

**IDGC of Centre
Joint-Stock Company**



**Stock market of IDGC of Centre, JSC
in I quarter 2010**

Moscow, April 2010

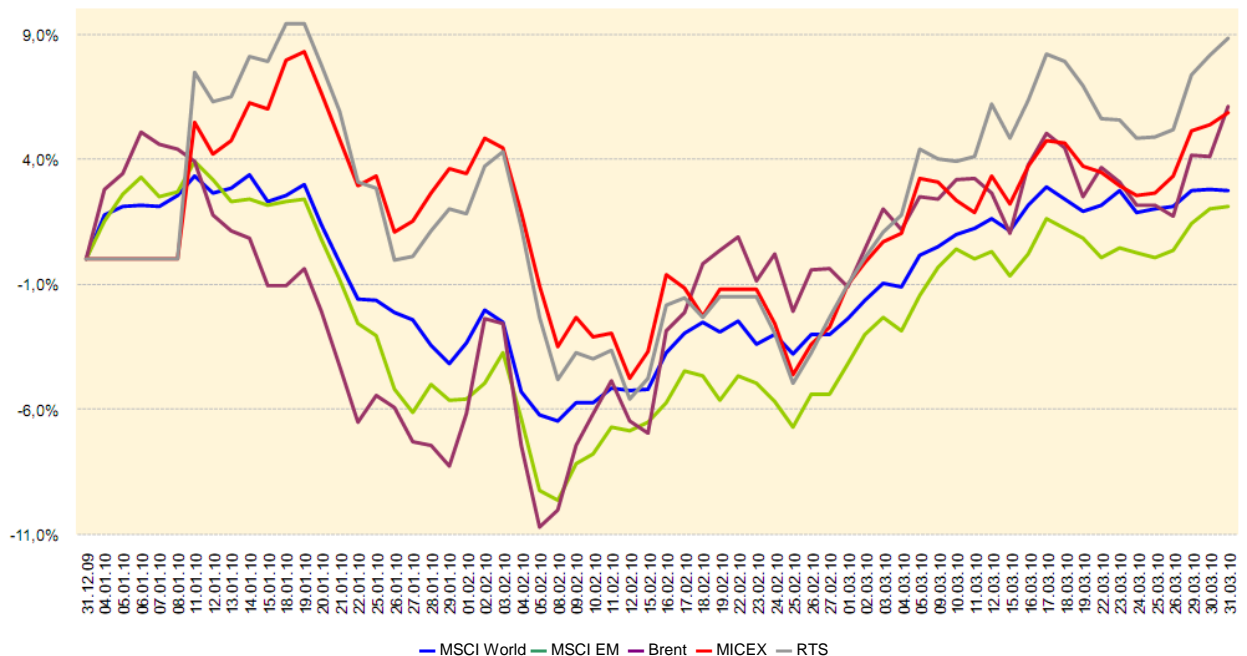
The International and Russian share markets

Following the results of the first quarter International share markets showed insignificant growth: index of the developed countries MSCI World grew up by 2,7%, index of the developing markets MSCI EM – by 2,1%.

Notwithstanding the good enough beginning of the year at the world stock-exchanges owing to primarily positive data of macroeconomic statistics, there was essential correction in the markets in the second half of January caused by:

- speculation around the plans of the bank sector reforming: the USA President's proposals on the bank sector reforming that provided implementation of measures intended to limitation of size of the largest banks and their speculative activity in financial and commodity markets. Afterwards these proposals were supported by the Head of ECB and the President of France;
- concerns of the start-up of exit strategy¹ implementation against the background of acts of central banks of China and India intended to credit cost increase.

Against this background reporting of companies following the results of the fourth quarter 2009, which analysts pointed out among the main dynamics drivers of stock-exchange markets in the beginning of 2010, paled into insignificance.



Source: MICEX, RTS, Bloomberg

Budget and debt problems of the Southern countries of European zone became one of the main reasons of negative tones in February. Thus, probability of default on state bonds of Greece, Spain and Portugal has reached historical maxima. Following the results of the February summit of the European Union and the meeting of Ministers of Finance of European zone countries there were not taken any definite decisions regarding support to Greece, in spite of the market participants' expectations. Nevertheless, the vigor demonstrated by the European Union composed investors – tension around “the Greece” problem was temporary removed. Optimism that came back to the markets did not last long – at the end of February rating agencies S&P and Moody's warned of the probable reduction of Greece ratings, having brought uncertainty to stock-exchange markets.

¹ exit strategy – exit from active fiscal economy stimulation policy.

Also the issue connected with easy money epoch end was remaining to be in the focus of investors' attention in February. Thus, the Central Bank of China raised again reserving standards for banks, and the USA FRS increased the rate on which commercial banks were credited. Investors' concerns were associated with that untimely exit from stimulating measures could destroy unstable recovery of the world economy.

After the negative enough dynamics within the first half of the reporting period, the world stock-exchange indicators could go to positive territory. Expectations of positive solution of "the Greece" problem and the decision of the USA FRS on maintenance of low interest rates became the main factors that determined growth of stock-exchange markets in March.

The markets took positively the decision of Greece on taking measures on deficit reduction by €4,8 bln and European zone countries' coordination of mechanisms of extreme assistance. In March stock-exchange markets were supported by decisions of the USA FRS to leave the benchmark interest rate at the same level, at this the USA FRS repeated once again that it would maintain the rate at "exclusively low level" within "the long time". The Bank of Japan announced of maintenance of the interest rate as well as doubling of financial sector crediting program.

Nevertheless, in the market participants' opinion, these two factors – debt problems of the developed countries and expectation of the start-up of exit strategy implementation – will go on to influence on stock-exchange markets negatively.

As a whole, debt problems of the developed countries have caused great concern by the end of the quarter. In IMF's opinion reduction of state debt amount is the priority task within the short-term prospect, because volumes of debt liabilities threaten to undermine investors' confidence and disturb the world economy recovery. This is witnessed by actions of rating agencies: at the end of March Fitch reduced the rating of Portugal, and S&P decreased the rating of Island. Besides, S&P agency declared that it could reduce the credit rating of Great Britain, if the government of the country failed to develop strict plan on decrease of the budget expenditures.

The markets started to speak about probable tightening of credit and monetary policy of financial regulators and the relevant inject liquidity epoch end after the Indian CB had decided unexpectedly enough to increase interest rates. This decision in its turn turned out to be the reason for growth of speculation of the probable regular increase of reserving standards by the Bank of China and the USA FRS discount rate.

In the first quarter the Russian market showed better dynamics compared with the world markets – following the results of the quarter MICEX index grown up by 5,8%. After the New Year holidays the dynamics of the native stock-exchange indicators was ahead of the dynamics of the world stock-exchange indices. This, mainly, was grounded by that the native market was recovering growth of prices for raw materials and depositary receipts of our issuers that took place during our New Year holidays. However, even in the second half of January sales at the aggravated external background prevailed in the market.

In February the Russian market demonstrated worse dynamics in comparison with the world sites. Neither prices for oil, nor improvement of tones at the Western stock-exchanges could support our market. In analysts' opinion the native market was under pressure of sales

grounded by withdrawal of large funds from the Russian assets.

In March the advance dynamics of the Russian market was completely determined by the external background and oil quotation dynamics.

The own news background is not still the essential factor for choice of the Russian market direction, moreover that in the first quarter it was still of mixed nature enough. According to the Russian Federal State Statistics Service:

- output products and services on basic types of economic activities grew up in January by 3,8%, in February – by 1,0% compared with January and February 2009, respectively; for January-February – by 2,4% in comparison with January-February 2009;
- unemployment level in the Russian Federation reduced from 9,2% in January to 8,6% in February. In December 2009 the indicator was equal to 8,2%, and in average for the past year – 8,4%;
- industrial production growth slowed down in February up to 1,9% from 7,8% of January;
- investments in fixed assets reduced by 7,4% in February compared with February 2009 after decreasing by 8,7% in January;
- retail turnover grew up by 1,3% in February in comparison with February 2009.

The World Bank increased forecast of the RF GDP growth in 2010 up to 5-5,5% from 3,2% that had been forecasted in January, in 2011 – up to 3,5% from 3%. In the bank's opinion the principal factor of economic growth in the Russian Federation will be consumption growth, in particular, household resulted by pension indexation, salary increase and economy dedollarization. According to evaluation of Ministry of economic development and trade GDP of Russia grew up by 4,5% in January-February compared with the same period of the last year.

In the first quarter the Bank of Russia reduced interest rates by 0,25 percentage point twice – up to the current 8,25%. The application of the Central bank of the Russian Federation states that reduction of interest rates is intended to decreasing of borrowing cost, increasing of availability of credit resources for economy entities and creation of conditions for full internal demand recovery.

In March the rating agency S&P change the forecast of a counterpart rating from “negative” to “stable” for 14 Russian banks. In the agency representatives' opinion this rating action reflects “S&P's point of view on gradual stabilization of condition for activity of financial organization in the Russian Federation”. At this the agency analysts suppose that growth pike of problem credits has already passed.

Stock market of power distribution sector companies

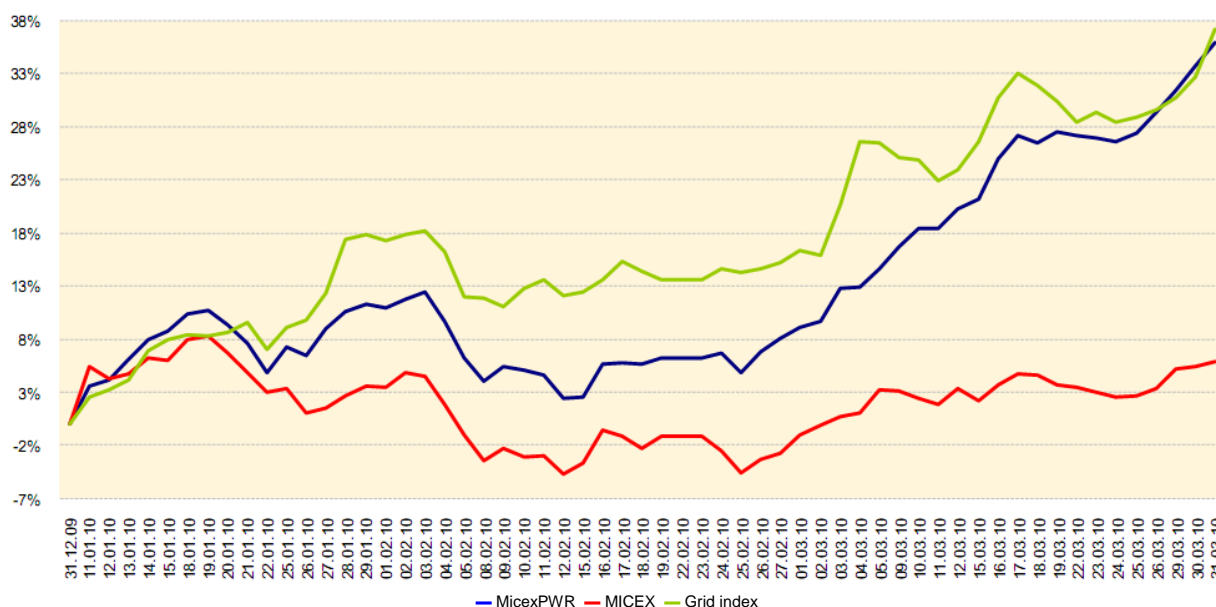
In the reporting period the native power industry showed the essentially better dynamics that the market did – index MicexPWR grew up about by 36,0% whereas growth of MICEX index was about 5,8%.

Shares of power distribution sector companies were supported by:

- approval of the rate for payment of “new” capacity for 2010 by the Market Council: analysts consider that notwithstanding that prices are fixed a little bit lower than the levels of the declared generators, nevertheless, they are close to fair values;
- information of the decision on the long-term capacity market: in the second half of February the government resolution on the long-term capacity market was signed. Irrespective that the most debating issue on parameters remained undetermined, analysts evaluated this news unambiguously positively believing that launch of capacity market would be the reason for qualitative review of the current cost evaluates of generating companies;

- industrial statistics which is indicative of power consumption recovery in the country: in January “System operator of UES” noted growth by 7% relating to the year 2009, in February – 5,7%, in march – 5,9%. At this power consumption in February exceeded pre-crisis level of February 2008 by 1,2%, though many analysts noted not once that growth of demand for electric power was connected mainly with abnormally cold winter of 2009-2010;
- positive results of financial reporting as well as prevailing positive news background on separate power companies.

It may be suggested that review of portfolios by short-term investors under the existing uncertainty in the Russian market was the reason of the significant growth of shares of electric power companies among other primary reasons apart of favorable reporting and positive corporate news on separate companies beginning with the end of February. At this, shares of the second priority companies with the most investment attractiveness were preferred, which included practically all power industry sector companies.



Source: MICEX, RTS, calculations of DCT

Within the reporting period shares of distribution grid companies looked a little better than of industrial MicexPWR: following the results of the first quarter Grid index representing capitalization of the sector companies (indicator calculation base includes all traded IDGCs) grew up by 37,2%.

The market participants' interest to shares of the sector companies has started to increase as far as concerns of probable decrease of invested capital base on separate IDGCs that arose after tariff decision of Federal Tariff Service over Federal Grid Companies in December of the last year have begun to weaken. This was caused by compliance of RAB-tariff parameters for 9 branches of IDGC that had been transferred to the new tariff making system from the beginning of the year to the previously published forecasts of IDGC Holding and, therefore, to the market expectations.

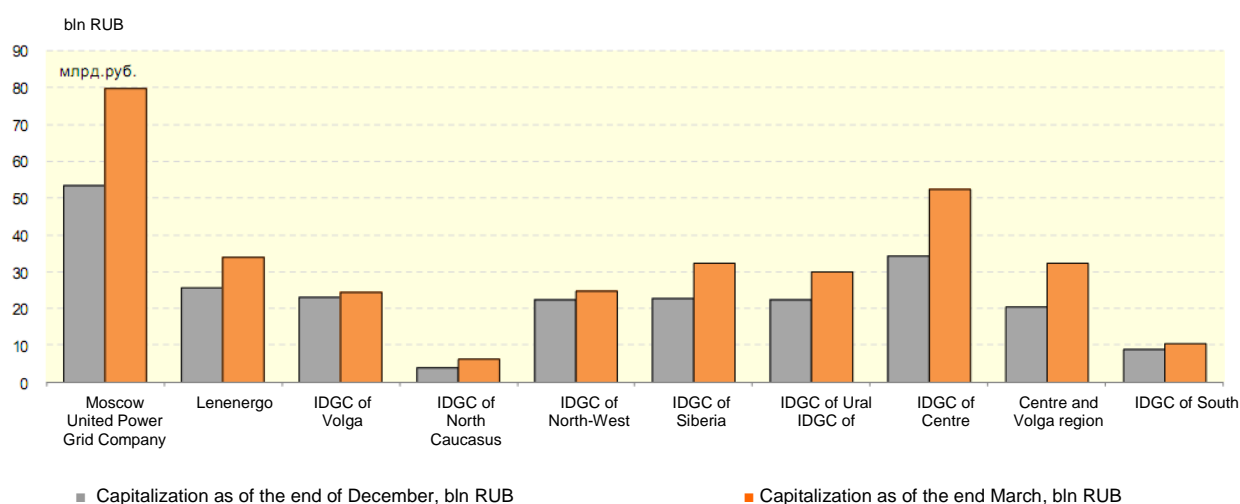
The January decision of the RF Government that had determined the final terms of transfer of IDGC branches to RAB-tariffs became the essential factor of growth either of IDGC Holding shares, so shares of separate IDGCs.

According to the plan a part of regions should complete the transfer to RAB-tariffs by July 1, 2010, other regions will be transferred to RAB-regulation by January 1, 2011. Analysts evaluated this decision as the important stage in the process of RAB implementation that confirms the government vigor to complete the process of IDGCs transfer to RAB-regulation within the current year.

The announcement of the Director of IDGC Holding relating to that currently the company is conducting the work on preparing of the long-term investment programs of subsidiary IDGCs for the further transfer to new RAB tariff with the 5-year regulation period can be pointed out among the fundamental news of the distribution sector companies in March. As the Company Director noted Holding believed that changes would be introduced into the government resolution on RAB-tariff for power grids with the opportunity of the 5-year regulation period right away the moment of transfer to RAB.

Positive tone for shares of distribution grid companies turned out to be the signing of the agreement with the French company Electricite Reseau France (ERDF) in the beginning of March and the information of the middle of the month regarding consideration by IDGC Holding and ERDF of the issue on joint management of IDGC within the framework of this agreement.

The following diagram shows the results of IDGCs capitalization changes for the 1st q. 2010:



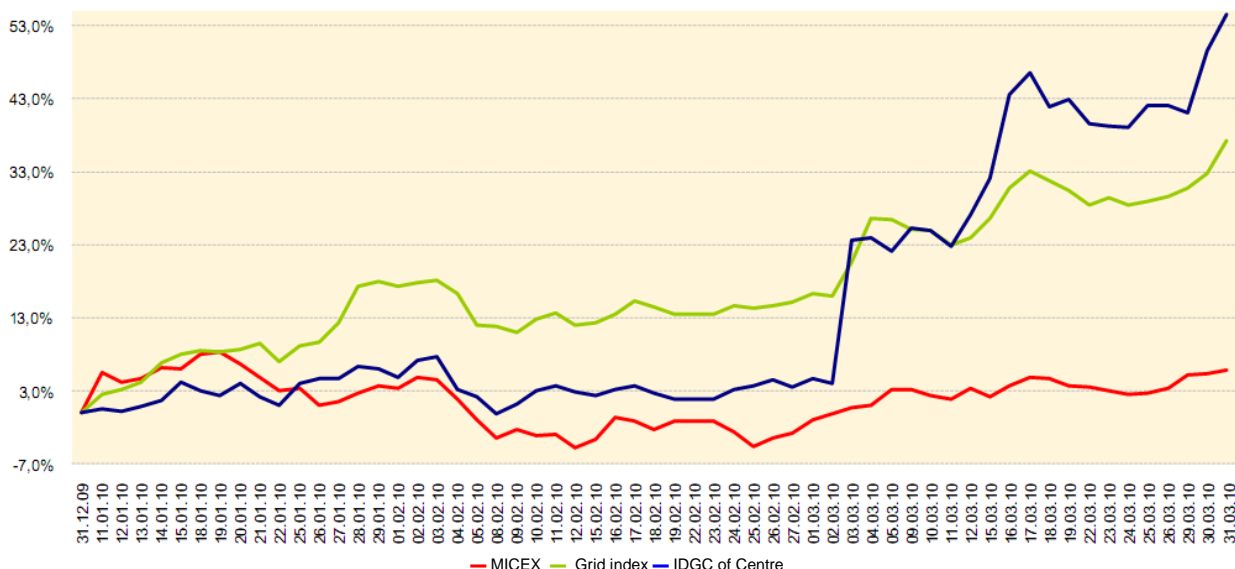
Source: MICEX, calculations of DCT

Shares of all distribution grid companies completed the first quarter by growth. IDGC of North Caucasus became the leader (+60,9%), IDGC of Centre and IDGC of Centre and Volga region showed the capitalization growth more than 50%. The results of the first quarter as per IDGCs capitalization dynamics are given in the table:

Company	Capitalization, bln Rubles		Change for the quarter, %
	as of 31.12.09	as of 31.03.10	
Moscow United Power Grid Company	53,4	79,8	49,55%
Lenenergo	25,6	33,9	32,7%
IDGC of Volga	23,2	24,3	4,9%
IDGC of North Caucasus	3,9	6,4	60,9%
IDGC of North-West	22,2	24,7	11,4%
IDGC of Siberia	22,6	32,2	42,6%
IDGC of Ural	22,3	30,0	34,4%
IDGC of Centre	34,1	52,4	53,5%
IDGC of Centre and Volga region	20,5	32,4	57,9%
IDGC of South	8,9	10,4	17,4%

Share market of IDGC of Centre, JSC

Within the first two months of the reporting period the dynamics of IDGC of Centre shares looked out worse than the dynamics of Grid Index. The situation changed significantly in March within which IDGC of Centre shares grew up by 50%. As a whole, following the results of the first quarter the price for a share of IDGC of Centre grew up by 53,5% (as per change of weighted average prices) whereas Grid Index increased by 37,2% and MICEX index – by 5,8%.



Source: MICEX, calculations of DCT

Specifications of trading volumes of IDGC of Centre shares at stock exchanges of MICEX and RTS in the 1st q. 2010 (market transactions) are given in the table:

Stock exchange	Number of transactions	Volume, number	Volume, mln RUB
RTS (classic)	-	-	-
RTS (stock exchange)	26	2 458 528	2,12
MICEX	29 162	1 629 576 900	1 543,61

Within the first quarter the turnover on IDGC of Centre shares at MICEX amounted to 1,63 bln shares or 3,86% of the total number of shares of the Company. About 40% of the quarterly turnover fell on three days: January 28, March 03 and March 04.

Within the considered period the average bid-ask spread amounted to about 0,54%. Maximum spread for the period reached 1,60% (February 12), minimum value amounted to 0,10% (March 11).

Following the results of the 1st quarter as per the market liquidity IDGC of Centre shares took the leading position among IDGCs with the turnover of 1,6 bln RUB. The average daily number of transactions grew up to 522 transactions (in the 4th quarter 2009 – 179 transactions).

Among the news of IDGC of Centre within the reporting period it is necessity to note:

- transfer of two branches of the Company – Kurskenergo and Yarenergo to RAB-regulation since January 1, 2010 and, therefore, approval of invested capital amount (iRAB) for them;
- approval by the RF Government of the plan of transfer of IDGC branches to RAB-tariffs, in compliance with which other branches of IDGC of Centre should be transferred to RAB-regulation by July 1, 2010;

- publication of financial activity results for 2009: the Company proceeds amounted to 49 bln RUB, and net profit – 1,3 bln RUB.

Price forecasting and recommendations on the shares of IDGC of Centre, JSC

Information on the current recommendations of analysts of investment companies is given in the table (original estimates without conversion into another currency are colored):

	Company	Annual forecast		Growth potential	Data of renewal	Recommendation
		USD	RUR***			
1	Troika Dialog*	0,027	0,793	-36%	23.12.2008	
2	Veles Capital*	0,0163	0,749	-61%	23.03.2009	To buy
3	Renaissance Capital	0,0473	1,389	12%	03.11.2009	To buy
4	Rye, Man & Gor Securities	0,036	1,057	-15%	11.03.2010	To hold
5	Unicredit	0,0654	1,920	55%	01.12.2009	To buy
6	VTB Capital	0,042	1,233	0%	05.03.2010	To buy
7	Prospekt	0,017	0,499	-60%	30.09.2009	To reduce
8	Bank of Moscow	0,037	1,086	-12%	17.03.2010	To sell
9	Aton	0,048	1,409	14%	16.12.2009	To buy
10	Metropol	0,053	1,550	25%	24.12.2009	To buy
11	Sovlink	0,049	1,439	16%	26.01.2010	To buy
12	Uralsib	0,054	1,586	28%	22.03.2010	To buy
13	Otkrytie	0,0612	1,797	45%	26.02.2010	To buy
New estimates						
14	Deutsche Bank	0,079	2,310	86%	03.03.2010	To buy
15	Alemar	0,045	1,321	7%	10.03.2010	-
Consensus		0,049	1,431			
Current price****			1,239			

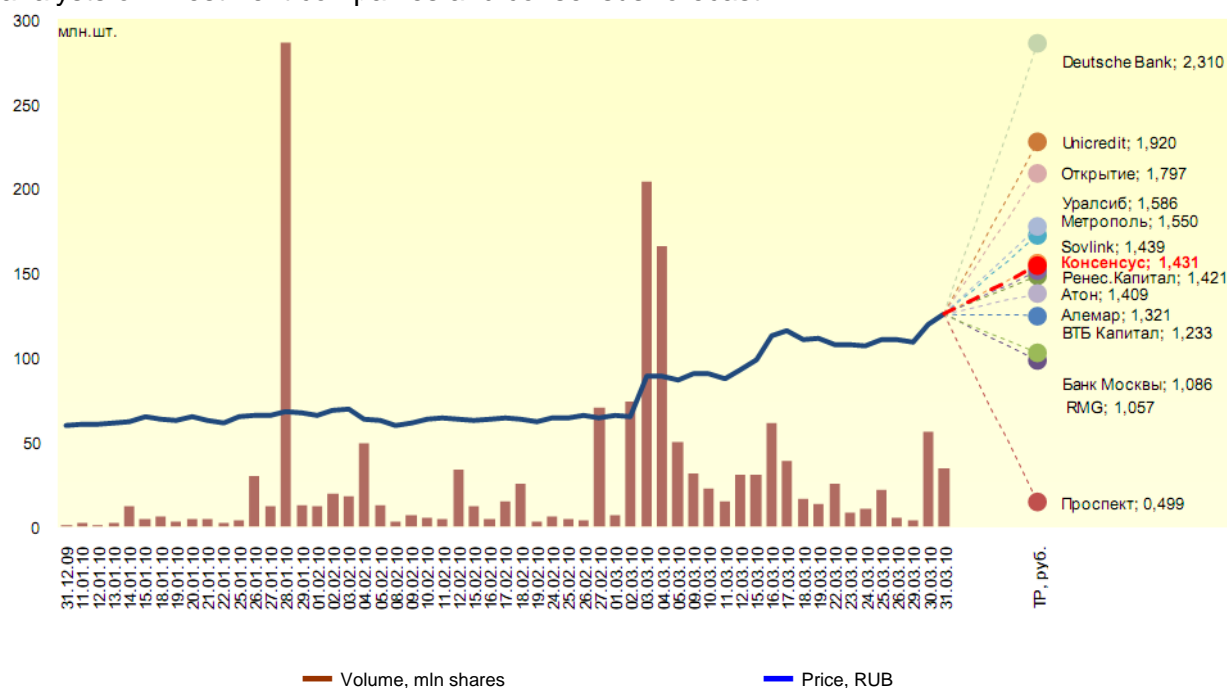
* Bank estimates are not included in consensus

*** According to the rate of RUR/USD as of 31.03.10

**** The last price at MICEX as of 31.03.10

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

As of the end of March growth potential of the current quotations to analysts' consensus-forecast amounted to 15%. Here are the diagrams of the Company shares estimated by analysts of investment companies and consensus-forecast:



Source: MICEX, quote. ru, calculations of DCT

It is necessary to note the following among the news of analytical coverage of IDGC of Centre within the first quarter:

1. On January 20 the analysts of Bank of Moscow issued update on companies of the sector, having increased the target price of the shares of IDGC of Centre by 61% - from \$0,023 to \$0,037. However, in March against the background of the significant growth of quotations of the Company shares experts changed the recommendation twice: from "to buy" to "to hold" and at last to "to sell", and the estimate of a share remained unchanged.
2. On January 26 the experts of the Company Sovlink resumed analytical coverage of IDGCs shares. The experts estimated a share of IDGC of Centre at \$0,049 and assigned the recommendation "to buy".
3. On February 11 Uralsib started analytical coverage of distribution grid companies. Analysts estimated a share of IDGC of Centre at \$0,054 and assigned the rating "to buy". On March 22 the Bank issued update, having confirmed the estimate and the rating on the shares of IDGC of Centre.
4. On February 26 the analysts of Otkrytie started analytical coverage of companies of the distribution grid sector; the rating on IDGC of Centre – to buy, price \$0,0612.
5. On March 3 the experts of Deutsche Bank started analytical coverage of IDGC of Centre, having estimated a share of the Company at 2,31 RUB, the rating – "to buy".
6. On March 10 Alemar issued the report on the whole electric power industry, and the estimate of the shares of IDGC of Centre at \$0,045 level was given for the first time. There is no the rating on the Company shares.
7. On March 5 VTB Capital issued the renewed report on the whole electric power industry; estimates and ratings on the shares of IDGC of Centre remained unchanged.
8. On March 11 the analysts of RMG increased the estimate of the shares of IDGC of Centre by 6%, having decreased the rating from "speculative buy" to "to hold".

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