



CONCORDE CAPITAL

Ukraine / Oil & Gas Turkmen Gas

Moderate Supply & Price Risks

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UKRAINE

Gas Sources, 2006

Extraction	21	27%
Imports	56	53%

Gas Imports*, 2006

Turkmenistan	41	73%
Uzbekistan	7	13%
Kazakhstan	8	14%

TURKMENISTAN

Gas Balance, 2006

Extraction	60	100%
Consumption	13	22%
Exports	47	78%

Gas Exports, 2006

Ukraine**	60	100%
Iran	13	22%
	47	78%

* All imports of gas to Ukraine, and all exports of Turkmen gas, are sourced through RosUkrEnergo, a JV between Gazprom and two individuals related to Ukraine

Following the death of the Turkmen dictator yesterday, the country is looking down the specter of political instability. Whatever forces come to power, we think there is a relatively low probability that Turkmenistan will fail to meet the terms of its gas contracts. Neither do we expect any unpredictable gas price hikes.

The "Father of all Turkmen" Is Dead

Yesterday the president of Turkmenistan, Saparmurat Niyazov aka Turkmenbashi (Father of all Turkmen), passed away, leaving his nation with numerous economic and social challenges and uncertainty about potential successors. The dictator's death is an opportunity to not only improve the well-being of the Turkmen people, but Ukraine-Turkmenistan relations as well. However, it might also bring about a period of prolonged political and economic disarray.

Gas Supply Cuts/Shortages Is a Risk

For Ukraine, the most important issue is the continuing stability of Turkmen gas supplies to Russia, as all of it is subsequently re-sold to Ukraine. According to existing contracts, Turkmen gas accounts for more than 70% of Ukraine's gas imports, amounting to 41 bcm a year. Meanwhile, Ukraine buys around 70% of Turkmenistan's total gas production (60 bcm) or about 90% of its gas exports. The fact that both countries depend heavily on Gazprom, which controls the transportation pipelines, aggravates the risk.

The Battle for Power May Flare Up Soon ... If It Hasn't Yet

Turkmenistan, rich in oil & gas and in a favorable geopolitical position, is likely to be the scene of a fierce fight for control between incumbent forces, a diverse opposition, Russia and the United States. We already see alarming signals that power might be assumed by internal security forces, which we believe is the most likely scenario. We think that Russia will use this chance to strengthen its positions in the country through cooperation with incumbent Turkmen forces that seize control. The latter are unlikely to welcome Russians with open arms, but even if Russia stays away, it will still maintain the *status quo* in the region. In its turn, Washington will actively promote fair elections, engaging the pro-western Turkmen opposition.

Probability Of Gas Supply Cuts Remains Moderate

In general, the future control of the country falls into three possible non-mutually-exclusive alternatives: incumbent forces, opposition, and prolonged disorder. In the first case, Turkmen internal security forces come to power, which implies less risks to the country's gas supplies. The other two cases imply higher risks, but also look less likely. As Turkmenistan heavily depends on gas exports, there are little motives for cutting gas supplies. The worst scenario is complete chaos, prolonged and possibly armed conflicts. In this case, the risk to gas supplies is very high, but we only attach a 10% probability to this scenario.

Incumbent Forces (70% probability)

This scenario implies that Turkmen internal forces seize control and do not radically change the established political and economic system. The national security/military people might produce a new leader quite soon. Possibly, these forces will gather around the Turkmenbashi's chief security service and/or Niyazov's daughter, Irina. The former head of the security force, consisting of about 2,000 professional soldiers and is perhaps the most powerful figure after the Turkmenbashi himself. The latter lives in Moscow and used to oversee the country's financials. Niyazov's 41 year old son, Murad Niyazov, is told to have had tense relations with his father. He has been engaged in business rather than politics and was not involved in supporting his father's cult. Cooperation with potential incumbent successors seems to be a good opportunity for Russia to strengthen its positions in Central Asia, yet it won't be easy in our view.

Gas implications: under this scenario Turkmenistan is most likely to stick to the existing contracts and continue uninterrupted gas supplies.

Opposition (20% probability)

For the pro-Russian opposition it will be relatively easier to win a new round of Presidential elections, at least for cultural and mentality reasons, while U.S.-friendly opposition forces will have to put in significant efforts to fight the traditionally pro-Russian population's views. Promises of a true "democracy" a la American style might gain some traction, but it is not clear whether the Turkmen nation is ready to accept western propaganda.

There is also evidence that incumbent Turkmen forces will do everything possible to continue suppressing opposition in the country: just after the Turkmenbashi's death, the prosecutors office arrested the chairman of parliament, Ovezgeldy Atayev, who should have become acting president, according to Turkmenistan's constitution. Instead, the country's security council decided to transfer power to Niyazov's personal doctor, Vice-Prime Minister and the Minister of Health, Kurbangula Berdymukhammedov.

In addition, the state's security office responded to announcements by exiled opposition candidates intending to return to the country by closing the border. Currently, Turkmen consulates and embassies abroad are not providing entry visas. This is a serious problem for the Turkmen opposition, because all its leaders are out of the country. Without solid support from Russia or western states, the opposition might be simply be suppressed.

Gas implications: We do not think that political competition between opposition forces and/or between the opposition and internal forces, will lead to problems with gas supplies, as none of the potentially conflicting forces have strong motives to cut them. We also do not think that competition will result in sudden gas price hikes either, at least in the short-term.

Prolonged Disorder (10% probability)

The most extreme scenario is if forces compete for power resulting in temporary political instability, which implies much higher risks for the buyers of Turkmen gas. This is the worst case scenario, which implies fierce conflicts between internal clans, between incumbent Turkmen powers and the opposition, as well as within opposition forces themselves. In the extreme case, this might lead to a prolonged civil war, possibly with the military or financial support of powerful governments.

Gas implications: this scenario implies the highest risk of gas supply cuts or shortages, and price risks are also high.

What If Turkmenistan Fails To Supply Gas?

If Turkmenistan stops supplying gas or supplies insufficient volumes, Gazprom's gas balance will be affected first. It has contracted as much as 41 bcm, which is an amount considerable enough to fight for. We think Russia will do everything possible to secure supplies, including military assistance to friendly forces. Otherwise, a gas shortage in Gazprom-supplied countries (including Ukraine) is inevitable, as Russian companies are unlikely to boost extraction to offset the deficit from a lack of Turkmen gas.

Appendix 1. Turkmen Opposition: A Brief Profile

In 2003, the leaders of the Turkmen opposition created the Union of Democratic Forces of Turkmenistan. This was the first time since 1992 that the opposition came together. The Union consists of four main opposition forces: the United Democratic Opposition of Turkmenistan (Avdy Kuliev), Vatan Public-Political Movement (Hudayberdy Orazov), the Vozrozhdenie Party (Nazar Suyunov), and the Republican Party of Turkmenistan (Nurmuhammed Hanamov). It looks like the other influential power, the National Democratic Movement of Turkmenistan (NDMT), led by Bayran Shichmuradov, decided to act independently.

The United Democratic Opposition of Turkmenistan was established in 1998 and is headed by Avdy Kuliev, an 70-year old politician, who was the Minister of International Affairs of Turkmenistan in 1990-1992, but was dismissed and imprisoned in 1998 during Niyazov's repressions. Later, he was discharged under pressure from the international community. Since 1993, he has been the President of the Turkmenistan Fund (Moscow), and since 1999 – Chief Editor of the analytical magazine, "Erkin Turkmenistan" ("Independent Turkmenistan").

Vatan Public-Political Movement was established by Hudayberdy Orazov. He was born in 1951 and graduated from the Turkmenistan State University and Academy of National Economy. He has held a number of positions Chairman of the Board of Bank Turkmenistan (1990), Chairman of the Board at the republican Vnesheconombank (1992-1993), Chairman of the Board at Central bank of Turkmenistan (1993-1999) and he was Vice-Prime Minister for Economic Affairs (1999-2000). Hudayberdy Orazov had an open conflict with Niyazov, which led to persecution and forced him to leave Turkmenistan. During his absence he was sentenced to life imprisonment. Currently Orazov leads the opposition movement Vatan and lives in Sweden.

The Vozrozhdenie (Resurrection) Party is headed by Nazar Suyunov, a 70 year-old politician, economist, scientist, former Minister of International Affairs of Turkmenistan (1978-1985) and former Minister of Oil and Gas (1991-1995). Suyunov currently lives in Moscow.

The Republican Party of Turkmenistan is currently headed by Nurmuhammed Hanamov, the son of one of the richest and the most influential people in Turkmenistan, Chary Hanamov, who was in favor of Niyazov. Nurmuhammed Hanamov also has strong ties in Turkmenistan and working connections with Russian and Turkish businesses.

The National Democratic Movement of Turkmenistan was established in 2001 by Boris Shichmuradov. Boris Shichmuradov, 57 years-old, worked in the Ministry of International Affairs of the SSR, embassies in Pakistan and India, and was a Deputy Chairman of Cabinet of Ministers of Turkmenistan. Until 2003, Shichmuradov was one of the leaders of the Temporary Executive Council of the National Democratic Movement of Turkmenistan. At the moment he is imprisoned for life in Turkmenistan; and the National Democratic Movement is currently headed by his son, Bayran Shichmuradov.

Appendix 2. Key Turkmen Officials

Acting President and Prime Minister*	Kurbanguly BERDIMUKHAMEDOV
Min. of Communication	Resulberdi KHOZHAGURBANOV
Min. of Defense & Secretary, State Security Council	Agagelgy MAMETGELDIYEV
Min. of Economics & Finance	Atamurad BERDIYEV
Min. of Foreign Affairs	Rashid MEREDOV
Min. of Internal Affairs	Ahmmamet RAHMANOV
Min. of National Security	Geldymukammed ASHIRMUKHAMEDOV
Min. of Oil & Gas Industry & Mineral Resources	Gurbanmurat ATAYEV
Min. of Trade & Foreign Economic Relations	Gurbangeldi MELEKEYEV
Chairman, Central Bank	Geldymurat ABILOV
Ambassador to the US	Mered ORAZOV
Permanent Representative to the UN, New York	Aksoltan ATAYEVA

* According to the Turkmen Constitution, the President serves as de facto head of the cabinet

Source: CIA (last updated on 12.11.2006), RIA News.

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