



CONCORDE CAPITAL

Ukraine / Fixed income

Naftogaz of Ukraine

Management comments on bondholder meeting

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Oleksandr Klymchuk
ok@concorde.com.ua
+380 44 391 5577

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

NAFTO Market implied ratings

	Rating	Gap*
Bond-implied	-	-
CDS-implied	Caa1	-3

*Notches versus Moody's Senior Unsecured Rating. Source: Moody's

NAFTO '09 YTM, %



Source: Bloomberg

Naftogaz of Ukraine bondholders have said that their October 28 meeting was postponed due to lack of quorum. Following the news, we contacted company management to clarify the situation: they claimed to have reached an agreement to avert early Eurobond redemption; they also said they plan to publish FY07 IFRS financials within the next month.

Bondholders appeared ready to vote against another waiver

Naftogaz' October 28 bondholder meeting was slated to vote on whether to grant the company a waiver that would have allowed it to delay publication of its FY07 financial results until end-2008, as suggested by the issuer. Before the Oct. 28 meeting, a group of investors stated in interviews with the press that they were ready to vote against granting a waiver this time, while the Ukrainian government still had the right to issue guarantees on Naftogaz debt.

Naftogaz is already in technical breach of its bond covenants after it failed to publish FY07 results by July 31. As a reminder, in 2007 Naftogaz also did not release its FY06 financials by the initial deadline. Then, bondholders waived the default and extended the deadline several times until the FY06 results were finally published at the beginning of 2008.

Management says they have agreement to avert early redemption

We talked with the company's management after the meeting failed to convene in order to clarify the situation:

- The company said it agreed with major bondholders that they will not support early redemption of the bonds. According to Naftogaz officials, unscheduled repayment would jeopardize operating activity. Thus, it could take bondholders as long to recover their money if they take that route as to wait for scheduled redemption.
- Naftogaz' management assured us that the major issues with their auditors delaying the publication of FY07 IFRS financials have been resolved. Management now expects the audited results to be published in the next month.
- Management confirmed that the government is shirking its right to issue guarantees on Naftogaz' external debt as allowed by the 2008 state budget law. The Cabinet of Ministers of Ukraine, in order to issue the guarantees, requested Naftogaz provide a counter-guarantee from a local bank or another reliable source that would repay the state. However, management said this counter-guarantee is practically impossible to attain.

Waiver issue could be reconsidered by another bondholder meeting

If Naftogaz fails to publish its FY07 financials in short order, according to Debtwire, bondholders said that the next meeting, at which only one vote will be required to convene, could take place in the next three to five weeks.

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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

Head of Equity Sales

Roman Nasirov rn@concorde.com.ua

Equity Sales

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

Director of Research

Konstantin Fisun, CFA kf@concorde.com.ua

RESEARCH

Strategy

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

Metals & Mining

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

Utilities (Telecom, Energy)

Alexander Paraschiy ap@concorde.com.ua

Oil & Gas, Chemicals, Pharmaceuticals

Vladimir Nesterenko vn@concorde.com.ua

Real Estate /Construction

Andriy Gostik, CFA ag@concorde.com.ua
Alexander Romanov ar@concorde.com.ua

Consumer-related

Olha Pankiv op@concorde.com.ua
Anna Dudchenko ad@concorde.com.ua

Machinery

Inna Perepelytsya pi@concorde.com.ua

Financial Services, Retail

Alexander Viktorov av@concorde.com.ua

Economics

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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