

Sector update
 9 August 2012

Target prices and ratings

Company	TP (RBL)		Price (RBL)	Rating	
	New	Old		New	Old
Generators					
Rushydro	0.9	1.4	0.86	Hold	Buy
InterRAO	0.028	0.037	0.027	Hold	Buy
OGK-1	0.67	0.89	0.65	Hold	Buy
OGK-3	1.12	1.48	1.02	Hold	Buy
E.ON Russia					
Enel OGK-5	3.37	3.37	2.69	Buy	Buy
	2.18	2.31	1.77	Buy	Hold
Mosenergo					
TGK-1	1.53	2.9	1.27	Buy	Buy
OGK-2	0.008	0.02	0.006	Buy	Buy
	0.48	1.01	0.45	Hold	Buy
Grids					
FSK	0.20	0.23	0.22	Sell	Buy
Holding MRSK					
Moscow Utd Grid	1.79	2.80	1.79	Hold	Hold
MRSK Center	0.89	0.97	0.60	Buy	Buy

All prices as of close on 7 August 2012
 Source: Company data, ING estimates

FCF timing and EV/EBITDA

Company	FCF breakeven year	EV/EBITDA (x)		
		12F	14F	16F
Generators				
Rushydro	2014	5.8	4.3	4.2
OGK-1	2016	8.2	7.3	4.0
OGK-3	2015	60.6	6.2	3.4
E.ON Russia				
Enel OGK-5	2011	4.4	4.6	2.4
	2013	5.8	4.9	4.0
Mosenergo				
TGK-1	2016	3.9	5.9	4.5
OGK-2	2014	5.9	3.5	2.3
	2015	15.0	11.7	3.9
Grids				
FSK	2019	4.7	4.9	4.7
Holding MRSK				
Moscow Utd Grid	2016	3.3	3.7	3.0
MRSK Center	2016	2.7	3.4	3.0
	2016	3.0	2.6	2.2

Source: Company data, ING estimates

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Russian Electricity

Fewer quasi improvements, more maintenance capex

Regulators have shown a declining interest to continue the quasi privatisation process and regulatory enhancements, in addition to a sustained interest for raising capex. This has led to downward pressure on electricity prices (both liberalised and regulated) along with upward pressure on capex, especially in government related utilities. To reflect these changes, we adjust our TPs and ratings for Russian electricity generators and grids. We prefer companies with visibly positive FCF, including E.ON Russia (FCF breakeven year 2011), Enel OGK-5 (2013) and TGK-1 (2014).

Electricity market: pressure on prices (both liberalised and regulated) has led to weak intermediary financial results of generators. Medium-term tariff hikes for the Federal Grid Company have been set at lower than expected levels of c.11%, c.9% and c.9% for 1 July of 2012, 2013 and 2014, respectively, highlighting the weak link between the theoretical RAB parameters and practical regulatory decisions. In 1H12, liberalised prices for electrical energy in European Russia declined (c.10% YoY) despite flat regulated gas prices. On the back of this pressure, intermediary 2012 results of the majority of covered gencos (with the exception of E.ON Russia and Enel OGK-5) showed a profit contraction.

Maintenance capex: more hikes in the companies controlled by the government directly (Rushydro) or indirectly (Mosenergo, TGK-1). Rushydro's new five year capex programme implies >50% maintenance capex growth. Mosenergo and TGK-1's new maintenance capex plans exceed our earlier estimates by 50% and 100%, respectively.

Ownership: quasi privatisation is postponed; M&A with unclear rationale emerge. Inclusion of Rushydro and FSK into the list of "strategic" enterprises and the emergence of Rosneftegas as an additional consolidator of government-controlled assets has made it clear that even the quasi privatisation (ie, a sale of incremental stakes in Rushydro and FSK, without passing important thresholds) is being delayed. In addition, a number of M&A and capital raising deals with unclear economic rationale have emerged, including: (1) integration of FSK and Holding MRSK (likely, but details not defined); (2) share issues in Rushydro and InterRAO in favour of Rosneftegas (reported, but details not defined); and (3) share issue in OGK-2 (decided, details not defined).

We like companies (ie, essentially generators) with early positive FCF. While this list narrowed after a number of announcements on intended capex increases, it still includes E.ON Russia (2011), Enel OGK-5 (2013) and TGK-1 (2014).

We are cautious on the fundamental value of companies with remote FCF due to economic and regulatory uncertainties. This list includes grids - FSK (2019) and Holding MRSK (2016), but also generators – InterRAO (not before 2015) and OGK-2 (2015).

Technical details of M&A can be beneficial for selected participants. Despite strong exposure to regulatory risks with low visibility, FSK may gain from a potentially generous relative valuation in the process of integration with Holding MRSK. A potential share issue by Rushydro should be priced at a premium to current market prices for legal reasons.

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Changes reflected in the note

Changes in fundamental factors

In this note, we update our target price and ratings for the Russian electric utilities in our coverage, in light of the changes to the fundamental factors in the sector, as well as the reported 2012 intermediary financials. Key developments belong to the following areas:

- **Electricity market**, including the following developments:
 - **Modest growth in Russian demand for electrical energy in 1H12** (+2.3% YoY on the back of c.4% YoY growth in industrial production).
 - **Lower than expected hikes in the regulated tariffs for the Federal Grid Company** of c.11%, c.9% and c.9% for 1 July of 2012, 2013 and 2014, respectively, highlighting the weak link between the theoretical RAB parameters and practical tariff decisions
 - **Weak dynamics of liberalised prices** for electrical energy in European Russia, which declined by c.10% YoY in 1H12, despite flat domestic gas prices.
- **Intermediary financial results for 2012**, which highlighted declining profitability of the majority of covered gencos (except for E.ON Russia and Enel OGK-5).
- **Growth in planned maintenance capex** (especially in the companies controlled by the government directly or indirectly), including the following:
 - **Rushydro**: maintenance capex (as per new five year 2012-16 capex programme) is c.50% higher than previous company plans for comparable years (2012-13).
 - **Mosenergo**: new maintenance capex plan is c.50% higher than our previous forecasts.
 - **TGK-1**: new maintenance capex plans exceeds our previous forecasts by c.100%.
- **Ownership re-shuffle**, including the following developments:
 - **Postponement of the quasi privatisation process**: ie, a sale of incremental stakes in Rushydro and the Federal Grid Company (FSK), without passing important thresholds (50% in Rushydro and 75% in FSK). The postponement has become clear after the Kremlin labelled Rushydro and the Federal Grid Company (aka FSK) as “strategic” companies, and Rosneftgas (a 100% government-owned entity) as a potential “investor” in the electricity sector, implying that this entity may become yet another consolidator of already government-controlled assets.
 - **M&A and capital raising deals with unclear economic rationale** (planned or discussed), including:
 - **FSK: ownership integration with Holding MRSK** (likely with details uncertain), which, in our view, further reduces the probability that individual MRSKs (subsidiaries of Holding MRSK) could be privatised over the medium-term.
 - **Rushydro and InterRAO**: the Russian business media has discussed the possibility of a new share issue in favour of Rosneftgas or its SPV (not yet confirmed, with details uncertain).
 - **OGK-2**: new share issue to attract RBL20bn from GazpromEnergoHolding (approved with the price of new shares to be defined in Sep/Oct 2012).

We discuss these developments in the sections below. Their specific company implications are discussed in the company sections in the second part of this note.

Changes in ratings

On the back of the changes in fundamental factors described above, we change our ratings for the following stocks:

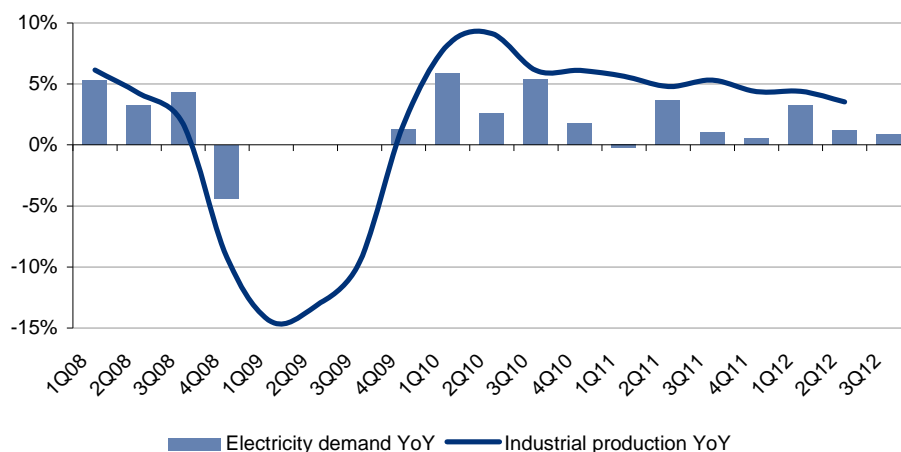
- **Rushydro.** We reduce our TP from RBL1.40 to RBL0.90 and downgrade our rating from a Buy to a HOLD on the back of: (1) growth in the company's plans for maintenance capex, which undermines the company's potential to start generating FCF and pay adequate dividends in the short-term; (2) downward revision to our estimates for liberalised prices for electrical energy in European Russia; and (3) increased risks of additional share issues with unclear economic rationale.
- **Enel OGK-5.** We reduce our TP from RBL2.31 to RBL2.18 (primarily due to downward revision to our estimates for liberalised electrical energy prices in European Russia), but upgrade our rating from a Hold to a BUY because we believe that the share price decline since our last update was excessive, taking into account solid IFRS results for 1H12, reiterated guidance for FY12 profitability and benefits from regular hikes in domestic gas prices (+15% on 1 July of 2012, 2013 and 2014).
- **OGK-2.** We reduce our TP from RBL1.01 to RBL0.48 and downgrade our rating from a Buy to a HOLD due to: (1) downward revision to our estimates for liberalised prices for electrical energy in European Russia; and (2) increased corporate governance risks on the back of the decision to sell new shares in late 2012 in order to attract c.RBL20bn to finance OGK-2's capex programme.
- **InterRAO.** We reduce our TP from RBL0.037 to RBL0.028 and downgrade our rating from a Buy to a HOLD, primarily due to the downward revision to our DCF-estimated fair value of key generating assets (OGK-1 and OGK-3) as standalone companies. The fair value of OGK-1 and OGK-3 (as standalone companies) has been reduced on the back of our lower estimates for liberalised electrical energy prices in European Russia and declining profitability of the companies in the beginning of the year.
- **OGK-1 and OGK-3.** These stocks are traded as entry tickets to InterRAO, into which they will be converted by 1Q13, with share conversion ratios of 1 to 24 and 1 to 40, respectively. We reduce our TPs from RBL0.89 to RBL0.67 and from RBL1.48 to RBL1.12 for OGK-1 and OGK-3, respectively, and downgrade both from a Buy to a HOLD due to downward revision to our TP for InterRAO (see above). Even though OGK-1 and OGK-3 are traded at slight discounts to InterRAO (after applying the above-mentioned share conversion ratios), the discounts are not sufficient to rate them higher than InterRAO itself.
- **Federal Grid Company (FSK).** We reduce our TP from RBL0.23 to RBL0.20 and downgrade our rating from a Buy to a SELL, primarily due to the change in the approach to estimate the terminal value (TV) in our DCF valuation of FSK as a standalone company. To reflect the weak link between the theoretical parameters of RAB-based regulation and practical tariff decisions, we now estimate the TV based, not only on the estimated RAB parameters as of the end of the explicit forecast period (2021), but also on our estimated financials at this point in time. Our new TP is the weighted average of the DCF-derived fair value of FSK as a standalone company and the fair value of FSK shares as an entry ticket to the likely merger between FSK and Holding MRSK, with weights of 25% and 75%, respectively.
- **Moscow United Grid.** We reduce our TP from RBL1.84 to RBL1.44 and downgrade our rating from a Buy to a HOLD, primarily due to the change in the approach to estimate the terminal value, which now reflects the weak link between the theoretical parameters of RAB regulation and practical tariff decisions.

Electricity market

Electricity demand growth has been modest

In 1H12, Russian electricity demand decelerated and only grew by 2.3% on the back of modest growth in industrial production (4%).

Fig 1 Electricity demand (YoY) and industrial production (YoY)



Source: Electricity Market Council, Russian Statistics Agency, ING estimates

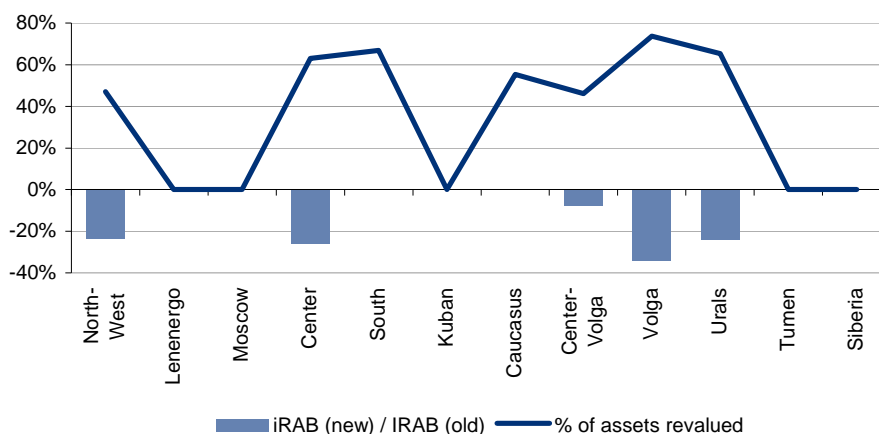
Over the medium-term, we expect Russian electricity demand to continue to grow at about 2% pa on the back of industrial production growth of c.4% pa.

Regulated tariffs for grids have been under pressure

In 1H12, key decisions in relation to regulated tariff for grids included:

- Lower than expected tariff hikes for the Federal Grid Company.** The regulator has approved the tariff hikes for FSK at c.11%, c.9% and c.9% for 1 July of 2012, 2013 and 2014, respectively. This level was driven by the government's view on acceptable growth of final electricity prices, rather than quantitative details of RAB-based regulation, we believe. This decision once again highlighted the weak link between the theoretical parameters of RAB-based regulation and the practical tariff decisions.
- Downward adjustment in initial RAB (iRAB) for selected regions of MRSKs.** In 2Q12, the Russian regulator published the adjusted RAB for a number of regions, which jointly account for about one-third of the consolidated asset base of Holding MRSK (measured by iRAB). The adjusted iRAB for these regions is, on average, about 20% below the levels initially approved in 2010-11 (see Figure 2).

Fig 2 Change in iRAB (bar) and % of assets re-valued (line) by MRSK



Source: Holding MRSK, ING estimates

We would like to highlight the following points in relation to the adjustment in iRAB:

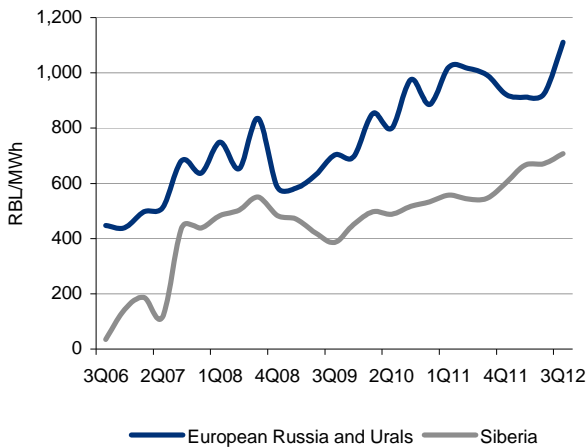
- **'New RAB' so far approved for approx one-third of the regional base**, if measured by the proportion of these regions' RAB within the total RAB for Holding MRSK.
- **Scale of the reductions is in line with our earlier assumptions.** In an environment of uncertainty with regards to 'new' iRAB, we continue to assume that the previously approved iRAB will be reduced so that the premium of iRAB to the book value of the corresponding MRSK would be cut by roughly a half. Our calculation implies that this approach would lead to a reduction in iRAB by c.20-25%, which is close to the actual reductions observed in the selected regions, where the cuts already took place.
- **iRAB is less relevant to the market value of MRSKs and Holding MRSK than before** because of the weak link between actual tariff decisions and the ones that would be implied by theoretical calculations involving RAB parameters.
- **Our assumptions for medium-term tariff hikes are not driven by theoretical attributes of RAB**, ie, we assume that the practical hikes would be set at the level deemed acceptable by the government rather than implied by theoretical calculations involving RAB. We assume that the link between the theoretical parameters of RAB regulation and practical tariff decisions becomes reasonably strong only during the second half of our 10-year forecast horizon.

Based on the points above, we do not change our estimates for adjusted iRAB.

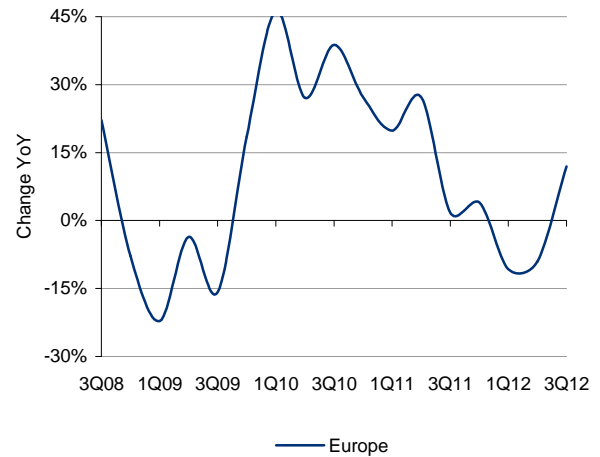
Liberalised prices for electrical energy showed weak dynamics

Liberalised prices for electrical energy (historical)

Liberalised prices for electrical energy in European Russia lost momentum at the beginning of 2011, when the government started its campaign against growth in domestic electricity prices (see Figure 3).

Fig 3 Liberalised prices for electrical energy in European Russia and Siberia


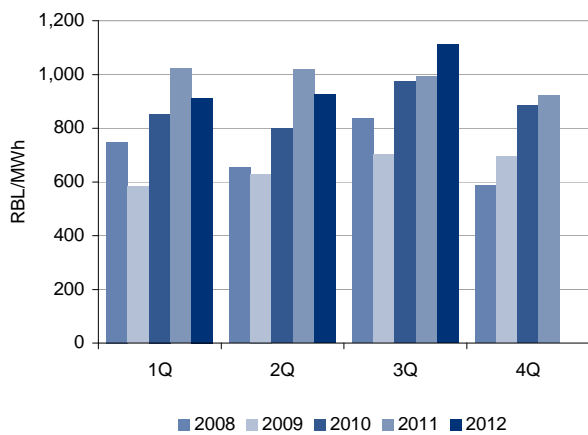
Source: Electricity market council, ING estimates

Fig 4 YoY changes in liberalised prices for electrical energy in European Russia


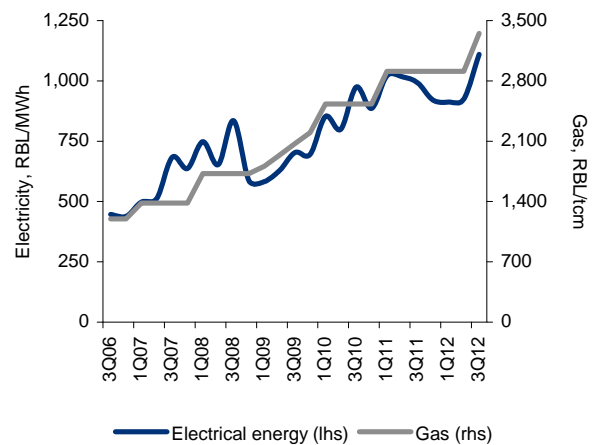
Source: Electricity market council, ING estimates

Moreover, in 1H12 liberalised prices for electrical energy in European Russia have declined by c.10% YoY (see Figure 4).

In 3Q12, liberalised prices for electrical energy in European Russia resumed YoY growth (see Figure 5).

Fig 5 Liberalised prices for electrical energy in European Russia


Source: Electricity market council, ING estimates

Fig 6 Liberalised prices for electrical energy and gas prices in European Russia


Source: Electricity market council, ING estimates

However, the hike in liberalised prices starting July 2012 has been largely driven by a hike in domestic gas prices by 15% (see Figure 6).

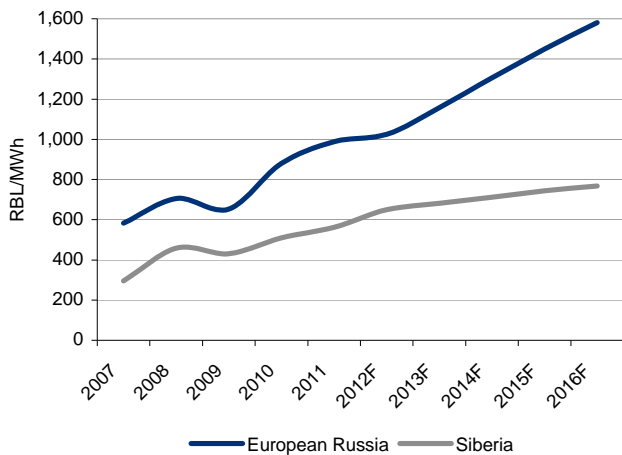
Our view on future development of liberalised prices for electrical energy is discussed in the sub-section below.

Liberalised prices for electrical energy (forecast)

We adjust our forecast of liberalised prices for electrical energy to reflect their weak dynamics in 1H12.

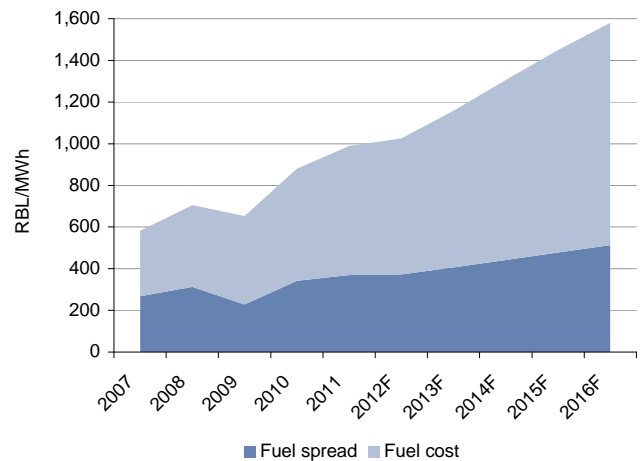
While we continue to expect liberalised prices for electrical energy to increase from current levels both in European Russia and Siberia (see Figure 7), we believe the growth will be largely driven by an increase in prices for underlying fuel (see Figure 8).

Fig 7 Liberalised price for electrical energy in European Russia and Siberia



Source: Electricity market council, ING estimates

Fig 8 Liberalised price for electrical energy in European Russia (fuel spread and fuel cost)



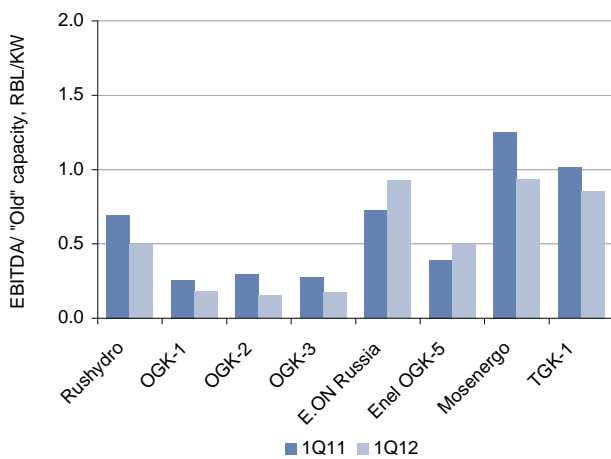
Source: Electricity market council, ING estimates

At the same time, our expectations with regards to the growth in the fuel spread (ie, the spread between the price for electrical energy and fuel) over the next five years remain none-aggressive (see Figure 8).

Intermediary 2012 results showed reducing profits of the majority of generators

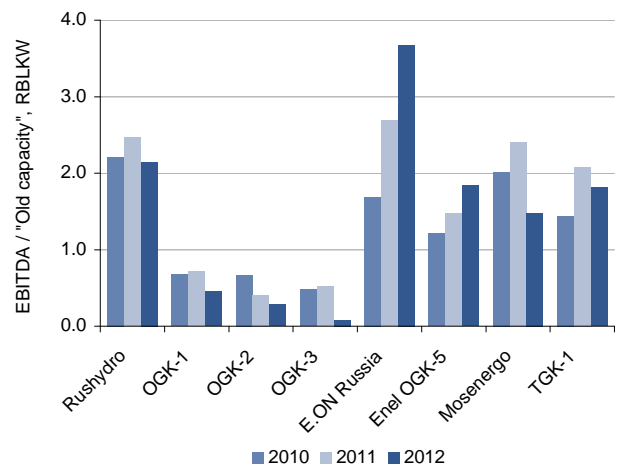
On the back of weak dynamics of electricity prices, the 2012 intermediary results for majority of the analysed gencos have shown a decline in profitability (see Figure 9).

Fig 9 EBITDA/'old capacity' for 1Q (RBL'000/KW)



Source: Company data, ING estimates

Fig 10 EBITDA/'old capacity' for 1Q (RBL'000/KW)



Source: Company data, ING estimates

The only exception (within our universe of generators that we cover) has been the foreign controlled gencos (E.ON Russia and Enel OGK-5), who managed to increase profits, despite the pressure on electricity prices.

We expect a similar picture to hold throughout the year, ie, we expect that within our coverage universe, only the foreign-owned gencos will manage to increase profits (see Figure 10)

Capex

Government-related companies plan to increase maintenance capex

In 1H'2012, several companies announced plans to increase capex not related to the construction of new capacities, including:

- **Rushydro's maintenance capex: the company's new plans are c.50% higher than its previous plans.** The new five year (2012-16) capex programme of Rushydro suggests that the company's maintenance capex (for comparable years) would increase by c.50% relative to the previous capex programme (2011-13, approved in Oct 2010), ie, from RBL17bn pa to RBL24bn pa (net of VAT) in 2012-13.
- **Mosenergo's maintenance capex: the company's new plans are c.50% higher than our previous estimate.** In its conference call on the back of FY11 IFRS results, Mosenergo guided for maintenance capex of around RBL10bn pa (net of VAT) in 2012-14, vs our previous forecasts of around RBL7bn pa.
- **TGK-1 maintenance capex: the company's new plans are 2x higher than our previous estimate.** At its investor day, TGK-1 indicated the possibility that its mid-term maintenance capex would constitute c.RBL10bn pa, which is about twice as high as our previous estimates of maintenance capex.

While we are not pleased to see growth in maintenance capex plans, we highlight that the above mentioned hikes relate to the companies that are controlled by the government either directly (Rushydro) or indirectly (Gazprom-controlled Mosenergo and TGK-1).

Ownership re-shuffle

Quasi privatisation is postponed

In 2H12, it has become clear that the approach of Russian authorities to privatisation of utilities is likely to become even more cautious than before. We highlight the following principal changes in the approach of the Russian authorities to ownership structure:

- **Postponement of the quasi privatisation process.** In our view, by labelling the Federal Grid Company (FSK) and Rushydro as “strategic” companies, Russian authorities made it clear that even the quasi privatisation process would be postponed. In our view, the quasi privatisation process is the previously intended sale of incremental stakes in Rushydro and FSK, without passing important thresholds (50% in Rushydro and 75% in the Federal Grid Company). Instead, the ownership structure of Rushydro, FSK, Holding MRSK and even InterRAO could be re-shuffled with the involvement of new government-controlled consolidators, such as Rosneftegas or its SPV.
- **Unclear value added by Rosneftegas’ involvement.** Rosneftegas, a 100% government-controlled company which initially served as a warehouse for the government’s stakes in Gazprom (10%) and Rosneft (75%), has been officially proclaimed a potential “investor” in the Russian energy sector (including electricity), suggesting that it may become another consolidator of already government-owned stakes. The economic rationale (both financial and operational) of this approach was not articulated and remains unclear to us.
- **Additional M&A and capital raising deals involving government-controlled utilities.** While the practical configuration of the deals involving Rosneftegas remains uncertain, the Russian business media (eg, Kommersant, without naming its sources) has outlined a number of scenarios of how Rosneftegas (or its SPV) can start consolidating shares of already government-controlled utilities. We discuss some of these scenarios in the section below.

New M&A and capital raising scenarios emerge

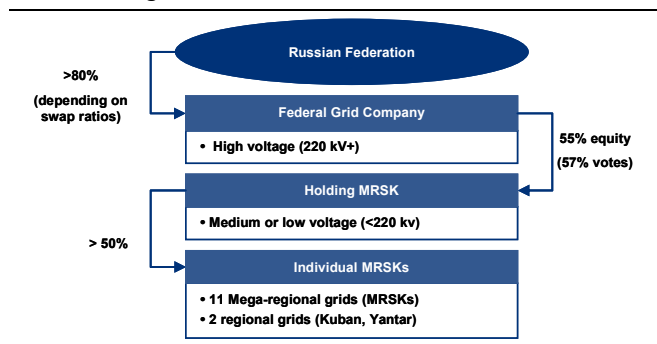
In 2Q12, a number of potential M&A and capital raising deals with involvement of Government-controlled utilities have been indicated. Key discusses lines of deals include:

Integration of FSK and Holding MRSK (likely with details unclear)

While a merger of the two has been mentioned as the most likely scenario, the specific decision is yet to be announced. We see the following principal integration scenarios:

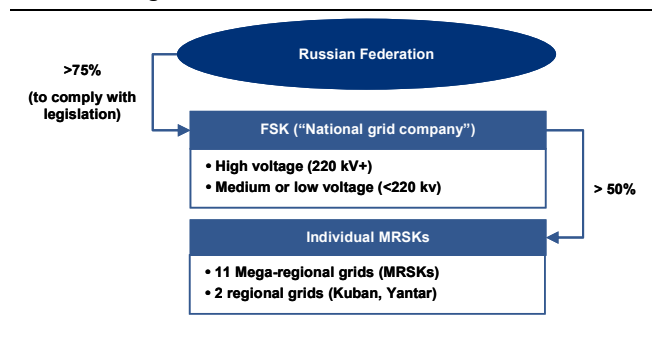
- **‘Common umbrella’**, when the Federal Grid Company and Holding MRSK become subsidiaries of Rosneftegas or its SPV, which is being referred to as ‘National grid company’.
- **‘Partial integration’**, when Holding MRSK becomes a subsidiary of FSK after the government contributes its stake in Holding MRSK to the capital of FSK (see Figure 11).
- **‘Full integration’**, ie, the merger of FSK and the Holding MRSK (Figure 12).

Fig 11 Integration of FSK and Holding MRSK: 'partial integration' scenario



Source: Company data, ING estimates

Fig 12 Integration of FSK and Holding MRSK: 'full integration' scenario



Source: Company data, ING estimates

While the actual integration scenario is not defined yet, we think that in both cases shareholders of FSK could gain from technical details of the transaction. See section **Stock implications** for a more detailed discussion.

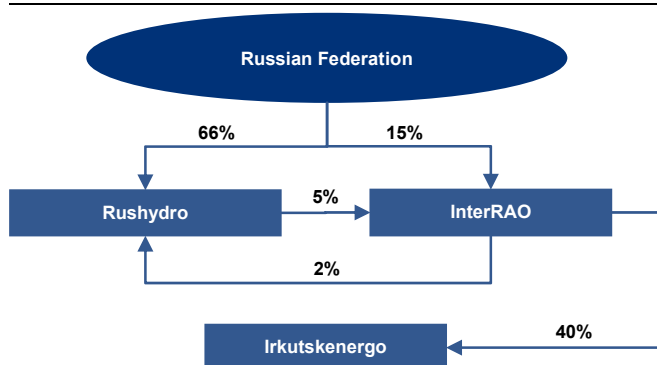
Rushydro: share issue in favour of Rosneftegas

In May-Aug 2012, Russian media (Vedomosti, Kommersant, RBCDaily) outlined a number of potential scenarios of how Rosneftegas (of its SPV) can acquire shares of Rushydro. While the newsflow on potential scenarios has not been consistent and none of the scenarios has yet received an official confirmation, the latest reports suggest that some of the following steps can be realised.

- **Rosneftegas may purchase 40% of Irkutskenergo from InterRAO for cash.** According to Vedomosti and RBCDaily (both not naming their sources) this step has been approved by the Presidential commission on the energy sector (headed by President of Russian Federation and administrated by President of Rosneft).
- **Rosneftegas may purchase newly issued shares of Rushydro in exchange for the 40% stake of Irkutskenergo.** After this, Rushydro may contribute the 40% of Irkutskenergo to the share capital of Eurosibenergo.
- **Rosneftegas can purchase newly issued shares of Rushydro for cash.** Among possible amounts that could be contributed by Rosneftegas, the media has quoted RBL41bn.

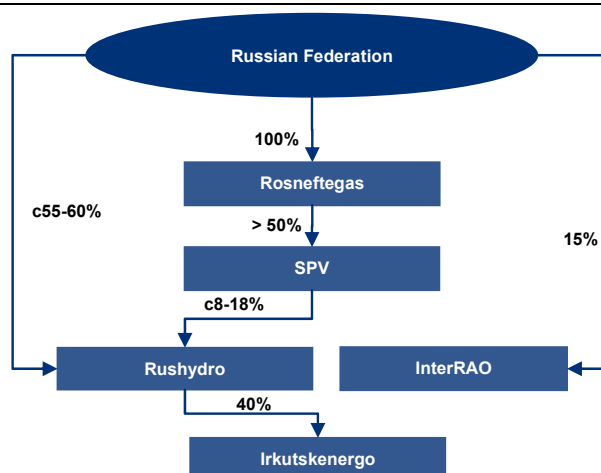
A potential change in ownership structure of Rushydro (and other involved assets) as a result of a combination of these transactions is broadly illustrated at Figures 13 and 14 below.

Fig 13 Ownership structure of Rushydro: current



Source: Company data, ING estimates

Fig 14 Ownership structure of Rushydro: possible after realisation of M&A involving Rosneftegas



Source: Company data, ING estimates

Economic rationale of these transactions has not been officially articulated and remains unclear to us. We also think that not only quantitative details but also the principal configuration of the deals that would allow Rosneftegas (or its SPV) to become a shareholder of Rosneftegas can still be changed as a result of the compromise between the government and Rosneftegas-related players.

OGK-2: new share issue in order to attract RBL20bn of financing from GazpromEnergoHolding (decided with details not defined).

While the issue itself has been approved by the shareholders, the price is yet to be defined by the board of directors, which is expected in Sept/Oct 2012. On the negative side, the decision on the issue signalled that OGK-2's management and core shareholder (GazpromEnergoHolding) do not envision a fast improvement in its operating cash flow, but are also not planning to substantially delay capex spending. According to the Russian legislation, the price of the new issue can not be below the face value of OGK-2 shares, ie, RBL0.36.

While the economic rationale of the above outlined transactions is not clear we highlight that they relate to the companies controlled by the government directly (Rushydro) or indirectly (OGK-2 via Gazprom, InterRAO via other government-controlled utilities).

Final configuration of deals - subject to consent between the government and Rosneftegas leadership

Based on the reports by Russian business media (eg, Kommersant) and public statements by Deputy PM Dvorkovich, the government and Rosneftegas leadership do not have a full agreement regarding the role of Rosneftegas in the reshuffling of the ownership structure of Russian government-controlled utilities. This, in particular, relates to the role of Rosneftegas in the following transactions:

- **Integration of the Federal Grid Company and Holding MRSK.** While Russian business media (Kommersant) initially suggested that integration of the two companies would take place under the umbrella of Rosneftegas, Deputy PM Dvorkovich suggested that integration of the two companies does not have to involve Rosneftegas.
- **Share issue by Rushydro.** While Russian business media (Kommersant) initially suggested that Rushydro may sell a major amount of new shares to an SPV controlled by Rosneftegas, Deputy PM Dvorkovich suggested that the new shares can also be sent to other investors, including VEB or its investment vehicles.

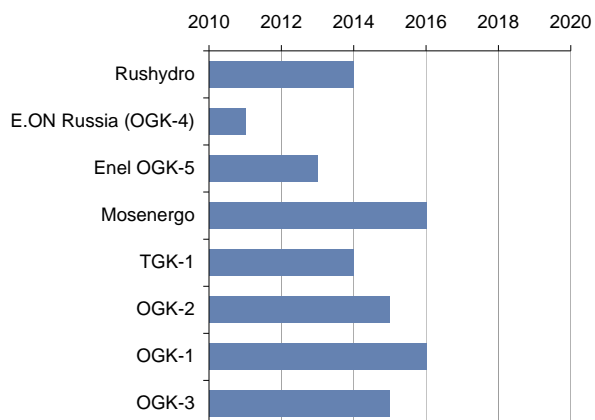
We believe that the final configuration of these deals, as well as the role of Rosneftegas, is yet to be decided with the arbitrage of the President. We note, however, that the recent public statements suggest the initiative in the discussion currently belongs to the government.

Stock implications

We like companies with early positive FCF

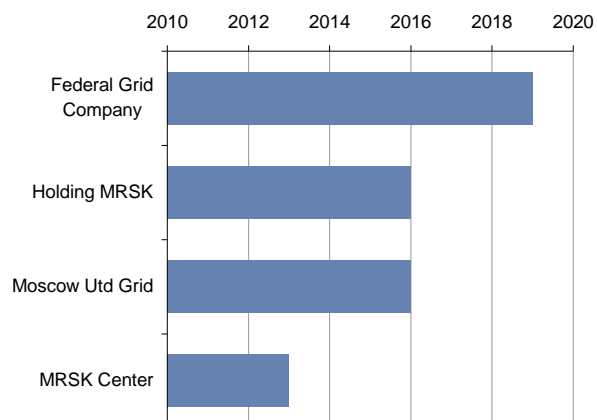
With apparent downward pressure on electricity prices and upward pressure on capex (especially in government related utilities), we prefer stocks with earlier FCF breakeven (even though their list has narrowed).

Fig 15 FCF breakeven year: generators (INGF)



Source: Company data, ING estimates

Fig 16 FCF breakeven year: grids (INGF)



Source: Company data, ING estimates

Among companies with early FCF breakeven point, we highlight the following generators:

- **E.On Russia**, which has become FCF positive in 2011 and started paying meaningful dividends (25% payout) on the back of the results for this year.
- **Enel OGK-5**, which according to our estimates, may become FCF positive in 2013. We believe that after this, the company is likely to start paying out at least 25% of net profits to the shareholders.
- **TGK-1**, which according to our estimates, may become FCF positive in 2014 after the rollout of operations of a new unit at Pravoberezhnaya CHP-5 (+450MW, 2012).

Selected participants of M&A may gain from technical triggers

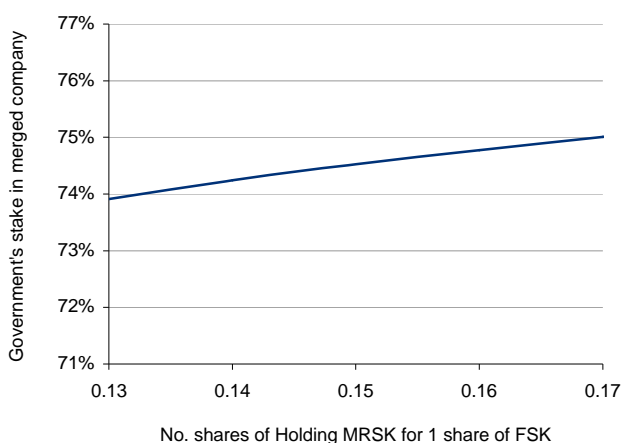
Possible technical triggers and beneficiaries include:

FSK may gain from generous valuation relative to Holding MRSK

If the government decides to merge the Federal Grid Company and the Holding MRSK, the relative valuation of the two shares will be set so that the government's stake in the merged company remains above 75%, we believe. According to our estimates, this requires that one share of FSK (where the government owns over 79%) should be valued not lower than **0.15** shares of Holding MRSK (where the government owns 57% of ordinary shares) – see Figures 17 and 18.

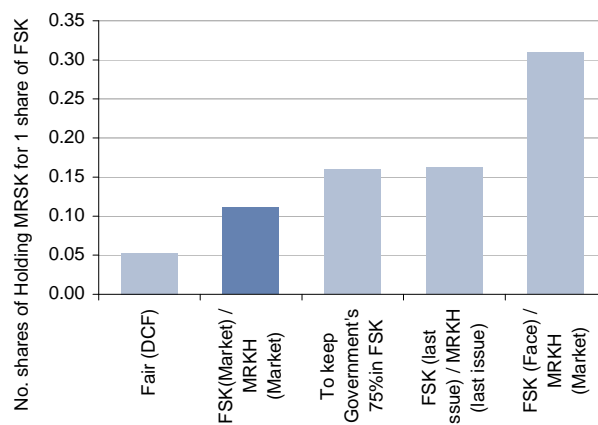
We think that if the merger scenario moves forward, the government may set the relative valuation close to this level (0.15 shares of Holding MRSK for one share of FSK), even though our estimates show that the fair value of FSK is lower relative to Holding MRSK (see Figure 18).

Fig 17 The government's stake in the merged company depending on the swap ratio



Source: Company data, ING estimates

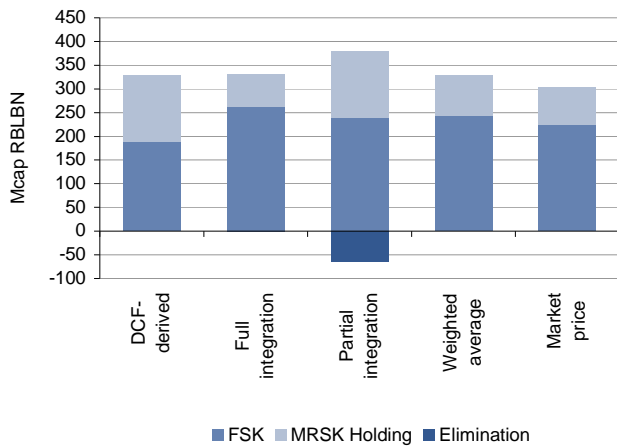
Fig 18 Relative valuation of FSK and Holding MRSK shares



Source: Company data, ING estimates

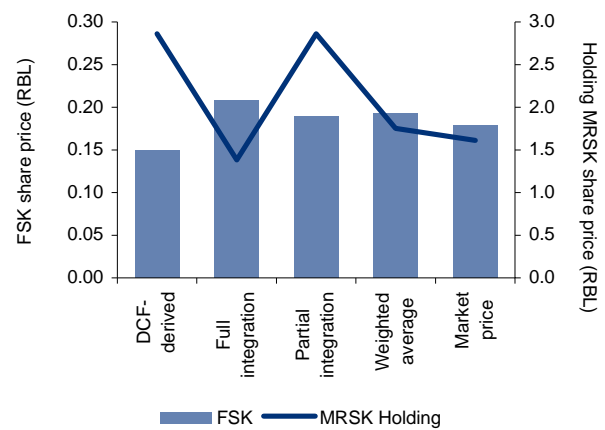
Setting the swap terms at this level (0.15 shares of Holding MRSK for one share of FSK) would increase the fair value of FSK shares (if treated as entry tickets to the merged company) and, as a flip side, reduce the fair value of the shares of Holding MRSK – see Figures 19 and 20.

Fig 19 Mcap of FSK and Holding MRSK



Source: Company data, ING estimates

Fig 20 Target prices of FSK and Holding MRSK



Source: Company data, ING estimates

We set the fair value of FSK and Holding MRSK shares as a weighted average between the DCF-derived standalone TP (25% weight) and TP under ‘full integration’ scenario (75% weight). For full details see the corresponding company pages.

Rushydro’s potential new share issue is likely to be priced at a premium to the market price

Due to legal requirements, Rushydro’s share issue in favour of Rosneftegas or its SPV (if it takes place) should not be priced below the face value (RBL1), which represents a premium to the current market value.

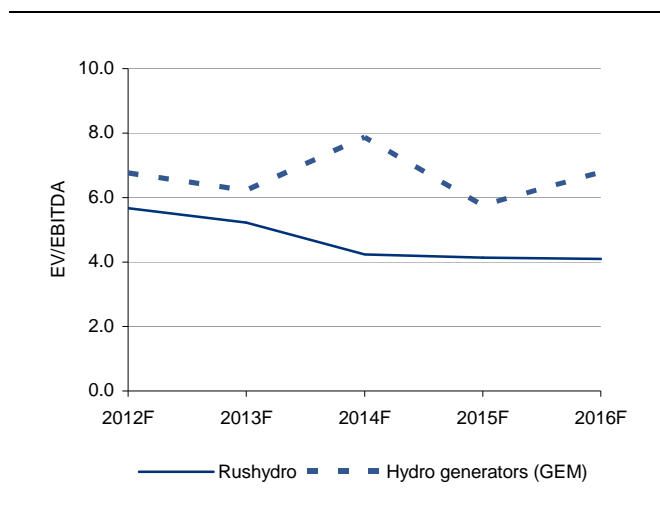
Upside and multiples

Multiples development

Generators

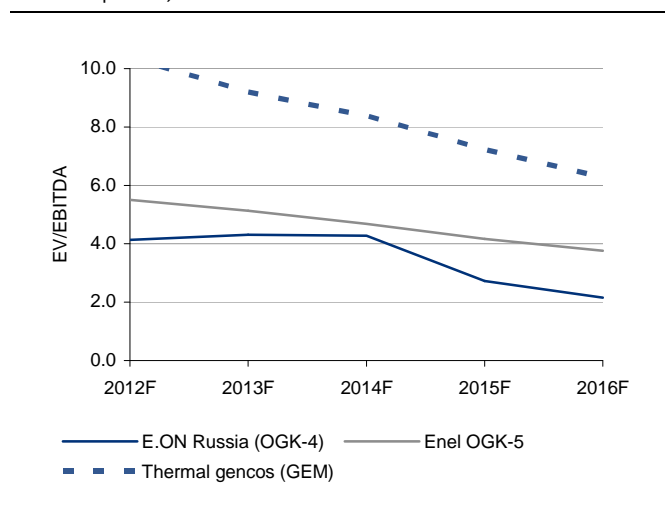
The charts below represent development of estimated EV/EBITDA for generators over time compared with GEM peers (hydro-based generators for Rushydro and thermal generators for others).

Fig 21 EV/EBITDA (x): Rushydro (vs GEM peers)



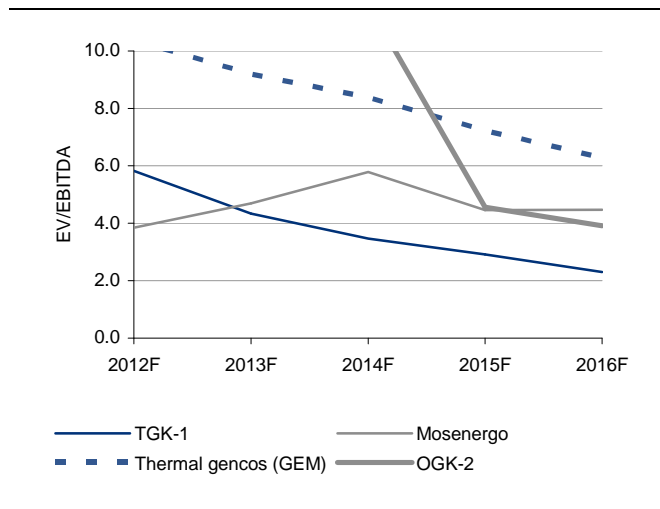
Source: Company data, Bloomberg, ING estimates

Fig 22 EV/EBITDA (x): Foreign-owned gencos (vs GEM peers)



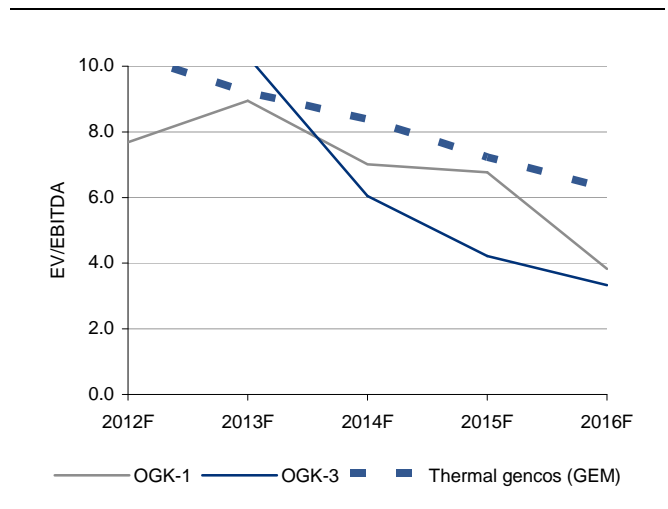
Source: Company data, Bloomberg, ING estimates

Fig 23 EV/EBITDA (x): Gazprom's genco (vs GEM peers)



Source: Company data, Bloomberg, ING estimates

Fig 24 EV/EBITDA (x): InterRAO's gencos (vs GEM peers)



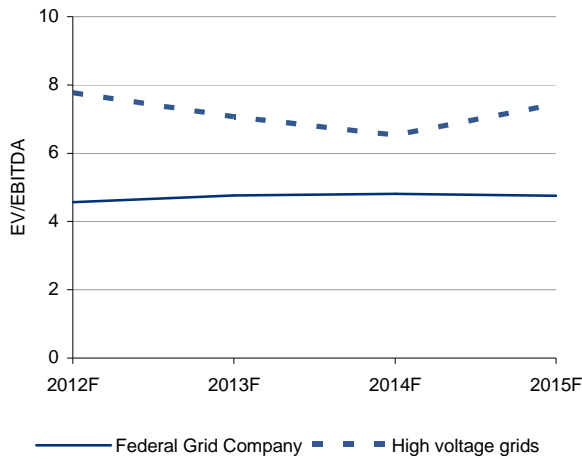
Source: Company data, Bloomberg, ING estimates

Among the generators that show the deepest discount to GEM peers, we highlight foreign-controlled gencos (E.ON Russia, Enel OGK-5) and Gazprom-controlled TGKs (TGK-1, Mosenergo).

Grids

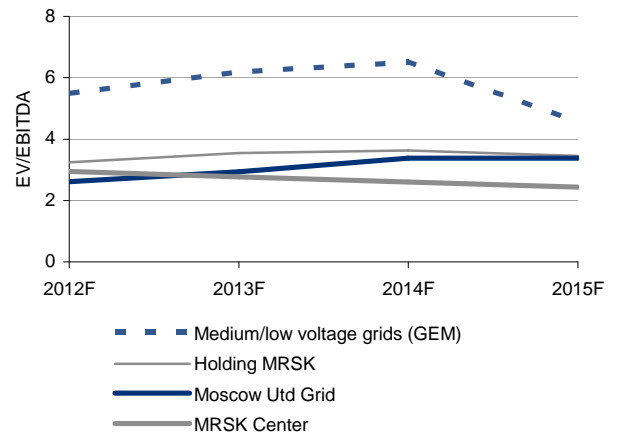
The charts below represent development of estimated EV/EBITDA for grids over time compared with GEM peers (high voltage grids for the Federal Grid Company and low/medium voltage grids for MRSKs, including Holding MRSK).

Fig 25 EV/EBITDA (x): Federal Grid Company (vs GEM peers)



Source: Company data, Bloomberg, ING estimates

Fig 26 EV/EBITDA (x): MRSKs (vs GEM peers)



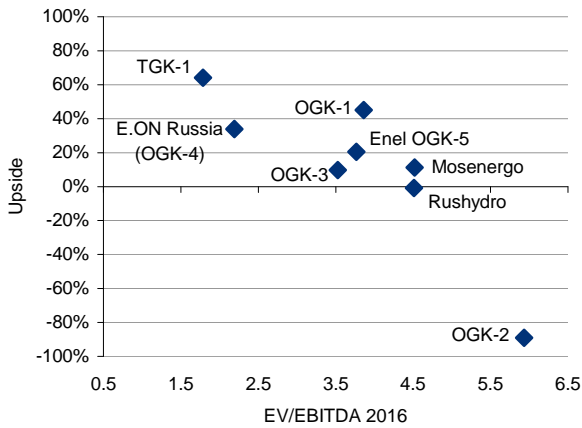
Source: Company data, Bloomberg, ING estimates

Among the grids with the deepest discount to GEM peers, we highlight MRSKs (both individual ones and the Holding MRSK).

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

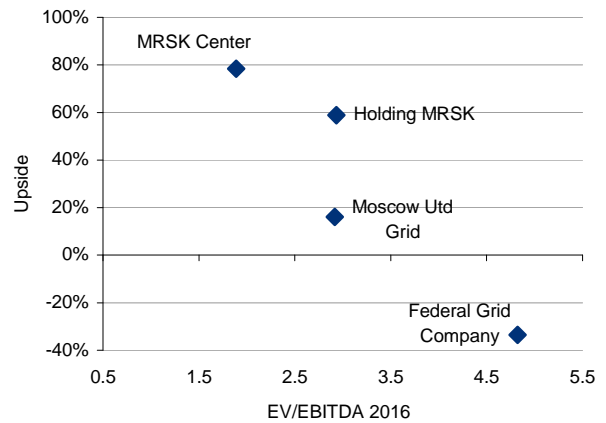
As shown in Figures 27 and 28, our DCF-derived upsides (before M&A-related adjustments) are well correlated with the estimated EV/EBITDA multiples as of 2016F (ie, after the covered generators complete their medium-term capex programmes).

Fig 27 Upside (DCF implied, before M&A adjustments) vs EV/EBITDA (x) 2016F: generators



Source: Company data, Bloomberg, ING estimates

Fig 28 Upside (DCF implied, before M&A adjustments) vs EV/EBITDA (x) 2016F: grids



Source: Company data, Bloomberg, ING estimates

We note that the upsides presented in the charts above are based on DCF valuation of the companies on a stand-alone basis, without accounting for the effects of M&As (eg, conversion of OGK-1 and OGK-3 into InterRAO, and integration of the Federal Grid Company and the Holding MRSK). Possible effects of these transactions are discussed in the section above and on the corresponding company pages.

Generators: Rushydro

Rushydro

High quality asset base overshadowed by capex and M&A

Previously Buy

Hold

Russian Federation
UtilitiesMarket cap RBL250,444m
Bloomberg HYDR RX

The excellent potential of Rushydro's core asset base (25GW) is not adequately translated into shareholder value due to the company's capex and M&A strategy. While privatisation could lead to a change in strategy and higher operating efficiency, its timing remains uncertain.

Investment case

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

Asset base

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

"Old" plants

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

"New" plants

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

Tariffs and prices

Starting in 2012, the government excluded the so-called "investment component" from Rushydro's revenues. In 2011, the component added RBL13bn to the revenues of Rushydro.

M&A and capital raising

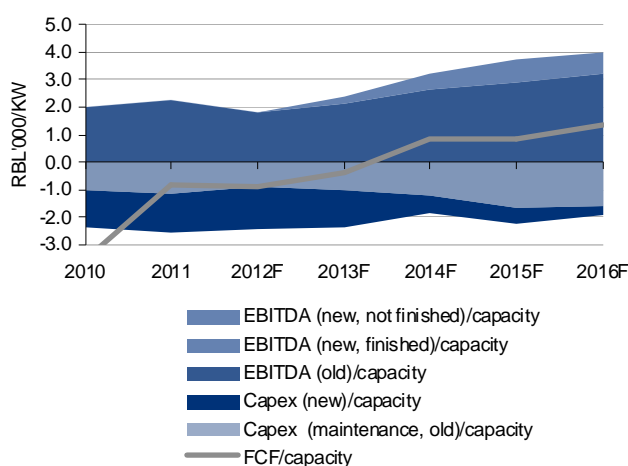
According to Kommersant, the government considers another issue by Rushydro in favour of an SPV controlled by Rosneftgas. The SPV would pay for new shares of Rushydro with a 40% stake in Irkutskenergo (that SPV would acquire from InterRAO in a shares-for-shares deal), and possibly cash.

Price (07/08/12)	RBL0.86
Target price (12-mth)	RBL0.90
Forecast total return	4.9%

Capex and FCF

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

FCF profile of Rushydro (per KW of "old" capacity), RBL'000/KW



Source: ING estimates

Valuation approach

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

Catalysts

Commissioning of new units, including:

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

Hikes in domestic gas prices

Hikes in domestic gas prices: the recent hike (+15% on 1 July 2012) to be followed by additional 15% increases on both 1 July 2013 and 1 July 2014. The hikes should have an indirect positive effect on Rushydro's top line without affecting its costs.

Newsflow

Date	Description
End of Oct 2012	1H12 IFRS

Source: Company data, ING

Major shareholders (%)

Russian Federation	60.5
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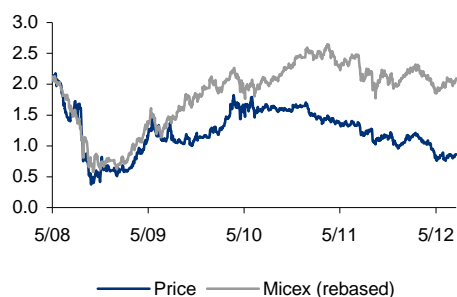
Source: Company data, ING

Share data

Avg daily volume (3-mth)	676,995,985
Free float (%)	40.0
Market cap (RBLm)	250,444
Net debt (1F, RBLm)	27,685
Enterprise value (1F, RBLm)	272,628
Dividend yield (1F, %)	0.60

Source: Company data, ING estimates

Share price performance



Source: ING

Company profile

Controlled by the Russian government (which owned 66% as of 31 July 2011), Rushydro is a major Russian hydro-based electricity generator. At mid-2011, Rushydro directly owned around 26GW of hydro-based capacity: 15GW in European Russia, 7GW in Siberia and 4GW in East. Rushydro is building new capacity (eg, Bogouchansky Hydro, Zagorsky Pump Storage-2 and others) acquired stakes in other utilities (eg, UES of Far East) and intends to acquire a blocking stake in Eurosibenergo.

Risks

Upside

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

Downside:

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

Financials

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

Revenues	78,995	88,979	92,504	93,410	111,061	134,924
EBITDA	50,395	51,456	57,302	49,799	63,515	84,288
EBIT	21,503	49,886	43,759	38,155	42,272	60,732
Net interest	2,742	1,609	305	1,032	(2,215)	(5,941)
Associates						
Other pre-tax items	0	0	0	0	0	0
Pre-tax profit	24,245	51,495	44,064	39,187	40,057	54,792
Tax	(10,609)	(10,492)	(10,541)	(8,068)	(9,614)	(13,150)
Minorities						
Other post-tax items	0	0	0	0	0	0
Net profit	13,636	41,002	33,523	31,120	30,443	41,642
Normalised net profit	32,400	38,485	40,001	35,938	30,443	41,642

Balance sheet

Tangible fixed assets	288,298	320,182	375,982	454,899	535,516	607,201
Intangible fixed assets	0	0	0	0	0	0
Other non-current assets	1,023	1,801	9,916	9,916	9,916	9,916
Cash & equivalents	49,952	22,057	29,608	39,002	0	0
Other current assets	93,517	161,763	204,729	205,159	207,001	209,213
Total assets	432,790	505,803	620,235	708,976	752,433	826,330
Short-term debt	0	0	0	0	0	0
Other current liabilities	11,019	7,926	(32,089)	(29,661)	(29,661)	(28,884)
Long-term debt	16,785	29,816	66,687	66,687	77,486	103,023
Other long-term liabilities	0	0	0	0	0	0
Total equity	404,986	468,061	585,637	671,950	704,608	752,191
Total liabilities & equity	432,790	505,803	620,235	708,976	752,433	826,330
Net working capital	(6,586)	(1,664)	(2,382)	(4,380)	(2,537)	(1,102)
Net debt (cash)	(33,167)	7,759	37,079	27,685	77,486	103,023

Cash flow

Cash flow EBITDA	26,026	54,725	48,888	43,541	63,515	84,288
Tax, interest & other	32,236	5,614	18,650	13,293	11,828	19,091
Change in working capital	(23,539)	(70,799)	0	0	(1,843)	(1,435)
Net cash from op activities	16,247	(29,835)	46,761	41,731	49,844	63,762
Capex	(31,893)	(60,247)	(65,002)	(61,903)	(59,751)	(46,235)
Net acquisitions	0	0	0	0	0	0
Net financing cash flow	0	0	0	0	0	0
Dividends & minority distrib'n	0	0	0	0	0	0
Net ch in cash & equivalents	(15,645)	(90,082)	(18,241)	(20,172)	(9,907)	17,528
FCF	(15,645)	(90,082)	(18,241)	(20,172)	(7,692)	23,468

Performance & returns

Revenue growth (%)	27.7	12.6	4.0	0.98	18.9	21.5
Normalised EPS growth (%)	65.5	18.8	3.9	-14.1	-23.8	28.9
Normalised EBITDA mgn (%)	63.8	57.8	61.9	53.3	57.2	62.5
Normalised EBIT margin (%)	58.1	52.4	56.4	47.5	38.1	45.0
ROACE (%)	11.2	10.1	9.1	6.4	5.6	7.4
Reported ROE (%)	3.5	9.4	6.3	4.9	4.4	5.7
Working capital as % of sales	-8.3	-1.9	-2.6	-4.7	-2.3	-0.82
Net debt (cash)/EBITDA (x)	(0.66)	0.15	0.65	0.56	1.2	1.2
EBITDA net interest cvg (x)	n/a	n/a	n/a	n/a	28.7	14.2

Valuation

EV/revenue (x)	2.8	2.9	3.0	2.9	2.9	2.6
EV/normalised EBITDA (x)	4.3	5.0	4.9	5.5	5.1	4.1
EV/normalised EBIT (x)	4.7	5.5	5.4	6.1	7.6	5.7
Normalised PER (x)	7.7	6.5	6.3	7.3	9.6	7.4
Price/book (x)	0.62	0.54	0.42	0.40	0.43	0.41
Dividend yield (%)	0.0	1.00	0.91	0.60	1.5	2.5
FCF yield (%)	n/a	n/a	n/a	n/a	n/a	6.7

Per share data

Reported EPS (RBL)	0.05	0.14	0.12	0.10	0.09	0.12
Normalised EPS (RBL)	0.11	0.13	0.14	0.12	0.09	0.12
Dividend per share (RBL)	0.00	0.01	0.01	0.01	0.01	0.02
Equity FCFPS (RBL)	(0.05)	(0.31)	(0.06)	(0.07)	(0.03)	0.05
BV/share (RBL)	1.40	1.61	2.04	2.14	1.99	2.12

Source: Company data, ING estimates

P&L & cash flow

	2008	2009	2010	2011	2012F	2013F	2014F	2015F	2016F	TV 2017F
Capacity (GW)										
Installed capacity: old plants	25	25	25	25	25	25	25	25	25	25
Installed capacity, new finished	-	-	-	-	-	-	-	-	-	-
Installed capacity: new, not finished	-	-	-	-	-	1.3	2.5	2.9	2.9	-
Installed capacity total	25	25	25	25	25	27	28	28	28	
P&L (RBLbn)										
Revenue electricity: old	51	70	74	83	74	84	101	110	119	
Revenue, electricity, new, finished	-	-	-	-	-	-	-	-	-	-
Revenue, electricity, new, not finished	-	-	-	-	-	9	17	23	24	
Revenue electricity	50	70	74	83	74	93	118	132	142	
Heat revenue	0	0	0	0	0	-	-	-	-	-
Revenue other (incl. reselling)	12	9	15	9	19	18	17	17	16	
Revenue	62	79	89	93	93	111	135	149	159	
Fuel costs for heat, old	-	-	-	-	-	-	-	-	-	-
Fuel costs for electricity, old	-	-	-	-	-	(0)	(0)	(0)	(0)	
Fuel costs, new, finished	-	-	-	-	-	-	-	-	-	-
Fuel costs, new, not finished	-	-	-	-	-	-	-	-	-	-
Fuel costs, old and new	-	-	-	-	-	(0)	(0)	(0)	(0)	
Purchased power & Re-selling	(12)	(9)	(15)	(9)	(15)	(15)	(15)	(15)	(15)	
Heat transportation	-	-	-	-	-	-	-	-	-	-
Water payment	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(2)	(2)	
Gross profit	50	70	73	82	78	94	118	133	142	
Non-fuel Opex: old plants	(19)	(19)	(22)	(25)	(28)	(30)	(32)	(34)	(36)	
Non-fuel Opex: new, finished	-	-	-	-	-	-	-	-	-	-
Non-fuel Opex: new, not finished	-	-	-	-	-	(1)	(2)	(3)	(3)	
Non-fuel Opex	(19)	(19)	(22)	(25)	(28)	(31)	(34)	(37)	(39)	
EBITDA, old plants	-	50	51	57	45	53	67	74	81	
EBITDA, new, finished	-	-	-	-	-	-	-	-	-	-
EBITDA, new, not finished	-	-	-	-	-	7	15	20	21	
EBITDA, other	0	0	0	0	5	3	2	2	1	
EBITDA	31	50	51	57	50	64	84	96	103	
Depreciation, old plants	(4)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	
Depreciation: new, finished	-	-	-	-	-	-	-	-	-	-
Depreciation: new, not finished	-	-	-	-	-	(16)	(18)	(21)	(23)	
Depreciation	(4)	(5)	(5)	(5)	(5)	(21)	(24)	(26)	(29)	
EBIT (excl. non-recurring and non-cash)	27	46	47	52	44	42	61	70	74	
Finance income / (costs), net	1	3	2	0	1	(2)	(6)	(8)	(10)	
Other (non-cash and one-offs)	(1)	(24)	3	(8)	(6)	-	-	-	-	
EBT	27	24	51	44	39	40	55	62	64	
Income tax	(8)	(11)	(10)	(11)	(8)	(10)	(13)	(15)	(15)	
Net profit	19	14	41	34	31	30	42	47	49	
Cash flow (RBLbn)										
NOPAT: old plants	19	22	36	38	30	36	47	52	57	
NOPAT: new, finished	-	-	-	-	-	-	-	-	-	-
NOPAT: new, not finished	-	-	-	-	-	(9)	(3)	(1)	(3)	
NOPAT: other	0	0	0	0	4	2	2	1	1	
NOPAT	19	22	36	38	34	30	45	53	56	
Reduction/(increase) in working capital; existing plants	(31)	(24)	(71)	-	-	(2)	(1)	(1)	(0)	
Reduction/(increase) in working capital; new plants	-	-	-	-	-	-	-	-	-	-
Reduction / (increase) in working capital	(31)	(24)	(71)	-	-	(2)	(1)	(1)	(0)	
Capex, old (maintenance)	-	-	(25)	(29)	(22)	(26)	(31)	(42)	(41)	
Capex, new, finished	-	-	-	-	-	-	-	-	-	-
Capex: new, not finished	-	(32)	(35)	(36)	(40)	(33)	(15)	(15)	(9)	
Capex (net of partners' contribution)	-	(32)	(60)	(65)	(62)	(60)	(46)	(57)	(49)	
FCF: old plants	(8)	3	(55)	15	13	14	20	15	22	
FCF: new plants, finished	-	-	-	-	-	-	-	-	-	-
FCF: new plants, not finished	-	(32)	(35)	(36)	(40)	(26)	(1)	5	12	
FCF: other	0	0	0	0	4	2	2	1	1	
FCF (attributable to EV)	(8)	(29)	(90)	(21)	(23)	(10)	21	21	35	
FCF & DCF (US\$m)										
US\$/RBL exchange rate (year average)	25	32	30	29	32	32	33	33	32	
Discounting factor										
Finished					1.00	0.95	0.85	0.76	0.68	0.61
Not finished					1.00	0.94	0.83	0.73	0.64	0.56
DCF: Old plants					422	398	522	340	460	4,743
DCF: New plants: finished					-	-	-	-	-	-
DCF: New plants: not finished					(1,245)	(762)	(18)	123	256	3,464
DCF: Other					110	65	46	32	23	125
FCF (unlevered), discounted, (US\$m)					(713)	(299)	550	495	739	8,331

Source: Company data, ING estimates

Valuation parameters and target price derivation

WACC (%)	Finished	11.70			
	Not finished	13.70			
TV (US\$bn) based on different approaches with median as median)	EV/KW: min	As % of the capex	Gordon-growth	EV/KW: max	Final
Old plants	7.6		7.8	38.0	7.8
New plants; finished			-		-
New plants; not finished			5.7		5.7
Other			0.2		0.2
TV, final, (US\$bn)					13.7
Components of value (US\$m)	Gross	Debt of SPVs (pro-rata)	Net		
Old plants	6,463		6,463		
New plants, finished	-		-		
New plants, not finished	3,063	(172)	2,891		
Other	290		290		
Core assets	9,816	(172)	9,644		
Non-core assets			1,159		
Net (debt) / cash			(867)		
Equity			9,936		
No. of shares: Ord: Old (bn)			290		
No. of shares: Ord: New (2011, bn)			26		
No. of shares: Ord: New (2012, bn)			41		
No. of shares: Ord (bn)			358		
No. of shares: Ord: quasi-treasury (bn)			(5)		
No. of shares: Pref (bn)			-		
No. of shares: effective, total (bn)			352		
Target price (US\$)			0.03		
Target price (RBL)			0.90		

Source: Company data, ING estimates

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**Generators:
InterRAO group**

Inter RAO UES

Complex story with remote FCF and dividends

Previously Buy

HoldRussian Federation
UtilitiesMarket cap RBL260,904m
Bloomberg IRAO RX

InterRAO is a diversified electricity holding with the current asset mix dominated by Russian electricity generation and exposure to generic sector risks. In the case of InterRAO, generic sector risks are not balanced by short-term positive FCF and dividends.

Investment case

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

Generating assets

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

"Old" assets

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

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

"New" assets

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

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

Price (07/08/12)	RBL0.027
Target price (12-mth)	Previously RBL0.04 RBL0.028
Forecast total return	4.3%

M&A and capital raising

InterRAO is set to effectively merge with OGK-1 and OGK-3 by end-1Q13 with one share of OGK-1 to convert to 24 shares of InterRAO and one share of OGK-3 to convert to 40 shares of InterRAO.

Some of (yet unconfirmed) scenarios of Rosneftegas' expansion into Russian electricity sector suggest that InterRAO may sell newly issued shares to Rosneftegas or its SPV. InterRAO is likely to sell up to 40% of Irkutskenergo to Rosneftegas by the end of the year, according to InterRAO CEO Kovalchuk.

Valuation approach

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

Catalysts

Commissioning of new power units, including:

- ✚ Ivanovskiye CHP (0.3GW, 2012).
- ✚ Urenkoiskaya TPP (OGK-1, +0.5GW, 2012).
- ✚ Kharanorkaya TPP (OGK-3, +0.2GW, 2012).
- ✚ Gusinoozher TPP (OGK-3, +0.2GW, 2012).
- ✚ South-Urals TPP (OGK-3, +0.4GW, 2013).
- ✚ Cherepetsk TPP (OGK-3, +0.2GW, 2013).
- ✚ Nizhnevarkovsk TPP (OGK-1, +0.4GW, 2013).
- ✚ Djubka TPP (OGK-3, +0.5GW, 2013).
- ✚ Ekibastuz TPP (Kazakhstan, +0.5GW, 2014).
- ✚ South-Urals TPP (OGK-3, +0.4GW, 2014).
- ✚ Cherepetsk TPP (OGK-3, +0.2GW, 2014).

Newsflow

Date	Description
5 Oct 2012	1H12 IFRS

Source: Company data, ING

Major shareholders (%)

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

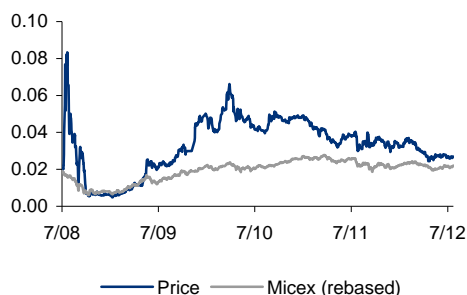
Source: Company data, ING

Share data

Avg daily volume (3-mth)	1,862,366,667
Free float (%)	40.0
Market cap (RBLm)	260,904
Dividend yield (1F, %)	0.0

Source: Company data, ING estimates

Share price performance



Source: ING

Company profile

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

Risks

Upside

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

Downside

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

SOTP valuation summary

Segment	Key assets	Capacity (GW)			Value (pre-holding disc, RBLbn)			Value (post-holding disc, RBLbn)			Comment
		Total	Pro-rata	Controlled	Approach	Multiple (x)	Value	Holding disc (%)	InterRAO claim	% of total	
1.1. Russian Generation: old, controlled	OGK-1, OGK-3, TGK-11	20	20	20	DCF		126		126	46	TGK-11: market
1.2. Russian Generation: new, fully owned		2	2	2	Target EBITDA multiple	6	19		19	7	
1.3. Russian Generation: old, major stakes		36	12	-	Market		76	-15	65	24	
1. Russian Generation		59	34	23			222		210	78	
2. European trading		-	-	-	Target EBITDA multiple	5	26	-15	22	8	
3. Russian Electricity retail		-	-	-	Market		17	-15	15	5	
4. Former USSR		4	3	4	Target EBITDA multiple	5	17	-15	14	5	
5. Russian misc.		-	-	-	Market		12	-15	10	4	
Gross asset value		62	38	26			293		271	100	
Net debt of the Holding		-	-	-	RAS accounts				-1		
Net asset value		-	-	-					270		
No. shares outstanding (bn)									9,716		
No. new shares for consolidation (bn)									610		OGK-1 and OGK-3
No. shares quasi-treasury (bn)									-813		InterRAO Capital
No. shares effective (bn)									9,513		
Target price (RBL)									0.028		

Source: Company data, ING estimates

Composition of InterRAO's gross asset value (GAV)

Company	Stake by InterRAO (%)			Capacity (GW)			Share price (RBL)			T multiple EV/EBITDA 2011 (x)	Value of InterRAO Claim (RBLbn)				Comment
	as of 30/6/11	Consolidation adj	For calc	Total	Pro-rata	Controlled	Fair price	Mkt price	Upside (%)		At deal price	At TP	At target multiple	At Mk price	
OGK-1	75	25	100	9.9	9.9	9.9	0.9	0.6	45				61	61	
OGK-3	82	18	100	8.4	8.4	8.4	1.2	1	22				59	59	
TGK-11	68	17	85	2.1	1.7	2.1		0					6	6	
1.1. Russian Gen: old, controlled			98	20.3	20	20.3								126	
North-West TPP	100		100	0.9	0.9	0.9									
Kaliningrad TPP-2	100		100	0.9	0.9	0.9									
Ivanov CHP	100		100	0.3	0.3	0.3									
Sochi TPP	100		100	0.2	0.2	0.2									
1.2. Russian Generation: new, fully owned	100		100	2.3	2.3	2.3			6			19		19	
Irkutskenergo	40		40	12.9	5.2			14.7					28	28	TP based on swap ratio with Rushydro
TGK-7	39		39	6.9	2.7			1.6					19	19	
OGK-5	26		26	8.8	2.3			1.8		19			17	19	Sale agreed in 1Q12
TGK-6	26		26	3.1	0.8			0					2	2	
Bashkirenergo	27		27	4.6	1.2			32.8					9	9	
1.3 Russian Gen: old, major stakes			34	36.3	12.2	-								76	
2. European trading	100		100			-			5			26		26	
St. Petersburg Supply Company	97		97			-		15					11	11	
Mosenergosbyt	51		51			-		0.4					6	6	
Tambov supply company	59		59			-		0.2					0	0	
Saratovenergo	57		57			-		0.1					0	0	
Tomsk Energy Retail Company	31		31			-		0.1					0	0	
Alatienergosbyt	100		100			-									
3. Russian Elec retail														17	
Kazakhstan	50		50	1	0.5	1			5			3		3	
Armenia	100		100			-			5			5		5	
Georgia	75		75			-			5			3		3	
Moldova	100		100	2.5	2.5	2.5			5			6		6	
4. Former USSR				3.5	3	3.5								17	
Rushydro	2		2				0.9	0.9	4				5	5	
Mosenergo	5		5				1.5	1.3	21				3	3	
OGK-2(6)	6		6				0.5	0.5	8				2	2	
TGK-1	2		2				0	0	28				1	0	
TGK-10	3		3					23.4					1	1	
TGK-4	2		2					0					0	0	
TGK-2	1		1					0					0	0	
TGK-9	2		2					0					0	0	
TGK-14	1		1					0					0	0	
Novosibirskenergo	0		0					273.2					0	0	
RN Energo	100		100												
Sangtudinskyaya HPP-1	17		17												
5. Russian misc.				-	-	-								12	
Kuban GenCo	26		26										0	0	Sold in Sept 2011
Kuban Energy Retail Company	26		26					163					1	1	Sold in Sept 2011
OGK-4	3		3					2.7					5	5	Sold in Jan 2012
6. Sold assets															
Total				62.4	37.5									293	

Source: Company data, ING estimates

OGK-1

Entry ticket to InterRAO

Previously Buy

Hold

 Russian Federation
Utilities

 Market cap RBL29,049.3m
Bloomberg OGK1 RX

Each share of OGK-1 is expected to be swapped for 24 shares of InterRAO by 1Q12-1Q13.

Investment case

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

Generating assets

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

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

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

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

"New" assets

2.0GW by 2016, including:

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

M&A and capital-raising

OGK-1 is set to effectively merge with InterRAO by end-2012 with one share of OGK-1 to convert to 24 shares of InterRAO.

Price (07/08/12) RBL0.65

Previously RBL0.89

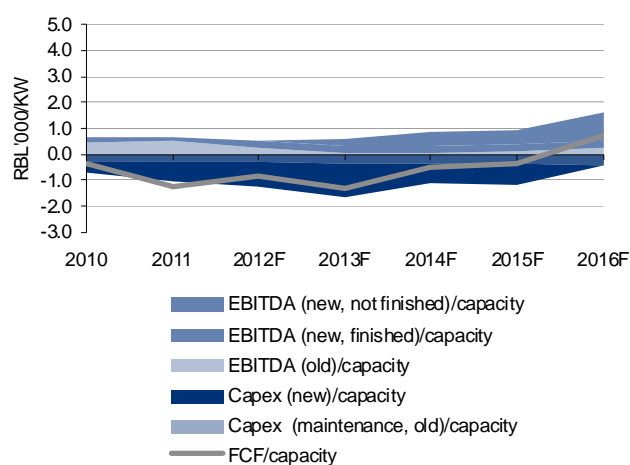
Target price (12-mth) RBL0.67

Forecast total return 3.1%

Capex and FCF

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

FCF profile (per KW of "old" capacity), RBL'000/KW



Source: ING estimates

Valuation

Our valuation of OGK-1 consists of three steps:

- ✚ Valuation of OGK-1 as a standalone company based on DCF.
- ✚ Valuation of InterRAO on a SOTP basis, which (among other assets) includes the DCF-estimated fair value of OGK-1 (see previous step) and OGK-3. Details are presented on the InterRAO company page.
- ✚ Valuation of OGK-1 as an "entry ticket" to InterRAO, by applying the swap ratio (one share of OGK-1 to 24 shares of InterRAO) to the SOTP-derived TP for InterRAO.

Catalysts

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

Newsflow

Date	Description
End-Aug 2012	1H12 IFRS

Source: Company data, ING

Major shareholders (%)

InterRAO	75
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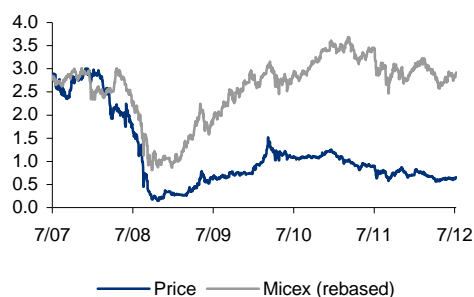
Source: Company data, ING

Share data

Avg daily volume (3-mth)	16,233,231
Free float (%)	25.0
Market cap (RBLm)	29,049.3
Net debt (1F, RBLm)	424
Enterprise value (1F, RBLm)	29,474
Dividend yield (1F, %)	0.10

Source: Company data, ING estimates

Share price performance



Source: ING

Company profile

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

Risks

Upside

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

Downside

- ⚡ Capex and M&A (eg, international) by InterRAO with unclear shareholder return.
- ⚡ Delays in realisation of the capacity addition programme.

Financials

Year end Dec (RBLm)	2009	2010	2011	2012F	2013F	2014F
Income statement						
Revenues	47,464	49,226	55,753	53,401	67,779	83,922
EBITDA	4,525	6,411	6,827	4,297	5,388	7,906
EBIT	2,781	4,411	3,747	1,926	1,265	3,415
Net interest	961	(450)	484	226	(0.4)	(1,161)
Associates						
Other pre-tax items	0	0	0	0	0	0
Pre-tax profit	3,742	3,961	4,231	2,153	1,265	2,253
Tax	(768)	(724)	(1,324)	(517)	(303)	(541)
Minorities						
Other post-tax items	0	0	0	0	0	0
Net profit	2,974	3,237	2,907	1,636	961	1,713
Normalised net profit	2,974	3,147	3,533	1,636	961	1,713
Balance sheet						
Tangible fixed assets	36,672	48,812	56,494	66,953	80,889	90,132
Intangible fixed assets	0	0	0	0	0	0
Other non-current assets	424	3,657	443	443	443	443
Cash & equivalents	6,861	14,640	1,601	0	0	0
Other current assets	7,219	10,240	17,623	17,623	19,791	22,358
Total assets	51,176	77,349	76,161	85,019	101,122	112,933
Short-term debt	0	0	0	5	0	0
Other current liabilities	2,096	1,517	4,277	6,950	6,950	8,631
Long-term debt	8,630	5,936	419	419	15,566	22,822
Other long-term liabilities	0	0	0	0	0	0
Total equity	40,450	69,896	71,465	77,645	78,606	81,480
Total liabilities & equity	51,176	77,349	76,161	85,019	101,122	112,933
Net working capital	3,808	3,525	3,618	945	3,113	3,999
Net debt (cash)	1,769	(8,704)	(1,182)	424	15,566	22,822
Cash flow						
Cash flow EBITDA	4,525	6,528	6,014	4,297	5,388	7,906
Tax, interest & other	(193)	1,057	1,653	291	304	1,702
Change in working capital	0	(2,194)	(7,007)	0	(2,168)	(886)
Net cash from op activities	3,757	3,043	(1,504)	3,780	2,916	5,318
Capex	(4,085)	(6,688)	(10,176)	(11,973)	(15,525)	(10,833)
Net acquisitions	0	0	0	0	0	0
Net financing cash flow	0	0	0	0	0	0
Dividends & minority distrib'n	0	0	0	0	0	0
Net ch in cash & equivalents	(328)	(3,645)	(11,681)	(8,193)	(12,609)	(5,515)
FCF	(328)	(3,195)	(11,681)	(8,193)	(12,609)	(4,354)
Performance & returns						
Revenue growth (%)	-4.9	3.7	13.3	-4.2	26.9	23.8
Normalised EPS growth (%)	-17.8	-14.2	-5.6	-53.7	-41.3	78.2
Normalised EBITDA mgn (%)	9.5	13.0	12.2	8.0	7.9	9.4
Normalised EBIT margin (%)	5.9	8.7	8.2	3.6	1.9	4.1
ROACE (%)	6.2	6.9	6.2	2.6	1.5	3.4
Reported ROE (%)	7.7	5.9	4.1	2.2	1.2	2.1
Working capital as % of sales	8.0	7.2	6.5	1.8	4.6	4.8
Net debt (cash)/EBITDA (x)	0.39	(1.4)	(0.17)	0.10	2.9	2.9
EBITDA net interest cvg (x)	n/a	14.2	n/a	n/a	12,358	6.8
Valuation						
EV/revenue (x)	0.65	0.41	0.50	0.55	0.66	0.62
EV/normalised EBITDA (x)	6.8	3.2	4.1	6.9	8.3	6.6
EV/normalised EBIT (x)	11.1	4.7	6.1	15.3	35.3	15.2
Normalised PER (x)	9.8	11.4	12.1	26.0	44.3	24.9
Price/book (x)	0.72	0.61	0.60	0.55	0.54	0.52
Dividend yield (%)	0.0	0.0	0.0	0.10	0.11	0.47
FCF yield (%)	n/a	n/a	n/a	n/a	n/a	n/a
Per share data						
Reported EPS (RBL)	0.07	0.06	0.04	0.02	0.01	0.03
Normalised EPS (RBL)	0.07	0.06	0.05	0.02	0.01	0.03
Dividend per share (RBL)	0.00	0.00	0.00	0.00	0.00	0.00
Equity FCFPS (RBL)	(0.01)	(0.07)	(0.18)	(0.13)	(0.19)	(0.08)
BV/share (RBL)	0.91	1.07	1.09	1.19	1.20	1.24

Source: Company data, ING estimates

P&L & cash flow

	2008	2009	2010	2011	2012F	2013F	2014F	2015F	2016F	TV'17F
Capacity (GW)										
Installed capacity: old plants	10	10	10	10	10	10	10	10	10	
Installed capacity, new finished	-	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Installed capacity: new, not finished	-	-	-	-	-	0.5	0.9	0.9	1.7	
Installed capacity total	10	10	10	10	10	10	11	11	12	
P&L (RBLbn)										
Revenue electricity: old	38	36	40	47	46	56	68	78	88	
Revenue, electricity, new, finished	-	1	3	3	4	4	4	5	5	
Revenue, electricity, new, not finished	-	-	-	-	-	4	9	10	21	
Revenue electricity	38	37	43	50	50	65	81	93	114	
Heat revenue	1	1	1	1	1	1	1	1	1	
Revenue other (incl. reselling)	11	10	6	5	3	2	2	2	1	
Revenue	50	47	49	56	53	68	84	96	117	
Fuel costs for heat, old	(0)	(0)	(0)	(1)	(1)	(1)	(1)	(1)	(1)	
Fuel costs for electricity, old	(21)	(26)	(32)	(32)	(35)	(46)	(57)	(66)	(74)	
Fuel costs, new, finished	(0)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	
Fuel costs, new, not finished	-	-	-	-	-	(1)	(3)	(3)	(9)	
Fuel costs, old and new	(25)	(21)	(27)	(33)	(36)	(49)	(61)	(72)	(85)	
Purchased power & Re-selling	(10)	(10)	(5)	(5)	(3)	(2)	(2)	(2)	(1)	
Heat transportation	-	-	-	-	-	-	-	-	-	
Water payment	-	-	-	-	-	-	-	-	-	
Gross profit	15	16	17	18	14	17	21	23	31	
Non-fuel Opex: old plants	(11)	(12)	(9)	(10)	(9)	(10)	(11)	(11)	(12)	
Non-fuel Opex: new, finished	-	(0)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	
Non-fuel Opex: new, not finished	-	-	-	-	-	(1)	(1)	(1)	(3)	
Non-fuel Opex	(11)	(12)	(10)	(11)	(10)	(11)	(13)	(14)	(16)	
EBITDA, old plants	3	5	5	5	2	1	0	1	2	
EBITDA, new, finished	1	1	2	2	3	3	3	3	3	
EBITDA, new, not finished	-	-	-	-	-	2	5	5	10	
EBITDA, other	1	0	0	1	(0)	-	-	-	-	
EBITDA	4	5	6	7	4	5	8	9	15	
Depreciation, old plants	(1)	(1)	(1)	(2)	(2)	(2)	(2)	(2)	(2)	
Depreciation: new, finished	-	(0)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	
Depreciation: new, not finished	-	-	-	-	-	(1)	(2)	(2)	(3)	
Depreciation	(1)	(2)	(2)	(2)	(2)	(4)	(4)	(5)	(5)	
EBIT (excl. non-recurring and non-cash)	3	3	4	5	2	1	3	4	10	
Finance income / (costs), net	(0)	1	(0)	0	0	(0)	(1)	(2)	(2)	
Other (Non-cash and one-offs)	6	-	0	(1)	-	-	-	-	-	
EBT	8	4	4	4	2	1	2	3	8	
Income tax	(0)	(1)	(1)	(1)	(1)	(0)	(1)	(1)	(2)	
Net profit	8	3	3	3	2	1	2	2	6	
Cash flow (RBLbn)										
NOPAT: old plants	2	2	3	2	1	(1)	(1)	(0)	1	
NOPAT: new, finished	-	0	1	1	1	1	1	1	2	
NOPAT: new, not finished	-	-	-	-	-	1	2	2	5	
NOPAT: other	1	0	0	0	(0)	-	-	-	-	
NOPAT	3	2	4	3	1	1	2	3	8	
Reduction/(Increase) in working capital; existing plants	(0)	-	(2)	(7)	-	(2)	(1)	(0)	(2)	
Reduction/(Increase) in working capital; new plants	(0)	-	(2)	(7)	-	(2)	(1)	(0)	(2)	
Reduction / (Increase) in working capital	(0)	-	(2)	(7)	-	(2)	(1)	(0)	(2)	
Capex, old (maintenance)	-	-	(3)	(3)	(3)	(3)	(3)	(4)	(4)	
Capex, new, finished	-	(4)	-	-	-	-	-	-	-	
Capex: new, not finished	-	(0)	(4)	(7)	(9)	(12)	(7)	(7)	-	
Capex (net of partners' contribution)	-	(4)	(7)	(10)	(12)	(16)	(11)	(11)	(4)	
FCF; old plants	3	3	(1)	(6)	(1)	(5)	(4)	(3)	(4)	
FCF; new plants, finished	-	(3)	1	1	2	2	2	2	2	
FCF; new plants, not finished	-	(0)	(4)	(7)	(9)	(10)	(3)	(3)	8	
FCF: other	1	0	0	0	(0)	-	-	-	-	
FCF (attributable to EV)	4	(0)	(3)	(12)	(8)	(13)	(5)	(3)	7	
FCF & DCF (US\$m)										
US\$/RBL exchange rate (year average)	25	32	30	29	32	32	33	33	32	
Discounting factor					Finished	1.00	0.94	0.84	0.74	0.66
					Not finished	1.00	0.93	0.81	0.71	0.62
DCF: Old plants					(27)	(141)	(100)	(59)	(74)	694
DCF: New plants: finished					63	64	57	52	46	194
DCF: New plants: not finished					(281)	(296)	(83)	(65)	164	1,224
DCF: Other					(13)	-	-	-	-	-
FCF (unlevered), discounted (US\$m)					(258)	(373)	(126)	(72)	136	2,112

Source: Company data, ING estimates

Valuation parameters and target price derivation

WACC (%)	Finished	12.70			
	Not finished	14.70			
TV (US\$bn) based on different approaches with median as median)	EV/KW: min	As % of the capex	Gordon-growth	EV/KW: max	Final
Old plants	1.2		-	4.8	1.2
New plants; finished			0.3		0.3
New plants; not finished			2.1		2.1
Other			-		-
TV, final (US\$bn)					3.6
Components of value (US\$m)	Gross	Debt of SPVs (pro-rata)	Net		
Old plants	320		320		
New plants, finished	413		413		
New plants, not finished	943	-	943		
Other	-		-		
Core assets	1,676	-	1,676		
Non-core assets			226		
Net (debt) / cash			(0)		
Equity			1,902		
No. of shares: Ord: Old (bn)			45		
No of shares: Ord: New (2011, bn)			21		
No of shares: Ord: New (2012, bn)			-		
No of shares: Ord (bn)			65		
No of shares: Ord: quasi-treasury (bn)			-		
No of shares: Pref (bn)			-		
No of shares: effective, total (bn)			65		
Target price (US\$)			0.03		
Target price (RBL)			0.93		

Source: Company data, ING estimates

OGK-3

Another entry ticket to InterRAO

Previously Buy

Hold

 Russian Federation
Utilities

 Market cap RBL48,613.5m
Bloomberg OGKC RX

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

Investment case

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

Generating assets

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

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

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

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

"New" assets

2.3GW by 2016, including:

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

M&A and capital-raising

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

Price (07/08/12) RBL1.02

Previously RBL1.48

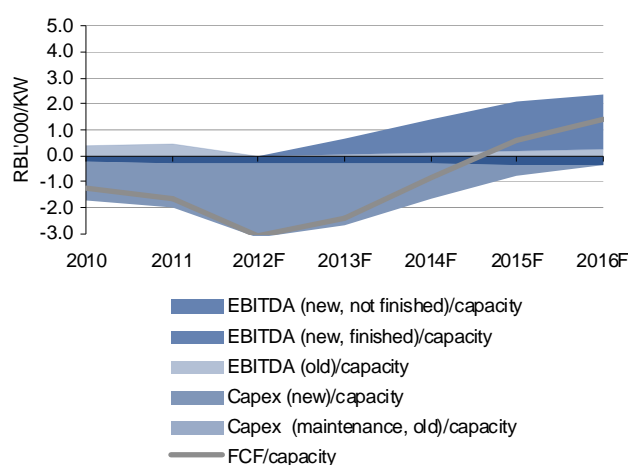
Target price (12-mth) RBL1.12

Forecast total return 9.4%

Capex and FCF

Expected FCF breakeven year – 2015.

FCF profile (per KW of "old" capacity), RBL000/KW



Source: ING estimates

Valuation approach

Our valuation of OGK-1 consists of three steps:

- ✚ Valuation of OGK-3 as a standalone company based on DCF.
- ✚ Valuation of InterRAO on a SOTP basis, which includes the DCF-estimated fair value of OGK-3 (estimated in the previous step).
- ✚ Valuation of OGK-3 as an "entry ticket" to InterRAO, which is done by applying the approved swap ratio (one share of OGK-3 converts to 40 shares of InterRAO) to the SOTP-derived TP for InterRAO (estimated in the previous step).

Catalysts

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

Newsflow

Date	Description
End Aug 2012	1H12 IFRS

Source: Company data, ING

Major shareholders (%)

InterRAO	82
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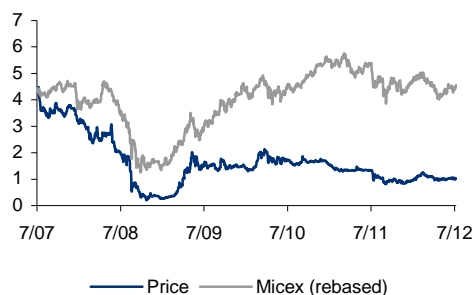
Source: Company data, ING

Share data

Avg daily volume (3-mth)	6,328,492
Free float (%)	18.0
Market cap (RBLm)	48,613.5
Net debt (1F, RBLm)	(8,346)
Enterprise value (1F, RBLm)	40,268
Dividend yield (1F, %)	0.0

Source: Company data, ING estimates

Share price performance



Source: ING

Company profile

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

Risks

Upside

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

Downside

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

Financials

Year end Dec (RBLm)	2009	2010	2011	2012F	2013F	2014F
Income statement						
Revenues	36,143	38,154	43,554	45,459	58,182	75,042
EBITDA	6,013	4,029	4,322	659	6,178	12,424
EBIT	3,918	(14,497)	223	(1,700)	(106)	5,583
Net interest	2,909	2,174	2,098	636	601	(1,274)
Associates						
Other pre-tax items	0	0	0	0	0	0
Pre-tax profit	6,827	(12,323)	2,321	(1,064)	495	4,310
Tax	(995)	(607)	(617)	0	(119)	(1,034)
Minorities						
Other post-tax items	0	0	0	0	0	0
Net profit	5,832	(12,930)	1,704	(1,064)	376	3,275
Normalised net profit	6,379	194	3,651	(518)	376	3,275
Balance sheet						
Tangible fixed assets	38,160	45,954	57,623	82,907	104,227	116,519
Intangible fixed assets	0	0	0	0	0	0
Other non-current assets	14,360	2,429	1,316	1,316	1,316	1,316
Cash & equivalents	51,153	42,880	32,432	8,346	0	0
Other current assets	7,993	7,911	9,486	10,063	13,475	18,047
Total assets	111,666	99,174	100,857	102,632	119,019	135,882
Short-term debt	0	0	0	0	0	0
Other current liabilities	(3,527)	347	3,402	4,723	4,723	5,443
Long-term debt	0	0	0	0	16,611	28,205
Other long-term liabilities	0	0	0	0	0	0
Total equity	115,193	98,827	97,455	97,909	97,685	102,233
Total liabilities & equity	111,666	99,174	100,857	102,632	119,019	135,882
Net working capital	6,446	3,841	3,969	3,225	6,637	10,489
Net debt (cash)	(51,153)	(42,880)	(32,432)	(8,346)	16,611	28,205
Cash flow						
Cash flow EBITDA	5,303	(13,016)	1,793	(51)	6,178	12,424
Tax, interest & other	(1,204)	15,478	1,048	74	(482)	2,308
Change in working capital	0	0	(344)	0	(3,412)	(3,851)
Net cash from op activities	5,018	3,422	3,361	659	2,647	6,265
Capex	(8,935)	(14,402)	(16,672)	(26,855)	(22,969)	(13,941)
Net acquisitions	0	0	0	0	0	0
Net financing cash flow	0	0	0	0	0	0
Dividends & minority distrib'n	0	0	0	0	0	0
Net ch in cash & equivalents	(3,917)	(10,980)	(13,311)	(26,196)	(20,322)	(7,676)
FCF	(3,917)	(10,980)	(13,311)	(26,196)	(20,322)	(6,402)
Performance & returns						
Revenue growth (%)	-5.9	5.6	14.2	4.4	28.0	29.0
Normalised EPS growth (%)	0.73	-97.0	1,780	n/a	n/a	770.6
Normalised EBITDA mgn (%)	16.6	10.6	9.9	1.4	10.6	16.6
Normalised EBIT margin (%)	12.8	6.7	6.3	-2.2	-0.18	7.4
ROACE (%)	4.2	2.4	2.8	-1.0	-0.10	4.6
Reported ROE (%)	5.3	-12.1	1.7	-1.1	0.38	3.3
Working capital as % of sales	17.8	10.1	9.1	7.1	11.4	14.0
Net debt (cash)/EBITDA (x)	(8.5)	(10.6)	(7.5)	(12.7)	2.7	2.3
EBITDA net interest cvg (x)	n/a	n/a	n/a	n/a	n/a	9.8
Valuation						
EV/revenue (x)	(0.07)	0.15	0.37	0.89	1.1	1.0
EV/normalised EBITDA (x)	(0.42)	1.4	3.7	61.1	10.6	6.2
EV/normalised EBIT (x)	(0.55)	2.3	5.9	(40.7)	(616.3)	13.8
Normalised PER (x)	7.6	250.4	13.3	n/a	129.2	14.8
Price/book (x)	0.42	0.49	0.50	0.50	0.50	0.48
Dividend yield (%)	0.0	0.0	0.0	0.0	0.04	0.79
FCF yield (%)	154.2	n/a	n/a	n/a	n/a	n/a
Per share data						
Reported EPS (RBL)	0.12	(0.27)	0.04	(0.02)	0.01	0.07
Normalised EPS (RBL)	0.13	0.00	0.08	(0.01)	0.01	0.07
Dividend per share (RBL)	0.00	0.00	0.00	0.00	0.00	0.01
Equity FCFPS (RBL)	(0.08)	(0.23)	(0.28)	(0.55)	(0.43)	(0.16)
BV/share (RBL)	2.43	2.08	2.05	2.06	2.06	2.15

Source: Company data, ING estimates

P&L & cash flow

	2008	2009	2010	2011	2012F	2013F	2014F	2015F	2016F	TV 2017F
Capacity (GW)										
Installed capacity: old plants	8	8	8	8	8	8	8	8	8	
Installed capacity, new finished	-	-	-	-	-	-	-	-	-	
Installed capacity: new, not finished	-	-	-	-	-	0.4	1.2	1.9	2.3	
Installed capacity total	8	8	8	8	8	9	10	10	11	
P&L (RBLbn)										
Revenue electricity: old	29	29	33	40	41	46	52	58	63	
Revenue, electricity, new, finished	-	-	-	-	-	-	-	-	-	
Revenue, electricity, new, not finished	-	-	-	-	-	8	19	28	35	
Revenue electricity	29	29	33	40	41	54	71	86	98	
Heat revenue	1	1	1	1	1	1	1	1	2	
Revenue other (incl. reselling)	9	6	4	3	3	3	3	3	3	
Revenue	38	36	38	44	45	58	75	90	102	
Fuel costs for heat, old	(0)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	
Fuel costs for electricity, old	(17)	(20)	(25)	(28)	(31)	(35)	(40)	(44)	(44)	
Fuel costs, new, finished	-	-	-	-	-	-	-	-	-	
Fuel costs, new, not finished	-	-	-	-	(1)	(5)	(8)	(11)	(11)	
Fuel costs, old and new	(17)	(17)	(21)	(25)	(28)	(33)	(41)	(49)	(56)	
Purchased power & Re-selling	(9)	(6)	(3)	(3)	(2)	(2)	(3)	(3)	(3)	
Heat transportation	-	-	-	-	-	-	-	-	-	
Water payment	-	-	-	-	-	-	-	-	-	
Gross profit	13	13	14	16	15	22	31	39	43	
Non-fuel Opex: old plants	(8)	(7)	(10)	(11)	(14)	(15)	(16)	(17)	(18)	
Non-fuel Opex: new, finished	-	-	-	-	-	-	-	-	-	
Non-fuel Opex: new, not finished	-	-	-	-	(1)	(3)	(4)	(5)	(5)	
Non-fuel Opex	(8)	(7)	(10)	(11)	(14)	(16)	(19)	(21)	(23)	
EBITDA, old plants	6	3	4	0	0	1	1	1	2	
EBITDA, new, finished	-	-	-	-	-	-	-	-	-	
EBITDA, new, not finished	-	-	-	-	5	11	16	18	18	
EBITDA, other	0	0	1	1	0	0	0	0	0	
EBITDA	4	6	4	4	1	6	12	18	20	
Depreciation, old plants	(1)	(1)	(1)	(2)	(2)	(2)	(2)	(2)	(2)	
Depreciation: new, finished	-	-	-	-	-	-	-	-	-	
Depreciation: new, not finished	-	-	-	-	(5)	(5)	(5)	(5)	(5)	
Depreciation	(1)	(1)	(1)	(2)	(2)	(6)	(7)	(7)	(7)	
EBIT (ex non-recurring and non-cash)	3	5	3	3	(1)	(0)	6	11	13	
Finance income / (costs), net	5	3	2	2	1	1	(1)	(2)	(2)	
Other (Non-cash and one-offs)	0	(1)	(17)	(3)	(1)	-	-	-	-	
EBT	8	7	(12)	2	(1)	0	4	9	11	
Income tax	(2)	(1)	(1)	(1)	-	(0)	(1)	(2)	(3)	
Net profit	6	6	(13)	2	(1)	0	3	7	9	
Cash flow (RBLbn)										
NOPAT: old plants	2	4	2	1	(2)	(1)	(1)	(0)	0	
NOPAT: new, finished	-	-	-	-	-	-	-	-	-	
NOPAT: new, not finished	-	-	-	-	-	1	5	8	10	
NOPAT: other	0	0	1	0	1	0	0	0	0	
NOPAT	3	4	3	2	(1)	(0)	4	8	10	
Reduction/(Increase) in working capital; existing plants	(3)	-	-	(0)	-	(3)	(4)	(3)	(2)	
Reduction/(Increase) in working capital; new plants	(3)	-	-	(0)	-	(3)	(4)	(3)	(2)	
Reduction / (increase) in working capital	(3)	-	-	(0)	-	(3)	(4)	(3)	(2)	
Capex, old (maintenance)	-	-	(2)	(2)	(2)	(3)	(3)	(3)	(3)	
Capex, new, finished	-	-	-	-	-	-	-	-	-	
Capex: new, not finished	-	(9)	(12)	(14)	(24)	(20)	(11)	(4)	-	
Capex (net of partners' contribution)	-	(9)	(14)	(17)	(27)	(23)	(14)	(7)	(3)	
FCF: old plants	1	5	1	0	(2)	(6)	(6)	(5)	(4)	
FCF: new plants, finished	-	-	-	-	-	-	-	-	-	
FCF: new plants, not finished	-	(9)	(12)	(14)	(24)	(15)	(1)	10	15	
FCF: other	0	0	1	0	1	0	0	0	0	
FCF (attributable to EV)	1	(4)	(10)	(14)	(26)	(20)	(7)	5	12	
FCF & DCF (US\$m)										
US\$/RBL exchange rate (year average)	25	32	30	29	32	32	33	33	32	
Discounting factor	Finished				1.00	0.94	0.82	0.72	0.63	0.55
	Not finished				1.00	0.93	0.80	0.69	0.59	0.51
DCF: Old plants					(76)	(163)	(146)	(105)	(70)	447
DCF: New plants: finished					-	-	-	-	-	-
DCF: New plants: not finished					(763)	(436)	(34)	215	296	1,490
DCF: Other					19	9	6	4	3	15
FCF (unlevered), discounted (US\$m)					(820)	(591)	(173)	114	229	1,951

Source: Company data, ING estimates

Valuation parameters and target price derivation

WACC (%)	Finished	14.1			
	Not finished	16.1			
TV (US\$bn) based on different approaches with median as median)	EV/KW: min	As % of the capex	Gordon-growth	EV/KW: max	Final
Old plants	0.8		-	4.2	0.8
New plants; finished			-		-
New plants; not finished			2.7		2.7
Other			0.0		0.0
TV, final, (US\$bn)					3.5
Components of value (US\$m)	Gross	Debt of SPVs (pro-rata)		Net	
Old plants	-			-	
New plants, finished	-			-	
New plants, not finished	1,531	-		1,531	
Other	38			38	
Core assets	1,569	-		1,569	
Non(core assets)				-	
Net (debt) / cash				261	
Equity				1,830	
No. of shares: Ord: Old (bn)				47	
No. of shares: Ord: New (2011, bn)				-	
No. of shares: Ord: New (2012, bn)				-	
No. of shares: Ord (bn)				47	
No. of shares: Ord: quasi-treasury (bn)				-	
No. of shares: Pref (bn)				-	
No. of shares: effective, total (bn)				47	
Target price (US\$)				0.04	
Target price (RBL)				1.23	

Source: Company data, ING estimates

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**Generators:
Foreign-controlled**

E.ON Russia (OGK-4)

The first "proper utility" with positive FCF and dividends

Maintained

Buy

 Russian Federation
Utilities

 Market cap RBL169,239m
Bloomberg EONR RM

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

Investment case

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

Generating assets

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

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

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

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

"New" assets

2.4GW by 2016, including:

- ✚ 1.6GW by end-2011.
- ✚ 1.6GW by end-2012.

Price (07/08/12) RBL2.69

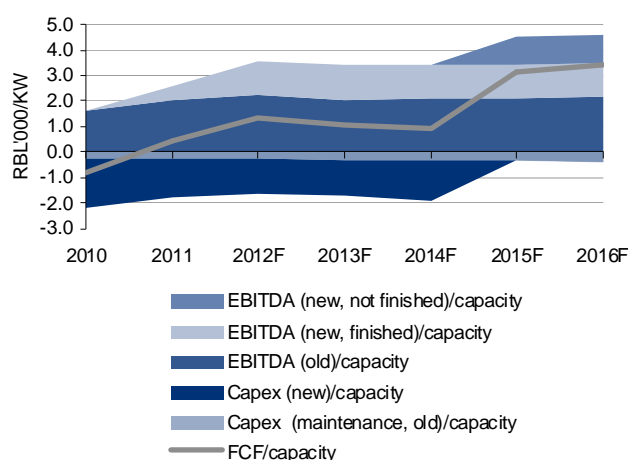
Target price (12-mth) Maintained RBL3.37

Forecast total return 28.1%

Capex and FCF

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

FCF profile (per KW of "old" capacity), RBL'000/KW



Source: ING estimates

Valuation approach

Our target price for E.ON Russia is DCF derived with a five-year explicit forecast horizon (2012-16).

Catalysts

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

Newsflow

Date	Description
29 Aug 2012	1H12 IFRS

Source: Company data, ING

Major shareholders (%)

E. ON Group	82
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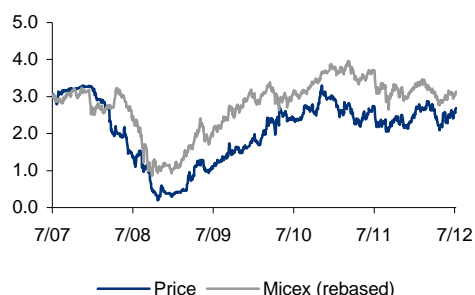
Source: Company data, ING

Share data

Avg daily volume (3-mth)	9,956,338
Free float (%)	22.0
Market cap (RBLm)	169,239
Net debt (1F, RBLm)	(27,907)
Enterprise value (1F, RBLm)	141,332
Dividend yield (1F, %)	2.6

Source: Company data, ING estimates

Share price performance



Source: ING

Company profile

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

Risks

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

Financials

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

Revenues	40,749	50,321	66,089	82,018	90,936	101,036
EBITDA	8,677	14,592	23,194	31,721	29,983	29,931
EBIT	6,852	12,620	17,735	22,819	21,206	21,154
Net interest	885	349	442	579	2,009	2,067
Associates						
Other pre-tax items	0	0	0	0	0	0
Pre-tax profit	7,737	12,969	18,177	23,398	23,216	23,221
Tax	(1,698)	(2,724)	(3,581)	(5,615)	(5,572)	(5,573)
Minorities						
Other post-tax items	0	0	0	0	0	0
Net profit	6,039	10,245	14,596	17,782	17,644	17,648
Normalised net profit	6,039	10,260	14,824	17,879	17,644	17,648

Balance sheet

Tangible fixed assets	64,709	79,599	86,716	99,034	111,431	126,016
Intangible fixed assets	0	0	0	0	0	0
Other non-current assets	533	650	1,247	1,247	1,247	1,247
Cash & equivalents	17,131	14,565	24,698	27,907	29,949	31,083
Other current assets	10,104	8,945	9,839	10,390	11,585	12,849
Total assets	92,477	103,759	122,500	138,577	154,212	171,195
Short-term debt	0	0	0	0	0	0
Other current liabilities	3,478	4,230	3,563	5,069	5,069	6,470
Long-term debt	0	0	0	0	0	0
Other long-term liabilities	0	0	0	0	0	0
Total equity	88,999	99,529	118,937	133,509	149,143	164,724
Total liabilities & equity	92,477	103,759	122,500	138,577	154,212	171,195
Net working capital	3,493	3,735	4,210	3,255	4,450	4,313
Net debt (cash)	(17,131)	(14,565)	(24,698)	(27,907)	(29,949)	(31,083)

Cash flow

Cash flow EBITDA	8,677	14,572	22,898	31,596	29,983	29,931
Tax, interest & other	813	2,395	3,435	5,161	3,562	3,506
Change in working capital	(4,140)	0	(541)	0	(1,195)	0
Net cash from op activities	2,839	11,868	19,072	26,105	23,217	24,358
Capex	(17,852)	(18,959)	(15,287)	(14,387)	(14,570)	(16,758)
Net acquisitions	0	0	0	0	0	0
Net financing cash flow	0	0	0	0	0	0
Dividends & minority distrib'n	0	0	0	0	0	0
Net ch in cash & equivalents	(15,013)	(7,091)	3,785	11,718	8,646	7,600
FCF	(15,013)	(7,091)	3,785	11,718	8,646	7,600

Performance & returns

Revenue growth (%)	7.2	23.5	31.3	24.1	10.9	11.1
Normalised EPS growth (%)	-13.2	69.9	44.5	20.6	-1.3	0.02
Normalised EBITDA mgn (%)	21.3	29.0	35.1	38.7	33.0	29.6
Normalised EBIT margin (%)	16.8	25.1	27.3	28.0	23.3	20.9
ROACE (%)	8.0	13.4	16.5	18.2	15.0	13.5
Reported ROE (%)	7.0	10.9	13.4	14.1	12.5	11.2
Working capital as % of sales	8.6	7.4	6.4	4.0	4.9	4.3
Net debt (cash)/EBITDA (x)	(2.0)	(1.00)	(1.1)	(0.88)	(1.00)	(1.0)
EBITDA net interest cvg (x)	n/a	n/a	n/a	n/a	n/a	n/a

Valuation

EV/revenue (x)	3.7	3.1	2.2	1.7	1.5	1.4
EV/normalised EBITDA (x)	17.5	10.6	6.2	4.5	4.6	4.6
EV/normalised EBIT (x)	22.2	12.2	8.0	6.2	6.6	6.5
Normalised PER (x)	28.0	16.5	11.4	9.5	9.6	9.6
Price/book (x)	1.9	1.7	1.4	1.3	1.1	1.0
Dividend yield (%)	0.0	0.0	2.2	2.6	2.6	3.5
FCF yield (%)	n/a	n/a	2.6	8.3	6.2	5.5

Per share data

Reported EPS (RBL)	0.10	0.16	0.23	0.28	0.28	0.28
Normalised EPS (RBL)	0.10	0.16	0.24	0.28	0.28	0.28
Dividend per share (RBL)	0.00	0.00	0.06	0.07	0.07	0.09
Equity FCFPS (RBL)	(0.24)	(0.11)	0.06	0.19	0.14	0.12
BV/share (RBL)	1.41	1.58	1.89	2.12	2.37	2.61

Source: Company data, ING estimates

P&L and cash flow

	2008	2009	2010	2011	2012F	2013F	2014F	2015F	2016F	TV 2017F
Capacity (GW)										
Installed capacity: old plants	9	9	9	9	9	9	9	9	9	
Installed capacity, new finished	-	-	-	0.7	1.6	1.6	1.6	1.6	1.6	1.6
Installed capacity: new, not finished	-	-	-	-	-	-	-	0.8	0.8	0.8
Installed capacity total	9	9	9	9	10	10	10	11	11	
P&L (RBLbn)										
Revenue electricity: old	34	38	47	55	60	68	76	84	92	
Revenue, electricity, new, finished	-	-	-	8	18	20	21	22	23	
Revenue, electricity, new, not finished	-	-	-	-	-	-	-	14	14	
Revenue electricity	34	38	47	63	78	87	97	121	129	
Heat revenue	1	1	1	1	1	1	2	2	2	
Revenue other (incl. reselling)	3	2	2	3	2	2	2	2	2	
Revenue	38	41	50	66	82	91	101	125	133	
Fuel costs for heat, old	-	(0)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	
Fuel costs for electricity, old	-	(22)	(26)	(28)	(30)	(39)	(46)	(53)	(59)	
Fuel costs, new, finished	-	-	-	(2)	(4)	(6)	(7)	(8)	(8)	
Fuel costs, new, not finished	-	-	-	-	-	-	-	(3)	(3)	
Fuel costs, old and new	(22)	(23)	(26)	(31)	(36)	(45)	(54)	(65)	(72)	
Purchased power & Re(selling)	(2)	(1)	(1)	(2)	(2)	(2)	(2)	(2)	(2)	
Heat transportation	-	-	-	-	-	-	-	-	-	
Water payment	-	-	-	-	-	-	-	-	-	
Gross profit	14	17	23	34	45	44	45	58	59	
Non-fuel Opex: old plants	(9)	(8)	(8)	(10)	(11)	(12)	(12)	(13)	(14)	
Non-fuel Opex: new, finished	-	-	-	(1)	(2)	(2)	(3)	(3)	(3)	
Non-fuel Opex: new, not finished	-	-	-	-	-	-	-	(2)	(2)	
Non-fuel Opex	(9)	(8)	(8)	(10)	(13)	(14)	(15)	(18)	(19)	
EBITDA, old plants	-	8	14	17	19	18	18	18	19	
EBITDA, new, finished	-	-	-	5	12	12	12	12	12	
EBITDA, new, not finished	-	-	-	-	-	-	-	10	9	
EBITDA, other	0	1	1	1	1	1	0	0	0	
EBITDA	5	9	15	23	32	30	30	40	40	
Depreciation, old plants	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	
Depreciation: new, finished	-	-	-	(3)	(7)	(7)	(7)	(4)	(4)	
Depreciation: new, not finished	-	-	-	-	-	-	-	(2)	(2)	
Depreciation	(2)	(2)	(2)	(5)	(9)	(9)	(9)	(9)	(9)	
EBIT (excl. non(recurring and non (cash)	4	7	13	18	23	21	21	31	31	
Finance income / (costs), net	4	1	0	0	1	2	2	2	3	
Other (Non(cash and one(off))	-	-	(0)	(0)	(0)	-	-	-	-	
EBT	8	8	13	18	23	23	23	33	34	
Income tax	(1)	(2)	(3)	(4)	(6)	(6)	(6)	(8)	(8)	
Net profit	7	6	10	15	18	18	18	25	26	
Cash flow (RBLbn)										
NOPAT: old plants	2	5	9	12	13	12	12	12	13	
NOPAT: new, finished	-	-	-	2	4	4	4	5	6	
NOPAT: new, not finished	-	-	-	-	-	-	-	6	5	
NOPAT: other	0	1	1	1	1	0	0	0	0	
NOPAT	3	5	10	14	17	16	16	23	24	
Reduction/(Increase) in working capital: existing plants	-	(4)	-	(1)	-	(1)	-	(2)	-	
Reduction/(Increase) in working capital: new plants	-	-	-	-	-	-	-	-	-	
Reduction / (increase) in working capital	-	(4)	-	(1)	-	(1)	-	(2)	-	
Capex, old (maintenance)	-	-	(2)	(2)	(2)	(3)	(3)	(3)	(3)	
Capex, new, finished	-	(18)	(17)	(11)	-	-	-	-	-	
Capex: new, not finished	-	-	-	(2)	(12)	(12)	(14)	-	-	
Capex (net of partners' contribution)	-	(18)	(19)	(15)	(14)	(15)	(17)	(3)	(3)	
FCF: old plants	4	2	9	12	13	10	11	9	12	
FCF: new plants, finished	-	(18)	(17)	(6)	10	10	10	10	10	
FCF: new plants, not finished	-	-	-	(2)	(12)	(12)	(14)	8	8	
FCF: other	0	1	1	1	1	0	0	0	0	
FCF (attributable to EV)	4	(15)	(7)	4	12	9	8	27	29	
FCF & DCF (US\$m)										
US\$/RBL exchange rate (year average)	25	32	30	29	32	32	33	33	32	
Discounting factor										
Finished					1.00	0.95	0.85	0.76	0.68	0.61
Not finished					1.00	0.94	0.83	0.73	0.64	0.56
DCF: Old plants					397	299	294	213	242	1,852
DCF: New plants: finished					328	305	270	229	208	1,385
DCF: New plants: not finished					(376)	(350)	(363)	181	159	781
DCF: Other					20	12	9	6	5	25
FCF (unlevered), discounted (US\$m)					370	266	210	628	613	4,044

Source: Company data, ING estimates

Valuation parameters and target price derivation

WACC (%)	Finished	11.7			
	Not finished	13.7			
TV (US\$bn) (based on different approaches with median as median)	EV/KW: min	As % of the capex	Gordon-growth	EV/KW: max	Final
Old plants	1.1		3.0	4.3	3.0
New plants; finished			2.3		2.3
New plants; not finished			1.3		1.3
Other			0.0		0.0
TV (final)					6.6
Components of value (US\$m)	Gross	Debt of SPVs (pro-rata)	Net		
Old plants	2,899		2,899		
New plants, finished	2,397		2,397		
New plants, not finished	407	-	407		
Other	57		57		
Core assets	5,760	-	5,760		
Non-core assets			-		
Net (debt) / cash			874		
Equity			6,634		
No. of shares: Ord: Old (bn)			63		
No. of shares: Ord: New (2011, bn)			-		
No. of shares: Ord: New (2012, bn)			-		
No. of shares: Ord (bn)			63		
No. of shares: Ord: quasi-treasury (bn)			-		
No. of shares: Pref (bn)			-		
No. of shares: effective, total (bn)			63		
Target price (US\$)			0.11		
Target price (RBL)			3.37		

Source: Company data, ING estimates

Enel OGK-5

On track to become next “proper utility” with FCF and dividends

Previously Hold

Buy

 Russian Federation
Utilities

 Market cap RBL62,607.9m
Bloomberg OGKE RX

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

Investment case

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

Generating assets

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

“Old” assets: 8.7GW of “old” plants

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

- ✚ Above-average aggregate fuel efficiency.
- ✚ Above-average share of coal-fired capacity located in European Russia.
- ✚ Above-average share of “old” capacity based in European Russia.

“New” assets: 0.8GW by end-2016, including:

- ✚ 0.8GW by end-2011.
- ✚ 0.8GW by end-2012.

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

Price (07/08/12) RBL1.77

Previously RBL2.31

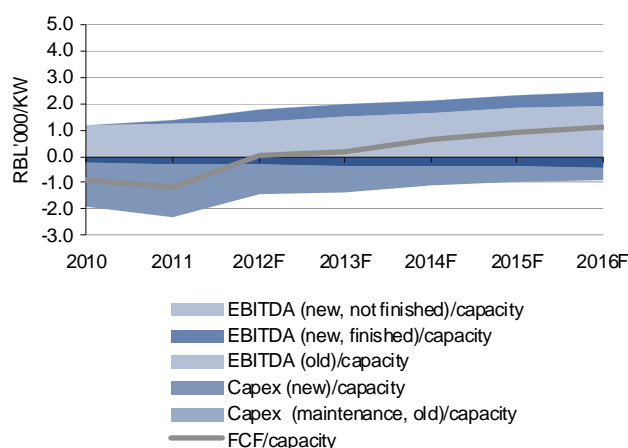
Target price (12-mth) RBL2.18

Forecast total return 23.2%

Capex and FCF

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

FCF profile (per KW of “old” capacity), RBL’000/KW



Source: ING estimates

M&A and capital-raising

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

Valuation approach

Our target price for Enel OGK-5 is DCF derived with a five-year explicit forecast horizon (2012-16).

Catalysts

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

Newsflow

Date	Description
End Oct / Early Nov 2012	9M 2012 IFRS

Source: Company data, ING

Major shareholders (%)

Enel	56
Investors' consortium	26

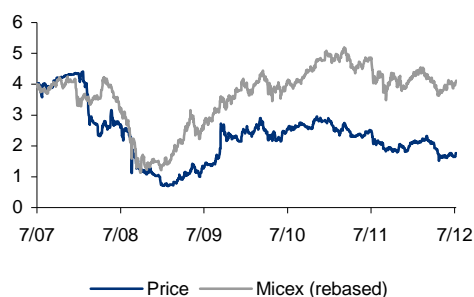
Source: Company data, ING

Share data

Avg daily volume (3-mth)	4,138,215
Free float (%)	18.0
Market cap (RBLm)	62,607.9
Net debt (1F, RBLm)	28,579
Enterprise value (1F, RBLm)	91,187
Dividend yield (1F, %)	0.0

Source: Company data, ING estimates

Share price performance



Source: ING

Company profile

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

Risks

- Higher-than-expected costs of revamp of Reftinskaya TPP not balanced by an adequate return.
- Slower than planned hikes in domestic gas prices.

Financials

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

Revenues	41,567	52,560	60,102	66,758	73,522	80,969
EBITDA	7,918	10,285	12,465	15,623	17,290	18,713
EBIT	6,359	6,969	8,724	10,357	11,012	12,110
Net interest	(796)	(1,048)	(2,452)	(3,150)	(2,251)	(2,357)
Associates						
Other pre-tax items	0	0	0	0	0	0
Pre-tax profit	5,563	5,921	6,272	7,207	8,761	9,753
Tax	(1,020)	(906)	(1,309)	(1,730)	(2,103)	(2,341)
Minorities						
Other post-tax items	0	0	0	0	0	0
Net profit	4,543	5,015	4,963	5,477	6,658	7,412
Normalised net profit	4,679	6,429	5,282	5,477	6,658	7,412

Balance sheet

Tangible fixed assets	78,619	88,139	101,002	112,187	122,492	130,499
Intangible fixed assets	0	0	0	0	0	0
Other non-current assets	3,096	1,905	1,698	1,698	1,698	1,698
Cash & equivalents	0	0	3,448	2,755	0	0
Other current assets	9,008	10,000	11,849	13,434	14,647	16,060
Total assets	90,723	100,044	117,997	130,073	138,837	148,257
Short-term debt	2,989	4,957	0	0	0	0
Other current liabilities	2,686	1,628	3,303	4,640	4,640	5,324
Long-term debt	14,882	15,689	31,334	31,334	31,188	30,155
Other long-term liabilities	0	0	0	0	0	0
Total equity	70,166	77,770	83,360	94,100	103,009	112,778
Total liabilities & equity	90,723	100,044	117,997	130,073	138,837	148,257
Net working capital	4,954	5,602	5,600	5,848	7,061	7,790
Net debt (cash)	17,871	20,646	27,886	28,579	31,188	30,155

Cash flow

Cash flow EBITDA	7,742	8,449	12,051	15,623	17,290	18,713
Tax, interest & other	1,992	3,790	4,175	4,880	4,353	4,698
Change in working capital	(575)	0	(796)	(248)	(1,213)	(729)
Net cash from op activities	5,527	8,331	7,908	10,496	11,723	13,286
Capex	(17,214)	(16,453)	(19,866)	(12,754)	(11,952)	(9,654)
Net acquisitions	0	0	0	0	0	0
Net financing cash flow	0	0	0	0	0	0
Dividends & minority distrib'n	0	0	0	0	0	0
Net ch in cash & equivalents	(11,687)	(8,122)	(11,958)	(2,258)	(229)	3,632
FCF	(10,891)	(7,074)	(9,506)	892	2,022	5,989

Performance & returns

Revenue growth (%)	-2.3	26.4	14.3	11.1	10.1	10.1
Normalised EPS growth (%)	60.5	37.4	-17.8	3.7	21.6	11.3
Normalised EBITDA mgn (%)	19.0	19.6	20.7	23.4	23.5	23.1
Normalised EBIT margin (%)	15.7	16.8	15.2	15.5	15.0	15.0
ROACE (%)	7.8	9.4	8.6	8.6	8.5	8.7
Reported ROE (%)	6.3	6.8	6.2	6.2	6.8	6.9
Working capital as % of sales	11.9	10.7	9.3	8.8	9.6	9.6
Net debt (cash)/EBITDA (x)	2.3	2.0	2.2	1.8	1.8	1.6
EBITDA net interest cvg (x)	9.9	9.8	5.1	5.0	7.7	7.9

Valuation

EV/revenue (x)	1.9	1.6	1.5	1.4	1.3	1.1
EV/normalised EBITDA (x)	10.2	8.1	7.3	5.8	5.4	5.0
EV/normalised EBIT (x)	12.3	9.5	9.9	8.8	8.5	7.7
Normalised PER (x)	13.4	9.7	11.9	11.4	9.4	8.4
Price/book (x)	0.89	0.81	0.75	0.67	0.61	0.56
Dividend yield (%)	0.0	0.0	0.0	0.0	2.7	3.6
FCF yield (%)	n/a	n/a	n/a	0.98	2.2	6.5

Per share data

Reported EPS (RBL)	0.13	0.14	0.14	0.15	0.19	0.21
Normalised EPS (RBL)	0.13	0.18	0.15	0.15	0.19	0.21
Dividend per share (RBL)	0.00	0.00	0.00	0.00	0.05	0.06
Equity FCFPS (RBL)	(0.33)	(0.23)	(0.34)	(0.06)	(0.01)	0.10
BV/share (RBL)	1.98	2.20	2.36	2.66	2.91	3.19

Source: Company data, ING estimates

P&L and cash flow

	2008	2009	2010	2011	2012F	2013F	2014F	2015F	2016F	TV 2017F
Capacity (GW)										
Installed capacity: old plants	9	9	9	9	9	9	9	9	9	9
Installed capacity, new finished	-	-	-	0.2	0.8	0.8	0.8	0.8	0.8	0.8
Installed capacity: new, not finished	-	-	-	-	-	-	-	-	-	-
Installed capacity total	9	9	9	9	9	9	9	9	9	9
P&L (RBLbn)										
Revenue electricity: old	34	37	46	49	49	55	62	69	75	
Revenue, electricity, new, finished	-	-	-	2	8	9	10	10	11	
Revenue, electricity, new, not finished	-	-	-	-	-	-	-	-	-	
Revenue electricity	34	37	46	52	57	64	72	79	86	
Heat revenue	2	2	3	3	4	4	5	5	5	
Revenue other (incl. reselling)	7	2	4	5	5	5	5	4	4	
Revenue	43	42	53	60	67	74	81	89	95	
Fuel costs for heat, old	(2)	(2)	(2)	(3)	(3)	(3)	(4)	(4)	(5)	
Fuel costs for electricity, old	(21)	(27)	(27)	(29)	(31)	(35)	(40)	(45)	(49)	
Fuel costs, new, finished	-	-	-	(1)	(3)	(4)	(4)	(5)	(5)	
Fuel costs, new, not finished	-	-	-	-	-	-	-	-	-	
Fuel costs, old and new	(23)	(23)	(30)	(33)	(37)	(42)	(48)	(53)	(59)	
Purchased power & Re-selling	(7)	(2)	(3)	(5)	(5)	(5)	(4)	(4)	(4)	
Heat transportation	-	-	-	-	-	-	-	-	-	
Water payment	-	-	-	-	-	-	-	-	-	
Gross profit	13	17	20	22	25	27	29	31	33	
Non-fuel Opex: old plants	(8)	(9)	(10)	(10)	(8)	(8)	(9)	(9)	(10)	
Non-fuel Opex: new, finished	-	-	-	(0)	(1)	(1)	(1)	(1)	(1)	
Non-fuel Opex: new, not finished	-	-	-	-	-	-	-	-	-	
Non-fuel Opex	(8)	(9)	(10)	(10)	(9)	(10)	(10)	(11)	(12)	
EBITDA, old plants	8	10	10	11	11	13	14	16	17	
EBITDA, new, finished	-	-	-	1	4	4	4	4	4	
EBITDA, new, not finished	-	-	-	-	-	-	-	-	-	
EBITDA, other	-	0	0	0	0	0	0	0	0	
EBITDA	5	8	10	12	16	17	19	20	21	
Depreciation, old plants	(1)	(1)	(1)	(2)	(2)	(2)	(2)	(2)	(2)	
Depreciation: new, finished	-	-	-	(2)	(4)	(5)	(5)	(5)	(5)	
Depreciation: new, not finished	-	-	-	-	-	-	-	-	-	
Depreciation	(1)	(1)	(1)	(3)	(5)	(6)	(7)	(7)	(7)	
EBIT (excl. non-recurring and non-cash)	4	7	9	9	10	11	12	13	14	
Finance income / (costs), net	(0)	(1)	(1)	(2)	(3)	(2)	(2)	(2)	(2)	
Other (non-cash and one-offs)	(0)	(0)	(2)	(0)	-	-	-	-	-	
EBT	3	6	6	6	7	9	10	11	12	
Income tax	(0)	(1)	(1)	(1)	(2)	(2)	(2)	(3)	(3)	
Net profit	3	5	5	5	5	7	7	9	9	
Cash flow (RBLbn)										
NOPAT: old plants	3	5	7	7	7	9	10	11	11	
NOPAT: new, finished	-	-	-	(1)	0	(1)	(1)	(1)	(1)	
NOPAT: new, not finished	-	-	-	-	-	-	-	-	-	
NOPAT: other	-	0	0	0	0	0	0	0	0	
NOPAT	3	5	7	7	8	8	9	10	10	
Reduction/(increase) in working capital; existing plants	(1)	(1)	-	(1)	(0)	(1)	(1)	(1)	(0)	
Reduction/(increase) in working capital; new plants	(1)	(1)	-	(1)	(0)	(1)	(1)	(1)	(0)	
Reduction/(increase) in working capital	(1)	(1)	-	(1)	(0)	(1)	(1)	(1)	(0)	
Capex, old (maintenance)	-	-	(2)	(3)	(3)	(3)	(3)	(3)	(4)	
Capex, new, finished	-	(17)	(10)	(9)	-	-	-	-	-	
Capex: new, not finished	-	-	(5)	(9)	(10)	(9)	(7)	(5)	(4)	
Capex (net of partners' contribution)	-	(17)	(16)	(20)	(13)	(12)	(10)	(8)	(8)	
FCF: old plants	4	5	6	6	6	6	7	8	9	
FCF: new plants, finished	-	(17)	(10)	(7)	4	4	4	4	4	
FCF: new plants, not finished	-	-	(5)	(9)	(10)	(9)	(7)	(5)	(4)	
FCF: other	-	0	0	0	0	0	0	0	0	
FCF attributable to (EV)	4	(11)	(8)	(10)	0	1	5	8	9	
FCF & DCF (US\$m)										
US\$/RBL exchange rate (year average)	25	32	30	29	32	32	33	33	32	
Discounting factor	Finished				1.00	0.95	0.85	0.77	0.69	0.62
	Not finished				1.00	0.94	0.83	0.73	0.65	0.57
DCF: Old plants					190	177	193	197	192	1,546
DCF: New plants: finished					120	121	110	101	93	493
DCF: New plants: not finished					(313)	(263)	(170)	(117)	(85)	687
DCF: Other					7	5	3	2	1	8
FCF (unlevered), discounted (US\$m)					4	40	137	182	202	2,735

Source: Company data, ING estimates

Valuation parameters and target price derivation

WACC (%)	Finished	11.2			
	Not finished	13.2			
TV (US\$bn) (based on different approaches with median as median)	EV/KW: min	As % of the capex	Gordon-growth	EV/KW: max	Final
Old plants	1.1		2.5	4.3	2.5
New plants; finished			0.8		0.8
New plants; not finished		1.1	-		1.1
Other			0.0		0.0
TV (final)					4.4
Components of value (US\$m)	Gross	Debt of SPVs (pro-rata)	Net		
Old plants	2,306		2,306		
New plants, finished	918		918		
New plants, not finished	53	-	53		
Other	19		19		
Core assets	3,295	-	3,295		
Non-core assets			-		
Net (debt) / cash			(881)		
Equity			2,415		
No. of shares: Ord: Old (bn)			35		
No. of shares: Ord: New (2011, bn)			-		
No. of shares: Ord: New (2012, bn)			-		
No. of shares: Ord (bn)			35		
No. of shares: Ord: quasi-treasury (bn)			-		
No. of shares: Pref (bn)			-		
No. of shares: effective, total (bn)			35		
Target price (US\$)			0.07		
Target price (RBL)			2.18		

Source: Company data, ING estimates

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Generators: Gazprom-controlled

Mosenergo

Positive FCF delayed due to growth in maintenance capex

Maintained

Buy

 Russian Federation
Utilities

 Market cap RBL50,342.6m
Bloomberg MSNG RX

Significant maintenance capex undermines positive FCF and reasonable dividends, despite advanced "obligatory" capacity additions.

Investment case

While Mosenergo is among more advanced gencos in terms of realising its "obligatory" capacity additions programme, the company's ability to generate FCF in the short-term has been undermined by the recently announced plans to keep the maintenance capex at approx RBL10bn pa in the next three years. With this level of maintenance capex (and some of the "obligatory" additions not yet completed), we do not expect Mosenergo to start generating positive FCF before 2016. Consequently, we do not expect the dividend payout of the company to approach the upper limit of the announced 5-25% range (as a share of RAS profits) before 2017.

Generating assets

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

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

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

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

"New" assets

2.8 GW by end-2016, including:

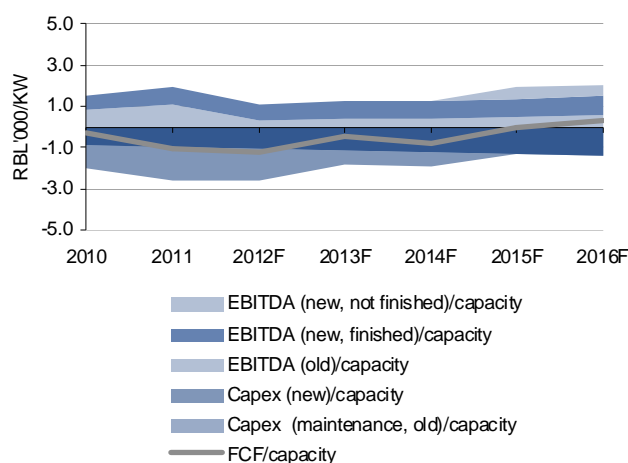
- ✚ 1.7GW by end-2011.
- ✚ 1.7GW by end-2012.

Price (07/08/12)	RBL1.27
Target price (12-mth)	Previously RBL2.90 RBL1.53
Forecast total return	21.0%

Capex and FCF

Expected FCF breakeven year – 2016, after completion of new units at CHP-12 (+0.2GW, 2013), CHP-16 (+0.4GW, 2013) and CHP-20 (+0.4GW, 2014).

FCF profile (per KW of "old" capacity), RBL'000/KW



Source: ING estimates

M&A and capital-raising

Mosenergo plans to co-invest in the construction of a new unit at Cherepovetsk TPP (+0.4GW, 2014), which initially was meant to be constructed by OGK-2 (the owner of Cherepovetsk TPP). As a starting point, Mosenergo is to acquire 51% of the SPV that constructs the new unit for c.RBL0.5bn (US\$17m).

Valuation approach

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

Catalysts

Commissioning of "new" generating units, including:

- ✚ CHP-12 (+0.2GW, 2013).
- ✚ CHP-16 (+0.4GW, 2013).
- ✚ CHP-20 (+0.4GW, 2014).

Newsflow

Date	Description
10 Sep 2012	1H12 IFRS

Source: Company data, ING

Major shareholders (%)

GazpromEnergoHolding	53
Moscow Government	26
InterRAO	5

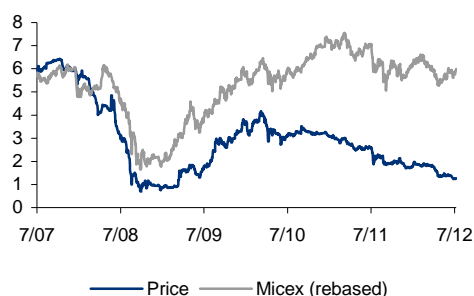
Source: Company data, ING

Share data

Avg daily volume (3-mth)	19,617,308
Free float (%)	16.0
Market cap (RBLm)	50,342.6
Net debt (1F, RBLm)	7,565
Enterprise value (1F, RBLm)	57,908
Dividend yield (1F, %)	0.17

Source: Company data, ING estimates

Share price performance



Source: ING

Company profile

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

Risks

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

Financials

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

Revenues	112,636	145,298	161,119	162,328	180,640	200,643
EBITDA	14,234	20,044	23,928	14,712	14,858	15,038
EBIT	2,022	8,968	10,887	48	194	374
Net interest	220	2,290	1,079	952	(605)	(1,588)
Associates						
Other pre-tax items	0	0	0	0	0	0
Pre-tax profit	2,242	11,258	11,966	1,000	(412)	(1,214)
Tax	(584)	(2,382)	(2,074)	(240)	0	0
Minorities						
Other post-tax items	0	0	0	0	0	0
Net profit	1,658	8,876	9,892	760	(412)	(1,214)
Normalised net profit	2,048	8,213	9,892	760	(412)	(1,214)

Balance sheet

Tangible fixed assets	200,387	193,420	196,772	218,619	231,962	246,196
Intangible fixed assets	0	0	0	0	0	0
Other non-current assets	5,410	2,077	3,031	3,031	3,031	3,031
Cash & equivalents	177	23,358	20,218	2,658	0	0
Other current assets	44,436	34,299	39,984	39,984	39,986	43,460
Total assets	250,410	253,154	260,005	264,292	274,979	292,687
Short-term debt	0	0	0	0	0	0
Other current liabilities	15,661	12,294	18,090	18,090	18,090	18,144
Long-term debt	16,675	12,264	10,223	10,223	20,717	37,996
Other long-term liabilities	0	0	0	0	0	0
Total equity	218,074	228,596	231,692	235,979	236,172	236,546
Total liabilities & equity	250,410	253,154	260,005	264,292	274,979	292,687
Net working capital	11,834	15,920	18,029	18,029	18,031	21,451
Net debt (cash)	16,498	(11,094)	(9,995)	7,565	20,717	37,996

Cash flow

Cash flow EBITDA	13,727	20,905	23,928	14,712	14,858	15,038
Tax, interest & other	871	(769)	995	(712)	605	1,588
Change in working capital	(16,986)	0	(4,975)	0	(2)	(3,420)
Net cash from op activities	(3,336)	17,662	16,879	14,472	14,250	10,030
Capex	(6,663)	(21,074)	(27,986)	(27,446)	(19,222)	(20,113)
Net acquisitions	0	0	0	0	0	0
Net financing cash flow	0	0	0	0	0	0
Dividends & minority distrib'n	0	0	0	0	0	0
Net ch in cash & equivalents	(9,999)	(3,412)	(11,107)	(12,974)	(4,971)	(10,083)
FCF	(9,999)	(3,412)	(11,107)	(12,974)	(4,366)	(8,494)

Performance & returns

Revenue growth (%)	18.8	29.0	10.9	0.75	11.3	11.1
Normalised EPS growth (%)	-42.0	301.0	20.4	-92.3	n/a	n/a
Normalised EBITDA mgn (%)	12.6	13.8	14.9	9.1	8.2	7.5
Normalised EBIT margin (%)	2.2	5.6	6.8	0.03	0.11	0.19
ROACE (%)	1.1	3.4	4.5	0.02	0.08	0.14
Reported ROE (%)	0.76	4.0	4.3	0.33	-0.17	-0.51
Working capital as % of sales	10.5	11.0	11.2	11.1	10.0	10.7
Net debt (cash)/EBITDA (x)	1.2	(0.55)	(0.42)	0.51	1.4	2.5
EBITDA net interest cvg (x)	n/a	n/a	n/a	n/a	24.5	9.5

Valuation

EV/revenue (x)	0.59	0.27	0.25	0.36	0.39	0.44
EV/normalised EBITDA (x)	4.7	2.0	1.7	3.9	4.8	5.9
EV/normalised EBIT (x)	26.4	4.8	3.7	1,209	367.1	236.0
Normalised PER (x)	24.6	6.1	5.1	66.2	n/a	n/a
Price/book (x)	0.23	0.22	0.22	0.21	0.21	0.21
Dividend yield (%)	1.00	1.6	2.4	0.17	0.0	0.0
FCF yield (%)	n/a	n/a	n/a	n/a	n/a	n/a

Per share data

Reported EPS (RBL)	0.04	0.22	0.25	0.02	(0.01)	(0.03)
Normalised EPS (RBL)	0.05	0.21	0.25	0.02	(0.01)	(0.03)
Dividend per share (RBL)	0.01	0.02	0.03	0.00	0.00	0.00
Equity FCFPS (RBL)	(0.25)	(0.09)	(0.28)	(0.33)	(0.13)	(0.25)
BV/share (RBL)	5.49	5.75	5.83	5.94	5.94	5.95

Source: Company data, ING estimates

P&L & cash flow

	2008	2009	2010	2011	2012F	2013F	2014F	2015F	2016F	TV 2017F
Capacity (GW)										
Installed capacity: old plants	11	11	11	11	11	11	11	11	11	11
Installed capacity, new finished	-	1.3	1.3	1.5	1.7	1.7	1.7	1.7	1.7	1.7
Installed capacity: new, not finished	-	-	-	-	-	-	-	1.1	1.1	
Installed capacity total	11	12	12	12	12	12	12	13	13	
P&L (RBLbn)										
Revenue electricity: old	46	46	54	64	60	70	80	91	100	
Revenue, electricity, new, finished		10	14	17	18	20	21	23	24	
Revenue, electricity, new, not finished		-	-	-	-	-	-	14	15	
Revenue electricity	48	56	68	82	79	90	102	128	139	
Heat revenue	38	48	62	70	73	82	90	99	108	
Revenue other (incl. reselling)	10	9	15	10	10	9	9	8	8	
Revenue	95	113	145	161	162	181	201	235	254	
Fuel costs for heat, old		(17)	(24)	(27)	(29)	(33)	(38)	(43)	(48)	
Fuel costs for electricity, old		(31)	(42)	(46)	(51)	(58)	(67)	(76)	(84)	
Fuel costs, new, finished		(3)	(5)	(6)	(7)	(8)	(9)	(10)	(12)	
Fuel costs, new, not finished		-	-	-	-	-	-	(6)	(7)	
Fuel costs, old and new	(45)	(51)	(70)	(79)	(87)	(100)	(115)	(136)	(150)	
Purchased power & Re-selling	(5)	(5)	(11)	(7)	(7)	(8)	(7)	(7)	(7)	
Heat transportation	(15)	(18)	(24)	(26)	(25)	(28)	(31)	(34)	(37)	
Water payment	-	-	-	-	-	-	-	-	-	
Gross profit	29	38	40	49	43	45	47	57	60	
Non-fuel Opex: old plants	(21)	(22)	(18)	(23)	(26)	(27)	(29)	(31)	(33)	
Non-fuel Opex: new, finished	-	(1)	(2)	(2)	(2)	(3)	(3)	(3)	(3)	
Non-fuel Opex: new, not finished	-	-	-	-	-	-	-	(2)	(2)	
Non-fuel Opex	(21)	(24)	(20)	(25)	(28)	(30)	(32)	(36)	(38)	
EBITDA, old plants		5	8	11	3	4	4	5	6	
EBITDA, new, finished		5	7	10	9	9	9	9	10	
EBITDA, new, not finished		-	-	-	-	-	-	6	6	
EBITDA, other	4	4	4	3	3	2	1	1	1	
EBITDA	8	14	20	24	15	15	15	21	22	
Depreciation, old plants	(5)	(5)	(5)	(6)	(6)	(6)	(6)	(6)	(6)	
Depreciation: new, finished	-	(7)	(7)	(7)	(9)	(9)	(9)	(5)	(5)	
Depreciation: new, not finished	-	-	-	-	-	-	-	(3)	(3)	
Depreciation	(5)	(12)	(12)	(13)	(15)	(15)	(15)	(15)	(15)	
EBIT (excl. non-recurring and non-cash)	4	3	8	11	0	0	0	7	8	
Finance income / (costs), net	0	0	2	1	1	(1)	(2)	(3)	(3)	
Other (non-cash and one-offs)	(1)	(1)	1	-	-	-	-	-	-	
EBT	2	2	11	12	1	(0)	(1)	4	4	
Income tax	2	(1)	(2)	(2)	(0)	-	-	(1)	(1)	
Net profit	4	2	9	10	1	(0)	(1)	3	3	
Cash flow (RBLbn)										
NOPAT: old plants	(13)	0	2	5	(3)	(2)	(2)	(1)	0	
NOPAT: new, finished	-	(1)	1	2	(0)	0	0	3	3	
NOPAT: new, not finished	-	-	-	-	-	-	-	2	2	
NOPAT: other	4	3	3	2	2	1	1	1	1	
NOPAT	(9)	2	6	9	(1)	(0)	(0)	5	6	
Reduction/(Increase) in working capital: existing plants	(4)	(17)	-	(5)	-	(0)	(3)	(6)	(2)	
Reduction/(Increase) in working capital: new plants										
Reduction / (increase) in working capital	(4)	(17)	-	(5)	-	(0)	(3)	(6)	(2)	
Capex, old (maintenance)	-	-	(9)	(10)	(11)	(12)	(13)	(14)	(15)	
Capex, new, finished	-	(7)	(12)	(12)	-	-	-	-	-	
Capex: new, not finished	-	-	-	(5)	(16)	(7)	(7)	-	-	
Capex (net of partners' contribution)	-	(7)	(21)	(28)	(27)	(19)	(20)	(14)	(15)	
FCF: old plants	(12)	(12)	(2)	(5)	(8)	(8)	(12)	(15)	(11)	
FCF: new plants, finished	-	(1)	(4)	(3)	9	9	9	8	9	
FCF: new plants, not finished	-	-	-	(5)	(16)	(7)	(7)	5	5	
FCF: other	4	3	3	2	2	1	1	1	1	
FCF (attributable to EV)	(8)	(10)	(3)	(11)	(13)	(5)	(9)	(0)	4	
FCF & DCF (US\$m)										
US\$/RBL exchange rate (year average)	25	32	30	29	32	32	33	33	32	
Discounting factor										
Finished					1.00	0.94	0.84	0.74	0.66	0.58
Not finished					1.00	0.93	0.81	0.71	0.62	0.54
DCF: Old plants					(260)	(239)	(310)	(332)	(215)	997
DCF: New plants: finished					271	262	235	191	174	701
DCF: New plants: not finished					(505)	(204)	(180)	116	105	568
DCF: Other					73	40	27	18	13	65
FCF (unlevered), discounted (US\$m)					(422)	(142)	(229)	(6)	77	2,333

Source: Company data, ING estimates

Valuation parameters and target price derivation

WACC (%)	Finished	12.7			
	Not finished	14.7			
TV (US\$bn) based on different approaches with median as median)	EV/KW: min	As % of the capex	Gordon-growth	EV/KW: max	Final
Old plants	1.7		-	7.5	1.7
New plants; finished			1.2		1.2
New plants; not finished			1.0		1.0
Other			0.1		0.1
TV, final, (US\$bn)					4.0
Components of value (US\$m)	Gross	Debt of SPVs (pro-rata)		Net	
Old plants	-			-	
New plants, finished	1,563			1,563	
New plants, not finished	406	-		406	
Other	163			163	
Core assets	2,133	-		2,133	
Non-core assets				-	
Net (debt) / cash				(237)	
Equity				1,896	
No. of shares: Ord: Old (bn)				40	
No. of shares: Ord: New (2011, bn)				-	
No. of shares: Ord: New (2012, bn)				-	
No. of shares: Ord (bn)				40	
No. of shares: Ord: quasi-treasury (bn)				-	
No. of shares: Pref (bn)				-	
No. of shares: effective, total (bn)				40	
Target price (US\$)				0.05	
Target price (RBL)				1.53	

Source: Company data, ING estimates

TGK-1

First Russian-controlled generator that could enter positive FCF territory

Maintained

Buy

Russian Federation
UtilitiesMarket cap RBL23,584.7m
Bloomberg TGKA RX

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

Investment case

We think TGK-1 may become the first non-foreign generator (ie, besides E.ON Russia and Enel OGC-5) to show positive FCF. We think that TGK-1 may start generating positive FCF in 2014 after rollout of Pravoberezh CHP (0.45 GW, 2012). With the commissioning, TGK-1 may increase its dividend payout ratio towards the upper end of the range announced by GazpromEnergoholding (5-35%).

Generating assets

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

"Old" assets

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

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

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

"New" assets

1.7GW by end-2016, including:

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

Price (07/08/12)	RBL0.006
Target price (12-mth)	Previously RBL0.02 RBL0.008
Forecast total return	31.6%

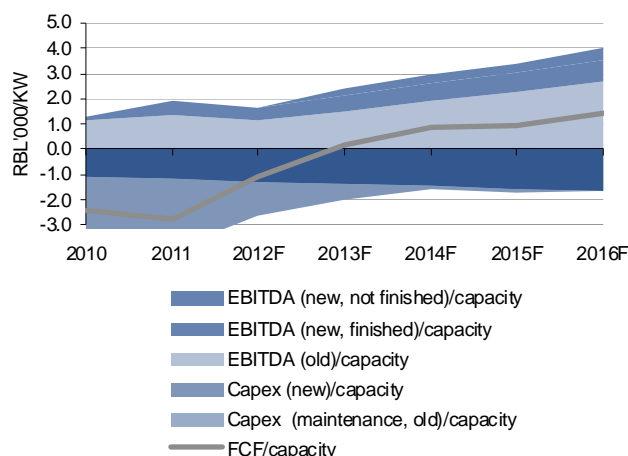
M&A and capital-raising

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

Capex and FCF

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

FCF profile (per KW of "old" capacity), RBL'000/KW



Source: ING estimates

Valuation approach

Out target price for TGK-1 is DCF derived with a five-year explicit forecast horizon (2012-16).

Catalysts

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

Newsflow

Date	Description
Sep 2012	1H12 IFRS

Source: Company data, ING

Major shareholders (%)

GazpromEnergoholding	52
Fortum	26

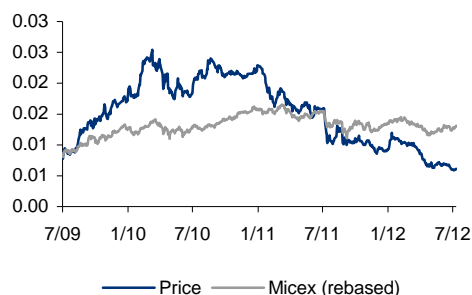
Source: Company data, ING

Share data

Avg daily volume (3-mth)	957,548,148
Free float (%)	22.0
Market cap (RBLm)	23,584.7
Net debt (1F, RBLm)	32,521
Enterprise value (1F, RBLm)	56,106
Dividend yield (1F, %)	0.85

Source: Company data, ING estimates

Share price performance



Source: ING

Company profile

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

Risks

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

Financials

Year end Dec (RBLm)	2009	2010	2011	2012F	2013F	2014F
Income statement						
Revenues	41,349	50,486	60,251	59,712	71,007	79,995
EBITDA	7,758	8,650	12,501	10,863	15,282	18,720
EBIT	10,400	8,341	6,961	4,464	8,613	12,006
Net interest	231	(123)	(1,731)	(876)	(3,211)	(3,304)
Associates						
Other pre-tax items	0	0	0	0	0	0
Pre-tax profit	10,631	8,218	5,230	3,588	5,402	8,702
Tax	(2,281)	(1,736)	(1,370)	(861)	(1,296)	(2,088)
Minorities						
Other post-tax items	0	0	0	0	0	0
Net profit	8,350	6,482	3,860	2,727	4,105	6,613
Normalised net profit	4,167	4,115	4,416	2,727	4,105	6,613
Balance sheet						
Tangible fixed assets	84,982	90,069	120,705	135,106	145,378	153,304
Intangible fixed assets	0	0	0	0	0	0
Other non-current assets	1,161	10,347	1,234	1,234	1,234	1,234
Cash & equivalents	0	0	0	0	0	0
Other current assets	12,358	12,831	16,954	16,954	16,954	17,505
Total assets	98,501	113,247	138,893	153,294	163,566	172,043
Short-term debt	4,443	6,628	11,024	17,673	0	0
Other current liabilities	8,957	6,664	8,206	8,206	8,206	8,206
Long-term debt	9,420	16,386	14,848	14,848	35,477	34,036
Other long-term liabilities	0	0	0	0	0	0
Total equity	75,681	83,569	104,815	112,566	119,883	129,800
Total liabilities & equity	98,501	113,247	138,893	153,294	163,566	172,043
Net working capital	2,601	5,120	7,922	7,922	7,922	8,473
Net debt (cash)	13,863	23,014	25,872	32,521	35,477	34,036
Cash flow						
Cash flow EBITDA	13,190	11,724	11,779	10,863	15,282	18,720
Tax, interest & other	(3,382)	(1,215)	3,823	1,737	4,508	5,393
Change in working capital	(1,656)	(2,268)	(3,023)	0	0	(550)
Net cash from op activities	3,821	4,524	6,377	9,126	10,775	12,777
Capex	(14,532)	(20,164)	(24,746)	(16,399)	(12,371)	(10,025)
Net acquisitions	0	0	0	0	0	0
Net financing cash flow	0	0	0	0	0	0
Dividends & minority distrib'n	0	0	0	0	0	0
Net ch in cash & equivalents	(10,711)	(15,641)	(18,370)	(7,273)	(1,596)	2,753
FCF	(10,711)	(15,518)	(16,639)	(6,397)	1,615	6,057
Performance & returns						
Revenue growth (%)	23.1	22.1	19.3	-0.89	18.9	12.7
Normalised EPS growth (%)	208.0	-1.3	7.3	-38.2	50.5	61.1
Normalised EBITDA mgn (%)	18.8	17.1	20.7	18.2	21.5	23.4
Normalised EBIT margin (%)	12.0	10.4	12.8	7.5	12.1	15.0
ROACE (%)	6.3	5.4	6.5	3.2	5.7	7.5
Reported ROE (%)	11.9	8.1	4.1	2.5	3.5	5.3
Working capital as % of sales	6.3	10.1	13.1	13.3	11.2	10.6
Net debt (cash)/EBITDA (x)	1.8	2.7	2.1	3.0	2.3	1.8
EBITDA net interest cvg (x)	n/a	70.3	7.2	12.4	4.8	5.7
Valuation						
EV/revenue (x)	0.91	0.92	0.82	0.94	0.83	0.72
EV/normalised EBITDA (x)	4.8	5.4	4.0	5.2	3.9	3.1
EV/normalised EBIT (x)	7.5	8.8	6.4	12.6	6.9	4.8
Normalised PER (x)	5.7	5.7	5.3	8.6	5.7	3.6
Price/book (x)	0.31	0.28	0.23	0.21	0.20	0.18
Dividend yield (%)	0.71	0.77	0.76	0.85	1.7	3.3
FCF yield (%)	n/a	n/a	n/a	n/a	2.7	10.5
Per share data						
Reported EPS (RBL)	0.00	0.00	0.00	0.00	0.00	0.00
Normalised EPS (RBL)	0.00	0.00	0.00	0.00	0.00	0.00
Dividend per share (RBL)	0.00	0.00	0.00	0.00	0.00	0.00
Equity FCFPS (RBL)	0.00	0.00	0.00	0.00	0.00	0.00
BV/share (RBL)	0.02	0.02	0.03	0.03	0.03	0.03

Source: Company data, ING estimates

P&L & cash flow

	2008	2009	2010	2011	2012F	2013F	2014F	2015F	2016F	TV 2017F
Capacity (GW)										
Installed capacity: old plants	6	6	6	6	6	6	6	6	6	6
Installed capacity, new finished	-	0.1	0.2	0.7	1.1	1.1	1.1	1.1	1.1	1.1
Installed capacity: new, not finished	-	-	-	-	-	0.5	0.5	0.5	0.6	
Installed capacity total	6	6	6	7	7	8	8	8	8	
P&L (RBLbn)										
Revenue electricity: old	15	17	21	24	22	27	33	38	42	
Revenue, electricity, new, finished	-	1	2	7	9	10	11	12	13	
Revenue, electricity, new, not finished	-	-	-	-	-	5	5	6	8	
Revenue electricity	15	18	22	30	31	41	49	56	63	
Heat revenue	15	18	22	23	23	25	28	30	33	
Revenue other (incl. reselling)	4	6	6	7	6	4	3	3	3	
Revenue	34	41	50	60	60	71	80	88	98	
Fuel costs for heat, old	-	(8)	(11)	(12)	(13)	(15)	(17)	(18)	(20)	
Fuel costs for electricity, old	-	(7)	(10)	(10)	(11)	(13)	(15)	(17)	(18)	
Fuel costs, new, finished	-	(0)	(1)	(2)	(4)	(4)	(5)	(6)	(6)	
Fuel costs, new, not finished	-	-	-	-	-	(2)	(2)	(3)	(4)	
Fuel costs, old and new	(16)	(16)	(22)	(25)	(28)	(34)	(39)	(43)	(48)	
Purchased power & Re-selling	(3)	(5)	(5)	(6)	(5)	(4)	(3)	(3)	(2)	
Heat transportation	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	
Water payment	(2)	(2)	(2)	(2)	(2)	(3)	(3)	(3)	(3)	
Gross profit	12	18	21	27	24	30	34	38	43	
Non-fuel Opex: old plants	(9)	(10)	(12)	(13)	(12)	(12)	(13)	(14)	(15)	
Non-fuel Opex: new, finished	-	(0)	(0)	(1)	(1)	(2)	(2)	(2)	(2)	
Non-fuel Opex: new, not finished	-	-	-	-	-	(1)	(1)	(1)	(1)	
Non-fuel Opex	(9)	(10)	(12)	(14)	(13)	(15)	(16)	(17)	(18)	
EBITDA, old plants	-	6	7	9	7	9	12	14	17	
EBITDA, new, finished	-	0	1	3	3	4	4	5	5	
EBITDA, new, not finished	-	-	-	-	-	2	2	2	3	
EBITDA, other	1	1	1	1	1	0	0	0	0	
EBITDA	4	8	9	13	11	15	19	22	25	
Depreciation, old plants	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	
Depreciation: new, finished	-	(1)	(1)	(3)	(4)	(3)	(3)	(3)	(3)	
Depreciation: new, not finished	-	-	-	-	-	(1)	(2)	(2)	(2)	
Depreciation	(2)	(3)	(3)	(5)	(6)	(7)	(7)	(7)	(7)	
EBIT (ex non-recurring and non-cash)	2	5	5	8	4	9	12	15	18	
Finance income / (costs), net	0	0	(0)	(2)	(1)	(3)	(3)	(3)	(3)	
Other (Non-cash and one-offs)	1	5	3	(1)	-	-	-	-	-	
EBT	3	11	8	5	4	5	9	12	16	
Income tax	(1)	(2)	(2)	(1)	(1)	(1)	(2)	(3)	(4)	
Net profit	2	8	6	4	3	4	7	9	12	
Cash flow (RBLbn)										
NOPAT: old plants	0	4	4	5	4	5	8	9	11	
NOPAT: new, finished	-	(1)	(1)	0	(1)	1	1	1	2	
NOPAT: new, not finished	-	-	-	-	-	0	0	1	1	
NOPAT: other	0	1	1	0	0	0	0	0	0	
NOPAT	1	4	4	6	3	7	9	11	14	
Reduction/(increase) in working capital; existing plants	-	(2)	(2)	(3)	-	-	(1)	(1)	(1)	
Reduction/(increase) in working capital; new plants	-	(2)	(2)	(3)	-	-	(1)	(1)	(1)	
Reduction / (increase) in working capital	-	(2)	(2)	(3)	-	-	(1)	(1)	(1)	
Capex, old (maintenance)	-	-	(7)	(7)	(8)	(9)	(9)	(10)	(10)	
Capex, new, finished	-	(13)	(8)	(10)	-	-	-	-	-	
Capex: new, not finished	-	(1)	(5)	(7)	(8)	(4)	(1)	(1)	-	
Capex (net of partners' contribution)	-	(15)	(20)	(25)	(16)	(12)	(10)	(11)	(10)	
FCF: old plants	2	4	(3)	(4)	(2)	(1)	(0)	0	2	
FCF: new plants, finished	-	(13)	(7)	(7)	3	4	4	4	4	
FCF: new plants, not finished	-	(1)	(5)	(7)	(8)	(2)	1	1	3	
FCF: other	0	1	1	0	0	0	0	0	0	
FCF (attributable to EV)	3	(10)	(15)	(17)	(7)	1	5	6	9	
FCF & DCF (US\$m)										
US\$/RBL exchange rate (year average)	25	32	30	29	32	32	33	33	32	
Discounting factor	Finished				1.00	0.94	0.84	0.74	0.66	0.58
	Not finished				1.00	0.93	0.81	0.71	0.62	0.54
DCF: Old plants					(66)	(28)	(1)	7	37	822
DCF: New plants: finished					101	107	102	97	91	559
DCF: New plants: not finished					(263)	(61)	29	29	55	354
DCF other					14	7	4	3	2	8
FCF (unlevered), discounted (US\$m)					(215)	24	135	136	185	1,742

Source: Company data, ING estimates

Valuation parameters and target price derivation

WACC (%)	Finished	12.7%			
	Not finished	14.7%			
TV (US\$bn) (based on different approaches with median as median)	EV/KW: min	As % of the capex	Gordon-growth	EV/KW: max	Final
Old plants	1.4		0.4	5.0	1.4
New plants; finished			1.0		1.0
New plants; not finished			0.6		0.6
Other			0.0		0.0
TV, final (US\$bn)					3.0
Components of value (US\$m)	Gross	Debt of SPVs (pro-rata)	Net		
Old plants	837		837		
New plants, finished	956		956		
New plants, not finished	405	-	405		
Other	23		23		
Core assets	2,222	-	2,222		
Non-core assets			-		
Net (debt) / cash			(1,257)		
Equity			965		
No. of shares: Ord: Old (bn)			3,854		
No. of shares: Ord: New (2011, bn)			-		
No. of shares: Ord: New (2012, bn)			-		
No. of shares: Ord (bn)			3,854		
No. of shares: Ord: quasi-treasury (bn)			-		
No. of shares: Pref (bn)			-		
No. of shares: effective, total (bn)			3,854		
Target price (US\$)			0.00		
Target price (RBL)			0.01		

Source: Company data, ING estimates

OGK-2

Risks in many dimensions: operations, capex and capital raising

Previously Buy

Hold

 Russian Federation
Utilities

 Market cap RBL26,697.2m
Bloomberg OGKB RX

Operational problems aggravated by high capex and the intention to issue new shares.

Investment case

The OGK-2 investment case includes operational, capex and capital structure risks. In addition to its detrimental operational and financial performance (which could have been considered as a temporary issue, partially driven by a fire at Troitskaya TPP in 2011), the company still finds itself at an early stage of realisation of its costly capacity additions programme (c.RBL80bn in 2012-14 – company est.). Moreover, the company is to issue additional shares in 2H12 to attract c.RBL20bn of equity financing from its core shareholder (GazpromEnergoHolding).

Generating assets

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

“Old” assets: 17.7GW

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

- ✚ Aggregate fuel efficiency roughly in line with the average.
- ✚ Above-average share of coal-fired capacity located in European Russia.
- ✚ In-line-with-average share of “old” capacity based in European Russia.

“New” assets

2.9GW by end-2016, including:

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

M&A and capital-raising

OGK-2 is preparing to issue new shares in 2H12 in order to attract RBL20bn of equity financing from its core shareholder (GazpromEnergoHolding). While the issue (of up to 110bn of additional shares) has been approved by the shareholders, its price is to be defined by the board of directors in autumn 2012.

Price (07/08/12) **RBL0.45**

Previously RBL1.01

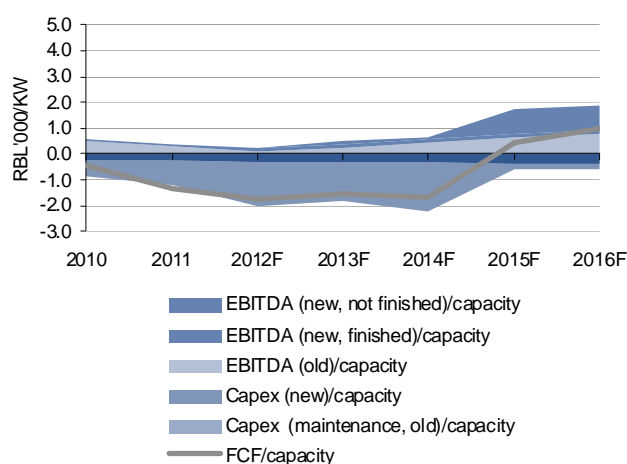
Target price (12-mth) **RBL0.48**

Forecast total return **6.7%**

Capex and FCF

Expected FCF breakeven year – 2015, after commissioning of Adler TPP (+0.4GW, 2012), Troitskaya TPP (+0.7GW, 2014), Serov TPP (+0.4GW, 2014), Novochoerkassk TPP (+0.3GW, 2014), Cherepovetsk TPP (+0.4GW, 2014).

FCF profile (per KW of “old” capacity), RBL000/KW



Source: ING estimates

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

Catalysts

Commissioning of “new” generating capacities Adler TPP (+0.4GW, 2012), Troitskaya TPP (+0.7GW, 2014), Serov TPP (+0.4GW, 2014), Novochoerkassk TPP (+0.3GW, 2014), Cherepovetsk TPP (+0.4GW, 2014) and Stavropol TPP (0.4GW, 2016).

Newsflow

Date	Description
25-31 Aug 2012	1H12 IFRS

Source: Company data, ING

Major shareholders (%)

GazpromEnergoholding	57
InterRAO	7

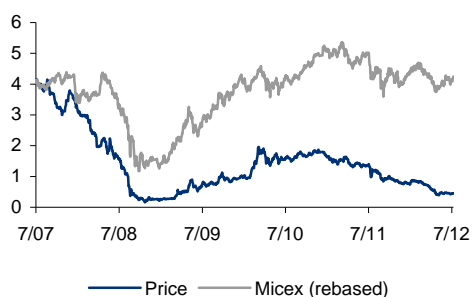
Source: Company data, ING

Share data

Avg daily volume (3-mth)	117,793,431
Free float (%)	37.0
Market cap (RBLm)	26,697.2
Net debt (1F, RBLm)	30,688
Enterprise value (1F, RBLm)	57,385
Dividend yield (1F, %)	0.0

Source: Company data, ING estimates

Share price performance



Source: ING

Company profile

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

Risks

Upside

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

Downside

- Additional government pressure on the prices for electrical energy and capacity.
- Additional share issue by Ogc-2 (on top of the ongoing share issue) in order to attract financing for realisation of obligatory capacity additions program.

Financials

Year end Dec (RBLm)	2009	2010	2011	2012F	2013F	2014F
Income statement						
Revenues	80,299	96,452	104,895	104,717	123,623	140,528
EBITDA	9,147	11,670	7,105	4,898	9,205	12,329
EBIT	5,330	7,359	2,217	(411)	(1,119)	304
Net interest	(422)	(946)	(1,796)	(1,420)	(2,357)	(4,829)
Associates						
Other pre-tax items	0	0	0	0	0	0
Pre-tax profit	4,908	6,413	421	(1,831)	(3,476)	(4,526)
Tax	(1,372)	(1,743)	(411)	0	0	0
Minorities						
Other post-tax items	0	0	0	0	0	0
Net profit	3,536	4,670	10	(1,831)	(3,476)	(4,526)
Normalised net profit	3,996	5,538	939	(1,831)	(3,476)	(4,526)
Balance sheet						
Tangible fixed assets	96,712	92,102	106,497	138,344	167,084	203,622
Intangible fixed assets	0	0	0	0	0	0
Other non-current assets	8,343	4,790	4,508	4,508	4,508	4,508
Cash & equivalents	0	5,361	0	0	0	0
Other current assets	18,315	15,464	20,795	21,436	25,103	28,228
Total assets	123,370	117,717	131,800	164,288	196,696	236,359
Short-term debt	6,446	0	5,242	2,296	0	0
Other current liabilities	3,256	5,858	6,783	13,735	13,735	15,508
Long-term debt	6,161	16,358	28,392	28,392	64,215	101,801
Other long-term liabilities	0	0	0	0	0	0
Total equity	107,507	95,501	91,383	119,865	118,746	119,050
Total liabilities & equity	123,370	117,717	131,800	164,288	196,696	236,359
Net working capital	7,378	8,436	12,470	6,159	9,826	11,179
Net debt (cash)	12,607	10,997	33,634	30,688	64,215	101,801
Cash flow						
Cash flow EBITDA	8,550	10,543	5,899	4,898	9,205	12,329
Tax, interest & other	2,391	3,816	3,413	1,420	2,357	4,829
Change in working capital	(680)	(927)	(5,309)	0	(3,667)	(1,352)
Net cash from op activities	6,673	8,054	(411)	3,478	3,180	6,148
Capex	(11,109)	(15,766)	(21,965)	(35,222)	(32,284)	(40,082)
Net acquisitions	0	0	0	0	0	0
Net financing cash flow	0	0	0	0	0	0
Dividends & minority distrib'n	0	0	0	0	0	0
Net ch in cash & equivalents	(4,436)	(7,713)	(22,376)	(31,744)	(29,104)	(33,934)
FCF	(4,014)	(6,767)	(20,580)	(30,324)	(26,747)	(29,104)
Performance & returns						
Revenue growth (%)	-3.1	20.1	8.8	-0.17	18.1	13.7
Normalised EPS growth (%)	n/a	38.6	-83.1	n/a	n/a	n/a
Normalised EBITDA mgn (%)	11.4	12.1	6.8	4.7	7.4	8.8
Normalised EBIT margin (%)	7.4	8.8	3.3	-0.39	-0.91	0.22
ROACE (%)	5.2	7.3	2.9	-0.30	-0.67	0.15
Reported ROE (%)	3.4	4.6	0.01	-1.7	-2.9	-3.8
Working capital as % of sales	9.2	8.7	11.9	5.9	7.9	8.0
Net debt (cash)/EBITDA (x)	1.4	0.94	4.7	6.3	7.0	8.3
EBITDA net interest cvg (x)	21.7	12.3	4.0	3.4	3.9	2.6
Valuation						
EV/revenue (x)	0.49	0.39	0.58	0.55	0.74	0.91
EV/normalised EBITDA (x)	4.3	3.2	8.5	11.7	9.9	10.4
EV/normalised EBIT (x)	6.6	4.4	17.6	(139.6)	(81.2)	423.2
Normalised PER (x)	6.7	4.8	28.4	n/a	n/a	n/a
Price/book (x)	0.25	0.28	0.29	0.22	0.38	0.38
Dividend yield (%)	0.0	1.4	0.22	0.0	0.0	0.0
FCF yield (%)	n/a	n/a	n/a	n/a	n/a	n/a
Per share data						
Reported EPS (RBL)	0.06	0.08	0.00	(0.03)	(0.04)	(0.05)
Normalised EPS (RBL)	0.07	0.09	0.02	(0.03)	(0.04)	(0.05)
Dividend per share (RBL)	0.00	0.01	0.00	0.00	0.00	0.00
Equity FCFPS (RBL)	(0.07)	(0.13)	(0.38)	(0.54)	(0.37)	(0.34)
BV/share (RBL)	1.81	1.61	1.54	2.02	1.20	1.20

Source: Company data, ING estimates

P&L & cash flow

	2008	2009	2010	2011	2012F	2013F	2014F	2015F	2016F	TV 2017F
Capacity (GW)										
Installed capacity: old plants	18	18	18	18	18	18	18	18	18	
Installed capacity, new finished	-	-	0.1	0.1	0.7	0.7	0.7	0.7	0.7	
Installed capacity: new, not finished	-	-	-	-	-	0.4	0.4	2.3	2.3	
Installed capacity total	18	18	18	18	18	19	19	21	21	
P&L (RBLbn)										
Revenue electricity: old	67	71	84	91	87	102	118	134	148	
Revenue, electricity, new, finished	-	-	1	1	6	7	8	8	9	
Revenue, electricity, new, not finished	-	-	-	-	-	4	4	31	32	
Revenue electricity	69	71	85	92	93	113	130	173	189	
Heat revenue	3	3	3	3	3	4	5	5	6	
Revenue other (incl. reselling)	11	7	8	10	8	7	6	6	5	
Revenue	83	80	96	105	105	124	141	184	200	
Fuel costs for heat, old	(2)	(2)	(2)	(3)	(3)	(3)	(4)	(4)	(5)	
Fuel costs for electricity, old	(42)	(55)	(60)	(60)	(61)	(72)	(83)	(94)	(104)	
Fuel costs, new, finished	-	(0)	(1)	(1)	(3)	(4)	(4)	(5)	(5)	
Fuel costs, new, not finished	-	-	-	-	-	(2)	(2)	(9)	(9)	
Fuel costs, old and new	(48)	(44)	(57)	(63)	(67)	(80)	(93)	(112)	(123)	
Purchased power & Re-selling	(11)	(6)	(6)	(9)	(7)	(7)	(6)	(5)	(5)	
Heat transportation	-	-	-	-	-	-	-	-	-	
Water payment	-	-	-	-	-	-	-	-	-	
Gross profit	24	31	33	33	30	37	42	67	72	
Non-fuel Opex: old plants	(21)	(22)	(21)	(25)	(25)	(26)	(28)	(30)	(32)	
Non-fuel Opex: new, finished	-	-	(0)	(0)	(1)	(1)	(1)	(1)	(1)	
Non-fuel Opex: new, not finished	-	-	-	-	-	(1)	(1)	(5)	(5)	
Non-fuel Opex	(21)	(22)	(21)	(26)	(25)	(28)	(30)	(36)	(38)	
EBITDA, old plants	9	9	9	6	2	4	8	11	14	
EBITDA, new, finished	-	-	0	1	2	3	3	3	3	
EBITDA, new, not finished	-	-	-	-	-	2	2	17	17	
EBITDA, other	0	1	2	1	1	1	0	0	0	
EBITDA	9	10	11	8	5	8	11	21	24	
Depreciation, old plants	(4)	(3)	(3)	(3)	(4)	(4)	(4)	(4)	(4)	
Depreciation: new, finished	-	-	-	(0)	(2)	(4)	(5)	(2)	(2)	
Depreciation: new, not finished	-	-	-	-	-	(2)	(3)	(7)	(7)	
Depreciation	(4)	(3)	(3)	(4)	(5)	(10)	(12)	(12)	(12)	
EBIT (ex non-recurring and non-cash)	(1)	6	8	3	(0)	(1)	0	19	21	
Finance income / (costs), net	0	(0)	(1)	(2)	(1)	(2)	(5)	(7)	(7)	
Other (Non-cash and one-offs)	(2)	(1)	(1)	(1)	-	-	-	-	-	
EBT	(3)	5	6	0	(2)	(3)	(5)	12	15	
Income tax	2	(1)	(2)	(0)	-	-	-	(3)	(3)	
Net profit	(1)	4	5	0	(2)	(3)	(5)	9	11	
Cash flow (RBLbn)										
NOPAT: old plants	(3)	4	4	0	(2)	1	3	6	8	
NOPAT: new, finished	-	-	0	0	1	(2)	(3)	0	0	
NOPAT: new, not finished	-	-	-	-	-	(1)	(1)	8	8	
NOPAT: other	0	0	1	0	1	0	0	0	0	
NOPAT	(3)	4	6	0	(0)	(1)	(1)	14	16	
Reduction/(Increase) in working capital: existing plants	(1)	(1)	(1)	(5)	-	(4)	(1)	(8)	(1)	
Reduction/(Increase) in working capital: new plants	(1)	(1)	(1)	(5)	-	(4)	(1)	(8)	(1)	
Reduction / (increase) in working capital	(1)	(1)	(1)	(5)	-	(4)	(1)	(8)	(1)	
Capex, old (maintenance)	-	-	(4)	(5)	(5)	(6)	(6)	(6)	(7)	
Capex, new, finished	-	(10)	(7)	(7)	-	-	-	-	-	
Capex: new, not finished	-	(1)	(4)	(10)	(30)	(27)	(34)	(4)	(4)	
Capex (net of partners' contribution)	-	(11)	(16)	(22)	(35)	(32)	(40)	(10)	(11)	
FCF: old plants	(1)	6	2	(7)	(4)	(5)	(1)	(5)	3	
FCF: new plants, finished	-	(10)	(7)	(6)	2	3	3	2	2	
FCF: new plants, not finished	-	(1)	(4)	(10)	(30)	(25)	(32)	11	11	
FCF: other	0	0	1	0	1	0	0	0	0	
FCF (attributable to EV)	(0)	(4)	(7)	(24)	(30)	(27)	(30)	8	17	
FCF & DCF (US\$m)										
US\$/RBL exchange rate (year average)	25	32	30	29	32	32	33	33	32	
Discounting factor										
Finished					1.00	0.94	0.84	0.74	0.66	0.58
Not finished					1.00	0.93	0.81	0.71	0.62	0.54
DCF: Old plants					(113)	(147)	(18)	(122)	67	1,296
DCF: New plants: finished					76	73	65	54	48	202
DCF: New plants: not finished					(938)	(724)	(826)	250	225	1,904
DCF: Other					26	12	7	5	3	16
FCF (unlevered), discounted (US\$m)					(949)	(786)	(772)	187	344	3,419

Source: Company data, ING estimates

Valuation parameters and target price derivation

WACC (%)	Finished	12.7			
	Not finished	14.7			
TV (US\$bn) based on different approaches with median as median)	EV/KW: min	As % of the capex	Gordon-growth	EV/KW: max	Final
Old plants	2.2		0.8	8.9	2.2
New plants; finished			0.3		0.3
New plants; not finished			3.3		3.3
Other			0.0		0.0
TV, final (US\$bn)					5.9
Components of value (US\$m)	Gross	Debt of SPVs (pro-rata)	Net		
Old plants	1,076		1,076		
New plants, finished	443		443		
New plants, not finished	829	-	829		
Other	43		43		
Core assets	2,392	-	2,392		
Non-core assets			-		
Net (debt) / cash			(922)		
Equity			1,469		
No. of shares: Ord: Old (bn)			59		
No. of shares: Ord: New (2011, bn)			-		
No. of shares: Ord: New (2012, bn)			40		
No. of shares: Ord (bn)			99		
No. of shares: Ord: quasi-treasury (bn)			(2)		
No. of shares: Pref (bn)			-		
No. of shares: effective, total (bn)			97		
Target price (US\$)			0.02		
Target price (RBL)			0.48		

Source: Company data, ING estimates

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Grids

Federal Grid Company

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

Previously Buy

Sell

Russian Federation
Utilities

Market cap RBL282,931m
Bloomberg FEES RX

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

Investment case

From fundamental standpoint, FSK's value is not transparent because of two main reasons. First, it depends on long-term development of regulatory parameters (most importantly tariff hikes and capex), whose visibility has diminished recently after the approval of three year tariff hikes (c.11%, c.9% and c.9%) undermined the credibility of formally introduced long-term regulation (RAB-based regulation). Second, current dividend flow - which could have served as an indicator of underlying value - is negligible (eg, FSK paid no dividends for 2011). With our current assumptions on long-term development of the tariffs and capex (which currently depend on ad-hoc government decision), FSK's current share price appears to overestimate its fundamental value.

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

"Old" assets and operating outlook

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

Tariffs and prices

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

Mid-term tariff hikes for the Federal Grid Company have been set by the regulator at 11%, 9.4% and 9.4% for 1 July of 2012, 2013 and 2014, respectively.

M&A and capital raising

Following the transfer to FSK of the rights to manage Holding MRSK (starting July 2012), the government currently considers ownership integration of the two companies. While the exact scenario and quantitative details are not yet defined, we believe that the relative valuation of FSK for the purpose of integration is likely to be more generous than the one of Holding MRSK.

Privatisation

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

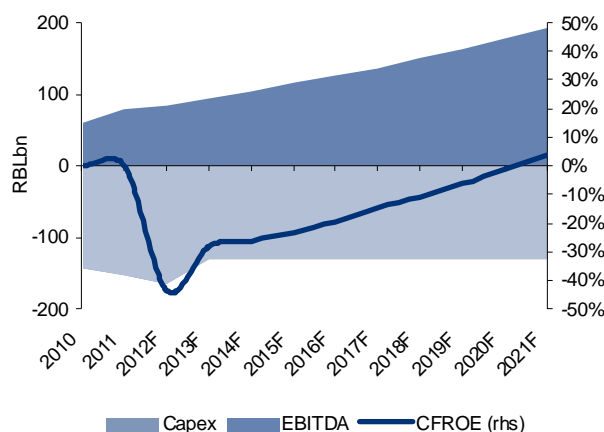
Price (07/08/12) **RBL0.22**

Target price (12-mth) **RBL0.20** Previously RBL0.23

Forecast total return **-9.9%**

"New" assets, capex and FCF
Expected FCF breakeven year – 2019.

FCF profile



Source: ING estimates

Valuation approach

Our valuation of FSK consists of three steps:

- **Valuation of FSK as a standalone company** based on DCF with a 10-year explicit forecast horizon. Details presented in the table below.
- **Valuation of FSK as an "entry ticket" into the merged FSK/Holding MRSK**, assuming that the swap terms are set so that the government can keep 75% of the merged company.
- **Weighted averaging the two approaches** above: "stand-alone" approach counted with a 25% weight and "merger" approach with a 75% weight.

Catalysts

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

Newsflow

Date	Description
Early Oct 2012	1H12 IFRS

Source: Company data, ING

Major shareholders (%)

Russian Federation	79
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Source: Company data, ING

Share data

Avg daily volume (3-mth)	1,756,484,167
Free float (%)	21.0
Market cap (RBLm)	282,931
Net debt (1F, RBLm)	168,328
Enterprise value (1F, RBLm)	393,741
Dividend yield (1F, %)	1.1

Source: Company data, ING estimates

Share price performance



Source: ING

Company profile

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

Risks

- ⚠ Reduction in the capex programme in comparison to our current assumptions.
- ⚠ Increase in dividend payout.
- ⚠ Favorable "official" valuation in the process of ownership integration with Holding MRSK.

Financials

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

Revenues	91,867	117,814	139,571	147,788	162,758	179,327
EBITDA	30,391	60,126	78,627	83,757	92,977	103,678
EBIT	(88,362)	19,780	59,176	44,032	48,538	55,525
Net interest	8,516	5,188	3,679	(4,920)	(11,727)	(15,972)
Associates	0	0	0	0	0	0
Other pre-tax items	1,893	(833)	8	0	0	0
Pre-tax profit	(77,953)	24,135	62,863	39,112	36,811	39,553
Tax	13,979	(5,752)	(13,875)	(9,387)	(8,835)	(9,493)
Minorities	0	0	0	0	0	0
Other post-tax items	0	0	0	0	0	0
Net profit	(63,974)	18,383	48,988	29,725	27,976	30,061
Normalised net profit	14,576	26,207	38,411	29,725	27,976	30,061

Balance sheet

Tangible fixed assets	796,561	908,747	1,038,196	1,163,471	1,249,033	1,330,880
Intangible fixed assets	0	0	0	0	0	0
Other non-current assets	10,149	10,149	10,149	10,149	10,149	10,149
Cash & equivalents	87,974	14,996	0	0	0	0
Other current assets	43,458	59,233	72,980	76,374	83,039	90,153
Total assets	938,141	993,125	1,121,325	1,249,994	1,342,220	1,431,181
Short-term debt	0	0	21,088	50,260	68,451	85,046
Other current liabilities	47,935	45,147	46,679	48,380	51,994	55,579
Long-term debt	1,570	944	49,997	118,067	160,513	199,234
Other long-term liabilities	86,824	87,975	85,262	85,262	85,262	85,262
Total equity	801,812	859,059	918,299	948,024	976,000	1,006,061
Total liabilities & equity	938,141	993,125	1,121,325	1,249,994	1,342,220	1,431,181
Net working capital	(7,585)	9,534	19,460	20,672	22,894	25,515
Net debt (cash)	(86,404)	(14,052)	71,085	168,328	228,964	284,280

Cash flow

Cash flow EBITDA	(69,729)	49,132	92,371	83,757	92,977	103,678
Tax, interest & other	79,518	10,725	(3,540)	14,307	20,562	25,465
Change in working capital	0	(18,564)	(12,214)	(1,692)	(3,051)	(3,529)
Net cash from op activities	54,779	40,165	56,225	67,757	69,364	74,684
Capex	(90,079)	(141,882)	(153,471)	(165,000)	(130,000)	(130,000)
Net acquisitions	0	0	0	0	0	0
Net financing cash flow	0	0	0	0	0	0
Dividends & minority distrib'n	0	0	0	0	0	0
Net ch in cash & equivalents	23,161	(86,017)	(69,169)	(97,243)	(60,636)	(55,316)
FCF	(43,816)	(106,905)	(100,925)	(92,323)	(48,909)	(39,344)

Performance & returns

Revenue growth (%)	32.7	28.2	18.5	5.9	10.1	10.2
Normalised EPS growth (%)	20.1	79.8	46.6	-22.6	-5.9	7.4
Normalised EBITDA mgn (%)	33.1	51.0	56.3	56.7	57.1	57.8
Normalised EBIT margin (%)	14.9	25.4	32.6	29.8	29.8	31.0
ROACE (%)	1.9	3.6	4.9	4.2	4.2	4.5
Reported ROE (%)	-9.2	2.2	5.5	3.2	2.9	3.0
Working capital as % of sales	-8.3	8.1	13.9	14.0	14.1	14.2
Net debt (cash)/EBITDA (x)	(2.8)	(0.23)	0.90	2.0	2.5	2.7
EBITDA net interest cvg (x)	n/a	n/a	n/a	17.0	7.9	6.5

Valuation

EV/revenue (x)	1.5	1.8	2.1	2.7	2.8	2.8
EV/normalised EBITDA (x)	4.6	3.5	3.8	4.7	4.9	4.9
EV/normalised EBIT (x)	10.2	7.1	6.5	8.9	9.4	9.2
Normalised PER (x)	19.4	10.8	7.4	9.5	10.1	9.4
Price/book (x)	0.35	0.33	0.31	0.30	0.29	0.28
Dividend yield (%)	0.0	0.91	0.0	1.1	1.1	1.3
FCF yield (%)	n/a	n/a	n/a	n/a	n/a	n/a

Per share data

Reported EPS (RBL)	(0.05)	0.01	0.04	0.02	0.02	0.02
Normalised EPS (RBL)	0.01	0.02	0.03	0.02	0.02	0.02
Dividend per share (RBL)	0.00	0.00	0.00	0.00	0.00	0.00
Equity FCFPS (RBL)	(0.03)	(0.08)	(0.08)	(0.08)	(0.05)	(0.04)
BV/share (RBL)	0.64	0.68	0.73	0.75	0.77	0.80

Source: Company data, ING estimates

RAB and P&L

	2008	2009	2010	2011	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2020F	2021F	TV'22F
RAB and return (RBLbn)															
RAB after depreciation: old assets			647	616	584	553	522	491	459	428	397	365	334	303	
RAB after depreciation: new assets				142	291	448	565	678	787	893	995	1,093	1,188	1,279	
RAB net (after depreciation) start of year			647	758	876	1,001	1,087	1,168	1,247	1,321	1,392	1,459	1,522	1,581	
New assets as % of total RAB			0	19	33	45	52	58	63	68	71	75	78	81	
Return on RAB (post-tax), realised (%)			3	4	4	4	4	4	4	4	5	5	5	6	
P&L (RBLbn)															
Revenue: transmission	66	80	109	135	144	159	176	194	211	229	247	266	286	307	
Revenue: connection	0	3	1	2	2	2	2	2	2	2	2	2	2		
Revenue: reselling	3	3	3	2	2	1	1	1	1	1	1	0	0	0	
Revenue: other	0	5	5	0	0	0	0	0	0	0	0	0	0	0	
Revenue	69	92	118	140	148	163	179	196	213	231	249	268	288	307	
Purchased power (reselling)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Transmission cash opex: variable	(13)	(15)	(16)	(14)	(15)	(16)	(18)	(19)	(21)	(22)	(24)	(25)	(27)	(28)	
Transmission cash opex: fixed	(28)	(46)	(42)	(47)	(49)	(54)	(58)	(62)	(66)	(72)	(76)	(79)	(83)	(86)	
Cash opex (RBLbn)	(41)	(61)	(58)	(61)	(64)	(70)	(76)	(81)	(87)	(94)	(100)	(105)	(110)	(114)	
EBITDA	28	30	60	79	84	93	104	115	126	137	150	164	178	193	
Depreciation	(16)	(17)	(30)	(33)	(40)	(44)	(48)	(52)	(56)	(59)	(63)	(67)	(70)	(74)	
EBIT	12	14	30	45	44	49	56	63	71	77	87	97	108	119	
Financing (costs) / income	1	9	5	4	(5)	(12)	(16)	(18)	(20)	(19)	(20)	(21)	(21)	(21)	
Revaluation of assets	(47)	(102)	(10)	14	-	-	-	-	-	-	-	-	-	-	
Non-operating income / (expenses)	(1)	2	(1)	0	-	-	-	-	-	-	-	-	-	-	
EBT	(35)	(78)	24	63	39	37	40	45	51	59	67	76	87	97	
Tax	11	14	(6)	(14)	(9)	(9)	(9)	(11)	(12)	(14)	(16)	(18)	(21)	(23)	
Net profit (before minorities and prefs)	(24)	(64)	18	49	30	28	30	34	39	45	51	58	66	74	
Minority interest	(0)	-	-	-	-	-	-	-	-	-	-	-	-	-	
Preferred dividend	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Net profit	(24)	(64)	18	49	30	28	30	34	39	45	51	58	66	74	
FCF and DCF (RBLbn)															
EBITDA	28	30	60	79	84	93	104	115	126	137	150	164	178	193	
(Inc)/dec in working capital	(5)	-	(19)	(12)	(2)	(3)	(4)	(4)	(3)	(2)	(4)	(4)	(4)	(4)	
(Tax, unlevered)	-	-	(7)	(10)	(11)	(12)	(13)	(15)	(17)	(19)	(21)	(23)	(26)	(28)	
Operating cash flow	23	30	34	56	71	78	87	96	106	116	125	137	149	160	
Capex	(115)	(90)	(142)	(153)	(165)	(130)	(130)	(130)	(130)	(130)	(130)	(130)	(130)	(130)	
FCF (attrib to EV)	(92)	(60)	(107)	(97)	(94)	(52)	(43)	(34)	(24)	(14)	(5)	7	19	30	1,250
Exchange rate (US\$/RBL)					33	33	33	33	32	33	34	34	35	35	34
Discounting factor						0.95	0.85	0.76	0.68	0.61	0.55	0.49	0.44	0.39	0.35
DCF (unlevered) (US\$m)						(1,496)	(1,104)	(790)	(507)	(260)	(77)	94	235	338	12,957
Growth (%)															
Revenue: transmission	21	36	23	7	11	11	10	9	8	8	8	8	7	7	
Effective tariff: transmission	28	32	21	5	9	9	9	8	7	7	7	7	7	6	
Transmission cash opex: variable	19	3	-14	7	10	10	9	8	7	6	6	5	5		
Transmission cash opex: fixed	62	-9	13	4	9	8	7	6	9	5	5	5	4		
Margins and ratios (%)															
EBITDA margin	40	33	51	56	57	57	58	59	59	59	60	61	62	63	
Capex/EBITDA	412	296	236	195	197	140	125	113	103	95	87	79	73	67	
Net debt/EBITDA	3.3	2.9	0.2	(0.9)	(2.0)	(2.5)	(2.7)	(2.9)	(2.9)	(2.9)	(2.8)	(2.6)	(2.4)	(2.1)	
FCF breakeven year	2019														

Source: Company data, ING estimates

Valuation parameters and target price derivation

WACC (%)	11.6			
Holding discount (%)	0.0			
Minorities (%)	-0.1			
Terminal value	EV/EBITDA	EV/RAB	Gordon growth	Final
"Old" assets		257		
"New" assets		1,279		
Total (RBLbn)	963	1,536	259	1,250
Total (US\$bn)				36,756
Weights (%)	50	50		
Value (RBLbn) and target price	Fair value	Market value	ING adjustment** (%)	Net debt & non-core assets
EV: explicit period	(114)			
EV: TV	415			
EV of core assets	300	399		
Net (debt)/cash	(168)	(168)	0	(168)
Non-core assets*	58	58	0	58
Equity (incl. minority share)	190	289		
Minority share	(0)	(0)	0	
Equity value (excl. minority share)	190	289		
Holding discount	-	-	0	
Equity value (excl. minority stake and holding discount)	190	289		
No. of shares (effective), (bn)	1,260	1,260	0	
Target price (RBL)	0.2	0.23		

*Market value used for publicly traded companies, acquisition values used otherwise.

**Adjustments for holding discount, minorities and fair value of net cash.

Source: Company data, ING estimates

Holding MRSK

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

 Maintained
Hold

 Russian Federation
 Utilities

 Market cap RBL87,961.5m
 Bloomberg MRKH RX

While the fundamental value of Holding MRSK is dependent on regulatory parameters with limited transparency, our current (conservative) assumptions suggest that Holding MRSK is undervalued as a standalone company. However, we see the risk that the “official” valuation of Holding MRSK for the purposes of its potential merger with FSK could be less favourable.

Investment case

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

However, our relatively conservatively assumptions for tariffs and capex imply that that DCF-derived fair value of Holding MRSK exceeds its current market value. At the same time, we see the risk that the “official” relative valuations of Holding MRSK and FSK for the purposes of the discussed (but not yet officially announced) merger of FSK and Holding MRSK may not be in line with our estimates of the fair value of these companies.

“Old” assets and operating outlook

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

Tariffs and prices

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

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

M&A and capital raising

Following the transfer to FSK of the rights to manage Holding MRSK (starting July 2012), the government is currently considering integrating the ownership of the two companies. While the exact scenario and quantitative details (eg, swap rations) are not yet defined, we see the risk that the relative valuation of FSK for the purpose of integration could be more favourable than the one of Holding MRSK, in order to ensure that the government’s stake in the merged company exceeds 75%.

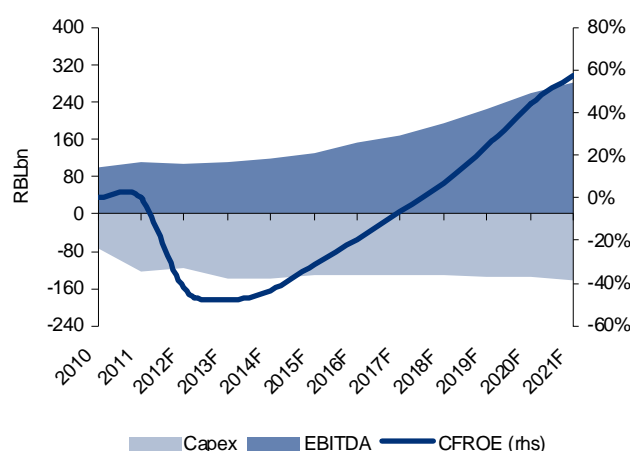
Privatisation of underlying MRSK

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

Price (07/08/12)	RBL1.79
	Previously RBL2.80
Target price (12-mth)	RBL1.79
Forecast total return	0.17%

“New” assets, capex and FCF
 Expected FCF breakeven year – 2016.

FCF profile



Source: ING estimates

Valuation approach

Our valuation of Holding MRSK includes three steps:

- **Valuation of FSK as a standalone company** based on DCF with a 10-year explicit forecast horizon. Details presented in the table below.
- **Valuation of FSK as an “entry ticket” into the merged FSK/Holding MRSK**, assuming that the swap terms are set so that the government can keep 75% of the merged company.
- **Weighted averaging the two approaches** above: “stand-alone” approach counted with a 25% weight and “merger” approach with a 75% weight.

Catalysts

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

Newsflow

Date	Description
End Sept 2012	1H12 IFRS results

Source: Company data, ING

Major shareholders (%)

Russian Federation	53
GazpromEnergoholding	11

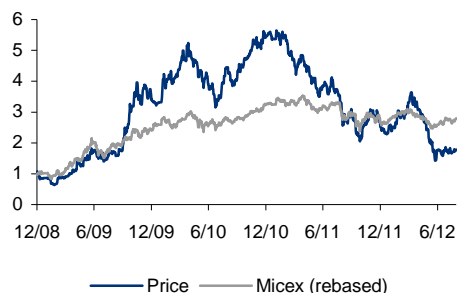
Source: Company data, ING

Share data

Avg daily volume (3-mth)	190,109,477
Free float (%)	36.0
Market cap (RBLm)	87,961.5
Net debt (1F, RBLm)	315,204
Enterprise value (1F, RBLm)	403,166
Dividend yield (1F, %)	0.0

Source: Company data, ING estimates

Share price performance



Source: ING

Company profile

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

Risks

Upside

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

Downside

- Further reduction in the level of mid-term tariff hikes in comparison to the one currently approved by the government.
- Increase in capex beyond our current forecasts.

Financials

Year end Dec (RBLm)	2008	2009	2010	2011	2012F	2013F
Income statement						
Revenues	397,881	461,659	559,000	634,608	655,479	704,418
EBITDA	81,696	104,435	119,137	132,020	122,374	122,267
EBIT	47,812	64,107	73,117	77,945	68,299	68,192
Net interest	(5,868)	(17,925)	(8,037)	(5,843)	(9,674)	(11,441)
Associates	0	0	0	0	0	0
Other pre-tax items	20	97	355	244	0	0
Pre-tax profit	41,964	46,279	65,435	72,346	58,624	56,752
Tax	(6,880)	(6,431)	(12,400)	(14,689)	(10,481)	(10,749)
Minorities	(8,721)	(7,931)	0	0	0	0
Other post-tax items	0	0	0	0	0	0
Net profit	26,363	31,917	53,035	57,657	48,143	46,002
Normalised net profit	26,363	31,917	53,035	57,657	48,143	46,002
Balance sheet						
Tangible fixed assets	531,012	560,027	603,000	687,000	750,371	834,835
Intangible fixed assets	0	0	0	0	0	0
Other non-current assets	20,080	20,080	20,080	20,080	20,080	20,080
Cash & equivalents	22,407	0	0	0	0	0
Other current assets	89,130	88,502	106,710	123,796	126,138	132,758
Total assets	662,629	668,609	729,790	830,876	896,589	987,673
Short-term debt	55,473	34,754	33,975	41,461	49,031	61,922
Other current liabilities	141,960	151,632	187,104	215,738	223,028	237,101
Long-term debt	224,223	230,902	240,274	273,743	291,405	321,485
Other long-term liabilities	49,373	35,414	37,056	42,138	42,138	42,138
Total equity	191,600	215,907	231,381	257,796	290,986	325,026
Total liabilities & equity	662,629	668,609	729,790	830,876	896,589	987,673
Net working capital	(51,022)	(62,410)	(79,079)	(88,515)	(93,744)	(101,556)
Net debt (cash)	257,289	265,656	274,249	315,204	340,436	383,407
Cash flow						
Cash flow EBITDA	81,716	104,532	119,492	132,264	122,374	122,267
Tax, interest & other	12,748	24,356	20,437	20,532	20,155	22,190
Change in working capital	0	0	0	0	0	0
Net cash from op activities	68,968	80,176	99,055	111,732	102,218	100,077
Capex	(113,888)	(62,704)	(75,681)	(124,836)	(117,446)	(138,539)
Net acquisitions	6,676	(1,348)	0	0	0	0
Net financing cash flow	0	0	0	0	0	0
Dividends & minority distrib'n	0	0	0	0	0	0
Net ch in cash & equivalents	(35,702)	17,180	15,840	(10,086)	(15,228)	(38,462)
FCF	(39,052)	35,397	31,411	(7,261)	(5,553)	(27,021)
Performance & returns						
Revenue growth (%)	n/a	16.0	21.1	13.5	3.3	7.5
Normalised EPS growth (%)	n/a	21.1	66.2	8.7	-16.5	-4.4
Normalised EBITDA mgn (%)	20.5	22.6	21.3	20.8	18.7	17.4
Normalised EBIT margin (%)	12.0	13.9	13.1	12.3	10.4	9.7
ROACE (%)	n/a	13.5	14.8	14.5	11.3	10.2
Reported ROE (%)	n/a	15.7	23.7	23.6	17.5	14.9
Working capital as % of sales	-12.8	-13.5	-14.1	-13.9	-14.3	-14.4
Net debt (cash)/EBITDA (x)	3.1	2.5	2.3	2.4	2.8	3.1
EBITDA net interest cvg (x)	13.9	5.8	14.8	22.6	12.6	10.7
Valuation						
EV/revenue (x)	0.87	0.77	0.65	0.64	0.65	0.67
EV/normalised EBITDA (x)	4.2	3.4	3.0	3.1	3.5	3.9
EV/normalised EBIT (x)	7.2	5.5	5.0	5.2	6.3	6.9
Normalised PER (x)	3.3	2.8	1.7	1.5	1.8	1.9
Price/book (x)	0.46	0.41	0.38	0.34	0.30	0.27
Dividend yield (%)	0.0	0.0	0.0	0.0	0.32	0.66
FCF yield (%)	n/a	10.0	8.7	n/a	n/a	n/a
Per share data						
Reported EPS (RBL)	0.54	0.65	1.08	1.17	0.98	0.93
Normalised EPS (RBL)	0.54	0.65	1.08	1.17	0.98	0.93
Dividend per share (RBL)	0.00	0.00	0.00	0.00	0.01	0.01
Equity FCFPS (RBL)	(0.91)	0.35	0.47	(0.27)	(0.31)	(0.78)
BV/share (RBL)	3.89	4.39	4.70	5.24	5.91	6.60

Source: Company data, ING estimates

RAB and P&L

	2008	2009	2010	2011	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2020F	2021F	TV'22F
RAB and return (RBLbn)															
RAB after depreciation: old assets				684	638	592	547	501	455	410	364	319	273	227	
RAB after depreciation: new assets					125	239	370	496	610	723	830	937	1,041	1,143	
RAB net (after depreciation) start of year				684	763	831	917	998	1,066	1,133	1,194	1,255	1,314	1,371	
New assets as % of total RAB				0	16	29	40	50	57	64	70	75	79	83	
Return on RAB (post-tax), realised (%)			6	6	5	5	5	5	6	7	8	9	10	11	
P&L (RBLbn)															
Revenue: transmission	326	395	476	553	589	651	718	787	856	927	1,001	1,078	1,156	1,236	
Revenue: connection	34	30	43	40	33	27	23	19	17	16	15	14	13		
Revenue: reselling	22	25	30	32	25	20	16	13	10	9	8	7	6	6	
Revenue: other	15	12	9	10	8	6	5	4	3	3	2	2	2	2	
Revenue	398	462	559	635	655	704	762	823	887	955	1,026	1,100	1,177	1,244	
Purchased power (reselling)	(15)	(18)	(19)	(19)	(15)	(12)	(10)	(8)	(6)	(5)	(5)	(4)	(4)	(4)	
Transmission cash opex: variable	(171)	(205)	(277)	(316)	(338)	(372)	(409)	(446)	(476)	(506)	(536)	(566)	(597)	(626)	
Transmission cash opex: fixed	(146)	(153)	(163)	(187)	(195)	(210)	(225)	(239)	(252)	(275)	(290)	(305)	(319)	(332)	
Cash opex (RBLbn)	(332)	(375)	(459)	(521)	(548)	(594)	(644)	(693)	(734)	(786)	(831)	(875)	(919)	(962)	
EBITDA	66	86	100	113	107	110	118	130	153	169	195	225	258	282	
Depreciation	(34)	(40)	(46)	(54)	(54)	(54)	(57)	(60)	(64)	(68)	(72)	(75)	(79)	(83)	
EBIT	32	46	54	59	53	56	61	70	89	101	124	150	179	199	
Financing (costs) / income	(6)	(18)	(8)	(6)	(10)	(11)	(14)	(16)	(16)	(14)	(13)	(11)	(9)	(5)	
Revaluation of assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Non-operating income / (expenses)	0	0	0	0	-	-	-	-	-	-	-	-	-	-	
EBT	27	28	47	54	44	45	47	54	73	88	111	138	170	194	
Tax	(7)	(6)	(12)	(15)	(10)	(11)	(11)	(13)	(18)	(21)	(27)	(33)	(41)	(47)	
Net profit (before minorities and prefs)	20	22	34	39	33	34	36	41	56	67	84	105	129	148	
Minority interest	(9)	(8)	-	-	-	-	-	-	-	-	-	-	-	-	
Preferred dividend	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Net profit	11	14	34	39	33	34	36	41	56	67	84	105	129	148	
FCF and DCF (RBLbn)															
EBITDA	66	86	100	113	107	110	118	130	153	169	195	225	258	282	
(Inc)/dec in working capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
(Tax, unlevered)	(8)	(10)	(14)	(16)	(13)	(13)	(15)	(17)	(21)	(24)	(30)	(36)	(43)	(48)	
Operating cash flow	58	76	86	97	95	97	103	113	132	145	166	189	215	234	
Capex	(114)	(63)	(76)	(125)	(117)	(139)	(137)	(129)	(131)	(130)	(132)	(134)	(135)	(141)	
FCF (attrib to EV)	(56)	13	10	(28)	(23)	(42)	(34)	(15)	1	15	33	55	80	93	1,348
Exchange rate (US\$/RBL)					33	33	33	33	32	33	34	34	35	35	34
Discounting factor						0.94	0.84	0.75	0.67	0.60	0.54	0.48	0.43	0.38	0.34
DCF (unlevered) (US\$m)						(1,205)	(858)	(353)	15	278	530	766	983	1,016	13,481
Growth (%)															
Revenue: transmission		21	21	16	7	10	10	10	9	8	8	8	7	7	
Effective tariff: transmission		27	17	14	5	9	9	8	8	7	7	7	6	6	
Transmission cash opex: variable		20	35	14	7	10	10	9	7	6	6	6	5	5	
Transmission cash opex: fixed		5	7	14	5	8	7	6	6	9	6	5	5	4	
Margins and ratios (%)															
EBITDA margin	17	19	18	18	16	16	15	16	17	18	19	20	22	23	
Capex/EBITDA	172	73	76	110	109	126	116	99	86	77	68	60	52	50	
Net debt/EBITDA	(1.8)	(1.3)	(1.1)	(1.2)	(1.5)	(1.9)	(2.1)	(2.0)	(1.8)	(1.5)	(1.2)	(0.8)	(0.4)	(0.0)	
FCF breakeven year	2016														

Source: Company data, ING estimates

Valuation parameters and target price derivation

WACC (%)	12.0			
Holding discount (%)	-25.0			
Minorities (%)	-38.7			
Terminal value	EV/EBITDA	EV/RAB	Gordon growth	Final
"Old" assets		205		
"New" assets		1,143		
Total (RBLbn)	1,348	1,348	776	1,348
Total (US\$bn)				39,643
Weights (%)	50	50		
Value (RBLbn) and target price	Fair value	Market value	ING adjustment** (%)	Net debt & non-core assets
EV: explicit period	37			
EV: TV	431			
EV of core assets	469	358		
Net (debt)/cash	(163)	(163)	0	(163)
Non-core assets*	-	-	0	-
Equity (incl. minority share)	305	195		
Minority share	(118)	(75)	-39	
Equity value (excl. minority share)	187	119		
Holding discount	(47)	(30)	-25	
Equity value (excl. minority stake and holding discount)	140	90		
No. of shares (effective) (bn)	49	49	0	
Target price (RBL)	2.9	1.82		

*Market value used for publicly traded companies, acquisition values used otherwise.

**Adjustments for holding discount, minorities and fair value of net cash.

Source: Company data, ING estimates

Moscow United Grid

Fair value not transparent due to regulatory uncertainties

Previously Buy

Hold

 Russian Federation
Utilities

 Market cap RBL64,439.5m
Bloomberg MSRS RX

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

Investment case

The value of Moscow United Grid (MOESK) is driven by the long-term development of key regulatory parameters (tariff hikes and capex). While we have limited visibility for the development of these parameters, based on our relatively conservative assumptions, we believe that the market underestimates the fundamental value of the company (which we estimate based on DCF analysis).

Quasi-monopolist in Moscow city and region

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

Tariffs and prices

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

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

M&A and capital-raising

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

Price (07/08/12) RBL1.32

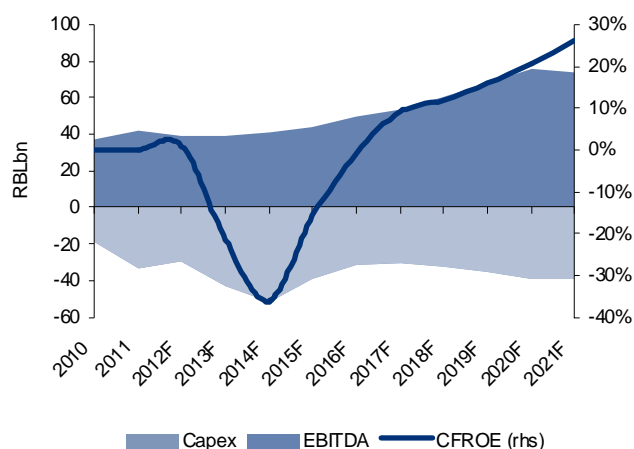
Previously RBL1.84

Target price (12-mth) RBL1.44

Forecast total return 10.7%

"New" assets, capex and FCF
Expected FCF breakeven year – 2016.

FCF profile



Source: ING estimates

Valuation approach

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

Catalysts

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

Newsflow

Date	Description
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Source: Company data, ING

Major shareholders (%)

Holding MRSK	51
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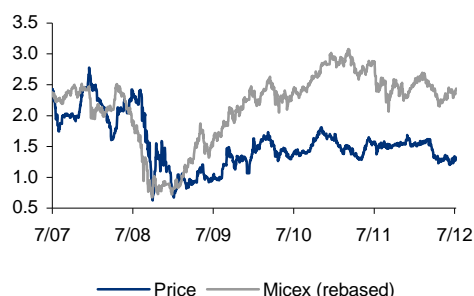
Source: Company data, ING

Share data

Avg daily volume (3-mth)	1,798,585
Free float (%)	10.0
Market cap (RBLm)	64,439.5
Net debt (1F, RBLm)	42,481
Enterprise value (1F, RBLm)	106,920
Dividend yield (1F, %)	1.9

Source: Company data, ING estimates

Share price performance



Source: ING

Company profile

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

Risks

Upside

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

Downside

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

Financials

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

Revenues	65,331	85,830	111,733	129,365	132,175	140,924
EBITDA	18,540	30,721	37,165	41,647	39,157	39,371
EBIT	10,209	20,485	23,826	25,109	22,619	22,833
Net interest	(1,968)	(6,501)	(2,237)	(1,665)	(2,974)	(2,878)
Associates	0	0	0	0	0	0
Other pre-tax items	0	0	0	0	0	0
Pre-tax profit	8,241	13,984	21,589	23,444	19,645	19,955
Tax	(1,222)	(3,233)	(4,426)	(5,402)	(4,715)	(4,789)
Minorities	0	0	0	0	0	0
Other post-tax items	0	0	0	0	0	0
Net profit	7,019	10,751	17,163	18,042	14,930	15,166
Normalised net profit	7,019	10,751	17,163	18,042	14,930	15,166

Balance sheet

Tangible fixed assets	139,748	181,703	190,225	205,734	218,267	244,339
Intangible fixed assets	0	0	0	0	0	0
Other non-current assets	362	362	362	362	362	362
Cash & equivalents	5,197	0	0	0	0	0
Other current assets	67,453	77,337	94,201	110,468	116,591	127,572
Total assets	212,760	259,402	284,788	316,564	335,220	372,272
Short-term debt	3,672	12,902	11,152	12,744	12,334	16,315
Other current liabilities	54,649	63,365	86,603	101,325	106,418	115,036
Long-term debt	41,304	30,104	26,020	29,737	28,780	38,068
Other long-term liabilities	27,345	44,878	19,485	31,610	31,610	31,610
Total equity	85,790	108,154	141,528	141,148	156,079	171,244
Total liabilities & equity	212,760	259,402	284,788	316,564	335,220	372,272
Net working capital	(42,938)	(50,900)	(70,502)	(82,989)	(88,122)	(96,223)
Net debt (cash)	39,779	43,005	37,172	42,481	41,114	54,382

Cash flow

Cash flow EBITDA	18,540	30,721	37,165	41,647	39,157	39,371
Tax, interest & other	3,190	9,734	6,663	7,067	7,689	7,667
Change in working capital	(12,804)	(1,168)	0	(1,545)	(1,030)	(2,363)
Net cash from op activities	2,546	19,819	30,502	33,035	30,438	29,341
Capex	(41,846)	(17,261)	(18,925)	(33,318)	(29,071)	(42,609)
Net acquisitions	(2,500)	0	0	0	0	0
Net financing cash flow	0	0	0	0	0	0
Dividends & minority distrib'n	0	0	0	0	0	0
Net ch in cash & equivalents	(39,853)	2,558	11,463	(716)	1,367	(13,268)
FCF	(37,332)	9,059	13,814	1,382	4,341	(10,391)

Performance & returns

Revenue growth (%)	n/a	31.4	30.2	15.8	2.2	6.6
Normalised EPS growth (%)	n/a	53.2	59.6	5.1	-17.2	1.6
Normalised EBITDA mgn (%)	28.4	35.8	33.3	32.2	29.6	27.9
Normalised EBIT margin (%)	15.6	23.9	21.3	19.4	17.1	16.2
ROACE (%)	n/a	14.5	14.4	13.9	11.9	10.8
Reported ROE (%)	n/a	11.1	13.7	12.8	10.0	9.3
Working capital as % of sales	-65.7	-59.3	-63.1	-64.2	-66.7	-68.3
Net debt (cash)/EBITDA (x)	2.1	1.4	1.0	1.0	1.0	1.4
EBITDA net interest cvg (x)	9.4	4.7	16.6	25.0	13.2	13.7

Valuation

EV/revenue (x)	1.6	1.3	0.91	0.83	0.80	0.84
EV/normalised EBITDA (x)	5.6	3.5	2.7	2.6	2.7	3.0
EV/normalised EBIT (x)	10.2	5.2	4.3	4.3	4.7	5.2
Normalised PER (x)	9.2	6.0	3.8	3.6	4.3	4.2
Price/book (x)	0.75	0.60	0.46	0.46	0.41	0.38
Dividend yield (%)	0.0	0.70	1.8	1.9	2.3	2.4
FCF yield (%)	n/a	8.4	13.6	1.3	4.1	n/a

Per share data

Reported EPS (RBL)	0.14	0.22	0.35	0.37	0.31	0.31
Normalised EPS (RBL)	0.14	0.22	0.35	0.37	0.31	0.31
Dividend per share (RBL)	0.00	0.01	0.02	0.03	0.03	0.03
Equity FCFPS (RBL)	(0.81)	0.05	0.24	(0.01)	0.03	(0.27)
BV/share (RBL)	1.76	2.22	2.91	2.90	3.20	3.52

Source: Company data, ING estimates

RAB and P&L

	2008	2009	2010	2011	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2020F	2021F	TV'22F
RAB and return (RBLbn)															
RAB after depreciation: old assets				149	141	132	123	115	106	97	88	80	71	62	
RAB after depreciation: new assets					33	61	102	151	186	211	236	261	288	318	
RAB net (after depreciation) start of year				149	174	194	226	266	292	309	324	341	359	380	
New assets as % of total RAB				0	19	32	45	57	64	69	73	77	80	84	
Return on RAB (post-tax), realised (%)			12	12	9	8	8	7	8	9	10	11	12	11	
P&L (RBLbn)															
Revenue: transmission	52	75	91	107	114	126	139	153	166	181	196	211	227	239	
Revenue: connection	11	10	20	20	16	13	11	10	9	8	7	7	6		
Revenue: reselling	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Revenue: other	3	1	1	2	2	2	1	1	1	1	1	1	0	0	
Revenue	65	86	112	129	132	141	151	163	176	189	203	219	234	240	
Purchased power (reselling)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Transmission cash opex: variable	(20)	(29)	(44)	(54)	(58)	(64)	(70)	(76)	(81)	(86)	(91)	(96)	(101)	(106)	
Transmission cash opex: fixed	(27)	(26)	(31)	(34)	(35)	(38)	(41)	(43)	(45)	(49)	(52)	(55)	(57)	(60)	
Cash opex (RBLbn)	(47)	(55)	(75)	(88)	(93)	(102)	(111)	(119)	(126)	(135)	(143)	(151)	(158)	(166)	
EBITDA	19	31	37	42	39	39	41	44	49	54	60	68	76	74	
Depreciation	(8)	(10)	(13)	(17)	(17)	(17)	(17)	(17)	(17)	(17)	(17)	(17)	(18)	(19)	
EBIT	10	20	24	25	23	23	24	27	33	37	44	51	58	55	
Financing (costs) / income	(2)	(7)	(2)	(2)	(3)	(3)	(4)	(5)	(4)	(4)	(4)	(3)	(3)	(2)	
Revaluation of assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Non(operating income) / (expenses)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
EBT	8	14	22	23	20	20	21	22	28	33	40	47	55	53	
Tax	(1)	(3)	(4)	(5)	(5)	(5)	(5)	(5)	(7)	(8)	(10)	(11)	(13)	(13)	
Net profit (before minorities and prefs)	7	11	17	18	15	15	16	17	21	25	30	36	42	40	
Minority interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Preferred dividend	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Net profit	7	11	17	18	15	15	16	17	21	25	30	36	42	40	
FCF and DCF (RBLbn)															
EBITDA	19	31	37	42	39	39	41	44	49	54	60	68	76	74	
(Inc)/dec in working capital	(13)	(1)	-	(2)	(1)	(2)	(3)	(3)	(6)	(4)	(6)	(6)	(7)	(3)	
(Tax, unlevered)	(2)	(5)	(5)	(6)	(5)	(5)	(6)	(7)	(8)	(9)	(11)	(12)	(14)	(13)	
Operating cash flow	4	25	32	34	33	32	32	34	36	41	44	49	55	58	
Capex	(42)	(17)	(19)	(33)	(29)	(43)	(52)	(39)	(31)	(31)	(33)	(36)	(39)	(39)	
FCF (attrib to EV)	(38)	8	13	1	4	(11)	(20)	(5)	5	10	12	14	16	19	373
Exchange rate (US\$/RBL)					33	33	33	33	32	33	34	34	35	35	34
Discounting factor						0.94	0.83	0.73	0.65	0.57	0.51	0.45	0.40	0.35	0.31
DCF (unlevered) (US\$m)						(318)	(497)	(119)	93	178	176	181	189	192	3,397
Growth (%)															
Revenue: transmission	45	22	17	7	10	10	10	9	9	8	8	8	8	5	
Effective tariff: transmission	53	18	15	5	9	9	9	8	8	7	7	7	7	4	
Transmission cash opex: variable	44	52	23	7	10	10	9	6	6	6	5	5	5	5	
Transmission cash opex: fixed	-2	17	10	4	8	7	6	6	6	9	6	5	5	4	
Margins and ratios (%)															
EBITDA margin	28	36	33	32	30	28	27	27	28	28	30	31	32	31	
Capex/EBITDA	226	56	51	80	74	108	127	89	63	57	54	53	51	53	
Net debt/EBITDA	(2.1)	(1.4)	(1.0)	(1.0)	(1.0)	(1.4)	(1.9)	(2.0)	(1.7)	(1.5)	(1.2)	(0.9)	(0.6)	(0.4)	
FCF breakeven year	2016														

Source: Company data, ING estimates

Valuation parameters and target price derivation

WACC (%)	13.1			
Holding discount (%)	0.0			
Minorities (%)	0.0			
Terminal value	EV/EBITDA	EV/RAB	Gordon growth	Final
"Old" assets		56		
"New" assets		318		
Total (RBLbn)	371	374	146	373
Total (US\$bn)				10,960
Weights (%)	50	50		
Value (RBLbn) and target price	Fair value	Market value	ING adjustment** (%)	Net debt & non-core assets
EV: explicit period	2			
EV: TV	109			
EV of core assets	111	106		
Net (debt)/cash	(41)	(41)	0	(41)
Non-core assets*	-	-	0	-
Equity (incl. minority share)	70	65		
Minority share	-	-	0	
Equity value (excl. minority share)	70	65		
Holding discount	-	-	0	
Equity value (excl. minority stake and holding discount)	70	65		
No. of shares (effective), (bn)	49	49		
Target price (RBL)	1.44	1.34		

*Market value used for publicly traded companies, acquisition values used otherwise.

**Adjustments for holding discount, minorities and fair value of net cash.

Source: Company data, ING estimates

MRSK Center

Exposed to regulatory risks, but still undervalued

Maintained

Buy

 Russian Federation
Utilities

 Market cap RBL25,330.8m
Bloomberg MRKC RX

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

Investment case

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

Major mega-regional grid covering 11 regions in central Russia

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

Tariffs and prices

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

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

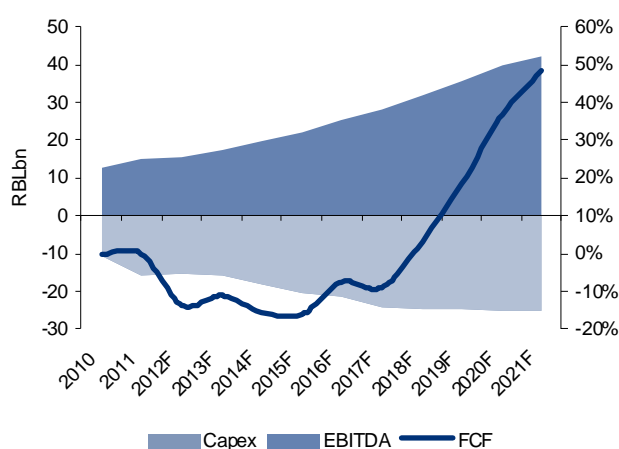
M&A and capital-raising

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

Price (07/08/12)	RBL0.60
Target price (12-mth)	RBL0.89
	Previously RBL0.97
Forecast total return	50.0%

"New" assets, capex and FCF
Expected FCF breakeven year – 2016.

MRSK Holding FCF profile (RBLbn)



Source: ING estimates

Valuation approach

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

Catalysts

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

Newsflow

Date	Description
End Aug 2012	1H12 IFRS

Source: Company data, ING

Major shareholders (%)

Holding MRSK	>50
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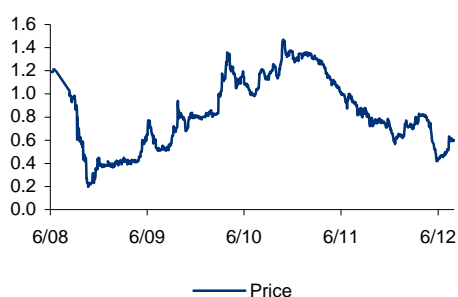
Source: Company data, ING

Share data

Avg daily volume (3-mth)	5,345,631
Free float (%)	34.0
Market cap (RBLm)	25,330.8
Net debt (1F, RBLm)	19,457
Enterprise value (1F, RBLm)	44,788
Dividend yield (1F, %)	1.7

Source: Company data, ING estimates

Share price performance



Source: ING

Company profile

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

Risks

- Further reduction in the level of medium-term tariff hikes compared with the ones currently approved by the government.
- Increase in capex beyond our current forecasts.
- Stronger-than-expected reduction in the starting RAB (iRAB) relative to initially approved levels

Financials

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

Revenues	43,727	49,314	60,614	69,041	72,848	79,691
EBITDA	9,679	9,401	12,908	15,215	15,792	17,421
EBIT	5,936	4,770	7,897	8,931	8,113	9,311
Net interest	(1,559)	(2,025)	(1,507)	(1,557)	(1,362)	(1,519)
Associates	0	0	0	0	0	0
Other pre-tax items	0	0	0	0	0	0
Pre-tax profit	4,376	2,745	6,390	7,374	6,751	7,792
Tax	(1,591)	(639)	(1,289)	(1,840)	(1,620)	(1,870)
Minorities	0	0.6	4	0	4	5
Other post-tax items	0	0	0	0	0	0
Net profit	2,786	2,107	5,105	5,534	5,135	5,926
Normalised net profit	2,786	2,107	5,105	5,534	5,135	5,926

Balance sheet

Tangible fixed assets	41,347	43,395	51,779	62,195	69,615	77,317
Intangible fixed assets	901	1,263	1,112	945	945	945
Other non-current assets	157	157	157	157	157	157
Cash & equivalents	75	0	0	0	0	0
Other current assets	6,685	7,152	8,781	10,083	10,053	10,320
Total assets	49,164	51,966	61,828	73,380	80,769	88,739
Short-term debt	6,450	3,890	4,837	5,837	6,512	7,040
Other current liabilities	7,505	8,750	10,097	11,484	11,494	11,780
Long-term debt	6,058	9,081	11,295	13,620	15,194	16,428
Other long-term liabilities	5,142	4,876	6,004	(8,745)	(8,745)	(8,745)
Total equity	24,010	25,368	29,594	51,184	56,314	62,236
Total liabilities & equity	49,164	51,966	61,828	73,380	80,769	88,739
Net working capital	56	(606)	(495)	(387)	(476)	(551)
Net debt (cash)	12,433	12,971	16,133	19,457	21,705	23,468

Cash flow

Cash flow EBITDA	9,679	9,401	12,908	15,215	15,792	17,421
Tax, interest & other	3,150	2,664	2,795	3,397	2,982	3,389
Change in working capital	0	0	(283)	0	0	0
Net cash from op activities	6,529	6,737	9,830	11,818	12,810	14,032
Capex	(9,736)	(6,518)	(10,546)	(15,660)	(15,098)	(15,813)
Net acquisitions	149	0.0	(1)	0	0	0
Net financing cash flow	0	0	0	0	0	0
Dividends & minority distrib'n	0	0	0	0	0	0
Net ch in cash & equivalents	(3,047)	239	(682)	(3,723)	(2,289)	(1,781)
FCF	(1,647)	2,244	790	(2,285)	(927)	(262)

Performance & returns

Revenue growth (%)	n/a	12.8	22.9	13.9	5.5	9.4
Normalised EPS growth (%)	n/a	-24.4	142.3	8.4	-7.2	15.4
Normalised EBITDA mgn (%)	22.1	19.1	21.3	22.0	21.7	21.9
Normalised EBIT margin (%)	13.6	9.7	13.0	12.9	11.1	11.7
ROACE (%)	n/a	12.7	18.8	15.3	10.9	11.4
Reported ROE (%)	n/a	8.5	18.6	13.7	9.6	10.0
Working capital as % of sales	0.13	-1.2	-0.82	-0.56	-0.65	-0.69
Net debt (cash)/EBITDA (x)	1.3	1.4	1.2	1.3	1.4	1.3
EBITDA net interest cvg (x)	6.2	4.6	8.6	9.8	11.6	11.5

Valuation

EV/revenue (x)	0.86	0.78	0.68	0.65	0.65	0.61
EV/normalised EBITDA (x)	3.9	4.1	3.2	2.9	3.0	2.8
EV/normalised EBIT (x)	6.4	8.0	5.3	5.0	5.8	5.2
Normalised PER (x)	9.1	12.0	5.0	4.6	4.9	4.3
Price/book (x)	1.1	1.00	0.86	0.49	0.45	0.41
Dividend yield (%)	0.0	0.0	2.4	1.7	2.0	2.3
FCF yield (%)	n/a	5.9	1.9	n/a	n/a	n/a

Per share data

Reported EPS (RBL)	0.07	0.05	0.12	0.13	0.12	0.14
Normalised EPS (RBL)	0.07	0.05	0.12	0.13	0.12	0.14
Dividend per share (RBL)	0.00	0.00	0.01	0.01	0.01	0.01
Equity FCFPS (RBL)	(0.08)	0.01	(0.02)	(0.09)	(0.05)	(0.04)
BV/share (RBL)	0.57	0.60	0.70	1.21	1.33	1.47

Source: Company data, ING estimates

RAB and P&L

	2008	2009	2010	2011	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2020F	2021F	TV'22F
RAB and return (RBLbn)															
RAB after depreciation: old assets			84	78	71	64	57	50	43	36	29	22	15	8	
RAB after depreciation: new assets				11	26	40	55	71	90	108	129	149	170	189	
RAB net (after depreciation) start of year			84	88	96	104	112	121	133	144	158	171	185	197	
New assets as % of total RAB			0	12	27	39	49	59	68	75	82	87	92	96	
Return on RAB (post(tax), realised (%))			7	7	6	7	7	8	9	9	10	10	11	11	
P&L (RBLbn)															
Revenue: transmission	40	47	57	66	70	78	86	94	102	110	119	128	137	145	
Revenue: connection	3	2	2	2	1	1	1	1	1	1	1	1	1	1	
Revenue: reselling	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Revenue: other	1	1	1	1	1	1	1	1	0	0	0	0	0	0	
Revenue	44	49	61	69	73	80	87	95	103	112	120	129	138	145	
Purchased power (reselling)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Transmission cash opex: variable	(19)	(23)	(30)	(32)	(35)	(38)	(42)	(46)	(49)	(52)	(55)	(58)	(61)	(64)	
Transmission cash opex: fixed	(16)	(17)	(18)	(22)	(22)	(24)	(26)	(28)	(29)	(32)	(33)	(35)	(37)	(38)	
Cash opex (RBLbn)	(34)	(40)	(48)	(54)	(57)	(62)	(68)	(73)	(78)	(84)	(89)	(93)	(98)	(103)	
EBITDA	10	9	13	15	16	17	20	22	25	28	32	36	40	42	
Depreciation	(4)	(5)	(5)	(6)	(8)	(8)	(9)	(9)	(10)	(10)	(11)	(12)	(12)	(13)	
EBIT	6	5	8	9	8	9	11	13	16	18	21	24	28	29	
Financing (costs) / income	(2)	(2)	(2)	(2)	(1)	(2)	(2)	(2)	(2)	(1)	(2)	(1)	(1)	(1)	
Revaluation of assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Non(operating income) / (expenses)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
EBT	4	3	6	7	7	8	9	11	14	16	19	23	26	28	
Tax	(2)	(1)	(1)	(2)	(2)	(2)	(2)	(3)	(3)	(4)	(5)	(5)	(6)	(7)	
Net profit (before minorities and prefs)	3	2	5	6	5	6	7	9	11	12	15	17	20	21	
Minority interest	-	0	0	-	0	0	0	0	0	0	0	0	0	0	
Preferred dividend	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Net profit	3	2	5	6	5	6	7	9	11	12	15	17	20	21	
FCF and DCF (RBLbn)															
EBITDA	10	9	13	15	16	17	20	22	25	28	32	36	40	42	
(Inc)/dec in working capital	-	-	(0)	-	-	-	-	-	(0)	-	-	-	-	-	
(Tax, unlevered)	(2)	(1)	(2)	(2)	(2)	(2)	(3)	(3)	(4)	(4)	(5)	(6)	(7)	(7)	
Operating cash flow	8	8	11	13	14	15	17	19	22	24	27	30	33	35	
Capex	(10)	(7)	(11)	(16)	(15)	(16)	(18)	(20)	(21)	(24)	(24)	(25)	(25)	(25)	
FCF (attrib to EV)	(2)	2	0	(3)	(1)	(1)	(1)	(1)	0	(0)	2	5	8	10	197
Exchange rate (US\$/RBL)					33	33	33	33	32	33	34	34	35	35	34
Discounting factor						0.94	0.82	0.72	0.63	0.55	0.48	0.42	0.37	0.33	0.29
DCF (unlevered) (US\$m)						(18)	(33)	(31)	6	(4)	31	62	89	95	1,648
Growth (%)															
Revenue: transmission		17	23	15	7	10	10	10	9	8	8	8	7	5	
Effective tariff: transmission		23	19	13	5	9	9	8	8	7	7	7	6	5	
Transmission cash opex: variable		22	32	8	7	10	10	9	7	6	6	6	5	5	
Transmission cash opex: fixed		11	3	21	5	8	7	6	6	9	6	5	5	4	
Margins and ratios (%)															
EBITDA margin	22	19	21	22	22	22	22	23	25	25	26	28	29	29	
Capex/EBITDA	101	69	82	103	96	91	93	92	84	86	77	70	63	59	
Net debt/EBITDA	(1.3)	(1.4)	(1.2)	(1.3)	(1.4)	(1.3)	(1.3)	(1.3)	(1.2)	(1.1)	(0.9)	(0.7)	(0.5)	(0.2)	
FCF breakeven year		2016													

Source: Company data, ING estimates

Valuation parameters and target price derivation

WACC (%)	14.1			
Holding discount (%)	0.0			
Minorities (%)	0.0			
Terminal value	EV/EBITDA	EV/RAB	Gordon growth	Final
"Old" assets		7		
"New" assets		189		
Total (RBLbn)	197	197	72	197
Total (US\$bn)				5,780
Weights (%)	50	50		
Value (RBLbn) and target price	Fair value	Market value	ING adjustment** (%)	Net debt & non-core assets
EV: explicit period	6			
EV: TV	53			
EV of core assets	59	47		
Net (Debt)/Cash	(22)	(22)	0	(22)
Non-core assets*	-	-	0	-
Equity (incl. minority share)	37	25		
Minority share	-	-	0	
Equity value (excl. minority share)	37	25		
Holding discount	-	-	0	
Equity value (excl. minority stake and holding discount)	37	25		
No. of shares (effective), (bn)	42	42		
Target price (RBL)	0.9	0.60		

*Market value used for publicly traded companies, acquisition values used otherwise.

**Adjustments for holding discount, minorities and fair value of net cash.

Source: Company data, ING estimates

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Appendices

Appendix 1 International valuation comparison: generators

Company	Country	Share price		EV/EBITDA (x)						PER (x)					Dividend yield (%)	
		(RBL)	(US\$)	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016	2011	2012	
Rushydro	Russia	0.86	0.027	5.8	5.3	4.3	4.2	4.2	10	10	7	6	6	1	1	
Prem/(Disc) to GEM (%)				-14	-14	-44	-27	-38	-25	-18	-34	-50	-61			
Hydro generators (GEM)	GEM			6.7	6.2	7.7	5.7	6.7	13	12	11	13	16	3		
China Yangtze Power	China	1.03		9.9	9.4	9.0			13	12	11			4		
Tractebel	Brazil	17.7		8.9	8.5	7.7	7.3	6.7	16	15	14	13	12	3		
Eletrobraz	Brazil	10.1		5.7	6.1	9.7			8	6	6			8		
CESP	Brazil	18.3		6.7	5.8	5.0	5.7	5.6	19	14	11	13	16	1		
AES TIETE	Brazil	13.9		6.5	6.2	5.8	5.5	8.7	12	11	11	10	18	2		
Verbund	Austria	19.4		9.1	9.6	9.1	8.9	9.4	13	13	12	11	11	4		
OGK-1	Russia	0.45	0.014	8.2	9.4	7.3	7.0	4.0	26	44	25	22	7	0	0	
OGK-3	Russia	0.65	0.020	60.6	10.5	6.2	4.3	3.4	-45	50	15	7	6	0	0	
E.ON Russia (OGK-4)	Russia	2.68	0.084	4.4	4.6	4.6	3.0	2.4	9	10	10	7	6	2	3	
Enel OGK-5	Russia	1.77	0.056	5.8	5.4	4.9	4.4	4.0	11	9	8	7	7	0	0	
OGK-2	Russia	1.02	0.032		11.6	11.7	4.6	3.9	-24	-13	-10	5	4	0	0	
TGK-1	Russia	0.01		5.9	4.4	3.5	2.9	2.3	9	6	4	3	2	1	1	
			0.0002													
Mosenergo	Russia	1.26	0.039	3.9	4.8	5.9	4.5	4.5	50	-122	-41	17	15	2	0	
Russian Thermal GenCos	Russia			5.8	5.4	5.9	4.4	3.9	9	9	8	7	6	0	0	
Prem/(Disc) to GEM (%)				-44	-41	-30	-40	-38	-21	-12	-11	-17	-15			
Thermal gencos (GEM)	GEM			10.3	9.2	8.4	7.3	6.4	12	11	9	9	8	2		
NTPC	China	3.00		11.4	10.5	9.3	7.6	6.4	14	14	12	11		0		
Huaneng Power	China	0.67		8.6	8.1	7.5	6.0	8.5	10	8	8	5	20	1		
Datang Int'l Power	China	0.35		10.3	9.6	8.5	6.8	6.1	8	7	6	4	4	4		
Adani Power	India	0.78		21.6	14.3	7.7	6.2	5.5	24	25	9	7	8			
Huandian Power	China	0.67		10.2	9.9	10.1			21	17	16					
Rachaburi	Thailand	1.49		8.6	8.4	7.9	11.9		12	12	12	16		2		
Glow Energy	Thailand	1.89		11.1	8.0	7.3	7.7		14	11	10	11		2		
EGCO	Thailand	3.64		18.2	nh	13.7	23.7		10	9	9	12		2		
China Power Int'l	China	0.27		9.9	8.8	8.4	7.0	7.1	8	6	6	4	7	2		

Source: Company data, Bloomberg consensus (for non-rated companies), ING estimates for rated companies

All prices as of close on 7 August 2012

Appendix 2 International valuation comparison: grids

Company	Country	Share price		EV/EBITDA (x)						PER (x)					Dividend yield (%)	
		(RBL)	(US\$)	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016	2011	2012	
Federal Grid Company	Russia	0.22		4.7	4.9	4.9	4.8	4.7	10	10	9	8	7	0	1	
Prem/(Disc) to GEM (%)				-39	-31	-25	-35	-13	-44	-28	-22	-28	-23	-100		
High voltage grids	GEM			7.7	7.0	6.5	7.4	5.4	17	14	12	12	9	1		
Transmissao Paulista	Brazil	13.9		7.7	7.0	6.5			9	8	8		9	1		
Power Grid Corporation of India	India	3.0		11.8	10.6	9.8	9.1		17	14	12	12		1		
Interconexion Electrica	Colombi a	0.7		7.4	6.8	6.5	5.8	5.4	27	27	23			2		
High voltage grids	Develop ed			8.5	8.5	8.3	7.8	8.3	13	12	11	10	14	5		
Red Electrica do Especa	Spain	0.8		7.5	7.1	6.6	6.0		9	8	8	7	10	5		
National Grid	United Kingdom	0.7		9.3	8.9	8.8	8.7	8.9	13	12	12	12	14	4		
Terna	Italy	1.5		8.5	8.5	8.3	7.8	7.7	13	13	11	10	15	5		
Holding MRSK	Russia	1.79	0.056	3.3	3.6	3.7	3.5	3.0	3	3	2	2	2			
Moscow Utd Grid	Russia	1.31	0.041	2.7	3.0	3.4	3.4	3.0	4	4	4	4	3	2	2	
MRSK Center	Russia	0.60	0.019	3.0	2.8	2.6	2.5	2.2	5	4	4	3	2	1	1	
Individual grids	Median			2.8	2.9	3.0	2.9	2.6	5	4	4	3	3			
Prem/(Disc) to GEM (%)				-49	-53	-54	-36	-53	-41	-63	-73	-50	-59			
Medium/low voltage grids (GEM)	GEM			5.5	6.2	6.5	4.6	5.5	8	12	14	7	7	10		
Eletropaulo	Brazil	8.9		5.0	6.1	6.1	2.8	5.0	7	14	17	7	7	19		
Equatorial Energia	Brazil	7.4		6.0	6.4	7.0	6.4	6.0	8	9	11	7		1		
CELESC	Brazil	#N/A	N/A													

Source: Company data, Bloomberg consensus (for non-rated companies), ING estimates for rated companies

All prices as of close on 7 August 2012

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