

Regional Distribution Companies Offer Attractive Upside

Potential Solution for Regulated Tariffs

New tariff policy could rejuvenate sector. The new parameters for core regulated tariffs for distribution companies will be announced in April or May, and these tariffs will be the main value driver for distribution companies. While there are as yet no details available on the tariffs, we have updated our model using the guidance given by the Ministry of Economic Development to provide investors with an idea of how the announcement of new tariffs could affect companies' valuations.

Regional MRSKs are among our top picks. We are initiating coverage of the distribution sector with Buy recommendations for shares of MRSK Center-Volga, MRSK Ural and MRSK Center with target prices of \$0.009/share, \$0.011/share and \$0.035/share, respectively, offering 44%, 40% and 26% upside potential. We have set a Hold recommendation on MRSK Holding shares with a target price of \$0.11/share, offering 7% upside potential.

FOCUS ON FURTHER GOVERNMENT STEPS

Tariff growth slows. Distribution tariffs are expected to grow 5.5% YoY in 2012 and 10-11% YoY on average in 2013-18. This is down from 15-27% YoY growth in 2008-11.

Privatization could be a trigger. Transparent and open privatization auctions may have a positive impact on distribution companies in 2012-13 unlocking their value.

Moderate growth. We expect steady growth of 11% CAGR in 2012-15 on the top line and 8.8% CAGR in 2012-15 on EBITDA.

SENTIMENT FROM EQUITY INVESTORS IS WEAK

Painful memories. Investors' trust in government decisions was undermined by the tariff reviews of 2011-12.

Last mile risk. Large industrial customers are switching to direct contracts with Federal Grid, bypassing distribution companies.

MIXED VALUATIONS ACROSS THE SECTOR

Cheap on EV/EBITDA. Discos trade at a 40% discount to international peers on an average 2012E EV/EBITDA of 3.5.

In line on P/E. Discos trade mostly in line with peers on average 2012E P/E. We see no significant discount for Russian distributors to EM peers.

Mixed valuation on DCF. We see attractive upside only in MRSK Center-Volga, MRSK Ural, and MRSK Center shares.

Focus on MRSK Center-Volga, Ural & Center

TPs and Recommendations

Company	Price, \$	TP, \$	Up, (Dn), %	Rec
MRSK Holding	0.10	0.11	7	Hold
MRSK Holding Pref	0.058	0.066	14	Hold
MRSK Center and Volga	0.0065	0.0093	44	Buy
MRSK Ural	0.008	0.011	40	Buy
MRSK Center	0.028	0.035	26	Buy
MRSK Siberia	0.0042	0.0052	24	Buy
MRSK Volga	0.0036	0.0044	21	Buy
MRSK South	0.0023	0.0027	14	Hold
MRSK North-Caucasus	2.1	2.4	13	Hold
MOESK	0.052	0.058	12	Hold
MRSK North-West	0.0030	0.0033	8	Hold
Lenenergo	0.36	0.34	(5)	Hold
Lenenergo Pref	0.82	0.87	7	Hold

Source: MICEX, URALSIB estimates

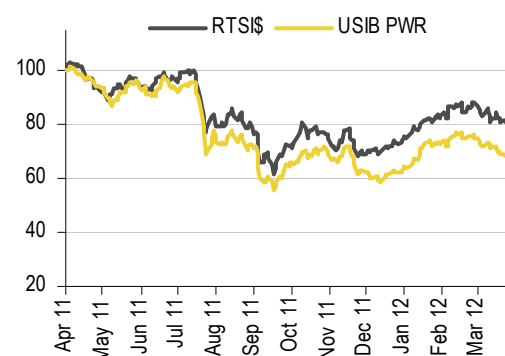
Regulation to Tighten in 2012

Sector Valuations

Company	P/E			EV/EBITDA		
	10	11E	12E	10	11E	12E
MRSK Holding	5.9	4.3	6.8	4.2	3.5	3.9
MOESK	4.5	4.1	6.7	3.0	2.6	3.1
Lenenergo	2.1	neg	6.0	2.5	2.8	3.1
MRSK North-West	neg	10.7	21.4	5.6	3.2	3.2
MRSK Center and Volga	26.2	4.7	12.8	7.0	3.7	4.3
MRSK Center	7.0	6.3	9.4	4.2	4.5	4.1
MRSK South	neg	28.5	15.6	4.5	3.2	3.4
MRSK Siberia	neg	6.6	neg	8.6	2.4	3.5
MRSK Volga	n/m	17.2	n/m	6.2	4.5	5.5
MRSK Ural	8.5	5.8	12.6	2.8	2.5	2.9
MRSK North-Caucasus	n/m	n/m	neg	1.9	1.7	2.0

Source: URALSIB estimates

Utilities, RTS, Relative Performance



Source: Bloomberg

Note: Market data as of 16 April 2012

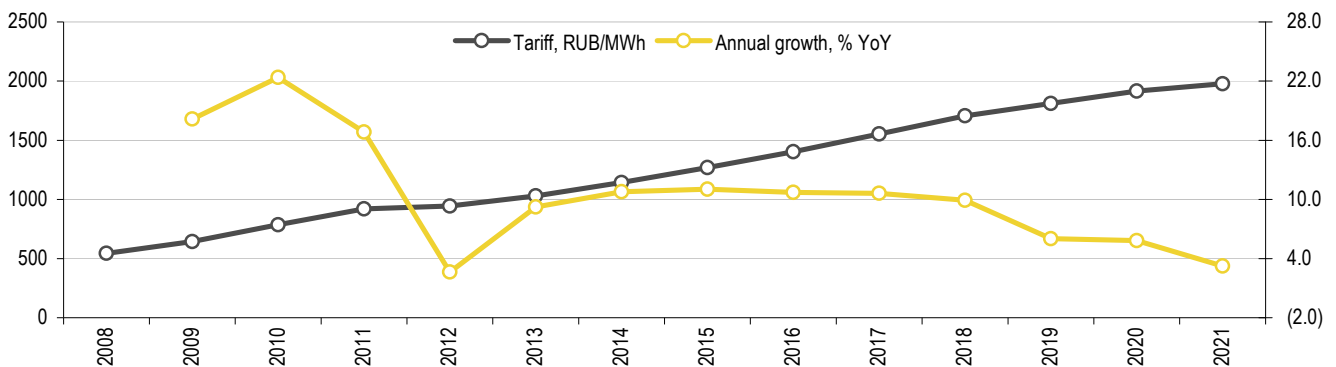
FOCUS ON FURTHER GOVERNMENT STEPS

Tariff growth slows

Rapid growth over the last three years left little growth potential for the near future. The electricity distribution price for 2008-11 grew at a CAGR of 23%, which saw the distribution price almost double over the period. According to an MRSK Holding management presentation at its investor day in February, distribution companies are unlikely to see a comparable growth rate for tariffs over the next few years. In our financial model we expect the distribution tariff to grow 5.5% YoY in 2012, 10% YoY in 2013, and then 11% in 2014-18. Our assumptions are based on the Economy Ministry's forecast for 2012-14.

Tariff Growth Will Not Exceed 11% in 2013-18

MRSK Holding's distribution tariffs



Source: URALSIB estimates

Final decision on tariffs in April-May. Officially the deadline for determining the parameters of regulated distribution tariffs was set by the government as of 1 April. However, the deadline was not met and is likely to be extended until 1 June, as indicated by the management of MRSK Holding. One particular downside risk for the entire regulation system is that the government will simply extend current tariffs for distribution companies until end-2012; in other words, distribution tariffs in 2012 will remain unchanged from those in December 2011.

New parameters for tariff regulation. Limiting tariff growth is the main factor that will affect future tariff decisions. As a result of the clear limits on distribution tariffs, the parameters of the RAB regulation system are likely to be revised in order to keep them in line with the announced tariff growth. In particular, investors could see the initial RAB numbers revised down, as well as lower yields on invested capital.

RAB system is under review ... The long awaited RAB tariff system for distribution companies was approved for the majority of regions and came into force in January 2011. However, due to unprecedented growth in electricity prices in some regions, state officials have limited final electricity price growth for some customers to 15% YoY. In order to keep electricity tariff growth under control the government has decided to revise the regulation system. As a temporary measure, tariffs were revised in April 2011 and were left flat in 2012.

... to meet the necessary limitations on tariff growth. According to statements from MRSK Holding's management, the yields on invested capital may vary from 1% to 12%. In previous years the approved numbers varied from 6% to 12%. This potential downgrade could limit final distribution tariff growth to 7.3% CAGR in 2012-20. In our view the yields on invested capital for distribution companies will be one of the most important tools for adjusting the regulated system. In our models we have 1-11% yields for the "old initial RAB" and an 11% yield for newly invested capital.

In some cases initial RAB figures could also be at risk. For the regions lowering yields for invested capital will not be sufficient to limit tariff growth according to the government's plan. We believe initial RAB figures could be downgraded for Lenenergo, MRSK Northwest and MRSK Center by up to 30%.

Tariff growth to end by 2018. To make our scenario more reliable and sustainable in the long term, we have adjusted yields on invested capital and initial RAB to a level that is acceptable to meet the tariff growth requirements announced by the government. Simultaneously we have assumed that tariff growth will approach zero by 2018 and no additional profits will be made by these companies afterwards. In other words, we do not expect any extraordinary tariff growth in the future.

Privatization could be a trigger

Several scenarios for the privatization of distribution companies. The privatization of distribution companies was discussed starting from the RAO UES reform. According to Russian energy law, the privatization of distribution companies was banned until 2011. It was supposed that privatization would begin immediately after the ban was lifted. However, the weak regulation environment and permanent revision of the tariff regulation system has interfered with the privatization process.

Open auction for the sale of a key subsidiary. One of the main takeaways from the investor day with MRSK Holding was the clear message that there are plans to sell a key subsidiary at an open auction by the end of the year. In trying to draw a comparison with the privatization of generation assets during the RAO UES restructuring, we can identify leading candidates in terms of corporate governance and strong management teams. We see some similarity in Enel OGK-5 and MRSK Center and Volga, and the latter has strong corporate governance and could be considered as the number one candidate for privatization. Furthermore, other distributors, such as MRSK Center, MRSK Urals and MRSK Siberia, are being sued by industrial customers for the excessive last-mile distribution charge. MRSK Center and Volga is also a good candidate because it is not strategically important, unlike MOESK and Lenenergo, which control the distribution grids of Moscow and St Petersburg. MRSK South is weak financially, and MRSK Northwest is far below the average MRSK in size. In addition, MRSK Northwest and MRSK South have several regions that have not switched to the RAB regulation, which could lead to weaker demand for the asset from potential buyers.

The most efficient way to improve cost control. Privatization through an open auction in the near future could be a positive trigger for the sector, as private ownership may motivate management to improve cost control both for opex and capex. We believe that the privatization may help create a benchmark for financial performance which could help improve valuations for the rest of the sector. According to our calculation, a 30% cut in capex and a 10% cut in manageable opex could add up to 30% to 2013E EBITDA, and 43% to the DCF target price for the average distribution company.

Guarantee for long-term regulation. It is interesting that the privatization of the generation segment helped protect the reform of the wholesale electricity market. We saw this as the CEOs of Enel and E.ON appealed to Prime Minister Vladimir Putin and Deputy Prime Minister Igor Sechin to guarantee the liberalized market for generation companies purchased by Italian and German investors. Similarly the privatization of distribution companies may help protect the long-term character of the RAB regulation, as the government will have some direct obligations to investors.

Merger with other distribution companies. As one potential option for privatization, MRSK Holding is considering merging its subsidiaries with other distribution companies. Potential mergers include MRSK Siberia and Irkutsk Distribution Company affiliated with Oleg Deripaska's En+, as well as MRSK Urals and the Bashkirian Distribution Company. Earlier this year RBC Daily speculated on the potential merger of MRSK Urals' subsidiary Kurganenergo with the distribution company Energo Kurgan, which is controlled by the local government.

Plans for Gazprombank to take MOESK under management are on hold. One of MRSK Holding's key assets, MOESK, was in focus as Gazprombank was planning to take it under management for 3.5 years with a moratorium on selling MRSK Holding's stake for 12 months. The transaction was on the board's agenda but a final decision has not been made.

EDF subsidiary to manage distribution grid in the Tomsk region. MRSK Holding has approved a contract with the distribution subsidiary of EDF, managed by the Tomsk Distribution Company. EDF's expertise is certainly positive for Russian distribution assets as it can help cut electricity losses.

Potential privatization bidders. Potential bidders during the privatization include Enel, which has already announced its interest in Russian distribution assets; EDF, which is already involved in managing distribution companies in Tomsk; Eurosibenergo, which has already announced its interest in purchasing MRSK Siberia; and Gazprombank, which is interested in increasing its stake in MOESK from the current 10%.

No clear outcome for shareholders of MRSK Holding. The privatization is positive as it may unlock shareholder value in distribution companies through improved operating efficiency and corporate governance. However, for MRSK Holding's shareholders the privation does not mean that cash proceeds will be distributed as dividends. An RAO-UES-style restructuring with a proportional distribution of shares among shareholders is also not on the agenda. We see a risk that the funds used for the execution of investment projects might not be included in RAB, and thus shareholders of MRSK Holding face substantial risks for their holdings. However, MRSK shares offer the best liquidity in the sector and deserve a premium to other distribution companies. Summarizing the risks and advantages of MRSK Holding, we believe it is fair to target MRSK Holding's share in line with the SOTP value without any additional premium or discount.

Moderate growth

Operating cash flows to increase moderately. With the announced price caps for electricity price growth, we do not expect a significant growth in companies' operating cash flow. According to our models, distribution companies' sales will have a CAGR of 11% in 2012-15, while average EBITDA is expected to have a CAGR of 8.8% in 2012-20. The bottom line should increase at a CAGR of 9.0% in 2012-20.

Free cash flow negative over the next four years. Companies are likely to spend all of their operating cash flows on capex. According to our estimates, MRSK Holding's total capex (excluding Kubanenergo) may reach \$22 bln in 2011-16. In its strategy MRSK Holding sees the group's total capex needs at \$40 bln. Due to substantial capex spending, distribution companies are likely to remain free cash flow negative until 2015-16. Assuming a 50% dividend payout ratio in 2016, we expect a 4.0% dividend yield for MRSK Holding. The range of dividend yields for distribution companies could vary from 2.0% for MRSK Urals to 7.5% for MRSK Center-Volga.

SENTIMENT FROM EQUITY INVESTORS IS WEAK

Painful memories

Long-term tariff regulation has not worked so far. Investors are very frustrated with the government's inability to launch and maintain a consistent regulatory system for distribution companies. The cost-plus system resulted in tariffs being revised every year, which does not provide any cost cutting motivation for management. However, even after the RAB regulation system with a 3-5 year regulation horizon was approved for most regions and came into effect in January 2011, it was placed under review the following month. The revision of the distribution tariffs system caused the sector to slump, losing 58% from February until the end of 2011, compared to only a 28% drop of the RTS index and a 47% drop of the URALSIB utilities index.

Investors need more certainty on future tariffs. One of the biggest risks that we see based on feedback from investors is that there is no guarantee that the decision to raise tariffs in 2H12 will be not be reversed at some point. We believe that a clear message is needed from the government officials responsible for regulating the sector. It is also important to see that privatization will help improve investor confidence in the long-term regulation of the distribution sector.

Last mile risk

Distribution companies are losing large industrial customers. Large industrial customers are trying to sign direct contracts with Federal Grid Company, bypassing distribution companies. Although these large industrial customers have a physical connection to the federal grid, they are supposed to pay regional distribution companies until 2014. The main reason for these relationships with distribution companies are the subsidization of other customers by large industrial customers. Cross-subsidization amounts to \$2.2 bln, according to MRSK Holding's CEO.

Government is trying to protect distributors; however, the result is unclear. The government is trying to force industrial customers to pay MRSK Holding. It has also asked Federal Grid Company to cancel direct contracts with large industrial customers. However, these industrials have seen success in legal proceedings. Rusal's direct access to the federal grid results in operating losses of \$176 mln for MRSK Siberia, as the regulator assumes that Rusal pays MRSK Siberia and not Federal Grid Company. As a result, MRSK Siberia is trying to sue the regional government for an unfair tariff decision. SUAL is trying to sue MRSK Urals for \$13 mln in distribution charges for 2011. NLMK has also tried to get a reimbursement of \$300 mln, which was previously paid to MRSK Center. This process is likely to accelerate and all of these large industrials with direct access to the federal grid are likely to complete their switch from MRSKs to the Federal Grid.

MIXED VALUATIONS ACROSS THE SECTOR

Cheap on EV/EBITDA

Undervalued on EV/EBITDA. The Russian distribution sector looks attractive in terms of EV/EBITDA compared to its international peers. We estimate that currently Russian distributors are trading at a 41% discount to comparable EM companies on an average 2012E multiple of 3.5. The undervaluation of Russian companies is mostly justified by poor asset quality and large investment needs to upgrade network infrastructure.

In line on PE. We see no significant discount to EM peers based on P/E multiples. The average 2012E P/E for Russian distributors is 10.6, in line with the valuation of EM peers.

Substantial Undervaluation on EV/EBITDA

Distribution Companies

Company	Country	Price, \$	MCap, \$ Mln	EV, \$ Mln	P/E 2010E	P/E 2011E	2012E	EV/EBITDA		RAB \$ mln	EV/RAB	
								2010E	блика Мор	2012E		
Russian distribution companies												
MRSK Holding	Russia	0.10	4,524	14,184	5.9	4.3	6.8	4.2	3.5	3.9	26,981	0.53
MOESK	Russia	0.05	2,522	3,727	4.5	4.1	6.7	3.0	2.6	3.1	6,054	0.62
Lenenergo	Russia	0.36	405	957	2.1	neg	6.0	2.5	2.8	3.1	2,657	0.36
MRSK North-West	Russia	0.003	292	451	neg	10.7	21.4	5.6	3.2	3.2	774	0.58
MRSK Center and Volga	Russia	0.006	730	1,384	26.2	4.7	12.8	7.0	3.7	4.3	2,859	0.48
MRSK Center	Russia	0.028	1,169	1,802	7.0	6.3	9.4	4.2	4.5	4.1	3,902	0.46
MRSK South	Russia	0.002	114	630	neg	28.5	15.6	4.5	3.2	3.4	942	0.67
MRSK Siberia	Russia	0.004	396	495	neg	6.6	neg	8.6	2.4	3.5	1,547	0.32
MRSK Volga	Russia	0.004	648	820	n/m	17.2	n/m	6.2	4.5	5.5	2,590	0.31
MRSK Ural	Russia	0.008	679	789	8.5	5.8	12.6	2.8	2.5	2.9	1,923	0.41
MRSK North-Caucasus	Russia	2.1	62	173	n/m	n/m	neg	1.9	1.7	2.0	604	0.29
Average					8.7	6.0	10.6	3.7	2.9	3.5		0.47
Median					5.7	6.5	8.0	4.3	3.0	3.3		0.42
Developed markets RAB-based companies												
SP Ausnet	Australia	1.1	3,205	9,758	18.8	13.0	13.5	14.6	10.9	10.4	5,884	1.66
United Utilities	UK	9.5	6,445	15,064	11.4	16.8	16.6	10.0	10.4	10.6	12,171	1.24
Severn Trent	UK	25	5,884	12,066	17.9	17.1	19.2	10.7	9.3	9.7	10,049	1.20
Snam Rete Gas	Italy	4.4	15,783	30,295	11.3	12.5	12.3	9.0	8.9	8.6	29,558	1.02
Terna Spa	Italy	3.7	7,360	15,507	11.7	14.9	13.7	9.4	9.7	8.8	11,505	1.35
Elia	Belgium	43	2,625	6,140	19.9	19.0	15.3	6.8	10.5	10.2	4,912	1.25
REN	Portugal	3.0	1,579	4,609	2.8	9.2	8.3	8.0	7.3	6.8	3,846	1.20
Red Electrica	Spain	41	5,568	12,705	10.3	9.1	8.4	9.5	8.0	7.5	n/a	n/a
ITC Holding	US	76	3,903	6,490	26.9	23.2	18.2	14.7	12.9	11.0	n/a	n/a
Average					11.7	14.9	13.7	9.5	9.7	9.7		1.24
Emerging markets peers												
CIA de Transmissao	Brazil	35	5,271	6,647	10.8	9.7	9.7	8.2	8.4	7.8	n/a	n/a
Transelectrica SA	Romania	4.5	329	594	n/m	9.0	9.0	4.8	4.1	4.0	859	0.69
Transener	Argentina	0.18	81	213	neg	10.1	10.1	4.4	4.8	4.0	n/a	n/a
Power Grid	India	2.2	10,007	18,261	n/a	n/a	n/a	13.3	n/m	11.9	n/a	n/a
Average					10.8	9.9	9.9	6.5	4.8	5.9		0.69

Source: Bloomberg, URALSIB estimates, Company data

Mixed valuation on DCF

DCF valuation shows five Buy and six Hold recommendations. Our DCF model reveals that MRSK Center-Volga, MRSK Ural and MRSK Center are best protected against any revisions to RAB tariffs. We have assigned Buy recommendations to these names and believe that they will be among the first distributors to pay dividends. We have also set Buy recommendations for MRSK Siberia and MRSK Volga. At the same time, we have assigned Hold recommendations for six other distributors. We do not see much value in purchasing shares in MRSK Holding, the most liquid name in the sector. Compared to its subsidiaries, MRSK Holding has less exposure to operating cash flows. The potential privatization of subsidiaries brings the added risk that privatization proceeds will not be distributed among minority shareholders.

High sensitivity to price caps. We note that our target prices are highly sensitive to price caps set by the state. In our models we have applied a conservative assumption of average tariff growth of 10.1% per annum for 2013-18. These limitations force us to reduce the initial RAB of Lenenergo, MRSK Northwest and MRSK Center by 20-30%. Meanwhile, MRSK Holding announced in its strategy that it expects much stronger annual tariff growth, reaching as much as 15% by 2016. If the state approves the price cap at the upper limit of 15%, the majority of the RAB parameters will remain intact, creating upside risks to our valuation

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Key Link in Electricity Supply Chain

Uncertainty Over Tariff Regulation and Privatization Proceeds

INVESTMENT RATIONALE

Best hedge against sector risk. MRSK Holding (MRKH RX – Hold) owns controlling stakes in discos created during sector restructuring. Its shares are the most liquid in the electricity distribution universe and listed on the MSCI Index. In 2Q12 the government should complete the revision of key regulation parameters set in 2010. We see MRSK Holding as a sector hedge against any limitations on tariff growth in certain regions. We reinstate our coverage of MRSK Holding with a 12-month target price of \$0.11/common share and \$0.07/preferred share. We have assigned a Hold recommendation for both shares given the limited upside as well as uncertainty over tariff regulation proceeds and potential proceeds from the privatization of subsidiaries.

PROS

Diversified basket with good liquidity. MRSK Holding's shares have among the best liquidity in the utilities sector.

Attractive to portfolio investors. The company was included in the MSCI Index in November 2011 and listed GDRs on the London Stock Exchange at the end of 2011.

Foreign expertise. Operating control of the holding's subsidiary in the Tomsk Region has been transferred to France's EdF.

CONS

Holding structure creates risks for minorities. MRSK Holding may sell some core assets. The proceeds from an asset sale could be used for capex and other projects with unclear profitability.

New tariff limits far below initial expectations. Effective tariff growth for discos in 2012 is expected to be only 6% YoY compared to an initial figure of 15-20% YoY growth.

Value destructive development. We expect Kubanenergo, MRSK Holding's subsidiary, to spend over \$1 bln on Olympic infrastructure without a clear plan to return money to investors.

MRSK Holding		Hold	
MRKH RX		52 wk hi, \$	0.15
Price, \$	0.10	52 wk lo, \$	0.07
Target Price, \$	0.11	Common, mln	42,964
Up/Dn, %	7	Free float, %	30.0
1 m, %	(14)	Sh./ADR(GDR) Ratio	-
3 m, %	37	Pref sh, mln	2,075
6 m, %	38	MC, \$ mln	4,524
12 m, %	(36)	EV, \$ mln	14,184
	2010	2011E	2012E
P/E	5.9	4.3	6.8
EV/EBITDA	4.2	3.5	3.9

Source: MICEX, URALSIB estimates

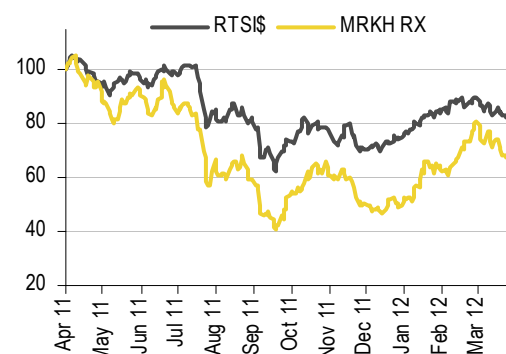
MRSK Holding

Key Financials, \$ Mln

	2009	2010	2011E	2012E	2013E
Revenue	14,545	18,706	21,632	21,307	22,850
EBITDA	2,918	3,348	4,077	3,613	3,676
Net Income	435	741	1,015	652	561
EPS, \$/share	0.01	0.02	0.02	0.02	0.01
<i>Margins, %</i>					
EBITDA	20.1	17.9	18.8	17.0	16.1
Net Income	3.0	4.0	4.7	3.1	2.5

Source: Company data, URALSIB estimates

MRSK Holding, RTS, Relative Performance



Source: Bloomberg

Note: Market data as of 16 April 2012

MRSK Holding

Income Statement IFRS, \$ Mln	2007	2008	2009	2010	2011E	2012E	2013E	2014E
Revenue	-	16,009	14,545	18,706	21,632	21,307	22,850	25,187
Cost of sales	-	13,338	11,825	15,358	17,555	17,694	19,174	20,828
D&A	-	1,363	1,271	1,539	1,840	1,909	2,017	2,157
EBITDA	-	2,863	2,918	3,348	4,077	3,613	3,676	4,359
EBIT	-	1,307	1,450	1,810	2,237	1,704	1,659	2,202
Pre tax profit	-	1,072	888	1,556	2,086	1,260	1,137	1,605
Taxes	-	277	203	415	471	252	227	321
Minority interest	-	350.9	249.8	400.2	600.1	355.9	348.0	499.6
Net income/(loss)	-	444	435	741	1,015	652	561	784

Balance Sheet, \$ Mln

PP&E, net	-	17,143	16,710	18,788	20,517	22,499	24,259	26,028
Other non-current assets	-	1,001	1,263	533	578	572	507	503
Non-current assets	-	18,145	17,973	19,321	21,095	23,071	24,766	26,531
Cash & cash equivalents	-	686	615	977	847	1,700	2,422	2,452
Accounts receivable	-	2,144	2,041	3,132	3,359	3,371	3,363	3,472
Inventories	-	416	376	378	382	516	553	586
Other current assets	-	274	133	269	432	454	42	42
Total current assets	-	3,520	3,165	4,755	5,019	6,042	6,380	6,551
Total assets	-	21,665	21,138	24,077	26,114	29,113	31,146	33,082
Shareholder equity	-	6,669	5,638	6,501	7,373	8,488	9,193	9,528
Minority interest	-	5,519.1	4,719.9	5,408.8	6,090.4	6,375.1	6,753.2	7,203.0
Accounts payable	-	3,802	3,052	5,864	6,265	6,381	6,163	6,239
Short-term debt	-	1,438	1,748	2,248	923	996	1,031	1,024
Total current liabilities	-	5,415	4,898	8,180	7,287	7,494	7,312	7,379
Long-term debt	-	2,128	2,743	2,803	4,103	5,470	6,511	7,606
Non-current liabilities	-	1,933	3,139	1,184	1,260	1,286	1,377	1,367
Total liabilities	-	9,476	10,780	12,167	12,651	14,250	15,200	16,351
SE, minority interest & liabilities	-	21,665	21,138	24,077	26,114	29,113	31,146	33,082

Cash Flow Statement, \$ Mln

Net cash provided by operating activities	-	1,455	2,187	2,623	3,453	3,103	3,399	3,968
Net change in working capital	-	(855)	(11)	(148)	(153)	(257)	(50)	(70)
Cash flows from investing activities	-	(4,250)	(2,002)	(2,530)	(4,089)	(3,555)	(3,979)	(4,339)
Capex	-	(4,682)	(2,052)	(2,530)	(4,089)	(3,555)	(3,979)	(4,339)
Cash flows from financing activities	-	1,184	(362)	(208)	1,261	1,161	629	193
Net increase/(decrease) in cash and cash equivalents	-	(1,611)	(72)	362	(130)	854	721	30
Cash and cash equivalents /beginning of period	-	2,297	686	615	977	847	1,700	2,422
Cash and cash equivalents /end of period	-	686	615	977	847	1,700	2,422	2,452

Profitability and Growth

Margins, %								
EBITDA margin	n/a	17.9	20.1	17.9	18.8	17.0	16.1	17.3
Net margin	n/a	2.8	3.0	4.0	4.7	3.1	2.5	3.1
Growth, %								
Revenue growth	n/m	n/m	(9.1)	28.6	15.6	(1.5)	7.2	10.2
EBITDA growth	n/m	n/m	1.9	14.8	21.8	(11.4)	1.7	18.6
Net income/(loss) growth	n/m	n/m	(2.0)	70.2	36.9	(35.7)	(14.0)	39.7

Other Ratios

Per share data								
EBITDA/share, (\$)	n/a	0.07	0.07	0.08	0.09	0.08	0.09	0.10
Earnings per share, \$	n/a	0.01	0.01	0.02	0.02	0.02	0.01	0.02
Dividends per share, (\$)	-	-	-	-	-	-	-	-
Return on capital, %								
ROE	n/a	n/a	7.1	12.2	14.6	8.2	6.3	8.4
ROIC	n/a	n/a	5.1	8.4	9.8	5.1	3.8	4.8
ROA	n/a	n/a	2.0	3.3	4.0	2.4	1.9	2.4
Efficiency & investments, %								
Capex/Sales	n/a	29.2	14.1	13.5	18.9	16.7	17.4	17.2
Working capital/Sales	n/a	17.7	17.5	20.2	19.3	20.4	17.3	16.3

Valuations

P/E	n/a	9.9	10.1	5.9	4.3	6.8	7.8	5.6
P/S	n/a	0.3	0.3	0.2	0.2	0.2	0.2	0.2
EV/S	n/a	0.9	1.0	0.8	0.7	0.7	0.6	0.6
EV/EBITDA	n/a	5.0	4.9	4.2	3.5	3.9	3.9	3.3
P/CF	n/a	3.1	2.1	1.7	1.3	1.5	1.3	1.1
P/B	n/a	0.7	0.8	0.7	0.6	0.5	0.5	0.5

Source: Company data, URALSIB estimates

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Premium Location Already Priced In

Safest Distribution Play

INVESTMENT RATIONALE

Fairly traded with low risk profile. Moscow Unified Electricity Company (MOESK; MSRS – Hold) serves Moscow city and the Moscow region – Russia’s leading region in terms of wealth, economic development, and growth in electricity demand. We have reinstated coverage with a target price of \$0.058/share, which implies 12% upside to the current price and a Hold recommendation. MOESK has the lowest financial risks in the sector and we see no significant threats to minorities except the possible consolidation with Moscow’s municipal distribution assets. However, M&A activity could be positive for the stock on the back of interest from Gazprombank.

PROS

Largest operating distributor with good liquidity. MOESK supplies electricity to 17 mln people, which is almost 12% of Russia’s population. It is the largest subsidiary of MRSK Holding and has the best liquidity in the distribution sector after its holding company.

Good location and customer structure. The company has an unusual client base, with the non-industrial sector accounting for many customers, meaning that consumption has little correlation with global prices for raw materials. According to MRSK Holding estimates, the cancellation of last mile contracts will not have any serious impact on MOESK revenues. An average personal income of \$1,253/month in the Moscow region is the highest of all MRSK regions and indicates that consumers there can still afford to pay for electricity and distribution.

Potential M&A target. Gazprombank is reportedly interested in gaining trust management over MOESK. Gazprombank also announced its interest in potentially acquiring a controlling stake from MRSK Holding, which may occur at a premium to the current market price.

Diversified shareholder structure. The company’s core shareholders are MRSK Holding (50.9%) and Gazprom (26.7%). The Moscow city government owns 7.6%, and if the consolidation of MOESK and Moscow distribution assets goes ahead, it will probably raise it to 25%.

CONS

Consolidation risks remain. The consolidation of MOESK and Moscow distribution assets controlled by the Moscow authorities is still in the pipeline. The main question concerning the consolidation is the valuation of distribution assets, which has not yet been disclosed.

Most profits come from unsteady connection fees. We estimated that about 38% of EBITDA comes from connection fees, which are difficult to predict. Connection fees are also excluded from RAB and do not contribute to the company’s FCF.

High debt burden. MOESK has a large debt burden at RUB44 bln with implied debt/EBITDA from distribution of 1.0.

MOESK		Hold	
MSRS RX		52 wk hi, \$	0.058
Price, \$	0.052	52 wk lo, \$	0.043
Target Price, \$	0.058	Common, mln	48,707
Up/Dn, %	12	Free float, %	15.0
1 m, %	(1)	Sh./ADR(GDR) Ratio	-
3 m, %	9	Pref sh, mln	-
6 m, %	8	MC, \$ mln	2,522
12 m, %	(1)	EV, \$ mln	3,727
	2010	2011E	2012E
P/E	4.5	4.1	6.7
EV/EBITDA	3.0	2.6	3.1

Source: MICEX, URALSIB estimates

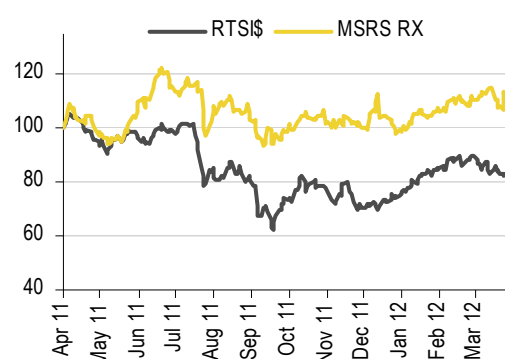
Moscow Unified Electricity Company

Regional location



Source: Company data

MOESK, RTS, Relative Performance



Source: RTS, Bloomberg

Note: Market data as of 16 April 2012

MOESK

Income Statement IFRS, \$ Mln	2007	2008	2009	2010	2011E	2012E	2013E	2014E
Revenue	-	2,629	2,704	3,736	4,369	3,729	3,695	4,069
Cost of sales	-	2,223	2,078	2,986	3,502	3,116	3,253	3,537
D&A	-	335	322	446	553	592	613	680
EBITDA	-	829	983	1,244	1,420	1,205	1,055	1,212
EBIT	-	411	645	797	867	614	442	532
Pre tax profit	-	332	441	713	811	474	313	392
Taxes	-	49	110	148	189	95	63	78
Minority interest	-	-	-	-	-	-	-	-
Net income/(loss)	-	282	331	566	622	379	250	314

Balance Sheet, \$ Mln

PP&E, net	-	6,546	5,580	6,360	6,988	7,381	8,299	9,168
Other non-current assets	-	1,130	889	481	528	522	525	521
Non-current assets	-	7,676	6,469	6,841	7,516	7,903	8,824	9,688
Cash & cash equivalents	-	248	239	98	130	523	274	46
Accounts receivable	-	420	413	802	918	783	776	854
Inventories	-	115	69	56	80	85	91	97
Other current assets	-	-	22	21	10	10	10	10
Total current assets	-	783	744	977	1,138	1,401	1,151	1,007
Total assets	-	8,459	7,213	7,818	8,655	9,304	9,975	10,696
Shareholder equity	-	3,172	2,815	3,546	4,230	4,559	4,831	5,100
Minority interest	-	-	-	-	-	-	-	-
Accounts payable	-	906	2,501	2,596	2,468	2,195	2,177	2,249
Short-term debt	-	797	954	355	232	230	231	229
Total current liabilities	-	1,737	3,710	2,999	2,746	2,750	2,734	2,802
Long-term debt	-	1,467	640	985	1,387	1,707	2,120	2,507
Non-current liabilities	-	2,083	48	287	291	288	289	287
Total liabilities	-	5,287	4,397	4,271	4,425	4,745	5,144	5,596
SE, minority interest & liabilities	-	8,459	7,213	7,818	8,655	9,304	9,975	10,696

Cash Flow Statement, \$ Mln

Net cash provided by operating activities	-	1,127	1,018	1,018	932	985	968	1,134
Net change in working capital	-	511	184	75	(299)	(126)	(24)	(3)
Cash flows from investing activities	-	(1,613)	(550)	(633)	(1,071)	(1,067)	(1,496)	(1,610)
Capex	-	(1,613)	(550)	(633)	(1,071)	(1,067)	(1,496)	(1,610)
Cash flows from financing activities	-	535	(477)	(527)	171	474	279	248
Net increase/(decrease) in cash and cash equivalents	-	49	(8)	(141)	32	392	(249)	(228)
Cash and cash equivalents /beginning of period	-	199	248	239	98	130	523	274
Cash and cash equivalents /end of period	-	248	239	98	130	523	274	46

Profitability and Growth

Margins, %								
EBITDA margin	n/a	31.5	36.4	33.3	32.5	32.3	28.5	29.8
Net margin	n/a	10.7	12.2	15.1	14.2	10.2	6.8	7.7
Growth, %								
Revenue growth	n/m	n/m	2.9	38.1	17.0	(14.6)	(0.9)	10.1
EBITDA growth	n/m	n/m	18.7	26.5	14.2	(15.1)	(12.5)	15.0
Net income/(loss) growth	n/m	n/m	17.2	70.8	10.0	(39.1)	(33.9)	25.2

Other Ratios

Per share data								
EBITDA/share, (\$)	n/a	0.02	0.02	0.03	0.03	0.02	0.02	0.02
Earnings per share, \$	n/a	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Dividends per share, (\$)	-	-	-	-	-	-	-	-
Return on capital, %								
ROE	n/a	n/a	11.1	17.8	16.0	8.6	5.3	6.3
ROIC	n/a	n/a	8.2	14.2	12.3	6.4	3.8	4.4
ROA	n/a	n/a	4.2	7.5	7.6	4.2	2.6	3.1
Efficiency & investments, %								
Capex/Sales	n/a	61.4	20.3	16.9	24.5	28.6	40.5	39.6
Working capital/Sales	n/a	20.4	18.7	23.5	23.1	23.5	23.8	23.6

Valuations

P/E	n/a	8.9	7.6	4.5	4.1	6.7	10.1	8.0
P/S	n/a	1.0	0.9	0.7	0.6	0.7	0.7	0.6
EV/S	n/a	1.4	1.4	1.0	0.9	1.0	1.0	0.9
EV/EBITDA	n/a	4.5	3.8	3.0	2.6	3.1	3.5	3.1
P/CF	n/a	2.2	2.5	2.5	2.7	2.6	2.6	2.2
P/B	n/a	0.8	0.9	0.7	0.6	0.6	0.5	0.5

Source: Company data, URALSIB estimates

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Overpriced Assets in Highly Developed Northwest

Another Capital Region

INVESTMENT RATIONALE

Downside risks exceed upside gains. We reinstate coverage of Lenenergo with a 12-month target price of \$0.34/share, which implies 5% downside to the current market price of \$0.36/share, and assign a Hold recommendation. We also have a target price of \$0.87/preferred share, implying 7% upside, and a Hold recommendation. The company serves the Leningrad region, which is second only to Moscow in terms of prosperity and electricity demand. The recovery of the Russian economy will push up industry output and housing construction. However, the company routinely incurs losses from its core distribution sector due to low tariffs. We see significant downside risks for the revision of RAB parameters in order to cope with tariff growth.

PROS

Promising region. Lenenergo is an electricity disco operating in St Petersburg and the Leningrad region, supplying electricity to 6.2 mln people. The region has become an important center for Russia's car industry, while residential construction is among the most active in the country. An average personal income of \$939/month (1H11) was 21% above the national average.

Local government has a blocking stake. The company's core shareholders are MRSK Holding (50.3%) and the St Petersburg government, which received a 25.2% blocking stake via the company's additional share issue in 2008. Having the government as a shareholder could result in moderate tariff growth, as the local authorities may be interested in capping tariff growth to ease the situation for local customers.

Low exposure to last mile contracts. According to MRSK Holding the cancellation of last mile contracts will result in 4% tariff growth against industry average growth of 20%.

Stable dividend policy for prefs. The company regularly pays dividends on prefs with a ratio of 10% of RAS net income.

CONS

Low distribution tariffs. The company operates under low distribution tariffs, which does not cover the company's costs. The majority of profit comes from unsteady connection fees, which are excluded under RAB and do not add value to FCF.

Dilution risk. Lenenergo will issue RUB10 bln in additional shares in 2012-13. Though the price set for the upcoming placement was RUB14.56, 30% above market price, we are concerned about the potential 50-60% dilution of minority shares.

Lenenergo	Hold	
LSNG RX	52 wk hi, \$	0.82
Price, \$	0.36	52 wk lo, \$ 0.34
Target Price, \$	0.34	Common, mln 926
Up/Dn, %	(5)	Free float, % 25.0
1 m, %	(4)	Sh./ADR(GDR) Ratio -
3 m, %	10	Pref sh, mln 93
6 m, %	(10)	MC, \$ mln 405
12 m, %	(57)	EV, \$ mln 957
	2010	2011E 2012E
P/E	2.1	Neg 6.0
EV/EBITDA	2.5	2.8 3.1

Source: MICEX, URALSIB estimates

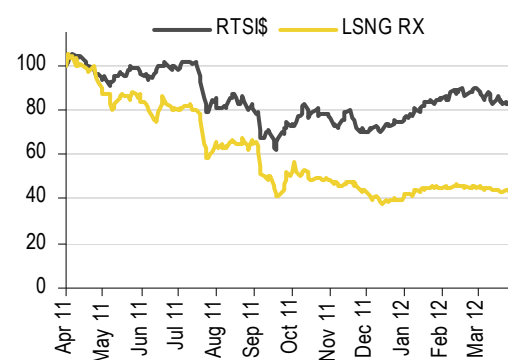
Lenenergo

Regional Location



Source: Company

Lenenergo, RTS, Relative Performance



Source: Bloomberg

Note: Market data as of 16 April 2012

Lenenergo

Income Statement IFRS, \$ Mln	2007	2008	2009	2010	2011E	2012E	2013E	2014E
Revenue	-	-	842	1,162	1,290	1,319	1,388	1,575
Cost of sales	-	-	706	924	1,228	1,178	1,268	1,379
D&A	-	-	123	148	167	170	177	178
EBITDA	-	-	259	387	340	312	297	374
EBIT	-	-	136	238	62	141	120	196
Pre tax profit	-	-	67	238	8	69	47	123
Taxes	-	-	14	(50)	(2)	(14)	(9)	(25)
Minority interest	-	-	-	-	-	-	-	-
Net income/(loss)	-	-	82	159	(32)	55	38	99

Balance Sheet, \$ Mln

PP&E, net	-	2,867	2,441	2,796	2,904	2,970	3,026	3,099
Other non-current assets	-	71	47	113	87	86	86	85
Non-current assets	-	2,938	2,488	2,909	2,990	3,056	3,112	3,184
Cash & cash equivalents	-	101	93	22	231	253	253	253
Accounts receivable	-	49	42	50	38	38	41	47
Inventories	-	10	11	15	16	17	19	20
Other current assets	-	257	149	126	135	133	134	133
Total current assets	-	416	295	213	420	441	446	452
Total assets	-	3,354	2,783	3,122	3,411	3,497	3,558	3,636
Shareholder equity	-	1,740	1,444	1,670	1,589	1,721	1,763	1,839
Minority interest	-	-	-	-	-	-	-	-
Accounts payable	-	182	125	142	157	151	162	177
Short-term debt	-	18	208	52	211	208	209	208
Total current liabilities	-	628	805	719	883	868	883	892
Long-term debt	-	521	317	472	707	699	702	697
Non-current liabilities	-	465	216	261	232	229	230	228
Total liabilities	-	1,614	1,339	1,452	1,822	1,796	1,815	1,817
SE, minority interest & liabilities	-	3,354	2,783	3,122	3,411	3,517	3,578	3,656

Cash Flow Statement, \$ Mln

Net cash provided by operating activities	-	-	245	210	234	292	294	358
Net change in working capital	-	-	(19)	(29)	(70)	(6)	6	8
Cash flows from investing activities	-	-	(200)	(195)	(340)	(271)	(219)	(274)
Capex	-	-	(200)	(195)	(340)	(271)	(219)	(274)
Cash flows from financing activities	-	-	22	(128)	330	23	(77)	(82)
Net increase/(decrease) in cash and cash equivalents	-	-	(8)	(71)	209	22	(0)	(0)
Cash and cash equivalents /beginning of period	-	101	101	93	22	231	253	253
Cash and cash equivalents /end of period	-	101	93	22	231	253	253	253

Profitability and Growth

Margins, %								
EBITDA margin	n/a	n/a	30.8	33.3	26.4	23.6	21.4	23.8
Net margin	n/a	n/a	9.7	13.7	n/m	4.2	2.7	6.3
Growth, %								
Revenue growth	n/m	n/m	n/m	38.0	11.0	2.2	5.3	13.4
EBITDA growth	n/m	n/m	n/m	49.1	(12.0)	(8.4)	(4.6)	25.8
Net income/(loss) growth	n/m	n/m	n/m	94.8	n/m	n/m	(31.2)	161.1

Other Ratios

Per share data								
EBITDA/share, (\$)	n/a	n/a	0.28	0.42	0.37	0.34	0.32	0.40
Earnings per share, \$	n/a	n/a	0.09	0.17	n/m	0.06	0.04	0.11
Dividends per share, (\$)	-	-	-	-	-	-	-	-
Return on capital, %								
ROE	n/a	n/a	5.1	10.2	(2.0)	3.3	2.2	5.5
ROIC	n/a	n/a	4.1	8.1	(1.4)	2.3	1.5	3.9
ROA	n/a	n/a	2.7	5.4	(1.0)	1.6	1.1	2.7
Efficiency & investments, %								
Capex/Sales	n/a	n/a	23.7	16.8	26.4	20.5	15.8	17.4
Working capital/Sales	n/a	n/a	24.0	16.5	14.7	14.3	13.9	12.7

Valuations

P/E	n/a	n/a	4.0	2.1	n/a	6.0	8.7	3.3
P/S	n/a	n/a	0.5	0.3	0.3	0.3	0.3	0.3
EV/S	n/a	n/a	1.1	0.8	0.7	0.7	0.7	0.6
EV/EBITDA	n/a	n/a	3.7	2.5	2.8	3.1	3.2	2.6
P/CF	n/a	n/a	1.7	1.9	1.7	1.4	1.4	1.1
P/B	n/a	0.2	0.3	0.2	0.3	0.2	0.2	0.2

Source: Company data, URALSIB estimates

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Potential Revision of RAB Parameters Reduces Attractiveness

Large Distributor in Central Russia

INVESTMENT RATIONALE

Efficient and well-located grids. We reinstate coverage of MRSK Center (MRKC RX – Buy) with a 12-month target price of \$0.035/share, implying 26% upside to the current market price. We have assigned a Buy recommendation. Historically MRSK Center was a leader in the transition to the RAB tariff system, with 60% of the company's total electricity distribution switched under the new tariff system in 2010 and 100% distribution in 2011. This helped the company attain solid 33% EBITDA growth in 2010. MRSK Center is the second-largest distributor after MOESK by market cap and EBITDA. We see risk that regulators could cut the initial RAB by 20-30% to align tariff growth with the price cap required by the state.

PROS

Strong position on the local market. MRSK Center operates in 11 regions in central Russia supplying electricity to 13.7 mln people – 9.6% of the country's population. The company has a monopoly on distribution in the Kostroma, Belgorod, and Smolensk regions. MRSK Center also controls more than 70% of electricity supplies in the Yaroslavl, Tver, Tambov, Orel, Lipetsk, Kursk, Voronezh, and Bryansk regions. The company's share of the distribution market in these regions is around 85%.

Play on consolidation of local grids. The company was the first to start the consolidation process with local grids. In 2010 the distributor consolidated Yaroslavl's city grid, adding about 2% to its RAB base and paying 0.6 EV/RAB for the asset.

Minority interests are likely to be protected. We view the company's shareholder structure as rather favorable for minorities, considering that a 30% stake is divided among several major private investors. This is likely to protect minority interests during major corporate events such as a consolidation.

CONS

Exposure to last mile contracts. According to MRSK Holding's estimates, the cancellation of last mile contracts will result in 22% tariff growth against the industry average of 20%.

Revision of RAB-parameters likely. We expect regulators to revise down the initial RAB in order to cope with tariff price growth.

MRSK Center		Buy	
MRKC RX		52 wk hi, \$	0.040
Price, \$	0.028	52 wk lo, \$	0.019
Target Price, \$	0.035	Common, mln	42,218
Up/Dn, %	26	Free float, %	19.0
1 m, %	8	Sh./ADR(GDR) Ratio	-
3 m, %	37	Pref sh, mln	-
6 m, %	14	MC, \$ mln	1,169
12 m, %	(34)	EV, \$ mln	1,802
	2010	2011	2012E
P/E	7.0	6.3	9.4
EV/EBITDA	4.2	3.5	4.1

Source: MICEX, URALSIB estimates

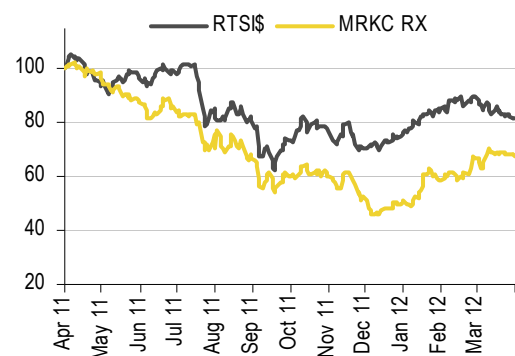
MRSK Center

Regional Location



Source: Company data

MRSK Center, RTS, Relative Performance



Source: RTS, Bloomberg

Note: Market data as of 16 April 2012

MRSK Center

Income Statement IFRS, \$ Mln	2007	2008	2009	2010	2011	2012E	2013E	2014E
Revenue	-	1,759	1,554	2,027	2,348	2,373	2,585	2,865
Cost of sales	-	1,647	1,426	1,763	2,044	2,146	2,377	2,581
D&A	-	151	146	168	214	213	245	262
EBITDA	-	324	325	432	517	440	452	546
EBIT	-	154	150	264	304	227	208	284
Pre tax profit	-	91	83	209	247	160	129	191
Taxes	-	64	20	43	63	35	26	38
Minority interest	-	-	-	-	-	-	-	-
Net income/(loss)	-	27	63	166	184	124	104	153

Balance Sheet, \$ Mln

PP&E, net	-	1,664	1,367	1,731	2,115	2,361	2,557	2,762
Other non-current assets	-	76	67	62	56	56	56	55
Non-current assets	-	1,739	1,434	1,793	2,172	2,417	2,612	2,817
Cash & cash equivalents	-	3	12	9	90	27	114	196
Accounts receivable	-	209	159	241	286	289	315	349
Inventories	-	55	39	45	49	52	56	59
Other current assets	-	5	5	18	16	16	16	16
Total current assets	-	272	214	312	441	384	500	620
Total assets	-	2,011	1,649	2,105	2,613	2,801	3,113	3,437
Shareholder equity	-	1,050	900	1,125	1,312	1,421	1,529	1,668
Minority interest	-	-	-	-	-	-	-	-
Accounts payable	-	262	185	228	289	279	309	335
Short-term debt	-	217	188	39	40	39	39	39
Total current liabilities	-	561	433	319	385	374	405	430
Long-term debt	-	160	163	460	683	775	948	1,109
Non-current liabilities	-	240	154	201	233	230	231	229
Total liabilities	-	962	749	980	1,301	1,380	1,584	1,768
SE, minority interest & liabilities	-	2,011	1,649	2,105	2,613	2,801	3,113	3,437

Cash Flow Statement, \$ Mln

Net cash provided by operating activities	-	315	261	323	437	390	427	497
Net change in working capital	-	7	(34)	(66)	(18)	(16)	1	(12)
Cash flows from investing activities	-	-	-	-	-	-	-	-
Capex	-	(385)	(208)	(354)	(535)	(484)	(429)	(485)
Cash flows from financing activities	-	58	(44)	29	179	31	88	71
Net increase/(decrease) in cash and cash equivalents	-	(12)	9	(3)	81	(63)	86	82
Cash and cash equivalents /beginning of period	-	15	3	12	9	90	27	114
Cash and cash equivalents /end of period	-	3	12	9	90	27	114	196

Profitability and Growth

Margins, %								
EBITDA margin	n/a	18.4	20.9	21.3	22.0	18.6	17.5	19.0
Net margin	n/a	1.6	4.1	8.2	7.8	5.2	4.0	5.3
Growth, %								
Revenue growth	n/m	n/m	(11.7)	30.4	15.9	1.1	8.9	10.9
EBITDA growth	n/m	n/m	0.1	32.9	19.9	(14.9)	2.7	20.7
Net income/(loss) growth	n/m	n/m	130.7	162.2	10.9	(32.5)	(16.8)	48.0

Other Ratios

Per share data								
EBITDA/share, (\$)	n/a	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Earnings per share, \$	n/a	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Dividends per share, (\$)	-	-	-	-	-	-	-	-
Return on capital, %								
ROE	n/a	n/a	6.5	16.4	15.1	9.1	7.0	9.6
ROIC	n/a	n/a	5.6	12.5	10.3	6.0	4.5	5.9
ROA	n/a	n/a	3.5	8.8	7.8	4.6	3.5	4.7
Efficiency & investments, %								
Capex/Sales	n/a	21.9	13.4	17.5	22.8	20.4	16.6	16.9
Working capital/Sales	n/a	15.3	13.1	15.0	15.0	15.0	15.0	14.8

Valuations

P/E	n/a	42.6	18.5	7.0	6.3	9.4	11.3	7.6
P/S	n/a	0.7	0.8	0.6	0.5	0.5	0.5	0.4
EV/S	n/a	1.0	1.2	0.9	0.8	0.8	0.7	0.6
EV/EBITDA	n/a	5.6	5.5	4.2	3.5	4.1	4.0	3.3
P/CF	n/a	3.7	4.5	3.6	2.7	3.0	2.7	2.4
P/B	n/a	1.1	1.3	1.0	0.9	0.8	0.8	0.7

Source: Company data, URALSIB estimates

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One of Best Distribution-Sector Ideas

Undervalued Assets in Central Russia

INVESTMENT RATIONALE

Among the pioneers in the transition to RAB. We reinstate coverage of MRSK Center & Volga (MRKP RX – Buy) with a 12-month target price of \$0.009/share, implying 44% upside to the current market price. We have assigned a Buy recommendation on the stock. Based on good upside, we have included the company in our top-picks list for the distribution sector. MRSK Center and Volga was among the leaders in the transition to the new tariff system, which resulted in strong growth in the company's operating cashflow.

PROS

Strategic location in central Russia. MRSK Center & Volga operates across nine regions in the central part of European Russia, and along the Volga River. This area spans 409,000 sq km and has a population of 13.3 mln people – 9.4% of Russia's total. Notable cities include Vladimir, Ivanovo, Kaluga, Kirov, Nizhniy Novgorod, Ryazan and Tula, in addition to the republics of Marii El and Udmurtiya.

Minority-friendly shareholder structure. The company's core shareholder is MRSK Holding, which owns a 50.4% stake. Controlling another 22% are EnergoSouz and Genhold Limited (companies often associated with Prosperity Capital). The Swedish fund EOS Russia just purchased a 6.7% stake. We expect them to play an active role in the potential privatization and protection of minority interests.

CONS

Significant exposure to last mile customers. According to MRSK Holding's estimate, the departure of customers for a direct connection with Federal Grid Company results in increasing the distribution tariff by 14%. As it is below the industry average (20% increase), it creates downward risks for our valuation.

Revision of RAB-parameters likely. We expect regulators to revise down the initial RAB to cope with tariff price growth.

MRSK Center & Volga		Buy	
MRKP RX		52 wk hi, \$	0.0096
Price, \$	0.0065	52 wk lo, \$	0.0048
Target Price, \$	0.0093	Common, mln	112,697
Up/Dn, %	44	Free float, %	27.0
1 m, %	(3)	Sh./ADR(GDR) Ratic	-
3 m, %	41	Pref sh, mln	-
6 m, %	19	MC, \$ mln	730
12 m, %	(36)	EV, \$ mln	1,384
		2010	2011
P/E	26.2	4.7	12.8
EV/EBITDA	7.0	3.7	4.3

Source: MICEX, URALSIB estimates

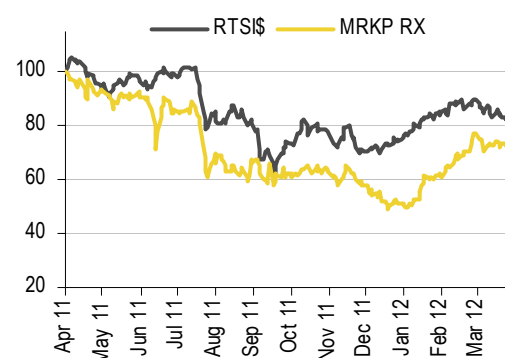
MRSK Center and Volga

Regional Location



Source: Company data

MRSK Center & Volga, RTS, Relative Performance



Source: Bloomberg

Note: Market data as of 16 April 2012

MRSK Center & Volga

Income Statement IFRS, \$ Mln	2007	2008	2009	2010	2011	2012E	2013E	2014E
Revenue	-	1,541	1,492	1,826	2,197	2,248	2,469	2,712
Cost of sales	-	1,440	1,423	1,751	1,966	2,073	2,261	2,459
D&A	-	125	118	122	145	146	153	163
EBITDA	-	226	187	197	376	321	361	416
EBIT	-	101	69	76	231	175	208	253
Pre tax profit	-	87	39	41	196	127	163	208
Taxes	-	11	15	13	42	25	33	42
Minority interest	-	-	-	-	-	-	-	-
Net income/(loss)	-	75	24	28	154	57	131	166

Balance Sheet, \$ Mln

PP&E, net	-	1,592	1,274	1,509	1,846	1,920	2,061	2,232
Other non-current assets	-	37	29	30	37	37	37	37
Non-current assets	-	1,629	1,303	1,539	1,884	1,957	2,098	2,268
Cash & cash equivalents	-	99	79	106	134	183	185	150
Accounts receivable	-	182	196	161	190	178	189	210
Inventories	-	29	26	29	34	36	39	41
Other current assets	-	20	12	5	108	112	113	112
Total current assets	-	329	313	300	465	508	526	513
Total assets	-	1,958	1,616	1,839	2,349	2,465	2,623	2,781
Shareholder equity	-	1,091	879	961	1,127	1,171	1,307	1,464
Minority interest	-	-	-	-	-	-	-	-
Accounts payable	-	269	197	225	228	262	279	288
Short-term debt	-	42	168	56	60	60	60	60
Total current liabilities	-	322	378	297	311	344	362	370
Long-term debt	-	389	233	464	727	718	722	716
Non-current liabilities	-	156	126	117	184	232	233	232
Total liabilities	-	866	737	878	1,222	1,295	1,317	1,318
SE, minority interest & liabilities	-	1,958	1,616	1,839	2,349	2,465	2,623	2,781

Cash Flow Statement, \$ Mln

Net cash provided by operating activities	-	210	122	191	287	340	331	360
Net change in working capital	-	55	(49)	36	5	44	3	(14)
Cash flows from investing activities	-	-	-	-	-	-	-	-
Capex	-	(422)	(133)	(272)	(440)	(242)	(285)	(349)
Cash flows from financing activities	-	292	(10)	108	180	(49)	(44)	(46)
Net increase/(decrease) in cash and cash equivalents	-	80	(20)	27	27	49	2	(35)
Cash and cash equivalents /beginning of period	-	19	99	79	106	134	183	185
Cash and cash equivalents /end of period	-	99	79	106	134	183	185	150

Profitability and Growth

Margins, %								
EBITDA margin	n/a	14.6	12.6	10.8	17.1	14.3	14.6	15.3
Net margin	n/a	4.9	1.6	1.5	7.0	2.5	5.3	6.1
Growth, %								
Revenue growth	n/m	n/m	(3.2)	22.4	20.3	2.3	9.8	9.8
EBITDA growth	n/m	n/m	(16.9)	5.3	90.6	(14.6)	12.5	15.1
Net income/(loss) growth	n/m	n/m	(68.1)	15.8	451.8	(63.0)	129.1	27.5

Other Ratios

Per share data								
EBITDA/share, (\$)	n/a	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Earnings per share, \$	n/a	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Dividends per share, (\$)	-	-	-	-	-	-	-	-
Return on capital, %								
ROE	n/a	n/a	2.4	3.0	14.7	5.0	10.5	12.0
ROIC	n/a	n/a	1.9	2.2	9.4	3.0	6.7	7.9
ROA	n/a	n/a	1.3	1.6	7.3	2.4	5.1	6.2
Efficiency & investments, %								
Capex/Sales	n/a	27.4	8.9	14.9	20.0	10.7	11.5	12.9
Working capital/Sales	n/a	14.9	15.7	10.6	15.1	14.5	13.8	13.4

Valuations

P/E	n/a	9.7	30.3	26.2	4.7	12.8	5.6	4.4
P/S	n/a	0.5	0.5	0.4	0.3	0.3	0.3	0.3
EV/S	n/a	0.9	0.9	0.8	0.6	0.6	0.6	0.5
EV/EBITDA	n/a	6.1	7.4	7.0	3.7	4.3	3.8	3.3
P/CF	n/a	3.5	6.0	3.8	2.5	2.1	2.2	2.0
P/B	n/a	0.7	0.8	0.8	0.6	0.6	0.6	0.5

Source: Company data, URALSIB estimates

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Transition to RAB Regulation Incomplete

No Large Upside Under Long-term Indexation Method

INVESTMENT RATIONALE

8% upside and Hold recommendation. We reinstate coverage of MRSK Northwest (MRKZ RX – Hold) with a 12-month target price of \$0.0039/share, implying 20% upside to the current market price of \$0.0033/share. We have assigned a Hold recommendation to the stock. We note the company's failure to fully implement RAB-regulation: currently four out of its seven subsidiaries remain outside the RAB-system. Based on the incomplete transition to RAB, the company has the highest EV/RAB multiple among MRSKs, putting pressure on the name. Nevertheless, the company continues its plan to switch one subsidiary, Karelenegro, to RAB in 1H12. One of the largest minority shareholders, the Swedish fund EOS Russia, recently increased its stake to 12.5%.

PROS

Strong position on the local market. MRSK Northwest operates in seven regions of northwest Russia (excluding St Petersburg and the Leningrad region), supplying electricity to 6.3 mln people, or 4% the country's population. The company operates 100% of grid connections in the Pskov, Murmansk, and Komi regions; more than 70% of grid connections in the Arkhangelsk, Vologda and Karelia regions; and more than 50% of the grid connections in the Novgorod region.

New potential entrants to RAB tariff system. According to management, the municipal authorities have basically agreed with the RAB-tariffs for one subsidiary, Karelenegro.

CONS

Low share of RAB regulation. We estimate that only 40% of the company's operations will be regulated by RAB in 2012. The low share of assets regulated by RAB puts the company at a disadvantage compared to other distributors.

Highly overvalued on EV/RAB. Based on a sector-specific multiple, the company is also quite expensive, trading at an EV/RAB of 0.61, implying a 28% premium to domestic peers.

MRSK Northwest		Hold	
MRKZ RX		52 wk hi, \$	0.0057
Price, \$	0.0030	52 wk lo, \$	0.0026
Target Price, \$	0.0033	Common, mln	95,786
Up/Dn, %	8	Free float, %	38.0
1 m, %	(9)	Sh./ADR(GDR) Ratic	-
3 m, %	13	Pref sh, mln	-
6 m, %	3	MC, \$ mln	292
12 m, %	(49)	EV, \$ mln	451
	2010	2011	2012E
P/E	Neg	10.7	21.4
EV/EBITDA	5.6	3.2	3.2

Source: MICEX, URALSIB estimates

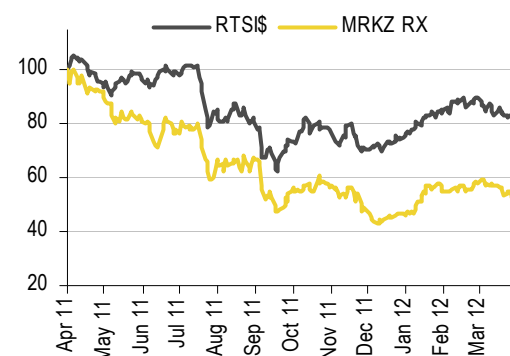
MRSK Northwest

Regional location



Source: Company data

MRSK Northwest, RTS, Relative Performance



Source: Bloomberg

Note: Market data as of 16 April 2012

MRSK Northwest

Income Statement IFRS, \$ Mln	2007	2008	2009	2010	2011	2012E	2013E	2014E
Revenue	-	935	843	963	1,132	1,175	1,291	1,433
Cost of sales	-	874	820	969	1,087	1,134	1,237	1,346
D&A	-	87	77	86	98	98	105	113
EBITDA	-	149	100	81	143	139	160	199
EBIT	-	62	23	(5)	45	41	55	87
Pre tax profit	-	57	2	(9)	43	17	24	53
Taxes	-	12	1	1	15	3	5	11
Minority interest	-	-	-	-	-	-	-	-
Net income/(loss)	-	45	2	(10)	27	14	19	42
Balance Sheet, \$ Mln								
PP&E, net	-	1,081	853	910	1,004	1,069	1,156	1,233
Other non-current assets	-	26	25	31	27	27	27	27
Non-current assets	-	1,107	877	941	1,031	1,096	1,182	1,260
Cash & cash equivalents	-	29	18	39	52	105	75	61
Accounts receivable	-	130	152	140	147	152	167	186
Inventories	-	30	22	23	24	25	27	29
Other current assets	-	11	9	11	23	23	23	23
Total current assets	-	200	201	213	246	305	293	299
Total assets	-	1,307	1,078	1,154	1,277	1,401	1,475	1,558
Shareholder equity	-	847	665	696	734	739	762	799
Minority interest	-	-	-	-	-	-	-	-
Accounts payable	-	120	124	145	191	198	213	230
Short-term debt	-	126	60	10	3	33	33	33
Total current liabilities	-	264	204	180	214	251	267	283
Long-term debt	-	63	89	146	209	293	329	360
Non-current liabilities	-	133	121	132	119	118	118	117
Total liabilities	-	459	413	458	542	662	713	760
SE, minority interest & liabilities	-	1,307	1,078	1,154	1,277	1,401	1,475	1,558
Cash Flow Statement, \$ Mln								
Net cash provided by operating activities	-	32	95	115	125	135	154	186
Net change in working capital	-	(91)	3	40	9	(1)	(1)	(3)
Cash flows from investing activities	-	-	-	-	-	-	-	-
Capex	-	(146)	(79)	(95)	(167)	(175)	(187)	(199)
Cash flows from financing activities	-	115	(28)	1	56	92	3	(1)
Net increase/(decrease) in cash and cash equivalents	-	1	(11)	21	14	53	(30)	(14)
Cash and cash equivalents /beginning of period	-	27	29	18	39	52	105	75
Cash and cash equivalents /end of period	-	29	18	39	52	105	75	61
Profitability and Growth								
Margins, %								
EBITDA margin	n/a	15.9	11.9	8.4	12.6	11.8	12.4	13.9
Net margin	n/a	4.8	0.2	n/m	2.4	1.2	1.5	2.9
Growth, %								
Revenue growth	n/m	n/m	(9.9)	14.3	17.5	3.8	9.9	10.9
EBITDA growth	n/m	n/m	(32.5)	(19.5)	77.0	(2.8)	15.3	24.5
Net income/(loss) growth	n/m	n/m	(96.6)	n/m	n/m	(50.0)	39.5	121.9
Other Ratios								
Per share data								
EBITDA/share, (\$)	n/a	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Earnings per share, \$	n/a	0.00	0.00	n/m	0.00	0.00	0.00	0.00
Dividends per share, (\$)	-	-	-	-	-	-	-	-
Return on capital, %								
ROE	n/a	n/a	0.2	(1.5)	3.8	1.9	2.5	5.4
ROIC	n/a	n/a	0.2	(1.3)	3.1	1.4	1.8	3.8
ROA	n/a	n/a	0.1	(0.9)	2.2	1.0	1.3	2.8
Efficiency & investments, %								
Capex/Sales	n/a	15.6	9.3	9.9	14.7	14.9	14.5	13.9
Working capital/Sales	n/a	18.3	21.7	18.1	17.1	17.0	16.8	16.6
Valuations								
P/E	n/a	6.5	191.8	n/a	10.7	21.4	15.3	6.9
P/S	n/a	0.3	0.3	0.3	0.3	0.2	0.2	0.2
EV/S	n/a	0.5	0.5	0.5	0.4	0.4	0.3	0.3
EV/EBITDA	n/a	3.0	4.5	5.6	3.2	3.2	2.8	2.3
P/CF	n/a	9.2	3.1	2.5	2.3	2.2	1.9	1.6
P/B	n/a	0.3	0.4	0.4	0.4	0.4	0.4	0.4

Source: Company data, URALSIB estimates

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Close to 2014 Olympic Games, But Heavily Indebted

No Clear Benefits from Advantageous Location

INVESTMENT RATIONALE

Little upside and Hold recommendation. We reinstate coverage of MRSK South with a 12-month target price of \$0.0027/share, implying 14% upside to the current market price of \$0.0023/share. We have assigned a Hold recommendation for the stock. In 2012, more than 30% of the company's electricity output will come from the RAB tariff system, which is a key factor for the valuation of discos.

PROS

Southern part of Russia, excluding the Krasnodar region. MRSK South operates in four regions in the southern part of Russia (Rostov, Astrakhan, Volgograd, and Kalmikiya) supplying electricity to 13.7 mln people – 9.6% of the country's total population. The company does not operate in the Krasnodar region (the site of the 2014 winter Olympic Games), because such operations were blocked by Neft-Activ, a Rosneft subsidiary.

CONS

Incomplete transition to RAB-regulation. Subsidiary Volgogradenergo, which accounts for up to 35% of MRSK South's distribution volumes, does not operate under RAB-regulation. The low share of assets regulated under the RAB-system puts the company at a disadvantage compared to other discos.

Heavy debt burden. The company's total debt amounted to \$516 mln, implying a 2011 debt/EBITDA ratio of 2.7.

Low liquidity. Due to the failure to consolidate Kubanenergo, the company is one of the smallest distributors with a market cap of \$115 mln.

MRSK South		Hold	
MRKY RX		52 wk hi, \$	0.0048
Price, \$	0.0023	52 wk lo, \$	0.0022
Target Price, \$	0.0027	Common, mln	49,811
Up/Dn, %	14	Free float, %	21.0
1 m, %	(13)	Sh./ADR(GDR) Ratic	-
3 m, %	3	Pref sh, mln	-
6 m, %	(15)	MC, \$ mln	114
12 m, %	(54)	EV, \$ mln	630
	2010	2011E	2012E
P/E	Neg	28.5	15.6
EV/EBITDA	4.5	3.2	3.4

Source: MICEX, URALSIB estimates

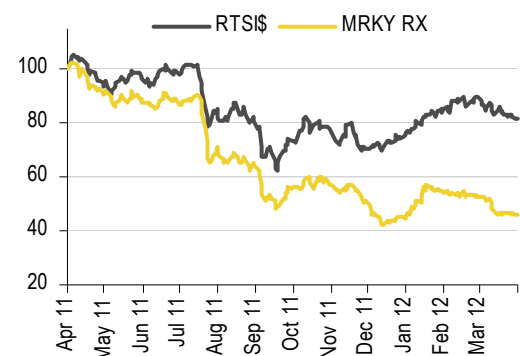
MRSK South

Regional location



Source: Company data

MRSK South, RTS, Relative Performance



Source: Bloomberg

Note: Market data as of 16 April 2012

MRSK South

Income Statement RAS, \$ Mln	2007	2008	2009	2010	2011E	2012E	2013E	2014E
Revenue	-	527	599	736	828	878	942	1,014
Cost of sales	-	464	543	668	708	778	827	880
D&A	-	54	64	72	74	86	87	92
EBITDA	-	117	137	140	195	186	203	226
EBIT	-	63	57	68	120	99	115	133
Pre tax profit	-	40	1	(128)	16	9	53	74
Taxes	-	20	5	(8)	-	1	11	15
Minority interest	-	-	-	-	-	-	-	-
Net income/(loss)	-	20	(3)	(120)	4	7	43	59
Balance Sheet, \$ Mln								
PP&E, net	-	1,057	850	888	984	1,019	1,092	1,148
Other non-current assets	-	21	17	26	46	45	46	45
Non-current assets	-	1,078	867	915	1,030	1,064	1,137	1,193
Cash & cash equivalents	-	20	43	11	48	138	154	204
Accounts receivable	-	281	352	292	304	319	338	361
Inventories	-	56	43	47	36	38	41	44
Other current assets	-	2	1	1	6	9	9	9
Total current assets	-	358	440	351	393	505	544	617
Total assets	-	1,436	1,306	1,266	1,423	1,569	1,681	1,811
Shareholder equity	-	855	636	555	563	564	609	664
Minority interest	-	-	-	-	-	-	-	-
Accounts payable	-	186	241	225	184	202	215	229
Short-term debt	-	85	46	47	86	85	85	85
Total current liabilities	-	275	290	274	279	296	309	322
Long-term debt	-	289	369	427	478	574	627	689
Non-current liabilities	-	16	11	10	103	135	136	135
Total liabilities	-	581	670	711	860	1,005	1,072	1,147
SE, minority interest & liabilities	-	1,436	1,306	1,266	1,423	1,569	1,681	1,811
Cash Flow Statement, \$ Mln								
Net cash provided by operating activities	-	-	78	197	155	184	183	199
Net change in working capital	-	-	(37)	49	(40)	(1)	(9)	(12)
Cash flows from investing activities	-	-	-	-	-	-	-	-
Capex	-	-	(88)	(60)	(138)	(132)	(156)	(156)
Cash flows from financing activities	-	-	84	(25)	32	40	(11)	8
Net increase/(decrease) in cash and cash equivalents	-	-	24	(32)	36	91	16	49
Cash and cash equivalents /beginning of period	-	20	20	43	11	48	138	154
Cash and cash equivalents /end of period	-	20	43	11	48	138	154	204
Profitability and Growth								
Margins, %								
EBITDA margin	n/a	22.2	22.9	19.0	23.5	21.2	21.5	22.3
Net margin	n/a	3.7	n/m	n/m	0.5	0.8	4.5	5.9
Growth, %								
Revenue growth	n/m	n/m	13.8	22.8	12.5	6.0	7.3	7.6
EBITDA growth	n/m	n/m	17.5	1.6	39.4	(4.6)	9.2	11.3
Net income/(loss) growth	n/m	n/m	n/m	n/m	n/m	83.3	485.5	38.9
Other Ratios								
Per share data								
EBITDA/share, (\$)	n/a	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Earnings per share, \$	n/a	0.00	n/m	n/m	0.00	0.00	0.00	0.00
Dividends per share, (\$)	-	-	-	-	-	-	-	-
Return on capital, %								
ROE	n/a	n/a	(0.4)	(20.2)	0.7	1.3	7.3	9.3
ROIC	n/a	n/a	(0.3)	(12.1)	0.4	0.7	3.6	4.6
ROA	n/a	n/a	(0.2)	(9.3)	0.3	0.5	2.6	3.4
Efficiency & investments, %								
Capex/Sales	n/a	-	14.7	8.2	16.7	15.1	16.6	15.4
Working capital/Sales	n/a	64.2	66.1	46.2	41.7	41.7	41.3	40.8
Valuations								
P/E	n/a	5.8	n/a	n/a	28.5	15.6	2.7	1.9
P/S	n/a	0.2	0.2	0.2	0.1	0.1	0.1	0.1
EV/S	n/a	1.2	1.1	0.9	0.8	0.7	0.7	0.6
EV/EBITDA	n/a	5.4	4.6	4.5	3.2	3.4	3.1	2.8
P/CF	n/a	n/a	1.4	0.6	0.7	0.6	0.6	0.6
P/B	n/a	0.1	0.2	0.2	0.2	0.2	0.2	0.2

Source: Company data, URALSIB estimates



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Sector's Dark Horse

Risky Assets With Low EV/RAB

INVESTMENT RATIONALE

13% upside on the back of high risks. We reinstate coverage of MRSK North Caucasus with a 12-month target price of \$2.4/share, implying 13% upside to the current market price. We have assigned a Hold recommendation for the stock. The company operates in the North Caucasus, well known for the poor payment discipline of end-consumers. The company plans a massive RUB4.1 bln (\$137 mln) additional share placement this year, creating dilution risks for minority shareholders.

PROS

Fast growing region with positive demographic factors. The company's operations are located in the North Caucasus with fast-growing electricity consumption. In 2011 electricity consumption in Dagestan grew 8.5%, Ingushetia by 11%, Stavropol 3.5 % against average growth of 1.1% in Russia. The North Caucasus regions experienced good demographic growth. Since 2002 the population in Dagestan increased by 15.6%, in Karachaevo-Cherkesk by 8.9%, while total Russian population fell by 1.5% in the same period.

Low exposure to last mile contracts. According to MRSK Holding estimates, the cancellation of last mile will result in an insignificant 4% tariff growth against the industry average of 20%.

Low transmission costs. The company pays a special tariff to Federal Grid, 61% lower than any other distributor.

CONS

Poor cash collection and weak control over electric lines. The company operates in regions with a history of not paying for electricity. One reason for this is low personal incomes (based on 1H11 data, the monthly income in the region was around \$440 – 44% below the national average and the lowest figure among regions where MRSKs operate). Weak control over electric lines has resulted in large-scale electricity theft. The electrical energy loss rate exceeds 34-40% in the most-troubled grids.

One of the smallest MRSKs. MRSK North Caucasus operates in eight regions in the North Caucasus region of Russia supplying electricity to 8.6 mln people, or 6.4% of the country's total population. In terms of the company's installed transformer capacity, grid length and electricity output, it is one the smallest MRSKs.

Incomplete transition into RAB. Subsidiary Dagennergoset, which is responsible for up to 30% of delivery volumes, switched to long-term indexation instead of RAB-regulation.

Low transparency and poor corporate governance. The company does not published consolidated results under IFRS. The results under RAS are significantly misleading, given the absence of the loss-making Dagennergoset.

MRSK North Caucasus		Hold	
MRKK RX		52 wk hi, \$	4.5
Price, \$	2.1	52 wk lo, \$	1.7
Target Price, \$	2.4	Common, mln	30
Up/Dn, %	13	Free float, %	42.0
1 m, %	(8)	Sh./ADR(GDR) Ratio	-
3 m, %	16	Pref sh, mln	-
6 m, %	(7)	MC, \$ mln	62
12 m, %	(55)	EV, \$ mln	173
	2010	2011E	2012E
P/E	301.1	224.2	Neg
EV/EBITDA	1.9	1.7	2.0

Source: MICEX, URALSIB estimates

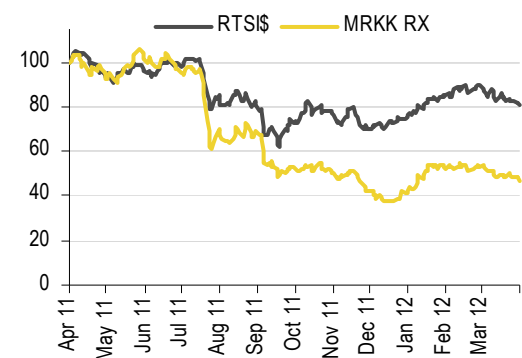
MRSK North Caucasus

Regional Location



Source: Company data

MRSK N Caucasus, RTS, Relative Performance



Source: Bloomberg

Note: Market data as of 16 April 2012

MRSK North Caucasus

Income Statement RAS, \$ Mln	2007	2008	2009	2010	2011E	2012E	2013E	2014E
Revenue	-	328	314	327	359	359	396	441
Cost of sales	-	347	327	261	288	305	327	351
D&A	-	50	42	26	30	32	32	34
EBITDA	-	31	30	91	101	86	102	123
EBIT	-	(19)	(13)	66	71	54	70	89
Pre tax profit	-	(20)	16	11	16	(2)	15	33
Taxes	-	3	(2)	2	16	(0)	3	7
Minority interest	-	-	-	-	-	-	-	-
Net income/(loss)	-	(23)	18	0	0	(1)	12	26

Balance Sheet, \$ Mln

PP&E, net	-	644	512	584	796	813	850	873
Other non-current assets	-	25	17	16	34	34	34	34
Non-current assets	-	669	529	600	830	847	884	907
Cash & cash equivalents	-	36	30	6	12	52	136	167
Accounts receivable	-	96	73	106	42	42	47	52
Inventories	-	41	31	22	20	22	23	25
Other current assets	-	5	9	16	26	26	26	26
Total current assets	-	177	143	151	100	141	232	269
Total assets	-	847	672	751	930	988	1,116	1,176
Shareholder equity	-	612	462	526	562	555	570	592
Minority interest	-	-	-	-	-	-	-	-
Accounts payable	-	110	118	50	159	155	161	168
Short-term debt	-	66	49	53	42	41	41	41
Total current liabilities	-	187	169	130	238	304	397	417
Long-term debt	-	15	12	31	82	81	100	119
Non-current liabilities	-	32	30	64	49	48	48	48
Total liabilities	-	234	211	225	369	433	546	584
SE, minority interest & liabilities	-	847	672	751	930	988	1,116	1,176

Cash Flow Statement, \$ Mln

Net cash provided by operating activities	-	-	65	30	31	32	50	73
Net change in working capital	-	-	34	(60)	-	(4)	(0)	1
Cash flows from investing activities	-	-	-	-	-	-	-	-
Capex	-	-	(43)	(66)	(135)	(59)	(65)	(64)
Cash flows from financing activities	-	-	(28)	13	109	67	99	21
Net increase/(decrease) in cash and cash equivalents	-	-	(6)	(24)	5	40	85	30
Cash and cash equivalents /beginning of period	-	36	36	30	6	12	52	136
Cash and cash equivalents /end of period	-	36	30	6	12	52	136	167

Profitability and Growth

Margins, %								
EBITDA margin	n/a	9.6	9.4	28.0	28.1	24.0	25.7	28.0
Net margin	n/a	n/m	5.6	0.1	0.1	n/m	3.0	6.0
Growth, %								
Revenue growth	n/m	n/m	(4.3)	4.0	9.8	0.1	10.4	11.3
EBITDA growth	n/m	n/m	(5.9)	209.0	10.2	(14.5)	18.1	21.2
Net income/(loss) growth	n/m	n/m	n/m	(98.8)	34.3	n/m	n/m	119.1

Other Ratios

Per share data								
EBITDA/share, (\$)	n/a	1.07	1.00	3.10	3.42	2.92	3.45	4.18
Earnings per share, \$	n/a	n/m	0.59	0.01	0.01	n/m	0.41	0.90
Dividends per share, (\$)	-	-	-	-	-	-	-	-
Return on capital, %								
ROE	n/a	n/a	3.3	0.0	0.1	(0.2)	2.1	4.6
ROIC	n/a	n/a	3.2	0.0	0.0	(0.2)	1.8	3.8
ROA	n/a	n/a	2.3	0.0	0.0	(0.1)	1.1	2.3
Efficiency & investments, %								
Capex/Sales	n/a	-	13.7	20.3	37.6	16.4	16.3	14.4
Working capital/Sales	n/a	43.2	36.0	44.3	24.7	25.0	24.2	23.2

Valuations

P/E	n/a	n/a	3.5	301.1	224.2	n/a	5.1	2.3
P/S	n/a	0.2	0.2	0.2	0.2	0.2	0.2	0.1
EV/S	n/a	0.5	0.6	0.5	0.5	0.5	0.4	0.4
EV/EBITDA	n/a	5.5	5.8	1.9	1.7	2.0	1.7	1.4
P/CF	n/a	n/a	0.9	2.1	2.0	1.9	1.2	0.8
P/B	n/a	0.1	0.1	0.1	0.1	0.1	0.1	0.1

Source: Company data, URALSIB estimates

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Modest Outlook for Volga Distributor

Center of Russia's Car Industry

INVESTMENT RATIONALE

21% upside, Buy recommendation. We reinstate coverage of MRSK Volga with a 12-month target price of \$0.005/share, implying 21% upside to the current market price. We have assigned a Buy recommendation to the stock. Currently the company is the cheapest among MRSKs on the industry specific EV/RAB multiple. On the risk side, the low average personal incomes of the region and the difficult situation at AvtoVAZ and its associated companies (a key industry in the region) may lead authorities to significantly revise the company's tariff growth. One of the largest minority shareholders is the Swedish fund EOS Russia with stake of 10.6%.

PROS

Discount to domestic peers. On a sector specific multiple (EV/RAB), the company trades at 0.33, which implies a 30% discount to domestic peers.

CONS

Exposure to the suffering car industry. MRSK Volga operates in seven regions (Chuvashiya, Mordovia, Ulyanovsk, Penza, Samara, Saratov and Orenburg) in Russia's Volga region, supplying electricity to 12.7 mln people, which is equal to 8.9% of the country's population. The region is at the heart of the Russian car industry and the future dynamics of electricity consumption will depend on the development of this industry in general, and AvtoVAZ in particular.

MRSK Volga		Buy	
MRKV RX		52 wk hi, \$	0.0052
Price, \$	0.0036	52 wk lo, \$	0.0027
Target Price, \$	0.0044	Common, mln	178,578
Up/Dn, %	21	Free float, %	14.0
1 m, %	(12)	Sh./ADR(GDR) Ratic	-
3 m, %	40	Pref sh, mln	-
6 m, %	30	MC, \$ mln	648
12 m, %	(36)	EV, \$ mln	820
	2010	2011E	2012E
P/E	34.2	17.2	138.8
EV/EBITDA	6.2	4.5	5.5

Source: MICEX, URALSIB estimates

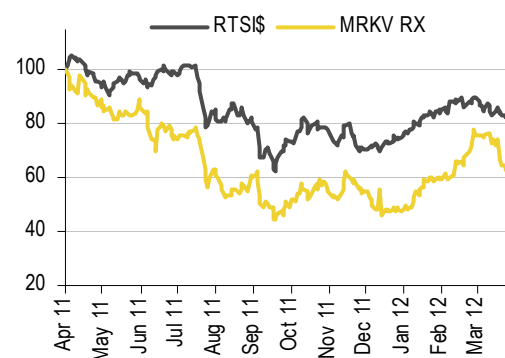
MRSK Volga

Regional Location



Source: Company data

MRSK Volga, RTS, Relative Performance



Source: Bloomberg

Note: Market data as of 16 April 2012

MRSK Volga

Income Statement IFRS, \$ Mln	2007	2008	2009	2010	2011E	2012E	2013E	2014E
Revenue	-	1 235	929	1 323	1 629	1 678	1 862	2 073
Cost of sales	-	1 102	865	1 284	1 557	1 638	1 794	1 955
D&A	-	96	89	94	111	110	122	131
EBITDA	-	229	153	133	183	150	191	249
EBIT	-	132	64	39	72	40	69	118
Pre tax profit	-	112	48	30	47	6	25	67
Taxes	-	30	7	11	9	1	5	13
Minority interest	-	-	-	-	-	-	-	-
Net income/(loss)	-	82	41	19	38	5	20	54

Balance Sheet, \$ Mln

PP&E, net	-	1 030	796	894	1 056	1 178	1 305	1 435
Other non-current assets	-	45	32	24	28	27	27	27
Non-current assets	-	1 075	829	918	1 083	1 205	1 333	1 462
Cash & cash equivalents	-	19	13	49	68	25	89	92
Accounts receivable	-	102	96	76	101	136	148	162
Inventories	-	34	25	30	68	72	77	82
Other current assets	-	27	33	18	12	4	0	0
Total current assets	-	182	167	174	249	237	315	336
Total assets	-	1 257	996	1 092	1 332	1 443	1 647	1 798
Shareholder equity	-	798	666	726	793	788	810	854
Minority interest	-	-	-	-	-	-	-	-
Accounts payable	-	108	60	113	128	114	125	136
Short-term debt	-	121	6	3	3	3	3	3
Total current liabilities	-	247	89	128	155	141	152	163
Long-term debt	-	141	184	174	237	369	539	636
Non-current liabilities	-	71	57	65	147	145	146	145
Total liabilities	-	459	330	367	539	655	837	944
SE, minority interest & liabilities	-	1 257	996	1 092	1 332	1 443	1 647	1 798

Cash Flow Statement, \$ Mln

Net cash provided by operating activities	-	162	110	225	126	94	180	229
Net change in working capital	-	(32)	(31)	103	(47)	(54)	(6)	(8)
Cash flows from investing activities	-	-	-	-	-	-	-	-
Capex	-	(254)	(69)	(140)	(257)	(245)	(246)	(276)
Cash flows from financing activities	-	91	(47)	(49)	150	107	130	49
Net increase/(decrease) in cash and cash equivalents	-	(2)	(6)	36	19	(43)	64	3
Cash and cash equivalents /beginning of period	-	21	19	13	49	68	25	89
Cash and cash equivalents /end of period	-	19	13	49	68	25	89	92

Profitability and Growth

Margins, %

EBITDA margin	n/a	18,5	16,5	10,1	11,2	8,9	10,2	12,0
Net margin	n/a	6,6	4,4	1,4	2,3	0,3	1,1	2,6

Growth, %

Revenue growth	n/m	n/m	(24,8)	42,4	23,1	3,0	11,0	11,3
EBITDA growth	n/m	n/m	(33,0)	(13,2)	37,3	(18,1)	27,3	30,8
Net income/(loss) growth	n/m	n/m	(49,8)	(53,8)	98,6	(87,6)	334,4	165,4

Other Ratios

Per share data

EBITDA/share, (\$)	n/a	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Earnings per share, \$	n/a	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Dividends per share, (\$)	-	-	-	-	-	-	-	-

Return on capital, %

ROE	n/a	n/a	5,6	2,7	5,0	0,6	2,5	6,4
ROIC	n/a	n/a	4,6	2,2	3,9	0,4	1,6	3,8
ROA	n/a	n/a	3,6	1,8	3,1	0,3	1,3	3,1

Efficiency & investments, %

Capex/Sales	n/a	20,6	7,4	10,6	15,8	13,1	11,8	11,7
Working capital/Sales	n/a	13,2	16,5	9,4	11,1	13,1	12,8	12,3

Valuations

P/E	n/a	7,9	15,8	34,2	17,2	138,8	31,9	12,0
P/S	n/a	0,5	0,7	0,5	0,4	0,4	0,3	0,3
EV/S	n/a	0,7	0,9	0,6	0,5	0,5	0,4	0,4
EV/EBITDA	n/a	3,6	5,4	6,2	4,5	5,5	4,3	3,3
P/CF	n/a	4,0	5,9	2,9	5,1	6,9	3,6	2,8
P/B	n/a	0,8	1,0	0,9	0,8	0,8	0,8	0,8

Source: Company data, URALSIB estimates

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Exposure to Industrial Growth

At the Heart of Metals and Defense Industries

INVESTMENT RATIONALE

40% upside and Buy recommendation. We reinstate coverage of MRSK Urals with a 12-month target price of \$0.011/share, implying 40% upside to the current market price of \$0.008/share. We have assigned a Buy recommendation for the stock. We view MRSK Urals as a strong disco, ideal for gaining exposure to the ongoing economic recovery, as it operates in the Urals region – the center of the Russian metals industry. Besides this company also has a large electricity retail business in Yekaterinburg, 49% effective stake in Kurganeenergo and 90% in a Yekaterinburg disco operating under the cost-plus system. One of the largest minority shareholders with a 20% stake is an affiliated structure of IES Holding, owner of TGK-5, TGK-6, TGK-7 and TGK-9.

PROS

Center of Russian industry. MRSK Urals operates in three regions in the central part of Russia around the Urals Mountains, supplying electricity to 12.9 mln people – 9.1% of the country's total population. In terms of electricity output, the company controls more than 59% of the distribution market in the Perm region, 84% in the Sverdlovsk region and 78% in the Chelyabinsk region. These regions are home to major Russian industries like metallurgy.

Significant noncore assets. The company owns a large electricity retail company, the local Yekaterinburg grid and a 49% stake in Kurganenergo (50% of common shares), which partly helps to diversify the business.

CONS

Revision of RAB-parameters likely. We expect regulators will revise down initial RAB in order to cope with tariff price growth.

MRSK Urals		Buy	
MRKU RX		52 wk hi, \$	0.009
Price, \$	0.008	52 wk lo, \$	0.006
Target Price, \$	0.011	Common, mln	87,430
Up/Dn, %	40	Free float, %	29.0
1 m, %	(2)	Sh./ADR(GDR) Ratic	-
3 m, %	18	Pref sh, mln	-
6 m, %	37	MC, \$ mln	679
12 m, %	(21)	EV, \$ mln	789
	2010	2011E	2012E
P/E	8.5	5.8	12.6
EV/EBITDA	2.8	2.5	2.9

Source: MICEX, URALSIB estimates

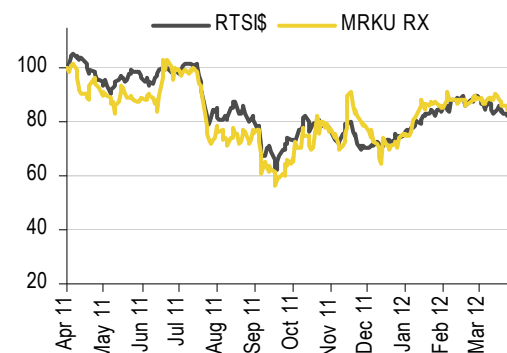
MRSK Urals

Regional Location



Source: Company data

MRSK Urals, RTS, Relative Performance



Source: Bloomberg

Note: Market data as of 16 April 2012

MRSK Ural

Income Statement IFRS, \$ Mln	2007	2008	2009	2010	2011E	2012E	2013E	2014E
Revenue	-	1,674	1,513	1,908	2,141	2,209	2,392	2,624
Cost of sales	-	1,619	1,396	1,772	1,987	2,072	2,261	2,461
D&A	-	118	106	127	140	139	145	154
EBITDA	-	194	280	279	322	275	276	317
EBIT	-	55	118	136	153	137	131	163
Pre tax profit	-	33	87	128	146	67	77	85
Taxes	-	(7)	14	48	29	13	15	17
Minority interest	-	-	-	-	-	-	-	-
Net income/(loss)	-	39	73	80	117	54	61	68

Balance Sheet, \$ Mln

PP&E, net	-	1,668	1,470	1,545	1,643	1,724	1,808	1,912
Other non-current assets	-	71	55	49	59	62	62	62
Non-current assets	-	1,738	1,525	1,594	1,702	1,786	1,870	1,974
Cash & cash equivalents	-	38	27	49	64	62	206	346
Accounts receivable	-	125	142	227	202	170	182	199
Inventories	-	25	20	26	33	45	49	52
Other current assets	-	57	16	7	33	70	37	37
Total current assets	-	244	205	310	331	348	474	633
Total assets	-	1,983	1,731	1,903	2,033	2,134	2,344	2,607
Shareholder equity	-	1,375	1,108	1,241	1,344	1,443	1,504	1,554
Minority interest	-	-	-	-	-	-	-	-
Accounts payable	-	155	167	233	231	198	210	226
Short-term debt	-	195	177	34	24	25	25	25
Total current liabilities	-	364	356	302	281	258	270	286
Long-term debt	-	25	103	215	217	238	374	572
Non-current liabilities	-	218	165	146	192	195	196	194
Total liabilities	-	608	623	662	690	690	840	1,053
SE, minority interest & liabilities	-	1,983	1,731	1,903	2,033	2,134	2,344	2,607

Cash Flow Statement, \$ Mln

Net cash provided by operating activities	-	207	215	231	250	258	257	293
Net change in working capital	-	5	(32)	17	(14)	(3)	(4)	(7)
Cash flows from investing activities	-	-	-	-	-	-	-	-
Capex	-	(305)	(111)	(189)	(242)	(214)	(264)	(267)
Cash flows from financing activities	-	-	-	-	-	-	-	-
Net increase/(decrease) in cash and cash equivalents	-	(3)	(11)	21	15	(2)	144	140
Cash and cash equivalents /beginning of period	-	42	38	27	49	64	62	206
Cash and cash equivalents /end of period	-	38	27	49	64	62	206	346

Profitability and Growth

Margins, %								
EBITDA margin	n/a	11.6	18.5	14.6	15.0	12.5	11.5	12.1
Net margin	n/a	2.4	4.8	4.2	5.5	2.4	2.6	2.6
Growth, %								
Revenue growth	n/m	n/m	(9.6)	26.1	12.2	3.2	8.3	9.7
EBITDA growth	n/m	n/m	44.5	(0.6)	15.5	(14.4)	0.3	14.6
Net income/(loss) growth	n/m	n/m	86.0	8.6	46.6	(53.8)	13.8	10.9

Other Ratios

Per share data								
EBITDA/share, (\$)	n/a	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Earnings per share, \$	n/a	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Dividends per share, (\$)	-	-	-	-	-	-	-	-
Return on capital, %								
ROE	n/a	n/a	5.9	6.8	9.0	3.9	4.2	4.4
ROIC	n/a	n/a	5.6	6.0	7.7	3.3	3.4	3.4
ROA	n/a	n/a	4.0	4.4	5.9	2.6	2.7	2.7
Efficiency & investments, %								
Capex/Sales	n/a	18.2	7.3	9.9	11.3	9.7	11.0	10.2
Working capital/Sales	n/a	12.3	11.8	13.7	12.5	12.9	11.2	11.0

Valuations

P/E	n/a	17.2	9.3	8.5	5.8	12.6	11.1	10.0
P/S	n/a	0.4	0.4	0.4	0.3	0.3	0.3	0.3
EV/S	n/a	0.5	0.5	0.4	0.4	0.4	0.3	0.3
EV/EBITDA	n/a	4.1	2.8	2.8	2.5	2.9	2.9	2.5
P/CF	n/a	3.3	3.2	2.9	2.7	2.6	2.6	2.3
P/B	n/a	0.5	0.6	0.5	0.5	0.5	0.5	0.4

Source: Company data, URALSIB estimates

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Living Under Cross-Subsidy Burden

Large Distributor In Poor Financial Health

INVESTMENT RATIONALE

24% upside with a Buy recommendation. We reinstate coverage of MRSK Siberia with a 12-month target price of \$0.0052/share, implying 24% upside to the current market price of \$0.0042/share. We have assigned a Buy recommendation to the stock. Being one of the largest MRSKs, the company is a loss-making entity on the back of unresolved last-mile collision. Its largest customers, including Rusal and Russian Railways, have left for Federal Grid Company. Despite this, the regulator refused to compensate losses and the company posted a net loss of \$80 mln in 2010.

PROS

One of the largest MRSKs. MRSK Siberia operates in the Altai, Buryatiya, Krasnoyarsk, Chita, Omsk and Kemerovo regions as well as Khakasiya, covering 2.2 mln sq km (one of the largest areas covered by a disco) and supplies electricity to 14.4 mln people. The company also manages distribution grids in the Tomsk and Tiva regions that have not been consolidated into a single company. MRSK Siberia also has one of the longest grids, largest electricity distribution volumes, and the largest transformer capacity of Russian discos.

Minority friendly shareholder structure. With a 52.9% stake, MRSK Holding is the company's controlling shareholder. Affiliated with SUEK structure (29.2%) and Norilsk Nickel (8.2%) are the largest minority shareholders in MRSK Siberia.

M&A target. In terms of potential triggers for the name, we highlight the potential purchase of control in the company by Eurosibenergo.

CONS

Poor financial health on the back of departing customers. The company is heavily dependent on last-mile customers. According to MRSK Holding's estimates, a complete cancellation of last mile will result in 50% tariff growth against industry average of 20%. The decision of Rusal and Russian Railways to pay directly to Federal Grid resulted in huge losses. To cover these losses the company had to increase its debt and issue additional shares. Though the company sued local regulators to compensate the \$187 mln in losses in 2011, the outcome of this dispute will be probably unfavorable.

High dilution risks. The company has issued RUB2.1 bln (\$70 mln) of additional shares in 2011 and may issue additional shares in subsequent years.

MRSK Siberia		Buy	
MRKS RX		52 wk hi, \$	0.0080
Price, \$	0.0042	52 wk lo, \$	0.0036
Target Price, \$	0.0052	Common, mln	94,815
Up/Dn, %	24	Free float, %	11.0
1 m, %	(19)	Sh/ADR(GDR) Ratic	-
3 m, %	12	Pref sh, mln	-
6 m, %	(12)	MC, \$ mln	396
12 m, %	(49)	EV, \$ mln	495
	2010	2011E	2012E
P/E	Neg	6.6	Neg
EV/EBITDA	8.6	2.4	3.5

Source: MICEX, URALSIB estimates

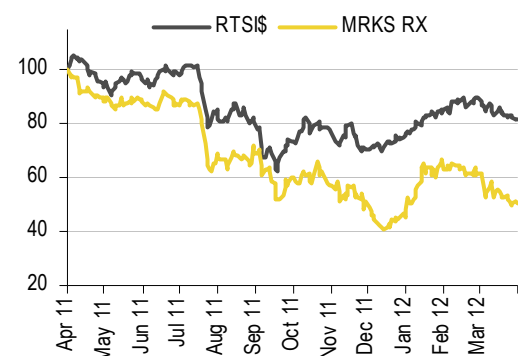
MRSK Siberia

Regional Location



Source: Company data

MRSK Siberia, RTS, Relative Performance



Source: Bloomberg

Note: Market data as of 16 April 2012

MRSK Siberia

Income Statement IFRS, \$ Mln	2007	2008	2009	2010	2011E	2012E	2013E	2014E
Revenue	-	1,518	1,259	1,465	1,800	1,817	2,003	2,206
Cost of sales	-	1,525	1,258	1,528	1,723	1,804	1,968	2,129
D&A	-	131	112	120	129	129	131	132
EBITDA	-	144	100	57	206	143	166	210
EBIT	-	4	1	(63)	77	14	35	77
Pre tax profit	-	(19)	(28)	(88)	73	(28)	(17)	12
Taxes	-	(29)	(4)	(8)	12	(6)	(3)	2
Minority interest	-	-	-	-	-	-	-	-
Net income/(loss)	-	9	(24)	(80)	60	(22)	(13)	10

Balance Sheet, \$ Mln

PP&E, net	-	1,419	1,112	1,192	1,324	1,324	1,355	1,394
Other non-current assets	-	45	37	50	51	50	50	50
Non-current assets	-	1,465	1,150	1,241	1,375	1,374	1,406	1,444
Cash & cash equivalents	-	2	4	15	58	70	129	217
Accounts receivable	-	197	184	193	203	231	252	275
Inventories	-	25	20	26	38	40	43	46
Other current assets	-	33	23	21	25	25	25	25
Total current assets	-	256	231	255	324	366	449	562
Total assets	-	1,720	1,381	1,496	1,699	1,740	1,855	2,006
Shareholder equity	-	1,082	823	796	928	895	886	889
Minority interest	-	-	-	-	-	-	-	-
Accounts payable	-	181	174	225	285	214	233	252
Short-term debt	-	156	81	59	1	1	1	1
Total current liabilities	-	407	311	345	371	298	318	337
Long-term debt	-	67	122	229	267	415	518	648
Non-current liabilities	-	164	125	126	133	132	133	132
Total liabilities	-	638	558	700	771	845	969	1,117
SE, minority interest & liabilities	-	1,720	1,381	1,496	1,699	1,740	1,855	2,006

Cash Flow Statement, \$ Mln

Net cash provided by operating activities	-	121	127	91	231	47	165	200
Net change in working capital	-	(47)	5	25	38	(101)	(4)	(7)
Cash flows from investing activities	-	-	-	-	-	-	-	-
Capex	-	(151)	(112)	(124)	(241)	(145)	(155)	(181)
Cash flows from financing activities	-	16	(11)	44	53	109	50	68
Net increase/(decrease) in cash and cash equivalents	-	(14)	3	11	43	12	59	88
Cash and cash equivalents /beginning of period	-	16	2	4	15	58	70	129
Cash and cash equivalents /end of period	-	2	4	15	58	70	129	217

Profitability and Growth**Margins, %**

EBITDA margin	n/a	9.5	7.9	3.9	11.5	7.9	8.3	9.5
Net margin	n/a	0.6	n/m	n/m	3.3	n/m	n/m	0.4

Growth, %

Revenue growth	n/m	n/m	(17.1)	16.4	22.8	1.0	10.2	10.1
EBITDA growth	n/m	n/m	(30.8)	(42.5)	259.1	(30.8)	16.1	26.5
Net income/(loss) growth	n/m	n/m	n/m	n/m	n/m	n/m	n/m	n/m

Other Ratios**Per share data**

EBITDA/share, (\$)	n/a	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Earnings per share, \$	n/a	0.00	n/m	n/m	0.00	n/m	n/m	0.00
Dividends per share, (\$)	-	-	-	-	-	-	-	-

Return on capital, %

ROE	n/a	n/a	(2.6)	(9.9)	7.0	(2.4)	(1.5)	1.1
ROIC	n/a	n/a	(2.3)	(8.1)	5.4	(1.8)	(1.0)	0.7
ROA	n/a	n/a	(1.6)	(5.6)	3.8	(1.3)	(0.7)	0.5

Efficiency & investments, %

Capex/Sales	n/a	9.9	8.9	8.4	13.4	8.0	7.8	8.2
Working capital/Sales	n/a	16.8	18.0	16.4	14.8	16.3	16.0	15.7

Valuations

P/E	n/a	41.7	n/a	n/a	6.6	n/a	n/a	40.2
P/S	n/a	0.3	0.3	0.3	0.2	0.2	0.2	0.2
EV/S	n/a	0.3	0.4	0.3	0.3	0.3	0.2	0.2
EV/EBITDA	n/a	3.4	5.0	8.6	2.4	3.5	3.0	2.4
P/CF	n/a	3.3	3.1	4.4	1.7	8.3	2.4	2.0
P/B	n/a	0.4	0.5	0.5	0.4	0.4	0.4	0.4

Source: Company data, URALSIB estimates

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