



Analyst's Notebook

Ukraine / Oil & Gas
 July 6, 2006

Ukrnafta (UNAF UZ)

Recommendation	HOLD	Current MCap	USD 3 183.2 mln
Target price*	USD 62.6	Number of shares	54.2 mln
Current price	USD 58.7	Free float	8%

* for May 2007

Ukrnafta Reports Strong 1H06 Operating Results

Yesterday Ukrnafta reported strong first-half operating results, which indicate that its 2006 oil and gas extraction should exceed our forecast by about 4%. However, the effect on its annual net revenues will be almost immaterial – about USD 4 mln (+0.3%), even if the company keeps up this pace throughout the second half of the year. We maintain our valuation and our recommendation remains unchanged.

Oil and Gas Extraction Stronger Than Expected. Gas Products Lagging

UNAF's oil and condensate extraction increased in the first half by 5.6% yoy, from 1497.3 to 1581.6 ths mt. The volumes surpassed the company's 1H06 plan by 3.4%. Based on 1H06 results, annualized oil and condensate extraction exceeds our 2006 forecast by 3.7%.

Extraction of natural gas and oil grew from 1558 mln m³ in 1H05 to 1679.4 mln m³ in 1H06. The 1H06 number was up 7.8% yoy and 1.9% over the management plan. Annualized half-year figures suggest 2006 gas output of 3526.6 mln m³, 4.3% higher than our forecast.

In contrast to this solid upstream performance, UNAF's output of gas products lags behind our projections. UNAF produced 80.4 ths mt of liquefied gas in the first half and 116.1 ths mt of stable gasoline. If annualized, the figures indicate, respectively, 5.8% and 2.8% lower yearly output of these products than we forecasted.

UNAF Production 1H06

	1H05	1H06	1H06 Plan	2005	2006 Plan	2006 Forecast	1H06 Annualized
Oil & condensate, ths mt	1 497.3	1 581.6	1 529.5	3 120.7	3 100.0	3 180.0	3 296.4
% growth, yoy		5.6%	2.2%		-0.7%	1.9%	5.6%
Natural and oil gas, mln m ³	1 558.0	1 679.4	1 587.8	3 271.7	3 200.0	3 380.0	3 526.6
% growth, yoy		7.8%	1.9%		-2.2%	3.3%	7.8%
Liquefied gas, ths mt	n/a	80.4	n/a	170.7	170.7	172.2	160.8
% growth, yoy					0.0%	0.9%	-5.8%
Stable gasoline, ths mt	n/a	116.1	n/a	238.3	239.0	243.0	232.2
% growth, yoy					0.3%	2.0%	-2.6%

Source: Company data, Concorde Capital estimates

Conversion factors

Oil and condensate: 1 ths mt = 7.41 ths bbl (weighted)
 Natural and oil gas: 1 mln m³ = 6.24 ths boe

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