

Sector update
26 September 2012

Target prices and ratings

Company	TP (RBL)		Price	Rating	
	New	Old (RBL)		New	Old
Generators					
Rushydro	0.93	0.90	0.86	Hold	Hold
InterRAO UES	0.029	0.028	0.03	Hold	Hold
OGK-1	n/a	0.67	0.61	NR	Hold
OGK-3	n/a	1.12	1.01	NR	Hold
E.ON Russia (OGK-4)					
Enel OGK-5	3.30	3.37	2.73	Buy	Buy
Mosenergo	1.92	1.53	1.37	Buy	Buy
TGK-1	0.009	0.009	0.01	Buy	Buy
OGK-2	0.48	0.48	0.42	Hold	Hold
Grids					
Federal Grid Company	0.18	0.20	0.23	Sell	Sell
Holding MRSK	2.20	1.79	2.29	Hold	Hold
Moscow Utd Grid	1.24	1.44	1.25	Hold	Hold
MRSK Center	1.04	0.89	0.63	Buy	Buy

All prices as of close on 24 Sept 2012

Coverage of OGK-1 and OGK-3 is terminated due to their delisting

Source: Company data, ING estimates

FCF timing and EV/EBITDA

Company	FCF breakeven year	EV/EBITDA (x)		
		12F	14F	16F
Generators				
Rushydro	2014F	5.7	4.3	4.1
OGK-1	2016F	7.7	9.0	4.7
OGK-3	2015F	13.6	4.7	2.5
E.ON Russia	2011	4.7	5.2	2.8
Enel OGK-5	2013F	6.1	5.1	4.2
Mosenergo	2015F	2.9	4.5	2.8
TGK-1	2014F	6.0	3.7	2.6
OGK-2	2015F	13.4	10.5	3.9
Grids				
FSK	2019F	5.2	5.4	5.1
Holding MRSK	2016F	4.0	4.3	3.4
Moscow Utd Grid	2016F	2.5	3.2	2.8
MRSK Center	2018F	2.6	2.3	1.9

All prices as of close on 24 Sept 2012

Source: Company data, ING estimates

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Russian electricity

More clarity, less Rosneftegaz

Recent newsflow suggests that Rosneftegaz's potential expansion into the Russian electricity sector is likely to be more limited than envisaged in 2Q12. If confirmed, this should reduce risks for minority shareholders of government-controlled utilities, especially Rushydro, Federal Grid Company (FSK) and Holding MRSK. We remain selective in our investment preferences. Having incorporated 1H12 results into our forecasts, we continue to focus on companies that are approaching the end of the investment cycle and should generate positive FCF during 2012-14F.

M&A with state involvement; Rosneftegaz's role appears more limited. Recent newsflow (from the Russian government) suggests that Rosneftegaz's expansion into the electricity sector is unlikely to focus on Rushydro and unified FSK/Holding MRSK, with InterRAO being a more likely target, in our view. While this scenario is yet to receive ultimate approval from President Putin, we think its realisation would reduce risks for minority shareholders of Rushydro, FSK and Holding MRSK.

Forecasts and TPs updated on the back of 1H12 results and related communications. Among generators, we increase FY12 EBITDA forecasts and TP for Mosenergo and reduce them for E.ON Russia, while also increasing forecasts for OGK-2. Among grids, we increase FY12 EBITDA forecasts and TPs for individual regional ones (MRSKs), but reduce them for FSK.

Electricity market: liberalised prices show positive dynamics despite deceleration of demand. Although electricity demand has decelerated over the last three quarters, liberalised prices in European Russia grew by c.14% YoY in 3Q12, in line with a 15% hike in the regulated gas prices, suggesting a YoY increase in nominal fuel spread. Liberalised prices in Siberia have shown solid growth too (c.30% YoY in 3Q12).

Investment preferences: we continue to like companies with visible positive FCF because of medium-term uncertainties with M&A, regulation and the macroeconomic environment (affecting demand and liberalised prices). Key examples include E.ON Russia (FCF positive in 2011), Enel OGK-5 (2013F) and TGK-1 (2014F). We remain cautious on those with remote positive FCF, with FSK (2019F) being the most apparent example.

Generators (large-cap; government-controlled): we remain cautious both on Rushydro and InterRAO. Rushydro's excellent core asset base is still overshadowed by growing capex (both for maintenance of core assets and Far East) and discussed new share issues. InterRAO's FCF is not sufficiently close to balance the complexity of its asset portfolio and remaining risks related to the possible arrival of Rosneftegaz.

Grids (large-cap; government-controlled): cautious on both FSK and Holding MRSK; prefer Holding MRSK in relative terms. We think FSK is overvalued (both in absolute terms and relative to Holding MRSK) even taking into account potential favourable terms of its integration with Holding MRSK.

Generators (mid-cap): we like the ones with visible positive FCF, including foreign-controlled OGKs, E.ON Russia (2011) and Enel OGK-5 (2013F), and Gazprom-controlled TGKs TGK-1 (2014F) and Mosenergo (which appears undervalued, despite relatively remote positive FCF, 2015F).

Grids (mid-cap): Although its positive FCF is remote (after 2016F), MRSK Center appears undervalued based on current tariff hikes and capex assumptions.

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M&A with government involvement

While the scenarios of M&A deals involving government-controlled utilities are still not fully defined, recent comments by government officials (PM Medvedev, Deputy PM Dvorkovich) and company's management (Federal Grid Company's CEO Budargin) brought more clarity on likely outcomes. Below, we outline possible M&A scenarios and their implications separately for state-controlled generators (Rushydro, InterRAO) and grids (Federal Grid Company, Holding MRSK).

Generators: Rosneftegaz unlikely to buy into Rushydro

M&A scenarios

September's proposals and comments by government officials (PM Medvedev, Deputy PM Dvorkovich, Finance Minister Siluanov) suggest that the state-related M&A activities in the generation sector could involve the following steps:

- **Rosneftegaz might repay part of its funds to the state** (in the form of dividends). This proposal has been supported by Prime Minister Medvedev (as well as Deputy PM Dvorkovich), but ultimate approval by President Putin is still pending. While the government envisaged that Rosneftegaz would repay the bulk of its funds (RBL123bn out of RBL130bn), we do not exclude that this amount could be reduced to enable Rosneftegaz's to engage in M&A activities in Russian electricity utilities (although more limited than initially envisaged).
- **Government might purchase new share issue in Rushydro**, paying with the dividends to be received from Rosneftegaz. According to Deputy PM Dvorkovich, this deal is supported by the government.
- **Rosneftegaz might acquire part of InterRAO shares**, namely those that are controlled by various state-controlled entities. In particular, Rosneftegaz may target some of the shares controlled by the Russian state itself (15%), FSK (20%), Rushydro (5%) as well as InterRAO's subsidiaries (11%, quasi-treasury shares). A possibility of this step was indicated by Deputy PM Dvorkovich (cited by *Vedomosti*).

While these steps have not yet received the ultimate approval of President Putin, we believe there is a significant chance that they will materialise at least partially. At the very least, we expect Rushydro to remain under the direct control of the state, with Rosneftegaz unlikely to be involved in the company's ownership structure.

We are less convinced about the ultimate ownership structure of InterRAO and cannot exclude that Rosneftegaz may consolidate some of the shares currently owned by other state agents (see above). We highlight that even the government is not fully consistent in its communications regarding the target ownership structure of Rosneftegaz. While the latest approach by PM Medvedev (to have Rosneftegaz repay 95% of its funds to the budget –see above) implies that Rosneftegaz would not have the resources to acquire shares of InterRAO, Deputy PM Dvorkovich earlier signalled a possibility of partial consolidation of InterRAO's shares by Rosneftegaz.

Economic implications

While we still do not see strong economic arguments to justify the presence of an additional intermediary (Rosneftegaz) between the Russian state and the state-controlled utilities, we think that the scenario above could be a relatively good compromise between

the positions of involved parties, satisfying (1) the government's preference for a streamlined ownership structure in the sector, (2) Rosneftgaz's M&A appetite and (3) utilities' needs for additional financing. The advantages of this outcome would be:

- **Ownership structure of Rushydro would remain streamlined**, with the state owning the controlling stake directly (ie, without intermediation of Rosneftgaz); the same might apply to unified FSK/Holding MRSK – see below
- **Rosneftgaz's appetite for M&A in electricity generation would be partially satisfied**, as Rosneftgaz (chaired by Rosneft's President Sechin) might become a major shareholder of InterRAO (which used to be chaired by Mr Sechin in the past)
- **Rosneftgaz's funds would be channelled for financing capex of other utilities**, as the potential sellers of InterRAO shares (FSK, Rushydro and InterRAO itself) could use the proceeds to finance their capex

Stock implications

Despite its economic merits, even if the abovementioned scenario is realised we would remain cautious on both state-controlled large-cap generators (Rushydro and InterRAO) due to the following risks.

- **For Rushydro**, its excellent asset base remain overshadowed by increasing capex (both maintenance of core assets and development of Far East) and the possibility of new share issues, even if the company remains under direct state control.
- **For InterRAO**, the positive FCF is not sufficiently visible to balance the complexity of its asset portfolio and remaining risks of Rosneftgaz's involvement.

Details of our valuation of Rushydro (DCF-based) and InterRAO (SOTP-based) are presented on the corresponding company pages.

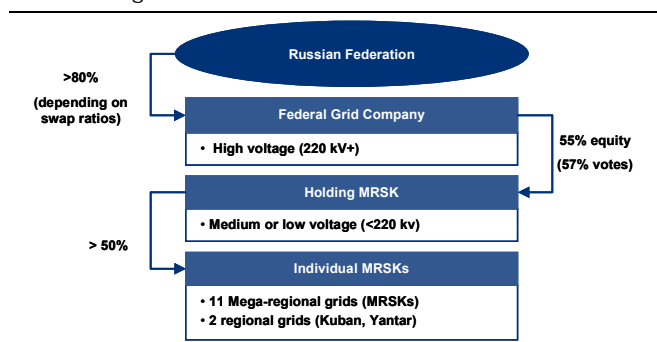
Grids: Rosneftegaz unlikely to participate in integration of FSK and Holding MRSK

M&A scenarios

The Russian state still seems committed to the idea of ownership integration of FSK and Holding MRSK, but the specifics of the integration remain undefined. In our previous sector update¹, we outlined the following possible principal scenarios for this integration.

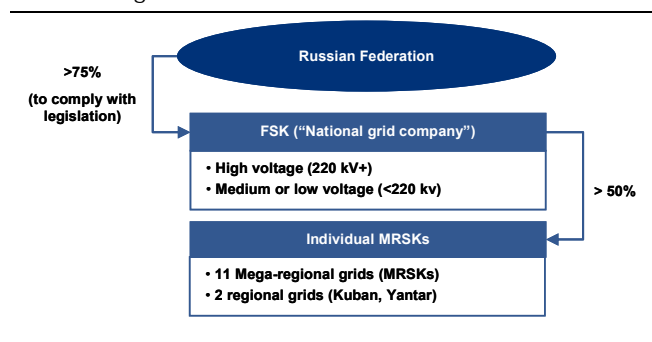
- **'Common umbrella'**: the Russian state would transfer its stakes in FSK (79%) and Holding MRSK (57% of votes) to a new entity. This umbrella entity (National Grid Company) could be controlled either by the Russian state or by Rosneftegaz.
- **'Partial integration'**: the Russian state would transform Holding MRSK into a subsidiary of FSK by selling the controlling stake (57%) to FSK in a shares-for-shares deal (see Figure 1).
- **'Full integration'**: FSK merges with Holding MRSK (see Figure 2). The terms should be set so that the Russian state keeps the >75% stake in the merged company, which creates a motivation to value FSK's shares (79% government-owned) favourably in relation to Holding MRSK (57% government owned).

Fig 1 Integration of FSK and Holding MRSK: 'partial integration' scenario



Source: Company data, ING estimates

Fig 2 Integration of FSK and Holding MRSK: 'full integration' scenario



Source: Company data, ING estimates

Recent comments by FSK CEO Budargin and government sources cited by *Kommersant*, suggest that the integration of FSK and Holding MRSK is likely to start with the 'partial integration' scenario (ie, Holding MRSK would become a subsidiary of FSK), which could be followed by voluntarily shares-for-shares and cash-for-shares buyouts by FSK of Holding MRSK minorities. Specifically, the integration may include the following consecutive steps.

- **Shares-for-shares buyout of the government's stake in Holding MRSK**: FSK might buy the government's stake in Holding MRSK (57% of the voting shares) in exchange of newly issued shares of FSK.
- **Shares-for-shares buyout of minorities of Holding MRSK**: FSK might propose to minority shareholders of Holding MRSK a swap for newly issued FSK shares.
- **Cash-for-shares buyout of minorities Holding MRSK**: FSK might propose to minority shareholders of Holding MRSK that they sell their shares for cash.

Similarly to generation (see above), this scenario has not yet received ultimate approval.

Economic implications

While the economic merits of FSK/Holding MRSK integration remain unconvincing to us, we believe that the highlighted scenario ('partial integration', potentially followed by

¹ Fewer quasi improvements, more maintenance capex (9 August 2012)

shares-for-shares and cash-for-shares buyout of Holding MRSK minorities) carries less risk for minority shareholders of FSK and Holding MRSK than the initially discussed ‘common umbrella’ scenario with involvement of Rosneftegaz. The key reason is that this scenario would keep the ownership structure of FSK relatively streamlined, with the controlling stake remaining under direct ownership of the Russian government.

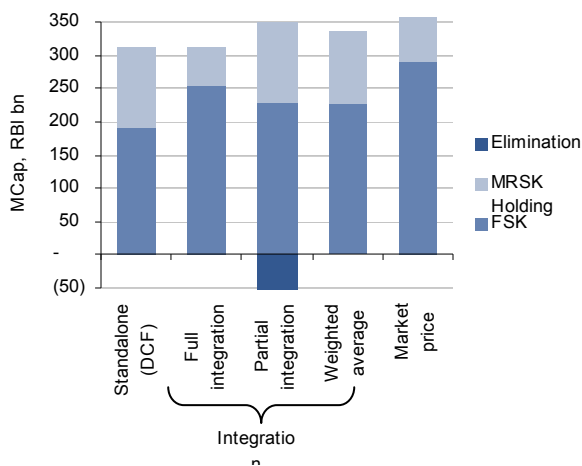
Stock implications

On the technical side, we believe that the potential ‘full’ or ‘partial’ integration could lead to a partial reallocation of value from Holding MRSK, as FSK (79% state owned) may enjoy attractive valuation relative to Holding MRSK (57% state owned) in order to comply with legal restrictions (see Figure 3). The reasons for favourable valuation of FSK versus Holding MRSK differ by scenario and are as follows.

- **‘Partial’ integration (FSK buys government’s stake in Holding MRSK in shares-for-shares deal):** the newly issued shares of FSK cannot be valued below their face value, which currently represents over 50% premium to the market price (market price of RBL0.23/share versus face value of RBL0.50/share).
- **‘Full’ integration (FSK merges with Holding MRSK):** the government’s stake in the merged company should stay above 75%, which creates motivation for a generous valuation of FSK (79% government-owned), relative to Holding MRSK (57% government-owned).

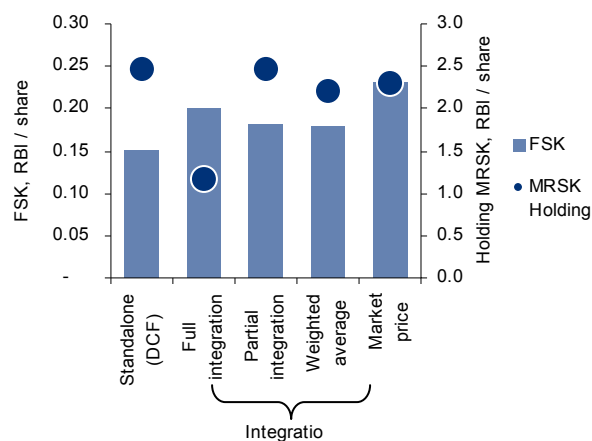
Correspondingly, our target prices for FSK and Holding MRSK are adjusted for the possible effect of the mergers, with DCF-derived TPs for FSK and Holding MRSK used as a starting point in the valuation process (see Figure 3).

Fig 3 Market cap of FSK and Holding MRSK (market and fair, depending on integration scenario)



Source: Company data, ING estimates

Fig 4 Share prices of FSK and Holding MRSK (market and fair, depending on integration scenario)



Source: Company data, ING estimates

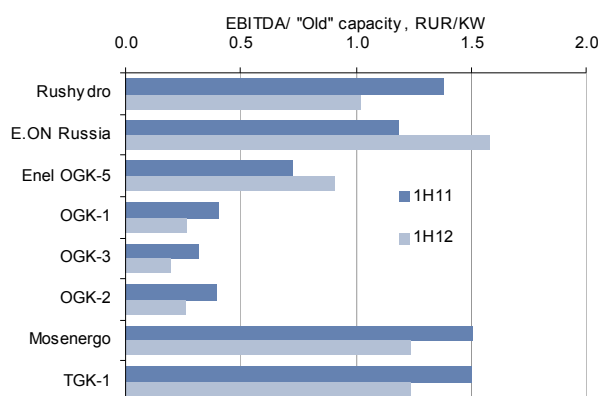
Details of the valuation of FSK and Holding MRSK as standalone companies (using DCF), as well as integration-related adjustments to the TPs, are presented on the corresponding company pages.

1H12 results and FY12 forecasts

Generators

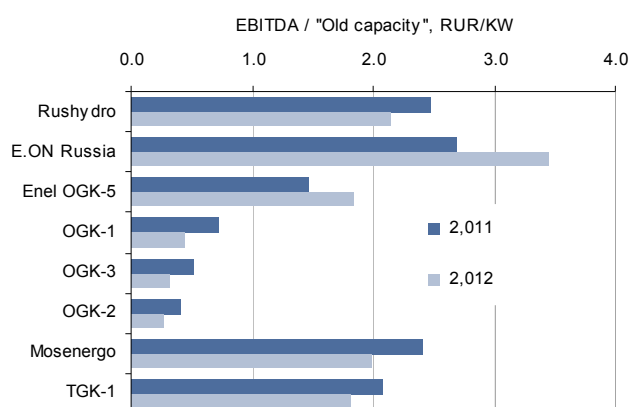
The 1H12 results of generators reaffirmed the main trends visible in 1Q12 results and discussed in our previous sector update². Most of the generators (except for the foreign-controlled E.ON Russia and Enel OGK-5) demonstrated a YoY decline in profitability (see Figure 5), largely driven by a YoY decline in liberalised prices in 1H12 (see the discussion in the section *Electricity market*).

Fig 5 EBITDA/'old' capacity



Source: Company data, ING estimates

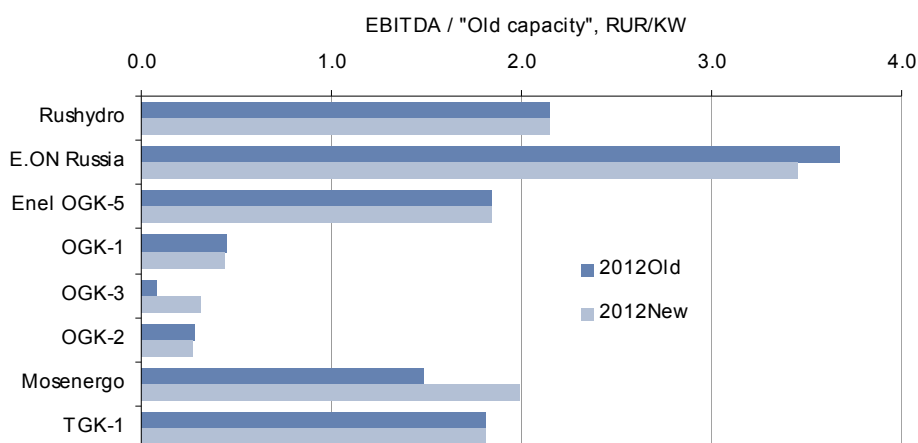
Fig 6 EBITDA/'old' capacity



Source: Company data, ING estimates

At the same time, based on the 1H12 results and related communications (including company guidance), we fine-tune our FY12 estimates (see Figure 7).

Fig 7 EBITDA/'old' capacity, FY12: 'old' and 'new'



Source: ING estimates

Key changes in forecasts include:

- Raised FY12 EBITDA estimates: Mosenergo, OGK-3, OGK-2
- Reduced FY12 EBITDA estimates: E.ON Russia

The change in FY12 EBITDA estimates has triggered a change in our DCF-derived TPs for Mosenergo and E.ON Russia. We maintain the target price for OGK-2 because of the modest price of new share issue (RBL0.45).

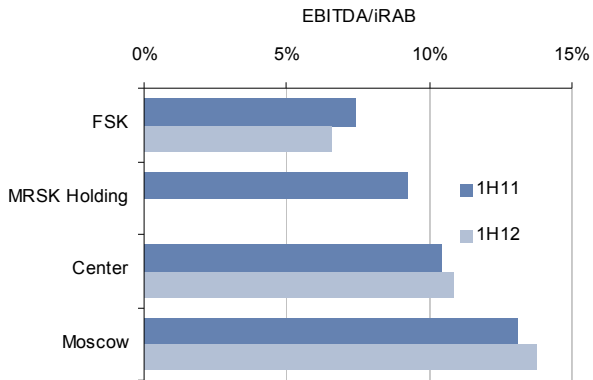
² Fewer quasi-improvements, more maintenance capex (9 August 2012)

Grids

The YoY dynamics of the grids' profitability in 1H12 has been more positive than the one for the generators, partly because the grids are not exposed to the YoY decline in the liberalised prices for electrical energy in 1H12 (see Figure 8).

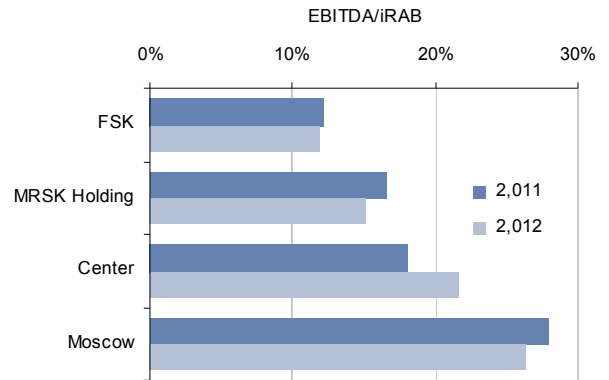
Moreover, the individual regional grids (MRSKs) under our coverage demonstrated a YoY increase in 1H EBITDA despite the government's efforts to surpass the growth in grids tariff, including a delay in the regulate tariff hike from 1 January 2012 to 1 July 2012.

Fig 8 EBITDA/iRAB



Source: Company data, ING estimates

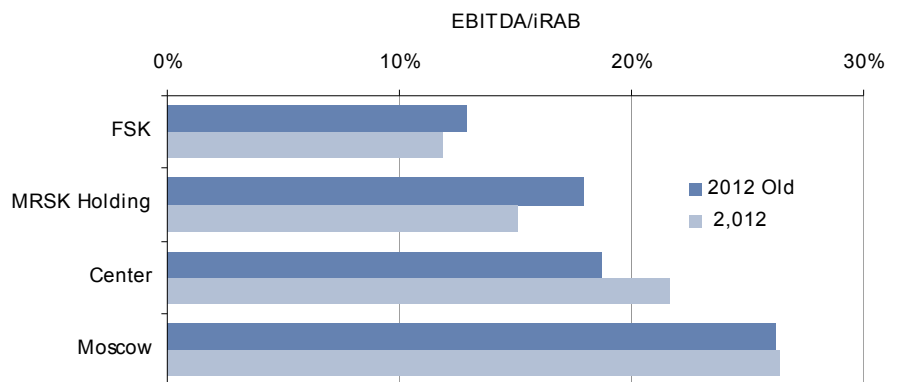
Fig 9 EBITDA/iRAB, FY



Source: Company data, ING estimates

Healthy financial results for individual grids in 1H12 have led us to increase our FY forecasts (see Figure 10).

Fig 10 EBITDA/iRAB: FY12: 'old' and 'new'



Source: ING estimates

Key changes in estimates include:

- **Raised FY12 EBITDA estimates:** MRSK Center and Moscow United Grid
- **Reduced FY12 EBITDA estimates:** FSK

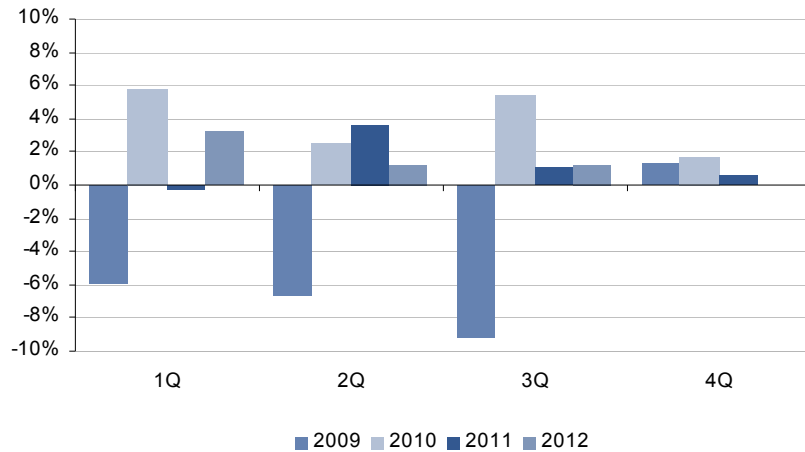
The changes in FY12 EBITDA estimates have triggered a change in our DCF-derived TPs for MRSK Center and Moscow United Grid.

Electricity market

Demand decelerates

On a quarterly basis, Russian electricity demand has been decelerating in 2012, with the growth slowing down from c.3.3% YoY in 1Q to c.1.2% in 2Q and c.1.2% in 3Q³ (Figure 11).

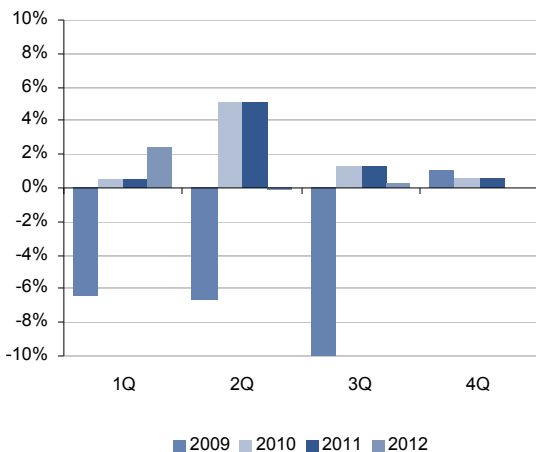
Fig 11 Electricity demand change (YoY): Russia-wide (excl. isolated regions)



Note: ING estimates based on weekly reporting by Electricity Market Council
Source: Electricity Market Council, ING estimates

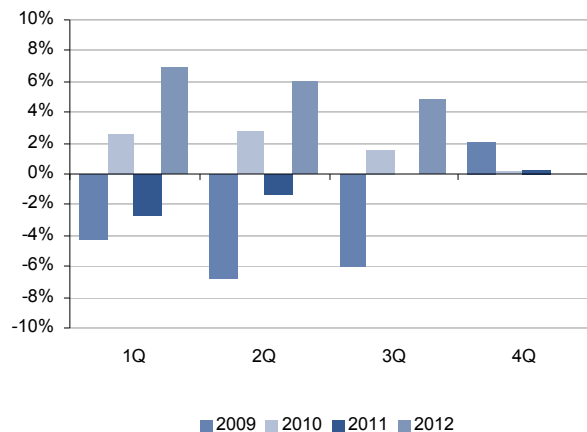
Country-wide growth YTD has mostly been driven by Siberia, where demand grew by c.7% in 1Q, 6% in 2Q and c.4% in 3Q (see Figure 13). Growth in European Russia remained modest at c.2.3% in 1Q, c.0% in 2Q and 0.4% in 3Q (see Figure 12).

Fig 12 Electricity demand change (YoY): European Russia



Note: ING estimates based on weekly reporting by Electricity Market Council
Source: Electricity Market Council, ING estimates

Fig 13 Electricity demand change (YoY): Siberia



Note: ING estimates based on weekly reporting by Electricity Market Council
Source: Electricity Market Council, ING estimates

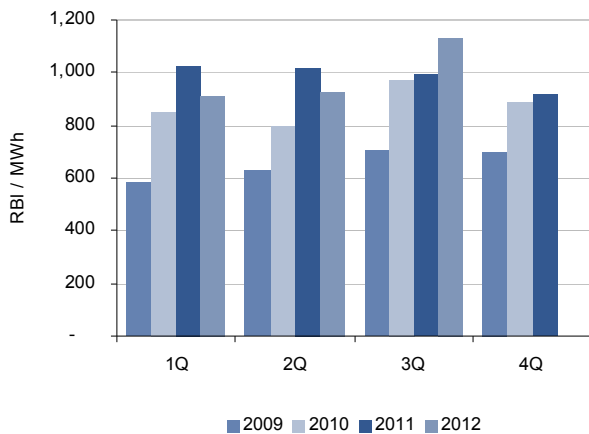
³ Our estimates of quarterly demand growth are based on weekly reporting by the Electricity Market Council.

Electricity prices: proper reaction to gas price hikes

European Russia

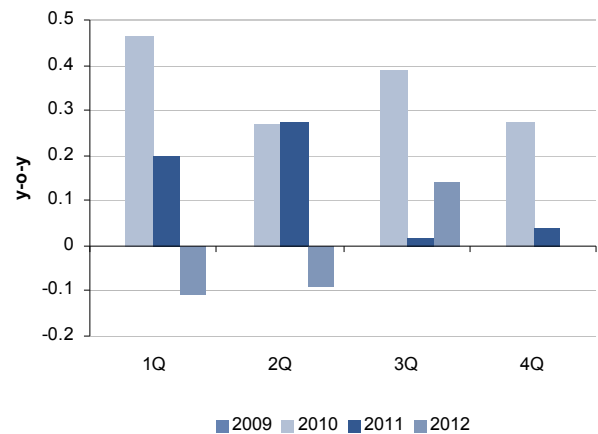
After decline in 1H12 (c.-11% YoY in 1Q12 and c. -9% YoY in 2Q12) the liberalised prices for electrical energy in European Russia grew by c.14% YoY in 3Q12 (see Figures 14 and 15).

Fig 14 Liberalised prices for electrical energy (RBL/MWh): European Russia



Note: ING estimates based on weekly reporting by Electricity Market Council
Source: Electricity Market Council, ING estimates

Fig 15 Change in liberalised prices for electrical energy (YoY): European Russia



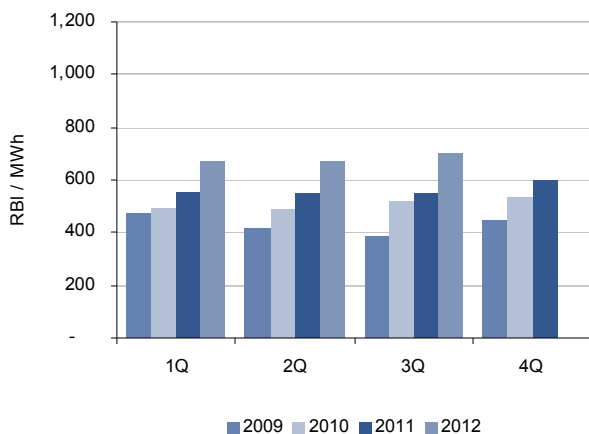
Note: ING estimates based on weekly reporting by Electricity Market Council
Source: Electricity Market Council, ING estimates

The hike in 3Q12 is in line with the 15% hike in the regulated gas prices on 1 July 2012 suggesting a nominal increase in the fuel spread.

Siberia

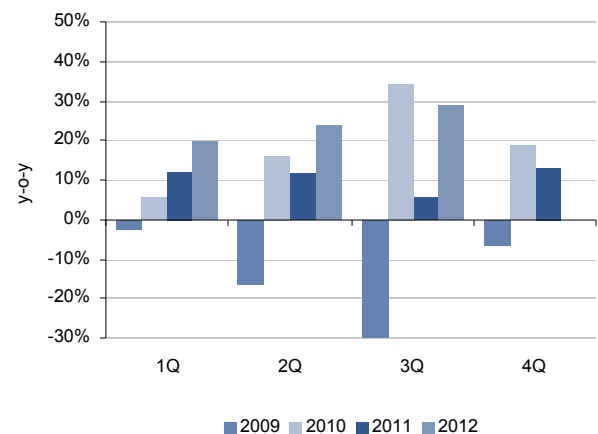
In Siberia, liberalised prices for electrical energy increased by c.19% YoY in 1Q12, c.24% in 2Q12 and c.30% in 3Q12 (see Figures 16 and 17).

Fig 16 Liberalised prices for electrical energy (RBL/MWh): Siberia



Note: ING estimates based on weekly reporting by Electricity Market Council
Source: Electricity Market Council, ING estimates

Fig 17 Change in liberalised prices for electrical energy (YoY): Siberia



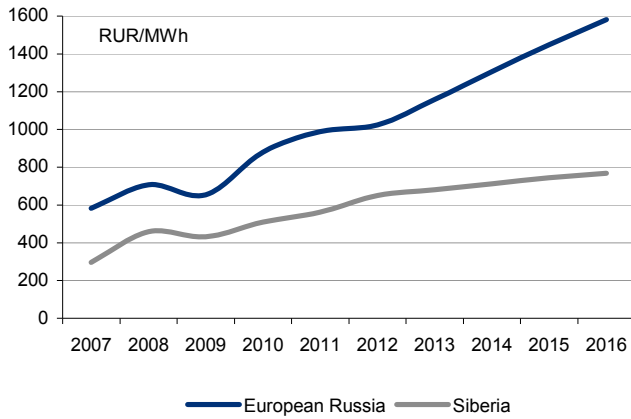
Note: ING estimates based on weekly reporting by Electricity Market Council
Source: Electricity Market Council, ING estimates

The strong growth in prices is partly explained by the strong growth in electricity demand in Siberia (see previous section for discussion of demand).

We expect further growth in liberalised prices

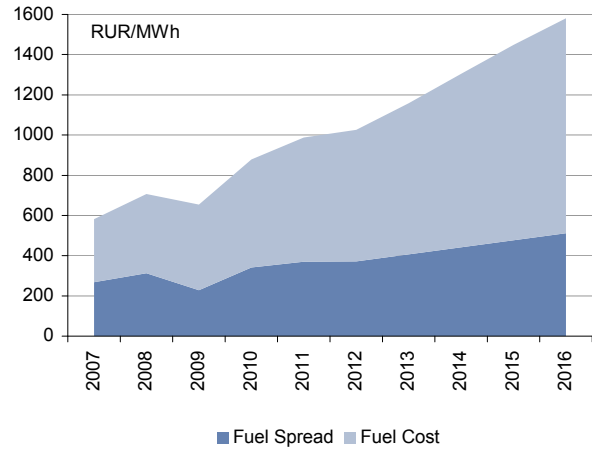
In the medium term, we expect the liberalised prices for electrical energy to continue increasing both in European Russia and Siberia (see Figure 18).

Fig 18 Liberalised prices for electrical energy (RBL/MWh)



Source: ING estimates

Fig 19 Decomposition of liberalised prices for electrical energy in European Russia (RBL/MWh)



Source: ING estimates

We note that the expected growth in liberalised prices in European Russia would be driven mostly by growth in the underlying fuel costs on the back of planned growth in Russian domestic prices (see Figure 19). While we also expect some expansion in the fuel spread (ie, the spread between the price and fuel costs), its contribution to the resulting growth in liberalised prices for electrical energy is expected to be much less significant than the contribution from growth in fuel prices.

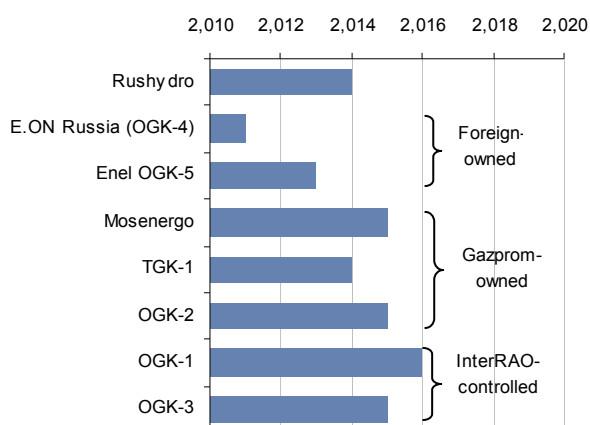
Valuation comparisons

Positive FCF timing

Due to uncertainties with demand growth, regulation and ownership structure, a visible horizon for achieving a positive FCF is an important stock selection criterion, in our view.

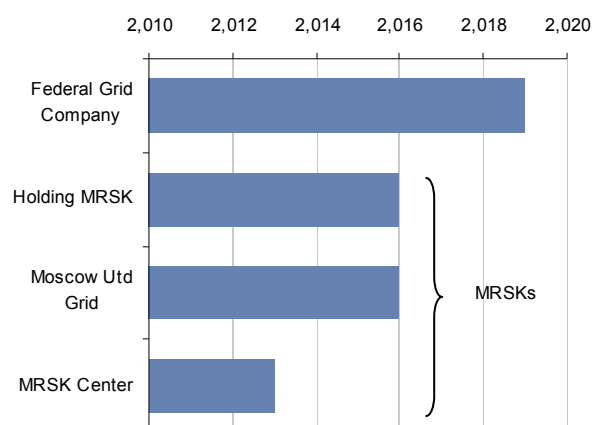
We expect the stocks under our coverage to achieve positive FCF at different points in time, with generators (see Figure 20) generally achieving positive FCF earlier than the grids (see Figure 21).

Fig 20 FCF breakeven year: generators (INGF)



Source: Company data, ING estimates

Fig 21 FCF breakeven year: grids (INGF)



Source: Company data, ING estimates

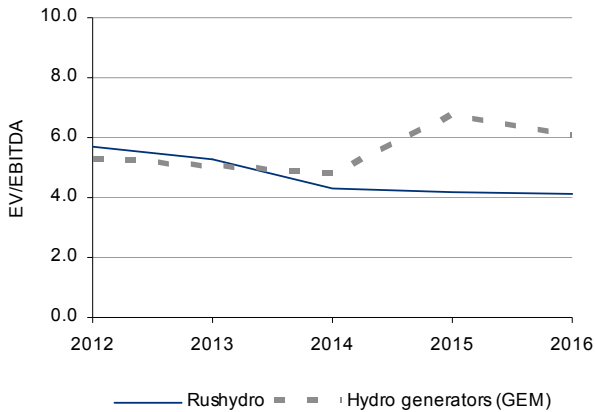
While generally more close than grids to positive FCF, the generators find themselves at different stages of realising their investment cycle. In particular, the generators can be split into the three segments:

- **Generators with short-term positive FCF:** E.ON Russia (2011), Enel OGK-5 (2013F)
- **Generators with medium-term positive FCF:** Rushydro (2014F), TGK-1 (2014F)
- **Generators with longer-term positive FCF:** InterRAO's gencos (OGK-1, OGK-3), Mosenergo, OGK-2

Relative valuations: generators

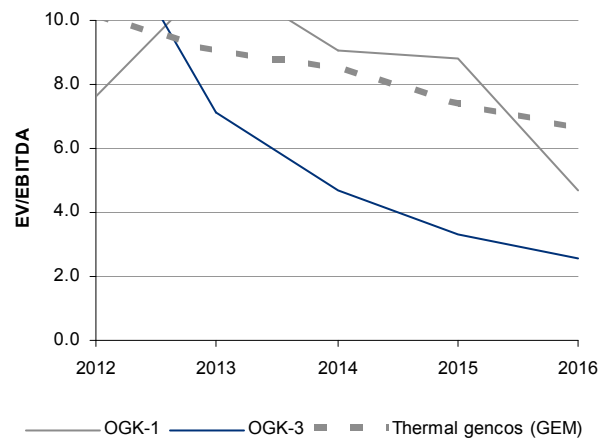
While most of the Russian generators under our coverage traded at a discount to GEM peers (based on Bloomberg consensus for peers), this discount is generally lower for large-cap generators (Rushydro, InterRAO group) than for mid-cap ones (foreign-controlled and Gazprom-controlled).

Fig 22 Rushydro vs GEM hydro gencos: EV/EBITDA (x)



Source: Company data, Bloomberg consensus for GEM peers, ING estimates

Fig 23 InterRAO's gencos vs GEM thermal gencos: EV/EBITDA (x)

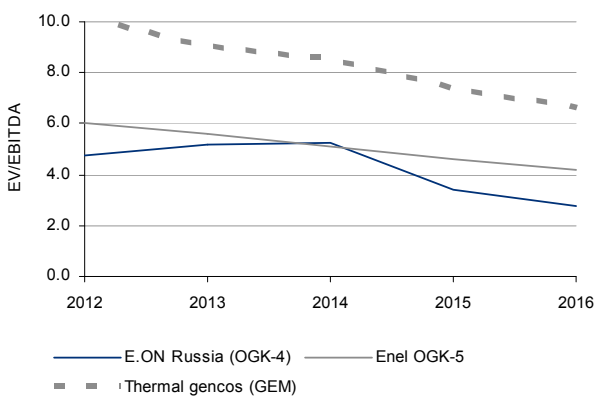


Source: Company data, Bloomberg consensus for GEM peers, ING estimates

We would like to highlight the following points.

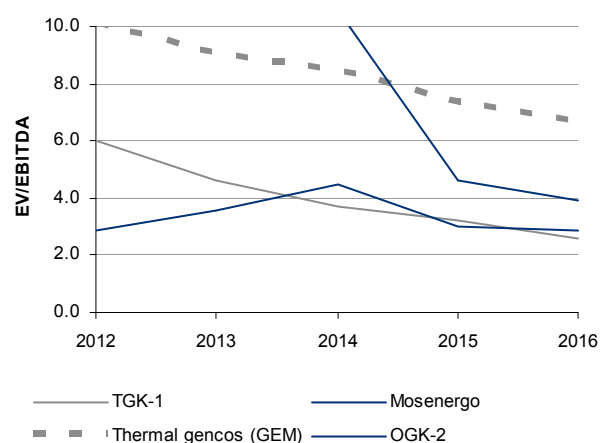
- **For large-cap generators (Rushydro and InterRAO), the discount to GEM peers becomes significant only in the medium term (2015-16F), while remaining relatively small in the short term (2012-13F).** See Figure 22 (Rushydro) and Figure 23 (InterRAO group).

Fig 24 Foreign-owned gencos vs GEM thermal gencos: EV/EBITDA (x)



Source: Company data, Bloomberg consensus for GEM peers, ING estimates

Fig 25 Gazprom's gencos vs GEM thermal gencos: EV/EBITDA (x)



Source: Company data, Bloomberg consensus for GEM peers, ING estimates

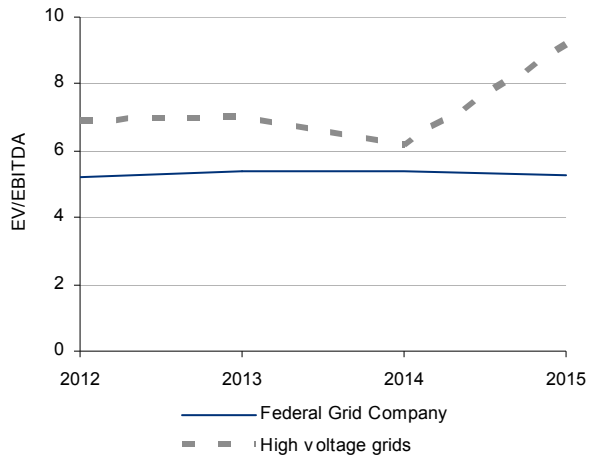
- **For mid-cap generators (foreign-controlled and Gazprom-controlled), the discount to GEM peers is significant already in the short term (2012-14F).** See Figure 24 (foreign-controlled gencos) and Figure 25 (Gazprom-controlled gencos) for illustration.

Background data for the charts is provided in Figure 31 (Appendix 1).

Relative valuations: grids

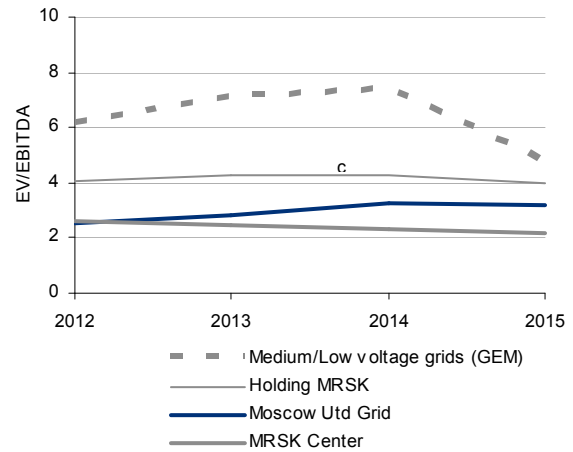
Grids under our coverage are also traded with a discount to GEM peers: see Figure 26 for FSK and Figure 27 for the regional grids (MRSKs).

Fig 26 Federal Grid Company vs GEM high-voltage transmission: EV/EBITDA(x)



Source: Company data, Bloomberg consensus for GEM peers, ING estimates

Fig 27 MRSKs vs GEM medium/low-voltage transmission: EV/EBITDA(x)



Source: Company data, Bloomberg consensus for GEM peers, ING estimates

However, we would like to highlight the following points:

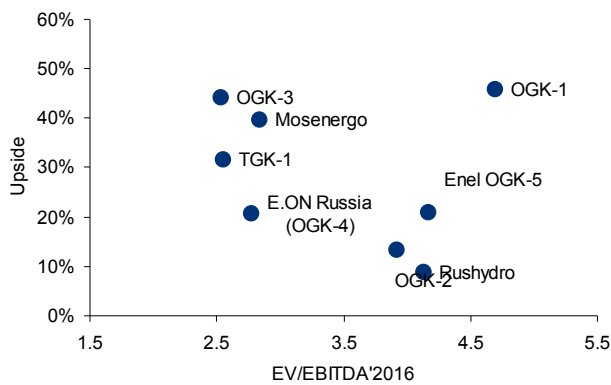
- **Large-cap grids (FSK, Holding MRSK) show a less significant discount to GEM peers** than mid-cap grids (MRSK Center, Moscow United Grid)
- **Holding MRSK is traded more expensively than the underlying parts** that we cover (MRSK Center, Moscow United Grid)

Background data for the charts is provided in Figure 32 (Appendix 1).

Upside (ex. M&A) vs EV/EBITDA 2016F

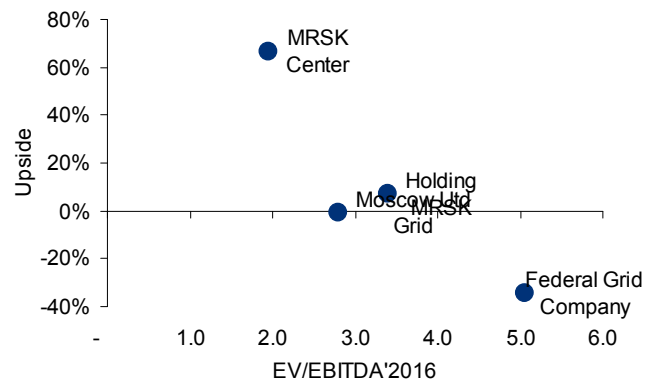
As analysed companies find themselves at different states of their investment cycle, their relative valuation multiples (eg, EV/EBITDA) on a near-term horizon (eg, 2012-13F) do not fully reflect their relative attractiveness in our view. While less reliable, the multiples on a more remote horizon (eg, 2014-16F) are a better reflection of the potential medium-term attractiveness of the stocks.

Fig 28 Upside (DCF implied, before M&A adjustments) vs EV/EBITDA: generators



Source: Company data, Bloomberg, ING estimates

Fig 29 Upside (DCF implied, before M&A adjustments) vs EV/EBITDA: grids



Source: Company data, Bloomberg, ING estimates

As it is shown in Figure 28 (for generators) and Figure 29 (for grids), our DCF-derived upsides for the analysed stocks on a stand-alone basis (before M&A-related adjustments) are relatively well correlated with the multiples on this horizon.

We note that our target prices for FSK and Holding MRSK differ from DCF-derived fair prices due to adjustments related to their integration.

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Generators: Rushydro

Rushydro

High-quality asset base overshadowed by capex and M&A

Maintained

Hold

 Russian Federation
Utilities

 Market cap RBL272,708m
Bloomberg HYDR RX

The excellent operational potential of Rushydro's core assets does not adequately translate into shareholder value due to the capex and M&A strategy. While a privatisation could change this, its timing remains uncertain.

Investment case

Rushydro's investment case includes positive and negative components. On the positive side, Rushydro's unique assets base (the core part of which is 25GW of hydro capacity) represents a strong platform for a potentially highly cash-generative business, especially in an environment of rising domestic gas prices (+15% on 1 July 2012, 2013 and 2014). On the negative side, this potential is not realised, largely due to the capex and M&A strategy. Recent examples of this approach include a c.50% increase in maintenance capex and additional share issues. While reduction in capex, scaling down M&A and freezing new share activities could have transformed Rushydro into a cash-generating vehicle with strong dividend flow, these changes are difficult to assess as long as the company remains under government control.

Tariffs and prices

Starting in 2012, the government has excluded from Rushydro's revenue the so-called 'investment component', which accounted for RBL13bn in 2011.

M&A and capital raising

The Russian state is considering an issue of new Rushydro shares that could be purchased either by Rosneftgaz or directly by the state. The government (represented by Deputy PM Dvorkovich) has signalled preliminary support for a scenario under which the new shares would be purchased directly by the state and paid with dividends to be received from Rosneftgaz.

Catalysts

Commissioning of new units, including:

- Bogouchansky Hydro (+3GW, 2013, 50/50 JV with Rusal)
- Zagorsky Pump Storage-2 (+0.4GW, 2012)
- Zagorsky Pump Storage-2 (+0.4GW, 2014)
- Sayano-Shushenskaya hydro recovery should allow the plant to reach pre-accident capacity by 2013

Hikes in domestic gas prices: the recent hike (+15% on 1 July 2012) is to be followed by 15% hikes on 1 July 2013 and 1 July 2014.

Valuation approach

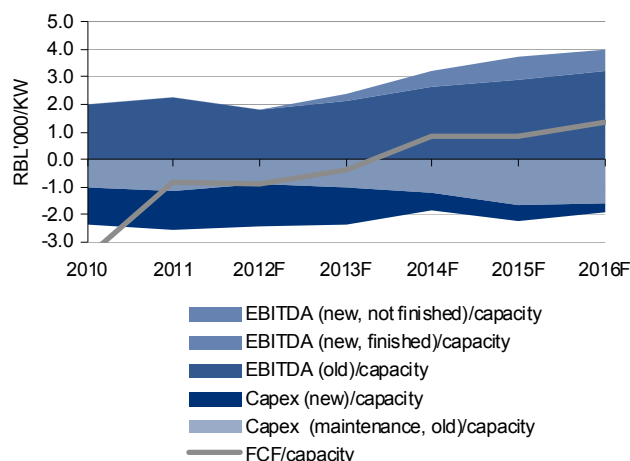
We value Rushydro with DCF based on its RAS accounts, which in our view is more representative of the core business (electricity generation) than IFRS, whose revenue is inflated by low-margin resellers and UES of East. Details are presented in the table below.

Price (24/09/12)	RBL0.86
	Previously RBL0.90
Target price (12-mth)	RBL0.93
Forecast total return	8.9%

Capex and FCF

FCF breakeven year (for core business, excluding RAO East): **2014**, after commissioning of Bogouchansky Hydro (+3GW, 2013) and 1st unit of Zagorsky Pump Storage-2 (+0.4GW, 2012)

FCF profile (per KW of 'old' capacity)



Source: ING estimates

Generating assets

We divide the generation fleet of the analysed gencos into 'old' (ie, built before 2007) and 'new' capacity because these two types of capacity effectively operate under different regulatory regimes as far as capacity market is concerned.

'Old' plants

- Core business 25GW of hydro including 14GW in European Russia
- UES of East (69% owned by Rushydro), a vertically integrated holding owning 9GW of thermal capacity in the East of Russia

'New' plants

- 4.3GW by 2016 (or 2.8GW on pro-rata basis)

Newsflow

Date	Description
End of Oct 2012	1H12 IFRS

Source: Company data, ING

Major shareholders (%)

Russian Federation	60.5
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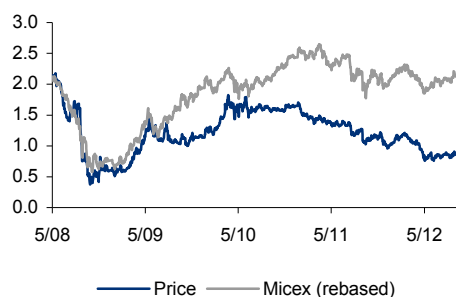
Source: Company data, ING

Share data

Avg daily volume (3-mth)	672,851,308
Free float (%)	40.0
Market cap (RBLm)	272,708
Net debt (1F, RBLm)	18,685
Enterprise value (1F, RBLm)	285,892
Dividend yield (1F, %)	0.60

Source: Company data, ING estimates

Share price performance



Source: ING

Company profile

Controlled by the Russian government (which owned 60.5% as at September 2012), Rushydro is a major Russian hydro-based electricity generator. At mid-2012, Rushydro directly owned around 26GW of hydro-based capacity: 15GW in European Russia, 7GW in Siberia and 4GW in the East. Rushydro is building new capacity (eg, Bogouchansky Hydro and Zagorsky Pump Storage-2), has acquired stakes in other utilities (eg, UES of Far East) and plans to acquire a stake in EuroSibEnergo.

Risks

Upside

- Reduction of the government's stake below control within next three years
- Increase in dividend payout from current c.5% of RAS

Downside:

- Slower-than-planned growth in domestic gas prices
- Increase in capex plans beyond our forecasts
- Additional share issue in favour of government's companies

Financials

Year end Dec (RBLm)	2009	2010	2011	2012F	2013F	2014F
---------------------	------	------	------	-------	-------	-------

Income statement

Revenues	78,995	88,979	92,504	93,410	111,061	134,924
EBITDA	50,395	51,456	57,302	49,799	63,515	84,288
EBIT	21,503	49,886	43,759	38,155	42,272	60,732
Net interest	2,742	1,609	305	1,032	(1,495)	(5,264)
Associates						
Other pre-tax items	0	0	0	0	0	0
Pre-tax profit	24,245	51,495	44,064	39,187	40,777	55,469
Tax	(10,609)	(10,492)	(10,541)	(8,068)	(9,786)	(13,312)
Minorities						
Other post-tax items	0	0	0	0	0	0
Net profit	13,636	41,002	33,523	31,120	30,990	42,156
Normalised net profit	32,400	38,485	40,001	35,938	30,990	42,156

Balance sheet

Tangible fixed assets	288,298	320,182	375,982	454,899	535,516	607,201
Intangible fixed assets	0	0	0	0	0	0
Other non-current assets	1,023	1,801	9,916	9,916	9,916	9,916
Cash & equivalents	49,952	22,057	29,608	48,002	0	0
Other current assets	93,517	161,763	204,729	205,159	207,001	209,213
Total assets	432,790	505,803	620,235	717,976	752,433	826,330
Short-term debt	0	0	0	0	0	0
Other current liabilities	11,019	7,926	(32,089)	(29,661)	(29,661)	(28,884)
Long-term debt	16,785	29,816	66,687	66,687	68,659	94,359
Other long-term liabilities	0	0	0	0	0	0
Total equity	404,986	468,061	585,637	680,950	713,436	760,856
Total liabilities & equity	432,790	505,803	620,235	717,976	752,433	826,330
Net working capital	(6,586)	(1,664)	(2,382)	(4,380)	(2,537)	(1,102)
Net debt (cash)	(33,167)	7,759	37,079	18,685	68,659	94,359

Cash flow

Cash flow EBITDA	26,026	54,725	48,888	43,541	63,515	84,288
Tax, interest & other	32,236	5,614	18,650	13,293	11,281	18,576
Change in working capital	(23,539)	(70,799)	0	0	(1,843)	(1,435)
Net cash from op activities	16,247	(29,835)	46,761	41,731	50,391	64,277
Capex	(31,893)	(60,247)	(65,002)	(61,903)	(59,751)	(46,235)
Net acquisitions	0	0	0	0	0	0
Net financing cash flow	0	0	0	0	0	0
Dividends & minority distrib'n	0	0	0	0	0	0
Net ch in cash & equivalents	(15,645)	(90,082)	(18,241)	(20,172)	(9,360)	18,042
FCF	(15,645)	(90,082)	(18,241)	(20,172)	(7,865)	23,306

Performance & returns

Revenue growth (%)	27.7	12.6	4.0	0.98	18.9	21.5
Normalised EPS growth (%)	65.5	18.8	3.9	-14.2	-23.5	26.8
Normalised EBITDA mgn (%)	63.8	57.8	61.9	53.3	57.2	62.5
Normalised EBIT margin (%)	58.1	52.4	56.4	47.5	38.1	45.0
ROACE (%)	11.2	10.1	9.1	6.3	5.5	7.4
Reported ROE (%)	3.5	9.4	6.3	4.9	4.4	5.7
Working capital as % of sales	-8.3	-1.9	-2.6	-4.7	-2.3	-0.82
Net debt (cash)/EBITDA (x)	(0.66)	0.15	0.65	0.38	1.1	1.1
EBITDA net interest cvg (x)	n/a	n/a	n/a	n/a	42.5	16.0

Valuation

EV/revenue (x)	3.0	3.2	3.3	3.1	3.0	2.7
EV/normalised EBITDA (x)	4.8	5.5	5.3	5.7	5.3	4.3
EV/normalised EBIT (x)	5.2	6.0	5.8	6.4	7.9	6.0
Normalised PER (x)	7.7	6.5	6.2	7.3	9.5	7.5
Price/book (x)	0.62	0.53	0.42	0.40	0.44	0.41
Dividend yield (%)	0.0	1.0	0.92	0.60	1.5	2.4
FCF yield (%)	n/a	n/a	n/a	n/a	n/a	6.4

Per share data

Reported EPS (RBL)	0.05	0.14	0.12	0.10	0.09	0.11
Normalised EPS (RBL)	0.11	0.13	0.14	0.12	0.09	0.11
Dividend per share (RBL)	0.00	0.01	0.01	0.01	0.01	0.02
Equity FCFPS (RBL)	(0.05)	(0.31)	(0.06)	(0.07)	(0.03)	0.05
BV/share (RBL)	1.40	1.61	2.04	2.16	1.96	2.08

Source: Company data, ING estimates

P&L & cash flow

	2008	2009	2010	2011	2012F	2013F	2014F	2015F	2016F	TV 2017F
Capacity (GW)										
Installed capacity: old plants	25	25	25	25	25	25	25	25	25	25
Installed capacity, new finished	-	-	-	-	-	-	-	-	-	-
Installed capacity: new, not finished	-	-	-	-	-	1.3	2.5	2.9	2.9	-
Installed capacity total	25	25	25	25	25	27	28	28	28	
P&L (RBLbn)										
Revenue electricity: old	51	70	74	83	74	84	101	110	119	
Revenue, electricity, new, finished	-	-	-	-	-	-	-	-	-	-
Revenue, electricity, new, not finished	-	-	-	-	-	9	17	23	24	
Revenue electricity	50	70	74	83	74	93	118	132	142	
Heat revenue	0	0	0	0	0	-	-	-	-	-
Revenue other (incl. reselling)	12	9	15	9	19	18	17	17	16	
Revenue	62	79	89	93	93	111	135	149	159	
Fuel costs for heat, old	-	-	-	-	-	-	-	-	-	-
Fuel costs for electricity, old	-	-	-	-	-	(0)	(0)	(0)	(0)	
Fuel costs, new, finished	-	-	-	-	-	-	-	-	-	-
Fuel costs, new, not finished	-	-	-	-	-	-	-	-	-	-
Fuel costs, old and new	-	-	-	-	-	(0)	(0)	(0)	(0)	
Purchased power & re-selling	(12)	(9)	(15)	(9)	(15)	(15)	(15)	(15)	(15)	
Heat transportation	-	-	-	-	-	-	-	-	-	-
Water payment	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(2)	(2)	
Gross profit	50	70	73	82	78	94	118	133	142	
Non-fuel opex: old plants	(19)	(19)	(22)	(25)	(28)	(30)	(32)	(34)	(36)	
Non-fuel opex: new, finished	-	-	-	-	-	-	-	-	-	-
Non-fuel opex: new, not finished	-	-	-	-	-	(1)	(2)	(3)	(3)	
Non-fuel opex	(19)	(19)	(22)	(25)	(28)	(31)	(34)	(37)	(39)	
EBITDA, old plants	-	50	51	57	45	53	67	74	81	
EBITDA, new, finished	-	-	-	-	-	-	-	-	-	-
EBITDA, new, not finished	-	-	-	-	-	7	15	20	21	
EBITDA, other	0	0	0	0	5	3	2	2	1	
EBITDA	31	50	51	57	50	64	84	96	103	
Depreciation, old plants	(4)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	
Depreciation: new, finished	-	-	-	-	-	-	-	-	-	-
Depreciation: new, not finished	-	-	-	-	-	(16)	(18)	(21)	(23)	
Depreciation	(4)	(5)	(5)	(5)	(5)	(21)	(24)	(26)	(29)	
EBIT (excl. non-recurring and non-cash)	27	46	47	52	44	42	61	70	74	
Finance income/(costs), net	1	3	2	0	1	(1)	(5)	(7)	(9)	
Other (non-cash and one-offs)	(1)	(24)	3	(8)	(6)	-	-	-	-	
EBT	27	24	51	44	39	41	55	63	65	
Income tax	(8)	(11)	(10)	(11)	(8)	(10)	(13)	(15)	(16)	
Net profit	19	14	41	34	31	31	42	48	49	
Cash flow (RBLbn)										
NOPAT: old plants	19	22	36	38	30	36	47	52	57	
NOPAT: new, finished	-	-	-	-	-	-	-	-	-	-
NOPAT: new, not finished	-	-	-	-	-	(9)	(3)	(1)	(3)	
NOPAT: other	0	0	0	0	4	2	2	1	1	
NOPAT	19	22	36	38	34	30	45	53	56	
Reduction/(increase) in working capital; existing plants	(31)	(24)	(71)	-	-	(2)	(1)	(1)	(0)	
Reduction/(increase) in working capital; new plants	-	-	-	-	-	-	-	-	-	-
Reduction/(increase) in working capital	(31)	(24)	(71)	-	-	(2)	(1)	(1)	(0)	
Capex, old (maintenance)	-	-	(25)	(29)	(22)	(26)	(31)	(42)	(41)	
Capex, new, finished	-	-	-	-	-	-	-	-	-	-
Capex: new, not finished	-	(32)	(35)	(36)	(40)	(33)	(15)	(15)	(9)	
Capex (net of partners' contribution)	-	(32)	(60)	(65)	(62)	(60)	(46)	(57)	(49)	
FCF: old plants	(8)	3	(55)	15	13	14	20	15	22	
FCF: new plants, finished	-	-	-	-	-	-	-	-	-	-
FCF: new plants, not finished	-	(32)	(35)	(36)	(40)	(26)	(1)	5	12	
FCF: other	0	0	0	0	4	2	2	1	1	
FCF (attributable to EV)	(8)	(29)	(90)	(21)	(23)	(10)	21	21	35	
FCF & DCF (US\$m)										
US\$/RBL exchange rate (year average)	25	32	30	29	32	32	33	33	32	
Discounting factor										
Finished					1.00	0.97	0.87	0.78	0.70	0.63
Not finished					1.00	0.97	0.85	0.75	0.66	0.58
DCF: Old plants					422	409	537	350	473	4,875
DCF: New plants: finished					-	-	-	-	-	-
DCF: New plants: not finished					(1,245)	(783)	(19)	126	263	3,561
DCF: Other					110	67	47	33	24	128
FCF (unlevered), discounted, (US\$m)					(713)	(307)	565	509	760	8,564

Source: Company data, ING estimates

Valuation parameters and target price derivation

WACC (%)	Finished		11.7		
	Not finished		13.7		
TV (US\$bn) based on different approaches with median as median)	EV/KW: min	As % of capex	Gordon-growth	EV/KW: max	Final
Old plants	7.6		7.8	38.0	7.8
New plants; finished			-		-
New plants; not finished			5.7		5.7
Other			0.2		0.2
TV, final, (US\$bn)					13.7
Components of value (US\$m)	Gross	Debt of SPVs (pro-rata)	Net		
Old plants	6,644		6,644		
New plants, finished	-		-		
New plants, not finished	3,149	(172)	2,977		
Other	298		298		
Core assets	10,091	(172)	9,919		
Non-core assets			1,208		
Net (debt) / cash			(585)		
Equity (US\$m)			10,542		
No. of shares: Ord: Old (bn)			318		
No. of shares: Ord: New (2012, bn)			50		
No. of shares: Ord (bn)			368		
No. of shares: Ord: quasi-treasury (bn)			(5)		
No. of shares: Pref (bn)			-		
No. of shares: effective, total (bn)			362		
Target price (US\$)			0.03		
Target price (RBL)			0.93		

Source: Company data, ING estimates

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**Generators:
InterRAO group**

Inter RAO UES

Complex story with remote FCF and dividends

Maintained

HoldRussian Federation
UtilitiesMarket cap RBL261,390m
Bloomberg IRAO RX

InterRAO is a diversified electricity holding with the asset mix dominated by Russian electricity generation. InterRAO is exposed to generic risks common for Russian electricity generation, which – in our view – are not balanced by the proximity of positive FCF and dividends.

Investment case

While InterRAO technically is a diversified electricity holding, the dominant part of its portfolio belongs to Russian thermal generation (represented by OGK-1, OGK-3, TGK-11) and is therefore exposed to the generic risks present in the sector (government's pressure on power prices, slowing demand, unclear return on capex). Unlike some other generators (eg, E.ON Russia and Enel OGK-5), in the case of InterRAO, sector-wide risks are not balanced by expectations of short-term cash flow generation or dividends. We do not expect InterRAO to become FCF positive before 2015 and do not expect to see healthy dividends before this time either.

M&A and capital raising

The Russian state currently considers various M&A scenarios involving shares of InterRAO. In September 2012, the Russian government (represented by Deputy PM Dvorkovich) signalled a preliminary support to the scenario under which Rosneftegaz may consolidate the shares of InterRAO that are currently held by the state directly or by state-controlled entities (FSK, Rushydro and InterRAO itself).

Catalysts

Commissioning of new power units, including the following ones in 2012-2013:

- Ivanovskiye CHP (0.3GW, 2012)
- Urenkoiskaya TPP (OGK-1, +0.5GW, 2012)
- Kharanorkaya TPP (OGK-3, +0.2GW, 2012)
- Gusinoozher TPP (OGK-3, +0.2GW, 2012)
- South-Urals TPP (OGK-3, +0.4GW, 2013)
- Cherepetsk TPP (OGK-3, +0.2GW, 2013)
- Nizhnevarkovsk TPP (OGK-1, +0.4GW, 2013)
- Djubka TPP (OGK-3, +0.5GW, 2013)

Valuation approach

We value InterRAO based on a sum-of-the-parts (SOTP) approach due to the holding nature of the company. With this approach, the contribution into NAV from key underlying assets, OGK-1 and OGK-3, is defined based on DCF valuation of these companies on a stand-alone basis

Details of the SOTP valuation are presented in the table below.

Price (24/09/12)	RBL0.027
Target price (12-mth)	Previously RBL0.028 RBL0.029
Forecast total return	7.8%

Operational assets

We divide the generation fleet of the analysed gencos into 'old' (ie, commissioned before 2007) and 'new' capacity because these two types of capacity effectively operate under different regulatory regimes.

'Old' assets

Diversified electricity holding company – the key parts of InterRAO's asset portfolio are:

- Thermal generation in Russia; key assets: OGK-1, OGK-3, TGK-11
- Electricity retailing in Russia; key assets: Moscow Supply Company, St.Petersburg Supply
- Electricity trading in Europe
- Electricity assets in the former USSR area

'New' assets

InterRAO group plans to commission 5.4GW of new generating capacities by end-2016, including:

- 1.4GW by end-2012
- 1.3GW by end-2013
- 1.2GW by end-2014
- 0.7GW by end-2015
- 0.8GW by end-2016

Newsflow

Date	Description
5 Oct 2012	1H12 IFRS

Source: Company data, ING

Major shareholders (%)

Federal Grid Company	20
Russian Federation	15
Rosatom	13
VEB	5
Rushydro	5
Norilsk Nickel	14

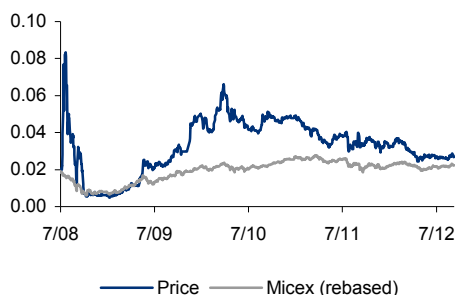
Source: Company data, ING

Share data

Avg daily volume (3-mth)	1,856,525,000
Free float (%)	13.0
Market cap (RBLm)	261,390
Dividend yield (1F, %)	0.0

Source: Company data, ING estimates

Share price performance



Source: ING

Company profile

InterRAO is a diversified electricity holding with a focus on Russian electricity generation. Its largest assets include stakes in OGK-1 (75%), OGK-3 (82%) and Moscow Electricity Supply Company (51%). The controlling stake in InterRAO is split among the Russian government (15%) and the government-controlled companies Federal Grid Company (20%), Rosatom (13%), Rushydro (5%) and VEB (5%).

Risks

Upside

- Faster-than-forecasted growth in liberalised prices for electrical energy (eg, on the back of faster growth in electricity demand)

Downside

- Additional government pressure on the prices for electrical energy and capacity
- Delays in realisation of the capacity additions programme
- Issue of new shares to government-related companies (eg, Rosneftegaz)

SOTP valuation summary

Segment	Key assets	Capacity (GW)			Value (pre-holding disc, RBLbn)			Value (post-holding disc, RBLbn)			Comment
		Total	Pro-rata	Controlled	Approach	Multiple	Value	Holding disc (%)	InterRAO claim	% of total	
1.1. Russian generation: old, controlled	OGK-1, OGK-3, TGK-11	20	20	20	DCF		133		133	48	TGK-11: market
1.2. Russian generation: new, fully owned		2	2	2	Target EBITDA multiple	6.0	19		19	7	
1.3. Russian generation: old, major stakes		36	12	-	Market		78	-15	66	23	
1. Russian generation		59	34	23			230		219	78	
2. European trading		-	-	-	Target EBITDA multiple	5.0	26	-15	22	8	
3. Russian electricity retail		-	-	-	Market		18	-15	15	5	
4. Former USSR		4	3	4	Target EBITDA multiple	5.0	17	-15	14	5	
5. Russian misc.		-	-	-	Market		13	-15	11	4	
Gross asset value		62	38	26			304		281	100	
Net debt of the holding		-	-	-	RAS accounts				(1)		
Net asset value		-	-	-					280		
No. shares outstanding (bn)									9,716		
No. new shares for consolidation (bn)									610		OGK-1 and OGK-3
No. shares quasi-treasury (bn)									(813)		InterRAO Capital
No. shares effective (bn)									9,513		
Target price (RBL)									0.029		

Source: Company data, ING estimates

Composition of InterRAO's gross asset value (GAV)

Company	Stake by InterRAO (%) as of 30/6/11	Consolidation For calc adj (%)	For calc (%)	Capacity (GW)			Share price (RBL)			T multiple EV/EBITDA, 2011 (x)	Value of InterRAO claim (RBLbn)				Comment
				Total	Pro-rata	Controlled	Fair price	Mkt price	Upside (%)		At deal price	At TP	At target multiple	At Mk price	
OGK-1	75	25	100	9.9	9.9	9.9	0.9	0.6	45		58	40	58		
OGK-3	82	18	100	8.4	8.4	8.4	1.5	1.0	43		69	48	69		
TGK-11	68	17	85	2.1	1.7	2.1		0.0				7	7		
1.1. Russian Gen: old, controlled			98	20.3	20.0	20.3							133		
North-West TPP	100		100	0.9	0.9	0.9									
Kaliningrad TPP-2	100		100	0.9	0.9	0.9									
Ivanov CHP	100		100	0.3	0.3	0.3									
Sochi TPP	100		100	0.2	0.2	0.2									
1.2. Russian Generation: new, fully owned	100		100	2.3	2.3	2.3			6.0		19		19		
Irkutskenergo	40		40	12.9	5.2			14.7				28	28	TP based on swap ratio with Rushydro	
TGK-7	39		39	6.9	2.7			1.8				22	22		
OGK-5	26		26	8.8	2.3			2.0		19		18	19	Sale agreed in 1Q12	
TGK-6	26		26	3.1	0.8			0.0				2	2		
Bashkirenergo	27		27	4.6	1.2			26.5				7	7		
1.3 Russian Gen: old, major stakes			34	36.3	12.2								78		
2. European trading	100		100						5.0		26		26		
St. Petersburg Supply Company	97		97					14.8				11	11		
Mosenergosbyt	51		51					0.4				6	6		
Tambov supply company	59		59					0.2				0	0		
Saratovenergo	57		57					0.1				0	0		
Tomsk Energy Retail Company	31		31					0.1				0	0		
Alatienergosbyt	100		100												
3. Russian elec retail													18		
Kazakhstan	50		50	1.0	0.5	1.0			5.0			3	3		
Armenia	100		100						5.0			5	5		
Georgia	75		75						5.0			3	3		
Moldova	100		100	2.5	2.5	2.5			5.0			6	6		
4. Former USSR				3.5	3.0	3.5							17		
Rushydro	2		2				0.9	0.9	8			5	5		
Mosenergo	5		5				1.9	1.4	39			4	4		
OGK-2(6)	6		6				0.5	0.4	13			2	2		
TGK-1	2		2				0.0	0.0	28			1	1		
TGK-10	3		3					24.0				1	1		
TGK-4	2		2					0.0				0	0		
TGK-2	1		1					0.0				0	0		
TGK-9	2		2					0.0				0	0		
TGK-14	1		1					0.0				0	0		
Novosibirskenergo	0		0					221.2				0	0		
RN Energo	100		100												
Sangtudinskyaya HPP-1	17		17												
5. Russian misc.				-	-	-							13		
Kuban GenCo	26		26								0		0	Sold in Sept 11	
Kuban Energy Retail Company	26		26					172.0			1		1	Sold in Sept 11	
OGK-4	3		3					2.7			5		5	Sold in Jan 12	
6. Sold assets															
Total				62.4	37.5								304		

Source: Company data, ING estimates

OGK-1

Entry ticket to InterRAO

Previously Hold

Not Rated

 Russian Federation
Utilities

 Market cap RBL39,682.5m
Bloomberg OGK1 RX

Each share of OGK-1 is expected to be swapped for 24 shares of InterRAO by 1Q13.

Price (24/09/12) RBL0.61

Investment case

According to the decisions of shareholders of OGK-1 and InterRAO, OGK-1 shares will be swapped for shares of InterRAO at a ratio of 24 InterRAO shares for one OGK-1 share by end-2012, with the merger of the 'new' line of InterRAO shares with 'old' ones in 1Q13. OGK-1's share, therefore, represents an entry ticket to InterRAO, which is currently traded at a discount to InterRAO.

M&A and capital raising

OGK-1 is set to effectively merge with InterRAO by end-1Q13, with one share of OGK-1 to convert into 24 shares of InterRAO.

Catalysts

- Commissioning of 'new' units, including Urengoy TPP (+0.5GW, 2012), Nizhnevartovsk TPP (+0.4GW, 2013) and Perm TPP (+2* 0.4GW, 2015)
- Conversion of the shares of OGK-1 into the shares of InterRAO (4Q12 – 1Q13)

Valuation approach

We terminate coverage of OGK-1 shares due to their delisting on the back of its forthcoming conversion into shares of InterRAO.

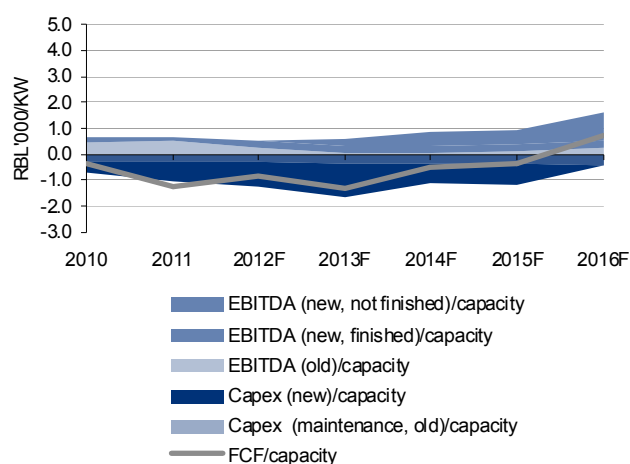
We continue to run forecasts for OGK-1 and derive a DCF-driven fair price of its share in order to plug it into our sum-of-the-parts (SOTP) derivation of the fair price for InterRAO.

Details of our DCF forecasts are presented in the tables below.

Capex and FCF

Expected FCF breakeven year: **2016**, after commissioning of new units at Urengoy TPP (+0.5GW, 2012), Nizhnevartovsk TPP (+0.4GW, 2013) and Perm TPP (+2* 0.4GW, 2015)

FCF profile (per KW of 'old' capacity)



Source: ING estimates

Generating assets

We divide the generation fleet of the analysed gencos into 'old' (ie, commissioned before 2007) and 'new' capacity because these two types of capacity effectively operate under different regulatory regimes.

'Old' assets: 9.6GW of 'old' plants

Compared with an average thermal OGK, OGK-1's fleet of 'old' power plants is characterised by:

- Broadly average aggregate fuel efficiency
- Below-average share of coal-fired capacity located in European Russia
- Above-average share of 'old' capacity based in European Russia

'New' assets

2.0GW by 2016, including:

- 0.3GW by end-2011
- 0.8GW by end-2012

Newsflow

Date	Description
26 Sept 2012	Delisting of OGK-1
Nov-Dec 2012	Conversion of OGK-1 into InterRAO
Jan-Feb 2012	Merger of 'new' line of InterRAO shares with the main line

Source: Company data, ING

Major shareholders (%)

InterRAO	75
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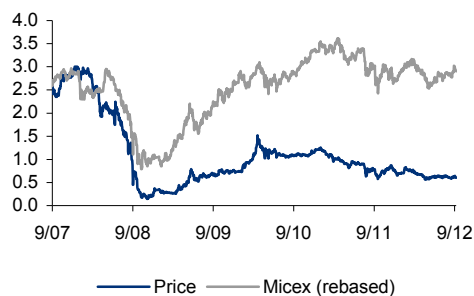
Source: Company data, ING

Share data

Avg daily volume (3-mth)	12,409,738
Free float (%)	25.0
Market cap (RBLm)	39,682.5
Net debt (1F, RBLm)	(192)
Enterprise value (1F, RBLm)	39,491
Dividend yield (1F, %)	0.0

Source: Company data, ING estimates

Share price performance



Source: ING

Company profile

Controlled by InterRAO (75% stake), OGK-1 is a major Russian inter-regional thermal electricity generator. OGK-1 owns 9.5GW of 'old' capacity (ie, built before 2007) and should commission 2.0GW of 'new' thermal capacity by 2016, which is indirectly sponsored by the Russian regulator with so-called capacity delivery agreements (DPMs).

Financials

Year end Dec (RBLm)	2009	2010	2011	2012F	2013F	2014F
Income statement						
Revenues	47,464	49,226	55,753	51,765	66,104	82,290
EBITDA	4,525	6,411	6,827	4,170	4,171	6,215
EBIT	2,781	4,411	3,747	(10,404)	48	1,723
Net interest	961	(450)	484	464	44	(1,171)
Associates						
Other pre-tax items	0	0	0	0	0	0
Pre-tax profit	3,742	3,961	4,231	(9,940)	92	552
Tax	(768)	(724)	(1,324)	0	(22)	(133)
Minorities						
Other post-tax items	0	0	0	0	0	0
Net profit	2,974	3,237	2,907	(9,940)	70	420
Normalised net profit	2,974	3,147	3,533	(523)	70	420
Balance sheet						
Tangible fixed assets	36,672	48,812	56,494	66,953	80,889	90,132
Intangible fixed assets	0	0	0	0	0	0
Other non-current assets	424	3,657	443	443	443	443
Cash & equivalents	6,861	14,640	1,601	611	0	0
Other current assets	7,219	10,240	17,623	17,623	19,595	22,191
Total assets	51,176	77,349	76,161	85,630	100,927	112,766
Short-term debt	0	0	0	0	0	0
Other current liabilities	2,096	1,517	4,277	6,730	6,730	8,571
Long-term debt	8,630	5,936	419	419	15,690	24,097
Other long-term liabilities	0	0	0	0	0	0
Total equity	40,450	69,896	71,465	78,481	78,507	80,098
Total liabilities & equity	51,176	77,349	76,161	85,630	100,927	112,766
Net working capital	3,808	3,525	3,618	1,166	3,137	3,892
Net debt (cash)	1,769	(8,704)	(1,182)	(192)	15,690	24,097
Cash flow						
Cash flow EBITDA	4,525	6,528	6,014	(8,060)	4,171	6,215
Tax, interest & other	(193)	1,057	1,653	11,766	(22)	1,303
Change in working capital	0	(2,194)	(7,007)	0	(1,972)	(755)
Net cash from op activities	3,757	3,043	(1,504)	4,170	2,177	4,157
Capex	(4,085)	(6,688)	(10,176)	(11,973)	(15,525)	(10,833)
Net acquisitions	0	0	0	0	0	0
Net financing cash flow	0	0	0	0	0	0
Dividends & minority distrib'n	0	0	0	0	0	0
Net ch in cash & equivalents	(328)	(3,645)	(11,681)	(7,803)	(13,349)	(6,676)
FCF	(328)	(3,195)	(11,681)	(7,803)	(13,349)	(5,506)
Performance & returns						
Revenue growth (%)	-4.9	3.7	13.3	-7.2	27.7	24.5
Normalised EPS growth (%)	-17.8	-14.2	-5.6	n/a	n/a	502.8
Normalised EBITDA mgn (%)	9.5	13.0	12.2	8.1	6.3	7.6
Normalised EBIT margin (%)	5.9	8.7	8.2	3.5	0.07	2.1
ROACE (%)	6.2	6.9	6.2	2.4	0.06	1.7
Reported ROE (%)	7.7	5.9	4.1	-13.3	0.09	0.53
Working capital as % of sales	8.0	7.2	6.5	2.3	4.7	4.7
Net debt (cash)/EBITDA (x)	0.39	(1.4)	(0.17)	(0.05)	3.8	3.9
EBITDA net interest cvg (x)	n/a	14.2	n/a	n/a	n/a	5.3
Valuation						
EV/revenue (x)	0.87	0.63	0.69	0.76	0.84	0.78
EV/normalised EBITDA (x)	9.2	4.8	5.6	9.5	13.3	10.3
EV/normalised EBIT (x)	14.9	7.2	8.4	21.6	1,162	37.0
Normalised PER (x)	9.1	10.6	11.2	n/a	569.8	94.5
Price/book (x)	0.67	0.57	0.56	0.51	0.51	0.50
Dividend yield (%)	0.0	0.0	0.0	0.0	0.01	0.12
FCF yield (%)	n/a	n/a	n/a	n/a	n/a	n/a
Per share data						
Reported EPS (RBL)	0.07	0.06	0.04	(0.15)	0.00	0.01
Normalised EPS (RBL)	0.07	0.06	0.05	(0.01)	0.00	0.01
Dividend per share (RBL)	0.00	0.00	0.00	0.00	0.00	0.00
Equity FCFPS (RBL)	(0.01)	(0.07)	(0.18)	(0.12)	(0.20)	(0.10)
BV/share (RBL)	0.91	1.07	1.09	1.20	1.20	1.22

Source: Company data, ING estimates

P&L & cash flow

	2008	2009	2010	2011	2012F	2013F	2014F	2015F	2016F	TV'17F
Capacity (GW)										
Installed capacity: old plants	10	10	10	10	10	10	10	10	10	
Installed capacity, new finished	-	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Installed capacity: new, not finished	-	-	-	-	-	0.5	0.9	0.9	1.7	
Installed capacity total	10	10	10	10	10	10	11	11	12	
P&L (RBLbn)										
Revenue electricity: old	38	36	40	47	44	55	66	77	87	
Revenue, electricity, new, finished	-	1	3	3	4	4	4	4	5	
Revenue, electricity, new, not finished	-	-	-	-	-	4	9	10	21	
Revenue electricity	38	37	43	50	48	63	79	92	113	
Heat revenue	1	1	1	1	1	1	1	1	1	1
Revenue other (incl. reselling)	11	10	6	5	3	2	2	2	1	
Revenue	50	47	49	56	52	66	82	94	116	
Fuel costs for heat, old	(0)	(0)	(0)	(1)	(1)	(1)	(1)	(1)	(1)	
Fuel costs for electricity, old	(21)	(26)	(32)	(33)	(33)	(45)	(56)	(66)	(74)	
Fuel costs, new, finished	(0)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	
Fuel costs, new, not finished	-	-	-	-	-	(1)	(3)	(3)	(9)	
Fuel costs, old and new	(25)	(21)	(27)	(33)	(34)	(48)	(61)	(71)	(85)	
Purchased power & Re-selling	(10)	(10)	(5)	(5)	(3)	(2)	(2)	(2)	(1)	
Heat transportation	-	-	-	-	-	-	-	-	-	
Water payment	-	-	-	-	-	-	-	-	-	
Gross profit	15	16	17	18	15	16	20	22	30	
Non-fuel opex: old plants	(11)	(12)	(9)	(10)	(10)	(11)	(11)	(12)	(13)	
Non-fuel opex: new, finished	-	(0)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	
Non-fuel opex: new, not finished	-	-	-	-	-	(1)	(1)	(1)	(3)	
Non-fuel opex	(11)	(12)	(10)	(11)	(11)	(12)	(13)	(14)	(17)	
EBITDA, old plants	3	5	5	5	2	(1)	(1)	(1)	1	
EBITDA, new, finished	1	1	2	2	2	3	3	3	3	
EBITDA, new, not finished	-	-	-	-	-	2	5	5	10	
EBITDA, other	1	0	0	1	(0)	-	-	-	-	
EBITDA	4	5	6	7	4	4	6	7	13	
Depreciation, old plants	(1)	(1)	(1)	(2)	(2)	(2)	(2)	(2)	(2)	
Depreciation: new, finished	-	(0)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	
Depreciation: new, not finished	-	-	-	-	-	(1)	(2)	(2)	(3)	
Depreciation	(1)	(2)	(2)	(2)	(2)	(4)	(4)	(5)	(5)	
EBIT (excl. non-recurring and non-cash)	3	3	4	5	2	0	2	2	8	
Finance income / (costs), net	(0)	1	(0)	0	0	0	(1)	(2)	(2)	
Other (non-cash and one-offs)	6	-	0	(1)	(12)	-	-	-	-	
EBT	8	4	4	4	(10)	0	1	1	6	
Income tax	(0)	(1)	(1)	(1)	-	(0)	(0)	(0)	(1)	
Net profit	8	3	3	3	(10)	0	0	0	5	
Cash flow (RBLbn)										
NOPAT: old plants	2	2	3	2	0	(2)	(3)	(2)	(1)	
NOPAT: new, finished	-	0	1	1	2	1	1	1	2	
NOPAT: new, not finished	-	-	-	-	-	1	2	2	5	
NOPAT: other	1	0	0	0	(0)	-	-	-	-	
NOPAT	3	2	4	3	2	(0)	1	1	6	
Reduction/(increase) in working capital; existing plants	(0)	-	(2)	(7)	-	(2)	(1)	(0)	(2)	
Reduction/(increase) in working capital; new plants	(0)	-	(2)	(7)	-	(2)	(1)	(0)	(2)	
Reduction/(increase) in working capital	(0)	-	(2)	(7)	-	(2)	(1)	(0)	(2)	
Capex, old (maintenance)	-	-	(3)	(3)	(3)	(3)	(3)	(4)	(4)	
Capex, new, finished	-	(4)	-	-	-	-	-	-	-	
Capex: new, not finished	-	(0)	(4)	(7)	(9)	(12)	(7)	(7)	-	
Capex (net of partners' contribution)	-	(4)	(7)	(10)	(12)	(16)	(11)	(11)	(4)	
FCF; old plants	3	3	(1)	(6)	(1)	(6)	(5)	(4)	(5)	
FCF; new plants, finished	-	(3)	1	1	2	2	2	2	2	
FCF; new plants, not finished	-	(0)	(4)	(7)	(9)	(10)	(3)	(3)	8	
FCF: other	1	0	0	0	(0)	-	-	-	-	
FCF (attributable to EV)	4	(0)	(3)	(12)	(8)	(14)	(6)	(5)	5	
FCF & DCF (US\$m)										
US\$/RBL exchange rate (year average)	25	32	30	29	32	32	33	33	32	
Discounting factor					Finished	1.00	0.97	0.86	0.76	0.68
					Not finished	1.00	0.97	0.84	0.73	0.56
DCF: Old plants					(31)	(171)	(138)	(99)	(107)	715
DCF: New plants: finished					72	64	57	53	46	198
DCF: New plants: not finished					(281)	(307)	(88)	(69)	165	1,248
DCF: Other					(5)	-	-	-	-	-
FCF (unlevered), discounted (US\$m)					(244)	(414)	(169)	(116)	104	2,160

Source: Company data, ING estimates

Valuation parameters

WACC (%)	Finished	12.7			
	Not finished	14.7			
TV (US\$bn)					
Based on different approaches with median as median)	EV/KW: min	As % of capex	Gordon-growth	EV/KW: max	Final
Old plants	1.2		-	4.8	1.2
New plants; finished			0.3		0.3
New plants; not finished			2.1		2.1
Other			-		-
TV, final (US\$bn)					3.6
Components of value (US\$m)					
	Gross	Debt of SPVs (pro-rata)		Net	
Old plants	199			199	
New plants, finished	418			418	
New plants, not finished	948	-		948	
Other	-			-	
Core assets	1,566	-		1,566	
Non-core assets				226	
Net (debt) / cash				19	
Equity (US\$m)					
No. of shares: Ord: Old (bn)				65	
No of shares: Ord: New (2012, bn)				-	
No of shares: Ord (bn)				65	
No of shares: Ord: quasi-treasury (bn)				-	
No of shares: Pref (bn)				-	
No of shares: effective, total (bn)				65	
Fair price (as standalone company) (US\$)				0.03	
Fair price (as standalone company) (RBL)				0.89	

Source: Company data, ING estimates.

OGK-3

Another entry ticket to InterRAO

Previously Hold

Not Rated

 Russian Federation
Utilities

 Market cap RBL48,912.6m
Bloomberg OGKC RX

Each share of OGK-3 is expected to be swapped for 40 shares of InterRAO by 1Q13.

Price (24/09/12)

RBL1.01

Investment case

According to the decisions of shareholders of OGK-3 and InterRAO, OGK-3 shares will be swapped for shares of InterRAO at a ratio of 40 InterRAO shares for one OGK-3 share by end-2012, with the merger of the 'new' line of InterRAO shares with 'old' ones in 1Q13. OGK-3's share, therefore, represents an entry ticket to InterRAO, which is currently traded at a slight discount to InterRAO.

M&A and capital-raising

OGK-3 is set to effectively merge with InterRAO by end-2012, with one share of OGK-1 to convert to 40 shares of InterRAO.

Catalysts

- Commissioning of 'new' generating capacities, including Kharanor TPP (0.2GW, 2012), Gusinoozher TPP (0.2GW, 2012), Cherepetsk TPP (0.2GW, 2013), Cherepetsk TPP (0.2GW, 2014), South-Urals TPP (0.4GW, 2013) and South-Urals TPP (0.4GW, 2014)
- Conversion of the shares of OGK-3 into the shares of InterRAO (4Q12-1Q13)

Valuation approach

We terminate coverage of OGK-3 shares due to their delisting on the back of its forthcoming conversion into shares of InterRAO.

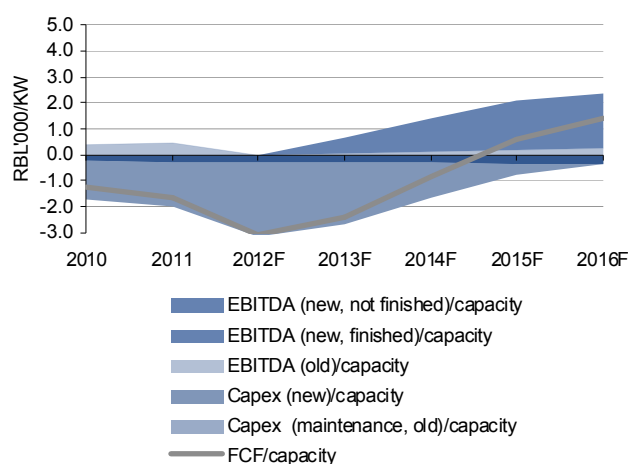
We continue to run forecasts for OGK-3 and derive a DCF-driven fair price of its share in order to plug it into our sum-of-the-parts (SOTP) derivation of the fair price for InterRAO.

Details of our DCF forecasts are presented in the tables below.

Capex and FCF

Expected FCF breakeven year: **2015**, after completion of new units at Cherepetsk TPP (+0.2GW, 2014), South-Urals TPP (+0.4GW, 2014)

FCF profile (per KW of 'old' capacity)



Source: ING estimates

Generating assets

We divide the generation fleet of the analysed gencos into 'old' (ie, commissioned before 2007) and 'new' capacity because these two types of capacity effectively operate under different regulatory regimes.

'Old' assets: 8.6GW of 'old' power plants

Compared with an average thermal OGK, OGK-3's fleet of 'old' power plants is characterised by:

- Below-average aggregate fuel efficiency
- Share of coal-fired capacity located in European Russia in line with the average
- Below-average share of 'old' capacity based in European Russia

'New' assets

2.3GW by 2016, including:

- 0.0GW by end-2011
- 0.4W by end-2012

Newsflow

Date	Description
26 Sept 2012	Delisting of OGK-3
Nov-Dec 2012	Conversion of OGK-3 into InterRAO
Jan-Feb 2012	Merger of 'new' line of InterRAO shares with the main line

Source: Company data, ING

Major shareholders (%)

InterRAO	82
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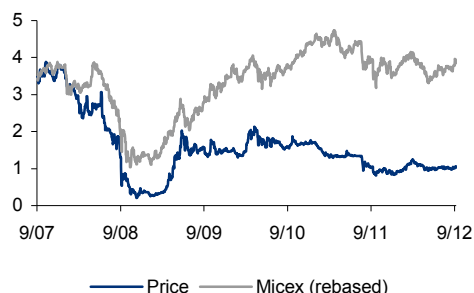
Source: Company data, ING

Share data

Avg daily volume (3-mth)	5,535,831
Free float (%)	18.0
Market cap (RBLm)	48,912.6
Net debt (1F, RBLm)	(12,494)
Enterprise value (1F, RBLm)	36,418
Dividend yield (1F, %)	0.0

Source: Company data, ING estimates

Share price performance



Source: ING

Company profile

Controlled by InterRAO (82% stake), OGK-3 is a major Russian inter-regional thermal electricity generator. It owns 8.6GW of 'old' capacity (ie, built before 2007) and should commission 2.6GW of 'new' thermal capacity by 2016, which is indirectly sponsored by the Russian regulator with so-called capacity delivery agreements (DPMs).

Financials

Year end Dec (RBLm)	2009	2010	2011	2012F	2013F	2014F
Income statement						
Revenues	36,143	38,154	43,554	45,485	58,188	75,030
EBITDA	6,013	4,029	4,322	2,595	8,267	14,655
EBIT	3,918	(14,497)	223	(7,974)	1,984	7,814
Net interest	2,909	2,174	2,098	952	900	(838)
Associates						
Other pre-tax items	0	0	0	0	0	0
Pre-tax profit	6,827	(12,323)	2,321	(7,022)	2,883	6,976
Tax	(995)	(607)	(617)	0	(692)	(1,674)
Minorities						
Other post-tax items	0	0	0	0	0	0
Net profit	5,832	(12,930)	1,704	(7,022)	2,191	5,302
Normalised net profit	6,379	194	3,651	(154)	2,191	5,302
Balance sheet						
Tangible fixed assets	38,160	45,954	57,623	82,907	104,227	116,519
Intangible fixed assets	0	0	0	0	0	0
Other non-current assets	14,360	2,429	1,316	1,316	1,316	1,316
Cash & equivalents	51,153	42,880	32,432	12,494	0	0
Other current assets	7,993	7,911	9,486	9,934	13,328	17,883
Total assets	111,666	99,174	100,857	106,652	118,871	135,718
Short-term debt	0	0	0	0	0	0
Other current liabilities	(3,527)	347	3,402	4,437	4,437	5,131
Long-term debt	0	0	0	0	10,928	20,941
Other long-term liabilities	0	0	0	0	0	0
Total equity	115,193	98,827	97,455	102,215	103,507	109,646
Total liabilities & equity	111,666	99,174	100,857	106,652	118,871	135,718
Net working capital	6,446	3,841	3,969	3,382	6,776	10,637
Net debt (cash)	(51,153)	(42,880)	(32,432)	(12,494)	10,928	20,941
Cash flow						
Cash flow EBITDA	5,303	(13,016)	1,793	(6,325)	8,267	14,655
Tax, interest & other	(1,204)	15,478	1,048	7,968	(208)	2,512
Change in working capital	0	0	(344)	0	(3,394)	(3,860)
Net cash from op activities	5,018	3,422	3,361	2,595	4,182	8,282
Capex	(8,935)	(14,402)	(16,672)	(26,855)	(22,969)	(13,941)
Net acquisitions	0	0	0	0	0	0
Net financing cash flow	0	0	0	0	0	0
Dividends & minority distrib'n	0	0	0	0	0	0
Net ch in cash & equivalents	(3,917)	(10,980)	(13,311)	(24,260)	(18,787)	(5,659)
FCF	(3,917)	(10,980)	(13,311)	(24,260)	(18,787)	(4,821)
Performance & returns						
Revenue growth (%)	-5.9	5.6	14.2	4.4	27.9	28.9
Normalised EPS growth (%)	0.73	-97.0	1,780	n/a	n/a	142.0
Normalised EBITDA mgn (%)	16.6	10.6	9.9	5.7	14.2	19.5
Normalised EBIT margin (%)	12.8	6.7	6.3	2.1	3.4	10.4
ROACE (%)	4.2	2.4	2.8	0.95	1.8	6.4
Reported ROE (%)	5.3	-12.1	1.7	-7.0	2.1	5.0
Working capital as % of sales	17.8	10.1	9.1	7.4	11.6	14.2
Net debt (cash)/EBITDA (x)	(8.5)	(10.6)	(7.5)	(4.8)	1.3	1.4
EBITDA net interest cvg (x)	n/a	n/a	n/a	n/a	n/a	17.5
Valuation						
EV/revenue (x)	(0.06)	0.16	0.38	0.80	1.0	0.93
EV/normalised EBITDA (x)	(0.37)	1.5	3.8	14.0	7.2	4.8
EV/normalised EBIT (x)	(0.48)	2.4	6.0	38.5	30.2	8.9
Normalised PER (x)	7.7	251.9	13.4	n/a	22.3	9.2
Price/book (x)	0.42	0.49	0.50	0.48	0.47	0.45
Dividend yield (%)	0.0	0.0	0.0	0.0	0.22	1.3
FCF yield (%)	174.8	n/a	n/a	n/a	n/a	n/a
Per share data						
Reported EPS (RBL)	0.12	(0.27)	0.04	(0.15)	0.05	0.11
Normalised EPS (RBL)	0.13	0.00	0.08	0.00	0.05	0.11
Dividend per share (RBL)	0.00	0.00	0.00	0.00	0.00	0.01
Equity FCFPS (RBL)	(0.08)	(0.23)	(0.28)	(0.51)	(0.40)	(0.12)
BV/share (RBL)	2.43	2.08	2.05	2.15	2.18	2.31

Source: Company data, ING estimates

P&L & cash flow

	2008	2009	2010	2011F	2012F	2013F	2014F	2015F	2016F	TV 2017F
Capacity (GW)										
Installed capacity: old plants, GW	8	8	8	8	8	8	8	8	8	
Installed capacity, new finished, GW	-	-	-	-	-	-	-	-	-	
Installed capacity: new, not finished, GW	-	-	-	-	-	0.4	1.2	1.9	2.3	
Installed capacity total, GW	8	8	8	8	8	9	10	10	11	
P&L (RBLbn)										
Revenue electricity: old	29	29	33	40	41	46	52	58	63	
Revenue, electricity, new, finished	-	-	-	-	-	-	-	-	-	
Revenue, electricity, new, not finished	-	-	-	-	-	8	19	28	35	
Revenue electricity	29	29	33	40	41	54	71	86	98	
Heat revenue	1	1	1	1	1	1	1	1	2	
Revenue other (incl. reselling)	9	6	4	3	3	3	3	3	3	
Revenue	38	36	38	44	45	58	75	90	102	
Fuel costs for heat, old	(0)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	
Fuel costs for electricity, old	(17)	(20)	(25)	(25)	(27)	(31)	(35)	(40)	(44)	
Fuel costs, new, finished	-	-	-	-	-	-	-	-	-	
Fuel costs, new, not finished	-	-	-	-	-	(1)	(5)	(8)	(11)	
Fuel costs, old and new	(17)	(17)	(21)	(25)	(28)	(33)	(41)	(49)	(56)	
Purchased power & reselling	(9)	(6)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	
Heat transportation	-	-	-	-	-	-	-	-	-	
Water payment	-	-	-	-	-	-	-	-	-	
Gross profit	13	13	14	16	15	22	31	39	43	
Non-fuel opex: old plants	(8)	(7)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	
Non-fuel opex: new, finished	-	-	-	-	-	-	-	-	-	
Non-fuel opex: new, not finished	-	-	-	-	-	(1)	(3)	(4)	(5)	
Non-fuel opex	(8)	(7)	(10)	(11)	(12)	(14)	(16)	(19)	(20)	
EBITDA, old plants	6	3	4	4	2	3	3	4	4	
EBITDA, new, finished	-	-	-	-	-	-	-	-	-	
EBITDA, new, not finished	-	-	-	-	-	5	11	16	18	
EBITDA, other	0	0	1	1	1	0	0	0	0	
EBITDA	4	6	4	4	3	8	15	20	23	
Depreciation, old plants	(1)	(1)	(1)	(2)	(2)	(2)	(2)	(2)	(2)	
Depreciation: new, finished	-	-	-	-	-	-	-	-	-	
Depreciation: new, not finished	-	-	-	-	-	(5)	(5)	(5)	(5)	
Depreciation	(1)	(1)	(1)	(2)	(2)	(6)	(7)	(7)	(7)	
EBIT (ex non-recurring and non-cash)	3	5	3	3	1	2	8	13	16	
Finance income/(costs), net	5	3	2	2	1	1	(1)	(2)	(1)	
Other (Non-cash and one-offs)	0	(1)	(17)	(3)	(9)	-	-	-	-	
EBT	8	7	(12)	2	(7)	3	7	12	15	
Income tax	(2)	(1)	(1)	(1)	-	(1)	(2)	(3)	(3)	
Net profit	6	6	(13)	2	(7)	2	5	9	11	
Cash Flow (RBLbn)										
NOPAT: old plants	2	4	2	1	0	1	1	2	2	
NOPAT: new, finished	-	-	-	-	-	-	-	-	-	
NOPAT: new, not finished	-	-	-	-	-	1	5	8	10	
NOPAT: other	0	0	1	0	1	0	0	0	0	
NOPAT	3	4	3	2	1	2	6	10	12	
Reduction/(increase) in working capital; existing plants	(3)	-	-	(0)	-	(3)	(4)	(3)	(2)	
Reduction/(increase) in working capital; new plants	(3)	-	-	(0)	-	(3)	(4)	(3)	(2)	
Reduction/(increase) in working capital	(3)	-	-	(0)	-	(3)	(4)	(3)	(2)	
Capex, old (maintenance)	-	-	(2)	(2)	(2)	(3)	(3)	(3)	(3)	
Capex, new, finished	-	-	-	-	-	-	-	-	-	
Capex: new, not finished	-	(9)	(12)	(14)	(24)	(20)	(11)	(4)	-	
Capex (net of partners' contribution)	-	(9)	(14)	(17)	(27)	(23)	(14)	(7)	(3)	
FCF: old plants	1	5	1	0	(0)	(4)	(4)	(3)	(2)	
FCF: new plants, finished	-	-	-	-	-	-	-	-	-	
FCF: new plants, not finished	-	(9)	(12)	(14)	(24)	(15)	(1)	10	15	
FCF: other	0	0	1	0	1	0	0	0	0	
FCF (attributable to EV)	1	(4)	(10)	(14)	(24)	(19)	(5)	7	14	
FCF & DCF (US\$m)										
Exchange rate: US\$/RBL: year average	25	32	30	29	32	32	33	33	32	
Discounting factor	Finished				1.00	0.97	0.85	0.74	0.65	0.57
	Not finished				1.00	0.96	0.83	0.72	0.62	0.53
DCF: Old plants					(14)	(111)	(101)	(66)	(33)	462
DCF: New plants: finished					-	-	-	-	-	-
DCF: New plants: not finished					(763)	(451)	(36)	222	305	1,538
DCF: Other					18	9	6	4	3	14
FCF (unlevered), discounted (US\$m)					(760)	(553)	(130)	160	275	2,014

Source: Company data, ING estimates

Valuation parameters

WACC (%)	Finished	14.1			
	Not finished	16.1			
TV (US\$bn) based on different approaches with median as median)	EV/KW: min	As % of the capex	Gordon-growth	EV/KW: max	Final
Old plants	0.8		-	4.2	0.8
New plants; finished			-		-
New plants; not finished			2.7		2.7
Other			0.0		0.0
TV, final, (US\$bn)					3.5
Components of value (US\$m)	Gross	Debt of SPVs (pro-rata)	Net		
Old plants	151		151		
New plants, finished	-		-		
New plants, not finished	1,578	-	1,578		
Other	36		36		
Core assets	1,765	-	1,765		
Non(core assets)			-		
Net (debt)/cash			391		
Equity (US\$)			2,156		
No. of shares: Ord: Old (bn)			47		
No. of shares: Ord: New (2012, bn)			-		
No. of shares: Ord (bn)			47		
No. of shares: Ord: quasi-treasury (bn)			-		
No. of shares: Pref (bn)			-		
No. of shares: effective, total (bn)			47		
Target price (US\$)			0.05		
Target price (RBL)			1.45		

Source: Company data, ING estimates

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Generators: Foreign-controlled

E.ON Russia (OGK-4)

The first 'proper utility' with positive FCF and dividends

Maintained

Buy

 Russian Federation
Utilities

 Market cap RBL172.295m
Bloomberg EONR RM

Reached positive FCF in 2011 and paid out a quarter of profits for this year.

Investment case

E.ON Russia (formerly known as OGK-4) is the first of the publicly traded Russian electricity generators to transform into a 'proper utility', ie, the one that produces positive FCF and a healthy dividend flow on the back of it. After the timely realisation of a major part of its 'obligatory' capex programme, E.ON Russia showed positive FCF in 2011 and paid a quarter of its net profits for the year as dividends. We see further potential in the stock with the catalysts being: (1) further increase in dividend payout; and (2) realisation of the last 'obligatory' capex project, the new unit at Beryozovskaya TPP (+0.8GW, 2014).

Catalysts

- Increase of dividend payout ratio in 2014 (from c.25% in 2011)
- Commissioning of 'new' generating capacities: Beryozovskaya TPP (+0.8GW, 2014)

Valuation approach

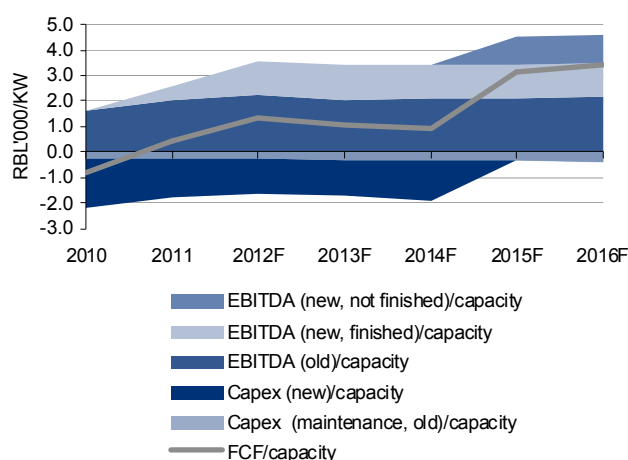
Our target price for E.ON Russia is DCF derived with a five-year explicit forecast horizon (2012-16). Details of the DCF valuation are presented in the table below.

Price (24/09/12)	RBL2.73
Target price (12-mth)	Previously RBL3.37 RBL3.30
Forecast total return	23.2%

Capex and FCF

FCF breakeven year: **2011**, after completion of the two new units at Surgut TPP (+2*0.4GW, 2011)

FCF profile (per KW of 'old' capacity)



Source: ING estimates

Generating assets

We divide the generation fleet of the analysed gencos into 'old' (ie, built before 2007) and 'new' capacity, because these two types of capacity effectively operate under different regulatory regimes as far as the capacity market is concerned.

'Old' assets: 8.6GW of 'old' plants

Compared with an average thermal OGK, E.ON Russia's fleet of 'old' power plants is characterised by:

- Above-average aggregate fuel efficiency
- Below-average share of coal-fired capacity located in European Russia
- Below-average share of 'old' capacity based in European Russia

'New' assets

2.4GW by 2016, including:

- 1.6GW by end-2011
- 1.6GW by end-2012

Newsflow

Date	Description
30-Oct-2012	9M12 RAS
13-Oct-2012	9M12 IFRS

Source: Company data, ING

Major shareholders (%)

E.ON Group	82
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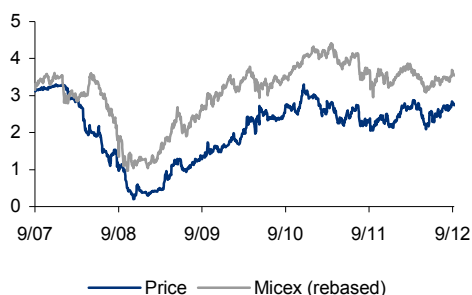
Source: Company data, ING

Share data

Avg daily volume (3-mth)	7,926,985
Free float (%)	22.0
Market cap (RBLm)	172,295
Net debt (1F, RBLm)	(31,983)
Enterprise value (1F, RBLm)	140,312
Dividend yield (1F, %)	2.5

Source: Company data, ING estimates

Share price performance



Source: ING

Company profile

Controlled by the German E.ON Group (79% as of year-end 2011), E.ON Russia (formerly known as OGK-4) is a major Russian inter-regional thermal electricity generator. E.ON Russia owns 8.6GW of 'old' capacity (ie, built before 2007) and should commission 2.4GW of 'new' thermal capacity by 2016, which is indirectly sponsored by the Russian regulator with so-called capacity delivery agreements (DPMs).

Risks

- Additional government pressure on the prices for electrical energy and capacity.
- Delays in the commissioning of the last obligatory capacity addition project: Beryozovskaya TPP (+0.8GW, 2014).

Financials

Year end Dec (RBLm)	2009	2010	2011	2012F	2013F	2014F
Income statement						
Revenues	40,749	50,321	66,089	72,963	82,719	93,569
EBITDA	8,677	14,592	23,194	29,797	27,155	27,003
EBIT	6,852	12,620	17,735	21,020	18,378	18,226
Net interest	885	349	442	1,252	2,303	2,226
Associates						
Other pre-tax items	0	0	0	0	0	0
Pre-tax profit	7,737	12,969	18,177	22,271	20,681	20,452
Tax	(1,698)	(2,724)	(3,581)	(5,345)	(4,963)	(4,908)
Minorities						
Other post-tax items	0	0	0	0	0	0
Net profit	6,039	10,245	14,596	16,926	15,717	15,543
Normalised net profit	6,039	10,260	14,824	16,926	15,717	15,543
Balance sheet						
Tangible fixed assets	64,709	79,599	86,716	99,034	111,431	126,016
Intangible fixed assets	0	0	0	0	0	0
Other non-current assets	533	650	1,247	1,247	1,247	1,247
Cash & equivalents	17,131	14,565	24,698	31,983	32,254	31,240
Other current assets	10,104	8,945	9,839	9,839	10,586	11,960
Total assets	92,477	103,759	122,500	142,103	155,517	170,463
Short-term debt	0	0	0	0	0	0
Other current liabilities	3,478	4,230	3,563	4,083	4,083	5,710
Long-term debt	0	0	0	0	0	0
Other long-term liabilities	0	0	0	0	0	0
Total equity	88,999	99,529	118,937	138,020	151,435	164,752
Total liabilities & equity	92,477	103,759	122,500	142,103	155,517	170,463
Net working capital	3,493	3,735	4,210	3,690	4,437	4,184
Net debt (cash)	(17,131)	(14,565)	(24,698)	(31,983)	(32,254)	(31,240)
Cash flow						
Cash flow EBITDA	8,677	14,572	22,898	29,797	27,155	27,003
Tax, interest & other	813	2,395	3,435	4,094	2,661	2,683
Change in working capital	(4,140)	0	(541)	0	(747)	0
Net cash from op activities	2,839	11,868	19,072	24,452	21,445	22,095
Capex	(17,852)	(18,959)	(15,287)	(14,387)	(14,570)	(16,758)
Net acquisitions	0	0	0	0	0	0
Net financing cash flow	0	0	0	0	0	0
Dividends & minority distrib'n	0	0	0	0	0	0
Net ch in cash & equivalents	(15,013)	(7,091)	3,785	10,064	6,875	5,337
FCF	(15,013)	(7,091)	3,785	10,064	6,875	5,337
Performance & returns						
Revenue growth (%)	7.2	23.5	31.3	10.4	13.4	13.1
Normalised EPS growth (%)	-13.2	69.9	44.5	14.2	-7.1	-1.1
Normalised EBITDA mgn (%)	21.3	29.0	35.1	40.8	32.8	28.9
Normalised EBIT margin (%)	16.8	25.1	27.3	28.8	22.2	19.5
ROACE (%)	8.0	13.4	16.5	16.4	12.7	11.5
Reported ROE (%)	7.0	10.9	13.4	13.2	10.9	9.8
Working capital as % of sales	8.6	7.4	6.4	5.1	5.4	4.5
Net debt (cash)/EBITDA (x)	(2.0)	(1.00)	(1.1)	(1.1)	(1.2)	(1.2)
EBITDA net interest cvg (x)	n/a	n/a	n/a	n/a	n/a	n/a
Valuation						
EV/revenue (x)	3.8	3.1	2.2	1.9	1.7	1.5
EV/normalised EBITDA (x)	17.9	10.8	6.4	4.7	5.2	5.2
EV/normalised EBIT (x)	22.6	12.5	8.2	6.7	7.6	7.7
Normalised PER (x)	28.5	16.8	11.6	10.2	11.0	11.1
Price/book (x)	1.9	1.7	1.4	1.2	1.1	1.0
Dividend yield (%)	0.0	0.0	2.1	2.5	2.3	3.0
FCF yield (%)	n/a	n/a	2.6	7.2	4.9	3.8
Per share data						
Reported EPS (RBL)	0.10	0.16	0.23	0.27	0.25	0.25
Normalised EPS (RBL)	0.10	0.16	0.24	0.27	0.25	0.25
Dividend per share (RBL)	0.00	0.00	0.06	0.07	0.06	0.08
Equity FCFPS (RBL)	(0.24)	(0.11)	0.06	0.16	0.11	0.08
BV/share (RBL)	1.41	1.58	1.89	2.19	2.40	2.61

Source: Company data, ING estimates

P&L and cash flow

	2008	2009	2010	2011F	2012F	2013F	2014F	2015F	2016F	TV 2017F
Capacity (GW)										
Installed capacity: old plants	9	9	9	9	9	9	9	9	9	
Installed capacity, new finished	-	-	-	0.7	1.6	1.6	1.6	1.6	1.6	1.6
Installed capacity: new, not finished	-	-	-	-	-	-	-	0.8	0.8	
Installed capacity total	9	9	9	9	10	10	10	11	11	
P&L (RBLbn)										
Revenue electricity: old	34	38	47	55	53	62	71	80	88	
Revenue, electricity, new, finished	-	-	-	8	16	18	19	21	22	
Revenue, electricity, new, not finished	-	-	-	-	-	-	-	13	13	
Revenue electricity	34	38	47	63	70	80	90	114	123	
Heat revenue	1	1	1	1	1	1	1	1	2	
Revenue other (incl. reselling)	3	2	2	3	2	2	2	2	2	
Revenue	38	41	50	66	73	83	94	117	126	
Fuel costs for heat, old	-	(0)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	
Fuel costs for electricity, old	-	(22)	(26)	(28)	(27)	(36)	(45)	(53)	(59)	
Fuel costs, new, finished	-	-	-	(2)	(4)	(5)	(6)	(8)	(8)	
Fuel costs, new, not finished	-	-	-	-	-	-	-	(3)	(3)	
Fuel costs, old and new	(22)	(23)	(26)	(31)	(31)	(42)	(53)	(64)	(71)	
Purchased power & reselling	(2)	(1)	(1)	(2)	(1)	(1)	(1)	(1)	(1)	
Heat transportation	-	-	-	-	-	-	-	-	-	
Water payment	-	-	-	-	-	-	-	-	-	
Gross profit	14	17	23	34	41	39	40	52	54	
Non-fuel opex: old plants	(9)	(8)	(8)	(10)	(9)	(9)	(10)	(11)	(11)	
Non-fuel opex: new, finished	-	-	-	(1)	(2)	(2)	(3)	(3)	(3)	
Non-fuel opex: new, not finished	-	-	-	-	-	-	-	(2)	(2)	
Non-fuel opex	(9)	(8)	(8)	(10)	(11)	(12)	(13)	(15)	(16)	
EBITDA, old plants	-	8	14	17	18	16	16	17	18	
EBITDA, new, finished	-	-	-	5	10	10	10	11	11	
EBITDA, new, not finished	-	-	-	-	-	-	-	9	9	
EBITDA, other	0	1	1	1	1	1	0	0	0	
EBITDA	5	9	15	23	30	27	27	36	37	
Depreciation, old plants	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	
Depreciation: new, finished	-	-	-	(3)	(7)	(7)	(7)	(4)	(4)	
Depreciation: new, not finished	-	-	-	-	-	-	-	(2)	(2)	
Depreciation	(2)	(2)	(2)	(5)	(9)	(9)	(9)	(9)	(9)	
EBIT (excl. non(recurring and non (cash))	4	7	13	18	21	18	18	28	29	
Finance income/(costs), net	4	1	0	0	1	2	2	2	3	
Other (non-cash and one-offs)	-	-	(0)	(0)	-	-	-	-	-	
EBT	8	8	13	18	22	21	20	30	32	
Income tax	(1)	(2)	(3)	(4)	(5)	(5)	(5)	(7)	(8)	
Net profit	7	6	10	15	17	16	16	23	24	
Cash flow (RBLbn)										
NOPAT: old plants	2	5	9	12	12	11	11	11	12	
NOPAT: new, finished	-	-	-	2	3	3	3	5	5	
NOPAT: new, not finished	-	-	-	-	-	-	-	5	5	
NOPAT: other	0	1	1	1	1	0	0	0	0	
NOPAT	3	5	10	14	16	14	14	21	22	
Reduction/(increase) in working capital; existing plants	-	(4)	-	(1)	-	(1)	-	(2)	-	
Reduction/(increase) in working capital; new plants	-	(4)	-	(1)	-	(1)	-	(2)	-	
Reduction / (increase) in working capital	-	(4)	-	(1)	-	(1)	-	(2)	-	
Capex, old (maintenance)	-	-	(2)	(2)	(2)	(3)	(3)	(3)	(3)	
Capex, new, finished	-	(18)	(17)	(11)	-	-	-	-	-	
Capex: new, not finished	-	-	-	(2)	(12)	(12)	(14)	-	-	
Capex (net of partners' contribution)	-	(18)	(19)	(15)	(14)	(15)	(17)	(3)	(3)	
FCF: old plants	4	2	9	12	12	10	10	8	11	
FCF: new plants, finished	-	(18)	(17)	(6)	9	9	9	9	9	
FCF: new plants, not finished	-	-	-	(2)	(12)	(12)	(14)	7	7	
FCF: other	0	1	1	1	1	0	0	0	0	
FCF (attributable to EV)	4	(15)	(7)	4	10	7	6	25	27	
FCF & DCF (US\$m)										
Exchange rate: US\$/RBL: year average	25	32	30	29	32	32	33	33	32	
Discounting factor		Finished			1.00	0.97	0.87	0.78	0.70	0.63
		Not finished			1.00	0.97	0.85	0.75	0.66	0.58
DCF: Old plants					382	287	269	196	233	1,785
DCF: New plants, finished					294	282	252	215	198	1,364
DCF: New plants, not finished					(376)	(359)	(373)	172	153	773
DCF: Other					24	12	9	6	4	23
FCF (unlevered), discounted (US\$m)					325	223	156	589	588	3,945

Source: Company data, ING estimates

Valuation parameters and target price derivation

WACC (%)	Finished	11.7			
	Not finished	13.7			
TV (US\$bn) (based on different approaches with median as median)	EV/KW: min	As % of capex	Gordon-growth	EV/KW: max	Final
Old plants	1.1		2.9	4.3	2.9
New plants; finished			2.2		2.2
New plants; not finished			1.2		1.2
Other			0.0		0.0
TV (final)					6.3
Components of value (US\$m)	Gross	Debt of SPVs (pro-rata)	Net		
Old plants	2,770		2,770		
New plants, finished	2,312		2,312		
New plants, not finished	366	-	366		
Other	54		54		
Core assets (US\$m)	5,502	-	5,502		
Non-core assets			-		
Net (debt) / cash			1,001		
Equity (US\$m)			6,503		
No. of shares: Ord: old (bn)			63		
No. of shares: Ord: new (2012, bn)			-		
No. of shares: Ord (bn)			63		
No. of shares: Ord: quasi-treasury (bn)			-		
No. of shares: Pref (bn)			-		
No. of shares: effective, total (bn)			63		
Target price (US\$)			0.10		
Target price (RBL)			3.30		

Source: Company data, ING estimates

Enel OGK-5

On track to become next 'proper utility' with FCF and dividends

Maintained

Buy

 Russian Federation
Utilities

 Market cap RBL67,559.9m
Bloomberg OGKE RX

Expected to reach positive FCF in 2013 and show healthy dividends for the year.

Investment case

We expect Enel OGK-5 to become the next Russian publicly traded generator that turns into a 'proper' utility, namely a company that generates a positive FCF and pays healthy dividends. As Enel OGK-5 has already completed the 'obligatory' part of its capex programme, we expect the company to become FCF positive in 2013 with completion of a major part of the ongoing re-vamping of its flagship Reftinskaya TPP. We believe that Enel OGK-5 is capable of starting to pay out not less than a quarter of its net profits starting in 2014 (ie, based on the results of 2013).

M&A and capital-raising

In 1Q12, InterRAO agreed to sell its 26% stake in Enel OGK-5 to a consortium of investors including Rusenergo Fund, Russian Direct Investment Fund and Macquarie Renaissance Infrastructure Fund (MRIF). The price of the stake includes a fixed component (US\$625m) and a variable component depending on the consortium's return on investment.

Catalysts

Continuing hikes in gas prices: +15% on 1 July 2012 to be followed by +15% on 1 July 2013 and +15% on 1 July 2014. Enel OGK-5 benefits from these hikes because its flagship power plant (Reftinskaya TPP) is a coal-fired plant located in European Russia.

Valuation approach

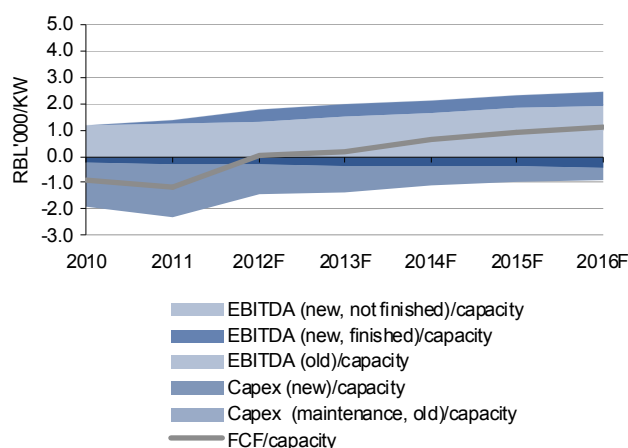
Our target price for Enel OGK-5 is DCF derived with a five-year explicit forecast horizon (2012-16). Details of the DCF valuation are presented in the table below.

Price (24/09/12)	RBL1.91
	Previously RBL2.18
Target price (12-mth)	RBL2.31
Forecast total return	20.9%

Capex and FCF

Expected FCF breakeven year: **2013** with completion of a major part of the re-vamp at Reftinskaya TPP

FCF profile (per KW of 'old' capacity)



Source: ING estimates

Generating assets

We divide the generation fleet of the analysed gencos into 'old' (ie, commissioned before 2007) and 'new' capacity because these two types of capacity effectively operate under different regulatory regimes.

'Old' assets: 8.7GW of 'old' plants

Compared with an average thermal OGK, Enel OGK-5's fleet of 'old' power plants is characterised by:

- Above-average aggregate fuel efficiency
- Above-average share of coal-fired capacity located in European Russia
- Above-average share of 'old' capacity based in European Russia

'New' assets: 0.8GW by end-2016, including:

- 0.8GW by end-2011
- 0.8GW by end-2012

In addition, Enel OGK-5 is performing a large-scale modernisation ('revamp') of its flagship power plant (Reftinskaya TPP).

Newsflow

Date	Description
Oct 2012	9M 2012 IFRS
Nov 2012	9M 2012 RAS

Source: Company data, ING

Major shareholders (%)

Enel	56
Investors' consortium	26

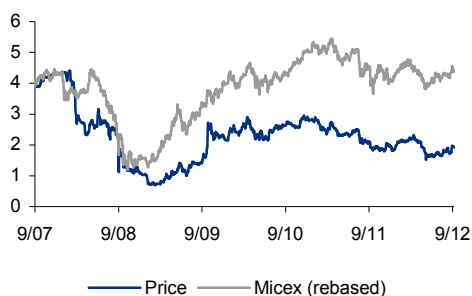
Source: Company data, ING

Share data

Avg daily volume (3-mth)	4,170,215
Free float (%)	18.0
Market cap (RBLm)	67,559.9
Net debt (1F, RBLm)	27,441
Enterprise value (1F, RBLm)	95,001
Dividend yield (1F, %)	0.0

Source: Company data, ING estimates

Share price performance



Source: ING

Company profile

Controlled by Italian Enel (56% as of year-end 2011), Enel OGK-5 is a major Russian inter-regional thermal electricity generator. Enel OGK-5 owns 8.7GW of 'old' capacity (ie, built before 2007) and 0.8GW of 'new' thermal capacity, sponsored by the Russian regulator with so-called capacity delivery agreements (DPMs). A consortium of investors, including Russian Direct Investment Fund, is to purchase a 26% stake from InterRAO.

Risks

- Additional government pressure on the prices for electrical energy and capacity
- Slower-than-planned hikes in domestic gas prices

Financials

Year end Dec (RBLm)	2009	2010	2011	2012F	2013F	2014F
Income statement						
Revenues	41,567	52,560	60,102	66,758	73,522	80,969
EBITDA	7,918	10,285	12,465	15,623	17,290	18,713
EBIT	6,359	6,969	8,724	10,357	11,012	12,110
Net interest	(796)	(1,048)	(2,452)	(3,150)	(2,160)	(2,271)
Associates						
Other pre-tax items	0	0	0	0	0	0
Pre-tax profit	5,563	5,921	6,272	7,207	8,852	9,839
Tax	(1,020)	(906)	(1,309)	(1,730)	(2,125)	(2,361)
Minorities						
Other post-tax items	0	0	0	0	0	0
Net profit	4,543	5,015	4,963	5,477	6,728	7,477
Normalised net profit	4,679	6,429	5,282	5,477	6,728	7,477
Balance sheet						
Tangible fixed assets	78,619	88,139	101,002	112,187	122,492	130,499
Intangible fixed assets	0	0	0	0	0	0
Other non-current assets	3,096	1,905	1,698	1,698	1,698	1,698
Cash & equivalents	0	0	3,448	3,893	0	0
Other current assets	9,008	10,000	11,849	13,434	14,647	16,060
Total assets	90,723	100,044	117,997	131,211	138,837	148,257
Short-term debt	2,989	4,957	0	0	0	0
Other current liabilities	2,686	1,628	3,303	4,640	4,640	5,324
Long-term debt	14,882	15,689	31,334	31,334	30,072	29,060
Other long-term liabilities	0	0	0	0	0	0
Total equity	70,166	77,770	83,360	95,238	104,125	113,874
Total liabilities & equity	90,723	100,044	117,997	131,211	138,837	148,257
Net working capital	4,954	5,602	5,600	5,848	7,061	7,790
Net debt (cash)	17,871	20,646	27,886	27,441	30,072	29,060
Cash flow						
Cash flow EBITDA	7,742	8,449	12,051	15,623	17,290	18,713
Tax, interest & other	1,992	3,790	4,175	4,880	4,284	4,633
Change in working capital	(575)	0	(796)	(248)	(1,213)	(729)
Net cash from op activities	5,527	8,331	7,908	10,496	11,792	13,351
Capex	(17,214)	(16,453)	(19,866)	(12,754)	(11,952)	(9,654)
Net acquisitions	0	0	0	0	0	0
Net financing cash flow	0	0	0	0	0	0
Dividends & minority distrib'n	0	0	0	0	0	0
Net ch in cash & equivalents	(11,687)	(8,122)	(11,958)	(2,258)	(160)	3,697
FCF	(10,891)	(7,074)	(9,506)	892	2,000	5,968
Performance & returns						
Revenue growth (%)	-2.3	26.4	14.3	11.1	10.1	10.1
Normalised EPS growth (%)	60.5	37.4	-17.8	3.7	22.8	11.1
Normalised EBITDA mgn (%)	19.0	19.6	20.7	23.4	23.5	23.1
Normalised EBIT margin (%)	15.7	16.8	15.2	15.5	15.0	15.0
ROACE (%)	7.8	9.4	8.6	8.6	8.4	8.7
Reported ROE (%)	6.3	6.8	6.2	6.1	6.7	6.9
Working capital as % of sales	11.9	10.7	9.3	8.8	9.6	9.6
Net debt (cash)/EBITDA (x)	2.3	2.0	2.2	1.8	1.7	1.6
EBITDA net interest cvg (x)	9.9	9.8	5.1	5.0	8.0	8.2
Valuation						
EV/revenue (x)	2.1	1.7	1.6	1.4	1.3	1.2
EV/normalised EBITDA (x)	10.8	8.6	7.7	6.1	5.6	5.2
EV/normalised EBIT (x)	13.1	10.0	10.4	9.2	8.9	8.0
Normalised PER (x)	14.4	10.5	12.8	12.3	10.0	9.0
Price/book (x)	0.96	0.87	0.81	0.71	0.65	0.59
Dividend yield (%)	0.0	0.0	0.0	0.0	2.5	3.3
FCF yield (%)	n/a	n/a	n/a	0.94	2.0	6.2
Per share data						
Reported EPS (RBL)	0.13	0.14	0.14	0.15	0.19	0.21
Normalised EPS (RBL)	0.13	0.18	0.15	0.15	0.19	0.21
Dividend per share (RBL)	0.00	0.00	0.00	0.00	0.05	0.06
Equity FCFPS (RBL)	(0.33)	(0.23)	(0.34)	(0.06)	0.00	0.10
BV/share (RBL)	1.98	2.20	2.36	2.69	2.94	3.22

Source: Company data, ING estimates

P&L and cash flow

	2008	2009	2010	2011	2012F	2013F	2014F	2015F	2016F	TV 2017F
Capacity (GW)										
Installed capacity: old plants	9	9	9	9	9	9	9	9	9	
Installed capacity: new finished	-	-	-	0.2	0.8	0.8	0.8	0.8	0.8	
Installed capacity: new, not finished	-	-	-	-	-	-	-	-	-	
Installed capacity total	9	9	9	9	9	9	9	9	9	
P&L (RBLbn)										
Revenue electricity: old	34	37	46	49	49	55	62	69	75	
Revenue, electricity, new, finished	-	-	-	2	8	9	10	10	11	
Revenue, electricity, new, not finished	-	-	-	-	-	-	-	-	-	
Revenue electricity	34	37	46	52	57	64	72	79	86	
Heat revenue	2	2	3	3	4	4	5	5	5	
Revenue other (incl. reselling)	7	2	4	5	5	5	5	4	4	
Revenue	43	42	53	60	67	74	81	89	95	
Fuel costs for heat, old	-	(2)	(2)	(3)	(3)	(3)	(4)	(4)	(5)	
Fuel costs for electricity, old	-	(21)	(27)	(29)	(31)	(35)	(40)	(45)	(49)	
Fuel costs, new, finished	-	-	-	(1)	(3)	(4)	(4)	(5)	(5)	
Fuel costs, new, not finished	-	-	-	-	-	-	-	-	-	
Fuel costs, old and new	(23)	(23)	(30)	(33)	(37)	(42)	(48)	(53)	(59)	
Purchased power & Re-selling	(7)	(2)	(3)	(5)	(5)	(5)	(4)	(4)	(4)	
Heat transportation	-	-	-	-	-	-	-	-	-	
Water payment	-	-	-	-	-	-	-	-	-	
Gross profit	13	17	20	22	25	27	29	31	33	
Non-fuel Opex: old plants	(8)	(9)	(10)	(10)	(8)	(8)	(9)	(9)	(10)	
Non-fuel Opex: new, finished	-	-	-	(0)	(1)	(1)	(1)	(1)	(1)	
Non-fuel Opex: new, not finished	-	-	-	-	-	-	-	-	-	
Non-fuel Opex	(8)	(9)	(10)	(10)	(9)	(10)	(10)	(11)	(12)	
EBITDA, old plants	-	8	10	11	11	13	14	16	17	
EBITDA, new, finished	-	-	-	1	4	4	4	4	4	
EBITDA, new, not finished	-	-	-	-	-	-	-	-	-	
EBITDA, other	-	0	0	0	0	0	0	0	0	
EBITDA	5	8	10	12	16	17	19	20	21	
Depreciation, old plants	(1)	(1)	(1)	(2)	(2)	(2)	(2)	(2)	(2)	
Depreciation: new, finished	-	-	-	(2)	(4)	(5)	(5)	(5)	(5)	
Depreciation: new, not finished	-	-	-	-	-	-	-	-	-	
Depreciation	(1)	(1)	(1)	(3)	(5)	(6)	(7)	(7)	(7)	
EBIT (excl. non-recurring and non-cash)	4	7	9	9	10	11	12	13	14	
Finance income / (costs), net	(0)	(1)	(1)	(2)	(3)	(2)	(2)	(2)	(2)	
Other (non-cash and one-offs)	(0)	(0)	(2)	(0)	-	-	-	-	-	
EBT	3	6	6	6	7	9	10	11	12	
Income tax	(0)	(1)	(1)	(1)	(2)	(2)	(2)	(3)	(3)	
Net profit	3	5	5	5	5	7	7	9	9	
Cash flow (RBLbn)										
NOPAT: old plants	3	5	7	7	7	9	10	11	11	
NOPAT: new, finished	-	-	-	(1)	0	(1)	(1)	(1)	(1)	
NOPAT: new, not finished	-	-	-	-	-	-	-	-	-	
NOPAT: other	-	0	0	0	0	0	0	0	0	
NOPAT	3	5	7	7	8	8	9	10	10	
Reduction/(increase) in working capital; existing plants	(1)	(1)	-	(1)	(0)	(1)	(1)	(1)	(0)	
Reduction/(increase) in working capital; new plants	-	-	-	-	-	-	-	-	-	
Reduction/(increase) in working capital	(1)	(1)	-	(1)	(0)	(1)	(1)	(1)	(0)	
Capex, old (maintenance)	-	-	(2)	(3)	(3)	(3)	(3)	(3)	(4)	
Capex, new, finished	-	(17)	(10)	(9)	-	-	-	-	-	
Capex: new, not finished	-	-	(5)	(9)	(10)	(9)	(7)	(5)	(4)	
Capex (net of partners' contribution)	-	(17)	(16)	(20)	(13)	(12)	(10)	(8)	(8)	
FCF: old plants	4	5	6	6	6	6	7	8	9	
FCF: new plants, finished	-	(17)	(10)	(7)	4	4	4	4	4	
FCF: new plants, not finished	-	-	(5)	(9)	(10)	(9)	(7)	(5)	(4)	
FCF: other	-	0	0	0	0	0	0	0	0	
FCF attributable to (EV)	4	(11)	(8)	(10)	0	1	5	8	9	
FCF & DCF (US\$m)										
US\$/RBL exchange rate (year average)	25	32	30	29	32	32	33	33	32	
Discounting factor										
	Finished				1.00	0.97	0.88	0.79	0.71	0.64
	Not finished				1.00	0.97	0.86	0.76	0.67	0.59
DCF: Old plants					190	182	199	202	198	1,598
DCF: New plants: finished					120	124	113	103	96	508
DCF: New plants: not finished					(313)	(270)	(174)	(120)	(88)	707
DCF: Other					7	5	3	2	2	8
FCF (unlevered), discounted (US\$m)					4	41	141	187	207	2,822

Source: Company data, ING estimates

Valuation parameters and target price derivation

WACC (%)	Finished	11.1			
	Not finished	13.1			
TV (US\$bn) (based on different approaches with median as median)	EV/KW: min	As % of capex	Gordon-growth	EV/KW: max	Final
Old plants	1.1		2.5	4.3	2.5
New plants; finished			0.8		0.8
New plants; not finished		1.1	-		1.1
Other			0.0		0.0
TV (final)					4.4
Components of value (US\$m)	Gross	Debt of SPVs (pro-rata)	Net		
Old plants	2,378		2,378		
New plants, finished	945		945		
New plants, not finished	55	-	55		
Other	20		20		
Core assets (US\$bn)	3,398	-	3,398		
Non-core assets			-		
Net (debt) / cash			(845)		
Equity (US\$bn)			2,553		
No. of shares: Ord: old (bn)			35		
No. of shares: Ord: new (2012, bn)			-		
No. of shares: Ord (bn)			35		
No. of shares: Ord: quasi-treasury (bn)			-		
No. of shares: Pref (bn)			-		
No. of shares: effective, total (bn)			35		
Target price (US\$)			0.07		
Target price (RBL)			2.31		

Source: Company data, ING estimates

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**Generators:
Gazprom-controlled**

Mosenergo

Positive FCF delayed due to growth in maintenance capex

Maintained

Buy

 Russian Federation
Utilities

 Market cap RBL54,456.6m
Bloomberg MSNG RX

Significant maintenance capex overshadows positive FCF and reasonable dividends, despite advanced 'obligatory' capacity additions.

Investment case

While Mosenergo is among more advanced gencos in terms of realising its 'obligatory' capacity additions programme, the company's ability to generate FCF in the short term has been undermined by the recently announced plans to keep the maintenance capex at about RBL10bn pa in the next three years. With this level of maintenance capex (and some of the 'obligatory' additions not yet completed), we do not expect Mosenergo to start generating FCF before 2015. Consequently, we do not expect the dividend payout of the company to approach the upper limit of the announced 5-25% range (as a share of RAS profits) before 2016.

M&A and capital-raising

In addition to its own obligatory capex programme, Mosenergo assumes control over construction of a new unit at Cherepovetsk TPP (+0.4GW, 2014), which was initially was meant to be constructed by OGK-2 (the owner of Cherepovetsk TPP).

Mosenergo owns 51% of the SPV that is constructing the new unit, with the remaining 49% owned by OGK-2. Mosenergo contributed to the JV a Siemens gas turbine that it has contracted for about €100m. The remaining cost of the construction is RBL17-18bn (incl. VAT).

Catalysts

Commissioning of 'new' generating units, including 2012-13:

- CHP-12 (+0.2GW, 2013)
- CHP-16 (+0.4GW, 2013)

Valuation approach

Our target price for Mosenergo is based on DCF with a five-year explicit forecast horizon (2012-16).

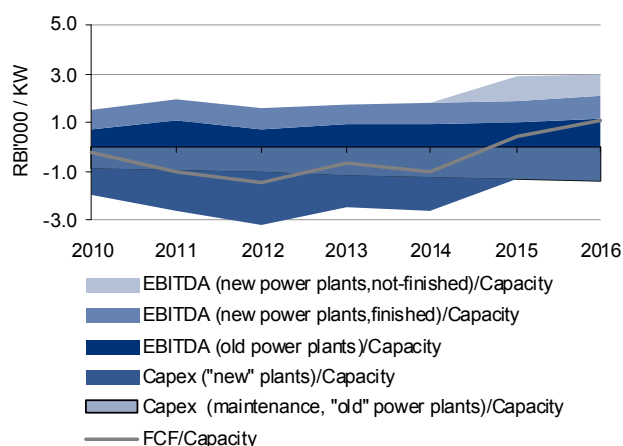
Details of the DCF valuation are presented in the table below.

Price (24/09/12)	RBL1.37
Target price (12-mth)	Previously RBL1.53 RBL1.92
Forecast total return	41.2%

Capex and FCF

Expected FCF breakeven year: **2015**, after completion of new units at CHP-12 (+0.2GW, 2013), CHP-16 (+0.4GW, 2013) and CHP-20 (+0.4GW, 2014)

FCF profile (per KW of 'old' capacity)



Source: ING estimates

Generating assets

We divide the generation fleet of the analysed gencos into 'old' (ie, built before 2007) and 'new' capacity because these two types of capacity effectively operate under different regulatory regimes.

'Old' assets: 10.7GW of 'old' plants

Mosenergo was set up as a regional genco (TGK), which implies:

- Regional concentration of assets, in Mosenergo's case in the city and region of Moscow
- High share of co-generating assets in its fleet, leading to a high share of heat in its revenue

'New' assets

3.2 GW by end-2016 (including new unit at Cherepovetsk TPP, which is constructed by a JV of Mosenergo and OGK-2), including:

- 1.7GW by end-2011
- 1.7GW by end-2012

Newsflow

Date	Description
Oct 2012	9M12 RAS
Nov 2012	9M12 IFRS

Source: Company data, ING

Major shareholders (%)

GazpromEnergoholding	53
Moscow Government	26
InterRAO	5

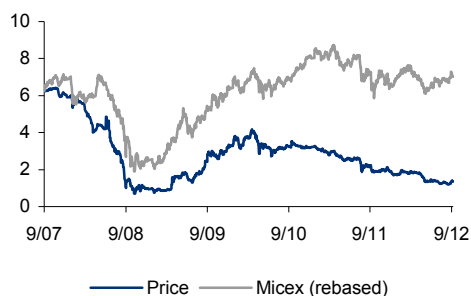
Source: Company data, ING

Share data

Avg daily volume (3-mth)	24,205,585
Free float (%)	16.0
Market cap (RBLm)	54,456.6
Net debt (1F, RBLm)	2,870
Enterprise value (1F, RBLm)	57,326
Dividend yield (1F, %)	1.0

Source: Company data, ING estimates

Share price performance



Source: ING

Company profile

Controlled by GazpromEnergoholding (53.5% stake), Mosenergo is a major Russian mega-regional thermal generator covering Moscow City and the regions. It owns 10.7GW of 'old' capacity (ie, built before 2007) and should commission 2.8GW of 'new' capacity by 2016, which is indirectly sponsored by the Russian regulator with so-called capacity delivery agreements (DPMs). Moscow City is the second-largest shareholder of Mosenergo with a 26% stake.

Risks

- Additional government pressure on the prices for electrical energy and capacity
- Delays in realisation of capacity addition programmes
- Co-financing of the investment projects initiated by other companies of GazpromEnergoholding group (eg, OGK-2)

Financials

Year end Dec (RBLm)	2009	2010	2011	2012F	2013F	2014F
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Income statement

Revenues	112,636	145,298	161,119	161,445	179,700	199,636
EBITDA	14,234	20,044	23,928	19,788	20,261	20,634
EBIT	2,022	8,968	10,887	5,523	5,996	6,369
Net interest	220	2,290	1,079	1,040	(230)	(1,372)
Associates						
Other pre-tax items	0	0	0	0	0	0
Pre-tax profit	2,242	11,258	11,966	6,563	5,766	4,996
Tax	(584)	(2,382)	(2,074)	(1,575)	(1,384)	(1,199)
Minorities						
Other post-tax items	0	0	0	0	0	0
Net profit	1,658	8,876	9,892	4,988	4,383	3,797
Normalised net profit	2,048	8,213	9,892	4,988	4,383	3,797

Balance sheet

Tangible fixed assets	200,387	193,420	196,772	224,919	244,562	266,146
Intangible fixed assets	0	0	0	0	0	0
Other non-current assets	5,410	2,077	3,031	3,031	3,031	3,031
Cash & equivalents	177	23,358	20,218	7,353	0	0
Other current assets	44,436	34,299	39,984	39,984	39,984	43,060
Total assets	250,410	253,154	260,005	275,287	287,577	312,237
Short-term debt	0	0	0	0	0	0
Other current liabilities	15,661	12,294	18,090	18,090	18,090	18,090
Long-term debt	16,675	12,264	10,223	10,223	17,901	37,391
Other long-term liabilities	0	0	0	0	0	0
Total equity	218,074	228,596	231,692	246,974	251,586	256,756
Total liabilities & equity	250,410	253,154	260,005	275,287	287,577	312,237
Net working capital	11,834	15,920	18,029	18,029	18,029	21,105
Net debt (cash)	16,498	(11,094)	(9,995)	2,870	17,901	37,391

Cash flow

Cash flow EBITDA	13,727	20,905	23,928	19,788	20,261	20,634
Tax, interest & other	871	(769)	995	535	1,614	2,572
Change in working capital	(16,986)	0	(4,975)	0	0	(3,076)
Net cash from op activities	(3,336)	17,662	16,879	18,213	18,648	14,986
Capex	(6,663)	(21,074)	(27,986)	(33,746)	(25,522)	(27,463)
Net acquisitions	0	0	0	0	0	0
Net financing cash flow	0	0	0	0	0	0
Dividends & minority distrib'n	0	0	0	0	0	0
Net ch in cash & equivalents	(9,999)	(3,412)	(11,107)	(15,533)	(6,874)	(12,476)
FCF	(9,999)	(3,412)	(11,107)	(15,533)	(6,644)	(11,104)

Performance & returns

Revenue growth (%)	18.8	29.0	10.9	0.20	11.3	11.1
Normalised EPS growth (%)	-42.0	301.0	20.4	-49.6	-12.1	-13.4
Normalised EBITDA mgn (%)	12.6	13.8	14.9	12.3	11.3	10.3
Normalised EBIT margin (%)	2.2	5.6	6.8	3.4	3.3	3.2
ROACE (%)	1.1	3.4	4.5	2.2	2.3	2.3
Reported ROE (%)	0.76	4.0	4.3	2.1	1.8	1.5
Working capital as % of sales	10.5	11.0	11.2	11.2	10.0	10.6
Net debt (cash)/EBITDA (x)	1.2	(0.55)	(0.42)	0.15	0.88	1.8
EBITDA net interest cvg (x)	n/a	n/a	n/a	n/a	88.3	15.0

Valuation

EV/revenue (x)	0.63	0.30	0.28	0.36	0.40	0.46
EV/normalised EBITDA (x)	5.0	2.2	1.9	2.9	3.6	4.5
EV/normalised EBIT (x)	28.1	5.3	4.1	10.4	12.1	14.4
Normalised PER (x)	26.6	6.6	5.5	10.9	12.4	14.3
Price/book (x)	0.25	0.24	0.24	0.22	0.22	0.21
Dividend yield (%)	0.92	1.5	2.2	1.0	0.80	0.81
FCF yield (%)	n/a	n/a	n/a	n/a	n/a	n/a

Per share data

Reported EPS (RBL)	0.04	0.22	0.25	0.13	0.11	0.10
Normalised EPS (RBL)	0.05	0.21	0.25	0.13	0.11	0.10
Dividend per share (RBL)	0.01	0.02	0.03	0.01	0.01	0.01
Equity FCFPS (RBL)	(0.25)	(0.09)	(0.28)	(0.39)	(0.17)	(0.31)
BV/share (RBL)	5.49	5.75	5.83	6.21	6.33	6.46

Source: Company data, ING estimates

P&L & cash flow

	2008	2009	2010	2011F	2012F	2013F	2014F	2015F	2016F	TV 2017F
Capacity (GW)										
Installed capacity: old plants	11	11	11	11	11	11	11	11	11	11
Installed capacity, new finished	-	1.3	1.3	1.5	1.7	1.7	1.7	1.7	1.7	1.7
Installed capacity: new, not finished	-	-	-	-	-	-	-	-	1.5	1.5
Installed capacity total	11	12	12	12	12	12	12	14	14	
P&L (RBLbn)										
Revenue electricity: old	46	46	54	64	60	70	80	91	100	
Revenue, electricity, new, finished	-	10	14	17	18	20	21	23	24	
Revenue, electricity, new, not finished	-	-	-	-	-	-	-	20	21	
Revenue electricity	48	56	68	82	78	89	102	134	145	
Heat revenue	38	48	62	70	73	81	90	98	107	
Revenue other (incl. reselling)	10	9	15	10	10	9	8	8	7	
Revenue	95	113	145	161	161	180	200	240	260	
Fuel costs for heat, old	-	(17)	(24)	(27)	(28)	(33)	(38)	(43)	(47)	
Fuel costs for electricity, old	-	(31)	(42)	(46)	(50)	(57)	(66)	(75)	(83)	
Fuel costs, new, finished	-	(3)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	
Fuel costs, new, not finished	-	-	-	-	-	-	-	(8)	(8)	
Fuel costs, old and new	(45)	(51)	(70)	(79)	(85)	(98)	(113)	(136)	(150)	
Purchased power & re-selling	(5)	(5)	(11)	(7)	(7)	(7)	(7)	(7)	(7)	
Heat transportation	(15)	(18)	(24)	(26)	(25)	(28)	(31)	(34)	(37)	
Water payment	-	-	-	-	-	-	-	-	-	
Gross profit	29	38	40	49	44	46	48	64	67	
Non-fuel opex: old plants	(21)	(22)	(18)	(23)	(22)	(23)	(25)	(26)	(28)	
Non-fuel opex: new, finished	-	(1)	(2)	(2)	(2)	(3)	(3)	(3)	(3)	
Non-fuel opex: new, not finished	-	-	-	-	-	-	-	(3)	(3)	
Non-fuel opex	(21)	(24)	(20)	(25)	(24)	(26)	(28)	(32)	(34)	
EBITDA, old plants	-	5	8	11	8	9	10	11	12	
EBITDA, new, finished	-	5	7	10	9	9	9	9	10	
EBITDA, new, not finished	-	-	-	-	-	-	-	10	10	
EBITDA, other	4	4	4	3	3	2	1	1	1	
EBITDA	8	14	20	24	20	20	21	31	32	
Depreciation, old plants	(5)	(5)	(5)	(6)	(6)	(6)	(6)	(6)	(6)	
Depreciation: new, finished	-	(7)	(7)	(7)	(8)	(8)	(8)	(5)	(5)	
Depreciation: new, not finished	-	-	-	-	-	-	-	(4)	(4)	
Depreciation	(5)	(12)	(12)	(13)	(14)	(14)	(14)	(14)	(14)	
EBIT (excl. non-recurring and non-cash)	4	3	8	11	6	6	6	17	18	
Finance income / (costs), net	0	0	2	1	1	(0)	(1)	(3)	(3)	
Other (non-cash and one-offs)	(1)	(1)	1	-	-	-	-	-	-	
EBT	2	2	11	12	7	6	5	14	15	
Income tax	2	(1)	(2)	(2)	(2)	(1)	(1)	(3)	(4)	
Net profit	4	2	9	10	5	4	4	11	12	
Cash flow (RBLbn)										
NOPAT: old plants	(13)	0	2	5	2	3	3	4	5	
NOPAT: new, finished	-	(1)	1	2	0	1	1	4	4	
NOPAT: new, not finished	-	-	-	-	-	-	-	5	5	
NOPAT: other	4	3	3	2	2	1	1	1	1	
NOPAT	(9)	2	6	9	4	5	5	13	14	
Reduction/(increase) in working capital; existing plants	(4)	(17)	-	(5)	-	-	(3)	(9)	(2)	
Reduction/(increase) in working capital; new plants	-	-	-	-	-	-	-	-	-	
Reduction/(increase) in working capital	(4)	(17)	-	(5)	-	-	(3)	(9)	(2)	
Capex, old (maintenance)	-	-	(9)	(10)	(11)	(12)	(13)	(14)	(15)	
Capex, new, finished	-	(7)	(12)	(10)	-	-	-	-	-	
Capex: new, not finished	-	-	-	(7)	(22)	(13)	(14)	-	-	
Capex (net of partners' contribution)	-	(7)	(21)	(28)	(34)	(26)	(27)	(14)	(15)	
FCF: old plants	(12)	(12)	(2)	(5)	(4)	(4)	(7)	(13)	(6)	
FCF: new plants, finished	-	(1)	(4)	(1)	9	9	9	8	8	
FCF: new plants, not finished	-	-	-	(7)	(22)	(13)	(14)	8	8	
FCF: other	4	3	3	2	2	1	1	1	1	
FCF (attributable to EV)	(8)	(10)	(3)	(11)	(15)	(7)	(11)	5	11	
FCF & DCF (US\$m)										
US\$/RBL exchange rate (year average)	25	32	30	29	32	32	33	33	32	
Discounting factor										
	Finished				1.00	0.97	0.85	0.75	0.66	0.58
	Not finished				1.00	0.96	0.83	0.72	0.62	0.54
DCF: Old plants					(110)	(107)	(185)	(292)	(124)	990
DCF: New plants, finished					271	269	238	190	170	674
DCF: New plants, not finished					(702)	(398)	(375)	192	171	914
DCF: Other					63	36	24	16	11	53
FCF (unlevered), discounted (US\$m)					(478)	(200)	(298)	106	229	2,631

Source: Company data, ING estimates

Valuation parameters and target price derivation

WACC (%)	Finished	13.7			
	Not finished	15.7			
TV (US\$bn) based on different approaches with median as median)	EV/KW: min	As % of capex	Gordon-growth	EV/KW: max	Final
Old plants	1.7		-	7.5	1.7
New plants; finished			1.2		1.2
New plants; not finished			1.6		1.6
Other			0.1		0.1
TV, final, (US\$bn)					4.5
Components of value (US\$m)	Gross	Debt of SPVs (pro-rata)		Net	
Old plants	282			282	
New plants, finished	1,541			1,541	
New plants, not finished	505	-		505	
Other	140			140	
Core assets	2,469	-		2,469	
Non-core assets				-	
Net (debt) / cash				(90)	
Equity (US\$bn)				2,379	
No. of shares: Ord: old (bn)				40	
No. of shares: Ord: new (2012, bn)				-	
No. of shares: Ord (bn)				40	
No. of shares: Ord: quasi-treasury (bn)				-	
No. of shares: Pref (bn)				-	
No. of shares: effective, total (bn)				40	
Target price (US\$)				0.06	
Target price (RBL)				1.92	

Source: Company data, ING estimates

TGK-1

First Russian-controlled generator that could enter positive FCF territory

Maintained

Buy

Russian Federation
UtilitiesMarket cap RBL26,934.1m
Bloomberg TGKA RX

Positive FCF is approaching on the back of commissioning a new 0.5GW unit (2012) and continuing hikes in gas prices.

Investment case

We think TGK-1 may become the first non-foreign generator (ie, besides E.ON Russia and Enel OGC-5) to show positive FCF. We think that TGK-1 may start generating positive FCF in 2013-14 after commissioning of Pravoberezh CHP (0.45 GW, 2012). With the commissioning, TGK-1 may increase its dividend payout ratio towards the upper end of the range announced by GazpromEnergoholding (5-35%).

M&A and capital-raising

In 2009-10, Rushydro's management expressed interest in acquiring TGK-1's hydro assets, but GazpromEnergoholding (the controlling shareholder of TGK-1) denied this possibility. The potential sale has not been confirmed since.

Catalysts

- Commissioning of 'new' generating capacities, including Pravoberezh CHP-5 (0.5GW, 2012), Svetlogor CHP unit 1 (0.1GW, 2015) and Svetlogor CHP unit 2 (0.1GW, 2015).
- Continuing hikes in gas prices: +15% on 1 July 2012 to be followed by +15% on 1 July 2013 and +15% on 1 July 2014. TGK-1 to gain from the increase in domestic gas prices because of a high proportion of hydro capacities in TGK-1's capacity mix.

Valuation approach

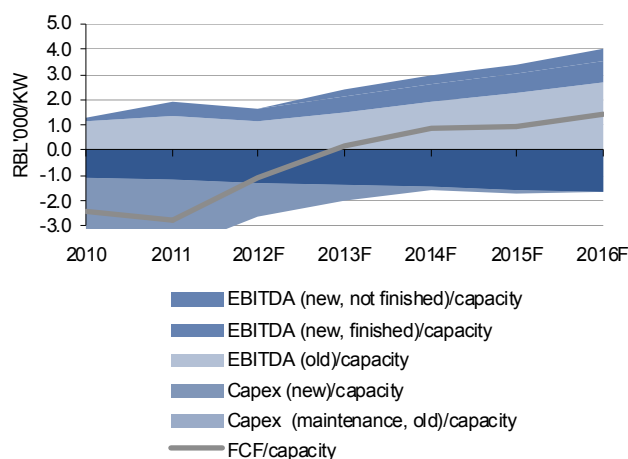
Out target price for TGK-1 is DCF derived with a five-year explicit forecast horizon (2012-16). Details of the DCF valuation are presented in the table below.

Price (24/09/12)	RBL0.01
Target price (12-mth)	Maintained RBL0.01
Forecast total return	29.4%

Capex and FCF

Expected FCF breakeven year: **2014** after commissioning of a new unit at Pravoberezh CHP (+0.5GW, 2012)

FCF profile (per KW of 'old' capacity)



Source: ING estimates

Generating assets

We divide the generation fleet of the analysed gencos into 'old' (ie, built before 2007) and 'new' capacity because these two types of capacity effectively operate under different regulatory regimes.

'Old' assets

6.2GW of 'old' power plants, including 3GW of hydro. TGK-1 was set up as a regional generating company, which implies:

- Regional concentration of assets, in TGK-1's case in north-western Russia
- A high share of co-generating assets in its thermal fleet, leading to a high share of heat sales in its revenue

Among regional generating companies, TGK-1 stands out for the high share of hydro assets in its fleet.

'New' assets

1.7GW by end-2016, including:

- 1.1GW by end-2011
- 1.5GW by end-2012

Newsflow

Date	Description
Oct 2012	9M12 RAS
Nov-Dec 2012	9M12 IFRS

Source: Company data, ING

Major shareholders (%)

GazpromEnergoholding	52
Fortum	26

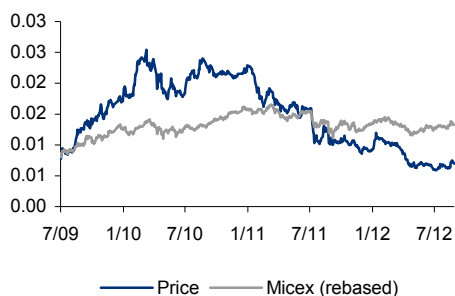
Source: Company data, ING

Share data

Avg daily volume (3-mth)	1,022,130,952
Free float (%)	22.0
Market cap (RBLm)	26,934.1
Net debt (1F, RBLm)	29,299
Enterprise value (1F, RBLm)	56,233
Dividend yield (1F, %)	0.64

Source: Company data, ING estimates

Share price performance



Source: ING

Company profile

TGK-1 is a major Russian mega-regional thermal generator covering several regions in north-west Russia, including St. Petersburg and the region. It owns 6.2GW of 'old' (ie, pre-2007) capacity and should commission 1.6GW of 'new' capacity by 2016, indirectly sponsored by the Russian regulator with so-called capacity delivery agreements. TGK-1 stands out due to its high share of hydro capacity, c.50% of its generating fleet. Its thermal plants generate and sell electric and heat energy (CHPs). TGK-1's largest shareholders are GazpromEnergoholding (52%) and the Finnish utility Fortum (26%).

Risks

- Additional government pressure on the prices for electrical energy and capacity
- Delays in realisation of capacity addition programmes
- Delays in hikes in tariffs for domestic gas prices (compared with the current plan to increase the prices by 15% on 1 July 2013 and 1 July 2014)

Financials

Year end Dec (RBLm)	2009	2010	2011	2012F	2013F	2014F
Income statement						
Revenues	41,349	50,486	60,251	59,198	70,428	79,411
EBITDA	7,758	8,650	12,501	10,642	14,648	17,840
EBIT	10,400	8,341	6,961	4,867	7,979	11,125
Net interest	231	(123)	(1,731)	(1,772)	(2,953)	(3,099)
Associates						
Other pre-tax items	0	0	0	0	0	0
Pre-tax profit	10,631	8,218	5,230	3,095	5,025	8,027
Tax	(2,281)	(1,736)	(1,370)	(743)	(1,206)	(1,926)
Minorities						
Other post-tax items	0	0	0	0	0	0
Net profit	8,350	6,482	3,860	2,353	3,819	6,100
Normalised net profit	4,167	4,115	4,416	2,216	3,819	6,100
Balance sheet						
Tangible fixed assets	84,982	90,069	120,705	135,106	145,378	153,304
Intangible fixed assets	0	0	0	0	0	0
Other non-current assets	1,161	10,347	1,234	1,234	1,234	1,234
Cash & equivalents	0	0	0	0	0	0
Other current assets	12,358	12,831	16,954	16,954	16,954	17,437
Total assets	98,501	113,247	138,893	153,294	163,566	171,976
Short-term debt	4,443	6,628	11,024	14,451	0	0
Other current liabilities	8,957	6,664	8,206	8,206	8,206	8,206
Long-term debt	9,420	16,386	14,848	14,848	32,799	32,009
Other long-term liabilities	0	0	0	0	0	0
Total equity	75,681	83,569	104,815	115,789	122,561	131,760
Total liabilities & equity	98,501	113,247	138,893	153,294	163,566	171,976
Net working capital	2,601	5,120	7,922	7,922	7,922	8,405
Net debt (cash)	13,863	23,014	25,872	29,299	32,799	32,009
Cash flow						
Cash flow EBITDA	13,190	11,724	11,779	10,820	14,648	17,840
Tax, interest & other	(3,382)	(1,215)	3,823	2,337	4,159	5,025
Change in working capital	(1,656)	(2,268)	(3,023)	0	0	(483)
Net cash from op activities	3,821	4,524	6,377	8,127	10,488	12,331
Capex	(14,532)	(20,164)	(24,746)	(16,399)	(12,371)	(10,025)
Net acquisitions	0	0	0	0	0	0
Net financing cash flow	0	0	0	0	0	0
Dividends & minority distrib'n	0	0	0	0	0	0
Net ch in cash & equivalents	(10,711)	(15,641)	(18,370)	(8,272)	(1,882)	2,307
FCF	(10,711)	(15,518)	(16,639)	(6,500)	1,071	5,406
Performance & returns						
Revenue growth (%)	23.1	22.1	19.3	-1.7	19.0	12.8
Normalised EPS growth (%)	208.0	-1.3	7.3	-49.8	72.4	59.7
Normalised EBITDA mgn (%)	18.8	17.1	20.7	18.0	20.8	22.5
Normalised EBIT margin (%)	12.0	10.4	12.8	7.9	11.3	14.0
ROACE (%)	6.3	5.4	6.5	3.4	5.3	7.0
Reported ROE (%)	11.9	8.1	4.1	2.1	3.2	4.8
Working capital as % of sales	6.3	10.1	13.1	13.4	11.2	10.6
Net debt (cash)/EBITDA (x)	1.8	2.7	2.1	2.8	2.2	1.8
EBITDA net interest cvg (x)	n/a	70.3	7.2	6.0	5.0	5.8
Valuation						
EV/revenue (x)	0.99	0.99	0.88	0.95	0.85	0.74
EV/normalised EBITDA (x)	5.3	5.8	4.2	5.3	4.1	3.3
EV/normalised EBIT (x)	8.2	9.5	6.9	12.0	7.5	5.3
Normalised PER (x)	6.5	6.5	6.1	12.2	7.1	4.4
Price/book (x)	0.36	0.32	0.26	0.23	0.22	0.20
Dividend yield (%)	0.62	0.67	0.67	0.64	1.4	2.6
FCF yield (%)	n/a	n/a	n/a	n/a	1.8	9.2
Per share data						
Reported EPS (RBL)	0.00	0.00	0.00	0.00	0.00	0.00
Normalised EPS (RBL)	0.00	0.00	0.00	0.00	0.00	0.00
Dividend per share (RBL)	0.00	0.00	0.00	0.00	0.00	0.00
Equity FCFPS (RBL)	0.00	0.00	0.00	0.00	0.00	0.00
BV/share (RBL)	0.02	0.02	0.03	0.03	0.03	0.03

Source: Company data, ING estimates

P&L & cash flow

	2008	2009	2010	2011F	2012F	2013F	2014F	2015F	2016F	TV 2017F
Capacity (GW)										
Installed capacity: old plants	6	6	6	6	6	6	6	6	6	6
Installed capacity, new finished	-	0.1	0.2	0.7	1.1	1.1	1.1	1.1	1.1	1.1
Installed capacity: new, not finished	-	-	-	-	-	0.5	0.5	0.5	0.6	
Installed capacity total	6	6	6	7	7	8	8	8	8	
P&L (RBLbn)										
Revenue electricity: old	15	17	21	24	22	27	32	37	42	
Revenue, electricity, new, finished	-	1	2	7	8	10	11	12	13	
Revenue, electricity, new, not finished	-	-	-	-	-	5	5	6	8	
Revenue electricity	15	18	22	30	30	41	49	55	63	
Heat revenue	15	18	22	23	24	25	27	30	32	
Revenue other (incl. reselling)	4	6	6	7	5	4	3	3	2	
Revenue	34	41	50	60	59	70	79	88	98	
Fuel costs for heat, old	(8)	(11)	(12)	(12)	(13)	(14)	(16)	(18)	(20)	
Fuel costs for electricity, old	(7)	(10)	(10)	(10)	(11)	(13)	(15)	(16)	(18)	
Fuel costs, new, finished	(0)	(1)	(2)	(2)	(4)	(4)	(5)	(6)	(6)	
Fuel costs, new, not finished	-	-	-	-	-	(2)	(2)	(3)	(4)	
Fuel costs, old and new	(16)	(16)	(22)	(25)	(27)	(33)	(38)	(43)	(48)	
Purchased power & Re-selling	(3)	(5)	(5)	(6)	(5)	(4)	(3)	(3)	(2)	
Heat transportation	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	
Water payment	(2)	(2)	(2)	(2)	(2)	(3)	(3)	(3)	(3)	
Gross profit	12	18	21	27	25	30	35	38	43	
Non-fuel opex: old plants	(9)	(10)	(12)	(13)	(13)	(13)	(14)	(15)	(16)	
Non-fuel opex: new, finished	-	(0)	(0)	(1)	(1)	(2)	(2)	(2)	(2)	
Non-fuel opex: new, not finished	-	-	-	-	-	(1)	(1)	(1)	(1)	
Non-fuel opex	(9)	(10)	(12)	(14)	(14)	(16)	(17)	(18)	(19)	
EBITDA, old plants	6	7	9	9	7	9	11	13	16	
EBITDA, new, finished	0	1	3	3	4	4	5	5	5	
EBITDA, new, not finished	-	-	-	-	-	2	2	2	3	
EBITDA, other	1	1	1	1	1	0	0	0	0	
EBITDA	4	8	9	13	11	15	18	20	24	
Depreciation, old plants	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	
Depreciation: new, finished	-	(1)	(1)	(3)	(4)	(3)	(3)	(3)	(3)	
Depreciation: new, not finished	-	-	-	-	-	(1)	(2)	(2)	(2)	
Depreciation	(2)	(3)	(3)	(5)	(6)	(7)	(7)	(7)	(7)	
EBIT (ex non-recurring and non-cash)	2	5	5	8	5	8	11	14	17	
Finance income/(costs), net	0	0	(0)	(2)	(2)	(3)	(3)	(3)	(3)	
Other (non-cash and one-offs)	1	5	3	(1)	0	-	-	-	-	
EBT	3	11	8	5	3	5	8	11	14	
Income tax	(1)	(2)	(2)	(1)	(1)	(1)	(2)	(3)	(3)	
Net profit	2	8	6	4	2	4	6	8	11	
Cash flow (RBLbn)										
NOPAT: old plants	0	4	4	5	4	5	7	9	10	
NOPAT: new, finished	-	(1)	(1)	0	(1)	1	1	1	2	
NOPAT: new, not finished	-	-	-	-	-	0	0	1	1	
NOPAT: other	0	1	1	0	1	0	0	0	0	
NOPAT	1	4	4	6	3	6	8	10	13	
Reduction/(increase) in working capital; existing plants	-	(2)	(2)	(3)	-	-	(0)	(1)	(1)	
Reduction/(increase) in working capital; new plants	-	(2)	(2)	(3)	-	-	(0)	(1)	(1)	
Reduction/(increase) in working capital	-	(2)	(2)	(3)	-	-	(0)	(1)	(1)	
Capex, old (maintenance)	-	-	(7)	(7)	(8)	(9)	(9)	(10)	(10)	
Capex, new, finished	-	(13)	(8)	(10)	-	-	-	-	-	
Capex: new, not finished	-	(1)	(5)	(7)	(8)	(4)	(1)	(1)	-	
Capex (net of partners' contribution)	-	(15)	(20)	(25)	(16)	(12)	(10)	(11)	(10)	
FCF; old plants	2	4	(3)	(4)	(2)	(1)	(1)	(0)	1	
FCF; new plants, finished	-	(13)	(7)	(7)	3	4	4	4	4	
FCF; new plants, not finished	-	(1)	(5)	(7)	(8)	(2)	1	1	3	
FCF: other	0	1	1	0	1	0	0	0	0	
FCF (attributable to EV)	3	(10)	(15)	(17)	(7)	0	5	5	8	
FCF & DCF (US\$m)										
US\$/RBL exchange rate (year average)	25	32	30	29	32	32	33	33	32	
Discounting factor	Finished				1.00	0.97	0.86	0.76	0.67	0.59
	Not finished				1.00	0.97	0.84	0.73	0.63	0.55
DCF: Old plants					(75)	(44)	(17)	(9)	20	923
DCF: New plants, finished					101	110	105	99	92	552
DCF: New plants, not finished					(263)	(63)	29	29	56	350
DCF other					16	9	5	3	2	9
FCF (unlevered), discounted (US\$m)					(220)	11	122	122	170	1,834

Source: Company data, ING estimates

Valuation parameters and target price derivation

WACC (%)	Finished	13.2			
	Not finished	15.2			
TV (US\$bn) (based on different approaches with median as median)	EV/KW: min	As % of capex	Gordon-growth	EV/KW: max	Final
Old plants	1.6		0.2	5.0	1.6
New plants; finished			0.9		0.9
New plants; not finished			0.6		0.6
Other			0.0		0.0
TV, final (US\$bn)					3.1
Components of value (US\$m)	Gross	Debt of SPVs (pro-rata)	Net		
Old plants	873		873		
New plants, finished	957		957		
New plants, not finished	401	-	401		
Other	28		28		
Core assets	2,259	-	2,259		
Non-core assets			-		
Net (debt)/cash			(1,156)		
Equity (US\$bn)			1,103		
No. of shares: Ord, old (bn)			3,854		
No. of shares: Ord, new (2012) (bn)			-		
No. of shares: Ord (bn)			3,854		
No. of shares: Ord: quasi-treasury (bn)			-		
No. of shares: Pref (bn)			-		
No. of shares: effective, total (bn)			3,854		
Target price (US\$)			0.003		
Target price (RBL)			0.009		

Source: Company data, ING estimates

OGK-2

Risks in many dimensions: operations, capex and dilution

Maintained

Hold

 Russian Federation
Utilities

 Market cap RBL24,917.3m
Bloomberg OGKB RX

Operational problems aggravated by ongoing major share issue.

Investment case

The OGK-2 investment case contains operational, capex and capital structure risks. In addition to its detrimental operational and financial performance (which is partially driven by an accident at Troitskaya TPP in 2011), the company still finds itself at an early stage of realisation of its costly capacity additions programme (company estimate: c.RBL80bn in 2012-14). Moreover, the company is currently in the process of issuing new shares, which should be completed in 4Q'12. (see discussion below).

M&A and capital-raising

OGK-2 is in process of issuing new shares (up to 110bn of additional shares) in order to attract c.RBL20bn from its controlling shareholder (GazpromEnergoholding). The new shares will be placed at RBL0.45/share. While placing the maximum possible size of the issue (110bn additional shares) would almost treble the share count, in practice we expect OGK-2 to sell only half the possible amount (due to likely limited demand from investors other than Gazprom), which would lead to a doubling of the share capital.

OGK-2 also transferred the control of one its investment projects (Cherepetsk TPP, +0.4GW, 2014) to Mosenergo. The project is now structured as a SPV, where Mosenergo owns 51% and OGK-2 49%.

Catalysts

Commissioning of 'new' generating capacities, including the following ones in 2012-2013:

- Adler TPP (+0.4GW, 2012)

Valuation approach

Our target price for OGK-2 is based on DCF derived with a five-year explicit forecast horizon (2012-16).

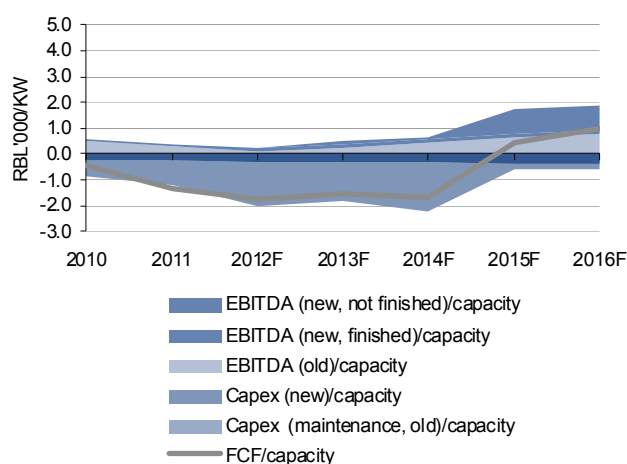
Details of the DCF valuation are presented in the table below.

Price (24/09/12) RBL0.42
Target price (12-mth) RBL0.48
Forecast total return 14.3%

Capex and FCF

Expected FCF breakeven year: **2015**, after commissioning of Adler TPP (+0.4GW, 2012), Troitskaya TPP (+0.7GW, 2014), Serov TPP (+0.4GW, 2014), Novocherkassk TPP (+0.3GW, 2014), Cherepovetsk TPP (+0.4GW, 2014)

FCF profile (per KW of 'old' capacity)



Source: ING estimates

Generating assets

We divide the generation fleet of the analysed gencos into 'old' (ie, built before 2007) and 'new' capacity because these two types effectively operate under different regulatory regimes.

'Old' assets: 17.7GW

Compared with an average thermal OGK, OGK-2's fleet of 'old' power plants is characterised by:

- Aggregate fuel efficiency roughly in line with the average.
- Above-average share of coal-fired capacity located in European Russia.
- Share of 'old' capacity based in European Russia in line with average

'New' assets

2.9GW by end-2016, including:

- 0.7GW by end-2011
- 1.0GW by end-2012

Newsflow

Date	Description
Oct 2012	9M12 RAS
Nov 2012	9M12 IFRS

Source: Company data, ING

Major shareholders (%)

GazpromEnergoholding	57
InterRAO	7

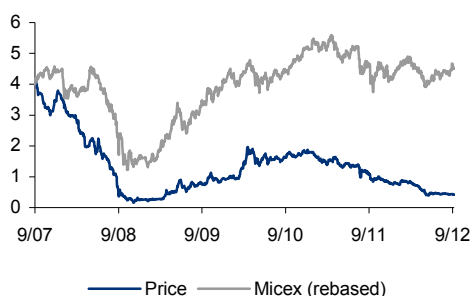
Source: Company data, ING

Share data

Avg daily volume (3-mth)	67,519,446
Free float (%)	37.0
Market cap (RBLm)	24,917.3
Net debt (1F, RBLm)	22,696
Enterprise value (1F, RBLm)	47,613
Dividend yield (1F, %)	0.0

Source: Company data, ING estimates

Share price performance



Source: ING

Company profile

Controlled by GazpromEnergoholding (57% stake), OGK-2 is a major Russian inter-regional thermal electricity generator that emerged in end-2011 via a merger of original OGK-2 and OGK-6. OGK-2 owns 18GW of 'old' capacity (ie, built before 2007) and should commission 2.8GW of 'new' thermal capacity by 2016, which is indirectly sponsored by the Russian regulator with so-called capacity delivery agreements (DPMs).

Risks

Upside

- Faster-than-forecasted growth in liberalised prices for electrical energy (eg, on the back of faster growth in electricity demand)

Downside

- Additional government pressure on the prices for electrical energy and capacity
- Delays in realisation of the capacity addition programmes

Financials

Year end Dec (RBLm)	2009	2010	2011	2012F	2013F	2014F
Income statement						
Revenues	80,299	96,452	104,895	101,073	119,992	137,135
EBITDA	9,147	11,670	7,105	4,790	8,485	11,510
EBIT	5,330	7,359	2,217	(500)	(1,209)	482
Net interest	(422)	(946)	(1,796)	(2,760)	(1,718)	(3,726)
Associates						
Other pre-tax items	0	0	0	0	0	0
Pre-tax profit	4,908	6,413	421	(3,260)	(2,926)	(3,244)
Tax	(1,372)	(1,743)	(411)	0	0	0
Minorities						
Other post-tax items	0	0	0	0	0	0
Net profit	3,536	4,670	10	(3,260)	(2,926)	(3,244)
Normalised net profit	3,996	5,538	939	(3,066)	(2,926)	(3,244)
Balance sheet						
Tangible fixed assets	96,712	92,102	106,497	132,044	154,484	183,672
Intangible fixed assets	0	0	0	0	0	0
Other non-current assets	8,343	4,790	4,508	4,508	4,508	4,508
Cash & equivalents	0	5,361	0	5,696	0	0
Other current assets	18,315	15,464	20,795	20,929	24,409	27,591
Total assets	123,370	117,717	131,800	163,178	183,402	215,772
Short-term debt	6,446	0	5,242	0	0	0
Other current liabilities	3,256	5,858	6,783	13,220	13,220	15,084
Long-term debt	6,161	16,358	28,392	28,392	49,825	79,849
Other long-term liabilities	0	0	0	0	0	0
Total equity	107,507	95,501	91,383	121,565	120,357	120,838
Total liabilities & equity	123,370	117,717	131,800	163,178	183,402	215,772
Net working capital	7,378	8,436	12,470	6,167	9,647	10,965
Net debt (cash)	12,607	10,997	33,634	22,696	49,825	79,849
Cash flow						
Cash flow EBITDA	8,550	10,543	5,899	4,537	8,485	11,510
Tax, interest & other	2,391	3,816	3,413	3,013	1,718	3,726
Change in working capital	(680)	(927)	(5,309)	0	(3,480)	(1,318)
Net cash from op activities	6,673	8,054	(411)	2,030	3,287	6,466
Capex	(11,109)	(15,766)	(21,965)	(28,922)	(25,984)	(32,732)
Net acquisitions	0	0	0	0	0	0
Net financing cash flow	0	0	0	0	0	0
Dividends & minority distrib'n	0	0	0	0	0	0
Net ch in cash & equivalents	(4,436)	(7,713)	(22,376)	(26,892)	(22,697)	(26,266)
FCF	(4,014)	(6,767)	(20,580)	(24,132)	(20,979)	(22,540)
Performance & returns						
Revenue growth (%)	-3.1	20.1	8.8	-3.6	18.7	14.3
Normalised EPS growth (%)	n/a	38.6	-83.1	n/a	n/a	n/a
Normalised EBITDA mgn (%)	11.4	12.1	6.8	4.7	7.1	8.4
Normalised EBIT margin (%)	7.4	8.8	3.3	-0.24	-1.0	0.35
ROACE (%)	5.2	7.3	2.9	-0.18	-0.76	0.26
Reported ROE (%)	3.4	4.6	0.01	-3.1	-2.4	-2.7
Working capital as % of sales	9.2	8.7	11.9	6.1	8.0	8.0
Net debt (cash)/EBITDA (x)	1.4	0.94	4.7	4.7	5.9	6.9
EBITDA net interest cvg (x)	21.7	12.3	4.0	1.7	4.9	3.1
Valuation						
EV/revenue (x)	0.47	0.37	0.56	0.47	0.62	0.76
EV/normalised EBITDA (x)	4.1	3.1	8.2	9.9	8.8	9.1
EV/normalised EBIT (x)	6.3	4.2	17.1	(192.3)	(61.8)	217.5
Normalised PER (x)	6.2	4.5	26.5	n/a	n/a	n/a
Price/book (x)	0.23	0.26	0.27	0.20	0.36	0.36
Dividend yield (%)	0.0	1.5	0.24	0.0	0.0	0.0
FCF yield (%)	n/a	n/a	n/a	n/a	n/a	n/a
Per share data						
Reported EPS (RBL)	0.06	0.08	0.00	(0.05)	(0.04)	(0.03)
Normalised EPS (RBL)	0.07	0.09	0.02	(0.05)	(0.04)	(0.03)
Dividend per share (RBL)	0.00	0.01	0.00	0.00	0.00	0.00
Equity FCFPS (RBL)	(0.07)	(0.13)	(0.38)	(0.45)	(0.28)	(0.25)
BV/share (RBL)	1.81	1.61	1.54	2.05	1.16	1.16

Source: Company data, ING estimates

P&L & cash flow

	2008	2009	2010	2011F	2012F	2013F	2014F	2015F	2016F	TV 2017F
Capacity (GW)										
Installed capacity: old plants	18	18	18	18	18	18	18	18	18	
Installed capacity, new finished	-	-	0.1	0.1	0.7	0.7	0.7	0.7	0.7	
Installed capacity: new, not finished	-	-	-	-	-	0.4	0.4	1.9	1.9	
Installed capacity total	18	18	18	18	18	19	19	20	20	
P&L (RBLbn)										
Revenue electricity: old	67	71	84	91	83	99	115	131	145	
Revenue, electricity, new, finished	-	-	1	1	6	7	7	8	9	
Revenue, electricity, new, not finished	-	-	-	-	-	4	4	25	25	
Revenue electricity	69	71	85	92	89	109	126	164	180	
Heat revenue	3	3	3	3	3	4	5	5	6	
Revenue other (incl. reselling)	11	7	8	10	9	7	6	5	5	
Revenue	83	80	96	105	101	120	137	174	191	
Fuel costs for heat, old	(2)	(2)	(2)	(3)	(3)	(3)	(4)	(4)	(5)	
Fuel costs for electricity, old	(42)	(55)	(60)	(60)	(59)	(70)	(82)	(94)	(104)	
Fuel costs, new, finished	-	(0)	(1)	(1)	(3)	(3)	(4)	(5)	(5)	
Fuel costs, new, not finished	-	-	-	-	-	(2)	(2)	(7)	(8)	
Fuel costs, old and new	(48)	(44)	(57)	(63)	(65)	(79)	(92)	(110)	(121)	
Purchased power & reselling	(11)	(6)	(6)	(9)	(8)	(7)	(6)	(5)	(5)	
Heat transportation	-	-	-	-	-	-	-	-	-	
Water payment	-	-	-	-	-	-	-	-	-	
Gross profit	24	31	33	33	29	35	39	59	64	
Non-fuel opex: old plants	(21)	(22)	(21)	(25)	(23)	(25)	(26)	(28)	(30)	
Non-fuel opex: new, finished	-	-	(0)	(0)	(1)	(1)	(1)	(1)	(1)	
Non-fuel opex: new, not finished	-	-	-	-	-	(1)	(1)	(4)	(4)	
Non-fuel opex	(21)	(22)	(21)	(26)	(24)	(26)	(28)	(33)	(35)	
EBITDA, old plants	9	9	9	6	2	4	7	10	14	
EBITDA, new, finished	-	-	0	1	2	2	2	2	2	
EBITDA, new, not finished	-	-	-	-	-	2	2	13	13	
EBITDA, other	0	1	2	1	1	1	0	0	0	
EBITDA	9	10	11	8	5	7	9	15	19	
Depreciation, old plants	(4)	(3)	(3)	(3)	(4)	(4)	(4)	(4)	(4)	
Depreciation: new, finished	-	-	-	(0)	(1)	(4)	(5)	(2)	(2)	
Depreciation: new, not finished	-	-	-	-	-	(2)	(3)	(6)	(6)	
Depreciation	(4)	(3)	(3)	(4)	(5)	(10)	(11)	(11)	(11)	
EBIT (ex non-recurring and non-cash)	(1)	6	8	3	(0)	(1)	0	15	18	
Finance income/(costs), net	0	(0)	(1)	(2)	(3)	(2)	(4)	(6)	(6)	
Other (non-cash and one-offs)	(2)	(1)	(1)	(1)	(0)	-	-	-	-	
EBT	(3)	5	6	0	(3)	(3)	(3)	9	12	
Income tax	2	(1)	(2)	(0)	-	-	-	(2)	(3)	
Net profit	(1)	4	5	0	(3)	(3)	(3)	7	9	
Cash flow (RBLbn)										
NOPAT: old plants	(3)	4	4	0	(2)	0	3	5	8	
NOPAT: new, finished	-	-	0	0	1	(2)	(2)	0	0	
NOPAT: new, not finished	-	-	-	-	-	(1)	(1)	6	6	
NOPAT: other	0	0	1	0	1	0	0	0	0	
NOPAT	(3)	4	6	0	(0)	(1)	(0)	11	14	
Reduction/(Increase) in working capital: existing plants	(1)	(1)	(1)	(5)	-	(3)	(1)	(6)	(1)	
Reduction/(Increase) in working capital: new plants	(1)	(1)	(1)	(5)	-	(3)	(1)	(6)	(1)	
Reduction/(increase) in working capital	(1)	(1)	(1)	(5)	-	(3)	(1)	(6)	(1)	
Capex, old (maintenance)	-	-	(4)	(5)	(5)	(6)	(6)	(6)	(7)	
Capex, new, finished	-	(10)	(7)	(7)	-	-	-	-	-	
Capex: new, not finished	-	(1)	(4)	(10)	(24)	(20)	(27)	(4)	(4)	
Capex (net of partners' contribution)	-	(11)	(16)	(22)	(29)	(26)	(33)	(10)	(11)	
FCF: old plants	(1)	6	2	(7)	(4)	(5)	(1)	(4)	3	
FCF: new plants, finished	-	(10)	(7)	(7)	2	2	2	2	2	
FCF: new plants, not finished	-	(1)	(4)	(10)	(24)	(19)	(25)	7	8	
FCF: other	0	0	1	0	1	0	0	0	0	
FCF (attributable to EV)	(0)	(4)	(7)	(24)	(24)	(21)	(23)	6	13	
FCF & DCF (US\$m)										
US\$/RBL exchange rate (year average)	25	32	30	29	32	32	33	33	32	
Discounting factor										
Finished					1.00	0.97	0.86	0.76	0.67	0.59
Not finished					1.00	0.97	0.84	0.73	0.63	0.55
DCF: Old plants					(113)	(157)	(29)	(92)	65	1,311
DCF: New plants: finished					70	71	62	53	48	194
DCF: New plants: not finished					(741)	(560)	(656)	172	157	1,498
DCF: Other					28	12	8	5	3	16
FCF (unlevered), discounted (US\$m)					(756)	(633)	(616)	138	272	3,018

Source: Company data, ING estimates

Valuation parameters and target price derivation

WACC (%)	Finished	13.2			
	Not finished	15.2			
TV (US\$bn) based on different approaches with median as median)	EV/KW: min	As % of capex	Gordon-growth	EV/KW: max	Final
Old plants	2.2		0.7	8.9	2.2
New plants; finished			0.3		0.3
New plants; not finished			2.5		2.5
Other			0.0		0.0
TV, final (US\$bn)					5.1
Components of value (US\$m)	Gross	Debt of SPVs (pro-rata)	Net		
Old plants	1,097		1,097		
New plants, finished	427		427		
New plants, not finished	611	-	611		
Other	44		44		
Core assets	2,179	-	2,179		
Non-core assets			-		
Net (debt) / cash			(672)		
Equity (US\$m)			1,506		
No. of shares: Ord: old (bn)			59		
No. of shares: Ord: new (2012, bn)			44		
No. of shares: Ord (bn)			104		
No. of shares: Ord: quasi-treasury (bn)			(2)		
No. of shares: Pref (bn)			-		
No. of shares: effective, total (bn)			101		
Target price (US\$)			0.01		
Target price (RBL)			0.48		

Source: Company data, ING estimates

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Grids: FSK and Holding MRSK

Federal Grid Company

Fundamental value highly dependent on non-transparent regulatory decisions, but technical M&A benefits are possible

Maintained

Sell

Russian Federation
Utilities

Market cap RBL291,502m
Bloomberg FEES RX

While the fundamental value of FSK is not transparent due to long-term regulatory uncertainties, it may benefit from generous valuations in the process of integration with Holding MRSK.

Investment case

The fundamental value of FSK is not transparent, in our view, for two reasons. First, it depends on long-term development of regulatory parameters (most importantly tariff hikes and capex). Visibility on these parameters diminished recently after the approval of three-year tariff hikes (11% in 2012, 9.4% in 2013 and 9.4% in 2014) undermined the credibility of formally introduced long-term regulation (RAB-based regulation). Second, current dividend flow is negligible (eg, FSK paid no dividends for 2011). With our current assumptions on long-term development of the tariffs and capex, FSK's current share price appears to overestimate its fundamental value.

From a technical standpoint, FSK's minority shareholders could benefit from generous relative valuations that the company might receive in the process of the consolidation with the Holding MRSK, in order to ensure that the government's stake in the merged company exceeds 75%.

Tariffs and prices

In theory, FSK is meant to be regulated on a RAB-based approach (with starting regulatory value – iRAB – set by the regulator at **RBL647bn** as of early 2011). In practice, the link between the formal attributes of RAB-based regulation and actual tariff hikes is weak.

The regulator has set medium-term tariff hikes for FSK at 11%, 9.4% and 9.4% for 1 July of 2012, 2013 and 2014, respectively.

M&A and capital raising

Following the transfer to FSK of the rights to manage Holding MRSK (starting July 2012), the government is currently considering ownership integration of the two companies. According to Russian business media, the integration may start by FSK acquiring from the Russian state the controlling stake in Holding MRSK in exchange for newly issued shares of FSK (we call this scenario 'partial integration'). After this FSK may offer minority shareholders of Holding MRSK a buyout in exchange for newly issued shares of FSK and cash.

Privatisation

In 2011, the government was considering a reduction of its stake in FSK from 79% to 75%+1 share. However, these plans seem to have been delayed after FSK was included into the list of 'strategic' enterprises by Presidential Decree in May 2012.

Catalysts

Clarity about the scenario and quantitative parameters of the integration of FSK and Holding MRSK.

Price (24/09/12)	RBL0.23
Target price (12-mth)	Previously RBL0.20 RBL0.18
Forecast total return	-21.3%

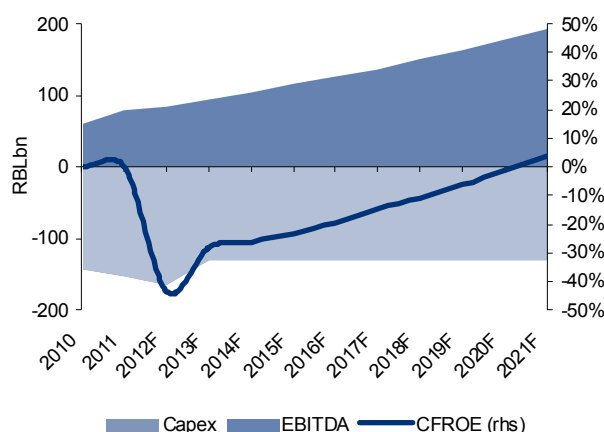
'Old' assets and operating outlook

FSK is a quasi-monopolist in Russian high-voltage transmission with over 120,000km of transmission lines and over 300MVA of transmission capacity.

Capex and FCF

Expected FCF breakeven year: **2019**

FCF profile



Source: ING estimates

Valuation approach

Our valuation of FSK consists of three steps:

- **Valuation of FSK (as well as Holding MRSK) as a standalone company** based on DCF with a 10-year explicit forecast horizon. Details presented in the table below.
- **Valuation of FSK as an 'entry ticket' into the merged FSK/Holding MRSK**, assuming that the swap terms are set so that the government can keep 75% of the merged company.
- **Weighted averaging the two approaches** above. We assign 20%, 60% and 20% to the TPs calculated under the scenarios 'standalone company', 'partial integration' and 'full integration' respectively

Details of M&A adjustments and weighted averaging of different scenarios are presented in the section *Adjustments for integration of FSK and Holding MRSK* on page 70.

Newsflow

Date	Description
Early Oct 2012	1H12 IFRS

Source: Company data, ING

Major shareholders (%)

Russian Federation	79
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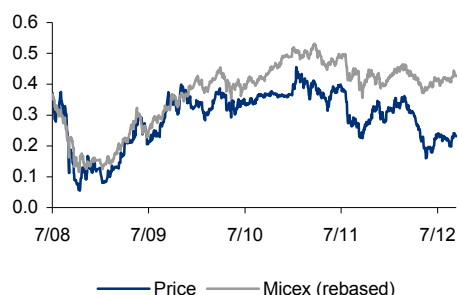
Source: Company data, ING

Share data

Avg daily volume (3-mth)	1,720,815,238
Free float (%)	21.0
Market cap (RBLm)	291,502
Net debt (1F, RBLm)	165,420
Enterprise value (1F, RBLm)	400,570
Dividend yield (1F, %)	0.89

Source: Company data, ING estimates

Share price performance



Source: ING

Company profile

Controlled by the government (79% stake), Federal Grid Company (FSK) is a quasi-monopolist in Russia's high-voltage inter-regional grid (typically 220KV or higher). Formally switched to RAB-based regulation in 2010, FSK is still dependent on the regulator's adjustments to tariff hikes and capex.

Risks

- Reduction in the capex programme compared with our current assumptions
- Increase in dividend payout

Financials

Year end Dec (RBLm)	2009	2010	2011	2012F	2013F	2014F
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Income statement

Revenues	91,867	117,814	139,571	141,498	156,317	172,831
EBITDA	30,391	60,126	78,627	77,155	86,775	97,927
EBIT	(88,362)	19,780	59,176	38,990	42,336	49,774
Net interest	8,516	5,188	3,679	(4,920)	(11,524)	(16,126)
Associates	0	0	0	0	0	0
Other pre-tax items	1,893	(833)	8	0	0	0
Pre-tax profit	(77,953)	24,135	62,863	34,069	30,812	33,648
Tax	13,979	(5,752)	(13,875)	(8,177)	(7,395)	(8,076)
Minorities	0	0	0	0	0	0
Other post-tax items	0	0	0	0	0	0
Net profit	(63,974)	18,383	48,988	25,893	23,417	25,573
Normalised net profit	14,576	26,207	38,411	25,893	23,417	25,573

Balance sheet

Tangible fixed assets	795,395	907,581	1,037,030	1,163,865	1,249,426	1,331,273
Intangible fixed assets	0	0	0	0	0	0
Other non-current assets	10,149	10,149	10,149	10,149	10,149	10,149
Cash & equivalents	87,974	14,996	0	0	0	0
Other current assets	43,458	59,233	72,980	74,184	81,037	88,397
Total assets	936,975	991,959	1,120,159	1,248,198	1,340,613	1,429,819
Short-term debt	0	0	21,088	49,388	69,111	87,220
Other current liabilities	47,935	45,147	46,679	49,267	52,521	55,791
Long-term debt	1,570	944	49,997	116,032	162,052	204,307
Other long-term liabilities	86,824	87,975	85,262	85,262	85,262	85,262
Total equity	800,646	857,893	917,133	948,249	971,666	997,239
Total liabilities & equity	936,975	991,959	1,120,159	1,248,198	1,340,613	1,429,819
Net working capital	(7,585)	9,534	19,460	17,959	20,731	23,911
Net debt (cash)	(86,404)	(14,052)	71,085	165,420	231,163	291,527

Cash flow

Cash flow EBITDA	(69,729)	49,132	92,371	77,155	86,775	97,927
Tax, interest & other	79,518	10,725	(3,540)	13,097	18,919	24,201
Change in working capital	0	(18,564)	(12,214)	0	(3,599)	(4,089)
Net cash from op activities	54,779	40,165	56,225	64,058	64,257	69,636
Capex	(90,079)	(141,882)	(153,471)	(165,000)	(130,000)	(130,000)
Net acquisitions	0	0	0	0	0	0
Net financing cash flow	0	0	0	0	0	0
Dividends & minority distrib'n	0	0	0	0	0	0
Net ch in cash & equivalents	23,161	(86,017)	(69,169)	(100,942)	(65,743)	(60,364)
FCF	(43,816)	(106,905)	(100,925)	(96,022)	(54,219)	(44,238)

Performance & returns

Revenue growth (%)	32.7	28.2	18.5	1.4	10.5	10.6
Normalised EPS growth (%)	20.1	79.8	46.6	-32.6	-9.6	9.2
Normalised EBITDA mgn (%)	33.1	51.0	56.3	54.5	55.5	56.7
Normalised EBIT margin (%)	14.9	25.4	32.6	27.6	27.1	28.8
ROACE (%)	1.9	3.6	4.9	3.7	3.7	4.0
Reported ROE (%)	-9.2	2.2	5.5	2.8	2.4	2.6
Working capital as % of sales	-8.3	8.1	13.9	12.7	13.3	13.8
Net debt (cash)/EBITDA (x)	(2.8)	(0.23)	0.90	2.1	2.7	3.0
EBITDA net interest cvg (x)	n/a	n/a	n/a	15.7	7.5	6.1

Valuation

EV/revenue (x)	1.6	1.9	2.2	2.8	3.0	3.0
EV/normalised EBITDA (x)	4.9	3.7	3.9	5.2	5.4	5.4
EV/normalised EBIT (x)	10.9	7.4	6.7	10.3	11.0	10.6
Normalised PER (x)	20.0	11.1	7.6	11.3	12.4	11.4
Price/book (x)	0.36	0.34	0.32	0.31	0.30	0.29
Dividend yield (%)	0.0	0.89	0.0	0.89	0.88	1.1
FCF yield (%)	n/a	n/a	n/a	n/a	n/a	n/a

Per share data

Reported EPS (RBL)	(0.05)	0.01	0.04	0.02	0.02	0.02
Normalised EPS (RBL)	0.01	0.02	0.03	0.02	0.02	0.02
Dividend per share (RBL)	0.00	0.00	0.00	0.00	0.00	0.00
Equity FCFPS (RBL)	(0.03)	(0.08)	(0.08)	(0.08)	(0.05)	(0.05)
BV/share (RBL)	0.64	0.68	0.73	0.75	0.77	0.79

Source: Company data, ING estimates

RAB and P&L

	2008	2009	2010	2011	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2020F	2021F	TV'22F
RAB and return (RBLbn)															
RAB after depreciation: old assets			647	616	584	553	522	491	459	428	397	365	334	303	
RAB after depreciation: new assets				142	291	448	565	678	787	893	995	1,093	1,188	1,279	
RAB net (after depreciation) start of year			647	758	876	1,001	1,087	1,168	1,247	1,321	1,392	1,459	1,522	1,581	
New assets as % of total RAB			0	19	33	45	52	58	63	68	71	75	78	81	
Return on RAB (post-tax), realised (%)			3	4	3	3	3	4	4	4	5	5	6	6	
P&L (RBLbn)															
Revenue: transmission	66	80	109	135	137	152	169	187	206	225	244	265	286	307	
Revenue: connection	0	3	1	2	2	2	2	2	2	2	1	1	1		
Revenue: reselling	3	3	3	2	2	2	1	1	1	1	1	1	1	1	
Revenue: other	0	5	5	0	0	0	0	0	0	0	0	0	0	0	
Revenue	69	92	118	140	141	156	173	190	209	227	247	267	288	308	
Purchased power (reselling)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Transmission cash opex: variable	(13)	(15)	(16)	(14)	(15)	(16)	(18)	(20)	(21)	(23)	(24)	(26)	(27)	(28)	
Transmission cash opex: fixed	(28)	(46)	(42)	(47)	(49)	(53)	(57)	(61)	(64)	(67)	(71)	(74)	(77)	(80)	
Cash opex (RBLbn)	(41)	(61)	(58)	(61)	(64)	(70)	(75)	(80)	(85)	(90)	(95)	(99)	(104)	(108)	
EBITDA	28	30	60	79	77	87	98	110	123	137	152	167	184	200	
Depreciation	(16)	(17)	(30)	(33)	(38)	(44)	(48)	(52)	(56)	(59)	(63)	(67)	(70)	(74)	
EBIT	12	14	30	45	39	42	50	58	67	78	89	101	113	125	
Financing (costs) / income	1	9	5	4	(5)	(12)	(16)	(19)	(21)	(19)	(21)	(22)	(22)	(22)	
Revaluation of assets	(47)	(102)	(10)	14	-	-	-	-	-	-	-	-	-	-	
Non-operating income / (expenses)	(1)	2	(1)	0	-	-	-	-	-	-	-	-	-	-	
EBT	(35)	(78)	24	63	34	31	34	39	47	58	68	79	91	103	
Tax	11	14	(6)	(14)	(8)	(7)	(8)	(9)	(11)	(14)	(16)	(19)	(22)	(25)	
Net profit (before minorities and prefs)	(24)	(64)	18	49	26	23	26	30	36	44	52	60	69	79	
Minority interest	(0)	-	-	-	-	-	-	-	-	-	-	-	-	-	
Preferred dividend	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Net profit	(24)	(64)	18	49	26	23	26	30	36	44	52	60	69	79	
FCF and DCF (RBLbn)															
EBITDA	28	30	60	79	77	87	98	110	123	137	152	167	184	200	
(Inc)/dec in working capital	-	-	(7)	(10)	(9)	(10)	(12)	(14)	(16)	(19)	(21)	(24)	(27)	(30)	
(Tax, unlevered)	(5)	-	(19)	(12)	-	(4)	(4)	(4)	(4)	(5)	(5)	(5)	(5)	(5)	
Operating cash flow	23	30	34	56	68	73	82	92	102	114	126	138	152	164	
Capex	(115)	(90)	(142)	(153)	(165)	(130)	(130)	(130)	(130)	(130)	(130)	(130)	(130)	(130)	
FCF (attrib to EV)	(92)	(60)	(107)	(97)	(97)	(57)	(48)	(38)	(28)	(16)	(4)	8	22	34	1,197
Exchange rate (US\$/RBL)					33	33	33	33	32	33	34	34	35	35	34
Discounting factor						0.97	0.88	0.79	0.71	0.64	0.58	0.52	0.47	0.42	0.38
DCF (unlevered) (US\$m)						(1,697)	(1,273)	(930)	(608)	(318)	(76)	126	293	416	13,412
Growth (%)															
Revenue: transmission		21	36	23	2	11	11	11	10	9	9	8	8	8	
Effective tariff: transmission		28	32	21	0	9	9	9	8	8	8	7	7	7	
Transmission cash opex: variable		19	3	-14	8	10	10	9	8	7	6	6	5	5	
Transmission cash opex: fixed		62	-9	13	5	8	7	6	6	5	5	5	4	4	
Margins and ratios (%)															
EBITDA margin	40	33	51	56	55	56	57	58	59	60	62	63	64	65	
Capex/EBITDA	412	296	236	195	214	150	133	118	106	95	86	78	71	65	
Net debt/EBITDA	3.3	2.9	0.2	(0.9)	(2.1)	(2.7)	(3.0)	(3.1)	(3.1)	(3.1)	(2.9)	(2.7)	(2.4)	(2.1)	
FCF breakeven year		2019													

Source: Company data, ING estimates

Valuation parameters and target price derivation

WACC (%)	11.0			
Holding discount (%)	0.0			
Minorities (%)	-0.1			
Terminal value (RBLbn)	EV/RAB	EV/EBITDA	Gordon growth	Final
'Old' assets	303	1,197		
'New' assets	1,279			
Total	1,581	1,197	574	1,197
Total (US\$bn)				35,216
Weights (%)	0	100	0	
Value (US\$m) and target price	Fair value	Market value	Prem/(disc) (%)	Net debt & non-core assets
EV: explicit period	(4,067)			
EV: TV	13,412			
EV of core assets	9,345	12,575		
Net (debt)/cash	(5,145)	(5,145)	0	(5,145)
Non-core assets	1,761	1,761	0	1,761
Equity (incl minority share)	5,962	9,191		
Minority share	(6)	(9)	0	
Equity value (excl. minority share)	5,956	9,182		
Holding discount	-	-	0	
Equity value (excl. minority stake and holding discount)	5,956	9,182		
No. of shares (effective, bn)	1,260	1,260		
Share price, US\$/share	0.005	0.007		
Fair price as standalone company (RBL/share)	0.15	0.23		

Note: Market value used for publicly traded companies, acquisition values used otherwise. The new target price is derived as a weighted average of three approaches. See section *Adjustments for integration of FSK and Holding MRSK* for details

Source: Company data, ING estimates

Holding MRSK

Undervalued on a standalone basis but could lose from integration with FSK

Maintained

Hold

Russian Federation
Utilities

Market cap RBL113,311m
Bloomberg MRKH RX

While the fundamental value of Holding MRSK is dependent on regulatory parameters with limited transparency, our current (conservative) assumptions suggest that Holding MRSK is undervalued as a standalone company. However, we see the risk that that Holding MRSK shareholders may lose from unfavourable terms of its integration with FSK.

Investment case

The fundamental value of Holding MRSK is not transparent because: (1) it is dependent on the long-term development of regulatory parameters (tariffs and capex) with low visibility; and (2) dividend flow is negligible.

However, our relatively conservative assumptions for tariffs and capex imply that that DCF-derived fair value of Holding MRSK exceeds its current market value. At the same time, we see the risk that the terms of the integration of Holding MRSK with FSK could be less favourable than implied by our DCF valuations of FSK and Holding MRSK as standalone companies.

Tariffs and prices

While in theory subsidiaries of Holding MRSK are meant to be regulated on a RAB-based approach, in practice the link between the theoretical parameters of RAB-based regulation and practical tariff decisions remains weak, in our view.

We assume average tariff hikes for the subsidiaries of Holding MRSK will grow by c.11%, c.10% and c.10% on 1 July of 2012, 2013 and 2014, respectively.

M&A and capital raising

Following the transfer to FSK of the rights to manage Holding MRSK (starting July 2012), the government is currently considering ownership integration of the two companies. According to FSK CEO Budargin and unnamed sources cited by *Kommersant*, the integration may start by FSK acquiring from the Russian state the controlling stake in Holding MRSK in exchange for newly issued shares of FSK (we call this scenario 'partial integration'). After this FSK may offer minority shareholders of Holding MRSK a buyout in exchange for newly issued shares of FSK and cash.

Privatisation of underlying MRSK

Despite a long-lasting discussion of possible privatisation of the subsidiaries of Holding MRSK, practical privatisation steps have not been defined yet.

Catalysts

Clarity about the scenario and quantitative parameters of the integration of FSK and Holding MRSK.

Price (24/09/12)	RBL2.29
Target price (12-mth)	Previously RBL1.79 RBL2.20
Forecast total return	-3.6%

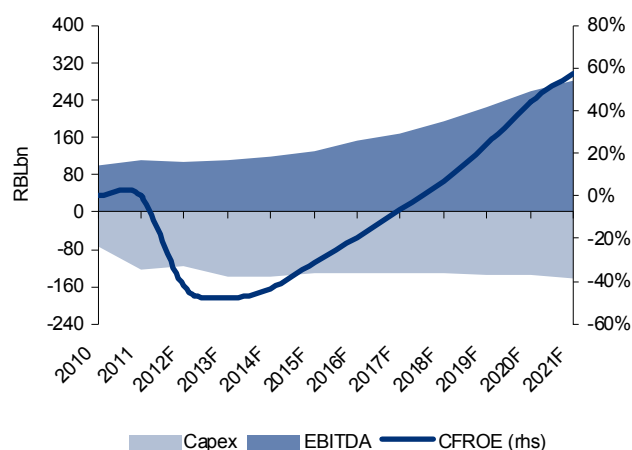
'Old' assets and operating outlook

Holding MRSK owns controlling stakes in 11 mega-regional grids (MRSKs) and two regional grids (Kuban and Yantar), which gives it a quasi-monopolistic position in Russian low/medium-voltage electricity transmission. Companies controlled by Holding MRSK have about 2.1m km of transmission lines, 465,000 transmission units and transmission capacity of 400GW.

'New' assets, capex and FCF

Expected FCF breakeven year: **2016**

FCF profile



Source: ING estimates

Valuation approach

Our valuation of Holding MRSK includes three steps:

- **Valuation of Holding MRSK (and FSK) as standalone companies** based on DCF with a 10-year explicit forecast horizon; details presented in the table below
- **Valuation of FSK as an 'entry ticket' into the merged FSK/Holding MRSK**, assuming that the swap terms are set so that the government can keep 75% of the merged company
- **Weighted averaging the two approaches** above. We assign 20%, 60% and 20% to the TPs calculated under the scenarios 'standalone company', 'partial integration' and 'full integration' respectively

Details of M&A adjustments and weighted averaging of different scenarios are presented in the section *Adjustments for integration of FSK and Holding MRSK* on page 70.

Newsflow

Date	Description
end-Sept or early Oct 2012	1H12 IFRS results

Source: Company data, ING

Major shareholders (%)

Russian Federation	53
GazpromEnergoholding	11

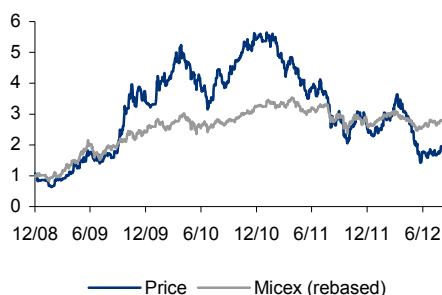
Source: Company data, ING

Share data

Avg daily volume (3-mth)	229,099,938
Free float (%)	36.0
Market cap (RBLm)	113,311
Net debt (1F, RBLm)	315,204
Enterprise value (1F, RBLm)	428,515
Dividend yield (1F, %)	0.0

Source: Company data, ING estimates

Share price performance



Source: ING

Company profile

Controlled by the government (53% stake), Holding MRSK occupies a dominant position in Russian low- and medium-voltage electricity grids by owning controlling stakes in 11 mega-regional grids (MRSKs) and 2 regional ones. While most of the regional branches of Holding MRSK were formally moved to RAB-based regulation in 2010-11, the regulator plans to revisit earlier approved RAB parameters in 2012.

Risks

Upside

- Acceleration of privatisation of subsidiaries of Holding MRSK, with proceeds partly payable to the minority shareholders of Holding MRSK

Downside

- Further reduction in the level of medium-term tariff hikes compared with the one currently approved by the government
- Increase in capex beyond our current forecasts

Financials

Year end Dec (RBLm)	2008	2009	2010	2011F	2012F	2013F
---------------------	------	------	------	-------	-------	-------

Income statement

Revenues	397,881	461,659	559,000	634,608	657,851	709,676
EBITDA	81,696	104,435	119,137	132,020	118,216	121,114
EBIT	47,812	64,107	73,117	77,945	69,018	68,384
Net interest	(5,868)	(17,925)	(8,037)	(5,843)	(9,674)	(12,050)
Associates	0	0	0	0	0	0
Other pre-tax items	20	97	355	244	0	0
Pre-tax profit	41,964	46,279	65,435	72,346	59,344	56,334
Tax	(6,880)	(6,431)	(12,400)	(14,689)	(10,654)	(10,649)
Minorities	(8,721)	(7,931)	0	0	0	0
Other post-tax items	0	0	0	0	0	0
Net profit	26,363	31,917	53,035	57,657	48,690	45,685
Normalised net profit	26,363	31,917	53,035	57,657	48,690	45,685

Balance sheet

Tangible fixed assets	531,012	560,027	603,000	687,000	761,429	854,530
Intangible fixed assets	0	0	0	0	0	0
Other non-current assets	20,080	20,080	20,080	20,080	20,080	20,080
Cash & equivalents	22,407	0	0	0	0	0
Other current assets	89,130	88,502	106,710	123,796	132,563	140,391
Total assets	662,629	668,609	729,790	830,876	914,073	1,015,001
Short-term debt	55,473	34,754	33,975	41,461	51,645	67,473
Other current liabilities	141,960	151,632	187,104	215,738	231,252	245,696
Long-term debt	224,223	230,902	240,274	273,743	297,505	334,437
Other long-term liabilities	49,373	35,414	37,056	42,138	42,138	42,138
Total equity	191,600	215,907	231,381	257,796	291,533	325,256
Total liabilities & equity	662,629	668,609	729,790	830,876	914,073	1,015,001
Net working capital	(51,022)	(62,410)	(79,079)	(88,515)	(95,392)	(102,382)
Net debt (cash)	257,289	265,656	274,249	315,204	349,150	401,911

Cash flow

Cash flow EBITDA	81,716	104,532	119,492	132,264	118,216	121,114
Tax, interest & other	12,748	24,356	20,437	20,532	20,328	22,700
Change in working capital	0	0	0	0	0	0
Net cash from op activities	68,968	80,176	99,055	111,732	97,888	98,415
Capex	(113,888)	(62,704)	(75,681)	(124,836)	(123,627)	(145,830)
Net acquisitions	6,676	(1,348)	0	0	0	0
Net financing cash flow	0	0	0	0	0	0
Dividends & minority distrib'n	0	0	0	0	0	0
Net ch in cash & equivalents	(35,702)	17,180	15,840	(10,086)	(25,739)	(47,416)
FCF	(39,052)	35,397	31,411	(7,261)	(16,065)	(35,365)

Performance & returns

Revenue growth (%)	n/a	16.0	21.1	13.5	3.7	7.9
Normalised EPS growth (%)	n/a	21.1	66.2	8.7	-15.6	-6.2
Normalised EBITDA mgn (%)	20.5	22.6	21.3	20.8	18.0	17.1
Normalised EBIT margin (%)	12.0	13.9	13.1	12.3	10.5	9.6
ROACE (%)	n/a	13.5	14.8	14.5	11.4	10.0
Reported ROE (%)	n/a	15.7	23.7	23.6	17.7	14.8
Working capital as % of sales	-12.8	-13.5	-14.1	-13.9	-14.5	-14.4
Net debt (cash)/EBITDA (x)	3.1	2.5	2.3	2.4	3.0	3.3
EBITDA net interest cvg (x)	13.9	5.8	14.8	22.6	12.2	10.1

Valuation

EV/revenue (x)	0.93	0.82	0.69	0.68	0.70	0.73
EV/normalised EBITDA (x)	4.5	3.6	3.3	3.2	3.9	4.3
EV/normalised EBIT (x)	7.8	5.9	5.3	5.5	6.7	7.5
Normalised PER (x)	4.3	3.6	2.1	2.0	2.3	2.5
Price/book (x)	0.59	0.52	0.49	0.44	0.39	0.35
Dividend yield (%)	0.0	0.0	0.0	0.0	0.26	0.51
FCF yield (%)	n/a	9.3	8.1	n/a	n/a	n/a

Per share data

Reported EPS (RBL)	0.54	0.65	1.08	1.17	0.99	0.93
Normalised EPS (RBL)	0.54	0.65	1.08	1.17	0.99	0.93
Dividend per share (RBL)	0.00	0.00	0.00	0.00	0.01	0.01
Equity FCFPS (RBL)	(0.91)	0.35	0.47	(0.27)	(0.52)	(0.96)
BV/share (RBL)	3.89	4.39	4.70	5.24	5.92	6.61

Source: Company data, ING estimates

RAB and P&L

	2008	2009	2010	2011	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2020F	2021F	TV'22F
RAB and return (RBLbn)															
RAB after depreciation: old assets				684	638	592	547	501	455	410	364	319	273	227	
RAB after depreciation: new assets					125	245	384	517	636	755	868	981	1,091	1,199	
RAB net (after depreciation) start of year				684	763	837	930	1,018	1,092	1,165	1,233	1,299	1,364	1,426	
New assets as % of total RAB				0	16	29	41	51	58	65	70	75	80	84	
Return on RAB (post-tax), realised (%)			6	6	5	5	5	5	7	8	9	10	11	10	
P&L (RBLbn)															
Revenue: transmission	326	395	476	553	592	656	726	799	874	948	1,026	1,105	1,170	1,225	
Revenue: connection	34	30	43	40	33	27	23	19	17	16	15	14	13		
Revenue: reselling	22	25	30	32	25	20	16	13	10	9	8	7	6	6	
Revenue: other	15	12	9	10	8	6	5	4	3	3	2	2	2	2	
Revenue	398	462	559	635	658	710	770	836	905	976	1,050	1,128	1,192	1,233	
Purchased power (reselling)	(15)	(18)	(19)	(19)	(15)	(12)	(10)	(8)	(6)	(5)	(5)	(4)	(4)	(4)	
Transmission cash opex: variable	(171)	(205)	(277)	(316)	(338)	(372)	(409)	(446)	(476)	(506)	(536)	(566)	(597)	(626)	
Transmission cash opex: fixed	(146)	(153)	(163)	(187)	(201)	(217)	(232)	(247)	(262)	(275)	(288)	(301)	(313)	(326)	
Cash opex (RBLbn)	(332)	(375)	(459)	(521)	(555)	(601)	(650)	(700)	(743)	(786)	(828)	(871)	(914)	(956)	
EBITDA	66	86	100	113	103	109	120	135	162	190	222	257	278	277	
Depreciation	(34)	(40)	(46)	(54)	(49)	(53)	(57)	(61)	(65)	(69)	(73)	(77)	(81)	(85)	
EBIT	32	46	54	59	54	56	63	74	97	121	149	180	197	192	
Financing (costs) / income	(6)	(18)	(8)	(6)	(10)	(12)	(16)	(17)	(18)	(15)	(14)	(12)	(9)	(4)	
Revaluation of assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Non-operating income / (expenses)	0	0	0	0	-	-	-	-	-	-	-	-	-	-	
EBT	27	28	47	54	44	44	47	57	79	106	135	168	188	188	
Tax	(7)	(6)	(12)	(15)	(11)	(11)	(11)	(14)	(19)	(26)	(32)	(40)	(45)	(45)	
Net profit (before minorities and prefs)	20	22	34	39	34	34	36	43	60	81	103	127	143	143	
Minority interest	(9)	(8)	-	-	-	-	-	-	-	-	-	-	-	-	
Preferred dividend	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Net profit	11	14	34	39	34	34	36	43	60	81	103	127	143	143	
FCF and DCF (RBLbn)															
EBITDA	66	86	100	113	103	109	120	135	162	190	222	257	278	277	
(Inc)/dec in working capital	(8)	(10)	(14)	(16)	(13)	(14)	(15)	(18)	(23)	(29)	(36)	(43)	(47)	(46)	
(Tax, unlevered)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Operating cash flow	58	76	86	97	90	96	105	117	138	161	186	213	231	231	
Capex	(114)	(63)	(76)	(125)	(124)	(146)	(144)	(135)	(138)	(136)	(139)	(141)	(143)	(143)	
FCF (attrib to EV)	(56)	13	10	(28)	(33)	(50)	(39)	(18)	0	25	47	72	88	88	1,246
Exchange rate (US\$/RBL)					33	33	33	33	32	33	34	34	35	35	34
Discounting factor						0.97	0.86	0.77	0.68	0.61	0.54	0.48	0.43	0.38	0.34
DCF (unlevered) (US\$m)						(1,490)	(1,024)	(424)	6	454	747	1,006	1,080	953	12,304
Growth (%)															
Revenue: transmission		21	21	16	7	11	11	10	9	9	8	8	6	5	
Effective tariff: transmission		27	17	14	5	9	9	8	8	7	7	7	5	4	
Transmission cash opex: variable		20	35	14	7	10	10	9	7	6	6	6	5	5	
Transmission cash opex: fixed		5	7	14	8	8	7	6	6	5	5	4	4	4	
Margins and ratios (%)															
EBITDA margin	17	19	18	18	16	15	16	16	18	19	21	23	23	22	
Capex/EBITDA	172	73	76	110	120	134	120	100	85	72	63	55	51	51	
Net debt/EBITDA	(1.8)	(1.3)	(1.1)	(1.2)	(1.7)	(2.1)	(2.2)	(2.2)	(1.9)	(1.5)	(1.1)	(0.7)	(0.3)	0.0	
FCF breakeven year															2016

Source: Company data, ING estimates

Valuation parameters and target price derivation

WACC (%)	12.5			
Holding discount (%)	-25.0			
Minorities (%)	-38.7			
Terminal value (RBLbn)	EV/RAB	EV/EBITDA	Gordon growth	Final
'Old' assets	182	1,246		
'New' assets	1,199			
Total	1,380	1,246	1,173	1,246
Total (US\$bn)	0%	100%	0%	36,649
Value (US\$m) and target price	Fair value	Market value	Prem/(disc) (%)	Net debt & non-core assets
EV: explicit period	1,308			
EV: TV	12,304			
EV of core assets	13,612	13,046		
Net (debt)/cash	(5,380)	(5,380)	0	(5,380)
Non-core assets	-	-	0	-
Equity (incl. minority share)	8,233	7,667		
Minority share	(3,187)	(2,968)	-39	
Equity value (excl. minority share)	5,046	4,699		
Holding discount	(1,261)	(1,175)	-25	
Equity value (excl minority stake and holding discount)	3,784	3,524		
No. of shares (effective, bn)	49	49		
Share price (US\$)	0.08	0.07		
Fair price (as standalone company, RBL)	2.46	2.29		

Note: The new target price is derived as a weighted average of three approaches. See section *Adjustments for integration of FSK and Holding MRSK* for details

Source: Company data, ING estimates

Adjustments for integration of FSK and Holding MRSK

As mentioned above, our target prices for Holding MRSK and FSK are derived after adjusting the DCF-derived TPs of FSK and Holding MRSK for the effect of their possible ownership integration.

Figure 30 below represents calculation of the TPs for FSK and Holding MRSK under the following scenarios:

- **FSK and Holding MRSK as standalone companies:** DCF-driven TPs with details of DCF calculations outlined in the company pages of the corresponding companies
- **'Partial' integration of FSK and Holding MRSK:** ie, the scenario under which Holding MRSK is transformed into a subsidiary of FSK after FSK acquires the government's stake in Holding MRSK is a shares-for-shares deal
- **'Full' integration:** ie, the merger of FSK and Holding MRSK with the swap terms set so that the government keeps 75% in the merged company
- **Weighted average of the TPs under the three scenarios,** with standalone/partial integration/'full' integration scenarios accounted with weights of **20%**, **60%** and **20%** respectively

Fig 30 Target price adjustments to account for integration of FSK and Holding MRSK

Company	Weighted average			Standalone companies										Partial integration					Full integration				
	TP weighted avg (RBL)	Upside (%)	Mcap (RBLbn)	Share price (RBL)			Number of shares (bn)				Mcap (RBLbn)		Value of gov stake, (RBLbn)		(MRKH becomes a subsidiary of FEES).					(merger)			
				Market price	TP (DCF driven)	Upside (%)	Ord shares	Pref shares	Effective shares	Gov-owned shares	Mcap at mkt price	Mcap at TP	At mkt price	At TP	No. of shares of merged company (bn)	Mcap at TP (RBLbn)	TP, adjusted (RBL)	Upside (%)	Mcap at adj. TP (RBLbn)	No. of shares of merged company (bn)	TP, adj. for full integration (RBL)	Upside (%)	Mcap at adj. TP (RBLbn)
FSK	0.18	-22	227	0.23	0.15	-35	1,260	-	1,260	1,003	291	191	232	152	1260	191	0.18	-21	230	1,260	0.20	-13	255
Holding MRSK	2.20	-4	108	2.29	2.46	7	48	2	49	27	113	121	62	67	151	67	2.46	7	121	283	1.16	-49	57
Double counting/elimination																							-54
Total			335								404	312			1,411	257	0.18		296	1,543	0.20		312
Holding MRSK/FSK	12.2			9.9	16.3												13.5				5.8		
Weights (%)					20												60				20		

Source: Company data, ING estimates

Besides of the weights of the scenarios, the key parameter in our calculation is the swap ratio between the shares of FSK and Holding MRSK. While this swap ratio is not set yet, we assume it would be set at a level that would ensure that the stake of the Russian government after a (hypothetical) merger of FSK and Holding MRSK remains above 75%. We estimate that for this, one share of Holding MRSK should be converted into **5.8** shares of FSK.

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**Grids: individual
MRSK**

Moscow United Grid

Fair value not transparent due to regulatory uncertainties

Maintained

Hold

 Russian Federation
Utilities

 Market cap RBL61,044.6m
Bloomberg MSRS RX

Fairly valued based on our conservative assumptions for tariff hikes and capex.

Investment case

The value of Moscow United Grid (MOESK) is driven by the long-term development of regulatory parameters (eg, tariff hikes and capex). While we have limited visibility for the development of these parameters, based on our relatively conservative assumptions, we believe that the company is fairly valued.

Tariffs and prices

While in theory MOESK is meant to be regulated on a RAB-based approach, in our view the actual tariff hikes are disconnected from the formal attributes of RAB-based regulation and are likely to remain so at least in the medium term.

We assume average tariff hikes for MOESK of 9% on 1 July in both 2013 and 2014, following 11% on 1 July 2012. After this, we assume a single-digit tariff growth.

M&A and capital-raising

A privatisation of MOESK in the medium term cannot be excluded, but its timing remains uncertain. According to statements by Energy Ministry officials, in order to reduce the stake of Holding MRSK, some of its subsidiaries may sell newly issued shares to outside investors.

Catalysts

Clarity about the scenario of potential privatisation of some of Holding MRSK's subsidiaries (eg, reduction of its stake below 50%), including MOESK.

Price (24/09/12) RBL1.25

Previously RBL1.44

Target price (12-mth) RBL1.24

Forecast total return 0.93%

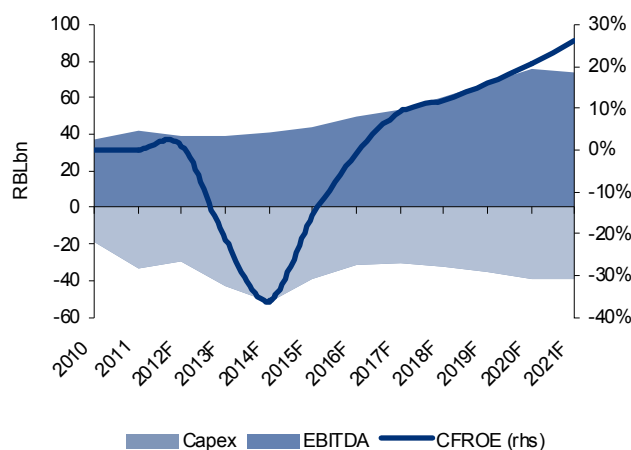
'Old' assets and operating outlook

MOESK is a quasi-monopolist in low/medium electricity distribution in Moscow City and the region. It has about 130,000km of electricity lines and 45,000 MVA of transformer capacity.

'New' assets, capex and FCF

Expected FCF break-even year: **2016**

FCF profile



Source: ING estimates

Valuation approach

Our target price for MOESK is DCF-based, with a 10-year explicit forecast horizon (2012-21) in order to cover the period when the company may become FCF positive. While our model keeps track of the formal attributes of RAB-based regulation, the tariff hikes are assumed at the level that would be acceptable for the government.

Details of the DCF valuation are presented in the table below.

Newsflow

Date	Description
Oct 2012	9M12 RAS

Source: Company data, ING

Major shareholders (%)

Holding MRSK	51
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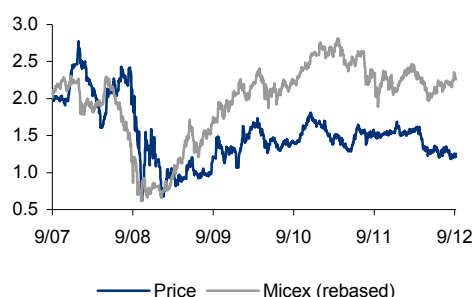
Source: Company data, ING

Share data

Avg daily volume (3-mth)	2,623,108
Free float (%)	10.0
Market cap (RBLm)	61,044.6
Net debt (1F, RBLm)	42,481
Enterprise value (1F, RBLm)	103,526
Dividend yield (1F, %)	2.0

Source: Company data, ING estimates

Share price performance



Source: ING

Company profile

Controlled by Holding MRSK (51% stake), Moscow United Grid (MOESK) is a dominant player in low- and medium-voltage electricity distribution covering Moscow City and the region. While MOESK has been formally switched to RAB-based regulation in 2011, the regulator plans to revisit the RAB regulation parameters in 2012.

Risks

Upside

- Reduction of the stake by Holding MRSK below control within the next three years

Downside

- Further reduction in the level of medium-term tariff hikes compared with the one currently approved by the government
- Increase in capex beyond our current forecasts

Financials

Year end Dec (RBLm)	2008	2009	2010	2011F	2012F	2013F
---------------------	------	------	------	-------	-------	-------

Income statement

Revenues	65,331	85,830	111,733	129,365	123,139	130,677
EBITDA	18,540	30,721	37,165	41,647	39,127	39,011
EBIT	10,209	20,485	23,826	25,109	20,966	20,851
Net interest	(1,968)	(6,501)	(2,237)	(1,665)	(2,974)	(2,676)
Associates	0	0	0	0	0	0
Other pre-tax items	0	0	0	0	0	0
Pre-tax profit	8,241	13,984	21,589	23,444	17,993	18,174
Tax	(1,222)	(3,233)	(4,426)	(5,402)	(4,318)	(4,362)
Minorities	0	0	0	0	0	0
Other post-tax items	0	0	0	0	0	0
Net profit	7,019	10,751	17,163	18,042	13,675	13,812
Normalised net profit	7,019	10,751	17,163	18,042	13,675	13,812

Balance sheet

Tangible fixed assets	139,748	181,703	190,225	205,734	218,175	240,381
Intangible fixed assets	0	0	0	0	0	0
Other non-current assets	362	362	362	362	362	362
Cash & equivalents	5,197	0	0	0	0	0
Other current assets	67,453	77,337	94,201	110,468	105,387	115,892
Total assets	212,760	259,402	284,788	316,564	323,923	356,635
Short-term debt	3,672	12,902	11,152	12,744	11,469	14,800
Other current liabilities	54,649	63,365	86,603	101,325	97,091	104,886
Long-term debt	41,304	30,104	26,020	29,737	26,762	34,534
Other long-term liabilities	27,345	44,878	19,485	31,610	31,610	31,610
Total equity	85,790	108,154	141,528	141,148	156,991	170,804
Total liabilities & equity	212,760	259,402	284,788	316,564	323,923	356,635
Net working capital	(42,938)	(50,900)	(70,502)	(82,989)	(79,547)	(86,693)
Net debt (cash)	39,779	43,005	37,172	42,481	38,231	49,335

Cash flow

Cash flow EBITDA	18,540	30,721	37,165	41,647	39,127	39,011
Tax, interest & other	3,190	9,734	6,663	7,067	7,292	7,038
Change in working capital	(12,804)	(1,168)	0	(1,545)	0	(2,709)
Net cash from op activities	2,546	19,819	30,502	33,035	31,835	29,264
Capex	(41,846)	(17,261)	(18,925)	(33,318)	(30,601)	(40,367)
Net acquisitions	(2,500)	0	0	0	0	0
Net financing cash flow	0	0	0	0	0	0
Dividends & minority distrib'n	0	0	0	0	0	0
Net ch in cash & equivalents	(39,853)	2,558	11,463	(716)	1,234	(11,103)
FCF	(37,332)	9,059	13,814	1,382	4,208	(8,427)

Performance & returns

Revenue growth (%)	n/a	31.4	30.2	15.8	-4.8	6.1
Normalised EPS growth (%)	n/a	53.2	59.6	5.1	-24.2	1.0
Normalised EBITDA mgn (%)	28.4	35.8	33.3	32.2	31.8	29.9
Normalised EBIT margin (%)	15.6	23.9	21.3	19.4	17.0	16.0
ROACE (%)	n/a	14.5	14.4	13.9	11.1	10.0
Reported ROE (%)	n/a	11.1	13.7	12.8	9.2	8.4
Working capital as % of sales	-65.7	-59.3	-63.1	-64.2	-64.6	-66.3
Net debt (cash)/EBITDA (x)	2.1	1.4	1.0	1.0	0.98	1.3
EBITDA net interest cvg (x)	9.4	4.7	16.6	25.0	13.2	14.6

Valuation

EV/revenue (x)	1.5	1.2	0.88	0.80	0.81	0.84
EV/normalised EBITDA (x)	5.4	3.4	2.6	2.5	2.5	2.8
EV/normalised EBIT (x)	9.9	5.1	4.1	4.1	4.7	5.3
Normalised PER (x)	8.7	5.7	3.6	3.4	4.5	4.4
Price/book (x)	0.71	0.56	0.43	0.43	0.39	0.36
Dividend yield (%)	0.0	0.74	1.9	2.0	2.2	2.3
FCF yield (%)	n/a	8.7	14.1	1.3	4.2	n/a

Per share data

Reported EPS (RBL)	0.14	0.22	0.35	0.37	0.28	0.28
Normalised EPS (RBL)	0.14	0.22	0.35	0.37	0.28	0.28
Dividend per share (RBL)	0.00	0.01	0.02	0.03	0.03	0.03
Equity FCFPS (RBL)	(0.81)	0.05	0.24	(0.01)	0.03	(0.23)
BV/share (RBL)	1.76	2.22	2.91	2.90	3.22	3.51

Source: Company data, ING estimates

RAB and P&L

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	TV'22
RAB and return (RBLbn)															
RAB after depreciation: old assets				149	141	132	123	115	106	97	88	80	71	62	
RAB after depreciation: new assets					33	63	102	148	180	204	227	253	281	311	
RAB net (after depreciation) start of year				149	174	195	225	262	286	302	316	333	352	373	
New assets as % of total RAB				0	19	32	45	56	63	68	72	76	80	83	
Return on RAB (post-tax), realised (%)			12	12	9	8	7	7	8	9	10	11	12	12	
P&L (RBLbn)															
Revenue: transmission	52	75	91	107	102	113	126	139	152	165	179	194	209	224	
Revenue: connection	11	10	20	20	19	16	13	11	10	9	9	8	8		
Revenue: reselling	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Revenue: other	3	1	1	2	2	2	1	1	1	1	1	1	0	0	
Revenue	65	86	112	129	123	131	140	151	163	175	189	202	217	225	
Purchased power (reselling)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transmission cash opex: variable	(20)	(29)	(44)	(54)	(54)	(60)	(65)	(71)	(76)	(80)	(85)	(89)	(94)	(99)	
Transmission cash opex: fixed	(27)	(26)	(31)	(34)	(30)	(32)	(34)	(37)	(39)	(41)	(43)	(45)	(46)	(48)	
Cash opex (RBLbn)	(47)	(55)	(75)	(88)	(84)	(92)	(100)	(108)	(114)	(121)	(128)	(134)	(141)	(147)	
EBITDA	19	31	37	42	39	39	40	43	48	54	61	68	76	77	
Depreciation	(8)	(10)	(13)	(17)	(18)	(18)	(18)	(18)	(18)	(18)	(18)	(18)	(18)	(19)	
EBIT	10	20	24	25	21	22	25	30	36	43	50	58	59		
Financing (costs)/income	(2)	(7)	(2)	(2)	(3)	(3)	(3)	(5)	(4)	(3)	(3)	(2)	(2)		
Revaluation of assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non(operating income)/(expenses)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
EBT	8	14	22	23	18	18	19	20	26	32	40	47	56	57	
Tax	(1)	(3)	(4)	(5)	(4)	(4)	(4)	(5)	(6)	(8)	(9)	(11)	(13)	(14)	
Net profit (before minorities and prefs)	7	11	17	18	14	14	14	15	19	25	30	36	42	43	
Minority interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Preferred dividend	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net profit	7	11	17	18	14	14	14	15	19	25	30	36	42	43	
FCF and DCF (RBLbn)															
EBITDA	19	31	37	42	39	39	40	43	48	54	61	68	76	77	
(Inc)/dec in working capital	(2)	(5)	(5)	(6)	(5)	(5)	(5)	(6)	(7)	(9)	(10)	(12)	(14)	(14)	
(Tax, unlevered)	(13)	(1)	-	(2)	-	(3)	(3)	(4)	(6)	(6)	(6)	(6)	(7)	(7)	
Operating cash flow	4	25	32	34	34	31	32	33	35	40	45	50	56	56	
Capex	(42)	(17)	(19)	(33)	(31)	(40)	(49)	(37)	(30)	(29)	(33)	(36)	(39)	(39)	
FCF (attrib to EV)	(38)	8	13	1	3	(9)	(17)	(4)	6	11	12	14	17	17	349
Exchange rate (US\$/RBL)					33	33	33	33	32	33	34	34	35	35	34
Discounting factor						0.97	0.84	0.74	0.64	0.56	0.49	0.43	0.37	0.32	0.28
DCF (unlevered) (US\$m)						(268)	(444)	(84)	115	181	171	174	178	161	2,900
Growth (%)															
Revenue: transmission		45	22	17	-5	11	11	10	10	9	8	8	8	7	
Effective tariff: transmission		53	18	15	-6	9	9	9	8	8	7	7	7	6	
Transmission cash opex: variable		44	52	23	0	10	10	9	6	6	6	5	5	5	
Transmission cash opex: fixed		-2	17	10	-11	7	7	7	6	5	5	4	4	4	
Margins and ratios (%)															
EBITDA margin	28	36	33	32	32	30	29	28	30	31	32	34	35	34	
Capex/EBITDA	226	56	51	80	78	103	122	86	61	54	54	53	51	50	
Net debt/EBITDA	(2.1)	(1.4)	(1.0)	(1.0)	(1.0)	(1.3)	(1.7)	(1.8)	(1.5)	(1.2)	(0.9)	(0.7)	(0.4)	(0.2)	
FCF breakeven year	2016														

Source: Company data, ING estimates

Valuation parameters and target price derivation

WACC (%)	14.6			
Holding discount (%)	0.0			
Minorities (%)	0.0			
Terminal value (RBLbn)	EV/RAB	EV/EBITDA	Gordon growth	Final
'Old' assets	50	349		
'New' assets	311			
Total	361	349	181	349
Total (US\$bn)				10,251
Weights (%)	0	100	0	
Value (RBLbn) and target price	Fair value	Market value	Prem/(disc) (%)	Net debt & non-core assets
EV: explicit period	185			
EV: TV	2,900			
EV of core assets	3,085	3,039		
Net (debt)/cash	(1,195)	(1,195)	0	(1,195)
Non(core assets	-	-	0	-
Equity (incl. minority share)	1,891	1,844		
Minority share	-	-	0	
Equity value (excl. minority share)	1,891	1,844		
Holding discount	-	-	0	
Equity value (excl. minority stake and holding discount)	1,891	1,844		
No. of shares (effective, bn)	49	49		
Share price (US\$)	0.04	0.04		
Target price (RBL)	1.24	1.21		

Source: Company data, ING estimates

MRSK Center

Exposed to long-term regulatory risks, but still undervalued

Maintained

Buy

 Russian Federation
Utilities

 Market cap RBL27,361.4m
Bloomberg MRKC RX

Undervalued based on our DCF model, with conservative assumptions for capex and tariff hikes.

Investment case

Similar to other grids, the fundamental value of MRSK Center depends on the development of long-term regulatory parameters (eg, tariffs and capex), the visibility of which has become limited after the credibility of theoretical RAB-based regulation has been undermined. Nevertheless, based on our relatively conservative assumptions for tariffs hikes and capex on a 10-year horizon, we believe that the market underestimates the fundamental value of the stock.

Tariffs and prices

While in theory the subsidiaries of MRSK Centre are meant to be regulated on a RAB-based approach, in practice, the link between the parameters of RAB-based regulation and actual tariff hikes is weak, we believe.

We assume average tariff hikes for MRSK Center of 9% on 1 July in both 2013 and 2014, following 11% on 1 July 2012. After this, we expect a single-digit growth in tariffs.

M&A and capital-raising

A privatisation of subsidiaries of Holding MRSK, including MRSK Center, cannot be excluded, but its timing and mechanism remains uncertain. According to the recent remarks of Energy Ministry officials, in order to reduce the stake of Holding MRSK below 50%, some of its subsidiaries can sell new shares to outside investors.

Catalysts

Clarity about the scenario of potential privatisation of some of Holding MRSK's subsidiaries (eg, reduction of its stake below 50%), including MRSK Center.

Price (24/09/12) RBL0.63

Previously RBL0.89

Target price (12-mth) RBL1.04

Forecast total return 66.5%

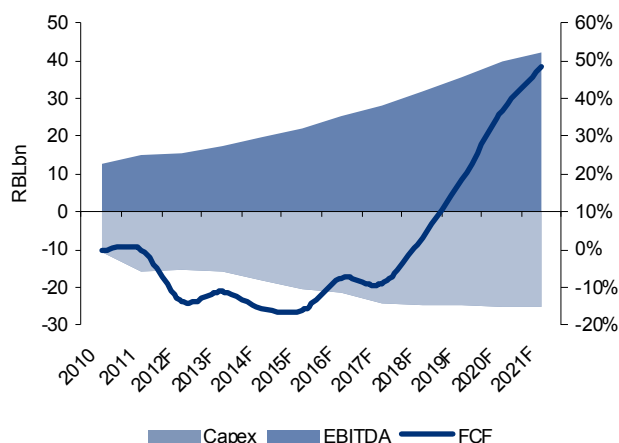
'Old' assets and operating outlook

The regions in which MRSK Center operates are Belgorod, Bryansk, Voronezh, Kostroma, Kursk, Lipetsk, Orel, Smolensk, Tambov, Tver and Yaroslavl. MRSK Center has around 365,000km of electricity transmission lines and aggregated capacity of transmission units of over 45t MVA.

'New' assets, capex and FCF

Expected FCF breakeven year: **2018**

FCF profile



Source: ING estimates

Valuation approach

Our target price for MRSK Center is DCF-based, with a 10-year explicit forecast horizon (2012-21) in order to cover the period when the company may become FCF positive. While our model keeps track of the formal attributes of RAB-based regulation, the tariff hikes are assumed at the level that would be acceptable for the government.

Details of the DCF valuation are presented in the table below.

Newsflow

Date	Description
Oct 12	9M12 RAS

Source: Company data, ING

Major shareholders (%)

Holding MRSK	>50
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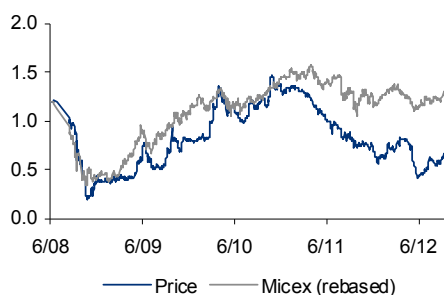
Source: Company data, ING

Share data

Avg daily volume (3-mth)	8,089,609
Free float (%)	34.0
Market cap (RBLm)	27,361.4
Net debt (1F, RBLm)	19,457
Enterprise value (1F, RBLm)	46,818
Dividend yield (1F, %)	1.5

Source: Company data, ING estimates

Share price performance



Source: ING

Company profile

Controlled by Holding MRSK (50.2%), MRSK Center is a major Russian mega-regional low- and medium-voltage electricity grid covering a number of regions in central Russia. While MRSK Center has been formally switched to RAB-based regulation in 2011, the regulator plans to revisit the RAB regulation parameters in 2012.

Risks

- Further reduction in the level of medium-term tariff hikes compared with the ones currently approved by the government
- Increase in capex beyond our current forecasts

Financials

Year end Dec (RBLm)	2008	2009	2010	2011F	2012F	2013F
Income statement						
Revenues	43,727	49,314	60,614	69,041	70,143	77,057
EBITDA	9,679	9,401	12,908	15,215	17,856	20,064
EBIT	5,936	4,770	7,897	8,931	10,630	11,933
Net interest	(1,559)	(2,025)	(1,507)	(1,557)	(1,362)	(1,368)
Associates	0	0	0	0	0	0
Other pre-tax items	0	0	0	0	0	0
Pre-tax profit	4,376	2,745	6,390	7,374	9,268	10,565
Tax	(1,591)	(639)	(1,289)	(1,840)	(2,224)	(2,536)
Minorities	0	0.6	4	0	0	0
Other post-tax items	0	0	0	0	0	0
Net profit	2,786	2,107	5,105	5,534	7,044	8,029
Normalised net profit	2,786	2,107	5,105	5,534	7,044	8,029
Balance sheet						
Tangible fixed assets	41,347	43,395	51,779	62,195	70,786	81,480
Intangible fixed assets	901	1,263	1,112	945	945	945
Other non-current assets	157	157	157	157	157	157
Cash & equivalents	75	0	0	0	0	0
Other current assets	6,685	7,152	8,781	10,083	10,374	10,744
Total assets	49,164	51,966	61,828	73,380	82,262	93,326
Short-term debt	6,450	3,890	4,837	5,837	5,863	6,686
Other current liabilities	7,505	8,750	10,097	11,484	11,191	11,483
Long-term debt	6,058	9,081	11,295	13,620	13,681	15,601
Other long-term liabilities	5,142	4,876	6,004	(8,745)	(8,745)	(8,745)
Total equity	24,010	25,368	29,594	51,184	60,272	68,301
Total liabilities & equity	49,164	51,966	61,828	73,380	82,262	93,326
Net working capital	56	(606)	(495)	(387)	192	212
Net debt (cash)	12,433	12,971	16,133	19,457	19,544	22,287
Cash flow						
Cash flow EBITDA	9,679	9,401	12,908	15,215	17,856	20,064
Tax, interest & other	3,150	2,664	2,795	3,397	3,586	3,904
Change in working capital	0	0	(283)	0	(585)	(78)
Net cash from op activities	6,529	6,737	9,830	11,818	13,686	16,082
Capex	(9,736)	(6,518)	(10,546)	(15,660)	(15,817)	(18,825)
Net acquisitions	149	0.0	(1)	0	0	0
Net financing cash flow	0	0	0	0	0	0
Dividends & minority distrib'n	0	0	0	0	0	0
Net ch in cash & equivalents	(3,047)	239	(682)	(3,723)	(2,132)	(2,743)
FCF	(1,647)	2,244	790	(2,285)	(770)	(1,375)
Performance & returns						
Revenue growth (%)	n/a	12.8	22.9	13.9	1.6	9.9
Normalised EPS growth (%)	n/a	-24.4	142.3	8.4	27.3	14.0
Normalised EBITDA mgn (%)	22.1	19.1	21.3	22.0	25.5	26.0
Normalised EBIT margin (%)	13.6	9.7	13.0	12.9	15.2	15.5
ROACE (%)	n/a	12.7	18.8	15.3	14.1	14.0
Reported ROE (%)	n/a	8.5	18.6	13.7	12.6	12.5
Working capital as % of sales	0.13	-1.2	-0.82	-0.56	0.27	0.28
Net debt (cash)/EBITDA (x)	1.3	1.4	1.2	1.3	1.1	1.1
EBITDA net interest cvg (x)	6.2	4.6	8.6	9.8	13.1	14.7
Valuation						
EV/revenue (x)	0.91	0.82	0.72	0.68	0.67	0.64
EV/normalised EBITDA (x)	4.1	4.3	3.4	3.1	2.6	2.5
EV/normalised EBIT (x)	6.7	8.5	5.5	5.2	4.4	4.2
Normalised PER (x)	9.8	13.0	5.4	4.9	3.9	3.4
Price/book (x)	1.1	1.1	0.92	0.53	0.45	0.40
Dividend yield (%)	0.0	0.0	2.2	1.5	2.6	2.9
FCF yield (%)	n/a	5.6	1.8	n/a	n/a	n/a
Per share data						
Reported EPS (RBL)	0.07	0.05	0.12	0.13	0.17	0.19
Normalised EPS (RBL)	0.07	0.05	0.12	0.13	0.17	0.19
Dividend per share (RBL)	0.00	0.00	0.01	0.01	0.02	0.02
Equity FCFPS (RBL)	(0.08)	0.01	(0.02)	(0.09)	(0.05)	(0.06)
BV/share (RBL)	0.57	0.60	0.70	1.21	1.43	1.62

Source: Company data, ING estimates

RAB and P&L

	2008	2009	2010	2011	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2020F	2021F	TV'22F
RAB and return (RBLbn)															
RAB after depreciation: old assets			84	78	71	64	57	50	43	36	29	22	15	8	
RAB after depreciation: new assets				11	26	41	59	79	100	123	148	172	196	219	
RAB net (after depreciation) start of year			84	88	96	105	115	128	143	159	177	194	211	227	
New assets as % of total RAB			0	12	27	39	51	61	70	77	84	89	93	96	
Return on RAB (post-tax), realised (%)			7	7	8	8	9	9	10	10	11	12	12	13	
P&L (RBLbn)															
Revenue: transmission	40	47	57	66	68	75	83	92	100	109	117	126	135	145	
Revenue: connection	3	2	2	2	1	1	1	1	1	1	1	1	1	1	
Revenue: reselling	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Revenue: other	1	1	1	1	1	1	1	1	0	0	0	0	0	0	
Revenue	44	49	61	69	70	77	85	93	101	109	118	127	136	145	
Purchased power (reselling)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Transmission cash opex: variable	(19)	(23)	(30)	(32)	(31)	(35)	(38)	(41)	(44)	(47)	(50)	(53)	(56)	(58)	
Transmission cash opex: fixed	(16)	(17)	(18)	(22)	(21)	(22)	(24)	(26)	(27)	(29)	(30)	(31)	(33)	(34)	
Cash opex (RBLbn)	(34)	(40)	(48)	(54)	(52)	(57)	(62)	(67)	(71)	(76)	(80)	(84)	(88)	(92)	
EBITDA	10	9	13	15	18	20	23	26	30	34	38	43	48	53	
Depreciation	(4)	(5)	(5)	(6)	(7)	(8)	(9)	(9)	(10)	(11)	(12)	(12)	(13)	(14)	
EBIT	6	5	8	9	11	12	14	17	20	23	27	31	35	39	
Financing (costs) / income	(2)	(2)	(2)	(2)	(1)	(1)	(2)	(2)	(2)	(2)	(2)	(2)	(1)	(1)	
Revaluation of assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Non(operating income) / (expenses)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
EBT	4	3	6	7	9	11	13	15	18	22	25	29	33	38	
Tax	(2)	(1)	(1)	(2)	(2)	(3)	(3)	(4)	(4)	(5)	(6)	(7)	(8)	(9)	
Net profit (before minorities and prefs)	3	2	5	6	7	8	10	11	14	16	19	22	25	29	
Minority interest	-	0	0	-	-	-	-	-	-	-	-	-	-	-	
Preferred dividend	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Net profit	3	2	5	6	7	8	10	11	14	16	19	22	25	29	
FCF and DCF (RBLbn)															
EBITDA	10	9	13	15	18	20	23	26	30	34	38	43	48	53	
(Inc)/dec in working capital	(2)	(1)	(2)	(2)	(3)	(3)	(3)	(4)	(5)	(6)	(6)	(7)	(8)	(9)	
(Tax, unlevered)	-	-	(0)	-	(1)	(0)	(0)	(0)	(0)	(0)	-	-	-	-	
Operating cash flow	8	8	11	13	15	17	19	22	25	28	32	36	40	43	
Capex	(10)	(7)	(11)	(16)	(16)	(19)	(22)	(24)	(25)	(29)	(29)	(29)	(29)	(28)	
FCF (attrib to EV)	(2)	2	0	(3)	(1)	(2)	(2)	(2)	(0)	(0)	3	6	10	15	225
Exchange rate (US\$/RBL)					33	33	33	33	32	33	34	34	35	35	34
Discounting factor						0.97	0.84	0.73	0.63	0.55	0.48	0.41	0.36	0.31	0.27
DCF (unlevered) (US\$m)						(50)	(61)	(54)	(10)	(4)	43	78	106	137	1,801
Growth (%)															
Revenue: transmission		17	23	15	3	11	11	10	9	8	8	8	7	7	
Effective tariff: transmission		23	19	13	1	9	9	8	8	7	7	7	6	6	
Transmission cash opex: variable		22	32	8	-3	10	10	9	7	6	6	6	5	5	
Transmission cash opex: fixed		11	3	21	-3	8	7	6	6	5	5	5	4	4	
Margins and ratios (%)															
EBITDA margin	22	19	21	22	25	26	27	28	29	31	32	34	35	36	
Capex/EBITDA	101	69	82	103	89	94	95	94	85	84	75	68	61	53	
Net debt/EBITDA	(1.3)	(1.4)	(1.2)	(1.3)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	(1.0)	(0.8)	(0.6)	(0.3)	(0.0)	
FCF break(even year)	2018														

Source: Company data, ING estimates

Valuation parameters and target price derivation

WACC (%)	15.1			
Holding discount (%)	0.0			
Minorities (%)	0.0			
Terminal value (RBLbn)	EV/RAB	EV/EBITDA	Gordon growth	Final
'Old' assets	7	237		
'New' assets	219			
Total	225	237	152	225
Total (US\$bn)				6,628
Weights (%)	100	0	0	
Value (RBLbn) and target price	Fair value	Market value	Prem/(disc) (%)	Net debt & non-core assets
EV: explicit period	185			
EV: TV	1,801			
EV of core assets	1,986	1,465		
Net(debt)/cash	(611)	(611)	0	(611)
Non-core assets	-	-	0	-
Equity (incl. minority share)	1,376	855		
Minority share	-	-	0	
Equity value (excl. minority share)	1,376	855		
Holding discount	-	-	0	
Equity value (excl. minority stake and holding discount)	1,376	855		
No. of shares (effective, bn)	42	42		
Share price (US\$)	0.03	0.02		
Target price (RBL)	1.04	0.65		

Source: Company data, ING estimates

Appendix 1: International valuation comparison

Fig 31 International valuation comparison: Generators

	Country	Rec	Share price		EV/EBITDA (x)					PER (x)					Div yield (%)	
			(RBL)	(US\$)	2012F	2013F	2014F	2015F	2016F	2012F	2013F	2014F	2015F	2016F	2011	2012F
Rushydro	Russia	Hold	0.86		5.7	5.3	4.3	4.2	4.1	10	10	7	7	6	1	1
Prem/(disc) to GEM (%)					12	7	-9	-37	-31	0	14	-31	-42	-56		
GEM hydro generators					5.1	4.9	4.7	6.6	6.0	10	9	11	11	14	3	
China Yangtze Power	China	NR	0.98		9.4	8.9	8.3			13	11	11			4	
Tractebel	Brazil	NR	16.0		7.8	7.8	7.2	7.2	6.0	14	13	12	11	10	3	
Eletrobraz	Brazil	NR	9.5		3.1	4.9	3.1			6	6	6			9	
CESP	Brazil	NR	10.7		4.2	4.9	4.7	6.6	5.6	10	8	12	25	20	1	
AES TIETE	Brazil	NR	11.4		5.1	4.9	4.6	4.2	7.0	9	9	8	8	14	3	
Verbund	Austria	Hold	21.3		9.1	9.7	9.3	9.3	9.0	14	14	13	12	10	3	
Russian thermal generators																
OGK-1	Russia	Hold	0.61		7.7	11.5	9.0	8.8	4.7	-4	50	50	50	9	0	0
OGK-3	Russia	Hold	1.01		13.6	7.1	4.7	3.3	2.5	-7	22	9	5	4	0	0
E.ON Russia (OGK-4)	Russia	Buy	2.74		4.7	5.2	5.2	3.4	2.8	10	11	11	8	7	2	2
Enel OGK-5	Russia	Buy	1.91		6.1	5.6	5.1	4.6	4.2	12	10	9	8	7	0	0
OGK-2	Russia	Hold	0.42			10.7	10.5	4.6	3.9	-13	-15	-13	6	5	0	0
TGK-1	Russia	Buy	0.01		6.0	4.6	3.7	3.2	2.6	11	7	4	3	2	1	1
Mosenergo	Russia	Buy	1.37		2.9	3.6	4.5	3.0	2.8	11	12	14	5	5	2	1
Russian thermal gencos					6.0	5.6	5.1	3.4	2.8	10	11	9	6	5	0	0
Prem/(disc) to GEM (%)					-40	-38	-39	-54	-57	-17	-6	-17	-31	-43		
GEM thermal generators					10.1	9.0	8.5	7.4	6.6	12	12	11	9	8	2	
NTPC	China	NR	3.11		11.4	10.2	9.0	7.9		14	13	12	11		0	
Huaneng Power	China	NR	0.72		8.3	7.7	7.1	5.7	8.2	11	9	8	5	22	1	
Datang Int'l Power	China	NR	0.33		10.1	9.2	8.3	6.7	5.9	8	7	6	4	4	4	
Adani Power	India	NR	0.95		22.6	15.4	8.5	6.4	6.1	30	35	12	8	11		
Huandian Power	China	NR	0.55		9.9	9.5	9.1			17	14	13				
Rachaburi	Thailand	NR	1.54		8.8	8.7	7.8	12.1		12	12	12	16		2	
Glow Energy	Thailand	NR	2.09		11.7	8.5	7.8	8.3		16	12	11	11		1	
EGCO	Thailand	NR	4.02		17.8	nh	13.4	7.5		9	10	10	9		2	
China Power Int'l	China	NR	0.26		9.9	8.8	8.5	7.3	7.1	7	6	6	4	6	2	

All prices as of close on 24 September 2012

Source: Company data, Bloomberg consensus, ING estimates for rated Russian companies only

Fig 32 International valuation comparison: Grids

	Country	Rec	Share price		EV/EBITDA (x)					PER (x)					Div yield (%)	
			(RBL)	(US\$)	2012F	2013F	2014F	2015F	2016F	2012F	2013F	2014F	2015F	2016F	2011	2012F
Federal Grid Company	Russia	Sell	0.23		5.2	5.4	5.4	5.3	5.1	11	12	11	10	8	0	1
Prem/(disc) to GEM (%)					-24	-21	-11	-42	-26	-34	-9	-3	-23	33	-100	
GEM high-voltage grids					6.8	6.8	6.0	9.1	6.8	17	14	12	13	6	1	
Transmissao Paulista	Brazil	NR	18.3		6.0	6.8	6.0	9.8	8.6	6	7	7	14	6	1	
Power Grid Corp. of India	India	NR	2.2		12.2	10.9	10.2	9.1		17	14	12	11		1	
Interconexion Electrica	Colombia	NR	5.5		6.8	6.3	6.0	5.5	5.1	22	27	27			2	
Developed high-voltage grids					8.8	8.7	8.4	8.0	8.3	14	12	12	12	14	4	
Red Eléctrica de España	Spain	Hold	49.9		8.0	7.5	6.9	6.1		10	9	9	8	11	4	
National Grid	UK	NR	11.1		9.6	9.0	9.0	8.8	9.0	14	12	12	12	14	4	
Terna	Italy	Buy	3.9		8.8	8.7	8.4	8.0	7.7	14	13	12	12	15	4	
Russian regional grids																
Holding MRSK	Russia	Hold	2.29		4.0	4.3	4.3	4.0	3.4	3	3	3	3	2		
Moscow Utd Grid	Russia	Hold	1.25		2.5	2.8	3.2	3.2	2.8	4	4	4	4	3	2	
MRSK Center	Russia	Buy	0.63		2.6	2.4	2.3	2.2	1.9	4	3	3	2	2	2	
Individual grids	Median				2.6	2.6	2.8	2.7	2.4	4	4	4	3	3	3	
Prem/(disc) to GEM HV (%)					-59	-64	-63	-46	-62	-56	-74	-86	-85	-69		
GEM medium/low-voltage grids					6.3	7.2	7.5	5.0	6.3	9	15	25	21	8	9	
Eletropaulo	Brazil	NR	9.8		5.7	6.8	7.5	2.9	5.7	9	18	37	21	8	17	
Equatorial Energia	Brazil	NR	8.3		6.9	7.6	7.5	7.0	6.9	10	12	12			1	

All prices as of close on 24 September 2012

Source: Company data, Bloomberg consensus, ING estimates for rated Russian companies only

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