

**IDGC of Centre
Joint-Stock Company**



**Stock market of IDGC of Centre, JSC
in IV quarter 2009**

Moscow, January 2010

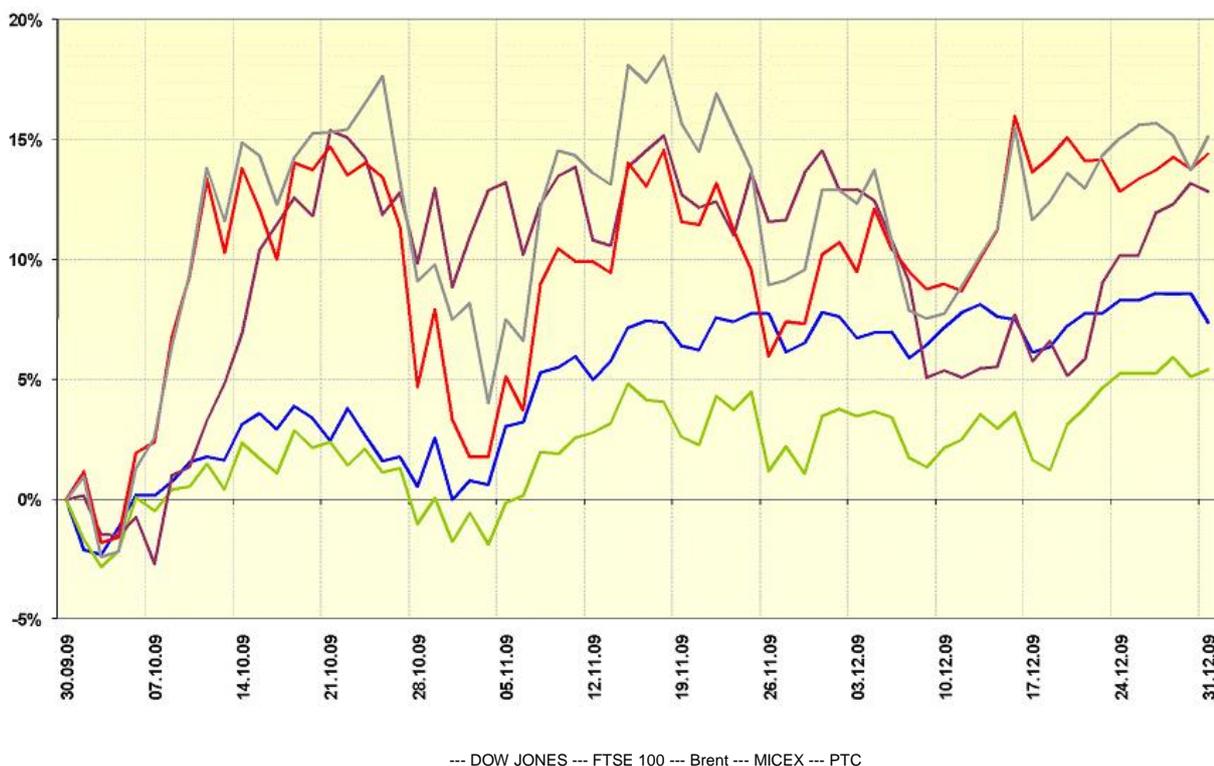
Share markets in IV quarter 2009

Among primary factors that were determining tones in the world stock markets in the fourth quarter we can lay emphasis on the results of financial statements of the largest world companies following the results of the third quarter, which were included in macro-economic statistics and speculation of market participants with relation to the terms of possible start of exit strategy implementation and the relevant ending of easy money epoch.

Growth of world stock indices within the first three weeks of October was contributed by publishing of quarter reporting of the leading world companies: financial results of 82% of companies of S&P500 index that had disclosed reporting for the past quarter by the end of October, exceeded forecasting of the market what is the maximum index from the beginning of data monitoring by Bloomberg agency in 1993.

In the end of October there had been a wave of correction at the world stock sites, which was caused by doubts of market participants relating to reasonableness of the rally in share markets continuing from the Spring as well as concerns of reduction of excess liquidity that was one of the primary factors of market growth as the result of gradual stimulating programs curtailment by financial regulators of different countries. Against this background the key statistics of the end of the month according to dynamics of USA GDP in the third quarter, which recorded the growth of this index by 3,5% above expectations of analysts, couldn't prevent markets from reduction.

----- Index dynamics of MICEX, PTC, DOW, FTSE, Brent in IV q. 2009



Source: MICEX, PTC, Bloomberg, calculations of DCT

Actions and rhetoric of financial regulators defined significantly dynamics of the world stock markets in November in relation to money and credit policy prospects of developed economies. In the first half of November optimism of market participants was encouraged by decisions of central banks of the leading economies of the world directed to maintaining of low interest rates as well as decisions of G20 financial summit, where it was declared the necessity to proceed

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keeping measures on economy support. In the second half of November growth in the world stock markets slowed down against the background of applications of representatives of financial authorities of USA and Eurozone containing concern relating to possibility to create new “soap bubbles” in markets under the conditions of remaining low interest rates.

The main reason of violent fluctuations in stock markets at the end of November – in the beginning of December were the information on possible bankruptcy threat of Dubai World, the State company of Dubai Emirate of UAE. Against the background of measures on stabilization of the existing situation taken by the Government of UAE and Directorate of Dubai World fund and good statistics over USA employment market positive beginning of December was leveled by negative rating actions of Fitch and S&P agencies in relation to Greece and Spain as well as increased concerns of investors regarding possible stiffening of credit and money policy by Federal Reserve System of USA. In the middle of the month the application of Federal Reserve System of USA concerning termination of four special programs of “emergency” crediting on 1 February and completion of support programs of mortgage crediting and housing markets by the end of the first quarter brought pressure on markets. In analysts’ opinion in the third decade of December so-called “Santa Claus’s effect” that is insignificant growth of stock indices at the end of the year without important news under remarkable trading volume reduction was observed in markets. Speculations around possible stiffening of monetary policy by financial authorities of USA fell by the wayside: at the end of the month T. Gaytner, Finance Minister, confirmed that White House Administration does not intend to hurry up with withdrawal of measures on financial system support and will do everything necessary to prevent the second recession.

Following the results of the fourth quarter Dow Jones and FTSE 100 indices increased by 7% and 5% respectively.

In the fourth quarter PTC index grew by 14% MICEX index increased by 15%.

In October and to a large extent in November and December the Domestic market dynamics was determined by tones at the western stock sites and oil quotations. Apart from optimism at western sites in analysts’ opinion the additional factor of the Russian market growth in October was inflow of funds to the stock market on the part of non-residents, which actively were exchanging Dollars to Rubles and allocating received money in Ruble assets.

Activity of speculative capital in carry trade transactions inclusive became the reason for reduction of refinancing rate up to historically minimum level by the Central Bank of the Russian Federation. Totally within the fourth quarter the Central Bank reduced the rate, which amounts to 8.75% as a result of the last reduction from December 28, 2009, three times. As the Central Bank of the Russian Federation reported decision on rate reduction were taken, mainly, with the purpose of additional stimulation of credit activity of banking sector of economy, alleviation of effects of factors that restrain economic upturn and fixing of stability of formed GDP growth trends. Besides, as the Central Bank of the Russian Federation believes, under conditions of general banking liquidity increase reduction of interest rates will contribute to limitation of short-term foreign capital inflow.

By the end of the year the Russian market has not followed the standard course a little bit in the wake of western stock markets, inspite of positive external situation. At the end of November the market was under pressure of big sales. Market participants are inclined to believe that Bank for Foreign Economic Activity played the role of unknown seller that started partial fixation of profit according to its share portfolio. Necessity to attract about \$600 mln for participation in IPO of RusAl (Russian Aluminum) was considered as one more reason for sales of Bank for Foreign Economic Activity. In December analysts associated discrepancy in dynamics of western and domestic stock markets with desire of participants of the Russian market to reduce positions in papers in advance of long vocations.

Mainly, in the fourth quarter the own news background was of complex nature enough and could not impact on dynamics of the Russian market significantly:

- In the third quarter 2009 GDP of the Russian Federation has fallen by 8,9% compared with the same period of the past year, data of the Russian Statistics turned out to be better than the preliminary estimate of Ministry of economic development and trade which forecasted reduction at 9,4% level. For the first time from the second quarter 2008 quarterly dynamics of GDP became positive – according to data of Ministry of economic development and trade seasonal-leveled GDP grew by 0,6% in the third quarter in comparison with the previous quarter. Nevertheless, in accordance with estimates of Ministry of Finance fall of GDP will exceed official 8,5% in the current year – A. Kudrin, Head of Ministry of Finance, declared it in the beginning of December;
- Reduction of industrial production by 9,5% in September became minimum in 2009, but in November growth of industrial production volumes in annual expression – by 1,5% was recorded for the first time from October 2008;
- In November 2009 reduction of investments in fixed assets slowed down up to 14,8% in comparison with November 2008 after reduction by 17,9% in October and 18,6% in September;
- In November in Russia total number of unemployed persons increased by 292 thousand people by October and amounted to 6,131 mln people. Growth of number of unemployed persons was observed for the second month in a row after reduction within seven months. In November in Russia unemployment level grew up to 8,1% from 7,7% in October;
- In the middle of December Fitch rating agency reported observed reduction short-term risks for credit solvency of the Russian banks within the last months as a result of some signs of the Russian economy stabilization as well as increase of capacities of banks related to cover for losses. It is necessary to note that previously in October after S&P agency Moody's rating agency published negative forecasting of the Russian banking system development, pointing out relatively high risks of instability of the banking system;
- At the end of December S&P agency increased forecast of ratings of the Russian Federation from "negative" to "stable". Previously in the beginning of November Moody's rating agency reported that it did not observe factors for reduction of rating of Russia in the nearest future.

Share market of power distribution sector companies in IV quarter 2009.

Within the reporting period the Russian power engineering showed the dynamics that was not much worse than the market – MicexPWR index increased about by 10% whereas growth of MICEX index amounted to nearly 14%.

In the beginning of October MicexPWR was additionally supported by the information of Ministry of Energy on the fact that the draft regulation of the long-term power market model was forwarded to Ministry of Justice for approval. At the end of the month shares of generating companies supported S. Shmatko's, Minister of Energy of the Russian Federation, announcement that Ministry of Energy promised to solve the issue of the long-term power market completely in the nearest future.

At the end of November Federal Tariff Service published tariff decisions for power generators for 2010 – average growth will amount to 3,6% against 18,1% in the previous year. Moderate expected negative of this news was compensated by the information on approval of “new” powers estimate method (that were introduced after 2007) by the Market Council, which complies with the existing market conditions reasonably in opinion of industrial experts.

In the middle of December shares of power companies were supported by positive expectations of the market in respect of the results of approval of tariffs on “new” power for generating companies by NP “Sovet rynka (The Market Council)”. In the third decade of the month the Supervisory Board NP “Sovet rynka (The Market Council)” confirmed economic reasonableness practically of all price bids put in within competitive selection of power in 2010.

Also, in December shares of power companies could be supported by publishing of Fitch rating agency report informing that power sector companies showed initial signs of recovery.



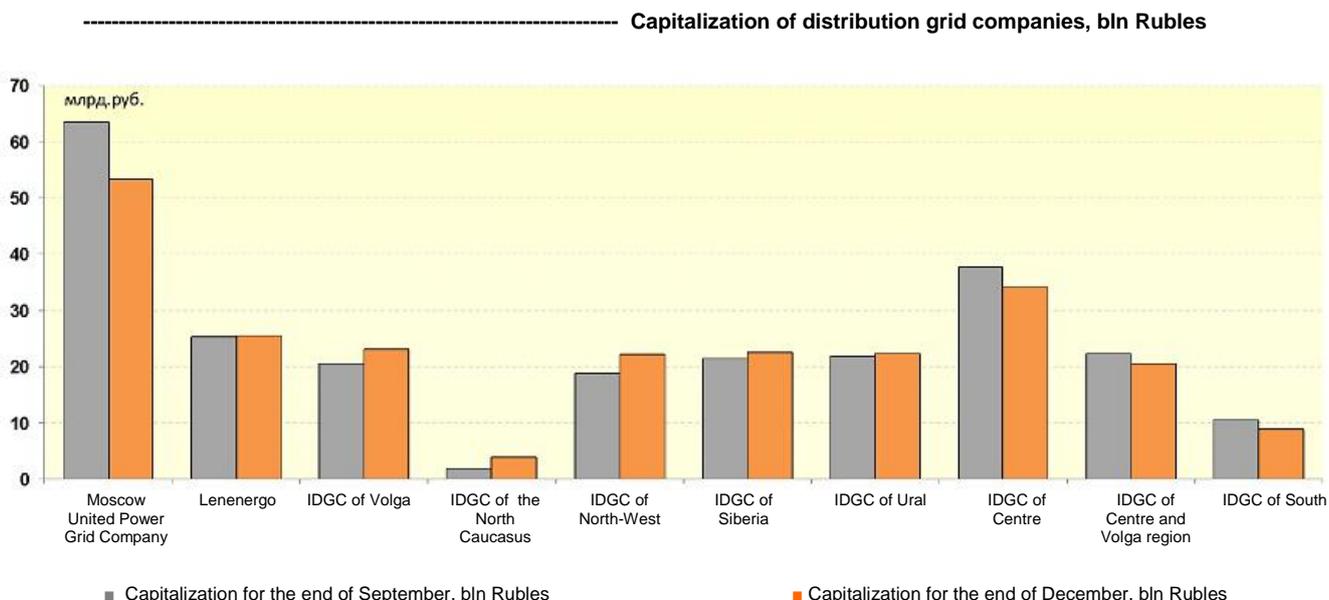
Shares of distribution grid companies looked out worse than the market after the September rally within the major part of the reporting period. Grid index representing capitalization of the sector companies (the index calculation base includes all trading IDGC) increased just by 0,2% following the results of the fourth quarter.

Moderate indices of the fourth quarter were, mainly, grounded by desire of the market participants to freeze the profit after significant growth in the previous quarter against the background of the remaining indefiniteness of detailed elaboration of RAB-regulation parameters for certain IDGC. October results that are losing for distribution grid companies were recovered in November against the background of a number of sector news supported quotation of companies:

- approval of the Law on energy efficiency by State Duma in the third reading that contains the demand for transfer of all IDGC to the new RAB tariff calculation system since 2011;
- announcement of a representative of Federal Tariff Service in respect that 2-3 regional branches of each IDGC will be transferred to RAB-tariffs since the 1st of January 2010, and it is planned to transfer other DGC to RAB within 2010;
- publishing of IDGC of Siberia of the preliminary estimate of iRAB that turned out to be significantly higher than the estimate published in the beginning of 2009 – this news was taken positively for the whole sector because the estimate of IDGC of Siberia confirms reasonableness of the capital base indices, which have been previously reported by IDGC Holding.

In December the sector of distribution grid companies was worse than the market again. The main news of the sector was approval of tariffs and RAB parameters by Federal Tariff Service for FGC. Thus, tariff decisions turned out to be within forecasts, but initial capital base was approved much lower than it was expected by the management of the Company and analysts. This news was of complex nature for shares of distribution grid sector, on the one part analysts point out the fact that shares of the sector companies became more attractive in comparison with the shares of FGC, on the other part there are concerns that initial capital base of companies of IDGC can be reduced by the regulator as well.

The following diagram provides the results of IDGC capitalization changes in IV q. 2009.



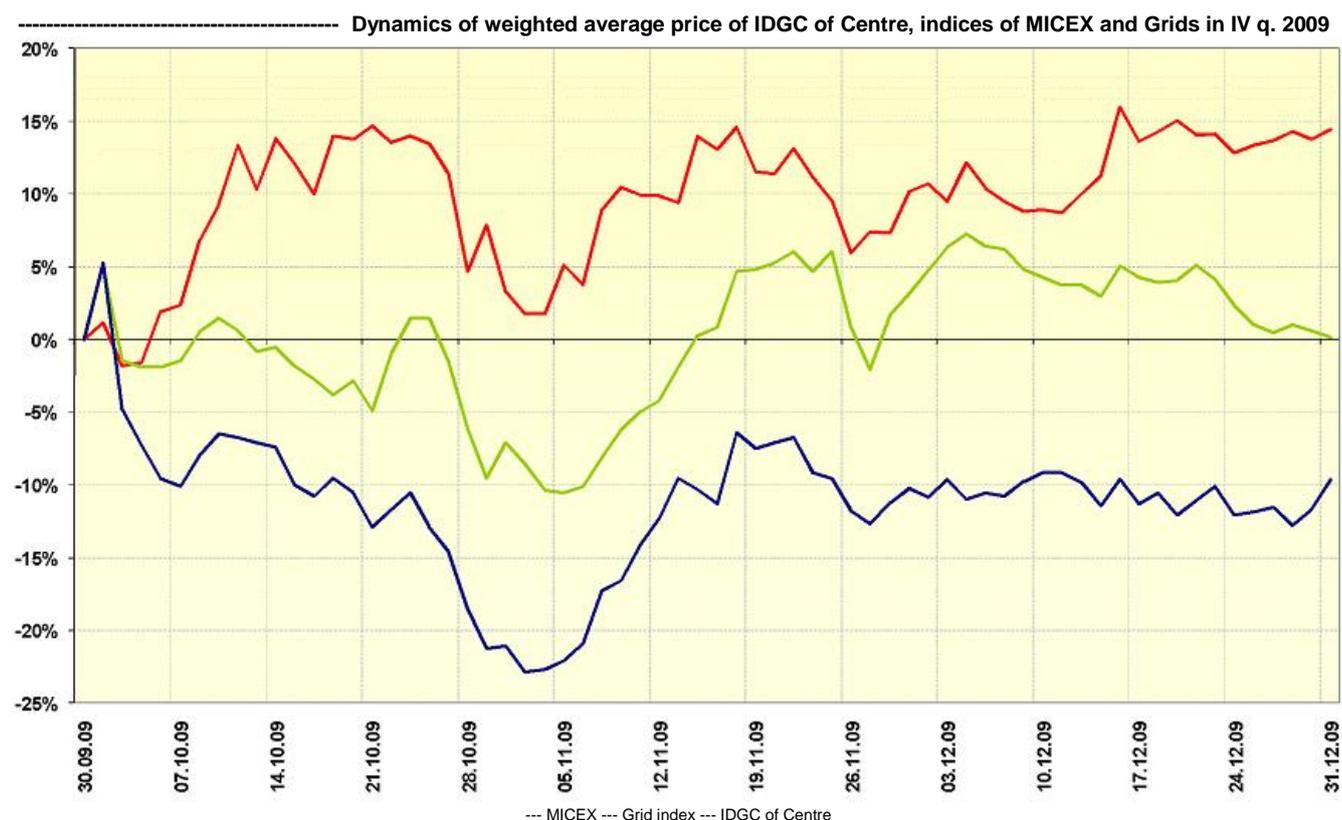
Source: MICEX, calculations of DCT

Shares of distribution grid companies completed the fourth quarter differently. Moscow United Power Grid Company became the leader in capitalization reduction, maximum growth was shown by IDGC of the North Caucasus, which capitalization increased in two times. The fourth quarter results of IDGC capitalization dynamics are given in the table:

Company	Capitalization, bln Rubles		Change for the quarter, %
	as of 30.09.09	as of 31.12.09	
Moscow United Power Grid Company	63,5	53,4	-16,0%
Lenenergo	25,3	25,6	1,1%
IDGC of Volga	20,5	23,2	13,3%
IDGC of the North Caucasus	1,9	3,9	103,8%
IDGC of North-West	19,0	22,2	17,1%
IDGC of Siberia	21,4	22,6	5,3%
IDGC of Ural	21,9	22,3	2,0%
IDGC of Centre	37,5	34,1	-9,6%
IDGC of Centre and Volga region	22,3	20,5	-8,2%
IDGC of South	10,5	8,9	-15,8%

Share market of IDGC of Centre, JSC in IV quarter 2009.

Within the reporting period dynamics of MICEX index, grid index and weighted average price of shares of IDGC of Centre is as follows:



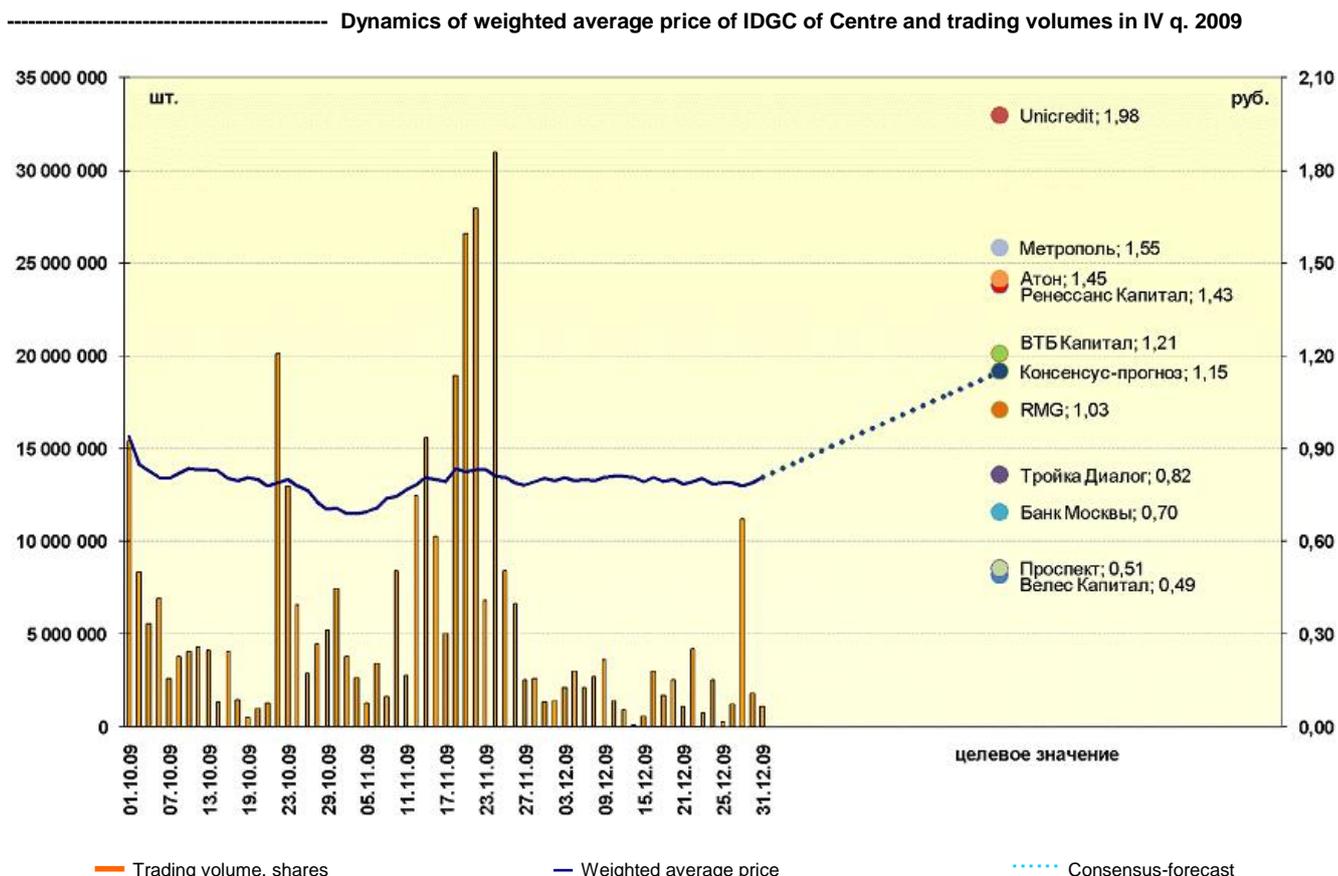
Source: MICEX, RTS, calculations of DCT

Within the whole reporting period dynamics of shares of IDGC of Centre looked out worse than Grid index dynamics. Following the results the fourth quarter price of shares of IDGC of Center reduced by 9,6%, whereas Grid index increased by 0,2% and MICEX index – by 14,4%. Features of trading volumes at stock exchanges of MICEX and RTS with shares of IDGC of Centre in IV q. 2009 (market transactions) are given in the table:

Stock exchange	Number of transactions	Volume, number	Volume, mln Rubles
RTS (classic)	-	-	-
RTS (stock exchange)	16	1 572 629	1,14
MICEX	11 610	373 420 900	300,88

In the fourth quarter the turnover of shares of IDGC of Centre at MICEX amounted to 374,99 mln shares or 0,89% of the total number of shares of the Company. Within the considered period the average bid-ask spread amounted to about 0,7%.

The following diagram provides the dynamics of weighted average price, trading volume and consensus-forecast of professional participants.



Source: MICEX, quote. ru, reports of companies, calculations of DCT

Among the news on analytical coverage of companies of distribution grid sector in the fourth quarter it is necessary to note the following:

- Analysts of Bank of Moscow published the first report on the sector in the beginning of November and they provided the renewed report just in two weeks;
- Analysts of companies “Metropol” and “Aton” published the first reports in the second half of December;
- Analysts of Unicredit, RMG, VTB Capital and Renaissance Capital published the renewed reports on the sector.

Forecasts of prices for shares of IDGC of Centre, recommendations and potentials of growth to the current market price published by investment companies for the date of the report are given in the table (estimates in original without conversion are colored grey):

----- Forecasts and recommendations of professional participants on shares of IDGC of Centre

	Company	Annual forecast		Data of renewal	Recommendation
		USD	RUR***		
1	Troika Dialog*	0,027	0,817	23.12.2008	
2	Renaissance Capital**	0,0473	1,431	03.11.2009	To buy
3	Rye, Man & Gor Securities	0,034	1,028	02.11.2009	Speculative BUY
4	Veles Capital	0,0163	0,493	23.03.2009	To buy
5	Unicredit	0,0654	1,978	01.12.2009	To buy
6	VTB Capital	0,04	1,210	17.11.2009	To buy
7	Prospekt	0,017	0,514	30.09.2009	To reduce
8	Bank of Moscow	0,023	0,696	18.11.2009	To sell
9	Aton	0,048	1,452	16.12.2009	To buy
10	Metropol	0,051	1,550	24.12.2009	To buy
Consensus		0,038	1,150		
Current price****			0,808		
Growth potential			42%		

* Bank estimate – indicative at the range [min. 0,0222 – max. 0,0317], is not included in consensus

** Bank estimate – “theoretic” price

*** At the rate of RUR/USD as of 31.12.09

**** Weighted average price at MICEX as of 31.12.09

Source: reports of companies, MICEX, quote. ru, calculations of DCT

After the price for shares of the Company has been reduced within the reporting period, growth potential of shares of IDGC of Centre to the price amounts to 42% by the end of the fourth quarter.

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