



CONCORDE CAPITAL

Ukraine / Electricity Dniproenergo

Three AGMs, One Restructuring

July 23, 2007

HOLD

Market: USD 366

12M Target: USD 432

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Market information

Bloomberg	DNEN UZ
No of Shares, mln	3.924
New shares to be issued, mln	2.043
MCap, USD mln	1,438
Free float	15%
FF MCap, USD mln	215

Stock ownership, current

NC ECU	76.0%
DTEK	8.3%
Other	15.7%

Ownership after restructuring, est

NC ECU	50.0%
DTEK	39.7%
Other	10.3%

Ratios, 2007E

EBITDA Margin	11.0%
Net Margin	2.8%
Net Debt/ Equity	0.34

Dniproenergo's shareholders have scheduled three AGMs from August-September 2007, each with the same agenda. We believe this is a sign that DTEK is not sure that the company's main shareholder will approve the main issue of the agenda: the dilutive restructuring of Dniproenergo. We are sure that at least one of the three AGMs will approve restructuring. We do not recommend participating in the buyout of Dniproenergo shares following restructuring and re-iterate our HOLD recommendation.

Three AGMs: August 27, 31, September 7.

All three have the same agenda:

- The merger of Investment Company LTD with Dniproenergo
- The buyout of Dniproenergo shares
- The approval of the conditions for the share swap between Dniproenergo and Investment Company LTD
- Dniproenergo's additional shares issue
- The increase of Dniproenergo's charter fund

Case study: Odessaoblenergo EGMs.

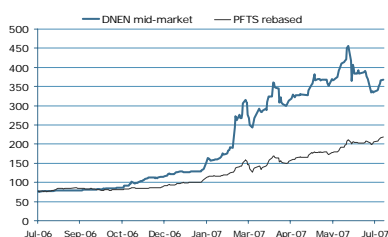
The main shareholder of Odessaoblenergo, VS Energy, scheduled seven EGMs for the company in March-June 2007, with the same agenda: approval of the increase in the company's charter fund. As the blocking shareholder, the National Energy Company (NC ECU), did not agree to vote for the increase, VS Energy scheduled a series of EGMs in order to be able to hold a vote as soon as they got the NC ECU to agree to vote. All the EGMs failed to hold.

The Two Main Questions For Minority Shareholders:

1. Whether the AGM will approve the restructuring of Dniproenergo (additional share issue and merger with Investment Company LTD)? We do not see any impediments to the restructuring plan's approval: the Government has given the NC ECU the ok to vote for additional share issue; the Economic Court of Zaporizhia Region has approved the conditions for Dniproenergo's restructuring. However, the fact that three AGMs scheduled suggests that the main beneficiaries of restructuring still see some risk that the initiative will not be approved, and by scheduling three meetings, they give themselves some breathing room to tackle any problems that pop up.

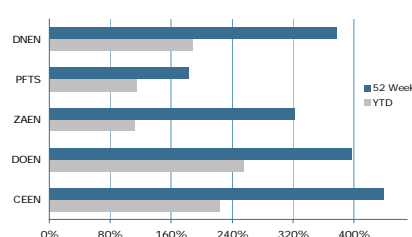
2. Any compensation for minorities? The agenda foresees no direct compensation. The only "minority protective mechanism" foreseen is the buyout of shares by Dniproenergo for those investors that vote against merger or swap agreement.

DNEN price, USD

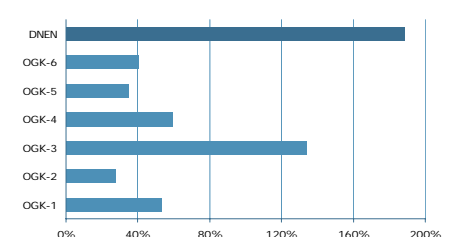


Source: PFTS, RTS, Concorde Capital calculations

Performance vs GenCos & PFTS



YTD Performance vs Russian OGKs



Key Financials & Ratios

(in USD mln)	Sales	EBITDA	Net Income	EV/S	EV/EBITDA	P/E
2006	551.2	56.6	2.5	2.7	26.6	n/m
2007E	684.6	75.3	19.3	2.2	20.0	74.5
2008E	757.2	90.8	31.2	2.0	16.6	46.1

Spot exchange rate is 5.05

Buyout price: the later the better

The agenda stipulates that the buyout price will be calculated as the weighted average price of deals on the PFTS over the last six months preceding the announcement of the AGM. For the meeting scheduled on August 27, the announcement date is July 6; for the other two scheduled AGMs the date is July 11. Thus, if the restructuring decision is approved on August 27 AGM, the buyout price will be USD 315.1 per share (a 14% discount to the current market price), the other two EGMs imply a buyout price of USD 317.6 per share (a 13% discount).

We believe DTEK will do its best to make all the necessary decisions on one of the three already scheduled AGMs: if not they will end up paying more for the shares they buyout. If these EGMs fail, Dniproenergo will have to appoint new meeting in September, meaning the buyout price will be closer to the current market.

Dniproenergo trades with a discount

We used two approaches to calculate EV/Capacity multiples for GenCos, all the approaches suggest DNEN trades with a discount to other GenCos.

Applying reported net debt, where net debt is calculated as short-term and long-term interest bearing debt, plus current portion of long-term debt, less cash.

Applying adjusted net debt: We add a difference between outstanding and restructured payables and receivables. It is important to account for the difference in GenCos' receivables accounting policy. For the adjustment of net payables, we took 2005 eoy data, which is the last reported date before the active process of debt offsetting.

Net receivables adjustment

	Net receivables, eoy 2005	% of gross receivables	Adjusted net receivables, eoy 2005
CEEN	316.6	96%	66.0
DNEN	107.3	20%	107.3
DOEN	137.5	44%	62.5
ZAEN	128.8	100%	25.8

Source: company data, Concorde Capital calculations

DNEN reflects 20% of its gross receivables as net receivables, the rest is accounted as bad debt. We believe that 20% most accurately reflects the company's probability having its receivables returned, so we apply this ratio of net/gross payables to all the GenCos.

Net debt as of 31 March 2007, USD mln

	ND reported	ND adjusted
CEEN	105.8	332.3
DNEN	68.2	286.2
DOEN	83.0	139.4
ZAEN	109.1	177.7

Source: company data, Concorde Capital calculations

Market multiples

	Capacity, MW*	MCap, USD mln	EV/Capacity, USD/kW	
			Reported ND	Adjusted ND
ZAEN	4,700	1,468	335	350
CEEN	4,550	1,586	372	430
DOEN	2,710	698.6	288	364
Mean			332	381
DNEN:				
Current	5,760	1,438	261	299
Discount			-21%	-22%
Assuming restructuring**	5,760	2,187	322	360
Discount			-3%	-6%

Source: company data, PFTS, Concorde Capital

* Coal-fueled capacity only

** MCap is calculated at current share price and new shares number; Net debt is reduced by USD 400 mln investments of DTEK. Refer to our Jun 22 note on DNEN for more information on restructuring

We believe that DNEN with a strategic investor deserves a premium to other traded GenCos, refer to our note as of June 22. We do not change our 12M target for DNEN (USD 432), and re-iterate out HOLD recommendation for the stock.

We do not recommend participating in share buyout proposed by Dniproenergo in the process of restructuring.

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