

Ukrnafta

CEO appointment, dividends on Friday AGM agenda

Event: AGM scheduled for Friday, Feb. 25

Ukrnafta shareholders are set to meet for an AGM on February 25, 2011: the agenda includes the appointment of a new CEO and distribution of 2009 and 2010 earnings. Considering persistent rumors of talks between the state and Privat group to resolve their long-standing conflict, we see a high probability of the AGM actually taking place and agreement on the key issues.

- **CEO appointment:** Energy Minister Yuriy Boyko said today the government planned to propose an undisclosed independent manager from the west. We see the appointment leading to improved corporate governance, transparency and efficiency. The appointment is in line with plans to create a vertically integrated oil company on the basis of Ukrnafta and oil refiner Ukrtatnafta.
- **Dividends:** Should dividends be approved, dividend per share would amount to UAH 4.89 from 2009 profits and UAH 49.00 from 2010.

2010 results: Net profit jumped 7x y-o-y

Ukrnafta's key 2010 financial and operational results were released last week by the company and Energy Minister. Despite a decline in output in 2010 (gas by -17% y-o-y, gas condensate by -10.6% y-o-y, and oil by -2.2% y-o-y), Ukrnafta nearly doubled its sales to USD 2.5 bln. The company benefited from rising oil prices and starting to sell oil at auctions at close to market prices. Another contribution to top line growth in 2H10 was the sale of approximately 1 bcm of gas to industrial producers at the market price (at USD 270 vs. USD 58 for the population) as the result of a court ruling.

Valuation: Under Review

We place Ukrnafta under review until after the February 25 AGM and subsequent March 22 EGM, where formation of a vertically integrated company will be discussed.

Ukrnafta key financial results, 2008-2010

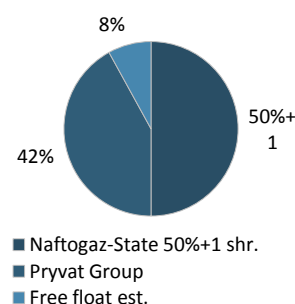
| USD ths | 2008 | 2009 | 2010 |
|---------------|-----------|-----------|-----------|
| Net sales | 1,783,769 | 1,280,990 | 2,523,380 |
| EBITDA | 490,887 | 170,615 | 557,980 |
| Net income | 272,871 | 48,624 | 333,706 |
| EBITDA margin | 28% | 13% | 22% |
| Depreciation | 118,568 | 84,311 | 85,406 |
| Net margin | 15% | 4% | 13% |

Source: Company data

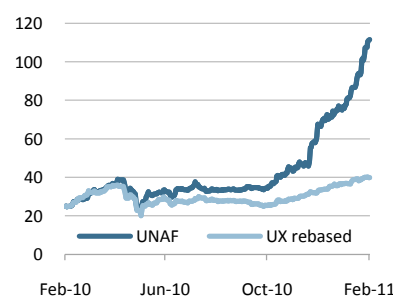
| Report date | 23 Feb 2011 |
|------------------------|-------------|
| Bloomberg | UNAF UK |
| Reuters | UNAF=UA |
| Recommendation | U/R |
| Price (23 Feb 11), USD | 107 |
| 12M price target, USD | U/R |
| No of shares, mln | 54.22 |
| Market Cap, USD mln | 5824 |
| 52-week performance | 333% |
| 52-week range, USD | 21/110 |
| ADT, 12M, USD mln | 1.5 |
| Free float, % | 8% |
| Free float, USD mln | 465.9 |

Prices as of Feb. 23, 2011

Shareholder structure



Price performance, USD



Source: Bloomberg, UX, Concorde Capital

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