

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

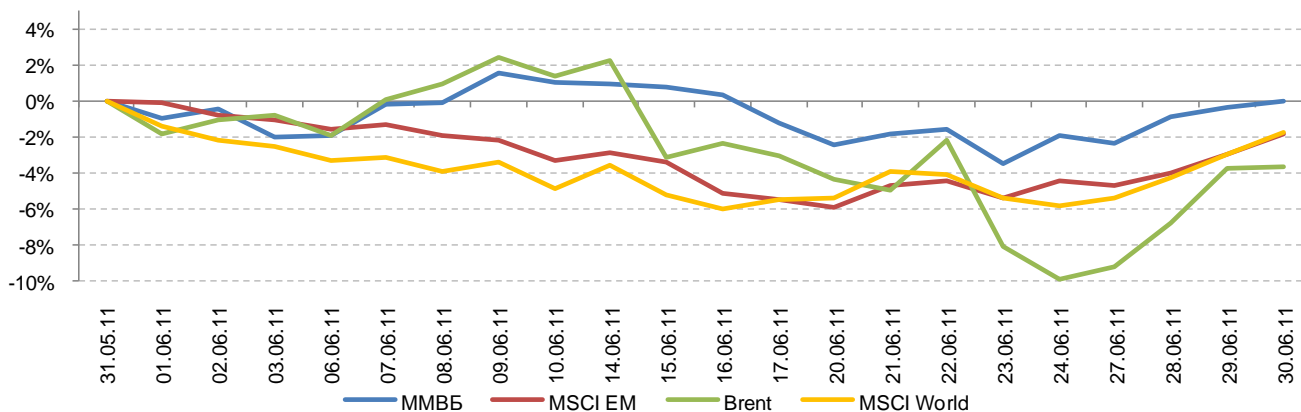


**Securities market of IDGC of Centre
In June 2011**

Moscow, July 2011

International and Russian share markets

The world markets of stocks have finished June with decrease: the index of developed countries MSCI World has lost 1,7%, the index of emerging markets MSCI EM has gone down by 1,9%, thus in the beginning of the third decade the decrease of the indexes reached almost 6%. The negative dynamics of the stock markets in June has been caused by two basic problems: the Greek problem and status of the US economy.



During the entire month pressure upon the stock markets was given by the weak American macroeconomic statistics which strengthened fears of investors concerning stability of rates of restoration of the leading world economy: the data for the labour market in May were essentially worse than the expectations, business activity in industrial sphere was slowed down, housing sales in the secondary market in May fell to their minimum level for six months, the volume of industrial orders in April fell to its maximum almost for the year.

The de-facto recognition of the observed weakness of the American economy was the second decrease of the IMF forecast for the last two months of the rates of increase of gross national product of the USA in 2011 – from 2,8% to 2,5% .

Negative background for the markets last week was caused also by the results of the US Federal Reserve session – the last before end of the second stage of quantitative easing in the end of June. The notice of the US Federal Reserve stated a weaker than it was expected restoration of the US economy as a whole and the labour market in particular. Thus prospects of the American economy still remain uncertain – positive expectations of the head of the FRS concerning the second half of the year were accompanied by forecast downgrade of the rates of increase of gross national product and increase of estimations of inflation and unemployment in 2011-2012.

Besides, the contribution to pessimism increase in the stock markets in the reporting period was brought by debt problems of the USA. By estimations of the Ministry of Finance, America will have to declare a default if by August the decision on increase of the marginal level of the state loans for the current year is not accepted. In this connection in the middle of June Fitch agency informed that could lower the sovereign rating of the USA to the level «the limited default» if the country authorities could not pay off the bonds and make coupon payments for the securities with the payment term on August 15th current year. With the similar statement Moody's agency also came out.

One more serious source of the negative background during the biggest part of June was the Greek debt problems. Practically till the end of the month there was uncertainty of allocation of the next tranche of the financial aid from EU and the IMF to Greece without which the default of Greece would be inevitable in July-August.

On the one hand, creditors could not come to the consent concerning conditions of granting a new package of the financial aid – the position of Germany insisting on obligatory participation of private investors in support of Greece became a stumbling-block. On the other hand, the government of Greece could not get support of the opposition for a long time concerning plans on radical reduction of expenses of the budget.

On this background S&P agency lowered Greece rating to level CCC – the lowest in the world, naming the country «the least deserving granting of credits».

The situation started to change for the better after Germany had agreed on voluntary participation of the private capital in rescue of Greece, and the new government of Greece had received a vote of confidence in the parliament. Definitively the markets were turned back, having won back two thirds of losses of June on expectations and upon approval of the five years' program of new measures of stabilisation of the Greek budget which is the basic condition of receipt of new money from EU and the IMF by the parliament of Greece.

The coordination of French and German financial companies of the participation in financial aid for Greece which assumes reinvesting of receipts from repayable Greek state bonds in new promissory notes of the country became some additional positive background.

Dynamics of the Russian market which finished June with zero change of the Moscow Interbank Stock Exchange index, throughout all month looked better than the dynamics of the developed markets that was affected, first of all, by instability in the USA and eurozone.

Weak enough reaction of indexes to more than 5% collapse of quotations of oil after occurrence of the information on the decision of the International power agency to put to the market 60 million barrels of oil for compensation of deliveries of the Libyan oil and reduction of prices on oil became acknowledgement of the stability of our market.

Own news background had mainly positive character, giving additional support to our market.

The economic forum in St.-Petersburg became the main internal event of the reporting period for the Russian market which main results it is possible to mention the statement of the president for increase in plans of privatisation of large state companies and decrease in the rate of insurance payments starting from 2012.

The data published by Rosstat for May looks as follows:

- industrial production growth has appeared better than expectations of analysts and has made 4,1% in annual expression after growth by 4,5% in April;
- growth of investments into fixed capital has made 7,4% in comparison with May 2010, considerably having exceeded forecasts of experts;
- real monetary incomes of the population have fallen by 7% in comparison with May 2010;
- unemployment has sharply decreased to 6,4% from 7,2% in April;
- the turn of retail trade has grown by 5,5% in comparison with May 2010;
- output of goods and services in base kinds of economic activities has grown by 3,3% in comparison with May 2010 after growth by 3% in April.

In the end of the month Rosstat informed of the growth of gross national product of the Russian Federation in I Q 2011 by 4,1% in comparison with the similar period of last year.

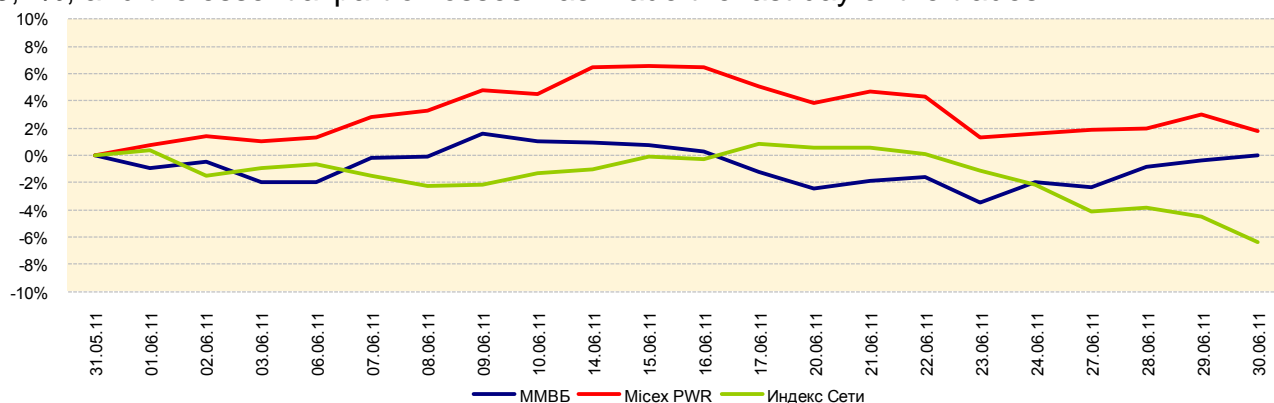
The Central Bank of the Russian Federation made its decision to leave without change the level of the refinancing rate and interest rates for transactions of the Bank of Russia. In the Central Bank statement it is said that the current level of interest rates is considered as comprehensible to maintain the next months balance between risks of preservation of inflationary pressure and slowdown of economic growth.

Negative data for the Russian market was the proceeding outflow of the capital. According to the Central Bank of the Russian Federation, it reached \$5 billion in May, and from the beginning of year, by rough estimations – about \$35 billion

The share market of the companies electric power industry

The companies of electric power industry sector in the reporting period have shown growth: index MicexPWR following the results of the month has grown by 1,7% while the Moscow Interbank Stock Exchange index remained at the same level.

The Network index, reflecting dynamics of stocks of the electric distribution companies, lost 6,4%, and the essential part of losses was made the last day of the trades.



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

Positive dynamics of the industry index MicexPWR during the whole month was caused by expectations that tariffs for natural monopolies in 2012-2014 could be established with some percentage points above inflation. Such possibility for the first time in the beginning of June was declared by A. Klepach, deputy minister of the Ministry of economic development and trade. As he said, the variant of indexation of tariffs and prices for services of natural monopolies taking into account inflation plus some percentage points – depending on consequences for monopolies – is brought for discussion. Such a variant, at least, has the right to existence and was also testified by the statement of the prime minister V. Putin who informed that «the hand does not rise» to limit growth of tariffs of natural monopolies by the rate of inflation. In his opinion, it «will sharply limit their possibilities to development».

Subsequently the opinions concerning indexation of tariffs per «inflation +» were presented by Ministers of Finance and Economic development. So, A. Kudrin assumed that if the rate of inflation is below 7% then tariffs for services of natural monopolies can exceed it by 1-2 percentage points, «to provide an investment component of the tariff». In turn, E. Nabiullina at the forum in St.-Petersburg informed that Ministry of economic development and trade considers as the most preferable variant of increase of tariffs for natural monopolies by the rate of inflation plus of 1-2%. In her opinion, increase of tariffs under such scheme will be made the next three years. In expectation of a concrete definition of the given opinions – in the form of tariff decisions – in the end of June investors have preferred to fix profit.

In the rest the industry background had ambiguous enough character. In the middle of the month the Market Council presented the first offers on reform of the capacity market assuming refusal of separate definition of the prices for the electric power and capacity and transition to free contracts between generators and buyers of energy. Analysts who have noted increasing uncertainty in the power market, as a whole neutrally commented on these offers, having referred to absence of anything concrete.

The statement of president of AFK "System" for possibility of sale of the controlling stake of Bashkirenergo became a certain negative piece of news for the companies of electric power industry. «We do not see high potential in development of power business. We do not consider electric power industry as the fast-growing industry ...», - declared M. Shamolin.

A little after analysts of Deutsche Bank in the last report on the sector nevertheless raised WACC for all generating companies by means of inclusion of 1% premium in cost of the share capital, considering increasing risks of changes of rules of the capacity market.

In late June industry analysts noted the statement of the head of the Ministry of Energy S. Shmatko for inadmissibility of mass shift of oil and gas companies to their own generation. For this purpose, the minister declared, «we will search anyway for decisions connected with updating of programs, we will search for decisions directed at creation of economic stimulus». As it is believe in VTB Capital, the reasons of the expensive electric power are hidden in the sector disbalance (deformed "translation" of the price of the wholesale market

to retail, not always well-founded high tariffs for TGO, payment for the nominal megawatts, the overestimated losses of the electric power, unbalanced programs of capital investments etc.) for which elimination there can be a new wave of the reforms started which results will be end of liberalisation of the market, the next round of privatisation of the power companies and competition strengthening.

In next-to-last day of the reporting period support to the electric power companies was given by the statement of vice-premier I. Sechin counting that privatisation of large Russian power assets will occur "at a high price".

The share market of distribution grid companies

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

In the beginning of the month the approval by the government of the rules of conclusion of contracts «last mile» became the basic news to stocks of the companies of the sector. According to the decision, starting from 2012 if the refusal to enter into the contract of "last mile» leads to increase of tariffs for the electric power for end users in the region less than by 2%, then local authorities can allow a consumer to conclude a direct contract with FGC. Nevertheless, if the regional authorities do not provide sources of financing of shortfall in income of IDGC, contracts of "last mile» will be kept. Industry analysts have neutrally estimated news at the given stage in expectation of possible amendments from regulating bodies to the published rules by July 1st.

The information that the Ministry of Energy considers inexpedient now privatisation of distribution grid companies – for the reason of lack of proper regulation for some problems in this segment of industry could become a deterrent for stocks of the companies of the sector in the beginning of the reporting period. Thus experts' estimations of the given notice varied from negative to positive. So, according to analysts of Troika Dialog, the piece of news is more likely positive, as after definitive completion of regulation and clearness concerning the long-term period of regulation the state can receive higher market estimation of the privatised companies.

In the middle of the month additional support to distribution grid companies was given by contract signing between IDGC Holding and the affiliated company of French EDF – ERDF about transfer of Tomsk DC to the French grid company for trust management with the period of validity of about 8,5 years taking into account the trial period of 1,5 years for acquaintance with activities of Tomsk DC.

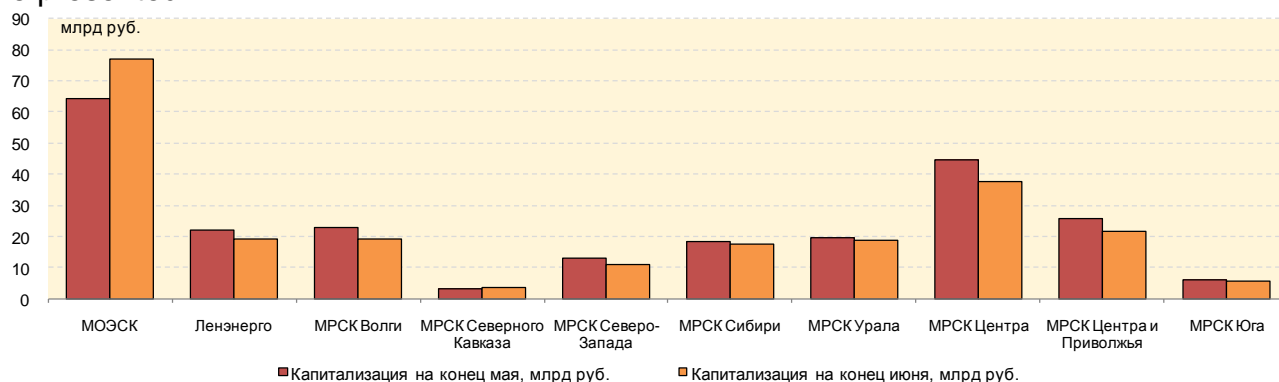
Besides, stocks of MOESK, on the basis of the news about transfer by IDGC Holding of 50,9% of shares of the company for 3,5 years to Gazprombank management raised the speculative demand. According to the notice, the signed agreement imposes the moratorium for sale of the stock of shares transferred in control for a period of 12 months. After the end of the term IDGC Holding will have not less than 25% plus one stock of MOESK. According to analysts, who basically positively commented on this piece of news, the given step is the certificate of acceleration of process of privatisation of IDGC that should become the catalyst of growth of stocks of the companies of the sector.

In the end of June, besides profit taking, the already mentioned notice of the head of the Ministry of Energy that the ministry intends to create economic stimulus for prevention of transition of the oil and gas companies from the unified energy system to their own generation of electric power could become some additional negative background for stocks of IDGC. As analysts of Uralsib believe, in the present state of affairs basically the distribution grid companies can suffer.

Considerable pressure upon quotations the last day of the month was given by the statements of the prime minister V. Putin, who urged to keep control over growth of tariffs for electric power. As he said, the problem with the companies distributing energy "exists". «More active, resolute position of antimonopoly bodies, and on occasion – and law-

enforcement, including Office of Public Prosecutor is necessary here. We will continue this work in the most active way. It is necessary to improve, of course, the regulatory base», – V. Putin said.

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



Source: the Moscow Interbank Stock Exchange, DKT calculations

Following the results of June capitalisation of most IDGC has decreased, IDGC of North Caucasus and MOESK were an exception, they added 2,9% and 20,1% accordingly. The worst dynamics was shown by IDGC of Center, IDGC of Center and Volga and IDGC of Volga which lost more than 15%.

The notice on transfer by IDGC Holding of the stock of shares of the company to Gazprombank management became some positive background for MOESK stocks.

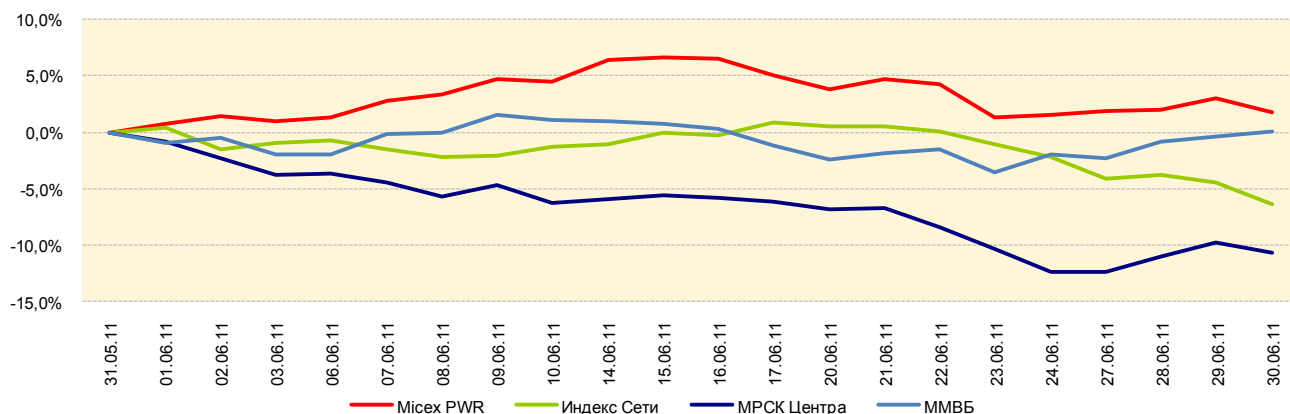
Values of capitalisation of IDGC at the end of May and June 2011 (the average prices for the Moscow Interbank Stock Exchange), and also change for the month is presented in the table:

Company	Capitalisation, billion rbl. (the average prices at the Moscow Interbank Stock Exchange)		Change for the month, %
	As of 31.05.11	As of 30.06.11	
MOESK	64,2	77,1	20,1 %
Lenenergo	21,9	19,1	-12,7 %
IDGC of Volga	22,9	19,4	-15,6 %
IDGC of North Caucasus	3,4	3,5	2,9 %
IDGC of North-West	12,9	11,0	-14,5 %
IDGC of Siberia	18,4	17,4	-5,4 %
IDGC of Urals	19,6	19,0	-3,2 %
IDGC of Center	44,7	37,8	-15,3 %
IDGC of Center and Volga	25,7	21,8	-15,0 %
IDGC of South	6,2	5,9	-4,7 %

The share market of IDGC of Centre

The stocks of IDGC of Center have finished the month with decrease in quotations by 10,6% on the prices of last transactions at the Moscow Interbank Stock Exchange. The Network index, reflecting dynamics of stocks of the companies of the distribution sector, has lost 6,4%.

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



Source: the Moscow Interbank Stock Exchange, DKT calculations

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

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

Stock Exchange	Quantity of transactions	Volume, pieces	Volume, million rbl.
RTS (classical) ¹⁾	3	4 000 000	3,75
RTS (stock exchange)	-	-	-
MOSCOW INTERBANK STOCK EXCHANGE	3 026	129 394 000	123,29

1) - including transactions with specified counterparties

In June only 3 transactions for the sum of 3,75 million rubles were concluded at RTS. The main trades passed at the Moscow Interbank Stock Exchange stock exchange where the turnover of stocks of IDGC of Center was made up to 129,4 million pieces or 0,31% from the total amount of shares of the Company. The turnover of the Company's shares in June in comparison with the last month has grown by 33%. The daily average volume of the trades was made up to about 6,2 million pieces whereas last month the given indicator was at level of 4,8 million pieces.

Considerable pressure upon quotations the last day of the month was given by the statements of the Prime Minister V. Putin, who urged to keep control over growth of tariffs for electric power. For many liquid stocks of the distribution grid companies including stocks of IDGC of Center that day became the most volatile lately. In the beginning of the trading session the shares of the company increased about 2%, in the end of the trading day the decrease in one moment exceeded 12,5%, and last transactions passed at the level close to the previous closing and the decrease following the results of the trades was only 0,9%.

For stocks of IDGC of Center the average bid-ask spread¹ has grown from 0,57% to 0,64%. Among the news for IDGC of Center in the reporting period it is possible to note the following information:

- At the Annual Meeting of Shareholders decisions for all items of the agenda on June 17th were taken, including the payment of dividends following the results of 2010 at the rate of 0,01447 ruble per one share;
- Managers of IDGC of Center held a meeting with representatives of the investment community; in connection with slowdown of rates of increase of tariffs the forecast on EBITDA for 2011 is lowered.

The given news was commented by analysts as follows:

On June 14th – IDGC of Center has lowered the forecast on EBITDA for 2011 from 14 billion rbl. to 11 billion rbl.

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

VTB Capital	-	<p>During the recent conference organised by VTB Capital company, representatives of IDGC of Center warned about possibility of revision of EBITDA forecast for 2011 towards its decrease. We consider the fact of revision of the forecast <u>as negative</u> news for IDGC of Center. In the light of the mentioned by the representatives of the company problems with decrease of rate of increase of revenue which have caused change of estimations, we also notice that the EBITDA forecast for 2011 (now it is 20 billion rbl.) cannot be reached. Bloomberg Agency consensus-forecast for 2011 equals to 17.6 billion rbl. Nevertheless, we confirm a positive estimation of the investment appeal of IDGC of Center in a long-term run (even taking into account the reconsidered EBITDA forecast the value 2011P EV/EBITDA is only 4.5).</p>
Deutsche Bank	=	<p>As a whole, according to the representatives of the company, EBITDA forecast of the company in 2011P will be lowered from its current value that shows <u>risk for our estimation</u>. At the same time IDGC of Center noted that EBITDA expectations can be reconsidered towards increase, without having specified thus concrete values. It is remarkable that in 1 quarter 2011 the company's net profit reached 2,8 billion rbl. that was a rather strong beginning of the year. Nevertheless, we would like to remind that the revision of tariffs took place on May 1st so, results of the second half of the year can be weaker.</p>

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

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

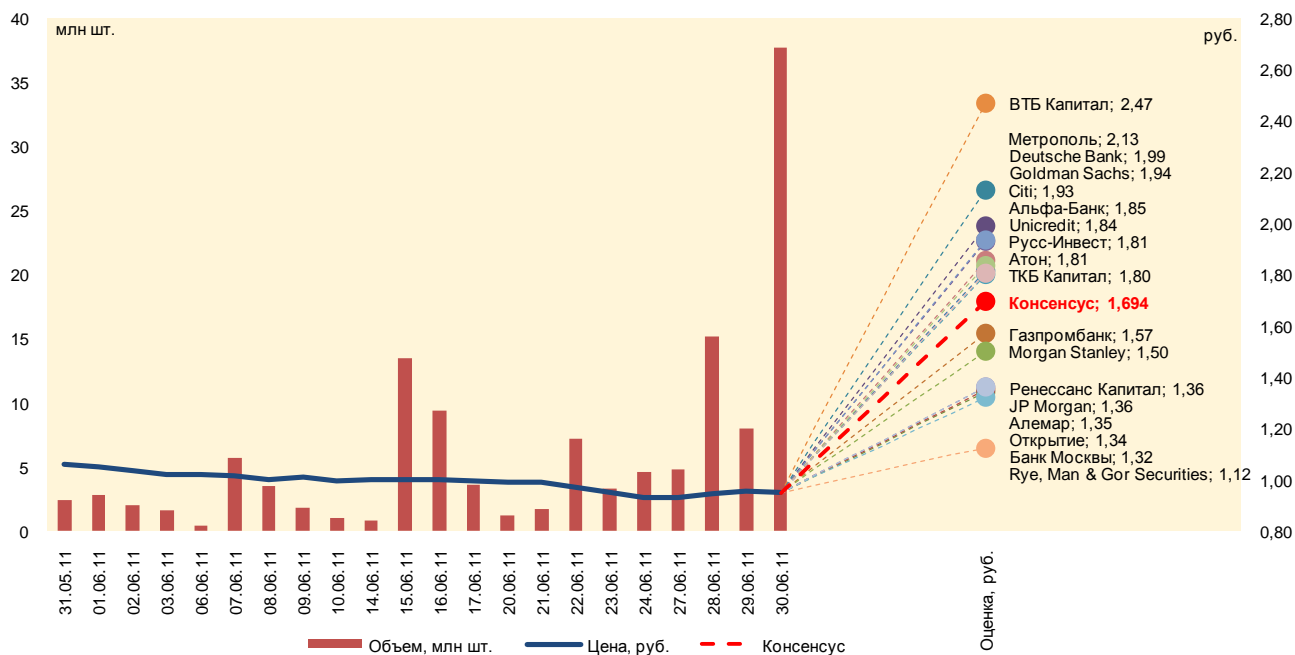
Компания	Оценка (прогноз)		Потенциал роста	Дата обновления	Рекомендация ⁴
	\$	руб. ²			
Оценки в рублях					
1 Открытие	0,048	1,340	42%	23.06.2011	Покупать
2 Deutsche Bank	0,071	1,990	110%	03.05.2011	Покупать
3 Метрополь	0,076	2,130	125%	26.04.2011	Покупать
4 Газпромбанк	0,056	1,570	66%	18.04.2011	Покупать
5 Русс-Инвест	0,065	1,813	91%	29.03.2011	-
6 Алемар	0,048	1,350	43%	28.03.2011	Держать
7 Morgan Stanley	0,053	1,500	58%	31.01.2011	equal-weight
8 Citi	0,069	1,930	104%	08.11.2010	Покупать
Оценки в долларах США					
9 ТKB Капитал	0,0641	1,800	90%	03.03.2011	Покупать
10 ВТБ Капитал	0,088	2,471	161%	17.02.2011	Покупать
11 Goldman Sachs	0,069	1,937	105%	16.02.2011	Покупать
12 Альфа-Банк	0,066	1,853	96%	25.01.2011	Выше рынка
13 Unicredit	0,0654	1,836	94%	22.12.2010	Покупать
14 JP Morgan	0,0484	1,359	44%	03.12.2010	Neutral
15 Банк Москвы	0,047	1,320	39%	02.12.2010	Держать
16 Rye, Man & Gor Securities	0,04	1,123	19%	23.08.2010	Держать
17 Ренессанс Капитал	0,0484	1,359	44%	30.06.2010	Покупать
18 Атон	0,0643	1,805	91%	02.06.2010	Покупать
Оценки на пересмотре и не входящие в консенсус					
19 Тройка Диалог ¹	0,052-0,069			04.03.2011	-
20 Уралсиб			Пересмотр		
Консенсус	0,060	1,694	79%		
Текущая цена ³		0,9469			

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

1. The estimation of Troika Dialog - an indicative price range - is not included in consensus calculation
2. At the rate of RUR/US dollar for 30.06.11
3. The final price of the Moscow Interbank Stock Exchange of 30.06.11
4. neutral - definition of JP Morgan - the expectation that throughout the next 6-12 months the income under this stock will be comparable to an average return under stocks of the companies of the industry "covered" with the given analyst (or a team of analysts); equal-weight - definition of Morgan Stanley – the expectation that throughout the next 12-18 months the income under this stock (a gain cost + dividend yield) will be up to standard of an average return under stocks of the companies of the industry "covered" with the given analyst (or a team of analysts);

The rouble potential of growth of stocks of IDGC of Center as of the end of the reporting period in comparison with the end of last month has grown from 61% to 79% that, first of all, is connected with decrease in quotations.

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



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

In June analysts of the broker house "Opening" have considered the forecasts of the top management on decrease in capital expenses in their model.

As a result of the model updating the target price of the stocks of IDGC of Center was lowered from 1,55 rub. down to 1,34 rub., the recommendation is thus kept at former level to "buy".

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

№	Банк	Дата	Значение оценки			Рекомендация	
			Предыдущее	Обновленное	Изменение	Предыдущая	Обновленная
1	Открытие	23.06.2011	1,55 руб.	1,34 руб.	-14%	Покупать	Покупать

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