Russian regulated utilities

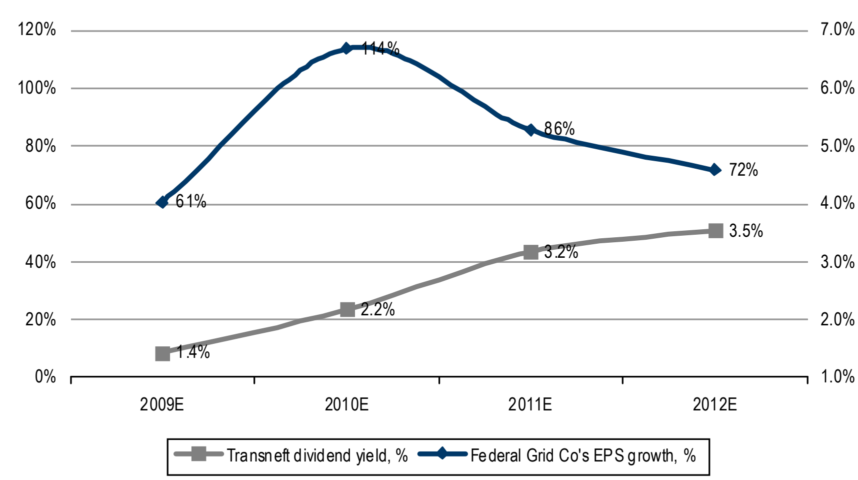
Research Analysts
Evgeny Olkhovich
7 495 967 8349
evgeny.olkhovich@credit-suisse.com
Mark Henderson
+44 20 7883 6901
mark.henderson.2@credit-suisse.com

SECTOR REVIEW

Focus on attributable growth

- **We upgrade Federal Grid Co to Outperform (from Underperform).** We are positive on regulated utilities, as we think that the Russian government is set to aggressively increase infrastructure investments going forward, driven by both economic and political motives, with state-controlled utilities leading the process. Given the unlikely option of equity financing due to dilution concerns, we believe the most likely option for the government would be to substantially grow tariffs. We expect this to result in material outperformance for the sector relative to the rest of the market in terms of financial growth over the next three years.
- **Federal Grid Co is our preferred play.** We increase our TP for Federal Grid Co to US$0.017 (from US$0.004) and upgrade it to Outperform (from Underperform). Our positive view on the stock is based on: (1) our belief that strong regulatory reform momentum will continue to move forward and that the company will be transferred to favourable RAB regulation by as early as next year (with the parameters guided by the company to the market previously); (2) highest growth prospects in the sector; (3) likely capex value accretion given the proposed regulatory return on new investments (12% post-taxed); and (4) favourable cost-of-debt trends.
- **We do not expect improvements in Transneft's case, reiterate Underperform.** We maintain our Underperform rating on Transneft, but raise our TP to US$750 (from US$240) following the change in our valuation approach (from DCF to DDM). Due to (1) non-transparent dividend payout rules and (2) the company's historical preference of investing capex rather than delivering on dividends and the fact that only preferred shares of Transneft are floated on the market, we see little attraction for investors. As we do not expect any improvements in this area, we forecast Transneft's yields to remain subdued going forward.

Figure 1: **Federal Grid Co EPS growth vs. Transneft's div. payout forecasts**



Source: Credit Suisse estimates

Table of contents

Investment summary: Focus on growth

Infrastructure investments are indispensable in Russia

- **Infrastructure spending will inevitably pick up, in our view.** We argue that, notwithstanding the economic downturn, infrastructure investments are indispensable in Russia. We think that the Russian government will continue to aggressively increase infrastructure investments going forward, driven by both economic rationale (to fight the country's high accident rate, improve efficiency and facilitate growth) and political motives (to diversify trading routes and develop territories).

Figure 2: **Key infrastructure investment plans by sector in Russia, in US$bn**

Sector	Capex	Timeframe
Rail	600	2008–2030
Roads	200	2010–2015
Maritime and inland water	40	2008–2015
Air transport	50	2008–2015
Pipelines	100	2010–2015
Power	400	2008–2020
Total	**1,390**	

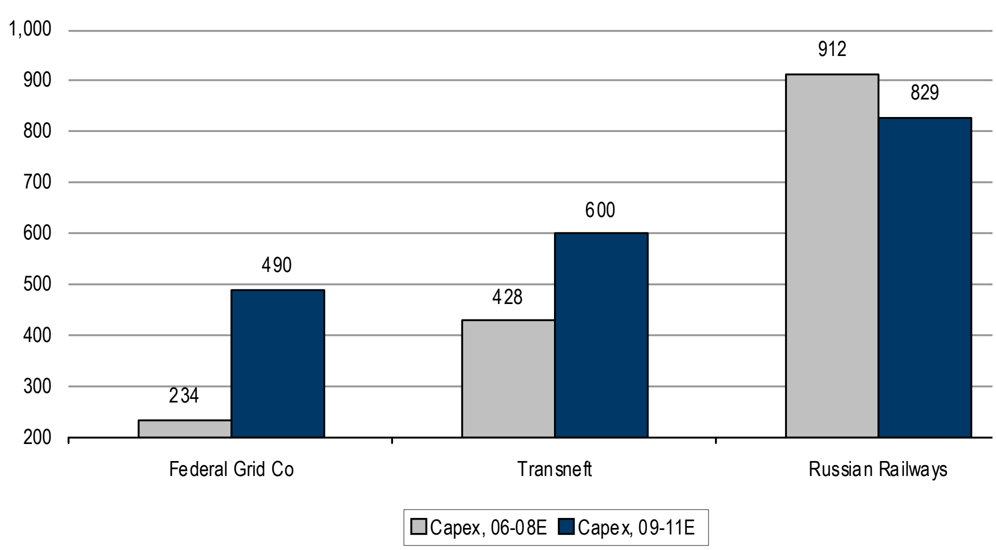
Source: Russian government, Credit Suisse research

State-controlled infrastructure monopolies are set to back up the government's plans

- **The state-owned regulated utilities should lead the process.** The state-controlled infrastructure monopolies, including Federal Grid Co and Transneft, are set to back up the government's ambitious investment plans and to invest Rbl1,090bn (cUS$40bn) in capex over the next three years, on our estimates (see Figure 3), in order to maintain and improve the largest crude oil and electricity transportation systems in the world.

  Transneft's capex is currently driven by political intentions to diversify crude oil supply routes to the east (East Siberia Pacific Ocean Pipeline) and to mitigate transit risks through Russia's neighbours to the west (Baltic Pipeline System). Federal Grid Co capex is required to augment the reliability of Russia's power system, which has failed frequently lately (for example, the accident at RusHydro's power plant in August), following the substantial level of Russia's power system equipment wear.

Figure 3: **State-owned regulated utilities capex growth estimates, 2009–2011E, Rbl'bn**



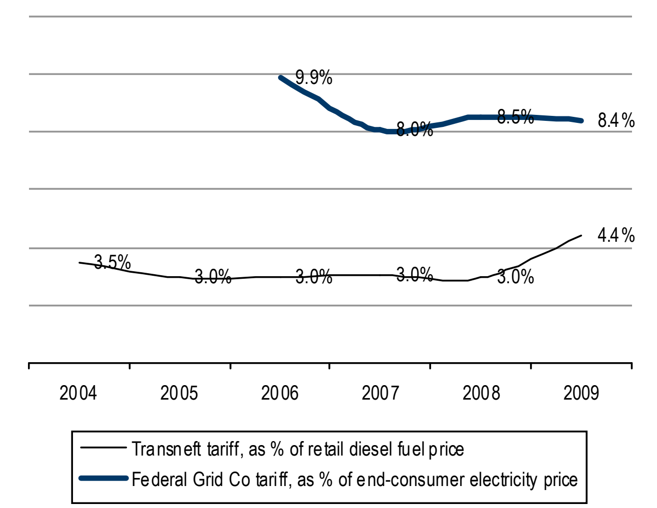
Source: Company data, Credit Suisse estimates

- **Funding likely to be secured by tariff growth and leveraging.** As things stand now, the capex of Russian regulated utilities is likely to be tariff and/or debt financed going forward. An equity-based financing does not seem to be an option for most of the state-controlled regulated utilities, as the Russian government is not ready yet, in our view, to dilute its control over the country's natural monopolies by selling them into private hands.

  Thanks to the still-low share of transmission tariffs in both energy and power value chains in Russia and the companies' low financial gearing at the moment (see Figure 4 and Figure 5, respectively), aggressive non-equity financing over the next several years looks realistic to us, particularly in the case of Federal Grid Co.

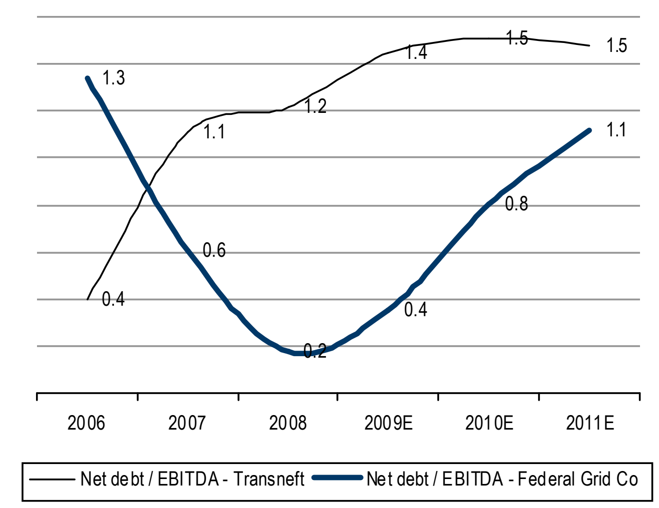
An equity-based financing is unlikely for state-dominated regulated utilities

Figure 4: Federal Grid Co and Transneft tariffs



Source: Federal Tariff Service, Credit Suisse research

Figure 5: Federal Grid Co and Transneft gearings (x)

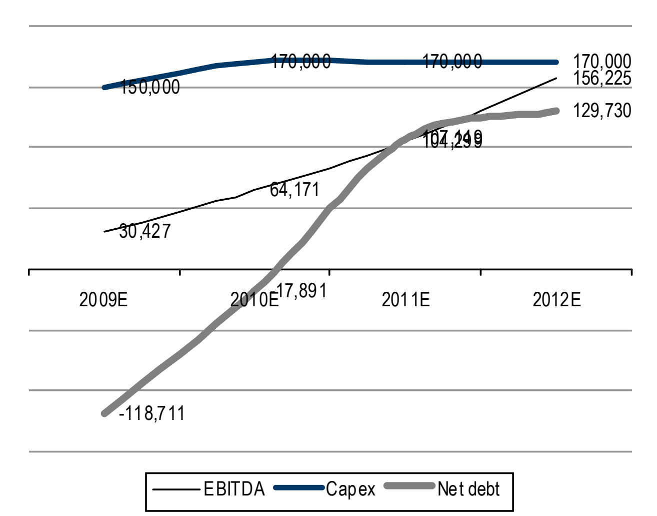


Source: Company data, Credit Suisse estimates

- **Focus on growth.** Following the capex financing requirements and somewhat limited tools available to finance them, we believe the Russian infrastructure companies are set to prosper financially going forward. We estimate that in order to cover the funding gap, Federal Grid Co and Transneft will need to grow tariffs by 45% and 15% CAGR respectively over the next three years (see Figure 6 and Figure 7).

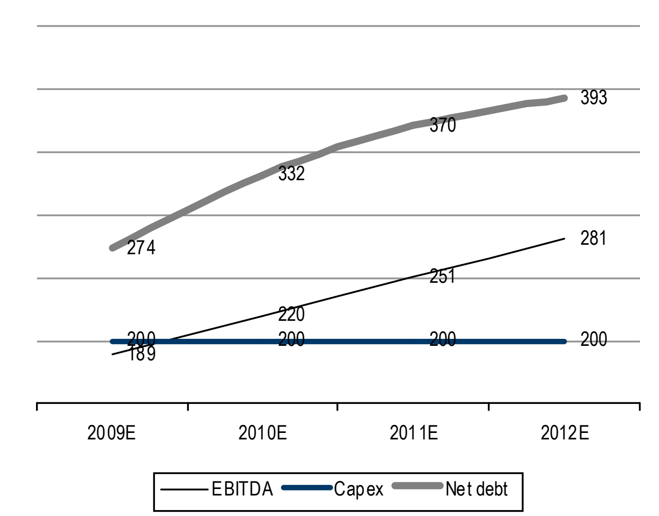
Russian infrastructure companies are set to grow going forward

Figure 6: Federal Grid Co financials take-off, Rbl'bn



Source: Credit Suisse estimates

Figure 7: Transneft financials look more mature, Rbl'bn



Source: Credit Suisse estimates

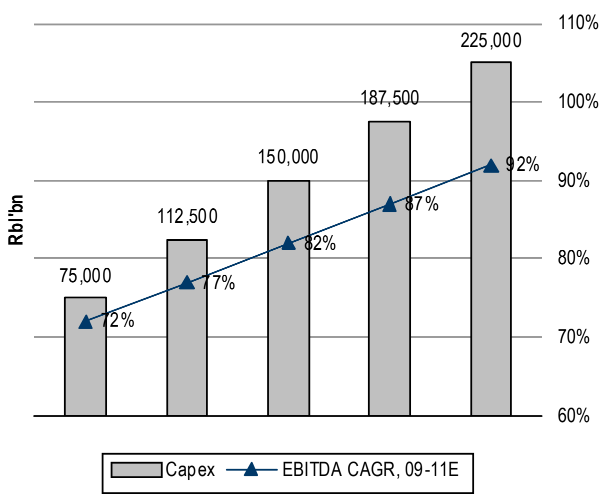
- **Capex looks positive in terms of valuation.** It is interesting to note that capex value accretion for the state-dominated infrastructure companies is not always certain, given the investments' political focus. However, we see higher capex requirements for Russian regulated utilities as positive since they are likely to lead to a more liberal regulatory approach towards the companies going forward, in our view.

Capex is driving sector deregulation, in our view

We think Federal Grid Co's and Transneft's higher capex requirements will need to be either tariff or debt financed (or most likely both) resulting in faster earnings accretion going forward. Since we view Russian utilities as growth stories—unlike most of their global peers, which primarily offer value—we regard any potential capex increases more as a positive than a negative signal for the companies. Figure 8 and Figure 9 outline Federal Grid Co's and Transneft's EBITDA CAGR 09–11E sensitivity to various capex assumptions.

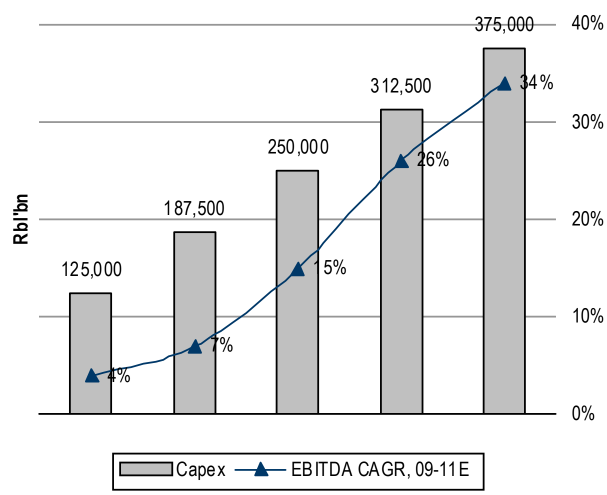
In contrast, we think a higher capex is positive

Figure 8: Federal Grid Co's EBITDA sensitivity to capex



Source: Company data, Credit Suisse estimates

Figure 9: Transneft's EBITDA sensitivity to capex



Source: Company data, Credit Suisse estimates

- **Federal Grid Co's regulatory model is more minorities-focused.** Notwithstanding the fact that the regulatory models of both Federal Grid Co ('Return on Asset Base' starting from 2010, in our view) and Transneft ('Costs plus' model) are put in place to help their state-backed expansion plans and further aggressive borrowing, Federal Grid Co's model looks much more minorities-focused to us. In our view, it is efficiency-linked and will likely provide for a reasonable return on the recognised invested capital for its shareholders going forward.

Federal Grid Co is more investor-focused

- **Federal Grid Co – structural long-term growth story:** We think that the progress of Federal Grid Co's deregulation will certainly move forward from here. We expect the company to move to a return on asset base (RAB) regulatory mechanism by next year. For valuation purposes, we use the regulatory parameters guided by the company to the market previously, ie, RAB of cRbl900bn and regulatory return of 2.5% in 2010E, 4.5% in 2011E and 8% in 2012E for the initial asset base and 12% for the new capex.

The reform will continue to move forward, in our view

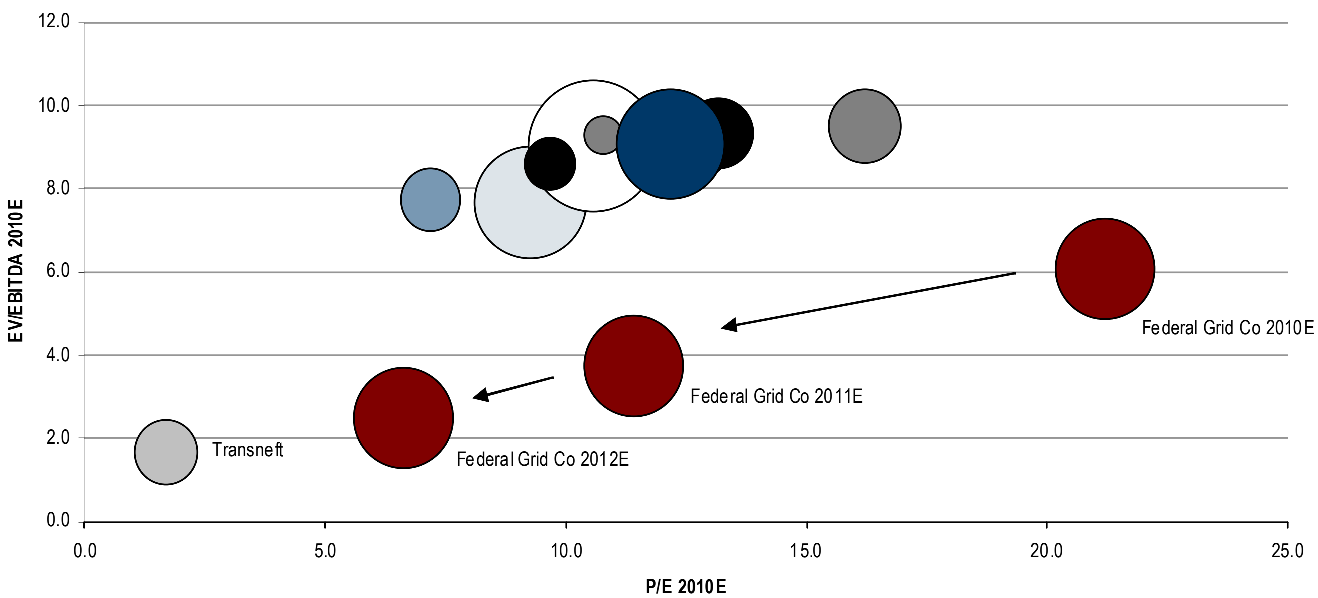
Having kicked off the deregulation process, we do not expect the Russian government to suspend it. The capex outlook for the Russian power sector is unlikely to deteriorate materially, even if power consumption dynamics are sluggish (although we expect it to average c2% per annum until 2015E, as not only additions of new capacity, but also replacements of outdated capacity are required). Federal Grid Co accounts for less than 10% in the overall power value chain, which gives it greater flexibility in terms of future tariff growth compared with the other Russian power companies.

We find very few reasons for the government to suspend the company's deregulation

We view Federal Grid Co as a structural long-term growth story. We estimate that the company will deliver c82% EBITDA CAGR and 96% EPS CAGR 2009E–2011E, likely becoming the fastest-growing regulated utility in the world over the next three years. Looking somewhat expensive on 2009E and 2010E multiples, Federal Grid Co already appears attractive compared with its European peers in 2011E (see Figure 10), with the valuation gap increasing going into 2012E.

Federal Grid Co is likely to become the fastest-growing regulated utility globally

Figure 10: Federal Grid Co valuations relative to its European peers (x)



Note: Unlabeled bubbles represent European regulated utilities valuations Source: Credit Suisse estimates

- **Transneft – steady growth, but low yield:** Despite its growth-focused model and scope for substantial profitability, we see little attraction for investors. Owing to non-transparent dividend payout rules, the company's historical preference for investing in capex over delivering on dividends and the fact that only preferred shares of Transneft are floated on the market, we see little attraction for investors.

Transneft's financial growth is not attributable to its minority shareholders, in our view

We do not expect any major improvements in this area in the foreseeable future. As long as the government is not encouraged to change the regulatory model and will continue to finance important projects through tariff increases, we think Transneft will likely continue with its current strategy, which suggests limited benefits for the company's preferred shareholders. Figure 11 outlines our dividend payout forecasts and the implied dividend yields for Transneft.

And we do not expect any major improvements in this regard going forward

Figure 11: Transneft dividend payout forecasts and implied dividend yields

	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Net income, Rbl'm	92,336	105,982	123,481	137,995	156,079	177,111	193,348
Dividend payout ratio, %	0.6%	0.8%	1.0%	1.0%	1.0%	1.0%	1.0%
Dividend yield, %	1.4%	2.2%	3.2%	3.5%	4.0%	4.5%	5.0%

Source: Credit Suisse estimates

Benchmarking against global peers

Figure 12 shows the Credit Suisse valuations for regulated utilities globally. Although Federal Grid Co looks expensive on current-year multiples, it starts to look more reasonably priced on future expectations. Transneft's multiples remain depressed throughout the period given the non-applicability of its earnings growth for minorities due to poor dividend payout outlook.

Federal Grid Co is more reasonably priced on future expectations

Figure 12: **Global regulated utilities valuation as of 12 November 2009**

Company	Ticker	Rating	Mar.Cap US$m	Net debt US$m	EV US$m	P/E 2009E	P/E 2010E	P/E 2011E	EV/EBITDA 2009E	EV/EBITDA 2010E	EV/EBITDA 2011E
Russia											
Transneft	TRNFp.RTS	U	5,894	4,695	10,589	1.8	1.6	1.4	1.1	1.0	0.8
Federal Grid Co	FEES.RTS	O	14,534	614	15,149	49.1	22.3	11.4	13.0	5.8	3.7
Average						**24.9**	**11.4**	**6.4**	**10.7**	**5.4**	**3.6**
Europe											
Enagas	ENAG.MC	U	5,018	3,434	8,157	11.9	10.4	9.7	8.9	8.2	7.9
Gas Natural	GAS.MC	U	18,424	5,730	28,846	8.8	9.3	6.3	9.1	7.7	7.1
National Grid	NG.L	N	25,242	33,246	55,046	12.2	10.6	11.0	9.5	9.0	9.0
Northumbrian Water	NWG.L	U	2,078	3,196	5,012	11.5	10.8	13.1	9.3	9.3	9.5
Pennon Group	PNN.L	N	2,705	2,710	4,885	12.2	12.9	15.1	8.7	8.9	9.2
Red Electrica	REE.MC	O	7,154	4,056	10,984	14.3	13.2	11.8	9.8	9.3	8.8
Severn Trent	SVT.L	N	3,893	5,440	9,216	11.3	9.7	12.7	9.0	8.6	9.2
Snam Rete Gas	SRG.MI	O	17,543	8,718	24,470	11.7	12.2	11.6	11.4	9.1	8.9
Terna	TRN.MI	O	8,123	4,705	12,356	16.8	16.2	14.9	9.7	9.5	9.1
United Utilities	UU.L	O	5,335	7,013	11,302	7.9	7.2	11.4	7.9	7.7	9.0
Average						**11.9**	**11.2**	**11.8**	**9.3**	**8.7**	**8.8**
US											
Dynegy	DYN	R	1,661	4,555	6,216	R	R	R	R	R	R
Cascal N.V.	HOO	O	179	145	343	10.4	0.0	0.0	6.6	6.4	5.8
ITC Holdings Corp	ITC	O	2,266	2,190	4,456	18.9	17.4	13.6	10.9	10.7	9.7
Average						**14.6**	**8.7**	**6.8**	**8.8**	**8.5**	**7.8**
LatAm											
Comgas	CGAS5	N	2,266	625	2,891	11.2	9.7	8.8	7.8	6.5	5.8
Sabesp	SBSP3	N	4,517	2,535	7,053	6.7	7.1	6.8	5.4	4.7	4.6
Transmissao Paulista	TRPL4	O	2,468	413	2,881	10.4	9.3	8.9	5.2	5.1	5.3
Average						**9.5**	**8.7**	**8.2**	**6.1**	**5.4**	**5.2**
Asia Pacific											
DUET	DUE.AX	N	1,356	3,810	4,996	9.3	11.1	10.8	9.5	9.8	9.5
GAIL (India) Ltd	GAIL.BO	O	10,275	9	9,481	16.9	16.2	14.7	10.9	9.9	9.4
Gujarat State Petronet	GSPT.BO	N	1,102	177	1,460	41.6	14.3	14.1	14.9	7.9	7.3
Hong Kong and China Gas	0003.HK	N	15,704	638	16,341	23.7	27.1	25.6	19.9	19.4	18.1
Hyflux Water Trust	HYWT.SI	N	146	16	157	27.6	21.5	17.2	14.2	9.9	8.1
Korea Gas Corp	036460.KS	U	3,145	10,708	13,600	11.8	11.7	11.0	9.4	9.7	9.7
Perusahaan Gas Negara	PGAS.JK	O	9,403	1,026	9,233	17.1	12.6	10.9	10.2	8.0	6.9
SP AusNet	SPN.AX	N	2,175	3,100	4,729	10.8	11.7	12.0	9.6	8.9	9.0
Thai Tap Water	TTW.BK	N	503	227	709	9.3	9.9	9.4	7.5	7.9	6.9
Average						**18.7**	**15.1**	**14.0**	**11.8**	**10.1**	**9.4**
Global average						**15.2**	**12.1**	**11.3**	**9.9**	**8.6**	**8.1**

Note: Please refer to the Companies mentioned section for the stocks' volatility ratings Source: Credit Suisse estimates

Figure 13 outlines the value and growth features of the regulated utilities globally. Screening as the worst performer in the peer group in terms of FCF generation, Federal Grid Co also stands out as the fastest-growing regulated utility globally in terms of EPS growth. Transneft presents itself as a more mature business model both in terms of FCF generation and business growth. However, this provides little benefit to the company's minority shareholders, owing to Transneft's very poor dividend yield profile.

Federal Grid Co is the fastest-growing regulated utility in the world, on our analysis

Figure 13: Global regulated utilities value and growth test as of 12 November 2009

Company	Ticker	FCF yield, %	Div yield, %	EPS, LC 2009E	EPS, LC 2010E	EPS, LC 2011E	CAGR 09-11, %	EBITDA, LC 2009E	EBITDA, LC 2010E	EBITDA, LC 2011E	CAGR 09-11, %
Russia											
Transneft	TRNFp.RTS	-7.4%	1.4%	13,002	14,923	17,388	16%	189,374	219,977	250,631	15%
Federal Grid Co	FEES.RTS	-26.0%	0.1%	0.008	0.018	0.032	99%	30,427	64,171	104,299	85%
Average		**-16.7%**	**0.7%**				**57%**				**50%**
Europe											
Enagas	ENAG.MC	-1.7%	5.0%	1.2	1.4	1.5	11%	710	812	874	11%
Gas Natural	GAS.MC	9.4%	4.3%	1.6	1.5	2.2	18%	4,039	4,752	5,103	12%
National Grid	NG.L	-2.5%	5.8%	0.5	0.6	0.6	5%	4,042	4,380	4,496	5%
Northumbrian Water	NWG.L	3.9%	5.3%	0.2	0.2	0.2	-6%	374	379	378	1%
Pennon Group	PNN.L	2.6%	4.5%	0.4	0.4	0.3	-10%	391	393	390	0%
Red Electrica	REE.MC	-1.4%	4.2%	2.5	2.7	3.0	10%	844	926	1,018	10%
Severn Trent	SVT.L	-4.3%	6.8%	0.9	1.0	0.8	-6%	718	782	746	2%
Snam Rete Gas	SRG.MI	0.3%	5.4%	0.3	0.3	0.3	0%	1,921	2,486	2,608	17%
Terna	TRN.MI	0.0%	6.9%	0.2	0.2	0.2	6%	978	1,083	1,183	10%
United Utilities	UU.L	5.0%	0.1%	0.6	0.7	0.4	-17%	999	1,033	903	-5%
Average		**1.1%**	**4.8%**				**1%**				**6%**
US											
Dynegy	DYN	n/a	n/a	R	R	R	n/a	R	R	R	n/a
Cascal N.V.	HOO	10.9%	3.1%	0.6	n/a	n/a	n/a	60	60	64	3%
ITC Holdings Corp	ITC	-8.6%	2.8%	2.4	2.6	3.3	18%	422	450	532	12%
Average		**1.2%**	**2.9%**				**18%**				**8%**
LatAm											
Comgas	CGAS5	4.5%	4.6%	1.6	1.9	2.1	17%	404	489	536	15%
Sabesp	SBSP3	2.6%	4.2%	2.4	2.7	n/a	n/a	1,434	1,651	1,711	9%
Transmissao Paulista	TRPL4	18.9%	8.2%	2.7	3.1	3.2	8%	662	800	856	14%
Average		**8.7%**	**5.7%**				**8%**				**11%**
Asia Pacific											
DUET	DUE.AX	-23.5%	14.1%	0.2	0.2	0.2	-7%	653	684	711	4%
GAIL (India) Ltd	GAIL.BO	2.4%	1.9%	22.3	23.3	25.6	7%	44,104	47,981	50,600	7%
Gujarat State Petronet	GSPT.BO	0.0%	0.7%	2.2	6.4	6.5	72%	4,245	8,026	8,379	40%
Hong Kong and Chine Gas	0003.HK	5.5%	2.2%	0.8	0.7	0.7	-4%	6,507	6,744	7,227	5%
Hyflux Water Trust	HYWT.SI	16.5%	7.1%	0.0	0.0	0.0	27%	15	21	23	23%
Korea Gas Corp	036460.KS	-5.3%	2.5%	3,993	4,050	4,294	4%	1,494,199	1,484,289	1,574,113	3%
Perusahaan Gas Negara	PGAS.JK	9.1%	2.3%	214	290	336	25%	9,542,913	11,491,688	12,568,874	15%
SP AusNet	SPN.AX	-6.0%	13.0%	0.1	0.1	0.1	-5%	710	762	787	5%
Thai Tap Water	TTW.BK	14.5%	6.4%	0.5	0.4	0.4	0%	3,178	2,901	3,092	-1%
Average		**1.5%**	**5.6%**				**13%**				**11%**
Global average		**0.7%**	**4.7%**				**12%**				**12%**

Source: Credit Suisse estimates

Federal Grid Co (FEES.RTS)

Rating (from Underperform)	**OUTPERFORM* [V]**
Price (12 Nov 09, US$)	0.0126
Target Price (US$)	(from 0.004) 0.017[1]
Market cap. (US$ m)	14,534.28
Enterprise value (US$ m)	12,628.2

**Stock ratings are relative to the relevant country benchmark.*
[1]Target price is for 12 months.
[V] = Stock considered volatile (see Disclosure Appendix).

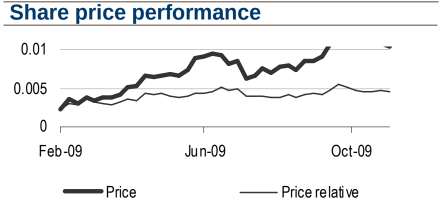
Research Analysts
Evgeny Olkhovich
7 495 967 8349
evgeny.olkhovich@credit-suisse.com

UPGRADE RATING

Regulatory reform to drive earnings growth

- **Action:** We upgrade Federal Grid Co to Outperform (from Underperform) and increase its TP to US$0.017 (from US$0.004), based on our view that company's regulatory reform will move forward and as our previous concern that it might be delayed proved to be overconservative. We now rely on Federal Grid Co's guidance for its regulatory parameters next year, which materially lifts up our forecasts. We believe the stock offers the highest growth prospects in the Russian infrastructure space. We would recommend the stock to investors with a 12-month and long-term view.
- **Investment case:** Driven by capex financing requirements, we think Federal Grid Co should be the first among the Russian regulated utilities to transfer to the globally recognised Return on Asset Base (RAB) regulatory mechanism. Ensuring higher long-term business transparency, RAB should materially increase electricity transmission tariffs, generating for Federal Grid Co's shareholders an EPS CAGR 09-11E of 85%, on our estimates. We think future growth is not yet fully reflected in the company's valuations and, as we find few reasons for the regulatory review of Federal Grid Co disappointing investors, we believe the stock's price should continue its upward trend.
- **Catalysts:** The adoption of RAB parameters for the first regulatory period (2010E–2012E) by the end of November should provide more certainty about the company's earnings over the period and help them to be better reflected in the valuations, in our view. The publication of FY2008 IFRS numbers in the next several weeks should unveil the assets that Federal Grid Co inherited after the break-up of UES. We believe these assets are not yet fully priced in by the market.
- **Valuation:** We value Federal Grid Co using a combination of a DCF (75% weighting) and a target forward-looking EV/EBITDA multiple in 2012E (25% weighting) to account for the prospective growth and to benchmark the company against its global peer group. As our TP of US$0.017 suggests 36% upside potential from current levels, we rate the stock Outperform.

Share price performance



The price relative chart measures performance against the ROS 30 index which closed at 8166.7 on 12/11/09
On 12/11/09 the spot exchange rate was $1.4/Eu 1. - Eu .72/US$1

Performance Over	1M	3M	12M
Absolute (%)	2.4	72.6	—
Relative (%)	4.9	31.2	—

Financial and valuation metrics

Year	12/07A	12/08E	12/09E	12/10E
Revenue (US$ m)	2,497.0	2,788.4	2,593.8	3,982.6
EBITDA (US$ m)	982.60	955.75	969.09	2,176.79
Net Income (US$ m)	147.8	237.2	321.8	732.4
CS adj. EPS (US$)	0.0003	0.0003	0.0003	0.0006
Prev. EPS (US$)	0.0003	0.0003	0.0001	0.0002
ROIC (%)	—	1.02	1.28	2.59
P/E (adj., x)	40.61	43.36	49.11	22.34
P/E rel. (%)	591.5	615.9	641.3	248.9
EV/EBITDA	15.4	13.2	13.0	5.8

Dividend (12/08E, US$)	0.0000	IC (12/08E, US$ m)	23,280.0
Dividend yield (%)	0.1	EV/IC	0.54
Net debt (12/08E, US$ m)	-1,906.1	Current WACC	11.4
Net debt/equity (%)(12/08E,	7.19	Free float (%)	12.8
BV/share (12/08E, US$)	0.0	Number of shares (m)	1,153,514.00

Source: Company data, Thomson Financial Datastream, Credit Suisse estimates.

Federal Grid Co valuation approach

We use a combination of DCF and target multiple to value Federal Grid Co

We value Federal Grid Co using a combination of DCF (75% weighting) and a target forward-looking EV/EBITDA multiple in 2012E (25% weighting) to account for the prospective growth and to benchmark the company against its global peer group (see Figure 14). We use a higher weighting for DCF because we believe that investors will approach the stock's long-term prospects with a certain amount of caution due to the long deregulation period.

Figure 14: Federal Grid Co valuation

DCF fair level, US$	0.012
Weighting, %	75%
Target multiple fair level, US$	0.022
Weighting, %	25%
Fair level, US$	0.015
Target price, US$	0.017

Source: Credit Suisse estimates

We build Federal Grid Co's model until 2020E and use a terminal growth rate of 3% thereafter. Our DCF model for the company is shown in Figure 15.

Figure 15: Federal Grid Co's DCF model

Rouble in billions, unless otherwise stated

DCF	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	Term.
EBIT	6	34	65	108	138	148	158	167	176	187	197	208	
Taxes	1	7	13	22	28	30	32	33	35	37	39	42	
NOPAT	5	27	52	87	111	119	126	134	141	150	158	166	
Capex	150	170	170	170	150	150	150	150	150	150	150	150	
Change in WC	-1	-5	-2	-5	-4	-2	-1	-1	-1	-2	-1	-1	
Depreciation	24	30	39	48	55	61	67	73	79	83	87	90	
Share placement proceeds	40	0	0	0	0	0	0	0	0	0	0	0	
FCF	-82	-117	-81	-41	12	28	42	55	69	81	93	105	1,283
WACC	11.4%												
DCF	-82	-105	-65	-29	8	16	22	26	29	31	32	32	390
EV	385												
Net debt, 2009E	-60												
PV	445												
# shares, bn	1,234												
Fair value, Rbl	0.012												

Source: Credit Suisse estimates

We estimate Federal Grid Co's WACC at 11.4%. We calculate it by using the Eurobond yield assumption of 6%. We also assume that the company's beta is equal to 1.0 given its highly defensive business model. We estimate Federal Grid Co's pre-tax cost of debt at 12.0%. Given our 2012 forecasts, when the company should reach its long-term sustainable level, its debt-to-equity ratio will stand at 24%. Our WACC assumptions for Federal Grid Co are detailed in Figure 16.

Figure 16: Federal Grid Co: WACC calculation

Eurobond yield	6.0%
Spread	0.0%
Risk-free rate	6.0%
Beta	1
Equity risk premium	6.0%
Cost of equity	12.0%
Cost of debt, pre-tax	12.0%
Tax rate	20%
Cost of debt, post-tax	9.6%
Debt/Equity	24%
WACC	11.4%

Source: Credit Suisse estimates

We use the forward-looking EV/EBITDA multiple of 8.0 as Federal Grid Co's target level in 2012E. We believe it most appropriately reflects the fair valuation of the company's global peers (see Figure 12) and accounts for its forthcoming debt raising that we expect. Our detailed target multiple valuation for Federal Grid Co is given in Figure 17.

Figure 17: Federal Grid Co: Target multiple valuation

in millions of Roubles, unless stated otherwise

Target EV/EBITDA, 2012E	8.0
Target EV, 2012E	1,249,802
Net debt, 2012E	139,202
Equity value, 2012E	1,110,600
Discounted equity value	802,718
Fair value per share, US$	0.022

Source: Credit Suisse estimates

We believe that a 40% discount to RAB is a justified level for the stock currently

Figure 18 demonstrates Federal Grid Co's multiples at current and target price levels. At our target price, the company trades at a c40% discount to the RAB value on current debt expectations and at a c20% discount to RAB on forward-looking 2012E debt expectation. We think this is justified.

Figure 18: Federal Grid Co: Current and target multiples (x)

	2009E	2010E	2011E	2012E
Current multiples				
P/E	49.1	22.3	11.4	6.6
EV/EBITDA, actual	12.7	6.0	3.7	2.5
EV/EBITDA, forward-looking 2012E	19.4	9.2	5.7	3.8
EV/RAB		0.4	0.4	0.3
EV/RAB, forward-looking 2012E		0.7	0.6	0.5
P/B		0.6	0.6	0.5
Target multiples				
P/E	63.8	23.4	12.6	7.3
EV/EBITDA, actual	17.6	8.3	5.1	3.4
EV/EBITDA, forward-looking 2012E	24.2	11.5	7.0	4.7
EV/RAB		0.6	0.5	0.5
EV/RAB, forward-looking 2012E		0.8	0.7	0.6
P/B		0.9	0.8	0.8

Source: Credit Suisse estimates

Figure 19: Federal Grid Co income statement projections
Rouble in millions, unless otherwise stated

P&L	2006	2007	2008E	2009E	2010E	2011E	2012E
Revenues	55,340	63,846	69,189	81,437	117,407	163,061	220,971
OPEX	22,356	26,917	31,603	35,517	36,023	38,769	41,524
Purchased electricity	10,744	11,805	13,871	15,493	17,213	19,993	23,222
EBITDA	22,240	25,124	23,715	30,427	64,171	104,299	156,225
margin, %	40%	39%	34%	37%	55%	64%	71%
DD&A	9,249	13,060	18,580	24,270	30,465	39,146	47,966
EBIT	35,549	7,328	5,135	6,157	33,707	65,153	108,260
margin, %	64%	11%	7%	8%	29%	40%	49%
Finance income	332	1,523	6,830	13,393	5,238	5,456	6,352
Finance costs	(1,985)	(2,751)	(4,118)	(6,077)	(10,157)	(17,177)	(22,817)
Income tax	(8,773)	(2,321)	(1,962)	(3,368)	(7,197)	(13,358)	(22,949)
Net income	25,123	3,779	5,886	10,105	21,591	40,074	68,846
margin, %	45%	6%	9%	12%	18%	25%	31%
EPS	0.053	0.008	0.005	0.008	0.018	0.032	0.056
growth, %		-85%	-36%	61%	114%	86%	72%

Source: Credit Suisse estimates

Figure 20: Federal Grid Co balance sheet projections
Rouble in millions, unless otherwise stated

Balance sheet	2006	2007	2008E	2009E	2010E	2011E	2012E
PP&E	230,255	354,040	477,201	608,621	754,351	893,887	1,024,741
Cash	5,971	15,248	33,935	52,378	54,558	63,518	60,937
A/R	11,505	25,139	13,179	15,661	17,098	15,986	21,664
Assets	259,398	406,461	701,349	808,694	898,041	985,425	1,119,376
Debt	35,700	30,489	38,139	63,139	106,139	180,139	200,139
A/P	9,875	21,958	12,641	14,207	10,807	7,754	8,305
Liabilities	97,253	134,363	54,994	112,423	180,474	228,289	294,473
Share capital	121,607	180,691	576,757	616,757	616,757	616,757	616,757
Retained earning	32,976	39,450	44,646	54,562	75,858	115,427	183,194
Equity	162,145	272,098	646,355	696,271	717,567	757,136	824,903
Total liabilities and equity	259,398	406,461	701,349	808,694	898,041	985,425	1,119,376

Source: Credit Suisse estimates

Figure 21: Federal Grid Co cash flow statement projections
Rouble in millions, unless otherwise stated

	2006	2007	2008E	2009E	2010E	2011E	2012E
Cash flow from operations	20,738	24,932	26,359	29,510	59,334	102,357	151,099
Cash flow from investing	(32,620)	(70,567)	(136,221)	(150,000)	(170,000)	(170,000)	(170,000)
Cash flow from financing	16,112	54,518	128,549	138,933	112,846	76,603	16,320
Cash at the year end	5,971	15,248	33,935	52,378	54,558	63,518	60,937

Source: Credit Suisse estimates

Europe / Russia
Pipelines (Emerging Markets)

Transneft (TRNFp.RTS)

Rating	UNDERPERFORM* [V]
Price (12 Nov 09, US$)	830.00
Target Price (US$)	(from 240.00) 750.00[1]
Market cap. (Rbl m)	170,463.95
Enterprise value (Rbl m)	176,128.95

**Stock ratings are relative to the relevant country benchmark.*
[1]Target price is for 12 months.
[V] = Stock considered volatile (see Disclosure Appendix).

Research Analysts

Evgeny Olkhovich
7 495 967 8349
evgeny.olkhovich@credit-suisse.com

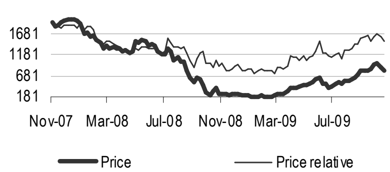
Mark Henderson
+44 20 7883 6901
mark.henderson.2@credit-suisse.com

INCREASE TARGET PRICE

Solid outlook, but limited pass-through for minorities

- **Action:** We increase our TP for Transneft to US$750 per share following the change in valuation method (from DCF to DDM) but reiterate our Underperform rating. Despite Transneft's being one of the largest constituents of the infrastructure theme in Russia that we like, we do not see how it can accrete value for its minority shareholders. Thus, we recommend that investors switch from Transneft to Federal Grid Co, as the latter offers a more transparent and higher-growth investment case, in our view.
- **Investment case:** We think that the market erroneously attributes Transneft's solid growth outlook to its share price. We do not see how the company's minority shareholders can benefit from the c21% EPS CAGR we estimate it will see over the next three years given its non-transparent dividend payout policy and the fact that only its preferred shares are floated on the market. We do not expect major improvements in Transneft's historical dividend payout ratio of 0.6%.
- **Catalysts:** The adoption of crude oil transmission tariffs for 2010E and the launch of a part of the Eastern Siberia Pacific Ocean pipeline, both expected to be announced by the end of this year, may create a positive momentum for the stock. Not having any further catalysts in sight, we would use any share-price strength to reduce positions in the name.
- **Valuation:** Given that only preferred shares of Transneft are floated on the market, we value them using the Dividend Discount Model (DDM). Based on the long-term payout ratio of 1% (in recent history the company paid out 0.6% of its IFRS net income figure), we arrive at our target price of US$750. As our TP suggests around 10% downside potential, we continue to rate the stock Underperform.

Share price performance



The price relative chart measures performance against the ROS 30 index which closed at 8046.4 on 12/11/09
On 12/11/09 the spot exchange rate was $1.48/Eu 1. - Eu .67/US$1

Performance Over	1M	3M	12M
Absolute (%)	-11.7	74.7	186.2
Relative (%)	-8.3	34.8	46.1

Financial and valuation metrics

Year	12/08A	12/09E	12/10E	12/11E
Revenue (Rbl m)	274,977.0	332,952.0	390,437.1	449,184.6
EBIDAX (Rbl m)	129,863.0	155,955.0	182,775.0	213,672.7
Net Income (Rbl m)	70,506.0	92,336.5	105,981.7	123,481.4
CS adj. EPS (Rbl)	9,928.01	13,001.99	14,923.37	17,387.53
Prev. EPS (Rbl)	—	12,339.72	12,761.49	13,318.31
ROGIC (%)	13.2	11.8	11.2	11.4
P/E (adj., x)	2.42	1.85	1.61	1.38
P/E rel. (%)	34.9	24.5	18.2	20.3
EV/EBIDAX (x)	1.4	1.1	1.0	0.8

Dividend (2009E)	356.31	Dividend yield (%)	1.4
Net debt current qtr (Rbl m)	5,665.0	Net debt qtr/total mcap	3
BV/share (12/09E, Rbl)	105,694.0	GIC (12/09E, Rbl)	1,027,816
EV qtr/GIC (x)	0.22	Current WACC	8.1
Free float (%)	25.0	Number of shares (m)	7.10

Source: Company data, Thomson Financial Datastream, Credit Suisse estimates.

Transneft valuation approach

DDM is our preferred tool to value Transneft

We think that the only way to fundamentally value Transneft's preferred shares is by using the Dividend Discount Model (DDM). We build Transneft's valuation model until 2016E and use a terminal growth assumption of 3% thereafter. We assume a 0.6% dividend payout ratio this year (equal to the payout ratio over the past two years), but steadily increase it up to 1% by 2011E to account for the somewhat brighter business outlook in the future. Our DDM model for Transneft is shown in Figure 22.

Figure 22: Transneft's Dividend Discount Model (for preferred shares)
Rouble in millions, unless otherwise stated

	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	Term.
Net income	92,336	105,982	123,481	137,995	156,079	177,111	193,348	197,829	
Payout ratio, %	0.6%	0.8%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	
Dividends	554	848	1,235	1,380	1,561	1,771	1,933	1,978	39,986
growth,%	38%	53%	46%	12%	13%	13%	9%	2%	
WACC	8.1%								
Discounted dividends	554	784	1,057	1,093	1,143	1,200	1,212	1,147	23,187
Fair value - total, US$m	1,082								
Fair value per share, US$	750								

Source: Credit Suisse estimates

We estimate Transneft's WACC at 8.1%. We calculate it by using the Eurobond yield assumption of 6%. We also assume that the company's beta is equal to 1.0 given its highly defensive business model. We estimate Transneft's pre-tax cost of debt at 6.8% owing to a cheap US$10bn loan from the Chinese Bank of Development taken in the beginning of the year. Given our current-year forecasts, Transneft's debt-to-equity ratio stands at 75%. Our WACC assumptions for Transneft are given in Figure 23.

Figure 23: Transneft: Credit Suisse WACC calculation

Eurobond yield	6.0%
Spread	0%
Risk-free rate	6.0%
Beta	1.0
Equity risk premium	6.0%
Cost of equity	12.0%
Cost of debt, pre-tax	6.8%
Tax rate	20.0%
Cost of debt, post-tax	5.5%
Debt/Equity	75.3%
WACC	8.1%

Source: Credit Suisse estimates

DDM sensitivity

Valuation is highly sensitive to long-term payout ratio assumptions

Owing to the company's low dividend payout ratio, we find its valuations based on the DDM extremely sensitive to our future payout assumptions. Although we do not expect any improvement in the company's dividend policy going forward, Figure 24 presents how our valuation might conceptually change, should Transneft become more investor-focused.

Figure 24: **Transneft's DDM valuation sensitivity to WACC and dividend payout ratio**

		WACC				
		6%	7%	**8%**	9%	10%
Payout ratio	0.5%	650	500	390	340	290
	1.0%	870	960	**750**	640	550
	2.0%	2,490	1,870	1,460	1,240	1,060
	5.0%	6,100	4,550	3,560	3,020	2,580
	10.0%	11,850	8,850	6,920	5,860	5,000

Source: Credit Suisse estimates

DCF valuation cross-check

Common equity value is meaningfully higher

Although a DCF valuation is not a proper way to value Transneft preferred shares, in our view, since the company's common equity is unavailable to investors, we have built up the model to see how much the company might be worth, should it make a decision to place its common equity on the market. Not surprisingly, our DCF-estimated equity value equalled US$55bn, or more than 8 times higher than the company's market cap at the moment. However, we do not see any catalysts in sight that could compel us to value the stock on DCF.

Figure 25: **Transneft's DCF valuation**

Roubles in millions, unless stated otherwise

DCF	**2009E**	**2010E**	**2011E**	**2012E**	**2013E**	**2014E**	**2015E**	**2016E**	**Term.**
EBIT	145,882	168,526	190,821	212,225	237,178	264,765	284,363	287,309	
Taxes	(24,299)	(27,890)	(32,495)	(36,314)	(41,073)	(46,608)	(50,881)	(52,060)	
NOPAT	121,583	140,636	158,326	175,910	196,105	218,157	233,482	235,249	
DD&A	43,492	51,451	59,810	68,569	75,569	82,569	89,569	96,569	
Change in WC	(4,814)	(4,686)	(5,001)	(5,452)	(3,982)	(3,361)	(3,904)	(5,039)	
Capex	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)	
FCF	(39,739)	(12,599)	13,135	39,028	67,692	97,365	119,147	126,780	2,562,543
growth, %	712%	-68%	-204%	197%	73%	44%	22%	6%	
WACC	8.1%								
DCF	(39,739)	(11,655)	11,241	30,899	49,580	65,972	74,684	73,517	1,485,965
EV	1,780,203								
Net debt, 1H09	201,970								
PV	1,578,233								
# of shares - adjusted	6,713,003								
prefs discount to ords est.	25%								
Fair value (prefs), US$	6,080								

Source: Credit Suisse estimates

Figure 26: Transneft's income statement projections

Rouble in millions, unless otherwise stated

	2007	2008	2009E	2010E	2011E	2012E
Revenues	221,942	274,977	332,952	390,437	449,185	509,200
OPEX	135,966	150,554	187,070	221,911	258,364	296,976
EBITDA	125,504	160,798	189,374	219,977	250,631	280,794
margin, %	57%	58%	57%	56%	56%	55%
DD&A	30,169	34,067	43,492	51,451	59,810	68,569
EBIT	95,335	126,731	145,882	168,526	190,821	212,225
margin, %	43%	46%	44%	43%	42%	42%
Interest income	281	2,128	5,710	9,982	11,071	10,071
Interest expense	(2,273)	(10,150)	(30,097)	(39,059)	(39,416)	(40,724)
Income tax	(30,451)	(21,977)	(24,299)	(27,890)	(32,495)	(36,314)
Net income	60,139	70,506	92,336	105,982	123,481	137,995
margin, %	27%	26%	28%	27%	27%	27%
EPS (Rbl)	9,669	9,928	13,002	14,923	17,388	19,431
growth, %	17%	3%	31%	15%	17%	12%

Source: Credit Suisse estimates

Figure 27: Transneft's balance sheet projections

Rouble in millions, unless otherwise stated

	2007	2008	2009E	2010E	2011E	2012E
Cash	23,498	60,565	167,854	231,420	211,420	191,420
A/R	21,035	19,082	23,307	27,331	31,443	35,644
PP&E	633,560	809,130	965,638	1,114,187	1,254,377	1,385,807
Assets	742,538	963,129	1,222,070	1,477,882	1,649,070	1,819,719
ST debt	91,255	64,140	49,943	58,566	67,378	76,380
A/P	35,866	46,633	56,121	66,573	77,509	89,093
LT debt	71,322	191,597	391,604	504,523	514,388	507,643
Liabilities	293,599	403,232	605,906	752,271	796,571	825,416
Share capital	307	308	236	244	239	234
Retained earnings	426,185	495,081	586,032	689,894	810,289	944,834
Equity	426,492	534,862	586,268	690,138	810,528	945,068
Total equity and liabilities	742,538	963,129	1,222,070	1,477,882	1,649,070	1,819,719

Source: Credit Suisse estimates

Figure 28: Transneft's cash flow projections

Rouble in millions, unless otherwise stated

	2007	2008	2009E	2010E	2011E	2012E
Cash from operating	54,514	119,657	122,795	144,038	164,256	181,019
Cash from investing	(145,066)	(125,186)	(200,000)	(200,000)	(200,000)	(200,000)
Cash from financing	84,803	41,202	184,494	119,527	15,744	(1,019)
Cash at the end of the year	23,498	60,565	167,854	231,420	211,420	191,420

Source: Credit Suisse estimates

Companies Mentioned *(Price as of 12 Nov 09)*
Cascal N.V. (HOO, $5.85, OUTPERFORM [V], TP $5.20, MARKET WEIGHT)
Comgas (CGAS5, $18.91, NEUTRAL, TP $22.00)
DUET Group (DUE.AX, A$1.71, NEUTRAL [V], TP A$1.68)
Dynegy Inc. (DYN, $1.97, RESTRICTED [V])
Enagas (ENAG.MC, Eu14.16, UNDERPERFORM, TP Eu13.60, MARKET WEIGHT)
Federal Grid Co (FEES.RTS, $.013, OUTPERFORM [V], TP $.017)
GAIL (India) Ltd (GAIL.BO, Rs377.65, OUTPERFORM [V], TP Rs399.00)
Gas Natural (GAS.MC, Eu13.86, UNDERPERFORM, TP Eu26.50, MARKET WEIGHT)
Gujarat State Petronet Limited (GSPT.BO, Rs91.35, NEUTRAL [V], TP Rs90.00)
Hong Kong and China Gas (0003.HK, HK$18.64, NEUTRAL, TP HK$13.90)
Hyflux Water Trust (HYWT.SI, S$.68, NEUTRAL, TP S$.40)
ITC Holdings Corp (ITC, $45.16, OUTPERFORM, TP $63.00)
Korea Gas Corp (036460.KS, W47,250, UNDERPERFORM, TP W45,500)
National Grid (NG.L, 618.50 p, NEUTRAL, TP 640.00 p, MARKET WEIGHT)
Northumbrian Water (NWG.L, 241.50 p, UNDERPERFORM, TP 256.00 p, MARKET WEIGHT)
Pennon Group (PNN.L, 463.20 p, NEUTRAL, TP 520.00 p, MARKET WEIGHT)
Perusahaan Gas Negara (PGAS.JK, Rp3650.00, OUTPERFORM [V], TP Rp4500.00)
Red Electrica (REE.MC, Eu35.63, OUTPERFORM, TP Eu42.00, MARKET WEIGHT)
Sabesp (SBSP3, $19.83, NEUTRAL [V], TP $26.00)
Severn Trent (SVT.L, 992.00 p, NEUTRAL, TP 1045.00 p, MARKET WEIGHT)
Snam Rete Gas (SRG.MI, Eu3.31, OUTPERFORM, TP Eu3.60, MARKET WEIGHT)
SP AusNet (SPN.AX, A$.88, NEUTRAL, TP A$.96)
Terna (TRN.MI, Eu2.74, OUTPERFORM, TP Eu2.97, MARKET WEIGHT)
Thai Tap Water (TTW.BK, Bt4.20, NEUTRAL, TP Bt4.80)
Transmissao Paulista (TRPL4, $28.22, OUTPERFORM, TP $33.00)
Transneft (TRNFp.RTS, $830.00, UNDERPERFORM [V], TP $750.00)
United Utilities (UU.L, 471.90 p, OUTPERFORM, TP 550.00 p, MARKET WEIGHT)

Disclosure Appendix

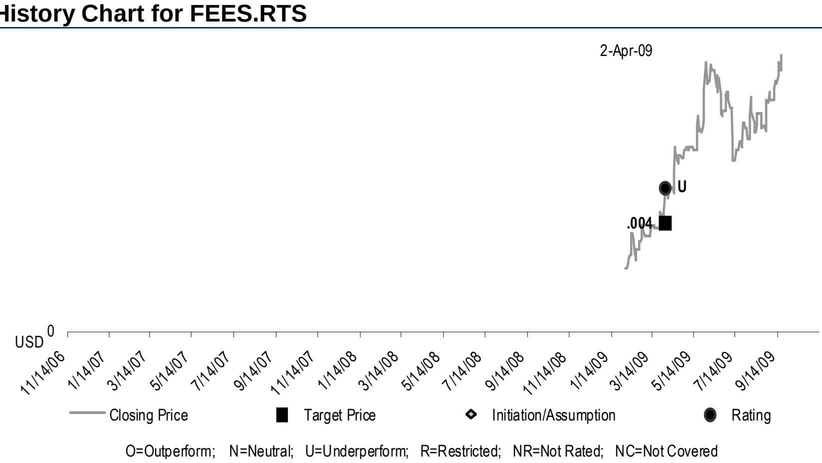
Important Global Disclosures

The analysts identified in this report each certify, with respect to the companies or securities that the individual analyzes, that (1) the views expressed in this report accurately reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

See the Companies Mentioned section for full company names.

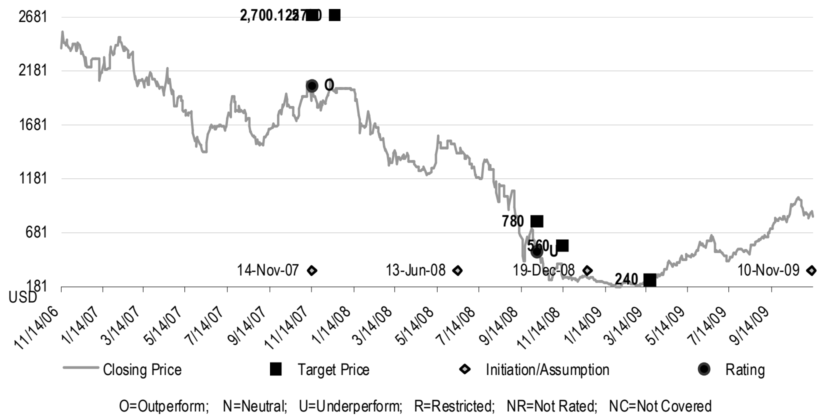
3-Year Price, Target Price and Rating Change History Chart for FEES.RTS

FEES.RTS Date	Closing Price (US$)	Target Price (US$)	Rating	Initiation/ Assumption
4/2/09	.005	.004	U	X



3-Year Price, Target Price and Rating Change History Chart for TRNFp.RTS

TRNFp.RTS Date	Closing Price (US$)	Target Price (US$)	Rating	Initiation/ Assumption
11/14/07	2040	2,700.125	O	X
12/17/07	1985	2700		
6/13/08				X
10/6/08	505	780	U	
11/12/08	290	560		
12/19/08				X
3/20/09	275	240		
11/10/09				X



The analyst(s) responsible for preparing this research report received compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities.

Analysts' stock ratings are defined as follows:

Outperform (O): The stock's total return is expected to outperform the relevant benchmark* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

Neutral (N): The stock's total return is expected to be in line with the relevant benchmark* (range of ±10-15%) over the next 12 months.

Underperform (U): The stock's total return is expected to underperform the relevant benchmark* by 10-15% or more over the next 12 months.

Relevant benchmark by region: As of 29th May 2009, Australia, New Zealand, U.S. and Canadian ratings are based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. Some U.S. and Canadian ratings may fall outside the absolute total return ranges defined above, depending on market conditions and industry factors. For Latin American, Japanese, and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; for European stocks, ratings are based on a stock's total return relative to the analyst's coverage universe**. For Australian and New Zealand stocks a 22% and a 12% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively, subject to analysts' perceived risk. The 22% and 12% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively, subject to analysts' perceived risk.*

***An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.*

Restricted (R): In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

Volatility Indicator [V]: A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

Analysts' coverage universe weightings are distinct from analysts' stock ratings and are based on the expected performance of an analyst's coverage universe* versus the relevant broad market benchmark**:

Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.

Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

**An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.*

***The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.*

Credit Suisse's distribution of stock ratings (and banking clients) is:

	Global Ratings Distribution	
Outperform/Buy*	41%	(56% banking clients)
Neutral/Hold*	42%	(59% banking clients)
Underperform/Sell*	16%	(51% banking clients)
Restricted	2%	

**For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

Credit Suisse's policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

Credit Suisse's policy is only to publish investment research that is impartial, independent, clear, fair and not misleading. For more detail please refer to Credit Suisse's Policies for Managing Conflicts of Interest in connection with Investment Research: http://www.csfb.com/research-and-analytics/disclaimer/managing_conflicts_disclaimer.html

Credit Suisse does not provide any tax advice. Any statement herein regarding any US federal tax is not intended or written to be used, and cannot be used, by any taxpayer for the purposes of avoiding any penalties.

See the Companies Mentioned section for full company names.

Price Target: (12 months) for (FEES.RTS)

Method: We value Federal Grid Co using a combination of DCF (75% weighting) and a target forward-looking EV/EBITDA multiple in 2012E (25% weighting) to account for the prospective growth and to benchmark the company against its global peer group. We use a higher weighting for DCF because we believe that investors will approach the stock's long-term prospects with a certain amount of caution due to the long deregulation period. We build Federal Grid Co's model until 2020E and use a terminal growth rate of 3% thereafter. We estimate Federal Grid Co's WACC at 11.4%. We calculate it by using the Eurobond yield assumption of 6%. We also assume that the company's beta is equal to 1.0 given its highly defensive business model. We estimate Federal Grid Co's pre-tax cost of debt at 12.0%. Given our 2012 forecasts, when the company should reach its long-term sustainable level, its debt-to-equity ratio will stand at 24%. We use the forward-looking EV/EBITDA multiple of 8.0 as Federal Grid Co's target level in 2012E. We believe it most appropriately reflects the fair valuation of the company's global peers and accounts for its forthcoming debt raising that we expect.

Risks: We have identified two major risks to our valuation approach. Federal Grid Co's actual long-term regulatory parameters should be approved by the regulator by the end of this year. If they differ from our assumption, the company's investment case will change, in our view, with the risk to both upside and downside. In addition, a sooner-than-we expect repayment of receivables to Federal Grid Co will strengthen the company's cash position relative to the market cap representing an upside risk for the stock, in our opinion. Ultimately, as a regulated utility on the Russian power market, Federal Grid Co is exposed to regulatory as well as non-payment, revalution and FX risks, in our view.

Price Target: (12 months) for (TRNFp.RTS)

Method: We value Transneft's preferred shares by using the Dividend Discount Model (DDM). We build the company's valuation model until 2016E and use a terminal growth assumption of 3% thereafter. We assume a 0.6% dividend payout ratio in 2009E (equal to the average payout ratio over the past two years), but steadily increase it up to 1% by 2011E to account for the brighter business outlook, in our view. We estimate Transneft's WACC at 8.1%. We calculate it by using the Eurobond yield assumption of 6%. We also assume that the company's beta is equal to 1.0 given its highly defensive business model. We estimate Transneft's pre-tax cost of debt at 6.8% owing to a cheap US$10bn loan from the Chinese Bank of Development taken in the beginning of the year. Given our current-year forecasts, Transneft's debt-to-equity ratio stands at 75%.

Risks: Since the company is fully regulated by the state, most business risks are hedged by the existing tariff formula. We believe the key risk to value is that the government may be too conservative in revising transportation tariffs going forward. The stock is also characterised by relatively weak liquidity; hence, it could be sensitive to general market flows.

Please refer to the firm's disclosure website at www.credit-suisse.com/researchdisclosures for the definitions of abbreviations typically used in the target price method and risk sections.

See the Companies Mentioned section for full company names.

The subject company (FEES.RTS, TRNFp.RTS) currently is, or was during the 12-month period preceding the date of distribution of this report, a client of Credit Suisse.

Credit Suisse provided investment banking services to the subject company (FEES.RTS, TRNFp.RTS) within the past 12 months.

Credit Suisse has managed or co-managed a public offering of securities for the subject company (FEES.RTS, TRNFp.RTS) within the past 12 months.

Credit Suisse has received investment banking related compensation from the subject company (FEES.RTS, TRNFp.RTS) within the past 12 months.

Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (FEES.RTS, TRNFp.RTS) within the next 3 months.

Important Regional Disclosures

Singapore recipients should contact a Singapore financial adviser for any matters arising from this research report.

The analyst(s) involved in the preparation of this report have not visited the material operations of the subject company (FEES.RTS, TRNFp.RTS) within the past 12 months.

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with Credit Suisse should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

For Credit Suisse Securities (Canada), Inc.'s policies and procedures regarding the dissemination of equity research, please visit http://www.csfb.com/legal_terms/canada_research_policy.shtml.

Credit Suisse Securities (Europe) Limited acts as broker to PNN.L.

The following disclosed European company/ies have estimates that comply with IFRS: ENAG.MC, GAS.MC, NG.L, NWG.L, PNN.L, REE.MC, SVT.L, SRG.MI, TRN.MI, UU.L.

As of the date of this report, Credit Suisse acts as a market maker or liquidity provider in the equities securities that are the subject of this report.

Principal is not guaranteed in the case of equities because equity prices are variable.

Commission is the commission rate or the amount agreed with a customer when setting up an account or at anytime after that.

To the extent this is a report authored in whole or in part by a non-U.S. analyst and is made available in the U.S., the following are important disclosures regarding any non-U.S. analyst contributors:

The non-U.S. research analysts listed below (if any) are not registered/qualified as research analysts with FINRA. The non-U.S. research analysts listed below may not be associated persons of CSSU and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

- Evgeny Olkhovich, non-U.S. analyst, is a research analyst employed by Credit Suisse Securities (Europe) Limited.
- Mark Henderson, non-U.S. analyst, is a research analyst employed by Credit Suisse Securities (Europe) Limited.

For Thai listed companies mentioned in this report, the independent 2008 Corporate Governance Report survey results published by the Thai Institute of Directors Association are being disclosed pursuant to the policy of the Office of the Securities and Exchange Commission: Thai Tap Water(N/A).

For Credit Suisse disclosure information on other companies mentioned in this report, please visit the website at www.credit-suisse.com/researchdisclosures or call +1 (877) 291-2683.

Disclaimers continue on next page.

CREDIT SUISSE SECURITIES (Europe) Limited
Europe: +44 (20) 7888-8888