

MRSKs

RAB Revised, Privatizations Ahead

After the latest RAB-system reboot, 44 of the total 65 MRSK branches are on RAB. Another two to four could migrate on January 1, 2013. Our new assumptions for the MRSKs lead us to cut our target price for MRSK Holding 56% to \$0.078 per share, but we reiterate our BUY recommendation on the stock. We expect the privatizations to begin in 2H13, which should act as a catalyst for the stocks. MRSK Volga, MRSK Urals and MRSK Center-Volga (EV/RAB of 0.41-0.53) offer the highest upsides (all their branches are on RAB). We also like MRSK Center and MRSK North-West.

- Latest RAB-system reboot round complete.** MRSKs' total rebooted iRAB has been reduced 12% to R578 bln. For the branches under indexation, we expect migration from 2014 and estimate the RAB at R120 bln (applying a 50% discount to the RABs originally planned). The total estimated RAB is cut 22%. The regulated rate of return (RoR) is 11% on new capital (2013-17) and 1-11% on old capital. The blended RoR is 5.5% in 2013 and 11% in 2017.
- Putin not against pilot MRSK privatizations in 2013.** President Vladimir Putin supports the possibility of pilot MRSK privatizations, and the Energy Ministry should prepare proposals for one or two pilot MRSKs in spring. In 2H13, the privatization process should start, but the stocks could react earlier (e.g. on strategic buying). The investment need is huge and MRSKs can raise capital via new share issues. Strategic investors may include global utilities, Russian players, consortiums of private equity and Sovereign wealth funds, and utilities.
- Valuation and risks.** We still apply 10-20% strategic premiums. The MRSK average EV/EBITDA is 4.2 for 2013E, versus the EM average of 6.2. On EV/EBITDA, the relatively cheaper stocks are MRSK North-West, MRSK Volga and MRSK Center, while on P/E they are MRSK North-West and MRSK South. MRSK Holding could become the management company for the power network complex (probably not under Rosneftegaz) via a share issue. This implies relative valuation risks for the company. There is also a risk of delayed privatizations.

Valuation summary, \$ per share

	Ticker	Current price	Indicative value				Upside
			Mid-value	Strategic premium	Mid-value accounting for strategic premium	Change from old	
MOESK	MSRS RX	0.039	0.040	-	0.040	-11%	1%
Lenenergo	LSNG RX	0.220	0.310	-	0.310	-58%	41%
MRSK North-West	MRKZ RX	0.00198	0.00275	10%	0.00302	-58%	53%
MRSK Center-Volga	MRKP RX	0.0055	0.0073	20%	0.0088	-32%	60%
MRSK Siberia	MRKS RX	0.00264	0.0039	-	0.0039	-64%	47%
MRSK Urals	MRKU RX	0.0052	0.0071	20%	0.0085	-39%	65%
MRSK Volga	MRKV RX	0.00221	0.00406	20%	0.00487	-43%	120%
MRSK Center	MRKC RX	0.0185	0.0239	20%	0.0287	-44%	55%
MRSK South	MRKY RX	0.00160	0.00204	10%	0.00224	-55%	40%
MRSK North Caucasus	MRKK RX	0.86	1.99	-20%	1.59	-66%	86%
Kubanenergo	KUBE RX	4.44	2.95	-	2.95	-11%	-34%
Tomsk Disco	TORS RX/ TORSR RX	0.0153	0.0139	-	0.0139	-49%	-9%
MRSK Holding	MRKH RX/ MRKHP RX	0.060	0.078	-	0.078	-56%	30%

Source: Bloomberg, Sberbank Investment Research

Alexander Kotikov +7 (495) 933 9841

Alexander_Kotikov@sberbank-cib.ru

Andrey Trufanov +7 (495) 933 9831

Andrey_Trufanov@sberbank-cib.ru

PAGE INTENTIONALLY LEFT BLANK

Contents

Latest RAB System Reboot Completed.....	4
RAB system reboot process.....	4
Regulated RoR	6
MRSK branches on indexation	9
RAB for remaining branches possible from 2014.....	11
Implied revenue growth and MRSK Holding’s key financials	11
MRSK Privatizations Could Start in 2H13	13
“Last mile” problem	13
Other issues	13
Privatizations	13
Possible strategic investors.....	14
MRSK Holding – the Management Company?	16
Valuation	17
Assumptions.....	17
Risks	17
DCF models	18
Valuation results	18
MRSK Holding SOTP	19
MRSK Holding upcoming new share issue	20
Peer group	21
Company Data Profiles	23
MRSK Holding	24
MRSK Center	25
MRSK Center-Volga.....	26
MRSK North Caucasus	27
MRSK North-West.....	28
MRSK Siberia	29
MRSK South.....	30
MRSK Urals.....	31
MRSK Volga	32
MOESK	33
Lenenergo	34

Latest RAB System Reboot Completed

RAB system reboot process

The latest round of RAB system reboot has been completed, with 44 MRSK branches out of a total of 65 moved onto RAB regulation from November 1. The total aggregate rebooted iRAB level for the 44 branches with RAB approved has been cut by 12%. We expect a few more branches to migrate from January 1, 2013. For now, 21 branches are operating under the long-term indexation method.

MRSK Holding RAB system reboot progress in 2012

	No of branches
Rebooted as of July 1	31
Rebooted in July (Lenenergo – two branches)	2
Rebooted as of November 1	11
Total under RAB from November 1	44
Under long-term indexation method as of November 1	21

Source: MRSK Holding, Sberbank Investment Research

- **RAB system reboot from July 1.** In accordance with government resolution No 1178, regional energy commissions determined or revised regulatory parameters for some MRSK branches by June 1. After reconciling these with the Federal Tariff Service (FTS), the new parameters came into force on July 1. There were 31 branches under RAB as of July 1.
- **RAB system reboot from November 1.** Branches that were operating under RAB in 1H12 but did not go through the June-July RAB system reboot switched to long-term indexation from July 1. Their regulatory parameters were subject to revision by October 15. Those whose RAB parameters were reconciled by the FTS migrated back to RAB on November 1. The others continued operating under long-term indexation.
- **Tariffs.** The branches that moved to RAB regulation from November 1 therefore migrated to new tariffs from November 1. The next tariff hike is due on July 1, 2013.

SEVERAL MRSKS HAVE MOVED ENTIRELY TO RAB

The companies now entirely on RAB since the reboot are MRSK Center-Volga, MRSK Volga, MRSK Urals (with the exception of subsidiary Ekaterinburg Power Network Company, or EESK), MOESK and Lenenergo. Although RAB was cut considerably in some cases, it was better to reboot the system now and have viable tariff growth in the future to ensure that the RAB system survives over the long term. Moreover, under RAB regulation, the cost-cutting incentive is retained, unlike under the indexation method. Hence we prefer MRSKs that are fully or almost fully under RAB. These companies will probably also entail more comfort for strategic investors as potential privatization targets.

iRAB levels for MRSKs (aggregate for branches where RAB has been rebooted), R mln

	2012 iRAB (rebooted)	Change	No of branches with RAB parameters rebooted
MOESK	182,495	1%	2 out of 2
Lenenergo	72,224	-8%	2 out of 2
MRSK Center	66,566	-22%	8 out of 11
MRSK Center-Volga	77,119	-7%	9 out of 9
MRSK North-Caucasus	16,400	0%	4 out of 7
MRSK North-West	21,739	-5%	4 out of 7
MRSK Siberia	9,430	-6%	1 out of 9*
MRSK South	22,523	0%	3 out of 4
MRSK Urals	40,816	-30%	3 out of 3**
MRSK Volga	48,297	-37%	7 out of 7
Tyumenenergo	–	–	0 out of 1
Kubanenergo	20,643	0%	1 out of 1
Tomsk Disco	–	–	0 out of 1
Yantarenergo ***	–	–	0 out of 1
Total approved	578,254	-12%	44 out of 65

* including Tuvaenergo, 98.96% owned by MRSK Siberia

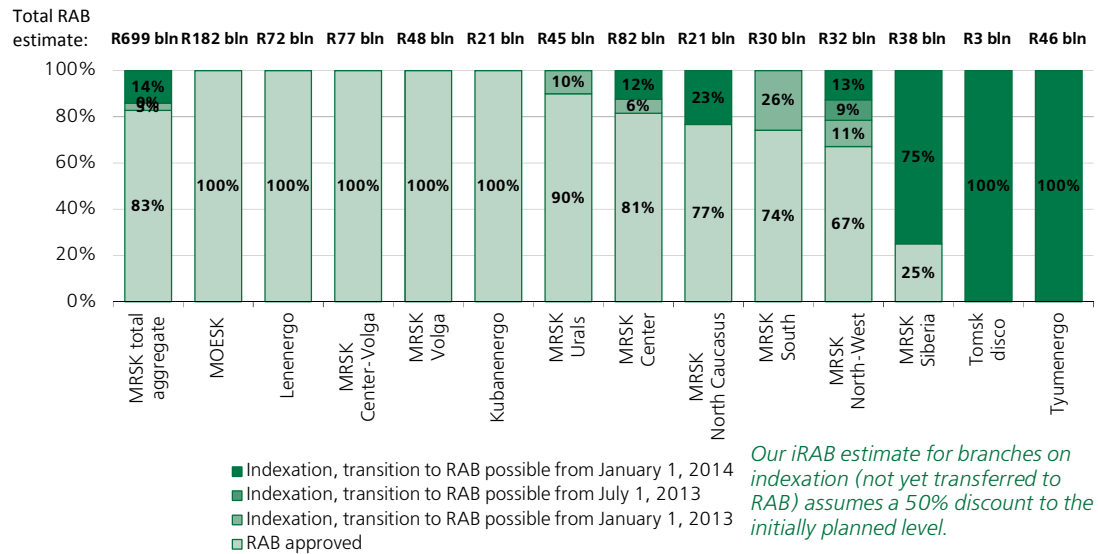
** not accounting for the stake in Kurganenergo, swapped for a stake in Lenenergo; also, not including EESK (91.04% owned by MRSK Urals), which we expect to migrate to RAB from January 2013

*** 100% subsidiary of MRSK Holding

Source: Companies, FTS, Interfax, Sberbank Investment Research

- **MRSK Center-Volga.** The FTS reconciled RAB migration for all nine branches, so MRSK Center-Volga is on RAB as of November 1. The average RAB cut for MRSK Center-Volga from iRABs approved earlier was only 7.5%.
- **MRSK Volga.** MRSK Volga's total RAB was cut by 37% (the most considerable cut among the MRSKs), but the company is now completely on RAB, which is positive, in our view, and valuable in the longer term.
- **MRSK Urals.** We had feared that Chelyabenergo would not migrate to RAB, but the FTS reconciled RAB parameters for it, so all three of MRSK Urals' branches are now on RAB, though the total RAB was reduced by 30% on average. We still expect RAB migration for MRSK Urals' subsidiary EESK from January 1, 2013 (estimated at 10% of our total RAB forecast for MRSK Urals).
- **MRSK Center.** The FTS reconciled RAB parameters for Voronezhenergo, so eight of MRSK Center's 11 branches are now on RAB. Lipetskenenergo is on long-term indexation but it may be moved to RAB from January 1, 2013 (estimated at 6% of our total RAB forecast for MRSK Center), and the company plans to submit the relevant documents to ensure this. The other two branches (constituting 12% of MRSK Center's total estimated RAB) remain on indexation.
- **MOESK.** The FTS reconciled RAB parameters for MOESK (Moscow and Moscow Region) and hence it is fully on RAB. Its aggregate rebooted RAB of R182.5 bln (by far the largest of all the MRSKs) is flat versus the original iRAB level.
- **MRSK North-West.** The RAB was cut by a modest 5% for the four branches (out of seven) that have undergone a reboot. This represents around two thirds of our total RAB forecast for MRSK North-West. Kolenergo could be transferred to RAB from January 1, 2013 (11% of the total estimated RAB) and Arkhenergo could migrate from July 1, 2013 (9%), which would take the total RAB approved to 87% of the total estimated RAB.
- **MRSK South.** Three out of MRSK South's four branches are on RAB, representing 77% of the company's total estimated RAB. Only Volgogradenergo has still to be transferred; this could happen from January 1, 2013.

Approved RAB for MRSKs (estimated for branches currently on indexation)

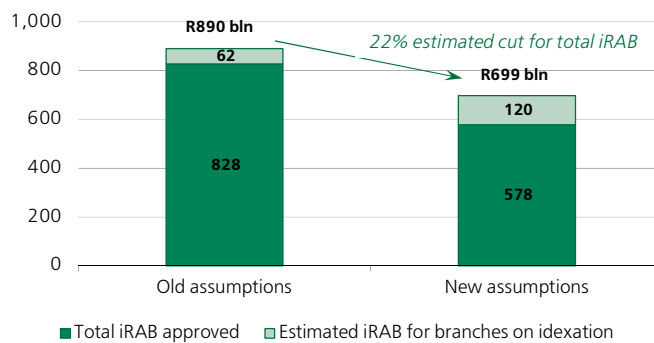


Source: Companies, FTS, Sberbank Investment Research

On aggregate, 83% of MRSKs’ total estimated RAB was rebooted and approved as of November 1, while another 3% could be approved from January 1, 2013.

Previously, we estimated the RAB for branches that had not migrated to RAB, and from that the total aggregate RAB for MRSKs at R890 bln. Our new assumption includes R578 bln of RAB already approved, so we estimate the RAB for the branches remaining under indexation at R120 bln (applying a 50% discount to the RABs originally planned across the board), taking the total aggregate estimated RAB to R699 bln. This is 22% below the old assumption.

Overall MRSK RAB assumptions, approved and estimated (for branches currently on indexation)



Source: Companies, FTS, Sberbank Investment Research

Regulated RoR

In our MRSK models, we previously assumed a 1% regulated rate of return (RoR) on old (existing) capital and 11% RoR on new capital (or capex) across the board. We anticipated these converging at 11% in mid-2016 and staying at that level going forward.

Previous assumptions on MRSKs regulated RoR

	2012E	2013E	2014E	2015E	2016E
RoR on old (existing) capital (RAB)	1%	1%	1%	1%	11%
RoR on new capital (capex)	11%	11%	11%	11%	11%

Note: We assume the regulated RoR for old capital will converge with that for new capital at 11% from mid-2016 (and remain in line going forward).

Source: Sberbank Investment Research

Our new assumptions include an 11% regulated RoR on capex (new capital) approved by the FTS for 2013-17, and we keep it at that level going forward (in the terminal period).

Approved regulated RoR on new capital (capex) for MRSKS

	2012E	2013E	2014E	2015E	2016E	2017E
RoR on new capital	12%	11%	11%	11%	11%	11%

Source: FTS, Sberbank Investment Research

The approved regulated RoR on old capital (RAB) varies significantly from branch to branch. In the first regulatory period, they can vary from 1% to 11% (RoR on new capital). This is to conform with the tariff growth cap of 10% – in some cases, the RoR could already be 11% from 2013, while in other cases it could be as low as 1%. For example, Lenenergo has a regulated RoR on old capital set at 1% flat for the entire period (2012-16), while MRSK South lies on the other side of the range, with a weighted average regulated RoR on old capital as high as 7.5%. Importantly, the regulated RoR on old capital must converge with that for new capital from mid-2017 in all cases. The arithmetic average RoR on old capital for MRSK Holding goes from 3.6% in 2013 to 4.5% from mid-2016 and reaches 11% from mid-2017.

Approved regulated RoR for MRSK branches on old capital (existing asset base)

	2012	2013	2014	2015	2016	2017	2012-16 average
MOESK							
Range	6.89-8.0%	5.5-7.8%	5.5-8.0%	6.0-8.0%	7.5-8.0%	11.0%	
Weighted average	7.6%	6.2%	6.3%	6.6%	7.7%	11.0%	6.9%
Lenenergo							
Range	1.0%	1.0%	1.0%	1.0%	1.0%	11.0%	
Weighted average	1.0%	1.0%	1.0%	1.0%	1.0%	11.0%	1.0%
MRSK Center							
Range	1-12%	1-11%	1-11%	1-11%	1-11%	11.0%	
Weighted average	4.3%	4.4%	5.0%	5.5%	6.2%	11.0%	5.1%
MRSK Center-Volga							
Range	1-12%	1-11%	1-11%	1-11%	1-11%	11.0%	
Weighted average	2.6%	2.5%	2.9%	2.9%	4.2%	11.0%	3.0%
MRSK North Caucasus							
Range	1-6.4%	1-7.2%	1-6.0%	1-6.3%	1-9.0%	11.0%	
Weighted average	2.3%	3.2%	3.1%	3.6%	4.7%	11.0%	3.4%
MRSK North-West							
Range	1-11%	1-11%	1-11%	1-11%	1-11%	11.0%	
Weighted average	5.4%	6.8%	6.8%	6.8%	7.1%	11.0%	6.6%
MRSK Siberia (Altaienergo)							
Range	1.0%	1.0%	1.0%	1.0%	1.0%	11.0%	
Weighted average	1.0%	1.0%	1.0%	1.0%	1.0%	11.0%	1.0%
MRSK South							
Range	6-11%	6-11%	6-11%	6-11%	6-11%	11.0%	
Weighted average	7.5%	7.5%	7.5%	7.5%	7.6%	11.0%	7.5%
MRSK Urals							
Range	1-9%	1-11%	1-11%	1-11%	1-11%	11.0%	
Weighted average	4.7%	4.4%	4.4%	4.6%	4.8%	11.0%	4.6%
MRSK Volga							
Range	1-3.7%	1-4.5%	1-6%	1-8%	1-9%	11.0%	
Weighted average	1.6%	1.8%	2.1%	2.6%	4.6%	11.0%	2.6%
Kubanenergo							
Range	1.0%	1.0%	1.0%	1.0%	1.0%	11.0%	
Weighted average	1.0%	1.0%	1.0%	1.0%	1.0%	11.0%	1.0%
MRSK arithmetic average	3.6%	3.6%	3.7%	3.9%	4.5%	11.0%	3.9%

Note: Weighted averages are weighted by branches' RAB.

Source: MRSK Holding, Sberbank Investment Research

The effective blended RoR on old and new capital varies across companies. In 2013, for example, it is 3.6% for MRSK Center-Volga and 5.9% for MRSK Center. Each year the blended RoR normally increases. For MRSK Holding, the average estimate amounts to 5.5% in 2013, 8.1% in 2016 and reaches 11% in 2017 (the year of RoR convergence).

Total estimated weighted average effective RoR (on old and new capital) for MRSKs

	2012E	2013E	2014E	2015E	2016E	2017E
MOESK	7.7%	7.1%	7.7%	8.5%	9.4%	11.0%
Lenenergo	1.1%	3.4%	4.6%	6.0%	6.8%	11.0%
MRSK North-West	5.4%	7.8%	8.1%	8.6%	9.1%	11.0%
MRSK Center-Volga	3.0%	3.6%	4.6%	5.6%	7.3%	11.0%
MRSK Siberia	1.0%	3.7%	2.8%	3.7%	4.6%	11.0%
MRSK Urals	5.7%	5.0%	5.7%	6.5%	7.3%	11.0%
MRSK Volga	2.9%	4.4%	5.6%	6.6%	8.2%	11.0%
MRSK Center	4.5%	5.9%	6.9%	8.1%	9.1%	11.0%
MRSK South	7.5%	7.9%	8.2%	8.7%	9.2%	11.0%
MRSK North Caucasus	2.3%	3.4%	4.5%	6.0%	7.2%	11.0%
Kubanenergo	1.5%	4.8%	7.0%	7.3%	7.7%	11.0%
MRSK Holding average	4.7%	5.5%	6.1%	7.1%	8.1%	11.0%

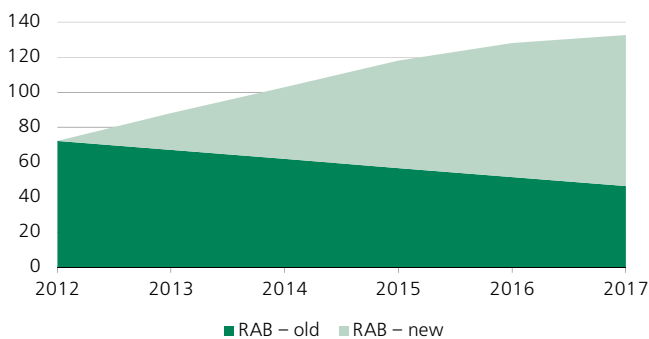
Note: Assuming that branches not currently under RAB will be transferred to RAB from 2014, with a RoR on old capital of 1% in 2013-16.

Source: Sberbank Investment Research

CASE STUDY: VIABLE TARIFF GROWTH EVEN WHEN RoR CONVERGES

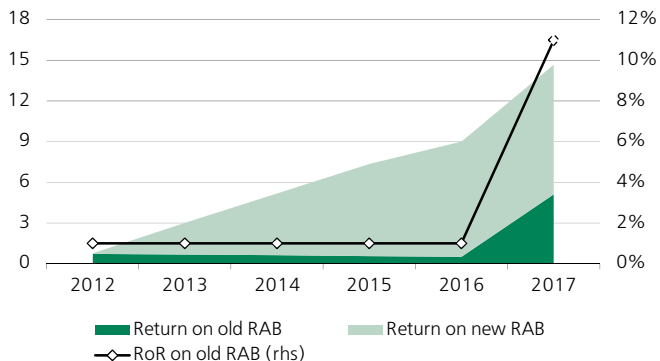
As mentioned above, Lenenergo’s regulated RoR on old capital is set at 1% flat for 2012-16 and jumps to 11% from mid-2017 (the most extreme hike of all the MRSKs). Despite this, our 2017 revenue growth estimate for Lenenergo is feasible at 10.7% because by 2017, the new RAB constitutes 65% of the company’s total RAB. So, even though the return on old RAB increases tenfold in 2017, two thirds of the total return is attributable to new RAB.

Lenenergo RAB evolution, new vs old capital, R bln



Source: Company, Sberbank Investment Research

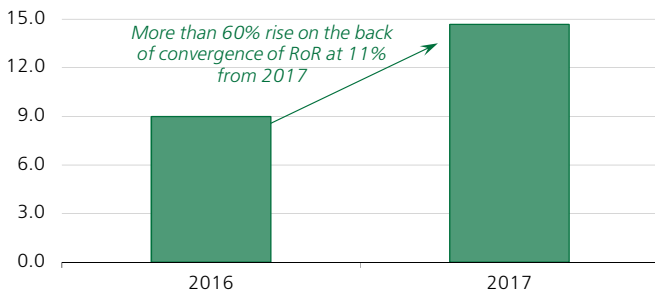
Lenenergo return on capital evolution, new vs old capital, R bln



Source: Company, Sberbank Investment Research

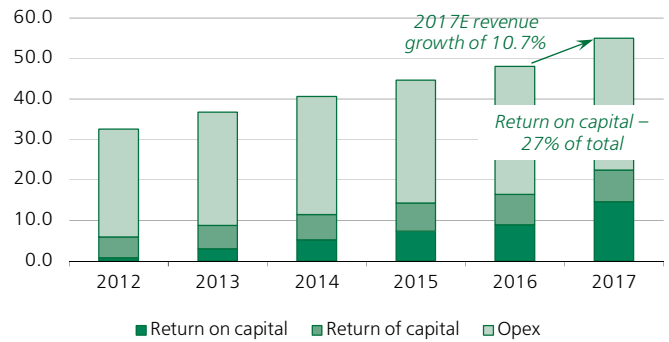
The total return in 2017 increases over 60% y-o-y in ruble terms, on the back of an increase in the return on old capital. Still, the total return on capital constitutes only 27% of the company’s total revenues in 2017, so the influence of this hike is rather limited and our estimated 2017 revenue growth for Lenenergo is viable at 10.7% y-o-y (tariff growth is even lower).

Lenenergo total return on capital (new and old), R bln



Source: Company, Sberbank Investment Research

Lenenergo total revenue evolution and key components, R bln

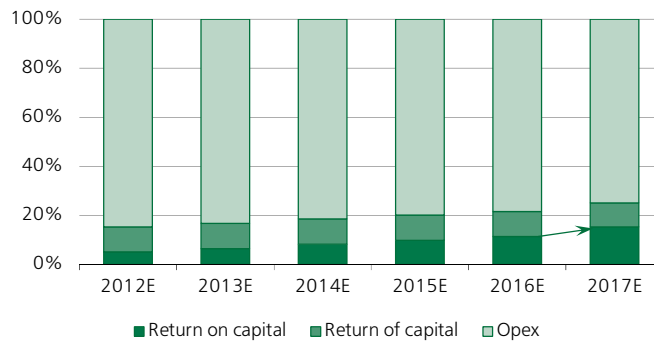


Note: Does not account for tariff smoothing or taxes.

Source: Company, Sberbank Investment Research

To demonstrate the same case for the whole of MRSK Holding, the total return on capital increases over 40% in 2017 in ruble terms on the back of regulated RoR convergence. Even after that, the total return on capital in 2017 constitutes only 16% of the company’s total estimated revenues. Hence the revenue growth in 2017 is viable.

MRSK Holding estimated revenue breakdown



Source: Sberbank Investment Research

MRSK branches on indexation

For MRSK Holding’s management, transition to RAB has been and is a priority. In July-August this year, all MRSK Holding subsidiaries with tariffs based on long-term indexation applied to the regulators for transition to RAB. However, under the current rules, the regulation method is chosen by the regulatory body, not by the companies. Not all of the regional regulators have submitted the relevant applications on to the FTS, and of those that were passed on, eight were denied by the FTS. As a result, 21 branches/discos (and EESK) remained on indexation as of November 1.

On long-term indexation method, not transferred to RAB regulation

		MRSK	Possible/assumed date of transition to RAB
Branches on indexation before RAB system reboot	Dagestan	MRSK North Caucasus	
	Chechnya (Nurenergo/Chechenenergo)	MRSK Holding (MRSK North Caucasus)	
	Arkhangelsk	MRSK North-West	July 1, 2013
	Murmansk (Kolenergo)	MRSK North-West	January 1, 2013
	Komi	MRSK North-West	
	Volgograd	MRSK South	January 1, 2013
	Buryatia	MRSK Siberia	
	Kuzbass	MRSK Siberia	
	Kaliningrad (Yanterenergo)	MRSK Holding	
	Ekaterinburg Network Company (EESK)*	MRSK Urals	January 1, 2013
Branches moved to indexation from RAB during RAB system reboot	Ingushenergo	MRSK North Caucasus	
	Bryanskenergo	MRSK Center	
	Lipetskenergo	MRSK Center	January 1, 2013
	Tverenergo	MRSK Center	
	GAES	MRSK Siberia	
	Krasnoyarskenergo	MRSK Siberia	
	Omskenergo	MRSK Siberia	
	Khakassenergo	MRSK Siberia	
	Chitaenergo	MRSK Siberia	
	Tuvaenergo**	MRSK Siberia	
	Tyumenenergo	Tyumenenergo	
Tomsk Disco	Tomsk Disco		

* EESK is 91.04% owned by MRSK Urals

** 98.96% owned by MRSK Siberia

Source: MRSK Holding, Sberbank Investment Research

Still, under the current legislation, migration to RAB is possible from the beginning of a new long-term regulatory period, as well as during the period. The companies expect another two to four discos to migrate to RAB from January 1, 2013. However, for this to happen, amendments to electricity sector pricing principles need to be made (in terms of transition criteria). A relevant draft resolution has already been prepared and will be submitted to the government soon.

Also, importantly, for branches that switched from RAB to indexation as a result of the RAB system revision, the original RABs have been kept (not cut or canceled), and the possibility of migration to RAB from the next regulatory period or during the current one remains (on condition that the strict cap on tariff growth is lifted).

CASE STUDY: TVERENERGO

In some cases, to conform with the 10% tariff growth, branches' original RABs would have to be cut by more than 50%. A case study of Tverenergo (an MRSK Center branch) shows the two alternatives – operating under RAB regulation (with an 11% regulated RoR from 2013) and under long-term indexation. The restricting criterion is 10% tariff growth in 2013-17. Under this scenario, to comply with the tariff cap, Tverenergo's original RAB would have to be cut by 52%. This is one reason why long-term indexation might have been chosen instead (should the company switch back to RAB in the future, the original RAB would remain intact).

Tverenergo RAB regulation vs indexation to conform to 10% tariff growth, R bln

	RAB regulation						Long-term indexation					
	2012	2013	2014	2015	2016	2017	2012	2013	2014	2015	2016	2017
Calculation of indexation coefficient												
Controllable expenses	1.8	1.9	2.0	2.0	2.1	2.2	1.9	2.0	2.1	2.1	2.2	2.3
Non-controllable expenses	5.2	5.7	6.2	6.9	7.6	8.3	6.3	7.0	7.9	8.9	9.9	11.2
Depreciation	–	–	–	–	–	–	0.4	0.5	0.5	0.5	0.6	0.6
Financing of investments from the profit	–	–	–	–	–	–	0.2	0.2	0.2	0.3	0.5	0.5
Return of capital	0.8	0.8	0.9	1.0	1.0	1.1	–	–	–	–	–	–
Return on capital	0.7	0.7	0.8	1.0	1.1	1.3	–	–	–	–	–	–
Total required revenue (total pot)	8.2	9.0	9.9	11.0	12.1	13.4	8.2	9.0	9.9	11.0	12.2	13.5
Tariff growth		10%	10%	10%	10%	10%		10%	10%	10%	10%	10%
EBIT (revenue net of expenses)	0.4	0.5	0.8	1.1	1.4	1.8	–	–	–	–	–	–
Regulated RoR*	12%	11%	11%	11%	11%	11%						
Required RAB cut	52%											

* on both old and new capital, as it will enter the second regulatory period (it was transferred to RAB from January 1, 2009)

Source: MRSK Center, Sberbank Investment Research

As the example above shows, under long-term indexation, revenues are set at such a level to barely cover expenses (including depreciation and financing of investments from profits), i.e. EBIT amounts to zero.

RAB for remaining branches possible from 2014

The government is developing a new electricity market model, according to Deputy Prime Minister Arkady Dvorkovich. The current model is inefficient, and the new one should facilitate sufficient investment in the generation and power network sectors. Preparations for the new market rules are expected to be completed by year end. The plan will then be discussed with market participants and experts. A decision on the market model will be made in 1H13. The new rules will be introduced in 2014. The RAB system will then be introduced en masse, as the current market model is reportedly unable to attract investment.

We treat Dvorkovich's statement as an indication that the remaining MRSK branches could migrate to RAB during 2013 and be on RAB regulation from 2014. In our models, we assume that branches that did not migrate to RAB during the reboot in 2012 and that are currently operating under long-term indexation will be transferred to RAB from 2014. We assume the regulated RoR on old capital will be 1% across the board in 2013-16 and converge with that for new capital of 11% from 2017. We set RAB levels for these branches at the originally planned levels minus a 50% discount, based on the Tverenergo example above (this is a conservative/realistic assumption, in our view).

Implied revenue growth and MRSK Holding's key financials

In our financial estimates, we have been targeting feasible (i.e. not too high) growth in MRSKs' total required revenues. For 2012, tariff growth should be no more than 6% y-o-y (11% from July 1), and then no more than 10% per year in 2013-15, based on the Economics Ministry's proposal from September 2012. Our revenue forecasts for 2012 even decrease in some cases due to a decline in the cost of electricity for compensation of losses (a non-controllable expense), recalculation of the tariff "pot" within a region, the switch of some branches to indexation following the RAB system reboot, missed profits due to the "last-mile" problem, and other reasons. MRSK Holding's total revenues drop 7% in 2012 in our model. In 2013-15, our projected revenue growth for MRSKs ranges between 3% and 12%, which is also feasible, as implied tariff growth is even lower than revenue growth and should still be within the 10% cap even at the high end of our range. The forecast consolidated revenue growth for MRSK Holding is just 6% in 2013-16 and then reaches 9% in 2017 (when the regulated RoR on old capital converges with that for new capital), which is also feasible.

New implied revenue growth, ruble terms

	2012E	2013E	2014E	2015E	2016E	2017E
MOESK	-12%	4%	7%	9%	8%	9%
Lenenergo	0%	11%	9%	11%	11%	11%
MRSK North-West	-7%	10%	7%	6%	6%	8%
MRSK Center-Volga	-8%	5%	6%	6%	7%	10%
MRSK Siberia	-12%	6%	10%	6%	6%	11%
MRSK Urals	-10%	5%	6%	6%	6%	9%
MRSK Volga	-6%	8%	6%	7%	7%	10%
MRSK Center	-11%	9%	7%	7%	7%	8%
MRSK South	3%	6%	5%	6%	6%	8%
MRSK North Caucasus	9%	7%	6%	8%	8%	14%
Kubanenergo	2%	8%	9%	3%	3%	6%
Tomsk Disco	-15%	5%	7%	6%	6%	7%
MRSK Holding	-8%	6%	6%	6%	6%	9%

Source: Sberbank Investment Research

As a result of all these amendments to our assumptions, our implied top-line CAGR for the whole period (2012-17) is 7% for MRSK Holding. We cut our EBITDA forecasts for MRSK Holding by 16-43% in 2013-16. We now expect MRSK Holding's EBITDA to fall 15% in 2012 and slide a further 5% in 2013. EBITDA demonstrates accelerating growth from 2014 until 2017 (16-27% per year) driven by increasing return on capital, return of capital (due to asset commissioning) and further expected migration to RAB from 2014 for the remaining branches still on indexation. The total EBITDA CAGR for MRSK Holding is 14% in 2012-17.

MRSK Holding key financial assumptions, \$ mln

	2012E	2013E	2014E	2015E	2016E	2017E	CAGR 2012E-17E
New							
Revenues	18,337	18,718	19,818	21,016	22,330	24,414	-
EBITDA	3,037	2,781	3,340	3,903	4,514	5,718	-
Net income	454	216	338	470	657	1,168	-
Old							
Revenues	21,380	23,219	25,321	27,880	32,574	-	-
EBITDA	3,092	3,375	3,997	4,901	7,884	-	-
Net income	275	259	357	604	1,903	-	-
Difference, new vs old							
Revenues	-14%	-19%	-22%	-25%	-31%	-	-
EBITDA	-2%	-18%	-16%	-20%	-43%	-	-
Net income	65%	-17%	-5%	-22%	-65%	-	-
Growth under new assumptions (ruble terms)							
Revenues	-8%	6%	6%	6%	6%	9%	7%
EBITDA	-15%	-5%	20%	17%	16%	27%	14%
Net income	-38%	-51%	57%	39%	40%	78%	22%

Source: Sberbank Investment Research

MRSK Privatizations Could Start in 2H13

In mid-October, Energy Minister Alexander Novak stated that President Vladimir Putin supported the possibility of pilot MRSK privatizations, but no final decisions had been made. The Energy Ministry has been instructed to prepare relevant proposals for the pilots (one or two MRSKs) and these should be ready in a few months (after the heating/winter period). Thus, the privatization process may start in 2013, attracting private capital into the segment. However, there are several problems in the power network segment that first need to be resolved.

“Last mile” problem

First of all, cross-subsidization and the “last mile” issue need to be addressed. Individual solutions have been developed for 19 regions, Novak stated in a Vedomosti interview in mid-November. The liquidation will occur via distributing the cross-subsidization burden three ways: part will be taken on by power network companies, which will have to cut their investment programs; part will continue to be paid by large consumers; and the remainder will be left with other consumers (including households). Based on this mechanism, it will be possible to get rid of the “last mile” in some regions in one year, while in other regions, it will take three years. Some regions will also require special attention, according to the energy minister.

Other issues

The second most important goal is to make sure that tariffs depend on the reliability and quality of service provided. A third issue is benchmarking versus the best companies, Novak added – not only with state discos on the market, but also with private providers. The regulator can then enforce monitoring, determine the best among the group and set tariffs in a way to force cost-cutting at less-efficient companies.

Privatizations

The state could use funds from the planned privatization of MRSK Holding subsidiaries to finance infrastructure construction in order to reduce prices for economy-class housing, Interfax reported in mid-November. Prime Minister Dmitri Medvedev reportedly said that infrastructure companies such as MRSK Holding and Gazprom need to be involved in the program, and that it is important to attract debt and perhaps think about using proceeds from the MRSK privatizations. We treat this statement as a further indication that preparations for the MRSK privatizations are in progress.

Which MRSKs might be privatized is unknown, but Novak has said that the pilots should not be strategically important or problematic. Based on this statement, we believe that those in the strategic centers (MOESK and Lenenergo) are unlikely to be in that first pack, nor companies in problematic regions, such as MRSK North Caucasus. We think the government is more likely to start with MRSKs that have fully transferred to RAB. So, MRSK Center-Volga, MRSK Volga, MRSK Urals (all their branches are on RAB regulation following the recent RAB system reboot) and MRSK Center (eight of its 11 branches are on RAB and Lipetskenergo could migrate from January 1, 2013) are the most likely candidates to be the first discos up for privatization, we believe.

A second round could include MRSK South (three of its four branches are on RAB, and Volgogradenergo could migrate from January 1, 2013) and MRSK North-West (four of its seven branches are on RAB, and Kolenergo and Arkhenergo may migrate from January 1 and July 1, 2013, respectively).

MRSK PRIVATIZATIONS VIA NEW SHARE ISSUES

Concerning the MRSK privatization mechanism itself, the Energy Ministry considers privatizing MRSKs via new share issues as feasible. New share issues would be conducted to attract strategic investors, and the proposal is that the proceeds would stay with the company to be used for investment, Novak has said. Funds must be raised to renovate the power networks. This mechanism would be the same as that used during the genco privatizations, which were successful, so MRSK privatizations should be a relatively easy sell politically for the government. As we understand, MRSK Holding's existing stakes in MRSKs could also be sold along with new shares, so large stakes will probably be on offer.

By Russian law, a new share issue price cannot be below the nominal price (par value). Of course, par values can be amended, but if not, the nominal prices represent a floor for placement prices. These levels are above market prices and offer protection in the case of MRSK Volga (this stock has the highest upside currently), MRSK North-West, MRSK South and MRSK Siberia.

MRSK nominal prices and upside to market prices

	Nominal price, R per share	Upside to nominal price
MOESK	0.50	-59%
Lenenergo common	1.00	-85%
Lenenergo pref	1.00	-94%
MRSK North-West	0.100	61%
MRSK Center-Volga	0.100	-42%
MRSK Siberia	0.100	21%
MRSK Urals	0.100	-38%
MRSK Volga	0.100	45%
MRSK Center	0.100	-83%
MRSK South	0.100	100%
MRSK North Caucasus	1.00	-96%
Kubanenergo	100	-28%
Tomsk Disco common	0.49	2%
Tomsk Disco pref	0.49	72%

Source: Companies, Sberbank Investment Research

Possible strategic investors

The key is to sell the first company in a competitive, transparent auction and set a benchmark. The rest will follow, we expect, as the Russian genco privatization experience has shown.

The full list of possible strategic investors is unclear, but the type of investor groups should include global utility companies interested in expanding their presence on developing markets, Russian oligarch groups, which may be interested in a stable and predictable business under RAB regulation, and local utility players. Also, consortiums of private equity funds and Sovereign wealth funds and global utility companies could participate. Below are some names we think could participate.

- EN+ Group.** EN+ Group CEO Artem Volynets has said that his company would certainly be interested in buying MRSK Siberia, which is close to Irkutsk Region (the center of its competence). The company has already announced an interest in distribution assets and its readiness to pay a market price for these and then efficiently manage them. It remains to be seen whether other strategic investors would be interested in competing for the asset. As the holder of a blocking stake, Siberian Coal & Energy Company (SUEK) could be, if allowed to combine generation and distribution in the same region (current legislation does not allow that and EN+ Group is a more likely candidate, in our view).
- Sistema.** In early November, Sistema and InterRAO UES stated that they had completed restructuring of Bashkirenergo via a breakup into a genco and a disco. Sistema obtained a 92.48% stake in Bashkir Disco. The swap implies that Sistema is interested in the electricity distribution sector. In light of this, it would not be surprising if it wanted to build its presence in

the segment by consolidating an MRSK. The most logical path would be to buy one geographically close to Bashkir Disco – either MRSK Urals or MRSK Volga (maybe even MRSK Center-Volga).

- **Enel.** The company has international expertise in managing power network assets and we would not be surprised if it were interested in buying an MRSK. As Enel OGC-5 has power plants in the South IES and Urals IES, Enel would probably not be interested in (or be able to) buy MRSKs in those regions.
- **EDF.** The company has taken Tomsk Disco under management, and we believe it might be interested in buying it at a later stage. The French company may also be interested in acquiring one or several MRSKs once the privatization process starts.
- **E.ON and Fortum.** It is unclear whether E.ON and Fortum, large investors in Russian electricity generation, would be interested in participating in MRSK privatizations, but this cannot be ruled out. At end October, E.ON Russia CEO Maxim Shirokov announced that the management is planning to devise a 5y strategy by year end and approve it by end 1Q13. The strategy deals with four areas, and the distribution segment was not mentioned in this context. Still, it is possible that it may at least review the possibility of participating in the privatization process. Fortum has exited Lenenergo and is concentrated on generation, so it is probably not very likely to take part, at least not in the first privatization rounds.
- **Gazprom Energoholding.** As of now, Russian legislation does not allow companies to combine electricity generation and distribution in the same hands. Still, we would not rule out the possibility of Gazprom Energoholding participating in MRSK privatizations in regions where it has no, or limited, presence in the generation segment.

MRSK Holding – the Management Company?

Novak has said that a draft presidential decree on the creation of a unified management company for the power network complex, including MRSK Holding, has been submitted to the Presidential Administration and is in the final stage of reconciliation. In fact, the documents are close to being signed, as they have purportedly been reconciled already. No exact details on the timing have been provided. In addition to the issue of creating a management company, the decree will also contain provisions on raising efficiency in the power network complex, tariff issues, cross-subsidization, the “last-mile” problem, and the consolidation of territorial discos, among other things. The aim is to manage the complex more efficiently.

In an interview with Vedomosti in November, Novak said that the management company should be based on MRSK Holding, an already existing legal “shell”. It would make no sense to create a new one. The state will contribute to MRSK Holding’s capital via a new share issue, Novak stated (the swap ratio for shares in the management company will be based on an independent appraisal). MRSKs will stay independent operationally. The top management issue is currently being reviewed, and we expect Oleg Budargin, currently chairman of the management board, to head the new structure (the management company). Following consolidation, MRSK Holding could be renamed Russian Networks, Vedomosti has reported.

The final decision on the configuration of the power network complex remains with President Vladimir Putin. If MRSK Holding ends up being the management company, this implies the risk of relative valuation for MRSK Holding minority shareholders (its new share issue for consolidation would have to be very substantial). The placement price for MRSK Holding’s other share issue upcoming soon is R2.16 per share, as a reference.

In mid-October, Putin said amendments to the management structure in the power network segment should account for minority shareholders’ interests and be viewed positively by investors. Minority stakes in the charters (including that of MRSK Holding) are significant. Securing shareholder rights is an important condition for attracting new investment. A conscious approach toward any possible structural changes in the sector should be followed, based on the companies’ work in previous years. Efficiency and competitiveness of the power network segment needs to be raised via reducing capex per unit, implementing energy-efficiency programs, and cutting electricity losses, he concluded. Putin’s statement about minority shareholders’ interests may indicate a greater possibility of a reasonable decision and that the consolidation terms will, hopefully, be fair.

It seems that the management company will not be under the Rosneftegaz umbrella (the government has opposed the latter’s involvement in the power network space), though a final decision has yet to be announced. If not, we would expect a positive market reaction, as this would make MRSK privatizations more likely. We continue to expect the privatization process to start in 2H13, with pilots to be announced in spring.

Valuation

Assumptions

We continue to derive low and high-end valuations for each MRSK by using two levels of WACC. We raise our WACC assumptions from 11.79% for the high-end valuation and 12.84% for the low end to 12.84% and 13.54%, respectively. This happens on the back of an increased company-specific risk premium to account for risks associated with as yet undecided target structures for the power network complex. We are comfortable with our cost of debt assumption of 9.0%, as in October 2012 MRSK Center placed a R4 bln bond with an 8.95% yield and MOESK placed a R5 bln bond with an 8.8% yield.

WACC calculation

	Old high-end valuation	Old low-end valuation	New high-end valuation	New low-end valuation
Risk-free rate	5.75%	5.75%	5.75%	5.75%
Equity-risk premium	5.00%	5.00%	5.00%	5.00%
Company-specific risk	3.00%	4.50%	4.50%	5.50%
Cost of equity	13.75%	15.25%	15.25%	16.25%
Cost of debt (pre-tax)	9.00%	9.00%	9.00%	9.00%
Cost of debt (after-tax)	7.20%	7.20%	7.20%	7.20%
WACC	11.79%	12.84%	12.84%	13.54%

Source: Sberbank Investment Research

In our RAB calculation going forward, we account for just 70% of 2013 capex to reflect the government's decision to include capex based on actual commissioning (instead of total capex spending) in the RAB. In effect, we thus assume a rolling lag in the capex accrual to the MRSKs' RABs and add back the remaining 30% of 2012 capex to the RABs in 2017.

STRATEGIC PREMIUMS

We continue to apply a strategic premium of 20% to the valuations ahead of the planned privatizations to the MRSKs that we think are likely to be sold sooner and on more competitive bases, i.e. MRSK Center-Volga, MRSK Volga, MRSK Center and MRSK Urals. We also apply 10% strategic premiums to derive the valuations for MRSK North-West and MRSK South as these are not yet fully transferred to RAB. For MRSK North Caucasus, we apply a 20% discount to account for the risks associated with that region (i.e. electricity losses) and the illiquidity.

In our SOTP valuation of MRSK Holding, we do not account for the strategic premiums/discounts.

Our long-term ruble/dollar exchange rate forecast for MRSKs is R33/\$1.

Risks

We note the following risks to our MRSK valuations:

- The MRSK branches that remain operating under long-term indexation may never migrate to RAB, while we currently expect that they will migrate from 2014.
- If these branches do migrate to RAB, their originally planned RAB levels may be cut more significantly than the 50% discount that we currently apply.
- Even once transferred to RAB, the last-mile problem remains and could reduce profits for some of the branches.
- Planned privatizations could be delayed and the process protracted or conducted on an uncompetitive, opaque basis (despite the fact that the government has in the past stressed the importance of a competitive, open and transparent process).

DCF models

Our explicit forecast period runs until 2017. Plugging in our assumptions, as well as our WACCs of 12.84% and 13.54%, we derive our high and low-end target enterprise and equity values. We then apply the strategic premiums to the mid-values in the cases mentioned above.

In our MRSK Urals valuation, we no longer include the 49% stake in Kurganenergo. In November, the company completed a transaction, whereby it gave up this stake and obtained a stake in Lenenergo (a 7.15% stake in commons and 8.46% stake in the charter capital) and cash consideration of R800 mln. This stake is included in our MRSK Urals valuation at the current market price.

Valuation results

We derive indicative ranges for each company with our valuation method discussed above. Comparing the mid-values of these ranges with our previous values (keeping the same strategic premiums), we downgrade our valuations for all the companies, and MRSK Holding as a result (by 56% for the latter).

MRSK Volga, MRSK Urals and MRSK Center-Volga currently offer the highest upside. Among less liquid names, MRSK North Caucasus offers the most. MRSK Volga is among the least expensive companies on EV/iRAB at 0.41, and MRSK North-West also looks attractive with EV/expected iRAB of 0.42. The MRSK average expected EV/RAB is 0.50 (excluding the outlier Kubanenergo, driven by the expected tender offer at R157.8 per share).

Thus, in the power network segment, we continue to like MRSK Volga, MRSK Center-Volga, MRSK Urals and MRSK Center as the foremost plays on potential privatizations, especially now that the RAB-system reboot is complete and MRSK Volga, MRSK Center-Volga and MRSK Urals are fully on RAB (though MRSK Urals' subsidiary EESK has yet to migrate). MRSK Center is over 80% on RAB, we estimate. In the second group, we like MRSK North-West and MRSK South. We believe that the government will probably strive for EV/RABs approaching 1.0 at the privatizations and expect the possible privatizations to start in 2H13.

Valuation summary

	Ticker	Current price \$ per share	Mcap \$ mln	Net debt \$ mln****	EV/exp. RAB (2013)*	Indicative value, \$ per share			IV mid-value, accounting for strategic premiums	Change vs old	Upside
						Low end	High end	Mid-value			
MOESK	MSRS RX	0.039	1,911	1,309	0.58	0.036	0.043	0.040	0.040	-11%	1%
Lenenergo**	LSNG RX	0.220	421	650	0.49	0.269	0.351	0.310	0.310	-58%	41%
MRSK North-West	MRKZ RX	0.0020	190	225	0.42	0.00252	0.00297	0.00275	0.00302	-58%	53%
MRSK Center-Volga	MRKP RX	0.0055	619	627	0.53	0.0068	0.0079	0.0073	0.0088	-32%	60%
MRSK Siberia	MRKS RX	0.00264	251	196	0.39	0.0032	0.0046	0.0039	0.0039	-64%	47%
MRSK Urals	MRKU RX	0.0052	452	168	0.45	0.0067	0.0075	0.0071	0.0085	-39%	65%
MRSK Volga	MRKV RX	0.00221	394	200	0.41	0.0038	0.0043	0.0041	0.0049	-43%	120%
MRSK Center	MRKC RX	0.0185	783	697	0.60	0.0222	0.0257	0.0239	0.0287	-44%	55%
MRSK South	MRKY RX	0.00160	80	522	0.65	0.00150	0.00257	0.00204	0.00224	-55%	40%
MRSK North Caucasus***	MRKK RX	0.86	132	90	0.34	1.68	2.29	1.99	1.59	-66%	86%
Kubanenergo****	KUBE RX	4.44	1,120	270	2.22	2.85	3.04	2.95	2.95	-11%	-34%
Tomsk Disco	TORS RX/ TORS RX	0.0153	67	(13)	0.66	0.0132	0.0147	0.0139	0.0139	-49%	-9%
Average (excl. Kubanenergo)					0.50						
MRSK Holding	MRKH RX/ MRKHP RX	0.060	3,637	2,579	0.50	-	-	0.078	-	-56%	30%

* iRABs including the estimated iRAB yet to be received for MRSK North-West, MRSK Siberia, MRSK Urals, MRSK Center, MRSK South, MRSK North Caucasus, Tomsk Disco and Tyumenenergo

** number of shares, market cap and MRSK Holding's estimated stake after the upcoming new share issue (assuming only MRSK Holding and St Petersburg city participates, with MRSK Holding contributing R2,500 mln in cash at the current market price of R6.7 per share); MRSK Holding stake before that issue is 49.36% of the charter capital

*** number of shares, market cap and MRSK Holding's estimated stake after the upcoming new share issue (assuming only MRSK Holding participates, contributing R2,544 mln in cash at the market price of R25.81 per share); MRSK Holding stake before that issue is 81.14%

**** number of shares, market cap and MRSK Holding's estimated stake after the upcoming new share issue (assuming MRSK Holding participates, contributing R15,590 mln in cash at the market price of R142.46 per share); MRSK Holding stake before that issue is 82.08% (including the stake held by 100%-owned Tyumenenergo).

***** net debt as of September 30, 2012. For MRSK Holding, the sum of its cash (on the holding level) and the equity-adjusted net debt of MRSKS.

Source: Companies, Bloomberg, Sberbank Investment Research

MRSK Holding SOTP

As before, our target price for MRSK Holding is based on the mid-value of our indicative ranges for the equity of its subsidiaries, adjusted for MRSK Holding's stakes. In the SOTP valuation we do not account for the strategic premiums/discounts applied to some of the separate MRSKs and do not apply any holding discount.

- **Deal with Neft-Aktiv.** We account for the deal with Neft-Aktiv, as a result of which the latter obtained in April almost 1,589 mln new shares of MRSK Holding (an almost 3.2% stake) via MRSK Holding's placement. In exchange, Tyumenenergo (MRSK Holding's 100% owned subsidiary) obtained Neft-Aktiv's stakes in Kubanenergo and Tomsk Disco in November. That new share issue (a total of 4.9 bln shares) has been registered and is included in the share count for MRSK Holding. MRSK Holding's total stake in Tomsk Disco commons is 85.5% (77.9% in the total charter capital) after the deal.
- **Kubanenergo.** MRSK Holding's stake in Kubanenergo before the upcoming new share issue is 82.08% (including the stake held by 100% owned Tyumenenergo). We assume the holding will be the only participant, and its stake will increase to 89.9% after the issue.
- **Lenenergo.** The holding's stake in Lenenergo before the upcoming new share issue is 49.36%. We assume the holding and the city of St Petersburg will be the only ones to participate and MRSK Holding's stake will increase to 54.8% after the issue.
- **MRSK North Caucasus.** Finally, we assume the holding will be the only one to participate in the upcoming new share issue of MRSK North Caucasus and its stake will increase to 93.2% from the current 81.14%.

We also add MRSK Holding's net cash position (on the holding level) and account for the number of shares after the upcoming R20.634 bln new share issue. This SOTP valuation returns a new target price of \$0.078 per share, implying a 56% downgrade from our previous target price of \$0.175 per share. With 29% upside, we reiterate our BUY recommendation on the stock.

MRSK Holding SOTP valuation

	Exp. RAB 2013, \$ bln*	Fundamental equity value, \$ mln			MRSK Holding stake	Fundamental equity value of the stake, \$ mln
		Low end	High end	Mid-value		
MOESK	5.5	1,541	1,862	1,702	50.9%	866
Lenenergo**	2.2	422	554	488	54.8%	267
MRSK North-West	1.0	213	252	232	55.4%	129
MRSK Center-Volga	2.3	674	788	731	50.4%	369
MRSK Siberia	1.1	261	380	320	52.9%	169
MRSK Urals	1.4	514	583	549	51.5%	283
MRSK Volga	1.5	603	677	640	67.6%	433
MRSK Center	2.5	824	961	892	50.2%	448
MRSK South	0.9	66	114	90	51.7%	46
MRSK North Caucasus***	0.6	225	311	268	93.2%	249
Kubanenergo****	0.6	634	680	657	89.9%	590
Tomsk Disco*****	0.1	50	57	53	77.9%	42
Tyumenenergo	1.4	164	343	253	100.0%	253
Total aggregate	21.2					
MRSK Holding (equity adjusted)	12.4					4,145
MRSK Holding net cash						469
MRSK Holding target equity value						4,613
		Common	Preferred	Total		
No of shares		57,424	2,075	59,500		
Target price, \$ per share		0.078				

* iRABs including the estimated iRAB yet to be received for MRSK North-West, MRSK Siberia, MRSK Urals, MRSK Center, MRSK South, MRSK North Caucasus, Tomsk Disco and Tyumenenergo

** number of shares, market cap and MRSK Holding's estimated stake post the upcoming new share issue (assuming only MRSK Holding and the city of St Petersburg will participate, with MRSK Holding contributing R2,500 mln in cash at the current market price of R6.7 per share); MRSK Holding stake before that issue is 49.36% in the charter capital

*** number of shares, market cap and MRSK Holding's estimated stake post the upcoming new share issue (assuming only MRSK Holding will participate, contributing R2,544 mln in cash at the market price of R25.81 per share); MRSK Holding stake before that issue is 81.14%

**** number of shares, market cap and MRSK Holding's estimated stake post the upcoming new share issue (assuming only MRSK Holding will participate, contributing R15,590 mln in cash at the market price of R142.46 per share); MRSK Holding stake before that issue is 82.08% (including the stake held by 100%-owned Tyumenenergo)

***** this is MRSK Holding's total stake (including the stake held by 100%-owned Tyumenenergo) post the deal with Neft-Aktiv

Note: MRSK Holding's number of shares post the ongoing new share issue, assuming that R20.634 bln commons will be placed in favor of the state (from federal budget) at R2.16 per share and that nothing will be bought by minorities. The cash is then passed on down to the three subsidiaries.

Source: Companies, MRSK Holding, Sberbank Investment Research estimates

MRSK Holding upcoming new share issue

MRSK Holding's BoD held a meeting in mid-October at which it set the new issue price at R2.16 per share (the 2m weighted average market price) and recommended that shareholders approve the placement of 16.885 bln new shares. On November 13, an MRSK Holding EGM approved the new share issue at R2.16 per share (the record date was October 8). The purpose of the issue is to finance federal investment projects in Leningrad Region (cable network renovation) and the North Caucasus (a program aimed at electricity loss reduction), as well as projects related to the 2014 Winter Olympic Games in Sochi.

The new share issue price is above the current market price and might be considered a near-term target for the stock. According to a recent company presentation, the volume should be at least R20.634 bln, or circa 9.55 bln shares (funds from the federal budget to be invested in MRSK Holding and consequently passed on to its subsidiaries). This means the charter capital should increase 19% or more depending on realization of preemptive rights by minority shareholders. We account for the new share issue of R20.634 bln but pass that cash on from MRSK Holding down to the relevant subsidiaries, i.e. Lenenergo, MRSK North Caucasus and Kubanenergo.

We have yet to see whether assets constructed using budget funds will be included in the subsidiaries' RAB.

Peer group

One of the key multiples to watch for MRSKs is EV/RAB. All the companies in our international peer group trade at an EV/RAB of above 1.00 (the lowest at 1.03). EM and DM averages stand at 1.72 (1.44 excluding an outlier) and 1.26, respectively. At an average estimated EV/expected RAB of 0.50 for MRSKs and 0.41 for MRSK Volga, for example, these stocks look undervalued.

In the future, MRSKs may also trade above 1.00 fundamentally, if the long-term rate of return will be above their WACC. However, this is not the case yet, as their current blended (for new and old capital) regulated rates of return are below their WACCs and some regulatory risks still remain (i.e. not all the branches have been transferred to RAB).

MRSKs also look undervalued on EV/EBITDA, some quite significantly. We note that the 2013 multiples are impacted by low rates of returns on “old” capital and rising debt to finance capex programs that affect financials and thus EV/EBITDA and P/E multiples to different degrees (P/Es are even negative in a few cases). The average 2013E and 2014E EV/EBITDA for the MRSKs are 4.2 and 4.1, respectively, while MRSK Holding’s are 5.1 and 4.9, versus the EM averages of 6.2 and 6.3. The 2013E and 2014E P/E are a respective 15.2 and 10.5, versus the EM averages of 12.4 and 15.5.

In terms of the separate MRSKs, on EV/EBITDA the relatively cheaper stocks are MRSK North-West, MRSK Volga and MRSK Center, while on P/E they are MRSK North-West and MRSK South.

Power network company peer group

	Country	MCap \$ mln	EV/S			EV/EBITDA			P/E			EV/exp. RAB 2013
			2012E	2013E	2014E	2012E	2013E	2014E	2012E	2013E	2014E	
MRSK Holding		1,911	0.7	0.8	0.8	4.0	5.1	4.9	6.4	15.0	10.4	0.50
MOESK	Russia	1,911	0.9	1.1	1.3	2.6	5.0	5.3	2.8	7.9	7.0	0.58
Lenenergo	Russia	421	1.5	1.8	2.1	8.7	8.6	8.5	n/m	n/m	n/m	0.49
MRSK North-West	Russia	190	0.5	0.6	0.6	3.8	3.2	3.0	10.2	4.7	3.7	0.42
MRSK Center-Volga	Russia	619	0.6	0.7	0.7	4.6	4.6	4.4	n/m	n/m	15.2	0.53
MRSK Siberia	Russia	251	0.4	0.5	0.5	n/m	n/m	7.2	n/m	n/m	n/m	0.39
MRSK Urals	Russia	452	0.4	0.4	0.5	3.7	4.1	4.2	10.3	11.6	10.3	0.45
MRSK Volga	Russia	394	0.5	0.5	0.5	3.6	3.5	3.4	16.6	11.3	8.4	0.41
MRSK Center	Russia	783	0.8	0.8	0.8	3.8	3.6	3.5	n/m	13.1	8.8	0.60
MRSK South	Russia	80	0.7	0.7	0.7	3.8	3.6	3.7	10.1	3.1	3.0	0.65
MRSK North Caucasus	Russia	132	0.8	0.9	1.0	3.2	3.4	3.5	n/m	16.1	10.9	0.34
Kubanenergo	Russia	1,120	1.8	1.9	1.7	n/m	n/m	n/m	n/m	n/m	n/m	2.22
Tomsk Disco	Russia	67	0.3	0.2	0.2	2.9	2.5	1.7	n/m	n/m	16.7	0.66
Average			0.8	0.8	0.9	4.1	4.2	4.1	10.0	9.7	9.3	0.50
EM average			1.1	1.1	1.0	6.1	6.2	6.3	11.3	12.4	15.5	1.72
DM average			5.0	4.8	4.7	8.8	8.4	8.1	13.2	12.5	11.8	1.26
International peers												EV/RAB
Emerging markets												
Eletropaulo	Brazil	1,454	0.6	0.6	0.6	5.7	6.7	7.0	10.2	18.7	34.4	1.03
Equatorial Energia	Brazil	960	1.5	1.5	1.4	5.8	6.3	6.2	9.0	10.9	11.3	2.82
Coelce	Brazil	1,284	1.3	1.3	1.2	4.9	5.1	5.0	8.0	8.7	6.3	1.52
Light	Brazil	2,176	1.1	1.1	1.0	6.0	4.9	5.4	11.9	7.4	9.5	1.49
Manila Electric	Philippines	7,026	1.0	1.0	0.9	8.2	7.8	7.7	17.4	16.2	15.9	1.71
Average			1.1	1.1	1.0	6.1	6.2	6.3	11.3	12.4	15.5	1.72
Developed markets												
Terna (Transmission)	Italy	7,280	6.5	6.3	6.0	8.6	8.1	7.6	13.3	13.0	11.7	1.18
Snam Rete Gas (Transmission)	Italy	14,570	6.5	6.3	6.0	8.5	8.1	7.6	12.7	11.9	10.8	1.03
Redes Eneréticas Nacionais	Portugal	1,362	3.8	3.7	3.6	6.6	6.4	6.2	7.9	7.5	7.2	1.16
SP AusNet	Australia	3,603	4.9	4.6	4.5	8.3	7.8	7.5	12.6	11.8	11.7	1.51
National Grid	UK	40,212	3.2	3.1	3.0	8.9	8.5	8.1	12.7	12.6	12.0	1.61
United Utilities	UK	7,135	6.1	5.9	5.7	10.4	9.9	9.4	15.7	14.3	13.6	1.27
ELIA	Belgium	3,013	3.8	3.7	4.0	10.4	9.9	10.2	17.5	16.4	15.5	1.03
Average			5.0	4.8	4.7	8.8	8.4	8.1	13.2	12.5	11.8	1.26
Premium												
MRSK Holding premium to EM peers			-41%	-29%	-19%	-36%	-17%	-22%	-44%	22%	-33%	-71%
MRSK Holding premium to DM peers			-87%	-84%	-82%	-55%	-39%	-40%	-52%	20%	-11%	-60%

Source: Companies, Bloomberg, Sberbank Investment Research estimates

We have performed a sensitivity analysis to show the relationship between the fair EV and RAB based on the rates of return on “old” capital and a WACC of 13.19% (the mid-value of our range). The analysis demonstrates that in a worst-case scenario, wherein the rate of return on “old” capital is equal to 1.0% (in 2012-16), the fair EV/RAB would be 0.58. Our modeled 2012-16 arithmetic average rate of return for MRSKs is 3.9%, implying a 0.64 fair EV/RAB. For some MRSKs, this is higher; at 7.5%, for example, the fair fundamental EV/RAB is 0.70. However, we note that there is cost-cutting potential for the MRSKs and that the actual rates of return can be above the regulated rates of return. Also, privatization of large stakes should imply strategic premiums to these fundamental valuations.

Sensitivity of fair EV/RAB to RoRs to “old” capital, and capex/depreciation relationships in the terminal period

	Capex/depre- ciation relationship in the terminal period	RoR on old capital (flat in 2012-16 and converging with RoR on new capital at 11% from 2017)										
		1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%
1.00	1.00	0.58	0.60	0.62	0.64	0.66	0.68	0.69	0.71	0.73	0.75	0.77
1.05	1.05	0.55	0.57	0.59	0.61	0.62	0.64	0.66	0.68	0.70	0.72	0.74
1.10	1.10	0.52	0.54	0.55	0.57	0.59	0.61	0.63	0.65	0.67	0.69	0.71
1.15	1.15	0.48	0.50	0.52	0.54	0.56	0.58	0.60	0.62	0.64	0.66	0.68
1.20	1.20	0.45	0.47	0.49	0.51	0.53	0.55	0.57	0.59	0.61	0.63	0.65

Note: Based on WACC of 13.19% (the mid-value of our range).

Source: Sberbank Investment Research

Company Data Profiles

Common	MRKH RX
Recommendation	BUY
Last price	\$0.060
Target price	(from \$0.175) \$0.078
Upside	30%
Free float	35%

Preferred	MRKHP RX
Recommendation	BUY
Last price	\$0.037
Target price	(from \$0.175) \$0.078
Upside	108%

Market cap	\$3,637 mln
Enterprise value	\$12,012 mln
ADT, 100 days	\$18.6 mln

Prices as of November 20, 2012

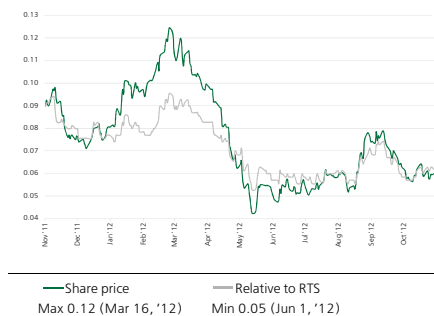
Key data

	2011	2012E	2013E	2014E
Financials (IFRS), \$ mln				
Revenues	21,593	18,337	18,718	19,818
EBITDA	3,856	3,037	2,781	3,340
EBIT	2,016	1,316	1,007	1,419
Net income	797	454	216	338
EPS, cents	1.68	0.94	0.40	0.57
Profitability				
EBITDA margin	18%	17%	15%	17%
EBIT margin	9%	7%	5%	7%
Net margin	4%	2%	1%	2%
Price ratios				
P/S	0.2	0.2	0.2	0.2
EV/EBITDA	2.6	4.0	5.1	4.9
P/E	3.6	6.4	15.0	10.4
P/CF	0.9	1.4	1.5	1.5
Growth				
Revenues	17%	-15%	2%	6%
EBITDA	17%	-21%	-8%	20%
EPS	-4%	-44%	-58%	44%

Price performance, %

	1m	3m	6m	YTD
Common	-4.7	2.4	-4.0	-16.6
Relative to RTS	1.4	2.4	-11.8	-17.9

Price performance, \$



Source: Bloomberg, Sberbank Investment Research

Ownership structure

Federal Property Management Agency	54.5%
Gazprom Energoholding	10.5%
Other	35.0%

MRSK Holding

MRSK Holding IFRS financials, \$ mln

	2011	2012E	2013E	2014E	2015E	2016E	2017E
INCOME STATEMENT							
Revenues	21,593	18,337	18,718	19,818	21,016	22,330	24,414
COGS	(19,640)	(17,022)	(17,711)	(18,399)	(19,163)	(19,988)	(20,990)
Gross income	1,953	1,316	1,007	1,419	1,852	2,342	3,424
Gross margin SG&A	9.0%	7.2%	5.4%	7.2%	8.8%	10.5%	14.0%
EBITDA	3,856	3,037	2,781	3,340	3,903	4,514	5,718
Adjusted EBITDA	3,856	3,037	2,781	3,340	3,903	4,514	5,718
EBITDA margin	17.9%	16.6%	14.9%	16.9%	18.6%	20.2%	23.4%
DD&A	(1,840)	(1,721)	(1,774)	(1,921)	(2,050)	(2,172)	(2,294)
EBIT	2,016	1,316	1,007	1,419	1,852	2,342	3,424
Interest income	(199)	(432)	(588)	(761)	(937)	(1,063)	(1,151)
Forex gain	-	-	-	-	-	-	-
Revaluation gain	-	-	-	-	-	-	-
Other gains	8	-	-	-	-	-	-
Exceptionals	-	-	-	-	-	-	-
EBT	1,826	884	419	658	915	1,279	2,273
Income tax	(500)	(177)	(84)	(132)	(183)	(256)	(455)
Minority interest	(528)	(253)	(120)	(188)	(262)	(366)	(650)
Discontinued operations	-	-	-	-	-	-	-
Net income	797	454	216	338	470	657	1,168
Adjusted net income	797	454	216	338	470	657	1,168
Net margin	3.7%	2.5%	1.2%	1.7%	2.2%	2.9%	4.8%
EPS, \$	0.0168	0.0094	0.0040	0.0057	0.0080	0.0111	0.0198
Adjusted EPS, \$	0.0168	0.0094	0.0040	0.0057	0.0080	0.0111	0.0198
BALANCE SHEET							
Assets							
Cash and equivalents	1,517	393	614	115	75	171	170
Receivables	2,537	2,271	2,409	2,551	2,705	2,874	3,142
Inventories	401	366	396	411	429	447	469
Other current assets	411	401	401	401	401	401	401
Total current assets	4,866	3,431	3,820	3,478	3,610	3,894	4,183
Total non-current assets	22,435	24,356	27,290	29,895	32,112	34,198	36,105
Total assets	27,301	27,787	31,110	33,373	35,722	38,092	40,288
Liabilities							
Short-term borrowings	837	817	817	817	817	817	817
Payables	5,029	4,595	4,968	5,161	5,376	5,607	5,888
Other current liabilities	164	160	160	160	160	160	160
Total current liabilities	6,030	5,571	5,945	6,138	6,352	6,584	6,865
Long-term borrowings	5,243	6,061	8,182	9,697	11,061	12,121	12,121
Other non-current liabilities	2,243	2,188	2,188	2,188	2,188	2,188	2,188
Total non-current liabilities	7,486	8,249	10,370	11,885	13,249	14,310	14,310
Total liabilities	13,516	13,820	16,315	18,023	19,601	20,893	21,175
Minority interest	5,501	5,447	5,770	5,986	6,287	6,707	7,454
Equity	8,284	8,520	9,025	9,363	9,834	10,491	11,660
Total liabilities and equity	27,301	27,787	31,110	33,373	35,722	38,092	40,288
Net debt/(cash)	4,563	6,485	8,385	10,399	11,802	12,767	12,768
CASH FLOW STATEMENT							
Net income	797	454	216	338	470	657	1,168
Minority interest	528	253	120	188	262	366	650
DD&A	1,840	1,721	1,774	1,921	2,050	2,172	2,294
Working capital change	(189)	(86)	206	36	43	44	(10)
Other assets change	601	-	-	-	-	-	-
Operating cash flow	3,049	2,089	2,195	2,295	2,564	2,873	3,453
Maintenance capex	(1,840)	(1,721)	(1,774)	(1,921)	(2,050)	(2,172)	(2,294)
Expansionary capex	(2,867)	(2,562)	(2,934)	(2,605)	(2,217)	(2,086)	(1,907)
Other investments	543	82	323	216	301	420	747
Investing cash flow	(4,163)	(4,201)	(4,385)	(4,310)	(3,967)	(3,838)	(3,454)
Change in debt	1,633	982	2,121	1,515	1,364	1,061	-
Dividends paid	-	-	-	-	-	-	-
Share issues/(purchases)	-	-	625	-	-	-	-
Other	306	-	(336)	-	-	-	-
Financing cash flow	1,939	982	2,411	1,515	1,364	1,061	-
Forex effects	(124)	6	-	-	-	-	-
Net change in cash	701	(1,125)	221	(499)	(39)	96	(1)
RATIOS							
P/E	3.6	6.4	15.0	10.4	7.5	5.4	3.0
EV/EBITDA	2.6	4.0	5.1	4.9	4.5	4.1	3.3
P/BV	0.3	0.3	0.4	0.4	0.4	0.3	0.3
ROE	10.0%	5.4%	2.5%	3.7%	4.9%	6.5%	10.5%
ROIC	4.7%	3.8%	2.9%	3.7%	4.4%	5.0%	6.5%
Dividend per share, \$	-	-	-	-	-	-	-
Dividend yield	-	-	-	-	-	-	-
P/S	0.2	0.2	0.2	0.2	0.2	0.2	0.1
P/CF	0.9	1.4	1.5	1.5	1.4	1.2	1.0
Revenue growth	17%	-15%	2%	6%	6%	6%	9%
EBITDA growth	17%	-21%	-8%	20%	17%	16%	27%
EPS growth	-4%	-44%	-58%	44%	39%	40%	78%

Source: Company, Sberbank Investment Research

Common	MRKC RX
Last price	\$0.0185
Spread	0.6%
Indicative range	\$0.0266-0.0308
Upside*	55%
Shares outstanding	42,218 mln
Free float	28% (\$223 mln)
Market cap	\$783 mln
Enterprise value	\$1,499 mln

* based on mid-value of indicative range

Prices as of November 20, 2012

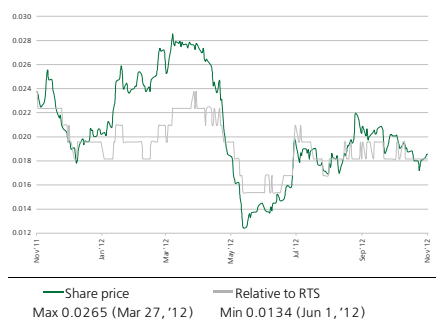
Key data

	2011	2012E	2013E	2014E
Financials (IFRS), \$ mln				
Revenues	2,349	1,941	2,027	2,164
EBITDA	518	396	445	500
EBIT	304	93	140	185
Net income	188	32	60	89
EPS_cents	0.45	0.08	0.14	0.21
Profitability				
EBITDA margin	22%	20%	22%	23%
EBIT margin	13%	5%	7%	9%
Net margin	8%	2%	3%	4%
Price ratios				
P/S	0.3	0.4	0.4	0.4
EV/EBITDA	2.6	3.8	3.6	3.5
P/E	4.2	24.6	13.1	8.8
P/CF	1.8	2.2	2.2	2.0
Growth				
Revenues	18%	-17%	4%	7%
EBITDA	22%	-24%	12%	12%
EPS	12%	-83%	88%	49%

Price performance, %

	1m	3m	6m	YTD
Common	-7.6	9.5	0.1	-2.8
Relative to RTS	-1.6	9.5	-8.0	-4.3

Price performance, \$



Source: Bloomberg, Sberbank Investment Research

Ownership structure

MRSK Holding	50.2%
Genhold	15.4%
Immenso Enterprises	3.2%
Energosoyuz Holdings	2.7%
Other	28.5%

MRSK Center

MRSK Center IFRS financials, \$ mln

	2011	2012E	2013E	2014E	2015E	2016E	2017E
INCOME STATEMENT							
Revenues	2,349	1,941	2,027	2,164	2,319	2,480	2,687
COGS	(2,078)	(1,847)	(1,888)	(1,978)	(2,083)	(2,191)	(2,307)
Gross income	271	93	140	185	236	289	380
Gross margin	11.6%	4.8%	6.9%	8.6%	10.2%	11.7%	14.1%
SG&A	-	-	-	-	-	-	-
EBITDA	518	396	445	500	566	636	744
Adjusted EBITDA	518	396	445	500	566	636	744
EBITDA margin	22.0%	20.4%	22.0%	23.1%	24.4%	25.6%	27.7%
DD&A	(214)	(303)	(305)	(315)	(330)	(347)	(364)
EBIT	304	93	140	185	236	289	380
Interest income	(53)	(54)	(65)	(74)	(87)	(100)	(109)
Forex gain	-	-	-	-	-	-	-
Revaluation gain	-	-	-	-	-	-	-
Other gains	-	-	-	-	-	-	-
Exceptionals	-	-	-	-	-	-	-
EBT	251	40	75	111	149	189	271
Income tax	(63)	(8)	(15)	(22)	(30)	(38)	(54)
Minority interest	(0)	-	-	-	-	-	-
Discontinued operations	-	-	-	-	-	-	-
Net income	188	32	60	89	120	151	217
Adjusted net income	188	32	60	89	120	151	217
Net margin	8.0%	1.6%	3.0%	4.1%	5.2%	6.1%	8.1%
EPS, \$	0.00446	0.00076	0.00142	0.00211	0.00283	0.00358	0.00513
Adjusted EPS, \$	0.00446	0.00076	0.00142	0.00211	0.00283	0.00358	0.00513
BALANCE SHEET							
Assets							
Cash and equivalents	82	46	35	48	18	36	101
Receivables	261	227	247	264	282	302	327
Inventories	45	42	45	47	49	52	55
Other current assets	14	14	14	14	14	14	14
Total current assets	403	330	341	372	363	404	498
Total non-current assets	1,983	2,137	2,293	2,514	2,779	3,026	3,256
Total assets	2,386	2,467	2,633	2,887	3,142	3,430	3,753
Liabilities							
Short-term borrowings	36	35	35	35	35	35	35
Payables	263	247	262	275	289	304	321
Other current liabilities	52	51	51	51	51	51	51
Total current liabilities	352	333	348	361	375	390	407
Long-term borrowings	623	727	818	970	1,091	1,212	1,303
Other non-current liabilities	213	207	207	207	207	207	207
Total non-current liabilities	836	935	1,026	1,177	1,298	1,420	1,510
Total liabilities	1,188	1,268	1,374	1,538	1,674	1,810	1,917
Minority interest	0	0	0	0	0	0	0
Equity	1,198	1,199	1,259	1,348	1,468	1,619	1,836
Total liabilities and equity	2,386	2,467	2,633	2,887	3,142	3,430	3,753
Net debt/(cash)	577	716	819	957	1,109	1,212	1,237
CASH FLOW STATEMENT							
Net income	188	32	60	89	120	151	217
Minority interest	0	-	-	-	-	-	-
DD&A	214	303	305	315	330	347	364
Working capital change	13	20	(7)	(6)	(7)	(7)	(12)
Other assets change	21	-	-	-	-	-	-
Operating cash flow	436	354	358	398	443	491	569
Maintenance capex	(214)	(303)	(305)	(315)	(330)	(347)	(364)
Expansionary capex	(354)	(211)	(155)	(222)	(264)	(247)	(230)
Other investments	39	-	-	-	-	-	-
Investing cash flow	(529)	(513)	(461)	(536)	(594)	(594)	(594)
Change in debt	214	124	91	152	121	121	91
Dividends paid	(20)	-	-	-	-	-	-
Share issues/(purchases)	-	-	-	-	-	-	-
Other	(21)	-	-	-	-	-	-
Financing cash flow	174	124	91	152	121	121	91
Forex effects	(8)	(1)	-	-	-	-	-
Net change in cash	74	(36)	(11)	13	(30)	18	66
RATIOS							
P/E	4.2	24.6	13.1	8.8	6.5	5.2	3.6
EV/EBITDA	2.6	3.8	3.6	3.5	3.3	3.1	2.7
P/BV	0.7	0.7	0.6	0.6	0.5	0.5	0.4
ROE	16.4%	2.7%	4.9%	6.8%	8.5%	9.8%	12.5%
ROIC	12.3%	3.8%	5.3%	6.3%	7.3%	8.1%	9.6%
Dividend per share, \$	0.00047	-	-	-	-	-	-
Dividend yield	2.5%	-	-	-	-	-	-
P/S	0.3	0.4	0.4	0.4	0.3	0.3	0.3
P/CF	1.8	2.2	2.2	2.0	1.8	1.6	1.4
Revenue growth	18%	-17%	4%	7%	7%	7%	8%
EBITDA growth	22%	-24%	12%	12%	13%	12%	17%
EPS growth	12%	-83%	88%	49%	34%	27%	43%

Source: Company, Sberbank Investment Research

Common	MRKP RX
Last price	\$0.0055
Spread	6.1%
Indicative range	\$0.0081-0.0095
Upside*	60%
Shares outstanding	112,698 mln
Free float	21% (\$128 mln)
Market cap	\$619 mln
Enterprise value	\$1,206 mln

* based on mid-value of indicative range
Prices as of November 20, 2012

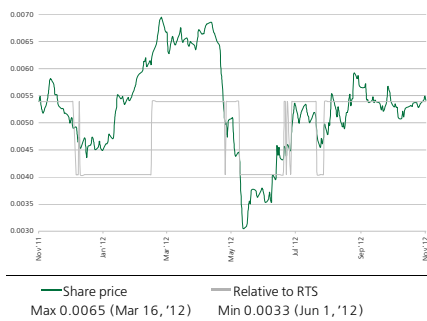
Key data

	2011	2012E	2013E	2014E
Financials (IFRS), \$ mln				
Revenues	2,198	1,879	1,901	2,009
EBITDA	376	261	273	301
EBIT	231	73	85	108
Net income	154	14	25	41
EPS, cents	0.1365	0.0120	0.0222	0.0362
Profitability				
EBITDA margin	17%	14%	14%	15%
EBIT margin	11%	4%	4%	5%
Net margin	7%	1%	1%	2%
Price ratios				
P/S	0.3	0.3	0.3	0.3
EV/EBITDA	3.2	4.6	4.6	4.4
P/E	4.0	45.8	24.7	15.2
P/CF	2.2	2.9	2.9	2.7
Growth				
Revenues	22%	-15%	1%	6%
EBITDA	94%	-31%	4%	10%
EPS	459%	-91%	85%	63%

Price performance, %

	1m	3m	6m	YTD
Common	1.9	14.9	9.1	21.4
Relative to RTS	8.5	14.9	0.2	19.5

Price performance, \$



Source: Bloomberg, Sberbank Investment Research

Ownership structure

MRSK Holding	50.4%
Genhold	16.8%
Energosouz Holdings	5.4%
Energoyo Solutions Russia	5.7%
State	1.0%
Other	20.7%

MRSK Center-Volga

MRSK Center-Volga IFRS financials, \$ mln

	2011	2012E	2013E	2014E	2015E	2016E	2017E
INCOME STATEMENT							
Revenues	2,198	1,879	1,901	2,009	2,132	2,286	2,524
COGS	(1,978)	(1,806)	(1,816)	(1,900)	(1,994)	(2,091)	(2,196)
Gross income	220	73	85	108	138	194	328
Gross margin	10.0%	3.9%	4.5%	5.4%	6.5%	8.5%	13.0%
SG&A	-	-	-	-	-	-	-
EBITDA	376	261	273	301	339	407	552
Adjusted EBITDA	376	261	273	301	339	407	552
EBITDA margin	17.1%	13.9%	14.3%	15.0%	15.9%	17.8%	21.9%
DD&A	(145)	(189)	(187)	(193)	(202)	(212)	(225)
EBIT	231	73	85	108	138	194	328
Interest income	(35)	(56)	(54)	(57)	(65)	(75)	(86)
Forex gain	-	-	-	-	-	-	-
Revaluation gain	-	-	-	-	-	-	-
Other gains	-	-	-	-	-	-	-
Exceptionals	-	-	-	-	-	-	-
EBT	196	17	31	51	73	119	242
Income tax	(42)	(3)	(6)	(10)	(15)	(24)	(48)
Minority interest	(0)	-	-	-	-	-	-
Discontinued operations	-	-	-	-	-	-	-
Net income	154	14	25	41	58	95	193
Adjusted net income	154	14	25	41	58	95	193
Net margin	7.0%	0.7%	1.3%	2.0%	2.7%	4.2%	7.7%
EPS, \$	0.00137	0.00012	0.00022	0.00036	0.00052	0.00085	0.00172
Adjusted EPS, \$	0.00137	0.00012	0.00022	0.00036	0.00052	0.00085	0.00172
BALANCE SHEET							
Assets							
Cash and equivalents	122	114	72	66	39	8	91
Receivables	174	156	165	174	185	198	218
Inventories	31	30	31	33	34	36	38
Other current assets	98	96	96	96	96	96	96
Total current assets	425	397	363	368	354	338	443
Total non-current assets	1,720	1,707	1,774	1,899	2,073	2,287	2,538
Total assets	2,145	2,103	2,137	2,267	2,427	2,625	2,981
Liabilities							
Short-term borrowings	55	54	54	54	54	54	54
Payables	208	201	210	219	230	241	253
Other current liabilities	21	20	20	20	20	20	20
Total current liabilities	284	275	284	293	304	315	328
Long-term borrowings	664	648	648	727	818	909	1,061
Other non-current liabilities	168	164	164	164	164	164	164
Total non-current liabilities	832	812	812	891	982	1,073	1,224
Total liabilities	1,116	1,086	1,095	1,184	1,286	1,388	1,552
Minority interest	0	0	0	0	0	0	0
Equity	1,029	1,017	1,042	1,083	1,141	1,236	1,429
Total liabilities and equity	2,145	2,103	2,137	2,267	2,427	2,625	2,981
Net debt/(cash)	597	587	630	715	833	955	1,023
CASH FLOW STATEMENT							
Net income	154	14	25	41	58	95	193
Minority interest	0	-	-	-	-	-	-
DD&A	145	189	187	193	202	212	225
Working capital change	(10)	11	(0)	(1)	(1)	(4)	(10)
Other assets change	(2)	-	-	-	-	-	-
Operating cash flow	287	213	212	232	258	304	408
Maintenance capex	(145)	(189)	(187)	(193)	(202)	(212)	(225)
Expansionary capex	(312)	(29)	(67)	(125)	(174)	(214)	(252)
Other investments	(57)	-	-	-	-	-	-
Investing cash flow	(514)	(218)	(255)	(318)	(376)	(426)	(476)
Change in debt	259	-	-	80	91	91	152
Dividends paid	(4)	-	-	-	-	-	-
Share issues/(purchases)	-	-	-	-	-	-	-
Other	(2)	-	-	-	-	-	-
Financing cash flow	253	-	-	80	91	91	152
Forex effects	(8)	(3)	-	-	-	-	-
Net change in cash	18	(8)	(43)	(6)	(26)	(31)	83
RATIOS							
P/E	4.0	45.8	24.7	15.2	10.6	6.5	3.2
EV/EBITDA	3.2	4.6	4.6	4.4	4.3	3.9	3.0
P/BV	0.6	0.6	0.6	0.6	0.5	0.5	0.4
ROE	15.6%	1.3%	2.4%	3.8%	5.2%	8.0%	14.5%
ROIC	10.4%	3.4%	3.9%	4.7%	5.5%	7.1%	10.3%
Dividend per share, \$	0.00004	-	-	-	-	-	-
Dividend yield	0.7%	-	-	-	-	-	-
P/S	0.3	0.3	0.3	0.3	0.3	0.3	0.2
P/CF	2.2	2.9	2.9	2.7	2.4	2.0	1.5
Revenue growth	22%	-15%	1%	6%	6%	7%	10%
EBITDA growth	94%	-31%	4%	10%	13%	20%	36%
EPS growth	459%	-91%	85%	63%	43%	64%	103%

Source: Company, Sberbank Investment Research

Common	MRKK RX
Last price	\$0.86
Spread	0.9%
Indicative range	\$1.35-1.83
Upside*	86%
Shares outstanding	155 mln
Free float	7% (\$9 mln)
Market cap	\$132 mln
Enterprise value	\$298 mln

* based on mid-value of indicative range

Prices as of November 20, 2012

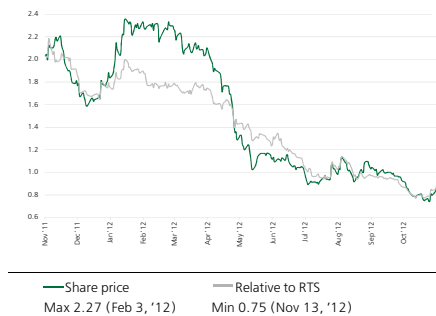
Key data

	2011	2012E	2013E	2014E
Financials (IFRS), \$ mln				
Revenues	359	363	376	400
EBITDA	101	92	104	117
EBIT	71	15	25	35
Net income	10	5	8	12
EPS, \$	0.07	0.03	0.05	0.08
Profitability				
EBITDA margin	28%	25%	28%	29%
EBIT margin	20%	4%	7%	9%
Net margin	3%	1%	2%	3%
Price ratios				
P/S	0.4	0.4	0.4	0.3
EV/EBITDA	2.3	3.2	3.4	3.5
P/E	12.6	27.3	16.1	10.9
P/CF	0.6	1.1	1.5	1.4
Growth				
Revenues	4%	1%	3%	6%
EBITDA	21%	-9%	13%	12%
EPS	-43%	-54%	69%	48%

Price performance, %

	1m	3m	6m	YTD
Common	-7.5	-12.9	-33.5	-46.1
Relative to RTS	-1.5	-12.9	-38.9	-46.9

Price performance, \$



Source: Bloomberg, Sberbank Investment Research

Ownership structure

MRSK Holding	93.2%
Other	6.8%

MRSK North Caucasus

MRSK North Caucasus IFRS financials, \$ mln

	2011	2012E	2013E	2014E	2015E	2016E	2017E
INCOME STATEMENT							
Revenues	359	363	376	400	431	464	528
COGS	(288)	(348)	(350)	(364)	(381)	(397)	(415)
Gross income	71	15	25	35	51	67	113
Gross margin	19.8%	4.3%	6.8%	8.8%	11.8%	14.5%	21.4%
SG&A	-	-	-	-	-	-	-
EBITDA	101	92	104	117	137	158	209
Adjusted EBITDA	101	92	104	117	137	158	209
EBITDA margin	28.2%	25.2%	27.7%	29.2%	31.7%	34.0%	39.6%
DD&A	(30)	(76)	(78)	(81)	(86)	(91)	(96)
EBIT	71	15	25	35	51	67	113
Interest income	(1)	(9)	(15)	(20)	(25)	(30)	(36)
Forex gain	-	-	-	-	-	-	-
Revaluation gain	-	-	-	-	-	-	-
Other gains	(52)	-	-	-	-	-	-
Exceptionals	-	-	-	-	-	-	-
EBT	17	6	10	15	25	37	77
Income tax	(7)	(1)	(2)	(3)	(5)	(7)	(15)
Minority interest	-	-	-	-	-	-	-
Discontinued operations	-	-	-	-	-	-	-
Net income	10	5	8	12	20	30	62
Adjusted net income	10	5	8	12	20	30	62
Net margin	2.9%	1.3%	2.2%	3.0%	4.7%	6.4%	11.7%
EPS, \$	0.07	0.03	0.05	0.08	0.13	0.19	0.40
Adjusted EPS, \$	0.07	0.03	0.05	0.08	0.13	0.19	0.40
BALANCE SHEET							
Assets							
Cash and equivalents	11	23	29	32	5	4	2
Receivables	39	41	44	47	51	55	62
Inventories	19	24	25	26	27	28	30
Other current assets	24	23	23	23	23	23	23
Total current assets	92	111	121	128	106	110	117
Total non-current assets	758	845	912	986	1,067	1,163	1,258
Total assets	850	956	1,033	1,114	1,174	1,273	1,375
Liabilities							
Short-term borrowings	38	37	37	37	37	37	37
Payables	145	185	194	202	211	220	230
Other current liabilities	34	33	33	33	33	33	33
Total current liabilities	218	256	264	272	281	290	300
Long-term borrowings	74	152	212	273	303	364	394
Other non-current liabilities	45	43	43	43	43	43	43
Total non-current liabilities	119	195	256	316	347	407	437
Total liabilities	337	451	520	588	628	697	738
Minority interest	-	-	-	-	-	-	-
Equity	513	505	513	526	546	575	637
Total liabilities and equity	850	956	1,033	1,114	1,174	1,273	1,375
Net debt/(cash)	102	166	221	278	335	397	429
CASH FLOW STATEMENT							
Net income	10	5	8	12	20	30	62
Minority interest	-	-	-	-	-	-	-
DD&A	30	76	78	81	86	91	96
Working capital change	187	36	4	4	4	4	1
Other assets change	(15)	-	-	-	-	-	-
Operating cash flow	213	117	91	98	110	124	159
Maintenance capex	(30)	(76)	(78)	(81)	(86)	(91)	(96)
Expansionary capex	(202)	(109)	(68)	(73)	(82)	(96)	(94)
Other investments	(13)	-	-	-	-	-	-
Investing cash flow	(245)	(186)	(146)	(155)	(167)	(186)	(190)
Change in debt	39	82	61	61	30	61	30
Dividends paid	-	-	-	-	-	-	-
Share issues/(purchases)	-	-	-	-	-	-	-
Other	(1)	-	-	-	-	-	-
Financing cash flow	38	82	61	61	30	61	30
Forex effects	(1)	(1)	-	-	-	-	-
Net change in cash	5	12	6	3	(27)	(1)	(1)
RATIOS							
P/E	12.6	27.3	16.1	10.9	6.5	4.5	2.1
EV/EBITDA	2.3	3.2	3.4	3.5	3.4	3.4	2.7
P/BV	0.3	0.3	0.3	0.3	0.2	0.2	0.2
ROE	2.0%	1.0%	1.6%	2.3%	3.8%	5.3%	10.2%
ROIC	1.8%	1.8%	2.7%	3.4%	4.6%	5.5%	8.5%
Dividend per share, \$	-	-	-	-	-	-	-
Dividend yield	-	-	-	-	-	-	-
P/S	0.4	0.4	0.4	0.3	0.3	0.3	0.3
P/CF	0.6	1.1	1.5	1.4	1.2	1.1	0.8
Revenue growth	4%	1%	3%	6%	8%	8%	14%
EBITDA growth	21%	-9%	13%	12%	17%	15%	33%
EPS growth	-43%	-54%	69%	48%	67%	45%	110%

Source: Company, Sberbank Investment Research

Common	MRKZ RX
Last price	\$0.00198
Spread	0.2%
Indicative range	\$0.00277-0.00327
Upside*	53%
Shares outstanding	95,786 mln
Free float	24% (\$45 mln)

Market cap	\$190 mln
Enterprise value	\$473 mln

* based on mid-value of indicative range

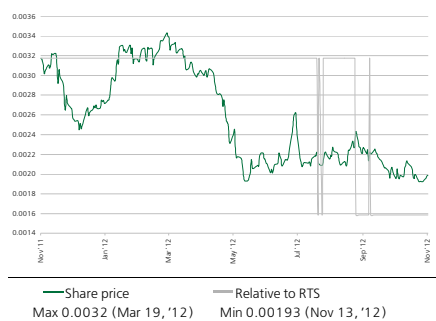
Prices as of November 20, 2012

Key data

	2011	2012E	2013E	2014E
Financials (IFRS), \$ mln				
Revenues	1,099	942	951	1,014
EBITDA	143	123	166	188
EBIT	45	37	76	95
Net income	27	19	40	51
EPS, cents	0.0285	0.0194	0.0422	0.0537
Profitability				
EBITDA margin	13%	13%	17%	19%
EBIT margin	4%	4%	8%	9%
Net margin	2%	2%	4%	5%
Price ratios				
P/S	0.2	0.2	0.2	0.2
EV/EBITDA	2.3	3.8	3.2	3.0
P/E	6.9	10.2	4.7	3.7
P/CF	1.5	1.8	1.5	1.3
Growth				
Revenues	15%	-14%	1%	7%
EBITDA	80%	-14%	35%	14%
EPS	-	-32%	118%	27%

Price performance, %

	1m	3m	6m	YTD
Common	-1.9	-8.0	-14.5	-20.7
Relative to RTS	4.4	-8.0	-21.4	-21.9

Price performance, \$

Source: Bloomberg, Sberbank Investment Research

Ownership structure

MRSK Holding	55.4%
Energosoyuz Holdings	5.7%
EnergyO Solutions Russia	12.7%
Noriisk Nickel	2.6%
Other	23.8%

MRSK North-West**MRSK North-West IFRS financials, \$ mln**

	2011	2012E	2013E	2014E	2015E	2016E	2017E
INCOME STATEMENT							
Revenues	1,099	942	951	1,014	1,077	1,146	1,243
COGS	(1,054)	(905)	(875)	(919)	(969)	(1,022)	(1,079)
Gross income	45	37	76	95	108	125	164
Gross margin	4.1%	3.9%	8.0%	9.4%	10.0%	10.9%	13.2%
SG&A	-	-	-	-	-	-	-
EBITDA	143	123	166	188	207	229	275
Adjusted EBITDA	143	123	166	188	207	229	275
EBITDA margin	13.0%	13.1%	17.4%	18.6%	19.2%	20.0%	22.1%
DD&A	(98)	(86)	(90)	(93)	(98)	(104)	(111)
EBIT	45	37	76	95	108	125	164
Interest income	(9)	(14)	(26)	(31)	(34)	(38)	(43)
Forex gain	-	-	-	-	-	-	-
Revaluation gain	-	-	-	-	-	-	-
Other gains	6	-	-	-	-	-	-
Exceptionals	-	-	-	-	-	-	-
EBT	43	23	51	64	74	86	121
Income tax	(15)	(5)	(10)	(13)	(15)	(17)	(24)
Minority interest	(0)	-	-	-	-	-	-
Discontinued operations	-	-	-	-	-	-	-
Net income	27	19	40	51	59	69	97
Adjusted net income	27	19	40	51	59	69	97
Net margin	2.5%	2.0%	4.2%	5.1%	5.5%	6.0%	7.8%
EPS, \$	0.00029	0.00019	0.00042	0.00054	0.00062	0.00072	0.00101
Adjusted EPS, \$	0.00029	0.00019	0.00042	0.00054	0.00062	0.00072	0.00101
BALANCE SHEET							
Assets							
Cash and equivalents	48	23	27	51	35	9	19
Receivables	134	121	127	135	144	153	166
Inventories	22	20	20	21	22	23	24
Other current assets	21	20	20	20	20	20	20
Total current assets	224	184	195	228	221	206	230
Total non-current assets	942	1,076	1,167	1,254	1,359	1,483	1,627
Total assets	1,166	1,260	1,362	1,482	1,580	1,689	1,857
Liabilities							
Short-term borrowings	2	2	2	2	2	2	2
Payables	175	158	159	167	176	186	196
Other current liabilities	19	18	18	18	18	18	18
Total current liabilities	196	179	179	187	197	206	217
Long-term borrowings	191	303	364	424	455	485	545
Other non-current liabilities	109	106	106	106	106	106	106
Total non-current liabilities	300	409	470	530	560	591	651
Total liabilities	495	588	649	718	757	797	868
Minority interest	0	0	0	0	0	0	0
Equity	671	672	713	764	823	892	989
Total liabilities and equity	1,166	1,260	1,362	1,482	1,580	1,689	1,857
Net debt/(cash)	146	283	339	376	422	478	528
CASH FLOW STATEMENT							
Net income	27	19	40	51	59	69	97
Minority interest	0	-	-	-	-	-	-
DD&A	98	86	90	93	98	104	111
Working capital change	39	(1)	(5)	(1)	(0)	(1)	(4)
Other assets change	(39)	-	-	-	-	-	-
Operating cash flow	125	103	125	143	157	173	204
Maintenance capex	(98)	(86)	(90)	(93)	(98)	(104)	(111)
Expansionary capex	(78)	(164)	(91)	(87)	(105)	(124)	(144)
Other investments	12	-	-	-	-	-	-
Investing cash flow	(165)	(250)	(181)	(181)	(203)	(228)	(254)
Change in debt	53	121	61	61	30	30	61
Dividends paid	-	-	-	-	-	-	-
Share issues/(purchases)	-	-	-	-	-	-	-
Other	(0)	-	-	-	-	-	-
Financing cash flow	52	121	61	61	30	30	61
Forex effects	(3)	(0)	-	-	-	-	-
Net change in cash	10	(25)	5	23	(16)	(26)	10
RATIOS							
P/E	6.9	10.2	4.7	3.7	3.2	2.7	2.0
EV/EBITDA	2.3	3.8	3.2	3.0	3.0	2.9	2.6
P/BV	0.3	0.3	0.3	0.2	0.2	0.2	0.2
ROE	4.0%	2.8%	5.8%	7.0%	7.4%	8.1%	10.3%
ROIC	3.8%	3.0%	5.7%	6.4%	6.8%	7.2%	8.5%
Dividend per share, \$	-	-	-	-	-	-	-
Dividend yield	-	-	-	-	-	-	-
P/S	0.2	0.2	0.2	0.2	0.2	0.2	0.2
P/CF	1.5	1.8	1.5	1.3	1.2	1.1	0.9
Revenue growth	15%	-14%	1%	7%	6%	6%	8%
EBITDA growth	80%	-14%	35%	14%	10%	11%	20%
EPS growth	-	-32%	118%	27%	15%	17%	40%

Source: Company, Sberbank Investment Research

Common	MRKS RX
Last price	\$0.00264
Spread	0.4%
Indicative range	\$0.0032-0.0046
Upside*	47%
Shares outstanding	94,815 mln
Free float	9% (\$22 mln)

Market cap	\$251 mln
Enterprise value	\$573 mln

* based on mid-value of indicative range

Prices as of November 20, 2012

Key data

	2011	2012E	2013E	2014E
Financials (IFRS), \$ mln				
Revenues	1,780	1,454	1,486	1,637
EBITDA	131	19	34	109
EBIT	4	3	15	37
Net income	(16)	(10)	(12)	(4)
EPS, cents	(0.0170)	(0.0108)	(0.0123)	(0.0038)
Profitability				
EBITDA margin	7%	1%	2%	7%
EBIT margin	0%	0%	1%	2%
Net margin	-1%	-1%	-1%	-0%

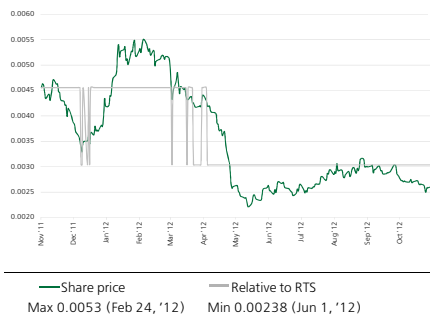
	2011	2012E	2013E	2014E
Price ratios				
P/S	0.1	0.2	0.2	0.2
EV/EBITDA	3.2	30.3	20.6	7.2
P/E	neg	neg	neg	neg
P/CF	0.9	neg	17.9	3.2

	2011	2012E	2013E	2014E
Growth				
Revenues	23%	-18%	2%	10%
EBITDA	131%	-86%	81%	218%
EPS	-	-	-	-

Price performance, %

	1m	3m	6m	YTD
Common	-6.8	-7.1	1.3	-24.1
Relative to RTS	-0.7	-7.1	-6.9	-25.3

Price performance, \$



Source: Bloomberg, Sberbank Investment Research

Ownership structure

MRSK Holding	55.6%
Donalink	28.1%
Norilsk Nickel	7.8%
Others	8.6%

MRSK Siberia

MRSK Siberia IFRS financials, \$ mln

	2011	2012E	2013E	2014E	2015E	2016E	2017E
INCOME STATEMENT							
Revenues	1,780	1,454	1,486	1,637	1,740	1,847	2,054
COGS	(1,811)	(1,451)	(1,471)	(1,600)	(1,687)	(1,777)	(1,875)
Gross income	(31)	3	15	37	53	69	178
Gross margin	(1.7%)	0.2%	1.0%	2.3%	3.0%	3.7%	8.7%
SG&A	-	-	-	-	-	-	-
EBITDA	131	19	34	109	129	150	265
Adjusted EBITDA	131	19	34	109	129	150	265
EBITDA margin	7.3%	1.3%	2.3%	6.7%	7.4%	8.1%	12.9%
DD&A	(127)	(16)	(19)	(72)	(76)	(81)	(87)
EBIT	4	3	15	37	53	69	178
Interest income	(14)	(16)	(29)	(42)	(48)	(55)	(63)
Forex gain	-	-	-	-	-	-	-
Revaluation gain	-	-	-	-	-	-	-
Other gains	-	-	-	-	-	-	-
Exceptionals	-	-	-	-	-	-	-
EBT	(11)	(13)	(15)	(5)	5	14	115
Income tax	(6)	3	3	1	(1)	(3)	(23)
Minority interest	-	-	-	-	-	-	-
Discontinued operations	-	-	-	-	-	-	-
Net income	(16)	(10)	(12)	(4)	4	11	92
Adjusted net income	(16)	(10)	(12)	(4)	4	11	92
Net margin	(0.9%)	(0.7%)	(0.8%)	(0.2%)	0.2%	0.6%	4.5%
EPS, \$	(0.00017)	(0.00011)	(0.00012)	(0.00004)	0.00004	0.00012	0.00097
Adjusted EPS, \$	(0.00017)	(0.00011)	(0.00012)	(0.00004)	0.00004	0.00012	0.00097
BALANCE SHEET							
Assets							
Cash and equivalents	37	52	72	26	37	72	60
Receivables	157	135	144	159	169	179	199
Inventories	29	25	26	28	30	32	33
Other current assets	32	32	32	32	32	32	32
Total current assets	256	244	274	245	268	314	324
Total non-current assets	1,262	1,354	1,481	1,563	1,654	1,760	1,864
Total assets	1,518	1,598	1,754	1,809	1,922	2,074	2,187
Liabilities							
Short-term borrowings	11	11	11	11	11	11	11
Payables	357	302	318	346	365	384	406
Other current liabilities	73	71	71	71	71	71	71
Total current liabilities	441	384	400	428	447	466	487
Long-term borrowings	195	364	515	545	636	758	758
Other non-current liabilities	105	103	103	103	103	103	103
Total non-current liabilities	300	466	618	648	739	860	860
Total liabilities	742	850	1,018	1,076	1,186	1,327	1,348
Minority interest	0	0	0	0	0	0	0
Equity	776	748	736	732	736	747	839
Total liabilities and equity	1,518	1,598	1,754	1,809	1,922	2,074	2,187
Net debt/(cash)	169	322	454	530	609	696	708
CASH FLOW STATEMENT							
Net income	(16)	(10)	(12)	(4)	4	11	92
Minority interest	-	-	-	-	-	-	-
DD&A	127	16	19	72	76	81	87
Working capital change	181	(26)	6	11	7	8	(1)
Other assets change	(22)	-	-	-	-	-	-
Operating cash flow	270	(20)	14	79	88	100	178
Maintenance capex	(127)	(16)	(19)	(72)	(76)	(81)	(87)
Expansionary capex	(119)	(127)	(127)	(83)	(91)	(105)	(104)
Other investments	28	-	-	-	-	-	-
Investing cash flow	(218)	(143)	(146)	(155)	(167)	(186)	(190)
Change in debt	(68)	180	152	30	91	121	-
Dividends paid	-	-	-	-	-	-	-
Share issues/(purchases)	-	-	-	-	-	-	-
Other	41	-	-	-	-	-	-
Financing cash flow	(27)	180	152	30	91	121	-
Forex effects	(3)	(2)	-	-	-	-	-
Net change in cash	22	15	20	(45)	11	35	(13)
RATIOS							
P/E	neg	neg	neg	neg	66.1	22.4	2.7
EV/EBITDA	3.2	30.3	20.6	7.2	6.7	6.3	3.6
P/BV	0.3	0.3	0.3	0.3	0.3	0.3	0.3
ROE	neg	neg	neg	neg	0.5%	1.5%	11.6%
ROIC	0.6%	0.2%	0.9%	2.3%	3.0%	3.7%	8.9%
Dividend per share, \$	-	-	-	-	-	-	-
Dividend yield	-	-	-	-	-	-	-
P/S	0.1	0.2	0.2	0.2	0.1	0.1	0.1
P/CF	0.9	neg	17.9	3.2	2.9	2.5	1.4
Revenue growth	23%	-18%	2%	10%	6%	6%	11%
EBITDA growth	131%	-86%	81%	218%	18%	17%	76%
EPS growth	-	-	-	-	-	195%	722%

Source: Company, Sberbank Investment Research

Common	MRKY RX
Last price	\$0.00160
Spread	0.4%
Indicative range	\$0.00165-0.00283
Upside*	40%
Shares outstanding	49,811 mln
Free float	32% (\$26 mln)

Market cap	\$80 mln
Enterprise value	\$538 mln

* based on mid-value of indicative range

Prices as of November 20, 2012

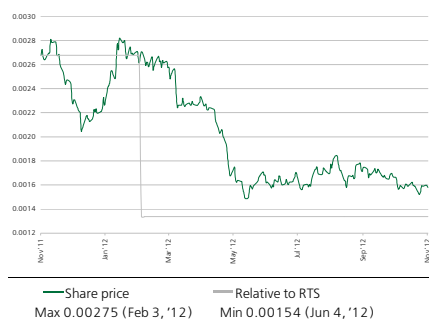
Key data

	2011	2012E	2013E	2014E
Financials (IFRS), \$ mln				
Revenues	829	787	806	846
EBITDA	195	140	161	168
EBIT	120	53	74	79
Net income	4	8	26	26
EPS, cents	0.0080	0.0158	0.0523	0.0525
Profitability				
EBITDA margin	24%	18%	20%	20%
EBIT margin	15%	7%	9%	9%
Net margin	0%	1%	3%	3%
Price ratios				
P/S	0.1	0.1	0.1	0.1
EV/EBITDA	2.8	3.8	3.6	3.7
P/E	20.0	10.1	3.1	3.0
P/CF	0.9	0.7	0.8	0.7
Growth				
Revenues	15%	-5%	2%	5%
EBITDA	43%	-28%	15%	4%
EPS	-	98%	231%	0%

Price performance, %

	1m	3m	6m	YTD
Common	-4.3	-6.0	-4.6	-22.8
Relative to RTS	1.9	-6.0	-12.4	-24.0

Price performance, \$



Source: Bloomberg, Sberbank Investment Research

Ownership structure

MRSK Holding	51.7%
Lancranan Investments	9.3%
Protsvetanie Holdings	6.9%
State	0.1%
Others	32.1%

MRSK South

MRSK South IFRS financials, \$ mln

	2011	2012E	2013E	2014E	2015E	2016E	2017E
INCOME STATEMENT							
Revenues	829	787	806	846	897	951	1,027
COGS	(683)	(734)	(732)	(768)	(808)	(851)	(897)
Gross income	146	53	74	79	89	100	130
Gross margin	17.6%	6.8%	9.2%	9.3%	9.9%	10.5%	12.7%
SG&A	(26)	-	-	-	-	-	-
EBITDA	195	140	161	168	183	199	234
Adjusted EBITDA	195	140	161	168	183	199	234
EBITDA margin	23.5%	17.8%	20.0%	19.9%	20.4%	20.9%	22.8%
DD&A	(75)	(87)	(87)	(89)	(94)	(99)	(104)
EBIT	120	53	74	79	89	100	130
Interest income	(50)	(43)	(42)	(46)	(50)	(54)	(60)
Forex gain	-	-	-	-	-	-	-
Revaluation gain	-	-	-	-	-	-	-
Other gains	(54)	-	-	-	-	-	-
Exceptionals	-	-	-	-	-	-	-
EBT	16	10	33	33	39	46	70
Income tax	(12)	(2)	(7)	(7)	(8)	(9)	(14)
Minority interest	-	-	-	-	-	-	-
Discontinued operations	-	-	-	-	-	-	-
Net income	4	8	26	26	31	37	56
Adjusted net income	4	8	26	26	31	37	56
Net margin	0.5%	1.0%	3.2%	3.1%	3.5%	3.9%	5.5%
EPS, \$	0.00008	0.00016	0.00052	0.00053	0.00063	0.00074	0.00113
Adjusted EPS, \$	0.00008	0.00016	0.00052	0.00053	0.00063	0.00074	0.00113
BALANCE SHEET							
Assets							
Cash and equivalents	44	45	92	45	24	20	51
Receivables	277	278	296	310	329	349	376
Inventories	33	37	39	41	43	45	48
Other current assets	5	5	5	5	5	5	5
Total current assets	359	365	431	401	401	419	480
Total non-current assets	940	937	993	1,059	1,131	1,222	1,321
Total assets	1,300	1,302	1,424	1,460	1,532	1,641	1,801
Liabilities							
Short-term borrowings	78	77	77	77	77	77	77
Payables	168	190	197	207	218	229	242
Other current liabilities	8	8	8	8	8	8	8
Total current liabilities	255	275	282	291	302	314	326
Long-term borrowings	437	426	515	515	545	606	697
Other non-current liabilities	94	92	92	92	92	92	92
Total non-current liabilities	531	518	607	607	637	698	789
Total liabilities	785	793	889	898	940	1,012	1,115
Minority interest	-	-	-	-	-	-	-
Equity	514	509	535	562	593	630	686
Total liabilities and equity	1,300	1,302	1,424	1,460	1,532	1,641	1,801
Net debt/(cash)	471	458	500	547	598	662	722
CASH FLOW STATEMENT							
Net income	4	8	26	26	31	37	56
Minority interest	-	-	-	-	-	-	-
DD&A	75	87	87	89	94	99	104
Working capital change	(40)	15	(12)	(7)	(10)	(10)	(18)
Other assets change	47	-	-	-	-	-	-
Operating cash flow	85	109	100	109	115	125	142
Maintenance capex	(75)	(87)	(87)	(89)	(94)	(99)	(104)
Expansionary capex	(80)	(21)	(55)	(66)	(73)	(91)	(98)
Other investments	17	-	-	-	-	-	-
Investing cash flow	(137)	(107)	(142)	(156)	(166)	(190)	(202)
Change in debt	82	-	89	-	30	61	91
Dividends paid	-	-	-	-	-	-	-
Share issues/(purchases)	-	-	-	-	-	-	-
Other	12	-	-	-	-	-	-
Financing cash flow	94	-	89	-	30	61	91
Forex effects	(9)	(1)	-	-	-	-	-
Net change in cash	33	1	48	(47)	(21)	(4)	31
RATIOS							
P/E	20.0	10.1	3.1	3.0	2.5	2.2	1.4
EV/EBITDA	2.8	3.8	3.6	3.7	3.7	3.7	3.4
P/BV	0.2	0.2	0.1	0.1	0.1	0.1	0.1
ROE	0.8%	1.5%	5.0%	4.8%	5.4%	6.0%	8.5%
ROIC	1.6%	4.2%	5.3%	5.4%	5.8%	6.1%	7.1%
Dividend per share, \$	-	-	-	-	-	-	-
Dividend yield	-	-	-	-	-	-	-
P/S	0.1	0.1	0.1	0.1	0.1	0.1	0.1
P/CF	0.9	0.7	0.8	0.7	0.7	0.6	0.6
Revenue growth	15%	-5%	2%	5%	6%	6%	8%
EBITDA growth	43%	-28%	15%	4%	9%	9%	18%
EPS growth	-	98%	231%	0%	20%	18%	53%

Source: Company, Sberbank Investment Research

Common	MRKU RX
Last price	\$0.0052
Spread	0.9%
Indicative range	\$0.0080-0.0090
Upside*	65%
Shares outstanding	87,430 mln
Free float	24% (\$109 mln)
Market cap	\$452 mln
Enterprise value	\$682 mln

* based on mid-value of indicative range

Prices as of November 20, 2012

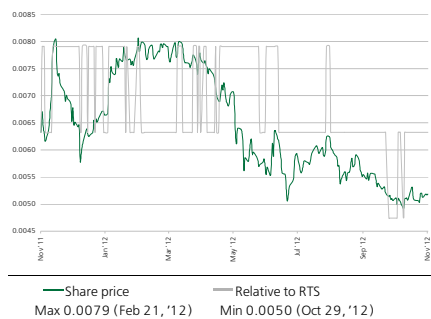
Key data

	2011	2012E	2013E	2014E
Financials (IFRS), \$ mln				
Revenues	2,110	1,754	1,773	1,875
EBITDA	280	186	188	206
EBIT	139	74	74	87
Net income	107	44	39	44
EPS, cents	0.12	0.05	0.04	0.05
Profitability				
EBITDA margin	13%	11%	11%	11%
EBIT margin	7%	4%	4%	5%
Net margin	5%	2%	2%	2%
Price ratios				
P/S	0.2	0.3	0.3	0.2
EV/EBITDA	2.4	3.7	4.1	4.2
P/E	4.2	10.3	11.6	10.3
P/CF	1.8	2.8	2.9	2.8
Growth				
Revenues	12%	-17%	1%	6%
EBITDA	9%	-34%	1%	10%
EPS	43%	-59%	-11%	13%

Price performance, %

	1m	3m	6m	YTD
Common	2.0	-17.2	-26.4	-15.1
Relative to RTS	8.6	-17.2	-32.4	-16.4

Price performance, \$



Source: Bloomberg, Sberbank Investment Research

Ownership structure

MRSK Holding	51.5%
IDE Electricity Distribution Investments	20.7%
EnergyO Solutions Russia	6.0%
State	3.7%
Other	18.1%

MRSK Urals

MRSK Urals IFRS financials, \$ mln

	2011	2012E	2013E	2014E	2015E	2016E	2017E
INCOME STATEMENT							
Revenues	2,110	1,754	1,773	1,875	1,996	2,123	2,319
COGS	(1,972)	(1,681)	(1,699)	(1,788)	(1,886)	(1,988)	(2,098)
Gross income	138	74	74	87	110	135	220
Gross margin	6.5%	4.2%	4.2%	4.7%	5.5%	6.3%	9.5%
SG&A	-	-	-	-	-	-	-
EBITDA	280	186	188	206	236	269	363
Adjusted EBITDA	280	186	188	206	236	269	363
EBITDA margin	13.3%	10.6%	10.6%	11.0%	11.8%	12.7%	15.7%
DD&A	(141)	(112)	(114)	(119)	(126)	(134)	(143)
EBIT	139	74	74	87	110	135	220
Interest income	(8)	(19)	(25)	(33)	(41)	(50)	(58)
Forex gain	-	-	-	-	-	-	-
Revaluation gain	-	-	-	-	-	-	-
Other gains	8	-	-	-	-	-	-
Exceptionals	-	-	-	-	-	-	-
EBT	140	55	49	55	69	85	162
Income tax	(29)	(11)	(10)	(11)	(14)	(17)	(32)
Minority interest	(4)	-	-	-	-	-	-
Discontinued operations	-	-	-	-	-	-	-
Net income	107	44	39	44	55	68	129
Adjusted net income	107	44	39	44	55	68	129
Net margin	5.1%	2.5%	2.2%	2.3%	2.8%	3.2%	5.6%
EPS, \$	0.00122	0.00050	0.00044	0.00050	0.00063	0.00078	0.00148
Adjusted EPS, \$	0.00122	0.00050	0.00044	0.00050	0.00063	0.00078	0.00148
BALANCE SHEET							
Assets							
Cash and equivalents	44	81	27	28	16	10	21
Receivables	186	163	172	182	193	206	224
Inventories	40	36	37	39	42	44	46
Other current assets	26	26	26	26	26	26	26
Total current assets	297	306	262	274	276	285	317
Total non-current assets	1,699	1,777	1,901	2,035	2,191	2,355	2,527
Total assets	1,995	2,083	2,162	2,309	2,468	2,640	2,844
Liabilities							
Short-term borrowings	23	22	22	22	22	22	22
Payables	234	210	221	232	245	259	273
Other current liabilities	21	21	21	21	21	21	21
Total current liabilities	278	253	264	275	288	301	316
Long-term borrowings	227	333	364	455	545	636	697
Other non-current liabilities	171	166	166	166	166	166	166
Total non-current liabilities	398	500	530	621	712	803	863
Total liabilities	676	753	794	896	1,000	1,104	1,179
Minority interest	26	26	26	26	26	26	26
Equity	1,293	1,304	1,343	1,387	1,442	1,510	1,639
Total liabilities and equity	1,995	2,083	2,162	2,309	2,468	2,640	2,844
Net debt/(cash)	205	274	359	449	552	649	698
CASH FLOW STATEMENT							
Net income	107	44	39	44	55	68	129
Minority interest	4	-	-	-	-	-	-
DD&A	141	112	114	119	126	134	143
Working capital change	12	4	1	(0)	(1)	(1)	(7)
Other assets change	(6)	-	-	-	-	-	-
Operating cash flow	255	159	154	162	180	201	265
Maintenance capex	(141)	(112)	(114)	(119)	(126)	(134)	(143)
Expansionary capex	(160)	(124)	(124)	(134)	(157)	(164)	(172)
Other investments	32	-	-	-	-	-	-
Investing cash flow	(269)	(236)	(238)	(253)	(283)	(298)	(314)
Change in debt	33	116	30	91	91	91	61
Dividends paid	(10)	-	-	-	-	-	-
Share issues/(purchases)	-	-	-	-	-	-	-
Other	(24)	-	-	-	-	-	-
Financing cash flow	(1)	116	30	91	91	91	61
Forex effects	(2)	(3)	-	-	-	-	-
Net change in cash	(17)	37	(54)	1	(12)	(6)	11
RATIOS							
P/E	4.2	10.3	11.6	10.3	8.2	6.6	3.5
EV/EBITDA	2.4	3.7	4.1	4.2	4.1	3.9	3.0
P/BV	0.3	0.3	0.3	0.3	0.3	0.3	0.3
ROE	8.3%	3.4%	2.9%	3.2%	3.9%	4.6%	8.2%
ROIC	7.2%	3.5%	3.4%	3.7%	4.3%	4.9%	7.4%
Dividend per share, \$	0.00011	-	-	-	-	-	-
Dividend yield	2.1%	-	-	-	-	-	-
P/S	0.2	0.3	0.3	0.2	0.2	0.2	0.2
P/CF	1.8	2.8	2.9	2.8	2.5	2.2	1.7
Revenue growth	12%	-17%	1%	6%	6%	6%	9%
EBITDA growth	9%	-34%	1%	10%	14%	14%	35%
EPS growth	43%	-59%	-11%	13%	26%	23%	90%

Source: Company, Sberbank Investment Research

Common	MRKV RX
Last price	\$0.00221
Spread	0.9%
Indicative range	\$0.0046-0.0051
Upside*	120%
Shares outstanding	178,578 mln
Free float	21% (\$82 mln)

Market cap	\$394 mln
Enterprise value	\$704 mln

* based on mid-value of indicative range

Prices as of November 20, 2012

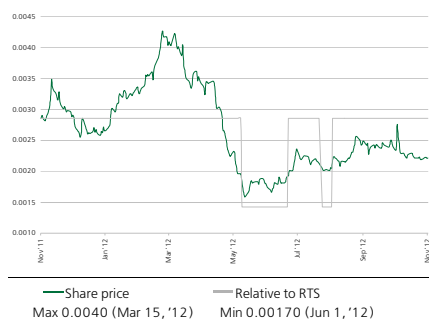
Key data

	2011	2012E	2013E	2014E
Financials (IFRS), \$ mln				
Revenues	1,634	1,426	1,476	1,567
EBITDA	193	193	225	251
EBIT	82	44	73	94
Net income	60	24	35	47
EPS, cents	0.0336	0.0133	0.0196	0.0262
Profitability				
EBITDA margin	12%	14%	15%	16%
EBIT margin	5%	3%	5%	6%
Net margin	4%	2%	2%	3%
Price ratios				
P/S	0.2	0.3	0.3	0.3
EV/EBITDA	2.8	3.6	3.5	3.4
P/E	6.6	16.6	11.3	8.4
P/CF	1.9	2.3	2.1	1.9
Growth				
Revenues	26%	-13%	3%	6%
EBITDA	47%	-0%	17%	12%
EPS	220%	-60%	47%	34%

Price performance, %

	1m	3m	6m	YTD
Common	-7.8	9.7	-1.6	-22.5
Relative to RTS	-1.8	9.7	-9.6	-23.7

Price performance, \$



Source: Bloomberg, Sberbank Investment Research

Ownership structure

MRSK Holding	67.6%
EnergyO Solutions Russia	11.1%
State	0.5%
Other	20.7%

MRSK Volga

MRSK Volga IFRS financials, \$ mln

	2011	2012E	2013E	2014E	2015E	2016E	2017E
INCOME STATEMENT							
Revenues	1,634	1,426	1,476	1,567	1,669	1,790	1,972
COGS	(1,557)	(1,382)	(1,403)	(1,473)	(1,551)	(1,633)	(1,724)
Gross income	78	44	73	94	118	157	248
Gross margin	4.8%	3.1%	4.9%	6.0%	7.1%	8.8%	12.6%
SG&A	—	—	—	—	—	—	—
EBITDA	193	193	225	251	283	331	435
Adjusted EBITDA	193	193	225	251	283	331	435
EBITDA margin	11.8%	13.5%	15.2%	16.0%	16.9%	18.5%	22.0%
DD&A	(111)	(148)	(152)	(157)	(165)	(174)	(187)
EBIT	82	44	73	94	118	157	248
Interest income	(9)	(15)	(29)	(35)	(40)	(48)	(64)
Forex gain	—	—	—	—	—	—	—
Revaluation gain	—	—	—	—	—	—	—
Other gains	—	—	—	—	—	—	—
Exceptionals	—	—	—	—	—	—	—
EBT	73	30	44	59	77	110	184
Income tax	(13)	(6)	(9)	(12)	(15)	(22)	(37)
Minority interest	—	—	—	—	—	—	—
Discontinued operations	—	—	—	—	—	—	—
Net income	60	24	35	47	62	88	147
Adjusted net income	60	24	35	47	62	88	147
Net margin	3.7%	1.7%	2.4%	3.0%	3.7%	4.9%	7.5%
EPS, \$	0.00034	0.00013	0.00020	0.00026	0.00035	0.00049	0.00082
Adjusted EPS, \$	0.00034	0.00013	0.00020	0.00026	0.00035	0.00049	0.00082
BALANCE SHEET							
Assets							
Cash and equivalents	63	117	41	9	20	20	85
Receivables	115	106	114	121	129	138	152
Inventories	30	28	30	31	33	35	37
Other current assets	46	44	44	44	44	44	44
Total current assets	253	296	229	205	227	238	319
Total non-current assets	993	1,149	1,262	1,373	1,516	1,786	1,835
Total assets	1,246	1,445	1,491	1,578	1,742	2,024	2,154
Liabilities							
Short-term borrowings	2	2	2	2	2	2	2
Payables	206	193	203	213	225	236	250
Other current liabilities	11	11	11	11	11	11	11
Total current liabilities	219	206	216	227	238	250	263
Long-term borrowings	215	424	424	455	545	727	697
Other non-current liabilities	83	81	81	81	81	81	81
Total non-current liabilities	298	506	506	536	627	809	778
Total liabilities	518	711	722	763	865	1,058	1,041
Minority interest	—	—	—	—	—	—	—
Equity	729	734	769	816	878	965	1,113
Total liabilities and equity	1,246	1,445	1,491	1,578	1,742	2,024	2,154
Net debt/(cash)	155	309	386	448	527	709	614
CASH FLOW STATEMENT							
Net income	60	24	35	47	62	88	147
Minority interest	—	—	—	—	—	—	—
DD&A	111	148	152	157	165	174	187
Working capital change	59	(1)	1	2	2	1	(3)
Other assets change	(25)	—	—	—	—	—	—
Operating cash flow	206	172	188	206	229	262	331
Maintenance capex	(111)	(148)	(152)	(157)	(165)	(174)	(187)
Expansionary capex	(154)	(187)	(113)	(111)	(143)	(270)	(49)
Other investments	22	—	—	—	—	—	—
Investing cash flow	(244)	(336)	(265)	(268)	(308)	(444)	(236)
Change in debt	58	223	—	30	91	182	(30)
Dividends paid	—	—	—	—	—	—	—
Share issues/(purchases)	—	—	—	—	—	—	—
Other	(2)	—	—	—	—	—	—
Financing cash flow	56	223	—	30	91	182	(30)
Forex effects	(4)	(4)	—	—	—	—	—
Net change in cash	14	55	(77)	(32)	12	0	65
RATIOS							
P/E	6.6	16.6	11.3	8.4	6.4	4.5	2.7
EV/EBITDA	2.8	3.6	3.5	3.4	3.3	3.3	2.3
P/BV	0.5	0.5	0.5	0.5	0.4	0.4	0.4
ROE	8.3%	3.2%	4.7%	5.9%	7.3%	9.5%	14.2%
ROIC	7.1%	3.1%	4.9%	5.9%	6.6%	7.4%	10.9%
Dividend per share, \$	—	—	—	—	—	—	—
Dividend yield	—	—	—	—	—	—	—
P/S	0.2	0.3	0.3	0.3	0.2	0.2	0.2
P/CF	1.9	2.3	2.1	1.9	1.7	1.5	1.2
Revenue growth	26%	-13%	3%	6%	7%	7%	10%
EBITDA growth	47%	-0%	17%	12%	13%	17%	31%
EPS growth	220%	-60%	47%	34%	32%	42%	67%

Source: Company, Sberbank Investment Research

Common	LSNG RX
Last price	\$0.220
Spread	1.7%
Indicative range	\$0.269-0.351
Upside*	41%
Shares outstanding	1,685 mln
Free float	6% (\$23 mln)
Preferred	LSNGP RX
Last price	\$0.55
Spread	1.4%
Indicative range	\$0.269-0.351
Upside*	-44%
Shares outstanding	93.26 mln
Market cap	\$421 mln
Enterprise value	\$1,541 mln

* based on mid-value of indicative range

Prices as of November 20, 2012

Key data

	2011	2012E	2013E	2014E
Financials (IFRS), \$ mln				
Revenues	1,098	1,015	1,087	1,189
EBITDA	194	177	233	291
EBIT	26	15	59	104
Net income	(32)	(36)	(34)	(30)
EPS, cents	(1.84)	(2.04)	(1.94)	(1.72)
Profitability				
EBITDA margin	18%	17%	21%	24%
EBIT margin	2%	1%	5%	9%
Net margin	-3%	-4%	-3%	-3%
Price ratios				
P/S	0.4	0.4	0.4	0.4
EV/EBITDA	5.4	8.7	8.6	8.5
P/E	neg	neg	neg	neg
P/CF	1.4	3.0	2.5	2.3
Growth				
Revenues	17%	-7%	7%	9%
EBITDA	-49%	-9%	31%	25%
EPS	-	-	-	-

Price performance, %

	1m	3m	6m	YTD
Common	-2.6	12.4	-5.2	-28.7
Relative to RTS	3.7	12.4	-12.9	-29.8

Price performance, \$

Source: Bloomberg, Sberbank Investment Research

Ownership structure

MRSK Holding	54.8%
St Petersburg government	27.2%
IDE Electricity Distribution Investments	5.8%
Rusenergo Fund	2.9%
Energys Solutions Russia	2.3%
MRSK Urals	5.8%
Other	1.1%

Lenenergo

Lenenergo IFRS financials, \$ mln

	2011	2012E	2013E	2014E	2015E	2016E	2017E
INCOME STATEMENT							
Revenues	1,098	1,015	1,087	1,189	1,320	1,462	1,622
COGS	(1,072)	(1,001)	(1,028)	(1,085)	(1,147)	(1,198)	(1,240)
Gross income	26	15	59	104	174	263	382
Gross margin	2.3%	1.5%	5.4%	8.8%	13.1%	18.0%	23.5%
SG&A	-	-	-	-	-	-	-
EBITDA	194	177	233	291	379	484	613
Adjusted EBITDA	194	177	233	291	379	484	613
EBITDA margin	17.7%	17.5%	21.4%	24.5%	28.7%	33.1%	37.8%
DD&A	(169)	(162)	(174)	(187)	(205)	(220)	(231)
EBIT	26	15	59	104	174	263	382
Interest income	(54)	(60)	(101)	(142)	(186)	(214)	(223)
Forex gain	-	-	-	-	-	-	-
Revaluation gain	-	-	-	-	-	-	-
Other gains	-	-	-	-	-	-	-
Exceptionals	-	-	-	-	-	-	-
EBT	(29)	(45)	(43)	(38)	(12)	49	159
Income tax	(3)	9	9	8	2	(10)	(32)
Minority interest	(0)	-	-	-	-	-	-
Discontinued operations	-	-	-	-	-	-	-
Net income	(32)	(36)	(34)	(30)	(10)	39	127
Adjusted net income	(32)	(36)	(34)	(30)	(10)	39	127
Net margin	(2.9%)	(3.5%)	(3.1%)	(2.5%)	(0.7%)	2.7%	7.9%
EPS, \$	(0.0184)	(0.0204)	(0.0194)	(0.0172)	(0.0055)	0.0224	0.0726
Adjusted EPS, \$	(0.0184)	(0.0204)	(0.0194)	(0.0172)	(0.0055)	0.0224	0.0726
BALANCE SHEET							
Assets							
Cash and equivalents	221	43	42	11	63	57	56
Receivables	31	30	33	37	41	45	50
Inventories	9	9	9	10	11	11	11
Other current assets	112	109	109	109	109	109	109
Total current assets	372	191	194	167	223	222	226
Total non-current assets	2,638	3,053	3,502	3,967	4,279	4,422	4,555
Total assets	3,011	3,244	3,696	4,134	4,502	4,644	4,781
Liabilities							
Short-term borrowings	197	193	193	193	193	193	193
Payables	226	223	238	251	265	277	287
Other current liabilities	354	345	345	345	345	345	345
Total current liabilities	777	761	776	789	803	815	825
Long-term borrowings	653	970	1,424	1,879	2,242	2,333	2,333
Other non-current liabilities	259	253	253	253	253	253	253
Total non-current liabilities	912	1,223	1,677	2,132	2,496	2,586	2,586
Total liabilities	1,690	1,983	2,453	2,921	3,299	3,401	3,411
Minority interest	1	1	1	1	1	1	1
Equity	1,320	1,260	1,242	1,212	1,203	1,242	1,369
Total liabilities and equity	3,011	3,244	3,696	4,134	4,502	4,644	4,781
Net debt/(cash)	630	1,119	1,575	2,061	2,372	2,469	2,470
CASH FLOW STATEMENT							
Net income	(32)	(36)	(34)	(30)	(10)	39	127
Minority interest	0	-	-	-	-	-	-
DD&A	169	162	174	187	205	220	231
Working capital change	126	2	11	9	10	7	4
Other assets change	8	-	-	-	-	-	-
Operating cash flow	270	128	152	166	206	267	362
Maintenance capex	(169)	(162)	(174)	(187)	(205)	(220)	(231)
Expansionary capex	(232)	(497)	(449)	(465)	(311)	(143)	(133)
Other investments	(2)	-	-	-	-	-	-
Investing cash flow	(403)	(660)	(623)	(652)	(517)	(364)	(364)
Change in debt	398	346	455	455	364	91	-
Dividends paid	(13)	-	-	-	-	-	-
Share issues/(purchases)	-	-	-	-	-	-	-
Other	(33)	-	-	-	-	-	-
Financing cash flow	352	346	455	455	364	91	-
Forex effects	(20)	8	17	-	-	-	-
Net change in cash	199	(178)	(1)	(31)	52	(6)	(1)
RATIOS							
P/E	neg	neg	neg	neg	neg	9.8	3.0
EV/EBITDA	5.4	8.7	8.6	8.5	7.4	6.0	4.7
P/BV	0.3	0.3	0.3	0.3	0.3	0.3	0.3
ROE	neg	neg	neg	neg	neg	3.2%	9.8%
ROIC	1.3%	0.5%	1.6%	2.5%	3.8%	5.6%	7.8%
Dividend per share, \$	-	-	-	-	-	-	-
Dividend yield	-	-	-	-	-	-	-
P/S	0.4	0.4	0.4	0.4	0.3	0.3	0.3
P/CF	1.4	3.0	2.5	2.3	1.9	1.4	1.1
Revenue growth	17%	-7%	7%	9%	11%	11%	11%
EBITDA growth	-49%	-9%	31%	25%	30%	28%	27%
EPS growth	-	-	-	-	-	-	224%

Source: Company, Sberbank Investment Research

Disclosure appendix

IMPORTANT US REGULATORY DISCLOSURES

An affiliate of Troika Dialog USA makes a market in the securities of Lenenergo, MOESK, MRSK Center, MRSK Center-Volga, MRSK Holding, MRSK North Caucasus, MRSK North-West, MRSK Siberia, MRSK South, MRSK Urals, MRSK Volga.

The research analysts, strategists, or research associates principally responsible for the preparation of this research report have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors, firm revenues and overall investment banking revenues.

Analyst certification

The following analyst(s) hereby certify that the views expressed in this research report accurately reflect such research analyst's personal views about the subject securities and issuers and that no part of his or her compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report: Alexander Kotikov, Andrey Trufanov.

Senior Management

Co-Head of Sberbank CIB Ruben Vardanian, Alexander Bazarov **Chief Economist, Managing Director** Evgeny Gavrilenko

Research Department +7 (495) 258 0511

Head of Research Paolo Zaniboni +7 (495) 787 2381

Head of Equity Research Andy Smith +7 (495) 787 2381

Head of FI Research Alexander Kudrin +7 (495) 933 9847

Strategy

Chief Strategist Chris Weafer +7 (495) 933 9886

Strategist Ovanes Oganisyan +7 (495) 933 9868

Strategist/Quant Analyst Iskander Abdullaev +7 (495) 787 2346

Oil and Gas

Senior Analyst Oleg Maximov +7 (495) 933 9830

Senior Analyst Alex Fak +7 (495) 933 9829

Analyst Valery Nesterov +7 (495) 933 9832

Utilities

Senior Analyst Alexander Kotikov +7 (495) 933 9841

Analyst Andrey Trufanov +7 (495) 933 9831

Telecoms, Media and IT

Senior Analyst Anna Lepetukhina +7 (495) 933 9835

Assistant Analyst Yana Kuznetsova +7 (495) 933 9834

Metals and Mining, Chemicals

Senior Analyst Mikhail Stiskin +7 (495) 933 9839

Analyst Irina Lapshina +7 (495) 933 9852

Analyst Zaurbek Zhunisov +7 (495) 787 2302

Analyst Anton Rummyantsev +7 (495) 933 9840

Assistant Analyst Alexander Levinskiy +7 (495) 258 0511

Manufacturing, Small and Mid Cap

Senior Analyst Mikhail Ganelin +7 (495) 933 9851

Senior Analyst Igor Vasilyev +7 (495) 933 9842

Assistant Analyst Ivan Belyaev +7 (495) 933 9853

Financials

Senior Analyst Andrew Keeley +44 (20) 7936 0439

Analyst Ainur Medeubayeva +7 (727) 355 3355

Consumer

Senior Analyst Mikhail Krasnoperov +7 (495) 933 9838

Analyst Georgy Tarakanov +7 (495) 933 9858

Assistant Analyst Artur Galimov +7 (495) 933 9833

Assistant Analyst Maria Sukhanova +7 (495) 933 9856

Real Estate

Senior Analyst Julia Gordeyeva, CFA +7 (495) 933 9846

Transport

Senior Analyst Mikhail Ganelin +7 (495) 933 9851

Senior Analyst Igor Vasilyev +7 (495) 933 9842

Assistant Analyst Ivan Belyaev +7 (495) 933 9853

Economy

Senior Economist Anton Stroutchenevski +7 (495) 933 9843

Junior Economist Sergei Konygin +7 (495) 933 9848

Fixed Income

Head of FI Research Alexander Kudrin +7 (495) 933 9847

Senior Analyst Alexey Bulgakov +7 (495) 933 9866

Senior Analyst Dmitry Poliakov +7 (495) 258 0511

Analyst Sergey Goncharov +7 (495) 933 9854

Assistant Analyst Nikolay Minko +7 (495) 933 9857

Ukraine

Strategist Roman Zakharov +38 (044) 207 3780

Economist Iryna Piontkivska

Senior Analyst Yevhen Hrebeniuk, CFA

Senior Analyst Ivan Kharchuk

Senior Analyst Sergey Nevmerzhitsky

Senior Analyst Konstantin Fastovets

Analyst Maria Repko

Kazakhstan

Analyst Zaurbek Zhunisov +7 (495) 787 2302

Analyst Ainur Medeubayeva +7 (727) 355 3355

Production

Research Production Manager Jon Pyne

English Editors

Chief Editor Cole Akeson

Senior Editor Chris Clough

Senior Editor Jeremy Lanou

Editor Nathan Gardener

Editor Danielle Gill

Layout

Chief Layout Specialist Yaroslav Pavlov

Senior Layout Specialist Dmitry Orlov

Senior Layout Specialist Ekaterina Ilyina

Russian Editors and Translators

Chief Editor Konstantin Mertsalov

Senior Editor Nikolay Efremov

Senior Editor Vladimir Romanov

Senior Translator Maxim Sukhmanskiy

Senior Translator Anna Skvortsova

Senior Translator Ekaterina Pezhemskaya

Translator Ekaterina Levchenko

Translator Kirill Lyubchenko

Administrator Sergey Tkachev

Head Office, Moscow

4, Romanov Pereulok
 Moscow 125009, Russia
 Phone +7 (495) 258 0500
 Fax +7 (495) 258 0547
 +7 (495) 258 0511
 +7 (495) 258 0550
 +7 (495) 258 0510
 +7 (495) 258 0525
 +7 (495) 258 0555
 +7 (495) 258 0572
 +7 (495) 258 0530

Research
 Equity Sales
 Fixed Income Sales
 Trading
 Options Trading
 Structured Products
 Treasury Products

St Petersburg

“Petrovski Fort” Business Center
 4, let. A, Finlyandski prospect
 St. Petersburg, 194153, Russia
 Phone +7 (812) 332 3300; fax +7 (812) 332 6657

Chelyabinsk

Office 507, Business Center “Arkaim Plaza”
 38, ul. Karla Marksa
 Chelyabinsk, 454091, Russia
 Phone +7 (351) 778 6120; fax +7 (351) 778 6121

Ekaterinburg

Office 504-505, Business Center “Palladium”, 5th floor
 10, ul. Khokhryakova
 Ekaterinburg, 620014, Russia
 Phone +7 (343) 310 7000; fax +7 (343) 379 2164

Irkutsk

19, ul. Lenina
 Irkutsk, 664003, Russia
 Phone/fax +7 (3952) 563 636

Kazan

“Suvar Plaza” Office Center
 6, ul. Spartakovskaya
 Kazan, 420107, Russia
 Phone/fax +7 (843) 526 5522

Khabarovsk

“Khabarovsk City” Business Center
 22a, ul. Postysheva
 Khabarovsk, 680030, Russia
 Phone +7 (4212) 415 162; fax +7 (4212) 415 165

Krasnodar

41, ul. Krasnaya
 Krasnodar, 350000, Russia
 Phone/fax +7 (861) 210 6061

Krasnoyarsk

26, Prospekt Mira
 Krasnoyarsk, 660049, Russia
 Phone +7 (3912) 91 8100; fax +7 (3912) 918 102

Naberezhnye Chelny

52/16 (3/01), Prospekt Mira
 Naberezhnye Chelny, 423810, Russia
 Phone +7 (8552) 39 5100; fax +7 (8552) 395 103

Nizhni Novgorod

“Lobachevski Plaza” Business Center
 10/16, ul. Alekseevskaya, 6 etazh
 Nizhni Novgorod, 603006, Russia
 Phone +7 (831) 220 1949

Novosibirsk

1, Prospekt Dimitrova
 Novosibirsk, 630004, Russia
 Phone +7 (383) 210 5502; fax +7 (383) 210 5503

Perm

58, ul. Lenina
 Perm, 614000, Russia
 Phone +7 (342) 218 6146; fax +7 (342) 218 6149

Rostov-on-Don

206, ul. Krasnoarmeyskaya
 Rostov-on-Don, Russia
 Phone/fax +7 (863) 268 8899

Samara

204, ul. Molodogvardeiskaya
 Samara, 443001, Russia
 Phone +7 (846) 378 0000; fax +7 (846) 273 3328

Tyumen

2/9A, ul. 8 Marta, 2 etazh
 Tyumen, 625000, Russia
 Phone +7 (3452) 39 5450; fax +7 (3452) 395 451

Ufa

100/1, ul. Dostoevskogo
 Ufa, 450077, Russia
 Phone +7 (347) 279 8880; fax +7 (347) 279 8881

Vladivostok

6, ul. Mordovtseva
 Vladivostok, 690091, Russia
 Phone +7 (423) 249 9925; fax +7 (423) 249 9926

Volgograd

11, ul. Mira
 Volgograd, 400131, Russia
 Phone +7 (8442) 96 8211; fax +7 (8442) 335 198

Voronezh

43, ul. Plekhanovskaya
 Voronezh, 394000, Russia
 Phone +7 (4732) 35 5647; fax +7 (4732) 619 961

Yaroslavl

22, ul. Trefoleva
 Yaroslavl, 150000, Russia
 Phone +7 (4852) 67 0407; fax +7 (4852) 670 406

Troika Dialog USA

Carnegie Hall Tower
 152 West 57th Street, 44th floor
 New York, NY 10019
 Phone +1 (212) 300 9600; fax +1 (212) 300 9601

Sberbank CIB (UK) Limited

85 Fleet Street, 4th floor
 London, EC4Y 1AE
 Phone +44 (20) 7583 3257; fax +44 (20) 7822 0779

Troika Dialog Ukraine

6, Rylskiy Pereulok, 6th floor
 Kyiv 01025, Ukraine
 Phone +380 (44) 207 3780; fax +380 (44) 207 3784

Troika Dialog Kazakhstan

Block B, Business Center “Hermes”, 5th floor
 101, ul. Tole Bi,
 Almaty, Kazakhstan
 Phone +7 (727) 355 3355; fax +7 (727) 355 3356

Troika Dialog Group, Cyprus

57 Digeni Akritas Ave
 Zachariades Building, Office 301
 Nicosia CY-1070
 Phone +357 (22) 87 5380; fax +357 (22) 875 393

This Sberbank Investment Research report is prepared by CJSC “Sberbank CIB” (together with its affiliate, “Sberbank CIB”) and provides general information only. Neither the information nor any opinion expressed constitutes a recommendation, an offer or an invitation to make an offer, to buy or sell any securities or other investment or any options, futures or derivatives related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized.

Investors should note that income from such securities or other investments, if any, may fluctuate and that price or value of such securities and investments may rise or fall. Accordingly, investors may receive back less than originally invested. Past performance is not necessarily a guide to future performance.

Any information relating to the tax status of financial instruments discussed herein is not intended to provide tax advice or to be used by anyone to provide tax advice. Investors are urged to seek tax advice based on their particular circumstances from an independent tax professional.

Foreign currency rates of exchange may adversely affect the value, price or income of any security or related investment mentioned in this report. In addition, investors in securities such as ADRs or GDRs, whose values are influenced by the currency of the underlying security, effectively assume currency risk.

The information contained herein has been obtained from, and any opinions herein are based upon, sources believed to be reliable, but no representation is made that it is accurate or complete and it should not be relied upon as such. All such information and opinions are subject to change without notice.

From time to time, Sberbank CIB or its affiliates or the principals or employees of Sberbank CIB or its affiliates may have or have had positions or derivative positions in the securities or other instruments referred to herein or make or have made a market or otherwise act or have acted as principal in transactions in any of these securities or instruments or may provide or have provided investment banking or consulting services to or serve or have served as a director or a supervisory board member of a company being reported on herein.

Sberbank CIB maintains strict internal policies, which are designed to manage any actual or potential conflicts of interest from harming the interests of investors.

Further information on the securities referred to herein may be obtained from Sberbank CIB upon request.

This report may not be reproduced, copied nor extracts taken from it, without the express written consent of Sberbank CIB.

For residents of the United States. This research report is being distributed in the United States by TROIKA DIALOG USA, INC., which accepts responsibility for the contents hereof. Any U.S. person receiving this report who wishes to effect transactions in any securities referred to herein should contact TROIKA DIALOG USA, INC., not its affiliate. Further information on the securities referred to herein may be obtained from TROIKA DIALOG USA, INC. upon request.

For residents of the United Kingdom and rest of Europe. Except as may be otherwise specified herein, this research report is communicated to persons who are qualified as eligible counterparties or professional clients (as defined in the FSA Rules) and is made available to such persons only. The information contained herein is not intended for, and should not be relied upon by, retail clients (as defined in the FSA Rules).