



CONCORDE CAPITAL

Ukraine / Electricity

Dniproenergo

False start by the NC ECU?

March 24, 2008

Current price: USD 424
12M Target: USD 516

BUY

Alexander Paraschiy

ap@concorde.com.ua
+380 44 391 5577

Tickers

| | |
|-----------------------|------|
| PFTS | DNEN |
| GDR (Frankfurt/Xetra) | DPG |

DR ratio 4 : 1

Market information

| | |
|-------------------|------|
| Market price, USD | 424 |
| Chg YTD | -16% |

| | |
|--------------------------|-------|
| MCap, USD mln*: | |
| (old share number) | 1,664 |
| (increased charter fund) | 2,530 |

| | |
|--------------------------|------|
| No of shares, mln*: | |
| old shares | 3.92 |
| (increased charter fund) | 5.97 |

| | |
|---------------------|-------|
| Free float, USD mln | 126.5 |
|---------------------|-------|

Shareholder structure:

By proportion in new charter fund*

| | |
|----------------|-------|
| NC ECU (State) | 50.0% |
| DTEK (SCM) | 44.3% |
| Other | 5.7% |

By number of actual shares

| | |
|----------------|-------|
| NC ECU (State) | 76.0% |
| DTEK (SCM) | 14.3% |
| Other | 9.7% |

* Dniproenergo raised its charter fund 1.52x in late 2007, but DNEN's registrar refused to register the new shares proportionally to the fund increase. De jure, the number of shares has not grown.

Key financials and ratios***

| USD mln | 2005 | 2006 | 2007 |
|---------------------|-------|-------|-------|
| Sales | 406.9 | 551.2 | 758.0 |
| EBITDA | 65.8 | 56.6 | 79.6 |
| Net income | 4.6 | 2.5 | 24.1 |
| EV/S | 6.8 | 5.0 | 3.4 |
| EV/EBITDA | 41.8 | 48.6 | 32.0 |
| P/E | 554 | 1013 | 105 |
| EV/Capacity, USD/kW | 481 | 477 | 443 |

*** Ratios assuming increased charter fund

The NC ECU tried to weaken DTEK's position in Dniproenergo by electing new management at the company's controversial EGM on March 21. We believe the EGM will be recognized as invalid in court. We see little risk that Dniproenergo's operating results will be harmed by a conflict between its main shareholders in the short-term, and no impact on Dniproenergo's value in the mid-term. DNEN's current price implies 22% upside: we upgrade to BUY.

Timeline of events:

- **August 27, 2007.** At Dniproenergo's AGM, shareholders voted to increase the company's charter fund via an additional share issue - stakes of all shareholders except DTEK were diluted by 1.52 times
- **November 2007.** Charter fund was increased by 52%, as was stipulated by AGM. Even with a resolution of the Kyiv Economic Court, Ukrnaftogaz, Dniproenergo's registrar, refused to register new shares.
- **Dec. 2007-Jan. 2008.** Series of lawsuits by minority shareholder, Biznes-Invest, affiliated with Privat group (PRIVAT_BGI). These culminated in the High Economic Court validating the AGM's decisions
- **January 23, 2008.** Volodymyr Zinevich was appointed new president of the National Energy Company of Ukraine (NC ECU). Rumors link him to Privat
- **March 19, 2008.** An order the Cabinet of Ministers passed, stipulating the transfer of 2.35 mln shares of Dniproenergo from the NC ECU to the State Property Fund
- **March 20, 2008.** The Zaporizhya Economic Court ruled that Dniproenergo shareholder meetings will only be valid if the NC ECU checks in with a 50% stake (based on the new number of shares)
- **March 21, 2008.** The NC ECU convened an EGM of Dniproenergo shareholders. The EGM replaced the company's CEO (with an NC ECU employee) and supervisory board (all seven places went to NC ECU representatives). Meanwhile, Dniproenergo's management reported that the EGM failed to take place

WATCH:

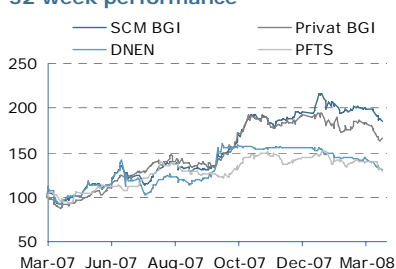
- **March 27, 2008.** AGM is scheduled
- **April 8, 2008.** Ukraine's Supreme Court is due to hear the case brought forward by Biznes-Invest against the August AGM's decisions

The NC ECU's position looks weak

Dniproenergo's management (which supports the position of DTEK) is well-prepared to question the validity of the March 21 EGM:

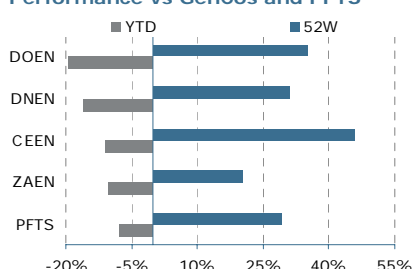
- The EGM took place, but outside near the office of Dniproenergo: the location of EGM was changed because the registrar was not allowed to enter the office – this change can be treated as violation of shareholders' rights.
- Additionally, the NC ECU represented 76.04% votes at the meeting, in violation of an order of the Zaporizhya Economic Court from March 20

52 week performance



Source: Bloomberg, PFTS

Performance vs GenCos and PFTS



DNEN spread



Why did the NC ECU do it?

Timing seems to be the main reason the NC ECU went to such lengths to hold an EGM on March 21, despite the high risk that it would ultimately be deemed illegal. The NC ECU has limited time to leverage its still *de-facto* 76% of votes to replace the regulatory bodies of Dniproenergo to its benefit. The Cabinet of Minister's resolution of March 19 means the NC ECU's stake in Dniproenergo would fall from 76% currently to 16% (assuming the old number of shares) or from 50% to 11% (assuming the new number of shares).

March 27: second and last attempt by the NC ECU

The NC ECU, which for the first time supported the position of Privat's Biznes-Invest on March 21, gained a powerful partner with experience in corporate conflicts in doing so. Now they have a chance to better prepare for the March 27 AGM. Still, we believe Dniproenergo will find sufficient legal backing to efficiently respond to any attempt to weaken DTEK's position in the company.

Unless NC ECU passes Dniproenergo's 2.35 mln shares to the State Property Fund by March 27 (which we believe is highly unlikely given the remaining time left), there is low chance that the AGM scheduled for March 27 will take place:

- if the NC ECU does not attend AGM, there will be no quorum
- similarly to March 21, a court is likely to ban the AGM if the NC ECU checks in with its 76% stake

We recommend BUY

Dniproenergo's management, in an interview with us, said that the conflict has no impact on its current operations - we tend to believe that the impact on the company's operations, if any, will be immaterial. We recall that a conflict over the management of six Oblenergos in February 2005 was not reflected in their operations (refer to our Dec. 15, 2005 report). We do not change our forecasts on Dniproenergo, and stick to our USD 516 target price. With a 22% upside, we recommend BUY.

Appendix - Disclosures

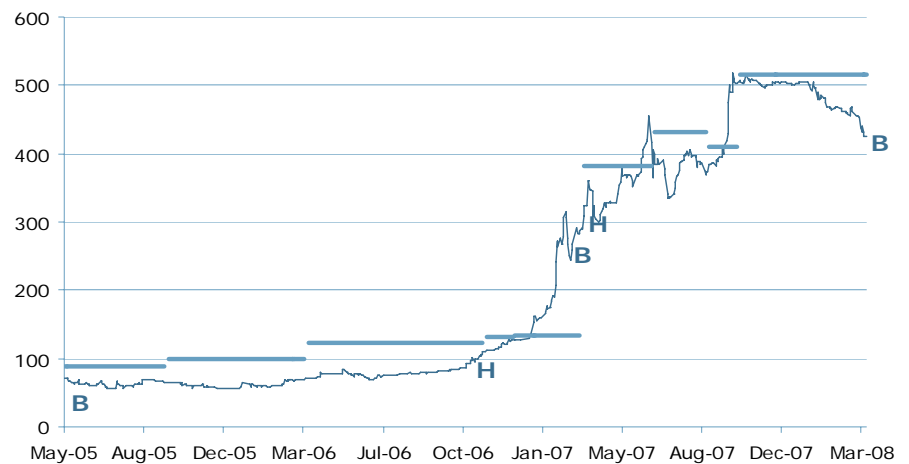
Analyst certification

I, Alexander Paraschiv, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

DNEN ratings history

| Date | 12M target price, USD | Market price, USD | Rating | Action |
|-----------|-----------------------|-------------------|--------|-----------|
| 13-May-05 | 88 | 75 | BUY | Initiate |
| 26-Sep-05 | 99 | 67 | BUY | Maintain |
| 26-Jun-06 | 123 | 76 | BUY | Maintain |
| 15-Nov-06 | 131 | 109 | BUY | Maintain |
| 28-Nov-06 | 131 | 109 | BUY | Maintain |
| 22-Dec-06 | 134 | 126 | HOLD | Downgrade |
| 21-Mar-07 | 383 | 288 | BUY | Upgrade |
| 02-Apr-07 | 383 | 347 | HOLD | Downgrade |
| 22-Jun-07 | 432 | 400 | HOLD | Maintain |
| 23-Jul-07 | 432 | 366 | HOLD | Maintain |
| 31-Aug-07 | 410 | 373 | HOLD | Maintain |
| 10-Sep-07 | 410 | 383 | HOLD | Maintain |
| 09-Oct-07 | 516 | 512 | HOLD | Maintain |
| 24-Mar-08 | 516 | 424 | BUY | Upgrade |

Target price history, USD per share



Investment Ratings

The time horizon for target prices in Concorde Capital's research is 12 months unless otherwise stated. Concorde Capital employs three basic investment ratings: Buy, Hold and Sell. Typically, Buy recommendation is associated with an upside of 15% or more from the current market price; Sell is prompted by downside from the current market price (upside <0%); Hold recommendation is generally for limited upside within 15%. Though investment ratings are generally induced by the magnitude of upside, they are not derived on this basis alone. In certain cases, an analyst may have reasons to establish a recommendation where the associated range given above does not correspond. Temporary discrepancies between an investment rating and its upside at a specific point in time due to price movement and/or volatility will be permitted; Concorde Capital may revise an investment rating at its discretion. A recommendation and/or target price might be placed Under Review when impelled by corporate events, changes in finances or operations. Investors should base decisions to Buy, Hold or Sell a stock on the complete information regarding the analyst's views in the research report and on their individual investment objectives and circumstances.

Concorde Capital ratings distribution

| | | |
|--------------|-----|------|
| Buy | 50 | 45% |
| Hold | 28 | 25% |
| Sell | 18 | 16% |
| Under Review | 16 | 14% |
| Total | 112 | 100% |

Investment banking clients*

| | | |
|--------------|---|------|
| Buy | 6 | 86% |
| Hold | 0 | 0% |
| Sell | 0 | 0% |
| Under Review | 1 | 14% |
| Total | 7 | 100% |

* Within the last twelve month period, Concorde Capital has obtained compensation from these companies for investment banking services.

Concorde Capital
2 Mechnikova Street
21st Floor
Kyiv 01601, UKRAINE

Tel.: +380 44 391 5577
Fax: +380 44 391 5571
www.concorde.com.ua
office@concorde.com.ua

CEO

Igor Mazepa

im@concorde.com.ua

Equity Sales

Anastasiya Nazarenko
Duff Kovacs, CFA
Marina Martirosyan
Andriy Supranonok

an@concorde.com.ua
dk@concorde.com.ua
mm@concorde.com.ua
sap@concorde.com.ua

Director of Research

Konstantin Fisun, CFA

kf@concorde.com.ua

RESEARCH

Strategy

Konstantin Fisun
Oleksandr Klymchuk

kf@concorde.com.ua
ok@concorde.com.ua

Metals & Mining

Eugene Cherviachenko
Andriy Gerus

ec@concorde.com.ua
ga@concorde.com.ua

Utilities (Telecom, Energy)

Alexander Paraschiy

ap@concorde.com.ua

Oil & Gas, Chemicals, Pharmaceuticals

Vladimir Nesterenko

vn@concorde.com.ua

Consumer/Real Estate Group

Andriy Gostik, CFA
Olha Pankiv
Alexander Romanov
Anna Dudchenko

ag@concorde.com.ua
op@concorde.com.ua
ar@concorde.com.ua
ad@concorde.com.ua

Machinery

Eugene Cherviachenko
Inna Perepelytsya

ec@concorde.com.ua
pi@concorde.com.ua

Financial Services, Retail

Alexander Viktorov

av@concorde.com.ua

Macroeconomics

Polina Khomenko

pk@concorde.com.ua

Fixed Income

Oleksandr Klymchuk

ok@concorde.com.ua

News/Production

Polina Khomenko

pk@concorde.com.ua

Editor

Brad Wells

bw@concorde.com.ua

Disclaimer

This report has been prepared by Concorde Capital investment bank for informational purposes only. Concorde Capital does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that Concorde Capital might have a conflict of interest that could affect the objectivity of this report.

Concorde Capital, its directors and employees or clients might have or have had interests or long /short positions in the securities referred to herein, and might at any time make purchases and/or sales in them as a principal or an agent. Concorde Capital might act or has acted as a market-maker in the securities discussed in this report. The research analysts and/or corporate banking associates principally responsible for the preparation of this report receive compensation based upon various factors, including quality of research, investor/client feedback, stock picking, competitive factors, firm revenues and investment banking revenues.

Prices of listed securities referred to in this report are denoted in the currency of the respective exchanges. Investors in financial instruments such as depository receipts, the values or prices of which are influenced by currency volatility, effectively assume currency risk.

Due to the timely nature of this report, the information contained might not have been verified and is based on the opinion of the analyst. We do not purport this document to be entirely accurate and do not guarantee it to be a complete statement or summary of available data. Any opinions expressed herein are statements of our judgments as of the date of publication and are subject to change without notice. Reproduction without prior permission is prohibited. © 2008 Concorde Capital