



CONCORDE CAPITAL

Ukraine / Electricity Kyivenergo

Kicking Bad Habits

September 28, 2007

Current price: USD 5.92
12M target: USD 7.50

BUY

Alexander Paraschiy
+380 44 207 5030
ap@concorde.com.ua

Market information

Bloomberg	KIEN.UZ
Reuters	KIEN.PFT
No of shares, mln	108.36
Par value, UAH	0.25
Market price	5.92
Price impact	2
52 Wk H/L	6.74 / 1.02
Chg 3m/6m/52w	-12% / 30% / 343%
Chg YTD	275%
Avg M Tr. Vol. 6M, USD mln	1.55
MCap, USD mln	641
Free float	9.0%
FF MCap, USD mln	57.7

Stock ownership

NC ECU (State)	50.00%
Kapiton Trading (Cyprus)	24.98%
Fluminea (Cyprus)	15.72%
Other	9.30%

Key financials and ratios

	Sales USD mln	EBITDA margin	Net margin
2006	650	5.9%	0.6%
2007E	1,044	5.8%	2.1%
2008E	1,552	4.9%	2.1%

	EV/S	EV/EBITDA	P/E
2006	1.17	20.0	165.4
2007E	0.78	13.4	29.4
2008E	0.52	10.7	19.8

Explicit separation of Kyivenergo's profitable electricity segment from its zero-profit (in the long-term) heating business for valuation purposes allows us to significantly increase Kyivenergo's target price. Even with one of the best YTD performance among Ukrainian electricity stocks, Kyivenergo's combined electricity generation and distribution segments remain 50% cheaper than its local peers. With a USD 7.5 target price (27% upside), we upgrade the stock to BUY.

RAB-based reform set to boost distribution segment

Kyivenergo's power distribution segment will benefit from tariff reform expected in 2009. The change from a cost+CapEx tariff policy to a RAB-based policy is likely to boost Kyivenergo's distribution segment profits by up to four times, significantly raising the value of Kyivenergo's distribution networks.

Electricity generation segment: The profit generator

The electricity generating segment continues to be the only profit generator for the company. Since starting to operate on the capacity tender market in March 2006, Kyivenergo has decreased its power output to increase fuel efficiency and profits from its generation business. A significant increase in profits from generation is expected from 2012 forward, after a new 250 MW power unit at Kyiv CHPP#6 is commissioned.

Interim financials: Harmed by heating losses

Kyivenergo's financials for last three quarters were spoiled by heating segment losses that were not completely compensated by the Kyiv city budget. In the mid-term, we expect the heating segment to breakeven, since the law obligates Kyiv to fully compensate Kyivenergo's losses.

Content

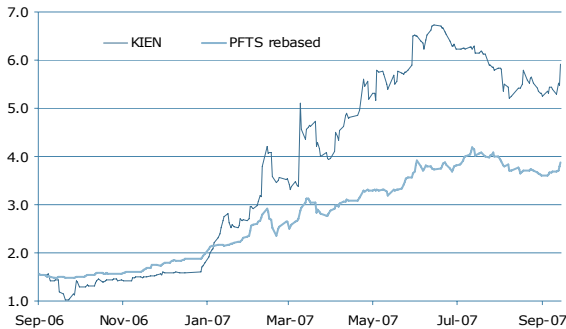
Market and corporate issues	3
Stock performance	3
Ownership structure: A roaming 12.7% stake	3
Lease agreement prolonged until 2016	4
Interim financials: Harmed by heat losses	5
Electricity segment: Profit generator	6
Optimization of electricity output	6
Hysteresis in fuel efficiency	7
Distribution segment: Profits are growing	8
Unprofitable segment: Heating	9
Meaningless for valuation	9
Heating losses: Compensation still not effectual	9
New subsidiary will take on heating losses?	10
Investment projects	11
Total needs 2007-2011 – USD 575 mln	11
CHPP-6/3: Still needs USD 160 mln	11
EBRD program for heating network to finish	11
Valuation	12
Valuation of integrated business	13
Valuation by value-creating segments	15
Generation segment	15
Power distribution segment	17
Putting the two parts together	18
Valuation summary	19

Market and corporate issues

Stock performance

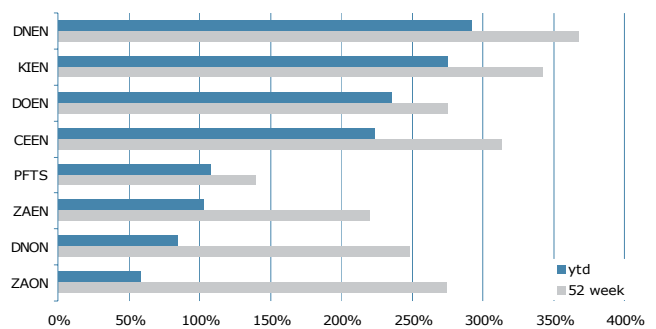
Kyivenergo's performance in 2007 bested all other Ukrainian electricity stocks, except Dniproenergo. This is because the stock overcame a gap in performance compared to other GenCos in late 2006, when there was a seemingly high risk that its lease of the city of Kyiv's power plants would not be prolonged.

KIEN vs PFTS



Source: PFTS, Concorde Capital calculations

Performance



Ownership structure: A roaming 12.7% stake

Kyivenergo's ownership structure was reshuffled in 2007. As of January 2007, a 12.73% stake was held by the city of Kyiv, but in summer 2007 the stake roamed to one Cyprian company and then to another. Kyivenergo representatives have not commented on this issue.

Kyivenergo ownership structure

	Jan-07	Jun-07	Aug-07
NC ECU (state)	50.00%	50.00%	50.00%
Kapiton Trading (Cyprus)	24.97%	24.97%	24.98%
Kyiv City Council	12.73%	-	-
Trelodia Investments (Cyprus)	-	12.73%	-
Fluminea (Cyprus)	-	≤2.99%*	15.72%
Other (free float)	12.30%	9.3%-12.3%	9.30%

Source: State Securities Commission

*Concorde Capital estimate, based on the fact that Fluminea was a shareholder of Kyivenergo as of April 12, 2007

Kapiton Trading is related to the business group of Ivanov/Khmelniyskiy, the co-founders of Kyivenergoholding. We believe the city of Kyiv's 12.7% stake in Kyivenergo was transferred into Kyivenergoholding, which in turn passed it to Cyprian Trelodia and then to Fluminea.

It is difficult to trace the true founders of Trelodia or Fluminea, but we consider two candidates, with equal probability:

- Ivanov/Khmelniyskiy Group: nominal holder of the 12.7% stake in Kyivenergo is Khreschatyk Bank, which is related to this group;
- DTEK/SCM Group: No direct evidence for this (except conjecturally, recent appointments to Kyivenergo's management that have work experience at DTEK-related companies). We do not exclude this scenario, since DTEK is one of the most probable bidders for Kyivenergo if it is privatized. Moreover, if this scenario is true, we can expect the privatization of Kyivenergo in 2008-2009.

Lease agreement prolonged until 2016

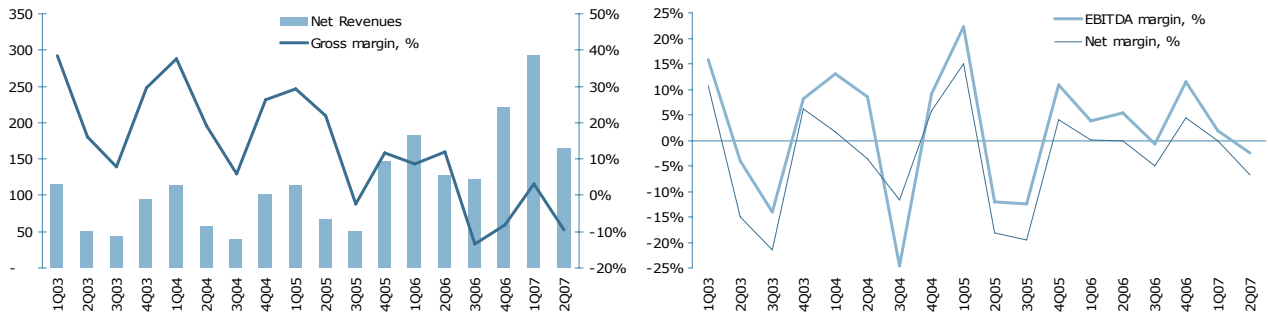
The prolongation of the lease agreement for the city of Kyiv's generation and heating facilities this April until 2016 was a predicted event.

The only catch of the new lease agreement is the rent payment. Previously Kyivenergo rented the city's power plants and heating networks for free, but now it must shell out 10% of its net income, and not less than USD 0.4 mln p.a. Still, we expect that this change is neutral, as Kyiv will most likely to reinvest this money into upgrading Kyivenergo's assets.

Interim financials: Harmed by heat losses

Amidst a background of significant growth in reported sales, Kyivenergo has shown a negative or close to zero gross margin over the last four quarters, even including usually profitable winter quarters (4Q06 and 1Q07).

Financial summary, USD mln



Source: Company data

The main reason for Kyivenergo's deteriorating gross margin is low heating tariffs, which fell short of covering heating production costs.

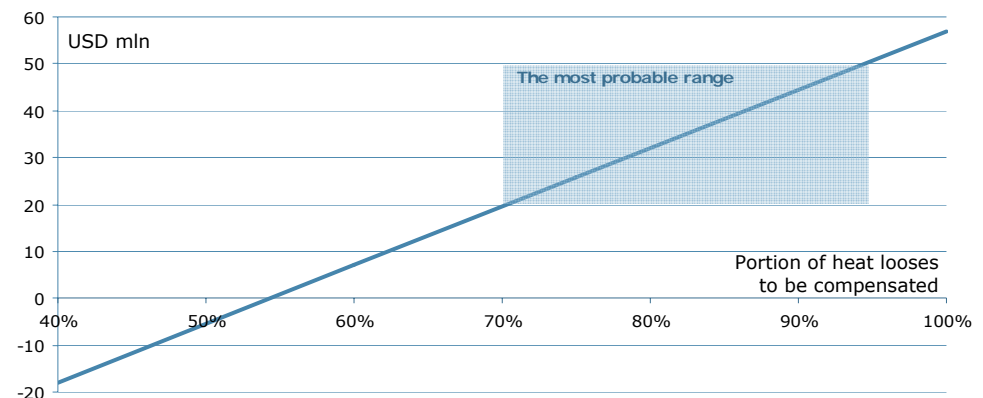
The company's EBITDA and net margins are less disappointing due to partial compensation of heating losses by the city of Kyiv, which are reported as *Other operating income*. Assuming full compensation of heating losses by the city (which the law "On Prices and Pricing" mandates beginning January 1, 2007), Kyivenergo's margins will be larger.

1H07 financial summary, USD mln

	Reported	Assuming full compensation for losses
Sales	545.1	545.1
EBITDA	1.4	35.6
Margin	0.3%	6.5%
Net income	-11.4	14.3
Margin	-2.1%	2.6%

Source: Company data, Concorde Capital estimates

Kyivenergo EBITDA for 2007E



Source: Company data, Concorde Capital estimates

We expect two factors will raise Kyivenergo's EBITDA in the mid-term:

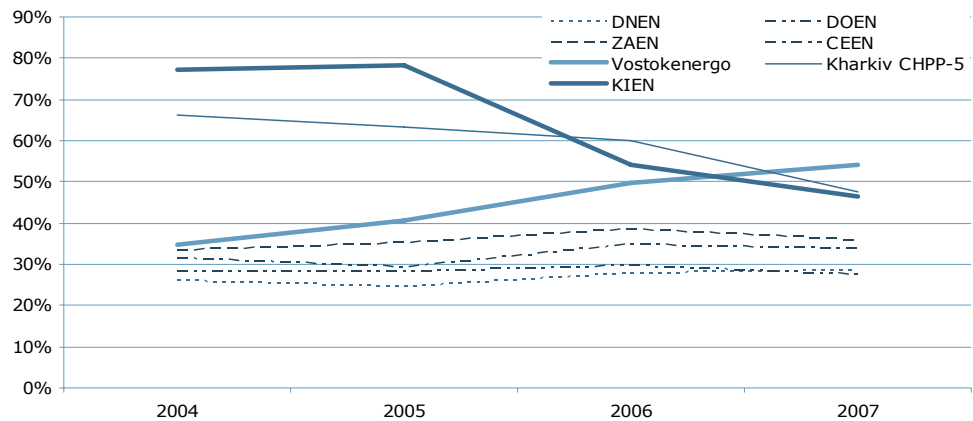
- full compensation of heating losses by the city in accordance with the amended law;
- changes in the tariff policy for electricity distribution companies (expected in 2009), which will imply higher profits for Kyivenergo's distribution segment.

Electricity segment: Profit generator

Optimization of electricity output

The new model for Kyivenergo's sale of electricity to the wholesale market, which has been effective since March 2006, and significant increases in gas tariffs in Ukraine in 2006 and 2007 forced the company to reduce the amount of electricity production to keep down fuel costs. As the gas tariff increased 82% yoy in 2006, Kyivenergo increased electricity production/purchase costs by only 55%.

Loaded capacity, Jan.-Aug.

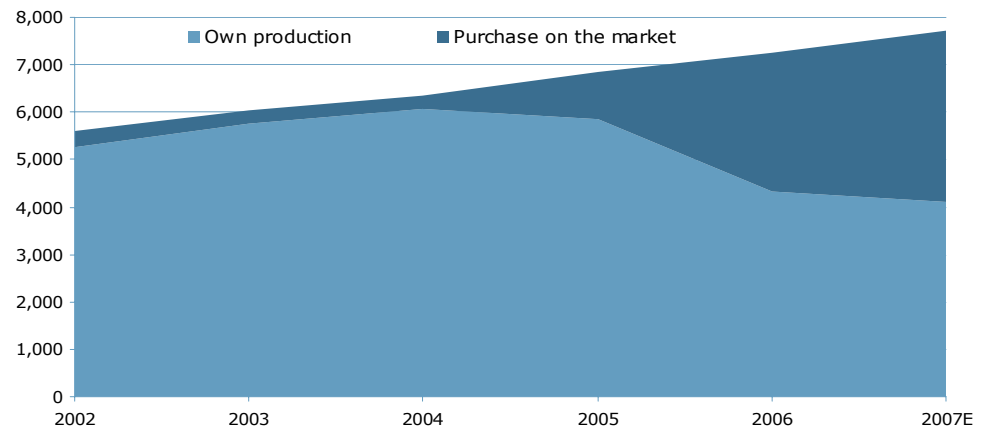


Source: Energobiznes, Concorde Capital calculations

Note: For DNEN and CEEN, only the load of coal-fueled power units is considered

With a decrease in internally generated electricity, Kyivenergo increased inflows of electricity from the wholesale market.

Sources of Kyivenergo's electricity supplied to consumers, GWh



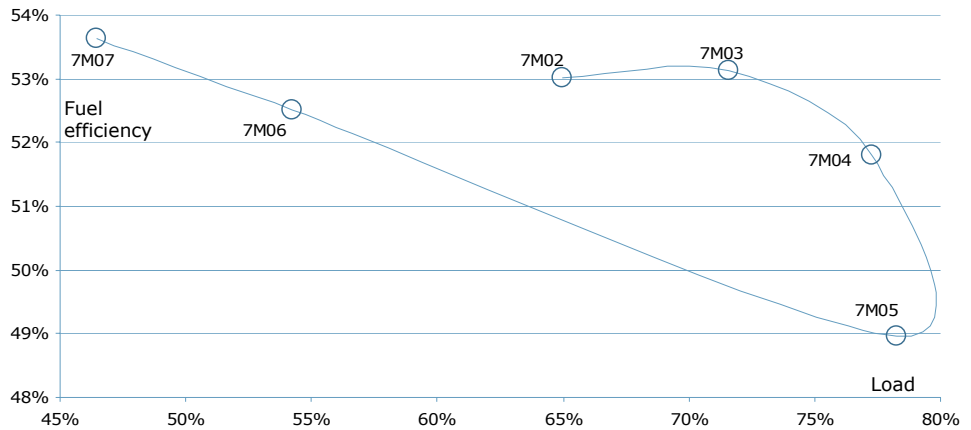
Source: Energobiznes, Kyivenergo, Concorde Capital estimates

Hysteresis in fuel efficiency

Since starting to operate on the capacity tender market in March 2006, Kyivenergo's power plants have significantly reduced their level of fuel efficiency (ratio of electricity output to burned fuel).

When Kyivenergo worked outside of the capacity tender market, it reached its highest level of fuel efficiency at average capacity load of 72%. Working under new conditions, Kyivenergo reached the same efficiency level at an average load of only 48%. Participation in the capacity tender market demands more volatility in capacity load than when Kyivenergo worked outside the market.

Electricity capacity load and fuel efficiency



Source: *Energobiznes*, Concorde Capital calculations

It looks like Kyivenergo's CHPPs have not yet reached their efficiency level (which appears to be below 45% load). However, we do not believe Kyivenergo will decrease its load in the future. With steadily growing demand for electricity on the wholesale market, we predict the capacity load of the CHPPs to be around 50% in the mid-term.

We see fuel efficiency increasing after a new power unit is commissioned at Kyiv CHPP#6, which is expected to occur in 2011-2012.

Distribution segment: Profits are growing

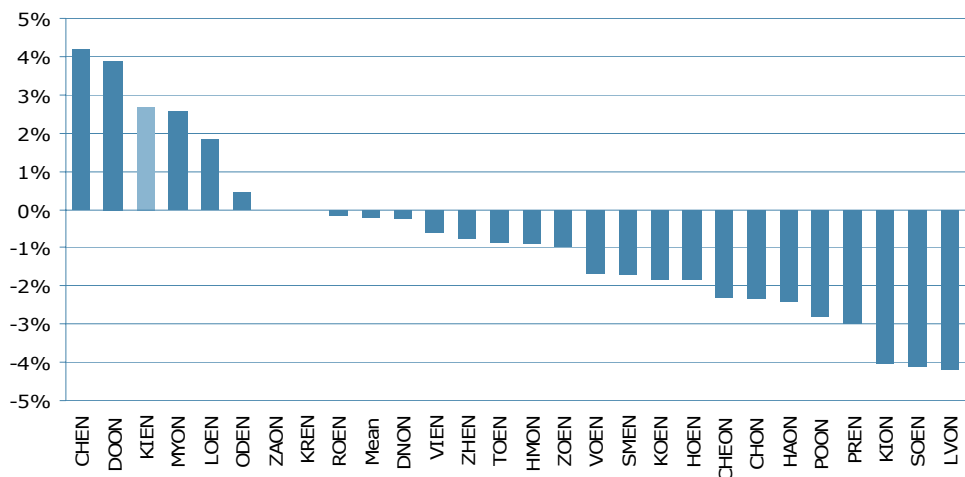
RAB-based tariff policy to raise segment's cash flows

Implementation of a new tariff policy (based on a regulatory asset base, RAB) for Ukrainian electricity distribution companies, expected in 2009, will significantly increase the cash flows of Kyivenergo's distribution business. In 2007 the regulator included only USD 9.3 mln profit p.a. in Kyivenergo's distribution tariff. Under the new policy, the company's networks are likely to generate up to four times higher profits. Looking into the future, we apply the new value of Kyivenergo's distribution segment to our valuation, which is the main factor that increased our target price for Kyivenergo.

Remains one of the least efficient in Ukraine

Electricity losses in Kyivenergo's grid exceed the level allowed by the regulator (included in distribution tariff calculation). In terms of excessive losses, Kyivenergo remains the third least efficient distribution company in Ukraine.

Electricity losses in excess of allowed level (7M07), % of electricity inflow



Source: Energobiznes

According to our estimates, excessive losses of electricity have ate away USD 9.2 mln of Kyivenergo's profits in 2006, and USD 4.8 mln in 1Q07.

Compensation to generate USD 3.7 mln in profit in 2Q-4Q

Kyivenergo managed to persuade the regulators to allow Kyivenergo to adjust its tariff to cover part of its excessive losses in March-December 2007. Excessive losses amounting to 3.15% of electricity inflow in low-voltage power lines (about 3% of total power inflow) were included in Kyivenergo's distribution tariff for this period. Kyivenergo promised to decrease electricity losses by 1.5% over this period.

We forecast Kyivenergo's excessive losses for 2Q07-4Q07 at only 1.8% of electricity inflow. With the compensation of 3% of electricity losses, we forecast Kyivenergo will generate an additional profit of USD 3.7 mln over March-December 2007, which implies FY2007 costs from excessive electricity losses of USD 1.15 mln, (down 87% yoy). We expect the company's distribution segment will generate USD 8.2 mln in net income in 2007.

By 2009, we expect Kyivenergo will completely solve its excessive losses problem.

Unprofitable segment: Heating

Meaningless for valuation

While there are synergies offered by Kyivenergo's combined production of heating and electricity, the heating segment is now, in fact, its main burden:

- Kyivenergo reports losses due to low heating tariffs and incomplete compensation from the city budget
- The company's balance sheet is burdened by a USD 160 mln EBRD loan, which Kyivenergo took to reconstruct its heating network

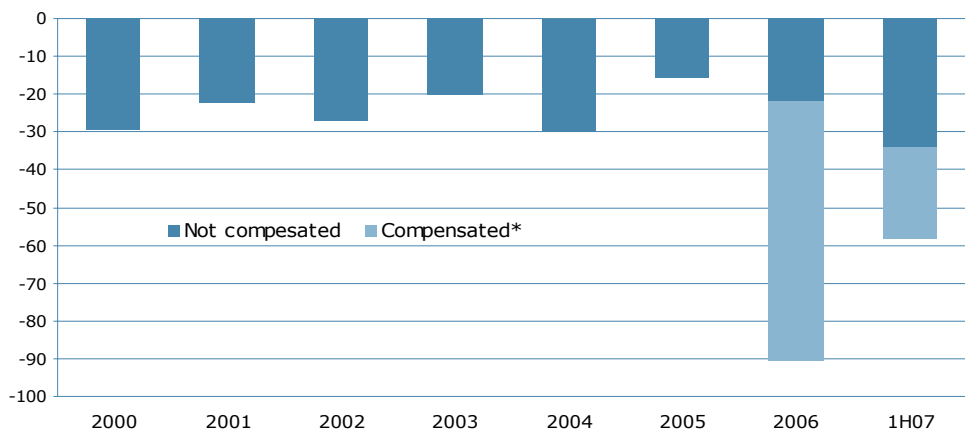
We do not account for non-electricity businesses in Kyivenergo's valuation by separate segments, assuming they will generate zero cash flow in the mid to long-term.

Heating losses: Compensation still not effectual

Because the Kyiv City Council set heating tariffs below the costs of production by Kyivenergo, the city should have been compensating the difference since January 1, 2007, according to the amended law "On Prices and Pricing."

We estimate Kyivenergo's FY2007 losses from heating supply at USD 125 mln. The city of Kyiv has compensated only USD 24.2 mln of Kyivenergo's heat losses for 1H07 (41%), and recently adopted a ruling to compensate another USD 8.6 mln. We do not believe the city budget will be able to compensate this year's losses in full.

Losses from heating segment, USD mln



Source: Company data, Concorde Capital forecast

* Compensated from Kyiv budget

According to Kyivenergo's management, the company will go to the courts to seek full compensation, which raises the chances that most of the amount will be compensated in 2007.

We expect a necessary amount of compensation will be included in 2008 budget for Kyiv city, thus no significant lag in compensation will be observed since 2008. We also expect full compensation of 2007 heat losses in the mid-term.

We believe that the city of Kyiv will continue to set the heating tariff below costs, and will only compensate the difference – meaning that heat production will remain a zero-profit business for Kyivenergo in the mid-term.

New subsidiary will take on heating losses?

At their EGM on September 6, Kyivenergo shareholders voted to create affiliate Teploenergozbut Kyivenergo. According to management, this new entity will provide heating services, and Kyivenergo plans to assign all the financials related to the heating segments to the accounts of the new subsidiary.

Management expects the separation of its profitable electricity business from the loss-making heating segment will allow Kyivenergo to improve its argument with the city for higher heating tariffs or full compensation of its heating losses. At the least, it will avoid cross-subsidization of electricity and heating segments.

The subsidiary's financials are likely to not be consolidated in Kyivenergo's accounts according to local accounting standards. This implies that Kyivenergo will report only electricity generation and distribution segments in its unconsolidated financials, which will allow the company to report higher unconsolidated profits in the short-term, even in the event of continuing incomplete compensation of heating losses.

Investment projects

Total needs 2007-2011 – USD 575 mln

According to Kyivenergo's CEO, the company needs USD 575 mln to finance electricity generation and distribution asset upgrades over the next four years. The city of Kyiv has the fastest growing electricity consumption (more than 6% yoy over the last couple of years, and about the same level is forecasted for 2007-2010), and has already started facing power transmission capacity shortages in several districts. This raises the likelihood that regulators will assist the company in finding alternatives to upgrade its networks.

The NERC and the Ministry of Fuel and Energy's national investment program on network upgrades for 2008-2011 adds to the optimism that Kyivenergo will find CapEx financing (bank loans, possibly from the EBRD).

CHPP-6/3: Still needs USD 160 mln

Kyivenergo is currently seeking financing to complete construction of the third power unit at Kyiv CHPP#6, according to its CEO. The company reports the unit (with an electricity capacity of 250-300 MW) is 67% completed, and an additional USD 160 mln is needed to finish construction. This implies a total construction cost of about USD 1600 per kW of installed capacity.

The current regulatory environment does not allow the company to compensate any interest on loans for construction: an NERC decree provides for compensation of 60%-80% of loans for CapEx financing via additions to power generators' tariffs, but only for thermal power plants (TPPs).

We see several possible ways to finance the plant's completion:

- the decree on compensation of loans for TPPs will be extended to Kyivenergo (the most likely scenario)
- separate regulation for the compensation of financing for CHPP#6's construction will be worked out
- Kyivenergo will be privatized, and a new strategic investor will finance construction

We estimate the most probable period for commissioning the new power unit at 2011-2012.

EBRD program for heating network to finish

According to Kyivenergo's CEO, the company will finish its World Bank-financed program to upgrade Kyiv's heating infrastructure. As of September 6, Kyivenergo had used USD 158 out mln of the USD 160 mln WB loan, the rest must to be used by October 1, 2007. Due to regulations on heating tariffs, we do not see any direct implication for income of heating transmission efficiency for Kyivenergo's profits.

Valuation

We continue to value Kyivenergo as a vertically integrated company by peers, while discontinuing our practice of using a consolidated business model to value the company by DCF: the expected significant changes in the generation and distribution markets in the mid-term, as well as the restructuring of Kyivenergo heating segment make modeling a complex task.

We added two approaches to separately value Kyivenergo's electricity generation business (by DCF) and distribution business (RAB-based valuation, similar to other Ukrainian electricity distribution companies).

Applying a sum-of-the-parts valuation, we continue accounting only for the electricity generation and distribution segments. Since heating tariffs are regulated by local authorities, heat segment is unlikely to generate more than zero cash flow for Kyivenergo.

Net debt adjustments

Valuing by vertically integrated peers, we fully account for Kyivenergo's net debt.

In our valuation of separate segments, we continue to distinguish between the company's net debt attributed to heating and electricity segments.

Since most of the company's long-term debt was taken to reconstruct its heating networks (the EBRD loan), we assume all the long-term debt is attributed only to the heating department.

Because the company raises short-term loans mainly to cover the lag between gas supplies and payments for Kyivenergo's services, and gas is used by both electricity and heating segments, we account for 50% of short-term loans as an electricity segment debt. We also assume 50% of its cash is also attributed to the electricity segment.

Net debt, EoY 2007

	USD mln	Portion in Electricity net debt
ST loans	30	50%
ST portion of LT loans	15	0%
LT loans	130	0%
Cash	5	50%
Net debt, consolidated	170.0	
Net debt, electricity	17.5	

Source: Company data, Concorde Capital estimates

Valuation of integrated business

Russian Energos

The two Russian most liquid vertically integrated utility companies, Bashkirenergo and Novosibirskenergo, are Kyivenergo's closest peers by business profile and equipment conditions. They all operate combined heating and power plants to generate and distribute electricity and heat in their area. Two issues differentiate Kyivenergo and the Russian peers:

- Russian companies do not supply electricity to end users. This difference is minor, as Kyivenergo's share of revenues from its electricity supply business is less than 1%
- Due to specifics of its business model, Kyivenergo twice accounts in its revenues for the amount of electricity produced and supplied to its customers. This makes reported Sales incomparable.

EV/EBITDA and P/E multiples imply an upside for Kyivenergo, while EV/Electricity and EV/Capacity shows Kyivenergo is valued higher than Russian Energos: we believe this is due to the higher electricity prices in Ukraine. Note also that the two Russian Energos are valued at a significant discount by capacity compared to their larger peers, TGKs (refer to page 15).

Russian Energos' summary, USD mln

	Capacity	Market	Net Revenues		EBITDA margin		Net margin	
	GW	Cap	2007E	2008E	2007E	2008E	2007E	2008E
Bashkirenergo	5.14	2,142	1,083	1,257	12.9%	9.5%	5.0%	5.9%
Novosibirskenergo	2.52	982	1,786	1,224	10.3%	10.1%	3.5%	3.5%
Mean					11.6%	9.8%	4.2%	4.7%
Kyivenergo	1.2	641	1,044	1,552	5.8%	4.9%	2.1%	2.1%

Source: Company data, Bloomberg, RTS, Concorde Capital estimates

Valuation by Energos

	EV/EBITDA		P/E		EV/EI. Prod USD/MWh		EV/EI. Suppl USD/MWh		EV/Capacity USD/kW
	2007E	2008E	2007E	2008E	2007E	2008E	2007E	2008E	2007
Bashkirenergo	15.9	18.8	39.8	28.9	87.3	86.8	103.1	99.6	433.2
Novosibirskenergo	6.7	10.3	15.8	23.2	90.0	91.8	86.2	86.8	488.6
Mean	11.3	14.5	27.8	26.1	88.6	89.3	94.6	93.2	460.9
Kyivenergo	13.4	10.7	29.4	19.8	152.8	153.9	105.1	99.2	675.8
Upside/Downside	-15%	36%	-6%	32%	-42%	-42%	-10%	-6%	-32%

Source: Company data, Bloomberg, RTS, Concorde Capital estimates

EU peers

Vertically integrated electricity companies in developed markets are larger and more profitable than Kyivenergo. In addition, they sell their electricity at higher rates than Kyivenergo does. Thus, it is not easy to directly benchmark Kyivenergo to this group of peers. Valuation yields a wide range of implied upsides/downsides for Kyivenergo.

EU electricity holdings' summary, USD mln

	Country	Market Cap	Net Revenues		EBITDA margin		Net margin	
			2007E	2008E	2007E	2008E	2007E	2008E
CEZ	Czech Rep.	31,918	8,546	9,477	42.5%	45.0%	20%	23%
EnBW	Germany	19,573	18,883	19,167	20.8%	22.6%	8%	7%
Endesa	Chile	11,779	3,138	3,440	53.4%	51.8%	16%	17%
EdF	France	178,837	81,465	84,917	25.7%	26.7%	8%	9%
AES	USA	12,229	12,569	12,405	29.8%	30.7%	6%	7%
Mean					34.4%	35.4%	12%	13%
Kyivenergo	Ukraine	641	1,044	1,552	5.8%	4.9%	2.1%	2.1%

Source: Company data, Bloomberg, Concorde Capital estimates

Valuation by EU electricity holdings

	EV/Sales		EV/EBITDA		P/E		EV/EI. prod	
	2007E	2008E	2007E	2008E	2007E	2008E	USD/MWh	2007E
CEZ	3.8	3.4	8.9	7.4	18.5	14.7		447.6
EnBW	1.3	1.3	6.4	5.9	12.5	13.7		325.3
Endesa	4.9	4.4	9.1	8.5	23.0	19.9		286.1
EdF	2.4	2.3	9.4	8.6	27.1	23.7		300.5
AES	2.1	2.2	7.2	7.1	16.4	14.9		
Mean	2.9	2.7	8.2	7.5	19.5	17.4		305.9
Kyivenergo	0.7	0.5	12.6	10.1	27.5	18.5		152.8
Implied upside	294%	446%	-35%	-26%	-29%	-6%		100%

Source: Company data, Bloomberg, Concorde Capital estimates

Valuation by value-creating segments

Generation segment

We value Kyivenergo's generation segment by applying local and Russian peer multiples, and via an abridged DCF model.

Russian peers

Russian TGKs (regional generation companies) by their business profile (combined generation of heat and electricity) are the closest peers for Kyivenergo's generation segment. The key differences between Kyivenergo and the TGKs are electricity prices (sales) and different levels of gas tariffs (fuel costs and profits). For this reason, we do not use financial multiples: we use EV/Capacity for valuation.

Valuation by Russian TGKs, USD mln

	MCap	Net debt 2007E	Capacity GW	EV/Capacity USD/kW 2007E
TGK-1	3,940	661	6.25	736.2
TGK-3 (Mosenergo)	5,685	-850	10.60	456.1
TGK-4	1,321	260	3.29	480.6
TGK-5	1,457	45	2.47	607.9
TGK-6	1,344	84	3.12	457.2
TGK-8	1,225	275	2.57	583.5
TGK-9	1,424	180	2.59	619.5
Mean				563.0
Kyivenergo			1.20	
Implied Kyivenergo generation EV, USD mln				675.6
Per share, USD				6.23

Source: Company data, Bloomberg, RTS, Concorde Capital estimates

Ukrainian peers

Ukrainian peers differ from Kyivenergo in terms of their source of fuel (they use coal for electricity generation, while Kyivenergo is 100% gas-fueled) and capacity load (33% average vs. Kyivenergo's ~50%). Due to the difference in capacity parameters and load, we believe the best comparable parameter is electricity production value.

Valuation by Ukrainian GenCos, USD mln

	MCap	Net debt	Capacity GW	Output TWh, 2007E	EV/Capacity USD/kW	EV/Output USD/MWh
Centrenergo	1,583	360	5.55*	14.3	350	136
Dniproenergo	2,987	-76	6.56*	16.0	444	182
Donbasenergo	691	170	2.71	7.1	318	121
Zakhidenergo	1,392	234	4.70	15.4	346	106
Mean					364	136
Kyivenergo			1.2	5.3		
Implied Kyivenergo generation EV, USD mln					437.2	722.4
Per share, USD					4.03	6.67

Source: Company data, PFTS, Concorde Capital estimates

* Coal-fueled capacity, plus portion of gas-fueled capacity, refer to our GenCos note as of September 10, 2007

Abridged DCF

We assume Kyivenergo's capacity load will remain at its 2007 level until 2009, and then will grow in line with an increasing capacity deficit on the market.

The company is expected to launch its new 250MW power unit in 2012. We assume the company will be able to invest USD 53 mln annually to finishing its construction over 2009-2011 by attracting 5-year loan (USD 160 mln total), 70% of which will be covered by an additional surcharge to Kyivenergo's production tariff. In other periods, we assume CapEx will be close to D&A.

We model change in working capital as the average monthly change in fuel costs.

Operating model assumptions, USD

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Capacity, MW	1200	1200	1200	1200	1200	1200	1200	1450	1450	1450	1450	1450	1450
Capacity load	76%	54%	50%	50%	50%	52%	54%	60%	65%	70%	75%	75%	75%
El. Prod., GWh	8012	5679	5270	5270	5256	5466	5676	7642	8256	8891	9527	9553	9527
El. Sales, GWh	7331	5015	4691	4743	4783	5002	5217	7069	7654	8260	8860	8884	8860
El. tariff /MWh	19.2	36.1	47.5	55.1	61.2	67.3	72.7	76.7	80.5	84.1	85.8	87.5	89.2
<i>Yoy growth</i>		88%	29%	16%	11%	10%	8%	6%	5%	4%	2%	2%	2%
Gas price, /ths cm	65	118	190	218	240	264	290	313	335	355	369	377	384
<i>Yoy growth</i>		82%	61%	15%	10%	10%	10%	8%	7%	6%	4%	2%	2%
Fuel efficiency	49%	53%	54%	55%	55%	55%	55%	57%	57%	57%	57%	57%	57%
Fuel cost /MWh	11.8	20.05	31.7	35.8	39.1	43.0	47.3	49.3	52.8	56.0	58.2	59.4	60.5
Spark spread /MWh	7.4	16.1	15.8	19.4	22.1	24.3	25.4	27.4	27.7	28.1	27.6	28.1	28.7
Other costs /MWh	7.0	9.8	10.9	12.1	13.4	14.2	14.9	15.4	15.8	16.1	16.5	16.8	17.1
EBITDA / MWh	0.4	6.3	4.9	7.3	8.6	10.0	10.4	12.0	12.0	12.0	11.1	11.3	11.6
EBITDA margin	1.9%	17.3%	10.4%	13.2%	14.1%	14.9%	14.3%	15.6%	14.9%	14.3%	13.0%	13.0%	13.0%

Source: Company data, Concorde Capital estimates

Free cash flow components, USD mln

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
EBIT	-7.2	23.2	15.1	26.2	33.1	42.0	46.1	73.6	80.6	88.1	87.5	89.7	91.5
Taxed EBIT	-5.4	17.4	11.3	19.7	24.8	31.5	34.6	55.2	60.4	66.1	65.6	67.3	68.6
CapEx	-9.8	-8.2	-8.2	-8.2	-60.0	-60.0	-60.0	-10.0	-10.0	-10.0	-11.0	-11.0	-11.0
CapEx compensation	-	-	-	-	8.4	16.8	25.2	25.2	25.2	16.8	8.4	-	-
D&A	9.8	8.2	8.2	8.2	8.2	8.2	8.2	11.0	11.0	11.0	11.0	11.0	11.0
Δ working capital	-1.6	-5.0	-1.2	-2.5	-2.8	-9.0	-4.9	-5.1	-4.7	-1.1	-0.8	-0.8	-0.8
FCFF	-5.4	15.8	6.8	18.0	-20.0	-5.9	5.2	72.4	81.7	78.7	69.3	66.2	67.8
WACC	15.0%	15.0%	15.0%	14.5%	14.5%	14.0%	14.0%	13.5%	13.5%	13.0%	13.0%	12.5%	12.5%

Source: Company data, Concorde Capital estimates

Terminal free cash flow assumptions are: WACC=12.0%, growth rate=1.0%.

DCF model output, USD mln

Total discounted FCFF	188.1
Discounted TV	193.8
Exit EBITDA multiple:	6.1
Portion due to TV	51%
Implied enterprise value 12M	382.0
Per share, USD	3.53

Source: Company data, Concorde Capital estimates

Power distribution segment

Valuation by RAB

To value Kyivenergo's electricity distribution business, we use the same approach applied for pure Ukrainian power distribution and supplying companies, Oblenergos (refer to our report of August 21).

We expect the new tariff methodology for Ukrainian electricity distribution companies to come into effect in 2009. The methodology is most likely to be based on applying the rate of return on a regulatory asset base (RAB). Assuming the rate of return allowed by the regulator will be close to the required rate of return on investment (WACC), we use a RAB estimate as the best guess for Kyivenergo's distribution segment's EV.

RAB calculation

	Value, USD mln	Portion in RAB
Replacement value, gross	1,180*	
Accumulated depreciation	75%**	
Net replacement value	295	100%*
El. purchase, 2008E	591**	8.3%*
Investment program, 2008E	16**	8.3%*
SG&A, 2008E	8**	8.3%*
RAB (distribution segment EV)	346.1	
Per share, USD	3.19	

Source: NERC research (*), Concorde Capital estimates (**)

Valuation by local peers

We choose the four most liquid Ukrainian electricity distribution companies (Oblenergos) as the closest peers for Kyivenergo's distribution segment (Dniproblenergo, Kharkivoblenergo, Krymoblenergo and Zaporizhoblenergo). Peer valuation yields a higher implied EV than a RAB-based valuation. This is mainly because Kyivenergo supplies more electricity per unit of distribution asset. We believe a RAB-based valuation provides more accurate estimate of the value of Kyivenergo's distribution network.

Valuation by Oblenergos, summary, USD mln

	El. supply TWh, 2008E	MCap USD mln	Net debt USD mln	EV/El. supply USD/MWh
Dniproblenergo	32.5	1,100	44.1	35.2
Kharkivoblenergo	5.3	500	22.4	98.0
Krymenergo	4.6	340	42	83.0
Zaporizhoblenergo	12.5	685	36.8	57.7
Mean				68.5
Kyivenergo	8.2			
Implied Kyivenergo distribution EV, USD mln				560.2
Per share, USD				5.17

Source: Company data, PFTS, Concorde Capital estimates

Putting the two parts together

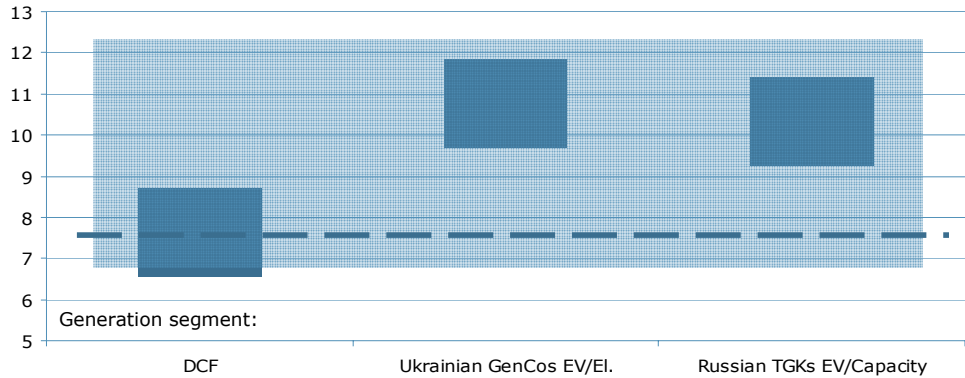
Implied EV by SOTP valuation, USD mln

Generation	Distribution	RAB	Ukrainian Oblenergos EV/EI.
DCF		728	942
Ukrainian GenCos EV/EI.		1,068	1,283
Russian TGKs EV/Capacity		1,022	1,236

Source: Company data, Bloomberg, PFTS, RTS, Concorde Capital estimates

Our sum-of-the-parts valuation provides a wide range of implied share prices for Kyivenergo. A combination of local peer multiples implies a 100% upside for the stock. We conservatively choose a SOTP implied price closer to the bottom margin: USD 7.5.

Implied KIEN price by SOTP*, USD per share



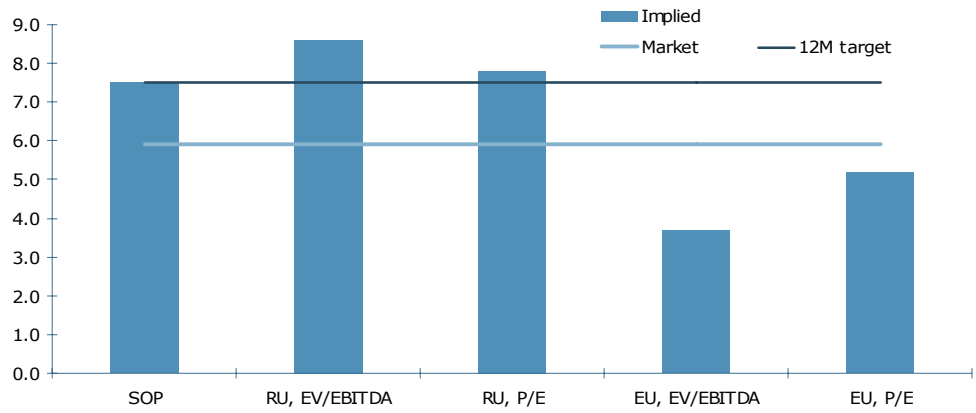
Source: Company data, Bloomberg, PFTS, RTS, Concorde Capital estimates

* Lower (upper) margin of implied prices represent the sum of the generation segment valuation, plus the RAB-based (local peers) valuation of the distribution segment

Valuation summary

We believe our sum-of-the parts (SOTP) valuation provides the best estimate of Kyivenergo’s implied price. We upgrade our 12M target price to USD 7.5, (27% upside). We upgrade our recommendation on the stock to BUY.

Implied KIEN share price, USD



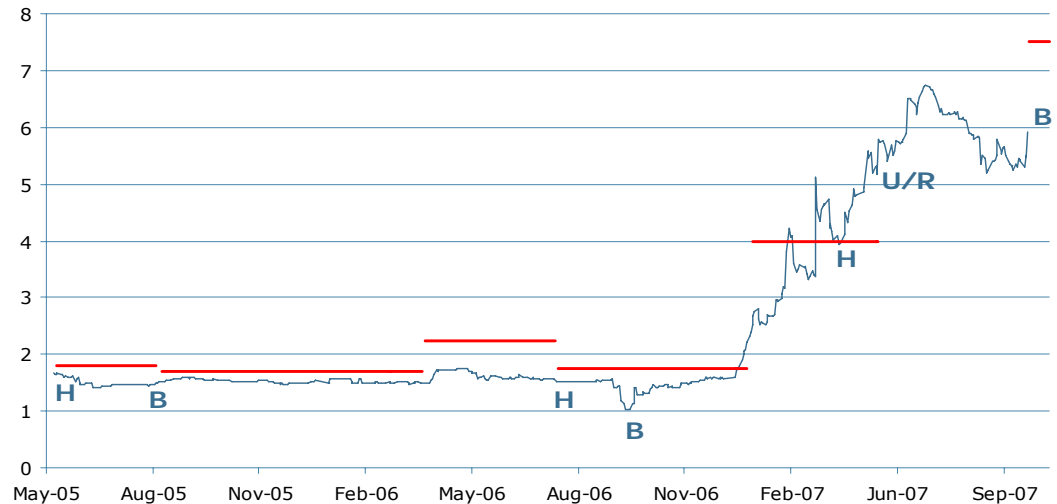
Source: Company data, Bloomberg, RTS, PFTS, Concorde Capital research

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	Closing	Target	Rec.	Action
13-May-05	1.62	1.80	HOLD	Initiating
15-Aug-05	1.40	1.70	BUY	Upgrade
15-Sep-05	1.50	1.70	BUY	Maintain
7-Apr-06	1.50	2.25	BUY	Maintain
4-Aug-06	1.51	1.74	HOLD	Downgrade
6-Oct-06	1.04	1.74	BUY	Upgrade
12-Oct-06	1.41	1.74	BUY	Maintain
24-Jan-07	2.32	4.00	BUY	Maintain
29-Jan-07	2.85	4.00	BUY	Maintain
2-Apr-07	4.60	4.00	HOLD	Downgrade
13-Apr-07	3.93	4.00	HOLD	Maintain
28-Sep-07	5.92	7.50	BUY	Upgrade

KIEN: recommendation history, USD



Concorde Capital rating universe

BUY	41	53%
HOLD	19	24%
SELL	6	8%
U/R	12	15%
Total	78	100%

Investment banking clients

BUY	8	80%
HOLD	2	20%
SELL	0	0%
U/R	0	0%
Total	10	100%

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

RESEARCH COVERAGE BY SECTOR

Head of Equity Sales

Lucas Romriell

lr@concorde.com.ua

Strategy

Konstantin Fisun
 Oleksandr Klymchuk

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

Equity Sales

Marina Martirosyan
 Anastasiya Nazarenko
 Duff Kovacs, CFA
 Tatyana Chub
 Zack Watson

mm@concorde.com.ua
 an@concorde.com.ua
 dk@concorde.com.ua
 tc@concorde.com.ua
 zw@concorde.com.ua

Metals & Mining

Eugene Cherviachenko

ec@concorde.com.ua

Utilities (Telecom, Energy)

Alexander Paraschiy

ap@concorde.com.ua

Director of Research

Konstantin Fisun, CFA

kf@concorde.com.ua

Oil & Gas, Chemicals

Vladimir Nesterenko

vn@concorde.com.ua

Consumer/Retail 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

Olha Pankiv
 Eugene Cherviachenko
 Inna Perepelytsya

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

Financial Services

Alexander Viktorov

av@concorde.com.ua

Macroeconomics

Alexander Viktorov
 Polina Khomenko

av@concorde.com.ua
 pk@concorde.com.ua

Fixed Income

Oleksandr Klymchuk

ok@concorde.com.ua

Corporate Governance

Nick Piazza

np@concorde.com.ua

News/Production

Nick Piazza
 Polina Khomenko

np@concorde.com.ua
 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. © 2007 Concorde Capital