



# Privatization of Oblenergos

## Starts in the next week... or not?

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- Less than a week until the planned privatization tenders, no clarity so far
- The reason is political: diarchy in SPFU
- In the meanwhile, main candidates to win, Kolomoiskiy and Grigorishyn, seem to be negotiating their common action plan for tenders
- Though tender conditions are open for any applicant, we do not recommend international funds to participate: hardly any upside + legal risks to assume

### Recent events:

**April 2:** SPF has officially announced privatization of six Oblenergos, to take place on six stock exchanges in May (see table on the bottom)

**April 25:** PM Timoshenko dismissed SPFU head Valntina Semeniuk and appointed Andriy Portnov an acting head of SPFU; Semeniuk, supported by President, disregarded PM's dismissal

**May 6:** Semeniuk issued order to cancel Oblenergo tenders

**May 6:** Ukrainian Interbank Currency Exchange and Innex Stock Exchange informed about tenders' cancellation for Poltavaoblenergo and Lvivoblenergo

**May 7:** Portnov ordered to obliterate all the copies of SPFU's official newspaper where Semeniuk intended to publish an information about tenders' cancellation

**May 7:** Ukrainian Interbank Currency Exchange removed from its website an information about cancellation of Poltavaoblenergo tender

**April 2:** Ihor Kolomoiskiy in his interview informed that in March 2008 he and Konstantin Grigorishyn started negotiations to solve their conflict in Oblenergos

**May 7:** SPVs commonly controlled by Kolomoiskiy and Grigorishyn did not check in for the AGM of Chernihivoblenergo: AGM failed to hold due to lack of quorum

### Privatization prospects are foggy due to diarchy in SPFU

President (who is against fast privatization) and Prime Minister (advocate of privatization) support different "heads" of SPFU. Each of the "heads" do opposite steps. Now, even stock exchanges which will host privatization tenders do not have clear vision whether sales will occur. Political situation and disposition in the SPF can be changed any time: it is likely that some of the tenders will take place, while some of them can be called off. Legitimacy of tenders, if occur, may also be questionable.

### Main shareholders have best chance to win all the tenders

The situation looks beneficial for current main shareholders of Oblenergos: uncertainty scares away potential investors-outsiders; even in case an outsider win a tender, main shareholders will have an excellent opportunity to claim against legitimacy of tenders. This is especially good for VS Energy, the majority shareholder of Odesaoblenergo, which is likely to buy a stake at starting price.

### Komoloiskiy/Grigorishyn conflict: solved or almost solved?

Kolomoiskiy declared that his conflict with Grigorishyn around ownership in Oblenergos is on the way of being solved, but yesterday's failure to hold AGM of Chernihivoblenergo shows that two parties may have not come to terms at the moment. This means there is still a probability that they will fight for the 25%-27% state blocks in five Oblenergos - final price of the blocks can significantly exceed starting price. Any postponement with privatization raises chance for two oligarchs to find common strategy on the tenders, avoiding over-payment.

### We do not recommend participating in tenders for portfolio investors

Yuriy Yakovlev, the SPFU official who is responsible for organizing placement of state shares, said that starting price of Oblenergo shares at the tenders will be calculated as weighted average of deal prices at PFTS over the last six months. Starting prices, calculated based on this methodology, do not promise large upsides for portfolio investors to bear risks related to tenders.

### Privatization tenders' details

	Scheduled date	Exchange	Stake to be placed	Cancelled? (as of May 8)	Starting price		Most probable winner
					USD/share	Premium/discount to our target	
Poltavaoblenergo	14-May	Ukr. Interbank Currency Ex.	25.0%	No	2.3	+5%	} Privat and/or Energy Standard
Lvivoblenergo	15-May	"Innex" St.Ex.	27.0%	Yes	2.1	0%	
Prykarpatoblenergo	21-May	PFTS St.Ex.	25.0%	No	3.3	+38%	
Chernihivoblenergo	22-May	Kyiv International St.Ex.	25.0%	No	2.9	+46%	
Sumyoblenergo	28-May	Ukr. International St.Ex.	25.0%	No	2.0*	+33%	
Odesaoblenergo	29-May	Ukrainian St.Ex.	25.0%	No	1.4	-14%	VS Energy

Source: SPFU, PFTS, Concorde Capital \* rough estimate: the stock is not listed at PFTS

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