

October 29, 2007

Current Price: USD 81.4

12M Target: U/R

## SELL

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### Market information

No of Shares, mln	54.2
Reg S GDR to Ord.	1:6
Market price, USD	81.4
52Wk H/L, USD	99.9/58.4
MCap, USD mln	4408.1
Free float	8%
FF MCap, USD mln	352.7

Mo avg tr volume\*, USD mln 6.6  
*Note: 6M trailing, PFTS & Frankfurt*

### Corporate governance

Concorde Rating\* AA  
*\* The rating is based on Concorde Capital's corporate governance survey. Q denotes quality corporate governance standards, AA - above average standards, A - average, BA - below average and P - poor.*

### Stock ownership

State	50%+1
Privat Group	42%
Other	8%

**Ukrnafta's 48% yoy drop in 9M EBITDA, reported last week, promise 2007 to be the first year of underperformance over the last five years. We did expect deterioration in the company's financial standing this year, but not that substantial. We put our target and forecasts under review and maintain our SELL recommendation.**

According to its 9M07 results released last week, Ukrnafta posted a 41% yoy drop in net revenue and 48% lower EBITDA. Higher royalties (+47% yoy) did most of the job, which was exactly what we had expected, as sales of crude oil generate around 3/4 of Ukrnafta's EBITDA.

This was by far not the only negative news on Ukrnafta this year, but the stock remained resilient. Instead, it has followed global oil prices, while disregarding deterioration of its per-barrel cash flow: since 2005 oil royalties increased from 30% of oil price to about 50% this year.

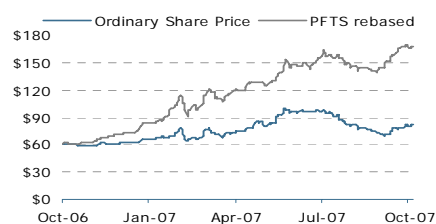
For the time being, we put our forecasts and target under review: the company's actual performance substantially lags our expectations and its model demands a revision. We, however, remain bearish on the stock and maintain our SELL recommendation.

### Ukrnafta financial performance vs. forecast

	3Q06	2006	3Q07	2007 Fcst (withdrawn)
Gross revenue	1,983	2,582	1,867	3,566
<i>change yoy</i>			-5.8%	38.1%
(-) Royalty	357	476	524	720
<i>change yoy</i>			47.0%	51.4%
% of gross revenue	18.0%	18.4%	28.1%	20.2%
(-) VAT	327	427	311	713
(-) Excise and other	14	20	268	59
Net revenue	1,286	1,659	764	2,073
<i>change yoy</i>			-40.6%	24.9%
Gross profit	791	965	423	776
EBITDA	606	748	316	628
<i>change yoy</i>			-48.0%	-16.0%

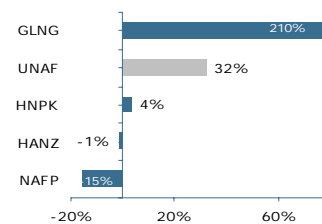
*Source: Company data, Concorde Capital estimates*

### Stock performance\*, 12M

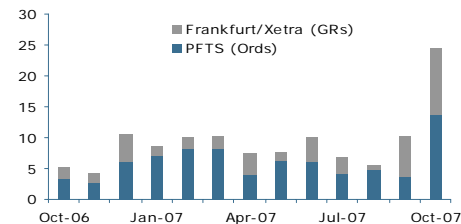


*Note: PFTS mid price*  
*Source: PFTS, Bloomberg*

### Sector performance, YTD



### PFTS Trading volume, USD mln



## Analyst certification

I, Vladimir Nesterenko, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

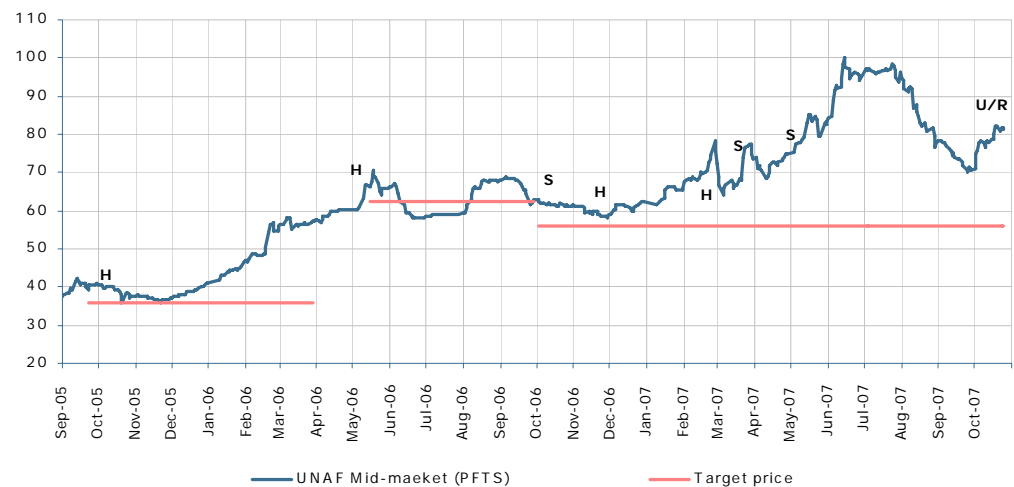
Date	Target price, USD	Market price, USD	Recommendation	Action
20 Jan 03 <sup>(1)</sup>	7.28	4.43	BUY	Initiate
17 Feb 03	7.36	4.32	BUY	Maintain
07 May 03	8.13	4.23	BUY	Maintain
03 Sep 03	8.34	4.05	BUY	Maintain
05 Dec 03	10.70	5.87	BUY	Maintain
19 May 04	22.65	13.23	BUY	Maintain
06 Sep 04	Pending	5.93	HOLD	Downgrade
03 Dec 04	32.00	15.17	BUY	Upgrade
11 Apr 05	35.70	27.75	BUY	Maintain
26 Aug 05	Pending	37.00	N/A	<i>Suspend</i>
22 Sep 05	35.70	39.20	HOLD	Downgrade
28 Mar 06 <sup>(2)</sup>	Pending	57.28	N/A	<i>Review</i>
15 May 06	62.60	66.83	HOLD	Maintain
21 Sep 06	56.00	65.45	SELL	Downgrade
28 Dec 06	56.00	62.41	HOLD	Upgrade
07 Mar 07	56.00	62.48	HOLD	Maintain
29 Mar 07	56.00	74.75	SELL	Downgrade
30 May 07	56.00	83.09	SELL	Maintain
<b>29 Oct 07</b>	Pending	<sup>(3)</sup> <b>81.46</b>	<b>N/A</b>	<i>Review</i>

<sup>(1)</sup> This stock was covered by analysts currently engaged with Concorde Capital prior to the legal inception of the company in October 2004, recommendations are supported by research.

<sup>(2)</sup> Until December 2005 the company was covered by Andriy Gostik, who now focuses on another sector. In January 2006, Vladimir Nesterenko took over coverage.

<sup>(3)</sup> PFTS closing price as of October 29, 2007

### Recommendation history, USD



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