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EGM Actions:

- Change in supervisory boards
- NC ECU disappointed, did not accept DOEN's results

	Price USD	12M target USD	12M Upside	Rec.
CEEN	1.18	1.06	-10%	HOLD
DNEN	109.0	131.3	20%	BUY
DOEN	8.0	9.6	20%	BUY
ZAEN	41.0	35.4	-14%	HOLD

Timeline of EGMs:

Nov. 21 - ZAEN EGM

Nov. 22 - CEEN EGM

Nov. 23 - DOEN EGM

* DNEN: The company is in a process of financial recovery so no shareholders meeting can be held.

Forecasts Summary

	Production TWh		Sales USD mln	
	06E	07E	06E	07E
CEEN	14.0	15.3	563	612
DNEN	14.4	15.6	585	665
ZAEN	16.1	17.2	668	730
DOEN new	7.5	8.0	255	290
DOEN old	7.9	8.4	307	339

Key 9M06 Results:

- Production: Encouraging for CEEN and DNEN, disappointing for DOEN.
- Reported margins decrease, adjustments are needed.
- Net income: Spoiled by prepayment and debt restructuring.

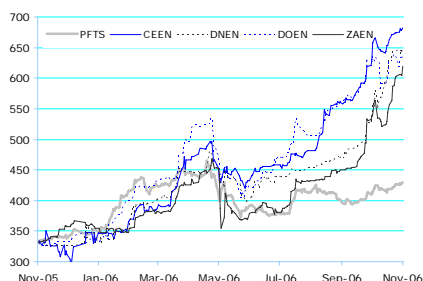
	EBITDA USD mln		Net income USD mln	
	06E	07E	06E	07E
CEEN	46.8	57.5	9.7	12.6
DNEN	61.5	70.1	17.2	20.1
ZAEN	36.7	55.8	11.6	23.6
DOEN new	15.9	25.5	(2.6)	2.8
DOEN old	22.1	27.8	1.4	4.2

Forecast Revision:

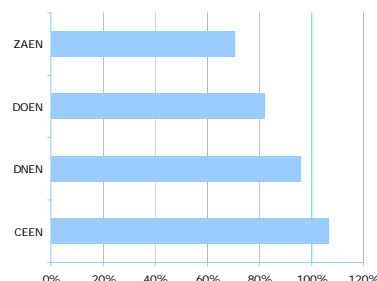
- DOEN's 2006 and 2007 forecasts are downgraded
- No other changes

Valuation: No Changes

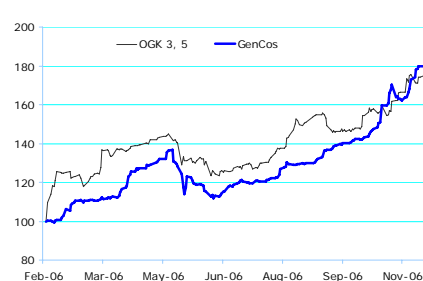
Market



Performance ytd



Four GenCos vs. Two OGKs (MCap-Weighted)



Price Ratios

	MCap	EV/S		EV/EBITDA		P/E		EV/Capacity	Fair EV/Capacity
	USD mln	2006E	2007E	2006E	2007E	2006E	2007E	2007E, USD/kW	2007, USD/kW
CEEN	435.9	1.02	0.93	12.2	9.9	45.1	34.7	121.1	111.3
DNEN	427.7	0.87	0.76	7.3	8.3	24.8	21.3	85.3	100.5
DOEN	189.2	0.98	0.86	15.8	9.8	neg.	68.2	94.9	109.1
ZAEN	524.4	0.91	0.83	16.6	10.9	45.4	22.2	125.9	110.4

EGM Results: No Surprises

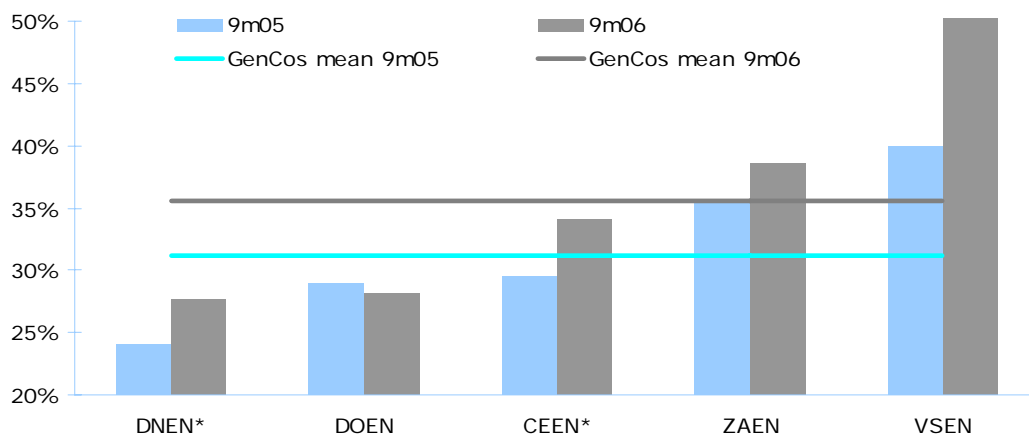
Change in Supervisory Boards. After the new Cabinet of Ministers was appointed, staff at the Ministry of the Fuel and Energy and the National Energy Company (NC ECU) rotated, and left the boards of power generation companies (GenCos) filled with representatives of the old guard. Clashes between these forces made the work of the boards impossible and raised the risk of instability during the winter. Recent EGMs solved the problem predictably and efficiently – they replaced the boards with representatives of people currently in power. There is good news - the supervisory boards are expected to be stable and efficient. There's also bad news - since all board members represent the interests of the NC ECU, minority shareholders are not represented and a conflict of interest appears likely as the NC ECU is tightly linked to the Donbass Fuel and Energy Company controlled by SCM.

NC ECU Disappointed with DOEN's Results. DOEN management's report of 9M06 results (which showed results lower than planned) was not approved at the EGM but "taken into consideration," which means that the management has been given an unsatisfactory grade. This definitely weakens the position of DOEN's CEO, the only GenCo director who has held his position since DOEN's creation in 1995. ZAEN management's 9M06 report, which showed results surpassing its 2006 plan, was approved at its EGM. CEEN management's report was not discussed at its EGM because the company's CEO was replaced a month ago.

Results of 9M06

Production Results: Encouraging for CEEN and DNEN, Disappointing for DOEN. Total output of state-controlled GenCos grew in 9M06 by 10.4% yoy, while the output of private company Vostokenergo (VSEN) grew 26% yoy. The increased load of VSEN's power plants negatively affected the output of DOEN's neighboring power plants. Since Vostokenergo is now working close to its maximum capacity (which we estimate is 55%), we do not expect large increases in its output in the future. DOEN's competitiveness on the local market is expected to grow significantly in late 2007 when it will commission a reconstructed power unit. In addition, DOEN's load is expected to increase in November and December 2006 thanks to increasing demand from internal TPPs' electricity and Russia, which started importing Ukrainian electricity on November 7.

Capacity Load



Source: *EnergoBiznes*, Concorde Capital calculations

* Only the load of coal-fueled capacity was taken into account; the load of gas-fueled capacity was zero

Reported Margins Decrease, Adjustments Needed. All the GenCos reported 18%-49% sales growth and a reduction of EBITDA margins. We adjusted sales and EBITDA figures by the amount of additional surcharges GenCos were granted in 2005 and 2006 (surcharges were granted to repay debts to the budget in 2005 and to repay loans in 2005 and 2006). Adjusted data shows 30%-49% sales growth for all GenCos and EBITDA margins decreases for CEEN and DOEN. CEEN's adjusted EBITDA margin grew yoy, which reflects its improved fuel efficiency after it commissioned a reconstructed power unit a year ago.

Financial Summary, 9M06, USD mln

	Sales	Sales growth yoy	Sales adj	Adj. sales growth yoy	EBITDA	EBITDA adj	Net Income
CEEN	376.0	42%	369.6	46%	44.3	37.9	-27.5
DNEN	380.0	49%	380.0	49%	37.6	37.6	-0.67
DOEN	177.4	18%	169.0	30%	11.3	2.8	-11.0
ZAEN	454.2	33%	454.2	34%	28.1	28.1	-7.9

Source: Company data, NERC, Concorde Capital calculation

Reported EBITDA margins

	9m05	9m06
CEEN	13.3%	11.8%
DNEN	10.5%	9.9%
DOEN	17.9%	6.3%
ZAEN	6.9%	6.2%

Source: Company data, Concorde Capital calculation

Adjusted EBITDA margins

	9m05	9m06
CEEN	9.5%	10.3%
DNEN	10.5%	9.9%
DOEN	4.9%	1.7%
ZAEN	6.2%	6.2%

Source: Company data, NERC, Concorde Capital calculation

Reductions in margins for GenCos is explained by a lag in the growth of costs and a corresponding adjustment in tariffs.

Net Income: Spoiled by Prepayment and Debt Restructuring. The company Energorynok (Ukraine's wholesale electricity market operator or WEMO) started to repay its debts to GenCos, in line with an acting law on debt restructuring. This was reflected in an increase in taxable income and income tax for power generation companies. High tax expenses were also affected by pre-payments for electricity from WEMO (to help GenCos collect coal reserves), which caused temporal differences that are expected to disappear by the end of the fourth quarter.

GenCos are now working on restructuring their income tax obligations, which as part of the process of WEMO's debt repayment. Tax expenses due to debt restructuring are non-recurring, and thus need to be adjusted in a calculation of net income for a full year. Though, if not restructured, they will actually significantly decrease GenCos' cash flows in 2006.

9M06 Incomes and Taxes, USD mln

	Income before tax	Income tax				Income after tax
		Total	Real*	Caused by debt restructuring	Caused by other "temporal differences"	
CEEN	14.8	42.2	3.7	34.4	4.1	-27.5
DNEN	8.5	9.2	2.1	5.3	1.7	-0.7
DOEN	-6.4	4.6	0.0	2.0	2.7	-11.0
ZAEN	14.0	21.9	3.5	6.2	6.8	-7.9

Source: Company data, Concorde Capital estimates

* Income before tax multiplied by the tax rate (25%)

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