

**UKRAINE LOCAL ELECTRIC COMPANIES
PRIVATIZATION STATUS REPORTS**

**NIS Institutional Based Services Under the Energy
Efficiency and Market Reform Project
Contract No CCN-Q-00-93-00152-00**

**Ukraine Power Sector Reform
Delivery Order No 18**

Final Report

Prepared for

U S Agency for International Development
Bureau for Europe and NIS
Office of Environment, Energy and Urban Development
Energy and Infrastructure Division

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TABLE OF CONTENTS

Table of Contents

Executive Summary

Report # 1 - Weeks of May 3rd - May 15th, 1998

Report # 2 - Weeks of May 18th - 29th, 1998

Report # 3 - Weeks of June 1st - June 12th, 1998

Report # 4 - Weeks of June 15th - June 26th, 1998

Report # 5 - Weeks of June 29th - July 10th, 1998

Report # 6 - Weeks of July 13th - July 24th, 1998

Report # 7 - Weeks of July 27th - August 7, 1998

Report # 8 - Weeks of August 9th - August 29th, 1998

Report # 9 - Weeks of August 31st - September 11th, 1998

Report # 10 - Weeks of September 14th - September 25th, 1998

Summary Charts of Stock Values

CONTENTS

Table of Contents

Executive Summary

Report # 1 - Weeks of May 3rd - May 15th, 1998

Report # 2 - Weeks of May 18th - 29th, 1998

Report # 3 - Weeks of June 1st - June 12th, 1998

Report # 4 - Weeks of June 15th - June 26th, 1998

Report # 5 - Weeks of June 29th - July 10th, 1998

Report # 6 - Weeks of July 13th - July 24th, 1998

Report # 7 - Weeks of July 27th - August 7, 1998

Report # 8 - Weeks of August 9th - August 29th, 1998

Summary Charts of Stock Values

EXECUTIVE SUMMARY

S 1 TASK DESCRIPTION

The work on this task was initiated under Delivery Order 18 of the Ukrainian Power Sector Reform Project Part III Local Electric Companies (LECs) The Objective of Task C under this portion of the Statement of Work was designed to "Improve Management and Planning Systems", with the intention of supporting LECs as they prepare for privatization

The Deliverable associated with this effort has been to provide an ongoing bi-weekly report on the status of LEC privatization to USAID This final report is a compilation of documents that have been previously prepared and forwarded to both the Kiev Mission and to Washington COTR offices

REPORT # 1

WEEK OF MAY 3RD - MAY 15TH, 1998

MEMORANDUM

TO David Wolcott, Svetlana Golikova, Tom Smith, Jim Stanfield Eric Haskins
FROM Andrei Goncharenko
DATE May 15, 1998
SUBJECT Privatization Update Report Period May 3rd - May 15th, 1998

BI-WEEKLY REPORT (WEEKS 19-20)

INTRODUCTION

The beginning of May became a new stage in the process of power sector privatization. After approval of the Financial Recovery Plan (FRP) and adjustment of the sector privatization concept between the Ministry of Energy (Minenergo) and State Property Fund (SPF) the SPF has started to fulfill the plan of state budget revenues from privatization in the 2nd Quarter of 1998. Experience of the 1st Quarter of 1998 had proved that the major earnings had been obtained in the result of sales of energy companies' shares on the stock market through exchanges. That is why the plan is to offer for sale through stock exchanges the shares remaining after the preferential sale and envisaged in companies' share allocation plans. At the same time the SPF announced commercial tenders for share packets of 7 energy distribution companies (Oblenergos) and plans to start tenders for several other companies of power sector.

The first official written notice that the non-commercial tender for Dniproenergo shares was announced by mistake has been published in the Investment Gazette as of May 12th 1998. Before that the Acting SPF Chairman Mr. Bondar had only made an oral statement that the mentioned tender had been announced in the result of personal error of the head of privatization commission of that company.

The SPF and Minenergo have developed a draft law on specific features of privatization of energy companies. The draft law On Peculiarities of Privatization in Power Sector proposes to allow privatization of low-capacity hydro power stations (30 MW and less) on the basis of individual privatization plans providing the state share not less than 51%. The same approach is proposed to be applied to the CIIPs leaving 26% share in state property.

In its Order # 565 as of March 18th 1998 the SPF had allowed the sale of shares on stock exchanges and over-the-counter market for the price up to 30% less than the initial one in case there is no demand for these shares.

It is also worth mentioning that the SPF started to solicit return of the privatized enterprises into the branch ministries' subordination. It has drafted a proposal to transfer state packets of newly privatized enterprises' shares (i.e. 25%-51% of the chartered capital) to management of the branch ministries. Formerly the SPF had been the only state representative authorized to manage a state packet of shares in a privatized enterprise after the issue of an official resolution on enterprise privatization.

1 TENDERS

First of all, it should be mentioned that even though the only two successful commercial tenders for Oblenergo shares had been the commercial tenders for Ternopiloblenergo and Kirovogradoblenergo, results of these tenders might also be declared invalid. The Deputy SPF Chairman Igor Belotserkivets had already disclosed to mass media information, that the winners had not paid in full the price of purchased packets and did not start to fulfill their investment obligations. An announcement on results of the first general meeting of Ternopiloblenergo shareholders, published in the Investment Gazette as of May 12th, 1998, contains the following breakdown of company's equity capital: 71% - state share, 17% - employees of the company, 6% - outside legal entities and 6% - citizens of Ukraine. The meeting took place on April 24th 1998. This allows to make an assumption, that there is a certain possibility that results of these tenders will be canceled, and there will be the second round.

Having revised conditions of the commercial tenders for energy distribution companies the SPF reduced requirements related to investment obligations and settlement of companies' payables and promised to provide to winners the state share for management.

Although the Acting SPF Chairman Mr. Bondar stated that there is a preliminary agreement with the Minister Mr. Sheberstov (Minenergo) on revision of the share allocation plans of the companies which had 51% remaining in the state property¹, the latest unofficial information was that this would be done only after conducting several tenders for shares of the companies with 25%+1 share of the state property. The SPF plans to analyze results of these tenders before adjusting the share allocation plans of other companies. The most probable term for such action would be the 4th Quarter of 1998 - 1st Quarter of 1999.

There are 6 commercial tenders for Oblenergo shares being conducted at the present time as follows: Chernigivoblenergo (35%), Kyivoblenergo (25%) and Sumyoblenergo (36%) announced on April 28th 1998; Prikarpatyaoblenergo (35%) announced on May 6th 1998; Kharkivoblenergo (35%) and Odesaoblenergo (35%) announced on May 13th 1998. Tenders for Kyivoblenergo and Odesaoblenergo shall last for 45 days and all others - 30 days from the day of publication.

2 SALE ON EXCHANGES

Preparing to fulfill the plan of budget revenues from privatization the SPF had adjusted share allocation plans of Oblenergos on April 14th 1998 by preparing share packets to be offered for sale through the stock exchange system. The only packet of energy company's shares sold during the last two weeks on stock exchange was 7.26% of Kharkivoblenergo shares for 1.5 to the nominal value (Ukrainian Stock Exchange, Kharkiv branch, May 5th 1998). In May the SPF has announced its intentions to offer shares of all 14 Oblenergos with 25%+1 state share for sale through stock exchanges in June 1998² (See Annex 1).

¹ Both Kirovogradoblenergo and Ternopiloblenergo (see above) belong to the group of companies with 51% state share in the chartered capital.
SPF Orders # 878, # 879 and # 880 as of 05.05.98.

The negative experience of sale of the Crimeaenergo shares in April (1 56% could not be sold even for 15% less than the nominal value) has forced the SPF to increase the size of offered packets. The Head of SPF Department for Work with Stock Exchanges Mr. Yu Yakovlev said that the SPF plans to sell up to 30% of Crimeaenergo shares for cash on stock exchanges. Currently, 4 87% of this company is offered for sale on Ukrainian Inter-Bank Currency Exchange (UIBCE) on June 18th, 1998 and other 4 87% on Kyiv International Stock Exchange (KISE) on June 17th, 1998.

According to estimates of the magazine *Fondoviy Rynok* (Stock Market) # 16 as of April 24th, 1998 sale of additional share packets mentioned above for their nominal value should bring to the SPF (and thus to the state budget) approximately 40 million Hryvnas (2nd Q Plan for the SPF is 90 million Hryvnas). Taking into account, that in June the SPF, among others, will offer shares of Kyivenergo (7 73%) Odesaoblenergo (7 35%) Donetskoblenenergo (7 04%), etc. it is possible to assume that it expects to earn much more in the result of energy companies' shares sale. However, the only example of really big difference between the nominal and selling price of energy company's shares had been the sale of 3 49% of Kyivenergo shares through over-the-counter trade system (PFTS) on March 20-27 1998 when the selling price was 10 23 times higher than the nominal value (0 25 UAH).

3 PFTS MARKET

Eastern Economist (May 11) During this week the KAC-energy index grew 0 57% to 353. After electricity rates for residential users grew 22-25% starting from May 1st, the price of energy stock stopped falling sharply. The prices of all generating companies except for Donbasenergo began to grow. The most significant growth was noted with Dniproenergo, which plans to issue ADRs of the 1st level in June-July this year.³ Kyivenergo was the most popular among energy distributors. In recent weeks "bears" have been trying to push the price of this stock down. The last attempt occurred early on Friday May 8th but it failed and Kyivenergo prices grew.

Business (May 11) Increase in price of Kyivenergo shares (to 2 3 UAH during the last week) is directly related to previous rapid reduction of the bid prices (in two weeks starting from April 14th - from 2 65 UAH to 2 05 UAH per share). The large volumes of trade with shares of this issuer did not give to sellers a chance to raise ask prices. The best result they could achieve was to maintain these prices higher than the "key ones" (2 5 UAH). At the same time in the near future the average price for Kyivenergo shares might drop again to the level of 2 2 UAH per share.

Delovaya Nedelya (*Business Week*) (May 11) The reason for slight decrease of bid prices for shares of such companies as Kyivoblenergo is an announcement of commercial tenders for their shares. Prices of other companies also decreased as for example Kyivenergo (10 3% during the period from April 27th to May 7th) most probably due to the planned sale of new share packets of these companies through exchanges in June. Potential buyers might count on possibility to purchase shares cheaper than on over-the-counter market. The maximum growth in price showed Dniprooblenergo shares (+20 3%) and the maximum volume of trade was with Donbasenergo shares (81 724 shares for 1 490 966 UAH).

During the week of May 03 05-08 05 98 the shares of Donbasenergo sold at a volume of 343,740 00 UAH (20,460 shares), Zakhidenergo - 95,325 00 UAH (3,827), Dniproenergo - 61,628 00 UAH (434), Tsentrenergo - 1,329,868 40 UAH (1,322,840), Kyivenergo - 82 180 00 UAH (31,800)

Please, see attached the charts reflecting the data on performance of electricity sector shares on PFTS The source of the end-of-week data was Eastern Economist

4 CONCLUSIONS

The abovementioned facts are illustrated in Annexes 1 and 2 attached to this report The Annex 1 reflects the volumes of share packets to be offered for trade on stock exchanges in compliance with the SPF orders

It should be noted, that combining the information on exchange offer and announced commercial tenders, it is possible to make a conclusion, that in case of successful result of sales 5 Oblenergos will be privatized with the depth almost equal to 75% So, it could be expected that, by the end of 2nd Quarter of 1998, 5 energy distribution companies might be considered privatized meeting the World Bank criteria to privatized enterprises⁴ These companies Kharkivoblenergo, Sumyoblenergo, Chernigivoblenergo Odessaoblenergo and Prikarpattyablenergo are marked in blue

Annex 2 contains information related to the privatization status of generating companies Until now the SPF has officially approved only one authorized representative (auctioneer) to conduct an open tender for 24% of Donbasenergo shares Selection of auctioneers for Center- and Zakhidenergo is still not completed A tender for the authorized trader of Dniproenergo was not announced The open tenders for generation companies can hardly be expected to end in 1998 The most probable term of announcement of the first winner might be the 1st Quarter of 1999

Besides that Annex 2 includes two more tables one reflecting the process of commercial tenders and their planned ending dates (specifying the volumes of share packets offered for the tenders) Kirovogradoblenergo and Ternopiloblenergo are separated from others due to the uncertainty of their tender results and 51% state share which impedes their further privatization The second table contains names of the remaining 10 Oblenergos which have not been included to previously mentioned tables These 10 companies have 51% remaining in the state property according to their share allocation plans It is highly probable that these share allocation plans will not be changed until the 4th Quarter of 1998

¹ Wood & Company is its authorized representative in this deal Baker & McKenzie legal advisor and the depository will be The Bank of New York

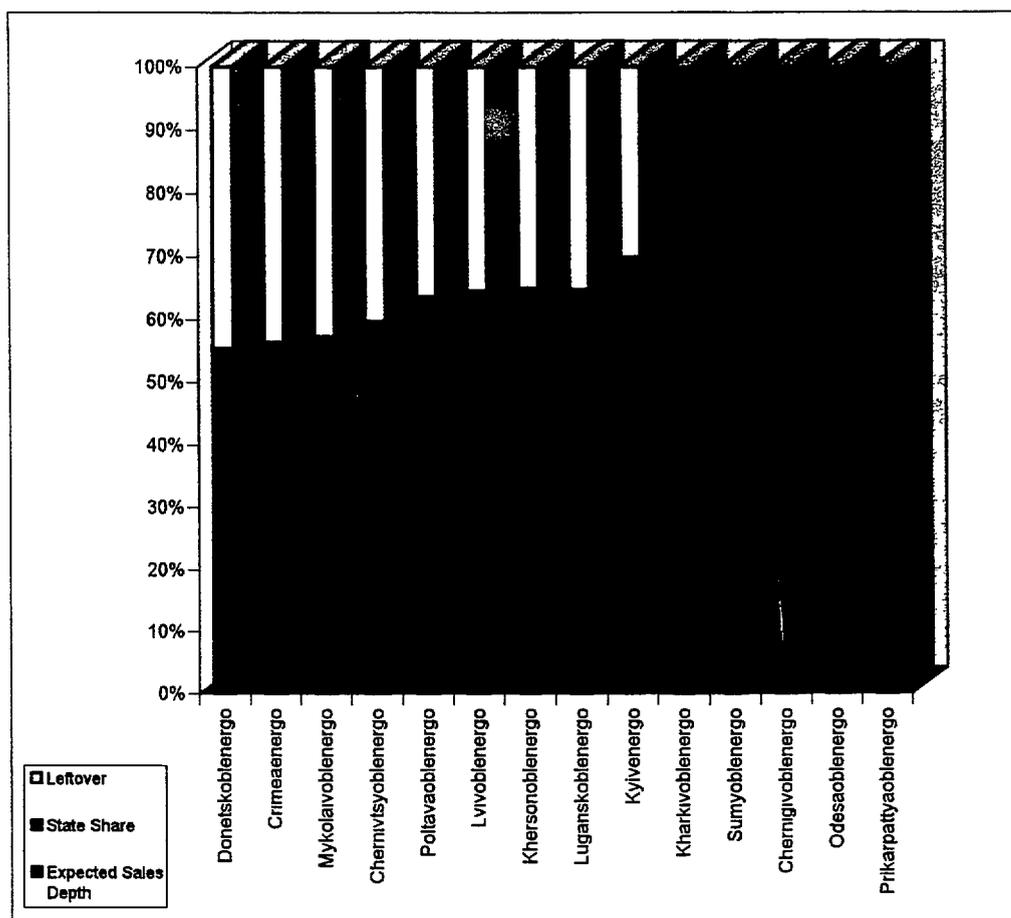
⁴ The WB considers enterprise to be privatized if over 70% of its shares belong to the private entities

Share Packets Offered for Exchange

Enterprise Name	Offered for Exchange*	Actual Sale Depth	Offered for Tender**	Expected Sales Depth	State Share	Leftover
Donetskoblenergo	7 04	23 36		30 40	25	44 60
Crimeaenergo	4 874	26 58		31 45	25	43 55
Mykolaivoblenergo	5 52	26 88		32 40	25	42 60
Chernivtsyoblenergo	6 555	28 24		34 80	25	40 21
Poltavaoblenergo	3 8	34 93		38 73	25	36 27
Lvivoblenergo	3 81	35 88		39 69	25	35 31
Khersonoblenergo	6 99	33 01		40 00	25	35 00
Luganskoblenergo	7 533	32 30		39 83	25	35 17
Kyivenergo	7 733	37 27		45 00	25	30 00
Kharkivoblenergo	8 9	30 72	35	74 62	25	0 38
Sumyoblenergo	1 85	36 98	36	74 83	25	0 17
Chernigivoblenergo	8 53	31 37	35	74 90	25	0 10
Odesaoblenergo	7 35	32 56	35	74 91	25	0 09
Prikarpatyaoblenergo	6 25	33 75	35	75 00	25	0 00

* Offered for sale on exchanges in June'98

** Tenders running (since 28 04 98 since 06 05 98 since 12 05 98)



Generating Companies

Enterprise Name	Chartered Capital	Nominal Share Value	Sale Depth*	Auctioner	Open Tender	Packet for Tender	State Share
TSENRENERGO	92 351 777 00	0 25	17 64			24	51
DNIPROENERGO	98 099 950 00	25 00	17 53			24	51
ZAKHIDENERGO	127 905 410 00	10 00	16 21			24	51
DONBASENERGO	236 443 010 00	10 00	9 44	CreditAnstalt AG	X	24	51

* according to the official information of the SPF

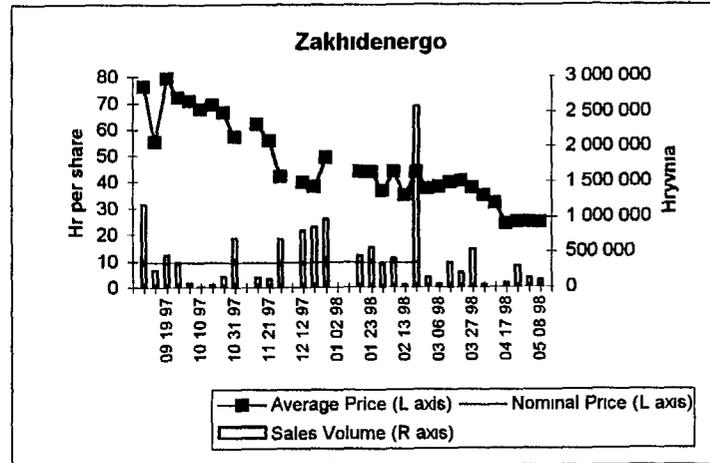
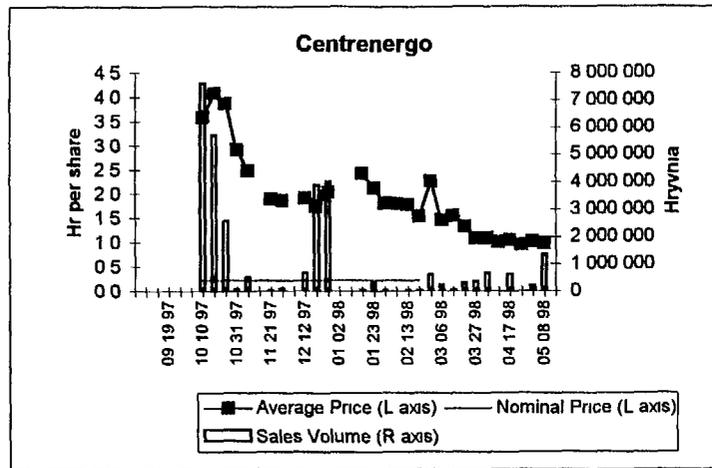
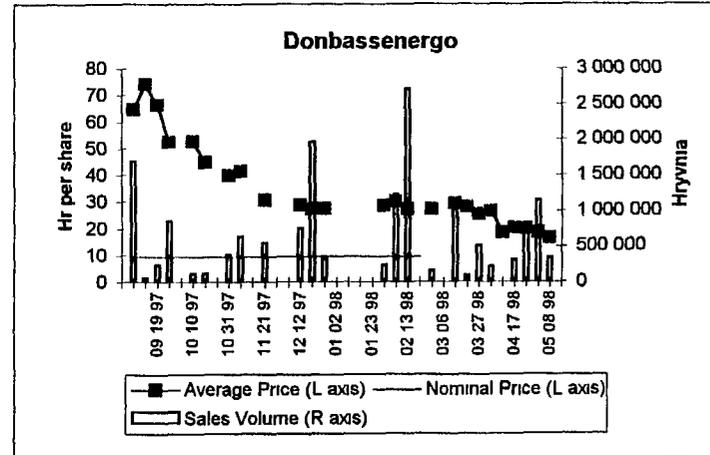
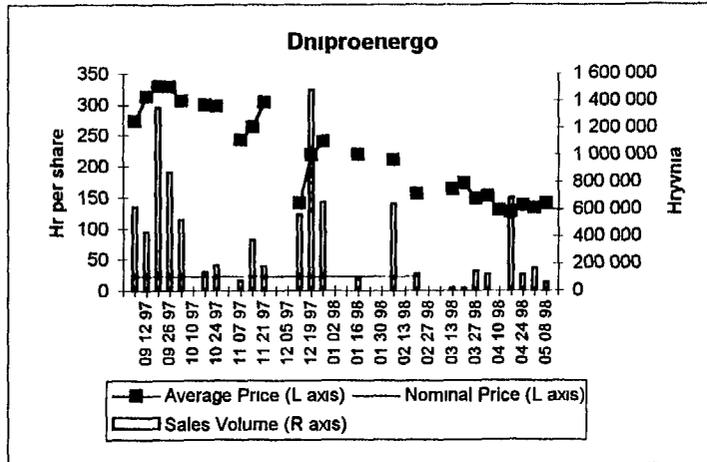
Commercial Tenders

Enterprise Name	Chartered Capital	Nominal Share Value	Sale Depth	Tender (starting date)	Tender (ending date)	Packet for Tender	State Share
KIROVOGRADOBLENERGO	29 844 000 00	10 00	42 33	01 09 97	31 12 97	20	51
TERNOPILOBLENERGO	15,272,040 00	10 00	49 00	01 10 97	31 12 97	20	51
SUMYOBLENERGO	44,281 374 00	1 00	36 98	28 04 98	28 05 98	36	25
CHERNIGIVOBLENERGO	29 829 506 00	1 00	31 37	28 04 98	28 05 98	35	25
PRIKARPATYA OBLENERGO	25 908 875 00	12 50	33 75	06 05 98	05 06 98	35	25
KHARKIVOBLENERGO	64 135 190 00	10 00	23 46	12 05 98	11 06 98	35	25
KYIVOBLENERGO	52 043 780 00	10 00	23 97	28 04 98	12 06 98	25	51
ODESA OBLENERGO	52 123 890 00	10 00	32 56	12 05 98	26 06 98	35	25

Energy Distributors with 51% State Share

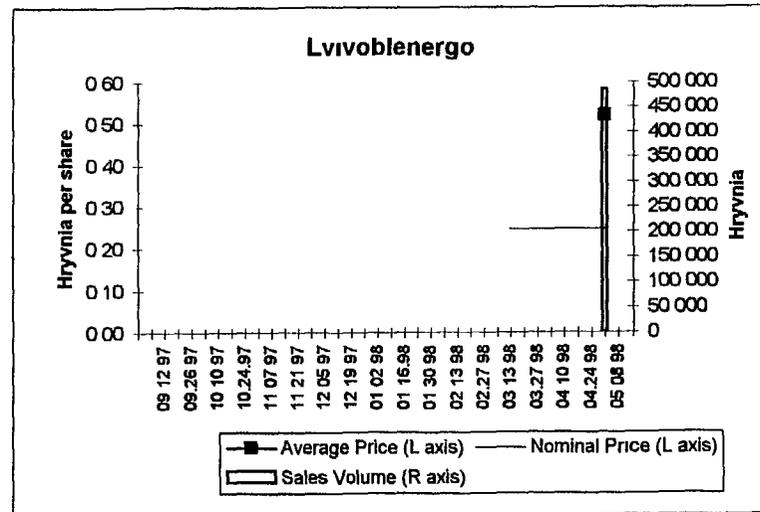
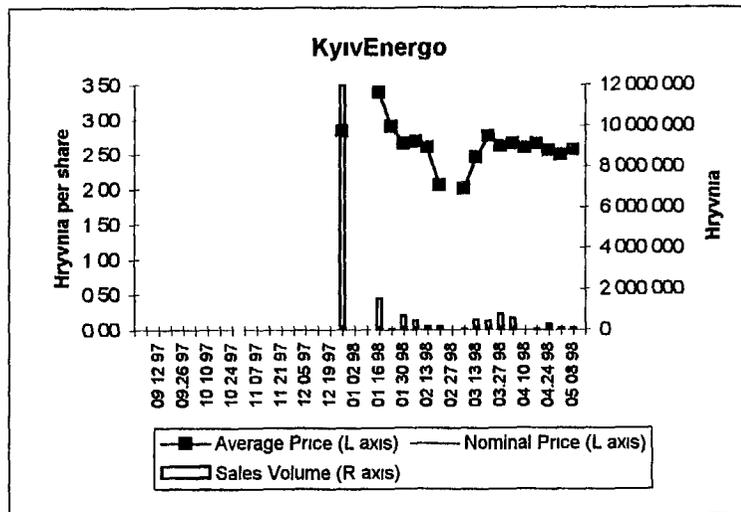
Enterprise Name	Chartered Capital	Nominal Share Value	Sale Depth	Packet for Tender (approved SAP)	State Share
ZHITOMYROBLENERGO	20 389 165 25	0 25	26 68	12	51
VOLYN OBLENERGO	23 863 800 00	0 25	25 98	20	51
KHMELNITSKOBLENERGO	33 637,840 00	10 00	25 72	20	51
CHEKASY OBLENERGO	37,098 333 00	0 25	22 86	30	51
VINNITSA OBLENERGO	30 973 660 00	10 00	21 46	0	51
ZAKARPATYA OBLENERGO	31 150 810 00	0 25	20 86	20	51
DNIPRO OBLENERGO	59 916,170 00	10 00	18 51	27	51
ZAPORIZHYA OBLENERGO	44 840 000 00	10 00	17 12	27	51
SEVASTOPOLMISKENERGO	6 722 400 00	2 50	16 77	20	51
RIVNE OBLENERGO	20 827 420 00	10 00	11 22	26	55

Genco Share Prices, Volumes Weeks ending September 5 thru May 8



Source Eastern Economist

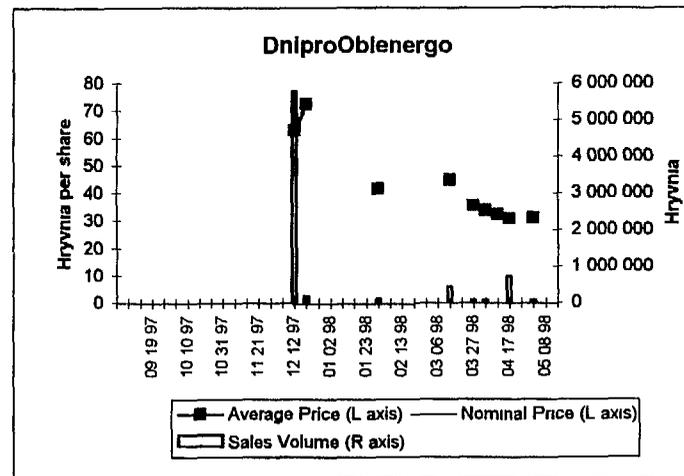
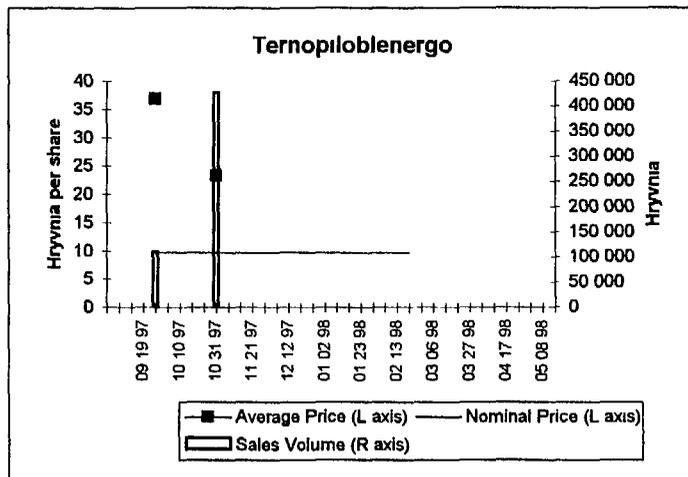
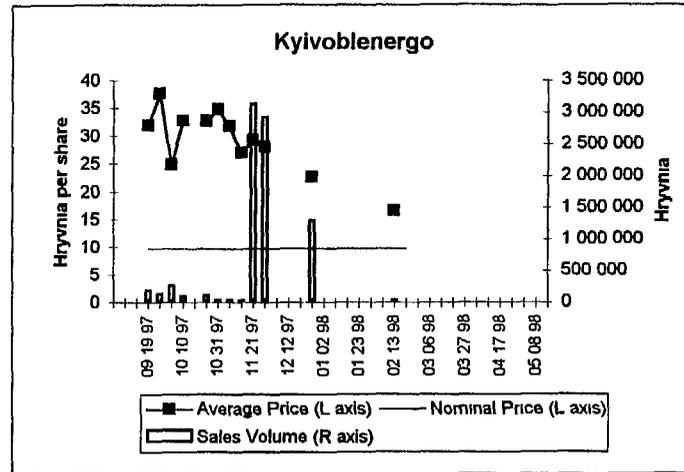
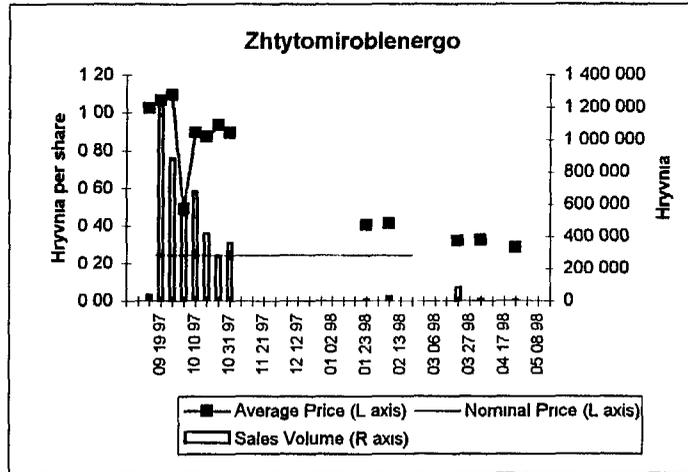
Oblenergo Share Prices, Volumes Weeks ending September 5 thru May 8



Source Eastern Economist

Oblenergo Share Prices, Volumes

Weeks ending September 5 thru May 8



Source Eastern Economist

REPORT #2

WEEK OF MAY 18TH - MAY 29TH, 1998

MEMORANDUM

TO David Wolcott Svetlana Golikova, Tom Smith, Jim Stanfield Eric Haskins
FROM Andrei Goncharenko
DATE May 29, 1998
SUBJECT Privatization Update Report Period May 18th - May 29th, 1998

BI-WEEKLY REPORT (WEEKS 21-22)

INTRODUCTION

The last weeks of May brought only few changes to the process of energy sector privatization. Due to the illness of the Acting Chairman of the SPF Mr. Bondar, The President of Ukraine has appointed his first deputy Mr. Kryukov as a new Acting Chairman of the SPF. Formerly Mr. Kryukov worked in the Presidential Administration.

Although approval of privatization plans of enterprises belongs to the scope of responsibilities of the SPF, while the State Property Fund appeared to be without a chairman, the Cabinet of Ministers of Ukraine has approved the conditions for privatization of two enterprises: Dnipropetrovsk Petrovskiy Plant and Kyiv Quant Plant.

The Currency-Credit Council of the Cabinet of Ministers of Ukraine disclosed its intentions to initiate "re-privatization" (nationalization) of the collective enterprise Dniprobank. This will be a precedent for expropriation of the property of enterprises-debtors, which fail to pay-off the credits obtained from the foreign credit institutions for the state guarantees. The policy of re-privatization might be used more broadly in the future.

On May 15th the Ministry of Justice of Ukraine had registered the Regulation on Conducting Procedure for Specialized Cash Auctions. These auctions will be conducted by the Certificate Auction Centers Network (ACN). The first auction of this type will be held in June and include 140 share packets.

The International Finance Corporation (IFC) has announced officially, that it had included Ukraine into the IFC Indices' System, particularly to the IFC Frontier Index. The index will be calculated based on the PFTS end-of-day prices. It should be mentioned that estimating the market capitalization of selected enterprises, the IFC does not take into account the state share in the enterprise chartered capital. The population of companies used for calculation of the IFC Frontier Index includes 17 enterprises. Among them are all four generation companies, subject to privatization, and three distribution companies (Kyivenergo, Kyivoblenergo and Dniprooblenergo), i.e. 41.18% of the total number of companies.

The company Centerenergo announced, that the general meeting of its shareholders will be conducted on June 23rd, 1998.

TENDERS

On May 27th the SPF has announce another three commercial tenders for share packets of energy distribution companies Luganskoblenergo, Lvivoblenergo and Poltavaoblenergo All tenders will be finished within a 30-day period and the share packets are equal to 35%, 35% and 36% correspondingly

The winners of commercial tenders for Ternopiloblenergo and Kirovogradoblenergo have settled with the SPF payments for the purchased 20% share packets and started to fulfill their investment obligation This fact was acknowledged by the Deputy Director of SPF Department for Tenders Mr Cherdakov He has also mentioned that the SPF expects positive results of the commercial tenders announced recently, because the SPF had received appropriate bids for offered energy distribution companies Speaking about the companies with 51% state share, he had confirmed that within the year 1998 the SPF plans to review their share allocation plans reducing the state share to 25%

The tenders for Sumvoblenergo (36%) and Chernigivoblenergo (35%) are due to be finished on May 28th 1998 Considering the terms for approval of tender results stipulated by the acting regulations¹ official announcement of the winners shall be expected not later than on June 14th

2 SALE ON EXCHANGES

The only packet of shares sold through exchanges during these two weeks had been 1 56% of Krimenergo shares sold for 8 00 UAH per share (nominal price 10 00 UAH) The packets of shares as approved by the SPF Orders # 878, 879 and 880 as of May 5th, 1998, shall be offered on stock exchanges in June

It is necessary to mention that on May 26th the SPF tried once again to sell through the Ukrainian Stock Exchange (USE) 66 500 shares of Krimenergo (1 53%) for 9 00 UAH per share but with no success

Energobusiness as of May 28th has published the information about changes, introduced by the SPF into share allocation plans (SAPs) of Sevastopilmiskenergo, Kirovogradoblenergo and Odesaoblenergo 5 1% of Sevastopolmiskenergo and 5% of Kirovogradoblenergo will be auctioned for Privatization Property Certificates (PPCs) and 6 65% of Odesaoblenergo (leftovers from the preferential sale) - sold for cash on the USE

3 PFTS MARKET

Starting from the week of May 18-22 the list of shares of energy companies, trading which are being monitored includes also the Luganskenergo, because during this week the actual trading transactions with shares of Luganskenergo were registered

¹ Order of SPF, AMC and SCSCM # 821/55/01/204 as of August 4th, 1998

Eastern Economist (May 25) The PFTS reached its lowest ever level. Over the course of the week of May 18-22 the PFTS index lost 7.42% as it fell to 45.89. The KAC-20 (S), KAC-20(W), Wood-15 and ProU-50 indices fell 6.41%, 7.11%, 6.65% and 12.21% to 905, 928, 1052 and 107.09 respectively. Sales volumes for the energy sector decreased by 61.99%, the number of stocks traded decreased from 24 to 20. KAC-energy index fell 4.41% to 347. Bid prices of almost all companies decreased, but ask prices were more stable. In the week of May 10-15 the last trade price of Kyivenergo had been 2.49 UAH, the following week the last bargain price changed in the following way 2.3, 2.05, 2.01 UAH. Prices of the majority of energy stocks traded this week changed in roughly the same way. The most stable stock in the sector was Donbasenergo, the most unstable - Kyivenergo and Tsentrenergo.

Business (May 25) In the beginning of the week of May 18-22 the prices of Tsentrenergo, Kyivenergo and Dneprenergo had grown 2%, 1.9% and 1.9% respectively. On Tuesday the ask prices for Ternopiloblenergo, Dniproenergo and Dniprooblenergo increased by 17.2%, 2% and 4.3% respectively. But on Thursday stocks of Kyivenergo (-17.13% in bid and -8.13% in ask prices), Dniprooblenergo (-5% and -6.25%) and Zakhidenergo (-9.50% in bid prices) fell drastically. They were joined by Lvivoblenergo, which lost 25% in bid prices. It is necessary to mention that bid prices for all companies listed on the PFTS fell considerably more than the ask prices.

Energobusiness (May 19-25) During this week Ukrainian stock market experienced a sharp fall. By the end of the week the ProU index decreased by 12%. Due to the lack of demand the trading went down. Starting from Tuesday traders have panicked and continuously reduced the bid prices. The volumes of demand have reached the minimum level of the last three months. The lowest ProU level, fixed in April as 106.8 may be reached in the near future. This allows to predict further development of the falling trend. In this case the next lowest level will be fixed as 96 points.

During the week of May 18-22 the shares of Donbasenergo sold at a volume of 96,621.00 UAH (5,300 shares), Zakhidenergo - 169,756.00 UAH (6,822), Dniproenergo - 14,750.00 UAH (100), Tsentrenergo - 182,370.00 UAH (203,500), Kyivenergo - 137,415.00 UAH (67,500), Dniprooblenergo - 132,000.00 UAH (4,000) and Luganskoblenergo - 21,344.00 UAH (1,334).

Please see attached the charts reflecting the data on performance of energy sector shares on PFTS. The source of the end-of-week data was Eastern Economist.

4 CONCLUSIONS

Due to the illness of Mr Bondar, the SPF has slightly reduced its activity during these two weeks. But, the newly announced tenders provide a basis for an assumption that the SPF expects successful results of those announced before. This fact was definitely confirmed by Mr Cherdakov, Deputy Director of SPF Department for Tenders.

The Cabinet of Ministers attempts to take over certain responsibilities of the SPF and intentions to make an attempt to develop re-privatization procedures require more attention in

the future. This might become a warning both to strategic and portfolio investors, and to the institutions crediting privatized Ukrainian companies in the future.

The current situation on the stock market is mostly caused by the latest events on the Russian stock market. All experts working on the Ukrainian market, express the same opinions. Unstable situation in Russia with miners' strikes, increase of discount and Lombard rate of the Russian Central Bank from 30% to 50%, failure of the Rosneft privatization auction and other events brought the shock waves from Moscow to Kiev a few days later. Considering the fact that participants of the Russian stock market expect the crisis situation to continue developing, it is possible to predict the same trend on the Ukrainian PFTS.

Annexes attached to this report include the table with latest information on announced commercial tenders and overall situation in the power sector privatization. The Charts (Annex 3) reflect the shares of companies on different stages of privatization in the total number of companies, subject to privatization, and the current status of Oblenergos' privatization. Groups 1 and 2 of distribution companies, mentioned in Chart 1 are the companies with 25% and 51% state share in the chartered capital (according to SAPs) respectively.

The PFTS market graphs contain the updated information on trading of the energy companies' shares during the period ending May 22nd, 1998.

Type	Company	Tender %	Actual Sale Depth, %	Sale on Exchanges in June	Expected Sale Depth, %	State Share %
GENERATION	Dniproenergo		17 53		17 53	51
	Donbasenergo	24	9 44		33 44	51
	Tsentrenergo		17 64		17 64	51
	Zakhidenergo		16 21		16 21	51
DISTRIBUTION	Chernigivoblenergo	35	31 37	8 53	74 90	25
	Luganskoblenergo	35	32 30	7 533	74 83	25
	Lvivoblenergo	35	35 88	3 81	74 69	25
	Odesaoblenergo	35	32 56	7 35	74 91	25
	Prkarpattyablenergo	35	33 75	6 25	75 00	25
	Poltavaoblenergo	36	34 93	3 8	74 73	25
	Sumyoblenergo	36	36 98	1 85	74 83	25
	Kharkivoblenergo	35	23 46	8 90	67 36	25
	Chernivtsyoblenergo		28 24	6 555	34 80	25
	Donetskoblenergo		23 36	7 04	30 40	25
	Khersonoblenergo		33 01	6 99	40 00	25
	Krimenergo		28 14	9 74	37 88	25
	Kyivenergo		37 27	7 733	45 00	25
	Mykolaivoblenergo		26 88	5 52	32 40	25
	Kirovogradoblenergo	20	42 33		62 33	51
	Ternopiloblenergo	20	49 00		69 00	51
	Kyivoblenergo	35	23 97		58 97	51
	Cherkassyoblenergo		22 86		22 86	51
	Dniiprooblenergo		18 51		18 51	51
	Khmelnitskoblenergo		25 72		25 72	51
	Sevastopolmiskenergo		16 77		16 77	51
	Vinnitsaenergo		21 46		21 46	51
	Volynoblenergo		25 98		25 98	51
	Zakarpattyablenergo		20 86		20 86	51
Zaporizhiaoblenergo		17 12		17 12	51	
Zhytomiroblenergo		26 68		26 68	51	
Rivneoblenergo		11 22		11 22	55	

Generating Companies

Enterprise Name	Chartered Capital	Nominal Share Value	Sale Depth*	Auctioner	Open Tender	Packet for Tender	State Share
TSENRENERGO	92 351 777 00	0 25	17 64			24	51
DNIPROENERGO	98 099 950 00	25 00	17 53			24	51
ZAKHIDENERGO	127 905 410 00	10 00	16 21			24	51
DONBASENERGO	236 443 010 00	10 00	9 44	CreditAnstalt AG	X	24	51

Commercial Tenders

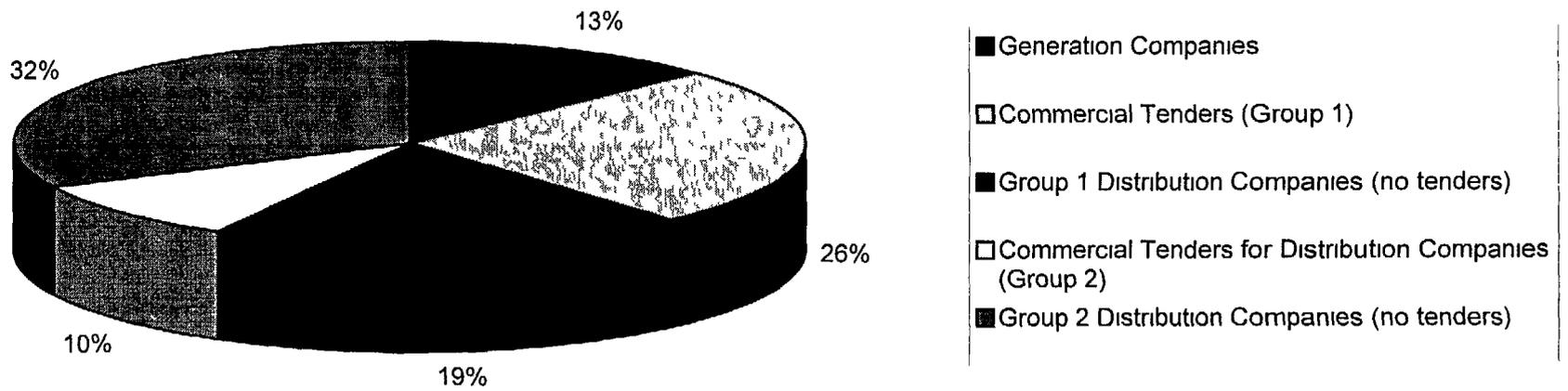
Enterprise Name	Chartered Capital	Nominal Share Value	Sale Depth*	Tender (starting date)	Tender (ending date)	Packet for Tender	State Share
KIROVOGRADOBLENERGO	29 844,000 00	10 00	42 33	01 09 97	31 12 97	20	51
TERNOPILOBLENERGO	15 272,040 00	10 00	49 00	01 10 97	31 12 97	20	51
SUMYOBLENERGO	44 281 374 00	1 00	36 98	28 04 98	28 05 98	36	25
CHERNIGVOBLENERGO	29 829 506 00	1 00	31 37	28 04 98	28 05 98	35	25
PRIKARPATTYAUBLENERGO	25 908 875 00	12 50	33 75	06 05 98	05 06 98	35	25
KHARKIVOBLENERGO	64 135 190 00	10 00	23 46	12 05 98	11 06 98	35	25
KYIVOBLENERGO	52 043 780 00	10 00	23 97	28 04 98	12 06 98	25	51
ODESAOBLENERGO	52 123 890 00	10 00	32 56	12 05 98	26 06 98	35	25
LUGANSKOBLENERGO	52 030 730 00	10 00	32 30	27 05 98	26 06 98	35	25
LVIVOBLENERGO	48 493 080 00	0 25	35 88	27 05 98	26 06 98	35	25
POLTAVAOBLENERGO	55 240 000 00	2 50	34 93	27 05 98	26 06 98	36	25

Energy Distributors with 51% State Share (revision of SAPs pending)

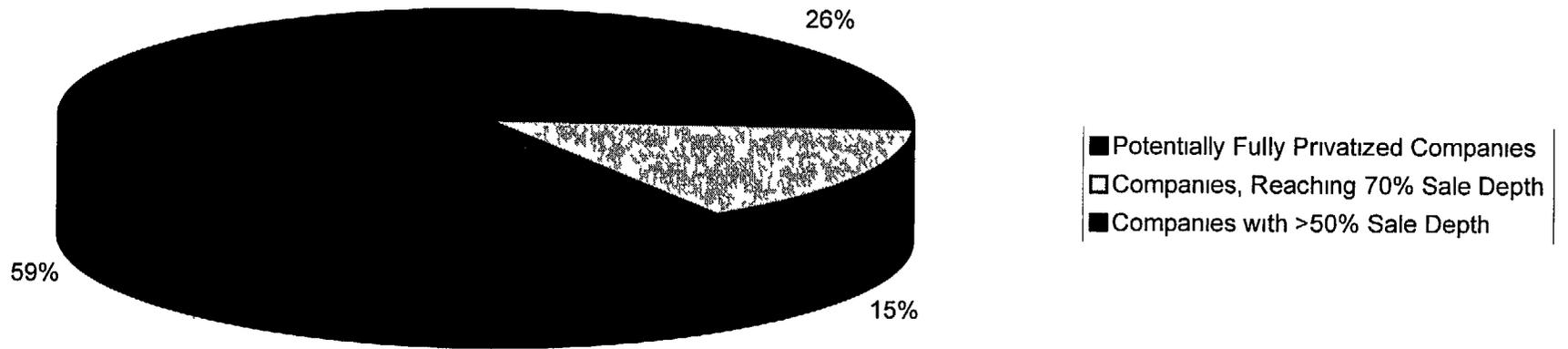
Enterprise Name	Chartered Capital	Nominal Share Value	Sale Depth*	Packet for Tender (approved SAP)	State Share
ZHITOMYROBLENERGO	20 389 165 25	0 25	26 68	12	51
VOLYNBLENERGO	23 863 800 00	0 25	25 98	20	51
KHMELNITSKOBLENERGO	33 637 840 00	10 00	25 72	20	51
CHERKASYOBLENERGO	37 098 333 00	0 25	22 86	30	51
VINNITSAOBLENERGO	30 973 660 00	10 00	21 46	0	51
ZAKARPATTYAUBLENERGO	31 150 810 00	0 25	20 86	20	51
DNIPROOBLENERGO	59 916 170 00	10 00	18 51	27	51
ZAPORIZHYAOBLENERGO	44 840 000 00	10 00	17 12	27	51
SEVASTOPOLMISKENERGO	6 722 400 00	2 50	16 77	20	51
RIVNEOBLENERGO	20 827 420 00	10 00	11 22	26	55

* according to the official information of the SPF

Structure of Energy Sector, Subject to Privatization

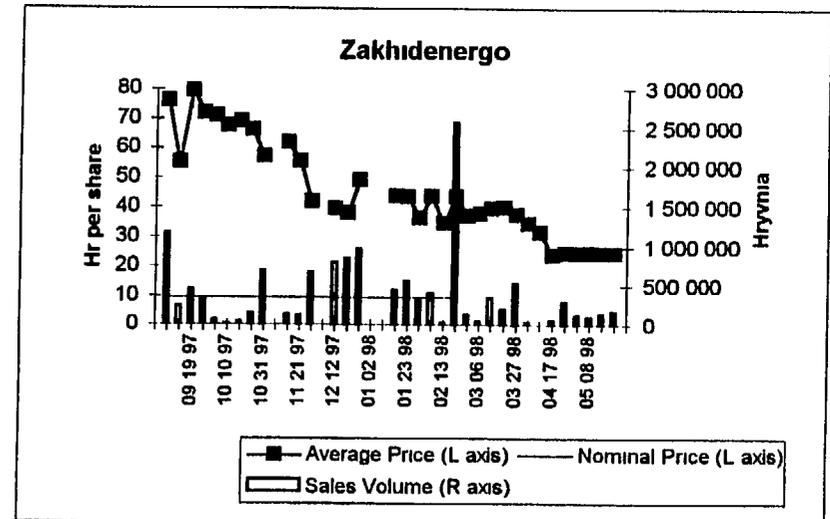
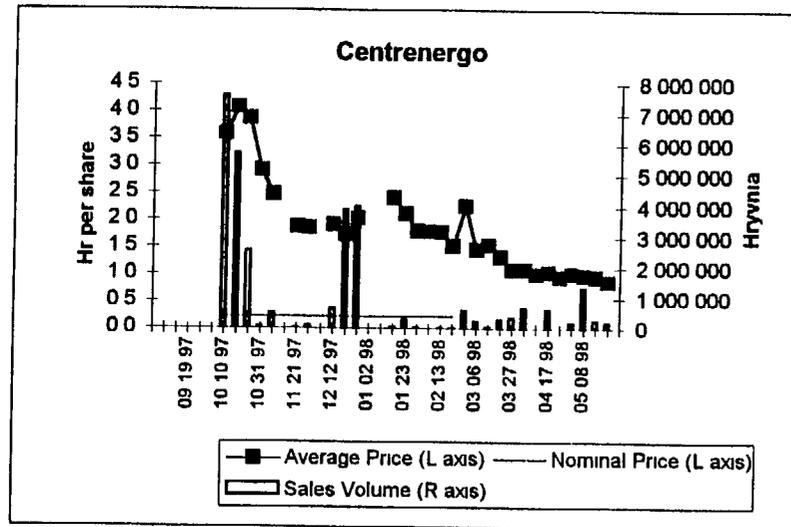
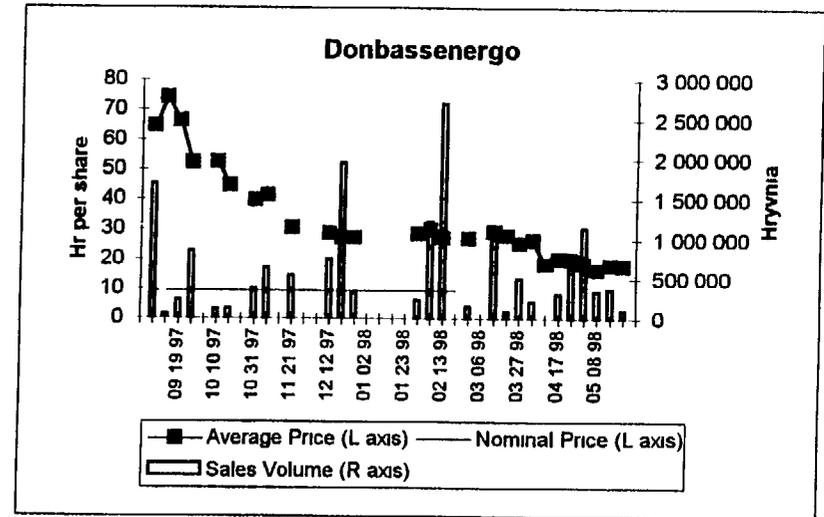
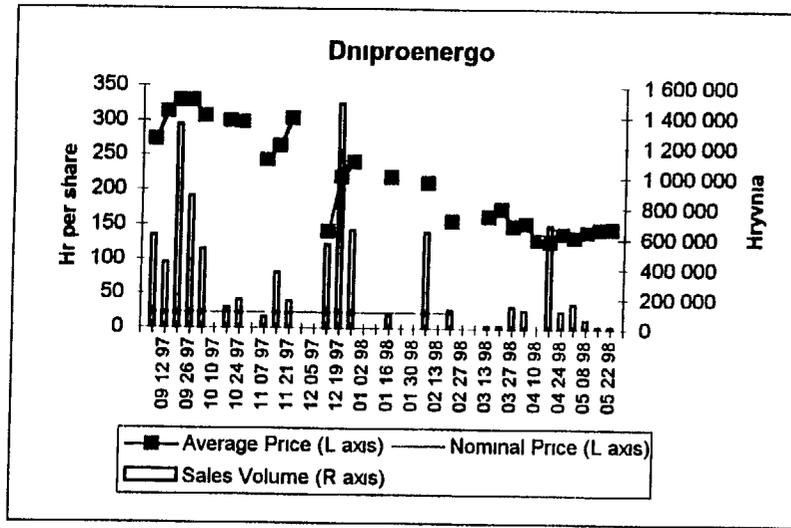


Privatization Status of Distribution Companies



Genco Share Prices, Volumes

Weeks ending September 5, 1997 thru May 22, 1998

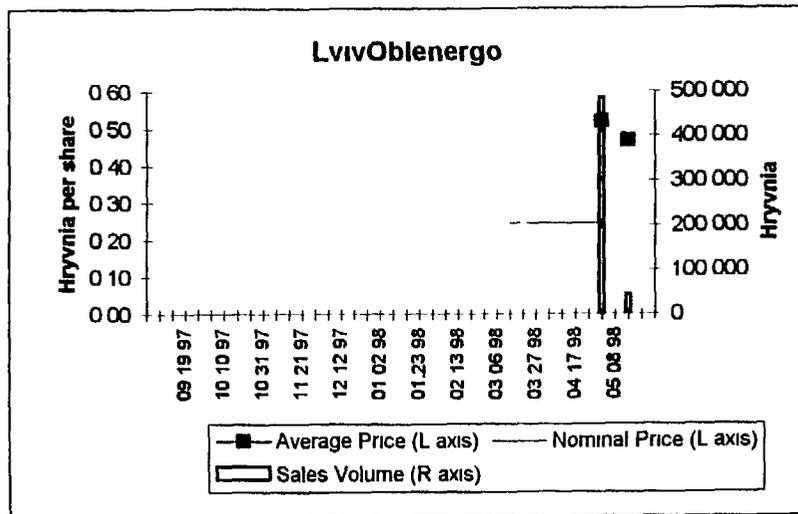
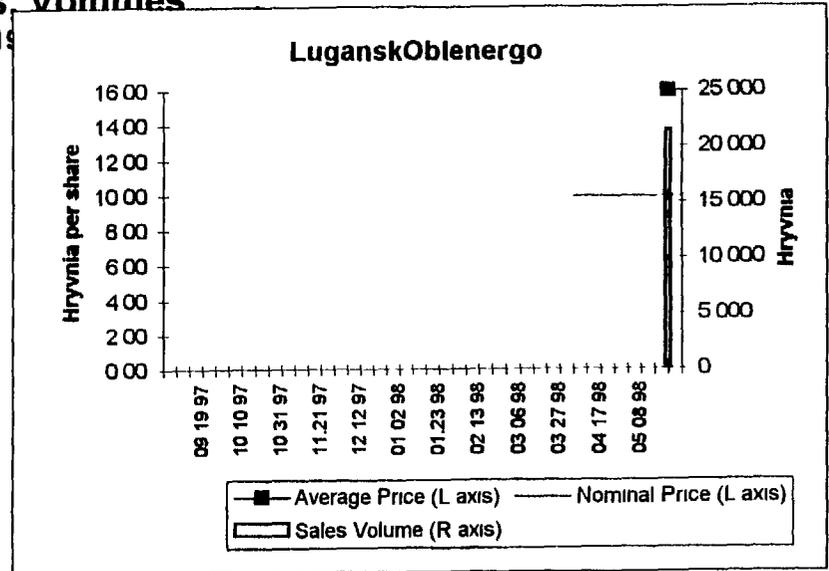
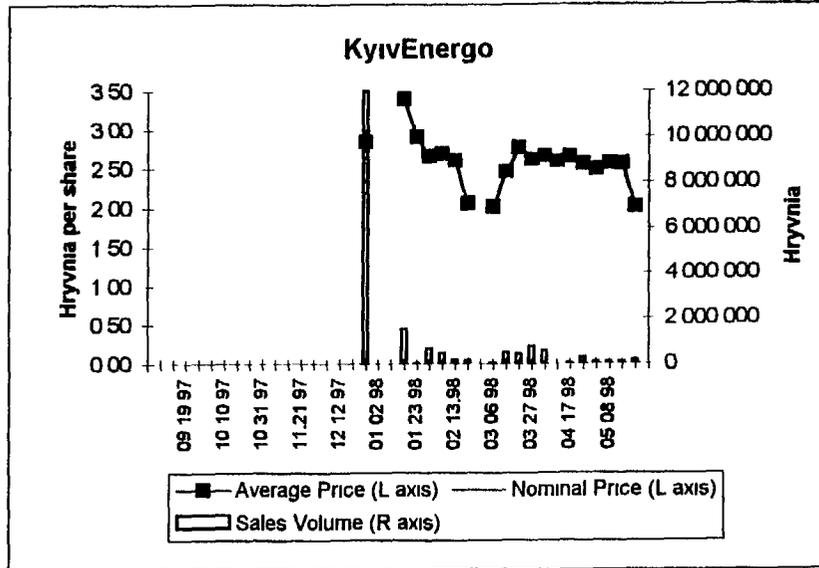


Source Eastern Economist & Investment Gazette

22

Oblenergo Share Prices, Volumes

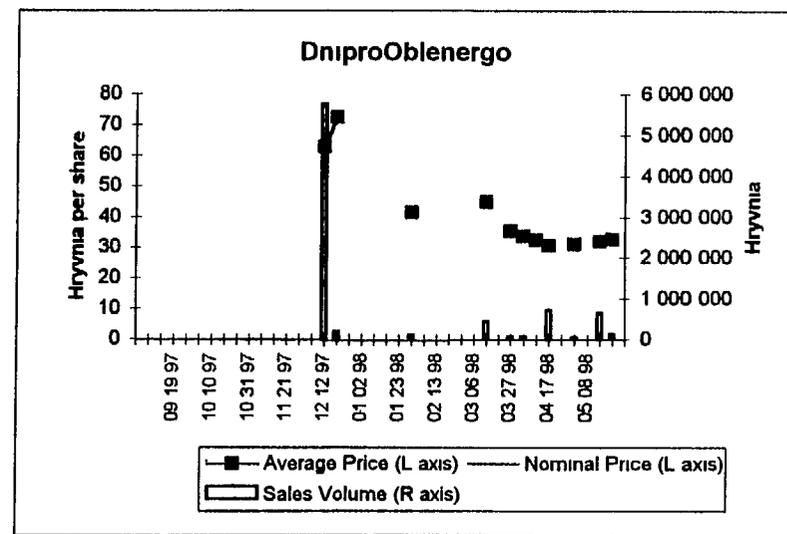
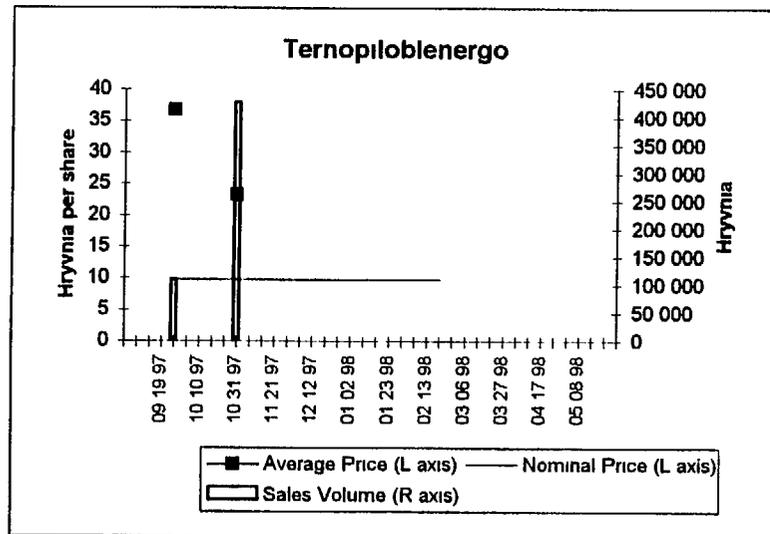
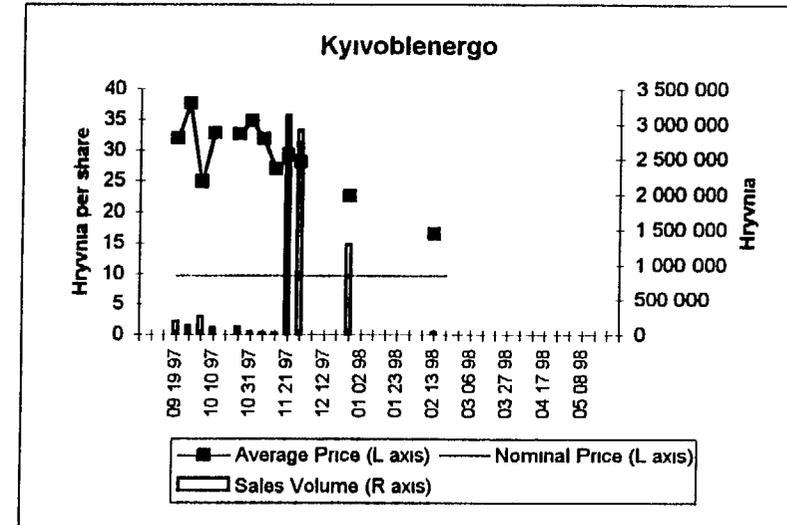
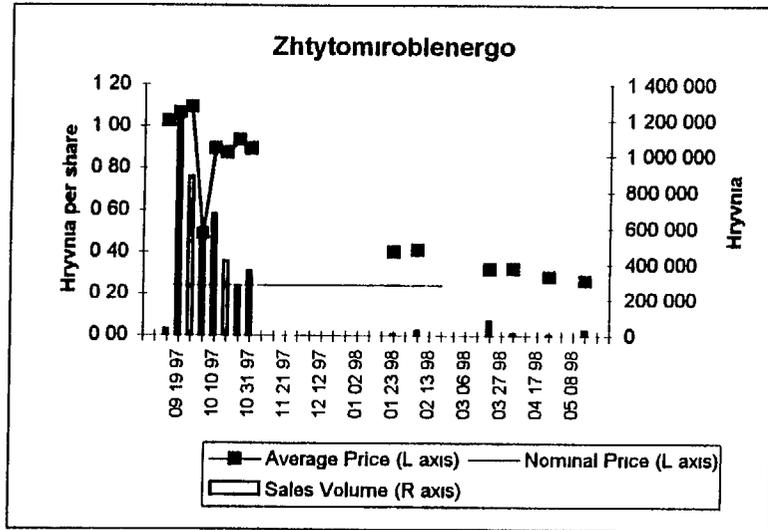
Weeks ending September 5, 1998



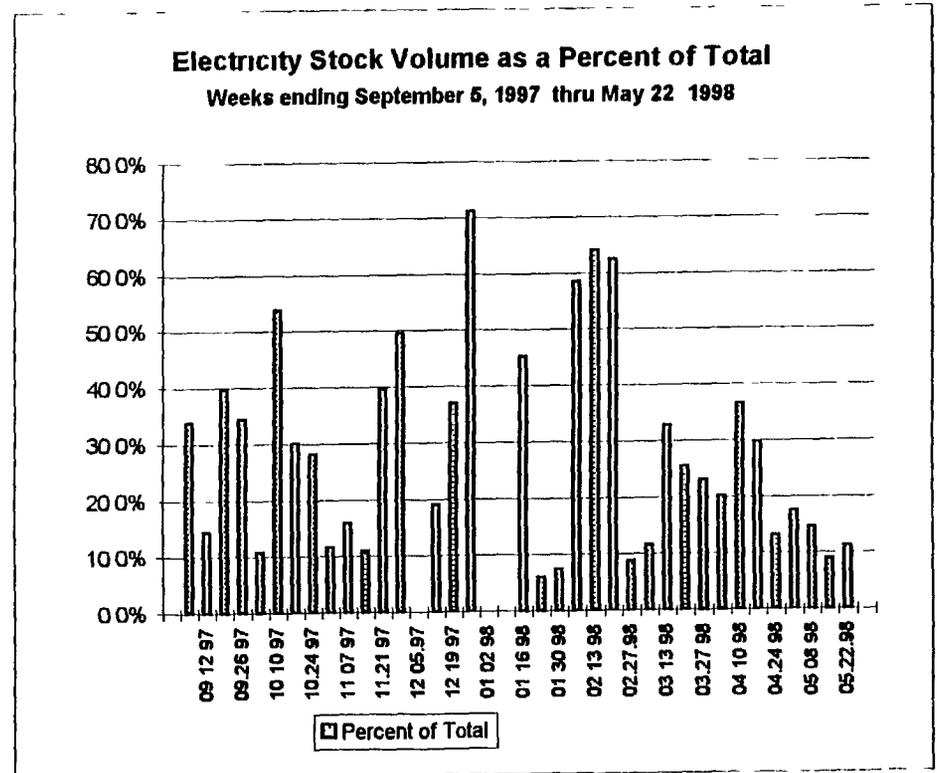
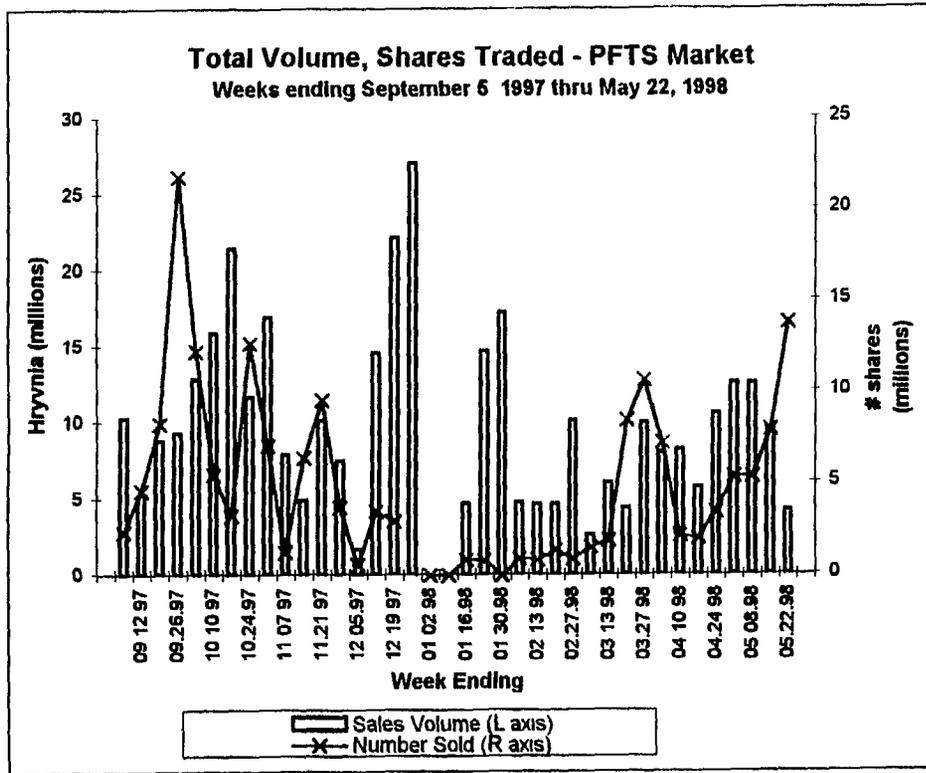
Source Eastern Economist Investment Gazette

Oblenergo Share Prices, Volumes

Weeks ending September 5, 1997 thru May 22, 1998



Source Eastern Economist & Investment Gazette



Source Eastern Economist

REPORT # 3

WEEK OF JUNE 1ST - JUNE 12TH, 1998

MEMORANDUM

TO David Wolcott
CC Svetlana Golikova, Tom Smith, Jim Stanfield, Eric Haskins, John Kyle
DATE June 12, 1998
FROM Andrei Goncharenko
SUBJECT Privatization & Stock Market Update Report
Period June 1st - June 12th, 1998

BI-WEEKLY REPORT (WEEKS 23-24)

INTRODUCTION

The first two weeks of June attracted much attention to the privatization issues in general and activity of the SPF related to the sale of energy companies' shares specifically. This situation is directly caused by the recent initiatives of the President Kuchma in the sphere of economic development and budget policy.

On May 12th the President Kuchma in his speech to VR specified the target amount of budget income from dividends paid for state shares in the newly privatized companies. Annually the budget shall get 100 million Hryvnas in dividends. The SPF is responsible for introduction of a new provision into the contract for management of state share defining, that an authorized person shall initiate allocation of at least 25% from the net profit for dividends and get this resolution approved by the general shareholders' meeting. It should be mentioned that the largest amount of dividends allocated to the state by the being privatized company are 21 382 million Hryvnas. And this sum will be transferred to the state budget by Dniproenergo (85.2% state share at the present time).¹ Dniproenergo had allocated 25% of its net profit in 1997 to be paid in dividends to shareholders.

Mr. Bondar gave an interview confirming that he plans to return to his job as the SPF Acting Chairman approximately on June 17th. He believes that the SPF will be able to provide sufficient cash inflows into the budget as planned in the State Budget Program for 1998.

Packages of shares of Sevastopolmiskenergo and Kirovogradoblenergo, previously reported to be sold on PPC auctions, will be offered for the first cash auction conducted by the Auction Centers' Network (ACN) from June 10th till July 10th. The auction results will be published by July 31st.

As of May 1st 1998 the state budget collected 18 65 mn UAH from dividends for the state shares. The total budget inflows for this item in 1996-1997 made 15 443 mn UAH.

Mr Bochkarev (Director of Dniproenergo Corporatization Dept) stated that the Bank of New York will issue ADRs for Dniproenergo shares not earlier than in August Before the issue the BNY intends to organize through its Ukrainian agent an extensive buying campaign of Dniproenergo shares on the Ukrainian stock market ²

Three energy distribution companies announced their general shareholder meetings to be conducted in July as follows

Zhitomiroblenergo - July 3rd, 1998

Kyivoblenergo - July 9th, 1998,

Krimenergo - July 30th 1998

TENDERS

The tenders for Sumyoblenergo(36%) and Chernigivoblenergo(35%) were closed on June 1st, 1998 Considering the fact that the commercial tender for 45% in Lysichansk Oil Refinery (LYNOS) had been canceled, because it attracted no bids, these two tenders were successful and we can expect the official announcement of winners next week

Other three tenders shall be closed during the end of this - beginning of the next week Prikarpattyaoblenergo, Kharkivoblenergo and Kyivoblenergo Among these companies Kyivoblenergo is the most attractive one, though 51% state share might become an obstacle impeding a strategic investor from buying the 25% share packet offered for tender The lowest attractiveness has Prikarpattyaoblenergo and this tender might be unsuccessful, though the SPF seems to be confident, that this will not happen³

SALE ON EXCHANGES

Energobusiness as of May 28th has published the information that 5 1% of Sevastopolmiskenergo and 5% of Kirovogradoblenergo will be auctioned for Privatization Property Certificates (PPCs) in June 1998, but the SPF has decided to offer these share packets for cash on the specialized auction through the ACN

Starting from the week of June 8th - 14th the SPF is selling packets of shares of 16 Oblenergos through the stock exchange system and ACN If sold for the nominal share price, these shares should bring to the state budget 40,710,098 Hryvnas (see Annex 1)

The Bank of New York is reported to be planning to issue ADRs for all four power generation companies In March 1998 the packet of 13% of Prikarpattyaoblenergo was sold in UICE for the nominal share price (8 13% was purchased by the broker Prodexport "on client's request")

Yuri Yakovlev Director of SPF Department for Auction and Stock Exchange Sales, has expressed his opinion, that currently it is difficult to sell even the attractive but expensive stock through exchanges. Local investors have no available money and western investors believe that the present-day situation on Ukrainian market is too risky. Mr. Yakovlev stated, that he expects the continued fall-down of the market until the end of summer.

PFTS MARKET

The week of June 1-5 did not bring stabilization of the situation on Ukrainian stock market. The volume of sales in the over-the-counter system made 2.52 mn UAH equal to 19% of the results of the previous week.

Eastern Economist (June 8) Total supply on the PFTS this week increased by more than 20 mn UAH, while the total demand fell from 3 mn UAH to 1.7 mn UAH over the week. The KAC-20 (S), KAC-20(W), ProU-50 and PFTS indices fell 0.63%, 0.37%, 3.47% and 0.02% respectively. The number of stocks traded declined from 24 to 17. The trading results for energy sector were 1.8% of the previous week's results. The KAC-energy index decreased by 9.66%.

Business (June 8) In general the week of June 1-5 was quiet. The KAC-20 indices were stable in the narrow range between 770-825. The maximum bid prices for Kyivenergo shares reached the level of 1 Hryvna. Kyivenergo shares fell 27.86% and Tsentrenergo -6.67%. Donbassenergo shares remained stable. The only stock, which may grow the next week, are Zakhidenergo shares.

Delovaya Nedelya (June 8) Taking into account the fact that the Ukrainian stock market is currently in its lowest point, it has a considerable potential for growth.

During the week of June 1-5 only three companies have enjoyed actually registered operations with their shares. Tsentrenergo sold at a volume of 29,902.50 UAH (42,500 shares), Kyivenergo - 35,554.30 UAH (25,811) and Zhitomiroblenergo - 2,000.00 UAH (10,000).

Please, see attached the charts reflecting the data on performance of energy sector shares on PFTS. The source of the end-of-week data was Eastern Economist.

4 CONCLUSIONS

The situation on the stock market directly depends from the successful implementation of the privatization program. The SPF absence on the general meeting of Ukrnafta shareholders made this meeting invalid⁴. This immediately caused decrease of the bid prices for shares of this issuer. It is necessary to mention, that in the week of June 1-5 only, the volume of trade of Ukrnafta shares made

The SPF is the majority shareholder in Ukrnafta, holding 61.23% state share in the company.

47% of the total volume of PFTS trade. Expectations of the experts that after the general meeting of Ukrnafta shareholders the situation on the Ukrainian stock market might improve did not come true. Another political step of the SPF undermining the image of privatization process can lead to even more careful approach of western investors to purchase of Ukrainian stocks.

Although sale of energy companies' shares on exchanges and cash auctions could bring 40 million Hryvnas into the state budget, it is not certain. The major source of capital represented by foreign investors is too cautious at the present time. The brokers, working on all exchanges tell that there are almost no requests from their clients to purchase. The latest improvement of situation on the Russian stock market may become an additional factor for the portfolio investor to choose this one more developed and stable alternative.

The recently announced cash auctions will not be of the great importance both for the SPF and major investors. Their objective, as the SPF Deputy Chairman Svetlana Ledomszkaya stated, is to sell leftovers of shares, thus reaching the 100% depth of privatization of the companies. Kirovogradoblenergo and Sevastopolmiskenergo represent rather an exemption, because all other companies are of "middle" attractiveness. The ACN will also proceed with conducting the PPC and CC auctions simultaneously with the cash ones.

The next week may become a new impact to the improvement of the stock market situation, after the winners of Chernigiv and Sumyoblenergo tenders will be announced. The tender for Kyivoblenergo is also of the great interest. Taking into account the position of AES willing to buy 51% stake, it is possible to foresee three possible ways of the further development of this situation.

The SPF will offer to AES 25% stake in the company, the contract for management of 26% state share and an opportunity to participate in another tender, which will be announced after the revision of the company's SAP.

The AES will purchase 25% and get 26% - 1 share to management with the right to purchase these shares for their nominal value after revision of the SAP.

The AES will be promised by the SPF (GoU), that after revision of the SAP, it will have the priority right to purchase (for nominal value) either 26% - 1 share or 25% packet after revision of the SAP.

I would like to emphasize that there is no chance that AES will be able to purchase 51% immediately. The acting laws and regulations do not allow such immediate decision to be taken neither by the SPF nor by GoU. In the first case, the AES will most probably reject this kind of offer. The last two alternatives are more attractive for an investor, but the AES can not be confident that either a new government or the Verkhovna Rada will fulfill the promises given today.

It should be mentioned that until now the commercial tenders for energy companies have brought to the SPF (and to the state budget) 9 4 mn UAH (See Annex 2) The tenders announced in 1998 could bring 130 mn UAH more, if investors will risk to come to the industry

Generating Companies

Enterprise Name	Chartered Capital	Nominal Share Value	Sale Depth*	Auctioner	Open Tender	Packet for Tender	State Share
TSENTRENERGO	92,351,777 00	0 25	17 64			24	51
DNIPROENERGO	98,099,950 00	25 00	17 53			24	51
ZAKHIDENERGO	127,905,410 00	10 00	16 21			24	51
DONBASENERGO	236,443,010 00	10 00	9 44	CreditAnstalt AG	X	24	51

12

Commercial Tenders

Enterprise Name	Chartered Capital	Nominal Share Value	Sale Depth*	Tender (starting date)	Tender (ending date)	Packet for Tender	Packet Ask Price
1	2	3	4	5	6	7	8
KIROVOGRADOBLENERGO	29,844,000 00	10 00	42 33	01-Sep-97	31-Dec-97	20	7,587,700 00
TERNOPILOBLENERGO	15,272,040 00	10 00	49 00	01-Oct-97	31-Dec-97	20	5,030,000 00
SUMYOBLENERGO	44,281,374 00	1 00	36 98	28-Apr-98	28-May-98	36	5,941,295 00
CHEMNIGIVOBLENERGO	29,829,506 00	1 00	31 37	28-Apr-98	28-May-98	35	14,000,000 00
PRIKARPATTYAOLENERGO	25,908,875 00	12 50	33 75	06-May-98	05-Jun-98	35	9,397,000 00
KHARKIVOBLENERGO	64,135,190 00	10 00	23 46	12-May-98	11-Jun-98	35	32,139,000 00
KYIVOBLENERGO	52,043,780 00	10 00	23 97	28-Apr-98	12-Jun-98	25	25,515,000 00
ODESAOLENERGO	52,123,890 00	10 00	32 56	12-May-98	26-Jun-98	35	18,254,000 00
LUGANSKOBLENERGO	52,030,730 00	10 00	32 30	27-May-98	26-Jun-98	35	25,260,000 00
LVIVOBLENERGO	48,493,080 00	0 25	35 88	27-May-98	26-Jun-98	35	22,263,000 00
POLTAVAOLENERGO	55,240,000 00	2 50	34 93	27-May-98	26-Jun-98	36	19,866,400 00
						TOTALS	185,253,395 00

Short-Term Investment Obligations**	Middle-Term Investment Obligations***	Total Investment Requirements	State Share
9	10	11=9+10	12
5,000,000 00	17,000,000 00	22,000,000 00	51
4,402,000 00	3,054,000 00	7,456,000 00	51
21,000,000 00	28,000,000 00	49,000,000 00	25
10,000,000 00	17,760,000 00	27,760,000 00	25
5,000,000 00	13,250,000 00	18,250,000 00	25
20,100,000 00	27,760,000 00	47,860,000 00	25
13,800,000 00	17,800,000 00	31,600,000 00	51
10,000,000 00	50,200,000 00	60,200,000 00	25
12,500,000 00	38,300,000 00	50,800,000 00	25
20,000,000 00	33,000,000 00	53,000,000 00	25
17,200,000 00	42,400,000 00	59,600,000 00	25
139,002,000 00	288,524,000 00	427,526,000 00	

with 51% State Share (revision of SAPs pending)

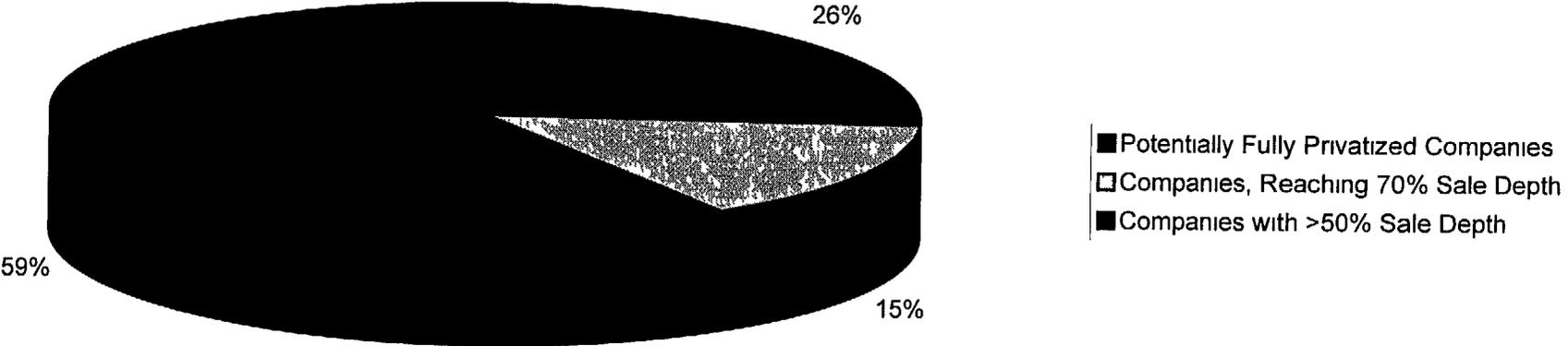
Enterprise Name	Chartered Capital	Nominal Share Value	Sale Depth*	Packet for Tender (approved)	State Share
ZHITOMYROBLENERGO	20,389,165 25	0 25	26 68	12	51
VOLYNOBLENERGO	23,863,800 00	0 25	25 98	20	51
KHMELNITSKOBLENERGO	33,637,840 00	10 00	25 72	20	51
CHEKASYOUBLENERGO	37,098,333 00	0 25	22 86	30	51
VINNITSAOUBLENERGO	30,973,660 00	10 00	21 46	0	51
ZAKARPATTYAOBLENERGO	31,150,810 00	0 25	20 86	20	51
DNIPROBLENERGO	59,916,170 00	10 00	18 51	27	51
ZAPORIZHYAOBLENERGO	44,840,000 00	10 00	17 12	27	51
SEVASTOPOLMISKENERGO	6,722,400 00	2 50	16 77	20	51
RIVNEOUBLENERGO	20,827,420 00	10 00	11 22	26	55

* according to the official information of the SPF

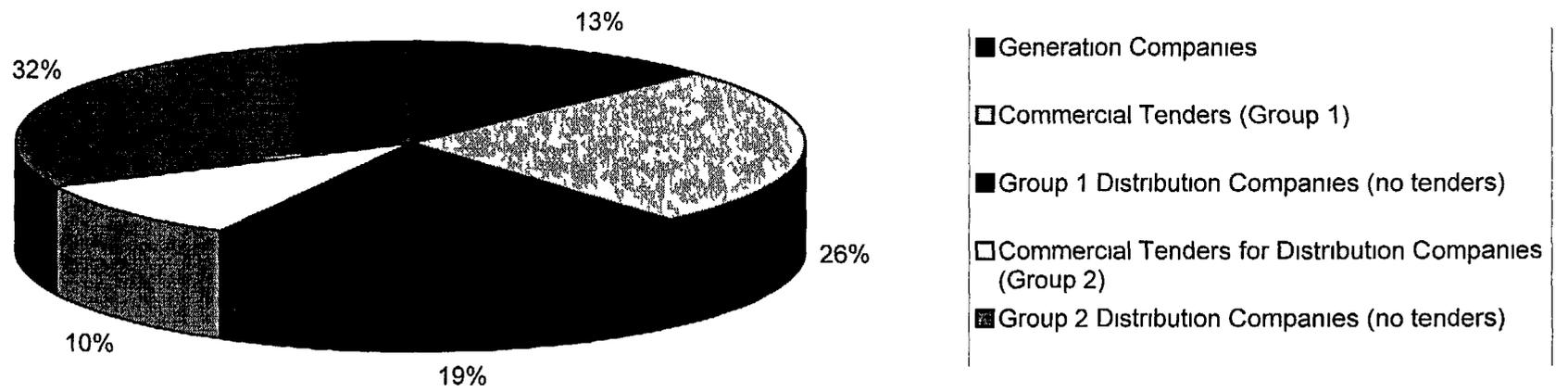
** Amount needed for settlement of accounts payable in arrears plus replenishment of current assets (60-days

*** Investment obligations for 3-5 years period plus financing of social assets, plus environmental measures

Privatization Status of Distribution Companies



Structure of Energy Sector, Subject to Privatization



Type	Company	Tender %	Actual Sale Depth, %	Sale on Exchanges in June	Auction for Cash (June 10- July 10)	Expected Cash Inflows** (from Sale on Exchanges)	Expected Sale Depth, %	State Share %
	Dniproenergo		17 53				17 53	51
	Donbasenergo	24	9 44				33 44	51
	Tsentrenergo		17 64				17 64	51
	Zakhidenergo		16 21				16 21	51
	Chernigivoblenergo	35	31 37	8 53		2,544,456 86	74 90	25
	Luganskoblenergo	35	32 30	7 533		3,919,474 89	74 83	25
	Lvivoblenergo	35	35 88	3 81		1,847,586 35	74 69	25
	Odesaoblenergo	35	32 56	6 65		3,466,238 69	74 21	25
	Prikarpattyablenergo	35	33 75	6 25		1,619,304 69	75 00	25
	Poltavaoblenergo	36	34 93	3 8		2,099,120 00	74 73	25
	Sumyoblenergo	36	36 98	1 85		819,205 42	74 83	25
	Kharkivoblenergo	35	23 46	8 90		5,708,031 91	67 36	25
	Chernivtsyoblenergo		28 24	6 555		930,493 39	34 80	25
	Donetskoblenergo		23 36	7 04		5,765,511 40	30 40	25

Khersonoblenergo		33 01	6 99		1,659,688 82	40 00	25
Krimenergo		28 14	9 74		4,211,759 11	37 88	25
Kyivenergo		37 27	7 733		2,094,952 44	45 00	25
Mykolaivoblenergo		26 88	5 52		2,189,232 00	32 40	25
Kirovogradoblenergo	20	42 33		5 00	1,492,200 00	67 33	51
Ternopiloblenergo	20	49 00				69 00	51
Kyivoblenergo	35	23 97				58 97	51
Cherkassyoblenergo		22 86				22 86	51
Dniprooblenergo		18 51				18 51	51
Khmelnitskoblenergo		25 72				25 72	51
Sevastopolmskenergo		16 77		5 10	342,842 40	21 87	51
Vinnitsaenergo		21 46				21 46	51
Volynoblenergo		25 98				25 98	51
Zakarpattiaoblenergo		20 86				20 86	51
Zaporizhiaoblenergo		17 12				17 12	51
Zhytomiroblenergo		26 68				26 68	51
Rivneoblenergo		11 22				11 22	55
				TOTAL	40,710,098 37		

** The amount of expected cash inflows was calculated based on the nominal share value

REPORT # 4

WEEK OF JUNE 15TH - JUNE 26TH, 1998

MEMORANDUM

TO David Wolcott
CC Svetlana Golikova, Tom Smith, Jim Stanfield, Eric Haskins, John Kyle
FROM Andrei Goncharenko
DATE June 26, 1998
SUBJECT Privatization & Stock Market Update Report
Period June 15st - June 26th, 1998

INTRODUCTION

The second half of June brought a lot of news in relation to both the stock market in Ukraine and privatization in the energy sector. The stock market continued to fall due to the constant decrease of demand for corporate securities and active selling of the government internal debt bonds (OVGZ) on the secondary market. According to the estimates of Alexander Bazarov (Chairman of Board CS First Boston Ukraine) the capitalization of Ukrainian 'blue chips' has fallen from \$2 to \$1.5 million in 1998. He has also emphasized the importance of privatization of these attractive for investment companies for improvement of the situation on Ukrainian stock market.

On June 18th the Prime Minister Pustovoytenko ordered the SPF to suspend privatization of the energy distribution companies on request of the Minister Sheberstov (Minenergo). Sheberstov has submitted his letter on this issue to the SPF and CoM on June 4th 1998. According to his letter the major negative factors related to the commercial tenders announced in May 1998 were insufficient time for investors to study all necessary documents and submit their bids and various gaps in the legal and regulatory framework of the privatization process and energy sector. It should be mentioned that the order is applicable for all Oblenergos including the previously announced ones. The last commercial tender announced by the SPF on June 17th has been the tender for 40% of Mykolaivoblenergo.

The former Acting SPF Chairman Mr. Bondar has resumed his responsibilities starting from June 16th. According to the latest information the SPF has approved a new order of conducting procedures of the open (international) tenders for generation companies.

1 TENDERS

The tenders for Sumyoblenergo (36%) and Chernigivoblenergo (35%) were announced successful and the SPF has disclosed the names of winners: Autoalliance Invest (Chernigivoblenergo) and Arsenal (Sumyoblenergo). Two other tenders for Kharkivoblenergo and Kyivoblenergo have failed.

After the resolution of Mr. Pustovoytenko all tenders are stopped. According to the mass media the authorized auctioneers of Donbasenergo (CreditAnstalt InvestmentBank) and Tsentrenergo (Union Bank of Switzerland) can not reach an agreement with the Ministry of Finance of Ukraine on conditions of their security deposits for the period of tender preparation. This means that no actual preparation for open tenders of these energy generation companies is being carried out until today.

2 SALE ON EXCHANGES

In June the SPF has failed to sell any of 7 energy distribution companies' share packets offered through the system of Ukrainian stock exchanges. Potential buyers, after having bid for all packets, expected the SPF to reduce prices of the packets during the trading sessions. But even after the SPF had done so, the ask prices were much higher than quotations on the PFTS. In the result all bids were withdrawn.

The SPF officials express their opinion, that instead of selling shares of attractive enterprises for low prices today, it should be better to keep them until the situation on the stock market improves.

3 PFTS MARKET

The week of June 15-18 brought new evidences of deep depression on the Ukrainian over-the-counter market. The volume of sales made 2.57 mln UAH equal. The total demand fell below 1 mln and the total supply to 30 mln UAH.

Eastern Economist (June 22) The KAC indices were not published in Eastern Economist this week. ProU-50, Wood15 and PFTS indices fell by 24.69%, 9.58% and 14.37% to 59.46, 802 and 34.74 respectively. The energy sector trading results increased by 52.18%.

Investment Gazette (June 22) This week proved to be completely as expected. Majority of the market participants believe that there is no chance of improvement in the near future. The bid prices for all stocks decreased while the sellers tried to maintain the ask prices on the same level, although with no success.

Delovaya Nedelya (June 22) It may be said that the energy shares remained the only really liquid stock this week. But the bid prices fell considerably. This week Dniproenergo had the highest spread of bid and ask prices, the best bid price for Dniproenergo shares dropped twice compared to the previous week and was equal to 40 UAH per share, the best ask price made 110 UAH (spread of 109%).

During the week of June 15-18 Dniproenergo sold at a volume of 189,395.00 UAH (2,039 shares). Zakhidenergo - 206,000.00 UAH (14,000). Tsentrenergo 9,850.00 UAH (18,000). Kyivenergo 301,312.00 UAH (237,085). Dniproblenergo - 2,650.00 UAH (100) and Zhitomiroblenergo 6090.40 UAH (60,904).

Please see attached the charts reflecting the data on performance of energy sector shares on PFTS. The source of the end-of-week data was Eastern Economist.

4 CONCLUSIONS

The companies Autoalliance-Invest and Arsenal are well known among participants of the Ukrainian stock market. It is most probable that both these companies, which have been actively buying share packets of various privatizing enterprises on stock exchanges and via tenders in the past, belong to the category of financial intermediaries and not to the strategic investors. And the potential strategic investors, which make participation in the tenders dependent of changes in the legal and regulatory framework of the energy

sector, can not (or do not want to) comprehend that these issues do not belong into the sphere of competence of the SPF representing the official organizer of these tenders. It can be assumed that the tenders for sale of Kharkivoblenergo and Kyivoblenergo share packets have failed due to these specific reasons.

The abovementioned facts allow to make a conclusion, that the decision of the Prime-Minister V Pustovoytenko on suspending the tenders for sale of energy distribution companies' shares (including the announced ones), might be caused not by the necessity to adjust the floor prices of the share packets, but by the need to give more time to those willing to submit bids for shares of the companies, tenders for which have been already announced. Last time the decision on termination of tenders for sale of energy companies' shares had been cancelled 25 days after its announcement.

It is hard to expect that one more change of "rules of the game" in the privatization process will cause the increase of foreign strategic investors' activity and the excessive number of their bids for participation in commercial tenders. It should also be mentioned that of 12 previous tenders considered to be successful only twice the winners were companies-producers. But, the purchase of Lutsk Bearing Plant shares on tender terms was the final stage in the aggressive buy-out of this company by the SKS of Sweden, and the opposition between the LaFarge (France) and Gradobank after the French company had won the tender and tried to participate in the general meeting of shareholders of Mykolaiv Cement Plant shares is an example of the attitude of certain Ukrainian shareholders towards foreign strategic investors.

It is most probable that the commercial tenders for energy distribution companies will be resumed in a short period of time. There are several evidences allowing to make this assumption:

1. Announcement of the Mykolaivoblenergo tenders contained the non standard term for conduction of this tender - 60 days instead of 30 or 45 as usual. In this way the SPF might try to respond to the letter of Minister Shcherbatiuk where he expressed his concerns about the time limits for submission of tender bids.
2. It is hard to believe that the price of share packet or amount of investment obligations will be changed for any of the announced tenders. As soon as the interested parties will submit their bids to the SPF and start a campaign on continuing of the announced tenders, Minenergo, SPF and CoM will find a way to do so. The task of securing 1.4 billion revenues to the state budget from privatization will never be levied or changed by the Government of Ukraine. This revenue is vitally important for the budget.

Type	Company	Tender %	Actual Sale Depth, %	Sale on Exchanges In June	Auction for Cash (June 10- July 10)	Expected Cash Inflows** (from Sale on Exchanges)	Expected Sale Depth, %	State Share %
GENERATION	Dniproenergo		17 53				17 53	51
	Donbasenergo	24	9 44				33 44	51
	Tsentrenergo		17 64				17 64	51
	Zakhidenergo		16 21				16 21	51
DISTRIBUTION	Prikarpattyaoblenergo	35	33 75	6 25		1,619,304 69	75 00	25
	Chernigivoblenergo	35	31 37	8 53		2,544,456 86	74 90	25
	Luganskoblenergo	35	32 30	7 533		3,919,474 89	74 83	25
	Sumyoblenergo	36	36 98	1 85		819,205 42	74 83	25
	Poltavaoblenergo	36	34 93	3 8		2,099,120 00	74 73	25
	Lvivoblenergo	35	35 88	3 81		1,847,586 35	74 69	25
	Odesaoblenergo	35	32 56	6 65		3,466,238 69	74 21	25
	Mykolaivoblenergo	40	26 88	5 52		2,189,232 00	72 40	25
	Kharkivoblenergo	35	23 46	8 90		5,708,031 91	67 36	25
	Kyivenergo		37 27	7 733		2,094,952 44	45 00	25
	Khersonoblenergo		33 01	6 99		1,659,688 82	40 00	25
	Krimenergo		28 14	9 74		4,211,759 11	37 88	25
	Chernivtsyoblenergo		28 24	6 555		930,493 39	34 80	25
	Donetskoblenergo		23 36	7 04		5,765,511 40	30 40	25
	Kirovogradoblenergo	20	42 33		5 00	1,492,200 00	67 33	51
	Ternopiloblenergo	20	49 00				69 00	51
	Kyivoblenergo	35	23 97				58 97	51
	Cherkassyoblenergo		22 86				22 86	51
	Dniprooblenergo		18 51				18 51	51
	Khmelnytskoblenergo		25 72				25 72	51
	Sevastopolmiskenergo		16 77		5 10	342,842 40	21 87	51
	Vinnitsaenergo		21 46				21 46	51
	Volynoblenergo		25 98				25 98	51
	Zakarpattyaoblenergo		20 86				20 86	51
	Zaporizhlaoblenergo		17 12				17 12	51
Zhytomiroblenergo		26 68				26 68	51	
Rivneoblenergo		11 22				11 22	55	
					TOTAL	40,710,098 37		

** The amount of expected cash inflows was calculated based on the nominal share value

Generating Companies

Enterprise Name	Chartered Capital	Nominal Share Value	Sale Depth	Auctioner	Open Tender	Packet for Tender	State Share
TSENTERENERGO	92 351 777 00	0 25	17 64	UBS	X	24	51
DNIPROENERGO	98 099 950 00	25 00	17 53			24	51
ZAKHIDENERGO	127 805 410 00	10 00	16 21			24	51
DONBASENERGO	236 443 010 00	10 00	9 44	CreditAnstalt AG	X	24	51

Commercial Tenders

Enterprise Name	Chartered Capital	Nominal Share Value	Sale Depth	Tender (starting date)	Tender (ending date)	Packet for Tender	Packet Ask Price	Short Term Investment Obligations**	Middle-Term Investment Obligations***	Total Investment Requirements	State Share
1	2	3	4	5	6	7	8	9	10	11=9+10	12
KIROVOGRADOBLENERGO	29 844 000 00	10 00	42 33	01 09 97	31 12 97	20	7,587 700 00	5 000 000 00	17 000,000 00	22,000,000 00	'51
TERNOPILBLENERGO	15 272 040 00	10 00	49 00	01 10 97	31 12 97	20	5 030,000 00	4,402,000 00	3,054,000 00	7,456,000 00	'51
SUMYOBLENERGO	44 281,374 00	1 00	36 98	28 04 98	28 05 98	36	5 841,295 00	21 000 000 00	28 000,000 00	49,000,000 00	'5
CHERNIGIVBLENERGO	29,829 506 00	1 00	31 37	28 04 98	28 05 98	35	14,000 000 00	10 000,000 00	17,780,000 00	27,780,000 00	'5
PRIKARPATYAUBLENERGO	25 908 875 00	12 50	33 75	06 05 98	05 06 98	35	9 397 000 00	5 000 000 00	13 250,000 00	18 250,000 00	'5
KHARKIVBLENERGO	64 135 190 00	10 00	23 48	12 05 98	11 06 98	35	32 139 000 00	20 100 000 00	27 760,000 00	47 860 000 00	'5
KYIVBLENERGO	52 043 780 00	10 00	23 97	28 04 98	12 06 98	25	25 515 000 00	13 800 000 00	17 800 000 00	31 600 000 00	'51
ODESAUBLENERGO	52 123 890 00	10 00	32 56	12 05 98	26 06 98	35	18 254 000 00	10 000 000 00	50 200,000 00	60 200 000 00	'5
LUGANSKOBLENERGO	52 030 730 00	10 00	32 30	27 05 98	26 06 98	35	25 260 000 00	12 500 000 00	38 300,000 00	50 800,000 00	'5
LVIVBLENERGO	48 493 080 00	0 25	35 88	27 05 98	26 06 98	35	22 263 000 00	20 000 000 00	33 000,000 00	53 000 000 00	'5
POLTAVAUBLENERGO	55 240 000 00	2 50	34 93	27 05 98	26 06 98	36	19 866 400 00	17 200 000 00	42 400,000 00	59 600,000 00	'5
MYKOLAIVBLENERGO	39 680 000 00	2 00	26 88	17 06 98	16 08 98	40	17 182 000 00	8 200 000 00	18 700,000 00	26 900,000 00	'5
						TOTALS	202 415 395 00	147 202 000 00	307 224 000 00	454 426 000 00	

Energy Distributors with 51% State Share (revision of SAPs pending)

Enterprise Name	Chartered Capital	Nominal Share Value	Sale Depth	Packet for Tender (approved SAP)	State Share
ZHITOMYROBLENERGO	20 389 165 25	0 25	26 68	12	51
VOLYNBLENERGO	23 863 800 00	0 25	25 98	20	51
KHMELNITSKOBLENERGO	33 637 840 00	10 00	25 72	20	51
CHEPKASYOBLENERGO	37 098 333 00	0 25	22 86	30	51
VINNITSAOBLENERGO	30 973 660 00	10 00	21 46	0	51
ZAKARPATYAUBLENERGO	31 150 810 00	0 25	20 86	20	51
DNIPROOBLENERGO	59 918 170 00	10 00	18 51	27	51
ZAPORIZHYAUBLENERGO	44 840 000 00	10 00	17 12	27	51
SEVASTOPOLMISKENERGO	6 722 400 00	2 50	16 77	20	51
RIVNEOBLENERGO	20 827 420 00	10 00	11 22	26	55

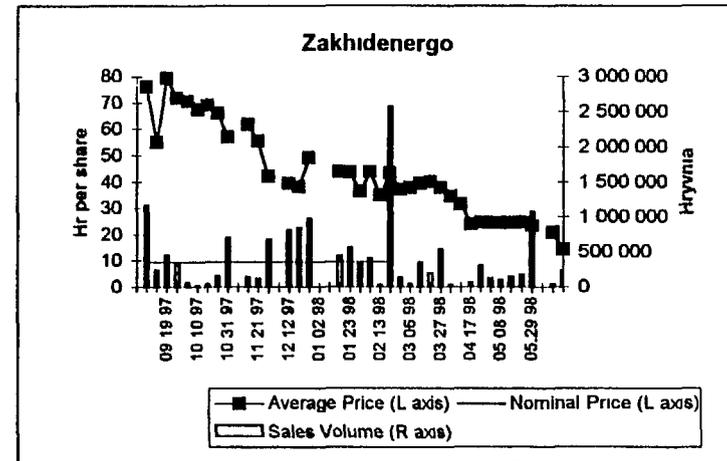
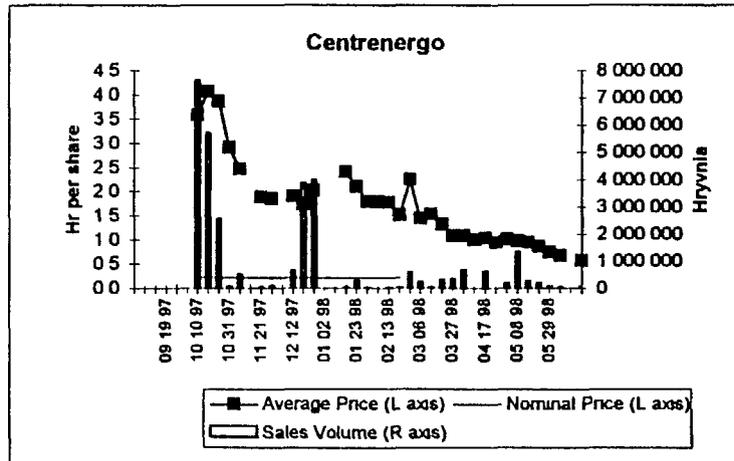
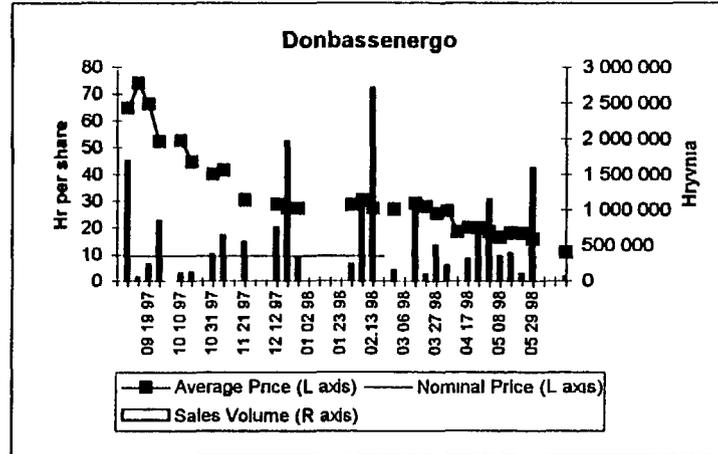
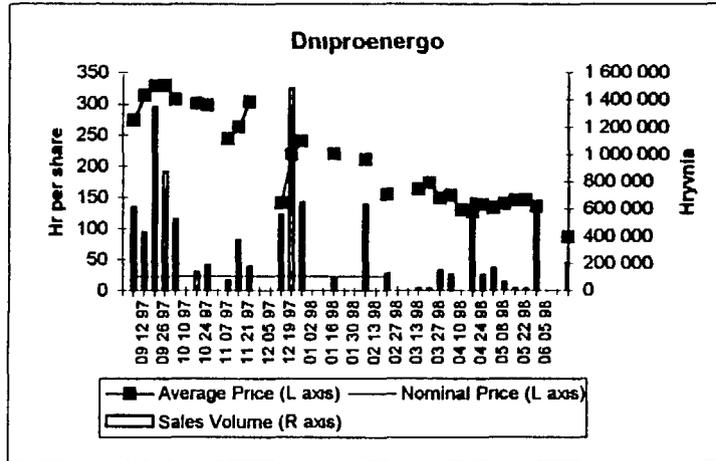
according to the official information of the SPF

Amount needed for settlement of accounts payable in arrears plus replenishment of current assets (60-days term)

Investment obligations for 3 5 years period plus financing of social assets plus environmental measures

Genco Share Prices, Volumes

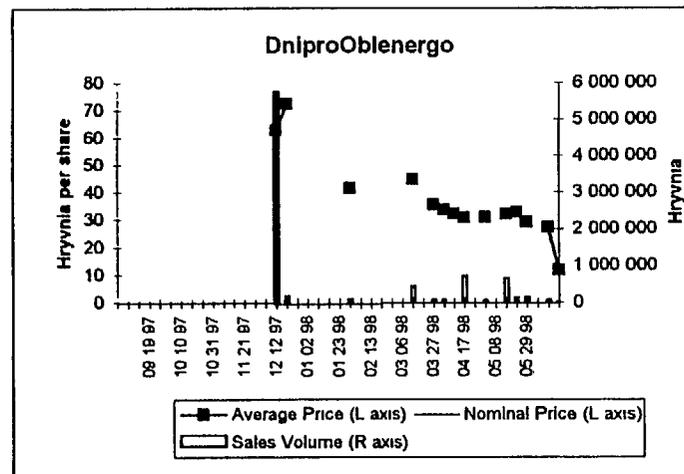
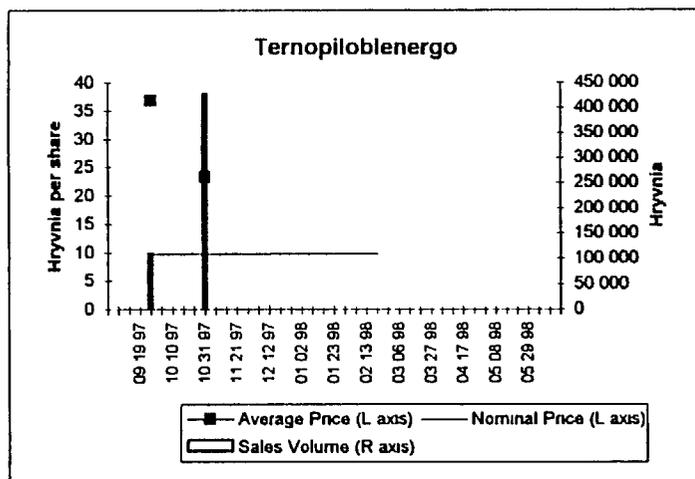
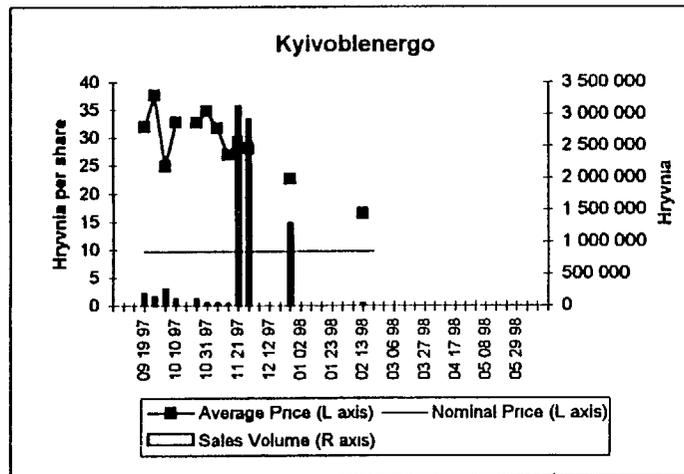
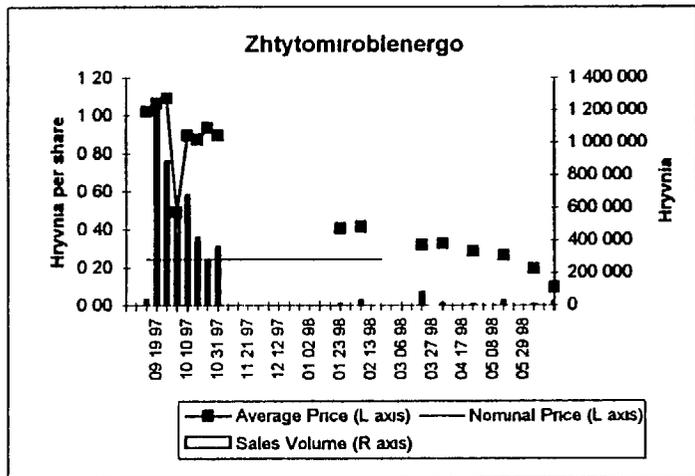
Weeks ending September 5, 1997 thru June 19, 1998



Source Eastern Economist & Investment Gazette

Oblenergo Share Prices, Volumes

Weeks ending September 5, 1997 thru June 19 1998

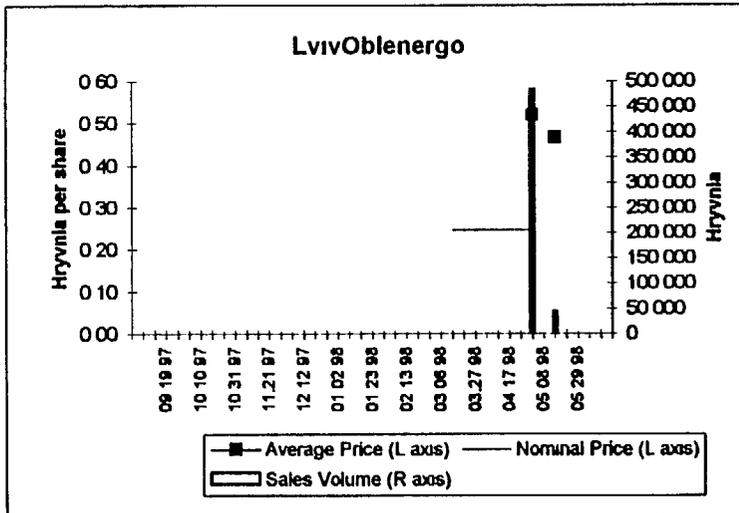
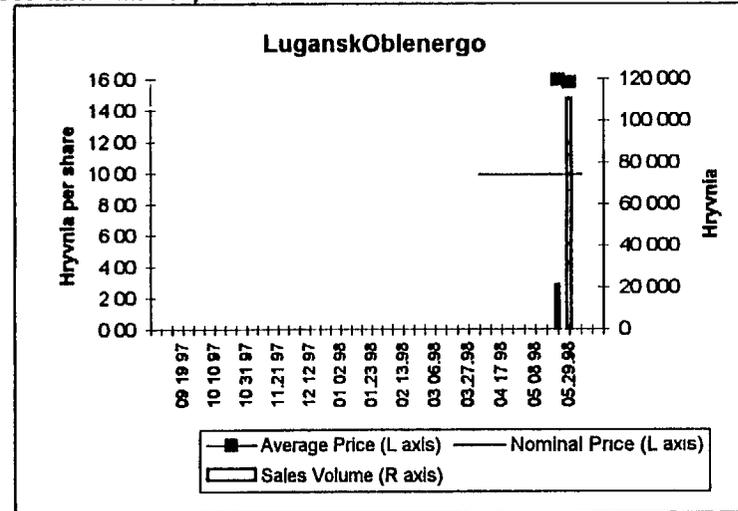
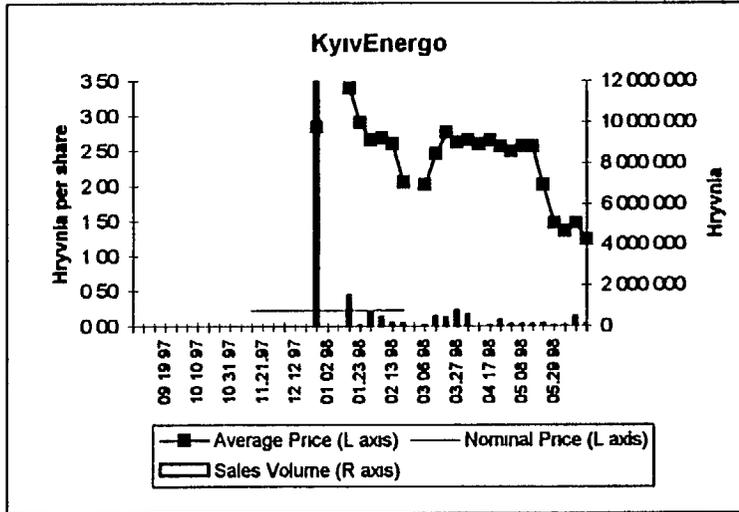


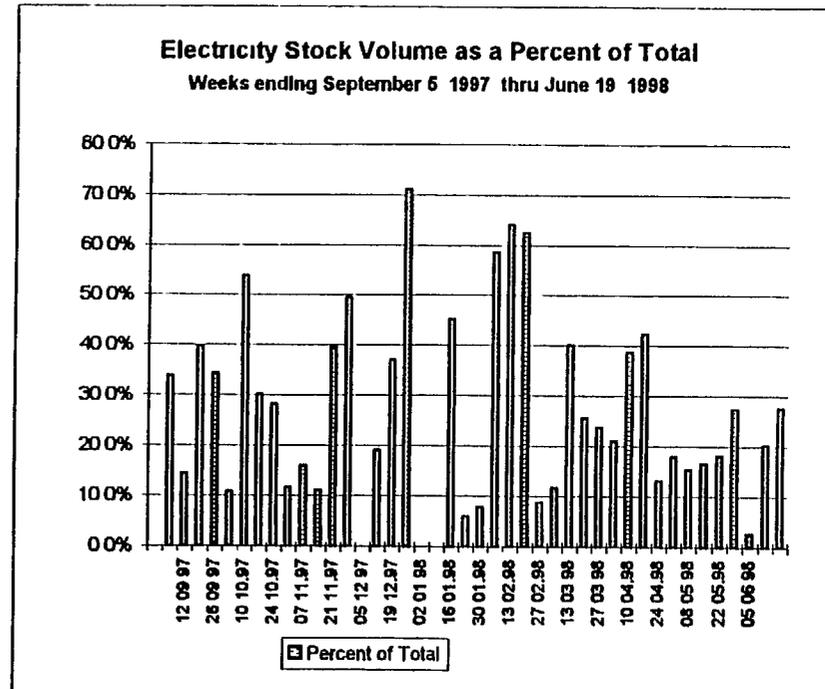
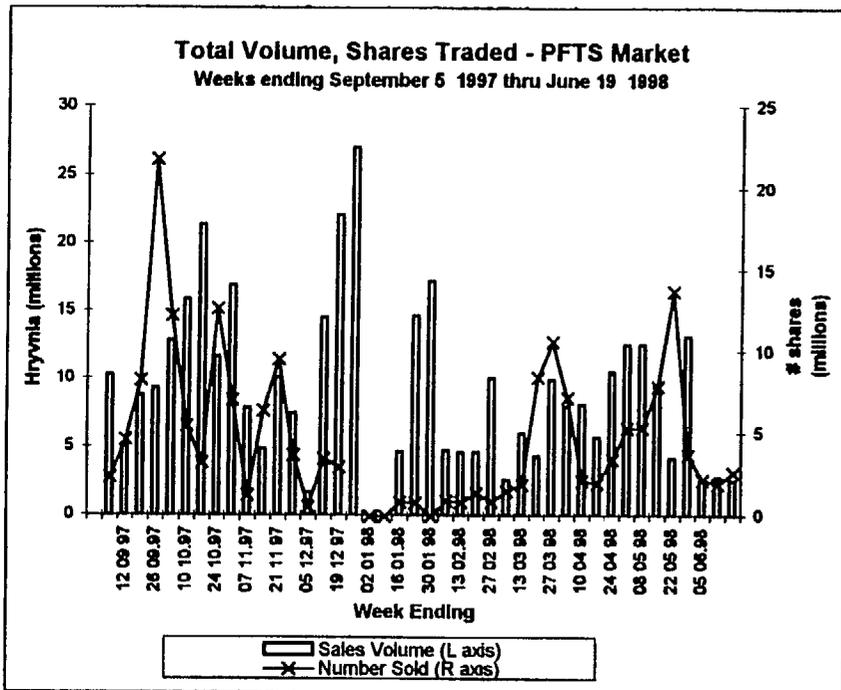
Source: Eastern Economist & Investment Gazette

Oblenergo Share Prices, Volumes

Weeks ending September 5, 1997 thru June 12, 1998

Weeks ending September 5, 1997 thru June 19, 1998





REPORT #5

WEEK OF JUNE 29TH - JULY 10TH, 1998

MEMORANDUM

To David Wolcott
CC Svetlana Golikova Tom Smith Jim Stanfield, Eric Haskins, John Kyle
FROM Andrei Goncharenko
DATE July 13, 1998
SUBJECT Privatization & Stock Market Update Report
Period June 29th - July 10th 1998

INTRODUCTION

The end of June - beginning of July 1998 have brought the evidence that privatization of energy distribution companies continues although its pace became slower. The resolution of Prime-Minister Mr. Pustovoytenko to suspend privatization in power sector is now applied to generation companies only. Considering the fact that the State Property Fund (SPF) has submitted to the Cabinet of Ministers (CoM) a new version of the Regulation on Open (International) Tenders, tenders for sale of 24% of generation companies may be started from the blank page and the former counselors (auctioneers) will have to go through one more tender for selection of the authorized SPF representatives entitled to conduct these tenders.

According to the SPF Acting Chairman Mr. Bondar, the SPF currently analyses the possibility to issue American Depository Receipts (ADR) for its shares in privatized enterprises and transfer the packets of energy generation companies shares to the authorized banks-sellers as a collateral which they further sell to investors.

On June 29th the SPF Acting Chairman Mr. Bondar had signed the order approving the winner of Sumyoblenergo tender - the company Arsenal and on June 30th two other orders on winners of Chernigivoblenergo and Prikarpatvaoblenergo tenders - companies Autoalliance Invest and Ukrainian Securities respectively. It should be mentioned that the major rival of the two last winners in respective tenders had been the same investment company Liberty Markets.

On July 7th 1998 the Ukrainian President has issued a decree on foundation of the National Agency of Ukraine for Management of State Corporate Rights. The Cabinet of Ministers is assigned with the task to draft and approve the appropriate regulatory documents and provide sources of financing for this agency at the expense of other state authorities responsible for this task currently (i.e. the SPF) within the two-months term. The premises, office equipment and cars for this agency should be obtained from the former Organizational Committee of EBRD Annual Meeting. In the future this agency might enter into a conflict with Minenergo if the state shares will be transferred to the management of this ministry by the SPF after privatization of other shares of the energy companies as it was stipulated by the regulatory documents.

1 TENDERS

The winners of all three successful tenders mentioned above were Ukrainian investment companies. Both Autoalliance-Invest and Arsenal are actively operating on the over-the-counter market (PFTS-system) and regularly publish their stock quotations.

Other companies mentioned in mass media (the same Liberty Markets) are also well known as participants in tenders for large share blocks of attractive enterprises, regardless of their sphere of business. The Liberty Markets, for example participated in the tender for Zaporizhia Ferroalloys Plant (tender won by the off-shore Washington Foundation, results canceled by the Supreme Arbitration Court twice on request of the Liberty Markets on April 23rd 1998 and of the enterprise management - in June 1998¹). The winner of tender for 20% of Ternopiloblenergo - Prodexport had recently purchased 22.15% of Sumy NVPO Frunze (one of the most attractive enterprises in the machine-building industry).

2 SALE ON EXCHANGES

The SPF had withdrawn shares of energy distribution companies from trade in the stock exchange system. The stock of seven Oblenergos was offered on different stock exchanges in June but even Kyivenergo shares, which were considered to be the most attractive ones, could not find any demand. The general crisis of the Ukrainian stock market had forced the SPF to stop trying to sell the energy sector shares for prices exceeding their quotations in the PFTS. Most probably the stock of energy distribution companies will not reappear on the stock exchanges until the market situation improves which can hardly be expected to happen before the end of summer.

3 PFTS MARKET

The week of June 29-July 3 saw a growth of traders' activity. Through during this week the trading was more active than it was through most of June. Daily trading results showed a downward trend especially trading in corporate shares.

Eastern Economist (July 6) This week KAC 20 (S) KAC-20 (W) ProU-50 Wood15 and PFTS indices fell by 3.15%, 3.13%, 3.41%, 4.31% and 5.01% to 659, 649, 59, 83, 754 and 32.61 respectively. The energy sector trading results increased by 105.33%.

The change of the following energy companies' share prices had the greatest influence on the indices:

Dniproenergo -16.25% (bid) and -10.04% (ask), Dniprooblenergo - 15% (bid) and 10.35% (ask), Kyivenergo - 8.1% (bid) and -9.72% (ask), Tsentrolenergo - +8.69% (bid) and -24.9% (ask), and Zakhidenergo - +0.39% (bid) and +28.82% (ask).

Investment Gazette (July 7) In June the trading of Dniproenergo shares made 18% of the total volume of PFTS corporate securities trading. The current situation on the over-the-counter market is very similar to the period between the end of summer beginning of autumn in 1997. The trading of corporate securities was directly affected by the Presidential Decree which granted tax privileges to transactions with the state bonds.

Delovaya Nedelya (July 6) This week only four companies were really buying shares: Alfa Capital, Sigma Wood&Company and Prospect Investments. The over-the-counter

¹ Investment Gazette # 23 as of 16.06.98 p. 30

market shifted to "deals-by-phone" in the result of inspection initiated by the State Commission for Securities and Stock Market (SCSSM), which had an objective to reconcile the reporting of major traders to the Commission and PFTS system. While the requirements of these two bodies differ, the actual figures reflecting the trading of securities are 60% higher than those registered in the PFTS.

During the week of June 29-July 3 Dniproenergo sold at a volume of 3,404,297.00 UAH (33,856 shares), Zakhidenergo - 134,200.00 UAH (8,000), Kyivenergo - 302,430.80 UAH (250,409), Dniproblenergo - 131,929.00 UAH (5,614).

Please see attached the charts reflecting the data on performance of energy sector shares on PFTS as Annex 3 to this Memorandum. The source of the end-of-week data was Eastern Economist.

4 CONCLUSIONS

Although facing the same problems as all other subjects of the Ukrainian stock market, the energy sector retains its position as the most liquid stock today. The commercial tenders announced previously continue and before the end of July there shall be announcement of other winner companies. Among the currently announced tenders, the most interesting for potential bidders seem to be Lvivoblenergo and Odessaoblenergo tenders. As the evidence of the on-going process of tenders, I must mention the prolongation of Mykolaivoblenergo tender. Announced on June 17th as a 60-day commercial tender, it has been extended to 90 days according to the official source of the SPF - Vidomosty Privatizatsiy # 14 as of July 8th, 1998.

The SPF will most probably cease to offer energy sector shares for sale through the system of stock exchanges at least until the beginning of autumn. But this will not affect the process of commercial tenders. Energobusiness as of July 8th has mentioned that the Cabinet of Ministers of Ukraine (CoM) has finally approved new versions of share allocation plans (SAPs) of Oblenergos, in which the state formerly intended to hold 51% share. Taking into the account a standard schedule of documentary flows between the CoM and the SPF, these plans will be officially transferred to the SPF in a week or two. In this case, we might hear about the new commercial tenders for shares of the energy distribution companies in the near future.

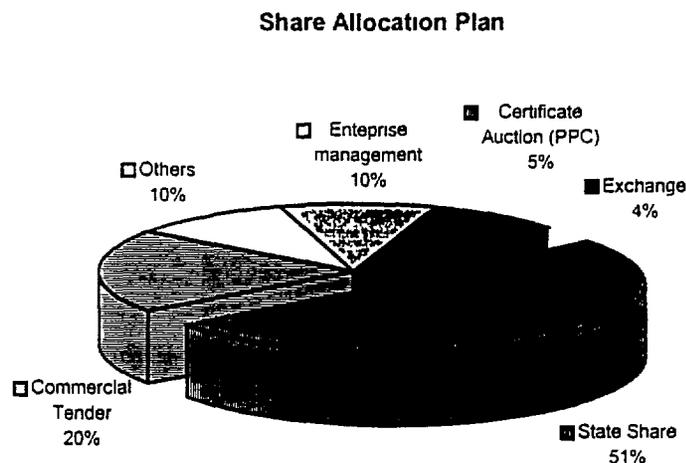
Considering the mentioned above, I would like to mention the visit of Hagler Bailly consultants to Khmelnytskyoblenergo and Vinnitsaoblenergo last week. Both these companies belong to the group of the companies, which had 51% share subject to remain in the state property. Managers of these companies had mentioned that their proposals on revisions to the SAPs were submitted to the Minenergo and SPF in February-March 1998. They were not very enthusiastic about the prospects of privatization, but understood the importance of this process for the budgetary policy of the state.

The Head of Khmelnytskyoblenergo securities and corporatization Dept. Mr. Volynik had mentioned, that according to his information, the company, which won

Ternopiloblenergo tender, is some foreign entity (and not the Ukrainian Prodexport)
He has also said that that company had not started to fulfill its investment obligations

As for Khmelnitskyoblenergo, Mr Volyanik has mentioned that financial intermediaries, which were eager to buy its shares from the employees in late 1997 today seem to be not very interested to do so But at the same time, preparing to the first general meeting of shareholders, scheduled for August 27th, his department receives telephone calls from legal entities willing to register themselves as shareholders of the company

Privatization of Khmelnitskyoblenergo was carried out according to the Share Allocation Plan approved by the SPF Order # 1060 as of January 1, 1997 with changes introduced by the SPF Order # 486 as of March 13, 1997 The chart below illustrates the planned structure of company s stock distribution

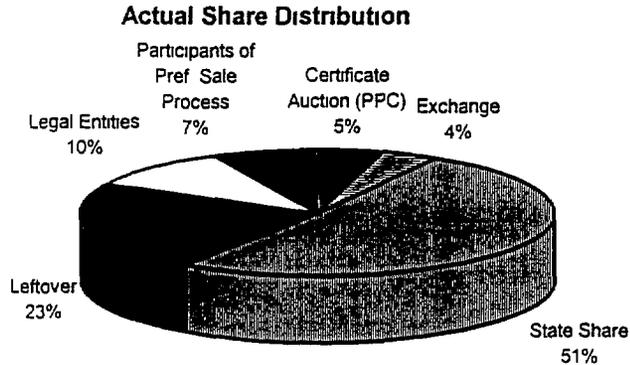


The preferential sale of shares had to consist of 5% to be sold to enterprise management for cash 5% - to enterprise management for compensation certificates (CCs) and 10% - to persons entitled to participate in this process

The state should retain ownership of 51% plus 1 share 20% of stock was planned for sale on commercial tender terms and the leftover - through public sale (certificate auctions and stock exchanges)

According to the Head of Securities and Corporatization Dept of Khmelnitskyoblenergo Mr Volyanik although appr 4 500 enterprise employees had participated in the preferential share sale only 1 900 keep their shares at the present time 25 legal entities are in the list of Oblenergo shareholders according to the registrar's information The process of share buy-out from employees is going on even today although investment funds are not very active and do not offer high prices for shares of employees Besides the enterprise employees, the list of persons entitled to participate in the preferential sale included appr 800 employees of the Nuclear Power Plant and 400 representatives of Minenergo institutions, not subject to privatization

In the result of preferential sale the Oblenergo had allocated 17% of its stock According to the estimates of Mr Volyanik the preferential sale participants currently possess nearly 7% of shares The next chart reflects the actual ownership structure of the company



The example of Khmel'nitskyoblenergo may be applicable to the majority of energy distribution companies in the meaning, that the enterprise managers, employees and other persons entitled to participate in the preferential share sale in their majority have already sold their shares to legal entities If this is true, the company which wins a commercial tender, might be actually owning approximately 50% of an Oblenergo and not 35-40% offered for a tender

Attachments to this Memorandum contain the following information

- 1 Annex 1 reflects the latest changes in privatization status of energy generation and distribution companies The shading was applied to the on-going commercial tenders Prikarpattyablenergo Chernigivoblenergo and Luganskoblenergo are in italics to segregate these companies commercial tenders for which were successful The companies are distributed in two groups according to the state share in their equity capital as specified in their share allocation plans
- 2 Annex 2 contains three tables with information on privatization of three specific groups of companies Privatization of generation companies is currently suspended The second table includes eleven distribution companies The tenders for shares of the first five companies were announced successful (marked with shading) Results of tenders for other six companies will be announced in the near future (except for Mykolaivoblenergo, postponed until September) The last table includes the companies, which have 51% of shares owned by the state Tenders for shares of these companies attracted no interest of potential buyers in 1997 Kyivoblenergo and Kharkivoblenergo were excluded from the table with tender results after their official cancellation caused by the lack of bids
- 3 Annex 3 consists of four pages with charts reflecting the trading of energy sector shares through the PFTS in 1997 - 1998

Type	Company	Tender %	Actual Sale Depth %	Auction for Cash (June 10 July 10)	Expected Sale Depth %	State Share %
GENERATION	Dniproenergo		17 53		17 53	51
	Donbasenergo	24	9 44		33 44	51
	Tsentrenergo		17 64		17 64	51
	Zakhidenergo		16 21		16 21	51
DISTRIBUTION	Prikarpattyaoblenergo	35	33 75		75 00	25
	Chernigivoblenergo	35	31 37		74 90	25
	Luganskoblenergo	35	32 30		74 83	25
	Sumyoblenergo	36	36 98		74 83	25
	Poltavaoblenergo	36	34 93		74 73	25
	Lvivoblenergo	35	35 88		74 69	25
	Odesaoblenergo	35	32 56		74 21	25
	Mykolaivoblenergo	40	26 88		72 40	25
	Chernivtsyoblenergo	36	28 24		70 80	25
	Kharkivoblenergo		23 46		32 36	25
	Kyivenergo		37 27		45 00	25
	Khersonoblenergo		33 01		40 00	25
	Krimenergo		28 14		37 88	25
	Donetskoblenergo		23 36		30 40	25
	Kirovogradoblenergo	20	42 33	5 00	47 33	51
	Ternopiloblenergo	20	49 00		49 00	51
	Kyivoblenergo		23 97		23 97	51
	Cherkassyoblenergo		22 86		22 86	51
	Dniprooblenergo		18 51		18 51	51
	Khmelnitskoblenergo		25 72		25 72	51
	Sevastopolmiskenergo		16 77	5 10	21 87	51
	Vinnitsaenergo		21 46		21 46	51
	Volynoblenergo		25 98		25 98	51
	Zakarpattyaoblenergo		20 86		20 86	51
	Zaporizhiaoblenergo		17 12		17 12	51
	Zhytomiroblenergo		26 68		26 68	51
	Rivneoblenergo		11 22		11 22	55

Generating Companies

Enterprise Name	Chartered Capital	Nominal Share Value	Sale Depth	Auctioner	Open Tender	Packet for Tender	State Share
TSENTERENERGO	92 351 777 00	0 25	17 64		suspended	24	51
DNIPROENERGO	98 099 950 00	25 00	17 53		suspended	24	51
ZAKHIDENERGO	127 905 410 00	10 00	16 21		suspended	24	51
DONBASENERGO	236 443 010 00	10 00	9 44		suspended	24	51

Commercial Tenders

Enterprise Name	Chartered Capital	Nominal Share Value	Sale Depth	Tender (starting date)	Tender (ending date)	Packet for Tender	Packet Ask Price	Short Term Investment Obligations	Middle-Term Investment Obligations	Total Investment Requirements	State Share
1	2	3	4	5	6	7	8	9	10	11=9+10	12
KIROVOGRADOBLENERGO	29 844 000 00	10 00	42 33	01 09 97	31 12 97	20	7 587 700 00	5 000 000 00	17 000 000 00	22 000 000 00	51
TERNOPILOBLENERGO	15 272 040 00	10 00	49 00	01 10 97	31 12 97	20	5 030 000 00	4 402 000 00	3 054 000 00	7 456 000 00	51
SUMYOBLENERGO	44 281 374 00	1 00	36 98	28 04 98	28 05 98	36	5 941 295 00	21 000 000 00	28 000 000 00	49 000 000 00	25
CHERNIGIVOBLENERGO	29 829 506 00	1 00	31 37	28 04 98	28 05 98	35	14 000 000 00	10 000 000 00	17 760 000 00	27 760 000 00	25
PRIKARPATYA OBLENERGO	25 908 875 00	12 50	33 75	06 05 98	05 06 98	35	9 397 000 00	5 000 000 00	13 250 000 00	18 250 000 00	25
ODESA OBLENERGO	52 123 890 00	10 00	32 56	12 05 98	26 06 98	35	18 254 000 00	10 000 000 00	50 200 000 00	60 200 000 00	25
LUGANSKOBLENERGO	52 030 730 00	10 00	32 30	27 05 98	26 06 98	35	25 260 000 00	12 500 000 00	38 300 000 00	50 800 000 00	25
LVIV OBLENERGO	48 493 080 00	0 25	35 88	27 05 98	26 06 98	35	22 263 000 00	20 000 000 00	33 000 000 00	53 000 000 00	25
POLTAVA OBLENERGO	55 240 000 00	2 50	34 93	27 05 98	26 06 98	36	19 866 400 00	17 200 000 00	42 400 000 00	59 600 000 00	25
CHERNIVTSY OBLENERGO	14 195 170 00	10 00	28 24	17 06 98	17 07 98	36	5 110 000 00	3 060 000 00	7 140 000 00	10 200 000 00	
MYKOLAIV OBLENERGO	39 660 000 00	2 00	26 88	17 06 98	15 09 98	40	17 162 000 00	8 200 000 00	18 700 000 00	26 900 000 00	25
							TOTALS	149 871 395 00	116 362 000 00	266 804 000 00	385 166 000 00

Energy Distributors with 51% State Share (revision of SAPs pending)

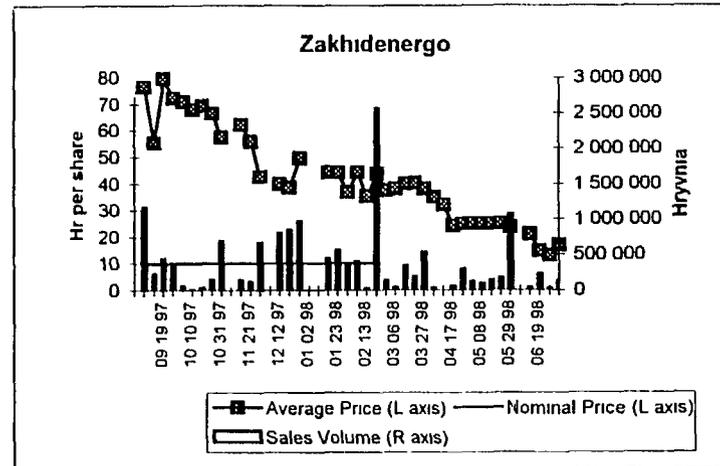
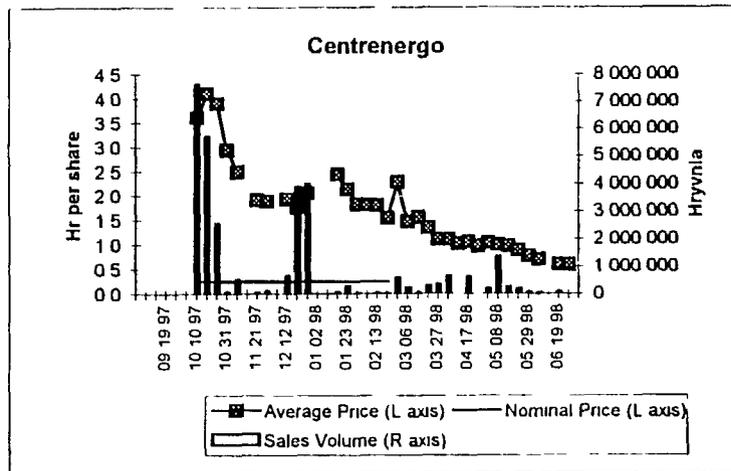
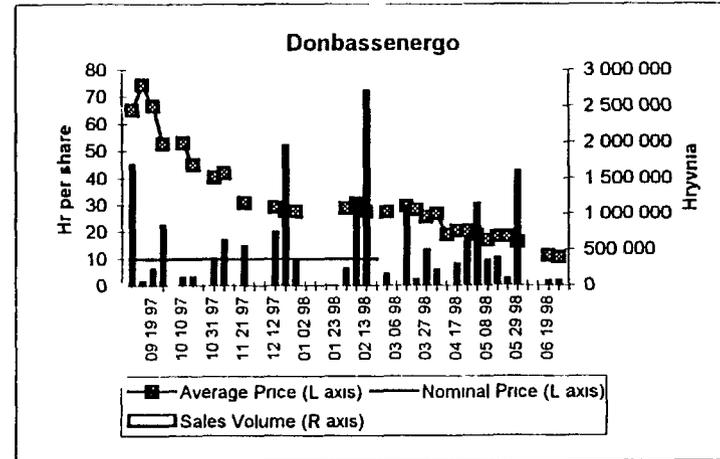
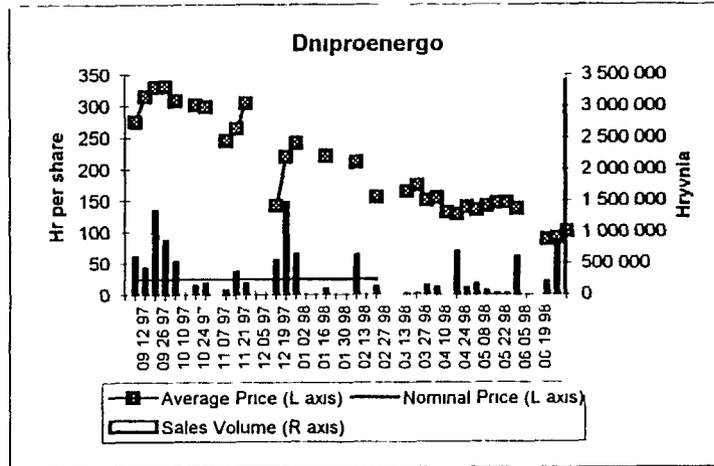
Enterprise Name	Chartered Capital	Nominal Share Value	Sale Depth	Packet for Tender (approved SAP)	State Share
ZHITOMYROBLENERGO	20 389 165 25	0 25	26 68	12	51
VOLYN OBLENERGO	23 863 800 00	0 25	25 98	20	51
KHMELNITSKOBLENERGO	33 637 840 00	10 00	25 72	20	51
CHERKASY OBLENERGO	37 098 333 00	0 25	22 86	30	51
VINNITSA OBLENERGO	30 973 660 00	10 00	21 46	0	51
ZAKARPATYA OBLENERGO	31 150 810 00	0 25	20 86	20	51
DNIPRO OBLENERGO	59 916 170 00	10 00	18 51	27	51
ZAPORIZHYA OBLENERGO	44 840 000 00	10 00	17 12	27	51
SEVASTOPOL MISKENERGO	6 722 400 00	2 50	16 77	20	51
RIVNE OBLENERGO	20 827 420 00	10 00	11 22	26	55

according to the official information of the SPF

Amount needed for settlement of accounts payable in arrears plus replenishment of current assets (60-days term)

Investment obligations for 3-5 years period plus financing of social assets plus environmental measures

Genco Share Prices, Volumes Weeks ending September 5, 1997 thru July 3, 1998



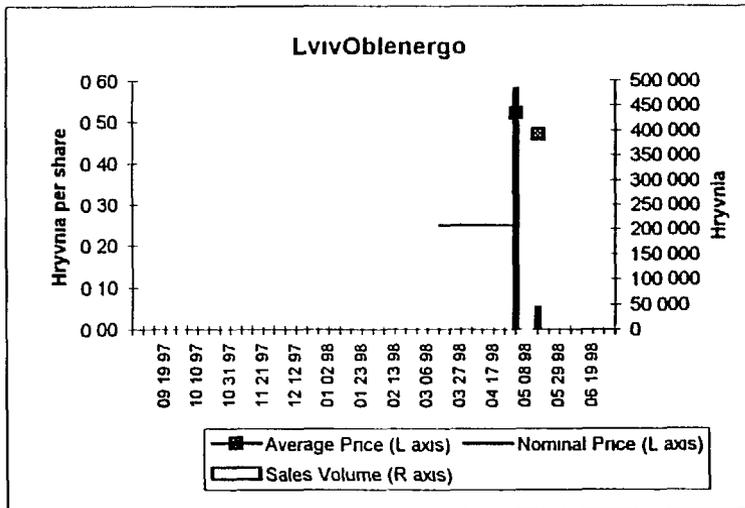
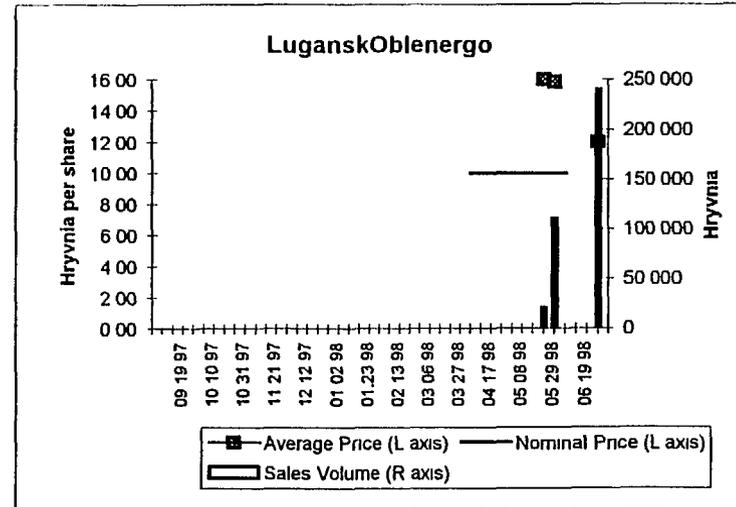
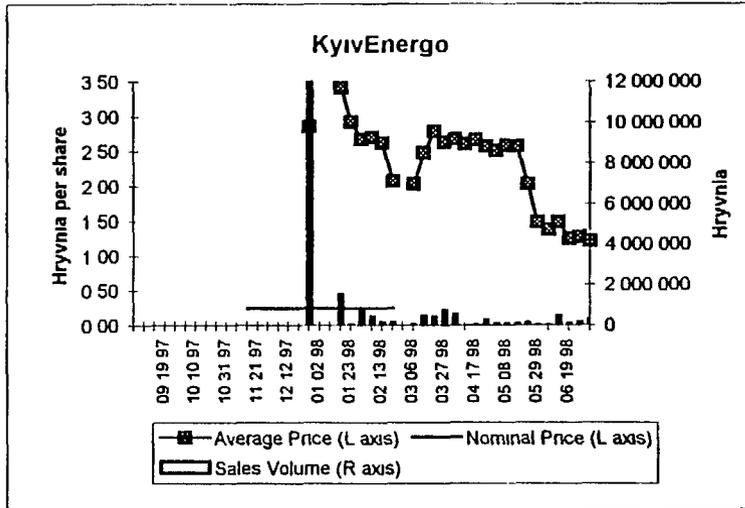
Source Eastern Economist & Investment Gazette

09

Oblenergo Share Prices, Volumes

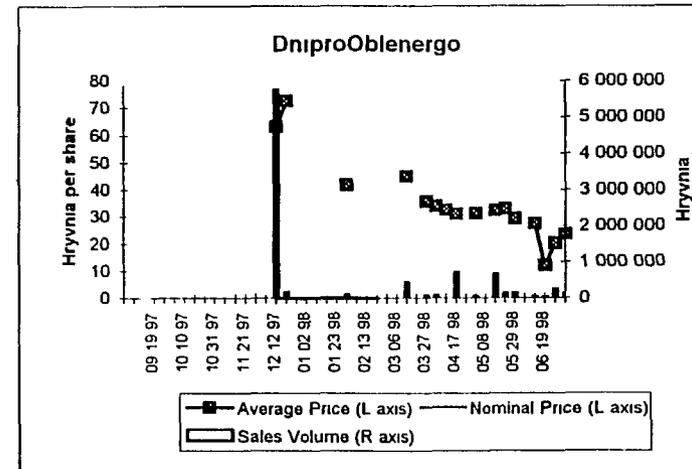
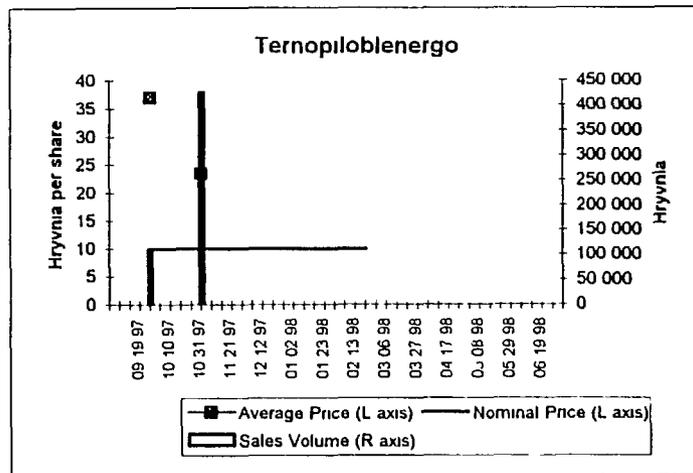
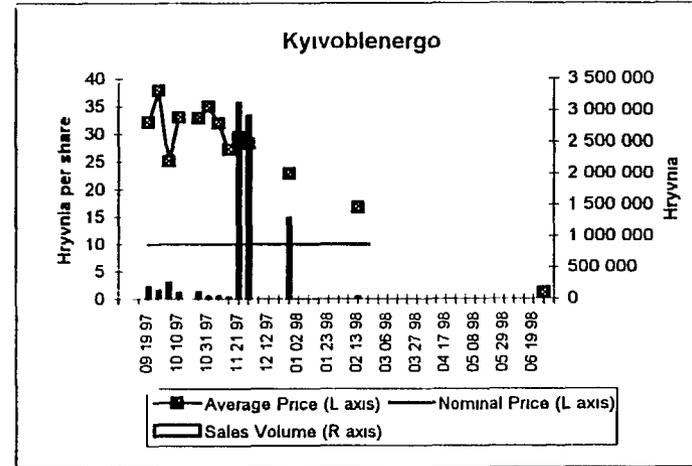
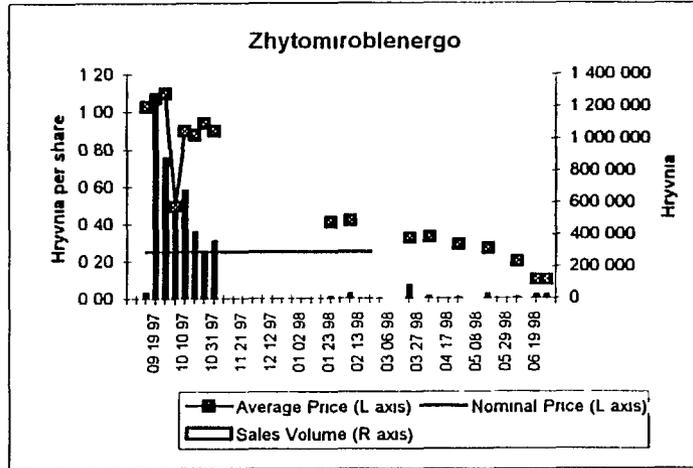
Annex 3 (b)

Weeks ending September 5, 1997 thru July 3, 1998



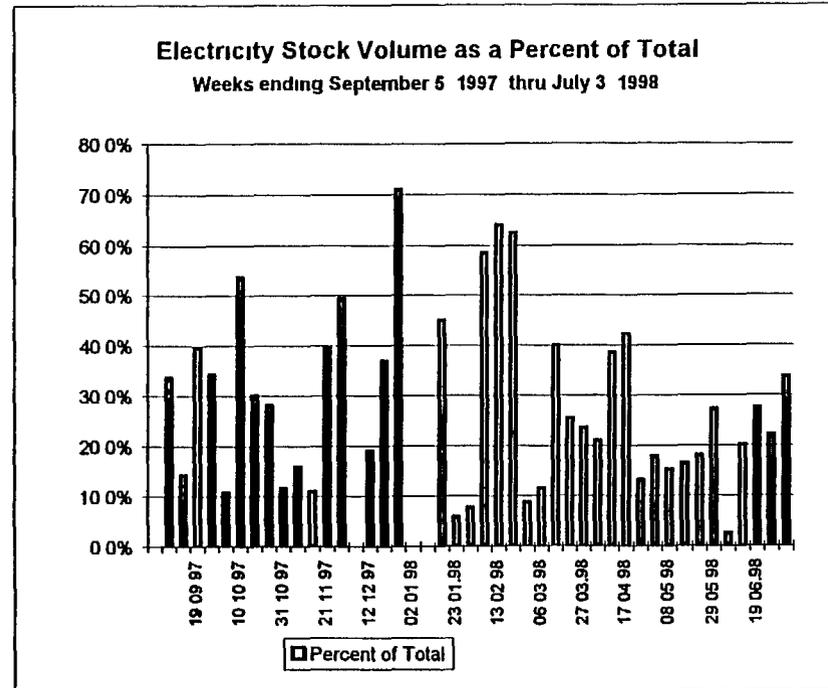
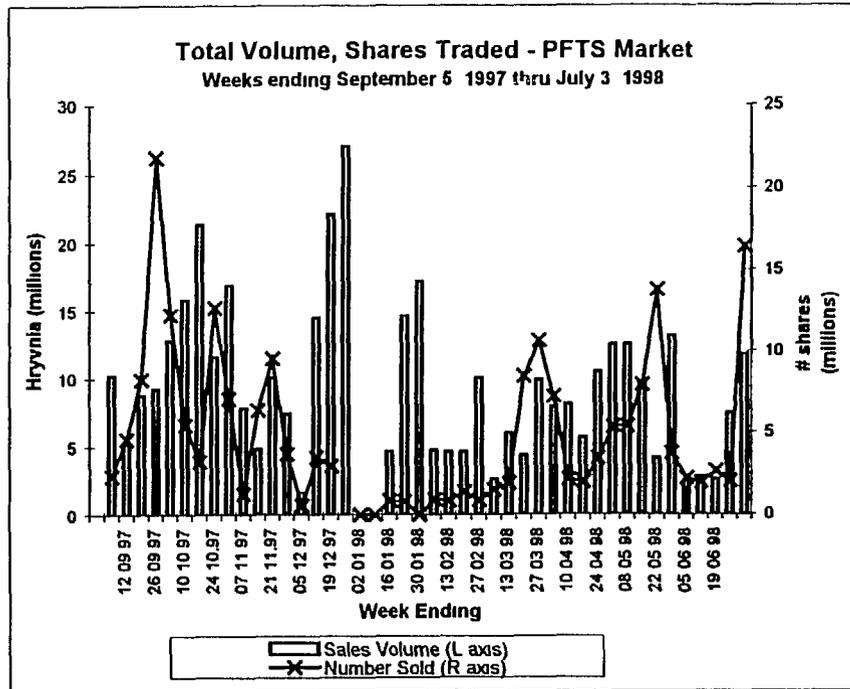
Source Eastern Economist Investment Gazette

Oblenergo Share Prices, Volumes Weeks ending September 5, 1997 thru July 3 1998



Source Eastern Economist & Investment Gazette

27



REPORT # 6

WEEK OF JULY 13TH - JULY 24TH, 1998

MEMORANDUM

TO David Wolcott
CC Svetlana Golikova Tom Smith Jim Stanfield Eric Haskins John Kyle
FROM Andrei Goncharenko
DATE July 28, 1998
SUBJECT Privatization & Stock Market Update Report
Period July 13th - July 24th, 1998

INTRODUCTION

The second half of July brought new evidences that the Government of Ukraine hopes to get as much revenues to the state budget from privatization as possible. The Cabinet of Ministers and State Property Fund approved new regulations on open tenders for sale of shares of strategic enterprises (applicable to generation companies) and new share allocation plans (SAPs) for all companies which previously had 51% to remain owned by the state reducing the state share and allowing to increase the size of share packets to be offered for commercial tenders.

The Cabinet of Ministers of Ukraine had approved the following Resolutions on July 3rd ## 515 516 519 520 521 523 524 525 and 526-p changing the state share to 25%+1 share in Turnopiloblenergo Kirovogradoblenergo Zhitomiroblenergo Cherkasyoblenergo Zakarpattiaoblenergo Khmel'nitskoblenergo Kyivoblenergo Volynoblenergo and Sevastopol'miskenergo respectively and Resolutions ## 555-p 557 and 563-p as of July 10th 1998 changing the state share to 25%+1 share in Vinnitsaoblenergo Rivneoblenergo Zaporizhiaoblenergo.

Now the SPF is responsible to change the share allocation plans of all these companies and sell their shares through commercial tenders. On July 13th the SPF issued the Order # 1370 on changes to Genco SAPs as follows:

- Tsentrenergo – 24% for open tender from 01 08 98 to 01 11 98 (formerly 01 01 98-31 05 98)
- Dniproenergo – 24% for non-commercial tender ending 01 10 98 (formerly 01 01 98 – 30 06 98)
- Donbasenergo – 24% for open tender ending 31 12 98
- Zakhidenergo – 24% for open tender ending 01 02 99

It should be mentioned that the management of Dniproenergo had successfully insisted on selling the shares of the company on non-commercial tender instead of the open one with foreign auctioneers (advisors).

The Presidential Decree # 736 as of July 4th On Regulation of Certain Issues Related to the Process of Management of Objects in State Property was published only in the second half of July. This Decree will completely change the privatization process. It could be vetoed or changed by Verkhovna Rada (VR) but the deputies paid no attention to this decree and consequently it

will become a law on August 3rd. To emphasize the meaning and importance of this Decree I would like to mention only one fact

The last session of VR before vacations was mostly dedicated to discussing and approval of the Law On Prevention of Mishandling of State Property in the Course of Creation of NaftoGas Ukrainy Company. The VR had banned to transfer state shares in privatized enterprises, property of state enterprises, pipelines, etc. to the statutory fund and to management of NaftoGas Ukrainy, thus making this potential monopolist on the fuel market virtually consisting of the headquarters only¹. But as soon as the Decree # 736 will be enforced as a law, the Cabinet of Ministers will need no approval of VR to transfer all the mentioned property and more to disposition of the same NaftoGas Ukrainy.

Fulfilling the orders of the Cabinet of Ministers of Ukraine, the SPF had requested from all joint-stock companies having over 10% of their equity in the state ownership to call general shareholder meetings within a three-week term² and add to their statutory documents a provision stipulating obligatory allocation of at least 25% of the net profit for payment of dividends. In this way the state is trying to secure an additional source of cash inflows into the state budget.

1 TENDERS

Three new commercial tenders were successful last week, though no formal announcement has been published. According to the informal sources, the official orders appointing winners of tenders for Lvivoblenergo (Privat-Bank) and Poltavaoblenergo (not disclosed) have been already signed, and the order appointing Odessaoblenergo winner is pending³. The result of Luganskoblenergo tender is still not clear, although this company is the one of the most attractive in the power distribution sector of Ukraine.

After postponing the ending date of the Mykolivoblenergo tender for 30 days (from 60 to 90 days), the SPF had also changed the term for Chernivtsyoblenergo tender from 30 to 90 days too. It looks like the trend, which will be applied in the future to all commercial tenders for shares of energy distribution companies.

2 PFTS MARKET

The weeks of July 6 – 10 and July 13 – 17 were very different. The over-the-counter market stabilized after many weeks of decline in the week of June 13 – 17. Trading of corporate shares increased by 803.64% compared to the week of July 6 – 10. The only possible explanation of the stabilization and certain growth of the market can be allocation of the IMF loan to Russia. This allows making an assumption that if Ukraine will obtain its EFF credit from the International Monetary Fund, the stock market may continue growing. Otherwise, the market will experience another fall in the near future. It is necessary to mention that VR had declined the Presidential

¹ It should be mentioned that to provide the premises for office of NaftoGas Ukrainy, CoM has ordered to move out the Ministry for Social Protection within a seven-day term.

² Investment Gazette as of July 21st.

³ It is being said that behind a company, which will become the winner of Odesaoblenergo tender, stands a multinational consortium of foreign investors including EDF, ABB, and US, Latin American, and European investors, whose names are not disclosed.

Decree exempting purchase-sale transactions with internal debt bonds (OVGZ) from taxation
This might raise the attractiveness of the corporate shares for international investors

Eastern Economist (July 20) The KAC-20 (S), KAC-20 (W), Wood15 ProU-50 and PFTS indices grew by 6.4%, 6.3%, 7.4%, 5.5% and 2.51% to 785, 756, 817, 64.6 and 36.25 respectively. KAC-Energy index grew 7.33% to 293 due to the growth of prices for shares of three generation companies: Dniproenergo 56.06% (bid) and 2.36% (ask), Tsentrenergo 18.2% (bid) and 9.3% (ask) and Zakhidenergo 4.04% (bid) and -1.04% ask. But, considering the announced intention of the SPF to offer shares of generation companies on stock exchanges in August, traders will probably try to drive down the prices for these shares to buy them cheaper from the SPF.

Investment Gazette (July 20) In the week of July 13 – 17 trading with the shares of energy companies made 58.6% of the total volume of trade in PFTS. Trading of Dniproenergo shares reached 28.75% of the total turnover in PFTS. The stock market finally has shown some hints of life and may be on its way to improvement.

During the week of July 13 – 17 Dniproenergo shares sold at a volume of 1 787 181 97 UAH (18 000 shares). Tsentrenergo – 584 429 76 UAH (747 004). Donbasenergo – 220 400 UAH (23 000). Zakhidenergo - 163 250 41 UAH (11 200). Kyivenergo - 286 600 00 UAH (213 000). Luganskoblenergo – 200 000 UAH (20 000). Kharkivoblenergo 195 000 00 UAH (20 000). Donetskoblenergo – 190 000 UAH (120 000) and Dniprobenergo - 15 377 25 UAH (609).

Please see attached the charts reflecting the data on performance of energy sector shares on PFTS as Annex 3 to this Memorandum. The source of the end-of-week data was Eastern Economist.

3 CONCLUSIONS

Recent developments in the sphere of energy sector privatization can cause multiple disputes and disagreements between the executive and legislative powers in the near future. The functions of the SPF will be dubbed by the Agency for Management of State Corporate Rights (entity established by the President's Decree as of July 7th). The President will veto decisions of Verkhovna Rada contradicting to his decrees (like the one establishing Naftogas Ukraine) and viceversa. And the Cabinet of Ministers will be much more active regulating the privatization process and granting the rights to manage state shares in privatized companies to those whom it considers to be worthy.

The results of shareholder meetings initiated by the CoM and SPF might be very discouraging. The persons (entities) controlling the newly privatized companies may either refuse to oblige themselves to pay dividends in the amount of 25% of the net profit or make a company 'unprofitable' or simply fail to participate in the meeting. But in those companies which have over 60% of shares owned by the state the general meeting of shareholders will be conducted even if there will be no other person present except for the SPF representative and these companies will have a corresponding requirement on dividend payment in their charter documents. More than a half of power sector companies subject to privatization definitely belong to the last category.

On July 21 I had an informal meeting with Dniproenergo Head of Corporatization Department Mr Bochkarev. He had explained his vision of the prospects of privatization of power distribution and generation sector, and told specific facts related to his company. Mr Bochkarev believes that the only successful tender for generation companies will be the non-commercial tender for Dniproenergo. According to his point of view the Dniproenergo managers have better and more realistic approach to the idea of investment obligations than anyone else. Dniproenergo insists that the investment obligations must mean investment into construction of new facilities instead of repairing the old ones. The company has 10-year plan of construction of three completely new blocks. Later, the currently working facilities would be replaced with new ones. Mr Bochkarev also said that the company management is eager to enter into the US OTC market with ADRs of the 1st level although the benefits of this action will go to the state budget. But Dniproenergo will benefit from this transaction in two-three years when it plans to make a second issue of shares and sell them through ADRs of the 3rd level on the US market. Both he and the company's director Mr Bondarenko confirmed that Dniproenergo is continuing to sell shares on preferential terms to employees of Energoatom (state entity managing nuclear power stations) and has to sell to them 2.5% more shares. (To compare promoting the willingness to increase budget revenues from privatization the SPF plans to sell through stock exchange system 0.63% of Dniproenergo)

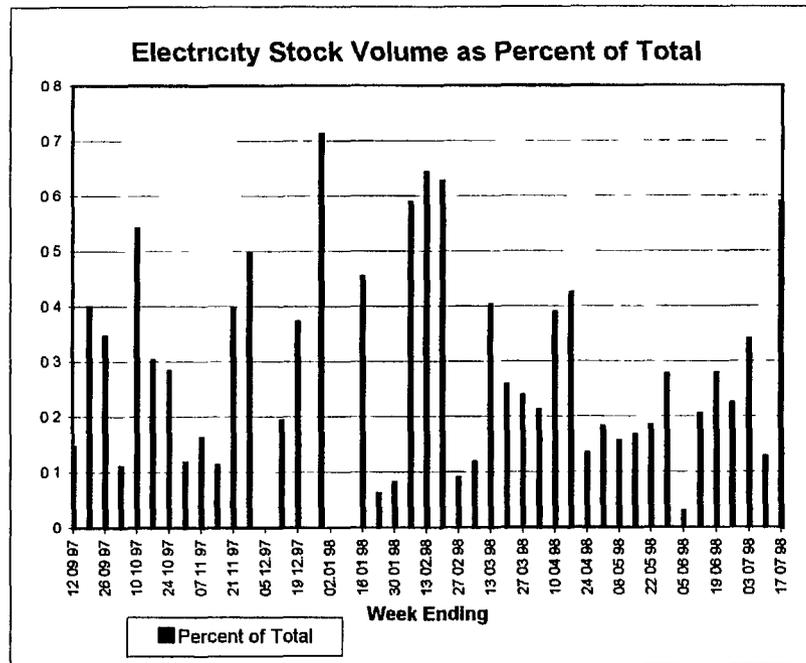
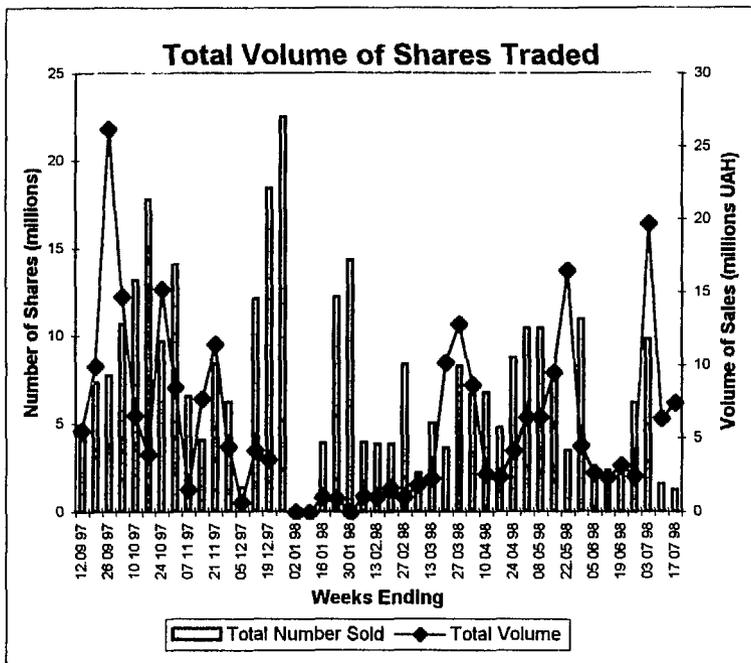
Attachments to this Memorandum contain the following information:

- 1 Annex 1 reflects the latest changes in privatization status of energy generation and distribution companies. It is possible to make an assumption that in six top distribution companies investor (investors) standing behind the winner of tender already has a majority share. The next group of three companies includes Luganskoblenergo because the tender results for which are still unknown and Mykolaiv- and Chernivtsyoblenergo with postponed ending dates of tenders. The last group includes all other companies share allocation plans of which will be changed by the SPF in the near future. The fourth column contains the figures reflecting the size of share packets which could be potentially offered for new tenders.
- 2 Annex 2 contains the list of official winners of commercial tenders for shares of energy distribution companies. It should be mentioned that there is no official (public) information on the sources of financing and real buyers of the shares. There is also no information which confirms fulfillment of investment obligations by any of the winners. In the table the short-term investment obligations were added to the initial (ask) price for share packets. Both payments add nothing to the value of the company and represent actually the amount of cash to be paid by an investor for the shares.
- 3 Annex 3 consists of four pages with charts reflecting the trading of energy sector shares through the PFTS in 1997 - 1998. The charts contain information on those companies only which were actually traded during the week of July 13 - 17.

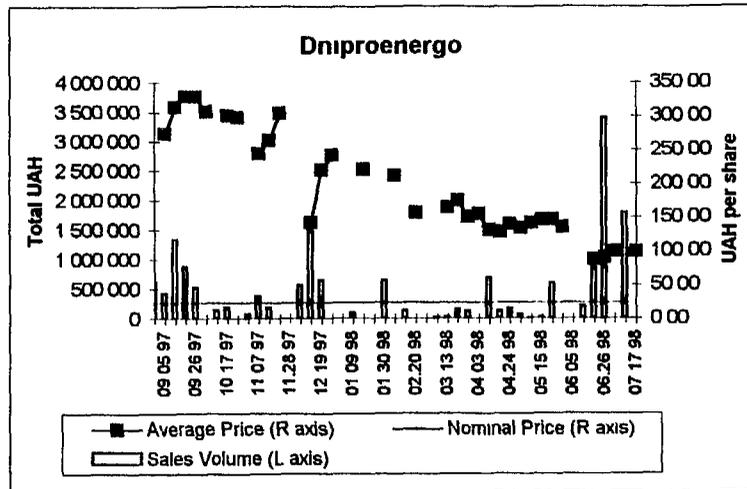
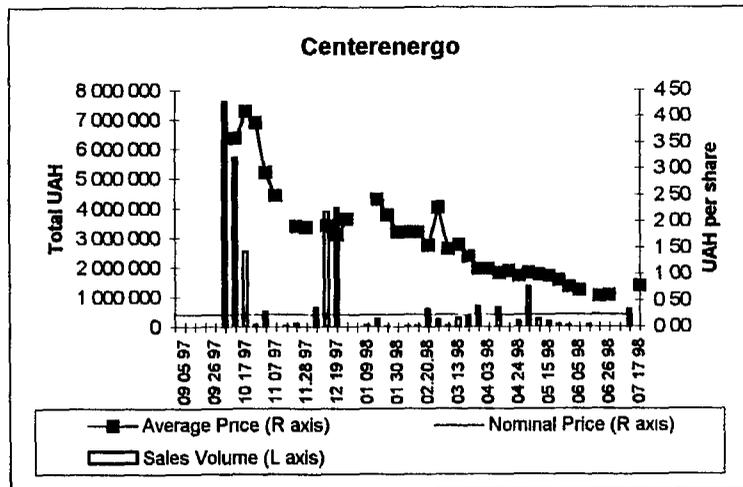
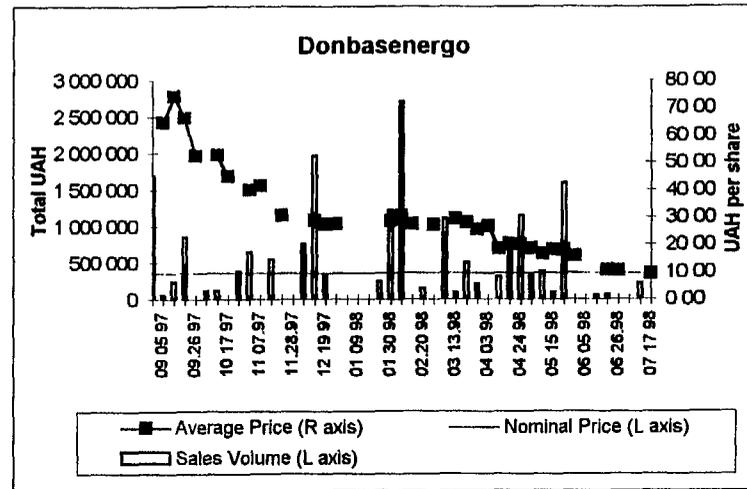
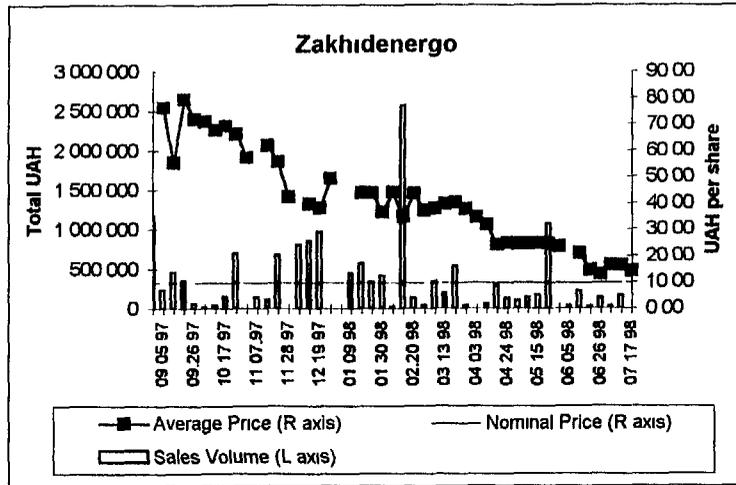
Type	Company	Tender %	Actual Sale Depth, %	Expected Sale Depth %	Available Shares %	State Share %
GENERATION	Dniproenergo	24	17 53			51
	Donbasenergo	24	9 44			51
	Tsentrenergo	24	17 64			51
	Zakhidenergo	24	16 21			51
DISTRIBUTION	Sumyoblenergo	36	72 98		2 02	25
	Poltavaoblenergo	36	70 93		4 07	25
	Lvivoblenergo	35	70 88		4 12	25
	Prikarpattyaoblenergo	35	68 75		6 25	25
	Odesaoblenergo	35	67 56		7 44	25
	Chemigivoblenergo	35	66 37		8 63	25
	Luganskoblenergo	35	32 30	67 30		25
	Chernivtsyoblenergo	36	28 24	64 24		25
	Mykolaivoblenergo	40	26 88	66 88		25
	Rivneoblenergo		11 22		63 78	25
	Sevastopolmiskenergo		16 77		58 23	25
	Zaporizhiaoblenergo		17 12		57 88	25
	Dniprooblenergo		18 51		56 49	25
	Zakarpattyaoblenergo		20 86		54 14	25
	Vinnitsaoblenergo		21 46		53 54	25
	Cherkassyoblenergo		22 86		52 14	25
	Donetskoblenergo		23 36		51 64	25
	Kharkivoblenergo		23 46		51 54	25
	Kyivoblenergo		23 97		51 03	25
	Khmelnitskoblenergo		25 72		49 28	25
	Volynoblenergo		25 98		49 02	25
	Zhytomiroblenergo		26 68		48 32	25
	Krimenergo		28 14		46 86	25
	Khersonoblenergo		33 01		41 99	25
	Kyivenergo		37 27		37 73	25
	Kirovogradoblenergo	20	42 33		32 67	25
Terнопiloblenergo	20	49 00		26 00	25	

List of Winners in Commercial Tenders for Energy Distribution Companies' Shares

Company	Equity Share	Winner of Tender	Ask Price	Short-Term Obligations	Total (UAH)	Total (USD)
Kirovogradoblenergo	20%	Investment Company PROEXPORT	7 587 700 00	5 000 000 00	12 587 700 00	\$ 5 965 734 60
Ternopiloblenergo	20%	First Ukrainian Privatization Fund	5 030 000 00	4 402,000 00	9 432 000 00	\$ 4,470 142 18
Prikarpattiaoblenergo	35%	Ukrainian Securities	9 397,000 00	5 000 000 00	14,397 000 00	\$ 6 823 222 75
Chernigivoblenergo	35%	Autoalliance-Invest	14 000 000 00	10,000 000 00	24 000 000 00	\$ 11,374 407 58
Sumyoblenergo	36%	Investment Company ARSENAL	5 941 295 00	21,000 000 00	26 941 295 00	\$ 12,768 386 26
Poltavaoblenergo	35%	n/a	19 866 400 00	17,200,000 00	37,066,400 00	\$ 17,567,014 22
Lvivoblenergo	35%	Privat Bank	22 263 000 00	20,000,000 00	42 263,000 00	\$ 20,029 857 82
Odesaoblenergo	35%	Consortium Overcon	18 254 000 00	10 000 000 00	28 254 000 00	\$ 13 390 521 33

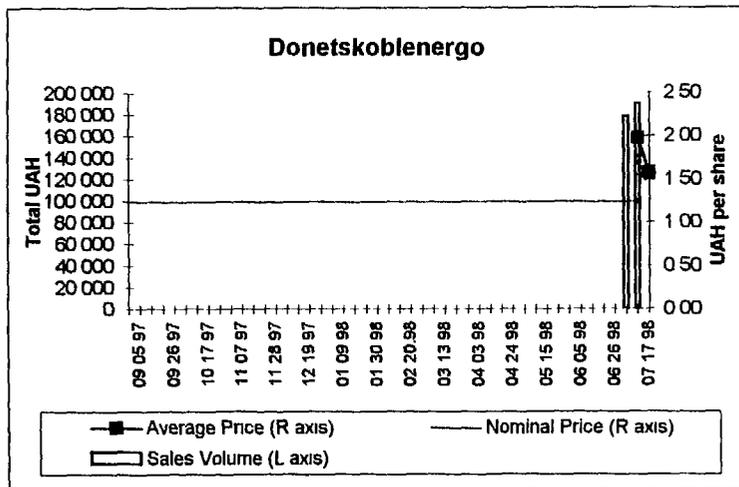
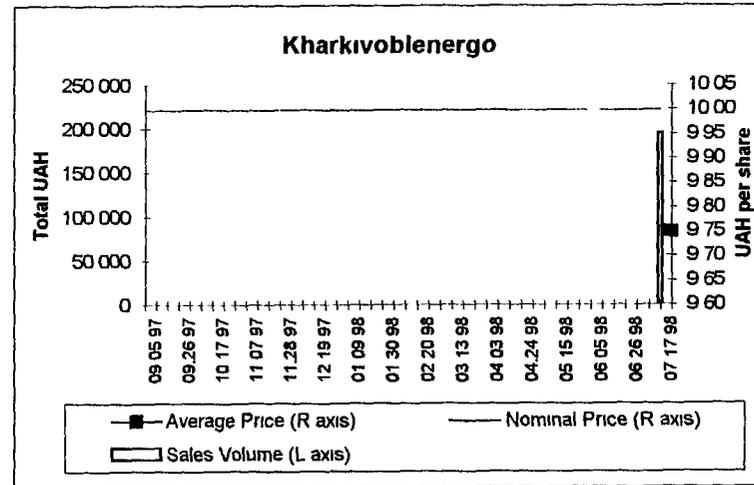
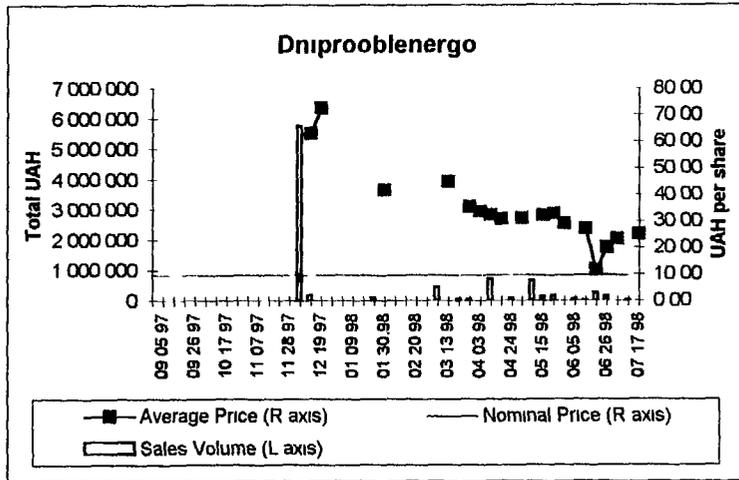


Genco Share Prices, Volumes Weekly Data 09/05/97-07/17/98



Source Eastern Economist

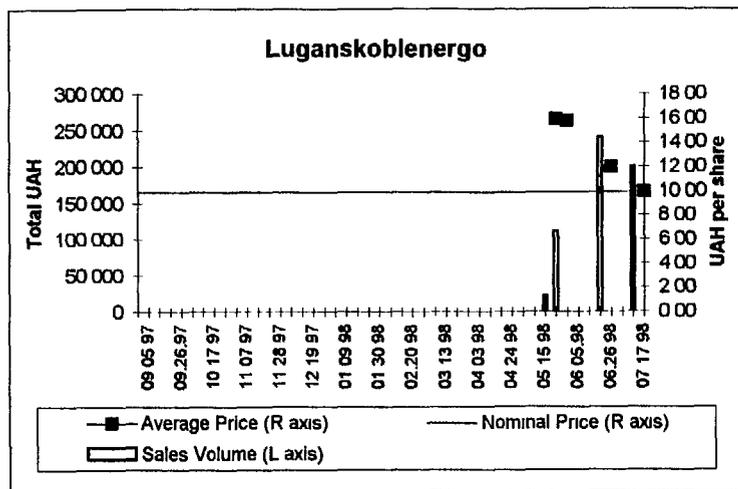
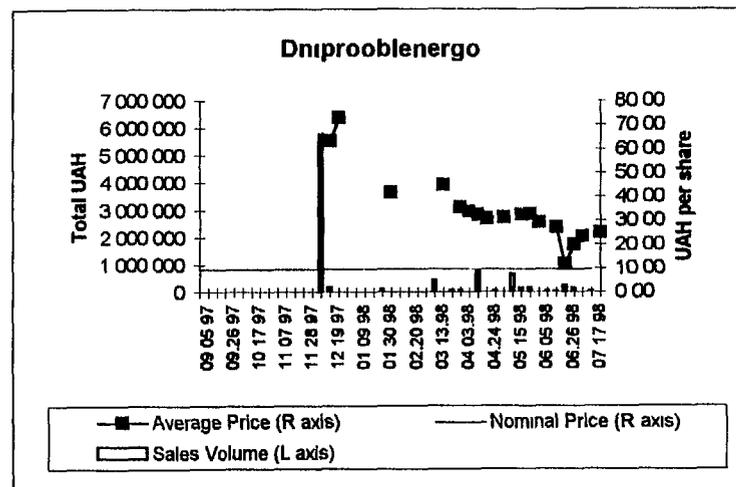
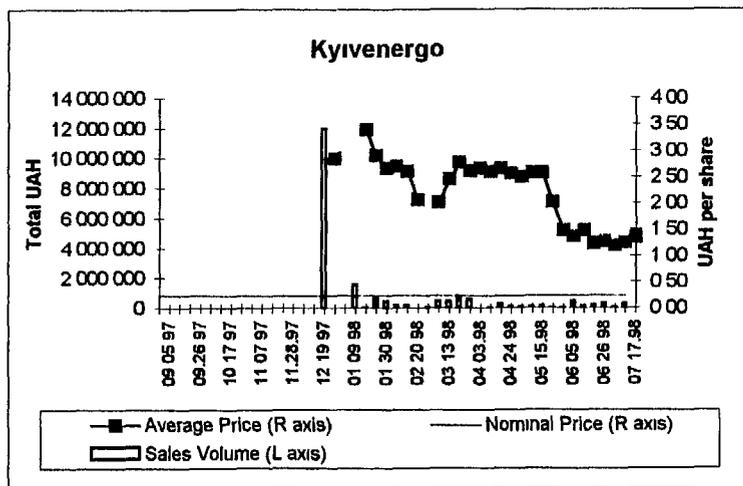
Oblenergo Share Prices, Volumes Weekly Data 09/05/97-07/17/98



Source Eastern Economist

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Oblenergo Share Prices, Volumes Weekly Data 09/05/97-07/17/98



Source Eastern Economist

REPORT #7

WEEK OF JULY 27TH - AUGUST 7TH, 1998

MEMORANDUM

TO David Wolcott
CC Svetlana Golikova, Tom Smith, Jim Stanfield, Eric Haskins, John Kyle
FROM Andrei Goncharenko
DATE August 11 1998
SUBJECT Privatization & Stock Market Update Report
Period July 27th - August 7th, 1998

INTRODUCTION

The end of July – beginning of August brought new evidences of the on-going privatization process in the energy sector. After the revision of conditions regarding the state share to be retained in the power distribution companies (Oblenergos) by the Cabinet of Ministers (CoM), the State Property Fund (SPF) has approved new share allocation plans for 10 Oblenergos and 1 generation company (Donbasenergo) on August 4th, 1998.

In relation to this fact it should be emphasized, that the Ministry of Energy (Minenergo) launched a campaign promoting the non-commercial tenders as the best method of privatization of the energy distribution companies. This method is being strongly supported by the Minenergo Minister Sheberstov himself. At the press conference on Friday, July 31st and later he repeated that Minenergo had drafted a proposal to replace the commercial tenders for sale of Oblenergo shares with non-commercial ones, and submitted this proposal to CoM for approval.

There are also certain changes within the management of the SPF. Mr Bondar has returned to full-time work as the Acting SPF Chairman after a rehabilitation period following his illness and blamed Mr Kryukov (the acting SPF Chairman during the period of Mr Bondar's absence) for unsuccessful implementation of the privatization program during this period. The disputes between Mr Bondar and Mr Kryukov actively published and commented by the sources of mass-media resulted with the announcement of the Prime-Minister Mr Pustovoytenko that the Government of Ukraine (GoU) intends to ask the President of Ukraine to dismiss Vitaliy Kryukov from the position of the SPF First Deputy Chairman, which he occupied before the illness of Mr Bondar.

Having approved new procedures for selection of the authorized auctioneers for open (international) tenders and for conducting of such tenders and getting them registered with the Ministry of Justice, the SPF has published an extract from the share allocation plan of Donbasenergo. After selling 24% via an open tender with an authorized international auctioneer by October 10th, 1998, 10-15% of the shares should be sold on non-commercial tender terms for cash by February 1st 1999 and 51% - retained in the state ownership.

1 TENDERS

After the official approval of Lvivoblenergo and Poltavaoblenergo commercial tenders' results the SPF has published the results of Luganskoblenergo tender appointing the offshore company Verrona Plus as a winner of this tender. This means that currently six energy distribution companies have their majority share (over 60%) in the private property. (See Annex 1)

The Highest Arbitration Court of Ukraine (HAC) has temporarily denied the SPF the right to sign a purchase-sale agreement for 35% of Odesaoblenergo shares with Overcon Consortium which is the official winner of corresponding commercial tender. One of the other bidders for tender the offshore company FS Trading Ltd claimed to the HAC that the SPF decision is illegal. The HAC session is scheduled for August 20th 1998. This is the first time the results of commercial tenders for energy distribution companies were appealed against in court.

The newspaper Business on August 10th 1998 has published an article commenting the situation with Odesaoblenergo tender and general status of energy distribution companies privatization¹. The company FS Trading Ltd accuses the SPF in appointing Overcon Consortium as a winner of the tender although FS Trading offered higher price for share packet. The point of dispute is a provision on required experience in the industry, which the company FS Trading Ltd evidently lacks.

2 PFTS MARKET

The PFTS (over-the-counter) market was growing during the end of July 1998. The growth was caused by the sharp increase of prices in the week of July 20-24. Next week (July 27-31) the prices of stocks have declined but the volumes have grown significantly. The IMF mission recommendation to grant the \$2.2 billion EFF loan to Ukraine has led to increase of the over-the-counter market traders' activity.

Eastern Economist (July 27) (The week of July 20-24) The KAC-20 (S), KAC-20 (W), Wood15 ProU-50 and PFTS indices grew by 6.62%, 10.9%, 6.1%, 17.9% and 13.0% to 837, 838, 867, 76, 16 and 40, 98 respectively. KAC-Energy index grew 8.53% to 318. Bid and ask prices for shares of all generation companies grew. Though the shares of Dniproenergo took the first place among corporate securities for volumes of sale (2.24 mn of 4 mn total volume of corporate securities trading), actual deals were made after 5pm of the previous Friday and appeared in the report on Monday of the following week. According to Dmitry Tarabakin (Wood&Co) there were no longer any companies, wishing to sell Dniproenergo shares. The traders began to get increasingly interested in Zakhidenergo shares, their bid and ask prices increased by 61.2% and 25.7% respectively.

Eastern Economist (August 3) (The week of July 27-31) The KAC-20 (S), KAC-20 (W) and PFTS indices fell by 3.1%, 5.1% and 4.1% to 811, 795 and 39, 29 respectively. The ProU-50 index grew by 1.6% to 77, 37. The trade of corporate securities equaled to 9.64 mn UAH of 14.58 mn total volume of PFTS trading. KAC-Energy index grew 5.03% to 334. The price changes of energy sector shares were the most influential on the major indices. In the first half of the week prices of power generation companies decreased, but in the second one – grew again (following the trend of the previous weeks) and overall industry index was up. Trader interest continued its established trend by preferring first of all Zakhidenergo, Dniproenergo and Tsentrenergo stocks with Donbasenergo bringing up the rear. Two distribution companies were traded this week. Kyivenergo was more popular with bid prices growing by 8.4% and ask prices – by 8.57%. The bid prices for Dniprooblenergo grew by 3.24%, ask prices – fell by 16.67%.

¹ Business # 32 (291) as of 08/10/98 p 29 "Experience Against Cash?" by Savely Garshvin

The week of July 27-31 the PFTS Trade Committee decided to add Tsentrenergo Donbasenergo and Kyivenergo stocks into the first PFTS listing level. The nine companies with this level of listing currently are the following: Dniproenergo, Zakhidenergo, Tsentrenergo, Donbasenergo and Kyivenergo (energy), UkrNafta (oil and gas), Nizhnyodniprovsk and Khartsyzsk Piping Plants (metallurgy) and Azot Cherkasy (chemicals).

During the week of July 20 – 24 Dniproenergo shares sold at a volume of 2 238 355 56 UAH (22 000 shares), Zakhidenergo - 711 507 29 UAH (36,500), Tsentrenergo – 483 805 44 UAH (607,674), Donbasenergo – 66,000 UAH (5,000) and Kyivenergo - 15 868 00 UAH (11,800).

During the week of July 27 – 31 Zakhidenergo shares sold at a volume of 5 263 754 63 UAH (200,000 shares), Dniproenergo - 1,760,148 50 UAH (16 544 shares), Tsentrenergo – 723 800 80 UAH (968,824), Donbasenergo – 99,330 UAH (7,000), Kyivenergo - 19 680 00 UAH (13,000) and Dniproenergo - 8,835 50 UAH (431).

Please see attached the charts reflecting the data on performance of energy sector shares on PFTS as Annex 3 to this Memorandum. The source of the end-of-week data was Eastern Economist.

3 CONCLUSIONS

Recent developments in the sphere of energy sector privatization show that the GoU is very serious in its efforts to comply with conditions of the Financial Recovery Plan (FRP) and requirements of the international lending organizations. The SPF actively supports the commercial tenders as the most transparent method of privatization. The opposition to this method in the form of non-commercial tenders is being pushed forward by Minenergo. The Ministry of Energy believes that non-commercial tenders are more attractive to international strategic investors and will bring more benefits to the industry.

There is no doubt that commercial tenders are more transparent than the non-commercial ones. Evaluation criteria of the non-commercial tender bids are more subjective and depend on the individual members of the tender commission. It should be stressed, that majority of the previous non-commercial tenders resulted with the lawsuits. It can be no double understanding regarding the higher price bid for a share packet in a commercial tender. But a loser of a non-commercial tender could always protest the criteria used for evaluation of the attractiveness of an investment plan².

Though Minenergo insists on replacement of commercial tenders for Oblenergos with the non-commercial ones, the newly approved share allocation plans (SAPs) of 10 energy distribution companies envisage their sale on commercial tender terms exclusively. These SAPs have been approved four days later than the Minister of Energy announced the willingness of the ministry to support non-commercial tenders after the CoM session. This means that only the explicit order

² The major difference between a commercial and a non-commercial tender is that while in the first case the winner is a bidder who offered a highest price to be paid for a share packet with fixed investment obligations, in the second case a bidder who offered an investment plan considered to be most attractive wins the tender and pays a fixed price for shares of a company.

(request) of the Prime Minister will lead to the introduction of changes supported by Minenergo into the SAPs of energy distribution companies

It should be mentioned that the tenders for Oblenergos held in 1997 included three non-commercial ones (Dniproblenergo Zaporizhiaoblenergo and Rivneoblenergo) None of these tenders was successful On the other hand two of the latest commercial tenders (Lvivoblenergo and Poltavaoblenergo) in which the winners paid twice more than the initial prices asked by the SPF prove that financial investors (through banks and offshore companies) are increasingly interested in purchasing the power distribution companies) (See Annex 2)

Considering the aforementioned, it may turn out that an example with Odesaoblenergo tender (mentioned in the section "Tenders") will become a precedent for the future tenders The provision on necessity of the appropriate experience makes conditions of commercial tenders much more flexible from the point of view of bids' evaluation If the tender commission will take into account also the names of the companies participating in a financial consortium or standing behind an offshore the results of commercial tenders will no longer be dependent from the price bid for shares This approach will satisfy Minenergo and the SPF will have to agree for this compromise on request of the CoM

Today Minister Sheberstov seems to be actively supporting Overcon's efforts to obtain Odesaoblenergo shares because he considers the Consortium to be a real strategic investor who is very important for the power sector

Overcon Consortium is an executive body of the Ukrainian Energy Partnership, the latter founded by international investors interested in purchasing multiple power distribution companies in Ukraine The participants include Tomen Power Corporation and Tomen Power Fund and Mitsui Trust and banking from Japan, ABB from Sweden, CMS Energy and Interamerican Development Fund from the USA INA from Italy, FondElec Group from Columbia and European Capital Management from Chech Republic³ (the consortium may be joined by EdF (France)

Attachments to this Memorandum contain the following information

- 1 Annex 1 reflects the latest changes in privatization status of energy generation and distribution companies After resolution of the Odesaoblenergo tender issue (HAC session of August 20th) 7 energy distribution companies will be more than 60% privately owned With Mykolaiv- and Chernivtsyoblenergo by the end of September the GoU will have 9 privatized Oblenergos To comply with requirements of the FRP the SPF will have to conduct successfully 6 more tenders before the end of 1998 This figure can be reached by shifting the ending date of tenders in any of 8 newly approved SAPs from January of 1999 to December of 1998 (It can be easily done, because the ending date of tenders stated in SAPs is January 1st, 1999) Otherwise, the SPF may offer for 1998 tenders the remaining companies which include the most attractive Kyivenergo It is necessary to mention that 5% of Kirovogradoblenergo shares in the column 'Shares

³ The source Business # 32 (291) as of 08/10/98 p 29 'Experience Against Cash?' by Savely Garshvin

Available" has been already offered for a specialized auction for cash which ended on August 1st. The auction results shall be approved within a month term

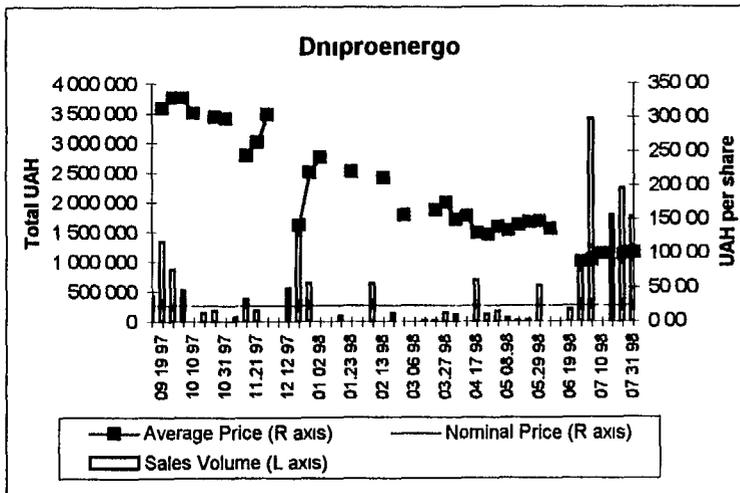
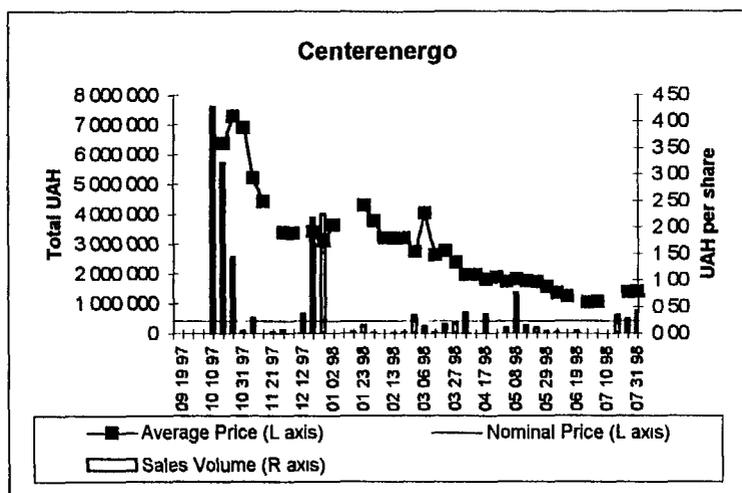
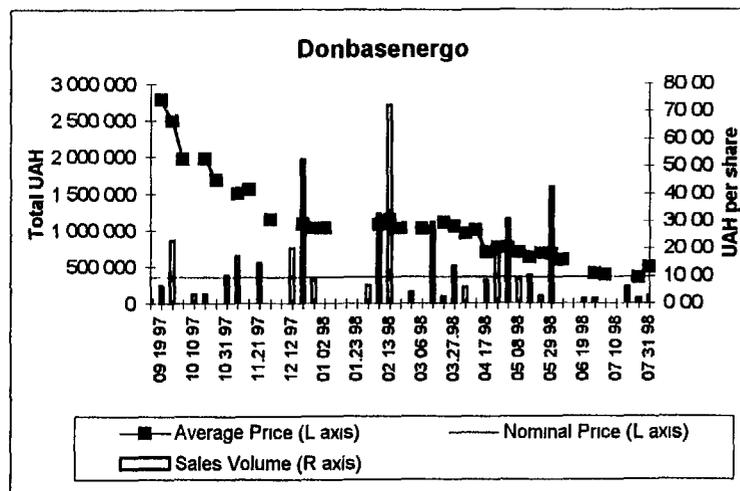
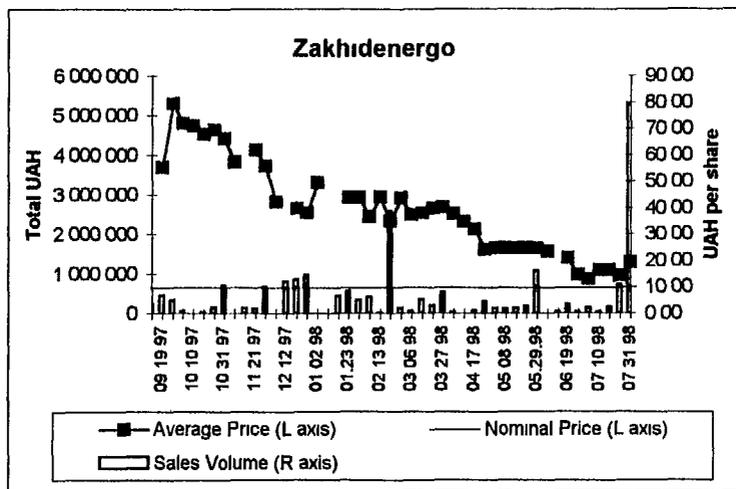
- 2 Annex 2 contains the list of official winners of commercial tenders for shares of energy distribution companies. It should be mentioned that there is no official (public) information on the sources of financing and real buyers of the shares. The figures reflect actual amount of cash paid by investors for the shares.
- 3 Annex 3 consists of two pages with charts reflecting the trading of energy sector shares through the PFTS in 1997 - 1998. The charts contain information on those companies only which were actually traded during the weeks of July 20-31.
- 4 Annex 4 contains the translated article from Investment Gazette describing the Minenergo position in relation to Oblenergo tenders and latest official information regarding the future utilization of Compensation Certificates not collected by Ukrainian citizens.

Type	Company	Tender %	Tender (new SAPs) %	Ending month (new tenders)	Actual Sale Depth, %	Stock Exchange (new SAPs) %	Certificate Auctions (new SAPs) %	Expected Sale Depth %	Available Shares, %	State Share %
GENERATION	Dniproenergo	24			17 53					51
	Donbasenergo	24	10 15	02 99	9 44					51
	Tsentrenergo	24			17 64					51
	Zakhidenergo	24			16 21					51
DISTRIBUTION	Sumyoblenergo	36			72 98				2 02	25
	Poltavaoblenergo	36			70 93				4 07	25
	Lvivoblenergo	35			70 88				4 12	25
	Prikarpattyablenergo	35			68 75				6 25	25
	Odesaoblenergo	35			67 56				7 44	25
	Chernigivoblenergo	35			66 37				8 63	25
	Luganskoblenergo	35			67 30				7 70	25
	Chernivtsyoblenergo	36			28 24			64 24	10 76	25
	Mykolaivoblenergo	40			26 88			66 88	8 12	25
	Ternopiloblenergo	20	25	01 99	49 00	1 00		75 00	0 00	25
	Kirovogradoblenergo	20	25	02 99	42 33	2 66		69 99	5 01	25
	Rivneoblenergo		35	01 99	16 07	16 93	7 00	75 00	0 00	25
	Zaporizhaoblenergo		40	01 99	17 51	12 49	5 00	75 00	0 00	25
	Zakarpattyablenergo		40	01 99	20 86	14 12		74 98	0 02	25
	Vinnitsaoblenergo		35	01 99	26 60	6 40	7 00	75 00	0 00	25
	Khmelnitskoblenergo		35	01 99	25 72	14 26		74 98	0 02	25
	Volynoblenergo		40	01 99	22 19	12 81		75 00	0 00	25
	Zhytomiroblenergo		26	01 99	36 68	12 32		75 00	0 00	25
	Kyivoblenergo		35	02 99	23 97	16 03		75 00	0 00	25
	Sevastopolmiskenergo				16 77			16 77	58 23	25
	Dniprooblenergo				18 51			18 51	56 49	25
	Cherkassyoblenergo				22 86			22 86	52 14	25
	Donetskoblenergo				23 36			23 36	51 64	25
	Kharkivoblenergo				23 46			23 46	51 54	25
Krimenergo				28 14			28 14	46 86	25	
Khersonoblenergo				33 01			33 01	41 99	25	
Kyivenergo				37 27			37 27	37 73	25	

List of Winners in Commercial Tenders for Energy Distribution Companies Shares

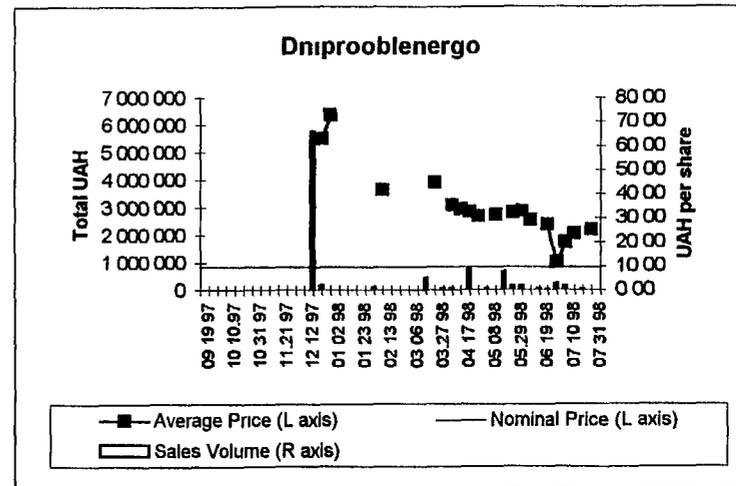
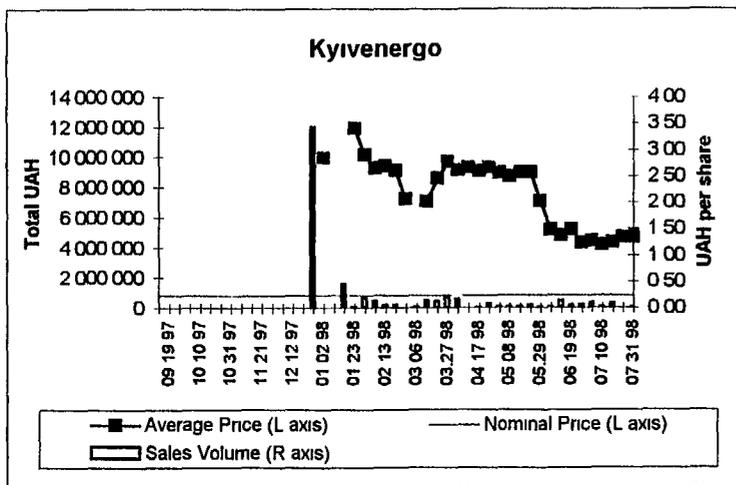
Company	Equity Share	Winner of Tender	Statutory Fund	Ask Price	Relative to Nominal Share Price	Amount Paid	Relative to Nominal Share Price*	Difference (nominal)	Price Paid Relative to Ask Price
1	2	3	4	5	6	7	8	9=7-5	10
Kirovogradoblenergo	20%	First Ukrainian Privatization Fund	29 844 000 00	7 587 700 00	1 27	7 620 000 00	1 28	32 300 00	100%
Ternopiloblenergo	20%	Investment Company PROEXPORT for Padex Industries Ltd	15 272 040 00	5 030 000 00	1 65	5 030 000 00	1 65		100%
Prikarpattyaoblenergo	35%	Ukrainian Securities	25 908 875 00	9 397 000 00	1 04	9 420 000 00	1 04	23 000 00	100%
Chernigivoblenergo	35%	Autoalliance Invest	29 829 506 00	14 000 000 00	1 34	14 010 000 00	1 34	10 000 00	100%
Sumyoblenergo	36%	Investment Company ARSENAL	44 281 374 00	15 941 295 00	1 00	18 600 000 00	1 17	2 658 705 00	117%
Poltavaoblenergo	35%	Contrast Holding Ltd	55 240 000 00	19 866 400 00	1 03	44 350 000 00	2 29	24 483 600 00	223%
Lvivoblenergo	35%	Privat Bank	48,493,080 00	22,263,000 00	1 31	40,750,000 00	2 40	18,487,000 00	183%
Luganskoblenergo	35%	Verrona Plus	52,030,730 00	25,260,000 00	1 39	25,263,000 00	1 39	3,000 00	100%
Odesaoblenergo	35%	Consortium Overcon	52 123 890 00	18 254 000 00	1 00				0%

Genco Share Prices, Volumes Weekly Data 09/05/97-07/31/98



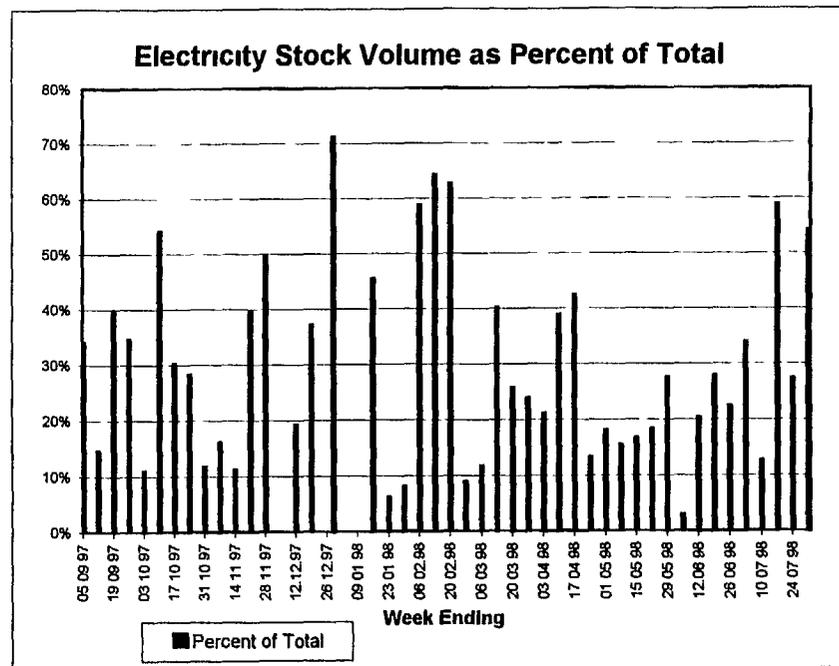
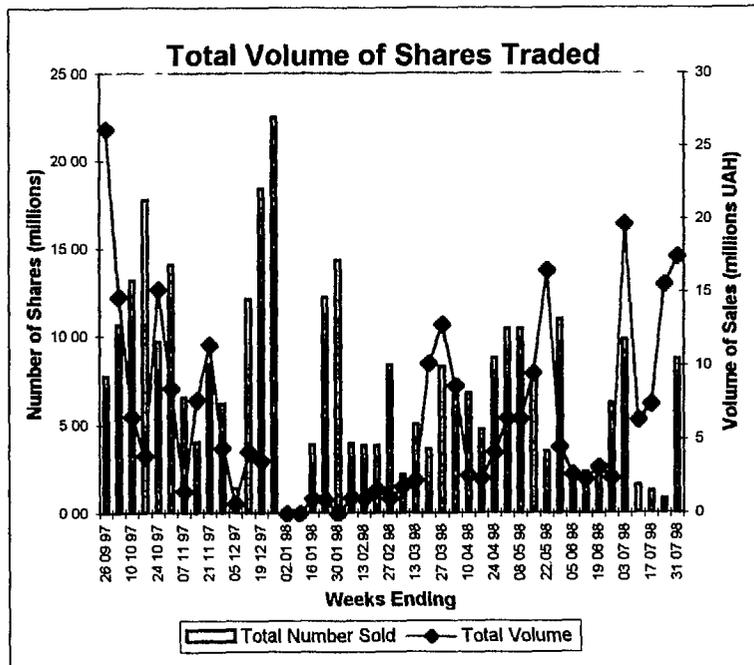
Source Eastern Economist

Oblenergo Share Prices, Volumes Weekly Data 09/05/97-07/31/98



Source Eastern Economist

78



Sheberstov Demands Non-Commercial Tenders

By Galina Panchenko

Valery Pustovoitenko reminded that the privatization of Oblast electricity distribution companies had been suspended by the Cabinet of Ministers and acknowledged work of the State Property Fund (SPF) unsatisfactory. However, according to Vice Prime Minister Nikolai Biloblotsky, the SPF is the dearest office for the government because it has the right to manage the state property

As the SPF First Deputy Chairman Vitaly Kryukov reported on Friday (July 31st) meeting of the Cabinet of Ministers, the SPF management believes, that this entity (the SPF) was entrusted with a task beyond its strength – not only to be engaged in sale of the state property to earn budget money, but also to manage those facilities that are under privatization. In Russia, for instance, these functions are clearly differentiated between two departments, i.e., the Property Fund and the Ministry of Privatization. As a result, the SPF is working at the same time in two opposite directions having no time to do anything properly. Valery Pustovoitenko reassured Vitaly Kryukov having reminded him that management of the state property is now a “headache” of a newly-created Agency for State Property Management headed by Oleg Taranov.

Last week Alexander Bondar, Acting Chairman of the SPF, who had come to work after rehabilitation reported that he does not see a real opportunity to fulfill the Privatization Program in respect of 100% receipts to the budget. The major reason of this, in his opinion, is the bad market situation, “If the buyer all the time hears statements on future financial crisis, he will undoubtedly bide his time. Today we can't sell entities at those prices at which two years ago they would have gone eagerly. I'm not sure that even such enterprise as “Zaporozhstal” could be sold now even at face value although those willing to buy are more than enough.” Alexander Bondar added that now the Cabinet of Ministers is reviewing a new procedure of valuation of privatization objects which will suit the current cash-oriented stage of privatization. According to the head of the SPF, it should not take into consideration indexation of fixed assets of 1997-1998. Otherwise the price of entities will be such that the SPF could not find buyers.

The announcement made by Shadman-Valavi, Head of the IMF mission, who at the end of the last week said, summarizing the results of IMF mission's work, that there have been reached an agreement with our government on stabilization and structural reforms over a time period of 1 July 1998 to 30 June 2001, gives some hope for improvement. In other words, at the IMF's Board of Directors meeting to be held on 24th of August he will offer to approve the EFF loan for Ukraine in the amount of \$2.2 billion.

If money of investors starts coming after the EFF loan, the SPF will have a real opportunity to meet its budget commitments. There are many entities for sale, and these entities are not the worst ones. But as to actual buyers, there is nothing to speak of. Perhaps, Prime Minister Valery Pustovoitenko and Minister of Energy Alexei Sheberstov are right insisting on suspension of the process of privatizing electricity companies until a concept of their sale will be revised. As the Prime Minister said, the

privatization process that takes place now, that is the privatization for the sake of the privatization, could satisfy nobody. Because the major objective – to improve settlements for electricity and receive large receipts to the budget – has not been reached.

A weighty argument for revision of sale methods (proposals of the Minister of Energy come, primarily, to necessity of selling Oblast electricity companies on non-commercial tenders) is the purchase of distribution companies' shares by financial intermediaries which are, in principle, commission agents, and so do not bear responsibility for investment commitments. Besides, while determining a winner of the tender, the commission does not and cannot take into account, according to the rules of holding tenders, investment commitments proposed by participants. Mr Sheberstov expressed his wish to find known world leaders in the power sector among the holders of electricity distribution companies' shares, and not financial intermediaries behind which "no one knows who stands". For example, in the process of concluding a contract of purchasing block of shares of "Ternopoloblenergo" with "Prodexport", a winner of the tender, there has been found out that the latter had purchased shares for the company "Padex Industries Ltd" (according to A. Sheberstov). It is this company that will fulfil fixed terms and conditions of the tender. The Minister also thinks that during fulfillment of terms and conditions of tenders, there is a real risk that investment obligations will be fulfilled not in cash, but through offsets for existing debts. In case of "Kirovogradoblenergo", for example, investments were made in the form of offset to the amount of 3.5 million UAH.

According to Minenergo, in half a year the purchase-sale contracts were signed for shares of five electricity companies, tenders for four companies have been considered to be successful, but contracts have not been yet signed, six Oblenergos have not been of interest to buyers. Analysis of tenders held shows that tender prices insignificantly exceed the initial price – with largest excess making 1.6 times. 20% block of Ternopoloblenergo's shares was purchased by "Prodexport", 35% block of Chernigovoblenergo's shares was sold to Avtoalyansinvest with an excess of 1.3 times, 36% block of Sumyoblenergo's shares was sold to company "Arsenal" with an excess of 1.17 times, 35% blocks of Prikarpatyaoblenergo and Kirovogradoblenergo shares were sold, according to A. Sheberstov, actually at a face value.

List of the chosen ones for Finprom and Gosinvest has grown thinner to a great extent

INVESTGAZETA has already written about the life the government is going to breathe into compensation certificates (CC) after their official death, that is, after termination of their issuance. In short, the Ministry of Industrial Policy, as a chief ideologist, has specially created state company "Finprom" to which all compensation certificates not called for as of 1 July 1998 to the amount of about 2 billion UAH will be transferred (except for those issued by the state insurance company ORANTA). Certificates will be invested in shares of attractive enterprises on specialized auctions, and then be sold through financial intermediaries. Money received (it was planned that this amount will make 3.5 billion UAH) will be used for sanation of enterprises after the nominal value of CCs transferred will be returned to the budget. The Ministry of Industrial Policy did not expect Gosinvest to participate in this scheme. However, the

latter had time to properly react to the proposed scheme and get involved into the process

We reported that the initial list of enterprises the shares of which Finprom and Gosinvest wanted to purchase consisted of 399 enterprises. According to Alexander Bondar, enterprises included in the list should be sold for cash rather than offered for (certificate) auctions. Besides, he thinks that the mechanism for putting up enterprises for auctions must not be changed just for two companies. "There is a political side here. If two firms have priority, a conflict may arise. Primarily, with the Parliament". The SPF Acting Chairman unambiguously stated that certificate privatization should be completed in 1998.

The list of enterprises in which Finprom and Gosinvest would like to invest their CCs became much thinner as a result of lengthy negotiations and now includes 93 enterprises. A government official informed that included in the list are only those enterprises, which are subordinate to the Ministry for Industrial Policy. Electricity companies, local gas distribution companies and enterprises in the construction and microbiology industries were excluded. Besides, at the SPF request, blocks of shares for sale at specialized auctions will include state blocks rather than those planned for sale at stock exchanges and tenders. V Pustovoitenko informed that "today", i.e. last Friday, he would sign the relevant Cabinet of Ministers resolution. The SPF together with the government will prepare orders as to blocks of shares which remain in state property.

It should be noted that there is not much time left for the designers of this scheme to implement it as the certificate privatization will be completed on January 1, 1999. Blocks of shares need to be prepared for auction sales within the five months left. Moreover, it became known that the Savings Bank did not even start to transfer CCs to Finprom despite the existing Cabinet of Ministers resolution.

And the last nuance. It is known that the Parliament adopted a resolution to prolong the term of issuing CCs and PPCs, which is not being implemented because the Privatization Program for this year clearly stipulates the deadline for the issuance of certificates - the 1st of July 1998. As the majority of MPs voted for the above resolution, they can be expected to introduce changes to the Privatization Program. But by that time CCs may have been transferred to Finprom and Gosinvest and used.

REPORT #8

WEEK OF AUGUST 9TH - AUGUST 29TH, 1998

MEMORANDUM

TO David Wolcott
CC Svetlana Golikova, Tom Smith, Jim Stanfield, Eric Haskins, John Kyle
FROM Andrei Goncharenko
DATE September 2nd, 1998
SUBJECT Privatization & Stock Market Update Report
Period August 9th - August 29th, 1998

INTRODUCTION

Privatization in the power sector had slowed its pace in the month of August. Having approved new share allocation plans (SAPs) of 10 distribution and 1 generation company the State Property Fund (SPF) as well as other state authorities was more preoccupied with the issue of settlement of budget debts than with any other problem.

The initiatives of the Prime-Minister Mr Pustovoytenko to force the companies-debtors to pay their overdue debts to the state budget and the Pension Fund are more dangerous to the privatized enterprises than to the state-owned ones. The Cabinet of Ministers of Ukraine (CoM) on August 7th had issued a resolution on returning the enterprises, which are in debt to the state budget, Pension or Chernobyl Funds, into the state ownership and privatizing them again. Then the SPF Deputy Chairman Mr Vassilyev in the press conference on August 14th stated that the SPF was planning to start legal actions against the owners of such privatized enterprises and fulfill the orders of the CoM. Most probably that would be implemented through the tax pledge procedure introduced by the Presidential Decree # as of . Another SPF Deputy Chairman – Mr Kalnichenko on August 11th informed that the SPF intended to terminate the contracts with international advisors for open tenders for sale of 24% share packets of Donbasenergo (Creditanstalt Investmentbank (CAIB)¹) and Tsentrenergo (Union Bank of Switzerland (UBS)).

In Investment Gazette as of August 18th the SPF announced a new tender for valuation of stocks of several companies including Donbasenergo. This means that both 24% (allocated for open (international) tender) and 10 15% (allocated for non-commercial tender) will be re-valued before the announcement of terms and conditions of appropriate tenders.

It should be mentioned that on August 4th the general shareholder meeting of Donbasenergo had approved allocation of 25% (at least 26 million UAH) of the 1997 net profit for dividends. In that way the company fulfilled the Cabinet of Ministers order as of July 21st requiring from the entities (persons) authorized to manage state shares to insist on payment of at least 25% of profits for dividends. Taking into account that the state currently owns 86 76% of Donbasenergo², the budget shall receive at least 22 million Hryvnas from that source.

¹ The SPF on 04/17/98 signed the contract assigning CAIB as an international advisor (auctioneer) for 24% Donbasenergo shares. But the Ministry of Finance of Ukraine and CAIB could not come to the agreement on terms of the cash deposit, the latter had to offer for the right to organize the tender.

² According to the SAP of Donbasenergo approved by the SPF order # 1531 as of August 4th, 1998.

The companies Derzhinvest and Finprom entitled to obtain Compensation Certificates (CCs), which were not collected by citizens, from the Oshadbank (State Savings Bank) and ORANTA (State Insurance Company), plan to invest all these certificates during one specialized auction for CCs (29th CC Auction) The SPF was introducing changes to SAPs of 93 enterprises (formerly subordinated to the Ministry of Industrial Policy) to offer them for sale in that auction That is why the starting date of the 29th CC Auction has been shifted from August 15th to August 22nd The share packets with average size of 15%-25% of many attractive enterprises in the metallurgy, machine-building, mining and chemical industries will be offered for this CC Auction It should be mentioned that the price of Compensation Certificates on the secondary market grew almost twice during the last week before the beginning of the mentioned CC Auction Financial intermediary companies, which usually bought stock in the CC auctions, were well aware of the fact that after the 29th Auction there will be no really attractive enterprises to invest the Compensation Certificates into

1 TENDERS

On August 20th the Supreme Arbitration Court of Ukraine (SAC) has satisfied the claim of FS Trading company and prohibited to the SPF to sign the purchase-sale contract for 35% of Odesaoblenergo shares with Overcon Consortium, which was the official winner of corresponding commercial tender However, the SAC could not appoint the FS Trading as a winner of the tender or force the SPF to take that action This means that the SPF will have to announce another tender for Odesaoblenergo shares

Minenergo and Minister Sheberstov, in particular, may use this case for substantiation of a need to replace the commercial tenders with non-commercial ones as a better tool to attract strategic investors into the power sector

2 PFTS MARKET

The PFTS (over-the-counter) market came into another period of recess in August 1998 The traders focused their attention on the state bonds in the week of August 3-7 and compensation certificates (see Introduction) in the week of August 10-14 The second week appeared to be the beginning of a new crisis on the Ukrainian over-the-counter stock market, following the Russian crisis In the week of August 17-21 the PFTS market fell even deeper Traders nearly stopped dealing in corporate shares The crisis in Russia turned into a global financial crisis Although, the Ukrainian stock market (being much less liquid) has not suffered as much as the Russian one there are no hopes for any improvements in the next month or two

Eastern Economist (August 10) (The week of August 3-7) The KAC-20 (S), KAC-20 (W) and PFTS indices grew by 4.3%, 2.8% and 4.5% to 846, 817 and 41.05 respectively Only the ProU-50 index declined by 1.98% to 75.84 The ProU-50 index is calculated based on the bid prices and its decline reflected decrease of these quotations, while the ask prices grew Trading of corporate shares decreased by 67.5%, while the state bond sales grew by 165.8% KAC-energy index grew 13.7% to 380 This was caused by the sharp growth of Kyivenergo bid and ask prices by 26.76% and 21.05% respectively Trading of Dniproenergo and Zakhidenergo stocks was not as active as during the previous several weeks

Eastern Economist (August 17) (The week of August 10-14) The KAC-20 (S), KAC-20 (W), PFTS and ProU-50 indices fell by 10.58%, 10.45%, 12.48% and 16.14% respectively

Anticipation of devaluation of Russian ruble and a Russian banking crisis stimulated the beginning of panic on the Ukrainian stock market

After the disclosure of SPF intentions to offer several very attractive enterprises at the 29th Auction for Compensation Certificates (CCs), CC bid and ask prices increased by 90.63% and 97.50%. The bids for stocks of those enterprises to be offered at the mentioned CC Auction fell more sharply than the other stocks. KAC-energy index declined 6.84% to 354. The bad market situation made both bid and ask prices to fall. This week bids for Kyivenergo reduced by 30.56%.

Business (August 17) (The week of August 6-12) The traders currently can be divided into two major groups: those, who succeeded to sell out the stocks, and those, who did not. There are no expectations for improvement on the Ukrainian stock market. During the period from August 6th to 12th trading of state bonds made 75.55% and CCs – 3.69% of the total volume of sales.

Eastern Economist (August 24) (The week of August 17-14) The KAC-20 (S), KAC-20 (W), PFTS and ProU-50 indices fell by 3.1%, 5.3%, 8.6% and 21.5% respectively to 731, 696, 46.84 and 31.66. The total volume of stock sold through the PFTS was 5.86 million UAH, i.e. 78.85% of the previous period. Energy sector declined by 83%. KAC-energy index slipped 5.1% to 336. The bid and ask prices for all generation companies fell daily, but the actual trading has been registered one day only. The shares of Kyivenergo slightly grew and were traded more actively than of any generation company.

During the week of August 3-7 Kyivenergo shares sold at a volume of 1,471,405.95 UAH (813,960 shares), Zakhidenergo - 821,943.25 UAH (33,000), Dniproenergo – 41,935.20 UAH (404), Donbasenergo – 28,000 UAH (2,000), Zhytomiroblenergo – 19,350 UAH (225,000) and Tsentrenergo - 10,500 UAH (15,000).

During the week of August 10-14 Zakhidenergo shares sold at a volume of 5,263,754.63 UAH (200,000 shares), Dniproenergo - 1,760,148.50 UAH (16,544 shares), Tsentrenergo – 723,800.80 UAH (968,824), Donbasenergo – 99,330 UAH (7,000), Kyivenergo - 19,680.00 UAH (13,000) and Dniproblenergo - 8,835.50 UAH (431).

During the week of August 17-21 Kyivenergo shares sold at a volume of 445,800.00 UAH (213,000 shares), Luganskoblenergo – 100,600 UAH (10,000), Zakhidenergo - 94,083.50 UAH (5,000), Dniproenergo – 88,076.40 UAH (1,000), Tsentrenergo - 48,144.00 UAH (105,320), Donbasenergo – 41,000 UAH (4,000) and Sevastopolmiskenergo - 10,900 UAH (10,000).

Please see attached the charts reflecting the data on performance of energy sector shares on PFTS as Annex 3 to this Memorandum. The source of the end-of-week data was Eastern Economist.

3 CONCLUSIONS

The Russian financial crisis has triggered the fall on capital markets of the majority of former Soviet Union (FSU) countries, Eastern and Central European countries and on major stock exchanges. The experts predict that if no urgent measures would be taken, the collapse of capital markets in FSU, Eastern and Central Europe is inevitable. The plans of the Government of Ukraine to raise funds from privatization can not be successful, if the market situation will not

improve Considering the fact, that on August 19th the President of Ukraine has vetoed the Law, adopted by Verkhovna Rada on July 24th, actually prohibiting creation of NaftoGaz Ukrainy company, it should be expected that the parliamentarians will start active discussions on privatization problems starting from the beginning of a new session. The VR session starts on September 1st

Last week the management of Khmelnytskoblenergo officially invited the Hagler Bailly consultants to attend the first general meeting of company's shareholders on August 27th, 1998. Sofia Stavkova (public relations specialist) and Andrei Goncharenko (privatization specialist) attended this meeting. 71 persons representing 3,047,976 votes (90.6% of shareholders) took part in the general meeting. The Minenergo Deputy Minister Mr. Ulitich represented the state share almost equal to 73%. Although, the decisions of that general meeting of shareholders depended exclusively from the position of Minenergo representative, the meeting proved to be successful. The meeting was attended by representatives of several investment companies including Polar-Invest and Kendall Properties Limited from Kyiv, Sigma Holding from Kharkiv and the less known companies like New Century Holding (NCH), KTT Invest and others. Together the legal entities currently hold approximately 15% of Khmelnytskyoblenergo shares. It should be mentioned that the only stage of share sale completed until the present time was preferential sale of 17.02% of shares³. The shareholders-legal entities succeeded in getting their representative Mr. Danilov (Kendall Properties Ltd) elected to the Supervisory Board of the company.

It should be mentioned that Mr. Demchuk (Polar-Investment) in his speech commenting the Khmelnytskoblenergo Chairman of Board Mr. Shpak's report on financial results of the company's activity in 1997 announced that Polar-Investment and Kendall Properties Ltd had signed an agreement with the management of the company to issue ADRs for its shares. The above-mentioned investment companies jointly with Ladenburg Thalmann and Baker&Makkenzie plan to collect 5% of Khmelnytskoblenergo shares, ING Barings will serve as a depository bank in Ukraine and the Bank of New York – as an issuer of 1st level ADRs in the US. In the future Khmelnytskoblenergo plans to issue ADRs of the 3rd level through the same Bank.

The general meeting approved the decision to allocate at least 10% of the company's net profit for payment of dividends, although that will bring no revenues to the shareholders, because the company had finished 1997 with a loss of 522 thousand UAH.

Mr. Shpak was elected as a Chairman of the Board for a new term. In his report regarding the current activities of the company and its strategic plans for the future, he had mentioned that the company currently is being assisted by Hagler Bailly consultants within the USAID project in the following areas: cash collections and business planning, public relations, shareholder rights and others. Mr. Shpak stated that the company expects to improve considerably the financial results of its operation working jointly with the USAID consultants.

Attachments to this Memorandum contain the following information:

1. Annex 1 reflects the last changes in privatization status of energy generation and distribution companies. With Mykolaiv- and Chernivtsyoblenergo by the end of

³ Source: SAP of Khmelnytskoblenergo approved by the SPF order # 1539 as of August 4th, 1998.

September the GoU might have 8 privatized Oblenergos, because of the cancellation of Odesaoblenergo results by the SAC. To comply with requirements of the FRP the SPF will have to conduct successfully 7 more tenders before the end of 1998. This figure can be reached by shifting the ending date of tenders in any of 8 newly approved SAPs from January of 1999 to December of 1998 (It can be easily done, because the ending date of tenders stated in SAPs is January 1st, 1999). Otherwise, the SPF may offer for 1998 tenders the remaining companies, which include the most attractive Kyivenergo. It is necessary to mention that 5% of Kirovogradoblenergo shares in the column "Shares Available" has been already offered for a specialized auction for cash, which ended on August 1st. The approval of auction results is pending.

- 2 Annex 2 contains the list of official winners of commercial tenders for shares of energy distribution companies. It should be mentioned that there is no official (public) information on the sources of financing and real buyers of the shares. The figures reflect actual amount of cash paid by investors for the shares.
- 3 Annex 3 consists of three pages with charts reflecting the trading of energy sector shares through the PFTS in 1997 - 1998. The charts contain information on those companies only, which were actually traded in August.
- 4 Annex 4 contains the article from Kyiv Post as of September 1st, 1998 describing the situation with Odesaoblenergo tender.

Type	Company	Tender %	Tender (new SAPs) %	Ending month (new tenders)	Actual Sale Depth, %	Stock Exchange (new SAPs) %	Certificate Auctions (new SAPs) %	Expected Sale Depth %	Available Shares, %	State Share %
GENERATION	Dniproenergo	24			17 53					51
	Donbasenergo	24	10 15	02 99	9 44					51
	Tsentrenergo	24			17 64					51
	Zakhidenergo	24			16 21					51
DISTRIBUTION	Sumyoblenergo	36			72 98				2 02	25
	Poltavaoblenergo	36			70 93				4 07	25
	Lvivoblenergo	35			70 88				4 12	25
	Prikarpattiaoblenergo	35			68 75				6 25	25
	Luganskoblenergo	35			67 30				7 70	25
	Chernigivoblenergo	35			66 37				8 63	25
	Mykolaivoblenergo	40			26 88			66 88	8 12	25
	Chernivtsyoblenergo	36			28 24			64 24	10 76	25
	Ternopiloblenergo	20	25	01 99	49 00	1 00		75 00	0 00	25
	Kirovogradoblenergo	20	25	02 99	42 33	2 66		69 99	5 01	25
	Zaporizhiaoblenergo		40	01 99	17 51	12 49	5 00	75 00	0 00	25
	Zakarpattiaoblenergo		40	01 99	20 86	14 12		74 98	0 02	25
	Volynoblenergo		40	01 99	22 19	12 81		75 00	0 00	25
	Rivneoblenergo		35	01 99	16 07	16 93	7 00	75 00	0 00	25
	Vinnitsaoblenergo		35	01 99	26 60	6 40	7 00	75 00	0 00	25
	Khmelnitskoblenergo		35	01 99	25 72	14 26		74 98	0 02	25
	Kyivoblenergo		35	02 99	23 97	16 03		75 00	0 00	25
	Zhytomiroblenergo		26	01 99	36 68	12 32		75 00	0 00	25
	Kyivenergo				37 27			37 27	37 73	25
	Khersonoblenergo				33 01			33 01	41 99	25
	Odesaoblenergo				32 56			32 56	42 44	25
	Krimenergo				28 14			28 14	46 86	25
	Kharkivoblenergo				23 46			23 46	51 54	25
	Donetskoblenergo				23 36			23 36	51 64	25
	Cherkassyoblenergo				22 86			22 86	52 14	25
	Dniprooblenergo				18 51			18 51	56 49	25
Sevastopolmiskenergo				16 77			16 77	58 23	25	

List of Winners in Commercial Tenders for Energy Distribution Companies Shares

Company	Equity Share	Winner of Tender	Statutory Fund	Ask Price	Relative to Nominal Share Price	Amount Paid	Relative to Nominal Share Price*	Difference (nominal)	Price Paid Relative to Ask Price
1	2	3	4	5	6	7	8	9=7-5	10
Kirovogradoblenergo	20%	First Ukrainian Privatization Fund	29 844 000 00	7 587 700 00	1 27	7 620 000 00	1 28	32 300 00	100%
Ternopiloblenergo	20%	Investment Company PROEXPORT for Padex Industries Ltd	15 272 040 00	5 030 000 00	1 65	5 030 000 00	1 65		100%
Prikarpattyaoblenergo	35%	Ukrainian Securities	25 908 875 00	9 397 000 00	1 04	9 420 000 00	1 04	23 000 00	100%
Chernigivoblenergo	35%	Autoalliance Invest	29 829 506 00	14 000 000 00	1 34	14 010 000 00	1 34	10 000 00	100%
Sumyoblenergo	36%	Investment Company ARSENAL	44 281 374 00	15 941 295 00	1 00	18 600 000 00	1 17	2 658 705 00	117%
Poltavaoblenergo	35%	Contrast Holding Ltd	55 240 000 00	19 866 400 00	1 03	44 350 000 00	2 29	24 483 600 00	223%
Lvivoblenergo	35%	Privat Bank	48,493,080 00	22,263,000 00	1 31	40,750,000 00	2 40	18,487,000 00	183%
Luganskoblenergo	35%	Verrona Plus	52,030,730 00	25,260,000 00	1 39	25,263,000 00	1 39	3,000 00	100%

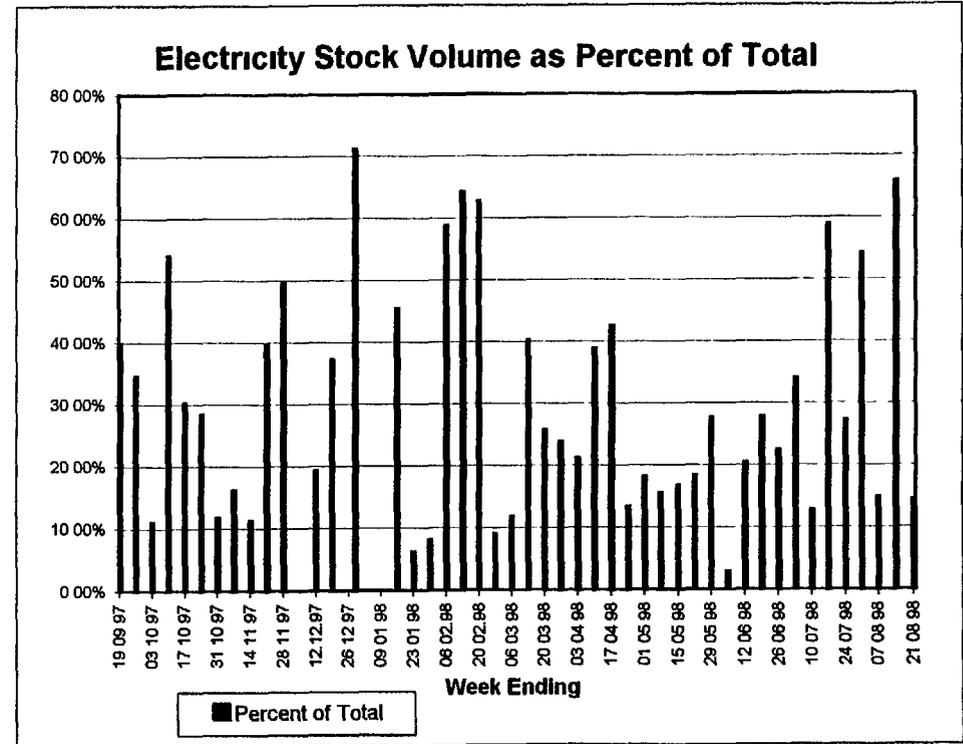
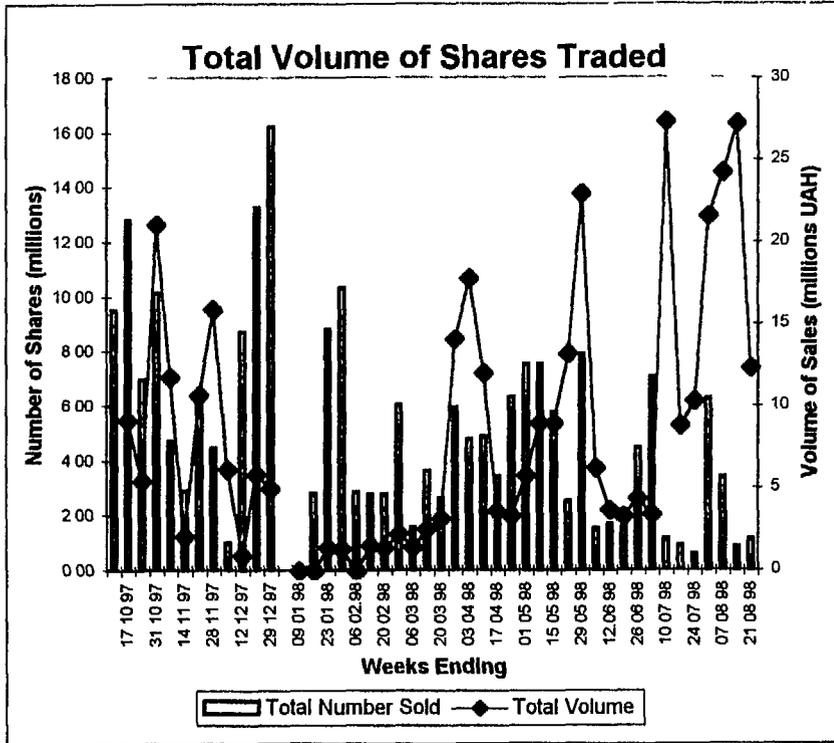
Commercial Tenders

Enterprise Name	Chartered Capital	Nominal Share Value	Sale Depth*	Tender (starting date)	Tender (ending date)	Packet for Tender	Packet Ask Price	Short Term Investment Obligations *	Middle Term Investment Obligations***
1	2	3	4	5	6	7	8	9	10
KIROVOGRADOBLENERGO	29,844,000 00	10 00	42 33	01 09 97	31 12 97	20	7,587,700 00	5,000,000 00	17,000,000 00
TERNOPILOBLENERGO	15,272,040 00	10 00	49 00	01 10 97	31 12 97	20	5,030,000 00	4,402,000 00	3,054,000 00
SUMYOBLENERGO	44,281,374 00	1 00	36 98	28 04 98	28 05 98	36	15,941,295 00	21,000,000 00	28,000,000 00
CHERNIGIVOBLENERGO	29,829,506 00	1 00	31 37	28 04 98	28 05 98	35	14,000,000 00	10,000,000 00	17,760,000 00
PRIKARPATTYAUBLENERGO	25,908,875 00	12 50	33 75	06 05 98	05 06 98	35	9,397,000 00	5,000,000 00	13,250,000 00
LUGANSKOBLENERGO	52,030,730 00	10 00	32 30	27 05 98	26 06 98	35	25,260,000 00	12,500,000 00	38,300,000 00
LVIVOBLENERGO	48,493,080 00	0 25	35 88	27 05 98	26 06 98	35	22,263,000 00	20,000,000 00	33,000,000 00
POLTAVAUBLENERGO	55,240,000 00	2 50	34 93	27 05 98	26 06 98	36	19,866,400 00	17,200,000 00	42,400,000 00
CHERNIVTSYOBLENERGO	14,195,170 00	10 00	28 24	17 06 98	15 09 98	36	5,110,000 00	3,060,000 00	7,140,000 00
MYKOLAIVOBLENERGO	39,660,000 00	2 00	26 88	17 06 98	15 09 98	40	17,162,000 00	8,200,000 00	18,700,000 00
						TOTALS	141 617 395 00	106,362,000 00	218,604,000 00

according to the official information of the SPF

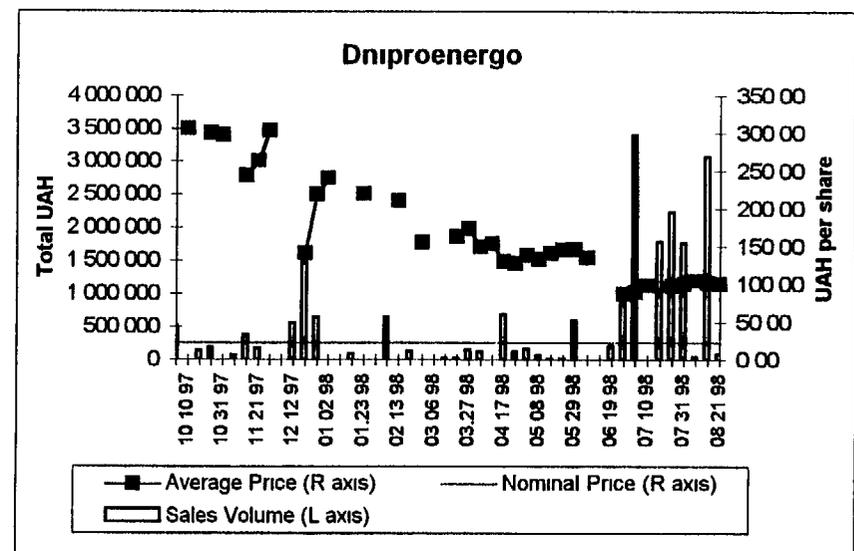
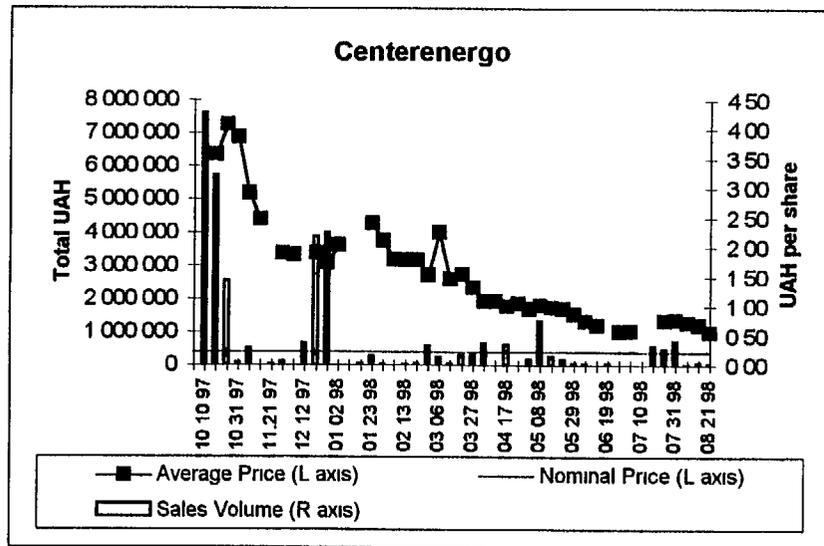
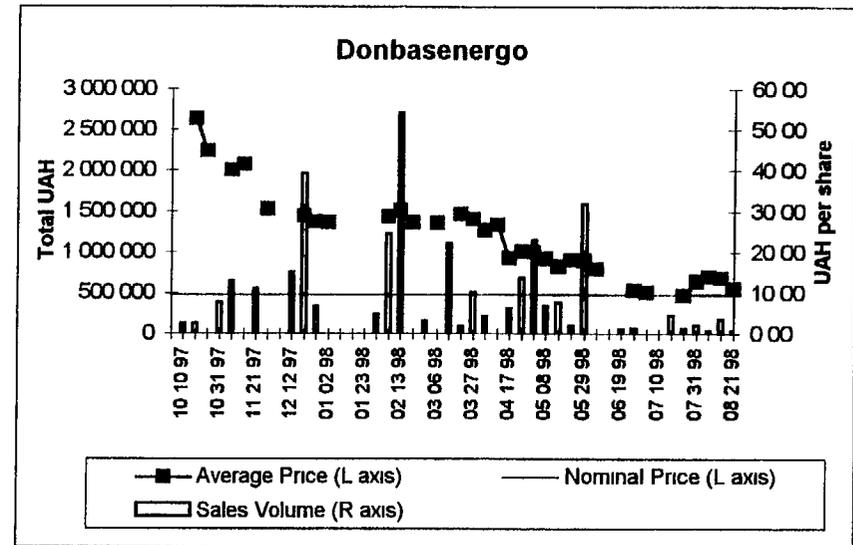
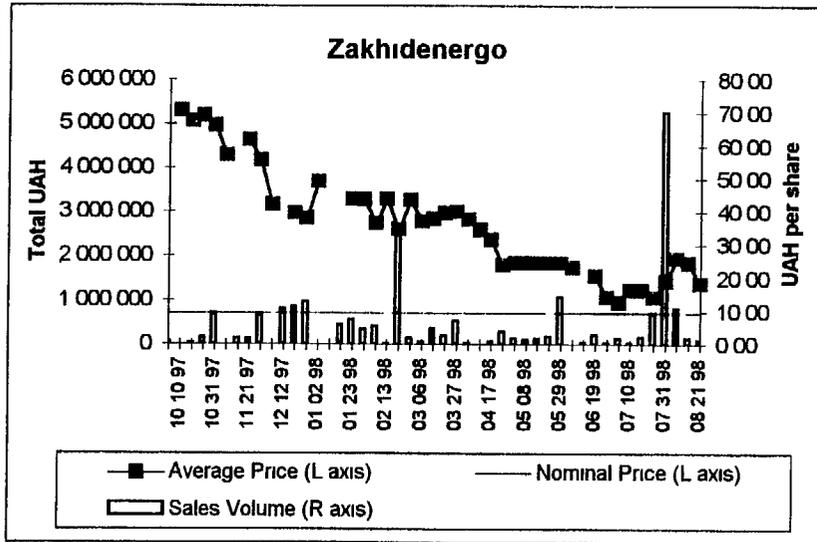
Amount needed for settlement of accounts payable in arrears plus replenishment of current assets (60-days term)

Investment obligations for 3-5 years period plus financing of social assets plus environmental measures



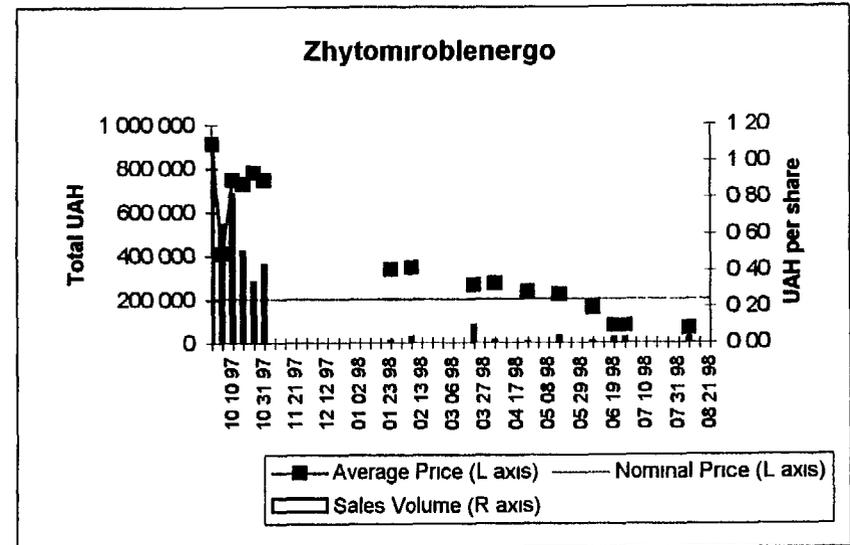
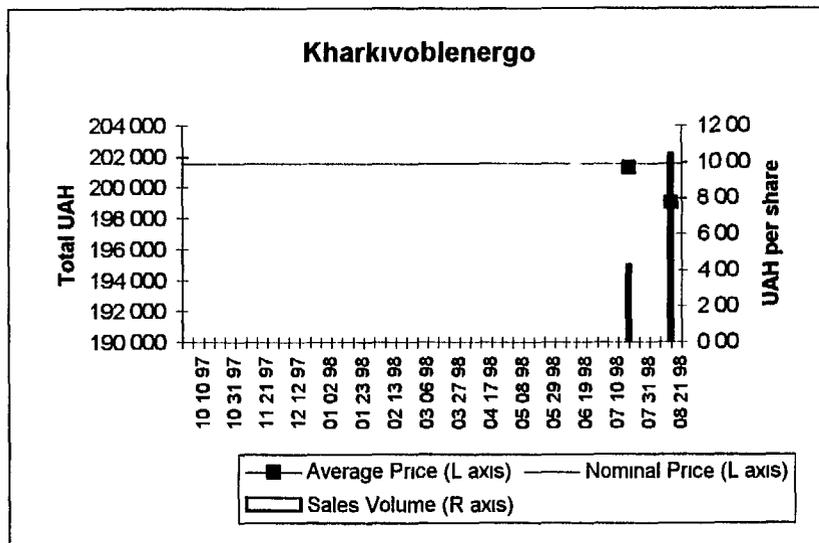
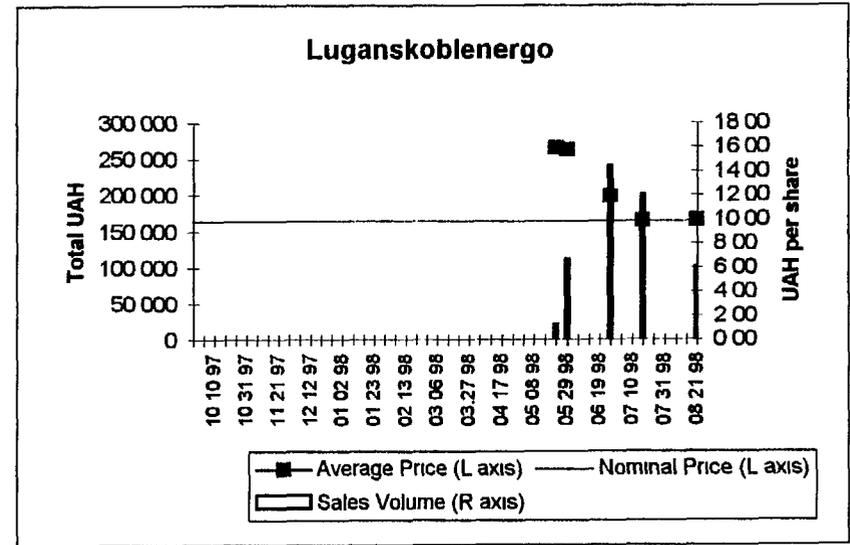
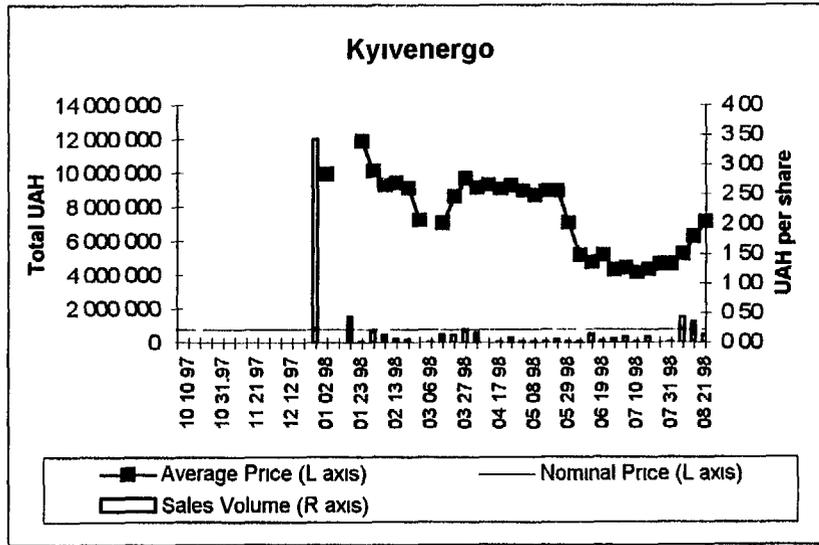
Genco Share Prices, Volumes

Weekly Data 09/05/97-00/21/98



Source Eastern Economist

Oblenergo Share Prices, Volumes Weekly Data 09/05/97-08/21/98



Source Eastern Economist

Consortium redirects energies towards acquiring oblenergo

By Alexey Zerkalov
KYIV POST # 69 09/01/98 p 15 16

The international consortium Overcon Enterprise Ltd hopes to bid again for a stake in Odessa oblast's electricity distribution company after seeing its winning bid for a large stake in the firm struck down by a court according to the local representative of one of the companies involved in the consortium

In late July Overcon appeared about to become the first foreign investor - and the first investor of any sort with known strategic interests in the energy sector into Ukraine's energy industry when the State Property Fund awarded the consortium a 35 percent stake in the distributor, Odessaoblenergo via a commercial tender. But a successful appeal to Ukraine's Supreme Arbitration Court by one of the consortium's competitors in the tender, FS Trading Ltd nullified the victory.

While stakes of several of Ukraine's 27 regional electricity distributors, known as oblenergos, have been sold since the government launched its energy privatization plan in the beginning of the year investors in these stakes have been financial concerns, rather than strategic energy investors. These financial concerns are for the most part intermediaries working on behalf of nebulous third parties.

The announcement that Overcon had won the Odessaoblenergo tender thus appeared to be a major breakthrough. Overcon, registered in Cyprus, was set up by a group of foreign industrial powerhouses with the specific aim of investing into the power sector in emerging markets.

Instead of a breakthrough however Overcon's victory has quickly turned into yet another black mark for Ukraine's privatization program. And it has brought into question the motive of all sides involved in the case.

Management of Ukraine's state industrial giants have a history of playing favorites when privatization time comes around. Often management opposes privatization entirely, unwilling to cede both power and whatever financial boost their management positions might give them. Politicians for their part often have their own reasons for preferring one investor or another.

There is no proof that politics has come into play in the case of the Odessaoblenergo tender. But there is some evidence that it has. Volodymyr Katkov, the head of Odessaoblenergo's securities department was quoted by Interfax as saying that sufficient grounds existed for the appeal. Meanwhile Ukraine's energy minister, Olexiy Sheberstov told Interfax that the Energy Ministry supported Overcon's victory in the tender.

In fact Sheberstov was instrumental in awarding the tender to Overcon in the first place, despite the fact that the consortium offered a lower bid. Since the tender was of the commercial variety, the winner should have been the investor with the highest bid. No questions asked Sheberstov had argued that Overcon's impressive pedigree in the energy field made it by far the more logical investor. But such an argument while justified in a non-commercial tender, is should not be applicable in a commercial tender.

FS Trading used this discrepancy to successfully win its case in the Supreme Arbitration Court on August 20. The Court ruled that in fact Overcon offered considerably less than money than that offered by the plaintiff FS Trading.

The defendant in the case was the SPF. Commenting on the case SPF representative Nina Dvorzhanskaya seemed to agree with the logic of the court. She said that Overcon was chosen because of its investment commitments and because of its experience in the energy field. However she admitted that FS Trading submitted a higher initial bid. "Of course, according to a commercial tender that company wins which offers the highest bid" she said.

Which leaves two questions unanswered. Knowing the rules, why did the SPF go ahead and chose Overcon the winner anyway? And why does Odessaoblenergo seem to prefer the nebulous FS Trading to the proven strategic investor Overcon?

Several representatives of the SPF contacted by the Post refused to comment on the matter. Members of the Overcon consortium - which includes ABB (Switzerland), Mitsui (Japan), Tomen Power (Japan), INA (Italy), Europa Capital Management (Czech Republic), the Inter-American Development Bank (U S), CMS Energy (U S) and FondElec Group (U S), were also hesitant to comment on the affair.

The Post was able to receive comment from one member of the consortium, European Capital Management (ECC). Describing Overcon as the first reputable foreign consortium to make an

investment into the Ukrainian energy sector, ECC Director Vladimir Vishnevskiy said Overcon had in fact offered more money if future investments were taken into account

As far as I know the initial plan of FS Trading was to pay Hr 26 million to the government and commit an additional Hr 49 million in future primary investments. Overcon, on the other hand, offered Hr 23 million to the government and committed to an additional \$410 million in direct investments over the next [15-30] years, including \$90 million over the first five years "

Vishnevskiy added that the SPF was justified in choosing the known entity Overcon in this case. "Odessaoblenergo is a strategic company in the Odessa region. No one wants the blackout of an entire region because of an unreliable company." Its activity veiled in secrecy, it is unclear what advantages FS Trading might bring to the table. "As far as I know FS Trading Ltd is registered somewhere in Georgia, US, but I am not sure," opined Vishnevskiy. Both the Supreme Arbitration Court and the SPF refused to reveal any information about FS Trading.

Odessaoblenergo management refused to take sides on the issue in the wake of the Court decision. "We are a state-owned company, therefore all questions over privatization are decided by the SPF and the Ministry of Energy," said Katkov. "We have no voice at all. It is they who choose the strategic partner."

In the wake of the Court decision, it is unclear whether FS Trading wins the tender or not. "It is not clear how to follow the court decision," says SPF lawyer Marina Sharapa. "The court has annulled the protocol of the commission that named the winner of the tender. But it does not say whether to annul the whole tender or confer a victory upon the plaintiff."

Overcon's Vishnevskiy, for one, is confident that Overcon will have another opportunity to get its claws on Odessaoblenergo - and confident the consortium will win the next tender. Moreover, if the Supreme Arbitration Court does confer victory upon FS Trading, Overcon will launch an appeal of its own to the Court.

REPORT #9

WEEK OF AUGUST 31ST - SEPTEMBER 11TH, 1998

MEMORANDUM

TO David Wolcott
CC Svetlana Golikova, Tom Smith, Jim Stanfield, Eric Haskins, John Kyle
FROM Andrei Goncharenko
DATE September 11, 1998
SUBJECT Privatization & Stock Market Update Report
Period August 31st - September 11th, 1998

INTRODUCTION

The financial crisis in Ukraine, which had started almost simultaneously with the Russian one, has not only caused the real collapse of the Ukrainian stock market, but made evident, that the Government of Ukraine failed to secure 1 04 billion Hryvnas budgetary income from privatization. The Acting Chairman of the State Property Fund (SPF) Mr Bondar in his interview to Investment Gazette¹ stated that the maximum expected revenue from privatization in 1998 will not exceed 500 million Hryvnas (app 250 million UAH to date). Although the Acting SPF Chairman talked about the plans to issue ADRs, using the shares of privatized enterprises as a pledge, this can hardly be implemented today. The foreign investors do not have much trust in the emerging markets after the recent developments in Russia and Ukraine. The only hope left for the SPF is to get advance payments using a new strategy of privatization.

Mr Bondar has mentioned in his interview, that the negotiations with the CreditAnstalt and Union Bank of Switzerland, formerly appointed to be authorized auctioneers of Donbasenergo and Tsentrenergo in the process of open tenders for their shares, came to a dead end. That is why, the SPF offered them a following new scheme: the banks shall pay ahead the full nominal price for 24% share packets of both generation companies and obtain these shares for further allocation on international markets. But, considering the fact, that the only company of the power sector traded currently in the PFTS (Ukrainian over-the-counter trading system) with quotations higher than the nominal price is Dniproenergo, it is difficult to expect that these banks will accept this offer.

On September 1st, the first day of a new session of Verkhovna Rada (VR), the President of Ukraine submitted to VR his proposal to approve Mr Bondar as the SPF Chairman. According to the Ukrainian legislation this decision belongs to the exclusive competence of VR. On September 10th the deputies declined the proposal and now expect a new one from the President.

According to the latest information on September 9th VR has vetoed Presidential Decree On Management of State Corporate Rights. This Resolution undermines the President's intention to transfer state-owned shares to management of the newly created National Agency for Management of State Corporate Rights. The answer of the President is still unknown. In relation to this I would like to mention the case of NaftoGaz Ukrainsky company. Before going on vacation VR had passed the Law actually prohibiting foundation of this company. It was believed to be nothing else than a method to transfer to private hands the high-pressure gas.

¹ Investment Gazette # 35 (154) as of September 8th, 1998 p 11

pipelines and underground storages, which can not be privatized according to the laws of Ukraine. On August 21st the President vetoed the law adopted by VR. And two days later Mr. Bakal (the Chairman of NaftoGas Ukrainy company) told at the press-conference that the shares of UkrGasProm (gas transportation and settlements with RAO GasProm) and 51% of UkrNafta have been already transferred to the statutory fund of NaftoGas Ukrainy. NaftoGas Ukrainy also absorbed the Pridniprovsky Pipelines (high-pressure). The Cabinet of Ministers (CoM) has given two months term for liquidation of UkrGas Holding (gas distribution) and transfer of the state-owned shares of its divisions (regional gas-supplying companies) to NaftoGas Ukrainy. The inter-state Druzhba high-pressure pipelines are reported to be in the process of transfer to the statutory fund of NaftoGas Ukrainy.

The newly created monopoly on the natural gas market will be fully liable to the RAO GasProm for old debts of UkrGasProm. Taking into account the fact that the Russian side estimates Ukrainian indebtedness to equal 1.4 billion USD (estimates by representatives of the Ukrainian Government fluctuate from 500 million to 750 million USD), all property transferred to NaftoGas Ukrainy can be seized by the Russian monopoly. The book value of the statutory fund of NaftoGas Ukrainy makes 1.5 billion USD.

PFTS MARKET

The PFTS (over-the-counter) market is almost dead. The volumes of corporate shares trading are insignificant. There are only few companies left with bid and ask prices higher than the nominal value of their shares. There is almost no demand. Large traders as the Prospect Investments Wood & Co, Alfa Capital and others started to talk about their plans to switch to the corporate finance operations with the companies, shares of which they own. There are no hopes for improvement of the situation in this year.

Eastern Economist (August 31) (The week of August 25-28) The PFTS and ProU-50 indices decreased by 18.5% and 23.1% to 25.81 and 36.02 respectively. The sales volume for energy sector grew 466.49% mostly due to transactions with Sevastopolmiskenergo shares. This stock was never traded in the PFTS before, but this week the volume of sales made 702,652.38 UAH for 159,730 shares. ProU energy index decreased 29.6% to 41.92 due to bid and ask prices changes as follows: Kyivenergo – decrease by 26.27% (bid) and 3.72% (ask), Donbasenergo – 21.27% and -13.4%, Zakhidenergo -32.9% and -38.1% and Dniproenergo -35.7% and 0% respectively.

Eastern Economist (September 7) (The week of August 31- September 4) The PFTS, KAC-20 (S), KAC-20 (W) and Wood-15 indices fell by 28.2%, 9%, 9.7% and 12.7% to 21.1, 619, 576 and 523 respectively. The KAC-energy index was down 6.6% to 282. This week only well known stocks as Tsentrenergo and Zakhidenergo were traded regularly with low sales volumes. Since the share market does not exist, traders are starting to talk increasingly about moving into corporate financing. Companies like Prospect-Investments and Wood & Co are willing to become financial and investment advisers of those companies, shares of which they own.

During the week of August 25-28 Sevastopolmiskenergo shares sold at a volume of 702,652.38 UAH (159,730 shares), Tsentrenergo - 476,015.00 UAH (657,500), Luganskoblenergo – 133,461.72 UAH (12,660), Dniproenergo – 72,500 UAH (1,000),

Donbasenergo – 62,000 UAH (6,500), Zakhidenergo - 26,500 UAH (2,000) and Zaporizhiaoblenergo - 9,490 50 UAH (513)

During the week of August 31- September 4 Cherkasyoblenergo shares sold at a volume of 1,691,970 00 UAH (4,200,000 shares), Tsentrenergo - 44,900 20 UAH (190,001), Zakhidenergo– 39,000 00 UAH (4,000), Dniproenergo – 30,550 UAH (700), Luganskoblenergo - 30,350 00 UAH (3,035) and Kyivenergo - 15,600 00 UAH (13,000)

Please, see attached the charts reflecting the data on performance of energy sector shares on PFTS as Annex 3 to this Memorandum. The source of the end-of-week data was Eastern Economist

CONCLUSIONS

There have been no events in the sphere of power sector privatization during the reported period. It can be expected that the latest financial crisis will become one more reason for replacing commercial tenders for energy distribution companies with non-commercial ones. The major explanation could be that strategic investors would not pay more than nominal value of shares, but invest considerable amounts in the future. Otherwise, the tenders will fail because of the general depression of the market.

Attachments to this Memorandum contain the following information:

1. Annex 1 reflects the current privatization status of energy generation and distribution companies. There has been no change compared to the previous period.
2. Annex 2 consists of three pages with charts reflecting the trading of energy sector shares through the PFTS in 1997 - 1998. The charts contain information on those companies only, which were actually traded in August.

REPORT # 10

WEEK OF SEPTEMBER 14TH - SEPTEMBER 25TH, 1998

MEMORANDUM

TO David Wolcott
CC Svetlana Golikova, Tom Smith, Jim Stanfield, Eric Haskins, John Kyle
FROM Andrei Goncharenko
DATE September 25, 1998
SUBJECT Privatization & Stock Market Update Report
Period September 14th - September 25th, 1998

INTRODUCTION

The continuing financial crisis in Ukraine has seriously damaged the national stock market, which was always considerably smaller compared to the Russian one. The last two weeks trading of corporate shares in the over-the-counter trade system almost stopped. Other news in the sphere of privatization and stock markets were mostly also discouraging.

The only positive sign was the resolution of Verkhovna Rada of Ukraine (VR) to ban the transfer of Compensation Certificates (CCs) to Derzhinvest and Finprom companies and sales of share blocks of attractive strategic enterprises to these entities for CCs on the 29th specialized CC auction¹. The State Property Fund (SPF) has officially announced cancellation of the 29th and 30th CC auctions in its Order # 1795 as of September 18th, 1998. The positive side of this event is that the VR resolution prevented creation of an actual source of financing for two companies at the expense of people's savings. The negative side is that the term of issuing CCs will be extended, thus postponing the end of certificate privatization.

Mr. Bondar, the acting SPF Chairman, has submitted for consideration of VR the State Privatization Program for 1999, which has to be adopted by VR as a Law of Ukraine. The new Privatization Program envisages that in 1999 the privatization will be conducted exclusively in the way of sales for cash. (It is offered to use the cash sales method even in the process of preferential share sale, which had always been primarily a way for investment of privatization securities by the employees of privatized enterprises). The Cabinet of Ministers of Ukraine (CoM) got the new program for consideration at the end of August 1998. The target for cash inflows to the state budget in 1999 is set to make 800 million UAH. Mr. Bondar today says that this figure is much more realistic than 1,04 billion UAH revenues planned for 1998. He expects that the actual amount of revenues from privatization to the state budget this year will make approximately 500 million UAH.

The SPF also disclosed the information on its proposal to the CreditAnstalt InvestmentBank (CAIB) and Union Bank of Switzerland (UBS) to change the terms of contracts for authorized consultant services (for international tenders for shares of Donbasenergo and Tsentrenergo power generation companies) for terms of underwriter agreement. The mentioned banks could not come to an agreement with the Ministry of Finance of Ukraine (Minfin) on the conditions

¹ Resolution of Verkhovna Rada # 108-XIV as of September 15th, 1998

of cash deposits, they had been asked to provide for the period of international (open) tenders, and in the result the contracts for authorized consultant services between them and the SPF had not been signed

Now, the SPF offers to these banks to pay the nominal (face) value of shares proposed for international (open) tender (24% of equity of Donbasenergo and Tsentrenergo) and get the right to sell these shares to potential investors at their discretion. But, it seems to be hardly possible that the banks will agree to that offer, because the market price of shares of both those companies currently fall below their face value (in the over-the-counter (PFTS) system)

On September 18th the SPF has also adopted a resolution (The number is not available, because it was not published. The information source was mass media) about a re-privatization (nationalization) of shares of privatized companies, in which the buyers failed to fulfill their investment obligations. The list of companies includes 46 names. Among them is one electricity distribution company (Ternopiloblenergo). The company Prodexport, which purchased 20% of Ternopiloblenergo in the commercial tender is one of those, who should return the shares to state ownership by October 1st, 1998. There is a schedule of actions of the state authorities envisaging completion of the re-privatization process by the end of 1998. It is planned that re-privatized shares will be sold to private investors again in future.

September 18th, 1998 proved to be a day, when the SPF adopted a number of resolutions, which are of great interest to all parties interested in the privatization process and stock market of Ukraine. The same day the SPF adopted the Order # 1796 approving the off-shore company FS Trading Limited LLC (with British Virgin Islands registration) as a winner of the second tender for 35% of Odesaoblenergo. It was a surprise for everyone (including representatives of the Overcon consortium²). There was no official announcement about the second tender for Odesaoblenergo. Besides that according to the information in mass media, the SPF has already signed a purchase-sale contract for Odesaoblenergo shares and that should be a major violation of the appropriate regulation, while the contract of this nature requires preliminary official approval of the Antimonopoly Committee of Ukraine (AMC).

PFTS MARKET

The PFTS (over-the-counter) market is almost dead. The information of IMF EFF loan and World Bank credits did not cause any reaction on the stock market. Financial crisis, problems of the banking sector and re-privatization initiatives damage any hope for the improvement.

Eastern Economist (September 14) (The week of September 7-11) This week the traders were considerably active trying to protect themselves from devaluation of Hryvnia. This caused growth of the PFTS index by 21% and Wood-15 by 134% to 530. The total volume of

² The Cyprus-registered Consortium Overcon was denied its right to obtain 35% of Odesaoblenergo by the decision of the Supreme Arbitration Court of Ukraine as of August 20th, 1998. Please, see the Reports as of September 2nd and August 11th.

stocks that changed hands through the PFTS system in this period was 1 254 million UAH, or 27% of the previous period results Sales volume in energy sector dropped by 87.9%

Eastern Economist (September 24) (The week of September 14-18) The PFTS, Wood-15 and ProU-50 indices fell by 3.1%, 4.3% and 18.5% Traders were saying that the market did not exist this week They were also alarmed by the NBU decision to devalue the national currency (Hryvnia dropped to 2.99 at the Ukrainian Interbank Currency Exchange (UICE) They preferred to wait and observe than to trade at a loss The total volume of stocks that changed hands through the PFTS system in this period was 3 074 UAH, i.e. 245% of the previous period

During the week of September 7-11 Dniproenergo shares sold at a volume of 78,870 UAH (1,770 shares), Zakhidenergo - 58,146.00 UAH (5,002), Tsentrenergo - 52,255.00 UAH (218,320), Kyivenergo - 19,900.00 UAH (18,000) and Luganskoblenergo - 15,440 UAH (1,544)

During the week of September 14-18 Dniproenergo shares sold at a volume of 234,513.36 UAH (4,162 shares), Zakhidenergo - 190,998.74 UAH (14,166) and Donbasenergo - 27,192.60 UAH (4,350)

Please, see attached the charts reflecting the data on performance of energy sector shares on PFTS as Annex 3 to this Memorandum The source of the end-of-week data was Eastern Economist

CONCLUSIONS

The current financial crisis of Ukraine has deeply affected the stock market and endangered the process of privatization as it is Despite the announced initiatives aimed at stimulation of privatization in energy sector, actual measures implemented by the Government of Ukraine (GoU) can hardly attract any foreign investor The GoU impersonated by the Prime-Minister Mr Pustovoytenko tries to increase cash inflow to the state budget by squeezing payments to the pension fund and state budget from directors of privatized and state-owned companies

The anti-crisis program drafted by the CoM and approved by the joint Resolution of the CoM and National Bank of Ukraine (NBU) # 1413 as of September 10th, 1998 includes the provisions 44 and 45 envisaging conducting by the end of the year "guaranteed allocation" (meaning underwriting) of shares of Tsentrenergo and Donbasenergo, and Kyivenergo and Zaporizhiaoblenergo respectively Considering the fact that shares of all mentioned companies of the power sector are being traded in the PFTS lower than their face value, it is doubtful that a proposal of this kind will be accepted by anyone The situation with Odesaoblenergo may be one more reason making Ukrainian power sector less attractive for foreign strategic investors They will be acutely aware of the fact, that even winning a tender they might find out that a well-connected off-shore company makes a claim to the court and takes the shares over

Attachments to this Memorandum contain the following information

- 1 Annex 1 reflects the current privatization status of energy generation and distribution companies. There has been no change compared to the previous period. Informal sources in the SPF say that even though the lists of enterprises, subject to re-privatization exist and are even being amended, nobody has seen any official document regulating this process.
- 2 Annex 2 reflects the latest changes in the sphere of finished commercial tenders including a new winner of Odesaoblenergo tender with approximate figure of the amount offered for the share packet (informal data).
- 3 Annex 3 consists of three pages with charts reflecting the trading of energy sector shares through the PFTS in 1997 - 1998. The charts contain information on those companies only, which were actually traded in August.

Type	Company	Tender %	Tender (new SAPs) %	Actual Sale Depth, %	Stock Exchange (new SAPs) %	Certificate Auctions (new SAPs) %	Expected Sale Depth %	Available Shares, %	State Share %
GENERATION	Dniproenergo	24		17 53					51
	Donbasenergo	24	10 15	9 44					51
	Tsentrenergo	24		17 64					51
	Zakhidenergo	24		16 21					51
DISTRIBUTION	Sumyoblenergo	36		72 98				2 02	25
	Poltavaoblenergo	36		70 93				4 07	25
	Lvivoblenergo	35		70 88				4 12	25
	Prikarpattiaoblenergo	35		68 75				6 25	25
	Odesaoblenergo	35		67 56				7 44	25
	Luganskoblenergo	35		67 30				7 70	25
	Chernigovoblenergo	35		66 37				8 63	25
	Chernivtsyoblenergo	36		28 24			64 24	10 76	25
	Mykolaivoblenergo	40		26 88			66 88	8 12	25
	Terнопiloblenergo	20	25	49 00	1 00		75 00	0 00	25
	Kirovogradoblenergo	20	25	42 33	2 66		69 99	5 01	25
	Zaporizhiaoblenergo		40	17 51	12 49	5 00	75 00	0 00	25
	Zakarpattiaoblenergo		40	20 86	14 12		74 98	0 02	25
	Volynoblenergo		40	22 19	12 81		75 00	0 00	25
	Rivneoblenergo		35	16 07	16 93	7 00	75 00	0 00	25
	Vinnitsaoblenergo		35	26 60	6 40	7 00	75 00	0 00	25
	Khmelnitskoblenergo		35	25 72	14 26		74 98	0 02	25
	Kyivoblenergo		35	23 97	16 03		75 00	0 00	25
	Zhytomiroblenergo		26	36 68	12 32		75 00	0 00	25
	Kyivenergo			37 27			37 27	37 73	25
	Khersonoblenergo			33 01			33 01	41 99	25
	Krimenergo			28 14			28 14	46 86	25
	Kharkivoblenergo			23 46			23 46	51 54	25
Donetskoblenergo			23 36			23 36	51 64	25	
Cherkassyoblenergo			22 86			22 86	52 14	25	
Dniprooblenergo			18 51			18 51	56 49	25	
Sevastopolmiskenergo			16 77			16 77	58 23	25	

List of Winners in Commercial Tenders for Energy Distribution Companies Shares

Company	Equity Share	Winner of Tender	Statutory Fund	Ask Price	Relative to Nominal Share Price	Amount Paid	Relative to Nominal Share Price*	Difference (nominal)	Price Paid Relative to Ask Price
1	2	3	4	5	6	7	8	9=7-5	10
Terнопільське енерго	20%	Investment Company PROEXPORT for Padex Industries Ltd	18,272,040 00	5,030,000 00	1 00	5,030,000 00	1 00	0 00	100%
Kirovogradoblenergo	20%	First Ukrainian Privatization Fund	29 844 000 00	7 587 700 00	1 27	7 620 000 00	1 28	32 300 00	100%
Prikarpatyoblenergo	35%	Ukrainian Securities for Cape Trading Holding Ltd	25 908 875 00	9 397 000 00	1 04	9 420 000 00	1 04	23 000 00	100%
Chernigivoblenergo	35%	Autoalliance Invest	29 829 506 00	14 000 000 00	1 34	14 010 000 00	1 34	10 000 00	100%
Sumyoblenergo	36%	Investment Company ARSENAL	44 281 374 00	15 941 295 00	1 00	18 600 000 00	1 17	2 658 705 00	117%
Poltavaoblenergo	35%	Contrast Holding Ltd	55 240 000 00	19 866 400 00	1 03	44 350 000 00	2 29	24 483 600 00	223%
Lvivoblenergo	35%	Privat Bank	48,493,080 00	22,263,000 00	1 31	40,750,000 00	2 40	18,487,000 00	183%
Odesaoblenergo	35%	FS Trading Limited LLC	52 123 890 00	18 254 000 00	1 00	26 000 000 00	1 43	7 746 000 00	142%
Luganskoblenergo	35%	Verrona Plus	52,030,730 00	25,260,000 00	1 39	25,263,000 00	1 39	3,000 00	100%

Commercial Tenders

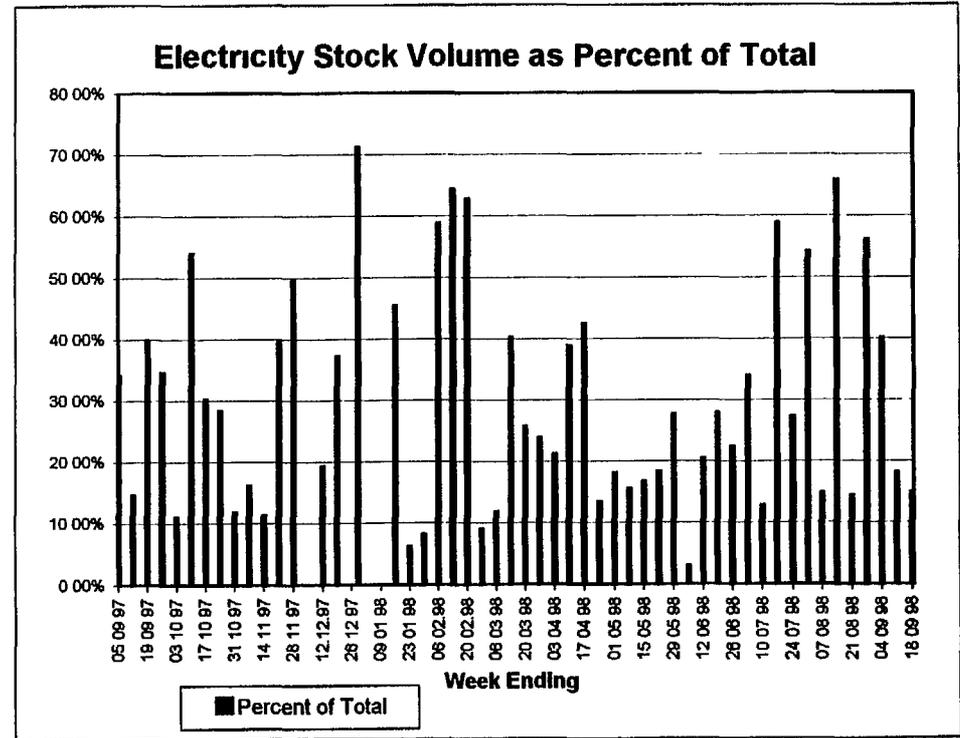
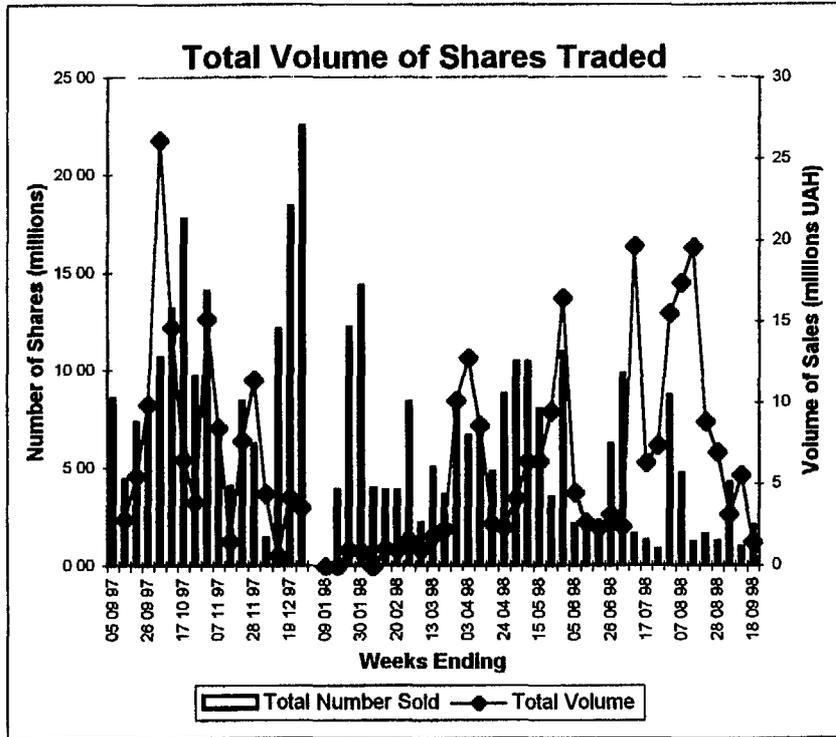
Enterprise Name	Chartered Capital	Nominal Share Value	Sale Depth	Tender (starting date)	Tender (ending date)	Packet for Tender	Packet Ask Price	Short Term Investment Obligations**	Middle Term Investment Obligations***
1	2	3	4	5	6	7	8	9	10
TERNOPILOBLENERGO	18,272,040 00	10 00	40 00	01 10 97	31 12 97	20	5,030,000 00	5,000,000 00	17,000,000 00
KIROVOGRADOBLENERGO	29,844,000 00	10 00	42 33	01 09 97	31 12 97	20	7,587,700 00	5,000,000 00	17,000,000 00
SUMYOBLENERGO	44,281,374 00	1 00	72 98	28 04 98	28 05 98	36	15,941,295 00	21,000,000 00	28,000,000 00
POLTAVAOBLENERGO	55,240,000 00	2 50	70 93	27 05 98	26 06 98	36	19,866,400 00	17,200,000 00	42,400,000 00
LVIVOBLENERGO	48,493,080 00	0 25	70 88	27 05 98	26 06 98	35	22,263,000 00	20,000,000 00	33,000,000 00
PRIKARPATYAUBLENERGO	25,908,875 00	12 50	68 75	06 05 98	05 06 98	35	9,397,000 00	5,000,000 00	13,250,000 00
ODESAUBLENERGO	52,123,890 00	10 00	67 56	12 05 98	18 09 98	35	18,254,000 00	10,000,000 00	50,200,000 00
LUGANSKOBLENERGO	52,030,730 00	10 00	67 30	27 05 98	26 06 98	35	25,260,000 00	12,500,000 00	38,300,000 00
CHERNIGIVOBLENERGO	29,829,506 00	1 00	66 37	28 04 98	28 05 98	35	14,000,000 00	10,000,000 00	17,760,000 00
CHERNIVTSYOBLENERGO	14,195,170 00	10 00	28 24	17 06 98	15 09 98	36	5,110,000 00	3,060,000 00	7,140,000 00
MYKOLAIVOBLENERGO	39,660,000 00	2 00	26 88	17 06 98	15 09 98	40	17,162,000 00	8,200,000 00	18,700,000 00
						TOTALS	159 871 395 00	111 960 000 00	265 750 000 00

according to the official information of the SPF

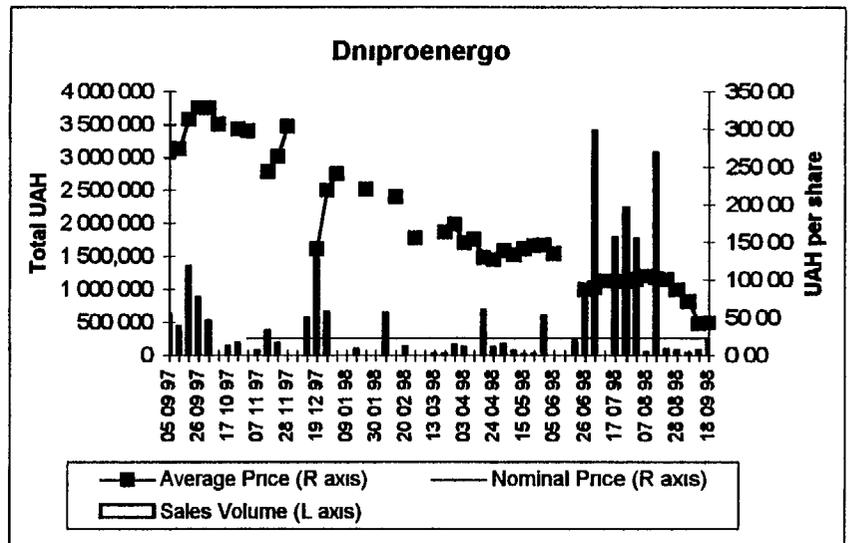
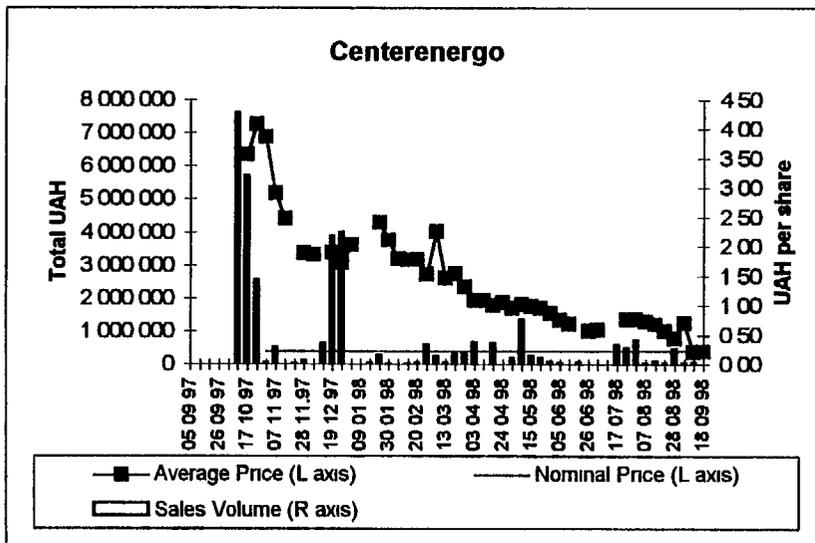
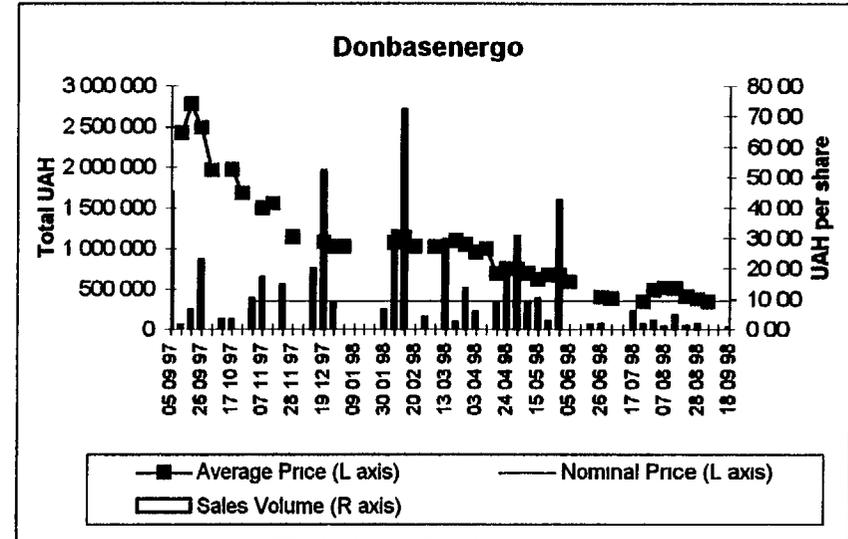
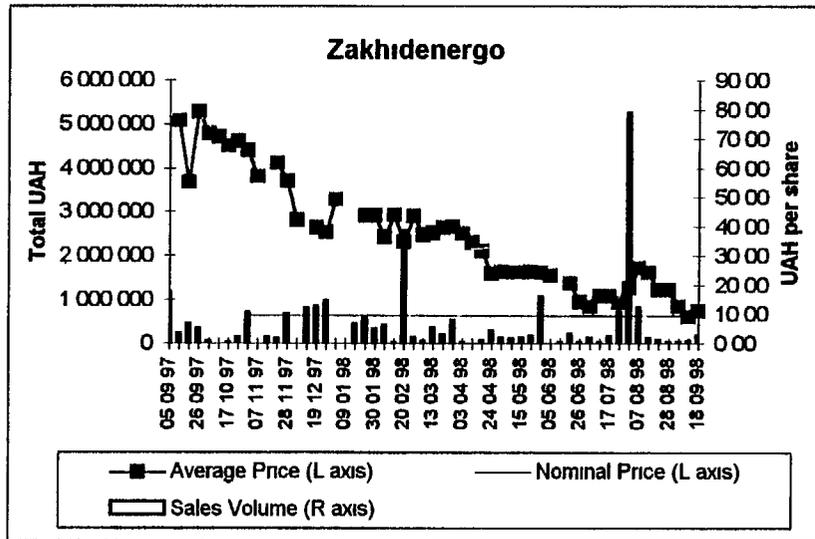
Amount needed for settlement of accounts payable in arrears plus replenishment of current assets (60-days term)

Investment obligations for 3-5 years period plus financing of social assets plus environmental measures

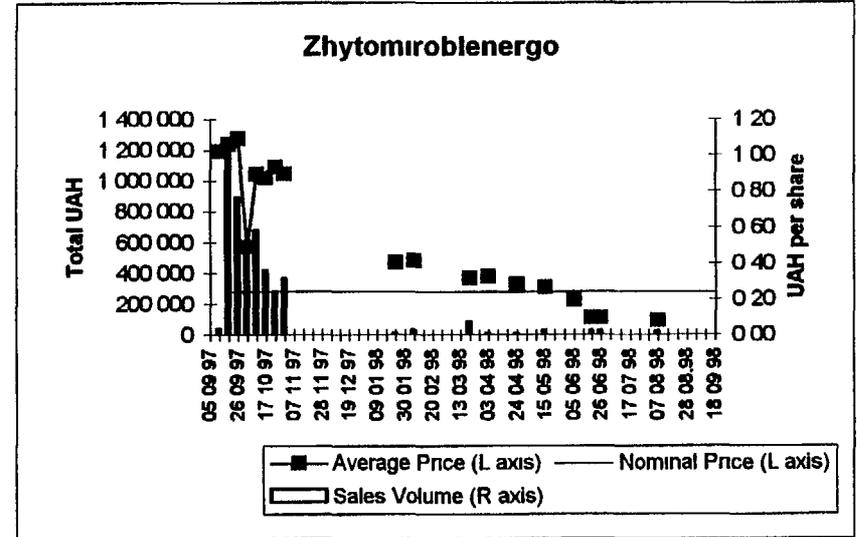
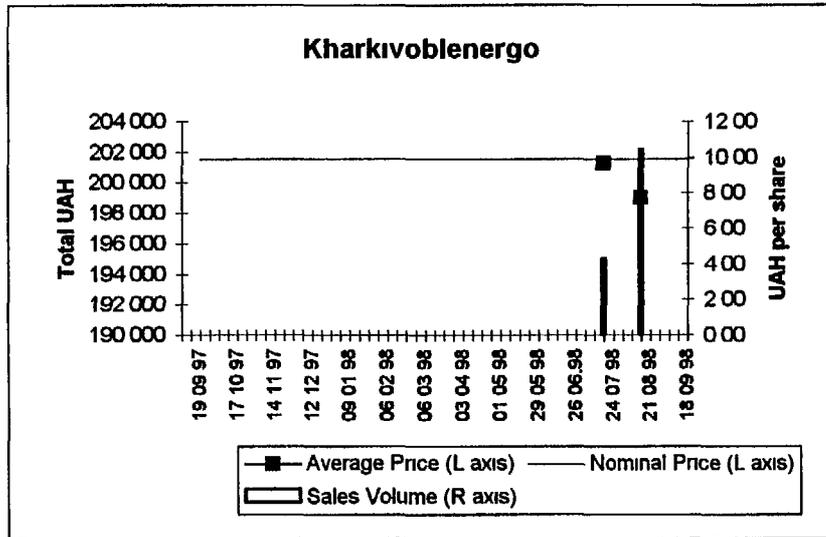
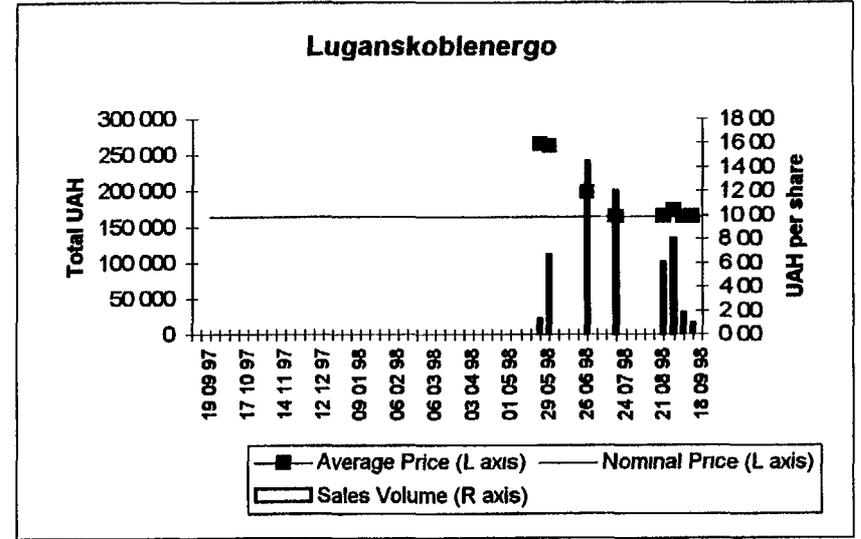
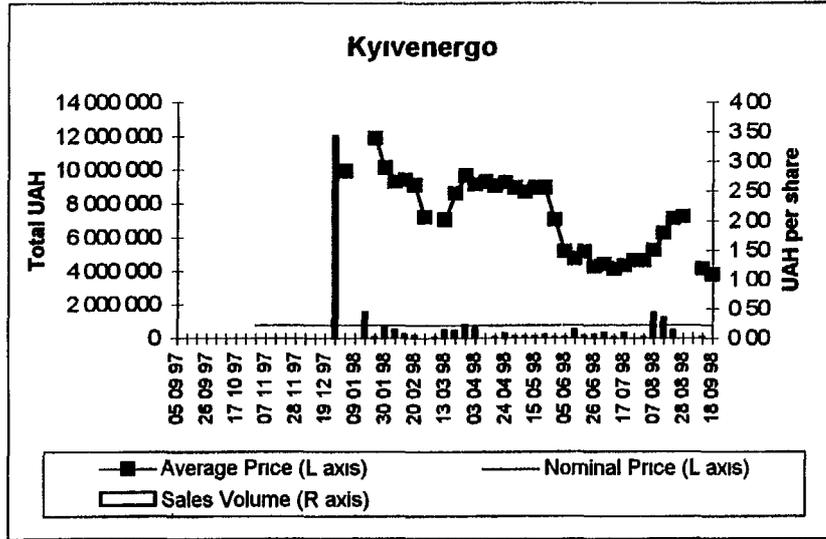
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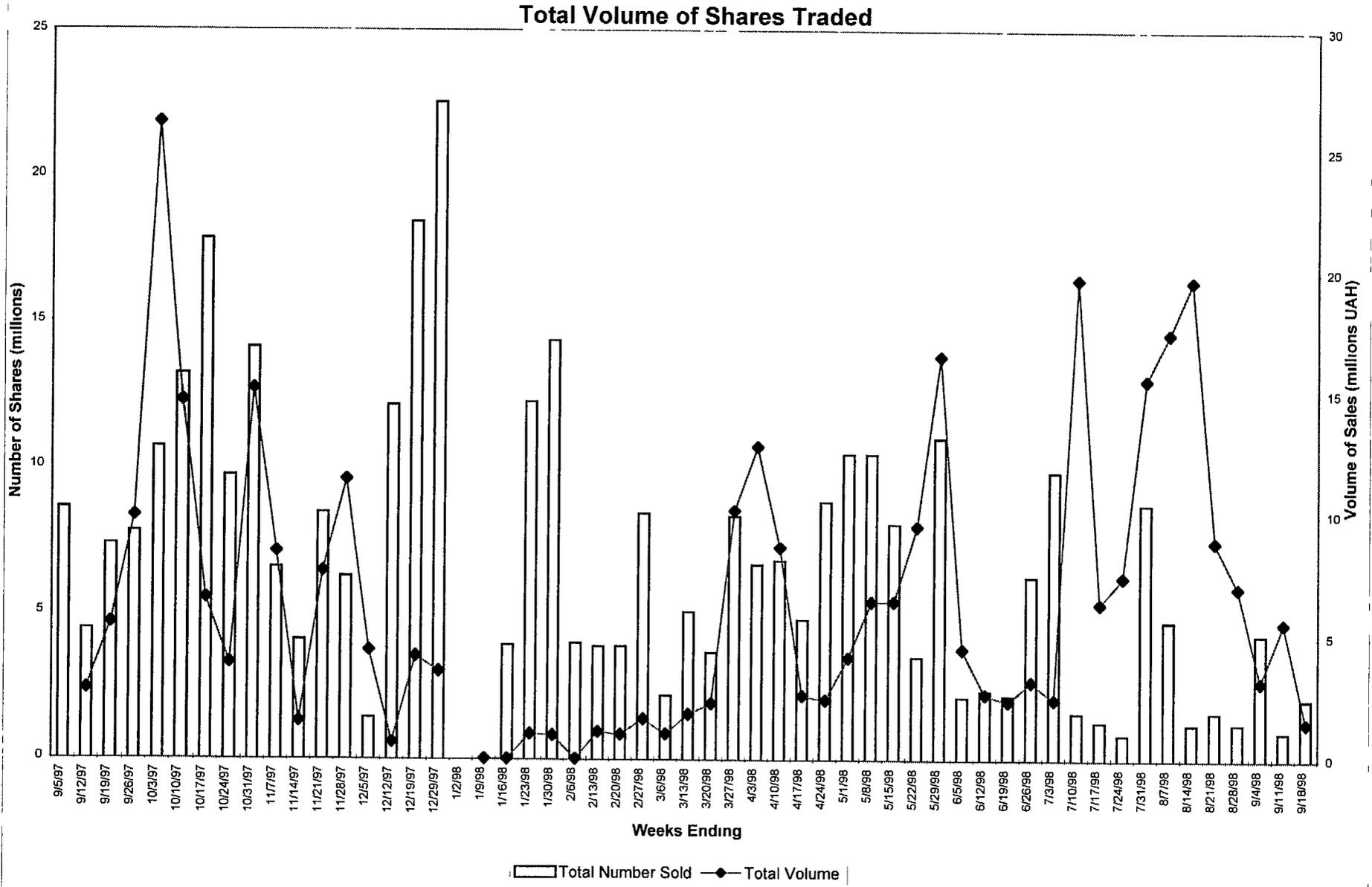
Genco Share Prices, Volumes Weekly Data 09/05/97-09/18/98



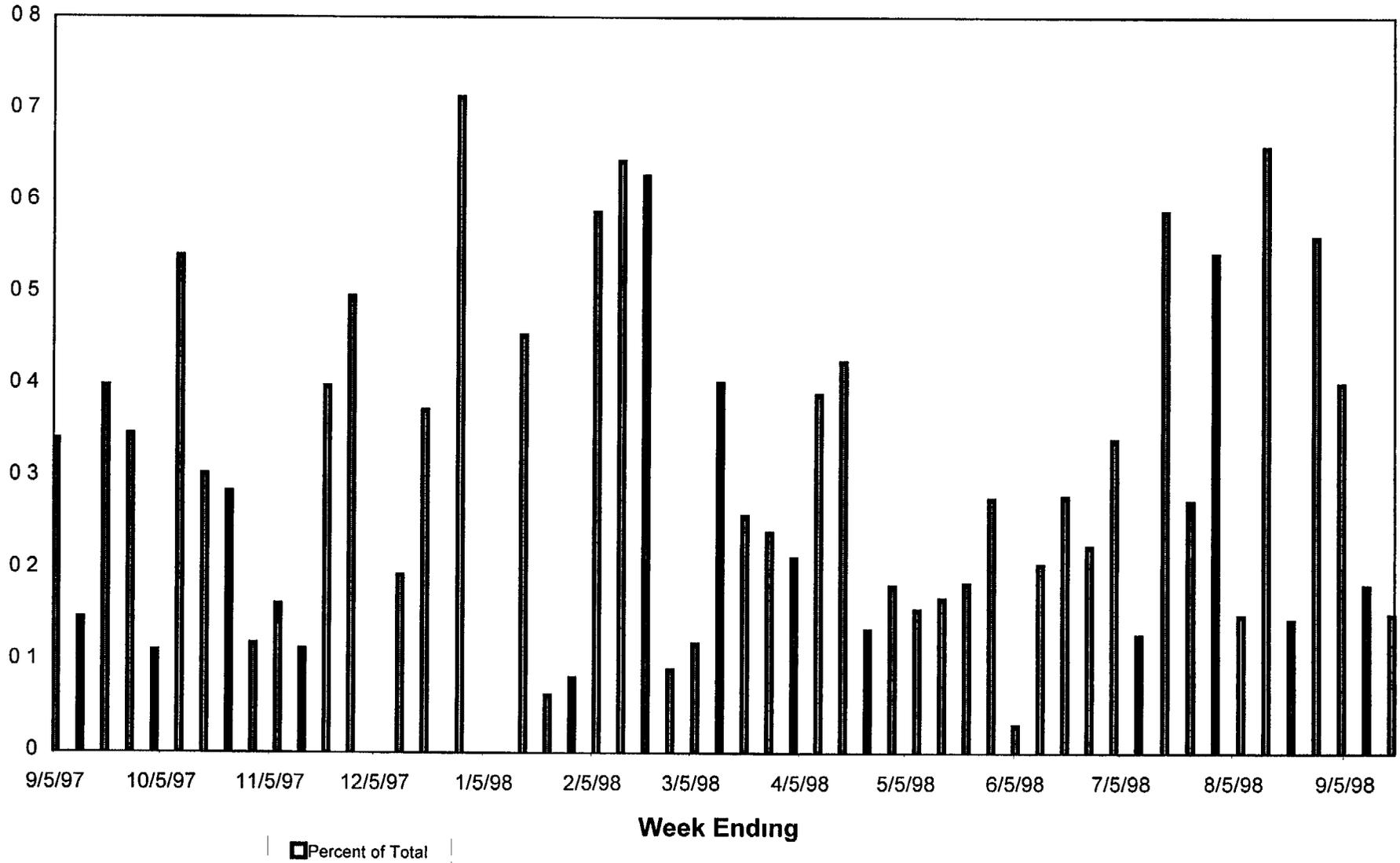
Oblenergo Share Prices, Volumes Weekly Data 09/05/97-09/18/98



Summary Charts of Stock Values

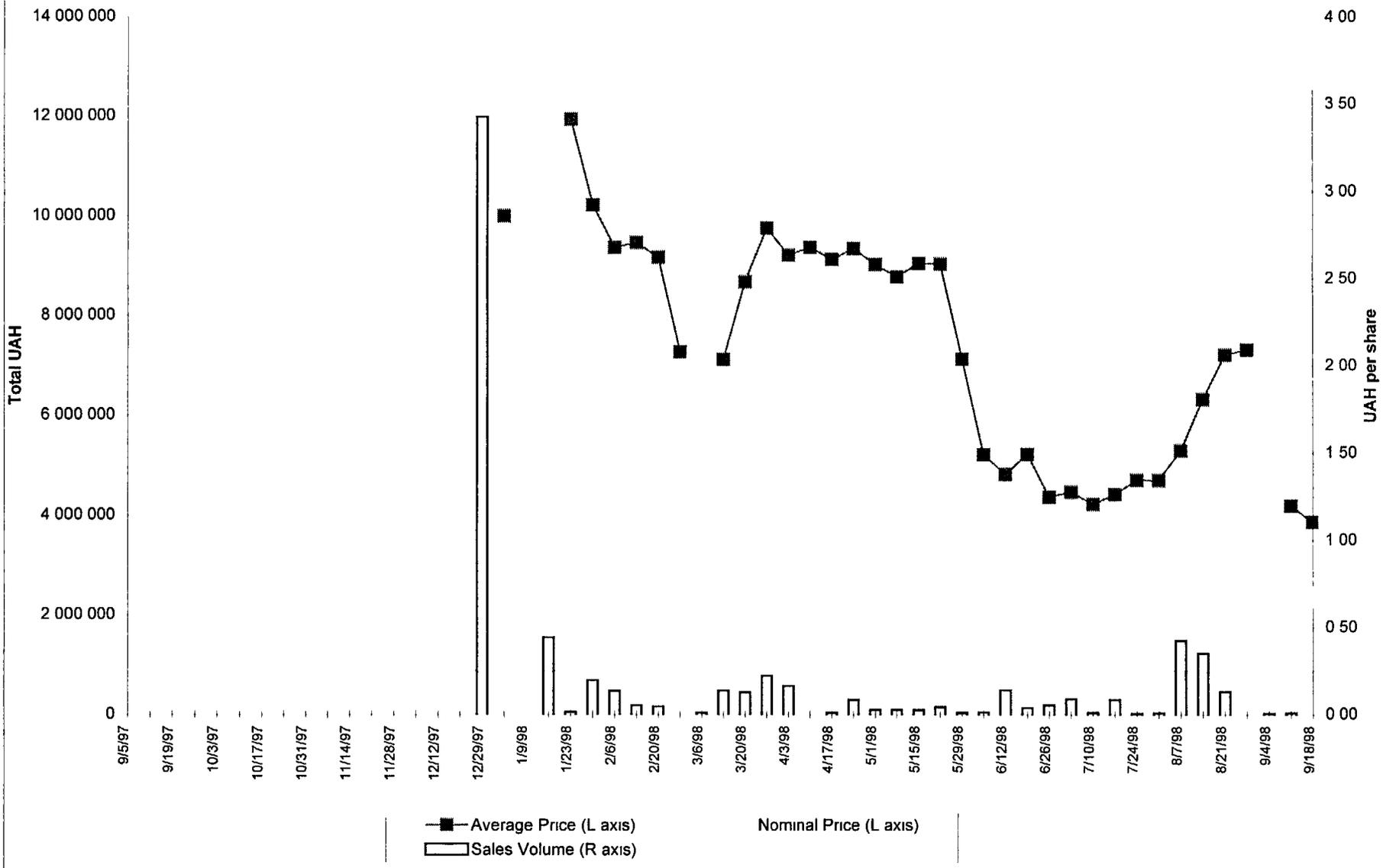


Electricity Stock Volume as Percent of Total

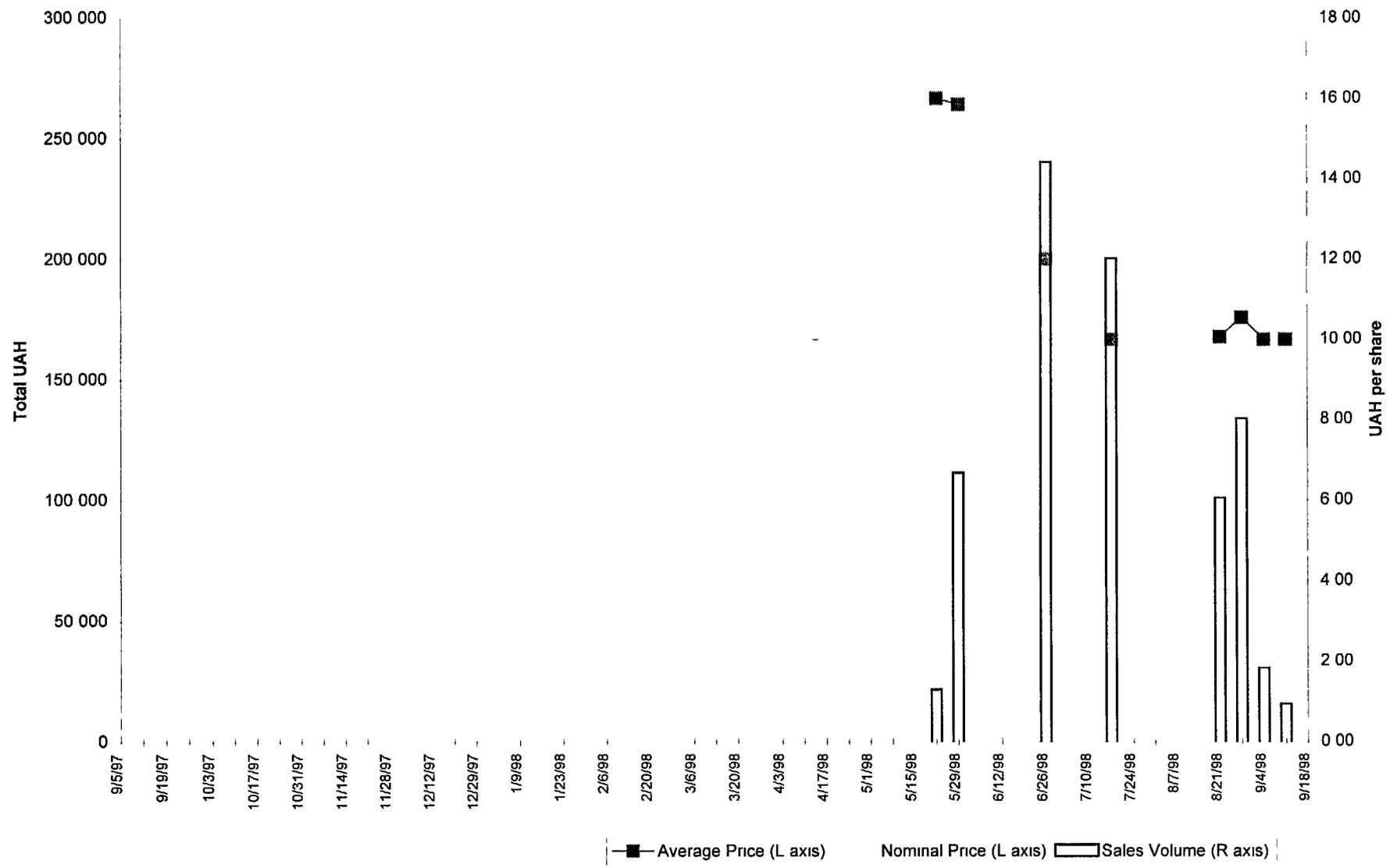


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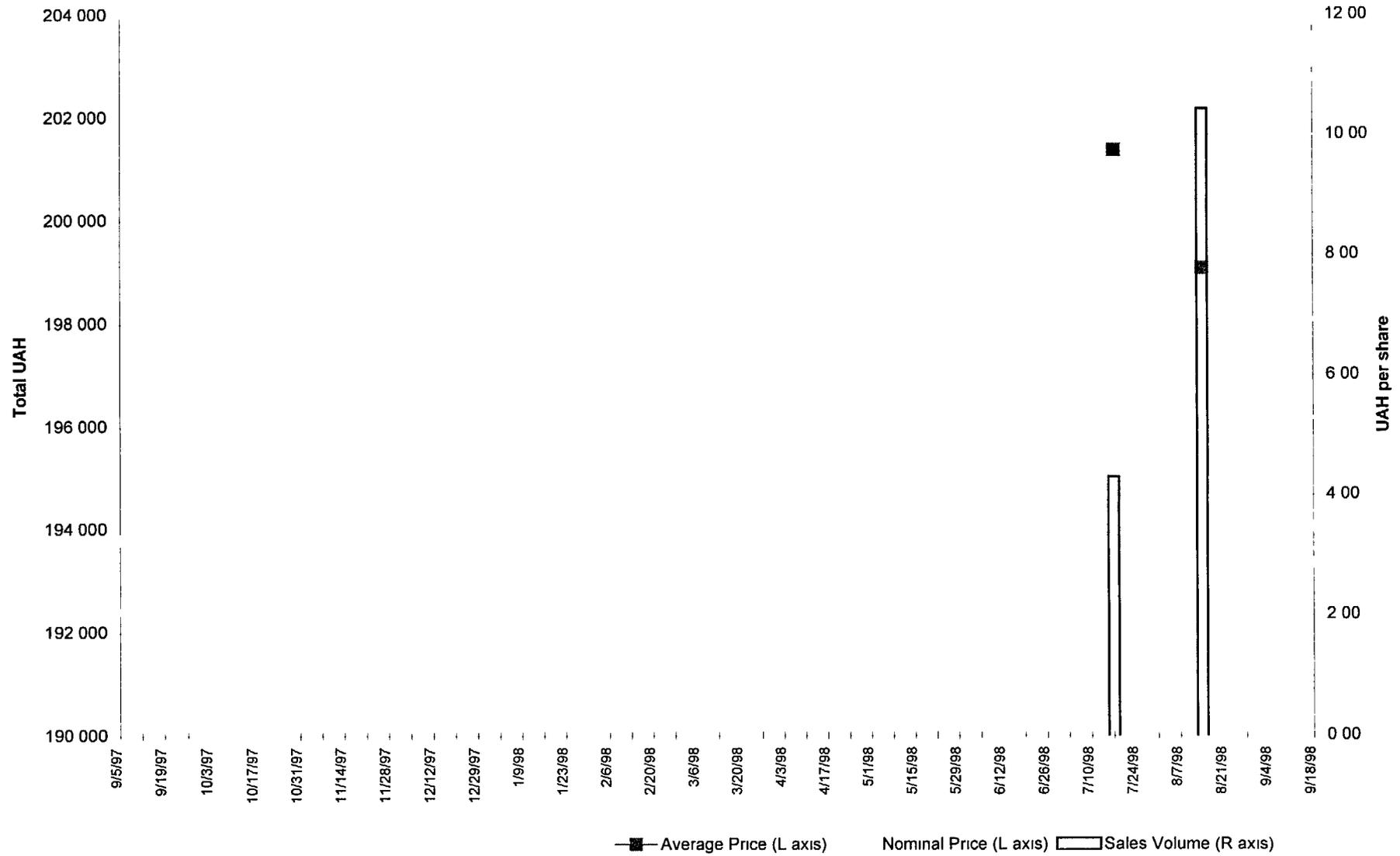
Kyivenergo



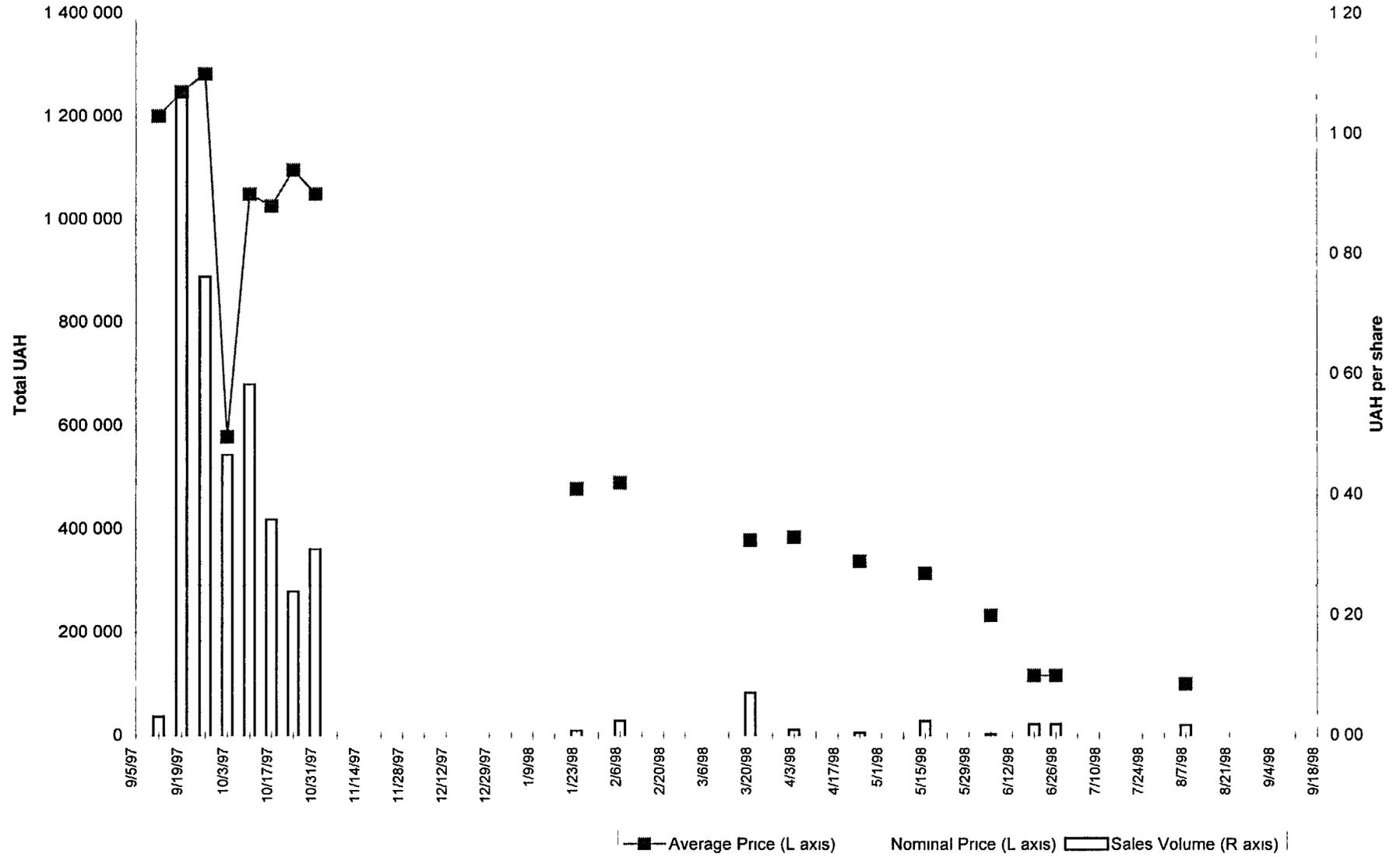
Luganskoblenergo



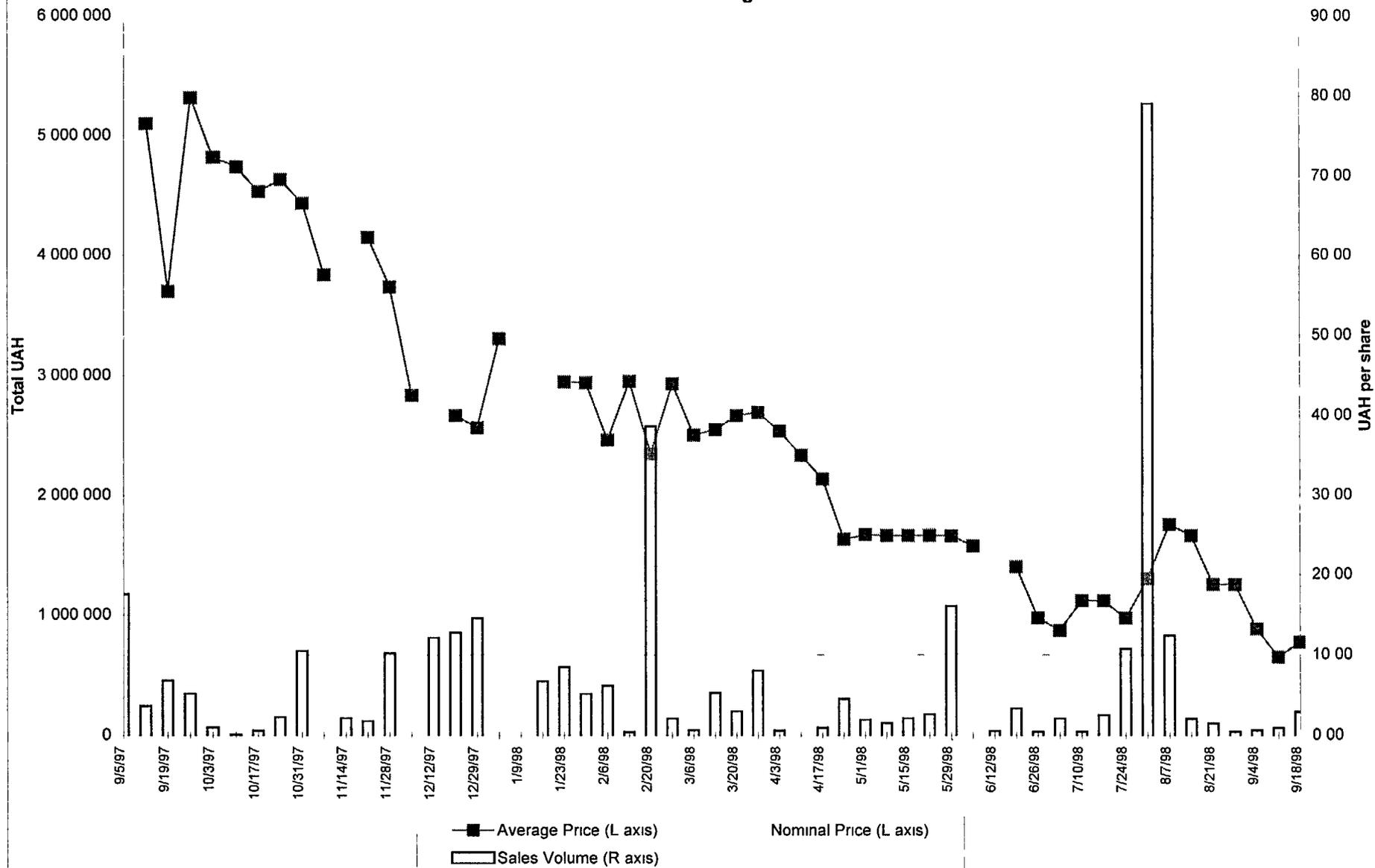
Kharkivoblenergo



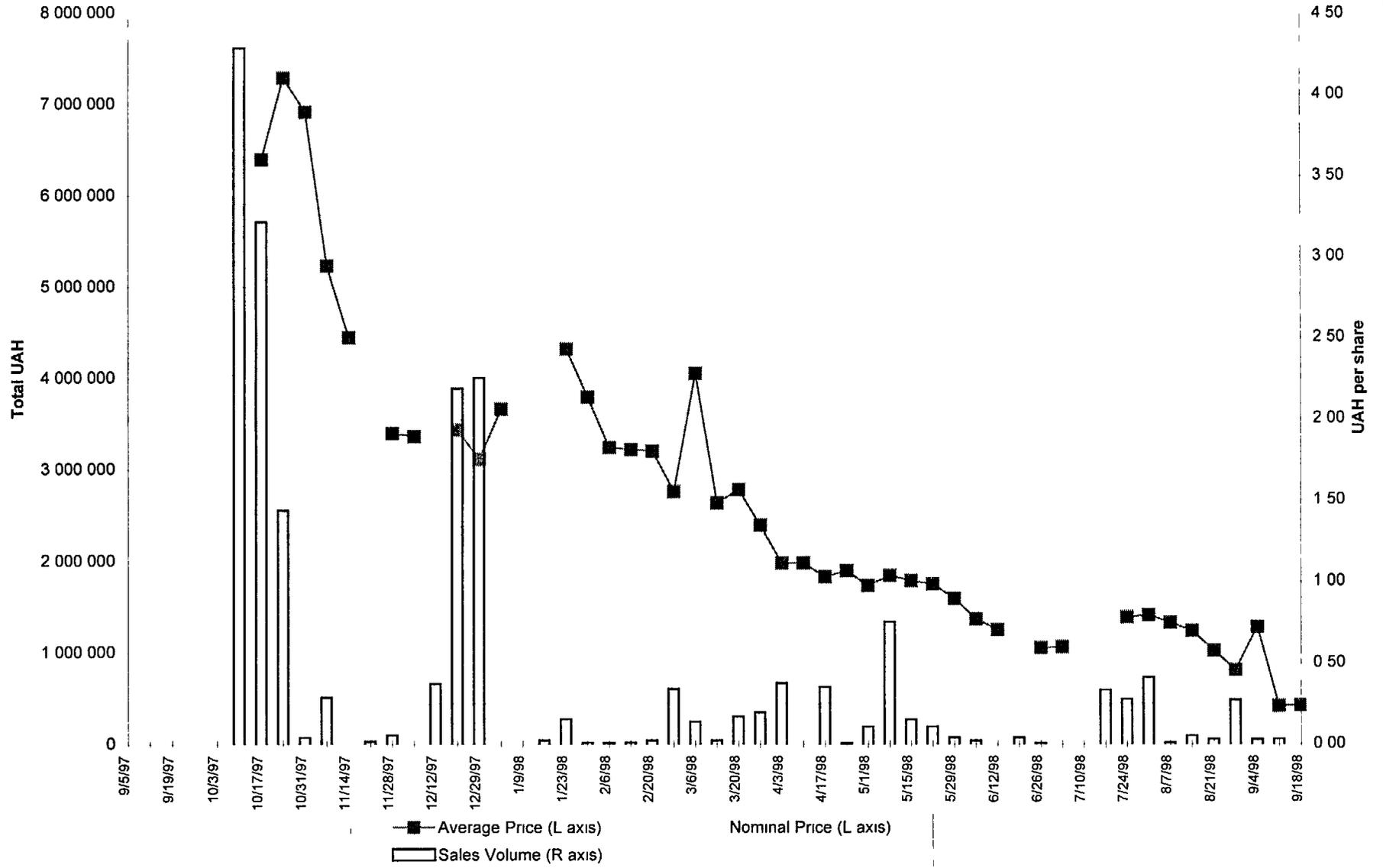
Zhytomiroblenergo



Zakhidenergo



Centerenergo



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Dniproenergo

