

**Open Joint-Stock Company  
IDGC of Centre**

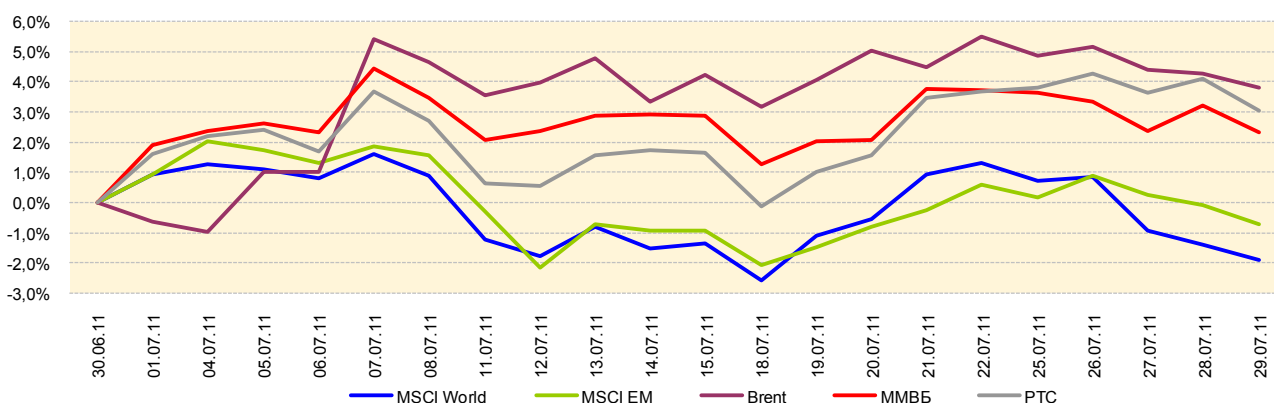


**Securities market of IDGC of Centre, JSC  
In July, 2011**

Moscow, August 2011

## International and Russian share markets

The world markets of stocks have finished July with decrease: the index of developed countries MSCI World has lost 1,9%, the index of emerging markets MSCI EM has gone down by 0,7%. Negative dynamics of stock markets in July has been caused by debt problems of the eurozone and the USA and weak American macroeconomic statistics.



The primary factor of anxiety of investors throughout all the month were the debt problems of the eurozone which has become by an occasion to variety of negative stocks of rating agencies.

In particular, in the beginning of the month Moody's agency lowered the rating of Portugal at once by four steps – below investment level, having specified the risk of necessity of the new financial aid to the country in case of impossibility of its returning to the market of loans. In the middle of the month the list of the countries with "garbage" rating by Moody's was added with Ireland – the growing probability of attraction of creditors of the country to easing its debt burden became the reason of the downgrading.

The problem of Greece was also under steadfast attention of rating agencies during the reporting period – in the beginning of July S&P declared that reinvesting of the financial companies of receipts from paid off Greek state bonds into new debts can lead the country to the condition of "selective default» that became the reason of changing the date of the decision of EU on the additional aid package for Greece.

In the middle of the month Fitch agency lowered Greece rating by three steps – to predefault level «CCC», having specified the absence of a new, causing trust and completely financed program of the country rescue.

In the middle of July the markets positively apprehended the coordination of the European leaders who gathered for the emergency summit, the new plan of rescue for Greece and a series of measures of support of the European member states problem. Greece will receive from the European fund of financial stability (EFSF) and IMF nearly €109 billion within the next three years at 3,5% annual rate with simultaneous prolongation of term of credits up to 15-30 years. The voluntary exchange of bonds by private creditors for new ones with terms of repayment of 15-30 years also is supposed.

The decisions of the last summit also essentially expanded the EFSF functionality – the fund can help the eurozone countries in banks recapitalization, and also conduct operations in the debt market. In particular, at the expense of buying up of a part of state papers of Greece at current low market prices it is planned to lower the sum of the Greek debt by €12,6 billion.

Nevertheless, Moody's and S&P agencies continued decreasing the ratings of Greece, grounding these decisions by adverse for investors conditions of re-structuring of debts and remaining risks of the default for new papers.

Essential pressure upon the markets in July was rendered by speculations concerning ability of Italy independently to serve its huge debt in the amount of \$2,3 trillion – almost 120% of gross national product, which resulted in the growth to the maximum values of spreads of state papers of Italy to bonds of Germany and approaching the profitableness of 10-year-old Italian bonds to prohibitive for market loans of 7% level.

The contribution to pessimism increase in stock markets in the reporting period was brought also by succession of events around debt problems of the USA – the country appeared on the verge of the technical default provoked by inability of the US president and leaders of republicans in the Congress to settle terms of increase of the debt ceiling. The deadline is the 2<sup>nd</sup> of August, – it is supposed that, since this date, the Ministry of Finance will no longer have possibilities for financing of state expenses in full. All it became an occasion to negative rating actions of Moody's and S&P agencies, which put the USA ratings on revision with downgrade possibility.

The key American statistics published in July disappointed investors. Unemployment in June grew up to 9,2% - a maximum level in 2011, and the increase in number of workplaces became minimum for nine months. Growth of gross national product of the USA following the results of the second quarter reached 1,3% instead of expected 1,8%, thus rates of increase of economy in the first quarter were reconsidered from 1,9% to 0,4%.

The good corporate reporting of the largest world companies, first of all, the American ones kept the markets from more essential decrease. According to Bloomberg, about 75% of the companies from S&P 500, which published their statements, reported profit and revenue above expectations of analysts.

Dynamics of the Russian market which finished July with growth by 2,3% in Moscow Interbank Stock Exchange index, throughout the whole month looked better than dynamics of the developed markets that basically was promoted by the stable oil prices. The own news background had moderately positive character, having given certain support to our market.

Promulgation of preliminary offers of the government about expansion of the program of sale of state assets in 2012-2016 became the main internal event of the reporting period for the Russian market. It is planned that the state during this period annually will sell assets more than for 1 trillion, completely having left shares in 14 companies and having reserved in four of them the special right – "the golden" share.

From the data published by Rosstat for June it is possible to note the following:

- growth of manufacturing output reached 5,7%;
- the prices of manufacturers decreased by 2,2% – the deflation is recorded for the first time from the beginning of the year;
- growth of investments into fixed capital reached 4,7% in comparison with June, 2010;
- monetary income of the population grew up to 0,7% in comparison with June, 2010;
- unemployment decreased to 6,1% from 6,4% in May;
- the turnover of retail trade for June grew by 5,6%.

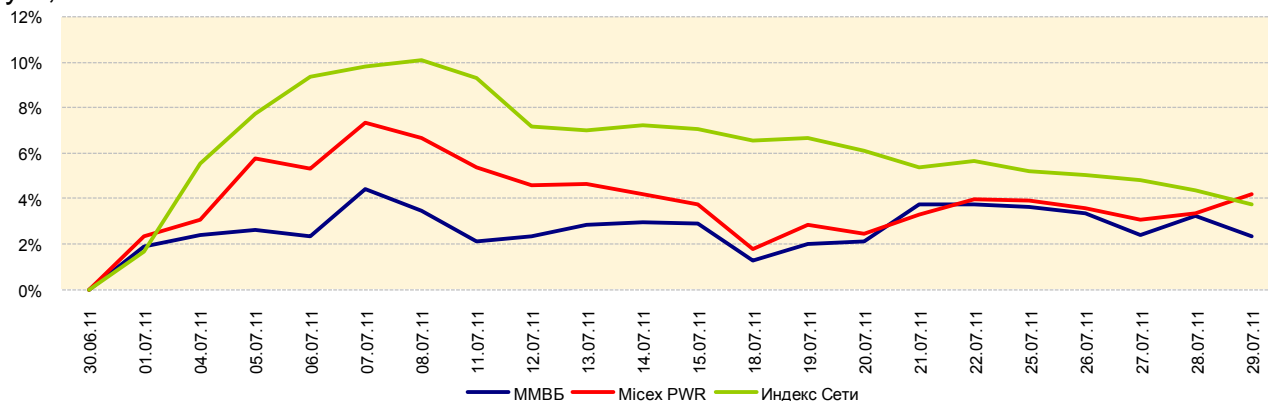
According to Rosstat, gross national product in I quarter increased by 4,1% in comparison with the similar period of last year. By estimations of Ministry of economic development and trade, growth of gross national product of the Russian Federation in the first half of the year reached 3,9% in comparison with the similar period of last year. In the second half of the year, according to the head of the ministry, gross national product growth will be accelerated to level approximately of 4,5%.

The bank of Russia informed on delay of outflow of the capital from Russia in the second quarter down to \$9,9 billion from \$21,3 billion in the first, following the results of the half-year outflow reached \$31,2 billion. Under forecasts of the Central Bank of the Russian Federation the outflow of the capital from the country in 2011 will reach \$35 billion, in 2012 inflow of \$10-15 billion is expected

### **The share market of the electric power industry companies**

The companies of electric power industry sector in the reporting period have shown advancing growth in comparison with the wide market: index MicexPWR has on monthly results raised by 4,2% while the Moscow Interbank Stock Exchange index added 2,3%. The

Network index, reflecting dynamics of stocks of the electric distribution companies, increased by 3,7%.



Source: the Moscow Interbank Stock Exchange, RTS, DKT calculations

The statement of deputy minister of the Ministry of economic development and trade, A. Klepach, that from the newly prepared variants of growth of tariffs by the ministry on the electric power in 2012-2014 – in binding to inflation and «inflation +» – the department nevertheless suggests to take the second variant for a basis while making the budget, became key news of the reporting period to the companies of electric power industry sector in the beginning of July.

According to the ministry offer, in 2012 tariffs will be raised by 10–11% year by year (instead of expected before 13%), in 2013 – by 7–10% (instead of 12%), in 2014 – by 9–11% (9,5%). This information was the main driver of growth of the generating companies and industry index MicexPWR – the share of generators in it is about 70%.

On this background the initiatives of Federal Tariff Service and Ministry of economic development and trade, which suggested to keep at current level the limiting prices at competitive selection of capacity for 2012, have not rendered essential influence on moods of participants of the market investing in the stock of the generating companies.

On the other hand, the same offers of Ministry of economic development and trade became the main reason of decrease in stock quotes of the electric grid companies – for holding the rise in prices for electric power in the declared limits rates of increase of tariffs for grid companies can be in 2012 4-6% (before it was supposed to be 14-15%), in 2013 – 4-6,5% (17-18%), in 2014 - 4-6,5% (16-17%).

The information on signing by Gazprom and Renova of the agreement on intentions to unite power assets of the companies became another piece of news which appeared in the centre of attention of participants of the market in the beginning of the reporting period. If the transaction takes place, the largest power company will be created in Russia, the installed electric capacity of its plants will make more than 50 GW. It is planned that Gazprom in the incorporated company will possess 75% minus 1 share, Renova – 25% plus 1 share.

The first comments of analysts for this information looked neutrally enough. Nevertheless, experts relate the actual leave of the largest private investors from the industry on the background of toughening of the sector regulation, strengthening of concentration of power assets under state control, competition decrease in the market to a number of negative consequences of this transaction.

At the end of the reporting period the address of general directors of Russian daughter companies of E.On, Enel and Fortum with the letter to the first vice-premier I. Shuvalov became one of the main events, under whose supervision the expert group «Reform of natural monopolies» develops an alternative model of functioning of the Russian power market. «We believe that offers of the expert group on change of the wholesale market cannot be considered as a comprehensible alternative of the existing model»: they do not solve issues of investments stimulation into modernisation of plants and «bear in itself risks

of further decrease» of investment appeal of the industry, quotes Vedomosti the extracts from the letter.

It already the second similar reference of E.On, Enel and Fortum to the government of the Russian Federation – in March in the letter directed to the prime minister, the company paid attention that government plans on restraint of tariffs for the electric power cause misunderstanding and alarm as «allow an occasion to doubt firmness» of the rules established earlier.

Among other news of electric power industry sector it is possible to note the following:

- the state does not intend to return to the power companies that volume of income which was reduced in the beginning of 2011 within the limits of measures on restraint of rates of increase of the prices for electric power within 15%, stated the head of department of Ministry of Energy, V.Nikonov. The government will define in the end of 2011 - the beginning of 2012 whether the income in 2012 will be reduced or not, informed the director of department of the industry and infrastructure of the government of the Russian Federation, M.Sokolov;
- the working group of Ministry of Energy in September-October of the current year expects to develop the decisions connected with issues of development of own generation by large consumers, declared deputy minister of Ministry of Energy, A. Shishkin. As the head of department, S. Shmatko, informed earlier, the ministry intends to create economic stimulus not to let mass change of oil and gas sector to own generation;
- the Government of the Russian Federation expects that in 2011 essential growth of power consumption – up to 10% will be observed, informed the director of department of the industry and infrastructure, M. Sokolov. Before Ministry of Energy informed that it expected an increase of power consumption during the current year at level more than 2%;
- the power companies in 2011 plan to commission 6,4 GW new capacities in the Russian Federation, the prime minister of the Russian Federation, V. Putin, declared on Monday during the videoconference on start-up of new power units at the Surgut state district power plant. In 2012 commissioning of up to 7,8 GW new capacities is planned in Russia, informed the prime minister, having added that Russia already practically reached the pre-crisis level on volume of input of power capacities.

## The share market of distribution grid companies

Dynamics of distribution grid companies in July was with raised volatility.

In the beginning of the month the negative for sector tariff decisions offered by Ministry of economic development and trade which, according to a number of analysts, can cause revision of parameters of RAB-regulation, were much compensated by the increased confidence of inevitability of privatisation of the distribution grid companies.

Making comments on tariffs for the grid companies, deputy minister, A. Klepach, informed that «all these measures regarding the grid companies will require institutional changes». Analysts of Troika Dialog and VTB Capital, having paid attention to this statement, assumed that in this case the speech could go about privatisation of the distribution grid companies which was traditionally considered by participants of the market as the main driver of growth of their cost in a long-term run. Essentially more pessimistic estimation of the current situation was presented by JPMorgan analysts. In their opinion, privatisation in these conditions will be attractive only to the players possessing some administrative resources (politically well connected players) which can get assets at a low price. Thus participation of large strategic players of the industry with the existing uncertainty, JPM believes, is scarcely probable.

At the same time, according to the head of IDGC Holding, privatisation can begin in 1,5-2 years. As N. Shvets informed Interfax, at the first stage it is possible to sell 1-2 companies for creation of benchmarking conditions. «We plan to declare competition, to make the decision at state level for one IDGC. We will prepare all materials to conduct a tender, and all will depend on what investor will be declared to participate in this tender», - he stated, having added that one of conditions of privatisation of IDGC is steady tariff regulation.

As to the corresponding restraint of tariffs the change of RAB-regulation parameters, that is the prospect of their revision towards decrease came to the foreground in the middle of the reporting period, having put pressure upon quotations of the distribution grid companies. In particular, JPM analysts estimate decrease in RAB amount in a range from 10% for MOESK and up to 50% and more for IDGC of Volga, IDGC of Northwest, IDGC of Siberia and Lenenergo. Under forecasts of experts, RAB for IDGC Holding can decrease by 37%. At the same time reduction of investment programs of IDGC which possibility was mentioned by I. Sechin could become some positive background for quotations of the companies, according to industry analysts. «Decrease is possible, including in the grid complex. It is necessary to conduct such work, its potential is big», - the vice-premier stated.

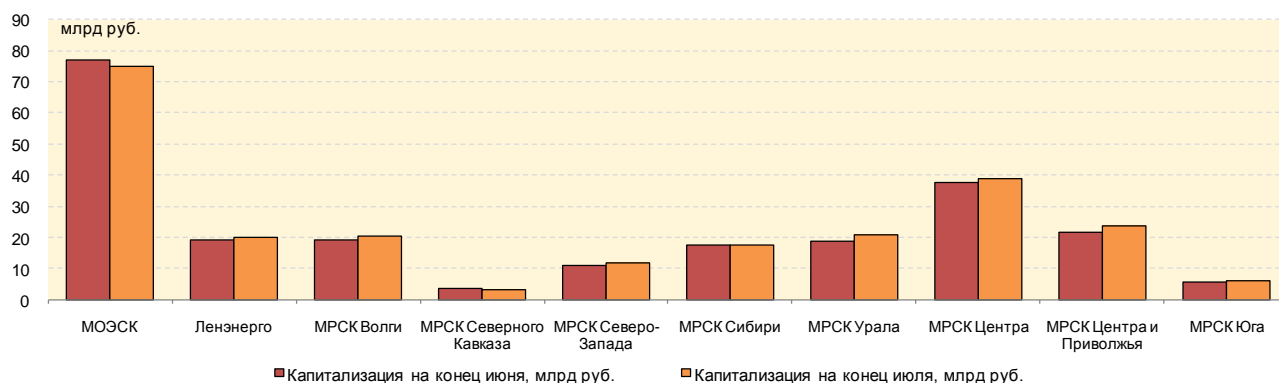
At the end of the reporting period pressure on the distribution grid companies was given by comments of the director of department of industry and infrastructure of the government, M. Sokolov, who informed that the government will define the reduction of income of the power companies 2012 at the end of 2011 – at the beginning of 2012, thus most probable is reduction of rates of increase of the tariff of the grid companies both IDGC and FGC. Answering the question, whether the RAB-tariff of the grid companies can be reconsidered, he told: «I do not exclude such a possibility now».

Probable decrease in tariffs of IDGC is considered also in another aspect – within the problem solving of the leave the wholesale power market by large consumers, basically, by oil and gas companies, which consider some possibility of constructing their own capacities. As one of the main reasons of such state of affairs, according to Interfax, Ministry of Energy names the growth of the grid component in electric power tariffs. «The compromise between consumers and producers will be found in strong restriction of grid tariffs», – BCS experts are convinced.

On the following diagram the results of change of IDGC capitalisation in the reporting period are presented:



Department on interaction with shareholders of IDGC of Centre, August, 2011



Source: the Moscow Interbank Stock Exchange, DKT calculations

Following the results of July capitalisation of the majority of IDGC grew, the exception was IDGC of North Caucasus and MOESK, which lost 5,7% and 2,8% accordingly. IDGC of Urals, IDGC of Center and Volga and IDGC of Northwest showed the best dynamics and added 10,1%, 7,8% and 6,9% accordingly.

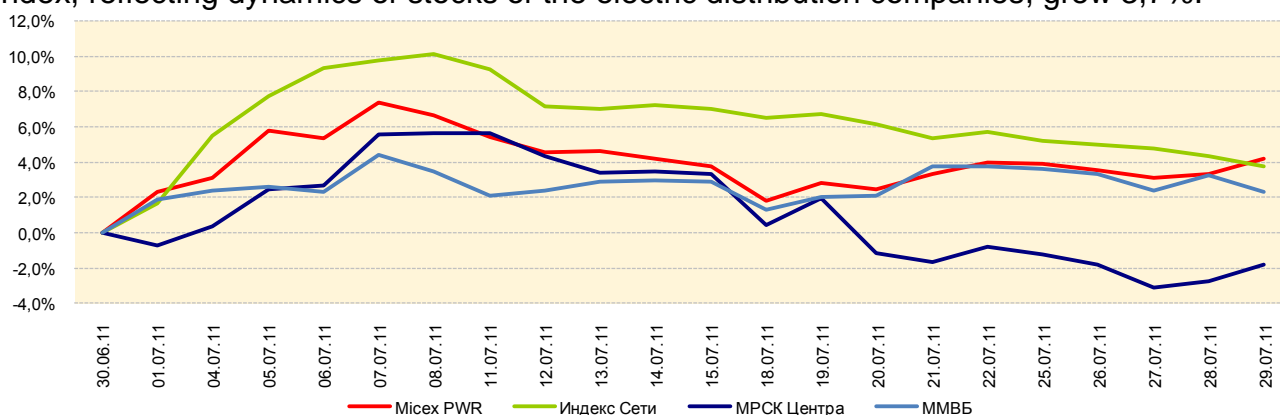
The capitalisation IDGC of Center grew 2,3%.

The values of capitalisation of IDGC at the end of June and July, 2011 (the average prices for the Moscow Interbank Stock Exchange), and also change for the month is presented in the table:

| Company                  | Capitalisation, billion rbl.<br>(the average prices at the Moscow<br>Interbank Stock Exchange) |                | Change for<br>the<br>month, % |
|--------------------------|--|----------------|-------------------------------|
|                          | As of 30.06.11   | As of 29.07.11 |                               |
| MOESK                    | 77,1   | 75,0           | -2,8%                         |
| Lenenergo                | 19,1   | 20,0           | 5,0%                          |
| IDGC of Volga            | 19,4   | 20,5           | 6,1%                          |
| IDGC of North Caucasus   | 3,5  | 3,3            | -5,7%                         |
| IDGC of North-West       | 11,0   | 11,8           | 6,9%                          |
| IDGC of Siberia          | 17,4   | 17,5           | 0,5%                          |
| IDGC of Urals            | 19,0   | 20,9           | 10,1%                         |
| IDGC of Center           | 37,8   | 38,7           | 2,3%                          |
| IDGC of Center and Volga | 21,8   | 23,5           | 7,8%                          |
| IDGC of South            | 5,9  | 6,0            | 1,3%                          |

### The share market of IDGC of Centre

The stocks of IDGC of Center have finished the month with decrease in quotations by 1,8% on the prices of last transactions at the Moscow Interbank Stock Exchange. The Network index, reflecting dynamics of stocks of the electric distribution companies, grew 3,7%.



Source: the Moscow Interbank Stock Exchange, DKT calculations

In July dynamics of IDGC of Center stocks essentially lagged behind dynamics of MicexPWR index and the Network Index.

The characteristic of volumes of the trades of the stocks of IDGC of Center at the Moscow Interbank Stock Exchange and RTS stock exchanges in the reporting period is presented in the table:

| Stock Exchange                  | Quantity of transactions | Volume, pieces | Volume, million rbl. |
|---------------------------------|--------------------------|----------------|----------------------|
| RTS (classical) <sup>1)</sup>   | 3                        | 14 820 000     | 13,89                |
| RTS (stock exchange)            | 1                        | 20 000         | 0,02                 |
| MOSCOW INTERBANK STOCK EXCHANGE | 3 356                    | 89 704 000     | 85,86                |

1) - including transactions with specified counterparties

In July only 4 transactions for the sum of 13,89 million rubles were concluded at RTS. The main trades passed at the Moscow Interbank Stock Exchange stock exchange where the turnover of stocks of IDGC of Center was made up to 89,7 million pieces or 0,21% from the total amount of shares of the Company. The turnover of the Company's shares in July in comparison with the last month decreased 31%. The daily average volume of the trades was made up to about 4,3 million pieces whereas last month the given indicator was at level of 6,2 million pieces.

For stocks of IDGC of Center the average bid-ask spread has decreased from 0,64% to 0,33%. The maximum spread for the period reached 0,86% (on July, 14th), and the minimum value of the spread was 0,01%.

Among the news for IDGC of Center in the reporting period it is possible to note the information that the company in I half of the current year directed 5,5 billion roubles (including VAT) on financing its investment program — 1,7 times more than for the similar period of 2010. In 11 regions of the company from the beginning of the year 1 047 km of power lines (30% more than in I half of last year) were constructed and 258 MVA transformer capacity was commissioned (the growth was 19%).



## Outlook and recommendations of share analysts of IDGC of Centre and opinion on distribution grid companies as a whole

The information on current recommendations of analysts of the investment companies is presented in the table (colour shows original estimations, without converting into other currency):

| Компания  | Оценка (прогноз) |                   | Потенциал роста | Дата обновления | Рекомендация <sup>4</sup> |
|---|------------------|-------------------|-----------------|-----------------|---------------------------|
|   | \$               | руб. <sup>2</sup> |                 |                 |                           |
| <b>Оценки в рублях</b>                                |                  |                   |                 |                 |                           |
| 1 Открытие  | 0,049            | 1,340             | 44%             | 23.06.2011      | Покупать                  |
| 2 Deutsche Bank                                       | 0,072            | 1,990             | 114%            | 03.05.2011      | Покупать                  |
| 3 Метрополь   | 0,077            | 2,130             | 129%            | 26.04.2011      | Покупать                  |
| 4 Газпромбанк   | 0,057            | 1,570             | 69%             | 18.04.2011      | Покупать                  |
| 5 Русс-Инвест   | 0,066            | 1,813             | 95%             | 29.03.2011      | -                         |
| 6 Алемар  | 0,049            | 1,350             | 45%             | 28.03.2011      | Держать                   |
| 7 Morgan Stanley                                      | 0,054            | 1,500             | 61%             | 31.01.2011      | equal-weight              |
| <b>Оценки в долларах США</b>                          |                  |                   |                 |                 |                           |
| 8 Goldman Sachs                                       | 0,049            | 1,352             | 45%             | 15.07.2011      | Покупать                  |
| 9 Rye, Man & Gor Securities                           | 0,063            | 1,738             | 87%             | 11.07.2011      | Покупать                  |
| 10 ТКБ Капитал  | 0,0641           | 1,769             | 90%             | 03.03.2011      | Покупать                  |
| 11 ВТБ Капитал  | 0,088            | 2,428             | 161%            | 17.02.2011      | Покупать                  |
| 12 Альфа-Банк   | 0,066            | 1,821             | 96%             | 25.01.2011      | Выше рынка                |
| 13 Unicredit  | 0,0654           | 1,804             | 94%             | 22.12.2010      | Покупать                  |
| 14 JP Morgan  | 0,0484           | 1,335             | 44%             | 03.12.2010      | Neutral                   |
| 15 Банк Москвы  | 0,047            | 1,297             | 39%             | 02.12.2010      | Держать                   |
| 16 Ренессанс Капитал                                  | 0,0484           | 1,335             | 44%             | 30.06.2010      | Покупать                  |
| 17 Атон   | 0,0643           | 1,774             | 91%             | 02.06.2010      | Покупать                  |
| <b>Оценки на пересмотре и не входящие в консенсус</b> |                  |                   |                 |                 |                           |
| 18 Тройка Диалог <sup>1</sup>                         | 0,052-0,069      |                   |                 | 04.03.2011      | -                         |
| 19 Citi   |                  |                   |                 |                 | Пересмотр                 |
| 20 Уралсиб  |                  |                   |                 |                 | Пересмотр                 |
| <b>Консенсус</b>                                      | <b>0,060</b>     | <b>1,667</b>      | <b>79%</b>      |                 |                           |
| Текущая цена <sup>3</sup>                             |                  | 0,93              |                 |                 |                           |

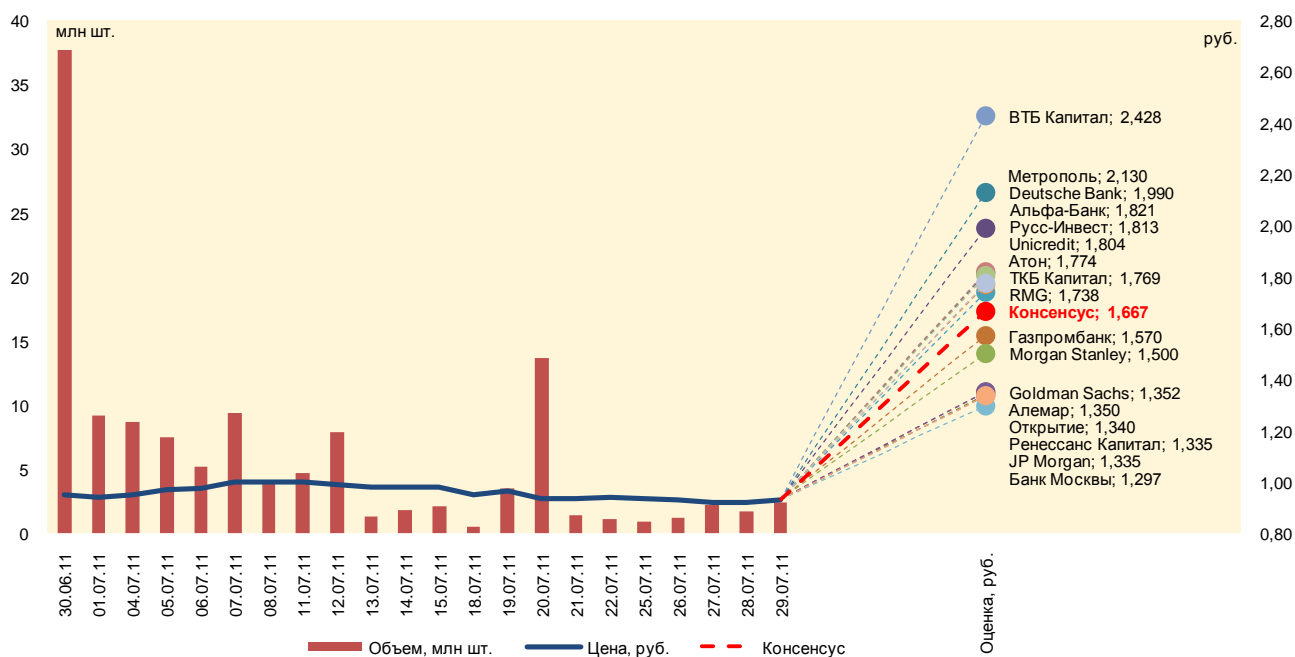
*Source: the Moscow Interbank Stock Exchange, quote.ru, DKT calculations, reports of analysts*

1. The estimation of Troika Dialog - an indicative price range - is not included in consensus calculation
2. At the rate of RUR/US dollar for 29.07.11
3. The final price of the Moscow Interbank Stock Exchange of 29.07.11
4. neutral - definition of JP Morgan - the expectation that throughout the next 6-12 months the income under this stock will be comparable to average gain under stocks of the companies of the industry "covered" with the given analyst (or a team of analysts); equal-weight - definition of Morgan Stanley – the expectation that throughout the next 12-18 months the income under this stock (value growth + dividend yield) will be up to standard average return under stocks of the companies of the industry "covered" with the given analyst (or a team of analysts);

The rouble potential of growth of stocks of IDGC of Center as of the end of the reporting period in comparison with the end of last month has not changed and was 79%.

Graphical estimations of stocks of IDGC of Center by analysts of the investment companies and consensus-outlook looks as follows:

Department on interaction with shareholders of IDGC of Centre, August, 2011



Source: the Moscow Interbank Stock Exchange, quote.ru, SPARK, DKT calculations

In the reporting period:

- RMG Experts conducted revaluation of the distribution grid companies sector: «*Transition to RAB was the basic driver for papers of the grid companies last year, but the current control of the state over rates of increase of tariffs undermines economic essence of new pricing. We have updated estimations of IDGC by Discounted Cash Flows method taking into account the results for 2010 and the reconsidered outlooks of growth of revenue of the companies*», - is told in the review. As a result experts have raised the look-ahead share value of IDGC of Center from \$0,04 to \$0,063. The recommendation is raised from "hold" to "buy".

- Goldman Sachs analysts reduced the 12-month target price for IDGC of Center stocks by 29%, from \$0,069 to \$0,049, the recommendation remained without changes - "buy".

The ground for such essential decrease in estimations was the updated models for distribution grid companies – with application of multiplier EV/EBITDA for 2011P and RAB costs with approach weights of 50:50. According to the experts, considering the current uncertainty concerning tariff decisions which, possibly, will remain up to the elections, the estimation by DCF method based on the long-term outlook of tariffs, cannot be applied in view of essential risk of change of RAB-methodology or revision of key parameters – RAB base and return on the invested capital.

In the updated models analytics also included the IFRS reporting for 2010, the lowered tariff for 2011 and the new estimation of investment programs based on the conservative outlook of rates of increase of tariffs in 2012-15 – insignificantly above inflation at level of 8-10%. As a result the experts came to essential – average by 38,5% – reduction of EBITDA outlook of distribution grid companies for 2011-13

- Citi estimation was excluded from the consensus-outlook in connection with the termination of the bank covering of the Russian electric power industry companies.

Changes of estimations/ratings for IDGC of Center stocks are presented in the table:

| № | Банк          | Дата       | Значение оценки |             |           | Рекомендация |             |
|---|---------------|------------|-----------------|-------------|-----------|--------------|-------------|
|   |               |            | Предыдущее      | Обновленное | Изменение | Предыдущая   | Обновленная |
| 1 | RMG           | 11.07.2011 | \$0,04          | \$0,063     | 58%       | Держать      | Покупать    |
| 2 | Goldman Sachs | 15.07.2011 | \$0,069         | \$0,049     | -29%      | Покупать     | Покупать    |

Thus, at the end of July analytical covering for IDGC of Center stocks is carried out by eighteen banks and investment companies, five of which belong to global broker houses.

Department on interaction with shareholders of IDGC of Centre, August, 2011

Besides, two estimations – from Uralsib and Citi – at the moment are on revision. The estimation of Troika Dialog is presented as an indicative range of the prices.