



CONCORDE CAPITAL

Ukraine / Fixed income

# Naftogaz of Ukraine

## SBU raid has political implications

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**Andriy Gerus**  
ga@concorde.com.ua

**Brad Wells**  
bw@concorde.com.ua

+380 44 391 5577

- This morning armed men stormed Naftogaz of Ukraine's Kyiv headquarters to seize the original of the January agreement with Gazprom that ended a 2-week halt in gas flows to Europe
- The raid was part of a criminal investigation by Ukraine's security service (SBU), which has said the appropriation of gas in storage that belonged to RosUkrEnergo was illegal
- Expect further salvos in the battle for control of the gas, but look for Prime Minister Tymoshenko, who brokered the January deal, to win support for the gas to remain under Naftogaz' control

### Tickers

Bloomberg	NAFTO
ISIN	XS0202078688

### Ratings

Moody's	B1
Fitch	B-

### Issue details

Amt of issue	USD 500 mln
Coupon	8.125%
Maturity date	Sept. 30, 2009

### Armed men storm Naftogaz' HQ to seize January Gazprom agreement

According to various local media reports, 15-20 armed men wearing masks stormed the headquarters of Naftogaz of Ukraine in Kyiv this morning with the intent of reaching the office of the company's chief accountant. Naftogaz press office representative Valeriy Zemlyansky said the men were attempting to seize the original of the January Naftogaz-Gazprom agreement that ended a two-week halt in natural gas flows to Europe. The document outlines the terms of transit and delivery of natural gas from 2009-2019. As of when this report was published, it was not clear if the men were successful in extricating any documents.

### SBU views Naftogaz' seizure of gas in storage as unlawful

A spokesperson for the Security Service of Ukraine (SBU) said this afternoon that the raid is part of a criminal investigation into the activities of Naftogaz officials that began on March 2 into the diversion of 6.3 bln m3 of natural gas worth more than UAH 7.4 bln, as per the January agreement between Naftogaz and Gazprom. First Deputy of the SBU Valeriy Khoroshkovsky said today before the Verkhovna Rada that this transaction was illegal as the gas had been owned by middleman RosUkrEnergo, which was stricken from the Ukraine-Russian gas import arrangement in the January deal. Last night, the SBU arrested Deputy Head of the State Energy Customs Office Taras Shepitko, whose office was due to clear the gas. The customs office had taken control over 11 bln m3 of gas owned by RosUkrEnergo.

### Another front in Tymoshenko-Yushchenko melee

The dispute over Naftogaz' January contract with Gazprom represents the most significant escalation in the power struggle between Ukrainian President Viktor Yushchenko and Prime Minister Yulia Tymoshenko. Khoroshkovsky, a 2007 Yushchenko appointee, appears to be pulling the strings for businessman Dmitry Firtash, a beneficiary of RosUkrEnergo, in order to affect a return of the gas in storage to RosUkrEnergo. Meanwhile, Tymoshenko, who brokered the January gas accord with her Russian counterpart, Vladimir Putin, is unwilling to see her much-heralded agreement dissolve. The Verkhovna Rada has already summoned the head of the SBU for a report to the assembly. Further salvos from both sides are likely. Our view is that Tymoshenko, who has at her disposal levers of influence within the Cabinet of Ministers, Verkhovna Rada, and the Ministry of Internal Affairs will find support for the legality of the agreement and the gas will remain in Naftogaz' ownership.

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### Concorde Capital, Head office

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

www.concorde.ua

### Concorde Capital

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

office@concorde.com.ua

### CEO

Igor Mazepa

im@concorde.com.ua

### RESEARCH

### Head of Sales & Trading

Roman Nasirov rn@concorde.com.ua

### International Sales & Trading

Anastasiya Nazarenko an@concorde.com.ua  
Marina Martirosyan mm@concorde.com.ua  
Andriy Supranonok sap@concorde.com.ua

### Domestic Sales & Trading

Yuriy Pilipenko up@concorde.com.ua  
Alisa Tikhomirova at@concorde.com.ua

### Director of Research

Konstantin Fisun, CFA kf@concorde.com.ua

### Strategy

Konstantin Fisun kf@concorde.com.ua  
Oleksandr Klymchuk ok@concorde.com.ua

### Metals & Mining

Eugene Cherviachenko ec@concorde.com.ua  
Andriy Gerus ga@concorde.com.ua

### Utilities (Telecom, Energy)

Alexander Paraschiy ap@concorde.com.ua

### Oil & Gas

Andriy Gerus ga@concorde.com.ua

### Real Estate/Construction, Consumer-related

Andriy Gostik, CFA ag@concorde.com.ua

### Machinery

Alexander Paraschiy ap@concorde.com.ua  
Eugene Cherviachenko ec@concorde.com.ua

### Economics, Financial services

Andrii Parkhomenko pav@concorde.com.ua

### Fixed Income

Oleksandr Klymchuk ok@concorde.com.ua

### Editor

Brad Wells bw@concorde.com.ua

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