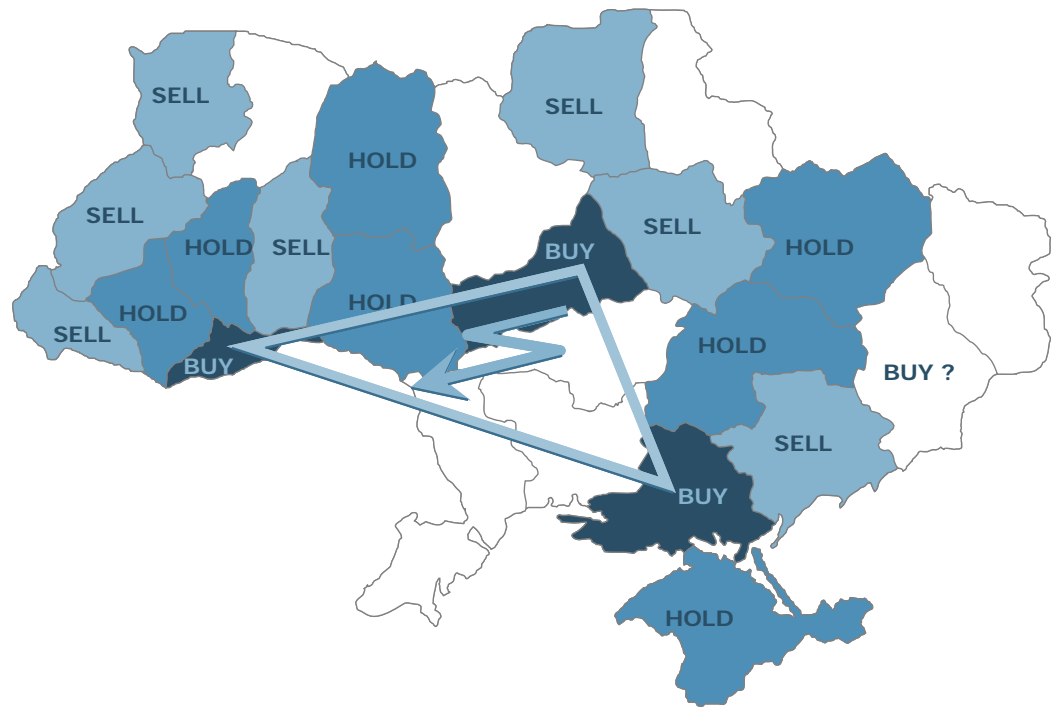


UPDATE

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Oblenergos

Look to the corners



EXECUTIVE SUMMARY

Oblenergo coverage:

Companies	23
Delisted stocks	4
Listed stocks	19

Total MCap*, USD mln	6,841
FF MCap*, USD mln	638

Perform. range, 52 wk 89% - 589%

* for listed stocks

Recommendations changes:

Upgrades:

CHEN	BUY
DNON	HOLD

Maintained:

HOEN	BUY
KION	BUY
HAON	HOLD
HMON	HOLD
KREN	HOLD
CHEON	SELL
POON	SELL
ZAON	SELL

Downgrades:

PREN	HOLD
SMEN	HOLD
TOEN	HOLD
VLEN	HOLD
ZHEN	HOLD
LVON	SELL
VOEN	SELL
ZOEN	SELL

Operating improvements by most Oblenergos were rewarded with a more than 300% 52 week run on the PFTS. We see catch-up potential in three stocks that underperformed their peers, and issue BUY recommendations on them, warning that their key disadvantage is low free float:

- Chernivtsioblenergo (CHEN), which more than halved its commercial electricity losses this year, still belongs in the small group of Oblenergos with existing commercial losses. We expect it to completely solve this problem in 2008, which will be the company's main bottom line driver in the short-term
- Kirovohradoblenergo (KION) and Khersonoblenergo (HOEN), which have been overlooked by the market due to a slight decrease of their profits in the last quarters, though their margins remain among of the highest in the sector.

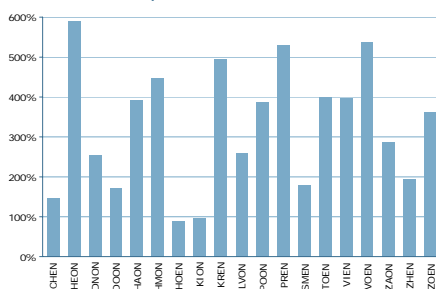
Sector play for risk-seekers:

- Donetskoblenergo (DOON) remains **not rated** but deserves mention for those with a speculative eye: watch for news on its debt being restructured, which would trigger a BUY recommendation.

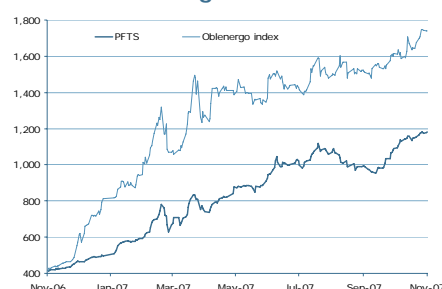
Recent industry changes:

- Oblenergos' investment programs for 2008 recently adopted by NERC, which are 20%-100% larger than in 2007, suggest Oblenergo management expect to generate 60%-100% higher profits in 2008
- No shifts in decreasing accounts payable suggest that Oblenergos which are highly in debt will seek long-term debt restructuring sometime in 2008. We now use a more conservative approach to net debt calculation.

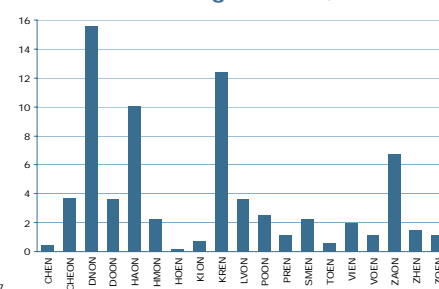
Performance, 52 week



PFTS vs. Oblenergo index*



Total 52wk trading volumes, USD mln



Source: PFTS, Concorde Capital calculations

* MCap-weighted, includes four most liquid stocks: DNON, HAON, KREN and ZAON

Top picks

Chernivtsioblenergo (CHEN): BUY

- One of the last inefficient companies in the sector, Chernivtsioblenergo has more than halved its commercial losses over 9M07. Taking into account recent progress, we expect the company will completely remove its excessive losses of electricity in 2008, which will be the main short-term trigger: one of the highest expected profitability improvements in the industry
- Privatization in 2008-2009, if it occurs, will be another trigger for the company
- Currently trades at the industry's lowest EV/S, EV/EBITDA and EV/Capacity multiples

Kirovohradoblenergo (KION): BUY

- Enjoys a preferential tariff policy, which yielded high and stable profits over the last six years. Versus the progress in top lines by the majority of other Oblenergos in 9M07, Kirovohradoblenergo slightly decreased profits. Market rewarded KION with the lowest EV/Capacity multiple, even though it remains one of the most profitable in the sector
- Key value trigger is expected in the industry switch to a RAB-based tariff policy in 2009

Khersonoblenergo (HOEN): BUY

- With the majority of Oblenergos raising profits in 9M07 and Khersonoblenergo posting a slight decrease (though its profits are consistent with its peers), the stock has been slighted by the market: EV/S multiple is the lowest among small-sized Oblenergos
- Key value trigger is an expected increase in profits after the industry-wide switch to RAB-based tariff policies in 2009
- Restructuring of the company's debt to the Wholesale Energy Market Operator expected in 2008, would be a short-term trigger

WATCH:

Donetskoblenergo (DOON): N/R

- Trades below the rest of the sector on all multiples, which, we believe is a reflection of its high bankruptcy risk: USD 860 mln outstanding payables
- The company has applied for long-term debt restructuring. If its plan is approved, the company would become a valuable investment opportunity: probability-weighted upside is 51%
- Until restructuring is approved, the stock is for risk-seekers only

Summary

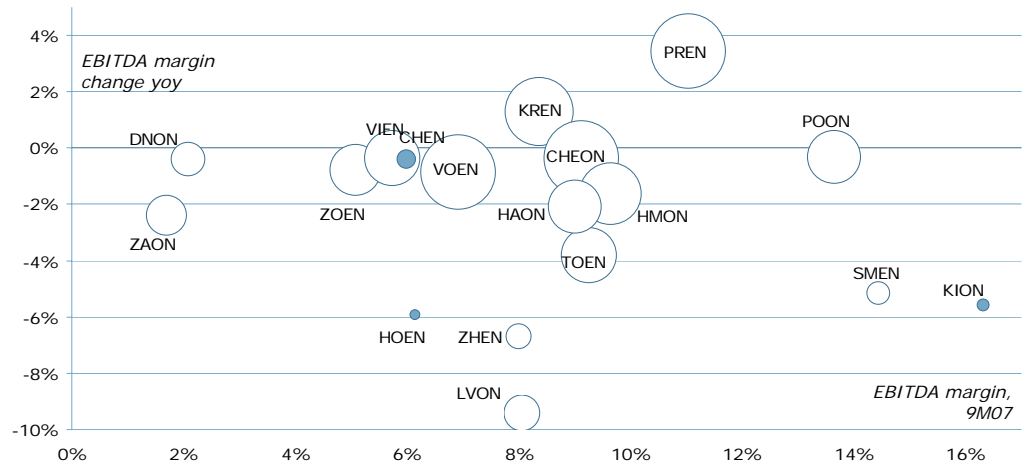
	Market price		MCap		FF	EV/S	EV/EBITDA	EV/Capacity	12M target	Upside	Recommendation
	USD	USD mln	USD mln	USD mln	O8E	O8E	USD/VA	USD			
CHEN	1.2	68.1	5.5	1.22	19.7	0.05	1.9	57%	BUY (upgrade)		
CHEON	2.5	298.3	29.5	3.02	28.4	0.10	2.0	-19%	SELL (maintain)		
CHON	n/a	n/a	n/a	n/a	n/a	n/a	1.9	n/a	N/R		
DNON	182.0	1,090.5	99.2	0.79	25.5	0.11	191.2	5%	HOLD (upgrade)		
DOON	3.5	229.3	22.9	0.85	38.8	0.04	n/a	n/a	N/R		
HAON	2.3	590.0	36.6	1.88	23.2	0.08	2.3	1%	HOLD (maintain)		
HMON	2.0	274.5	31.0	2.54	30.7	0.09	1.8	-10%	HOLD (maintain)		
HOEN	1.0	178.9	6.3	1.47	22.1	0.06	1.5	46%	BUY (maintain)		
KION	1.6	191.0	11.5	2.23	17.2	0.05	2.2	37%	BUY (maintain)		
KREN	2.8	484.3	67.8	2.15	25.0	0.09	2.6	-7%	HOLD (maintain)		
LVON	2.7	523.7	63.4	2.69	27.1	0.11	2.1	-21%	SELL (downgrade)		
MYON	n/a	n/a	n/a	n/a	n/a	n/a	1.0	n/a	N/R		
ODEN	n/a	n/a	n/a	n/a	n/a	n/a	1.9	n/a	N/R		
POON	2.7	596.6	55.5	2.71	19.4	0.15	2.2	-19%	SELL (maintain)		
PREN	2.4	248.7	17.4	1.95	20.0	0.09	2.4	1%	HOLD (downgrade)		
SMEN	3.2	86.0	4.1	1.47	12.3	0.10	3.5	10%	HOLD (downgrade)		
SOEN	n/a	n/a	n/a	n/a	n/a	n/a	1.5	n/a	N/R		
TOEN	2.9	177.2	15.8	3.05	35.9	0.09	2.6	-9%	HOLD (downgrade)		
VLEN	85.0	263.3	12.4	2.53	42.1	0.08	81.7	-4%	HOLD (downgrade)		
VOEN	0.6	262.5	18.1	3.65	45.5	0.12	0.4	-35%	SELL (downgrade)		
ZAON	4.1	735.4	80.2	1.16	34.2	0.08	3.4	-17%	SELL (maintain)		
ZHEN	2.4	293.8	24.7	2.47	27.3	0.09	2.2	-7%	HOLD (downgrade)		
ZOEN	2.0	249.2	36.1	2.79	47.1	0.11	1.5	-24%	SELL (downgrade)		

Source: PFTS, Company data, Concorde Capital estimates

Stock market: “Golden mean” performed better

The market rewarded higher performance for companies with “golden mean” results, i.e. those Oblenergos that do not have operating inefficiencies, but are currently subject to “non-preferential” tariff policy (which yields high and improving margins, but not the highest margins in the industry).

52 week performance* vs. profitability



Source: PFTS, Company data, Concorde Capital calculations

* 52 week performance is proportional to bubble width

We suggest it is now time to look at the “marginals”, i.e. those among the best and the worst operating companies, as some of them seem overlooked by the market.

Interim results: No surprises

9M07 results summary

		Sales, USD mln		El. Supply	EBITDA USD mln			Net Income, USD mln		
		9M07	YoY, %	8M07 YoY%	9M07	YoY	margin	9M07	YoY	margin
Chernivtsioblenergo	CHEN	37.8	30%	3%	2.3	+0.4	6.0%	0.3	+0.1	0.7%
Chernihivoblenergo	CHEON	61.4	16%	-3%	5.6	+0.6	9.1%	1.3	+1.3	2.2%
Cherkasyoblenergo	CHON	69.4	14%	-10%	10.1	+2.5	14.5%	5.2	+3.2	7.5%
Dniprooblenergo	DNON	1,041.0	24%	5%	21.7	+1.2	2.1%	3.8	+0.5	0.4%
Donetskoblenergo	DOON	340.2	23%	2%	-0.5	+27.7	-0.1%	-10.5	+24.4	-3.1%
Kharkivoblenergo	HAON	195.5	26%	-1%	17.6	+0.3	9.0%	6.4	+4.3	3.3%
Khmelnitskoblenergo	HMON	63.6	25%	3%	6.1	+0.4	9.7%	1.4	-0.0	2.1%
Khersonoblenergo	HOEN	92.1	37%	6%	5.7	-2.5	6.1%	0.6	-2.2	0.7%
Kirovohradoblenergo*	KION	60.0	20%	2%	9.8	-1.1	16.3%	2.3	-0.3	3.8%
Krymenergo	KREN	155.4	28%	-2%	13.0	+4.4	8.4%	1.5	+0.4	1.0%
Lvivoblenergo	LVON	131.3	18%	-4%	10.6	-9.0	8.1%	2.2	-6.2	1.6%
Mykolaivoblenergo	MYON	79.2	33%	5%	1.6	+3.7	2.1%	-0.1	+3.5	-0.1%
Odesaoblenergo	ODEN	202.2	37%	2%	13.7	+5.9	6.8%	0.0	+0.0	0.0%
Poltavaoblenergo	POON	142.7	21%	-9%	19.5	+2.9	13.7%	7.3	+6.2	5.1%
Prykarpatooblenergo	PREN	76.8	13%	-10%	8.5	+3.3	11.0%	2.6	+2.8	3.4%
Sevastopolenergo	SMEN	39.1	31%	2%	5.7	-0.2	14.4%	2.7	-0.6	6.9%
Sumyoblenergo	SOEN	64.4	24%	0%	7.8	+1.7	12.2%	2.0	+1.4	3.2%
Ternopiloblenergo	TOEN	36.6	24%	2%	3.4	-0.5	9.3%	-0.1	-1.2	-0.2%
Vinnitsaoblenergo	VIEN	67.9	21%	-2%	3.9	+0.4	5.7%	0.9	+0.5	1.3%
Volynoblenergo	VOEN	43.2	27%	3%	3.0	+0.4	6.9%	0.7	+0.1	1.5%
Zaporizhiaoblenergo	ZAON	408.5	23%	2%	7.0	-6.5	1.7%	3.2	+0.4	0.8%
Zhytomyroblenergo	ZHEN	74.4	19%	1%	6.0	-3.2	8.0%	-4.2	-7.7**	-5.7%
Zakarpatooblenergo	ZOEN	55.1	23%	0%	2.8	+0.2	5.1%	0.5	+0.1	0.9%

Source: Company data

* Concorde Capital estimates

** Decrease of net income is due to revaluation of assets and an increase in reported D&A by USD 5.8 mln

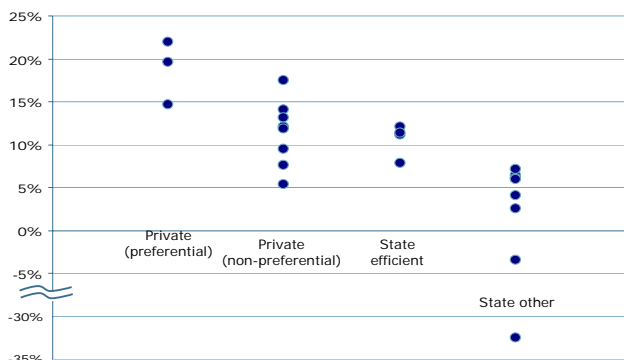
Note: Blue cells represent best performing companies; grey cells represent worst performing companies

Over 9M07 the majority of Oblenergos have increased their profits yoy in absolute terms, while because of a lag between growth of the wholesale electricity tariff and Oblenergos' distribution tariffs, margins are falling. Only several Oblenergos, which were inefficient before, have increased their margins due to progress in fighting inefficiencies. Oblenergos with a preferential tariff policy (Kirovohradoblenergo, Sevastopolenergo and Zhytomyroblenergo) remain among the most profitable in the sector, despite a slight decrease of EBITDA and net income in 9M07 due stickier tariffs.

Convergence in profitability: faster than we expected

Meanwhile, as outlined in our August 2007 report, the difference in the profitability of the various Oblenergo groups continued to narrow last quarter. Convergence is taking place faster than we expected, due to quicker progress by the least efficient state-controlled Oblenergos.

EBITDA margin of different groups: 9M06



Source: company data

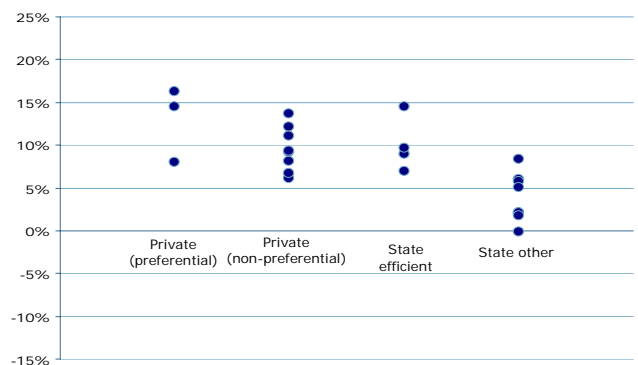
Note: Private (preferential tariff policy) group: KION, SMEN, ZHEN

Private (non-preferential tariff) group: HOEN, CHEON, LVON, POON, PREN, TOEN

State efficient group: HAON, HMON, VOEN

State other group: CHEN, DNON, DOON, KREN, VIEN, ZAON, ZOEN

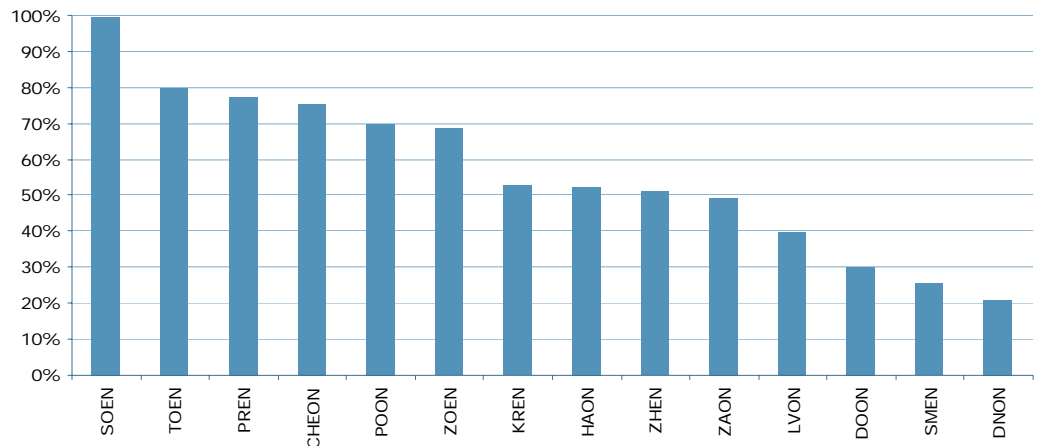
9M07



Increase in investment, Increase in welfare

One of the most encouraging news since our last industry update is Oblenergos' enlarged investment programs for 2008: the National Electricity Regulatory Commission has approved 20%-100% increases over 2007 plans for half of the Oblenergos. Upgraded programs for the others are also up for consideration.

Increase of investment program, 2008/2007



Source: NERC

Two positive issues are associated with the new investment programs:

- Because profit remains the main source of cash for investment programs, the 2008 increase suggests Oblenergos plan to raise their bottom lines substantially (by about 60%-100% yoy). Higher CapEx will be covered by newly introduced network connection charges and increase in profits provided by 2008 distribution and supply tariffs.
- In contrast to 2007 investment programs that directed only 40%-60% of CapEx to upgrading networks, the 2008 target is between 63%-78%. Overall, Oblenergos will more than double investments designed to improve their network next year, which will raise their RAB values in the future periods

Debt issue: Hope for restructuring?

As we expected, few Oblenergos took advantage of the law on debt offsetting, which remains in effect until the end of the year. Little progress in payable reconciliation/restructuring in the last two quarters and small chances it will have an impact in 4Q, means that the dozen Oblenergos that still have large amounts of payables will need another way to solve their debt problem (refer to our August 21, 2007 report for more details).

Account payable statistics

	30-Sept-07	Change ytd	To Sales 2007E	To EBITDA 2007E
	USD mln	USD mln	times	times
DOON	868.1	+19.6	1.7	149.7
KREN	209.7	-3.1	0.9	11.7
MYON	94.3	-1.7	0.9	30.4
CHEN	47.1	-0.2	0.8	15.7
VIEN	77.3	-0.5	0.8	13.1
ZOEN	56.6	-0.2	0.7	12.6
HAON	85.8	-4.4	0.3	4.0
DNON	422.8	-4.4	0.3	12.2
HMON	22.0	-1.3	0.2	2.5
CHON	24.2	-2.2	0.2	1.9
ZAON	138.1	-4.4	0.2	8.7
ODEN	54.8	+4.4	0.2	2.3
VOEN	9.4	-0.4	0.1	2.0
TOEN	5.4	-0.4	0.1	1.2
HOEN	6.4	-1.4	0.1	0.9
SOEN	3.5	-0.4	0.0	0.3
POON	5.6	+2.7	0.0	0.2
LVON	4.8	-0.4	0.0	0.3
ZHEN	1.4	+1.4	0.0	0.1
CHEON	1.0	-0.2	0.0	0.1
SMEN	0.3	-0.2	0.0	0.0
KION	2.8	+0.4	0.0	0.3
PREN	0.5	+0.2	0.0	0.1
Total	2,142.1	3.1	0.4	7.7
Total, w/o DOON	1,274.0	-16.4	0.3	4.7

Source: Company data, Concorde Capital estimates

Donetskoblenergo remains the most in debt and, in our view, is the only candidate for bankruptcy. Still, we believe there is a chance that the company will solve its debt problem via long-term restructuring, see page 15 for more.

Net debt adjustments

In our last report, we calculated net debt as banking loans less cash plus half of the difference between outstanding payables and receivables. No progress in debt reconciliation since then led us to implement a more conservative approach in receivables accounting: some Oblenergos with high accumulated receivables classify 0% of them as bad debt provision, which, we believe is too optimistic.

Account receivable statistics, Sept. 30, 2007

	Gross A/R, USD mln	Gross A/R / Sales 07E	Net / Gross
DOON	439.2	85%	97%
CHEN	38.3	69%	98%
KREN	137.7	62%	94%
ZOEN	48.0	59%	100%
HOEN	59.8	49%	100%
MYON	29.1	28%	91%
HAON	68.1	24%	45%
VIEN	21.2	21%	100%
DNON	254.9	17%	93%
ODEN	42.7	14%	64%
SMEN	7.3	13%	39%
KION	10.1	13%	63%
HMON	11.0	12%	100%
ZAON	69.9	12%	89%
VOEN	6.6	10%	75%
CHON	9.7	9%	66%
TOEN	3.8	7%	94%
PREN	7.5	7%	79%
LVON	11.9	6%	37%
SOEN	5.0	5%	64%
POON	10.4	5%	53%
ZHEN	4.1	4%	2%
CHEON	2.6	3%	76%

Source: Company data, Concorde Capital estimates

We estimate "true" net receivables as 40% of gross receivables for Oblenergos with a receivables turnover of more than 0.5, and 70% of gross receivables for those between 0.1 and 0.5. We believe Oblenergos with below 0.1 receivables turnover report net receivables properly.

Scoring: Still converging toward the best

We update our rating of Oblenergos by operating results and regulatory environment, which serves as a basis for applying discounts in valuation by EV/Electricity multiples.

Updated scoring

	Excessive electricity losses, 9M07		EBITDA Margin 9M07		Payments Collection 9M07		100% NERC algorithm		Mean score	Score change since:		Mean score 12M (E)
										Aug-07	Dec-06	
CHEN	2.9%	2	6%	3	100.3%	5	no	4	3.50	+0.75	+0.50	4.00
CHEON	-2.2%	5	9%	4	100.6%	5	yes	5	4.75	0.00	+0.25	5.00
CHON	-2.1%	5	15%	5	103.4%	5	no	4	4.75	0.00	+0.25	4.75
DNON	-0.4%	5	2%	1	100.4%	5	no	4	3.75	0.00	0.00	3.75
DOON	2.7%	2	0%	0	92.8%	3	no	4	2.25	+0.75	0.00	2.75
HAON	-2.2%	5	9%	4	102.8%	5	no	4	4.50	0.00	0.00	4.50
HMON	-0.9%	5	10%	4	102.9%	5	no	4	4.50	0.00	0.00	4.50
HOEN	-1.7%	5	6%	3	100.5%	5	no	4	4.25	+0.25	-0.50	4.50
KION	-3.9%	5	16%	5	100.2%	5	yes	5	5.00	+0.25	+0.25	5.00
KREN	-1.0%	5	8%	4	100.6%	5	no	4	4.50	+0.50	+0.25	4.50
LVON	-3.5%	5	8%	4	103.1%	5	yes	5	4.75	0.00	+0.25	5.00
MYON	1.8%	3	2%	1	102.2%	5	no	4	3.25	+0.25	+1.25	3.50
ODEN	-0.1%	5	7%	3	99.1%	4	no	4	4.00	+0.50	+0.75	4.25
POON	-2.6%	5	14%	5	100.7%	5	yes	5	5.00	+0.25	+0.25	5.00
PREN	-3.1%	5	11%	5	95.6%	3	yes	5	4.50	-0.25	0.00	4.75
SMEN	-1.8%	5	14%	5	100.1%	5	yes	5	5.00	+0.25	0.00	5.00
SOEN	-3.2%	5	12%	5	101.4%	5	yes	5	5.00	0.00	+0.25	5.00
TOEN	-0.9%	5	9%	4	101.6%	5	yes	5	4.75	0.00	+0.25	5.00
VIEN	-1.2%	5	6%	3	100.7%	5	no	4	4.25	0.00	+0.50	4.50
VOEN	-1.7%	5	7%	4	101.3%	5	no	4	4.50	0.00	+0.25	4.50
ZAON	-0.3%	5	2%	1	101.0%	5	no	4	3.75	0.00	-0.25	3.75
ZHEN	-0.7%	5	8%	4	99.9%	4	yes	5	4.50	-0.25	-0.50	4.50
ZOEN	-0.7%	5	5%	3	100.1%	5	no	4	4.25	+0.25	+0.75	4.50

Source: Company data, Energobiznes, Concorde Capital

The three "worst" companies, Chernivtsioblenergo, Donetskoblenergo and Mykolaivoblenergo showed the highest progress in operating performance. While Donetskoblenergo has score below 3.00, we value the company separately, not using a common approach.

With significant progress of the worst-performing Oblenergos, we now provide a score forecast for the next 12 months and apply discounts (0% for 4.50 and more; 25% for 4.00-4.25; and 50% for 3.00-3.75) taking these projections into account (last column in the table above).

Valuation

Our approach for valuation of Oblenergo was developed in our August report: we weight peer multiples and a RAB valuation to arrive at 12M targets, giving weight to a multiple (see page 14) proportional to its explanatory power of key Oblenergo value/liquidity determinants, as estimated in the table below.

Explanatory power* of parameters

	Size/liquidity	Short-term profit	Long-term profit	Total	Weight
Electricity supply	2	2	1	5	25%
EBITDA	1	2	1	4	20%
Capacity	2	2	2	6	30%
RAB	1	2	2	5	25%

Source: Concorde Capital

**Note: Score in each of three categories is Concorde Capital's expert opinion and ranges from 0 to 2*

Peer comparison

Peer data

	MCAp USD mln	Sales USD mln		EBITDA USD mln		Net income, USD mln		El. supply TWh	Capacity MVA
		2007	2008	2007	2008	2007	2008		
EMASZ	445.0	631	667	46.7	53.6	32.4	36.3	3.03	3,650
ELMU	1,069.0	1,085	1,156	106.5	112.3	71.4	73.8	7.52	8,450
Prazska Energetika	1367.0	685	712	36.8	42.1	108.0	65.5	5.62	6,300
Horizon Energy	85.5	22	22	10.1	10.3	4.1	4.2	0.6	188
Cegedel	1,022.0	490	501	139.0	142.0	85.4	86.8	4.65	6,080

Source: Bloomberg, Company data

Peer multiples, 2008E

	EV/S	EV/EBITDA	EV/Capacity USD/VA	EV/El. Suppl. USD/MWh
EMASZ	0.8	9.9	0.14	174.3
ELMU	1.1	10.8	0.14	162.0
Prazska Energetika	1.9	31.3	0.21	234.7
Horizon Energy	5.1*	10.9	0.59*	186.3
Cegedel	1.8	6.5	0.15	198.3
Mean	1.4	13.9	0.16	192.3

Source: Bloomberg, Company data

* Outlier

Oblenergo data, USD mln

	Sales 2008E	EBITDA 2008E	El. Supply 2008E	Capacity MVA	MCAp USD mln	EV USD mln
CHEN	65	4.0	1.0	1,463	68	84
CHEON	101	10.8	1.6	3,063	298	305
CHON	119	13.0	1.8	3,790	n/a	n/a
DNON	1542	47.9	29.3	10,964	1,090	1,215
DOON	592	12.9	9.4	11,619	229	555
HAON	327	26.5	5.0	7,634	590	612
HMON	112	9.3	1.8	3,127	309	319
HOEN	141	9.4	2.2	3,731	179	170
KION	86	11.2	1.5	3,563	191	194
KREN	252	21.6	4.0	6,071	484	558
LVON	202	20.1	3.5	4,801	524	545
MYON	116	4.7	2.1	3,361	n/a	n/a
ODEN	354	32.4	5.0	5,508	n/a	n/a
POON	225	31.3	3.1	3,994	597	609
PREN	131	12.8	1.9	2,747	249	256
SMEN	60	7.2	0.9	904	86	88
SOEN	105	12.6	1.6	3,352	n/a	n/a
TOEN	59	5.0	1.0	2,099	177	180
VIEN	117	7.1	1.8	3,800	263	297
VOEN	73	5.9	1.2	2,243	263	266
ZAON	680	23.1	10.8	9,360	735	789
ZHEN	122	11.0	1.9	3,420	294	301
ZOEN	94	5.5	1.6	2,454	249	267

Source: PFTS, Company data, Energobiznes, Concorde Capital estimates

Oblenergo multiples

	EV/S	Premium/ Discount to peers	EV/EBITDA	Premium/ Discount to peers	EV/EI. USD/MWh	Premium/ Discount to peers	EV/Capacity USD/VA	Premium/ Discount to peers
CHEN	1.3	-7%	20.9	51%	81.9	-57%	0.06	-65%
CHEON	3.0	118%	28.4	104%	195.4	2%	0.10	-39%
CHON	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
DNON	0.8	-43%	25.4	83%	41.4	-78%	0.11	-32%
DOON	0.9	-32%	43.0	210%	59.1	-69%	0.05	-71%
HAON	1.9	35%	23.1	66%	121.4	-37%	0.08	-51%
HMON	2.5	84%	30.7	121%	160.8	-16%	0.09	-44%
HOEN	1.2	-13%	18.1	30%	77.6	-60%	0.05	-72%
KION	2.3	63%	17.4	25%	127.3	-34%	0.05	-66%
KREN	2.2	60%	25.8	86%	139.5	-27%	0.09	-43%
LVON	2.7	95%	27.1	95%	155.7	-19%	0.11	-30%
MYON	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
ODEN	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
POON	2.7	95%	19.4	40%	198.6	3%	0.15	-6%
PREN	1.9	41%	20.0	44%	136.3	-29%	0.09	-43%
SMEN	1.5	6%	12.2	-12%	97.6	-49%	0.10	-40%
SOEN	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
TOEN	3.1	121%	35.9	159%	177.7	-8%	0.09	-47%
VIEN	2.5	83%	42.1	203%	162.1	-16%	0.08	-52%
VOEN	3.6	163%	45.5	228%	231.4	20%	0.12	-27%
ZAON	1.2	-16%	34.1	146%	73.0	-62%	0.08	-48%
ZHEN	2.5	78%	27.3	97%	156.4	-19%	0.09	-46%
ZOEN	2.9	106%	48.2	247%	167.2	-13%	0.11	-33%

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

RAB (Regulatory Asset Base)

We use our RAB estimates as one of the tools to calculate Oblenergos' implied enterprise value. Key assumptions, as previously, are that RAB is equal to the replacement value of Oblenergo assets (as evaluated by the NERC) adjusted for accumulated depreciation (assumed to be 75%), plus working capital needs (calculated as annual COGS divided by 12) and 5% of CapEx needs (as presented in NERC's 2005 draft on RAB methodology, calculated as annual investment program).

Estimating replacement value for 2008, we multiply the values provided by NERC by 1.2, which, we believe, corresponds to adjusting for inflation from 2006 (when estimation of replacement value was conducted by NERC) to 2008.

RAB calculation, USD mln

	Replacement value adjusted for accumulated depreciation	RAB estimate
CHEN	132	136
CHEON	263	272
CHON	283	296
DNON	576	688
DOON	727	776
HAON	446	476
HMON	266	276
HOEN	261	271
KION	278	285
KREN	409	434
LVON	365	385
MYON	251	259
ODEN	398	431
POON	323	341
PREN	249	261
SMEN	43	47
SOEN	258	269
TOEN	192	198
VIEN	339	349
VOEN	187	192
ZAON	398	446
ZHEN	285	297
ZOEN	187	197

Source: NERC, Concorde Capital estimates

Valuation summary

We continue using implied prices provided by EV/Electricity, EV/EBITDA, EV/Capacity multiples and implied RAB for valuation. For Poltavaoblenergo we also add valuation of the company's generation capacity, applying Russian TGK's multiples.

We apply a 50% discount to peers' EV/Capacity multiples and score-based discounts to peers' EV/Electricity multiples.

Valuation summary

	EV/El.	EV/EBITDA	EV/Capacity	RAB	Gener. EV/Cap.						
Peer multiple	192.3 USD/MWh	13.9 x	0.162 USD/VA		641.4 USD/kW						
Discount to peers	score-based*	0%	50%		50%						
Weight **	25%	20%	30%	25%	100%						
	EV/El.	EV/EBITDA	EV/Capacity	RAB	Gener. EV/Cap.	Implied EV USD mln	Implied MCap USD mln	12M target USD	Market USD	Upside	Rec
CHEN	148.0	55.8	118.8	136.3		117.9	106.8	1.9	1.2	57%	BUY (upgrade)
CHEON	300.0	149.2	248.8	272.5		247.6	241.0	2.0	2.5	-19%	SELL (maintain)
CHON	346.7	179.8	307.9	295.5		288.9	279.6	1.9	n/a	n/a	N/R
DNON	2,820.3	664.0	890.6	688.1		1,277.1	1,145.9	191.2	182.0	5%	HOLD (upgrade)
HAON	970.0	367.7	620.0	475.9		621.0	241.9	3.7	2.3	1%	HOLD (maintain)
HMON	339.6	128.4	254.0	276.3		255.9	597.3	1.8	2.3	-10%	HOLD (maintain)
HOEN	421.7	130.4	303.1	270.6		290.1	246.3	1.5	1.0	46%	BUY (maintain)
KION	293.5	155.2	289.4	285.1		262.5	260.9	2.2	1.6	37%	BUY (maintain)
KREN	769.6	299.9	493.1	433.7		508.7	451.9	2.6	2.8	-7%	HOLD (maintain)
LVON	673.1	279.1	390.0	384.5		437.2	415.8	2.1	2.7	-21%	SELL (downgrade)
MYON	204.3	65.7	273.0	259.3		210.9	161.9	1.0	n/a	n/a	N/R
ODEN	719.0	449.3	447.4	431.0		511.6	401.6	1.9	n/a	n/a	N/R
POON	589.6	434.7	324.4	340.8	80.2	497.0	484.6	2.2	2.7	-19%	SELL (maintain)
PREN	360.8	177.3	223.1	261.3		257.9	251.0	2.4	2.4	1%	HOLD (downgrade)
SMEN	173.5	99.7	73.4	46.5		97.0	94.8	3.5	3.2	10%	HOLD (downgrade)
SOEN	304.2	174.8	272.3	269.5		260.1	258.0	1.5	n/a	n/a	N/R
TOEN	194.4	69.4	170.5	198.0		163.1	160.7	2.6	2.9	-9%	HOLD (downgrade)
VION	352.3	98.0	308.7	348.8		287.5	253.2	81.7	85	-4%	HOLD (downgrade)
VOEN	221.1	81.2	182.2	192.3		174.3	170.5	0.4	0.6	-35%	SELL (downgrade)
ZAON	1,039.6	321.2	760.3	445.9		663.7	608.0	3.4	4.1	-17%	SELL (maintain)
ZHEN	370.2	153.0	277.8	296.8		280.7	273.4	2.2	2.4	-7%	HOLD (downgrade)
ZOEN	307.5	77.0	199.3	197.1		201.3	189.2	1.5	2.0	-24%	SELL (downgrade)

Source: Bloomberg, NERC, company data, Concorde Capital estimates

* according to performance-based scores' forecasts, refer to page 9

** as was estimated on page 10

Donetskoblenergo: A special case

High bankruptcy risk requires special treatment

We do not apply common valuation methodology to Donetskoblenergo, as the company's risks are much higher than for any other Oblenergo: with a USD 868 mln in debt, the company is on the verge of bankruptcy.

We believe the future of the company is entirely in the hands of its main private shareholder and the main candidate to take it over, the Donetsk Fuel and Energy Company (DTEK). It looks like for DTEK (who, according to official information, has accumulated a 25% stake in the company) bankruptcy is not the worst scenario, as then it would most likely acquire the company's assets, possibly at a discount.

However, as bankruptcy of the country's largest electricity distribution company can't happen without a political scandal, we believe that the state and DTEK will try to solve the company's debt problem without bankruptcy proceedings.

In August 2007 Donetskoblenergo asked the Council of the Wholesale Energy Market to approve restructuring of USD 730 mln of the company's payables over 47 years (with a two-year grace period), and asked it to allow an increase in the company's tariffs to generate needed cash flow to pay off its debt. At the moment, Council's response is not known, though we believe that DTEK has enough power to lobby for a positive decision. But as decision has not yet been approved, it looks like DTEK is not enough interested in quickly solving the Donetskoblenergo's debt problem. This could be due to two opposing reasons:

- DTEK does not want DOON's stock price to appreciate fast and is using this calm period to accumulate more shares on the market. Trading volumes over the two last months (September and October) being equal to total volume for the previous eight months supports this conjecture.
- DTEK does not want to solve Donetskoblenergo's debt problem at all, and will use Council's rejection of Donetskoblenergo's proposal as a reason to initiate bankruptcy proceedings, saying "we did all our best to avoid it."

We value Donetskoblenergo using a scenario analysis, refer to the next section.

Valuation of DOON: Scenario analysis

Scenario 1: Restructuring with compensation. Probability: 20%

This scenario implies the Council of the Wholesale Energy Market will permit Donetskoblenergo to restructure its debt and allow the NERC to increase its tariff to accumulate needed money. In this case, the implied MCap of Donetskoblenergo will be close to its RAB (i.e. outstanding payables can be fully ignored): USD 776 mln.

Scenario 2: Restructuring without compensation. Probability: 50%

This scenario implies the Council will agree to restructure Donetskoblenergo's debt, but not allow the company to raise tariffs to accumulate needed money. This means Donetskoblenergo would need to repay debt from operating cash flows. In this case, we also assume:

- no interest rate imposed for restructured debt,
- the company will be able to get back 50% of its USD 440 mln receivables to partially repay restructured debt
- 10% WACC
- 47-year restructuring period, with 2-year grace period

Under these assumptions, the discounted cash outflow needed to repay USD 860 mln in payables (returning USD 220 mln in receivables) will be USD 110 mln. Donetskoblenergo's implied MCap is USD 776 mln – USD 110 mln, or USD 656 mln.

Scenario 3: Bankruptcy. Probability: 30%

Under this scenario, the company's assets are likely to be sold to cover its payables. We estimate the market value of DOON's assets at a depreciated replacement value. With 75% accumulated depreciation, it is equal to USD 727 mln, or USD 140 mln less than its payables. This scenario implies a market capitalization of zero.

Scenario weighting

	Probability	Implied MCap USD mln	Implied price, USD	Implied upside
Restructuring with compensation	20%	660	11.8	142%
Restructuring without compensation	50%	550	10.0	104%
Bankruptcy	30%	0	0.0	-100%
Weighted		407	7.4	51%

Source: Company data, NERC, Concorde Capital estimates

Note that the probability-weighted implied upside of 51% should be used only by risk-tolerant (risk neutral) investors. Since in most cases, investors are risk-averse, the high probability of bankruptcy makes investing in DOON unjustifiable for them. This is why we do not rate the stock, but are ready to issue a BUY recommendation if the company secures a long-term debt restructuring agreement.

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.

Sector report history

Date	Name	Type	Pages
Nov. 08, 2007	Oblenergos: Look to the corners	Update	18
Aug. 21, 2007	Oblenergos: RAB me!	Update	41
May. 29, 2007	Electricity sector: Privatization plans look promising	Note	6
Dec. 26, 2006	Energy Companies' EGMs: Baker's dozen for the NC ECU	Note	3
Dec. 13, 2006	Oblenergos: A Whole New World	Update	55
Oct. 19, 2006	Energy Sector: Questions Raised by Recent Events	Note	3
Feb. 10, 2006	Cold Weather Brings Interest in Oblenergos to a Boil	Note	2
Jan. 25, 2006	CEZ to Enter the Ukrainian Electricity Market?	Note	2
Jan. 25, 2006	The Gas Crisis: Good for Electricity Companies?	Note	2
Dec. 15, 2005	Oblenergo Profits: Everything You Need to Know	Update	65
Sep. 15, 2005	Oblenergos: Awakening	Update	48
Feb. 28, 2005	Oblenergos: Sleeping Beauties?	Initiating coverage	63

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Under Review	0	0%
Total	10	100%

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