

## Russia: Utilities: Power - Distribution

### Cutting our iRAB expectations, incorporating pressure on tariffs

#### We cut our iRAB estimate to incorporate pressure on tariff growth

We reduced our initial RAB (iRAB) expectations to account for the risk of lower iRAB values given the pressure on regulated tariff growth. The previously planned transition of a group of regions to RAB-based regulation from July 1, 2010 did not happen. We now expect all MRSKs to transit to RAB-based regulation from January 1, 2011, which is the legal deadline for transition to the long-term tariff regulation for the power grids. We individually cross-check iRAB parameters and implied RAB-based regulated tariffs for each MRSK vs. constraints on 2011 tariff growth and capex financing needs. Our bottom-up analysis results in a 16% decrease in iRAB for MRSK-Holding.

#### Updating our earnings forecast for MRSKs

We update our earnings forecasts as we incorporate reported 2009 financials, 1Q10 RAS results, recently released company guidance and our new expectations for 2011 and future tariff growth and iRAB values. Reported 2009 EBITDA results for MRSK-Holding was 12% ahead of our estimate. We decrease 2010E EBITDA 3% on the back of higher cost inflation and also decrease 2011-12 EBITDA 9% and 17%, respectively due to our new lower tariff growth expectations.

#### We retain a Buy rating for MRSK-Holding

We decrease our 12-month price target for MRSK-Holding 16% on the back of reduced iRAB expectations. At the same time we believe that the current valuation levels already fully discount risks over the transition to RAB and we continue to see material upside potential of 137%.

#### Buy MOESK, MRSK Center-Volga and MRSK Urals

We upgrade MRSK Urals to Buy. We favor MOESK, MRSK Urals and MRSK Center-Volga as they show above average returns, have limited risks to the iRAB and trade at attractive valuations on EV/RAB and EV/EBITDA.

#### Sell MRSK North-West, MRSK Siberia and MRSK South

We downgrade MRSK Siberia and MRSK South to Sell. We view these stocks, and MRSK North-West, as overvalued relative to the peer group given below average returns and above average valuation multiples. We expect them to underperform relative to peers and therefore rate them Sell.

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#### RATING UPGRADES

MRSK-Urals up to Buy (from Neutral)

MRSK Volga up to Neutral (from Sell)

#### RATING DOWNGRADES

Lenenergo down to Neutral (from Buy)

MRSK Siberia down to Sell (from Neutral)

MRSK South down to Sell (from Neutral)

Kubanenergo down to Neutral (from Buy)

#### SUMMARY OF OUR PRICE TARGETS AND RATINGS

Company	Rating	12M PT US\$	Current price US\$	Upside/ downside %
MRSK-Holding	Buy	0.2560	0.1080	137%
MOESK	Buy	0.0850	0.0434	96%
Lenenergo	Neutral	0.8410	0.7435	13%
MRSK Center-Volga	Buy	0.0100	0.0064	56%
MRSK Center	Neutral	0.0360	0.0350	3%
MRSK North-West	Sell	0.0050	0.0073	-31%
MRSK Urals	Buy	0.0130	0.0080	63%
MRSK Volga	Neutral	0.0040	0.0038	7%
MRSK Siberia	Sell	0.0060	0.0100	-40%
MRSK South	Sell	0.0050	0.0058	-13%
MRSK North Caucasus	Neutral	5.5930	4.7500	18%
Kubanenergo	Neutral	8.0610	6.7000	20%

*Prices are as of the market close on June 29, 2010. Bid/ask average price is used in case of no deal on the date*

Russia: Utilities: Power-Distribution Coverage view Neutral

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## Table of Contents

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<b>Cutting our iRAB forecasts 16% due to pressure on tariffs</b>	<b>3</b>
<b>Updating our estimates</b>	<b>8</b>
<b>Updating ratings and valuations on the back of new estimates</b>	<b>9</b>
<b>MRSK Urals (MRKU.RTS): Upgrading to Buy from Neutral</b>	<b>11</b>
<b>MRSK Siberia (MRKS.RTS): Downgrade to Sell from Neutral</b>	<b>13</b>
<b>MRSK South (MRKY.RTS): Downgrade to Sell from Neutral</b>	<b>15</b>
<b>MRSK Volga (MRKV.RTS): Upgrading to Neutral from Sell</b>	<b>17</b>
<b>Lenenergo (LSNG.RTS): Downgrade to Neutral from Buy</b>	<b>20</b>
<b>Kubanenergo (KUBE.RTS): Downgrade to Neutral from Buy</b>	<b>23</b>

*The prices in the body of this report are based on the market close of June 29, 2010, unless otherwise noted. Bid/ask average price is used in case of no deal on the date.*

## Cutting our iRAB forecasts 16% due to pressure on tariffs

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We had based our forecasted MRSK's asset values for the purpose of RAB regulation (iRAB values) on company guidance (MRSK-Holding and individual MRSKs) that we crossed checked with each company's comparative book value of assets and implied tariff growth from transition to RAB. (For more details see our research *Relative valuations will be the key to sector performance; initiating on 10 MRSKs*, published March 1, 2010). However, we now reduce our iRAB forecasts as we expect more pressure on regulated tariff growth post recent announcements from the economy ministry (Interfax, June 3, 2010).

### We revise our iRAB forecasts to reflect pressure on regulated tariffs

We have reduced our iRAB expectations to account for the risks of lower iRAB values given pressure on regulated tariff growth. We derive our new iRAB forecasts based on the following:

1. We use guidance for iRAB for MRSKs (on a per region basis) that was provided by MRSK-Holding in 2009. The company did not announce any updated expectations and we believe that most investors consider this guidance as a base to derive their expectations of iRAB. We include actual values of iRABs for the regions that already transitioned to RAB regulation in 2009-10 (17 regions out of 69 total). We believe that the approved iRAB values will not be changed by the regulator and therefore think that MRSKs with a higher share of regions already transitioned to RAB have lower risks to expected RAB values.
2. We examine the iRAB values relative to the book value of assets to calculate the implied revaluation ratios. According to MRSK-Holding management, the average revaluation ratio for the 17 regions that transitioned in 2009-10 was 2.3x. We see the risk of a decrease in iRAB values relative to guidance for the regions with higher implied revaluation ratios, as we believe it might be more difficult to justify higher ratios to the regulator.
3. We calculate the implied 2011 tariff growth for each MRSK from the transition to RAB, assuming 6% base return on iRAB and tariff growth smoothing of 12% of total revenues according to the tariff calculation methodology approved by the government. We see a risk of lower iRAB values relative to guidance for the regions with higher implied tariff growth (above 15%-20%).
4. We revise our expectations for the initial RAB due to expected pressure on tariff growth and asset revaluation ratios. We allow a few exceptions for regions with large investment programs, where we believe tariff growth can be above average levels.
5. Finally we cross-check our new expectations for RAB values and implied regulated tariffs with company investment programs. We reduce capex for companies where our analysis suggests that the announced investment programs cannot be financed assuming reasonable tariff growth and increases in leverage.

### We take MRSK-Holding guidance and approved iRAB values as a base for our forecast

For the purposes of the RAB-based tariff regulation, the local regulators approve full and residual regulated asset values for each region. The headline number is usually the residual RAB value to which return is calculated. Full value of RAB is used to calculate depreciation of assets included in the RAB-based tariffs assuming a 35 year useful life.

### Exhibit 1: MRSK-Holding has rubl165 bn total iRABs approved in 2009-10 in 17 regions, 18% of the company's total guidance for initial RAB

MRSK-Holding guidance for the initial RAB values for MRSKs

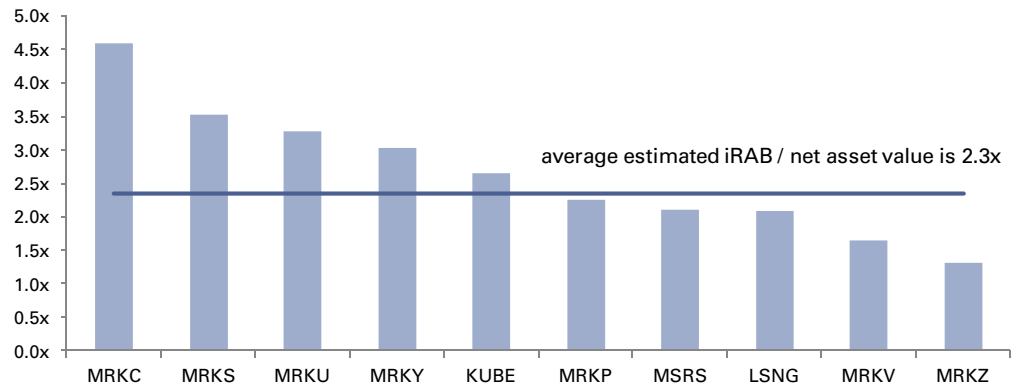
Rubl mn Company	MRSK-Holding guidance as of 01.01.2009		Total RAB approved 2009-2010		% approved (of residual)
	full value	residual value	full value	residual value	
MOESK	603,987	207,079	-	-	0%
Lenenergo	180,000	90,000	-	-	0%
MRKP	217,940	73,411	103,230	37,193	51%
MRKC	414,395	134,773	188,672	64,096	48%
MRKZ	80,607	27,731	11,598	5,462	20%
MRKU	139,276	69,777	41,024	21,012	30%
MRKV	158,608	53,981	-	-	0%
MRKS	253,452	88,038	37,936	10,500	12%
MRKY	112,473	37,297	57,627	20,794	56%
KUBE	96,805	24,622	-	-	0%
TORS	17,080	6,832	17,043	5,421	100%
Tyumenenergo	230,918	119,191	-	-	0%
<b>Total MRSK-Holding</b>	<b>2,505,540</b>	<b>932,733</b>	<b>457,131</b>	<b>164,478</b>	<b>18%</b>

Source: Company data, Goldman Sachs Research estimates.

### We compare the iRAB guidance to the book value of assets

We then match the iRAB guidance to the book value of the core assets, as the regulator only considers the company's assets that are directly used for power distribution. For the MRSKs that have RAB approved in some regions, we only consider the remaining regions as we believe that the approved values will not be revised. We see a higher risk to the iRAB expectations for MRKC, MRKS and MRKU, which are the companies with the higher implied revaluation ratios.

**Exhibit 2: Average iRAB/net asset value (based on MRSK-Holding guidance) is 2.3x for the regions to be transitioned to RAB, which is in line with previously approved values**  
iRAB guidance to net asset value ratios for the regions to be transitioned to RAB



Source: Company data, Goldman Sachs Research estimates.

### We calculate the implied tariff growth based on transition to RAB

We calculate the tariff growth that would be implied by transition to RAB regulation if the iRAB value is taken in line with guidance. Our analysis suggests higher implied tariff growth from a transition to RAB for LSNG, MRKC, MRKS and KUBE. We therefore believe that these regions have higher risk relative to iRAB guidance.

### Exhibit 3: Lenenergo, MRKS, KUBE and MRKC might have tariff bottlenecks for transition to RAB regulation given MRSK-Holding expectations for iRAB

Calculation of implied tariff growth in 2011 from transition to RAB using MRSK-Holding iRAB expectations

Rubl bn Company	2010 regulated revenues (ex transmission)	2011 RAB-based revenues				2011 RAB- based Revenues smoothing	2011 RAB- based revenues after smoothing	Implied 2011 tariff growth
		Allowed expenses	Depreciation of assets	Return on RAB	Total			
MOESK	64,505	46,240	17,257	12,425	75,921	-9,111	66,811	4%
Lenenergo	13,616	13,253	5,143	5,400	23,796	-2,856	20,941	54%
MRKP	34,443	30,663	6,227	4,405	41,294	-4,955	36,339	6%
MRKC	37,864	33,297	11,840	8,086	53,223	-6,387	46,837	24%
MRKZ	19,996	19,244	2,303	1,664	23,210	-2,785	20,425	2%
MRKU	26,204	20,740	3,979	4,187	28,906	-3,469	25,437	-3%
MRKV	22,852	19,985	4,532	3,239	27,756	-3,331	24,425	7%
MRKS	24,003	24,464	7,241	5,282	36,988	-4,439	32,549	36%
MRKY	13,492	12,328	3,214	2,238	17,779	-2,133	15,646	16%
KUBE	11,242	11,716	2,766	1,477	15,960	-1,915	14,044	25%

Source: Goldman Sachs Research estimates.

### We update our expectations for initial RAB

We update our iRAB forecasts for all MRSKs due to expected pressure on tariff growth and at the same time ensure sufficient funding for investment programs.

We maintain our iRAB expectations for MSRS and MRKV as we believe the implied tariff growth fits within allowable ranges and at the same time allows sufficient funding to finance investment programs. We also maintain our iRAB estimate for KUBE, which is above the initial guidance of MRSK-Holding, despite the high implied tariff growth. We believe that the company's investment program, which is mainly focused on the development of Sochi region ahead of the 2014 Olympics, is likely to be considered a priority and justify a higher tariff increase. We make very minor changes to MRKY.

We reduce our iRAB expectations for MRKP, MRKC, MRKZ and MRKU due to expected pressure on regulated tariff growth. However, we believe the lower iRAB will still drive sufficient regulated revenue growth to finance the investment programs for these companies.

For LSNG and MRKS we reduce both our iRAB expectations and capex plans. We believe that the guidance for iRAB and tariff growth for these companies, driven by high capex needs, is not achievable due to the tariff constraints. On the other hand given high leverage, we believe the companies have limited ability to raise debt and need to increase operating cash flows to finance capex. We believe that a balanced decision with a decrease of the investment programs and lower tariff growth is the most likely outcome for these companies.

We believe there is a high risk that MRSK North Caucuses will not transition to RAB regulation as the difficult economic situation in the region will likely prevent accelerated tariff increases. We now assume 10% annual tariff increase for the company for 2011-15 (from 16% tariff CAGR).

**Exhibit 4: We cut our iRAB estimates 16% for MRSK-Holding total, in order to meet tariff growth constraints. We are now 6% below initial guidance**

Summary of our iRAB expectations changes for MRSKs

Rubl mn	MRKH guidance	GS estimates			GS vs. guidance	Implied average revaluation	Implied 2011 tariff growth
		old	new	revision,			
MSRS	207,079	207,079	<b>207,079</b>	0%	0%	2.1x	15%
LSNG	90,000	89,619	<b>64,723</b>	-28%	-28%	1.5x	33%
MRKP	73,411	96,000	<b>81,245</b>	-15%	11%	2.3x	15%
MRKC	134,773	121,283	<b>106,111</b>	-13%	-21%	2.5x	17%
MRKZ	27,731	53,913	<b>33,153</b>	-39%	20%	1.4x	15%
MRKU	69,777	69,778	<b>57,153</b>	-18%	-18%	2.1x	15%
MRKV	53,981	53,981	<b>53,981</b>	0%	0%	1.6x	15%
MRKS	88,038	87,549	<b>63,370</b>	-28%	-28%	2.2x	26%
MRKY	37,297	40,577	<b>39,341</b>	-3%	5%	1.9x	17%
KUBE	24,622	47,442	<b>47,442</b>	0%	93%	4.2x	30%
<b>MRSK-Holding</b>	<b>932,733</b>	<b>1,039,626</b>	<b>878,210</b>	<b>-16%</b>	<b>-6%</b>	<b>2.2x</b>	<b>17%</b>

Source: Company data, Goldman Sachs Research estimates.

**We finally cross-check our RAB expectations vs. capex plans**

We cross-check our RAB expectations and derived regulated revenues and operating cash flows with the companies capex needs. We adjust our expectations for 2011-15 capex and the required operating cash flow from regulated activities so that the companies are able to finance the investment programs with reasonable leverage. We limit our forecasted net debt/EBITDA ratio for the period at 2.5x-3.0x.

**Exhibit 5: We cross-check our RAB-based expected revenues against capex plans**

MRSKs total capex needs, operating cash flows in 2011-15E and the resulting debt/cash position in 2015E

Rubl bn	Net (debt)/cash	Total capex needs	Total OCF	Net (debt)/cash	Average Net
	2010E	2011-2015	2011-2015	2015E	debt / EBITDA 2011-2015
MSRS	-38.8	-162.3	213.3	12.2	0.3x
LSNG	-21.5	-90.9	59.6	-52.8	2.5x
MRKP	-11.8	-56.8	61.9	-6.7	1.1x
MRKC	-15.0	-158.4	89.6	-83.8	2.4x
MRKZ	-2.4	-49.5	38.9	-13.0	1.1x
MRKU	-2.7	-50.6	56.6	3.3	-0.2x
MRKV	-6.2	-46.8	47.5	-5.6	0.8x
MRKS	-8.5	-70.2	51.5	-27.2	1.3x
MRKY	-15.9	-21.2	28.3	-8.8	2.2x
MRKK	0.2	-17.4	10.7	-6.6	2.1x
KUBE	-8.1	-29.3	28.2	-9.2	2.4x
<b>MRSK-Holding total</b>	<b>-127.3</b>	<b>-844.9</b>	<b>662.2</b>	<b>-310.0</b>	<b>1.8x</b>

Source: Goldman Sachs Research estimates.

## Updating our estimates

We update our earnings forecasts as we incorporate reported FY09 results and our new expectations for the RAB regulation, regulated tariffs and capex.

### Exhibit 6: Summary of our estimates changes for 2009-12E

Rubi mn		MRKH	MSRS	LSNG	MRKP	MRKC	MRKZ	MRKU	MRKV	MRKS	MRKY	MRKK	KUBE
<b>Sales</b>													
new	2009	461,660	85,831	26,720	47,353	49,314	26,749	48,026	29,484	39,949	19,027	9,980	19,948
	2010E	544,683	99,343	30,081	55,796	58,884	31,993	61,358	35,164	47,464	20,928	10,474	24,095
	2011E	639,126	113,522	34,937	65,718	70,663	38,235	76,155	42,434	60,837	25,204	11,657	29,091
	2012E	735,000	130,018	39,999	76,852	82,589	45,204	91,604	50,369	71,726	29,656	12,969	34,890
old	2009	463,873	85,264	27,607	47,353	49,314	26,749	46,175	30,238	42,624	18,999	9,791	20,214
	2010E	563,042	95,490	32,846	55,938	58,367	32,349	55,188	36,575	51,527	21,831	10,645	24,468
	2011E	674,799	112,373	41,213	67,104	71,078	39,882	65,504	45,000	63,834	26,641	12,629	29,153
	2012E	792,328	125,378	39,057	79,086	83,609	47,717	74,908	52,199	76,705	31,023	14,681	34,349
revision, %	2009	0%	1%	-3%	0%	0%	0%	4%	-2%	-6%	0%	2%	-1%
	2010E	-3%	4%	-8%	0%	1%	-1%	-4%	-8%	-4%	-2%	-2%	-2%
	2011E	-5%	1%	-15%	-2%	-1%	-4%	16%	-6%	-5%	-5%	-8%	0%
	2012E	-7%	4%	2%	-3%	-1%	-5%	22%	-4%	-6%	-4%	-12%	2%
<b>EBITDA</b>													
new	2009	92,066	30,903	8,587	5,946	10,300	3,188	7,958	4,861	3,913	3,156	1,381	2,140
	2010E	100,863	35,035	8,499	7,056	10,856	3,246	7,911	4,882	3,011	2,964	1,112	3,195
	2011E	120,760	40,819	10,238	9,599	13,969	4,573	10,217	6,711	7,469	4,294	1,417	3,767
	2012E	139,015	48,301	12,183	12,780	16,804	6,405	12,633	8,947	10,012	5,673	1,789	4,909
old	2009	82,348	27,670	10,059	5,946	10,300	3,188	6,283	3,378	5,014	4,448	814	3,723
	2010E	104,366	29,621	11,521	8,259	12,463	4,026	7,610	4,902	6,337	4,550	1,040	3,983
	2011E	133,199	36,373	15,513	10,771	16,702	6,236	10,080	7,423	9,824	6,166	1,860	4,073
	2012E	167,946	39,064	8,750	13,411	20,297	8,557	12,137	8,458	13,277	7,203	2,708	4,449
revision, %	2009	12%	12%	-15%	0%	0%	0%	27%	44%	-22%	-29%	70%	-43%
	2010E	-3%	18%	-26%	-15%	-13%	-19%	4%	0%	-52%	-35%	7%	-20%
	2011E	-9%	12%	-34%	-11%	-16%	-27%	1%	-10%	-24%	-30%	-24%	-8%
	2012E	-17%	24%	39%	-5%	-17%	-25%	4%	6%	-25%	-21%	-34%	10%
<b>Net income</b>													
new	2009	13,821	10,756	2,425	764	2,105	48	1,918	1,305	-633	-1,774	-567	-2,183
	2010E	19,267	16,563	2,041	1,732	3,838	239	3,011	1,094	-1,255	-328	-457	1,059
	2011E	26,294	21,107	2,670	3,365	5,586	1,315	5,036	2,515	2,319	479	-103	1,207
	2012E	31,369	26,859	3,681	5,295	6,643	2,478	6,932	4,035	4,276	1,555	-24	1,582
old	2009	10,418	11,351	5,274	764	2,105	48	2,036	306	980	1,327	-713	1,730
	2010E	19,051	13,205	6,214	2,726	5,146	816	3,288	1,395	1,982	838	-582	2,052
	2011E	30,988	18,934	8,530	4,504	8,331	2,511	5,318	3,294	4,695	1,971	-105	1,871
	2012E	42,623	21,376	2,019	6,038	11,562	4,286	7,014	4,100	6,835	2,827	286	1,887
revision, %	2009	33%	-5%	-54%	0%	0%	0%	-6%	327%	NA	NA	-20%	NA
	2010E	1%	25%	-67%	-36%	-25%	-71%	-8%	-22%	NA	NA	-22%	-48%
	2011E	-15%	11%	-69%	-25%	-33%	-48%	-5%	-24%	-51%	-76%	-2%	-35%
	2012E	-26%	26%	82%	-12%	-43%	-42%	-1%	-2%	-37%	-45%	NA	-16%
<b>EPS, Rubl</b>													
new	2009	0.337	0.221	2.618	0.007	0.050	0.001	0.022	0.007	-0.009	-0.036	-19.22	-122.14
	2010E	0.459	0.340	2.204	0.015	0.091	0.002	0.034	0.006	-0.014	-0.007	-15.47	26.69
	2011E	0.612	0.433	2.883	0.030	0.132	0.014	0.058	0.014	0.026	0.010	-3.50	19.64
	2012E	0.730	0.551	3.975	0.047	0.157	0.026	0.079	0.023	0.048	0.031	-0.82	25.73
old	2009	0.254	0.233	5.695	0.007	0.050	0.001	0.023	0.002	0.011	0.027	-24.14	59.13
	2010E	0.454	0.271	6.710	0.024	0.122	0.009	0.038	0.008	0.022	0.017	-19.72	50.48
	2011E	0.722	0.389	9.212	0.040	0.197	0.026	0.061	0.018	0.053	0.040	-3.56	46.02
	2012E	0.993	0.439	2.180	0.054	0.274	0.045	0.080	0.023	0.076	0.057	9.68	46.43
revision, %	2009	33%	-5%	-54%	0%	0%	0%	-6%	327%	NA	NA	-20%	NA
	2010E	1%	25%	-67%	-36%	-25%	-71%	-8%	-22%	NA	NA	-22%	-47%
	2011E	-15%	11%	-69%	-25%	-33%	-48%	-5%	-24%	-51%	-76%	-2%	-57%
	2012E	-26%	26%	82%	-12%	-43%	-42%	-1%	-2%	-37%	-45%	NA	-45%
<b>CAPEX</b>													
new	2009	-65,118	-17,451	-6,335	-4,249	-6,594	-2,498	-3,513	-2,191	-3,537	-41	-167	-4,800
	2010E	-99,115	-26,366	-14,617	-8,365	-12,182	-2,738	-5,703	-4,763	-4,968	-3,978	-1,944	-5,848
	2011E	-141,140	-30,758	-12,599	-13,592	-23,165	-6,397	-6,457	-7,400	-6,138	-5,631	-3,643	-8,449
	2012E	-151,125	-32,512	-12,560	-12,494	-24,817	-9,758	-8,039	-8,810	-11,232	-3,596	-3,668	-8,932
old	2009	-76,800	-16,000	-10,590	-4,249	-6,594	-2,498	-2,648	-2,020	-3,230	-5,531	-1,400	-3,412
	2010E	-90,000	-18,000	-12,400	-6,970	-11,200	-4,800	-5,150	-4,600	-4,496	-6,405	-3,000	-5,700
	2011E	-161,400	-20,000	-25,198	-13,700	-7,000	-5,880	-6,000	-6,500	-12,000	-3,038	-4,100	-4,900
	2012E	-169,470	-30,000	-25,100	-12,560	-7,000	-5,500	-5,000	-5,900	-17,000	-3,334	-4,600	-9,800
revision, %	2009	-15%	9%	-40%	0%	0%	0%	33%	8%	9%	-99%	-88%	41%
	2010E	10%	46%	18%	20%	9%	-43%	11%	4%	11%	-38%	-35%	3%
	2011E	-13%	54%	-50%	-1%	231%	9%	8%	14%	-49%	85%	-11%	72%
	2012E	-11%	8%	-50%	-1%	255%	77%	61%	49%	-34%	8%	-20%	-9%

Source: Company data, Goldman Sachs Research estimates.

## Updating ratings and valuations on the back of new estimates

We maintain our 50/50 blended 8.6x EV/EBITDA 2010E and 0.7x EV/RAB valuation methodology. We continue to apply a 30% discount for the low trading liquidity for individual MRSKs.

As we now assume in our base case that MRSK North-Caucases (MRKK) will be not transitioning to RAB regulation, we replace the EV/RAB component with a DCF valuation.

### Exhibit 7: Summary of our blended valuation

US\$mn	MRKH	MSRS	LSNG	MRKP	MRKC	MRKZ	MRKU	MRKV	MRKS	MRKY	MRKK	KUBE
<b>EV based on EV/EBITDA</b>	<b>28,366</b>	<b>9,853</b>	<b>2,390</b>	<b>1,984</b>	<b>3,053</b>	<b>913</b>	<b>2,225</b>	<b>1,373</b>	<b>847</b>	<b>834</b>	<b>313</b>	<b>898</b>
EBITDA 2010E	3,298	1,146	278	231	355	106	259	160	98	97	36	104
Target multiple	8.6x	8.6x	8.6x	8.6x	8.6x	8.6x	8.6x	8.6x	8.6x	8.6x	8.6x	8.6x
<b>EV based on EV/RAB</b>	<b>20,103</b>	<b>4,563</b>	<b>1,426</b>	<b>1,790</b>	<b>2,338</b>	<b>731</b>	<b>1,259</b>	<b>1,189</b>	<b>1,396</b>	<b>867</b>	<b>148*</b>	<b>1,045</b>
Initial RAB, 2011	28,718	6,519	2,037	2,557	3,340	1,044	1,799	1,699	1,995	1,238		1,493
Target multiple	0.70x	0.70x	0.70x	0.70x	0.70x	0.70x	0.70x	0.70x	0.70x	0.70x		0.70x
<b>Blended EV</b>	<b>24,234</b>	<b>7,208</b>	<b>1,908</b>	<b>1,887</b>	<b>2,696</b>	<b>822</b>	<b>1,742</b>	<b>1,281</b>	<b>1,122</b>	<b>850</b>	<b>230</b>	<b>972</b>
Net debt 2010E	(5,262)	-1,269	-703	-385	-489	-78	-87	-203	-277	-520	6	-264
EV adjustments 2010E	(7,983)	-13	-93	32	-47	-41	-10	-22	-17	0	0	0
<b>Equity value</b>	<b>10,990</b>	<b>5,926</b>	<b>1,113</b>	<b>1,534</b>	<b>2,159</b>	<b>702</b>	<b>1,645</b>	<b>1,056</b>	<b>827</b>	<b>330</b>	<b>236</b>	<b>708</b>
Number of shares, 2010E	42,942	48,707	926	112,698	42,218	95,786	87,430	178,578	89,368	49,811	30	61
Share price, US\$	0.256	0.122	1.202	0.014	0.051	0.007	0.019	0.006	0.009	0.007	7.990	11.516
Discount for low liquidity, %	0%	-30%	-30%	-30%	-30%	-30%	-30%	-30%	-30%	-30%	-30%	-30%
<b>12M price target, US\$</b>	<b>0.256</b>	<b>0.085</b>	<b>0.841</b>	<b>0.010</b>	<b>0.036</b>	<b>0.005</b>	<b>0.013</b>	<b>0.004</b>	<b>0.006</b>	<b>0.005</b>	<b>5.593</b>	<b>8.061</b>
change, %	-16%	5%	-47%	-21%	-20%	-27%	-12%	4%	-54%	-42%	-24%	-50%

\* We use a DCF valuation instead of EV/RAB for MRKK.

Source: Goldman Sachs Research estimates.

We downgrade Lenenergo and Kubanenergo to Neutral from Buy and MRSK Siberia and MRSK South to Sell from Neutral due to the substantial decrease of our 12-month price targets. The decrease in our valuation for Lenenergo and MRSK-Siberia is driven by a substantial decrease of our iRAB expectations, and for MRSK South and Kubanenergo by the substantial decrease of our earnings estimates as 2009 results were significantly below our forecasts.

We upgrade MRSK Urals to Buy from Neutral and MRSK Volga to Neutral from Sell post underperformance and do not see material risks of iRAB revisions for them. We also see more significant upside to our price targets at current valuation levels.

### Exhibit 8: Summary of our price target and rating changes

	12M price target			Current price* US\$	Upside/downside %	Rating	
	new US\$	old US\$	revision %			new	old
MRSK-Holding	0.2560	0.3045	-16%	0.1080	137%	Buy	Buy
MOESK	0.0850	0.0810	5%	0.0434	96%	Buy	Buy
Lenenergo	0.8410	1.5890	-47%	0.7435	13%	<b>Neutral</b>	<b>Buy</b>
MRSK Center-Volga	0.0100	0.0120	-17%	0.0064	56%	Buy	Buy
MRSK Center	0.0360	0.0450	-20%	0.0350	3%	Neutral	Neutral
MRSK North-West	0.0050	0.0070	-29%	0.0073	-31%	Sell	Sell
MRSK Urals	0.0130	0.0150	-13%	0.0080	63%	<b>Buy</b>	<b>Neutral</b>
MRSK Volga	0.0040	0.0040	0%	0.0038	7%	<b>Neutral</b>	<b>Sell</b>
MRSK Siberia	0.0060	0.0140	-57%	0.0100	-40%	<b>Sell</b>	<b>Neutral</b>
MRSK South	0.0050	0.0080	-38%	0.0058	-13%	<b>Sell</b>	<b>Neutral</b>
MRSK North Caucasus	5.59	7.32	-24%	4.7500	18%	Neutral	Neutral
Kubanenergo	8.06	16.01	-50%	6.7000	20%	<b>Neutral</b>	<b>Buy</b>

Source: Goldman Sachs Research estimates, RTS.

**We favor MRSKs that are expected to generate higher returns, have lower risks of iRAB revisions relative to guidance and trade at attractive valuations**

We recommend MOESK, MRSK Center-Volga and MRSK-Urals as our key Buy ideas as these companies have already shown higher returns, while trading at lower valuation multiples on EV/RAB and EV/EBITDA. MOESK has no RAB approved yet, however we see limited risks to our iRAB forecast as it fits well within tariff growth limits. MRSK Center Volga and MRSK Urals have already have 51% and 30% of their RABs approved, respectively.

We view MRSK North-West, Siberia and South as overvalued and rate the stocks as Sell. The companies are expected to generate below average returns in 2010-11, but trade at above average valuation multiples on EV/EBITDA.

**Exhibit 9: We favor high returns, low risks to RAB and attractive valuation multiples**

MRSKs estimated returns, risks to iRAB and valuation metrics

Company	Rating	Returns		Risks to iRAB		Valuation			
		ROIC 2010E	ROIC 2011E	% RAB approved	GS vs. MRKH guidance	EV/RAB 2010E	EV/EBITDA 2010E	EV/EBITDA 2011E	EV/EBITDA 2012E
<b>MRSK-Holding</b>	<b>Buy</b>	<b>9%</b>	<b>9%</b>	<b>18%</b>	<b>-6%</b>	<b>0.53x</b>	<b>4.59x</b>	<b>4.60x</b>	<b>4.54x</b>
MOESK	Buy	15%	16%	0%	0%	0.50x	2.93x	2.40x	1.85x
Lenenergo	Neutral	5%	6%	0%	-28%	0.65x	4.70x	4.50x	4.20x
MRSK Center-Volga	Buy	6%	9%	51%	11%	0.41x	4.73x	4.16x	3.38x
MRSK Center	Neutral	12%	13%	48%	-21%	0.53x	5.13x	4.84x	4.71x
MRSK North-West	Sell	2%	6%	20%	20%	0.53x	5.44x	4.21x	3.55x
MRSK Urals	Buy	8%	11%	30%	-18%	0.38x	2.72x	1.89x	1.31x
MRSK Volga	Neutral	6%	10%	0%	0%	0.41x	4.57x	3.60x	2.85x
MRSK Siberia	Sell	-2%	9%	12%	-28%	0.43x	9.15x	3.76x	3.12x
MRSK South	Sell	2%	4%	56%	5%	0.60x	8.00x	5.77x	4.48x
MRSK North Caucasus	Neutral	-1%	-1%	NA	NA	NA	3.29x	4.59x	4.49x
Kubanenergo	Neutral	7%	7%	0%	93%	0.23x	4.60x	6.40x	6.10x

Source: Goldman Sachs Research estimates, Quantum database.

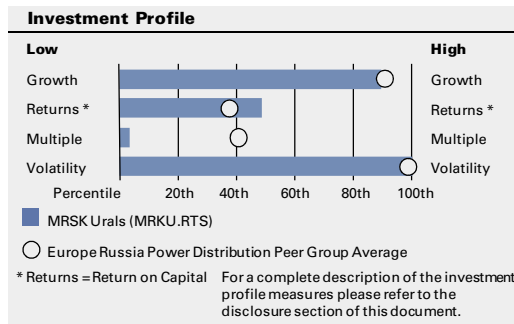
We consider the uncertainty over transition to RAB-based regulation and iRAB values as the key risk for the power distribution sector.

**Exhibit 10: Summary of key risks to our price targets and ratings**

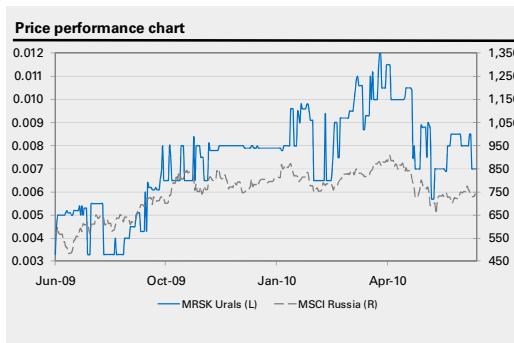
Company	Risks
MRSK-Holding	Lower total RAB, negative newsflow and delays in transition to RAB
MOESK	Lower initial RAB, delay in transition to RAB, lower connection fees
Lenenergo	Higher/lower iRAB, capex, connection fees
MRSK Center-Volga	Lower initial RAB, delay in transition to RAB, lower connection fees
MRSK Center	Lower/higher initial RAB, better/worse execution
MRSK North-West	Higher initial RAB, higher increase in 2011 tariffs
MRSK Urals	Lower initial RAB, delay in transition to RAB
MRSK Volga	Lower/higher initial RAB, better/worse execution
MRSK Siberia	Higher initial RAB, higher increase in 2011 tariffs
MRSK South	Higher initial RAB, higher increase in 2011 tariffs
MRSK North Caucasus	Higher/lower tariff growth, transition to RAB, better/worse payment discipline
Kubanenergo	Lower/higher initial RAB, better/worse execution

Source: Goldman Sachs Research estimates.

# MRSK Urals (MRKU.RTS): Upgrading to Buy from Neutral



Key data	Current			
Price (\$)	0.01			
12 month price target (\$)	0.01			
Upside/(downside) (%)	86			
Market cap (\$ mn)	612.0			
Enterprise value (Rubl mn)	21,552.8			
	12/09	12/10E	12/11E	12/12E
<b>Revenue (Rubl mn) New</b>	<b>48,025.7</b>	<b>61,358.0</b>	<b>76,155.0</b>	<b>91,604.2</b>
Revenue revision (%)	4.0	11.2	16.3	22.3
<b>EBIT (Rubl mn) New</b>	<b>4,586.9</b>	<b>4,377.6</b>	<b>6,572.9</b>	<b>8,759.0</b>
EBIT revision (%)	40.0	(2.6)	(4.0)	0.0
<b>EPS (Rubl) New</b>	<b>0.02</b>	<b>0.03</b>	<b>0.06</b>	<b>0.08</b>
EPS (Rubl) Old	0.02	0.04	0.06	0.08
EV/EBITDA (X)	2.3	2.7	1.9	1.3
P/E (X)	6.5	6.4	3.8	2.8
Dividend yield (%)	0.0	0.0	0.0	0.0
FCF yield (%)	20.5	14.8	10.6	14.2
CROCI (%)	13.8	12.4	14.4	15.8



Share price performance (%)	3 month	6 month	12 month
Absolute	(36.4)	(11.4)	112.1
Rel. to MSCI Russia	(29.6)	(3.8)	60.9

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 6/29/2010 close.

## Source of opportunity

In the case of MRSK-Urals, we believe that the markets over-reacted to negative news flow from pressure on regulated tariffs and potential decreases in the initial RAB (the share price underperformed MSCI Russia by 29.6% over the past 3 months). At the same time our analysis suggests that there are no material risks to MRSK Urals transition to RAB given the reasonable implied tariff growth.

## Catalyst

We believe that increased visibility over the transition to RAB regulation and the RAB parameters that we expect closer to year end will act as a positive catalyst for share price performance.

## Valuation

We maintain our 50/50 blended EV/EBITDA 2010E and EV/RAB valuation approach. We also continue to apply 30% discount for the low trading liquidity in the stock. Our new 12-month price target of US\$0.013 (down 13% from US\$0.015) implies 63% upside potential (based on the bid/ask average price as of June 29, 2010 of US\$0.008). We therefore upgrade the stock from Neutral to Buy.

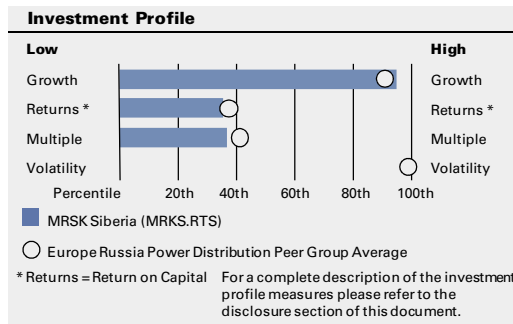
## Key risks

We view lower RAB, lower 2011 regulated tariffs, delays in transition to RAB and weaker execution as the key downside risks to our view and price target.

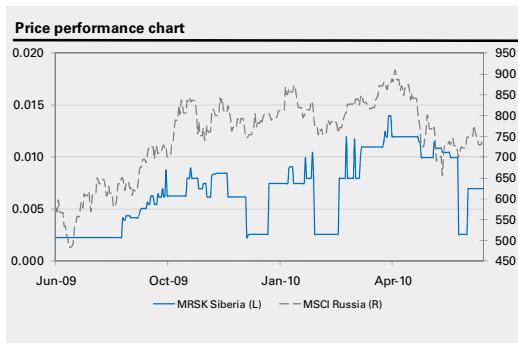
Source: Company data, Goldman Sachs Research estimates, FactSet.



# MRSK Siberia (MRKS.RTS): Downgrade to Sell from Neutral



Key data	Current			
Price (\$)	0.01			
12 month price target (\$)	0.01			
Upside/(downside) (%)	(14)			
Market cap (\$ mn)	625.6			
Enterprise value (Rubl mn)	27,541.4			
	12/09	12/10E	12/11E	12/12E
<b>Revenue (Rubl mn) New</b>	<b>39,949.2</b>	<b>47,463.6</b>	<b>60,837.0</b>	<b>71,725.7</b>
Revenue revision (%)	(6.3)	(7.9)	(4.7)	(6.5)
<b>EBIT (Rubl mn) New</b>	<b>357.8</b>	<b>(685.7)</b>	<b>3,604.6</b>	<b>6,017.9</b>
EBIT revision (%)	(78.7)	NM	(42.1)	(34.5)
<b>EPS (Rubl) New</b>	<b>(0.01)</b>	<b>(0.01)</b>	<b>0.03</b>	<b>0.05</b>
EPS (Rubl) Old	0.01	0.02	0.05	0.08
EV/EBITDA (X)	4.2	9.1	3.8	3.1
P/E (X)	NM	NM	8.5	4.6
Dividend yield (%)	1.3	0.0	0.0	0.0
FCF yield (%)	(3.0)	(13.9)	(5.7)	(18.7)
CROCI (%)	10.5	6.3	12.6	14.0



Share price performance (%)	3 month	6 month	12 month
Absolute	(36.4)	(6.7)	204.3
Rel. to MSCI Russia	(29.6)	1.3	130.8

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 6/29/2010 close.

Source: Company data, Goldman Sachs Research estimates, FactSet.

## Source of opportunity

We see material risk to the guidance for the initial RAB on MRSK Siberia, as it implies over 30% tariff growth in 2011, which we believe is not achievable given pressure on the regulated tariffs. Additionally, the company reported FY09 EBITDA 22% below our expectations and we have revised our estimates. We believe that the markets do not yet fully discount for the risks and see downside potential to our new price target. We therefore downgrade the stock from Neutral to Sell.

## Catalyst

We expect the news flow over limits on electricity tariff growth to continue put pressure on the share price. We also expect the RAB parameters, to be approved by January 1, 2011, will be below market expectations and trigger a share price de-rating.

## Valuation

We maintain our 50/50 blended EV/EBITDA 2010E and EV/RAB valuation approach. We also continue to apply a 30% discount for the low trading liquidity in the stock. Our new 12-month price target of US\$0.006 (down 57% from US\$0.014 previously) implies 40% downside potential (based on the bid/ask average price as of June 29, 2010 of US\$0.01).

## Key risks

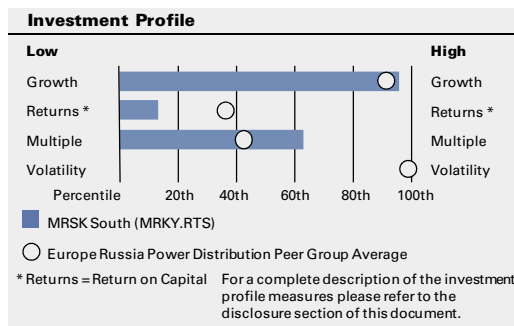
We view higher RAB, higher 2011 regulated tariffs and better execution as the key upside risks to our view and price target.

## Exhibit 12: MRSK Siberia summary financials

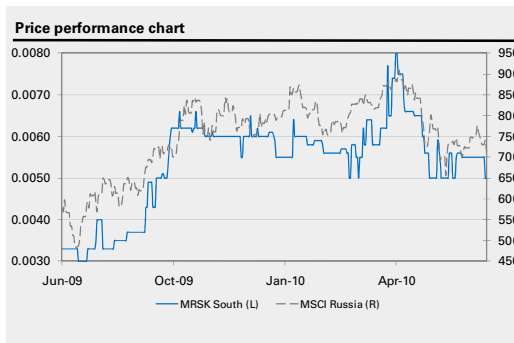
Profit model (Rubl mn)	12/09	12/10E	12/11E	12/12E	Balance sheet (Rubl mn)	12/09	12/10E	12/11E	12/12E
Total revenue	39,949.2	47,463.6	60,837.0	71,725.7	Cash & equivalents	140.2	0.0	0.0	0.0
Operating costs	(36,618.6)	(44,452.2)	(53,368.2)	(61,713.4)	Accounts receivable	5,850.3	5,482.2	6,087.4	6,251.3
R&D	0.0	0.0	0.0	0.0	Inventory	628.5	628.5	628.5	628.5
Lease payments	0.0	0.0	0.0	0.0	Other current assets	726.8	726.8	726.8	726.8
Other operating profit/(expense)	582.4	0.0	0.0	0.0	<b>Total current assets</b>	<b>7,345.8</b>	<b>6,837.5</b>	<b>7,442.8</b>	<b>7,606.6</b>
<b>EBITDA</b>	<b>3,913.0</b>	<b>3,011.4</b>	<b>7,468.8</b>	<b>10,012.3</b>	Net PP&E	35,298.6	36,769.0	39,233.6	46,471.4
Depreciation & amortisation	(3,555.2)	(3,697.2)	(3,864.2)	(3,994.4)	Net intangibles	389.8	190.7	0.0	0.0
<b>EBIT</b>	<b>357.8</b>	<b>(685.7)</b>	<b>3,604.6</b>	<b>6,017.9</b>	Total investments	694.5	694.5	694.5	694.5
Net interest income/(expense)	(927.0)	(569.6)	(706.3)	(673.5)	Other long-term assets	103.2	103.2	103.2	103.2
Associates	0.0	0.0	0.0	0.0	<b>Total assets</b>	<b>43,831.9</b>	<b>44,594.8</b>	<b>47,474.0</b>	<b>54,875.7</b>
Profit/(loss) on disposals	0.0	0.0	0.0	0.0	Accounts payable	5,520.4	5,520.4	5,520.4	5,520.4
Others (recurring)	(329.2)	0.0	0.0	0.0	Short-term debt	2,574.7	4,593.1	5,153.6	8,279.7
<b>Pretax profits</b>	<b>(898.3)</b>	<b>(1,255.3)</b>	<b>2,898.3</b>	<b>5,344.4</b>	Other current liabilities	1,779.0	1,779.0	1,779.0	1,779.0
Income tax	124.3	0.0	(579.7)	(1,068.9)	<b>Total current liabilities</b>	<b>9,874.2</b>	<b>11,892.5</b>	<b>12,453.0</b>	<b>15,579.1</b>
Tax rate (%)	13.8	0.0	20.0	20.0	Long-term debt	3,872.5	3,872.5	3,872.5	3,872.5
Minorities	0.8	0.0	0.0	0.0	Other long-term liabilities	3,962.3	3,962.3	3,962.3	3,962.3
Preferred dividends	0.0	0.0	0.0	0.0	<b>Total long-term liabilities</b>	<b>7,834.8</b>	<b>7,834.8</b>	<b>7,834.8</b>	<b>7,834.8</b>
<b>Net income (pre-exceptionals)</b>	<b>(773.2)</b>	<b>(1,255.3)</b>	<b>2,318.6</b>	<b>4,275.5</b>	<b>Total liabilities</b>	<b>17,709.0</b>	<b>19,727.3</b>	<b>20,287.8</b>	<b>23,413.9</b>
Other non-recurring items post tax	140.6	0.0	0.0	0.0	Preferred shares	0.0	0.0	0.0	0.0
<b>Net income</b>	<b>(632.6)</b>	<b>(1,255.3)</b>	<b>2,318.6</b>	<b>4,275.5</b>	<b>Total common equity</b>	<b>26,119.9</b>	<b>24,864.6</b>	<b>27,183.2</b>	<b>31,458.7</b>
EPS (underlying) (Rubl)	(0.01)	(0.01)	0.03	0.05	Minority interest	3.0	3.0	3.0	3.0
EPS (basic, reported) (Rubl)	(0.01)	(0.01)	0.03	0.05	<b>Total liabilities &amp; equity</b>	<b>43,831.9</b>	<b>44,594.8</b>	<b>47,474.0</b>	<b>54,875.7</b>
Weighted shares outstanding (mn)	89,367.7	89,367.7	89,367.7	89,367.7	Capitalised leases	0.0	0.0	0.0	0.0
Common dividends declared	138.9	0.0	0.0	0.0	<b>Capital employed</b>	<b>32,570.1</b>	<b>33,333.1</b>	<b>36,212.3</b>	<b>43,613.9</b>
DPS (Rubl)	0.00	0.00	0.00	0.00	Adj for unfunded pensions & GW	0.0	0.0	0.0	0.0
Dividend payout ratio (%)	(18.0)	0.0	0.0	0.0	<b>Adj capital employed</b>	<b>32,570.1</b>	<b>33,333.1</b>	<b>36,212.3</b>	<b>43,613.9</b>
Dividend cover (X)	NM	NM	NM	NM	<b>Gross cash invested</b>	<b>45,788.9</b>	<b>50,389.3</b>	<b>57,132.6</b>	<b>68,528.7</b>
<b>Growth &amp; margins (%)</b>	<b>12/09</b>	<b>12/10E</b>	<b>12/11E</b>	<b>12/12E</b>	<b>Ratios</b>	<b>12/09</b>	<b>12/10E</b>	<b>12/11E</b>	<b>12/12E</b>
Revenue growth	5.9	18.8	28.2	17.9	CROCI (%)	10.5	6.3	12.6	14.0
EBITDA growth	(20.5)	(23.0)	148.0	34.1	CROCI/WACC (X)	--	--	--	--
EBIT growth	(78.7)	(291.6)	625.7	66.9	ROIC (%)	1.5	(1.5)	8.9	12.3
Net income growth	(139.6)	(98.4)	284.7	84.4	ROIC/WACC (X)	--	--	--	--
EPS growth	(148.4)	(62.3)	284.7	84.4	ROA (%)	(1.8)	(2.8)	5.0	8.4
DPS growth	--	(100.0)	--	--	WACC (%)	--	--	--	--
EBITDA margin	9.8	6.3	12.3	14.0	Inventory days	5.7	4.8	3.8	3.2
EBIT margin	0.9	(1.4)	5.9	8.4	Asset turnover (X)	1.1	1.3	1.6	1.5
<b>Cash flow statement (Rubl mn)</b>	<b>12/09</b>	<b>12/10E</b>	<b>12/11E</b>	<b>12/12E</b>	Net debt/equity (%)	24.1	34.0	33.2	38.6
Net income	(773.2)	(1,255.3)	2,318.6	4,275.5	EBITDA interest cover (X)	4.2	5.3	10.6	14.9
D&A add-back (incl. ESO)	3,555.2	3,697.2	3,864.2	3,994.4	<b>Valuation</b>	<b>12/09</b>	<b>12/10E</b>	<b>12/11E</b>	<b>12/12E</b>
Minority interest add-back	(0.8)	0.0	0.0	0.0	EV/sales (X)	0.4	0.6	0.5	0.4
Net (inc)/dec working capital	173.9	368.1	(605.2)	(163.8)	EV/EBITDAR (X)	4.2	9.1	3.8	3.1
Other operating cash flow	1,063.1	0.0	0.0	0.0	EV/EBITDA (X)	4.2	9.1	3.8	3.1
<b>Cash flow from operations</b>	<b>4,018.1</b>	<b>2,809.9</b>	<b>5,577.6</b>	<b>8,106.1</b>	EV/EBIT (X)	45.9	NM	7.8	5.2
Capital expenditures	(3,536.5)	(4,968.5)	(6,138.1)	(11,232.2)	P/E (X)	NM	NM	8.5	4.6
Acquisitions	(189.9)	0.0	0.0	0.0	Dividend yield (%)	1.3	0.0	0.0	0.0
Divestitures	0.0	0.0	0.0	0.0	FCF yield (%)	(3.0)	(13.9)	(5.7)	(18.7)
Others	158.9	0.0	0.0	0.0	EV/GCI (X)	0.4	0.5	0.5	0.5
<b>Cash flow from investing</b>	<b>(3,567.5)</b>	<b>(4,968.5)</b>	<b>(6,138.1)</b>	<b>(11,232.2)</b>	EV/adj. capital employed (X)	0.5	0.8	0.8	0.7
Dividends paid (common & pref)	(138.9)	0.0	0.0	0.0	Price/book (X)	0.8	0.8	0.7	0.6
Inc/(dec) in debt	907.3	2,018.3	560.5	3,126.1	Note: Ratios are adjusted for leases where appropriate. Only separately disclosed where significant and ongoing.				
Other financing cash flows	(1,117.6)	0.0	0.0	0.0	Note: Last actual year may include reported and estimated data.				
<b>Cash flow from financing</b>	<b>(349.2)</b>	<b>2,018.3</b>	<b>560.5</b>	<b>3,126.1</b>	Source: Company data, Goldman Sachs Research estimates.				
<b>Total cash flow</b>	<b>101.5</b>	<b>(140.2)</b>	<b>0.0</b>	<b>0.0</b>					
Capex/D&A (%)	99.5	134.4	158.8	281.2					
Reinvestment rate (%)	92.0	203.5	99.3	135.8					
Cash flow cover of dividends (X)	27.7	NM	NM	NM					
Free cash flow cover of dividends (X)	(2.3)	NM	NM	NM					

Source: Company data, Goldman Sachs Research estimates.

# MRSK South (MRKY.RTS): Downgrade to Sell from Neutral



Key data	Current			
Price (\$)	0.01			
12 month price target (\$)	0.01			
Upside/(downside) (%)	0			
Market cap (\$ mn)	249.1			
Enterprise value (Rubl mn)	23,706.5			
	12/09	12/10E	12/11E	12/12E
<b>Revenue (Rubl mn) New</b>	<b>19,027.4</b>	<b>20,928.4</b>	<b>25,204.1</b>	<b>29,655.8</b>
Revenue revision (%)	0.1	(4.1)	(5.4)	(4.4)
<b>EBIT (Rubl mn) New</b>	<b>1,129.5</b>	<b>823.9</b>	<b>1,993.0</b>	<b>3,269.5</b>
EBIT revision (%)	(53.3)	(64.8)	(48.5)	(32.0)
<b>EPS (Rubl) New</b>	<b>(0.04)</b>	<b>(0.01)</b>	<b>0.01</b>	<b>0.03</b>
EPS (Rubl) Old	0.03	0.02	0.04	0.06
EV/EBITDA (X)	5.4	8.0	5.8	4.5
P/E (X)	NM	NM	16.3	5.0
Dividend yield (%)	0.0	0.0	0.0	0.0
FCF yield (%)	(42.3)	(67.5)	(28.0)	(21.9)
CROCI (%)	9.2	8.8	10.1	11.7



Share price performance (%)	3 month	6 month	12 month
Absolute	(13.8)	(15.3)	51.5
Rel. to MSCI Russia	1.1	(5.1)	22.8

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 6/29/2010 close.

Source: Company data, Goldman Sachs Research estimates, FactSet.

## Source of opportunity

We have downgraded our earnings forecasts for MRSK-South on the back of 2009 results that were below our expectations (29% at the EBITDA level). The stock now trades above average peer valuation levels with 2010E EV/EBITDA at 8.0x and 2011E at 5.8x (vs. an average of 4.9x and 4.0x for the peer group). The stock also trades above the peer average 2010 EV/iRAB of 0.60x on our estimates (vs. 0.47x average). We believe that premium valuation levels are not justified given below average expected returns (2% and 4% ROIC in 2010E and 2011E vs. 6% and 8% average for the peer group).

## Catalyst

We believe that demanding valuation levels will put pressure on MRSK South share price performance relative to the peer group. We therefore downgrade the stock to Sell from Neutral.

## Valuation

We maintain our 50/50 blended EV/EBITDA 2010E and EV/RAB valuation approach. We also continue to apply 30% discount for the low trading liquidity in the stock. Our new 12-month price target of US\$0.005 (down 38% from US\$0.008) implies 13% downside potential (based on the bid/ask average price as of June 29, 2010 of US\$0.0058).

## Key risks

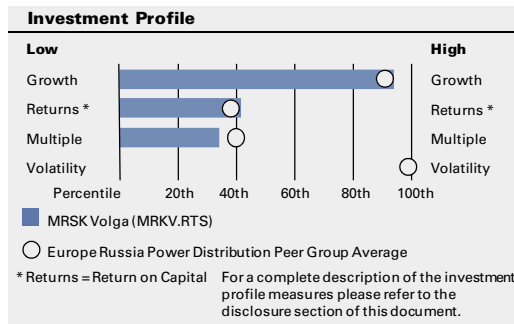
We view higher RAB, higher 2011 regulated tariffs and better execution as the key upside risks to our view and price target.

**Exhibit 13: MRSK South summary financials**

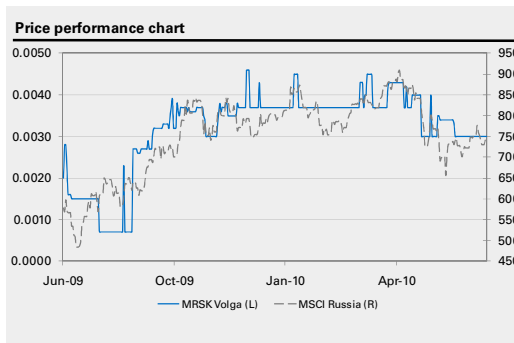
<b>Profit model (Rubl mn)</b>	<b>12/09</b>	<b>12/10E</b>	<b>12/11E</b>	<b>12/12E</b>	<b>Balance sheet (Rubl mn)</b>	<b>12/09</b>	<b>12/10E</b>	<b>12/11E</b>	<b>12/12E</b>
Total revenue	19,027.4	20,928.4	25,204.1	29,655.8	Cash & equivalents	1,399.7	0.0	0.0	0.0
Operating costs	(15,206.3)	(17,964.2)	(20,910.0)	(23,982.5)	Accounts receivable	11,161.0	10,135.0	8,947.3	8,379.8
R&D	0.0	0.0	0.0	0.0	Inventory	1,372.3	1,372.3	1,372.3	1,372.3
Lease payments	0.0	0.0	0.0	0.0	Other current assets	25.2	25.2	25.2	25.2
Other operating profit/(expense)	(665.1)	0.0	0.0	0.0	<b>Total current assets</b>	<b>13,958.2</b>	<b>11,532.5</b>	<b>10,344.8</b>	<b>9,777.3</b>
<b>EBITDA</b>	<b>3,156.1</b>	<b>2,964.2</b>	<b>4,294.1</b>	<b>5,673.4</b>	Net PP&E	25,472.5	27,310.4	30,640.1	31,832.6
Depreciation & amortisation	(2,026.6)	(2,140.3)	(2,301.1)	(2,403.9)	Net intangibles	4.4	4.4	4.4	4.4
<b>EBIT</b>	<b>1,129.5</b>	<b>823.9</b>	<b>1,993.0</b>	<b>3,269.5</b>	Total investments	453.5	453.5	453.5	453.5
Net interest income/(expense)	(1,749.6)	(1,151.6)	(1,394.7)	(1,325.8)	Other long-term assets	1,576.4	1,576.4	1,576.4	1,576.4
Associates	0.0	0.0	0.0	0.0	<b>Total assets</b>	<b>41,465.1</b>	<b>40,877.3</b>	<b>43,019.2</b>	<b>43,644.2</b>
Profit/(loss) on disposals	0.0	0.0	0.0	0.0	Accounts payable	7,635.8	4,659.3	5,253.1	3,672.8
Others (recurring)	(1,004.1)	0.0	0.0	0.0	Short-term debt	1,463.9	4,180.2	5,249.9	5,900.3
<b>Pretax profits</b>	<b>(1,624.2)</b>	<b>(327.6)</b>	<b>598.2</b>	<b>1,943.6</b>	Other current liabilities	100.0	100.0	100.0	100.0
Income tax	(149.8)	0.0	(119.6)	(388.7)	<b>Total current liabilities</b>	<b>9,199.7</b>	<b>8,939.6</b>	<b>10,603.0</b>	<b>9,673.1</b>
Tax rate (%)	(9.2)	0.0	20.0	20.0	Long-term debt	11,720.0	11,720.0	11,720.0	11,720.0
Minorities	0.0	0.0	0.0	0.0	Other long-term liabilities	356.7	356.7	356.7	356.7
Preferred dividends	0.0	0.0	0.0	0.0	<b>Total long-term liabilities</b>	<b>12,076.6</b>	<b>12,076.6</b>	<b>12,076.6</b>	<b>12,076.6</b>
<b>Net income (pre-exceptionals)</b>	<b>(1,773.9)</b>	<b>(327.6)</b>	<b>478.6</b>	<b>1,554.9</b>	<b>Total liabilities</b>	<b>21,276.3</b>	<b>21,016.2</b>	<b>22,679.6</b>	<b>21,749.7</b>
Other non-recurring items post tax	0.0	0.0	0.0	0.0	Preferred shares	0.0	0.0	0.0	0.0
<b>Net income</b>	<b>(1,773.9)</b>	<b>(327.6)</b>	<b>478.6</b>	<b>1,554.9</b>	<b>Total common equity</b>	<b>20,188.7</b>	<b>19,861.1</b>	<b>20,339.7</b>	<b>21,894.6</b>
<b>EPS (underlying) (Rubl)</b>	<b>(0.04)</b>	<b>(0.01)</b>	<b>0.01</b>	<b>0.03</b>	<b>Minority interest</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
EPS (basic, reported) (Rubl)	(0.04)	(0.01)	0.01	0.03	<b>Total liabilities &amp; equity</b>	<b>41,465.1</b>	<b>40,877.3</b>	<b>43,019.2</b>	<b>43,644.2</b>
Weighted shares outstanding (mn)	49,811.1	49,811.1	49,811.1	49,811.1	Capitalised leases	0.0	0.0	0.0	0.0
Common dividends declared	0.0	0.0	0.0	0.0	<b>Capital employed</b>	<b>33,372.6</b>	<b>35,761.3</b>	<b>37,309.5</b>	<b>39,514.8</b>
DPS (Rubl)	0.00	0.00	0.00	0.00	Adj for unfunded pensions & GW	0.0	0.0	0.0	0.0
Dividend payout ratio (%)	0.0	0.0	0.0	0.0	<b>Adj capital employed</b>	<b>33,372.6</b>	<b>35,761.3</b>	<b>37,309.5</b>	<b>39,514.8</b>
Dividend cover (X)	NM	NM	NM	NM	<b>Gross cash invested</b>	<b>30,753.1</b>	<b>36,681.8</b>	<b>40,531.1</b>	<b>45,140.4</b>
<b>Growth &amp; margins (%)</b>	<b>12/09</b>	<b>12/10E</b>	<b>12/11E</b>	<b>12/12E</b>	<b>Ratios</b>	<b>12/09</b>	<b>12/10E</b>	<b>12/11E</b>	<b>12/12E</b>
Revenue growth	15.0	10.0	20.4	17.7	CROCI (%)	9.2	8.8	10.1	11.7
EBITDA growth	(22.1)	(6.1)	44.9	32.1	CROCI/WACC (X)	--	--	--	--
EBIT growth	(55.8)	(27.1)	141.9	64.0	ROIC (%)	3.9	2.4	4.4	6.9
Net income growth	(241.3)	81.5	246.1	224.9	ROIC/WACC (X)	--	--	--	--
EPS growth	(241.3)	81.5	246.1	224.9	ROA (%)	(4.6)	(0.8)	1.1	3.6
DPS growth	--	--	--	--	WACC (%)	--	--	--	--
EBITDA margin	16.6	14.2	17.0	19.1	Inventory days	26.3	23.9	19.9	16.9
EBIT margin	5.9	3.9	7.9	11.0	Asset turnover (X)	0.7	0.8	0.8	0.9
<b>Cash flow statement (Rubl mn)</b>	<b>12/09</b>	<b>12/10E</b>	<b>12/11E</b>	<b>12/12E</b>	Net debt/equity (%)	58.4	80.1	83.4	80.5
Net income	(1,773.9)	(327.6)	478.6	1,554.9	EBITDA interest cover (X)	1.8	2.6	3.1	4.3
D&A add-back (incl. ESO)	2,026.6	2,140.3	2,301.1	2,403.9	<b>Valuation</b>	<b>12/09</b>	<b>12/10E</b>	<b>12/11E</b>	<b>12/12E</b>
Minority interest add-back	0.0	0.0	0.0	0.0	EV/sales (X)	0.9	1.1	1.0	0.9
Net (inc)/dec working capital	(1,139.8)	(1,950.4)	1,781.4	(1,012.9)	EV/EBITDAR (X)	5.4	8.0	5.8	4.5
Other operating cash flow	589.9	0.0	0.0	0.0	EV/EBITDA (X)	5.4	8.0	5.8	4.5
<b>Cash flow from operations</b>	<b>(297.2)</b>	<b>(137.8)</b>	<b>4,561.2</b>	<b>2,945.9</b>	EV/EBIT (X)	15.1	28.7	12.4	7.8
Capital expenditures	(40.9)	(3,978.2)	(5,630.8)	(3,596.3)	P/E (X)	NM	NM	16.3	5.0
Acquisitions	0.0	0.0	0.0	0.0	Dividend yield (%)	0.0	0.0	0.0	0.0
Divestitures	0.0	0.0	0.0	0.0	FCF yield (%)	(42.3)	(67.7)	(28.1)	(22.0)
Others	(2,861.1)	0.0	0.0	0.0	EV/GCI (X)	0.6	0.6	0.6	0.6
<b>Cash flow from investing</b>	<b>(2,902.0)</b>	<b>(3,978.2)</b>	<b>(5,630.8)</b>	<b>(3,596.3)</b>	EV/adj. capital employed (X)	0.5	0.7	0.7	0.6
Dividends paid (common & pref)	0.0	0.0	0.0	0.0	Price/book (X)	0.4	0.4	0.4	0.4
Inc/(dec) in debt	3,531.0	2,716.3	1,069.7	650.4	Note: Ratios are adjusted for leases where appropriate. Only separately disclosed where significant and ongoing.				
Other financing cash flows	(96.9)	0.0	0.0	0.0	Note: Last actual year may include reported and estimated data.				
<b>Cash flow from financing</b>	<b>3,434.1</b>	<b>2,716.3</b>	<b>1,069.7</b>	<b>650.4</b>	Source: Company data, Goldman Sachs Research estimates.				
<b>Total cash flow</b>	<b>234.9</b>	<b>(1,399.7)</b>	<b>0.0</b>	<b>0.0</b>					
Capex/D&A (%)	2.0	185.9	244.7	149.6					
Reinvestment rate (%)	4.9	219.5	202.6	90.8					
Cash flow cover of dividends (X)	NM	NM	NM	NM					
Free cash flow cover of dividends (X)	NM	NM	NM	NM					

Source: Company data, Goldman Sachs Research estimates.

# MRSK Volga (MRKV.RTS): Upgrading to Neutral from Sell



Key data	Current			
Price (\$)	0.00			
12 month price target (\$)	0.00			
Upside/(downside) (%)	33			
Market cap (\$ mn)	535.7			
Enterprise value (Rubl mn)	22,302.0			
	12/09	12/10E	12/11E	12/12E
<b>Revenue (Rubl mn) New</b>	<b>29,484.3</b>	<b>35,164.1</b>	<b>42,433.5</b>	<b>50,368.8</b>
Revenue revision (%)	(2.5)	(3.9)	(5.7)	(3.5)
<b>EBIT (Rubl mn) New</b>	<b>2,023.4</b>	<b>1,932.4</b>	<b>3,701.2</b>	<b>5,685.6</b>
EBIT revision (%)	117.7	(16.8)	(20.5)	1.7
<b>EPS (Rubl) New</b>	<b>0.01</b>	<b>0.01</b>	<b>0.01</b>	<b>0.02</b>
EPS (Rubl) Old	0.00	0.01	0.02	0.02
EV/EBITDA (X)	3.9	4.6	3.6	2.8
P/E (X)	10.6	15.3	6.7	4.2
Dividend yield (%)	0.0	0.0	0.0	0.0
FCF yield (%)	1.3	(6.2)	(13.6)	(11.1)
CROCI (%)	13.2	11.7	13.4	14.9



Share price performance (%)	3 month	6 month	12 month
Absolute	(18.9)	(18.9)	50.0
Rel. to MSCI Russia	(10.3)	(12.0)	13.8

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 6/29/2010 close.

## What happened

We are upgrading MRSK-Volga to Neutral from Sell post recent underperformance.

Since the stock was added to our Sell List on March 1, 2010 the share price has decreased 18.9% vs. a 10.1% decrease for MSCI Russia index. Over 12-months, the stock is up 7.1% vs. 24.2% for MSCI Russia index.

## Current view

We view MRSK-Volga's risk/reward profile as balanced at current valuation levels. We believe that the stock has underperformed the Index owing to the negative news flow on the pressure on regulated tariff growth and potential reduction of the iRAB values for MRSKs. At the same time our analysis suggests limited risks for MRSK Volga iRAB expectations. We therefore upgrade the stock to Neutral from Sell.

We maintain our 50/50 blended EV/EBITDA 2010E and EV/RAB valuation approach. We also continue to apply 30% discount for the low trading liquidity in the stock. We maintain our 12-month price target of US\$0.004, which implies 7% upside potential (based on the bid/ask average price as of June 29, 2010 of US\$0.0038).

We view higher/lower iRAB value, higher/lower 2011 tariffs and better/worse execution as the key upside/downside risks to our view and price target.

Source: Company data, Goldman Sachs Research estimates, FactSet.

## Exhibit 14: MRSK Volga summary financials

Profit model (Rubl mn)	12/09	12/10E	12/11E	12/12E	Balance sheet (Rubl mn)	12/09	12/10E	12/11E	12/12E
Total revenue	29,484.3	35,164.1	42,433.5	50,368.8	Cash & equivalents	425.1	0.0	0.0	0.0
Operating costs	(24,645.7)	(30,281.8)	(35,722.7)	(41,421.9)	Accounts receivable	3,046.1	3,105.2	3,262.4	3,314.2
R&D	0.0	0.0	0.0	0.0	Inventory	785.8	785.8	785.8	785.8
Lease payments	0.0	0.0	0.0	0.0	Other current assets	1,048.0	1,048.0	1,048.0	1,048.0
Other operating profit/(expense)	22.6	0.0	0.0	0.0	<b>Total current assets</b>	<b>5,305.0</b>	<b>4,939.0</b>	<b>5,096.2</b>	<b>5,148.0</b>
<b>EBITDA</b>	<b>4,861.1</b>	<b>4,882.3</b>	<b>6,710.8</b>	<b>8,946.9</b>	Net PP&E	25,269.1	27,233.8	31,624.0	37,173.1
Depreciation & amortisation	(2,837.8)	(2,949.9)	(3,009.6)	(3,261.3)	Net intangibles	151.7	0.0	0.0	0.0
<b>EBIT</b>	<b>2,023.4</b>	<b>1,932.4</b>	<b>3,701.2</b>	<b>5,685.6</b>	Total investments	0.0	0.0	0.0	0.0
Net interest income/(expense)	(502.0)	(564.4)	(557.3)	(641.8)	Other long-term assets	879.0	879.0	879.0	879.0
Associates	0.0	0.0	0.0	0.0	<b>Total assets</b>	<b>31,604.9</b>	<b>33,051.8</b>	<b>37,599.2</b>	<b>43,200.1</b>
Profit/(loss) on disposals	0.0	0.0	0.0	0.0	Accounts payable	1,906.6	2,092.5	2,295.1	2,516.2
Others (recurring)	0.0	0.0	0.0	0.0	Short-term debt	194.5	361.1	2,190.9	3,535.6
<b>Pretax profits</b>	<b>1,521.4</b>	<b>1,368.0</b>	<b>3,143.9</b>	<b>5,043.8</b>	Other current liabilities	728.6	728.6	728.6	728.6
Income tax	(216.5)	(273.6)	(628.8)	(1,008.8)	<b>Total current liabilities</b>	<b>2,829.7</b>	<b>3,182.2</b>	<b>5,214.5</b>	<b>6,780.3</b>
Tax rate (%)	14.2	20.0	20.0	20.0	Long-term debt	5,831.5	5,831.5	5,831.5	5,831.5
Minorities	0.0	0.0	0.0	0.0	Other long-term liabilities	1,810.5	1,810.5	1,810.5	1,810.5
Preferred dividends	0.0	0.0	0.0	0.0	<b>Total long-term liabilities</b>	<b>7,642.0</b>	<b>7,642.0</b>	<b>7,642.0</b>	<b>7,642.0</b>
<b>Net income (pre-exceptionals)</b>	<b>1,304.8</b>	<b>1,094.4</b>	<b>2,515.1</b>	<b>4,035.1</b>	<b>Total liabilities</b>	<b>10,471.7</b>	<b>10,824.2</b>	<b>12,856.5</b>	<b>14,422.3</b>
Net non-recurring items post tax	0.0	0.0	0.0	0.0	Preferred shares	0.0	0.0	0.0	0.0
<b>Net income</b>	<b>1,304.8</b>	<b>1,094.4</b>	<b>2,515.1</b>	<b>4,035.1</b>	<b>Total common equity</b>	<b>21,133.2</b>	<b>22,227.6</b>	<b>24,742.8</b>	<b>28,777.8</b>
<b>EPS (underlying) (Rubl)</b>	<b>0.01</b>	<b>0.01</b>	<b>0.01</b>	<b>0.02</b>	<b>Minority interest</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
EPS (basic, reported) (Rubl)	0.01	0.01	0.01	0.02	<b>Total liabilities &amp; equity</b>	<b>31,604.9</b>	<b>33,051.8</b>	<b>37,599.2</b>	<b>43,200.1</b>
Weighted shares outstanding (mn)	178,577.8	178,577.8	178,577.8	178,577.8	Capitalised leases	0.0	0.0	0.0	0.0
Common dividends declared	0.0	0.0	0.0	0.0	<b>Capital employed</b>	<b>27,159.3</b>	<b>28,420.3</b>	<b>32,765.1</b>	<b>38,144.9</b>
DPS (Rubl)	0.00	0.00	0.00	0.00	Adj for unfunded pensions & GW	0.0	0.0	0.0	0.0
Dividend payout ratio (%)	0.0	0.0	0.0	0.0	<b>Adj capital employed</b>	<b>27,159.3</b>	<b>28,420.3</b>	<b>32,765.1</b>	<b>38,144.9</b>
Dividend cover (X)	NM	NM	NM	NM	<b>Gross cash invested</b>	<b>36,192.4</b>	<b>40,828.4</b>	<b>48,182.8</b>	<b>56,823.9</b>
<b>Growth &amp; margins (%)</b>	<b>12/09</b>	<b>12/10E</b>	<b>12/11E</b>	<b>12/12E</b>					
Revenue growth	(4.0)	19.3	20.7	18.7	<b>Ratios</b>	<b>12/09</b>	<b>12/10E</b>	<b>12/11E</b>	<b>12/12E</b>
EBITDA growth	(14.5)	0.4	37.5	33.3	CROCI (%)	13.2	11.7	13.4	14.9
EBIT growth	(38.5)	(4.5)	91.5	53.6	CROCI/WACC (X)	--	--	--	--
Net income growth	(35.9)	(16.1)	129.8	60.4	ROIC (%)	7.1	6.0	9.7	12.8
EPS growth	(35.9)	(16.1)	129.8	60.4	ROIC/WACC (X)	--	--	--	--
DPS growth	--	--	--	--	ROA (%)	4.2	3.4	7.1	10.0
EBITDA margin	16.5	13.9	15.8	17.8	WACC (%)	--	--	--	--
EBIT margin	6.9	5.5	8.7	11.3	Inventory days	9.7	8.2	6.8	5.7
					Asset turnover (X)	1.2	1.3	1.3	1.4
					Net debt/equity (%)	26.5	27.9	32.4	32.5
					EBITDA interest cover (X)	9.7	8.7	12.0	13.9
<b>Cash flow statement (Rubl mn)</b>	<b>12/09</b>	<b>12/10E</b>	<b>12/11E</b>	<b>12/12E</b>	<b>Valuation</b>	<b>12/09</b>	<b>12/10E</b>	<b>12/11E</b>	<b>12/12E</b>
Net income	1,304.8	1,094.4	2,515.1	4,035.1	EV/sales (X)	0.6	0.6	0.6	0.5
D&A add-back (incl. ESO)	2,837.8	2,949.9	3,009.6	3,261.3	EV/EBITDAR (X)	3.9	4.6	3.6	2.8
Minority interest add-back	0.0	0.0	0.0	0.0	EV/EBITDA (X)	3.9	4.6	3.6	2.8
Net (inc)/dec working capital	(1,316.7)	126.9	45.3	169.3	EV/EBIT (X)	9.3	11.5	6.5	4.5
Other operating cash flow	(27.8)	0.0	0.0	0.0	P/E (X)	10.6	15.3	6.7	4.2
<b>Cash flow from operations</b>	<b>2,798.2</b>	<b>4,171.2</b>	<b>5,570.1</b>	<b>7,465.7</b>	Dividend yield (%)	0.0	0.0	0.0	0.0
Capital expenditures	(2,191.4)	(4,762.8)	(7,399.8)	(8,810.4)	FCF yield (%)	1.3	(6.2)	(13.6)	(11.1)
Acquisitions	0.0	0.0	0.0	0.0	EV/GCI (X)	0.5	0.5	0.5	0.4
Divestitures	0.0	0.0	0.0	0.0	EV/adj. capital employed (X)	0.7	0.8	0.7	0.7
Others	66.9	0.0	0.0	0.0	Price/book (X)	0.9	0.8	0.7	0.6
<b>Cash flow from investing</b>	<b>(2,124.5)</b>	<b>(4,762.8)</b>	<b>(7,399.8)</b>	<b>(8,810.4)</b>					
Dividends paid (common & pref)	0.0	0.0	0.0	0.0					
Inc/(dec) in debt	(404.6)	166.6	1,829.7	1,344.7					
Other financing cash flows	(327.9)	0.0	0.0	0.0					
<b>Cash flow from financing</b>	<b>(732.5)</b>	<b>166.6</b>	<b>1,829.7</b>	<b>1,344.7</b>					
<b>Total cash flow</b>	<b>(58.9)</b>	<b>(425.1)</b>	<b>0.0</b>	<b>0.0</b>					
Capex/D&A (%)	77.2	161.5	245.9	270.1					
Reinvestment rate (%)	53.3	117.8	133.9	120.8					
Cash flow cover of dividends (X)	NM	NM	NM	NM					
Free cash flow cover of dividends (X)	NM	NM	NM	NM					

Note: Ratios are adjusted for leases where appropriate. Only separately disclosed where significant and ongoing.

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

Source: Company data, Goldman Sachs Research estimates.

**Exhibit 15: Share price performance of MRSK Volga versus peer group**

Prices as of close of June 30, 2010

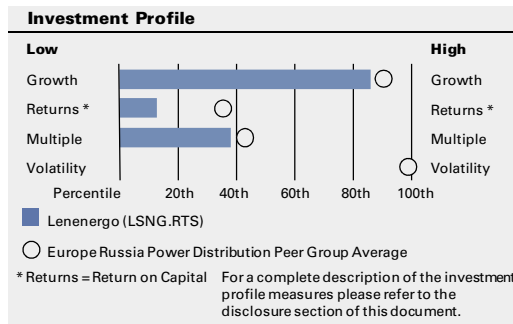
Company	Ticker	Primary analyst	Price currency	Price as of Jun 30, 2010	Price performance since Mar 1, 2010	3 month price performance	6 month price performance	12 month price performance
<b>Europe Russia Power Distribution Peer Group</b>								
<b>MRSK Volga</b>	<b>MRKV.RTS</b>	<b>Tatyana Lukina</b>	<b>\$</b>	<b>0.00</b>	<b>-18.9%</b>	<b>-18.9%</b>	<b>-18.9%</b>	<b>7.1%</b>
Federal Grid Company	FEES.RTS	Tatyana Lukina	\$	0.01	4.9%	-15.7%	0.9%	24.4%
Kubanenergo	KUBE.RTS	Tatyana Lukina	\$	6.00	41.2%	15.4%	87.5%	100.0%
Lenenergo	LSNG.RTS	Tatyana Lukina	\$	0.73	-23.6%	-33.4%	-12.7%	62.9%
MOESK	MSRS.RTS	Tatyana Lukina	\$	0.04	-16.1%	-19.9%	9.9%	121.5%
MRSK Center	MRKC.RTS	Tatyana Lukina	\$	0.03	12.9%	-24.1%	37.0%	57.5%
MRSK Center-Volga	MRKP.RTS	Tatyana Lukina	\$	0.01	0.0%	-36.8%	9.1%	17.6%
MRSK North Caucasus	MRKK.RTS	Tatyana Lukina	\$	4.03	60.6%	-43.9%	60.6%	303.0%
MRSK North-West	MRKZ.RTS	Tatyana Lukina	\$	0.01	50.0%	9.8%	23.3%	260.0%
MRSK Siberia	MRKS.RTS	Tatyana Lukina	\$	0.01	-12.5%	-36.4%	-6.7%	204.3%
MRSK South	MRKY.RTS	Tatyana Lukina	\$	0.01	-10.7%	-19.4%	-9.1%	51.5%
MRSK Urals	MRKU.RTS	Tatyana Lukina	\$	0.01	-6.7%	-37.5%	-11.4%	55.6%
MRSK-Holding	MRKH.RTS	Tatyana Lukina	\$	0.11	-25.3%	-36.4%	-1.9%	107.9%
<b>MSCI Russia</b>				<b>707.47</b>	<b>-10.1%</b>	<b>-16.7%</b>	<b>-11.0%</b>	<b>24.2%</b>

Note: Prices as of most recent available close, which could vary from the price date indicated above

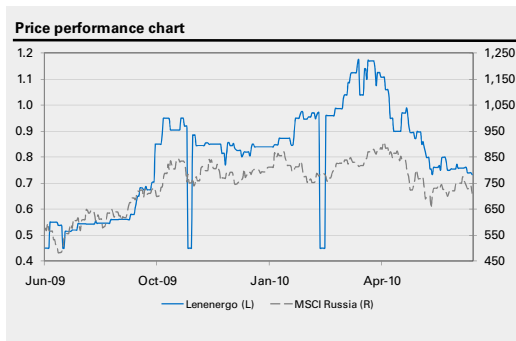
This table shows movement in absolute share price and not total shareholder return. Results presented should not and cannot be viewed as an indicator of future performance.

Source: FactSet, Quantum database.

## Lenenergo (LSNG.RTS): Downgrade to Neutral from Buy



Key data	Current			
Price (\$)	0.73			
12 month price target (\$)	0.84			
Upside/(downside) (%)	15			
Market cap (\$ mn)	756.7			
Enterprise value (Rubl mn)	39,936.7			
	12/09	12/10E	12/11E	12/12E
<b>Revenue (Rubl mn) New</b>	<b>26,720.2</b>	<b>30,081.1</b>	<b>34,936.8</b>	<b>39,999.3</b>
Revenue revision (%)	(3.2)	(8.4)	(15.2)	2.4
<b>EBIT (Rubl mn) New</b>	<b>4,540.8</b>	<b>4,034.7</b>	<b>5,414.5</b>	<b>7,000.5</b>
EBIT revision (%)	(43.1)	(55.6)	(56.2)	43.6
<b>EPS (Rubl) New</b>	<b>2.62</b>	<b>2.20</b>	<b>2.88</b>	<b>3.98</b>
EPS (Rubl) Old	5.70	6.71	9.21	2.18
EV/EBITDA (X)	3.0	4.7	4.5	4.2
P/E (X)	6.0	10.4	8.0	5.8
Dividend yield (%)	1.1	0.5	0.7	1.0
FCF yield (%)	(23.5)	(41.1)	(33.3)	(30.4)
CROCI (%)	2.3	6.2	6.6	7.1



Share price performance (%)	3 month	6 month	12 month
Absolute	(35.7)	(12.7)	62.9
Rel. to MSCI Russia	(24.6)	(2.2)	32.0

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 6/29/2010 close.

Source: Company data, Goldman Sachs Research estimates, FactSet.

### What happened

We see material risk to guidance for Lenenergo on the initial RAB, as it implies over 50% tariff growth in 2011, which we view as not achievable given the pressure on regulated tariffs. We believe that these risks will constrain share price performance and therefore downgrade the stock to Neutral from Buy.

Since the stock was added to our Buy List on April 27, 2010 the share price has decreased 18.6% vs. 17.7% decrease for MSCI Russia index. Over 12-months, the stock is up 62.9% vs. 24.2% for the MSCI Russia index.

### Current view

We view Lenenergo's risk/reward profile as balanced at the current valuation level. Lenenergo generates about average returns based on the current regulated tariffs (5% ROIC 2010E vs. 6% for the peer group). On EV/iRAB, the stocks screens expensive relative to peers with 0.65x 2010E EV/iRAB vs. 0.47x for the peer group. At the same time our iRAB estimates already account for the risk of a decrease of the iRAB (we are 28% below MRSK-Holding guidance). On EV/EBITDA the stock trades in line with the peer group at 4.7x 2010E and 4.5x 2011E.

We maintain our 50/50 blended EV/EBITDA 2010E and EV/RAB valuation approach. We also continue to apply 30% discount for the low trading liquidity in the stock. We decrease our 12-month price target 47% to US\$0.841 (from US\$1.589) as we incorporate our new lower RAB assumptions. That implies 13% upside potential (based on the bid/ask average price as of June 29, 2010 of US\$0.7435). We see better investment opportunities in the sector and therefore downgrade the stock to Neutral from Buy.

We view higher/lower iRAB value, higher/lower 2011 tariffs, higher/lower connection fees and better/worse execution as the key upside/downside risks to our view and price target.

**Exhibit 16: Lenenergo summary financials**

Profit model (Rubl mn)	12/09	12/10E	12/11E	12/12E	Balance sheet (Rubl mn)	12/09	12/10E	12/11E	12/12E
Total revenue	26,720.2	30,081.1	34,936.8	39,999.3	Cash & equivalents	2,948.8	0.0	0.0	0.0
Operating costs	(18,133.1)	(21,582.5)	(24,698.4)	(27,816.1)	Accounts receivable	1,332.4	1,576.8	2,025.0	2,482.2
R&D	0.0	0.0	0.0	0.0	Inventory	361.2	361.2	361.2	361.2
Lease payments	0.0	0.0	0.0	0.0	Other current assets	4,720.6	4,720.6	4,720.6	4,720.6
Other operating profit/(expense)	0.0	0.0	0.0	0.0	<b>Total current assets</b>	<b>9,363.0</b>	<b>6,658.5</b>	<b>7,106.8</b>	<b>7,564.0</b>
<b>EBITDA</b>	<b>8,587.1</b>	<b>8,498.6</b>	<b>10,238.4</b>	<b>12,183.2</b>	Net PP&E	73,332.2	83,613.4	91,516.7	99,022.4
Depreciation & amortisation	(4,046.3)	(4,464.0)	(4,823.9)	(5,182.8)	Net intangibles	696.3	568.0	439.8	311.5
<b>EBIT</b>	<b>4,540.8</b>	<b>4,034.7</b>	<b>5,414.5</b>	<b>7,000.5</b>	Total investments	4,661.4	4,661.4	4,661.4	4,661.4
Net interest income/(expense)	(2,006.6)	(1,355.7)	(1,892.4)	(2,140.4)	Other long-term assets	272.3	272.3	272.3	272.3
Associates	0.0	0.0	0.0	0.0	<b>Total assets</b>	<b>88,325.3</b>	<b>95,773.8</b>	<b>103,997.1</b>	<b>111,831.7</b>
Profit/(loss) on disposals	0.0	0.0	0.0	0.0	Accounts payable	3,978.6	4,576.2	4,407.9	3,602.1
Others (recurring)	(402.3)	0.0	0.0	0.0	Short-term debt	6,610.8	11,420.4	17,142.0	22,101.4
<b>Pretax profits</b>	<b>2,131.9</b>	<b>2,678.9</b>	<b>3,522.1</b>	<b>4,860.0</b>	Other current liabilities	14,976.0	14,976.0	14,976.0	14,976.0
Income tax	455.5	(535.8)	(704.4)	(972.0)	<b>Total current liabilities</b>	<b>25,565.4</b>	<b>30,972.7</b>	<b>36,525.9</b>	<b>40,679.5</b>
Tax rate (%)	(21.4)	20.0	20.0	20.0	Long-term debt	10,073.7	10,073.7	10,073.7	10,073.7
Minorities	(8.9)	0.0	0.0	0.0	Other long-term liabilities	6,852.5	6,852.5	6,852.5	6,852.5
Preferred dividends	(154.0)	(101.9)	(147.7)	(206.9)	<b>Total long-term liabilities</b>	<b>16,926.2</b>	<b>16,926.2</b>	<b>16,926.2</b>	<b>16,926.2</b>
<b>Net income (pre-exceptionals)</b>	<b>2,424.5</b>	<b>2,041.2</b>	<b>2,670.0</b>	<b>3,681.1</b>	<b>Total liabilities</b>	<b>42,491.6</b>	<b>47,898.8</b>	<b>53,452.1</b>	<b>57,605.7</b>
Other non-recurring items post tax	0.0	0.0	0.0	0.0	Preferred shares	625.6	625.6	625.6	625.6
<b>Net income</b>	<b>2,424.5</b>	<b>2,041.2</b>	<b>2,670.0</b>	<b>3,681.1</b>	<b>Total common equity</b>	<b>45,188.3</b>	<b>47,229.5</b>	<b>49,899.5</b>	<b>53,580.6</b>
<b>EPS (underlying) (Rubl)</b>	<b>2.62</b>	<b>2.20</b>	<b>2.88</b>	<b>3.98</b>	<b>Minority interest</b>	<b>19.8</b>	<b>19.8</b>	<b>19.8</b>	<b>19.8</b>
EPS (basic, reported) (Rubl)	2.62	2.20	2.88	3.98	<b>Total liabilities &amp; equity</b>	<b>88,325.3</b>	<b>95,773.8</b>	<b>103,997.1</b>	<b>111,831.7</b>
Weighted shares outstanding (mn)	926.0	926.0	926.0	926.0	Capitalised leases	0.0	0.0	0.0	0.0
Common dividends declared	154.0	101.9	147.7	206.9	<b>Capital employed</b>	<b>62,518.2</b>	<b>69,369.0</b>	<b>77,760.6</b>	<b>86,401.1</b>
DPS (Rubl)	0.17	0.11	0.16	0.22	Adj for unfunded pensions & GW	0.0	0.0	0.0	0.0
Dividend payout ratio (%)	6.4	5.0	5.5	5.6	<b>Adj capital employed</b>	<b>62,518.2</b>	<b>69,369.0</b>	<b>77,760.6</b>	<b>86,401.1</b>
Dividend cover (X)	15.7	20.0	18.1	17.8	<b>Gross cash invested</b>	<b>117,803.1</b>	<b>132,066.7</b>	<b>145,282.2</b>	<b>159,105.5</b>
<b>Growth &amp; margins (%)</b>	<b>12/09</b>	<b>12/10E</b>	<b>12/11E</b>	<b>12/12E</b>	<b>Ratios</b>	<b>12/09</b>	<b>12/10E</b>	<b>12/11E</b>	<b>12/12E</b>
Revenue growth	25.5	12.6	16.1	14.5	CROCI (%)	2.3	6.2	6.6	7.1
EBITDA growth	40.8	(1.0)	20.5	19.0	CROCI/WACC (X)	--	--	--	--
EBIT growth	5.1	(11.1)	34.2	29.3	ROIC (%)	10.5	5.5	6.5	7.4
Net income growth	39.2	(15.8)	30.8	37.9	ROIC/WACC (X)	--	--	--	--
EPS growth	39.2	(15.8)	30.8	37.9	ROA (%)	2.8	2.2	2.7	3.4
DPS growth	--	(33.8)	44.9	40.1	WACC (%)	--	--	--	--
EBITDA margin	32.1	28.3	29.3	30.5	Inventory days	4.9	4.4	3.8	3.3
EBIT margin	17.0	13.4	15.5	17.5	Asset turnover (X)	0.4	0.4	0.4	0.4
<b>Cash flow statement (Rubl mn)</b>	<b>12/09</b>	<b>12/10E</b>	<b>12/11E</b>	<b>12/12E</b>	Net debt/equity (%)	31.3	46.2	55.1	60.5
Net income	2,578.5	2,143.1	2,817.7	3,888.0	EBITDA interest cover (X)	4.3	6.3	5.4	5.7
D&A add-back (incl. ESO)	4,046.3	4,464.0	4,823.9	5,182.8	<b>Valuation</b>	<b>12/09</b>	<b>12/10E</b>	<b>12/11E</b>	<b>12/12E</b>
Minority interest add-back	8.9	0.0	0.0	0.0	EV/sales (X)	1.0	1.4	1.4	1.3
Net (inc)/dec working capital	5,190.9	353.3	(616.6)	(1,263.1)	EV/EBITDAR (X)	3.3	5.0	4.7	4.4
Other operating cash flow	(6,476.2)	0.0	0.0	0.0	EV/EBITDA (X)	3.3	5.0	4.7	4.4
<b>Cash flow from operations</b>	<b>5,348.4</b>	<b>6,960.4</b>	<b>7,025.1</b>	<b>7,807.8</b>	EV/EBIT (X)	6.2	10.5	8.9	7.6
Capital expenditures	(6,335.3)	(14,616.9)	(12,599.0)	(12,560.2)	P/E (X)	6.0	10.4	8.0	5.8
Acquisitions	0.0	0.0	0.0	0.0	Dividend yield (%)	1.1	0.5	0.7	1.0
Divestitures	0.0	0.0	0.0	0.0	FCF yield (%)	(23.5)	(41.1)	(33.3)	(30.4)
Others	53.0	0.0	0.0	0.0	EV/GCI (X)	0.2	0.3	0.3	0.3
<b>Cash flow from investing</b>	<b>(6,282.2)</b>	<b>(14,616.9)</b>	<b>(12,599.0)</b>	<b>(12,560.2)</b>	EV/adj. capital employed (X)	0.5	0.6	0.6	0.6
Dividends paid (common & pref)	(154.0)	(101.9)	(147.7)	(206.9)	Price/book (X)	0.5	0.5	0.4	0.4
Inc/(dec) in debt	1,555.2	4,809.6	5,721.6	4,959.4	Note: Ratios are adjusted for leases where appropriate. Only separately disclosed where significant and ongoing.				
Other financing cash flows	(17.4)	0.0	0.0	0.0	Note: Last actual year may include reported and estimated data.				
<b>Cash flow from financing</b>	<b>1,383.8</b>	<b>4,707.7</b>	<b>5,573.9</b>	<b>4,752.5</b>	Source: Company data, Goldman Sachs Research estimates.				
<b>Total cash flow</b>	<b>450.0</b>	<b>(2,948.8)</b>	<b>0.0</b>	<b>0.0</b>					
Capex/D&A (%)	156.6	327.4	261.2	242.3					
Reinvestment rate (%)	NM	221.2	164.9	138.5					
Cash flow cover of dividends (X)	1.0	64.8	51.7	43.8					
Free cash flow cover of dividends (X)	(22.2)	(85.8)	(48.0)	(31.2)					

Source: Company data, Goldman Sachs Research estimates.

**Exhibit 17: Share price performance of Lenenergo versus peer group**

Prices as of close of June 30, 2010

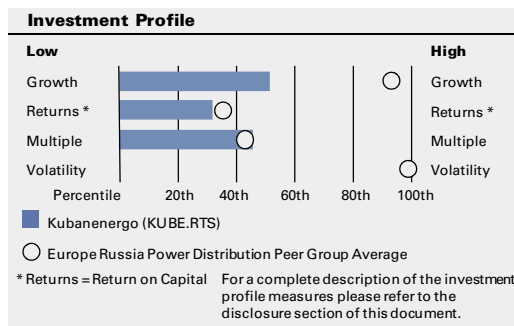
Company	Ticker	Primary analyst	Price currency	Price as of Jun 30, 2010	Price performance since Apr 27, 2010	3 month price performance	6 month price performance	12 month price performance
<b>Europe Russia Power Distribution Peer Group</b>								
<b>Lenenergo</b>	<b>LSNG.RTS</b>	<b>Tatyana Lukina</b>	<b>\$</b>	<b>0.73</b>	<b>-18.6%</b>	<b>-33.4%</b>	<b>-12.7%</b>	<b>62.9%</b>
Federal Grid Company	FEES.RTS	Tatyana Lukina	\$	0.01	-13.7%	-15.7%	0.9%	24.4%
Kubanenergo	KUBE.RTS	Tatyana Lukina	\$	6.00	15.4%	15.4%	87.5%	100.0%
MOESK	MSRS.RTS	Tatyana Lukina	\$	0.04	-16.8%	-19.9%	9.9%	121.5%
MRSK Center	MRKC.RTS	Tatyana Lukina	\$	0.03	-18.2%	-24.1%	37.0%	57.5%
MRSK Center-Volga	MRKP.RTS	Tatyana Lukina	\$	0.01	-27.7%	-36.8%	9.1%	17.6%
MRSK North Caucasus	MRKK.RTS	Tatyana Lukina	\$	4.03	-32.8%	-43.9%	60.6%	303.0%
MRSK North-West	MRKZ.RTS	Tatyana Lukina	\$	0.01	95.7%	9.8%	23.3%	260.0%
MRSK Siberia	MRKS.RTS	Tatyana Lukina	\$	0.01	-41.7%	-36.4%	-6.7%	204.3%
MRSK South	MRKY.RTS	Tatyana Lukina	\$	0.01	-24.2%	-19.4%	-9.1%	51.5%
MRSK Volga	MRKV.RTS	Tatyana Lukina	\$	0.00	-25.0%	-18.9%	-18.9%	7.1%
MRSK Urals	MRKU.RTS	Tatyana Lukina	\$	0.01	-30.0%	-37.5%	-11.4%	55.6%
MRSK-Holding	MRKH.RTS	Tatyana Lukina	\$	0.11	-31.8%	-36.4%	-1.9%	107.9%
<b>MSCI Russia</b>				<b>707.47</b>	<b>-17.7%</b>	<b>-16.7%</b>	<b>-11.0%</b>	<b>24.2%</b>

Note: Prices as of most recent available close, which could vary from the price date indicated above

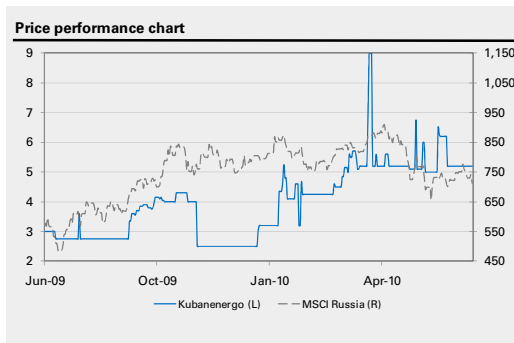
This table shows movement in absolute share price and not total shareholder return. Results presented should not and cannot be viewed as an indicator of future performance.

Source: FactSet, Quantum database

# Kubanenergo (KUBE.RTS): Downgrade to Neutral from Buy



Key data	Current			
Price (\$)	5.20			
12 month price target (\$)	8.06			
Upside/(downside) (%)	55			
Market cap (\$ mn)	92.9			
Enterprise value (Rubl mn)	14,539.7			
	12/09	12/10E	12/11E	12/12E
<b>Revenue (Rubl mn) New</b>	<b>19,947.5</b>	<b>24,095.0</b>	<b>29,091.2</b>	<b>34,889.6</b>
Revenue revision (%)	(1.3)	(1.5)	(0.2)	1.6
<b>EBIT (Rubl mn) New</b>	<b>1,097.9</b>	<b>1,957.5</b>	<b>2,248.2</b>	<b>3,092.7</b>
EBIT revision (%)	(60.4)	(31.9)	(20.4)	6.0
<b>EPS (Rubl) New</b>	<b>(122.14)</b>	<b>26.69</b>	<b>19.64</b>	<b>25.73</b>
EPS (Rubl) Old	59.13	50.48	46.02	46.43
EV/EBITDA (X)	3.6	4.6	6.4	6.1
P/E (X)	NM	6.1	8.3	6.3
Dividend yield (%)	0.0	0.0	0.0	0.0
FCF yield (%)	(456.0)	(38.0)	(65.6)	(66.1)
CROCI (%)	1.6	13.7	11.2	11.1



Share price performance (%)	3 month	6 month	12 month
Absolute	0.0	62.5	73.3
Rel. to MSCI Russia	17.3	82.0	40.5

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 6/29/2010 close.

## What happened

We are downgrading our earnings forecast for Kubanenergo on the back of reported FY09 financials that were below our expectations (43% on EBITDA). On our new estimates the stock no longer screens attractive on our valuation metrics. We therefore downgrade the stock to Neutral from Buy.

Since the stock was added to our Buy List on March 1, 2010 the share price has increased 41.2% vs. 10.1% decrease for MSCI Russia index. Over 12-months, the stock is up 100% vs. 24.2% for the MSCI Russia index.

## Current view

We view Kubanenergo’s risk/reward profile as balanced at current valuation levels. The company shows average returns (7% ROIC in 2010-11E vs. 6% and 9% for the peer group) and trades at a premium to peers on EV/EBITDA multiples of 4.6x 2010E and 6.4x 2011E (4.9x and 4.0x average for the peer group). We expect growth in 2011 multiples due to the increase of debt required to finance investments. At the same time Kubanenergo looks cheaper on our EV/RAB metric with 0.23x vs. 0.47x average for the peers.

We maintain our 50/50 blended EV/EBITDA 2010E and EV/RAB valuation approach. We also continue to apply a 30% discount for the low trading liquidity in the stock. We decrease our 12-month price target 50% to US\$8.06 (from US\$16.01 previously) as we incorporate our new lower earnings forecasts. That implies 20% upside potential (based on the bid/ask average price as of June 29, 2010 of US\$6.7). We see better investment opportunities in the sector and therefore downgrade the stock to Neutral from Buy.

We view higher/lower iRAB value, higher/lower 2011 tariffs and better/worse execution as the key upside/downside risk to our view and price target.

Source: Company data, Goldman Sachs Research estimates, FactSet.

**Exhibit 18: Kubanenergo summary financials**

Profit model (Rubl mn)	12/09	12/10E	12/11E	12/12E	Balance sheet (Rubl mn)	12/09	12/10E	12/11E	12/12E
Total revenue	19,947.5	24,095.0	29,091.2	34,889.6	Cash & equivalents	6,293.1	2,293.3	0.0	0.0
Operating costs	(17,807.2)	(20,900.2)	(25,324.1)	(29,980.2)	Accounts receivable	4,725.6	3,788.5	4,047.3	4,242.3
R&D	0.0	0.0	0.0	0.0	Inventory	1,534.8	1,534.8	1,534.8	1,534.8
Lease payments	0.0	0.0	0.0	0.0	Other current assets	293.6	293.6	293.6	293.6
Other operating profit/(expense)	0.0	0.0	0.0	0.0	<b>Total current assets</b>	<b>12,847.2</b>	<b>7,910.3</b>	<b>5,875.7</b>	<b>6,070.7</b>
<b>EBITDA</b>	<b>2,140.3</b>	<b>3,194.8</b>	<b>3,767.1</b>	<b>4,909.4</b>	Net PP&E	18,730.0	23,341.0	30,270.9	37,386.5
Depreciation & amortisation	(1,042.4)	(1,237.3)	(1,519.0)	(1,816.7)	Net intangibles	0.0	0.0	0.0	0.0
<b>EBIT</b>	<b>1,097.9</b>	<b>1,957.5</b>	<b>2,248.2</b>	<b>3,092.7</b>	Total investments	128.8	128.8	128.8	128.8
Net interest income/(expense)	(1,412.3)	(634.0)	(739.3)	(1,115.4)	Other long-term assets	173.7	173.7	173.7	173.7
Associates	0.6	0.0	0.0	0.0	<b>Total assets</b>	<b>31,879.7</b>	<b>31,553.9</b>	<b>36,449.1</b>	<b>43,759.7</b>
Profit/(loss) on disposals	0.0	0.0	0.0	0.0	Accounts payable	10,907.2	6,069.4	6,069.4	6,069.4
Others (recurring)	(1,889.3)	0.0	0.0	0.0	Short-term debt	2,052.3	0.0	3,688.1	9,416.9
<b>Pretax profits</b>	<b>(2,203.2)</b>	<b>1,323.5</b>	<b>1,508.9</b>	<b>1,977.3</b>	Other current liabilities	18.8	18.8	18.8	18.8
Income tax	20.6	(264.7)	(301.8)	(395.5)	<b>Total current liabilities</b>	<b>12,978.3</b>	<b>6,088.2</b>	<b>9,776.3</b>	<b>15,505.1</b>
Tax rate (%)	0.9	20.0	20.0	20.0	Long-term debt	10,367.1	10,367.1	10,367.1	10,367.1
Minorities	0.0	0.0	0.0	0.0	Other long-term liabilities	162.2	162.2	162.2	162.2
Preferred dividends	0.0	0.0	0.0	0.0	<b>Total long-term liabilities</b>	<b>10,529.3</b>	<b>10,529.3</b>	<b>10,529.3</b>	<b>10,529.3</b>
<b>Net income (pre-exceptionals)</b>	<b>(2,182.6)</b>	<b>1,058.8</b>	<b>1,207.1</b>	<b>1,581.9</b>	<b>Total liabilities</b>	<b>23,507.6</b>	<b>16,617.5</b>	<b>20,305.6</b>	<b>26,034.3</b>
Other non-recurring items post tax	0.0	0.0	0.0	0.0	Preferred shares	0.0	0.0	0.0	0.0
<b>Net income</b>	<b>(2,182.6)</b>	<b>1,058.8</b>	<b>1,207.1</b>	<b>1,581.9</b>	<b>Total common equity</b>	<b>8,372.1</b>	<b>14,936.4</b>	<b>16,143.5</b>	<b>17,725.4</b>
<b>EPS (underlying) (Rubl)</b>	<b>(122.14)</b>	<b>26.69</b>	<b>19.64</b>	<b>25.73</b>	<b>Minority interest</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
EPS (basic, reported) (Rubl)	(122.14)	26.69	19.64	25.73	<b>Total liabilities &amp; equity</b>	<b>31,879.7</b>	<b>31,553.9</b>	<b>36,449.1</b>	<b>43,759.7</b>
Weighted shares outstanding (mn)	17.9	39.7	61.5	61.5	Capitalised leases	0.0	0.0	0.0	0.0
Common dividends declared	0.0	0.0	0.0	0.0	<b>Capital employed</b>	<b>20,791.5</b>	<b>25,303.5</b>	<b>30,198.7</b>	<b>37,509.3</b>
DPS (Rubl)	0.00	0.00	0.00	0.00	Adj for unfunded pensions & GW	0.0	0.0	0.0	0.0
Dividend payout ratio (%)	0.0	0.0	0.0	0.0	<b>Adj capital employed</b>	<b>20,791.5</b>	<b>25,303.5</b>	<b>30,198.7</b>	<b>37,509.3</b>
Dividend cover (X)	NM	NM	NM	NM	<b>Gross cash invested</b>	<b>15,529.2</b>	<b>25,278.3</b>	<b>33,985.9</b>	<b>43,113.2</b>
<b>Growth &amp; margins (%)</b>	<b>12/09</b>	<b>12/10E</b>	<b>12/11E</b>	<b>12/12E</b>	<b>Ratios</b>	<b>12/09</b>	<b>12/10E</b>	<b>12/11E</b>	<b>12/12E</b>
Revenue growth	11.8	20.8	20.7	19.9	CROCI (%)	1.6	13.7	11.2	11.1
EBITDA growth	(40.2)	49.3	17.9	30.3	CROCI/WACC (X)	--	--	--	--
EBIT growth	(59.7)	78.3	14.9	37.6	ROIC (%)	5.6	6.8	6.5	7.3
Net income growth	(462.6)	148.5	14.0	31.0	ROIC/WACC (X)	--	--	--	--
EPS growth	(462.6)	121.9	(26.4)	31.0	ROA (%)	(7.9)	3.3	3.6	3.9
DPS growth	--	--	--	--	WACC (%)	--	--	--	--
EBITDA margin	10.7	13.3	12.9	14.1	Inventory days	28.1	23.3	19.3	16.1
EBIT margin	5.5	8.1	7.7	8.9	Asset turnover (X)	1.1	1.0	1.0	0.9
<b>Cash flow statement (Rubl mn)</b>	<b>12/09</b>	<b>12/10E</b>	<b>12/11E</b>	<b>12/12E</b>	Net debt/equity (%)	73.2	54.1	87.1	111.6
Net income	(2,182.6)	1,058.8	1,207.1	1,581.9	EBITDA interest cover (X)	1.5	5.0	5.1	4.4
D&A add-back (incl. ESO)	1,042.4	1,237.3	1,519.0	1,816.7	<b>Valuation</b>	<b>12/09</b>	<b>12/10E</b>	<b>12/11E</b>	<b>12/12E</b>
Minority interest add-back	0.0	0.0	0.0	0.0	EV/sales (X)	0.4	0.6	0.8	0.9
Net (inc)/dec working capital	134.1	1,604.7	(258.7)	(195.0)	EV/EBITDAR (X)	3.6	4.6	6.4	6.1
Other operating cash flow	0.0	0.0	0.0	0.0	EV/EBITDA (X)	3.6	4.6	6.4	6.1
<b>Cash flow from operations</b>	<b>(1,006.1)</b>	<b>3,900.8</b>	<b>2,467.3</b>	<b>3,203.6</b>	EV/EBIT (X)	7.0	7.4	10.7	9.6
Capital expenditures	(4,800.0)	(5,848.3)	(8,448.8)	(8,932.3)	P/E (X)	NM	6.1	8.3	6.3
Acquisitions	0.0	0.0	0.0	0.0	Dividend yield (%)	0.0	0.0	0.0	0.0
Divestitures	0.0	0.0	0.0	0.0	FCF yield (%)	(456.0)	(38.0)	(65.6)	(66.1)
Others	0.0	0.0	0.0	0.0	EV/GCI (X)	0.5	0.6	0.7	0.7
<b>Cash flow from investing</b>	<b>(4,800.0)</b>	<b>(5,848.3)</b>	<b>(8,448.8)</b>	<b>(8,932.3)</b>	EV/adj. capital employed (X)	0.5	0.6	0.8	0.8
Dividends paid (common & pref)	0.0	0.0	0.0	0.0	Price/book (X)	0.2	0.7	0.6	0.6
Inc/(dec) in debt	4,659.9	(2,052.3)	3,688.1	5,728.7	Note: Ratios are adjusted for leases where appropriate. Only separately disclosed where significant and ongoing.				
Other financing cash flows	5,505.5	0.0	0.0	0.0	Note: Last actual year may include reported and estimated data.				
<b>Cash flow from financing</b>	<b>10,165.3</b>	<b>(2,052.3)</b>	<b>3,688.1</b>	<b>5,728.7</b>	Source: Company data, Goldman Sachs Research estimates.				
<b>Total cash flow</b>	<b>5,349.4</b>	<b>(3,999.8)</b>	<b>(2,293.3)</b>	<b>0.0</b>					
Capex/D&A (%)	460.5	472.7	556.2	491.7					
Reinvestment rate (%)	(421.0)	254.7	309.9	262.8					
Cash flow cover of dividends (X)	NM	NM	NM	NM					
Free cash flow cover of dividends (X)	NM	NM	NM	NM					

Source: Company data, Goldman Sachs Research estimates.

**Exhibit 19: Share price performance of Kubanenergo versus peer group**

Prices as of close of June 30, 2010

Company	Ticker	Primary analyst	Price currency	Price as of Jun 30, 2010	Price performance since Mar 1, 2010	3 month price performance	6 month price performance	12 month price performance
<b>Europe Russia Power Distribution Peer Group</b>								
<b>Kubanenergo</b>	<b>KUBE.RTS</b>	<b>Tatyana Lukina</b>	<b>\$</b>	<b>6.00</b>	<b>41.2%</b>	<b>15.4%</b>	<b>87.5%</b>	<b>100.0%</b>
Federal Grid Company	FEES.RTS	Tatyana Lukina	\$	0.01	4.9%	-15.7%	0.9%	24.4%
MOESK	MSRS.RTS	Tatyana Lukina	\$	0.04	-16.1%	-19.9%	9.9%	121.5%
Lenenergo	LSNG.RTS	Tatyana Lukina	\$	0.73	-23.6%	-33.4%	-12.7%	62.9%
MRSK Center	MRKC.RTS	Tatyana Lukina	\$	0.03	12.9%	-24.1%	37.0%	57.5%
MRSK Center-Volga	MRKP.RTS	Tatyana Lukina	\$	0.01	0.0%	-36.8%	9.1%	17.6%
MRSK North Caucasus	MRKK.RTS	Tatyana Lukina	\$	4.03	60.6%	-43.9%	60.6%	303.0%
MRSK North-West	MRKZ.RTS	Tatyana Lukina	\$	0.01	50.0%	9.8%	23.3%	260.0%
MRSK Siberia	MRKS.RTS	Tatyana Lukina	\$	0.01	-12.5%	-36.4%	-6.7%	204.3%
MRSK South	MRKY.RTS	Tatyana Lukina	\$	0.01	-10.7%	-19.4%	-9.1%	51.5%
MRSK Volga	MRKV.RTS	Tatyana Lukina	\$	0.00	-18.9%	-18.9%	-18.9%	7.1%
MRSK Urals	MRKU.RTS	Tatyana Lukina	\$	0.01	-6.7%	-37.5%	-11.4%	55.6%
MRSK-Holding	MRKH.RTS	Tatyana Lukina	\$	0.11	-25.3%	-36.4%	-1.9%	107.9%
<b>MSCI Russia</b>				<b>707.47</b>	<b>-10.1%</b>	<b>-16.7%</b>	<b>-11.0%</b>	<b>24.2%</b>

Note: Prices as of most recent available close, which could vary from the price date indicated above

This table shows movement in absolute share price and not total shareholder return. Results presented should not and cannot be viewed as an indicator of future performance.

Source: FactSet, Quantum database

## Reg AC

I, Tatyana Lukina, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

## Investment Profile

The Goldman Sachs Investment Profile provides investment context for a security by comparing key attributes of that security to its peer group and market. The four key attributes depicted are: growth, returns, multiple and volatility. Growth, returns and multiple are indexed based on composites of several methodologies to determine the stocks percentile ranking within the region's coverage universe.

The precise calculation of each metric may vary depending on the fiscal year, industry and region but the standard approach is as follows:

**Growth** is a composite of next year's estimate over current year's estimate, e.g. EPS, EBITDA, Revenue. **Return** is a year one prospective aggregate of various return on capital measures, e.g. CROCI, ROACE, and ROE. **Multiple** is a composite of one-year forward valuation ratios, e.g. P/E, dividend yield, EV/FCF, EV/EBITDA, EV/DACF, Price/Book. **Volatility** is measured as trailing twelve-month volatility adjusted for dividends.

## Quantum

Quantum is Goldman Sachs' proprietary database providing access to detailed financial statement histories, forecasts and ratios. It can be used for in-depth analysis of a single company, or to make comparisons between companies in different sectors and markets.

## Disclosures

### Coverage group(s) of stocks by primary analyst(s)

Tatyana Lukina: Russia-Power Generation, Russia-Utilities: Transmission.

Russia-Power Generation: Inter RAO UES, Mosenergo, O GK-1, O GK-2, O GK-3, O GK-4, O GK-5, O GK-6, RusHydro, TGK-1.

Russia-Utilities: Transmission: Federal Grid Company, Kubanenergo, Lenenergo, MOESK, MRSK Center, MRSK Center-Volga, MRSK North Caucasus, MRSK North-West, MRSK Siberia, MRSK South, MRSK Urals, MRSK Volga, MRSK-Holding, Transneft (Pref).

### Company-specific regulatory disclosures

The following disclosures relate to relationships between The Goldman Sachs Group, Inc. (with its affiliates, "Goldman Sachs") and companies covered by the Global Investment Research Division of Goldman Sachs and referred to in this research.

Goldman Sachs expects to receive or intends to seek compensation for investment banking services in the next 3 months: MRSK North-West (\$0.01) and MRSK Siberia (\$0.01)

There are no company-specific disclosures for: Kubanenergo (\$6.00), Lenenergo (\$0.73), MOESK (\$0.04), MRSK Center (\$0.03), MRSK Center-Volga (\$0.01), MRSK North Caucasus (\$4.03), MRSK South (\$0.00), MRSK Urals (\$0.01), MRSK Volga (\$0.00) and MRSK-Holding (\$0.11)

### Distribution of ratings/investment banking relationships

Goldman Sachs Investment Research global coverage universe

	Rating Distribution			Investment Banking Relationships		
	Buy	Hold	Sell	Buy	Hold	Sell
Global	30%	54%	16%	48%	46%	38%

As of April 1, 2010, Goldman Sachs Global Investment Research had investment ratings on 2,821 equity securities. Goldman Sachs assigns stocks as Buys and Sells on various regional Investment Lists; stocks not so assigned are deemed Neutral. Such assignments equate to Buy, Hold and Sell for the purposes of the above disclosure required by NASD/NYSE rules. See 'Ratings, Coverage groups and views and related definitions' below.

### Price target and rating history chart(s)

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