

**IDGC of Centre
Joint-Stock Company**



**Stock market of IDGC of Centre, JSC
in IV quarter 2008**

Moscow, January 2009

Share markets in IV quarter 2008

The beginning of the fourth quarter was extremely unsuccessful for the world stock exchanges – in October the leading indices lost 10-15%/ Main concerns of participants were connected with financial system condition, probable bankruptcy of large system forming bank against the background of the recent bankruptcy of Lehman Brothers, forecasted rates of slowing down of the world economy and severity of recession of the leading world economies.

Disappointing forecasts on development of recession processes were confirmed by the worsening macro-economic statistics, and principally in USA: according to preliminary estimates reduction of GDP of the country was 0,3% in the third quarter, it was a step for recession to be officially recognized, and reduction of consumer expenses in USA was 3,1% year-over-year – the first reduction since 1991 and maximum since 1980. Macro-economic statistics of European economics could not satisfy investors as well.

Under those conditions within October the Governments of developed countries took unprecedented efforts – volume of support to financial institutions increased up to \$3trillion, USA FRS reduced the base rate twice having decreased it up to 1%, ECB reduced the rate up to 3,75% per annum, Bank of England – up to 4,5% per annum, Japan – up to 0,3%.

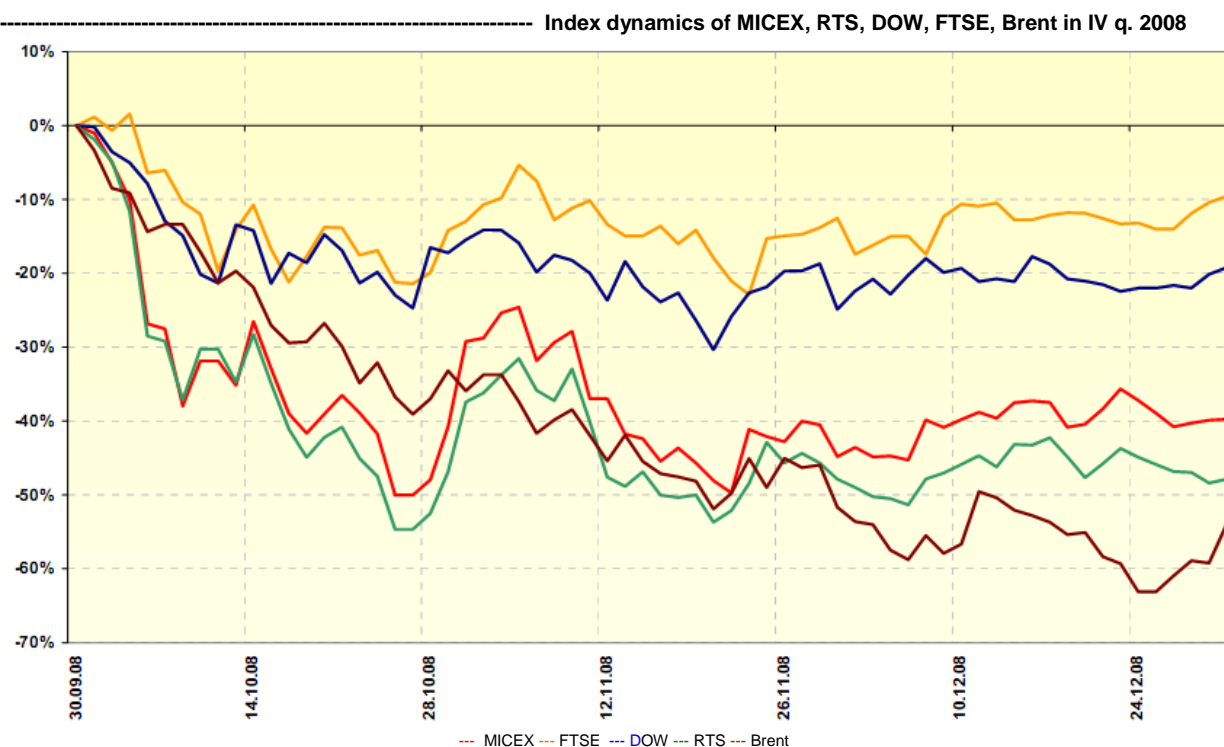
One of the main reasons of disappointment of investors in November was still macro-economic statistics: following the results of the third quarter the second in a row quarterly reduction of GDP was recorded, and therefore technical recession in economics of Eurozone (-0,2%), Germany (-0,5%), Japan (-0,1%). Following the results of the third quarter GDP of Great Britain reduced by 0,5%, reviewed reduction of US GDP amounted to 0,5%. In October US unemployment grew up to 6,5%, it had been the maximum since 1994. In October retail sales reduced by 2,8% compared with the previous month, reduction of total volumes of retail sales has been continuing four months in a row. A number of new constructions dropped up to minimum since 1959, and construction permits – up to minimum since 1960.

Pessimistic picture was supplemented by the news of the corporate sector – profits of the companies of S&P500 index that had published the reporting of the third quarter reduced in average by 17%, profits of the Western Europe companies – by 11%. There was the information on the existing problems of the financial giant Citigroup as well as “Detroit Big Three” – General Motors, Ford and Chrysler.

In November measures on the world economy stimulating were distinct in scale – ECB reduced the base rate by 50 b.p. up to 3,25%, Bank of England reduced the rate by 1,5 p. p. up to 3% of the minimum level since 1955, China Central Bank had reduced interest rates for the fourth time over the last ten weeks. US FRS declared the new program of \$800 bln value intended to recovery of crediting of house owners, consumers and small business. The elected President of USA B.Obama announced the development of two-year plan of over \$500 bln value providing creation of 2,5 mln working places, Euro-commission and China announced the appropriation of 200 bln Euro and \$590 bln respectively for stimulation of economy and over-coming of financial crisis.

Taken efforts had been noted by the market participants, and in November reduction of the leading world stock exchange indices was not so fast – losses amounted to 4-5%. Decision of US Government on appropriation of over \$300 bln for rescue of Citigroup supported markets additionally.

Macro-economic statistics of December went on proving the growing world economic crisis. The US National Bureau of Economic Research which traditionally states shift of economic cycles in USA concluded officially that the American economy had come into recession in December 2007 already. In accordance with the final data GDP reduction rates in Japan and Great Britain turned out to be more significant in the third quarter than it had been announced before. Reduction of industrial production volumes in Eurozone had become the maximum since July 1993, drop of industrial production in Japan had been the maximum since 1953. In November the US unemployment had grown up to the maximum level since 1993 – 6,7%, number of working places in US economy had reduced by 533 thousand, what had become the maximal drop since December 1974.



Source: MICEX, RTS, Bloomberg

The reducing forecasts of proceeds and profit of companies, reduction of working places, problems of survival of the US automobile industry draw investors' attention mainly.

Against the background of the worsening recession Central banks of the leading world economies went on reduction policy of the base rates – FRS took decision to fix the target range of the base rate from 0% up to 0,25%, Bank of Japan reduced rates from 0,3% up to 0,1%, ECB reduced the base rate by 0,75 of percentage point at once – up to 2,5% from 3,25% per annum, what had become the maximum reduction for the decade history of the bank. Bank of England reduced the base interest rate by 1 percentage point up to the minimum level from 1951 – 2% per annum, Central bank of China had reduced interest rates for the fifth time for the last three months.

The team of the new President of USA declared that scales of new plan for economy recovery would be extended up to \$700 bln and the planned number of working places would be increased from 2,5 up to 3 mln. The government of Japan announced measures of the same scale, which promised to appropriate over \$780 bln for economy stimulating.

Being inspired by so powerful support the leading world stock exchange indices could grow up to 5% in average in December. As a whole following the results of the fourth quarter 2008 Dow reduction was nearly 20%, the British FTSE was more optimistic and amounted to 10%.

The Russian share market, which was following to direction of the world stock exchanges within the past quarter, was additionally pressed by reducing oil value – Brent oil barrel lost nearly 55% for the quarter. Reasons for price fall were concerns connected with the world demand for oil under aggravating recession. Negative trends could not be broken by active actions of OPEC that had taken decision on reduction of quotes for oil extraction by the countries included in the organization within the fourth quarter twice.

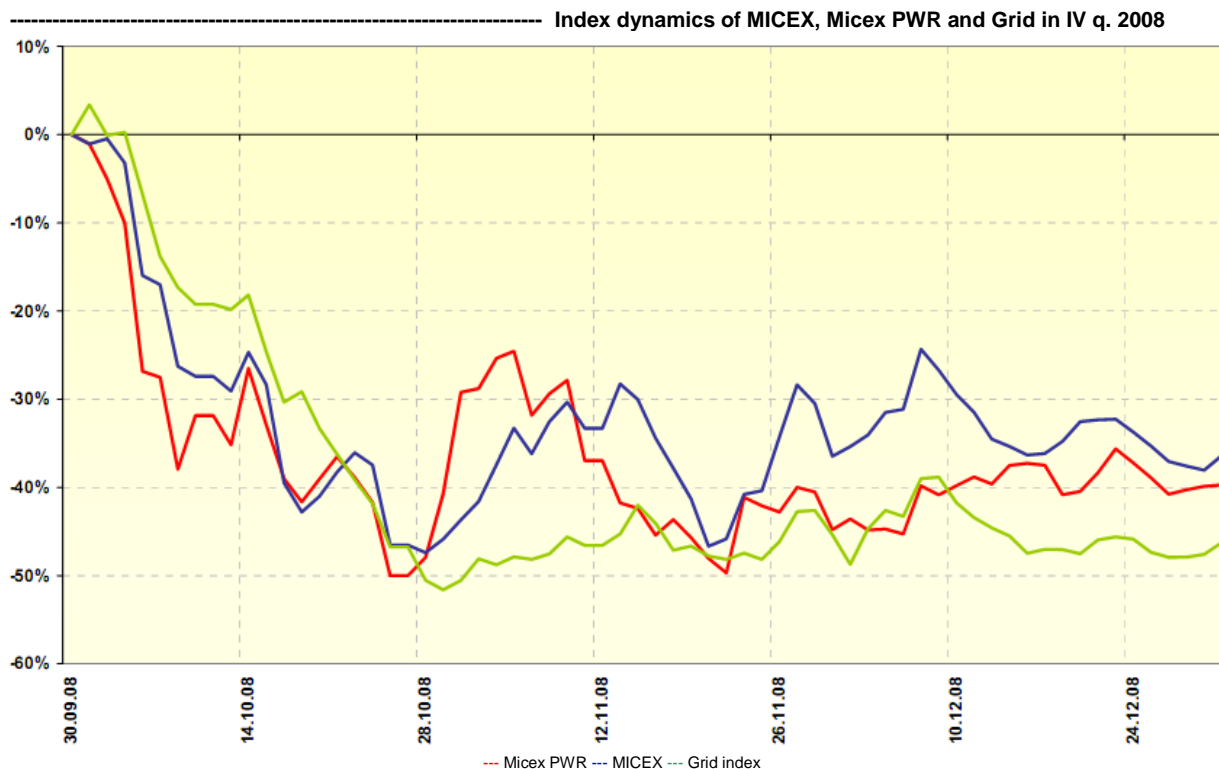
The gradual Ruble devaluation policy that had been holding by the Central bank of the Russian Federation from the beginning of the second decade of November became one more negative circumstance for the native market. Since November 11, when the Central bank of the Russian Federation had begun practicing regulatory Ruble weakening, dual currency basket grew up from 30,4 Rubles to 34,41 Rubles, or by 12,86%. Overflow of funds from the share market to the currency market that was accompanying this process influenced on reducing dynamics of the Russian stock exchange indices.

As a whole, the results of the fourth quarter 2008 were losing for the Russian market: MICEX and RTS indices lost 40% and 48% respectively.

The Russian share market was prevented from more significant drop by the state support, for which the Government of the Russian Federation appropriated 175 bln Rubles from the National Wealth Fund. In the middle of October the President signed the relevant legislative package. The bank for development and foreign economic activity (FEB) dealt with placing of these funds at stock exchange market. In analysts' opinion absence of the state support would reduce stock exchange indices of the native market by 30-50% more.

Share market of power distribution sector companies in IV quarter 2008.

The native power engineering as a whole (represented by Micex PWR and Grid indices at the diagram) showed the dynamics resembling the market one within the fourth quarter 2008. After significant fall in October and subsequent correction the indices moved sideward of high volatility nature. Following the results of the quarter MICEX index lost 39,7%, Micex PWR index reduced by 36,4% and Grid index – by 46,3. At present all traded IDGC are included in the Grid index.



Source: MICEX, RTS, calculations of DCT

Share dynamics of distribution grid companies was defined either by stock exchange market condition as a whole, so news background accompanying power sector companies within the past period that was saturated enough.

The main subjects for speculation of share market participants of power sector companies of the past quarter include:

- attempt of the largest power consumers to suspend liberalization of power market. Representative of the Russian oil companies applied with the relevant letter to the Government of the Russian Federation concerning this. Ministry of Energy was against review of the market liberalization terms having proposed targeted support measures to necessary enterprises as compromise. The subject was withdrawn from the agenda after V. Putin had approved concepts of long-term social and economic development of the country for the period till 2020 in the beginning of November, in which previously approved terms of liberalization of wholesale market for electricity and power were confirmed.
- discussion of tariff growth rates for 2009 that began after decision of Federal Tariff Service had been published in the end of November. But even in the beginning of December in the course of direct air the Prime-Minister declared that the Government of the Russian Federation would demand from natural monopolies to reduce tariff growth rates and then Ministry for economic development and trade of the Russian Federation proposed the Government to reduce power tariff growth in 2009 from 5% to 19%.

A little bit later Finance Minister said to journalists that increase of tariffs for services of natural monopolies in 2009 would be reduced minimum by 10-15% of the planned level. The situation seemed to cleared up after in the middle of December I. Shuvalov had announced of growth rates maintaining, having referred to difficulty of change of the legislative base, however, at the end of December Minister of Energy reported that the Government was developing consolidated position for tariffs for population to be remain unchanged minimum up to April 09, 2009.

- possibility to review power supply contracts that had been concluded by generating companies before, this was announced by I. Sechin, Vice-minister. According to his words all obligations will be fulfilled, but in some cases agreement may demand correction. In October this problem was raised by representatives of generating companies referring to absence of required funds to put new capacities into operation. Failure to fulfill plans of putting of new capacities into operation results in large penalties provided by power supply contracts.
- Problems of real sectors of economy influenced on IDGC activity – in view of falling power consumption forecasts, risk of absence and withdrawal of application of consumers for technological connection as well as problems of financing of investment programs practically all IDGC were to announce probable quotations and review of terms of their investment programs. Under crisis conditions authorities of Saint-Petersburg decided not to hurry with change of tariff formation principles and postponed transfer to RAB in Saint-Petersburg from January 2009 by a year at least.

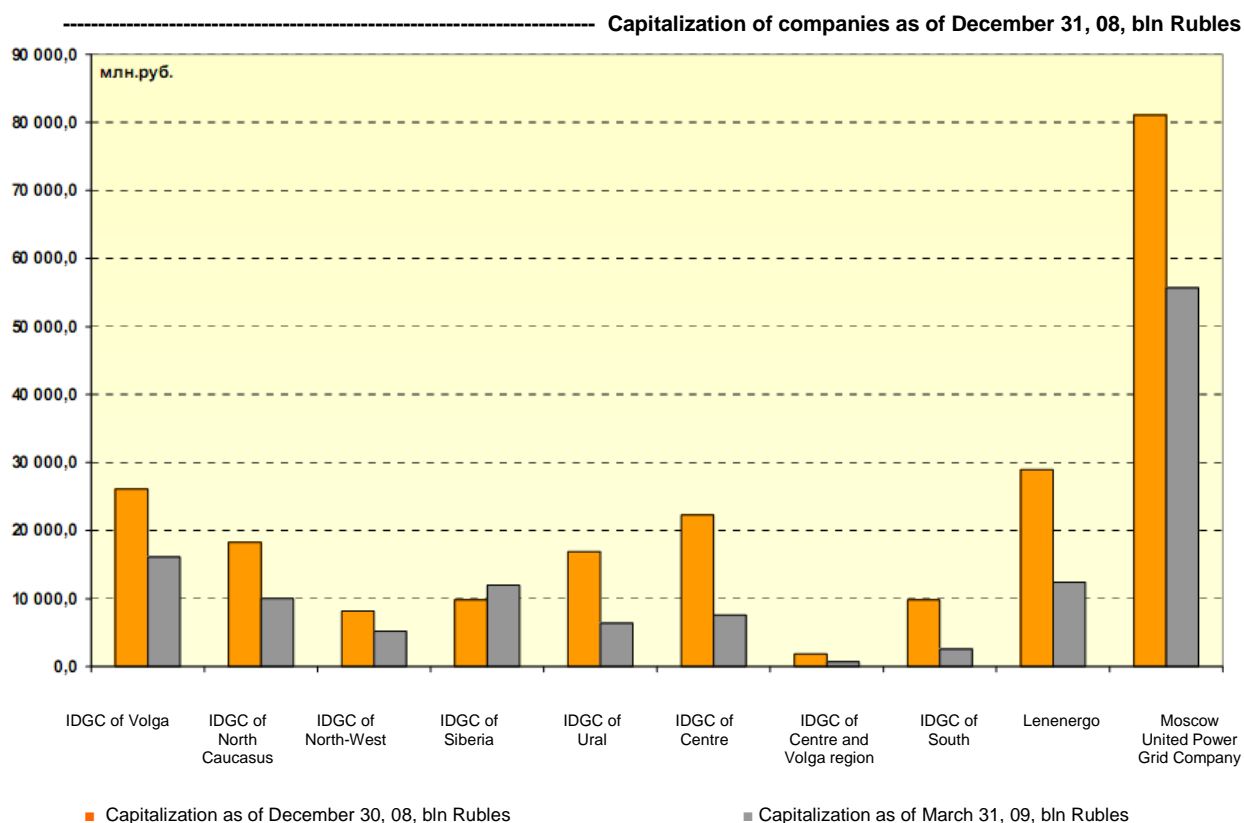
The fact of preparation of amendments in the resolution of the Government N109 (On price formation in relation to electric and thermal power in the Russian Federation) by specialized departments, in accordance to which distribution grid companies would be able to transfer to new tariff regulation system (RAB) within 2009 can considered to be positive for distribution grid sector companies. Currently tariff for distribution grids are fixed once a year and will come into effect since January 1.

Concept of long-term social and economic development of the country for the period till 2020 approved in the beginning of November considers determining of tariffs by return on invested capital method (RAB) as the main mean to increase investment attractiveness of grid companies.

As of the end of the quarter RAB-tariffs were approved for Astrakhanenergo, Tverenergo, Rostovenergo, Kurganenergo, Tulaenergo, Lipetskenegero, Premenergo, Belgorodenergo and Ryazanenergo. As a representative of Federal Tariff Service reported RAB-tariffs for 3-5 constituent entities of the Russian Federation more could be taken till the end of the year.

Further transfer to RAB went on to be one of key drivers of growth of shares of power distribution sector companies and many investment companies apply already the new tariff formation system in their estimate models. As of the end of December consensus-forecasts on shares of all IDGC exceeded market values by tens of percents.

Nevertheless, the current market situation does not allow shares of IDGC to reckon on implementation of this potential even within the middle-term period. The following diagram provides the results of capitalization change of IDGC for the fourth quarter 2008. All companies excluding IDGC of Volga showed capitalization reduction:



Source: MICEX, calculations of DCT

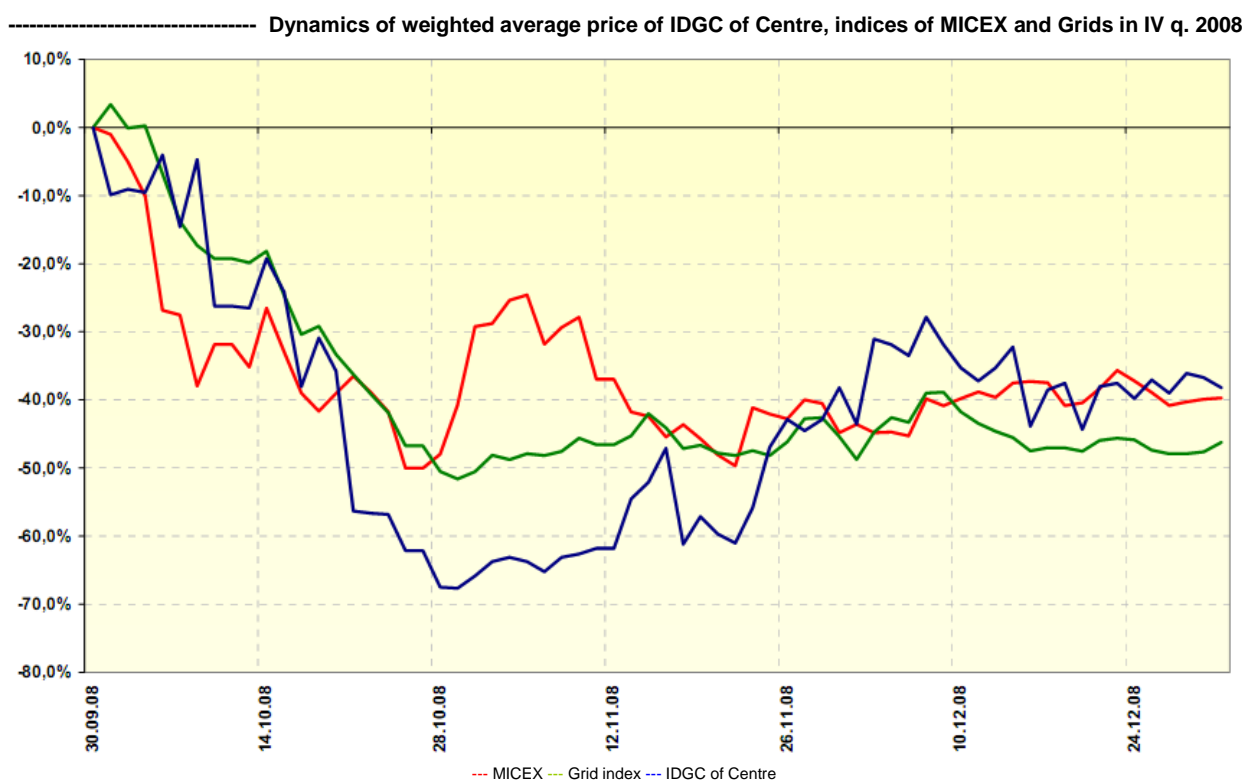
IDGC of South, IDGC of Ural and IDGC of Siberia born the biggest losses: reduction on shares of these companies amounted to over 62%, capitalization of IDGC of Centre reduced by 38% in the fourth quarter. Only shares of IDGC of Volga had correction upward (+22%) after one of the most serious drops among all IDGC in the previous quarter, when losses had exceeded 65%:

Company	Capitalization, bln Rubles		Change for the quarter, %
	as of 30.09.08	as of 31.12.08	
IDGC of Centre	26 090,7	16 127,3	-38,19%
IDGC of Centre and Volga region	18 290,9	10 018,8	-45,22%
IDGC of North-West	8 170,5	5 191,6	-36,46%
IDGC of Volga	9 821,8	11 982,6	22,00%
IDGC of Siberia	16 890,5	6 371,9	-62,28%
IDGC of Ural	22 294,8	7 606,5	-65,88%
IDGC of North Caucasus	1 848,7	723,2	-60,88%
IDGC of South	9 827,7	2 540,4	-74,15%
Lenenergo	28 990,1	12 433,8*	-57,11%
Moscow United Power Grid Company	81 097,3	55 672,2	-31,35%

* -capitalization of Lenenergo taking into account additional issue.

Share market of IDGC of Centre, JSC in IV quarter 2008.

In the fourth quarter 2008 dynamics of MICEX index, grid index and weighted average price of shares of IDGC of Centre is as follows:



Source: MICEX, RTS, calculations of DCT

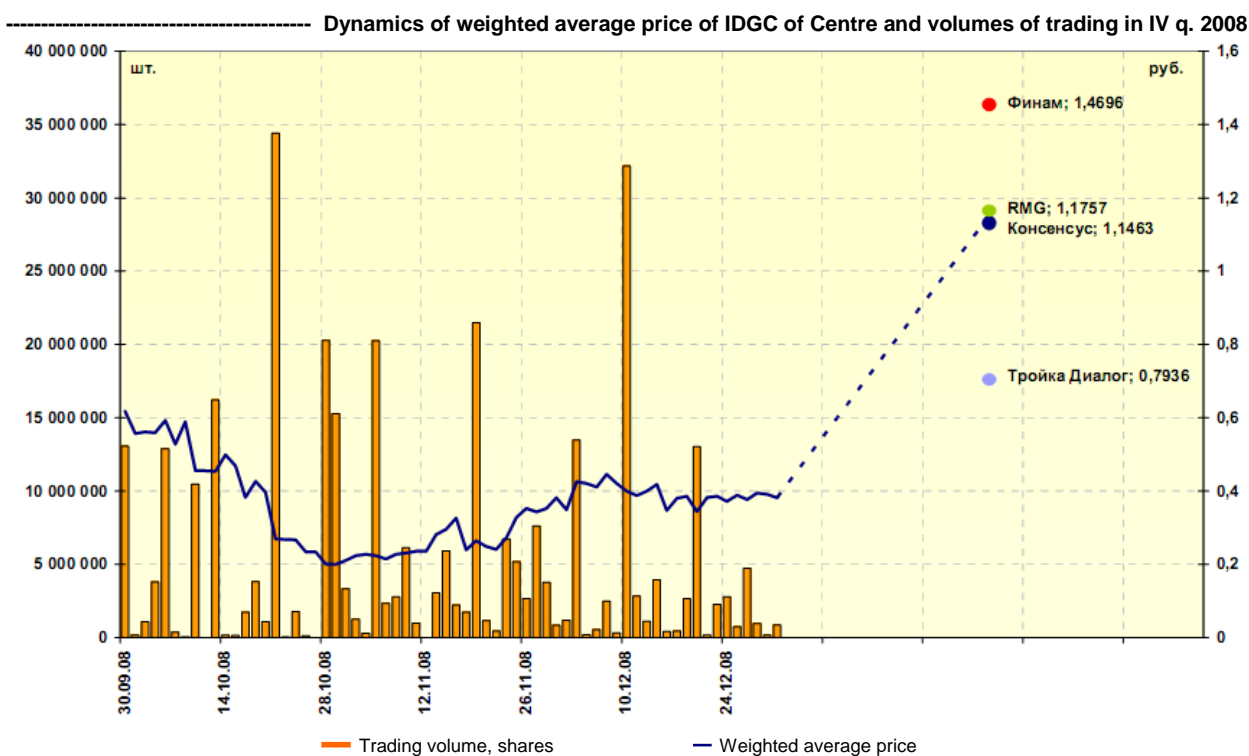
In the fourth quarter 2008 dynamics of shares of IDGC of Centre was following the dynamics of MICEX and Grid indices with high enough degree of volatility, having lost about 38% of their value. The main reason of reduction was the worsening situation in the world markets, differently directed news background caused increased volatility.

Specifications of trading volumes of shares of IDGC of Centre at stock exchange site of MICEX and RTS in IV q. 2008 (market transactions) are given in the table:

Stock exchange	Number of transactions	Volume, number	Volume, mln Rubles
RTS (classic)	-	-	-
RTS (stock exchange)	44	2 437 688	0,79
MICEX	2 003	312 135 800	104,17

Within the fourth quarter the turnover of shares of all issues of IDGC of Centre at MICEX amounted to 312,14 mln shares or 0,74% of the total number of shares of the Company. Within the considered period the average bid-ask spread amounted to about 6%, however, it was varying from 0,2% up to 45% in different days.

The following diagram provides the dynamics of trading weighted average price of shares of different issues and summary trading volume and consensus-forecast of professional participants on shares given at Web-site www.quote.ru



Source: MICEX, quote. ru, calculations of DCT

In spite of reduction of share value of IDGC of Centre, analysts evaluate the company highly. Forecasts of professional participants published by the investment companies for the date of report are given in the table:

----- Forecasts and recommendations of professional participants on shares of IDGC of Centre

	Company	Annual forecast		Data of renewal
		USD	RUR*	
1	Rye, Man & Gor Securities *	0,04	1,1757	October 06, 08
2	Finam	0,05	1,4696	January 11, 09
3	Troika Dialog	0,027	0,7936	December 23, 08
	Consensus	0,039	1,1463	

Source: quote. ru

As a whole, consensus is equal to 1,4626 Rubles, the growth potential of shares of IDGC of Centre is about 283% in relation to the price as of December 31, 2008.

Contact information

IDGC of Centre, JSC
4/2, Glukharev Lane, Moscow, 129090, Russia
Tel.: +7 495 747 9292 Fax: +7 495 747 9292
www.mrsk-1.ru

Director for the corporate relations

Tatiana Anatolyevna Kulbakina
Kulbakina_TA@mrsk-1.ru

Department for interaction with shareholders

Head of the Department

Evgeny Alexandrovich Ochkasov extension phone 3033
Ochkasov_EA@mrsk-1.ru

Principal specialist

A.E. Sidodrov extension phone 3181

Sidorov_AE@mrsk-1.ru