

## ENERGY SECTOR OF UKRAINE

Energy sector is the fundamental sector of Ukraine, fully satisfying the needs of the country in electric power. The surplus outputs let to export part of the energy from Burshtynskiy energy island, integrated with united power supply system of the European countries UCTE.

### UKRAINIAN ENERGY SECTOR INCLUDES:

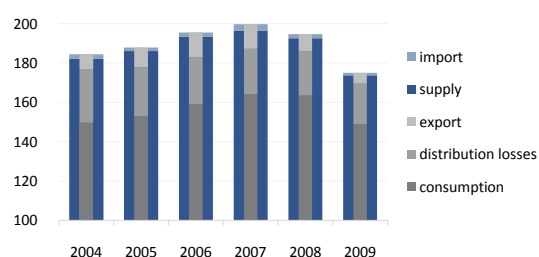
- ✓ 5 heat generating companies (control batch of shares of four of them belong to the state, in 2011 the privatisation is planned);
- ✓ 4 nuclear power stations (100% of shares belongs to the state);
- ✓ 8 hydroelectric power plants (100% of shares belongs to the state);
- ✓ 27 regional energy distribution companies – oblenergo (most of them – private companies);
- ✓ thermoelectric plants – most of them at the huge cities are separate companies, that completely belong to the state;
- ✓ operators of export electricity supply;
- ✓ State Company “Ukrenergo” (holder of main energy networks and traffic controller of the united energy system of country);
- ✓ Wholesale electricity market (WEM) – the wholesale buyer and wholesale seller of the electric power. The function of wholesale market of electric power is performed by the State Company “Energorynok”, that accumulates the electric energy from the generating companies and distributes it among oblenergo for the weight average wholesale price;
- ✓ National Energy Regulation Commission (NERC) – performs the state regulation of the subjects of natural monopolies in the power industry and oil and gas complex, provides the building of price and tariffs policy in these spheres.

WEM was created basing on the British pool in 1996. On the market there is a “single buyer” model. All the electric power, produced by huge and average generations (up to 20MW), is sold at wholesale market of electric power, where it is resold by energy distribution companies (oblenergo) or by independent suppliers (suppliers on uncontrolled rate). Oblenergo and independent suppliers provide the energy to the end users.

For the next years Ukraine will use new, more tradable market model of electric power – system of bilateral contracts. Every month there will be public sales of electric power, due to the results of these public sales the company-suppliers (oblenergo) will sign the agreements with the energy generating companies to supply the electric power for one month or for one quarter. The rest of the electric energy will be bought by WEM.

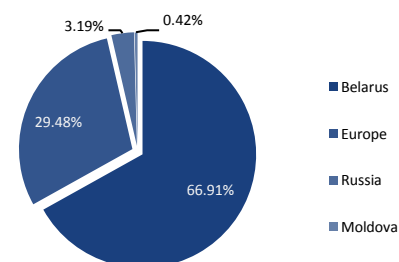
### ENERGY BALANCE

Energy balance of Ukraine (2004-2009), bln kW·h



Source: State Statistics Committee of Ukraine

Structure of electricity export (2010), %



Source: State Company “Energorynok”

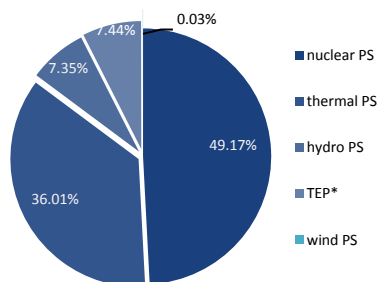
Ukraine has surplus facilities to produce electric power, and that is why the part of the produced electricity (2-5%) is exported. Up to 2009 State Company “Ukrenergo” was the monopoly exporter of the Ukrainian electricity. From 2009 the access to intergovernmental power supply networks was given to any energy supply company on the basis of public sales for the period up to 1 year. To export the electricity the suppliers buy the needed volumes at WEM for the average weighted price and sell it to their

contractors in Slovakia, Poland, Hungary, Romania, Belorussia, Russia and Moldova. In 2010 the export of Ukrainian electric power was about 4 bln kW-h, from them the main part was given to Belorussia – 67%, 29% were exported to Europe, 3% – to Russia.

### PRODUCTION AND CONSUMPTION STRUCTURE

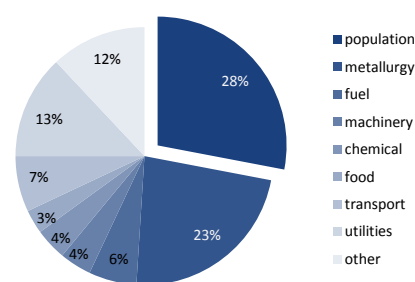
As for the results for 2010 the manufacturing of electric power in Ukraine was 191.5 bln kW-h, from which 49% – were produced by the nuclear power stations, 36% – by thermal, and 7% – by thermoelectric plants and the same by hydroelectric power plants. The insignificant part is manufactured from the alternative sources of electric power.

Electricity production structure of Ukraine (2010), %



\* thermoelectric plants  
Source: State Company "Energorynok"

Electricity consumption structure of Ukraine (2011M2), %

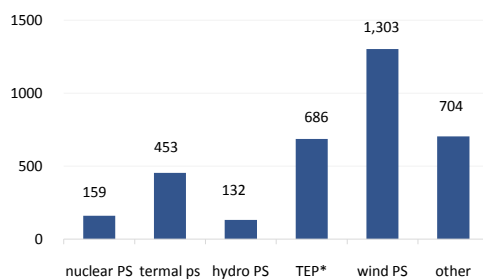


Source: Interfax

In the consumption structure the part of the population is 28% of the electric power consumed in the country. Among the branches of industry the biggest consumer is the metallurgical branch (23%). The municipal and everyday users and transport cover 13% and 12% respectively.

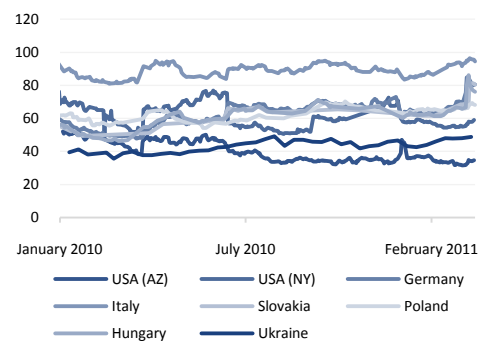
### PRICES AND PRICING POLICY

The prices for selling of electric power by generating companies (2010), UAH/MW-h



\* thermoelectric plants  
Source: State Company "Energorynok"

Retail prices (2010), USD/MW-h



Source: State Company "Energorynok", Bloomberg

The prices for electric power for all types of generating companies, except the thermal ones, is determined by the state (NERC). The price for generating companies: thermal power stations and thermoelectric plants is determined at WEM.

The chart shows the average prices to sell the electric power of the generating companies in 2010. As we see, the cheapest energy is produced by hydroelectric power plants, and the most expensive – by the wind power plants, whose tariff is tied to Euro.

At the moment the prices for electrical power are fully regulated by the state through State Company "Energorynok" and NERC. Till recent the state policy was directed towards the price control.

But when the decision on privatization of energy enterprises was taken, and also due to the conditions of cooperation with IMF the state gradually started to increase the tariffs for population, and at the same time – the purchasing prices for manufacturers.

## STOCK MARKET

Energy companies of Ukraine at the stock exchange

Ticker	Capitalization, mln UAH	Free float, %	Average daily turnover, ths UAH
CEEN	6 503	21.7	9 742
DOEN	1 709	14.2	2 896
ZAEN	4 887	7.8	594
DNEN	7 101	2.5	67
ZHEN	251	8.4	20
KREN	649	8.7	39
KIEN	1 728	9.3	16

Source: "Ukrainian exchange", AMC "NIKO" calculations

Energy sector at the stock exchange of Ukraine is represented by 4 energy generating companies – Centrenergo (CEEN), Donbassenergo (DOEN), Zakhidenergo (ZAEN), Dniproenergo (DNEN) and 21 energy distributing companies (oblenergo).

The most important event in the current year – the planned privatization of the energy sector. It is planned to put for sale 2 thermal energy generating companies (Zakhidenergo, Dniproenergo) and 9 energy distributing companies. It is likely that DTEK group will show the interest to the generation, as this group already has huge assets at the sector. The government plans to leave for itself the blocking stake (25%) of the enterprises, in fact it makes DTEK the only one claimant to control holding of stocks Zakhid- and Dniproenergo.

Regarding prices, in our opinion, the most of Ukrainian energy companies, that are represented at the domestic stock exchange, are traded 2-3 times cheaper comparing their foreign analogues, and it gives to potential investors pretty good facilities for long-term investments.

## OUR OPINION

The most problematic factor at the Ukrainian energetic is the significant depreciation of thermal and nuclear power station blocks and other power energy equipment. Just representatives of private generating company "Vostokenergo" announce the plans on huge modernization.

Why does the privatization of energy companies disturb the market so much? It is visible that the main achievement of the privatization should be the fact that the owner will be interested to modernize the enterprises controlled by him, that in most cases will result in the increase of their performance. It should be noted, that we have no doubt in the efficiency increase and in the open activity of such private companies. There are as minimum two reasons for that:

- ✓ capital investments of the private owner will be directed first of all to the reduction of the electric power loss during transfer (oblenergo) and to general optimisation of expenditures (generating companies);
- ✓ the prices for electric power in Ukraine are still lower than the world ones, but in the last years they are catching up with them. The tendencies will be the same.

We think that the only one possible way to increase the energy efficiency of the sector and of the country as a whole is the decrease of energy consumption by industry and by population, and also the support from the side of the government for the development of "green" energy (especially taking into the consideration the catastrophe in Japan). We want to remind, that now in Ukraine there is a "green tariff", all the taxes are cancelled to import the energy-efficient equipment, the profit tax for wind power plants is cancelled. As a result of the measures taken in 2011 some companies obtained the permission for duty-free import of energy-efficient equipment, several projects – are at the stage of completion of wind speed, more than 40 companies – are already selling the energy on "green" tariffs.

Summing it all up we must say that taking into consideration all the above mentioned facts, the investor (domestic or foreign one) has wide perspectives for efficient activity: it can be entrance to the existing business or start of the own business.

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## ABOUT THE COMPANY

ASSET MANAGEMENT COMPANY "NIKO" is the investment company, a member of the international "NIKO" Group of companies. The main Company's activity priority is the development of global strategy and selection of the individual instruments for each client: the formation of investment portfolio based on the client's requirements, operational management of the investment targets, share and debt capital raising, M&A, the development of new investment projects and their implementation. The main Company's mission is to not only provide a full-range of wealth management services based on the total confidentiality but to guarantee the flexibility and formation of financial model which matches all client's needs and expectations.

AMC "NIKO" areas of expertise among others include:

- I) **Investment Banking** (fund raising, M&A);
- II) **Alternative Investments** (direct and venture investments, corporate treasury);
- III) **Asset Management** (for private investors and corporate clients).

Established in 2006, the Company currently manages more than UAH 440 million in assets. The Company's activity is regulated by the State Commission on Securities and Stock Market of Ukraine (licence AB №456907 dated 05.02.2009).

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## RISK DISCLOSURES

Trading foreign exchange, commodities, and securities, as well as investing in different kinds of projects carries a high level of risk, and may not be suitable for all investors. Before deciding to trade foreign exchange or investing in projects you should carefully consider your monetary objectives, level of experience and risk appetite. The possibility exists that you could sustain a loss of some or all of your deposited funds and therefore you should not speculate with capital that you cannot afford to lose. You may be liable for losses that exceed the amount of margin that you post. You should be aware of all the risks associated with foreign exchange, commodities, securities trading, investing in projects and seek advice from an independent advisor if you have any doubts.

Past performance is not necessarily indicative of future results.

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