UKRAINE:
Electricity

Alexander Paraschiy
ap@concorde.com.ua
+380 44 207 5037

Power Generation Companies

Outperforming the Market

Companies Covered:

Centrenergo (CEEN: HOLD)
Dniproenergo (DNEN: BUY)
Donbassenergo (DOEN: BUY)
Zakhidenergo (ZAEN: HOLD)

November 15, 2006

Summary

GenCos Outperformed the Market by 59 p.p. YTD. As it turned out, Ukrainian generation companies (GenCos) provided an efficient hedge against the general market correction in summer and fall this year: while the PFTS struggled to 24.0% YTD, generation companies surged by 83.1% YTD. We largely attribute this spectacular performance to the influences from neighboring Russia, where wholesale generation companies (OGK) made a powerful entrance to the stock market since the beginning of the year. The unsatisfied demand for Russian generation stocks spilled over to Ukraine. Furthermore, encouraging announcements from the government strengthened the Ukrainian energy rally.

Beware of Russia's Valuations. Ukrainian generation trades at significant discounts to Russian and European peers by capacity and output. We do not believe that current premium valuations for Russian OGKs are applicable to Ukrainian GenCos. Discounts, in our opinion, are justified because the regulatory and competitive environment will not allow GenCos to unlock their value in the short-term. We feel that overall GenCos are approaching their fair valuation levels, although DOEN and DNEN have room for further appreciation.

Potential Catalysts. Talks of privatization should keep the market warm in the near future. Privatizations that might take place in 2007 will effectively double GenCos' free float. Given strong demand, this incremental liquidity will only boost interest. The connection of Ukrainian energy market to the European network (UCTE) might generate additional demand for both GenCos' electricity and stocks. Recent good news from DNEN and CEEN, which reduced their debts significantly (decreased risk of bankruptcy), and talk that Russians might supply gas in exchange for utilizing their idle capacities should be welcomed by the market as well.

Deflated WACCs, Inflated Margins Ahead. Two issues are important, in terms of valuation. First, we apply abnormally low WACCs for the next 5-7 year period in DCF valuation: the government confirmed (in May) and the Fuel and Energy Ministry formalized (in September) an extensive modernization program for GenCos, up to 80% of which will be financed through special tariff surcharges. We believe it is appropriate to assess a zero cost to the debt which will be compensated from surcharges. Second, beware of inflated margins for this period, as GenCos will probably report the surcharge proceeds in top line trickling down to the bottom line. We classify income generated by surcharges as an extraordinary item and move it below the bottom line.

Recommendation Summary. We upgrade our recommendation for DOEN to BUY (23% upside), and keep unchanged our recommendations for DNEN (BUY, 20% upside), ZAEN (HOLD, 11% downside), and CEEN (HOLD, 9% downside).

	Price USD	12M target USD	Upside	MCap USD mln	EV/S		EV/EBITDA		P/E		EV/Capacity USD/kW	Fair EV/Capacity USD/kW
					06E	07E	06E	07E	06E	07E		
Centrenergo	1.17	1.06	-9%	432.2	1.01	0.93	12.1	9.9	45	34	120.3*	111.3*
Dniproenergo	109.0	131.3	20%	427.7	0.87	0.76	7.3	8.3	25	21	85.3*	100.5*
Donbassenergo	7.8	9.6	23%	184.4	0.80	0.72	11.1	8.8	129	44	93.1	109.1
Zakhidenergo	40.0	35.4	-11%	511.6	0.89	0.81	16.2	10.7	44	22	123.2	110.4

** - coal-fueled capacity only*

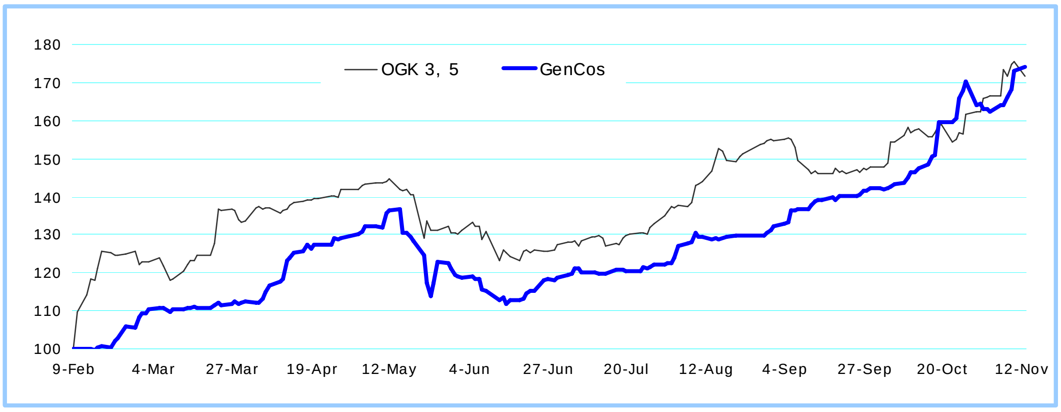
GenCos' Stocks Appreciate by 70%

Ukrainian power generators' stock prices grew 70% during the last three months, mainly due to demand for generator stocks in Russia and positive signals from the government.

Driven By Russian Entrants…

The active trading on stocks of Russia's newly consolidated wholesale generator companies (OGKs) following their entrance on the stock market was supported by an intensive pre-placement PR campaign by RAO UES, which resulted in inflated interest in Russian energy stocks. Unsatisfied demand for Russian OGKs spilled over to the Ukrainian market.

Market Price Indices (MCap-Weighted): Two OGKs vs. Four GenCos

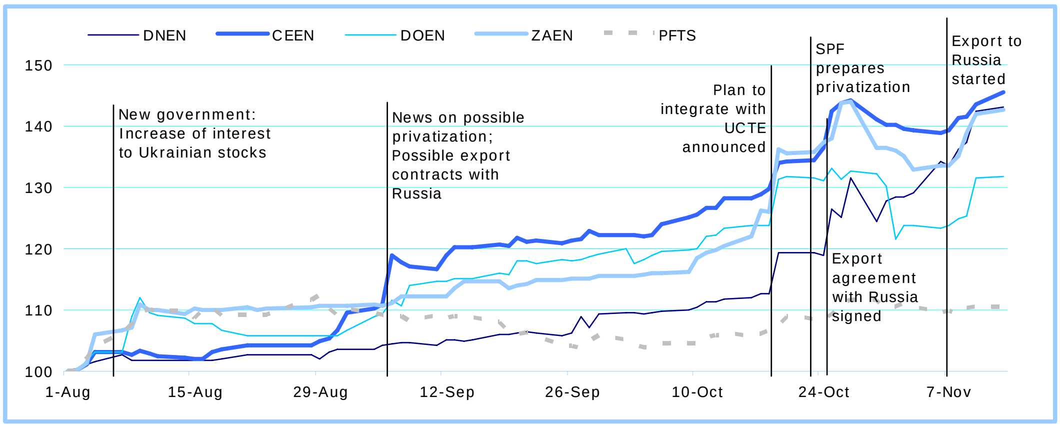


Source: RTS, PFTS, Concorde Capital calculations

…Fueled by Positive News in Ukraine

Raised attention to GenCos' stocks during the summer reflected in immediate appreciation after a series of encouraging announcements from the newly formed government, as shown in the graph below. As a result, GenCos' stocks significantly outperformed the local market index.

GenCos Market Rally*



Source: PFTS, Concorde Capital
** Mid-market prices rebased to 100*

We believe the stocks are now close to their fair value. A peer comparison suggests there is still long-term potential for a significant upside. However, energy sector regulation does not allow the upside potential to be realized in the near future. Excess capacity on the market, pooling electricity purchases and pricing distortions allows the state to efficiently bound companies' tariffs to solve temporal social problems. In the mid-term, accession to the UCTE will boost the companies' value. In the long-term, the potential value will be realized after complete privatization and liberalization of the sector.

What's Positive?

New Markets for GenCos

Recent agreements with Russia, to import 200-800 MW of Ukrainian electricity (which began on Nov. 7, 2006) and with the European Commission to integrate Ukraine into the EU electricity network (UCTE) open up new markets and opportunities for future growth on the back of external demand.

According to the Ministry of Fuel and Energy, the Ukrainian energy system might be ready for connection to the UCTE by the end of 2007. We expect actual integration to occur in the second half of 2008.

The connection of Ukrainian energy market to the UCTE is expected to be the main trigger that would increase GenCos' value in the mid-term, as external demand for their energy will solve their key problem: unused capacity. In addition, entrance to new markets is also likely to be positively reflected in GenCos' margins. Integration with the UCTE will also spur sector reforms.

Privatization to Continue

In September, the State Property Fund proposed selling minority stakes in GenCos at stock exchanges (decreasing the government's stakes to 60%). Currently, a special government commission is preparing for the privatizations.

Stakes to be Privatized in 2007:

	Stake	**Current Market Value** USD mln
CEEN	18.3%	118.0
DOEN	25.8%	47.6
DNEN	16.0%	68.4
ZAEN	10.1%	51.7

Source: State Property Fund, Concorde Capital

A new wave of GenCo privatizations would almost double the companies' free float, increasing the stock's liquidity and demand.

We expect the shares to find their demand fast, so a decrease in the market price is not expected, similar to what happened recently to the Russian OGK-5:

Case Study: The Placement of OGK-5

RAO UES successfully finished the placement of 14.4% of RAO's stake in generator OGK-5. Stocks were sold at the current market price with an EV/capacity ratio of 318 USD/kW (a 53% premium to CEE M&A). The relative success was gauged by high demand for OGK shares from potential strategic investors, which was fueled by an intensive marketing campaign.

Currently, the special government commission is conducting a feasibility study for privatizing the small stakes. Vice-Prime Minister Andrey Kliuev, does not support this plan, and claims energy companies need to be fully privatized. Since his position will determine whether or not these plans go forward, the probability of privatizations in 2007 is low.

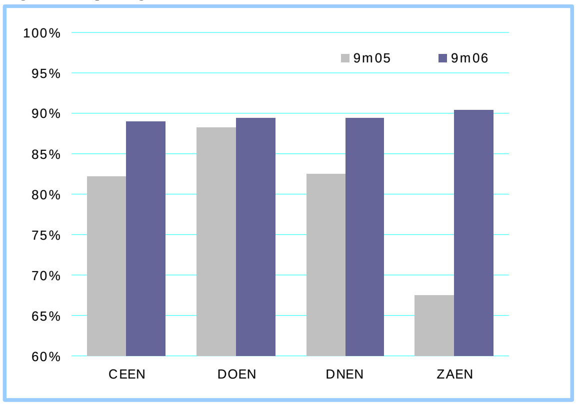
Moreover, the people who currently control the energy sector look unlikely to consider privatization soon (refer also to page 8).

Decrease of Gas Dependence

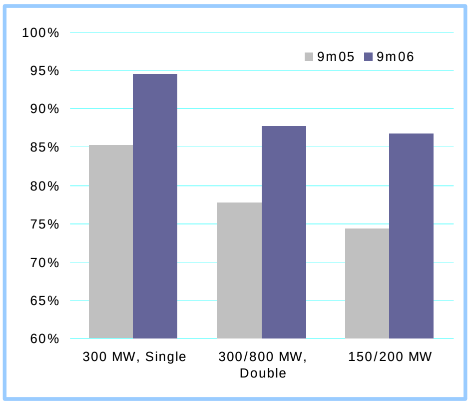
As expected, the gas price hike in 2006 forced GenCos to decrease gas consumption significantly to 9.6%-10.6% during 9M06 (from 11%-32% a year ago). The decrease is 70% larger than it was planned by Fuel and Energy Ministry. Gas use was almost eliminated in base-load power units (single-boiler 300 MW), but remains significant for the most maneuverable power units (150 MW and 200 MW blocks).

Use of Coal for Electricity Generation Companies:

By Company



By Type of Power Unit



Source: Company data, EnergoBiznes, Concorde Capital calculations

GenCos' costs are currently much less sensitive to gas prices than a year ago, and we can expect that regulators will be more likely to agree now to compensate any gas-driven increase in costs by a corresponding adjustment in GenCo tariffs.

We also expect GenCos' maneuverability payments to grow further in order to cover the cost of maneuverable power units, which will increase after the gas price hike in 2007.

New Life for the Investment Surcharge Program?

The program of reconstructing power plants adopted by the Yanukovich government back in 2004 has been resurrected in a new form. In September 2006, the Fuel and Energy Ministry adopted an updated plan to reconstruct the generation capacities until 2010. According to the decree, GenCos are advised to use debt to finance the reconstruction projects. The government issued a separate decree to allow up to 80% of reconstruction loans to be paid via additional surcharges (refer to page 9 for more details).

Two companies, CEEN and DOEN, have implemented surcharges to repay reconstruction loans in the past.

Now that all the key positions in energy sector regulators are occupied by people from Donetsk, we can expect a more coordinated implementation of these investment surcharges now.

Good News for CEEN and DNEN:

1) New Life for Gas-Fueled Capacities?

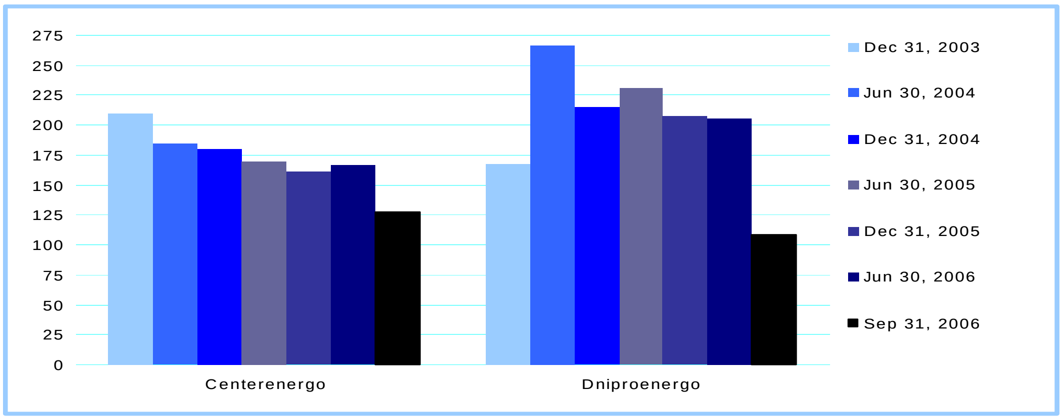
In September, the Ministry of Fuel and Energy and Russian RAO UES agreed to load Ukrainian gas-fueled generator capacities using Russian gas through a tolling agreement. Ukraine has 5.4 GW in gas-fueled capacity (3.0 GW in CEEN and 2.4 GW in DNEN), which is not used because it is not price competitive on the local market. Meanwhile, Russia needs electricity capacity so it may be potentially interested in loading unused Ukrainian capacity. At the moment, however, it seems like the plan has been suspended.

2) Progress in Debt Offsetting

The main headache related to CEEN and DNEN is their accumulated and not restructured current debt arrears, which might lead to a greater risk of bankruptcy for the companies. During 2006, special legal acts allowed the companies to mutually write off cross-debts.

Recently announced financial 3Q06 results of CEEN and DNEN showed improvements in the companies' debt: their payables reduced by USD 37 mln and USD 90 mln, respectively. A noticeable decrease in DNEN's current debt suggests that the company is very likely to finish its financial recovery process in the near future. We also expect the newly appointed CEO of CEEN to decrease and restructure the company's debt, since he has previous experience with doing this while running DNEN.

Excess Payables, USD mln



Source: Company data, Concorde Capital estimates

Innovation at DOEN

After completing its first full reconstruction project at its power unit, Donbassenergo has again verified itself as an innovator: it declared a plan to attract an additional USD 4.5-5.0 mln over 2010-2012 by participating in a joint implementation project under the Kyoto Protocol. The company has a preliminary agreement with Trading Emissions PLC to sell reduced greenhouse gas emissions, which will be possible after it commissions a new 125 MW power unit with CBF technology.

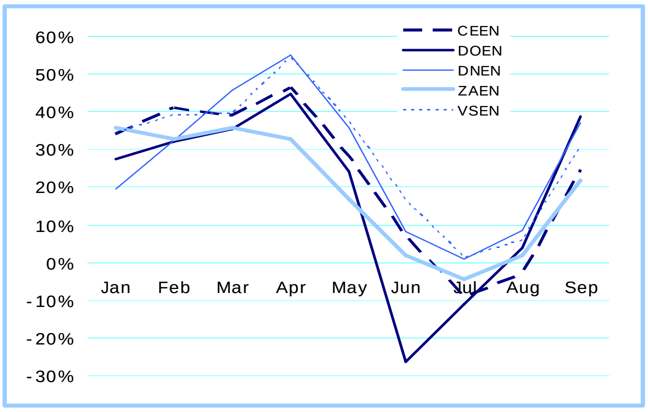
The funds will then be directed to cover interest on the unit's construction (the expected cost of the project is USD 73 mln). The Kyoto credits will not be an important source of capital for reconstruction, but it will allow the company to noticeably increase its operating cash flow. If the Kyoto Protocol is prolonged, DOEN's project might become a stable source of cash flow to the company.

What's Discouraging?

Margins Getting Smaller

A sharp increase in generation costs due to an 80% increase in gas prices and an about 30% increase in coal tariffs in 2006 was not completely compensated by increased tariffs, leading GenCos' profits to fall, on average. While tariffs for GenCos' electricity was relatively high during the first five months of 2006, they later fell to their 2005 level, which negatively affected GenCos' bottom lines for 2Q06 and 3Q06.

Tariff Changes, YoY, 2006



Source: NERC, Concorde Capital calculations

Company Margins

	EBITDA margin		Net margin	
	1H05	1H06	1H05	1H06
Centerenergo	9%	13%	1%	4%
Dniproenergo	12%	9%	0%	-1%
Donbassenergo	15%	9%	7%	-3%
Zakhidenergo	7%	7%	1%	2%

Source: Company data

We expect GenCos' profits to rebound in 2007 if there are no sharp increases in coal prices.

The implementation of the investment surcharge program will significantly increase the companies' reported margins in the mid-term. Though, in the future, we should separate profits which GenCos generate from their usual business and profits generated from the additional surcharges (which are in fact paid by electricity consumers). Refer to the next section for more details.

Concentration of Power

On the agenda of the shareholders meetings at ZAEN, CEEN and DOEN, which will be held on November 21-23, the companies will change their supervisory boards. We expect the boards to be occupied mostly by people close to current Vice-Prime Minister Andrey Klyuyev and Donetsk businessman Rinat Akhmetov, like what happened at Kievenergo's shareholder meeting on October 10.

The supervisory boards can change the CEOs, which was decided at the last round of shareholder meetings. Thus, result of EGMs will be to consolidate operational control of Donetsk people over the entire thermal generation sector. This concentration might lead to additional corporate governance risks and a distortion in the competition between power generation companies.

Another risk related to the concentration of power in private hands is the risk of non-transparent privatizations to benefit the people that have control over the companies. We do not believe this risk is serious now, because the only possibility for this to happen is if bankruptcy procedures are started in the companies which have high debt (CEEN and DNEN). However, both GenCos have reduced their excessive payables during the last quarter, which has significantly reduced their risk of bankruptcy. Another potential risk from concentrating power is the possible postponement of sector's large-scale privatization.

Uncertainty with Privatization

The resolution of the energy sector's debt problem, which is expected in the near future, will open the door for the privatization of power generation assets. The privatizations might be an alternative (to electricity surcharges) source of capital that power plants can use to upgrade without influencing electricity prices.

However, the State Property Fund and the Government have different views on privatization: while the State Property Fund insists on placing small stakes and keeping control in the hands of the state, the latter claims full privatization is needed. The government's position looks like a trial on postponing any privatization of the sector.

For now, people from Donetsk have access to control every GenCo through the National Energy Company (NC ECU) and the Ministry of Fuel and Energy; they are not likely to want to lose this control in the short-term. Igor Glushchenko, president of the NC ECU and ex-director of SCM-related Vostokenergo, confirmed the state's strategy is to keep the energy sector under control. He believes the NC ECU is an efficient manager of power companies and thus there is not an immediate need for privatization. We do not expect a large-scale privatization to occur earlier than 2009.

Investments to Upgrade Capacity

More Details on Project Financing

As we wrote earlier in this report, the main source of financing capacity modernization projects will be loans, up to 80% of which can be repaid through additional surcharges. To be eligible for compensation through the special surcharges, a loan should be repaid no earlier than three years after the reconstruction is completed. The Cabinet also stipulates that money used by power plants to reduce pollution can be covered 95% through special ecological surcharges.

In addition, the government requested the Burstyn power plant increase its export capacity, and said that money for reconstructing Burstyn TPP's (ZAEN) capacities can be financed directly from additional surcharges to ZAEN's electricity tariffs in 2007-2008.

The new reconstruction plan for power plants adopted by the Fuel and Energy Ministry foresees USD 1.38 bln in investments by 2010.

Reconstruction Plan 2007- 2010

	USD mln	USD/kW*
CEEN	417	92
DNEN	250	43
DOEN	161	60
ZAEN	549	119
Total	**1,377**	**78**

Source: Fuel and Energy Ministry, Concorde Capital calculations
**Per unit of total installed coal-fueled capacity*

The Ministry of Fuel and Energy proposed to extract additional income generated by the surcharge from the GenCos' taxable income, and currently the corresponding amendment to income tax legislation is being directed to Parliament. In addition, the Ministry proposed to accumulate special surcharge revenues in separate banking accounts and to control their use.

These proposals are in line with our view that investment surcharges should be accounted for separately, as a special source of capital for GenCos.

Model Implications

In our model, we assume GenCos will fully finance their planned reconstruction projects through loans and that the funds will be spent uniformly throughout the reconstruction projects.

Expected Reconstruction Costs, UAH mln

Company/power unit	2007	2008	2009	2010
DNEN				
Zaporizhia - 1		40	40	40
Zaporizhia - 2		60	60	
Prydniprovsk - 7	163	163	163	163
Prydniprovsk - 11			125	125
Kryvy Rih - 6		40	40	40
DOEN				
Starobeshev - 7	86	86		
Starobeshev - 11		50	50	50
Slaviansk - 3	121	121	121	
Slaviansk - 7	130	130		
ZAEN				
Dobrotvir - 8	59	59		
Dobrotvir - 9	355	355		
Burstyn – 9	88			
Burstyn – 7	160			
Burstyn - 5	100*	100*		
Burstyn - 13		375	375	
Burstyn - 2		250	250	250
CEEN				
Trypillia - 2	275*	275*		
Trypillia - 3	275*	275*		
Trypillia - 4		212	212	
Zmiiv - 1	30	30		
Zmiiv - 9	260*	260*		

Source: Ministry of Fuel and Energy, Concorde Capital
** Including costs of UAH 20 mln p.a. for reconstructing filters*

We assume that during the period of reconstruction, GenCos will only pay interest on loans and only after the projects are completed will they repay their debt during the next three years. Interest for loans is conservatively assumed to be 9%.

Additionally, we assume investment surcharges will cover 80% of the debt used for reconstruction and 95% of the debt used for reconstructing emission filters. It is assumed that financing for the Burstyn TPP project will be covered from additional surcharges and to cover 80% of the program.

Under our assumptions, the schedule for GenCo debt servicing schedule will be as follows:

Costs for Servicing Debts, UAH mln

	2007	2008	2009	2010	2011	2012	2013
DNEN							
Zaporizhia - 1		4	7	11	51	47	44
Zaporizhia - 2		5	11	51	47	44	
Prydniprovsk - 7	15	29	44	59	275	256	236
Prydniprovsk - 11			11	23	106	98	91
Kryvy Rih - 6		4	7	11	51	47	44
Total Payment	**15**	**42**	**80**	**153**	**530**	**492**	**414**
Covered by investment surcharge	12	33	64	123	424	394	331
Covered by the company	3	8	16	31	106	98	83
DOEN							
Starobeshev - 7	8	15	72	67	62		
Starobeshev - 11	0	5	9	14	64	59	55
Slaviansk - 3	11	22	33	154	143	132	0
Slaviansk - 7	12	55	51	47			
Total Payment	**30**	**97**	**165**	**282**	**269**	**191**	**55**
Covered by investment surcharge	24	77	132	226	215	153	44
Covered by the company	6	19	33	56	54	38	11

ZAEN						
Capacity upgrade project						
Dobrotvir - 8	5	11	50	46	43	
Dobrotvir - 9	32	64	300	279	258	
Total Payment	**37**	**74**	**350**	**325**	**300**	
Covered by investment surcharge	30	59	280	260	240	
Covered by the company	7	15	70	65	60	
Export capacity upgrade project						
Burstyn - 9	88					
Burstyn - 7	160					
Burstyn - 5	100	100				
Burstyn - 13		375	375			
Burstyn - 2		250	250	250		
Total Payment/Costs	**348**	**725**	**625**	**250**		
Covered by investment surcharge	246	548	500	200		
Covered by ecological surcharge	19	19				
Covered by the company	83	158	125	50		
CEEN						
Trypillia - 2	25	50	233	216	200	
Trypillia - 3	25	50	233	216	200	
Trypillia - 4	0	19	38	179	167	154
Zmiiv - 1	3	5	25	24	22	
Zmiiv - 9	23	47	220	205	189	
Total Payment	**76**	**170**	**749**	**840**	**777**	**154**
Covered by investment surcharge	56	138	607	679	628	123
Covered by ecological surcharge	5	10	48	45	41	
Covered by the company	14	22	94	116	107	31

Source: Ministry of Fuel and Energy, Cabinet of Ministers, Concorde Capital

Note that the success of GenCos' investment programs largely depends on their ability to approve technical documentation on time and to find timely sources of financing that meet the Ministry's requirements.

In our model, we assume GenCos will be able to get loans to meet the reconstruction schedule that was approved by the Fuel and Energy Ministry, which might be a bit ambitious. We believe that a possible over-estimation in GenCos' value under this assumption will be outweighed by conservative assumptions that no other investment surcharges will be implemented in the future (i.e. after 2010).

Analytical Adjustments

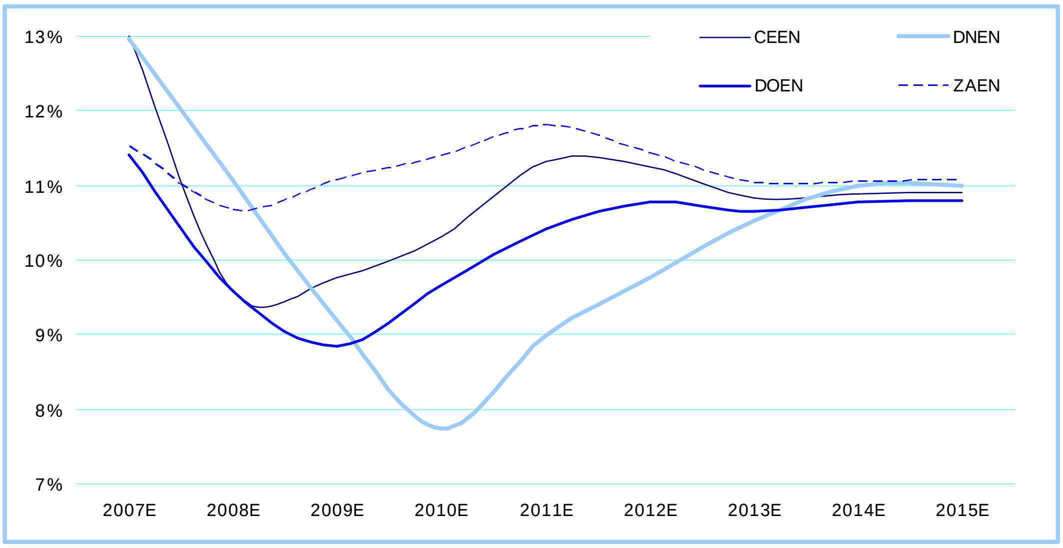
As income from additional surcharge used for debt repayments is an unusual item, we report it separately in the companies' P&L statements even if GenCos include it in revenues. We apply the following adjustments for modeling purposes:

P&L Statement:
We adjust Sales, EBITDA and EBIT by decreasing them by the total amount of the additional surcharges. Also we adjust the income before tax and net income by subtracting the part of additional surcharges, which is eligible for re-payment of the loan's principal.

Net Debt:
We exclude the part of the loan eligible for compensation from the net debt calculation, since it will be repaid through a special surcharge. This part of the loan has no direct influence on the GenCos' creditworthiness and future cash outflows.

WACC:
For analytical purposes, we also treat part of the debt which will be compensated from investment surcharges (80% of loans taken for the project) as zero-cost debt. Zero-costs are applied because GenCos will not pay interest by themselves, while using additional sources approved by the regulator. This will result in a noticeable WACC decrease for CEEN, DNEN and DOEN over most of the forecasted period.

GenCos' WACC



Source: Ministry of Fuel and Energy, Concorde Capital simulation

No significant decrease in ZAEN's WACC is expected, as the main source of the company's CapEx financing is assumed to be additional surcharges (not loans), as stipulated in the Ministry's decree.

In our previous reports, we already described the effect of abnormally low WACCs for Ukrainian GenCos in the mid-term. Low WACCs result from specific financing via tariff surcharges – GenCos carry only 20% of debt burden and the rest is carried by consumers. We previously classified additional surcharge income as zero-cost equity, which was quite an artificial concept. Since then the Government got more specific and said that the companies will have to take a loan to be repaid later through the tariff surcharges – therefore, we now treat the loans as zero-cost debt. Compared to our previous report, this is a more conservative approach yielding higher WACCs in the mid-term.

Valuation

In this section, we used the DCF approach based on the assumption of intensive capacity modernization programs in the mid-term (which was approved by the state) and the *status quo* in the Ukrainian regulatory environment in the long-term.

We also studied peer multiples to assess what factors are important in a power sector valuation and to estimate GenCos' long-term potential for appreciation.

DCF Approach

We revised our assumptions for the DCF model to apply the changes mentioned on page 12: part of the loans used for the investment program and compensated later is treated as zero-cost debt, net debt and P&L statements are adjusted to account for investment surcharges.

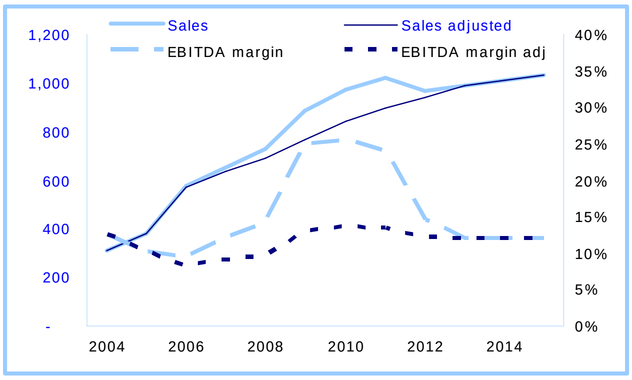
In addition, we changed our assumptions about CapEx programs and assumed that CapEx will be in line with government's schedule (page 10). GenCos margins are expected to positively respond to the opening of reconstructed facilities, but their growth will be limited by tariff caps by regulators.

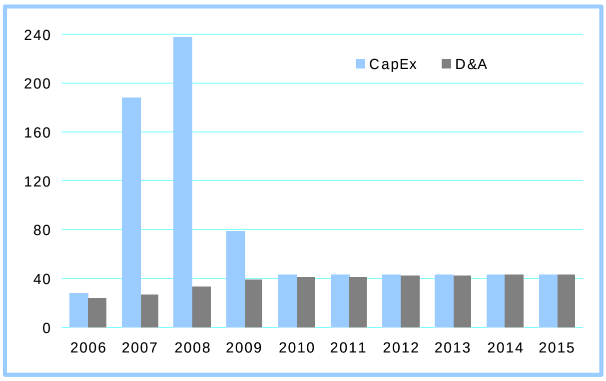
We reduce WACC to perpetuity from 11.0% to 10.5% in our models, closer to UCTE peers which will work with GenCos in common market soon.

Constant growth rate to perpetuity is 2%, as before.

Since we believe CEEN and DNEN are now further from bankruptcy, we reduced 2007 company-specific risks for CEEN from 4.5% to 2.0% and for DNEN from 5.5% to 2.5%.

CEEN Basic Assumptions (USD mln)





CEEN Model Output, UAH mln (Nov. 10, 2006)

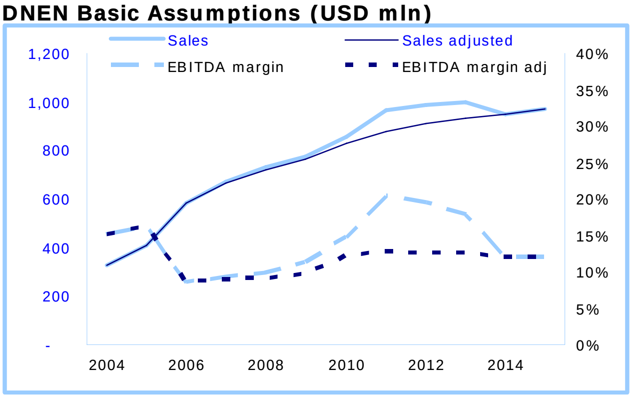
	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
EBITDA	**236**	**290**	**336**	**502**	**576**	**602**	**580**	**600**	**612**	**624**
EBIT	116	155	168	306	371	394	369	386	395	404
Tax Rate	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*
Taxed EBIT	87	117	126	229	278	295	277	289	296	303
Plus D&A	120	135	168	196	205	208	212	214	217	220
Less CapEx	(140)	(950)	(1,200)	(400)	(220)	(220)	(220)	(220)	(220)	(220)
Plus Inv Surch	37	104	180	607	679	628	123	-	-	-
Less change in OWC	(2)	(10)	(6)	(15)	(16)	(13)	(16)	(4)	(9)	(9)
FCFF	**103**	**(605)**	**(733)**	**618**	**926**	**899**	**375**	**279**	**285**	**294**
WACC	17.9%	13.0%	9.6%	9.8%	10.3%	11.3%	11.3%	10.8%	10.9%	10.9%
WACC to Perpetuity										10.5%
Perpetuity Growth Rate										2%
Terminal Value										**3,533**
Firm value		**2,730**					Implied exit EBITDA Multiple			5.7 x
Portion due to TV		56.8%								
Less Net Debt		(779)								
Equity Value		**1,951**								
12m Implied Price, USD		**1.06**								

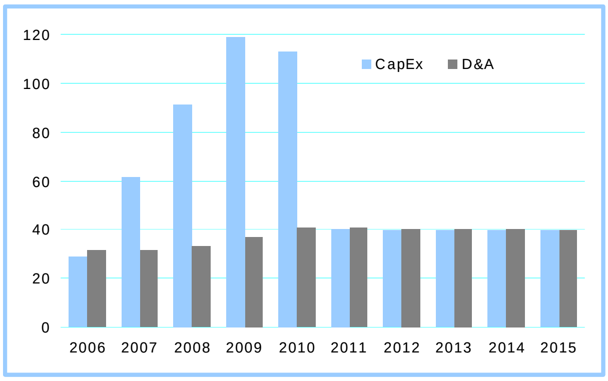
CEEN Sensitivity Analysis

Implied Share Price, USD

WACC to perpetuity	Perpetuity Growth Rate 1.0%	1.5%	2.0%	2.5%	3.0%
-1.5%	1.12	1.17	1.22	1.29	1.36
-1.0%	1.06	1.11	1.17	1.23	1.30
-0.5%	1.01	1.06	1.11	1.17	1.24
+0.0%	0.96	1.01	**1.06**	1.11	1.18
+0.5%	0.91	0.96	1.00	1.06	1.12
+1.0%	0.86	0.91	0.95	1.01	1.07
+1.5%	0.82	0.86	0.91	0.96	1.01

DNEN Basic Assumptions (USD mln)





DNEN Model Output, UAH mln (Nov. 10, 2006)

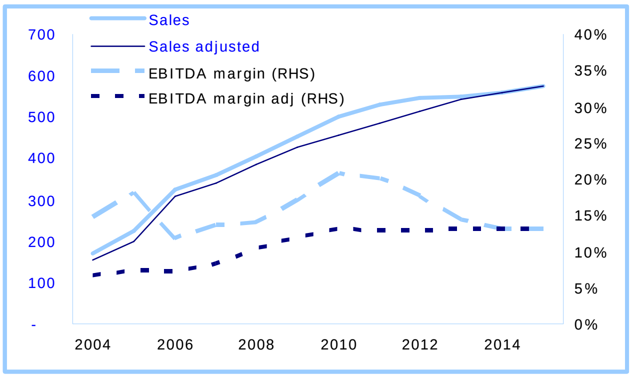
	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
EBITDA	**310**	**354**	**390**	**427**	**511**	**564**	**579**	**580**	**577**	**588**
EBIT	152	193	224	240	305	360	375	377	375	387
Tax Rate	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*
Taxed EBIT	114	145	168	180	229	270	281	282	281	291
Plus D&A	158	160	166	187	206	204	204	203	202	201
Less CapEx	(146)	(310)	(460)	(600)	(570)	(202)	(201)	(201)	(201)	(201)
Plus Inv Surch		12	33	64	123	424	394	331	-	-
Less change in OWC	(18)	(3)	(8)	(18)	(9)	(15)	(14)	(11)	(10)	(10)
FCFF	**-**	**5**	**(101)**	**(186)**	**(22)**	**681**	**664**	**605**	**272**	**280**
WACC	14.7%	13.0%	11.1%	9.2%	7.7%	9.0%	9.8%	10.5%	11.0%	11.0%
WACC to Perpetuity										10.5%
Perpetuity Growth Rate										2.0%
Terminal Value										**3,361**
Firm value		**2,800**					Implied exit EBITDA Multiple			5.7 x
Portion due to TV		55.4%								
Less Net Debt		(224)								
Equity Value		**2,576**								
12m Implied Price, USD		**131.3**								

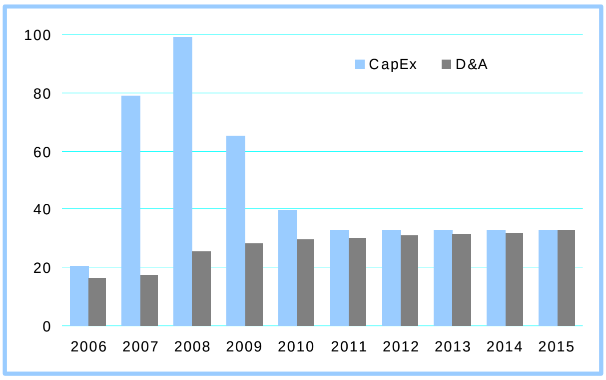
DNEN Sensitivity Analysis

Implied Share Price, USD

WACC to perpetuity	**Perpetuity Growth Rate**				
	1.0%	**1.5%**	**2.0%**	**2.5%**	**3.0%**
-1.5%	136.3	141.0	146.4	152.4	159.1
-1.0%	131.4	136.0	141.2	146.9	153.5
-0.5%	126.8	131.2	136.1	141.7	148.0
+0.0%	122.3	126.5	**131.3**	136.7	142.7
+0.5%	118.0	122.1	126.7	131.8	137.7
+1.0%	113.8	117.8	122.2	127.2	132.8
+1.5%	109.8	113.6	117.9	122.7	128.1

DOEN Basic Assumptions (USD mln)





DOEN Model Output, UAH mln (Nov. 10, 2006)

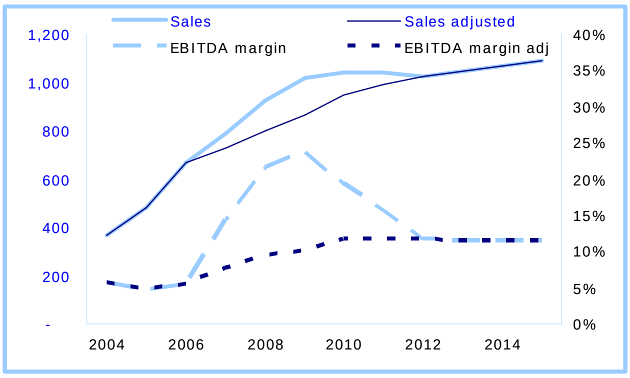
	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
EBITDA	**112**	**140**	**206**	**258**	**316**	**334**	**350**	**373**	**384**	**395**
EBIT	110	53	78	114	167	182	194	214	221	229
Tax Rate	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*
Taxed EBIT	83	39	58	86	125	136	145	161	166	172
Plus D&A	82	88	128	143	150	152	156	159	163	166
Less CapEx	(104)	(400)	(500)	(330)	(200)	(166)	(166)	(166)	(166)	(166)
Plus Inv Surch	81	107	82	132	226	215	153	44	-	-
Less change in OWC	(45)	(7)	(18)	(6)	(14)	(4)	(10)	(5)	(1)	(2)
FCFF	**97**	**(172)**	**(249)**	**25**	**287**	**333**	**278**	**192**	**162**	**170**
WACC	13.9%	11.4%	9.5%	8.8%	9.6%	10.4%	10.7%	10.6%	10.7%	10.7%
WACC to Perpetuity										10.5%
Perpetuity Growth Rate										2%
Terminal Value										**2,040**
Firm value		**1,436**				Implied exit EBITDA Multiple				5.2 x
Portion due to TV		64.6%								
Less Net Debt		(298)								
Equity Value		**1,138**								
12m Implied Price, USD		**9.63**								

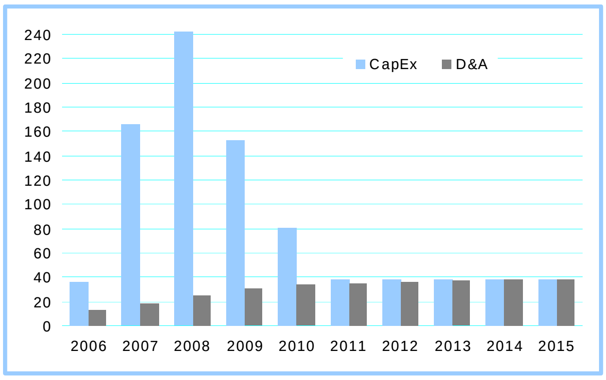
DOEN Sensitivity Analysis

Implied Share Price, USD

WACC to perpetuity	Perpetuity Growth Rate 1.0%	1.5%	2.0%	2.5%	3.0%
-1.5%	10.05	10.53	11.05	11.65	12.32
-1.0%	9.60	10.05	10.56	11.13	11.78
-0.5%	9.16	9.59	10.08	10.64	11.26
+0.0%	8.73	9.15	**9.63**	10.16	10.76
+0.5%	8.32	8.73	9.19	9.70	10.28
+1.0%	7.93	8.32	8.76	9.25	9.81
+1.5%	7.55	7.93	8.35	8.83	9.37

ZAEN Basic Assumptions (USD mln)





ZAEN Model Output, UAH mln (Nov. 10, 2006)

	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
EBITDA	**185**	**282**	**381**	**441**	**561**	**581**	**601**	**608**	**620**	**632**
EBIT	117	190	256	287	392	406	420	422	429	437
Tax Rate	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*
Taxed EBIT	88	142	192	215	294	305	315	317	322	328
Plus D&A	68	92	125	153	168	173	179	184	189	194
Less CapEx	(180)	(835)	(1,220)	(755)	(400)	(194)	(194)	(194)	(194)	(194)
Plus Inv Surcharge	-	292	623	780	460	240	-	-	-	-
Less change in OWC	(15)	(19)	(3)	(10)	(37)	(12)	(21)	(2)	(2)	(2)
FCFF	**(39)**	**(327)**	**(283)**	**384**	**485**	**513**	**280**	**306**	**316**	**327**
WACC	15.5%	11.5%	10.7%	11.1%	11.4%	11.8%	11.4%	11.0%	11.0%	11.0%
WACC to Perpetuity										10.5%
Perpetuity Growth Rate										2.0%
Terminal Value										**3,913**
Firm value		**2,669**					Implied exit EBITDA Multiple			6.2 x
Portion due to TV		61.9%								
Less Net Debt		(404)								
Equity Value		**2,266**								
12m Implied Price, USD		**35.43**								

ZAEN Sensitivity Analysis

Implied Share Price, USD

WACC to perpetuity	Perpetuity Growth Rate 1.0%	1.5%	2.0%	2.5%	3.0%
-1.5%	41.3	43.0	45.0	47.2	49.7
-1.0%	38.1	39.8	41.6	43.6	45.9
-0.5%	35.2	36.7	38.4	40.3	42.4
+0.0%	32.5	33.9	**35.4**	37.2	39.2
+0.5%	29.9	31.2	32.7	34.3	36.2
+1.0%	27.6	28.8	30.1	31.7	33.4
+1.5%	25.4	26.5	27.8	29.2	30.8

Peer Valuation: International Peers

As Ukraine has now explicitly declared its plan to integrate with the UCTE in the mid-term, we chose companies working in the UCTE energy system as the GenCos' peers. Note, however, that UCTE peers can only be compared by financial ratios, as most of them not only generate electricity, but are involved in distribution and other related services.

UCTE Peers Summary, USD mln

		Revenue			EBITDA			Net Income			MCap	EV
		05	06E	07E	05	06E	07E	05	06E	07E		
CEZ	Czech Rep,	5,220	6,542	7,332	2,034	2,510	2,920	895	1,186	1,694	22,947	24,704
EdF	France	63,435	71,473	74,584	14,838	18,271	19,580	4,029	5,199	5,620	111,195	151,062
EnBW	Germany	13,381	15,641	16,598	2,432	3,211	3,565	648	983	1,270	14,224	18,664
RWE	Germany	50,347	56,733	57,375	10,572	11,359	11,596	2,772	3,488	3,835	55,335	74,901
Enel	Italy	40,101	43,026	43,463	9,265	10,183	10,454	4,840	3,665	3,734	58,685	77,725
Endesa	Spain	22,651	24,624	25,645	n/a	8,652	9,074	982	3,052	2,969	46,523	77,899
E ON	Germany	64,433	80,014	83,649	n/a	13,357	14,946	9,203	5,690	6,256	82,592	96,638
Fortum	Finland	4,817	5,669	6,318	2,177	2,410	2,846	1,687	1,325	1,624	24,117	29,682
EdP	Portugal	12,024	12,185	12,719	2,535	2,957	3,307	1,331	958	1,099	16,346	30,329
Iberdola	Spain	14,986	15,034	16,101	n/a	4,913	5,480	687	2,021	2,359	41,137	64,538

Source: Bloomberg, Company data

Peer Multiples

	EV/S			EV/EBITDA			P/E		
	2005	2006E	2007E	2005	2006E	2007E	2005	2006E	2007E
CEZ	4.7	3.8	3.4	12.1	9.8	8.5	25.6	19.3	13.5
EdF	2.4	2.1	2.0	10.2	8.3	7.7	27.6	21.4	19.8
EnBW	1.4	1.2	1.1	7.7	5.8	5.2	21.9	14.5	11.2
RWE	1.5	1.3	1.3	7.1	6.6	6.5	20.0	15.9	14.4
Enel	1.9	1.8	1.8	8.4	7.6	7.4	12.1	16.0	15.7
Endesa	3.4	3.2	3.0	n/a	9.0	8.6	47.4	15.2	15.7
E ON	1.5	1.2	1.2	n/a	7.2	6.5	9.0	14.5	13.2
Fortum	6.2	5.2	4.7	13.6	12.3	10.4	14.3	18.2	14.9
Energias de Portugal	2.5	2.5	2.4	12.0	10.3	9.2	12.3	17.1	14.9
Iberdola	4.3	4.3	4.0	n/a	13.1	11.8	59.9	20.4	17.4
Mean	**3.0**	**2.7**	**2.5**	**10.2**	**9.0**	**8.2**	**25.0**	**17.2**	**15.1**

Source: Bloomberg, Company data, Concorde Capital calculations

We present the financial forecasts for GenCos in two ways, using financials which we believe to be reported and the financials adjusted by investment surcharges, which are more accurate for valuation purposes.

GenCos Financials, USD mln

	Revenue			EBITDA			Net imcome		
	2005	2006E	2007E	2005	2006E	2007E	2005	2006E	2007E
CEEN rep.	381.5	570.2	632.9	38.4	54.1	78.1	11.9	15.6	29.2
CEEN adj.	**374.4**	**562.9**	**611.7**	**31.4**	**46.8**	**57.5**	**11.9**	**9.7**	**12.6**
DNEN rep.	408.1	585.3	669.5	65.8	61.5	72.4	4.7	17.2	22.7
DNEN adj.	**408.1**	**585.3**	**667.2**	**65.8**	**61.5**	**70.1**	**4.7**	**17.2**	**20.1**
DOEN rep.	224.4	323.1	360.6	40.6	38.1	49.0	11.1	12.7	20.0
DOEN adj.	**198.4**	**307.1**	**339.4**	**14.6**	**22.1**	**27.8**	**(7.3)**	**1.4**	**4.2**
ZAEN rep.	481.8	667.6	788.2	23.2	36.7	113.7	4.1	11.6	75.5
ZAEN adj.	**481.8**	**667.6**	**730.3**	**23.2**	**36.7**	**55.8**	**4.1**	**11.6**	**23.6**

Source: company data, Concorde Capital estimates
** Rep. = Reported, Adj. = Adjusted*

GenCos Multiples

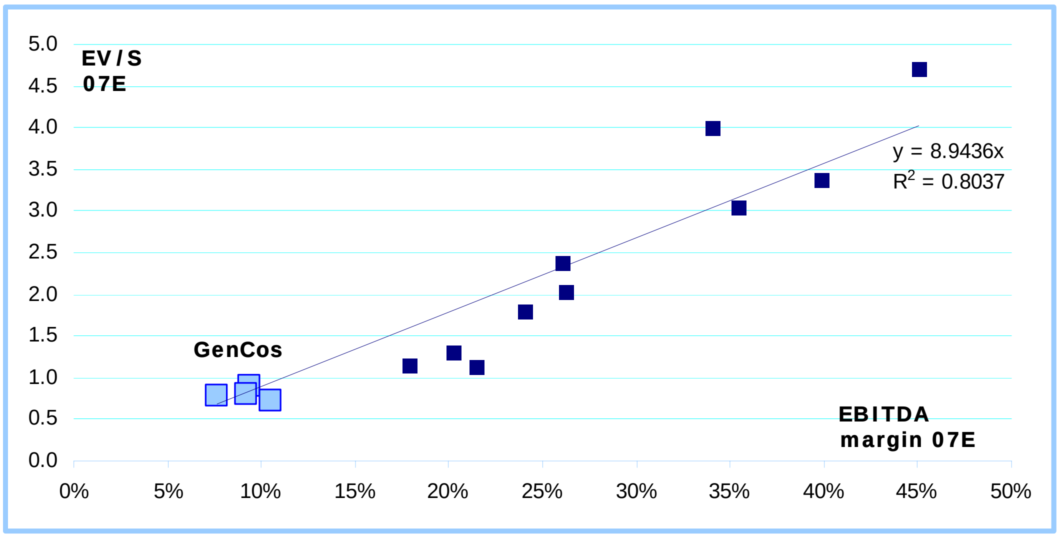
	EV/S			EV/EBITDA			P/E		
	2005	2006E	2007E	2005	2006E	2007E	2005	2006E	2007E
CEEN rep	1.49	1.00	0.90	14.8	10.5	7.3	36.3	27.7	14.8
CEEN adj	**1.52**	**1.01**	**0.93**	**18.1**	**12.1**	**9.9**	**36.3**	**44.7**	**34.4**
DNEN rep	1.25	0.87	0.76	7.7	8.3	7.0	92.0	24.8	18.8
DNEN adj	**1.25**	**0.87**	**0.76**	**7.7**	**8.3**	**7.3**	**92.0**	**24.8**	**21.3**
DOEN rep	1.10	0.76	0.68	6.1	6.4	5.0	16.6	14.5	9.2
DOEN adj	**1.24**	**0.80**	**0.72**	**16.9**	**11.1**	**8.8**	**n/a**	**129.2**	**44.3**
ZAEN rep	1.23	0.89	0.75	25.6	16.2	5.2	126.0	44.3	6.8
ZAEN adj	**1.23**	**0.89**	**0.81**	**25.6**	**16.2**	**10.7**	**126.0**	**44.3**	**21.7**
Mean (rep.)	1.27	0.88	0.77	13.5	10.4	6.1	67.7	27.8	12.4
Premuim/Disc to peers	-58%	-67%	-69%	33%	15%	-25%	171%	61%	-18%
Mean (adj.)	1.31	0.89	0.81	17.1	11.9	9.2	84.8	60.8	30.4
Premuim/Disc to peers	-56%	-66%	-68%	68%	32%	12%	239%	252%	102%

Source: PFTS, company data, Concorde Capital estimates
** Rep. = Reported, Adj. = Adjusted*

P/E and EV/EBITDA give mixed patterns: GenCos are relatively undervalued at reported multiples and over-valued at adjusted multiples. We believe it is justified: on one hand, the reported net income includes transitory elements, inflating the P/E; while on the other hand, adjusted P/E fails to capture the company's sustainable growth. The transitory element suggests that GenCos implement intensive CapEx programs and signals abnormal mid-term growth in profits.

GenCos trade at significant discounts to UCTE peers at EV/S, which is explained by their low margins. There is an observable linear relationship between UCTE companies' EV/S multiple and their EBITDA margin. We do not estimate implied EV/S for GenCos based on this relationship, as it is more appropriate in this case to use an EV/EBITDA valuation.

Value vs. Margins: UCTE Trend



Source: Bloomberg, Company data, Concorde Capital

GenCos 2007 Implied Values, USD

	EV/EBITDA		P/E	
	Price	Upside	Price	Upside
CEEN rep.	1.4	16%	1.2	2%
CEEN adj.	**0.9**	**-23%**	**0.5**	**-56%**
DNEN rep.	130.2	19%	87.2	-20%
DNEN adj.	**125.4**	**15%**	**77.3**	**-29%**
DOEN rep.	14.3	84%	12.7	63%
DOEN adj.	**7.0**	**-10%**	**2.7**	**-66%**
ZAEN rep.	66.1	65%	89.0	123%
ZAEN adj.	**29.1**	**-27%**	**27.8**	**-31%**

Source: Bloomberg, PFTS, company data, Concorde Capital estimates
** Rep. = Reported, Adj. = Adjusted*

International Peers' M&A: Valuation by Capacity

We also performed a peer valuation of recent M&A in Central and Eastern Europe to assess how strategic investors value companies' installed capacities.

We chose companies that are very close by profile and equipment condition to Ukrainian GenCos.

Target	Year	Acquirer	EV USD mln	Inst. Cap GW	El. Prod TWh	EV/Cap. USD/kW	EV/El. Prod USD/MWh
Moldova GRES (MD)	2003	RAO UES (RU)	29	2.52	2.8	11.5	10.4
Polaniec (PL)	2000	Elecrabel (PL)	363	1.65	7.3	220.0	49.7
Rybnik (PL)	2002-03	EdF (FR), EnBW (DE)	327	1.60	10.4	204.4	31.6
Adapazari, Gebzmir, Izmir (TR)	2004	Private owners (TR)	668	3.88	n/a	172.2	n/a
Varna (BG)	2006	CEZ (CZ)	262	1.26	2.3	207.6	113.7
Elcho & Skawina (PL)	2006	CEZ (CZ)	487	2.69*	3.8	181.0	128.1
Slovenske El. (SK)	2006	Enel (ES)	1614	6.13	25.6	263.2	63.1
Average**						**208.1**	**77.3**

Source: Company data, Concorde Capital
** Total, heat and electricity*
*** Moldova GRES not included*

GenCos Market Values

	EV	Inst. Cap	El. Prod	EV/Cap.	EV/El. Prod
CEEN	551	4.55*	14.0	121.2	39.2
DNEN	487	5.76*	14.4	84.5	33.7
DOEN	239	2.71	7.9	88.2	30.3
ZAEN	565	4.60	16.1	122.8	35.1
Average				**102.4**	**34.6**

Source: Company data, Concorde Capital
** Coal-fueled only*

We did not use EV/El. multiple because of its high dispersion in the sample. We applied the peer multiple to value GenCos by total capacity and separately by coal-fueled capacity, which we believe represents GenCos' potential more accurately: at the moment, the probability of gas-fueled capacities' use in Ukraine is still low.

Valuation by M&As, USD

	Total Capacity GW	Coal Capacity GW	Implied Price @ EV/Total Cap.	Implied Price @ EV/Coal Cap.	Implied Upside (Coal)
CEEN	7.55	4.55	3.9	2.2	88%
DNEN	8.16	5.76	412.1	284.9	161%
DOEN	2.71	2.71	21.2	21.2	172%
ZAEN	4.60	4.60	68.3	68.3	71%

Source: Company data, Concorde Capital

We believe the purchase price per kW of GenCos might be higher than the historical M&A average, especially if Russian companies participate in the privatization. Since there is a lack of capacity in Russia, Ukrainian generation companies are more valuable to Russian companies than to other potential bidders.

Case Study: RAO UES Bidding for Bulgarian Generation Companies

In 2005, during the privatization of two Bulgarian power plants, RAO UES applied a bid 1.9-5 times higher than the closest competitors:

Bid Prices (2005 Tender), USD Per kW

Target	Price Proposal From: RAO UES	CEZ	Premium, RAO to CEZ
Varna Power	393.1	193.5	103%
Ruse Power	381.0	76.2	400%

Source: RAO UES, CEZ, Concorde Capital

As the tender commission opened the envelopes, Russian representatives realized they had missed the target by a large margin. They later managed to cancel the deal.

The case study is nevertheless informative: the lack of capacity in Russia forced higher valuations for incremental generation. We assume that the Russians would be ready to pay a premium when Ukrainian GenCos are privatized.

Russian OGKs: Close Peers, but Hardly Applicable for Valuations

Russian Wholesale Generation Companies (OGKs), which were created in 2005-2006, are the closest peers to Ukrainian GenCos. Similar to Ukrainian GenCos, OGKs operate groups of thermal power plants and the technical characteristics of most Russian power plants are similar to Ukrainian: they were all constructed in Soviet times and use the same technology. The only difference is that Russian power generators use mainly gas as their fuel.

OGKs vs. GenCos: Key Differences

	GenCos	OGKs
Number of power plants	2 - 3	4 - 6
Installed capacity, GW	2.7 - 8.2	8.5 - 9.1
Coal-fueled capacity	60% - 100%	14% - 35%

OGKs were created by merging separate thermal power plants (which are called GRES in Russia). GRESs used to trade on the stock market, however they were illiquid. We have data for three GRES from one of the newly created energy companies, OGK-3. It shows that on average, 1 kW of GRES capacity is valued by the market 83% higher than a year ago. Consolidation in the industry plus market liberalization is clearly responsible for boosted liquidity and the price rush in the Russian electricity sector.

Market Value, USD per kW of Capacity, OGK-3 Assets

	20-Sep-05	20-Sep-06	1-y Appreciation
Prechorsk GRES	138		105%
Kostroma GRES	197		44%
Cherepets GRES	62		355%
Three GRES Aggregated	155		83%
OGK-3		283	

Source: RTS, Concorde Capital estimates
** note: OGK-3 includes two other GRESs*

The heavy discounts of Ukrainian generation stocks to Russian peers (50%-70%) would seemingly imply an appealing upside for GenCos, however we call for caution in treating OGKs as a benchmark for Ukrainian GenCos: the two markets are significantly different in supply and demand and the pace of regulatory improvements.

Why OGKs deserve a premium over GenCos

	Ukraine	Russia
Current Situation		
Regulation	Tough	Tough, but small portion liberalized
Market has excess...	Supply	Demand
Capacity Load	26% - 40%	38% - 54%
EBITDA margins	6% - 12%	12% - 15%
Mid-Term Expectations		
Capacity load	45% - 55%	45% - 55%
EBITDA margins	11% - 12%	24% - 29%
Liberalization	No soon liberalization expected	Clear message on mid-term liberalization

Source: RAO UES, Concorde Capital, ATON research

Key difference in the OGKs' market is a sector-wide reform, which allows Russian power companies to sell part of their electricity at non-regulated market tariffs. As there is an excess electricity demand in Russia, the liberalized market allows OGKs to earn high margins from deregulated sales. In 2006-2007, the liberalized market will account only for 5%-10% of OGKs' sales, but in the mid-term its share is expected to grow to boost OGKs' margins.

Summary

	Sales 06E USD mln	EBITDA 06E USD mln	EBITDA Margin	Output TWh	Sales per MWh	Capacity MW	Used capacity
OGK-2	839	122	15%	41.1	20.4	8695	54%
OGK-3	762	96	13%	28.3	26.9	8497	38%
OGK-4	898	114	13%	47.7	18.8	8630	63%
OGK-5	929	130	14%	37.2	25.0	8672	49%
OGK-6	712	84	12%	34.3	20.8	9052	43%
CEEN	577	51	9%	14.0	41.1	4550*	31%
DNEN	585	50	8%	14.4	40.6	5760*	26%
DOEN	323	37	12%	7.9	41.0	2710	33%
ZAEN	667	37	6%	16.1	41.5	4600	40%

Source: RTS, PFTS, Company data, Concorde Capital estimates
** - Coal-fueled only*

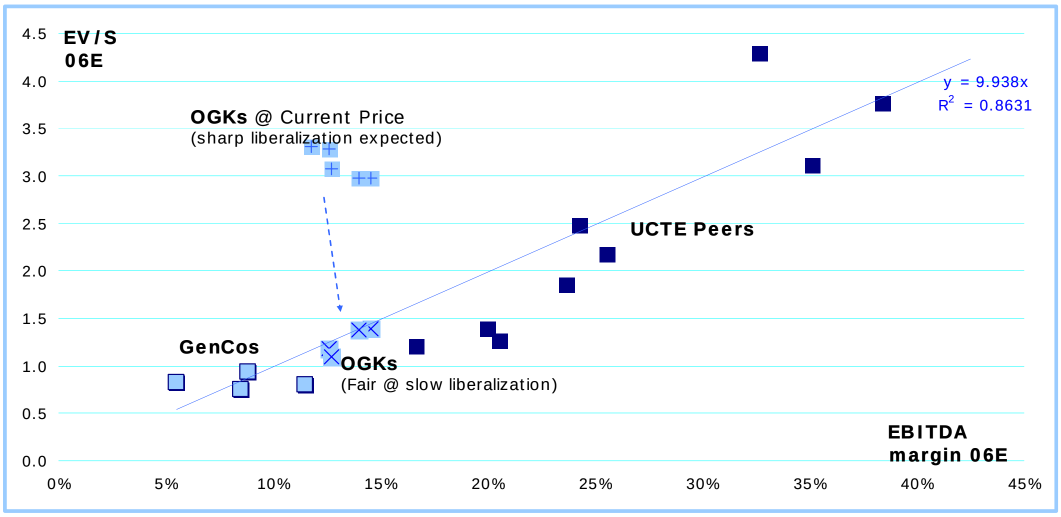
Market Multiples 2006E

	MCap USD mln	EV USD mln	EV/Cpct USD/kW	EV/Used Cpct USD/kW	EV/S	EV/EBITDA
OGK-2	2,372	2,498	287.3	532.5	2.98	20.5
OGK-3	2,448	2,503	294.5	774.6	3.28	26.1
OGK-4	2,751	2,756	319.4	506.2	3.07	24.2
OGK-5	2,724	2,760	318.3	650.0	2.97	21.2
OGK-6	2,334	2,359	260.6	602.4	3.31	28.1
Mean			**296.0**	**613.1**	**3.12**	**24.0**
CEEN	432	568	124.8*	354.2	0.98	11.1
DNEN	428	508	89.0*	308.7	0.87	10.2
DOEN	184	246	90.8	273.4	0.76	6.6
ZAEN	512	595	129.3	324.3	0.89	16.2
Mean			**108.5**	**315.1**	**0.88**	**11.0**
Disc. To OGKs			**-63%**	**-49%**	**-72%**	**-54%**

Source: RTS, PFTS, Company data, Concorde Capital estimates
** - Coal-fueled capacity only*

The current price for Russian OGKs reflects the market's expectation that EBITDA margins will grow to 25%-30% in the near future due to liberalization. According to ATON research, the value of Russian OGKs based on the assumption of slow liberalization fits the UCTE market's valuation trend at EV/S.

Market vs. EBITDA Margin (06E): Russia, Ukraine and UCTE



Source: Company data, Bloomberg, RTS, ATON research, Concorde Capital

Thus, the high valuation of OGKs is due to a lack of generation capacity in Russia, which makes any capacity unit more valuable than in the UCTE and in Ukraine.

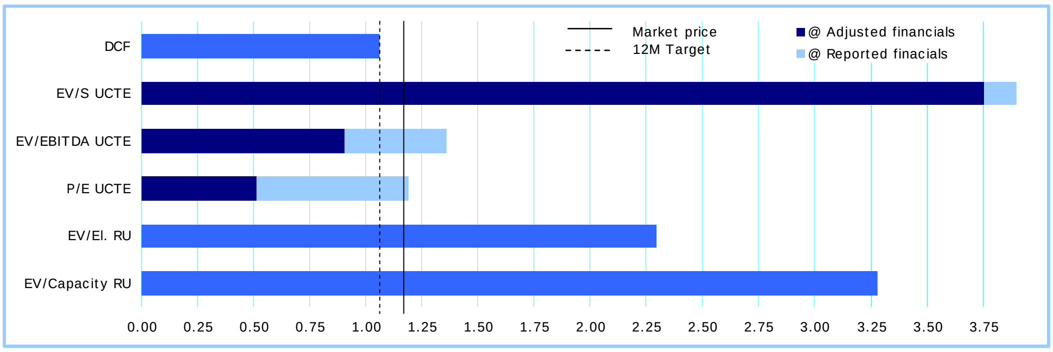
All in all, we believe a 50%-70% premium of Russian peers to GenCos is justified.

Valuation Summary

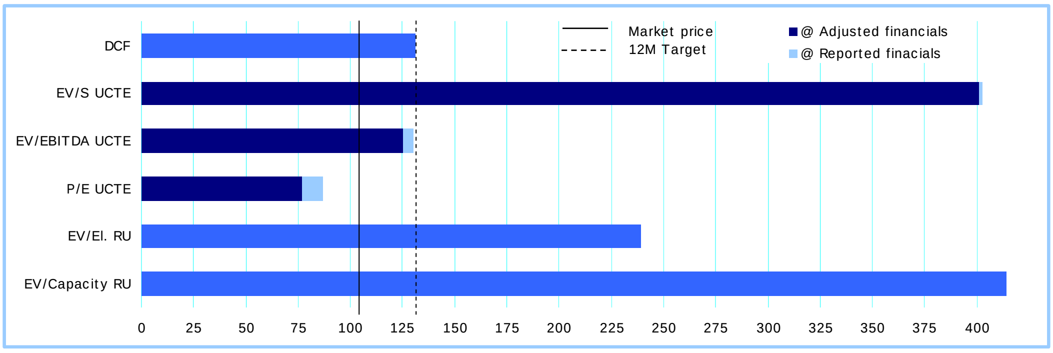
We estimate our 12M target by DCF. The valuation implies a 9% downside for CEEN and 11% downside for ZAEN, 23% upside for DOEN and a 20% upside for DNEN.

We upgrade DOEN to BUY. We re-iterate our HOLD recommendations on CEEN and ZAEN, and our BUY recommendation for DNEN.

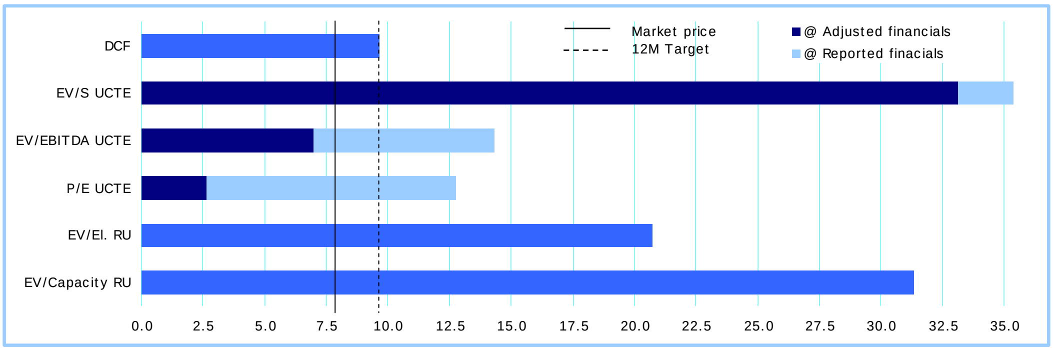
CEEN Implied Prices, 2007E, USD



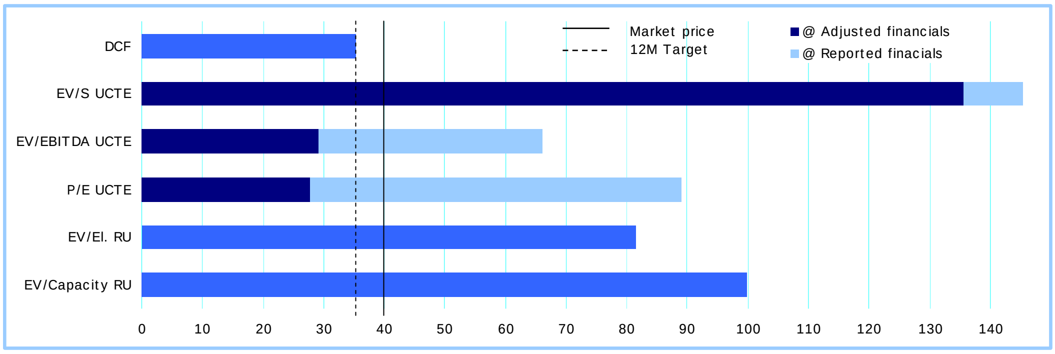
DNEN Implied Prices, 2007E, USD



DOEN Implied Prices, 2007E, USD



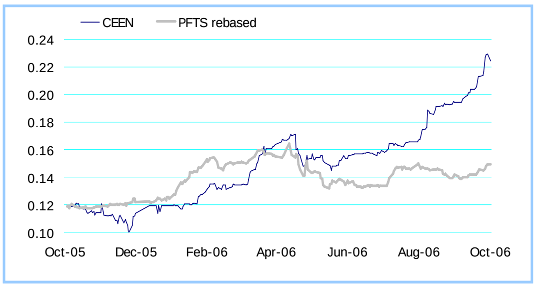
ZAEN Implied Prices, 2007E, USD



Profiles

CEEN: HOLD

Mid-Market, USD



Source: PFTS

	Current	12M Target
Stock Price, USD	1.17	1.06
MCap, USD mln	432.2	391.6
Upside		-9%

Shares Outstanding, mln	**369.41**
Nominal Price, USD	0.26
Local : DR	10 : 1

BLOOMBERG	CEEN UZ
XETRA	DBG

Ownership:

NC ECU	87.3%
Other	12.7%

Free Float:

% of Shares Outstanding	12.7%
MCap, USD mln	54.9

The largest power generation company in terms of total installed capacity and third-largest in terms of coal capacity; operates three power plants located in northern and eastern Ukraine.

- Enjoys improved efficiency and capacity load due to the reconstruction of a 300 MW power unit in 2005, which allowed the company to post higher margins in 1H06.
- Decreasing bankruptcy risk as the company wrote off USD 37 mln in current debt in 3Q06.
- Gas-fueled capacity of 3,000 MW (40% of total) is unused due to high gas prices.
- 27.3% of the company might be privatized in 2007.
- Market price is close to the target, but if Russia will load the company's capacity with cheap gas, an appreciation in value is expected. At the moment, we maintain our HOLD recommendation.

Electricity Output TWh:	
2005	12.2
2006E	14.0
2007E	15.3

Installed Capacity GW	
Total	7.55
Coal-Fueled	4.55

Ratios

	EV/S	EV/EBITDA	P/E	EV/Total Capacity USD/kW	EV/Coal Capacity USD/kW	Implied EV/Coal Capacity USD/kW
2006E	1.01	12.1	44.7			
2007E	0.93	9.9	34.4	72.5	120.3	111.3

All financial statements according to Ukrainian Accounting Standards

Income Statement Summary, USD mln

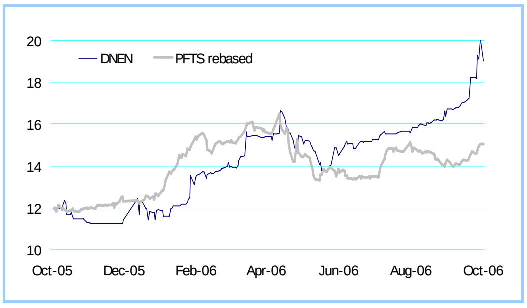
	2004	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Net Revenues	**307**	**381**	**570**	**639**	**698**	**775**	**848**	**903**	**951**	**1,000**	**1,020**	**1,040**
Gross Profit	52	62	75	86	96	126	144	153	159	165	168	172
EBITDA	**39**	**38**	**47**	**58**	**67**	**100**	**115**	**120**	**116**	**120**	**122**	**125**
EBITDA margin, %	13%	10%	8%	9%	10%	13%	14%	13%	12%	12%	12%	12%
EBIT	**15**	**14**	**23**	**31**	**34**	**61**	**74**	**79**	**74**	**77**	**79**	**81**
EBIT margin, %	5%	4%	4%	5%	5%	8%	9%	9%	8%	8%	8%	8%
Net Income	**(6)**	**12**	**8**	**9**	**(6)**	**10**	**29**	**43**	**45**	**48**	**49**	**51**
Net Margin, %	*-2%*	*3%*	*1%*	*1%*	*-1%*	*1%*	*3%*	*5%*	*5%*	*5%*	*5%*	*5%*

Balance Sheet Summary, USD mln

	2004	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Current Assets	**378**	**374**	**395**	**391**	**400**	**434**	**457**	**466**	**463**	**472**	**479**	**487**
Cash & Equivalents	8	2	6	7	7	9	10	10	10	10	10	10
Trade Receivables	324	319	317	304	304	324	337	339	333	337	342	349
Inventories and other	46	53	72	81	89	101	111	117	120	125	128	128
Other current assets	16	15	20	23	26	31	34	36	34	35	36	36
Fixed Assets	**512**	**512**	**521**	**684**	**890**	**931**	**934**	**936**	**938**	**939**	**940**	**939**
PP&E, net	439	499	485	567	746	894	930	931	937	939	939	939
Total Assets	**890**	**886**	**915**	**1,075**	**1,290**	**1,365**	**1,391**	**1,402**	**1,400**	**1,411**	**1,419**	**1,426**
Shareholders' Equity	**391**	**416**	**424**	**448**	**476**	**592**	**728**	**856**	**893**	**907**	**922**	**937**
Share Capital	90	90	90	90	90	90	90	90	90	90	90	90
Reserves and Other	301	321	322	346	375	392	407	414	428	442	457	472
Inv obligations			6	6	6	104	225	346	369	369	369	369
Current Liabilities	**189**	**236**	**247**	**236**	**243**	**274**	**291**	**294**	**287**	**296**	**301**	**307**
ST Interest Bearing Debt	28	36	32	27	28	29	27	24	23	24	24	24
Trade Payables	74	117	127	121	126	136	144	144	145	150	153	156
Other	88	83	89	87	90	109	120	125	119	122	124	127
LT Liabilities	**310**	**234**	**244**	**391**	**570**	**499**	**372**	**252**	**221**	**208**	**196**	**182**
LT Interest Bearing Debt	89	73	96	251	440	369	242	122	111	128	116	112
Other LT	220	161	148	140	130	130	130	130	110	80	80	70
Total Liabilities & Equity	**890**	**886**	**915**	**1,075**	**1,290**	**1,365**	**1,391**	**1,402**	**1,400**	**1,411**	**1,419**	**1,426**

DNEN: BUY

Mid-Market, USD



Source: PFTS

	Current	12M Target
Stock Price, USD	109.0	131.3
MCap, USD mln	427.7	515.2
Upside		20%

Shares Outstanding, mln	**3.92**
Nominal Price, USD	4.95
Local : DR	1 : 4

BLOOMBERG	DNEN UZ
XETRA	DPG

Ownership:

NC ECU	76.0%
Other	24.0%

Free Float:

% of Shares Outstanding	24.0%
MCap, USD mln	102.7

The largest power generation company in terms of coal-fueled installed capacity; operates three power plants located in south-eastern Ukraine.

- The most fuel efficient among traded GenCos, but its advantage is expected to shrink in the long-term as it plans to modernize its equipment by lowest rate among GenCos.
- Gas-fueled capacity of 2,400 MW (30% of total) is unused due to high gas prices.
- Margins decreased in 2006 due to a lag between fuel price growth and a corresponding adjustment in tariffs. In 2007, its margins are expected to restore their 2005 level.
- Might finish its financial recovery process soon; it already offset USD 90 mln in payables in 3Q06. The risk of bankruptcy is decreasing.
- 16% of the company might be privatized in 2007.
- We re-iterate our BUY recommendation.

Electricity Output TWh:	
2005	13.2
2006E	14.4
2007E	15.6

Installed Capacity GW	
Total	8.16
Coal-Fueled	5.76

Ratios

	EV/S	EV/EBITDA	P/E	EV/Total Capacity USD/kW	EV/Coal Capacity USD/kW	Implied EV/Coal Capacity USD/kW
2006E	0.87	8.3	24.8			
2007E	0.76	7.3	21.3	60.2	85.3	100.5

All financial statements according to Ukrainian Accounting Standards

Income Statement Summary, USD mln

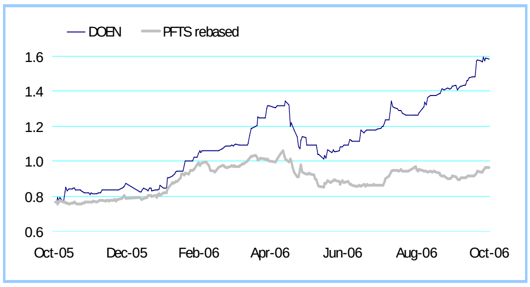
	2004	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Net Revenues	**327**	**408**	**585**	**674**	**736**	**782**	**863**	**973**	**998**	**1,009**	**961**	**980**
Gross Profit	62	68	82	94	110	125	156	229	227	215	149	152
EBITDA	**49**	**66**	**61**	**71**	**85**	**98**	**127**	**198**	**195**	**182**	**115**	**118**
EBITDA margin, %	0	0	0	0	0	12.6%	14.7%	20.3%	19.5%	18.1%	12.0%	12.0%
EBIT	**14**	**28**	**30**	**39**	**51**	**61**	**86**	**157**	**154**	**142**	**75**	**77**
EBIT margin, %	0	0	0	0	0	7.8%	9.9%	16.1%	15.4%	14.0%	7.8%	7.9%
Net Income	**(5)**	**5**	**17**	**21**	**29**	**33**	**49**	**117**	**120**	**113**	**50**	**52**
Net Margin, %	*-2%*	*1.1%*	*2.9%*	*3.1%*	*3.9%*	*4.2%*	*5.6%*	*12.0%*	*12.0%*	*11.2%*	*5.2%*	*5.3%*

Balance Sheet Summary, USD mln

	2004	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Current Assets	**182**	**194**	**204**	**229**	**244**	**254**	**273**	**293**	**298**	**296**	**292**	**298**
Cash & Equivalents	9	9	12	14	15	16	17	19	20	20	19	20
Trade Receivables	119	118	106	118	124	127	134	142	143	138	135	137
Inventories and other	54	67	86	97	105	111	122	132	136	139	138	141
Fixed Assets	**333**	**355**	**349**	**382**	**442**	**526**	**602**	**604**	**604**	**604**	**603**	**603**
PP&E, net	311	308	296	321	364	476	572	571	574	574	573	573
Other Fixed Assets	21	47	53	61	79	50	29	34	31	31	29	30
Total Assets	**514**	**549**	**553**	**610**	**686**	**780**	**875**	**898**	**903**	**901**	**895**	**901**
Shareholders' Equity	**59**	**69**	**87**	**112**	**147**	**193**	**241**	**316**	**388**	**450**	**475**	**501**
Share Capital	19	19	19	19	19	19	19	19	19	19	19	19
Reserves and Other	40	49	67	90	119	152	174	166	158	154	179	205
Inv obligations			-	2	9	22	46	131	210	276	276	276
Current Liabilities	**263**	**300**	**294**	**323**	**335**	**342**	**365**	**368**	**365**	**357**	**349**	**353**
ST Interest Bearing Debt	35	52	41	48	47	48	56	44	39	35	32	33
Trade Payables	97	114	115	128	131	131	134	131	133	132	135	127
Other	132	135	138	147	157	163	175	193	193	190	182	192
LT Liabilities	**192**	**180**	**173**	**175**	**204**	**245**	**269**	**213**	**150**	**94**	**72**	**48**
LT Interest Bearing Debt	17	15	29	55	84	125	199	143	90	50	36	38
Other LT	176	165	144	120	120	120	70	70	60	44	36	10
Total Liabilities & Equity	**514**	**549**	**553**	**610**	**686**	**780**	**875**	**898**	**903**	**901**	**895**	**901**

DOEN: BUY

Mid-Market, USD



Source: PFTS

	Current	12M Target
Stock Price, USD	7.8	9.6
MCap, USD mln	184.4	227.7
Upside		23%

Shares Outstanding, mln	**23.64**
Nominal Price, USD	1.98
Local : DR	-

BLOOMBERG	DOEN UZ
XETRA	-

Ownership:

NC ECU	85.8%
Other	14.2%

Free Float:

% of Shares Outstanding	14.2%
MCap, USD mln	26.2

Thermal power generator which has recovered after losing three power plants in 2002, operates two power plants located in Donetsk region, the region with the highest demand for power.

- Commissioning of a new 200 MW CFB power unit is expected in late 2007, which will raise output and efficiency significantly. It will start construction of a new 125 MW CFB power unit in 2006-2007.
- Plans to develop its own production boilers in the mid-term.
- Plans to earn USD 4-5 mln on emission reductions under the Kyoto protocol over 2010-2012.
- Margins decreased in 2006 due to a lag between fuel prices increases and a corresponding tariff adjustment. In 2007, margins are expected to return to their 2005 level.
- Bankruptcy risk is very low, debts have been restructured.
- 15.8% of the company might be privatized in 2007.
- Valuation implies the highest upside of all GenCos. We upgrade the stock to BUY.

Electricity Output TWh:	
2005	7.3
2006E	7.9
2007E	8.4

Installed Capacity GW	
Total	2.71
Coal-Fueled	2.71

Ratios

	EV/S	EV/EBITDA	P/E	EV/Total Capacity USD/kW	EV/Coal Capacity USD/kW	Implied EV/Coal Capacity USD/kW
2006E	0.80	11.1	129.2			
2007E	0.72	8.8	44.3	93.1	93.1	109.1

All financial statements according to Ukrainian Accounting Standards

Income Statement Summary, USD mln

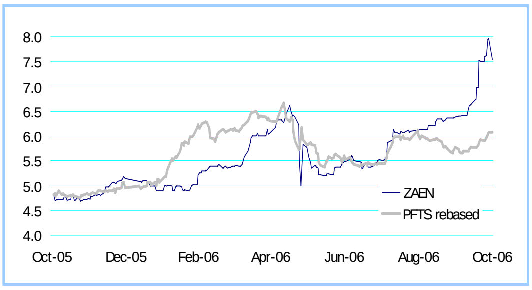
	2004	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Net Revenues	**170**	**224**	**307**	**343**	**398**	**433**	**485**	**517**	**547**	**576**	**593**	**611**
Gross Profit	40	53	34	42	56	68	82	86	91	95	98	101
EBITDA	**25**	**41**	**22**	**28**	**41**	**52**	**63**	**67**	**70**	**75**	**77**	**79**
EBITDA margin, %	15%	18%	7%	8%	10%	12%	13%	13%	13%	13%	13%	13%
Depreciation	(17)	(16)	(16)	(18)	(26)	(29)	(30)	(30)	(31)	(32)	(33)	(33)
% of Net Revenues	*10%*	*7%*	*6%*	*5%*	*5%*	*6%*	*6%*	*6%*	*5%*	*5%*	*5%*	*5%*
EBIT	**8**	**25**	**6**	**11**	**16**	**23**	**33**	**36**	**39**	**43**	**44**	**46**
EBIT margin, %	5%	11%	2%	3%	4%	5%	7%	7%	7%	7%	7%	8%
Net Income	**0**	**11**	**(3)**	**(2)**	**(2)**	**0**	**9**	**14**	**20**	**25**	**26**	**28**
Net Margin, %	*0%*	*5%*	*-1%*	*-1%*	*-1%*	*0%*	*2%*	*3%*	*4%*	*4%*	*4%*	*5%*

Balance Sheet Summary, USD mln

	2004	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Current Assets	**144**	**135**	**153**	**157**	**168**	**178**	**193**	**205**	**205**	**191**	**187**	**193**
Cash & Equivalents	18	12	10	11	11	11	11	11	12	12	12	12
Trade Receivables	85	70	78	81	82	85	89	94	89	72	74	76
Inventories and other	42	53	65	65	75	82	94	99	104	107	101	104
Fixed Assets	**380**	**388**	**386**	**438**	**503**	**540**	**550**	**553**	**555**	**556**	**557**	**557**
PP&E, net	204	205	206	232	427	490	509	509	515	516	517	517
Other Fixed Assets	176	183	180	206	76	50	41	43	40	40	40	40
Total Assets	**524**	**523**	**539**	**595**	**670**	**718**	**743**	**757**	**759**	**747**	**744**	**750**
Shareholders' Equity	**150**	**172**	**186**	**210**	**231**	**264**	**320**	**375**	**417**	**436**	**447**	**458**
Share Capital	45	45	47	47	47	47	47	47	47	47	47	47
Reserves and Other	105	125	127	129	133	140	151	164	175	185	196	207
Investment obligations			12	34	50	76	121	165	195	204	204	204
Current Liabilities	**176**	**182**	**186**	**193**	**205**	**214**	**234**	**243**	**234**	**218**	**212**	**218**
ST Interest Bearing Debt	30	38	31	36	42	40	48	47	40	39	38	39
Trade Payables	44	41	43	45	52	54	58	62	66	69	71	73
Other	102	103	111	112	112	119	128	134	128	110	103	106
LT Liabilities	**198**	**169**	**167**	**193**	**234**	**241**	**189**	**139**	**108**	**93**	**84**	**73**
LT Interest Bearing Debt	67	50	67	93	144	171	129	89	68	63	54	53
Other LT	131	119	100	100	90	70	60	50	40	30	30	20
Total Liabilities & Equity	**524**	**523**	**539**	**595**	**670**	**718**	**743**	**757**	**759**	**747**	**744**	**750**

ZAEN: HOLD

Mid-Market, USD



Source: PFTS

	Current	12M Target
Stock Price, USD	40.0	35.4
MCap, USD mln	511.6	453.0
Upside		-11%

Shares Outstanding, mln	**12.79**
Nominal Price, USD	1.98
Local : DR	1 : 4

BLOOMBERG	ZAEN UZ
XETRA	WT7

Ownership:

NC ECU	70.1%
Other	29.9%

Free Float:

% of Shares Outstanding	29.9%
MCap, USD mln	153.0

The largest GenCo by output; operates three power plants in western Ukraine. Enjoys an export monopoly to Europe. The most liquid GenCo stock.

- Enjoys highest capacity load due to an export monopoly.
- Reduced its gas use by more than three times yoy in 10M06, which allowed the power plants to become price competitive on the local market.
- The least cost efficient power producer due to very intensive use of its equipment in changeable mode. Its margins suffer the most from fuel price increases. Stabilization of fuel prices will lead to increase of the company's margins to 2004 level.
- We expect the company to commission new power unit at the Dobrotvir-2 power plant in 2009.
- Bankruptcy risk is the lowest among all GenCos.
- 10.1% of the company might be privatized in 2007.
- We believe that all the companies' advantages are already accounted for in its current price. We re-iterate our HOLD recommendation.

Electricity Output TWh:	
2005	14.9
2006E	16.1
2007E	17.2

Installed Capacity GW	
Total	4.60
Coal-Fueled	4.60

Ratios

	EV/S	EV/EBITDA	P/E	EV/Total Capacity USD/kW	EV/Coal Capacity USD/kW	Implied EV/Coal Capacity USD/kW
2006E	0.89	16.2	44.3			
2007E	0.81	10.7	21.7	123.2	123.2	110.4

All financial statements according to Ukrainian Accounting Standards

Income Statement Summary, USD mln

	2004	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Net Revenues	**368**	**482**	**668**	**738**	**808**	**873**	**958**	**1,001**	**1,036**	**1,057**	**1,078**	**1,099**
Gross Profit	52	44	67	85	105	124	148	152	156	158	162	165
EBITDA	**21**	**23**	**37**	**56**	**76**	**88**	**112**	**116**	**120**	**122**	**124**	**126**
EBITDA margin, %	6%	5%	6%	8%	9%	10%	12%	12%	12%	12%	12%	12%
EBIT	**9**	**11**	**23**	**38**	**51**	**58**	**79**	**81**	**84**	**85**	**86**	**88**
EBIT margin, %	3%	2%	3%	5%	6%	7%	8%	8%	8%	8%	8%	8%
Net Income	**11**	**4**	**12**	**18**	**22**	**25**	**44**	**51**	**56**	**56**	**58**	**58**
Net Margin, %	*3%*	*1%*	*2%*	*2%*	*3%*	*3%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*

Balance Sheet Summary USD mln

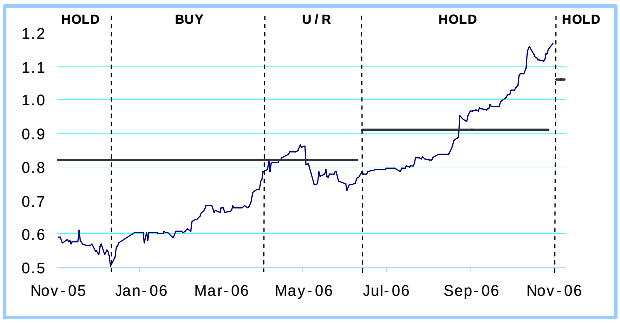
	2004	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Current Assets	**182**	**202**	**225**	**245**	**264**	**281**	**296**	**302**	**308**	**312**	**316**	**322**
Cash & Equivalents	2	1	5	6	7	8	8	8	8	8	9	9
Trade Receivables	122	129	128	136	141	147	153	156	160	161	162	165
Inventories & Other	58	72	91	103	115	126	134	138	140	143	146	148
Fixed Assets	**283**	**308**	**330**	**479**	**698**	**819**	**865**	**869**	**872**	**874**	**875**	**875**
PP&E, net	228	249	287	421	605	752	814	824	831	833	834	834
Other Fixed Assets	55	58	43	58	93	66	51	46	41	41	41	41
Total Assets	**465**	**509**	**555**	**724**	**963**	**1,099**	**1,161**	**1,171**	**1,180**	**1,186**	**1,191**	**1,197**
Shareholders' Equity	**255**	**274**	**283**	**360**	**517**	**686**	**784**	**859**	**870**	**882**	**893**	**905**
Share Capital	24	24	24	24	24	24	24	24	24	24	24	24
Reserves and Other	231	248	258	276	309	321	327	354	366	377	388	400
Inv obligations			-	58	183	339	431	479	479	479	479	479
Current Liabilities	**102**	**149**	**145**	**164**	**183**	**194**	**201**	**204**	**205**	**209**	**213**	**220**
ST Interest Bearing Debt	20	53	33	37	38	35	35	34	33	34	34	35
Trade Payables	42	45	51	56	61	66	72	76	79	80	82	84
Other	40	53	61	71	84	92	94	94	93	95	97	101
LT Liabilities	**108**	**87**	**126**	**200**	**262**	**219**	**175**	**108**	**105**	**95**	**85**	**73**
LT Interest Bearing Debt	10	9	46	120	182	149	125	68	75	65	65	73
Other LT	98	78	80	80	80	70	50	40	30	30	20	-
Total Liabilities & Equity	**465**	**509**	**555**	**724**	**963**	**1,099**	**1,161**	**1,171**	**1,180**	**1,186**	**1,191**	**1,197**

Analyst Certification

I, Alexander Paraschiy, 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.

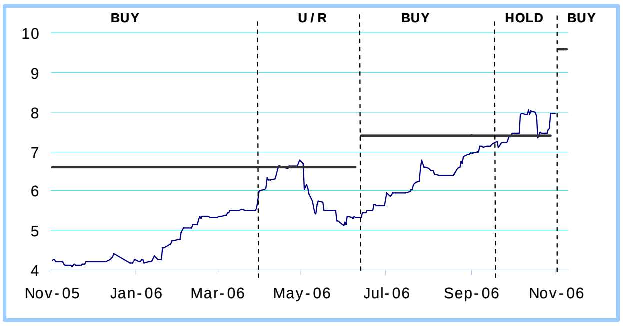
Date	**CEEN** price, USD		**DNEN** price, USD		**DOEN** price, USD		**ZAEN** price, USD	
	Closing	Target	Closing	Target	Closing	Target	Closing	Target
13-May-05	0.79	0.76	74.7	88.2	4.2	6.8	27.7	29.0
30-May-05							27.7	30.5
4-Jul-05					4.4	6.0		
19-Jul-05							24.0	30.5
26-Sep-05	0.80	0.82	66.5	99.0	4.2	6.6	26.0	34.0
3-Jan-06	0.54	0.82						
26-Jun-06	0.79	0.91	76.0	123.0	5.2	7.4	26.5	34.0
25-Sep-06							32.0	34.0
26-Sep-06					7.2	7.4		
14-Nov-06	1.17	1.06	109.0	131.3	7.8	9.6	40.0	35.4

Centrenergo (CEEN)

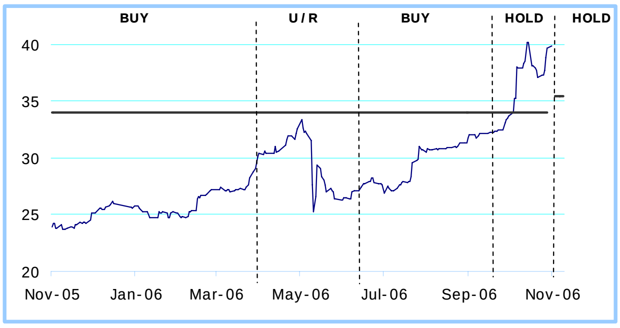


Dniproenergo (DNEN)

Donbassenergo (DOEN)



Zakhidenergo (ZAEN)



Concorde Capital
3V Sportyvna Square
2nd entrance, 3rd floor
Kyiv 01023, UKRAINE

Tel: +380 44 207 5030
Fax: +380 44 206 8366
www.concorde.com.ua
office@concorde.com.ua

CEO
Igor Mazepa im@concorde.com.ua

Equity Sales
Marina Martirosyan mm@concorde.com.ua
Lucas Romriel lr@concorde.com.ua
Anastasiya Nazarenko an@concorde.com.ua

Director of Research
Konstantin Fisun, CFA kf@concorde.com.ua

Chief Strategist
Tom Warner tw@concorde.com.ua

Utilities (Telecom, Energy)
Alexander Paraschiy ap@concorde.com.ua

Metals & Mining
Andriy Gostik ag@concorde.com.ua
Eugene Cherviachenko ec@concorde.com.ua

Machine Building, Construction, Consumer Goods
Olha Pankiv op@concorde.com.ua

Financial Services & Macroeconomics
Alexander Viktorov av@concorde.com.ua

Oil & Gas, Chemicals
Vladimir Nesterenko vn@concorde.com.ua

Fixed Income
Oleksandr Klymchuk ok@concorde.com.ua

News/Production
Nick Piazza np@concorde.com.ua
Polina Khomenko pk@concorde.com.ua

Editor
Brad Wells bw@concorde.com.ua