 | 79.6 | 9.6% | 30.0 | 0.38 | 6.15 | 2.00 - 3.00 | BUY |
| KhmelnitskGaz | 35.6 | 54.4 | 10.2% | 22.0 | 0.40 | 59.7 | 25.0 - 35.0 | BUY |
| KyivOblGaz | 60.6 | 99.1 | 5.8% | 44.0 | 0.44 | 1.30 | 0.80 - 1.00 | BUY |
| LuhanskGaz | 48.0 | 77.7 | 3.1% | 30.5 | 0.39 | 4.18 | n/a | BUY |
| LvivGaz | 73.1 | 107.0 | -0.7% | 30.0 | 0.28 | 8.80 | n/a | BUY |
| OdessaGaz | 60.7 | 94.1 | 1.8% | 22.0 | 0.23 | 38.0 | 5.00 - 6.50 | BUY |
| PoltavaGaz | 34.2 | 51.3 | 6.3% | 20.0 | 0.39 | 48.3 | n/a | BUY |

WHY GASCOS?

GasCos: What Are They?

Gas distribution companies (GasCos) are companies responsible for transportation and retail supply of natural gas and bottled liquid natural gas (LNG) within a particular territory, which can be a region (oblast), city or district. GasCos utilize the local gas pipeline networks within their areas, most of which are leased from the state. However, GasCos usually also own some amount of pipeline infrastructure.

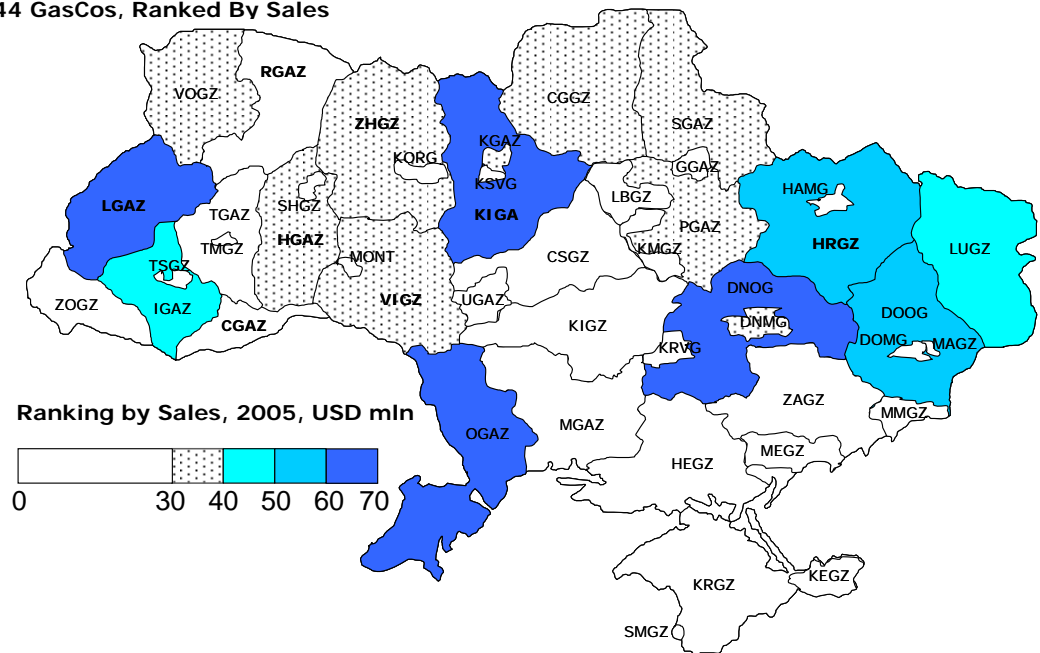
The business of GasCos can be broken into four categories:

- transportation of natural gas (on average, about 50% of revenues)
- retail supply of natural gas to consumers (~10%)
- supply of LNG to households and running LNG fuel stations (~10%)
- service of gas equipment, pipeline construction, other service (~30%)

Nearly all gas consumers rely on GasCos for gas transportation. However, GasCos supply gas mainly to households and public institutions, and not much to industry.

There are 44 GasCos in Ukraine, and they vary widely in size, from USD 3 mln to USD 70 mln in sales.

The 44 GasCos, Ranked By Sales



GasCos List

| Abbrev. | Name | Area of gas transportation/supply |
|---------|-----------------------|---|
| CGAZ* | ChernivtsiGaz | Chernivtsi Region*** |
| CGGZ | ChernigivGaz | Chernigiv Region |
| CSGZ | CherkasyGaz | Cherkasy Region** |
| DNMG | DniproGaz | City of Dnipropetrovsk |
| DNOC | DnipropetrovskGaz | Dnipropetrovsk Region** |
| DOMG | DonetskMiskGaz | City of Donetsk |
| DOOG | DonetskOblGaz | Donetsk Region** |
| GGAZ | GadiachGaz | Gadiach district, Poltava reg. |
| HAMG | KharkivMiskGaz | City of Kharkiv |
| HEGZ | KhersonGaz | Kherson Region |
| HGAZ* | KhmelnitskGaz | Khmelnitsk Region** |
| HRGZ* | KharkivGaz | Kharkiv Region** |
| IGAZ | Ivano-FrankivskGaz | Ivano-Frankivsk Region** |
| KEGZ | KerchGaz | Kerch Peninsular, Crimea |
| KGAZ | KyivGaz | City of Kiev |
| KIGA* | KyivOblGaz | Kiev Region** |
| KIGZ | KirovogradGaz | Kirovograd Region |
| KMGZ | KremenchukGaz | Two districts of Poltava region |
| KORG | KorostyshivGaz | Korostyshiv district, Zhytomyr reg. |
| KRGZ | KrymGaz | Crimea Rep.** |
| KRVG | KryvorizhGaz | City of Kryvyi Rih, Dnipropetrovsk reg. |
| KSVG | Kiev-Sviatoslyn GasCo | Kiev-Sviatoslyn district, Kiev reg. |

| Abbrev. | Name | Area of gas transportation/supply |
|---------|-----------------|--|
| LBGZ | LubnyGaz | Four districts of Poltava region |
| LGAZ* | LvivGaz | Lviv Region |
| LUGZ | LuhanskGaz | Luhansk Region |
| MAGZ | MakiivkaGaz | City of Makiivka, Donetsk reg. |
| MEGZ | MelitopolGaz | Three districts of Zaporizhia reg. |
| MGAZ | MykolaivGaz | Mykolaiv Region |
| MMGZ | MariupolGaz | Three districts of Donetsk reg. |
| OGAZ | OdessaGaz | Odessa Region |
| PGAZ | PoltavaGaz | Poltava Region** |
| RGAZ* | RivneGaz | Rivne Region |
| SGAZ | SumyGaz | Sumy Region |
| SHGZ | ShepetivkaGaz | Shepetivka district of Khmel'nitsk reg. |
| SMGZ | SevastopolGaz | City of Sevastopol |
| TGAZ | TernopilGaz | Ternopil Region** |
| TMGZ | TernopilMiskGaz | City of Ternopil |
| TSGZ | TysmenytsiaGaz | Tysmenytsia district, Ivano-Frankivsk reg. |
| UGAZ | UmanGaz | Uman district, Cherkasy reg. |
| VIGZ* | VinnitsaGaz | Vinnitsa Region** |
| VOGZ | VolynGaz | Volyn Region |
| ZAGZ | ZaporizhGaz | Zaporizhia Region** |
| ZHGZ* | ZhytomyrGaz | Zhytomyr Region** |
| ZOGZ | ZakarpGaz | Transcarpatian Region |

* Official PFTS tickers

** Companies supplying only part of the territory in the region

*** ChernivtsyGaz has no gas supply license, so it is only a gas transportation company

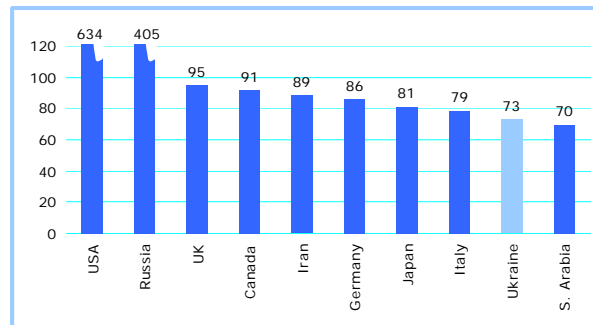
“Gas Forever”

Historically, Ukraine has shown little initiative in curbing its enormous gas consumption. However, recent gas price hikes have prompted the implementation of new energy-saving reforms. The Energy Strategy of Ukraine stipulates a 50% cut in overall gas consumption by 2030. But household gas consumption, GasCos’ main source of revenue, is expected to decrease gradually by only 25%.

Consuming a lot...

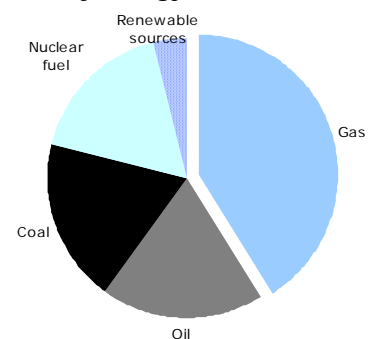
Ukraine is among the world’s top-10 consumers of natural gas, accounting for 2.6% of the world’s annual gas consumption. In 2005 Ukraine consumed 73 bcm of gas, putting it on par with Japan, Italy, Saudi Arabia and the entire African continent. Gas is the most important primary energy source in Ukraine.

World’s Top 10 Gas Consumers, 2005, bln cm



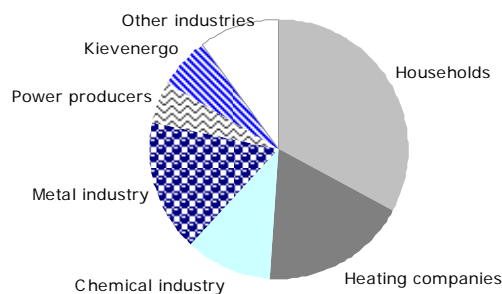
Source: BP’s Statistical Review of World Energy 2006

Primary Energy Sources In Ukraine



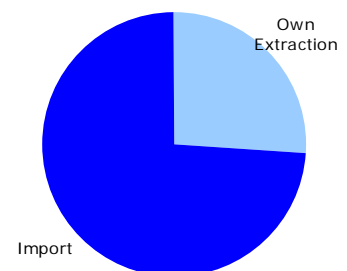
The main gas consumers are households, the heating sector, metallurgical and chemical enterprises, and electricity producers.

Gas Consumption Breakdown, Ukraine, 2005



Source: Ministry of Fuel and Energy

Gas Sources, 2005

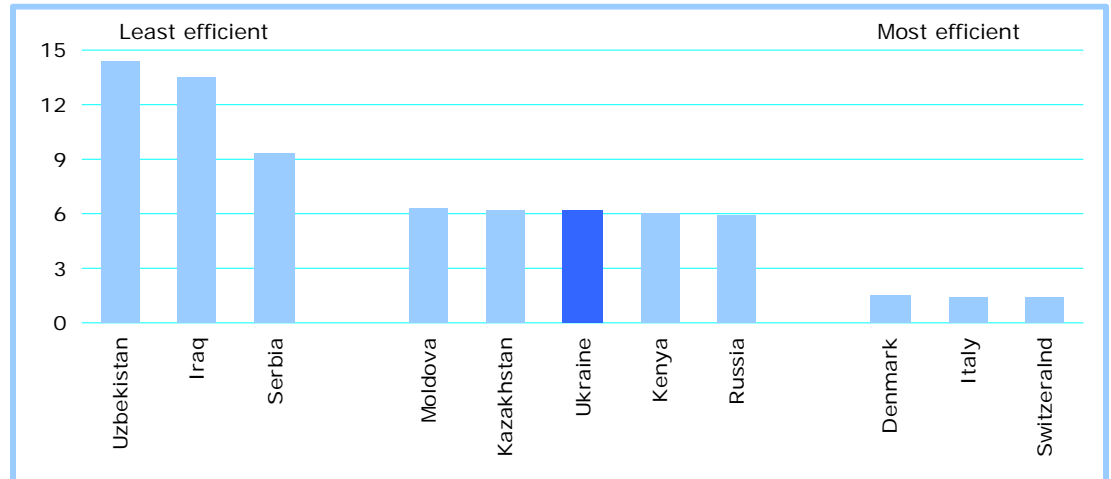


Domestic extraction covers only 26% of internal gas demand. Ukraine is therefore dependant on gas from Russia and the Middle East which adds uncertainty to domestic gas tariffs which are highly sensitive to export prices. However, GasCos’ available revenue is not directly affected by gas prices.

Consuming too much...

Ukraine is one of the world's most energy-intensive economies partly because it inherited the USSR's energy-inefficient technologies. Additionally, no energy-saving programs have been implemented due to low Russian gas prices which Ukraine enjoyed during 1991-2005. Ukraine is the 15-th least efficient energy consuming economy in the world, consuming 4 times more energy per one unit of GDP than Italy and Switzerland.

Energy Intensiveness Of GDP, 2003, kWh/USD(PPP)

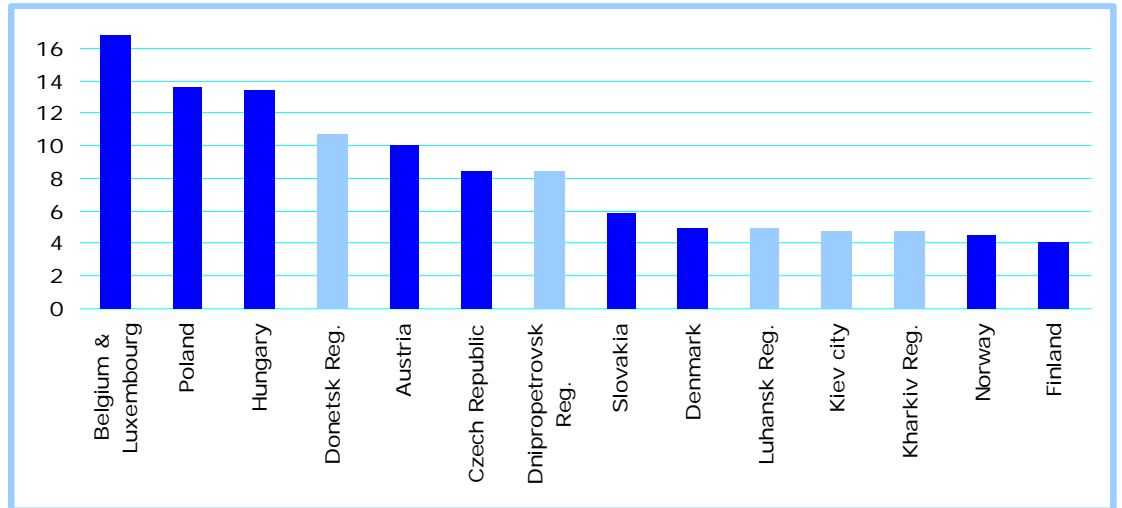


Source: International Energy Agency (IEA) 2005, Concorde Capital calculations

Regions Consume As Much As EU Countries

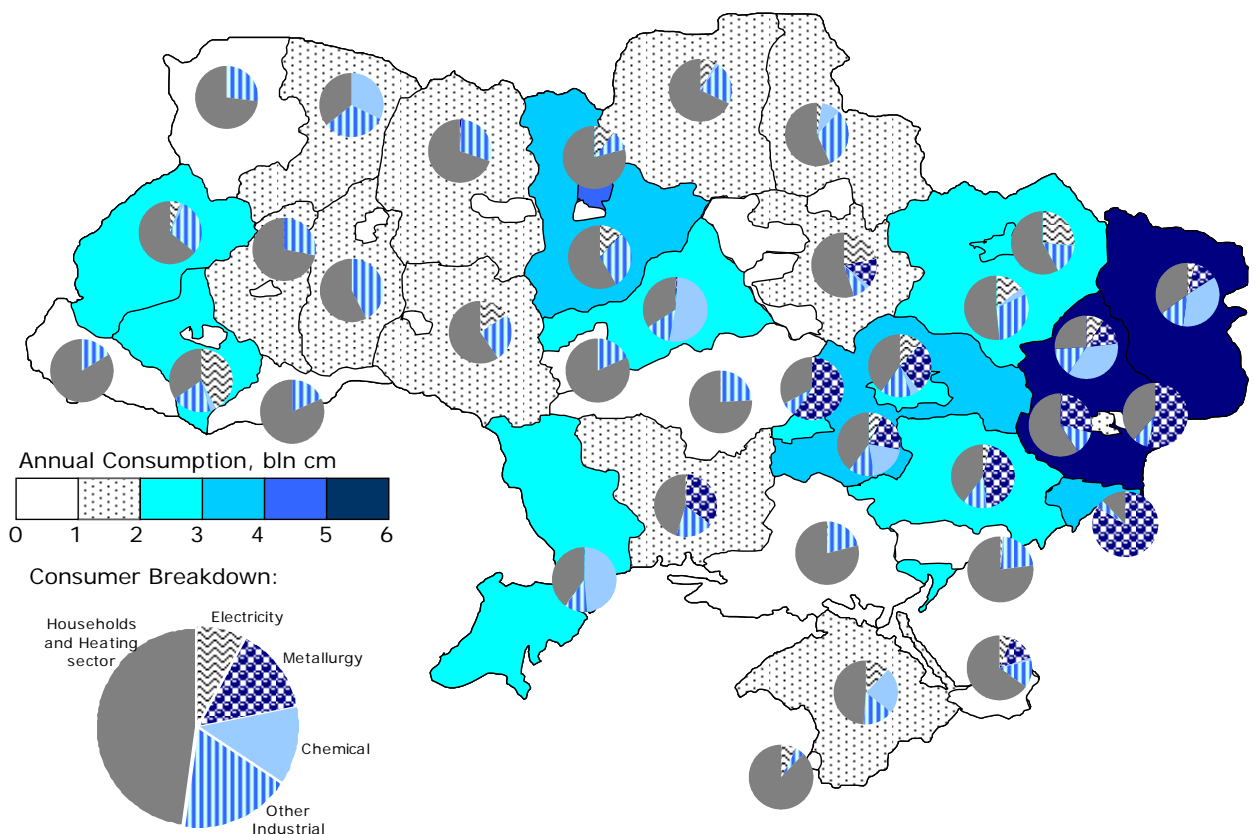
The biggest consumers of natural gas are the industrial regions of eastern Ukraine and the regions with high population density. The volume of natural gas consumption in some Ukrainian regions is comparable with that of mid-sized European countries.

Gas Consumption, 2005, bln cm



Source: IEA, EnergoBusiness, Concorde Capital

Total Consumption And Consumer Breakdown Of GasCos' Activity By Location



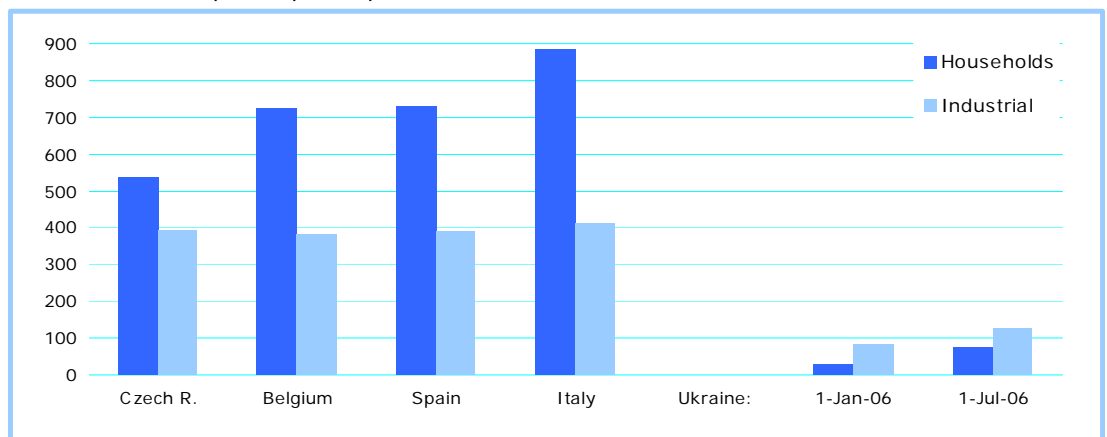
Consumption Optimization Potential

The Energy Strategy of Ukraine stipulates a decrease in gas consumption by 1/2 in the next 25 years. Theoretically, this is possible, because:

- Ukraine has huge deposits of coal and uranium ore which could substitute gas as an energy source.
- Ukraine has enough room for a decrease in consumption of primary energy sources. In particular, the Strategy foresees a decrease of energy intensiveness of GDP by 50%, due to structural changes (energy savings) and technological upgrades.

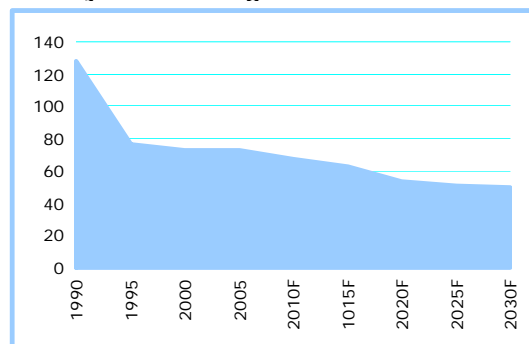
When this strategy was developed (2001-2002), no gas crisis was anticipated. The sole purpose of cutting gas consumption was to help Ukraine become more energy independent. This did not turn out to be a strong enough motivation. But we expect the recent triple-digit hike in gas prices in 2006 will prove to be a better incentive to fulfill the strategy.

Retail Gas Tariffs, Jan 1, 2006, USD/ths cm



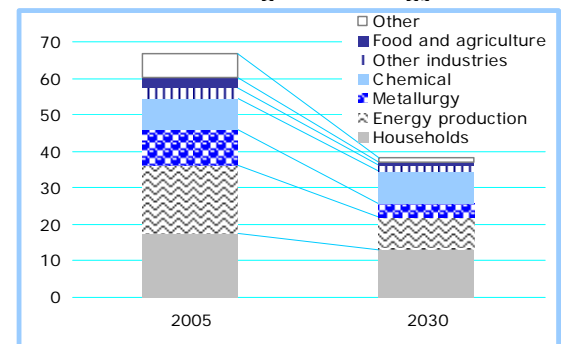
Source: Eurostat, Gaz Ukrayny, Concorde Capital calculations

**Ukrainian Gas Consumption, bln cm:
History And "Strategic" Trend**



Source: Fuel and Energy Ministry, Energy Strategy of Ukraine till 2030

Breakdown According To "Strategy"



Note that during the next 25 years the highest decrease in gas consumption is expected in the industrial sector (except chemical), while in households (GasCos' main consumers) the decrease is expected to be only 25%.

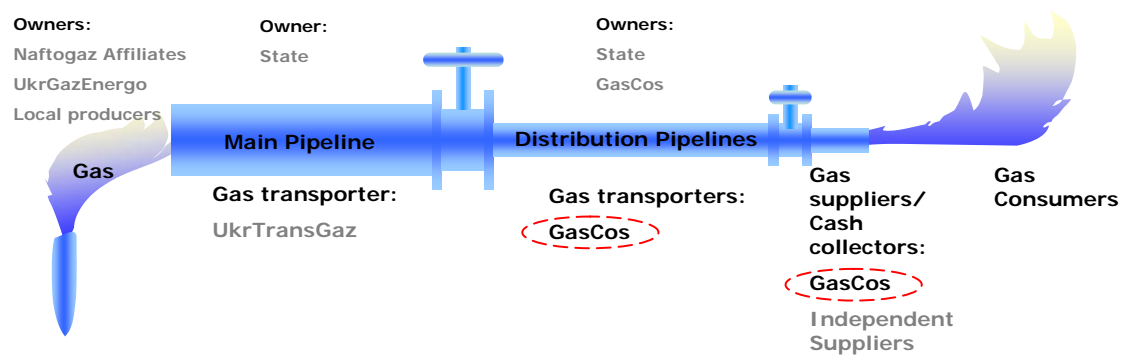
More, as gas tariffs in Ukraine are 3-10 times lower than in EU countries, and we expect convergence domestic of gas tariffs to EU level, revenues of GasCos will grow significantly in the long-term.

Internal Gas Market: Where are GasCos Involved?

First, gas is produced by National Company Naftogaz Ukrainy (NAK Naftogaz) and its affiliated companies, NAK Gaz Ukrainy and NAK ChornomorNaftoGaz, or imported by the joint venture company UkrGazEnergo. From there gas gets to the customer in one of three ways:

- 1) In the case of the biggest industrial users which have direct links to the main pipeline, gas goes directly to the customer and the GasCo is not involved at all.
- 2) In the case of most medium and larger industrial users, another company is the supplier and they pay the GasCo for transportation.
- 3) In the case of small industry, households and public institutions, gas is delivered through a local pipeline network operated by one of the GasCos, and the GasCo also acts as the supplier.

Simplified Gas Flow Pattern



BUSINESS ...

Revenue Sources

Four Business Segments

The key sources of GasCos' revenue are transportation of gas in local pipelines, supply of gas to consumers (which includes physical supply of gas to consumers and cash collection), supply of LNG, and related services.

Note that gas transportation and gas supply are two different markets for GasCos: even when a GasCo transports gas directly to the consumer, it does not necessarily "supply" it. The supplier can be any other company which has a supply license. As a result, the gas supply business is much less important and less stable for GasCos than the gas transportation business.

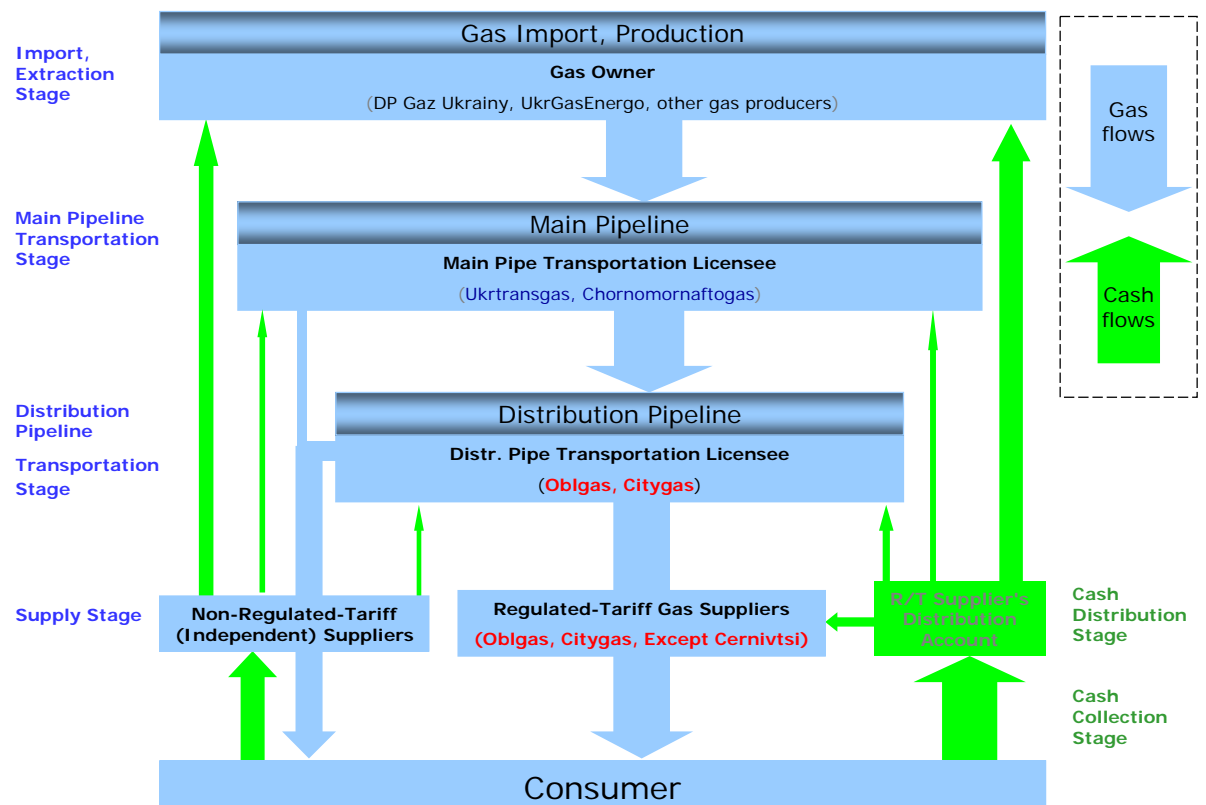
Revenue Distribution

Before presenting revenue distribution, it is necessary to make a distinction between GasCos' reported revenue (from the P&L statement) and their disposable revenue (which actually comes to GasCos' business accounts). The distinction is rooted in the regulation system.

Cash Flow Regulation: NERC Algorithm, Similar To Oblenergos

GasCos have restricted access to the money they collect from retail gas consumers. The money must be deposited in special "distribution accounts", which are then distributed to the GasCo, the wholesale gas supplier (usually Gaz Ukrainy or UkrGazEnergo), and the national gas pipeline operator (usually UkrTransGaz), according to the "algorithm" set by the NERC. The portion distributed to the GasCo is called the "NERC algorithm". The system is very similar to one applied to electricity distribution companies (Oblenergos).

Gas and Cash Flow Schedule



This system was introduced in 2000 in order to improve payment discipline. In the 1990s, after GasCos were privatized, if retail gas consumers didn't pay for supplies, the GasCos generally covered their own costs first and passed any shortfalls on to Naftogaz. The distribution account system ensures that any shortfall is shared proportionally.

This rule means that not all of GasCos' reported revenue goes directly to GasCos' accounts. Although GasCos report the full amounts they collect from retail consumers as revenue, GasCos only have access to a portion of this revenue (referred as disposable revenue). However, this restriction applies only to GasCos' revenue from retail gas supply, not to revenue from gas transport or other business.

"NERC Algorithm" For GasCos For July 2006

| | | |
|------|-----------------------|------|
| CGAZ | ChernivtsiGaz | 18%* |
| CGGZ | ChernigivGaz | 21% |
| CSGZ | CherkasyGaz | 13% |
| DNMG | DniproGaz | 12% |
| DNOG | Dniporpetrovskgaz | 21% |
| DOMG | DonetskMiskGaz | 14% |
| DOOG | DonetskOblGaz | 17% |
| GGAZ | GadiachGaz | 19% |
| HAMG | KharkivMiskGaz | 21% |
| HEGZ | KhersonGaz | 24% |
| HGAZ | KhmelnitskGaz | 25% |
| HRGZ | KharkivGaz | 23% |
| IGAZ | Ivano-FrankivskGaz | 21% |
| KEGZ | KerchGaz | 13% |
| KGAZ | KyivGaz | 9% |
| KIGA | KyivOblGaz | 21% |
| KIGZ | KirovogradGaz | 22% |
| KMGZ | KremenchukGaz | 19% |
| KORG | KorostyshivGaz | 27% |
| KRGZ | KrymGaz | 20% |
| KRVG | KryvorizhGaz | 11% |
| KSVG | Kiev-Sviatoshyn GasCo | 15% |
| LBGZ | LubnyGaz | 21% |
| LGAZ | LvivGaz | 26% |
| LUGZ | LuhanskGaz | 17% |
| MAGZ | MakiivkaGaz | 15% |
| MEGZ | MelitopolGaz | 22% |
| MGAZ | MykolaivGaz | 22% |
| MMGZ | MariupolGaz | 18% |
| OGAZ | OdessaGaz | 12% |
| PGAZ | PoltavaGaz | 25% |
| RGAZ | RivneGaz | 27% |
| SGAZ | SumyGaz | 36% |
| SHGZ | ShepetivkaGaz | 25% |
| SMGZ | SevastopolGaz | 14% |
| TGAZ | TernopilGaz | 27% |
| TMGZ | TernopilMiskGaz | 16% |
| TSGZ | TysmenytsiaGaz | 29% |
| UGAZ | UmanGaz | 18% |
| VIGZ | VinnitsaGaz | 17% |
| VOGZ | VolynGaz | 28% |
| ZAGZ | ZaporizhGaz | 17% |
| ZHGZ | ZhytomyrGaz | 23% |
| ZOGZ | ZakarpalGaz | 26% |

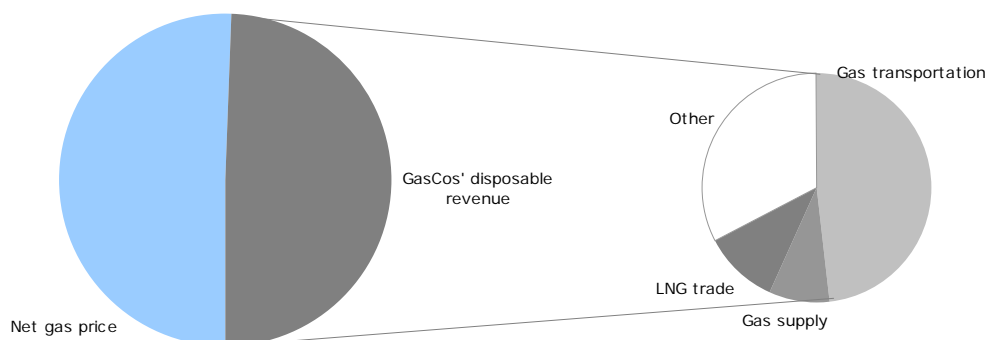
Source: NERC

* Note: ChernivtsiGaz obtains money from the distribution account of Gaz Ukrainy, the supplier of gas in Chernivtsi region

Supply Business Determines Reported Revenue

GasCos' reported revenue includes all the money they collect from their retail supply customers (i.e., on the R/T suppliers' distribution account on the chart above), even though GasCos only have access to the portions that are connected to the services they provide: gas transport and supply. Part of the reported revenue which bypasses GasCos' account is the net price of gas plus the main pipeline transportation tariff. It is reported simultaneously as both costs and revenues for GasCos. This value does not affect GasCos' bottom lines, but heavily affects reported revenue (49% of reported revenue).

GasCos Sector Revenue Structure



Source: company data, Gaz Ukrainy, Concorde Capital estimates

Transportation Business Determines Disposable Revenue

GasCos' disposable revenue is the revenue that GasCos actually can access. From the retail supply business, it includes only the portion paid to GasCos' own accounts, representing their tariffs for transportation and supply. It also includes revenue from gas transportation paid to GasCos by alternative suppliers, and all other kinds of revenues. Note that 48% of GasCos disposable revenue comes from transportation business. That is why GasCos treat gas transportation as their core business.

Natural Gas Retail

The Transportation Business

Transportation of natural gas in local pipelines is the main and most stable component of GasCos' activity. GasCos operate the entire infrastructure needed for transportation of gas from main pipelines to end users, they account for local transportation of more than 50 bln cm of gas in Ukraine.

Gas Networks Leased

Unlike Ukrainian electricity distribution companies (Oblenergos) which own all the electricity networks, GasCos own only part of the gas networks they operate. Part of the network infrastructure is owned by the state and leased by GasCos. Although theoretically this implies a risk that GasCos could lose their leases, we think that is unlikely. The state-owned and GasCo-owned portions of pipeline infrastructure are highly intertwined. GasCos received ownership of some pipeline infrastructure when they were privatized and they also own the portions that they have upgraded since privatization. While upgrading their networks, GasCos generally focus on small but crucial parts of their gas networks. Thus, it would be extremely problematic to try to separate GasCos from the distribution networks. Therefore, we treat GasCos as infinite lessees of gas distribution networks.

Alternative Transporting Service Providers?

It is also theoretically possible that alternative transport companies could appear and try to compete with GasCos in this market sector. Any company can construct its own gas pipeline link to the national pipeline network and thereby bypass GasCos' local transport network. However, as a practical matter that option is only affordable for large gas consumers located near main gas pipelines, most of which already have such links.

Illustration: The Economics of Building an Alternative Pipeline

Currently, the gas transport tariff for those pumping gas from GasCos' pipelines is 14 USD/thc cm. The transportation tariff for those connected to main pipelines is 11.4 USD/thc cm. Thus, what the company can economize by constructing its own pipeline is 2.6 USD/thc cm. Recent experience shows that the cost of construction of one kilometer of pipeline is about USD 0.12 mln.

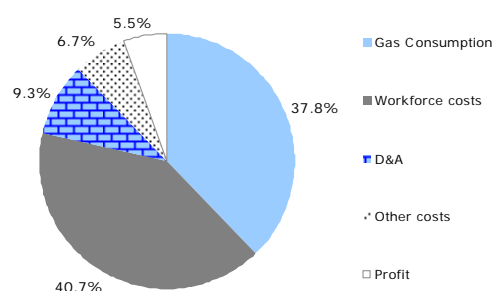
Thus, assuming 15% cost of capital, the useful life of alternative pipeline of 25 years, and the length of alternative pipeline 10 km, then the construction of a pipeline can be justified only if the company consumes more than 62 mln cm of gas annually. This is affordable only for the largest chemical, metallurgical and power plants, and only if they have the needed capital.

Thus, most gas end consumers buy gas from GasCos' distribution pipelines.

Costs And Profit

The main costs related to the gas transportation business are gas consumption (for transportation purposes) and salaries. Regulators allow for 5.5% profitability of transport business, on average.

Transportation Tariff Components, Average Among GasCos, 2006, USD/thc cm



Source: NERC, Concorde Capital calculations

The Supply Business

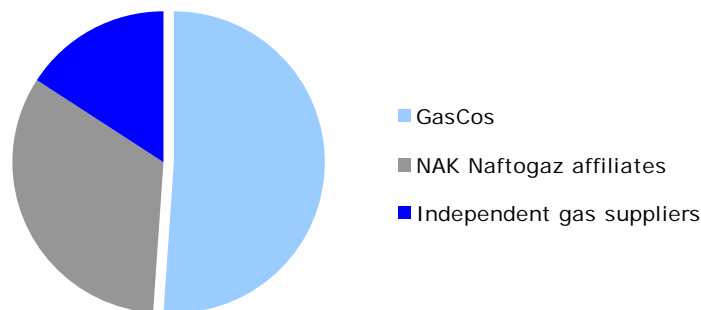
The gas supply business encompasses the physical supply of gas to the end user, ensuring the quality of gas supply, and bill collection for the supplied gas. In Ukraine, this business is de-monopolized, which means any company that has a license can supply gas.

Market Position

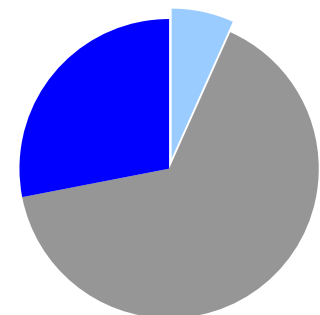
GasCos occupy about 50% of the Ukrainian gas supply market, but they are mainly concentrated on households, budget sector and heating enterprises. The high-margin segments of gas supply to industrial enterprises are occupied by Gaz Ukrainy and small alternative gas suppliers.

Natural Gas Supply Market Shares, 2005:

Total



Industrial

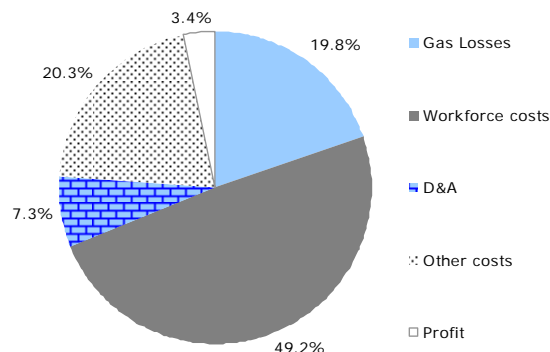


In most cases, large gas consumers “supply” gas to themselves (i.e. they have a license for gas supply) thus not paying to GasCos for gas supply service, and saving on average 3.7 USD/thc cm.

Costs

The key cost item in the supply business is related to workforce (more than 50%, on average).

Supply Tariff Components, Average Among GasCos, 2006, USD/thc cm



Source: NERC, Concorde Capital calculations

Another important component is the loss of gas which is paid directly by GasCos:

Gas "Losses" From Supply

Under the NERC's rules for determining GasCos' costs, GasCos are forced to absorb some losses associated with the lack of gas meters in most households. Households which do not have gas meters are assumed to consume a standard amount of gas determined by the government. This creates an incentive for households to waste gas, as they don't pay for any gas used above the pre-set standards. The NERC doesn't recognize the cost of this over-consumption when it calculates GasCos' estimated costs for the purpose of setting tariffs. These costs are absorbed by GasCos and are called commercial gas losses.

Because 15-60% of households (depending on the GasCo) do not have gas meters, most GasCos suffer from commercial gas losses. To solve the problem, the government and Naftogaz launched a program to encourage installation of gas meters, under which 27 out of 44 GasCos were granted special surcharges to their supply tariff to be spent on installing gas meters.

Share of Gas Meter Surcharges in GasCos' Supply Tariff

| | | | | | |
|-------------|------------|-------------|------------|-------------|------------|
| CGAZ | - | KIGA | 47% | PGAZ | 57% |
| CGGZ | - | KIGZ | 30% | RGAZ | 36% |
| CSGZ | 30% | KMGZ | - | SGAZ | 28% |
| DNMG | - | KORG | - | SHGZ | 42% |
| <u>DNOG</u> | <u>36%</u> | <u>KRGZ</u> | <u>38%</u> | <u>SMGZ</u> | <u>-</u> |
| DOMG | - | KRVG | - | TGAZ | 32% |
| DOOG | 42% | KSVG | - | TMGZ | 46% |
| GGAZ | - | LBGZ | 22% | TSGZ | 18% |
| HAMG | - | LGAZ | 29% | UGAZ | - |
| <u>HEGZ</u> | <u>30%</u> | <u>LUGZ</u> | <u>28%</u> | <u>VIGZ</u> | <u>41%</u> |
| HGAZ | 32% | MAGZ | 18% | VOGZ | 36% |
| HRGZ | 39% | MEGZ | - | ZAGZ | 55% |
| IGAZ | 33% | MGAZ | 24% | ZHGZ | 35% |
| KEGZ | - | MMGZ | - | ZOGZ | 25% |
| <u>KGAZ</u> | <u>-</u> | <u>OGAZ</u> | <u>-</u> | | |

Source: NERC, Concorde Capital calculations

To Supply Or Not To Supply?

The ex-CEO of Naftogaz Ukrainy, Olexander Bolkisev, has put forward a plan to take away GasCos' gas supply business and give it to companies affiliated with Naftogaz. This model is now being tested in the Chernivtsy region, where ChernivtsyGaz only transports the gas in local gas networks, and the Chervivtsy division of Gaz Ukrainy supplies gas to final consumers. According to Bolkisev, this "experiment" is slated for nation-wide implementation. However, with the replacement of Bolkisev with Vladimir Sheludchenko, ex-CEO of DonetskOblGaz, the idea of restructuring GasCos' business is likely to fall by the wayside.

The idea of a split in the transportation and supply businesses was also initiated by private holders of GasCos. The president of the private gas company GAZTEK, Andriy Karpenko, announced that his company was also thinking about spin-offs of controlled companies with the creation of pure transportation and pure supply companies.

In our valuation, we take into account the possibility of a split in GasCos businesses by valuing GasCos as both integrated companies and pure gas transportation enterprises.

Revenue Seasonality

GasCos' business from its main customers, households and heating companies, is characterized by very high seasonality in natural gas consumption. GasCos generate 2/3 to 3/4 of their revenues during the first and fourth quarters of the year.

Gas Consumption Fluctuation In Ukraine, 2005, bln cm



Source: Gaz Ukrainy, Concorde Capital calculations

LNG sees its highest sales during the summer harvest period as it is used mostly for cooking in rural areas. As its seasonality consumption patterns run counter to those of GasCos's main consumers, LNG consumption somewhat evens out the seasonal swings in revenue.

Tariff Policy For GasCos

It is impossible to find a more complicated tariff setting procedure than what exists in the Ukrainian gas sector. These policies are rooted in the time of planned economies, when Ukraine's entire gas system was a single institution. Even after restructuring and privatization in the gas sector in the late 1990-s, the tariff policy remained unchanged.

Tariffs for gas are controlled by the NERC (National Electricity Regulation Commission) which primarily targets electricity sector regulation. The gas companies and regulator have a step-child/step-parent relationship; this has a good side and a bad side. The bad side is that in its tariff policy, the NERC acts more in the interests of electricity companies, sometimes at the cost of gas companies. The good side is that the NERC controls the gas sector less strictly, which allows GasCos to act more independently than electricity companies.

Additionally, while the rules of the game in the electricity sector are quick to change, and electricity generation and distribution companies often suffer from regulatory experiments, the legal environment in the gas sector is more stable.

No doubt that gas sector regulation is more "archaic" than in the electricity sector, but on the other hand, it is more stable, as GasCos do not need to adjust often to erratic policy changes.

Slow Transport Tariff Adjustment Spoils Profitability

The tariffs that GasCos charge for local gas transportation service are regulated by the NERC, which adjusts them only occasionally.

Time Between Revision Of Transport Tariffs

| Date of new tariff act | Months since last tariff revision |
|------------------------|-----------------------------------|
| 1-Apr-00 | |
| 1-Feb-01 | 10 |
| 1-May-04 | 40 |
| 1-Jun-06 | 25 |

Source: NERC, Concorde Capital calculations

The rigidity of transport tariffs is one of the main reasons for GasCos' low profitability, as the growth of transport tariffs tends to lag behind the growth of GasCos' costs.

The main reason why the NERC adjusts tariffs so rarely is that its system for setting tariffs is very complex. The NERC is unable to update GasCo's tariffs individually; the tariffs for all 44 GasCos and UkrTransGaz have to be updated simultaneously. The policy is rooted in the former planned economy.

The NERC sets GasCos' transport tariffs at an amount that it estimates will cover the GasCos' costs and provide for a profit margin (5.2%-6.0%, according to the last tariff update). GasCos first conduct their own estimates and apply for a certain tariff level, the NERC does its own calculations, and after a negotiation process the NERC decides on a new tariff level. At the moment, the average transport tariff for GasCos is 8.8 USD/thc cm.

While setting tariffs for GasCos, the NERC is obliged to perform a complex balancing operation so that the total transport tariff, which includes GasCos' transport tariffs and UkrTransGaz's tariff, is identical throughout the country. That is, GasCos' tariffs vary, and UkrTransGaz's tariffs also vary from region to region, but in every region the total of the two is identical. UkrTransGaz's tariff is also set according to an estimation of its costs plus profit margin.

Supply Tariffs Adjusted More Frequently

Retail supply tariffs are also set by the NERC according to the cost-plus method. However, unlike transport tariffs, supply tariffs can be adjusted individually for any particular GasCo at any time. Thus, GasCos' supply tariffs are revised more often than transport tariffs.

However, the retail price of gas is fixed and is adjusted only occasionally, and so any increase in a GasCos' supply tariff results in a decrease in the amounts received by the gas producer or importer. Naftogaz, the main gas producer, has a lot of bargaining power, so it is not easy for GasCos to get their tariffs increased. The new gas importer UkrGazEnergo, is expected to oppose tariff changes even more strongly, because, unlike Naftogaz, it is partially controlled by profit-seeking private holders.

Currently, the average profitability (EBIT) included in the supply tariff is 3.4%. The average supply tariff for GasCos in 2006 is 3.7 USD/thc cm.

Costs Grow Even More Frequently

The main costs related to GasCos' gas transportation and supply businesses are gas costs (consumption of gas during transportation) and workforce-related costs (wages and social payments). Gas-related costs are closely correlated with retail gas tariffs, as GasCos have to buy gas for their own consumption at the retail industrial tariffs. Because retail industrial tariffs are revised more often than GasCos' transportation and supply tariffs, GasCos profitability suffers.

Expected Changes In Regulatory Framework: Hopes For Long-Term Improvements

At the moment the NERC is considering changing the tariff policy in the electricity and gas distribution sectors, by applying transportation/supply tariffs in accordance with an expected return on invested capital (or so-called regulated asset base, RAB). While for Oblenergos new tariff policy is being currently worked out and expected to be implemented in 2007, for GasCos new tariff rules are only planned to be designed. Thus, we do not expect any changes in GasCos' tariff policy earlier than 2008-2009. Still, the situation will become clearer after setting new rules for electricity distribution companies.

We implicitly account for the scenario of tariff policy change in our valuation part, valuing GasCos by the book value of fixed assets.

In any case, gas distribution/supply companies are more of a long-term investment than are electricity distributors.

June Tariff Increase to Improve Margins

Due to tariff rigidity and commercial gas losses, most GasCos were loss-making in 2003-2005. However, in May 2006 GasCos' transport and supply tariffs increased on average by 63% and 45%, respectively. Thus, we expect gas companies' profits to increase in 2006. However, we do not expect the average profitability (EBIT) of gas distribution and supply to exceed 4%.

Margins Of GasCos (Top 30 By Sales)

| | | Sales | | | EBITDA margin | | | Net margin | | |
|------|--------------------|-------|------|------|---------------|------|------|------------|------|------|
| | | 2003 | 2004 | 2005 | 2003 | 2004 | 2005 | 2003 | 2004 | 2005 |
| DNOG | Dniporpetrovskgaz | 59.2 | 62.6 | 63.8 | 2% | -24% | -10% | -1% | -27% | -13% |
| OGAZ | OdessaGaz | 63.5 | 54.3 | 60.7 | 4% | 2% | 2% | 2% | 0% | 0% |
| KIGA | KyivOblGaz | 52.5 | 51.0 | 60.6 | 3% | 5% | 6% | 0% | 0% | 0% |
| LGAZ | LvivGaz | 42.6 | 44.1 | 73.1 | -14% | -55% | -1% | -23% | -22% | -6% |
| DOOG | DonetskOblGaz | 44.6 | 48.8 | 52.4 | -3% | 35% | 1% | -12% | 22% | -7% |
| HRGZ | KharkivOblGaz | 41.7 | 43.0 | 51.0 | 4% | 7% | 10% | -1% | 0% | 1% |
| LUGZ | LuhanskGaz | 39.3 | 41.8 | 48.0 | -11% | -12% | 3% | -15% | -16% | -1% |
| VOGZ | VolynGaz | 25.9 | 39.0 | 16.9 | -6% | -7% | 27% | -8% | 0% | 0% |
| IGAZ | Ivano-FrankivskGaz | 27.1 | 36.4 | 43.9 | -4% | 4% | 2% | -8% | 2% | 0% |
| VIGZ | VinnitsaGaz | 25.9 | 29.5 | 37.1 | 2% | -3% | -3% | -11% | 0% | -8% |
| ZHGZ | ZhytomyrGaz | 22.6 | 27.0 | 36.0 | -12% | -7% | 0% | -18% | -11% | -3% |
| HGAZ | KhmelnitskGaz | 24.1 | 29.4 | 35.6 | 4% | 6% | 10% | -1% | 0% | 3% |
| PGAZ | PoltavaGaz | 28.2 | 33.9 | 34.2 | -12% | -6% | 6% | -7% | 0% | -1% |
| DNMG | Dniprogaz | 23.3 | 25.2 | 31.8 | -8% | -1% | 6% | -12% | -6% | 2% |
| KGAZ | KyivGaz | 11.5 | 23.7 | 30.3 | 28% | 10% | 4% | 5% | 1% | 1% |
| SGAZ | SumyGaz | 35.3 | 37.4 | 30.0 | -2% | -1% | -2% | -4% | -3% | -6% |
| CSGZ | CherkasyGaz | 39.1 | 27.7 | 28.6 | 3% | -2% | -9% | 2% | -7% | -9% |
| CGGZ | ChernigivGaz | 23.4 | 26.6 | 32.3 | 8% | 0% | 4% | 0% | 0% | 1% |
| KRGZ | KrymGaz | 20.5 | 24.0 | 27.0 | -18% | -7% | -9% | -21% | -10% | -11% |
| MGAZ | MykolaivGaz | 20.7 | 22.2 | 26.6 | -4% | -4% | -1% | -6% | -7% | -3% |
| ZAGZ | ZaporizhGaz | 19.4 | 21.3 | 24.8 | 6% | 7% | 6% | 1% | 1% | 0% |
| HAMG | KharkivMiskGaz | 21.0 | 24.4 | 23.4 | -3% | 40% | -12% | -6% | 34% | -17% |
| HEGZ | KhersonGaz | 17.7 | 18.5 | 25.4 | -12% | -1% | 0% | -13% | -3% | -2% |
| RGAZ | RivneGaz | 14.6 | 18.3 | 21.5 | -77% | 30% | 2% | -81% | 30% | -4% |
| KIGZ | KirovogradGaz | 14.4 | 19.4 | 23.6 | 4% | 5% | 3% | -1% | 1% | 1% |
| ZOGZ | ZakarpGaz | 15.3 | 16.3 | 35.2 | 2% | 33% | 0% | -2% | 30% | -2% |
| MMGZ | MariupolGaz | 10.5 | 11.3 | 13.6 | -2% | 4% | 5% | -10% | 0% | 2% |
| KRVG | KryvorizhGaz | 12.2 | 11.8 | 13.6 | 52% | -21% | -7% | 26% | -20% | -10% |
| DOMG | DonetskMiskGaz | 10.3 | 19.7 | 10.5 | -9% | -4% | -16% | -14% | -5% | -20% |
| CGAZ | ChernivtsiGaz | 5.4 | 6.3 | 7.6 | 1% | -22% | -3% | -6% | -41% | -8% |
| TGAZ | TernopilGaz | 5.0 | 5.5 | 6.5 | 0% | 4% | 4% | -3% | 0% | 0% |

Source: company data, Concorde Capital calculations

Tariff Growth For GasCos Since June 2006

| | | Trasp. Tariff | Supply Tariff* |
|------|-----------------------|---------------|----------------|
| CGAZ | ChernivtsiGaz | 110% | - |
| CGGZ | ChernigivGaz | 80% | 14% |
| CSGZ | CherkasyGaz | 97% | 277% |
| DNMG | DniproGaz | 33% | 0% |
| DNOG | Dniporpetrovskgaz | 61% | 45% |
| DOMG | DonetskMiskGaz | 84% | 24% |
| DOOG | DonetskOblGaz | 70% | -5% |
| GGAZ | GadiachGaz | 67% | 34% |
| HAMG | KharkivMiskGaz | 43% | 30% |
| HEGZ | KhersonGaz | 51% | 12% |
| HGAZ | KhmelnitskGaz | 48% | 34% |
| HRGZ | KharkivGaz | 28% | 82% |
| IGAZ | Ivano-FrankivskGaz | 63% | 128% |
| KEGZ | KerchGaz | 29% | 14% |
| KGAZ | KyivGaz | 46% | 0% |
| KIGA | KyivOblGaz | 68% | 0% |
| KIGZ | KirovogradGaz | 79% | 42% |
| KMGZ | KremenchukGaz | 45% | 68% |
| KORG | KorostyshivGaz | 46% | 91% |
| KRGZ | KrymGaz | 41% | 105% |
| KRVG | KryvorizhGaz | 77% | 35% |
| KSVG | Kiev-Sviatoslyn GasCo | 61% | 4% |

Source: NERC, Concorde Capital calculation

* For the purpose of comparability, supply tariffs do not include surcharges for gas meters installation

| | | Trasp. Tariff | Supply Tariff* |
|------|-----------------|---------------|----------------|
| LBGZ | LubnyGaz | 73% | 62% |
| LGAZ | LvivGaz | 96% | 67% |
| LUGZ | LuhanskGaz | 71% | 81% |
| MAGZ | MakiivkaGaz | -13% | 78% |
| MEGZ | MelitopolGaz | 119% | 18% |
| MGAZ | MykolaivGaz | 87% | 37% |
| MMGZ | MariupolGaz | 57% | 39% |
| OGAZ | OdessaGaz | 34% | 38% |
| PGAZ | PoltavaGaz | 54% | 22% |
| RGAZ | RivneGaz | 94% | 5% |
| SGAZ | SumyGaz | 81% | 108% |
| SHGZ | ShepetivkaGaz | 51% | 12% |
| SMGZ | SevastopolGaz | 33% | 28% |
| TGAZ | TernopilGaz | 57% | 22% |
| TMGZ | TernopilMiskGaz | 70% | 29% |
| TSGZ | TysmenytsiaGaz | 52% | 96% |
| UGAZ | UmanGaz | 84% | 28% |
| VIGZ | VinnitsaGaz | 55% | 14% |
| VOGZ | VolynGaz | 60% | 14% |
| ZAGZ | ZaporizhGaz | 61% | 38% |
| ZHGZ | ZhytomyrGaz | 67% | 39% |
| ZOGZ | ZakarpGaz | 82% | 27% |

LNG Business

About 5.5 mln Ukrainian households use bottled liquefied natural gas (LNG). Annual Ukrainian consumption of LNG is 120,000 mt, and about 100,000 mt of LNG is consumed by households. GasCos are monopolistic suppliers of LNG to households.

GasCos do not produce LNG, they buy it from gas and oil processing companies. Due to the regulation of LNG tariffs, this business is loss-making for most of the GasCos. They are legally obliged to provide this service.

The supply of LNG to auto transportation companies and selling LNG through gas stations is a more lucrative business segment, but this segment brings less than 1% of revenues to GasCos,.

In the future, with the extension of gas pipe networks, consumption of bottled LNG by households will decrease, and the consumption of pipeline natural gas in the mid-term will increase. Sales of LNG for automobiles are expected to grow fast in the mid- and long- term, as LNG is becoming a cheap alternative to gasoline in Ukraine.

Other Businesses

GasCos have additional business activities that are often more lucrative than its core business and help GasCos generate positive cash flows despite low gas transportation and supply tariffs.

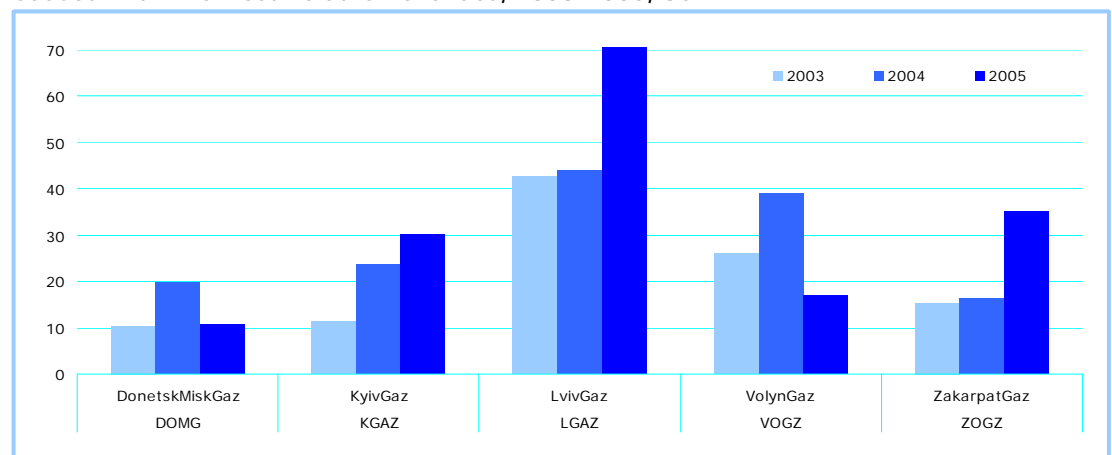
GasCos provide additional services related to the gas business: installation, control and repair of gas equipment; construction and reconstruction of gas pipelines and networks; developing of metering and control devices; other construction works etc.

Also, several GasCos are developing capacities for polyethylene gas production: VinnitsaGaz (20-90 mm pipes), KyivOblGaz (20-90 mm pipes) and ChernigivGaz (20-75 mm pipes).

In addition, unlike Ukrainian electricity distribution companies (Oblernergos), GasCos are also involved in businesses which are not related to the gas business: construction, retail and wholesale trading, catering etc.

Revenues from these additional businesses are highly volatile, as they depend on pipeline construction projects (gasification process) in the region. The volatility of additional GasCos business is a main factor in the volatility of gas companies' revenues, which in some cases exceeds 100% yoy.

GasCos With The Most Volatile Revenues, 2003-2005, USD mln



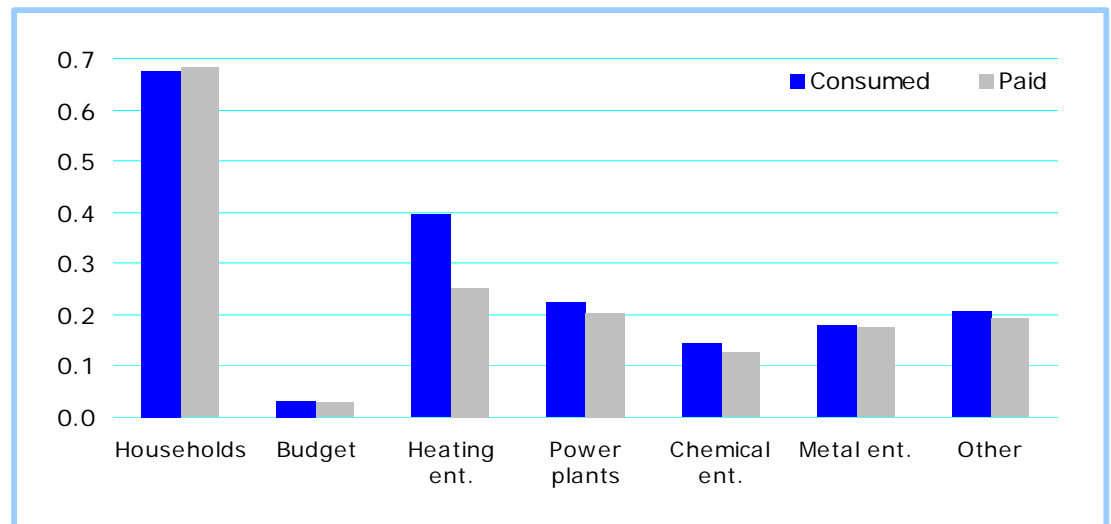
Source: company data

Payments & Debts

Payment Arrears

Two main groups of GasCos' customers, households and heating enterprises, represent groups of the most and the least disciplined payers for gas consumption, respectively.

Payments For Consumed Gas, USD bln, 1H06



Source: *EnergBiznes, Concorde Capital calculations*

Heating enterprises are the least disciplined of all GasCos' customers in paying for gas. This burden on GasCos may be lightened with the founding of Gaz-Teplo, an affiliate of Naftogaz that can bypass the heating enterprises and collect tariffs from end consumers directly. As a result GasCos are no longer obliged to provide heating enterprises with gas.

Intimidation Of Gaz-Teplo

In June 2004 Gaz-Teplo received a license to supply gas at a non-regulated tariff. Gaz-Teplo has introduced an experimental program in ten regions of Ukraine. According to the experiment, it supplies gas to heating enterprises and then supplies the heat produced to consumers and collects payments directly. Gaz-Teplo has increased the payment level for supplied heat significantly, but through this program, heating enterprises have lost their independence. Now they do not control cash flow from heat consumers.

This innovation is advantageous for GasCos, as now they can push heat enterprises to improve payment discipline without implementing unpopular methods like temporal gas supply cuts. GasCos are now free to refuse to sign supply contracts with heating enterprises. If there is no deal with a GasCo then a heating enterprise would be forced to sign a contract with Gaz-Teplo, which automatically solves GasCo's problem of low payment collection. In most cases it doesn't come to that, as heating companies under threat of being "merged" with Gaz-Teplo do their best to improve their payment levels on their own.

In the midterm, either heat enterprises will be able to lobby for justifiable heat tariffs, or be "merged" with Gaz-Teplo. In either case GasCos' problem of poor payment collection will be solved.

Old Debts Being Cleared Off

Due to significant delays in payments for gas consumption and the unfavorable regulatory framework, GasCos accumulated large amounts of payables and receivables, which sometimes exceed the companies' revenues.

Several GasCos particularly suffered from the payment crisis during the hyperinflation of the mid 1990-s. As before 1998, GasCos paid for gas in USD, but later received payments from their customers (with delays) in local currency, any delay in bill collection resulted in an increase in their debt. In addition, GasCos inherited debts accumulated by regional departments of Gaz Ukrainy during 2002-2003.

Despite huge indebtedness of some GasCos, bankruptcy procedures are not an option for them, as the main creditor, Naftogaz, understands the subjective nature of these debts.

Debt Accounts As Of March 31, 2006 (USD mln)

| | | Sales 2005 | Accounts receivable | Accounts payable | Net accounts payable | Net A/P to Sales |
|--------------------|------|------------|---------------------|------------------|----------------------|------------------|
| ChernivtsiGaz | CGAZ | 7.6 | 0.8 | 11.0 | 10.2 | 135% |
| Ivano-FrankivskGaz | IGAZ | 43.9 | 43.1 | 84.1 | 41.0 | 93% |
| LvivGaz | LGAZ | 73.1 | 54.7 | 120.3 | 65.6 | 90% |
| ZhytomyrGaz | ZHGZ | 36.0 | 8.0 | 31.4 | 23.4 | 65% |
| VinnitsaGaz | VIGZ | 37.1 | 39.0 | 58.8 | 19.8 | 53% |
| RivneGaz | RGAZ | 21.5 | 20.5 | 31.9 | 11.4 | 53% |
| KryvorizhGaz | KRVG | 13.6 | 18.1 | 24.8 | 6.6 | 49% |
| DonetskOblGaz | DOOG | 52.4 | 10.5 | 35.8 | 25.3 | 48% |
| ZakarpattGaz | ZOGZ | 35.2 | 46.2 | 62.7 | 16.5 | 47% |
| KharkivMiskGaz | HAMG | 23.4 | 21.2 | 31.1 | 9.9 | 42% |
| KyivGaz | KGAZ | 30.3 | 13.1 | 25.6 | 12.5 | 41% |
| Dniprogaz | DNMG | 31.8 | 12.6 | 20.1 | 7.5 | 24% |
| KhmelnitskGaz | HGAZ | 35.6 | 5.9 | 14.0 | 8.2 | 23% |
| OdessaGaz | OGAZ | 60.7 | 19.9 | 29.0 | 9.1 | 15% |
| ChernigivGaz | CGGZ | 32.3 | 27.3 | 30.9 | 3.6 | 11% |
| KhersonGaz | HEGZ | 25.4 | 9.6 | 12.4 | 2.8 | 11% |
| MykolaivGaz | MGAZ | 26.6 | 5.2 | 7.5 | 2.3 | 9% |
| KharkivOblGaz | HRGZ | 51.0 | 6.3 | 10.2 | 4.0 | 8% |
| MariupolGaz | MMGZ | 13.6 | 7.3 | 8.2 | 0.9 | 7% |
| KirovogradGaz | KIGZ | 23.6 | 2.1 | 1.0 | -1.1 | -5% |
| PoltavaGaz | PGAZ | 34.2 | 7.6 | 5.9 | -1.7 | -5% |
| KyivOblGaz | KIGA | 60.6 | 13.6 | 10.4 | -3.2 | -5% |
| TernopilGaz | TGAZ | 6.5 | 0.8 | 0.0 | -0.8 | -12% |
| SumyGaz | SGAZ | 30.0 | 13.6 | 7.6 | -6.0 | -20% |
| ZaporizhGaz | ZAGZ | 24.8 | 7.1 | 0.7 | -6.5 | -26% |
| VolynGaz | VOGZ | 16.9 | 14.3 | 8.4 | -5.9 | -35% |
| CherkasyGaz | CSGZ | 28.6 | 17.9 | 4.9 | -13.0 | -45% |
| LuhanskGaz | LUGZ | 48.0 | 29.9 | 1.4 | -28.5 | -59% |
| Dniporpetrovskgaz | DNOG | 63.8 | 59.0 | 11.9 | -47.1 | -74% |
| KrymGaz | KRGZ | 27.0 | 23.1 | 1.1 | -22.0 | -82% |
| DonetskMiskGaz | DOMG | 10.5 | 27.3 | 16.5 | -10.8 | -102% |

Source: company data, Concorde Capital calculations

According to the law *On Measures Directed To Ensure Stable Work Of Fuel And Energy Enterprises* (for more details, refer to Oblenergo report of September 15, 2005), gas supply enterprises are eligible to decrease their debts in a two-stage process:

- 1) In the first stage, by mutual reconciliation of debts
- 2) In the second stage, by creating a special fund for debt liquidation via additional surcharges to companies' tariffs

All GasCos with large debts anticipate solving their debt problem through the procedures stipulated by the law. We expect the gas companies will accomplish their goal.

GASCO SHARES

Ownership

Privatization & Consolidation

The Ukrainian gas infrastructure was restructured in the mid 1990-s with the creation of nation-wide gas companies (Naftogaz Ukrainy, Gaz Ukrainy, Ukrtransgaz: extracting, importing and transporting gas in main pipelines), and regional/city gas companies, which transport and supply gas to end users.

There were no open public tenders in the process of GasCos privatization. After GasCos "corporatization" (creation of open joint-stock companies), part of companies' shares were distributed among its employees and management, and part of the shares were bought out by local businessmen. As a result of shadow privatization and further consolidation of gas assets, five main groups of control in the gas distribution sector emerged:

NAK Naftogaz Ukrainy owns controlling stakes of 13 GasCos operated in eight regions – the company and its affiliates own all the stakes in GasCos which were not privatized.

GAZTEK Ukrainian private gas holding – controls ZhytomirGaz (ZHGX), KhmelnytskGaz (HGAX). Also has large stakes in DnipropetrovskGaz (DNOG), TernopilGaz (TGAZ), RivneGaz (RGAZ), ZaporizhGaz (ZAGZ) and MykolaivGaz (MGAZ).

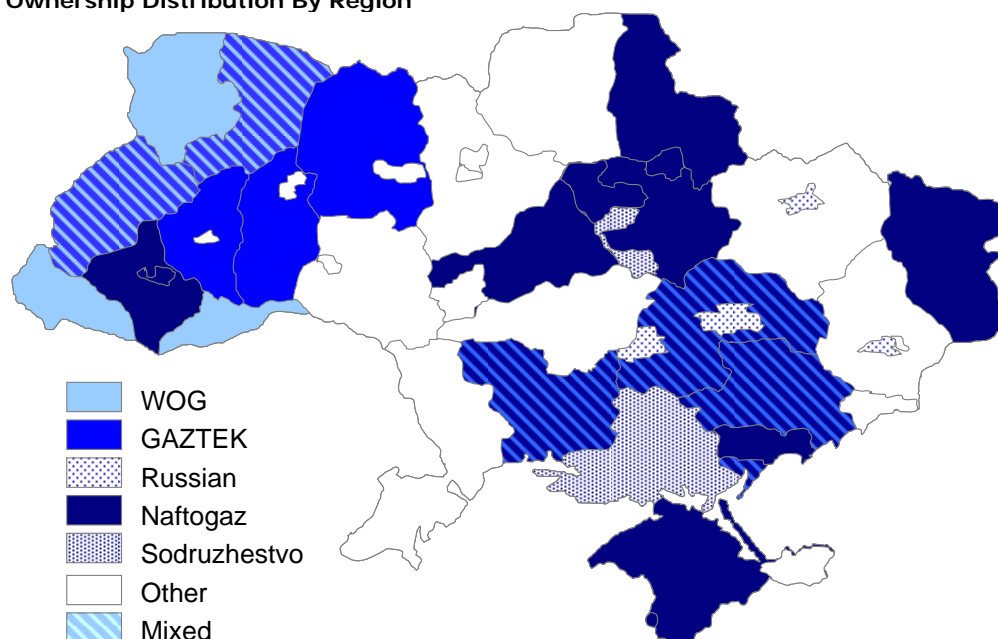
West Oil Group (WOG): Ukrainian holding operating in oil and gas retail business. Controls LvivGaz (LGAZ), VolynGaz (VOGZ), ChernivtsiGaz (CGAZ), RivneGaz (RGAZ) and ZakarpatGaz (ZOGZ).

Russian Owners controlling KharkivMiskGaz (HAMG), KryvorizhGaz (KRVG), DniproGaz (DNMG) and DonetskMiskGaz (DOMG). Before June 2006, these companies were controlled by **VSE** holding associated with Russian businessman Alexander Babakov. In June 2006, the companies were sold to Russian oligarchs, Mikhail Abyzov and Viktor Vekselberg.

Sodruzhestvo – small holding controlling KhersonGaz (HEGZ) and having minority stake in KremenchugGaz (KMGZ).

17 GasCos controlling transportation and supply business in eight regions are controlled by local business representatives or by management.

Ownership Distribution By Region



M&A Activity: A Wake Up Call For Investors & Regulators?

This year has been characterized by the increased interest of Russian businesses in the Ukrainian gas market. The most notable was the expanding of its gas supply business by UkrGazEnergo (in January 2006), a Joint-venture with Russian Gazprom and Ukrainian Naftogaz; and the selling of four city gas companies from Alexander Babakov to businesses related to Mikhail Abyzov and Viktor Vekselberg in June 2006.

It looks like this is not the end of the story, as information appeared recently that UkrGazEnergo is looking at the GasCos controlled by WOG and GAZTEK. Moreover, according to the information disclosed in the media, WOG is close to selling its stakes in the gas companies to UkrGazEnergo. According to the newly appointed Fuel and Energy Minister Yuriy Boyko, UkrGazEnergo can become a vertically integrated gas company, with its own retail (GasCos to be purchased) and production (Russian gas fields to be acquired) segments.

The entrance of new Russian owners is a sign of strategic investors' growing interest in Ukrainian gas companies, and it is going to attract the interest of portfolio investors in the Ukrainian gas sector.

We expect the new owners will urge reform in the gas sector. For instance, Russian IES Corporation, which currently operates four Ukrainian city gas companies, is a powerful lobbyist for interests of network companies (gas and electricity companies) in Russia, and it is likely to lobby for reforms in Ukraine. Even a more powerful "gas lobby" can be expected if UkrGazEnergo starts operating GasCos.

Stock Illiquidity

Gas companies represent highly illiquid stocks, only eight GasCos were listed on the PFTS, and only one company, ZhytomirGaz (ZHGX) has a depositary receipt program: GDR registered in April 2006 (Xetra ticker W8P1).

During the last three years, there was registered trading in only one gas stock on the PFTS. It was KhmelnytskGaz (HGAX) with eight deals, a volume totaling USD 0.2 mln, and a free float turnover of 6.3% (at estimated free float of 24% of total shares).

At the moment, only three stocks are listed: KhmelnytskGaz (HGAX), KharkivGaz (HRGX) and VinnitsaGaz (VIGX). Transactions in the latter two were never registered on the PFTS trading system.

PFTS Quotes, Aug 10, 2006, USD

| | Bid | Ask | Spread | Price of last deal | Date of last deal |
|------|------|------|--------|--------------------|-------------------|
| HGAX | 15.8 | 62.4 | 75% | 21.8 | Feb. 14, 2006 |
| HRGX | 0.7 | 2.2 | 67% | - | - |
| VIGX | 2.5 | 3.9 | 36% | - | - |

Due to the absence of a liquid market for GasCo stocks, it is difficult to talk about market prices. Guided by rough estimates from our sales desk, we give indicative prices for some of the stocks we recommend. We issue a BUY recommendation for a stock if we believe that the effective price for a sizeable block of shares will still provide an attractive upside. Investors should be aware that the market impact of block trades can be significant.

Long-Term Investment Horizon

Taking into account the current low profitability of gas companies and stock illiquidity, the GasCos' investment horizon is long-term (three to five years). We expect an increase in GasCos' profitability in the long-term by at least two times, with stabilization in retail gas prices and a more preferable tariff policy. In addition, we expect double-digit growth in GasCos' stock value in the long-term, due to gas prices and GasCos' business environment converging to EU standards.

Valuation

We find that using peer multiples to value Ukrainian gas companies is superior to DCF valuation, for the following reasons. First, the lack of clarity in the scope and timing of inevitable changes in regulatory policy introduces too much uncertainty into the modelling of OblGaz' operations.

Second, fortunately different peer groups exist which provide several angles for valuation, by averaging out possible weaknesses inherent in each. We identified the following groups of peers for valuing GasCos:

1. Monopolistic transporters and suppliers of natural gas, companies with business profiles similar to those of Ukrainian GasCos.
2. Pure gas transportation companies. We use them to value GasCos' core business - gas transportation.
3. Ukrainian electricity network companies (Oblenergos) which function in a similar operating and regulatory environment. This group was selected to value GasCos as alternative energy suppliers.

Valuation Against Closest Peers

To estimate the value of GasCos' total business, we selected a market with a profile similar to Ukraine's, where several peers provide gas transport, gas supply and related services in certain locations. We believe that gas distribution companies operating in the Czech Republic provide a good benchmark for GasCos valuation.

Czech Peers Summary

| | Sales, USD mln | | EBITDA margin | | Fixed Assets | Gas supplied, | MCap | EV |
|----------------------------|----------------|-------|---------------|-------|--------------|---------------|---------|---------|
| | 2005 | 2006E | 2005 | 2006E | USD mln | 2005, mln cm | USD mln | USD mln |
| Severomoravska Plynarenska | 496 | 577 | 9.7% | n/a | 212.8 | 1,566 | 428 | 416 |
| Jihomoravska Plynarenska | 645 | 707 | 10.4% | n/a | 320 | 2,064 | 518 | 528 |
| Severoceska Plynarenska | 332 | 382 | 8% | n/a | 164.7 | 1,066 | 282 | 322 |
| Jihoceska plymarenska | 126 | 136 | 12% | n/a | 156.5 | 415 | 103 | 151 |
| Vychodoceska Plynarenska | 269 | 282 | 9% | n/a | 144.3 | 907 | 277 | 304 |
| Zapadoceska Plynarenska | 228 | 258 | 10% | n/a | 120.2 | 712 | 248 | 263 |
| Stredoceska Plynarenska | 294 | 332 | 9% | n/a | 168.9 | 922 | 215 | 245 |
| Average | | | 9.8% | | | | | |

Source: company data, Bloomberg, Concorde Capital estimates

Czech Peers Ratios

| | EV/S | | EV/EBIT'/Gas, 2005 | | EV/Fixed |
|----------------------------|-------------|-------------|--------------------|--------------|-------------|
| | 2005 | 2006E | 2005 | USD/cm | Assets |
| Severomoravska Plynarenska | 0.84 | 0.72 | 8.7 | 0.266 | 1.95 |
| Jihomoravska Plynarenska | 0.82 | 0.75 | 7.9 | 0.256 | 1.65 |
| Severoceska Plynarenska | 0.97 | 0.84 | 10.6 | 0.302 | 1.96 |
| Jihoceska plymarenska | 1.20 | 1.11 | 12.9 | 0.364 | 0.97 |
| Vychodoceska Plynarenska | 1.13 | 1.07 | 13.4 | 0.335 | 2.10 |
| Zapadoceska Plynarenska | 1.15 | 1.02 | 11.8 | 0.369 | 2.18 |
| Stredoceska Plynarenska | 0.83 | 0.74 | 8.7 | 0.266 | 1.45 |
| average | 0.99 | 0.89 | 10.57 | 0.308 | 1.75 |
| median | 0.97 | 0.84 | 10.55 | 0.302 | 1.95 |
| variation coefficient | 17% | 19% | 21% | 16% | 25% |

Source: company data, Bloomberg, Concorde Capital estimates

Among Czech peers, the EV/S and EV/Gas multiples showed the lowest variation, which implies that investors tend to value these companies based on sales and gas volume figures.

It is hard to apply directly EV/EBITDA multiples for GasCos, because in 2005 most of them had a negative EBITDA. Due to lack of information, it is hard to forecast EBITDA for GasCos and their peers for 2006.

In valuing GasCos, we use EV/S peers as a benchmark, applying a 50% discount to the peers' average to account for GasCos' lack of liquidity and poor profitability. A drawback of applying this multiple to GasCos is the historically high fluctuation of their total revenue due to the variability of "other revenues".

Another important parameter is the value of gas companies' fixed assets. This is especially significant for the long-term valuation, as we expect change in GasCos' tariff policy aimed at allowing them to generate enough cash flow to support and develop gas networks in operation. We apply a 50% discount to peers' EV/Assets due to the fact that GasCos do not fully own the assets they operate.

We also use an EV/Gas_Supplied multiple, mostly indicatively. Due to a significant differentiation in the gas prices between Ukraine and the Czech Republic (refer to the chart on page 9), the appropriate discount to peers EV/Gas should be between 90% and 95% in order to make implied valuations reasonable. Note that this multiple cannot be applied to value ChernivtsiGas, as it does not supply gas at all.

GasCos' Total Business Valuation

| | Sales 2006E USD mln | Fixed Assets 31 Mar 06 USD mln | Gas Supply (Est.) bln cm | Net Debt USD mln | Implied MCap (USD mln) at: | | |
|--------------------|---------------------------|---|--------------------------------|---------------------|----------------------------|-------------------|--------------------|
| | | | | | EV/S | EV/Gas supply* | EV/Fixed assets |
| | | | | | Discount: | 50% | 95% |
| CherkasyGaz | 48.3 | 28.3 | 0.60 | -1.6 | 23.1 | 21.6 | 27.1 |
| ChernigivGaz | 49.5 | 30.1 | 0.56 | -1.0 | 23.0 | 19.9 | 28.2 |
| ChernivtsiGaz | 9.3 | 16.2 | - | 1.4 | 2.7 | | 13.1 |
| DniporpetrovskGaz | 100.3 | 38.9 | 1.13 | -2.8 | 47.5 | 40.7 | 37.9 |
| DniproGaz | 47.5 | 15.1 | 0.56 | 0.1 | 21.0 | 18.7 | 13.5 |
| DonetskMiskGaz | 17.5 | 5.8 | 0.21 | 0.0 | 7.8 | 7.1 | 5.3 |
| DonetskOblGaz | 82.9 | 40.6 | 0.95 | -0.9 | 37.8 | 32.8 | 37.5 |
| Ivano-FrankivskGaz | 63.7 | 27.5 | 0.60 | -0.8 | 29.1 | 20.9 | 25.5 |
| KharkivMiskGaz | 35.1 | 6.2 | 0.40 | 3.4 | 12.2 | 10.0 | 2.2 |
| KharkivOblGaz | 79.6 | 39.7 | 0.91 | 0.7 | 34.8 | 29.9 | 35.0 |
| KhersonGaz | 36.4 | 9.3 | 0.37 | -0.2 | 16.4 | 12.6 | 8.6 |
| KhmelnitskGaz | 54.4 | 32.2 | 0.62 | 0.1 | 24.1 | 20.5 | 28.9 |
| KirovogradGaz | 35.2 | 18.8 | 0.40 | -0.5 | 16.2 | 13.9 | 17.4 |
| KrymGaz | 37.5 | 28.0 | 0.40 | -0.3 | 17.0 | 13.7 | 25.5 |
| KryvorizhGaz | 22.1 | 4.5 | 0.25 | 0.3 | 9.5 | 8.1 | 3.7 |
| KyivGaz | 45.0 | 17.2 | 0.45 | -7.7 | 27.7 | 22.8 | 23.2 |
| KyivOblGaz | 99.1 | 40.4 | 1.27 | -9.1 | 53.1 | 51.7 | 45.5 |
| LuhanskGaz | 77.7 | 40.2 | 1.01 | -1.4 | 36.0 | 35.3 | 37.6 |
| LvivGaz | 107.0 | 37.8 | 0.88 | 3.9 | 43.7 | 25.6 | 30.1 |
| MykolaiivGaz | 43.6 | 17.6 | 0.55 | -0.5 | 19.9 | 18.8 | 16.3 |
| OdessaGaz | 94.1 | 24.4 | 1.26 | -4.6 | 46.4 | 46.8 | 26.5 |
| PoltavaGaz | 51.3 | 28.9 | 0.70 | 0.4 | 22.4 | 23.0 | 25.6 |
| RivneGaz | 34.1 | 15.2 | 0.39 | -0.5 | 15.7 | 13.6 | 14.2 |
| SumyGaz | 51.6 | 27.8 | 0.71 | -0.4 | 23.4 | 24.2 | 25.4 |
| TernopilGaz | 8.5 | 1.7 | 0.39 | 0.0 | 3.8 | 13.1 | 1.6 |
| VinnitsaGaz | 55.1 | 25.7 | 0.61 | -1.2 | 25.7 | 21.8 | 24.4 |
| VolynGaz | 27.0 | 19.3 | 0.30 | 2.6 | 9.4 | 7.5 | 14.8 |
| ZakarpattGaz | 50.5 | 12.9 | 0.48 | -1.5 | 23.9 | 17.5 | 13.1 |
| ZaporizhGaz | 39.7 | 27.4 | 0.43 | 6.9 | 10.8 | 7.5 | 17.7 |
| ZhytomyrGaz | 53.1 | 25.6 | 0.55 | 1.2 | 22.4 | 17.4 | 21.8 |

Source: company data, Bloomberg, Concorde Capital estimates
 * for illustration purpose only

Valuation Of Core Business: Pure gas Transporting Peers

We use gas transport companies to value the GasCos' most stable business, gas transportation. GasCos are implicitly treated as pure transport companies in this case, with other sources of income being ignored. So, we should keep in mind that this method inherently underestimates GasCos' value.

Most of the figures for GasCos used here are our estimates calculated on the basis of the companies' management reports and on the regional data disclosed by Gaz Ukrainy. Still we rely on this valuation approach because the transport business is the most important for GasCos and the only one which is sustainable in the long-term.

Gas Transporting Companies

| | | Sales, USD mln | | EBITDA margin | | Gas transported | MCap | EV |
|---------------------------|-----------|----------------|-------|---------------|-------|-----------------|---------|---------|
| | | 2005 | 2006E | 2005 | 2006E | 2005, bln cm | USD mln | USD mln |
| Australian Pipeline Trust | Australia | 266 | 271 | 50% | 55% | n/a | 884 | 1,683 |
| Gasnet Australia Group | Australia | 78 | 85 | 74% | 72% | n/a | 278 | 730 |
| Snam Rete Gas SpA | Italy | 2,237 | 2,184 | 78% | 80% | 85.10 | 9,103 | 15,008 |
| Enagas | Spain | 811 | 1,190 | 73% | 58% | 32.33 | 5,210 | 7,097 |
| Fluxys | Belgium | 526 | 540 | 46% | 46% | 16.34 | 2,165 | 1,991 |

Source: company data, Bloomberg, Concorde Capital estimates

Transporting Companies' Ratios

| | | EV/S | | EV/EBITDA | | EV/Gas Transp. | EV/Pipeline, 2005 |
|---------------------------|-----------|-------------|-------------|--------------|--------------|----------------|-------------------|
| | | 2005 | 2006E | 2005 | 2006E | USD/cm | USD/m |
| Australian Pipeline Trust | Australia | 6.32 | 6.20 | 12.8 | 11.3 | n/a | 0.22 |
| Gasnet Australia Group | Australia | 9.41 | 8.56 | 12.7 | 11.9 | n/a | 0.38 |
| Snam Rete Gas SpA | Italy | 6.71 | 6.87 | 8.6 | 8.6 | 0.176 | 0.49 |
| Enagas | Spain | 8.75 | 5.96 | 11.9 | 10.2 | 0.220 | 0.94 |
| Fluxys | Belgium | 3.79 | 3.68 | 8.2 | 8.1 | 0.122 | 0.52 |
| average | | 7.00 | 6.26 | 10.83 | 10.04 | 0.173 | 0.51 |
| median | | 6.71 | 6.20 | 11.94 | 10.24 | 0.176 | 0.49 |
| variation coefficient | | 32% | 28% | 21% | 17% | 28% | 52% |

Source: company data, Bloomberg, Concorde Capital estimates

We use three metrics to value GasCos as transportation companies:

- EV/Sales, with sales representing only the gas transport business. Due to huge differentiation in GasCos' and peers' profitability, business environment and liquidity, we apply 75% discount to peers' average multiple.
- EV/EBITDA, with the transportation EBITDA margin calculated from new tariffs, approved in May 2006.
- EV/Gas transported. Again, we apply this ratio indicatively, with a discount to peers of 95%. Here we see significant potential for GasCos' value to increase as the gas price adjustments to the EU level.

The least volatile multiple among peer multiples is EV/EBITDA, which suggests that EBITDA is a more reliable parameter in valuing gas distributors.

GasCos' Transportation Business Valuation

| | Transport revenue 2006E USD mln | Gas Trasn. bln cm | Regulated EBITDA margin | Implied MCap, USD mln, at: | | | |
|--------------------|--|-------------------------|-------------------------------|----------------------------|-------------|-----------|------|
| | | | | EV/S | EV/Gas tr.* | EV/EBITDA | |
| | | | | Discount: | 75% | 95% | 0% |
| CherkasyGaz | 9.1 | 1.83 | 13% | | 15.8 | 17.2 | 13.6 |
| ChernigivGaz | 9.5 | 0.96 | 18% | | 15.8 | 9.2 | 18.0 |
| ChernivtsiGaz | 4.4 | 0.48 | 16% | | 5.4 | 2.6 | 5.8 |
| DniporpetrovskGaz | 23.2 | 2.62 | 13% | | 39.2 | 25.1 | 33.4 |
| Dniprogaz | 10.2 | 1.65 | 14% | | 15.9 | 13.9 | 14.6 |
| DonetskMiskGaz | 5.1 | 0.98 | 12% | | 8.0 | 8.4 | 6.2 |
| DonetskOblGaz | 19.6 | 3.58 | 18% | | 31.6 | 31.4 | 37.0 |
| Ivano-FrankivskGaz | 15.1 | 1.77 | 14% | | 24.4 | 15.8 | 21.6 |
| KharkivMiskGaz | 7.6 | 1.95 | 19% | | 8.6 | 13.2 | 3.4 |
| KharkivOblGaz | 16.6 | 1.72 | 9% | | 25.4 | 13.9 | 30.1 |
| KhersonGaz | 6.3 | 0.69 | 11% | | 10.1 | 6.1 | 7.5 |
| KhmelnitskGaz | 11.9 | 1.44 | 20% | | 18.5 | 12.1 | 24.1 |
| KirovogradGaz | 5.6 | 0.65 | 10% | | 9.3 | 6.1 | 6.2 |
| KrymGaz | 11.0 | 1.67 | 12% | | 17.5 | 14.5 | 13.8 |
| KryvorizhGaz | 6.8 | 1.58 | 9% | | 10.4 | 13.1 | 6.2 |
| KyivGaz | 16.7 | 4.25 | 15% | | 33.9 | 43.8 | 32.5 |
| KyivOblGaz | 17.8 | 2.48 | 14% | | 37.0 | 30.1 | 33.7 |
| LuhanskGaz | 15.8 | 3.41 | 13% | | 26.1 | 30.4 | 22.1 |
| LvivGaz | 21.5 | 2.78 | 12% | | 29.6 | 19.7 | 21.5 |
| MykolaivGaz | 8.5 | 1.10 | 16% | | 13.8 | 9.9 | 14.5 |
| OdessaGaz | 8.1 | 2.03 | 13% | | 17.2 | 21.8 | 15.0 |
| PoltavaGaz | 12.0 | 1.10 | 16% | | 18.3 | 8.9 | 19.4 |
| RivneGaz | 8.6 | 1.03 | 14% | | 14.1 | 9.3 | 13.0 |
| SumyGaz | 8.7 | 1.48 | 19% | | 14.0 | 12.9 | 17.3 |
| TernopilGaz | 6.3 | 1.01 | 14% | | 9.8 | 8.6 | 8.5 |
| VinnitsaGaz | 9.1 | 1.43 | 16% | | 15.4 | 13.4 | 15.4 |
| VolynGaz | 8.2 | 0.75 | 16% | | 10.3 | 3.8 | 10.2 |
| ZakarpGaz | 7.9 | 0.85 | 13% | | 13.8 | 8.7 | 11.8 |
| ZaporizhGaz | 12.4 | 1.89 | 18% | | 12.6 | 9.1 | 15.0 |
| ZhytomyrGaz | 9.9 | 1.08 | 15% | | 14.3 | 8.0 | 13.9 |

Source: company data, Bloomberg, Concorde Capital estimates
 * for illustration purpose only

Ukrainian Oblenergos As Peers

By their business profiles GasCos are very similar to Ukrainian electricity distribution companies. Both types of companies are transporters and suppliers of energy resources (gas and electricity respectively) and have similar regional breakdowns of their market and the same regulatory environment.

Comparison of Oblenergos and GasCos

| | Oblenergos | GasCos |
|--|-----------------------------|---------------------------------------|
| Number of companies | 26 | 44 |
| Business Activity | | |
| Deal with "product": | Electricity | Natural gas |
| Main revenue items are transportation and supply of "product"? | Yes | Yes |
| Buy "product" ... | ... at the wholesale market | ... directly from producers/importers |
| Have extra losses of "product" due to... | ... thefts mainly | ... imperfect tariff policy |
| Regulation | | |
| Transp. and supply tariffs are set by NERC? | Yes | Yes |
| Tariff revision procedure is ... | ... relatively easy | ... complicated |
| Changes in tariff policy... | ...expected in 2007 | ...expected in 2008-2009 |
| Cash flow from customers is controlled by NERC? | Yes | Yes |
| Fined for poor payment discipline? | Yes | No, in most cases |
| Allowed to do other business? | No | De facto, Yes |
| Market Environment | | |
| Are monopolists in certain region/city? | Yes | Yes |
| Suffer from competition in the supply segment? | In some regions | Yes |
| Supply industrial sector? | Mainly Yes | Almost No |
| Will increase amount of product transport/supply? | Yes | No |
| Ownership | | |
| Companies are owned by state? | Less than half | Less than half |
| Own distribution networks? | Yes | Partially |
| Stock Market | | |
| Listed on a stock exchange? | Most of them | Only several of them |
| Liquid stocks? | Only several of them | No |

Thus, we can use Oblenergos' multiples to value GasCos. The concept that matches the two universes is "energy equivalent" – amount of gas or electricity expressed in the same energy units.

To assess whether premiums/discounts should be applied to GasCos compared to Oblenergos, we refer to the experience of the Czech Republic, where the structure of gas and electricity sectors are similar to those in Ukraine.

Values: Gas vs Electricity Companies, Czech Experience

Most energy companies in the Czech Republic have been completely merged with CEZ or EON corporations. For this reason we refer to figures from 2004 for a more representative comparison of market values of gas and electricity companies. At that time most electricity companies were traded actively on the stock exchange, with free float available.

Electricity Companies, USD mln

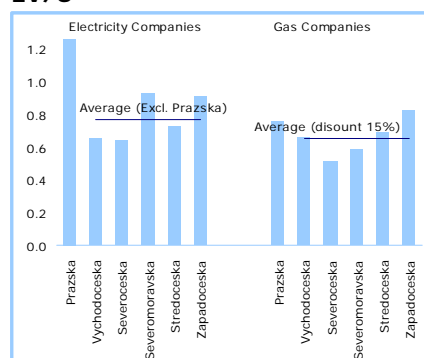
| | Sales, 2004 | EBITDA margin | El. Transm, TWh | EV, eoy 2004 |
|---------------------------|-------------|---------------|-----------------|--------------|
| Prazska Energetika | 429 | 17% | 5.3 | 543 |
| Vychodoceska Energetika | 464 | 14% | 6.2 | 303 |
| Severoceska Energetika | 461 | 17% | 6.4 | 296 |
| Severomoravska Energetika | 571 | 15% | 8.3 | 531 |
| Stredoceska Energeticka | 480 | 13% | 6.2 | 348 |
| Zapadoceska Energetika | 325 | 21% | 4.4 | 295 |

Source: company data, Bloomberg, Concorde Capital calculations

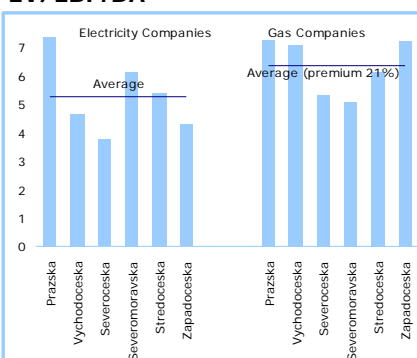
Gas Companies, USD mln

| | Sales, 2004 | EBITDA margin | Gas Transp, TWh | EV, eoy 2004 |
|----------------------------|-------------|---------------|-----------------|--------------|
| Prazska Plynarenska | 271 | 10% | n/a | 206 |
| Vychodoceska Plynarenska | 231 | 9% | 10.6 | 152 |
| Severoceska Plynarenska | 259 | 10% | 12.4 | 134 |
| Severomoravska Plynarenska | 385 | 12% | 18.2 | 226 |
| Stredoceska Plynarenska | 234 | 11% | 10.7 | 161 |
| Zapadoceska Plynarenska | 180 | 11% | 8.3 | 149 |

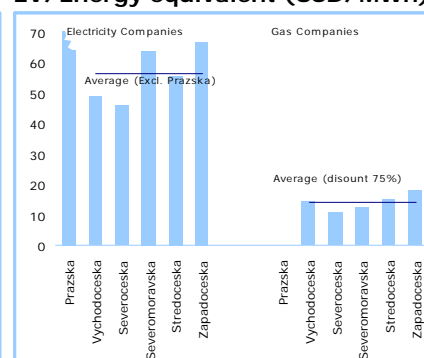
EV/S



EV/EBITDA



EV/Energy equivalent (USD/MWh)



Source: company data, Bloomberg, Concorde Capital calculations

In general, the market valued Czech electricity and gas companies relatively equally by their sales and EBITDA. Some discount of gas stocks to electricity by EV/S can be explained by their lower profitability.

By the amount of energy supplied, the market valued gas companies four times lower (i.e. with 75% discount) than electricity companies.

Valuation By Oblenergo

We choose the three most liquid Oblenergos to estimate a market benchmark for gas companies.

Oblenergo Multiples

| | EV USD mln | El. transp. TWh | Sales 2006E USD mln | Fixed Assets, USD mln | EV/S | EV/El. USD/MWh | EV/Fixed Assets |
|--------------------------|---------------|--------------------|---------------------------|--------------------------|-------------|-------------------|--------------------|
| ZaporizhiaOblenergo ZAON | 213.0 | 10.22 | 421 | 63 | 0.51 | 20.84 | 3.40 |
| DniproOblenergo DNON | 303.7 | 26.37 | 1,022 | 103 | 0.30 | 11.52 | 2.95 |
| KharkivOblenergo HAON | 86.4 | 4.98 | 235 | 156 | 0.37 | 17.35 | 0.55 |
| Average | | | | | 0.39 | 16.57 | 2.30 |

Source: PFTS, company data, Concorde Capital

Because Oblenergos' and GasCos' profitability included in their tariffs are close (5% to 6%), we apply no discount to Oblenergos' EV/S benchmark. We apply a 75% discount to Oblenergos' EV/Energy ratio, as the experience of the Czech networks suggest.

We do not apply Oblenergos' EV/Fixed Assets multiple to GasCos due to its high variation among Oblenergos. The variation is explained by different approaches in Oblenergos' assets accounting (refer to Oblenergo report as of December 15, 2005).

Valuation By Oblenergo Multiples

| | Sales 2006E USD mln | Gas Trasnsp. TWh | Gas Supply (Est.) TWh | Net Debt USD mln | EV/S | EV/Gas Trasnsp USD/MWh | EV/Gas Supply USD/MWh |
|-------------------------|------------------------|---------------------|-----------------------------|---------------------|-----------|------------------------------|-----------------------------|
| | | | | | Discount: | 0% | 75% |
| CherkasyGaz CSGZ | 48.3 | 21.3 | 6.9 | -1.6 | | 20.4 | 30.4 |
| ChernigivGaz CGGZ | 49.5 | 11.2 | 6.6 | -1.0 | | 20.3 | 28.2 |
| ChernivtsiGaz CGAZ | 9.3 | 5.6 | - | 1.4 | | 2.2 | - |
| DniporpetrovskGaz DNOG | 100.3 | 30.5 | 13.1 | -2.8 | | 41.9 | 57.4 |
| Dniprogaz DNMG | 47.5 | 19.1 | 6.5 | 0.1 | | 18.4 | 27.0 |
| DonetskMiskGaz DOMG | 17.5 | 11.4 | 2.4 | 0.0 | | 6.9 | 10.2 |
| DonetskOblGaz DOOG | 82.9 | 41.6 | 11.0 | -0.9 | | 33.3 | 46.8 |
| Ivano-FrankivskGaz IGAZ | 63.7 | 20.6 | 7.0 | -0.8 | | 25.6 | 29.7 |
| KharkivMiskGaz HAMG | 35.1 | 22.7 | 4.7 | 3.4 | | 10.3 | 15.9 |
| KharkivOblGaz HRGZ | 79.6 | 20.0 | 10.6 | 0.7 | | 30.4 | 43.4 |
| KhersonGaz HEGZ | 36.4 | 8.1 | 4.3 | -0.2 | | 14.4 | 18.1 |
| KhmelnitskGaz HGAZ | 54.4 | 16.8 | 7.2 | 0.1 | | 21.1 | 29.6 |
| KirovogradGaz KIGZ | 35.2 | 7.6 | 4.7 | -0.5 | | 14.3 | 19.8 |
| KrymGaz KRGZ | 37.5 | 19.4 | 4.7 | -0.3 | | 14.9 | 19.6 |
| KryvorizhGaz KRVG | 22.1 | 18.4 | 2.9 | 0.3 | | 8.3 | 11.8 |
| KyivGaz KGAZ | 45.0 | 49.5 | 5.2 | -7.7 | | 25.2 | 29.4 |
| KyivOblGaz KIGA | 99.1 | 28.8 | 14.8 | -9.1 | | 47.7 | 70.5 |
| LuhanskGaz LUGZ | 77.7 | 39.6 | 11.7 | -1.4 | | 31.7 | 50.2 |
| LvivGaz LGAZ | 107.0 | 32.3 | 10.3 | 3.9 | | 37.8 | 38.6 |
| MykolaivGaz MGAZ | 43.6 | 12.8 | 6.3 | -0.5 | | 17.5 | 26.8 |
| OdessaGaz OGAZ | 94.1 | 23.7 | 14.7 | -4.6 | | 41.2 | 65.5 |
| PoltavaGaz PGAZ | 51.3 | 12.8 | 8.1 | 0.4 | | 19.6 | 33.4 |
| RivneGaz RGAZ | 34.1 | 12.0 | 4.5 | -0.5 | | 13.8 | 19.4 |
| SumyGaz SGAZ | 51.6 | 17.2 | 8.3 | -0.4 | | 20.5 | 34.7 |
| TernopilGaz TGAZ | 8.5 | 11.7 | 4.5 | 0.0 | | 3.4 | 18.8 |
| VinnitsaGaz VIGZ | 55.1 | 16.7 | 7.1 | -1.2 | | 22.7 | 30.8 |
| VolynGaz VOGZ | 27.0 | 8.7 | 3.5 | 2.6 | | 7.9 | 11.9 |
| ZakarpGaz ZOGZ | 50.5 | 9.9 | 5.6 | -1.5 | | 21.2 | 24.6 |
| ZaporizhGaz ZAGZ | 39.7 | 21.9 | 5.0 | 6.9 | | 8.6 | 13.8 |
| ZhytomyrGaz ZHGZ | 53.1 | 12.6 | 6.5 | 1.2 | | 19.5 | 25.6 |

Source: company data, Concorde Capital estimates

Note that EV/Gas supply implies 1.5x higher values for GasCos than EV/S, which suggests a different ratio of energy prices included in gas and electricity in Ukraine and the Czech Republic. For valuation purposes, we will use only a EV/S multiple, keeping in mind the value implied by the EV/Gas benchmark as a potential in the mid-term.

Valuation Summary

To arrive at a rough estimate of target MCap for GasCos, we apply equal weights to the EV/S multiple (average between Czech peers, pure transportation companies, and Ukrainian Oblenergos), EV/EBITDA_{regulated transport} and EV/Fixed Assets.

Among the universe of GasCos, we select 10 stocks which are potentially interesting for investment taking into account their size (average implied MCap more than USD 20 mln), availability of stock, and historical records of profitability. Below, in profiles we provide more precise estimates of target prices and indicate current price ranges for the selected stocks.

Implied MCap Summary, USD mln

| | | EV/S | | | Average | EV/EBITDA (Transport) | EV/Fixed Assets (Closest peers) | Average implied MCap | Recomm. |
|--------------------|------|------------------|-----------------|-----------------|-------------|--------------------------|---------------------------------------|----------------------------|---------|
| | | Closest peers | Transp. Co's | Obl- energos | | | | | |
| CherkasyGaz | CSGZ | 23.1 | 15.8 | 20.4 | 19.8 | 13.6 | 27.1 | 20.2 | n/r |
| ChernigivGaz | CGGZ | 23.0 | 15.8 | 20.3 | 19.7 | 18.0 | 28.2 | 22.0 | n/r |
| ChernivtsiGaz | CGAZ | 2.7 | 5.4 | 2.2 | 3.4 | 5.8 | 13.1 | 7.4 | n/r |
| DniporpetrovskGaz | DNOG | 47.5 | 39.2 | 41.9 | 42.9 | 33.4 | 37.9 | 38.0 | BUY |
| Dniprogaz | DNMG | 21.0 | 15.9 | 18.4 | 18.4 | 14.6 | 13.5 | 15.5 | n/r |
| DonetskMiskGaz | DOMG | 7.8 | 8.0 | 6.9 | 7.5 | 6.2 | 5.3 | 6.3 | n/r |
| DonetskOblGaz | DOOG | 37.8 | 31.6 | 33.3 | 34.3 | 37.0 | 37.5 | 36.3 | BUY |
| Ivano-FrankivskGaz | IGAZ | 29.1 | 24.4 | 25.6 | 26.4 | 21.6 | 25.5 | 24.5 | BUY |
| KharkivMiskGaz | HAMG | 12.2 | 8.6 | 10.3 | 10.4 | 3.4 | 2.2 | 5.3 | n/r |
| KharkivOblGaz | HRGZ | 34.8 | 25.4 | 30.4 | 30.2 | 30.1 | 35.0 | 31.8 | BUY |
| KhersonGaz | HEGZ | 16.4 | 10.1 | 14.4 | 13.7 | 7.5 | 8.6 | 9.9 | n/r |
| KhmelnitskGaz | HGAZ | 24.1 | 18.5 | 21.1 | 21.2 | 24.1 | 28.9 | 24.7 | BUY |
| KirovogradGaz | KIGZ | 16.2 | 9.3 | 14.3 | 13.3 | 6.2 | 17.4 | 12.3 | n/r |
| KrymGaz | KRGZ | 17.0 | 17.5 | 14.9 | 16.5 | 13.8 | 25.5 | 18.6 | n/r |
| KryvorizhGaz | KRVG | 9.5 | 10.4 | 8.3 | 9.4 | 6.2 | 3.7 | 6.4 | n/r |
| KyivGaz | KGAZ | 27.7 | 33.9 | 25.2 | 28.9 | 32.5 | 23.2 | 28.2 | n/r |
| KyivOblGaz | KIGA | 53.1 | 37.0 | 47.7 | 45.9 | 33.7 | 45.5 | 41.7 | BUY |
| LuhanskGaz | LUGZ | 36.0 | 26.1 | 31.7 | 31.3 | 22.1 | 37.6 | 30.3 | BUY |
| LvivGaz | LGAZ | 43.7 | 29.6 | 37.8 | 37.0 | 21.5 | 30.1 | 29.5 | BUY |
| MykolaivGaz | MGAZ | 19.9 | 13.8 | 17.5 | 17.1 | 14.5 | 16.3 | 16.0 | n/r |
| OdessaGaz | OGAZ | 46.4 | 17.2 | 41.2 | 35.0 | 15.0 | 26.5 | 25.5 | BUY |
| PoltavaGaz | PGAZ | 22.4 | 18.3 | 19.6 | 20.1 | 19.4 | 25.6 | 21.7 | BUY |
| RivneGaz | RGAZ | 15.7 | 14.1 | 13.8 | 14.5 | 13.0 | 14.2 | 13.9 | n/r |
| SumyGaz | SGAZ | 23.4 | 14.0 | 20.5 | 19.3 | 17.3 | 25.4 | 20.7 | n/r |
| TernopilGaz | TGAZ | 3.8 | 9.8 | 3.4 | 5.7 | 8.5 | 1.6 | 5.3 | n/r |
| VinnitsaGaz | VIGZ | 25.7 | 15.4 | 22.7 | 21.3 | 15.4 | 24.4 | 20.4 | n/r |
| VolynGaz | VOGZ | 9.4 | 10.3 | 7.9 | 9.2 | 10.2 | 14.8 | 11.4 | n/r |
| ZakarpattGaz | ZOGZ | 23.9 | 13.8 | 21.2 | 19.6 | 11.8 | 13.1 | 14.8 | n/r |
| ZaporizhGaz | ZAGZ | 10.8 | 12.6 | 8.6 | 10.6 | 15.0 | 17.7 | 14.4 | n/r |
| ZhytomyrGaz | ZHGZ | 22.4 | 14.3 | 19.5 | 18.7 | 13.9 | 21.8 | 18.2 | n/r |

Source: company data, Bloomberg, Concorde Capital estimates
 * with added stake in ZHGZ (24.3%)

Appreciation Potential

Note that, our average implied capitalization corresponds to applying a 95% discount to peers' *EV/Gas Transported* and *EV/Gas Supplied* multiples, which suggests all the GasCos have a significant (up to 20 times) upside potential. The potential can be realized in the long term only when a new tariff policy in the gas sector will be introduced, and when gas prices in Ukraine will converge to EU prices.

GasCos' value will react positively to the expected regulation improvements and increase of gas prices in Ukraine in the mid-term. In order to gauge the scope of the possible value of appreciation we compare immediate estimates of GasCos' fair value from the page above (as-is case) with estimations which factor in the mid-term improvement of regulation environment, convergence of gas-to-electricity price ratios in Ukraine to those in the Czech Republic and improved liquidity of GasCos stocks. In the second case we use the value estimates calculated using Oblenergo's EV/Energy ratios (page 35). Case #2 is based on factors that will become effective in the mid term, so we cannot apply these valuations today directly.

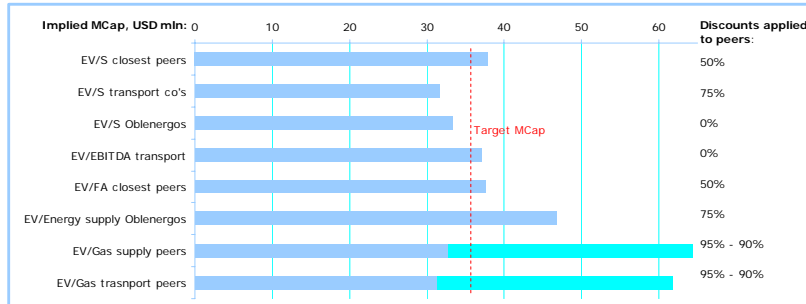
Capitalization And Investment Horizon, USD mln

| Horizon: | Short-Term (12m) | Mid-Term (2-3y) |
|--------------------|------------------|-----------------|
| CherkasyGaz | 20.3 | 30.4 |
| ChernigivGaz | 22.1 | 28.2 |
| ChernivtsiGaz | 7.3 | n/a |
| Dniporpetrovskgaz | 38.4 | 57.4 |
| Dniprogaz | 15.5 | 27.0 |
| DonetskMiskGaz | 6.3 | 10.2 |
| DonetskOblGaz | 36.4 | 46.8 |
| Ivano-FrankivskGaz | 24.6 | 29.7 |
| KharkivMiskGaz | 4.9 | 15.9 |
| KharkivOblGaz | 31.7 | 43.4 |
| KhersonGaz | 9.9 | 18.1 |
| KhmelnitskGaz | 29.1 | 29.6 |
| KirovogradGaz | 12.4 | 19.8 |
| KrymGaz | 18.6 | 19.6 |
| KryvorizhGaz | 6.4 | 11.8 |
| KyivGaz | 29.0 | 29.4 |
| KyivOblGaz | 42.7 | 70.5 |
| LuhansksGaz | 30.5 | 50.2 |
| LvivGaz | 29.1 | 38.6 |
| MykolaivGaz | 16.0 | 26.8 |
| OdessaGaz | 26.0 | 65.5 |
| PoltavaGaz | 21.6 | 33.4 |
| RivneGaz | 14.0 | 19.4 |
| SumyGaz | 20.7 | 34.7 |
| TernopilGaz | 5.3 | 18.8 |
| VinnitsaGaz | 20.5 | 30.8 |
| VolynGaz | 11.1 | 11.9 |
| ZakarpGaz | 15.0 | 24.6 |
| ZaporizhGaz | 13.7 | 13.8 |
| ZhytomyrGaz | 18.0 | 25.6 |

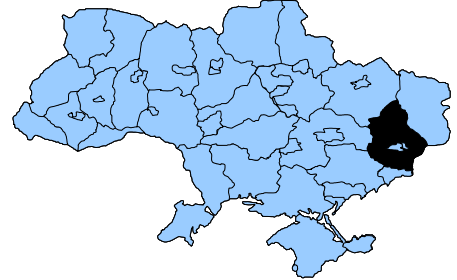
COMPANY PROFILES

DonetskObiGaz: BUY

Valuation Summary, USD mln



Area of Supply: Part Of Donetsk Region



| | |
|---------------------|-----------|
| Gasification Level: | 64 % |
| Pipeline Length: | 10 ths km |

Number of Customers:

| | |
|-------------|---------|
| Natural Gas | 636 ths |
| LNG | 220 ths |

Natural Gas:

| | |
|-----------------|------------|
| Transportation: | 3.6 bln cm |
| | 41.6 TWh |
| Supply: | 1.0 bln cm |
| | 11.0 TWh |

LNG Supply:

| | |
|--|------------|
| | 4.7 ths mt |
|--|------------|

Target MCap: USD 36.0 mln

Indicative Price: USD 0.035

Target price: USD 0.052 (upside 51%)

Stock Data

| | |
|-------------------|-------------|
| Ticker (Concorde) | DOOG |
| Shares, mln | 696.00 |
| Par Value, USD | 0.00 |
| Free Float | 40% |

Ownership:

| | |
|----------|-----|
| Naftogaz | 38% |
| Other | 62% |
| Other | 0% |

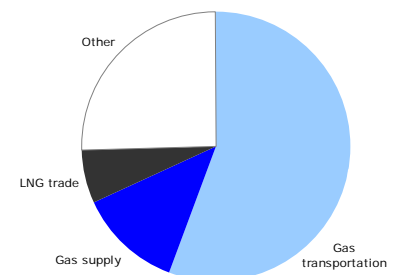
Key Financial Data, USD mln:

| | |
|-------------------------------|-------|
| Sales 2005 | 52.4 |
| EBITDA margin | 0.5% |
| Net margin | -7.4% |
| Net debt, Apr 2006 | -0.9 |
| Accounts Receivable, Apr 2006 | 10.5 |
| Accounts Payable, Apr 2006 | 35.8 |

The largest of four gas companies in Donetsk region, and the largest GasCo in terms of gas transporting. Third largest GasCo by customer base, with significant base growth potential due to relatively low gasification level.

The company restructured its debts, and even was "forgiven" USD 16 mln in 3Q04, which was reflected in a huge profitability increase for that period (chart below). The rest of their debts to be written off during the already begun offsetting process.

Business Breakdown (2005):

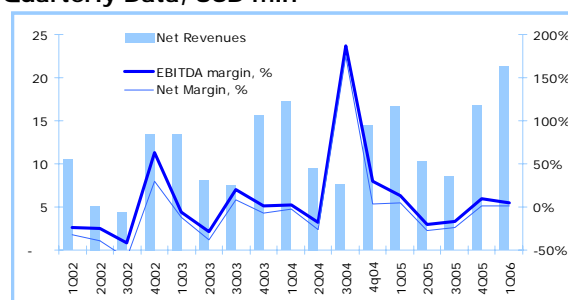


Key Financials (Ukrainian Accounting Standards, USD mln)

| | 2003 | 2004 | 2005 |
|-----------------------------------|--------------|-------------|--------------|
| Net revenues | 44.6 | 48.8 | 52.4 |
| Cost Of Sales | (40.0) | (42.3) | (48.0) |
| Gross Profit | 4.6 | 6.5 | 4.3 |
| Other Operating Income/Costs, net | (2.3) | 15.2 | 1.2 |
| SG&A | (3.8) | (4.4) | (5.2) |
| EBITDA | (1.5) | 17.3 | 0.3 |
| Depreciation | (2.8) | (3.0) | (3.7) |
| EBIT | (4.3) | 14.3 | (3.4) |
| Interest Expense | - | (0.0) | (0.0) |
| Financial income/(expense) | 0.0 | 0.0 | 0.0 |
| Other income/(expense) | (0.9) | (0.6) | 0.3 |
| PBT | (5.2) | 13.7 | (3.2) |
| Tax | (0.0) | (2.8) | (0.7) |
| Net Income | (5.2) | 10.9 | (3.9) |

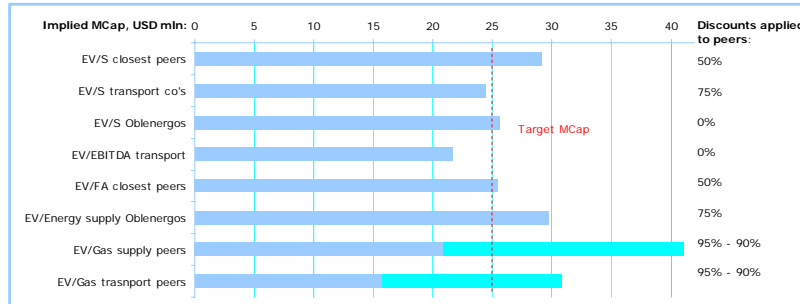
| | 2003 | 2004 | 2005 |
|---------------------------------------|-------------|-------------|-------------|
| Current Assets | 35.4 | 29.8 | 28.4 |
| Cash & Equivalents | 1.8 | 1.7 | 1.8 |
| Trade Receivables | 15.8 | 10.3 | 8.4 |
| Other | 17.8 | 17.9 | 18.2 |
| Fixed Assets | 41.2 | 42.5 | 48.3 |
| Total Assets | 76.6 | 72.3 | 76.6 |
| Shareholders' Equity | 5.8 | 17.8 | 18.8 |
| Current Liabilities | 70.9 | 53.9 | 37.6 |
| ST Interest Bearing Debt | - | 0.0 | 0.0 |
| Trade Payables | 1.7 | 1.7 | 32.6 |
| Other | 69.1 | 52.2 | 5.0 |
| LT Liabilities | 0.0 | 0.6 | 20.1 |
| Total Liabilities & Equity | 76.6 | 72.3 | 76.6 |

Quarterly Data, USD mln

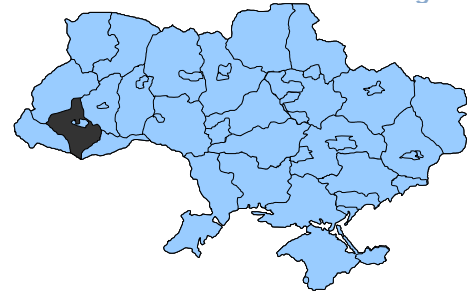


Ivano-FrankivskGaz: BUY

Valuation Summary, USD mln



Area of Supply: Most of Ivano-Frankivsk Region



| | |
|---------------------|-----------|
| Gasification Level: | 62 % |
| Pipeline Length: | 11 ths km |

Number of Customers:

| | |
|-------------|---------|
| Natural Gas | 303 ths |
| LNG | 81 ths |

Natural Gas:

| | |
|-----------------|------------|
| Transportation: | 2.3 bln cm |
| | 26.3 TWh |
| Supply: | 0.6 bln cm |
| | 7.0 TWh |

LNG Supply:

| | |
|--|------------|
| | 1.7 ths mt |
|--|------------|

Target MCap: USD 25.0 mln

Indicative Price Range: USD 0.2-0.5

Target price: USD 1.65 (upside 230%-700%)

Stock Data

| | |
|-------------------|-------------|
| Ticker (Concorde) | IGAZ |
| Shares, mln | 15.15 |
| Par Value, USD | 0.05 |
| Free Float | 20% |

Showing positive net income during the last couple of years, the company was also one of the leaders in pipeline reconstruction and gas meters installation in 2005.

Ownership:

| | |
|----------------------------|-----|
| Naftogaz | 50% |
| Institutional Shareholders | 35% |
| Other | 15% |

Main gas consumer of the region, Burstyn power plant, accounts for about 50% of gas transport revenues.

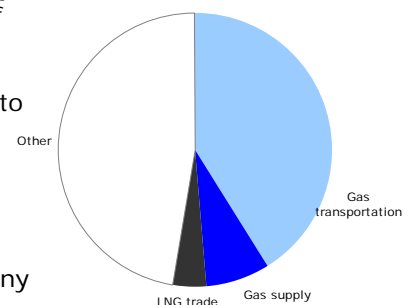
Key Financial Data, USD mln:

| | |
|-------------------------------|------|
| Sales 2005 | 43.9 |
| EBITDA margin | 2.5% |
| Net margin | 0.1% |
| Net debt, Apr 2006 | -0.8 |
| Accounts Receivable, Apr 2006 | 43.1 |
| Accounts Payable, Apr 2006 | 84.1 |

Company's high accumulated debt due to lags in payments in the mid 1990-s is expected to be re-structured and wrote off according to the law which is now in effect.

Large states' stake suggests the company can be privatized in the midterm, which will boost liquidity and valuation.

Business Breakdown (2005):

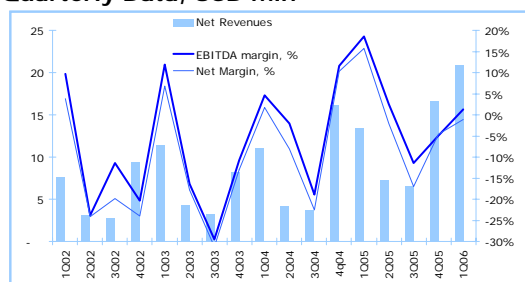


Key Financials (Ukrainian Accounting Standards, USD mln)

| | 2003 | 2004 | 2005 |
|-----------------------------------|--------------|-------------|--------------|
| Net revenues | 27.1 | 35.1 | 43.9 |
| Cost Of Sales | (24.5) | (30.0) | (40.1) |
| Gross Profit | 2.5 | 5.1 | 3.9 |
| Other Operating Income/Costs, net | (1.9) | (1.4) | (0.3) |
| SG&A | (1.8) | (2.1) | (2.5) |
| EBITDA | (1.2) | 1.6 | 1.1 |
| Depreciation | (1.1) | (1.2) | (1.5) |
| EBIT | (2.2) | 0.4 | (0.4) |
| Interest Expense | - | - | - |
| Financial income/(expense) | 0.0 | 0.0 | 0.0 |
| Other income/(expense) | 0.2 | 0.3 | 0.4 |
| PBT | (2.0) | 0.7 | 0.1 |
| Tax | (0.1) | - | - |
| Net Income | (2.0) | 0.7 | 0.1 |

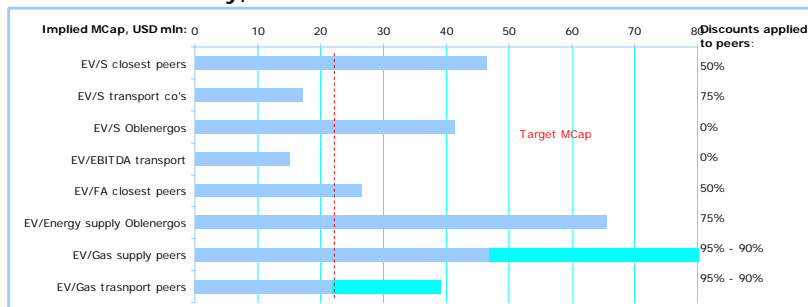
| | 2003 | 2004 | 2005 |
|---------------------------------------|---------------|---------------|---------------|
| Current Assets | 36.0 | 15.7 | 63.5 |
| Cash & Equivalents | 0.8 | 1.2 | 3.3 |
| Trade Receivables | 27.8 | 10.0 | 19.8 |
| Other | 7.4 | 4.5 | 40.3 |
| Fixed Assets | 18.2 | 20.2 | 22.6 |
| Total Assets | 54.2 | 35.9 | 86.1 |
| Shareholders' Equity | (19.1) | (12.7) | (12.3) |
| Current Liabilities | 73.3 | 48.5 | 98.4 |
| ST Interest Bearing Debt | 1.0 | - | 0.0 |
| Trade Payables | 3.8 | 8.5 | 96.4 |
| Other | 68.5 | 40.0 | 2.0 |
| LT Liabilities | - | - | - |
| Total Liabilities & Equity | 54.2 | 35.9 | 86.1 |

Quarterly Data, USD mln

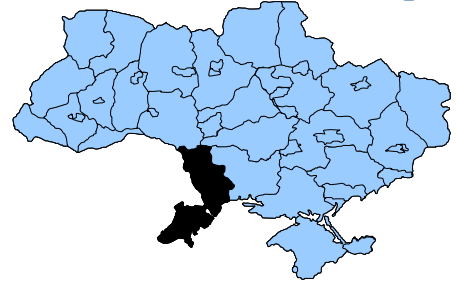


OdessaGaz: BUY

Valuation Summary, USD mln



Area of Supply: Whole Odessa Region



| | |
|---------------------|-----------|
| Gasification Level: | 48 % |
| Pipeline Length: | 31 ths km |

| | |
|-----------------------------|---------|
| Number of Customers: | |
| Natural Gas | 470 ths |
| LNG | 315 ths |

| | |
|---------------------|-------------|
| Natural Gas: | |
| Transportation: | 2.0 bln cm |
| | 23.7 TWh |
| Supply: | 1.3 bln cm |
| | 14.7 TWh |
| LNG Supply: | |
| | 15.0 ths mt |

Target MCap: USD 22.0 mln

Indicative Price Range: USD 5.0 -6.5
Target price: USD 38.0 (upside 240%-340%)

| | |
|-------------------|-------------|
| Stock Data | |
| Ticker (Concorde) | OGAZ |
| Shares, mln | 0.58 |
| Par Value, USD | 5.69 |
| Free Float | 20% |

The region of supply is fourth by population and the largest by area. The lowest gasification level suggests considerable potential for gas sales growth in midterm.

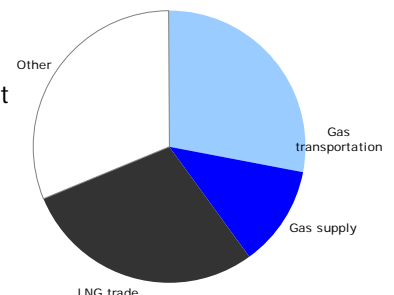
| | |
|-------------------|-----|
| Ownership: | |
| Naftogaz | 20% |
| Management | 59% |
| Other | 21% |

The company has the most stable profit margins among peers.

| | |
|-------------------------------------|------|
| Key Financial Data, USD mln: | |
| Sales 2005 | 60.7 |
| EBITDA margin | 1.8% |
| Net margin | 0.1% |
| Net debt, Apr 2006 | -4.6 |
| Accounts Receivable, Apr 2006 | 19.9 |
| Accounts Payable, Apr 2006 | 29.0 |

Majority of shares are controlled by current company's management.

Business Breakdown (2005):

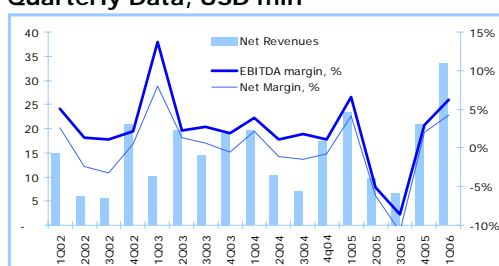


Key Financials (Ukrainian Accounting Standards, USD mln)

| | 2003 | 2004 | 2005 |
|-----------------------------------|-------------|-------------|-------------|
| Net revenues | 63.5 | 54.3 | 60.7 |
| Cost Of Sales | (59.7) | (51.2) | (56.0) |
| Gross Profit | 3.8 | 3.1 | 4.6 |
| Other Operating Income/Costs, net | 0.3 | (0.3) | (0.8) |
| SG&A | (1.6) | (1.6) | (2.8) |
| EBITDA | 2.6 | 1.2 | 1.1 |
| Depreciation | (0.9) | (1.0) | (1.0) |
| EBIT | 1.6 | 0.2 | 0.0 |
| Interest Expense | (0.1) | (0.1) | (0.0) |
| Financial income/(expense) | 0.0 | 0.0 | 0.0 |
| Other income/(expense) | 0.0 | 0.1 | 0.0 |
| PBT | 1.6 | 0.2 | 0.1 |
| Tax | (0.5) | (0.2) | (0.0) |
| Net Income | 1.1 | 0.1 | 0.1 |

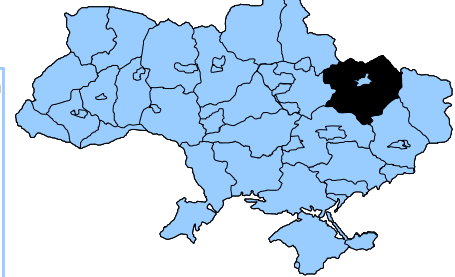
| | 2003 | 2004 | 2005 |
|---------------------------------------|-------------|-------------|-------------|
| Current Assets | 24.7 | 26.4 | 25.7 |
| Cash & Equivalents | 1.2 | 2.2 | 2.1 |
| Trade Receivables | 13.1 | 11.4 | 13.3 |
| Other | 10.4 | 12.8 | 10.3 |
| Fixed Assets | 19.0 | 22.2 | 26.6 |
| Total Assets | 43.7 | 48.6 | 52.3 |
| Shareholders' Equity | 15.8 | 19.5 | 23.1 |
| Current Liabilities | 26.7 | 27.4 | 28.9 |
| ST Interest Bearing Debt | - | - | - |
| Trade Payables | 2.2 | 2.8 | 15.4 |
| Other | 24.4 | 24.6 | 13.5 |
| LT Liabilities | 1.3 | 1.7 | 0.2 |
| Total Liabilities & Equity | 43.7 | 48.6 | 52.3 |

Quarterly Data, USD mln

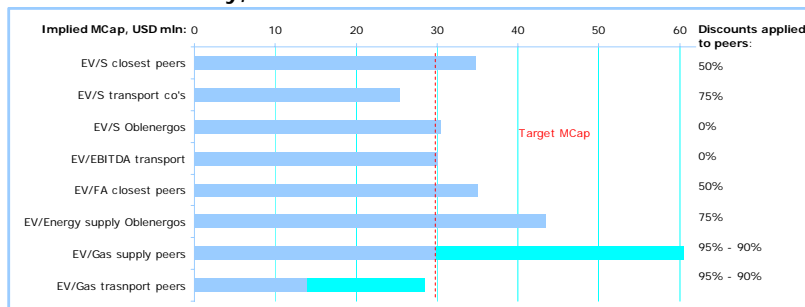


KharkivGaz (KharkivOblGaz): BUY

Area of Supply:
Kharkiv Region, Except Kharkiv City



Valuation Summary, USD mln



Target MCap: USD 30.0 mln

Indicative Price Range: USD 2.0-3.0
Target price: USD 6.15 (upside 105%-205%)

Gasification Level: 62 %
Pipeline Length: 14 ths km

Number of Customers:
Natural Gas 383 ths
LNG 140 ths

Natural Gas:
Transportation: 1.8 bln cm
20.5 TWh
Supply: 0.9 bln cm
10.6 TWh

LNG Supply: 2.0 ths mt

| Stock Data | |
|----------------|------|
| Ticker (PFTS) | HRGZ |
| Shares, mln | 4.88 |
| Par Value, USD | 0.10 |
| Free Float | 37% |

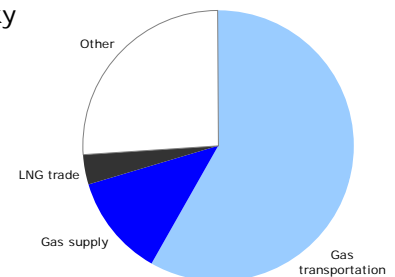
One of the most stable companies in terms of profits.

| Ownership: | |
|----------------------------|-----|
| Naftogaz | 18% |
| Institutional Shareholders | 46% |
| Other | 36% |

Absence of problems with debts and no dominating consumers in its area of supply makes the company one of the least risky among GasCos for potential investors.

| Key Financial Data, USD mln: | |
|-------------------------------|------|
| Sales 2005 | 51.0 |
| EBITDA margin | 9.6% |
| Net margin | 0.9% |
| Net debt, Apr 2006 | 0.7 |
| Accounts Receivable, Apr 2006 | 6.3 |
| Accounts Payable, Apr 2006 | 10.2 |

Business Breakdown (2005):

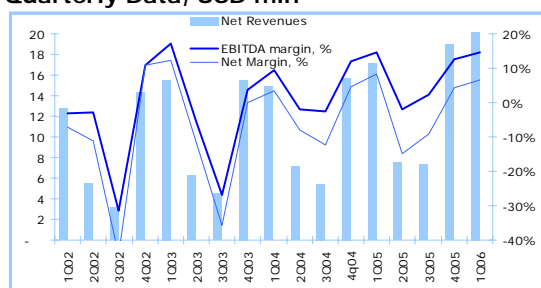


Key Financials (Ukrainian Accounting Standards, USD mln)

| | 2003 | 2004 | 2005 |
|-----------------------------------|--------------|-------------|-------------|
| Net revenues | 41.7 | 43.0 | 51.0 |
| Cost Of Sales | (38.7) | (38.0) | (45.2) |
| Gross Profit | 3.1 | 5.0 | 5.8 |
| Other Operating Income/Costs, net | (0.6) | (1.1) | 0.1 |
| SG&A | (0.7) | (0.8) | (1.0) |
| EBITDA | 1.7 | 3.0 | 4.9 |
| Depreciation | (1.8) | (2.5) | (4.1) |
| EBIT | (0.1) | 0.5 | 0.8 |
| Interest Expense | (0.1) | (0.2) | (0.2) |
| Financial income/(expense) | 0.0 | 0.0 | 0.0 |
| Other income/(expense) | 0.2 | 0.4 | 0.7 |
| PBT | 0.1 | 0.8 | 1.3 |
| Tax | (0.5) | (0.8) | (0.9) |
| Net Income | (0.4) | 0.0 | 0.4 |

| | 2003 | 2004 | 2005 |
|---------------------------------------|-------------|-------------|-------------|
| Current Assets | 14.3 | 9.9 | 9.5 |
| Cash & Equivalents | 0.4 | 0.5 | 0.2 |
| Trade Receivables | 10.2 | 5.4 | 3.3 |
| Other | 3.7 | 4.0 | 5.9 |
| Fixed Assets | 35.0 | 38.5 | 43.5 |
| Total Assets | 49.3 | 48.4 | 53.1 |
| Shareholders' Equity | 35.7 | 37.6 | 41.4 |
| Current Liabilities | 13.1 | 9.7 | 10.7 |
| ST Interest Bearing Debt | 0.6 | - | 0.1 |
| Trade Payables | 3.0 | 1.6 | 8.1 |
| Other | 9.4 | 8.1 | 2.4 |
| LT Liabilities | 0.5 | 1.1 | 1.0 |
| Total Liabilities & Equity | 49.3 | 48.4 | 53.1 |

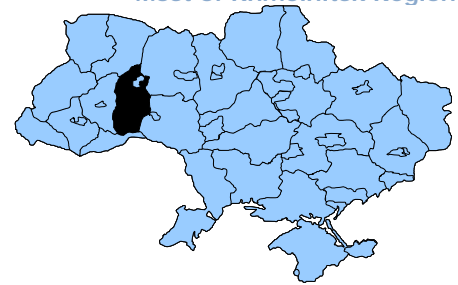
Quarterly Data, USD mln



KhmelnitskGaz: BUY

Area of Supply:
Most of Khmel'nitsk Region

Valuation Summary, USD mln



| | |
|---------------------|-----------|
| Gasification Level: | n/a |
| Pipeline Length: | 10 ths km |

| | |
|-----------------------------|---------|
| Number of Customers: | |
| Natural Gas | 218 ths |
| LNG | 87 ths |

| | |
|---------------------|------------|
| Natural Gas: | |
| Transportation: | 1.2 bln cm |
| | 14.3 TWh |
| Supply: | 0.6 bln cm |
| | 7.2 TWh |
| LNG Supply: | |
| | 6.4 ths mt |

Target MCap: USD 22.0 mln

Indicative Price Range: USD 25.0-35.0
Target price: USD 59.7 (upside 70%-140%)

| | |
|-------------------|------|
| Stock Data | |
| Ticker (PFTS) | HGAZ |
| Shares, mln | 0.37 |
| Par Value, USD | 2.97 |
| Free Float | 24% |

The only company which has been traded on the local stock exchange this year.

| | |
|-------------------|-----|
| Ownership: | |
| Naftogaz | 26% |
| GAZTEK | 49% |
| Other | 25% |

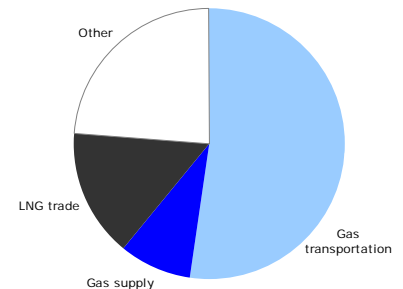
The company is controlled by GAZTEK holding and owns a 24.29% stake in neighboring ZhytomirGaz.

| | |
|-------------------------------------|-------|
| Key Financial Data, USD mln: | |
| Sales 2005 | 35.6 |
| EBITDA margin | 10.2% |
| Net margin | 3.4% |
| Net debt, Apr 2006 | 0.1 |
| Accounts Receivable, Apr 2006 | 5.9 |
| Accounts Payable, Apr 2006 | 14.0 |

Supplies gas in the agricultural region, without dominant gas consumers.

One of the most profitable and stable GasCos during the last three years.

Business Breakdown (2005):

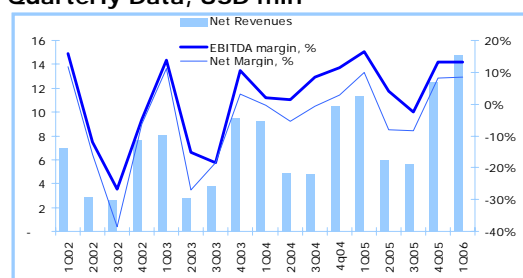


Key Financials (Ukrainian Accounting Standards, USD mln)

| | 2003 | 2004 | 2005 |
|-----------------------------------|--------------|--------------|-------------|
| Net revenues | 24.1 | 29.4 | 35.6 |
| Cost Of Sales | (22.1) | (26.0) | (30.3) |
| Gross Profit | 2.0 | 3.4 | 5.2 |
| Other Operating Income/Costs, net | (0.2) | (0.6) | (0.6) |
| SG&A | (0.8) | (1.0) | (1.0) |
| EBITDA | 1.0 | 1.9 | 3.6 |
| Depreciation | (1.4) | (2.1) | (2.7) |
| EBIT | (0.4) | (0.2) | 0.9 |
| Interest Expense | (0.0) | (0.1) | (0.2) |
| Financial income/(expense) | 0.0 | 0.0 | 0.0 |
| Other income/(expense) | 0.6 | 0.7 | 0.9 |
| PBT | 0.2 | 0.4 | 1.6 |
| Tax | (0.5) | (0.4) | (0.4) |
| Net Income | (0.2) | (0.0) | 1.2 |

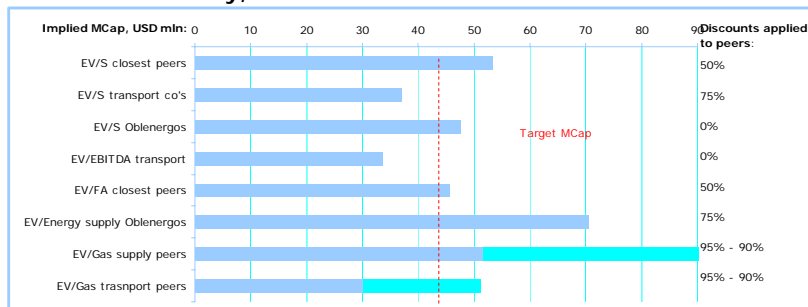
| | 2003 | 2004 | 2005 |
|---------------------------------------|-------------|-------------|-------------|
| Current Assets | 56.8 | 16.7 | 9.6 |
| Cash & Equivalents | 0.8 | 0.3 | 0.3 |
| Trade Receivables | 49.1 | 5.1 | 4.5 |
| Other | 6.9 | 11.3 | 4.7 |
| Fixed Assets | 22.7 | 27.1 | 32.5 |
| Total Assets | 79.5 | 43.8 | 42.1 |
| Shareholders' Equity | 17.0 | 20.8 | 25.2 |
| Current Liabilities | 62.5 | 23.0 | 16.8 |
| ST Interest Bearing Debt | 0.3 | 1.2 | 0.6 |
| Trade Payables | 17.0 | 2.1 | 12.4 |
| Other | 45.2 | 19.7 | 3.9 |
| LT Liabilities | 0.0 | 0.0 | 0.0 |
| Total Liabilities & Equity | 79.5 | 43.8 | 42.1 |

Quarterly Data, USD mln

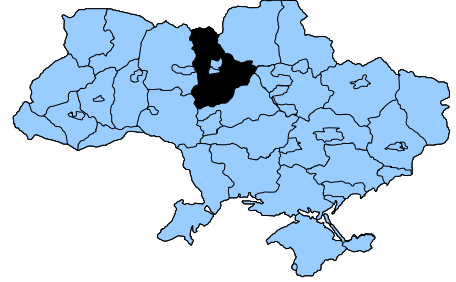


KyivObIGaz: BUY

Valuation Summary, USD mln



Area of Supply:
Most of Kiev Region



| | |
|---------------------|-----------|
| Gasification Level: | 69 % |
| Pipeline Length: | 28 ths km |

| | |
|-----------------------------|---------|
| Number of Customers: | |
| Natural Gas | 618 ths |
| LNG | 112 ths |

| | |
|---------------------|------------|
| Natural Gas: | |
| Transportation: | 2.5 bln cm |
| | 28.8 TWh |
| Supply: | 1.3 bln cm |
| | 14.8 TWh |
| LNG Supply: | |
| | 2.2 ths mt |

Target MCap: USD 44.0 mln

Indicative Price Range: USD 0.8-1.0
Target price: USD 1.30 (upside 30%-62%)

| | |
|-------------------|-------------|
| Stock Data | |
| Ticker (PFTS) | KIGA |
| Shares, mln | 33.75 |
| Par Value, USD | 0.01 |
| Free Float | 43% |

Supplies gas to the region around Kiev city, without dominant gas consumers. Low indebtedness level and market stability implies safe investment in the company.

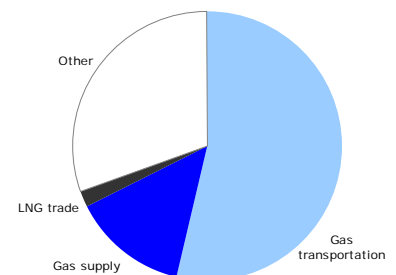
| | |
|----------------------------|-----|
| Ownership: | |
| Naftogaz | 33% |
| Institutional Shareholders | 23% |
| Other | 44% |

The company operates one of the longest gas networks in Ukraine, and actively reconstructs it.

| | |
|-------------------------------------|------|
| Key Financial Data, USD mln: | |
| Sales 2005 | 60.6 |
| EBITDA margin | 5.8% |
| Net margin | 0.0% |
| Net debt, Apr 2006 | -9.1 |
| Accounts Receivable, Apr 2006 | 13.6 |
| Accounts Payable, Apr 2006 | 10.4 |

Own capacity for plastic pipeline construction which guarantees additional stable sources of revenues for KIGA.

Business Breakdown (2005):

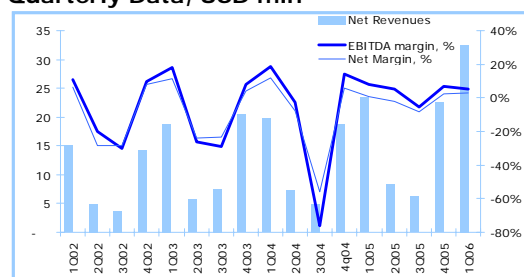


Key Financials (Ukrainian Accounting Standards, USD mln)

| | 2003 | 2004 | 2005 |
|-----------------------------------|--------------|-------------|-------------|
| Net revenues | 52.5 | 51.0 | 60.6 |
| Cost Of Sales | (49.5) | (49.6) | (58.2) |
| Gross Profit | 3.0 | 1.3 | 2.4 |
| Other Operating Income/Costs, net | (0.9) | 2.4 | 2.4 |
| SG&A | (0.7) | (1.2) | (1.3) |
| EBITDA | 1.4 | 2.4 | 3.5 |
| Depreciation | (1.6) | (2.3) | (2.2) |
| EBIT | (0.2) | 0.1 | 1.3 |
| Interest Expense | - | - | - |
| Financial income/(expense) | - | - | - |
| Other income/(expense) | (0.0) | (0.0) | (0.0) |
| PBT | (0.2) | 0.1 | 1.3 |
| Tax | - | (0.0) | (1.3) |
| Net Income | (0.2) | 0.1 | 0.0 |

| | 2003 | 2004 | 2005 |
|---------------------------------------|-------------|-------------|-------------|
| Current Assets | 22.6 | 16.6 | 17.5 |
| Cash & Equivalents | 4.0 | 3.5 | 5.4 |
| Trade Receivables | 16.9 | 8.8 | 8.2 |
| Other | 1.7 | 4.3 | 3.9 |
| Fixed Assets | 39.0 | 35.7 | 40.0 |
| Total Assets | 61.6 | 52.2 | 57.5 |
| Shareholders' Equity | 42.1 | 40.0 | 44.5 |
| Current Liabilities | 19.5 | 12.2 | 12.9 |
| ST Interest Bearing Debt | - | - | - |
| Trade Payables | 0.6 | 1.9 | 3.2 |
| Other | 18.9 | 10.3 | 9.7 |
| LT Liabilities | 0.0 | - | - |
| Total Liabilities & Equity | 61.6 | 52.2 | 57.5 |

Quarterly Data, USD mln

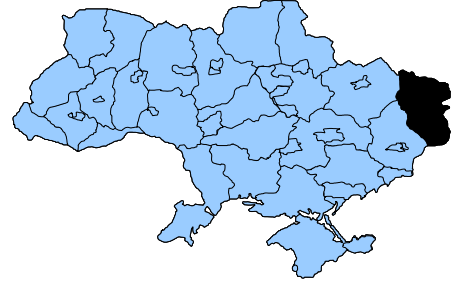


LuhanskGaz: BUY

Valuation Summary, USD mln



Area of Supply: Whole Lunask Region



| | |
|---------------------|-----------|
| Gasification Level: | 76 % |
| Pipeline Length: | 15 ths km |

| | |
|-----------------------------|---------|
| Number of Customers: | |
| Natural Gas | 652 ths |
| LNG | n/a |

| | |
|---------------------|------------|
| Natural Gas: | |
| Transportation: | 2.7 bln cm |
| Supply: | 31.7 TWh |
| | 1.0 bln cm |
| | 11.7 TWh |
| LNG Supply: | |
| | 2.2 ths mt |

Target MCap: USD 30.5 mln

Indicative Price Range: N/A Target price: USD 4.18

| | |
|-------------------|-------------|
| Stock Data | |
| Ticker (Concorde) | LUGZ |
| Shares, mln | 7.30 |
| Par Value, USD | 0.10 |
| Free Float | 26% |

Third company by consumer base in Ukraine; operates the region which is third in Ukraine by gasification level.

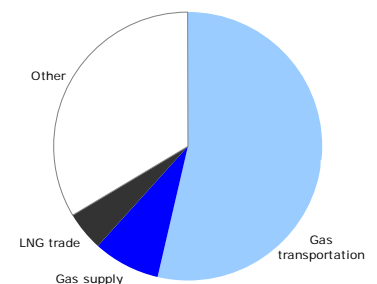
| | |
|----------------------------|-----|
| Ownership: | |
| Naftogaz | 51% |
| Institutional Shareholders | 31% |
| Other | 19% |

The company has efficiently restructured its debt in early 2004, and started showing positive margins in 2005.

| | |
|-------------------------------------|-------|
| Key Financial Data, USD mln: | |
| Sales 2005 | 48.0 |
| EBITDA margin | 3.1% |
| Net margin | -1.4% |
| Net debt, Apr 2006 | -1.4 |
| Accounts Receivable, Apr 2006 | 29.9 |
| Accounts Payable, Apr 2006 | 1.4 |

Large states' stake suggests the company can be privatized in the mid-term, which will boost liquidity and valuation.

Business Breakdown (2005):

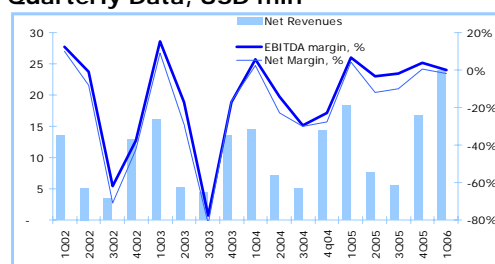


Key Financials (Ukrainian Accounting Standards, USD mln)

| | 2003 | 2004 | 2005 |
|-----------------------------------|--------------|--------------|--------------|
| Net revenues | 39.3 | 40.9 | 48.0 |
| Cost Of Sales | (36.3) | (37.4) | (45.5) |
| Gross Profit | 3.0 | 3.5 | 2.5 |
| Other Operating Income/Costs, net | (5.6) | (6.2) | (0.1) |
| SG&A | (1.7) | (2.2) | (0.9) |
| EBITDA | (4.3) | (4.9) | 1.5 |
| Depreciation | (2.1) | (1.9) | (2.2) |
| EBIT | (6.3) | (6.8) | (0.8) |
| Interest Expense | - | - | - |
| Financial income/(expense) | 0.0 | 0.0 | 0.0 |
| Other income/(expense) | 0.4 | 0.2 | 0.3 |
| PBT | (5.9) | (6.6) | (0.5) |
| Tax | (0.1) | (0.2) | (0.2) |
| Net Income | (6.0) | (6.8) | (0.7) |

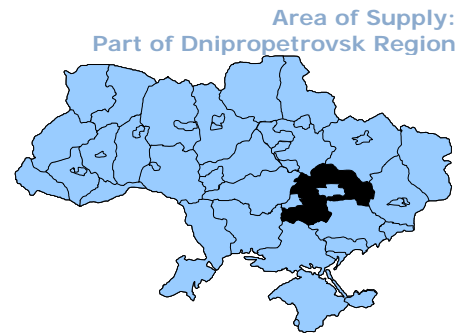
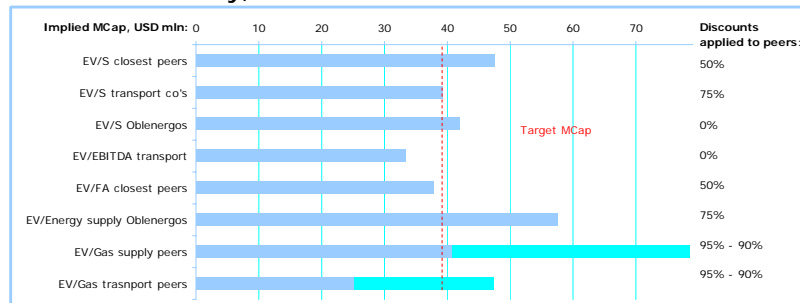
| | 2003 | 2004 | 2005 |
|---------------------------------------|-------------|--------------|--------------|
| Current Assets | 66.7 | 59.0 | 55.1 |
| Cash & Equivalents | 0.2 | 1.2 | 1.6 |
| Trade Receivables | 36.3 | 32.1 | 27.0 |
| Other | 30.2 | 25.7 | 26.5 |
| Fixed Assets | 30.7 | 35.6 | 43.6 |
| Total Assets | 97.4 | 94.6 | 98.6 |
| Shareholders' Equity | 3.4 | (2.7) | (0.6) |
| Current Liabilities | 94.0 | 51.4 | 23.5 |
| ST Interest Bearing Debt | - | 0.5 | 0.6 |
| Trade Payables | 1.4 | 1.8 | 1.5 |
| Other | 92.6 | 49.1 | 21.4 |
| LT Liabilities | - | 45.9 | 75.7 |
| Total Liabilities & Equity | 97.4 | 94.6 | 98.6 |

Quarterly Data, USD mln



DnipropetrovskGaz: BUY (DnipropetrovskOblGaz)

Valuation Summary, USD mln



| | |
|---------------------|-----------|
| Gasification Level: | 70 % |
| Pipeline Length: | 21 ths km |

Number of Customers:

| | |
|-------------|---------|
| Natural Gas | 604 ths |
| LNG | n/a |

Natural Gas:

| | |
|-----------------|------------|
| Transportation: | 3.4 bln cm |
| | 40.0 TWh |
| Supply: | 1.1 bln cm |
| | 13.1 TWh |

LNG Supply:

| | |
|--|------------|
| | 4.6 ths mt |
|--|------------|

Target MCap: USD 39.0 mln

Indicative Price Range: N/A
Target price: USD 45.2

Stock Data

| | |
|-------------------|-------------|
| Ticker (Concorde) | DNOG |
| Shares, mln | 0.86 |
| Par Value, USD | 0.56 |
| Free Float | 22% |

One of the largest GasCos in terms of revenue. Operates in Dnipropetrovsk Region, except the most industrialized cities of Kryviy Rih and Dnipropetrovsk.

Ownership:

| | |
|----------|-----|
| Naftogaz | 51% |
| GAZTEK | 23% |
| Other | 26% |

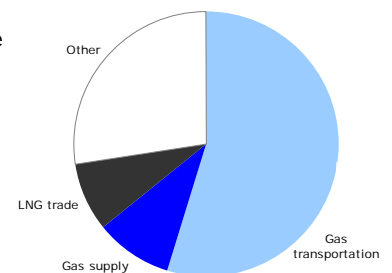
Writing off bad receivables resulted in the low profitability of the company during the last couple of years.

Key Financial Data, USD mln:

| | |
|-------------------------------|--------|
| Sales 2005 | 63.8 |
| EBITDA margin | -10.4% |
| Net margin | -13.2% |
| Net debt, Apr 2006 | -2.8 |
| Accounts Receivable, Apr 2006 | 59.0 |
| Accounts Payable, Apr 2006 | 11.9 |

The company develops pipeline diagnostic equipment.

Business Breakdown (2005):

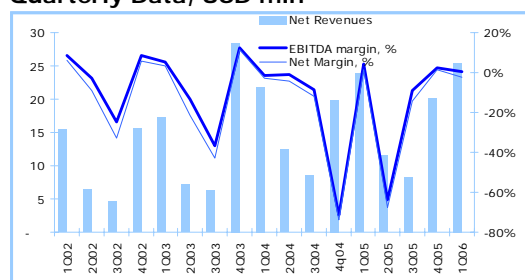


Key Financials (Ukrainian Accounting Standards, USD mln)

| | 2003 | 2004 | 2005 |
|-----------------------------------|--------------|---------------|--------------|
| Net revenues | 59.2 | 62.6 | 63.8 |
| Cost Of Sales | (54.9) | (57.5) | (59.1) |
| Gross Profit | 4.4 | 5.1 | 4.7 |
| Other Operating Income/Costs, net | 0.0 | (16.7) | (6.9) |
| SG&A | (3.1) | (3.6) | (4.5) |
| EBITDA | 1.3 | (15.2) | (6.6) |
| Depreciation | (2.1) | (2.2) | (2.6) |
| EBIT | (0.8) | (17.4) | (9.2) |
| Interest Expense | (0.1) | (0.5) | (0.0) |
| Financial income/(expense) | 0.3 | 0.7 | 0.1 |
| Other income/(expense) | 0.5 | 0.7 | 0.8 |
| PBT | (0.2) | (16.5) | (8.4) |
| Tax | (0.1) | (0.2) | (0.0) |
| Net Income | (0.3) | (16.7) | (8.4) |

| | 2003 | 2004 | 2005 |
|---------------------------------------|--------------|--------------|--------------|
| Current Assets | 102.0 | 83.2 | 74.0 |
| Cash & Equivalents | 1.1 | 2.1 | 1.5 |
| Trade Receivables | 86.6 | 64.4 | 56.0 |
| Other | 14.3 | 16.6 | 16.6 |
| Fixed Assets | 37.4 | 37.5 | 40.9 |
| Total Assets | 139.5 | 120.7 | 114.9 |
| Shareholders' Equity | 42.3 | 25.6 | 19.5 |
| Current Liabilities | 97.2 | 77.2 | 68.1 |
| ST Interest Bearing Debt | - | - | - |
| Trade Payables | 15.5 | 13.2 | 13.2 |
| Other | 81.7 | 64.0 | 54.9 |
| LT Liabilities | - | 17.8 | 27.4 |
| Total Liabilities & Equity | 139.5 | 120.7 | 114.9 |

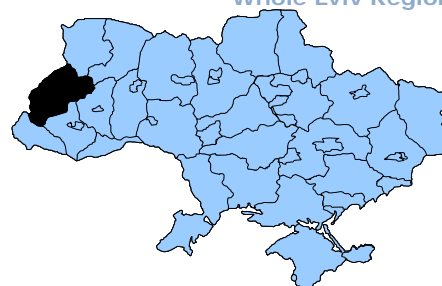
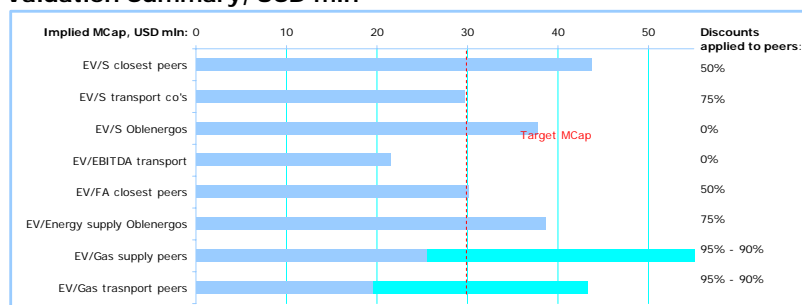
Quarterly Data, USD mln



LvivGaz: BUY

Area of Supply:
Whole Lviv Region

Valuation Summary, USD mln



| | |
|---------------------|-----------|
| Gasification Level: | 88 % |
| Pipeline Length: | 19 ths km |

| | |
|-----------------------------|---------|
| Number of Customers: | |
| Natural Gas | 675 ths |
| LNG | n/a |

| | |
|---------------------|------------|
| Natural Gas: | |
| Transportation: | 2.3 bln cm |
| | 26.4 TWh |
| Supply: | 0.9 bln cm |
| | 10.3 TWh |
| LNG Supply: | |
| | 9.0 ths mt |

Target MCap: USD 30.0 mln

Indicative Price Range: N/A Target price: USD 8.8

| | |
|-------------------|-------------|
| Stock Data | |
| Ticker (PFTS) | LGAZ |
| Shares, mln | 3.40 |
| Par Value, USD | 0.01 |
| Free Float | 9% |

Second company by consumer base in Ukraine, and leader by reported sales 2005. Pipeline construction business was reflected in high additional revenues and high recent sales volatility.

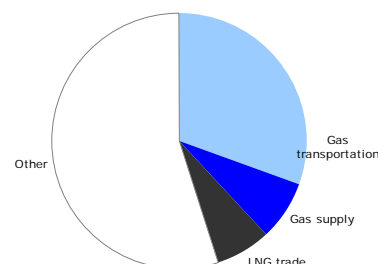
| | |
|-------------------|-----|
| Ownership: | |
| Naftogaz | 28% |
| West Oil Group | 63% |
| Other | 9% |

LGAZ is the leader by level of gasification in Ukraine, and is among the leaders in pipeline reconstruction. Though, tariff policy did not allow the company to generate profits.

| | |
|-------------------------------------|-------|
| Key Financial Data, USD mln: | |
| Sales 2005 | 73.1 |
| EBITDA margin | -0.7% |
| Net margin | -6.2% |
| Net debt, Apr 2006 | 3.9 |
| Accounts Receivable, Apr 2006 | 54.7 |
| Accounts Payable, Apr 2006 | 120.3 |

The company belongs to the group of gas companies belonging to WOG, which is now a target for acquisition by UkrGazEnergo.

Business Breakdown (2005):



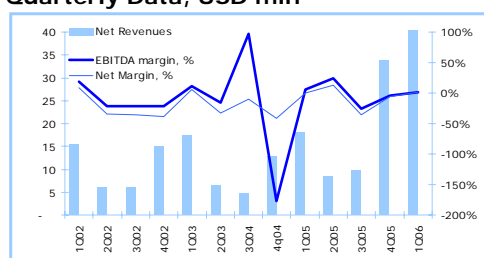
High company's debt is expected to be re-structured and wrote off according to the acting law.

Key Financials (Ukrainian Accounting Standards, USD mln)

| | 2003 | 2004 | 2005 |
|-----------------------------------|--------------|---------------|--------------|
| Net revenues | 42.6 | 41.2 | 69.9 |
| Cost Of Sales | (38.4) | (38.0) | (67.1) |
| Gross Profit | 4.2 | 3.2 | 2.7 |
| Other Operating Income/Costs, net | (8.0) | (24.7) | (0.5) |
| SG&A | (2.1) | (2.5) | (2.9) |
| EBITDA | (5.9) | (24.0) | (0.6) |
| Depreciation | (3.9) | (4.7) | (3.4) |
| EBIT | (9.8) | (28.8) | (4.0) |
| Interest Expense | - | (0.0) | (0.5) |
| Financial income/(expense) | - | - | - |
| Other income/(expense) | 0.0 | 19.3 | 0.0 |
| PBT | (9.8) | (9.5) | (4.5) |
| Tax | - | (0.0) | (0.0) |
| Net Income | (9.8) | (9.5) | (4.5) |

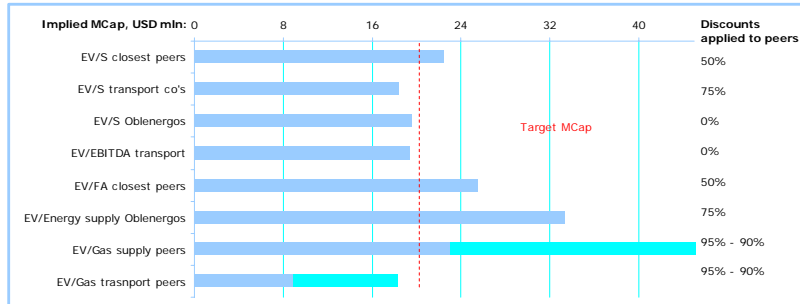
| | 2003 | 2004 | 2005 |
|---------------------------------------|--------------|--------------|--------------|
| Current Assets | 232.3 | 64.4 | 147.3 |
| Cash & Equivalents | 0.8 | 0.5 | 1.7 |
| Trade Receivables | 54.1 | 35.1 | 39.3 |
| Other | 177.4 | 28.8 | 106.2 |
| Fixed Assets | 33.4 | 35.3 | 39.1 |
| Total Assets | 265.8 | 99.7 | 186.3 |
| Shareholders' Equity | (0.3) | (5.8) | 3.6 |
| Current Liabilities | 266.1 | 105.4 | 182.7 |
| ST Interest Bearing Debt | - | 0.3 | 4.6 |
| Trade Payables | 11.2 | 5.3 | 138.4 |
| Other | 254.8 | 99.8 | 39.6 |
| LT Liabilities | 0.0 | 0.2 | 0.0 |
| Total Liabilities & Equity | 265.8 | 99.7 | 186.3 |

Quarterly Data, USD mln

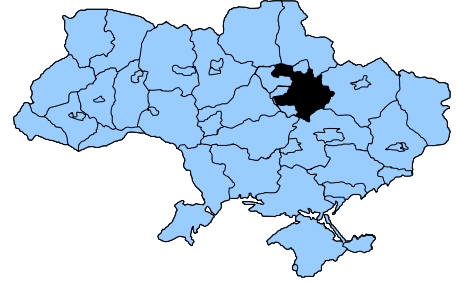


PoltavaGaz: BUY

Valuation Summary, USD mln



Area of Supply: Part of Poltava Region



| | |
|---------------------|-----------|
| Gasification Level: | 74 % |
| Pipeline Length: | 19 ths km |

Number of Customers:

| | |
|-------------|---------|
| Natural Gas | 340 ths |
| LNG | n/a |

Natural Gas:

| | |
|-----------------|------------|
| Transportation: | 1.1 bln cm |
| | 12.8 TWh |
| Supply: | 0.7 bln cm |
| | 8.1 TWh |

LNG Supply:

| | |
|--|------------|
| | 2.6 ths mt |
|--|------------|

Target MCap: USD 20.0 mln

Indicative Price Range: N/A Target price: USD 48.3

| Stock Data | |
|-------------------|-------------|
| Ticker (Concorde) | PGAZ |
| Shares, mln | 0.41 |
| Par Value, USD | 0.21 |
| Free Float | 8% |

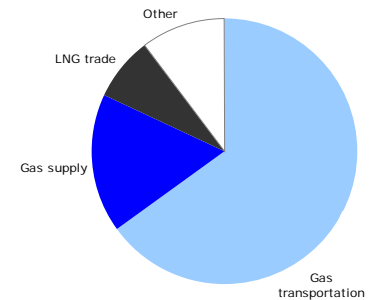
The company concentrates its business in Poltava city and central and eastern districts of Poltava Region.

| Ownership: | |
|----------------------------|-----|
| Naftogaz | 51% |
| Institutional Shareholders | 40% |
| Other | 9% |

Restructuring of the company's debts caused negative financial results in the previous years, but in recent quarters the company started showing positive margins.

| Key Financial Data, USD mln: | |
|-------------------------------|-------|
| Sales 2005 | 34.2 |
| EBITDA margin | 6.3% |
| Net margin | -0.8% |
| Net debt, Apr 2006 | 0.4 |
| Accounts Receivable, Apr 2006 | 7.6 |
| Accounts Payable, Apr 2006 | 5.9 |

Business Breakdown (2005):

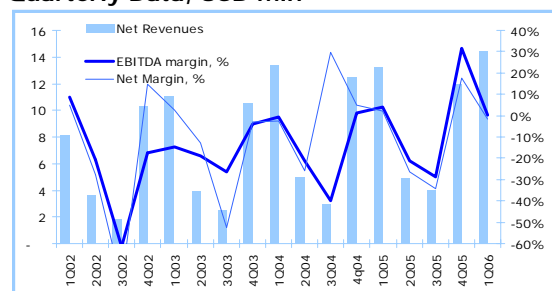


Key Financials (Ukrainian Accounting Standards, USD mln)

| | 2003 | 2004 | 2005 |
|-----------------------------------|--------------|--------------|--------------|
| Net revenues | 28.2 | 33.9 | 34.2 |
| Cost Of Sales | (25.4) | (30.0) | (29.6) |
| Gross Profit | 2.8 | 3.8 | 4.6 |
| Other Operating Income/Costs, net | (5.2) | (4.8) | (0.6) |
| SG&A | (1.0) | (1.2) | (1.9) |
| EBITDA | (3.5) | (2.2) | 2.1 |
| Depreciation | (1.3) | (1.5) | (3.1) |
| EBIT | (4.7) | (3.7) | (1.0) |
| Interest Expense | (0.0) | (0.0) | (0.0) |
| Financial income/(expense) | 0.0 | 0.1 | 0.0 |
| Other income/(expense) | 2.8 | 3.5 | 1.0 |
| PBT | (1.9) | (0.1) | (0.0) |
| Tax | - | - | (0.3) |
| Net Income | (1.9) | (0.1) | (0.3) |

| | 2003 | 2004 | 2005 |
|---------------------------------------|-------------|-------------|-------------|
| Current Assets | 32.3 | 28.3 | 25.1 |
| Cash & Equivalents | 1.3 | 0.6 | 1.4 |
| Trade Receivables | 22.7 | 18.4 | 7.9 |
| Other | 8.3 | 9.4 | 15.8 |
| Fixed Assets | 24.1 | 27.4 | 30.3 |
| Total Assets | 56.4 | 55.7 | 55.3 |
| Shareholders' Equity | 17.7 | 20.7 | 24.2 |
| Current Liabilities | 36.6 | 32.0 | 29.3 |
| ST Interest Bearing Debt | - | - | - |
| Trade Payables | 4.7 | 4.4 | 4.3 |
| Other | 31.9 | 27.6 | 25.0 |
| LT Liabilities | 2.1 | 3.0 | 1.9 |
| Total Liabilities & Equity | 56.4 | 55.7 | 55.3 |

Quarterly Data, USD mln



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