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Analyst's Notebook

Ukraine / Electricity
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****Editor's Note:** In order to keep our coverage of the Ukrainian market as up to date as possible Concorde Capital is launching a new product – Analyst's Notebook. Unlike our more in-depth desk notes and reports, Analyst's Notebook provides rapid feedback on breaking news in the Ukrainian market. Analyst's Notebook gives you our analysts' first impressions of a situation and may set the table for further investigation. Our analysts will use their experience in their sectors to take a look at the situation and provide insight or speculate on possible scenarios. We want to emphasize however, this product consists mostly of the analyst's intuition and may require further analysis.

Cold Weather Brings Interest In Oblenergos To A Boil **Second Cold Spell Causes Euphoria Among Oblenergos' Real & Nominal Owners**

1. Interest Boiling – Shares Frozen

The State Securities And Exchange Commission (SSEC) issued ban on any transactions in Oblenergos where the state has its interest and where the Commission suspects there are dual registers of shareholders:

- 1 Prykarpatooblenergo (**PREN: N/R**)
- 2 Poltavaoblenergo (**POON: N/R**)
- 3 Sumyoblenergo (**SOEN: N/R**)
- 4 Lvivoblenergo (**LVON: N/R**)
- 5 Chernihivoblenergo (**CHEON: N/R**)

6 Luhanskoblenergo (**LOEN: N/R**) – this company is dead and no investor in his right mind would put his money there

The ban will last for the next six months.

For this reason we have changed our recommendations for these companies to **N/R**.

What Is Going On?

The conflict between Konstantin Grigorishyn, Ihor Kolomoiskiy and Grigory Surkis (owners of five of the Oblenergos listed above) which came to the forefront a year ago, has entered another stage. It appears Grigorishyn has scored a small victory. According to the managers of the companies listed above, Grigorishyn has a close personal relationship with Vladimir Petrenko, a member of the Securities and Exchange Commission. Petrenko has been insisting on freezing shares in these Oblenergos since last summer. It now appears that Petrenko has taken advantage of the severe frosts and pressure on gas consumption, which has increased the role of Oblenergos in the state's plans to power the country, to finally convince the government "for safety's sake" to step into the fray between the companies shareholders. Now look for the Surkis backed management in these companies to return fire and the conflict between the management and Petrenko to deepen.

Any Effect On Companies?

Despite being in the middle of corporate conflicts, the five Oblenergos listed above are among the best performing in Ukraine. We do not see how the SSEC's move could hurt the performance of these companies, and therefore, do not expect them to become less attractive to investors - absence, as they say, makes the heart grow fonder. **Watch for these Oblenergos to be hot tickets once the restrictions are removed.**

2. The State Rolls The Dice On Electricity?

With gas becoming more and more expensive, the state is likely to pay more attention to promoting electricity consumption in any case where electricity and gas are substitutable. Moreover, the state's latest actions support our beliefs: on Wednesday the Fuel and Energy Ministry said it would urge investments into Oblenergo networks to support expected electricity consumption growth.

This might imply an increase of electricity consumption, which, above all, will positively affect energy distribution companies (refer to my Analyst notebook of January 25, 2006).

Not A Good Time To Sell Oblenergos?

The latest news implies that Oblenergos are going to become a rapidly growing sector in 2006-2007, thus it would be better to hold off selling Oblenergos for one or two years, and sit back and watch this industry grow.

Following these events, we can now conclude that the rumors about VS Energy's decision to change its strategy in controlled Oblenergos are pretty well grounded.

Rumors are swirling that Russian citizen Alexander Babakov (VS Energy's owner) decided to change the top management of his holding in Ukraine. The change in the top-brass, if it occurred, would imply that Babakov refused to sell his Ukrainian energy holding to the Czech energy company CEZ, and he is going to wait for the companies' capitalization to increase before selling them. Let's see how fast the value of these companies will double from our USD 250 mln estimate to the selling price rumored to be wanted by Babakov.

VS Energy holding controls five Oblenergos:

Khersonoblenergo (**HOEN: SELL**)
Odessaoblenergo (**ODEN: N/R**)
Sevastopolenergo (**SMEN: HOLD**)
Kirovogradoblenergo (**KION: HOLD**)
Zhytomiroblenergo (**ZHEN: BUY**)

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