

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



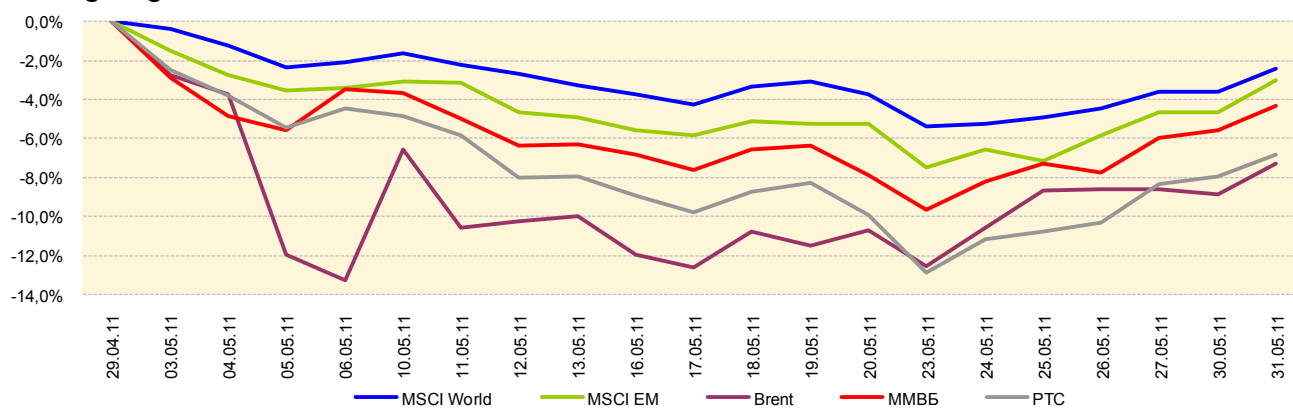
**Securities market of IDGC of Centre, JSC
in May 2011**

Moscow, June 2011

International and Russian share markets

The world markets of stocks have finished May with decrease: the index of developed countries MSCI World has lost 2,4 %, the index of emerging markets MSCI EM has gone down to 3,0 %. Pressure upon the markets in May was given by debt problems of the developed countries, and also reduction of prices of raw goods.

Advancing negative dynamics of emerging markets is still caused by the proceeding toughening of the monetary and credit policy of developing countries and growth of fears of slowing down of increase of rates of their economy. In May the Central Bank of India after the Central Banks of Brazil and Russia raised interest rates momentarily by 0,5 points, and the Ministry of Finance of India lowered forecasts on rates of increase of the national economy in 2011 from February 9,25 % to 8 %. Besides, in the accounting period Goldman Sachs lowered the forecast of growth of economy of China during the current year to 9,4 % from 10 %, to 9,2 % from 9,5 % in 2012 and simultaneously raised the forecast concerning the rate of inflation in the country up to 4,7 % against the former one of 4,3 %. According to experts, measures of the government of the country on prevention of overheating of the economy are starting to give effect.



Source: the Moscow Interbank Stock Exchange, RTS, Bloomberg

In the beginning of the month pressure upon the markets was due to the collapse of cost of raw assets in consequence of falling euro against dollar – in the background of soft rhetoric of the head of ECB at a press conference following the results of the bank session in which investors have not seen readiness for continuation of increase of interest rates in the near future, and also on speculation about a possible leaving the euro zone by Greece and returning to its own drachma on what the edition Der Spiegel informed. The last information, however, was categorically denied by representatives of the EU authorities.

Nevertheless, the downgrade by S&P agency of the country ratings by 2 steps, placing of the Moody's ratings on revision with possibility of the further downgrade, and also the downgrade by Fitch agency of ratings of Greece by 3 steps became a sign of continuation of deterioration of the situation with the Greek debts. Actions of the rating agencies concerning Greece, and also change of the S&P forecast on the rating of Italy to "negative", similar downgrade of the Fitch ratings forecast on Belgium and placing for revision by agency Moody's of ratings of 14 British banks with a possibility to decrease further together with decrease by S&P the forecast on ratings of 4 banks of Italy to "negative" put pressure upon the markets till the end of the month.

Uncertainty concerning concrete measures to help Greece remained till the end of May. At the meeting of Ministers of Economics and Finance of the countries of the eurozone, which took place in the middle of the month, at which the financial aid to Portugal in the amount of €78 billion was agreed upon, re-structuring of debts of Greece was the main unofficial question – the idea of negotiations for the first time was discussed with holders of the Greek bonds about prolongation of term of the securities circulation. In the end of May at first there were statements on toughening of granting aid to Greece being prepared by the European Union, a bit later The Wall Street Journal informed that Germany, possibly, nevertheless will

support granting a new portion of credits to Greece. This information, among other things, allowed the world markets to win back a part of losses in the end of the month.

From the middle of May the USA problems were added to the debt problems of Europe– the country state debt had reached the limits defined by the legislation – \$14,29 trillion and in this connection the Ministry of Finance declared the termination of release of promissory notes.

The macroeconomic statistics of May had ambiguous character and could not influence the markets significantly. From the coming data investors paid attention to the maximum for last year falling of retail sales in the eurozone in March, and also the invariable estimation of growth of gross national product of the USA in I quarter with expectations of its increase. At the same time the data on consumer trust in the USA in May surpassed the expectations, the preliminary data in terms of the gross national product of France and the eurozone following the results of the first quarter and growth of workplaces in the USA in April became maximum for last five years. Besides, the growth of retails in Germany in April exceeded the expectations more than twice, and unemployment in the country fell down in May to its minimum from 1991. The final data on the growth of gross national product of Great Britain and Germany in I quarter and on business trust in Germany in May came at the forecast level.

Dynamics of the Russian market which had lost 4,3 % in May with its index of the Moscow Interbank Stock Exchange, looked worse than dynamics of MSCI World and MSCI EM indexes. Pressure upon domestic indexes, among other things, caused decrease in quotations of the oil prices. The negative information on the start of outflow of cash from the funds investing into Russia - according to Emerging Portfolio Fund Research, from May 5th till May 25th the outflow of the capital from the funds investing in the stocks of the Russian Federation and CIS countries amounted to \$685 million.

Own news background had versatile character and could not make any essential impact on dynamics of stock markets. The data published by Rosstat following the results of April had ambiguous character:

- industrial production growth was below forecasts and was at 4,5 % in annual expression – the minimum value for last 16 months;
- for the first time this year in annual expression investments into fixed capital have grown, growth was at 2,2 %;
- real monetary incomes of the population have fallen down to 6,5 % by April, 2010;
- after two months of decrease the rate of unemployment has increased to 7,2 %;
- the turnover of the Russian retail trade has grown by 5,6 % in annual expression.

According to Rosstat, gross national product of the Russian Federation in I quarter 2011 has grown in comparison with the similar period of last year by 4,1 %. Under forecasts of Ministry of economic development and trade, in 2011 the economy of Russia will grow by 4,2 %, economists of the Organization of economic cooperation and development (OECD) are more optimistic, who raised the forecast of growth of gross national product in 2011 up to 4,9 % from the former estimation of 4,2 % .

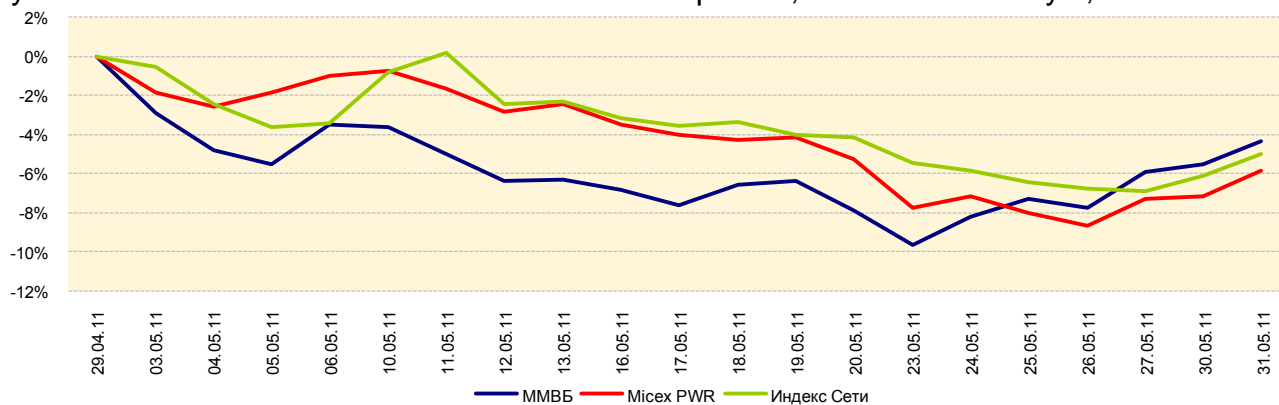
Besides, the Ministry of Finance has informed on proficit of the federal budget following the results of January-April at level of 0,9 % of gross national product, and Rosstat – has revealed the data on inflation: from May 1st till May 30th it has made up to 0,5 %, from the beginning of year - 4,8 %. Following the results of the year the Central Bank expects inflation at level of 7 %, Ministry of economic development and trade - 7-7,5 %.

Pressure upon the markets was given by the information on the proceeding outflow of the capital from the Russian Federation. So, according to the first deputy of the chairman of the Central Bank of the Russian Federation, G. Melikyan, pure outflow of the capital of Russia in April achieved, by some tentative estimation, \$7,8 billion. The outflow of the capital from Russia has started to increase again - in March it was \$6,2 billion, and total for the first quarter - \$21,3 billion.

In the end of the month the Central Bank of the Russian Federation kept the rate of refinancing without change and raised depositary rates by 0,25 points. As it was explained in the Central Bank statement, «the specified decision is adopted taking into account the preservation of high level of inflationary expectations and risks for stability of economic growth».

The share market of the companies of electric power industry

The companies of electric power industry sector in the accounting period have shown decrease: index MicexPWR following the results of the month has decreased by 5,9 % while the Moscow Interbank Stock Exchange index has lost 4,3 %. The Network index, reflecting dynamics of stocks of the electric distribution companies, has decreased by 5,0 %.



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

Negative dynamics of the industry index MicexPWR during the whole month was caused by uncertainty concerning the governmental decisions on the measures directed on reduction of prices of electric power. Tariff decisions for 2011 which should have been approved by the end of April, and were not published last month. Moreover, in the accounting period the head of Federal Tariff Service declared that rate of increase of the final prices for electric power in 2011 taking into account measures on restraint will make 8-9 % instead of provided earlier 15 % confirmed by the forecast of social and economic development.

According to experts of Unicredit, the given news will strengthen already developed negative moods of investors in relation to the industry companies. As experts of the bank believe, change of regulation and methods of definition of parameters of a long-term rise in prices for natural gas and electric power raises uncertainty of industries, and also increases intermediate term and long-term risks of regulation for investors.

In the end of the accounting period additional pressure upon stocks of the companies of the sector was given by the information that the state can strengthen its presence in the power industry – in view of concern of impossibility of the power companies independently to implement modernisation of assets. According to Minister of Energy S. Shmatko, the state has a sufficient financial resource to support the industry.

Industry analysts have unequivocally negatively reacted to the given news, having noted growth of risks in the sector. According to experts, the problem is especially sharp that the government has already decided to limit a rise in prices for the electric power for end users in 2011, having reconsidered tariffs of the generating and grid companies. Besides, experts have paid attention to the possible revision of prospects of the sector of the Russian electric power industry connected with the governmental initiatives by private investors, the information which appeared in mass-media on intention of ONEXIM to sell TKG-4 to Russian Open Joint Stock Company Holding Inter UES became an occasion.

It was possible to reduce losses to stocks of the companies of the sector in the last days of May – at the background of restoration of the market after its being essentially oversold, observed throughout the entire month.

Additional pressure upon stocks of the generating companies was given by the information that Market Council decided to apply penalties for the first time to them for untimely commissioning of the new capacities which are under construction per contracts on provision of capacity. On the other hand, support could be given to stocks of generating companies by the statement of the chairman of the board of NP «Market Council», D. Ponomarev, that the principle of carrying out competitive selection of capacity for 2012 will be same as last year. Earlier participants of the market had negatively reacted on the appeared in the beginning of March information that principles of carrying out competitive selections of capacity could be reconsidered.

The share market of distribution grid companies

Negative dynamics of distribution grid companies in May was caused, mainly, by the increased risks connected with negative expectations of tariff decisions, and also the state intention to strengthen presence in the electric power industry.

In the beginning of the month pressure upon stocks of the companies of the sector could be given by the proposal of Federal Tariff Service to increase from 5 to 7 years the term for calculation of RAB-tariffs. According to industry analysts, the introduction in case of its approval will increase risks of reduction of profitability of the existing capital in the first years of regulation, and also will lead to decrease of EBITDA for IDGC. As it is believed in JP Morgan, reduction of the given indicator in 2011 can make from 15 to 30 %.

The short-term positive background connected with the good reporting of some companies following the results of the first quarter – IDGC of Center, IDGC of Urals, IDGC of Volga and MOESK – could not neutralize the fear of investors, and from the middle of May the quotation of distribution grid companies started falling again, also on the news about the government plans on restraint of tariffs within the limits of inflation. According to experts of Alpha bank, reduction of growth of tariffs to 8-9 % probably, basically, at the expense of smoothing of tariffs of IDGC that means slower, than was expected, growth of profit of IDGC, and, hence, will be negatively apprehended by the market.

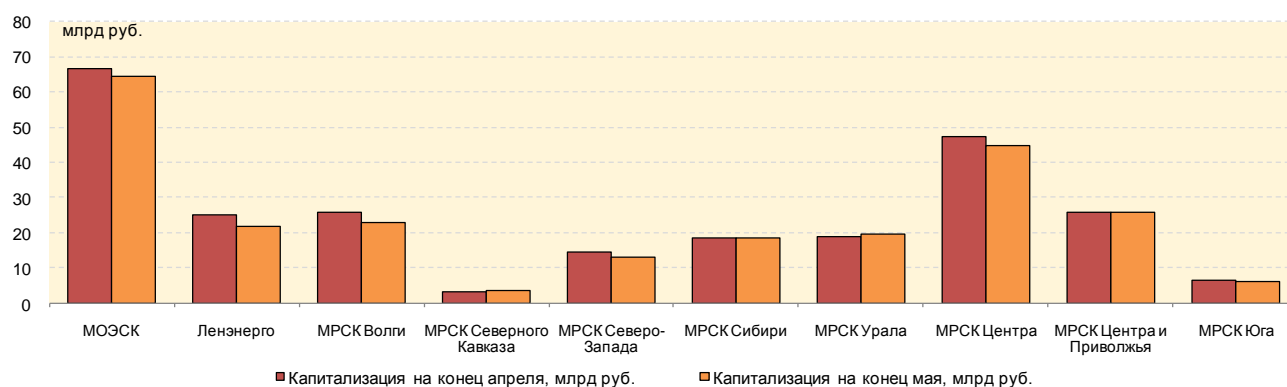
According to MOESK the decrease in the tariff gain in 2011 in connection with smoothing to tariffs for electric power delivery will result in 3,6 %, Lenenergo has estimated this indicator at level of 14,5 %.

Pressure upon stocks distribution grid companies in the end of the accounting period was given by the information on possible strengthening of presence of the state in the electric power industry. As an example, the power companies earn insufficiently to finance capital investments, Minister of Energy, S. Shmatko, mentioned the renovation program of IDGC Holding in the amount of 2,8 trillion rubles with the deficiency reaching 500 billion rubles. «They do not earn so much», - the minister has underlined. According to experts of TKB Capital risks for distribution grid companies, first of all, increase: «We believe that now in the background of the policy of restraint of growth of tariffs there is most likely to be a large scale additional issue in state companies, first of all, in the distribution sector as the main measure of the state».

From potential positive news for stocks of the companies in the distribution sector in May, which could not, nevertheless, provide support to quotations, industry analysts noted the offer of the Ministry of Energy to transfer control of IDGC of North Caucasus, IDGC of Siberia or IDGC of North-West to a foreign strategic investor till the end of the year. Thus a number of experts have specified that the basic problems of these three IDGC lie nevertheless not in the area of management.

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

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



Source: the Moscow Interbank Stock Exchange, DKT calculations

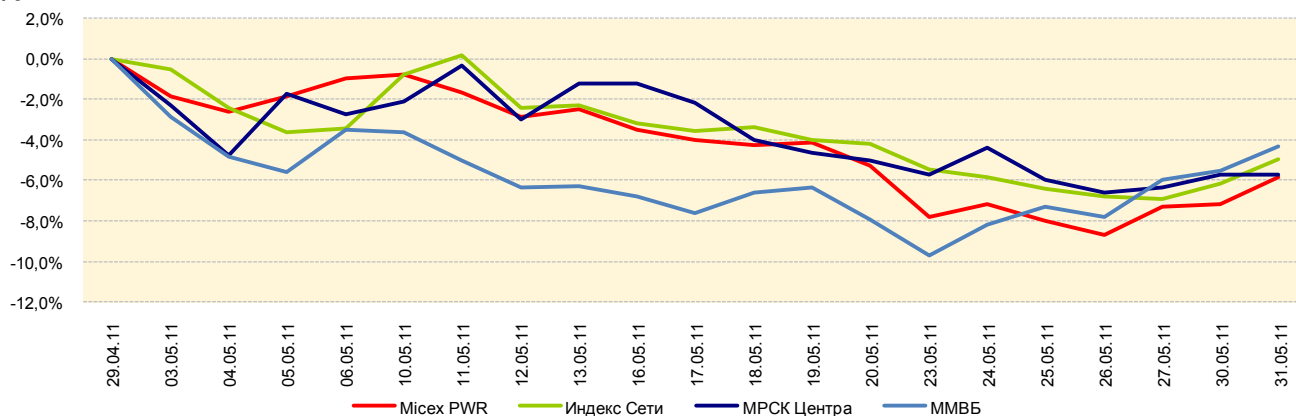
Following the results of May capitalisation of majority of IDGC has decreased, an exception is IDGC of North Caucasus and IDGC of Urals, they added 1,0 % and 3,0 % accordingly. The worst dynamics was shown by Lenenergo, IDGC of North-West and IDGC of Volga which had lost more than 10%.

Values of capitalization of IDGC at the end of April and May, 2011 (the average prices at the Moscow Interbank Stock Exchange), and also the change for the month are presented in the table:

Company	Capitalisation, billion rbl. (the average prices at the Moscow Interbank Stock Exchange)		Change for the month, %
	As of 29.04.11	As of 31.05.11	
MOESK	66,7	64,2	-3,7 %
Lenenergo	25,0	21,9	-12,3 %
IDGC of Volga	25,7	22,9	-10,8 %
IDGC of North Caucasus	3,4	3,4	1,0 %
IDGC of North-West	14,3	12,9	-10,2 %
IDGC of Siberia	18,7	18,4	-1,4 %
IDGC of Urals	19,0	19,6	3,0 %
IDGC of Center	47,3	44,7	-5,5 %
IDGC of Center and Volga	25,9	25,7	-0,8 %
IDGC of South	6,6	6,2	-6,9 %

The share market of IDGC of Centre

The stocks of IDGC of Center have finished the month with decrease in quotations by 5,7 % on the prices of last transactions at the Moscow Interbank Stock Exchange. The Network index, reflecting dynamics of stocks of the companies of the distribution sector, has lost 5,0 %.



Source: the Moscow Interbank Stock Exchange, DKT calculations

In May the dynamics of stocks of IDGC of Center as a whole corresponded to the dynamics of 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 accounting period is presented in the table:

Stock Exchange	Quantity of transactions	Volume, pieces	Volume, million rbl.
RTS (classical) ¹⁾	2	2 000 000	2,19
RTS (stock exchange)	-	-	-
MOSCOW INTERBANK STOCK EXCHANGE	1 589	97 577 000	107,17

1) - including transactions with specified counterparties

In May only 2 transactions for the sum of 2,19 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 97,6 million pieces or 0,23 % from the total amount of shares of the Company. The turnover of the Company's shares in May in comparison with the last month has grown by 19 %. The daily average volume of the trades was made up to about 4,8 million pieces whereas last month the given indicator was at level of 3,9 million pieces.

The maximum volumes of the trades were on May 12th and 23rd, 2011 – more than 70 % of the entire turnover was that day.

For stocks of IDGC of Center the average bid-ask spread¹ has grown from 0,19 % to 0,57 %. The maximum spread for the period reached 1,50 % (on May 4th), and the minimum value of the spread was 0,01 %.

Among the news of IDGC of Center in the accounting period it is possible to note the following:

- The IFRS reporting for 2010;
- The recommendation of the Board of Directors about payment of dividends;
- The RAS reporting of IDGC of Center for I quarter 2011.

The given news analysts have commented as follows:

¹The spread is calculated as (ask/bid-1)

<u>On May 3rd – IFRS reporting of IDGC of Center for 2010</u>		
<i>The gain has grown by 22,9 % and has reached 60,6 billion rbl., the net profit has increased by 142,2 % to 5,1 billion rbl.</i>		
Aton	- / =	In our opinion, the results testify to insufficient control over expenses and unprofitable tariff decisions (apparently, not under control expenses of the company, especially connected with purchases of electricity for the sake of covering of losses in the grid, have not been completely compensated). We are concerned that it will be inconvenient for IDGC of Center to obtain compensation for not under control expenses with corresponding tariff payments as in the light of forthcoming presidential election tariffs in the sector hardly will essentially grow. We note that <u>the news gives an occasion to decrease our theoretical price though we do not expect any serious reaction of the market to the presented indicators</u> because as a whole they have coincided with the consensus-forecast.
VTB Capital	=	We consider the results IDGC of Center <u>good</u> , but <u>they do not allow doing assumptions of indicators for 2011</u> as in the current year the revision of tariffs by the regulating body will be reflected in them. It will occur in a month and will cause <u>delay of rates of increase of stock quotes of the company in short-term</u> . In a long-term we keep positive estimation of IDGC of Center, the greatest influence on its prospects will be given by privatisation.
Alpha bank	=	We consider the results as <u>ambiguous</u> for IDGC of Center, but we note that the basic divergence is caused by the data about sales of the divisions pricing of which was defined by the principle «costs plus» which is not applied any more. We do not think that the market will pay too much attention to the results as the major factor defining dynamics of stocks of IDGC now, is the revision of tariffs for 2011 which will be declared in the near future.
JP Morgan	+	<i>Translation from English</i> We estimate the results as <u>strong</u> . Growth of the gain has grown due to the transition of half of regions to RAB in 2009-2010. At the same time we would like to note that the company expects the average 25 % growth of tariffs in 2011 that increases risk of revision of tariffs for the company against the government plans on 15 % restriction of rates of increase of the prices of electric power for end users in 2011. We expect clearing of the situation with tariffs by the end of May. At the same time we mark risk of transition of some regions to 7-year RAB in view of fears of delay of rates of increase of their revenues in 2011-2012.

<u>On May 4th – the Board of Directors of IDGC of Center recommended to pay dividends by the results of 2010 in the amount of 0,01447 rubles per share</u>		
Veles	=	We believe that this piece of news <u>will not affect the company quotations</u> since the dividend yield will be only 1%.
Aleamar	+	The recommended size of dividends is 1,4% from the current market price of one stock. Even taking into account the low dividend yield <u>it is good news to shareholders</u> as the majority of the companies of the sector are most likely to reject payment of dividends following the results of 2010.

<u>On May 10th – RAS reporting of IDGC of Center for I quarter 2011</u>		
<i>The company's revenue has reached 19,43 billion rbl. (+ 24 %), the net profit has grown to 2,84 billion rbl. (+79,3 %)</i>		
VTB Capital	=	IDGC of Center has presented the good reporting for Q I 2011 under RAS. With essential growth of all basic financial indicators year by year EBITDA profitability has reached 28 % that is <u>record-breaking high indicator</u> for the electric power companies. Our comment. <u>Though the presented results have appeared to be positive, they do not consider prospective changes in rates of increase of tariffs in 2011</u> which should be declared within a month and affect indicators for the remaining months of the year. According to the estimations of the management read out loud earlier, updating of tariffs, which can become the most problematic for Kursk and Tver regions, can cause decrease the EBITDA level in 2011 in the amount of 1.6 billion rbl. Nevertheless, even taking into account this measure with the lack of the further initiatives on updating of rates of increase of tariffs the EBITDA growth year by year still remains essential. We expect acceptance of the final decision about updating of tariffs for IDGC till the end of May.

Forecasts 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 ⁴
	\$	руб. ²			
<i>Оценки в рублях</i>					
1 Deutsche Bank	0,071	1,990	88%	03.05.2011	Покупать
2 Метрополь	0,076	2,130	101%	26.04.2011	Покупать
3 Газпромбанк	0,056	1,570	48%	18.04.2011	Покупать
4 Открытие	0,055	1,550	46%	12.04.2011	Покупать
5 Русс-Инвест	0,065	1,813	71%	29.03.2011	-
6 Алемар	0,048	1,350	27%	28.03.2011	Держать
7 Morgan Stanley	0,053	1,500	42%	31.01.2011	equal-weight
8 Citi	0,069	1,930	82%	08.11.2010	Покупать
<i>Оценки в долларах США</i>					
9 ТКБ Капитал	0,0641	1,799	70%	03.03.2011	Покупать
10 ВТБ Капитал	0,088	2,470	133%	17.02.2011	Покупать
11 Goldman Sachs	0,069	1,937	83%	16.02.2011	Покупать
12 Альфа-Банк	0,066	1,853	75%	25.01.2011	Выше рынка
13 Unicredit	0,0654	1,836	73%	22.12.2010	Покупать
14 JP Morgan	0,0484	1,359	28%	03.12.2010	Neutral
15 Банк Москвы	0,047	1,319	24%	02.12.2010	Держать
16 Rye, Man & Gor Securities	0,04	1,123	6%	23.08.2010	Держать
17 Атон	0,0643	1,805	70%	02.06.2010	Покупать
18 Ренессанс Капитал	0,0484	1,359	28%	03.11.2009	Покупать
<i>Оценки на пересмотре и не входящие в консенсус</i>					
19 Тройка Диалог ¹	0,052-0,069			04.03.2011	-
20 Уралсиб			Пересмотр		
Консенсус	0,061	1,705	61%		
Текущая цена ³		1,0597			

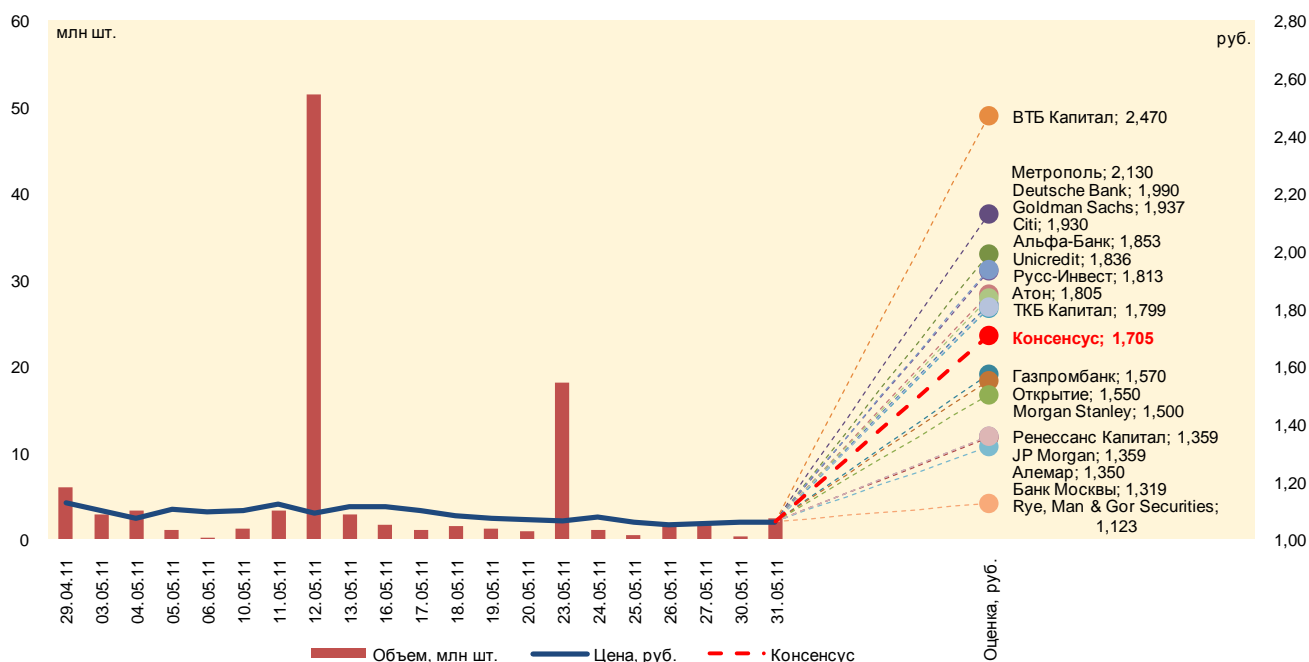
Source: the Moscow Interbank Stock Exchange, quote.ru, DKT calculations, reports of analysts

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 31.05.11
3. The final price of the Moscow Interbank Stock Exchange of 31.05.11
4. neutral - definition JP Morgan - the expectation that throughout the next 6-12 months the income under this stock will be comparable to an average return 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 (a gain cost + dividend yield) will be up to standard of an 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 IDGC of Center as of the end of the accounting period in comparison with the end of last month has grown from 50 % to 61 % that, first of all, is connected with decrease in quotations.

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

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



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

In May analysts of Deutsche Bank took into account the IFRS results of the company for 2010 in their model that resulted in updating of the estimation of the stocks of IDGC of Center. The target price was lowered from 2,03 rub. to 1,99 rub., the recommendation to "buy" remained at the previous level.

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

№	Банк	Дата	Значение оценки			Рекомендация	
			Предыдущее	Обновленное	Изменение	Предыдущая	Обновленная
1	Deutsche Bank	03.05.2011	2,03 руб.	1,99 руб.	-2%	Покупать	Покупать

Thus, at the end of May the analytical covering of stocks of IDGC of Center is carried out by eighteen banks and investment companies six of which belong to global broker houses. Besides, one estimation – from Uralsib – is on revision at the moment. The estimation of Troika Dialog is presented as an indicative range of the prices.