SOVLINK

YOUR FIRST CALL – FOR THE SECOND TIER

May 13, 2008

Elektrogaz

Company Report

ELGZ: BUY

Target price: US $1,317

Strong results – great prospects!

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Stock data

Ticker	ELGZ	MCap, $ mn	44,6
Shares Ords	57 814	Free Float, %	10
Shares Pref	19 272	Free Float, $ mn	4,6
Bid Ords, $	410	Offer Ords, $	160
Bid Prefs, $	160	Offer Prefs, $	350

Market performance (ords)

		1 month	6 months
Absolute	Ords	0.8%	23.8%
Relative to RTSI	Ords	2.1%	28,9%
Price range, $			
High	Ords	725.0	725.0
Low	Ords	625.0	450.0

Market performance (pref)

		1 month	6 months
Absolute	Pref	1.0%	34.4%
Relative to RTSI	Pref	2.3%	39.5%
Price range, $			
High	Pref	255.5	375.0
Low	Pref	245.5	167.5

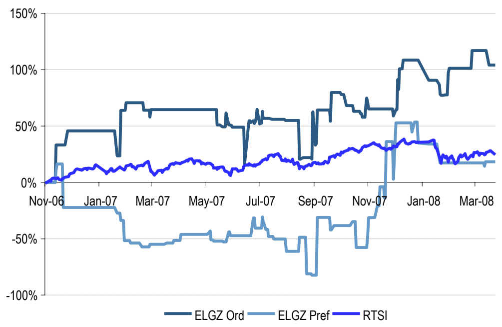
Financials 2007E

Assets, $ mn	57.72	ROE	14.3%
Book Value, $ mn	18.57	P/E (x)	13.81
Net income, $ mn	3.28	P/BV (x)	1.97

Financials 2008E

Assets, $ mn	72.54	ROE	14.9%
Book Value, $ mn	28.08	P/E (x)	10.83
Net income, $ mn	4.18	P/BV (x)	1.61

Electrogaz - Relative Perfomance



Source: RTS, Bloomberg, Sovlink

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- Elektrogaz is a leading service company in the maintenance and construction of infrastructure facilities in the electric power market – primarily power grids, as well as the manufacturing of electric equipment – switching stations, transformer stations, etc.

- The company's revenues grew at an annual average growth rate of 33% through 2000-07, and 36% through 2005-07. We expect that its revenues grew at 27.5% in 2007, which is in line with the company's performance indicators over the first three quarters of 2007. We forecast its revenues to grow 25-30% p.a. in the near future.

- The annual expansion of Gazprom's investment programme has resulted in an increase in the number of orders placed by Gazprom, which, in turn, has led to greater revenues and a greater variety of orders by Gazprom's subsidiaries and affiliates. Gazprom intends to invest about $20 bn in 2008. As opposed to previous years, all investments will be allocated for the development of field infrastructure, reconstruction and upgrading, rather than the acquisition of new assets in energy and other industries.

- The recent sale by Gazprom of its assets is indicative of a possible sale of its subsidiaries, which are not engaged in gas production and transportation. Elektrogaz may become a part of a large service company that is very likely to win a significant market share in the oil and gas service market.

- We estimate a target price of $1,371 for the company's ordinary shares over the next 12 months, which offers potential upside of 88%. For the company's preferred shares we estimate a target price of $579, offering potential upside of 127%. Accordingly we continue coverage of the company and reiterate our **BUY** recommendation.

Investment idea

There are two development options for Elektrogaz. At the moment, it is not possible to predict which of the two options will be implemented; however, we cannot rule out the possibility that Elektrogaz's development will use both options, which could result in a higher capitalization of the company.

The first option involves Elektrogaz becoming a part of a large oil and gas service company.

Since 2004, Gazprom has been undertaking steps to enhance its subsidiaries engaged in the servicing and maintenance of the Unified Gas Supply System facilities. JSC Tsentrenergogaz has become a base into which it can merge numerous maintenance enterprises. Currently, there is a centralization process being undertaken with respect to its maintenance undertakings, which has already resulted in improvements in efficiency.

In 2006, Gazprom's stake in Elektrogaz was transferred into the beneficial ownership of Tsentrenergogaz. The numerous opportunities to clinch new contracts and the experience gained in foreign markets by Tsentrenergogaz had an undoubtedly positive impact on Elektrogaz's financial standing. We consider this resulted in a more efficient exploitation of Elektrogaz's capacities, which naturally boosted the company's revenues.

The next step in developing the holding could be transition to a single share. Under this scenario there is a risk of an unfair swap ratio being used to exchange Elektrogaz's shares for shares in the holding company. However, the risk is negligible due to the current equity shareholder structure. Gazprom holds controlling stakes in each of the companies that are being consolidated, which means that it will eventually obtain over 50% of the equity in the newly established enterprise. In such a situation, the main shareholder does not need to look for opportunities to dilute the stakes of minority shareholders. Furthermore, Gazprom has already proved to be a company which does not violate the rights of minority shareholders, which also implies that swap ratio will be fairly calculated.

We believe that eventually Gazprom will decide to spin off the above maintenance holding as a separate undertaking. Moreover, recent auctions on the sale of Gazprom's stakes in its subsidiaries such as Lengazspetsstroy (legs), Spetsgazrestroy (sgrs), Volgogradneftemash (vonm), Volgogaz (vlgg) and Krasnodargazstroy are indicative of the high probability of the sale of Gazprom's stake in the new service holding either to a strategic partner, or through an IPO. In this case, the intended service holding will diversify its activities to penetrate into the oil industry and become a prominent player in the oil service market comparable to such majors as Integra and Eurasia.

The second option involves the large-scale engagement of Elektrogaz in Gazprom's electric power projects.

As of today, Gazprom has invested heavily in the electric power industry, thus transforming itself from a gas company into a global power company. Today, the company holds stakes of 53.5% in TGC-3 (Mosenergo), 47% in TGC-1, 13.6% in WGC-2 and 17.13% in WGC-6. Upon completion of the UES break-up, Gazprom will be able to increase its stakes in WGC-2 and WGC-6 to 51%. Furthermore, Gazprom intends to purchase a stake in TGC-7, since it is interested in the expansion of its share in gas generation and the supply of power to its own enterprises. TGC-7 is the second largest generation company after TGC-3 and consists of 21 combined heat and power stations (CHPs) in the regions of Saratov, Samara, Ulianovsk and Orenburg, where many of Gazprom's processing, transmission and extraction assets are located. In addition to generation assets, Gazprom holds stakes in the

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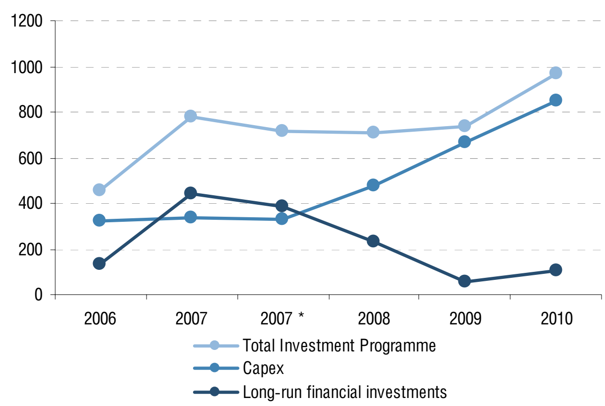
Transmission Company (26%), the Moscow Municipal Electricity Distribution Company and the Moscow Regional Electricity Distribution Company (26% each), Mosenergosbyt and the Moscow Heat Distribution Company.

Gazprom's own assets comprise 1,800 power plants, of more than 500 kW each, which account for almost 8% of the group's power consumption. The group's enterprises also own more than 100 km of electric mains and supply electric power to thousands of sub-subscribers. It is worth mentioning that the length of electric mains owned by Gazprom is comparable to Gazprom's United Gas Supply System, which is about 140,000 km in length. In 2005-06, Gazprom leased its energy assets to its SPV - Gazpromenergo.

A very positive boost was provided for Elektrogaz by the recent report on Gazprom's investment programme for 2009-10, disclosed within the framework of a $2bn bond loan. According to the memorandum, financial investments will be trimmed down, whereas capital expenditures will amount to RR850 bn in 2010, or 2.5 times more than in previous years. The amount is comparable to the investment programmes of 20 WGCs and TGCs.

As Elektrogaz is practically the only large enterprise engaged in servicing and constructing electric mains and producing and providing maintenance to electric equipment located in Gazprom's gas fields, pipelines and enterprises, it will be able to expand its activities due to recent and future power orders by Gazprom and the above investment programme**.** In any case, we can expect higher revenues for Elektrogaz supported by Gazprom's increasing investments under the above plan.

Figure 1. Gazprom Investment Programme (US$ mn)



** Subtotal*
Source: Gazprom

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Company profile

Elektrogaz is a subsidiary of Gazprom and is engaged in the maintenance of Gazprom's electric grids and electric equipment. The company's core activities include the construction of electric grids at Gazprom's enterprises and gas fields, the setting up and start-up of equipment, and the maintenance of gas pipelines and heat supply systems. The company has recently mastered the construction of diesel and gas piston power plants and transforming stations.

Elektrogaz renders service support to electric power equipment and grids belonging to Gazprom's gas extracting, gas transmission and gas processing enterprises, such as Severgazprom LLC (accounts for 24.6% of total revenues), Yamburggazdobycha LLC (10.5%) and Nadymgazprom LLC (11.1%).

For Elektrogaz, Gazprom and its subsidiaries and affiliates are key accounts and its main source of orders. Gazprom accounted for 95% of the company's orders in 2006. We do not expect this to change significantly in the near future. This makes Elektrogaz heavily dependent on Gazprom, but, on the other hand, Elektrogaz itself holds a high market share in certain regions, where its branches are located, since it is the largest service company providing electric power infrastructure services.

In addition to Elektrogaz, Gazpromenergoservice LLC (a 70% stake is held by its management), Elektrosevkavmontazh LLC and Sevelektromontazh LLC render construction and maintenance services to Gazprom. However, we cannot compare these in terms of the scale of business (Gazpromenergoservice LLC's revenues in 2006 amounted to $6mn), although Elektrosevkavmontazh LLC may be compared with Elektrogaz in terms of size and financial performance. It has several branches in the south of Russia and consists of 21 enterprises with total revenues of $65mn in 2006. The company is 100% owned by its management. All the above mentioned companies operate in the same regions as Elektrogaz, and from time to time participate in Gazprom's tenders.

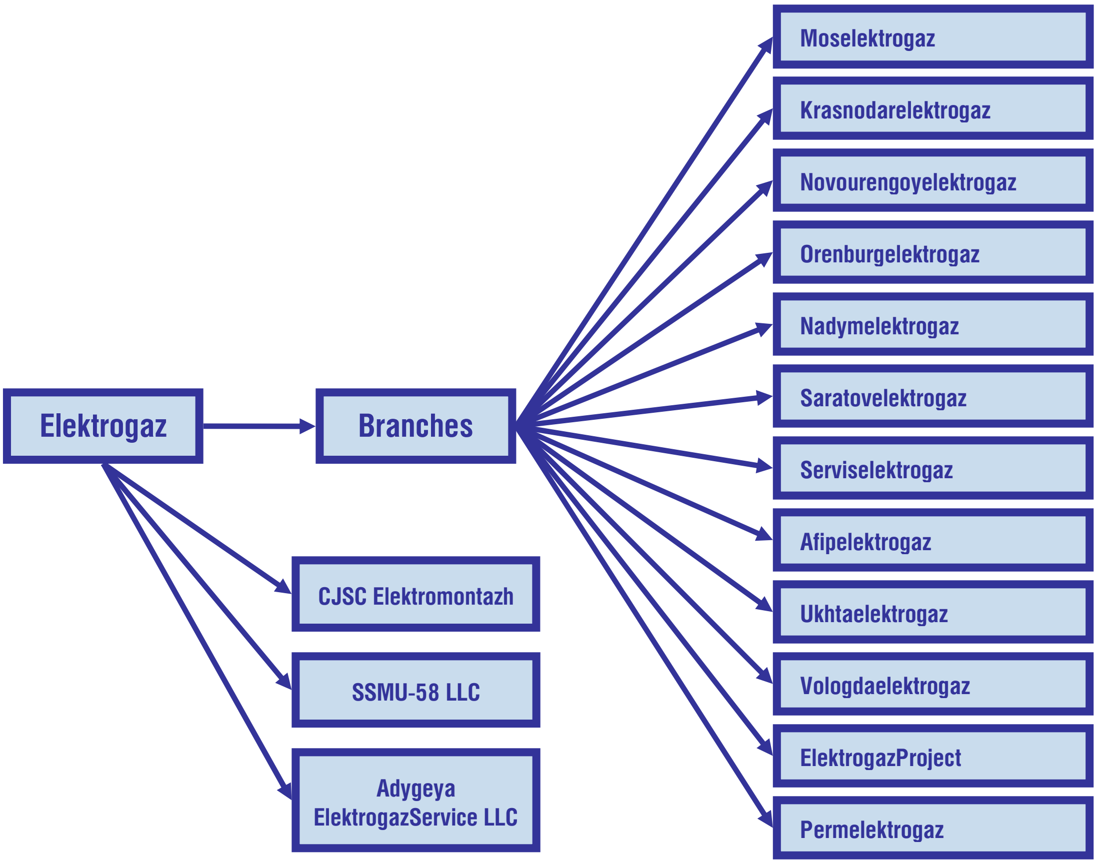
Elecrogaz - Potential Competitors

Company	Region
Orgenergogaz	Moscow
Nizhnevolzhskelectromontazh	Astrakhan
Electrotechnicheskaya komaniya	Astrakhan
Gazpromenergoservice	Moscow
Electrosevkavmontazh	Krasnodar
Orgtechstroy	Moscow
Gazavtomatika	Moscow
Yuggazenergo	Saratov
Gazenergonaladka	Saratov
Teplomontazhservice	Saratov
Gefest SV	Saratov
Mechanizirovannaya kolonna	Ukhta
Uchtinskaya montazhno-naladochnoe upravlenie	Ukhta
Electrouralmontazh	Orenburg
Yuzhuralelectromontazh	Orenburg
Energospecstroy	Novyi Urengoi
Severelectromontazh	Novyi Urengoi
Yamalstroipromelectromontazh	Novyi Urengoi

Source: Elektrogaz

Company structure

Figure 2.



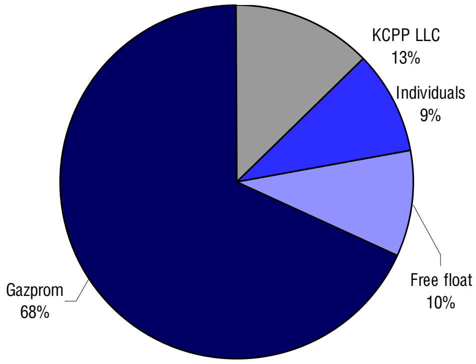
Source: Elektrogaz

Currently, Elektrogaz consists of 12 branches located in gas-bearing areas of Russia and near gas booster and gas processing stations on the sites of major gas grids. The location of its branches enables the company to provide timely maintenance and construction of new facilities in the electric power infrastructure, and promptly address breakdowns at serviced enterprises and pipelines. The convenient location of the branches also helps to reduce costs. It is worth mentioning that certain branches are located in the areas of potential competitors. Nevertheless, it does not prevent Elektrogaz from winning tenders and forming new contracts for the provision of services to Gazprom's enterprises due to its dominant position and a well-established track record.

Elektrogaz holds different stakes in its subsidiaries:
- 100% in Elektromontazh LLC,
- 20% in SSMU-58 LLC, and
- 20% in Adygeyaelektrogazservice LLC.

Equity structure

Figure 3. Shareholders



Source: Elektrogaz, Skrin, Spark

Currently, Gazprom holds a controlling stake in Elektrogaz. KTsPP is the second largest stakeholder in the company and reportedly represents the company's management. Earlier, KTsPP's stake was held by CJSC Elektromontazh, an Elektrogaz subsidiary. However, in 2007 the stake was purchased by KTsPP which was founded and owned by an individual.

The next largest group of shareholders consists of individuals that are mainly former and current employees of the enterprise, as well as its management.

The remaining shares are held by investment companies and trade freely on the market.

Current projects

Currently, Elektrogaz's major projects cover the maintenance of the Zapolarnoye, Yamburgskoye, Yamalskoye, Vostochno-Pribrezhnoye oil and gas bearing fields; the construction of electric power supply facilities at Gazprom's tourist centres at Yasnaya Polyana; the comprehensive electrometric examination of pipelines; and the diagnosis of electrical equipment: and the manufacturing, installment and setting up of modular and packaged electrical equipment, development of projects, design documentation and new products at Gazprom's plants.

Valuation model

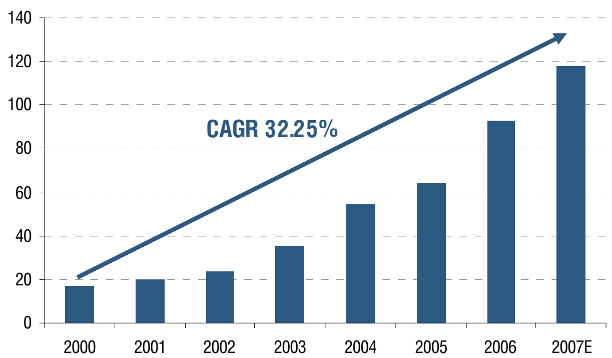
We estimate a fair price for Elektrogaz based on our DCF model and a peer analysis with its Russian and foreign peers.

Revenues

Elektrogaz's revenues has been growing rapidly due to increasing orders by Gazprom, the expansion of its branch network, and the acquisition of new companies, which were either part of other companies, or operated individually, as a result of Gazprom's restructuring. In addition, new maintenance contracts, the construction of new facilities for the 2014 Olympic Games project (facilities in the Krasnodar Territory), and the development of new gas fields related to Gazprom's adopted investment programme have also contributed to the rapid growth of the company's revenues.

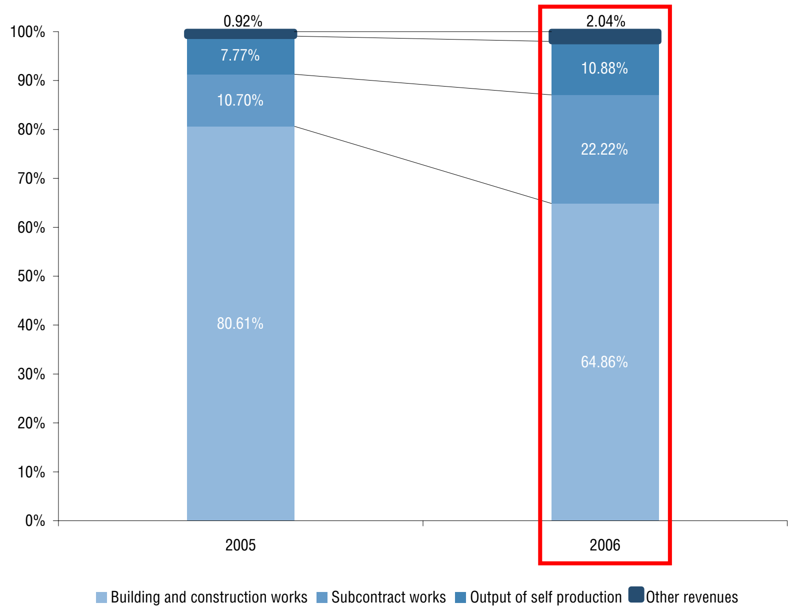
The company's revenues soared during the past few years: by 80% (with 34% annual growth rates) through 2003-06, and by 5.6 times through 2000-06. We consider the company's revenues will grow by 25-30% yearly, which is in line with Elektrogaz's forecasts. Moreover, the company's management is satisfied with a 25% growth rate.

Figure 4. Revenue Growth (US$ mn)



Source: company data, Sovlink

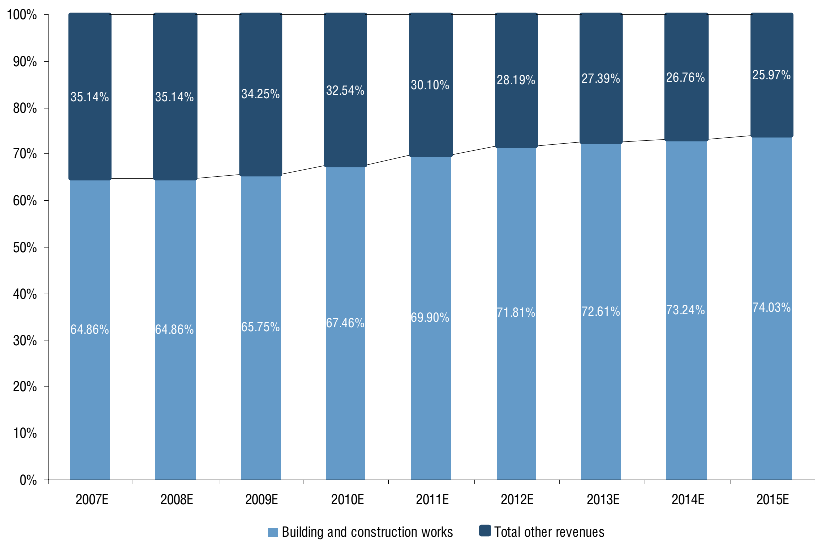
Figure 5. Revenue Mix (%)



Source: company data, Sovlink

Today, Elektrogaz's revenues are more diversified than they were a year ago. We note an increase in the company's subcontract work, which, in our view, is attributed to the enhancement of Gazprom's maintenance units and, in particular, the creation of a service holding based around Tsentrenergogaz. As a result, Elektrogaz is able to use its maintenance and production capacities more effectively, since the company can act as a subcontractor in projects which were earlier delegated to other companies. We believe this is a positive sign. Nevertheless, in our DCF model we assume that construction and assembly work will generate the bulk of revenues in the future.

Figure 6. Revenue Mix Forecast



Source: Sovlink

To simplify and enhance the accuracy of our forecasts, we divided the company's revenues into construction and assembly work and other activities.

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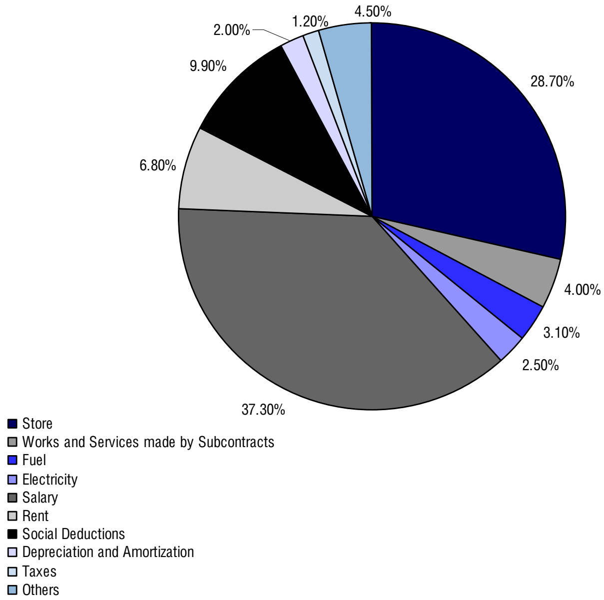
Costs and capital expenditures

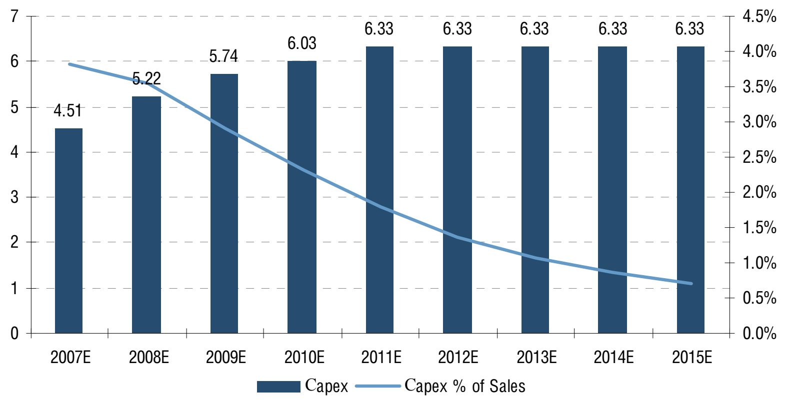
Figure 7. Cost Breakdown



Source: company data, Sovlink

Payroll and outsourcing account for the bulk of the company's costs. These two cost items account for 38% and 28.7% of the costs, respectively, which, in aggregate, make up more than half of the cost structure. We note that the average salary is currently about RR17,000, which is quite high (vs. RR10,000 throughout Russia and RR15,000 for the Krasnodar Territory). Salary growth rates were 30% across the country in 2007. Thus, we assume that the growth rates will persist in the future which will result in the company raising salaries in order to retain its qualified staff. Hence, the growth of salaries will be a key cost driver in the years ahead.

Figure 8. Capital Expenditure (US$ mn)



Source: company data, Sovlink

The growth of the company's capital expenditure is attributed to significant depreciation of fixed assets, as well as the increasing volume of construction and maintenance activities related to Gazprom's investment programme and an inflow of new orders.

SWOT analysis

STRENGTHS	WEAKNESSES
+ Stable cash flows + Stable customer base + Principal shareholder	- Lack of transparency (informational and financial) - Low liquidity of its shares - High effective tax rate - Growing costs - Dependence on a single key account (Gazprom accounts for 96% of revenues)

OPPORTUNITIES	THREATS
+ Growing orders as a result of the establishment of a single service holding + Efficient control over costs, cost-reduction + Gazprom's new investment programme + Transition to a single share within the framework of a service holding	- Consolidation of profits in the parent company (Tsentrenergogaz) - Management is mainly controlled by Gazprom - Unfair swap ratio in case of transition to a single share

Source: Sovlink

Elektrogaz's major strength lies in its stable cash flows and their significant growth in recent years. This is due to an increasing number of orders and their values, as well as expansion of the company's regional presence and the acquisition of new companies.

Elektrogaz's main weakness, in our view, is a certain degree of non-transparency of the financial and operational data of the company for its potential investors, which is typical of almost all Russian second-tier companies. A relatively high effective tax rate (about 50%) also causes certain concerns. This is due to the excessive expenditures of the company, which are not subject to deduction from revenues for the calculation of the company's tax base. These costs appear to be fixed, and the effective tax rate decreases in case of higher pre-tax profits.

Peer valuation

As the company's Russian peer group, we chose a group of companies engaged in similar activities – that is laying electric mains networks, and the construction of infrastructure facilities – such as Gazavtimatika (gzav), Langazspetsstroy (legs), Sevzapelektrosetstroy (szes), Zapsibelektrosetstroy (zses), Novgorodsetstroy (nsst), Spetsstroy (spss), and Gazenergoservis (gzes).

Russian Peer Comparisons 2008E (US$ mn)

	Ticker	EV	Mcap	Sales	EBITDA	EBIT	D&A	PPE
Gazovtomatika	GZAV	258.7	265.1	95.9	13.0	12.5	0.5	7.7
Lengazspecstroy	LEGS	224.7	248.6	791.7	43.0	39.6	3.4	20.2
Sevzapelekrosetstroy	SZES	204.8	261.1	657.5	36.0	30.0	6.0	26.3
Zapsibelektrosetstroy	ZSES	15.1	11.1	63.4	4.0	3.2	0.9	5.7
Novgorodsetstroy	NSST	12.6	12.9	19.1	1.8	1.7	0.1	1.1
Specsetstroy	SPSS	77.1	77.9	82.7	7.6	6.6	1.0	4.1
Gazenergpservis	GZES	37.0	42.5	54.2	8.6	6.5	2.1	30.9

Source: RTS, Bloomberg, Sovlink

Russian Peer Multiples (x)

Ticker	P/S	EV/EBITDA	EV/EBIT	EV/Sales	P/E	P/PPE
GZAV	2.8	20.0	20.8	2.7	30.7	34.6
LEGS	0.3	5.2	5.7	0.3	7.8	12.3
SZES	0.4	5.7	6.8	0.3	9.9	9.9
ZSES	0.2	3.8	4.8	0.2	8.0	2.0
NSST	0.7	6.9	7.4	0.7	11.3	11.3
SPSS	0.9	10.1	11.7	0.9	23.6	18.8
GZES	0.8	4.3	5.7	0.7	13.1	1.4
Mean	**0.9**	**8.0**	**9.0**	**0.8**	**14.9**	**12.9**

Source: RTS, Bloomberg, Sovlink

As its foreign peer group, we chose companies with similar businesses – they are mainly involved in the production of electrical equipment and the laying of electric mains networks.

Foreign Multiples 2008E (x)

	Ticker	P/E	P/S	EV/EBITDA	EV/S	P/PPE
Emcore	EME US	10.90	0.25	5.20	0.21	18.86
Jacobs Eng.	JEC US	23.53	0.85	12.92	0.78	46.86
Arcadis	ARCAD US	10.90	0.44	7.86	0.51	15.57
Prinsiptek Corp.	PSIP MK	3.90	0.31	6.52	0.51	1.02
Linde AG	LIN GR	17.13	7.40	10.89	1.72	2.24
ABB Ltd.	ABBN VX	16.17	12.56	11.22	1.54	17.89
Siemens AG	SIE GR	11.81	8.75	9.38	0.86	6.50
SNC-Lavalin	SNC CN	24.969	0.867	13.02	0.71	3.64
Mean		**14.91**	**3.93**	**9.63**	**0.85**	**14.07**

Source: RTS, Bloomberg, Sovlink

Multiples Valuation Table

	Ticker	P/E	P/S	P/PPE	EV/EBITDA	EV/S
	EME US	10.90	0.25	18.86	5.20	0.21
	JEC US	23.53	0.85	46.86	12.92	0.78
	ARCAD US	10.90	0.44	15.57	7.86	0.51
	PSIP MK	3.90	0.31	1.02	6.52	0.51
	LIN GR	17.13	7.40	2.24	10.89	1.72
	ABBN VX	16.17	12.56	17.89	11.22	1.54
	SIE GR	11.81	8.75	6.50	9.38	0.86
	SNC CN	24.97	0.87	3.64	13.02	0.71
	Mean	**14.91**	**3.93**	**14.07**	**9.63**	**0.85**
Foreign Peers' weight	**30%**					
	GZAV	30.7	2.8	34.6	20.0	2.7
	LEGS	7.8	0.3	12.3	5.2	0.3
	SZES	9.9	0.4	9.9	5.7	0.3
	ZSES	8.0	0.2	2.0	3.8	0.2
	NSST	11.3	0.7	11.3	6.9	0.7
	SPSS	23.6	0.9	18.8	10.1	0.9
	GZES	13.1	0.8	1.4	4.3	0.7
	Mean	**14.91**	**0.87**	**12.89**	**8.00**	**0.83**
Russian Peers' weight	**70%**					
	Multiple's weight	30%	15%	10%	15%	30%
	ELGZ	**10.71**	**0.4**	**5.1**	**3.1**	**0.4**
	Industry mean	14.91	1.78	13.25	8.49	0.84
	Discount/(premium)	(28.16%)	(79.66%)	(61.66%)	(63.54%)	(52.33%)
	Target Market Cap (US$ mn)	62.64	221.20	117.36	123.43	94.40
	Fair Market Cap (US$ mn)	111				
	Fair Price per Share (US$ mn)	**1 434**				

Source: Sovlink

Based on our peer comparison valuation, Elektrogaz appears to be heavily undervalued. However, we have used our peer analysis for indicative purposes only and have based our recommendation on our DCF model.

DCF model

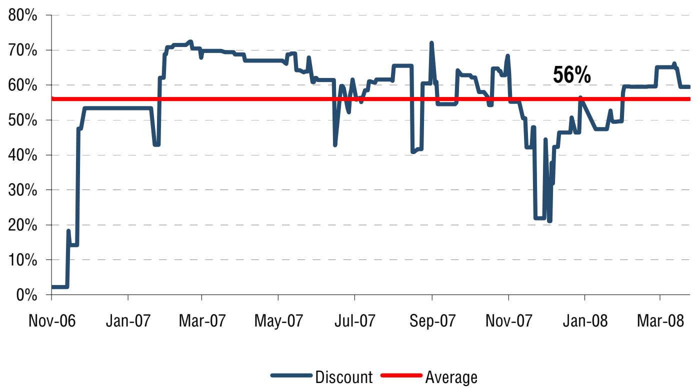
In our DCF model we assume that revenues grow at 25% through 2007-10, and at 30% through 2010-12 (the most active stage of Gazprom's investment programme and the development of new gas fields), and at 20-25% thereafter. We assume a terminal growth rate of 3%.

DCF Summary (US$ mn)

	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
EBIT*(1-t)	4.6	5.8	7.3	12.6	23.5	35.4	53.6	63.4	67.3
Depr and Amort	2.9	3.3	3.7	4.4	5.2	5.4	6.1	5.1	5.6
NWC change	3.5	(2.1)	(3.0)	(6.4)	(11.5)	(16.6)	(13.3)	(14.7)	(15.9)
CAPEX	(4.5)	(5.0)	(5.5)	(5.8)	(6.1)	(6.1)	(6.1)	(6.1)	(6.1)
FCFF	6.5	2.0	2.5	4.8	11.1	18.2	40.3	47.7	50.9
PV of FCFF	5.37	1.33	1.40	2.22	4.22	5.68	10.37	10.10	8.89
Cum. PV of FCFF	5.37	6.69	8.09	10.32	14.54	20.22	30.58	40.68	49.57
WACC	21.4%								
Terminal value	49.77								
TV/EV	50.1%								
Sum of Cum. PV of FCFF	49.57								
EV	**99.34**								
Debt	3.49								
Cash	5.67								
Net Debt	(2.18)								
Fair Mcap	**101.52**								
Shares outstanding	77 086								
Fair Ord Price (US$)	**1317**								
Fair Pref Price (US$)	**579**								

Source: Sovlink

Figure 9. Historical Discount of Preferred Stock



Source: Sovlink

Based on our DCF valuation, we estimated potential upside do 88% for the company's ordinary shares and potential upside of 127% for its preferred shares. We would like to note that despite the higher upside implied by our peer analysis, we consider it prudent to base our estimate on our DCF valuation, since it gives a more accurate interpretation of the company's performance and its potential.

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Sensitivity Analysis

Figure 10. Enterprise Value (US$ mn)

Terminal Growth rate \ WACC	17.0%	18.0%	19.0%	20.0%	21.4%	22.0%	23.0%	24.0%	25.0%
2.00%	147	136	127	119	109	106	101	97	93
2.25%	145	134	124	116	107	103	98	94	90
2.50%	144	132	122	114	104	101	96	91	87
2.75%	143	131	121	112	102	99	93	89	85
3.00%	141	128	118	109	**99**	96	90	86	82
3.25%	141	128	118	109	99	95	89	85	81
3.50%	141	128	117	108	97	93	88	83	79
3.75%	141	127	116	106	96	92	86	81	77
4.00%	141	127	115	106	95	91	85	80	75

Source: Sovlink

Figure 11. Ordinary Stock Price (US$)

Terminal Growth rate \ WACC	17.0%	18.0%	19.0%	20.0%	21.4%	22.0%	23.0%	24.0%	25.0%
2.00%	1 935	1 791	1 670	1 567	1 448	1 404	1 339	1 283	1 235
2.25%	1 913	1 765	1 641	1 536	1 414	1 369	1 303	1 246	1 197
2.50%	1 894	1 743	1 615	1 508	1 383	1 338	1 270	1 212	1 162
2.75%	1 879	1 723	1 593	1 483	1 355	1 309	1 240	1 181	1 129
3.00%	1 854	1 694	1 560	1 447	**1 317**	1 269	1 199	1 139	1 086
3.25%	1 859	1 694	1 557	1 441	1 308	1 259	1 188	1 126	1 073
3.50%	1 854	1 684	1 543	1 424	1 288	1 238	1 165	1 102	1 048
3.75%	1 851	1 677	1 532	1 410	1 270	1 220	1 145	1 081	1 025
4.00%	1 852	1 672	1 523	1 398	1 255	1 203	1 127	1 061	1 005

Source: Sovlink

Figure 12. Preferred Stock Price (US$)

Terminal Growth rate \ WACC	17.0%	18.0%	19.0%	20.0%	21.4%	22.0%	23.0%	24.0%	25.0%
2.00%	851	788	735	689	637	618	589	565	543
2.25%	842	777	722	676	622	602	573	548	527
2.50%	833	767	711	663	609	589	559	533	511
2.75%	827	758	701	652	596	576	546	520	497
3.00%	816	745	686	637	**579**	559	528	501	478
3.25%	818	746	685	634	576	554	523	496	472
3.50%	816	741	679	627	567	545	513	485	461
3.75%	815	738	674	620	559	537	504	476	451
4.00%	815	736	670	615	552	529	496	467	442

Source: Sovlink

Balance Sheet (US$ mn)

	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
ASSETS											
Cash & Equivalents	1.33	0.53	5.67	5.84	5.63	6.95	14.61	25.56	60.50	103.69	149.87
Accounts Receivable	14.22	26.51	29.82	38.87	49.85	65.59	88.62	121.97	154.28	192.70	238.30
Short-term investments	1.92	3.39	3.90	5.08	5.92	7.79	10.52	11.61	14.70	18.36	22.70
Inventory	5.44	5.55	6.97	8.97	11.21	14.01	17.51	21.89	27.36	34.20	42.75
Other Current Assets	0.92	0.10	0.45	0.58	0.71	0.90	1.13	1.45	1.78	2.19	2.65
Total Current Assets	**23.84**	**36.09**	**46.80**	**59.33**	**73.31**	**95.24**	**132.40**	**182.48**	**258.62**	**351.14**	**456.27**
Net Intangibles	0.01	0.01	0.01	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02
Net PPE	4.34	5.63	7.21	8.85	10.25	11.22	11.73	11.94	11.45	12.02	12.06
Investments	1.24	0.93	1.24	1.62	2.08	2.73	1.94	2.56	2.66	2.58	2.29
Unfinished construction	1.58	1.63	1.89	2.31	2.57	2.60	2.46	2.32	2.00	1.84	1.63
Other Fixed Assets	0.23	0.30	0.38	0.42	0.49	0.47	0.42	0.42	0.41	0.40	0.36
Total Fixed Assets	**7.43**	**8.18**	**10.73**	**13.21**	**15.41**	**17.04**	**16.57**	**17.27**	**16.54**	**16.87**	**16.37**
Total Assets	**31.27**	**44.62**	**57.52**	**72.54**	**88.72**	**112.28**	**148.96**	**199.75**	**275.16**	**368.01**	**472.64**
LIABILITIES & STOCKHOLDERS' EQUITY											
Short-Term Debt	0.16	2.51	3.49	4.48	5.60	7.00	8.76	10.94	13.68	17.10	21.38
Accounts Payable	14.10	23.08	30.50	39.22	49.03	61.29	76.61	95.76	119.71	149.63	187.04
Taxes Payable	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other Current Liabilities	0.61	0.33	0.45	0.58	0.74	1.01	1.42	1.92	2.54	3.16	3.80
Total Current Liabilities	**14.87**	**25.92**	**34.43**	**44.29**	**55.38**	**69.30**	**86.79**	**108.62**	**135.92**	**169.89**	**212.22**
Long-Term Debt	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deferred Taxes	0.00	0.00	0.12	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13
Other Long-Term Liabilities	0.04	0.02	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04
Total Long-Term Liabilities	**0.16**	**0.14**	**0.16**	**0.17**	**0.17**	**0.17**	**0.17**	**0.17**	**0.17**	**0.17**	**0.17**
Total Liabilities	**15.03**	**26.05**	**34.59**	**44.45**	**55.54**	**69.46**	**86.95**	**108.79**	**136.09**	**170.06**	**212.38**
Common Stock at Par Value	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Preferred Stock at Par Value	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Additional Paid-In Capital	2.28	2.37	2.51	2.62	2.62	2.62	2.62	2.62	2.62	2.62	2.62
Retained Earnings	14.55	16.52	20.83	26.00	31.25	41.10	60.62	89.96	138.51	197.90	260.82
Total Stockholders` Equity	**16.23**	**18.57**	**22.94**	**28.08**	**33.18**	**42.81**	**62.01**	**90.96**	**139.07**	**197.95**	**260.26**
Total Liabilities & Equity	**31.27**	**44.62**	**57.52**	**72.54**	**88.72**	**112.28**	**148.96**	**199.75**	**275.16**	**368.01**	**472.64**

Income Satement (US$ mn)

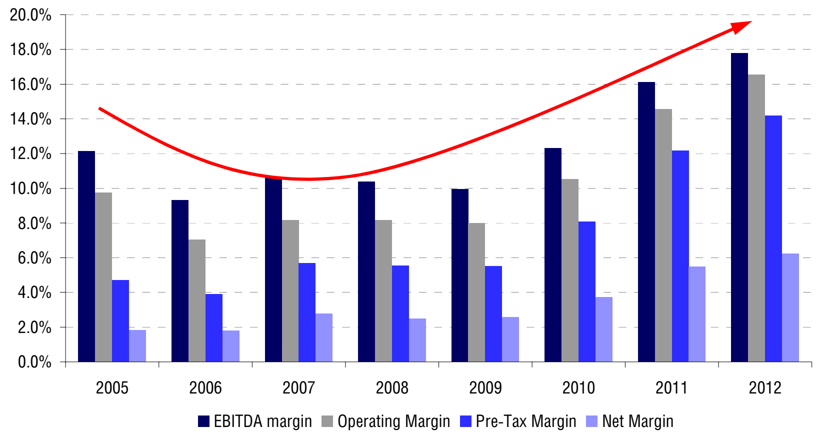
	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Net Revenues from Sales	**63.92**	**92.62**	**118.03**	**147.54**	**197.33**	**259.64**	**350.83**	**464.45**	**587.95**	**734.38**	**908.14**
Cost of Goods Sold	(39.43)	(68.82)	(87.13)	(107.46)	(140.09)	(175.11)	(218.89)	(273.61)	(342.01)	(427.52)	(534.40)
including DD&A	1.53	2.10	2.85	3.31	3.89	4.62	5.38	5.67	6.38	5.32	5.85
Sales & Administrative Expenses	(18.26)	(17.27)	(21.25)	(28.05)	(41.47)	(57.18)	(80.78)	(113.94)	(129.56)	(169.21)	(227.46)
Operating Profit	**6.24**	**6.53**	**9.65**	**12.03**	**15.77**	**27.35**	**51.15**	**76.90**	**116.37**	**137.65**	**146.29**
Operating Margin	*9.8%*	*7.1%*	*8.2%*	*8.2%*	*8.0%*	*10.5%*	*14.6%*	*16.6%*	*19.8%*	*18.7%*	*16.1%*
Net Non-Operating Items	(3.2)	(2.9)	(3.0)	(3.8)	(4.9)	(6.4)	(8.5)	(11.1)	(14.0)	(17.4)	(21.6)
Pre-Tax Profit	**3.01**	**3.62**	**6.70**	**8.20**	**10.88**	**20.99**	**42.70**	**65.84**	**102.41**	**120.20**	**124.66**
Pre-Tax Margin	*4.7%*	*3.9%*	*5.7%*	*5.6%*	*5.5%*	*8.1%*	*12.2%*	*14.2%*	*17.4%*	*16.4%*	*13.7%*
Taxes & Other	(1.84)	(1.97)	(3.41)	(4.53)	(5.77)	(11.34)	(23.49)	(36.87)	(54.28)	(61.30)	(62.33)
Effective Tax Rate	*61.0%*	*54.4%*	*51.0%*	*55.3%*	*53.0%*	*54.0%*	*55.0%*	*56.0%*	*53.0%*	*51.0%*	*50.0%*
Net Income	**1.18**	**1.65**	**3.28**	**3.67**	**5.12**	**9.66**	**19.22**	**28.97**	**48.13**	**58.90**	**62.33**
Net Margin	*1.8%*	*1.8%*	*2.8%*	*2.5%*	*2.6%*	*3.7%*	*5.5%*	*6.2%*	*8.2%*	*8.0%*	*6.9%*
EBITDA	**7.77**	**8.63**	**12.50**	**15.34**	**19.66**	**31.97**	**56.54**	**82.58**	**122.75**	**142.96**	**152.13**
EBITDA margin	*12.2%*	*9.3%*	*10.6%*	*10.4%*	*10.0%*	*12.3%*	*16.1%*	*17.8%*	*20.9%*	*19.5%*	*16.8%*

Financial Ratios	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Current Ratio	1.60	1.39	1.36	1.34	1.32	1.37	1.53	1.68	1.90	2.07	2.15
Debt to Equity Ratio	0.93	1.40	1.51	1.58	1.67	1.62	1.40	1.20	0.98	0.86	0.82
Return on Equity	0.07	0.09	0.14	0.13	0.15	0.23	0.31	0.32	0.35	0.30	0.24
Return on Assets	0.16	0.20	0.31	0.28	0.33	0.57	1.16	1.68	2.91	3.49	3.81

Cash Flow Statement (US$ mn)

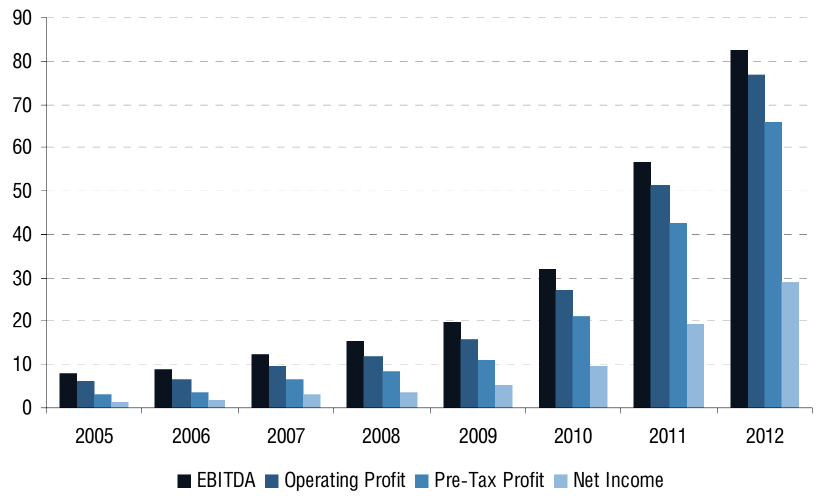
	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Net income	3.26	4.16	5.09	9.64	19.20	28.95	48.11	58.88	62.31
Depreciation	2.85	3.45	3.89	4.62	5.38	5.67	6.38	5.32	5.85
Deferred taxes	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Write-Offs	0.42	0.44	0.44	0.44	0.44	0.44	0.44	0.44	0.44
	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
NWC change	3.54	(2.21)	(3.11)	(6.68)	(12.01)	(17.30)	(13.90)	(15.36)	(16.63)
	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Operating cashflow	10.07	5.84	6.32	8.01	13.01	17.77	41.03	49.27	51.97
	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Capital expenditures	(4.51)	(5.22)	(5.74)	(6.03)	(6.33)	(6.33)	(6.33)	(6.33)	(6.33)
Unfinished Construction	(0.16)	(0.34)	(0.26)	(0.03)	0.14	0.13	0.32	0.16	0.20
Long-term investments	(0.19)	(0.31)	(0.43)	(0.62)	0.84	(0.57)	(0.03)	0.15	0.39
Other long-term assets	(0.06)	(0.02)	(0.08)	0.03	0.05	0.00	0.01	0.01	0.04
Profitable investments in material values	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other long-term investments	(0.01)	(0.02)	(0.02)	(0.03)	(0.05)	(0.06)	(0.06)	(0.08)	(0.09)
Investing cashflow	(4.93)	(5.91)	(6.53)	(6.69)	(5.35)	(6.82)	(6.09)	(6.08)	(5.79)
Charter Capital	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Additional Capital	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Reserve Capital	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Accumulation funds	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Social sphere funds	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Specified financing and transfers	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Retained earnings of current period	(0.05)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Borrowed Funds	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other long-term liabilities	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Financing Cash Flow	(0.04)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net change in cash	5.11	(0.07)	(0.21)	1.33	7.66	10.95	34.94	43.19	46.18
Cash as of beginning of the year	0.56	5.91	5.84	5.63	6.95	14.61	25.56	60.50	103.69
Cash as of end of the year	5.67	5.84	5.63	6.95	14.61	25.56	60.50	103.69	149.87

Figure 13. Margins to Improve



Source: Sovlink

Figure 14. Key Financials



Source: Sovlink

Electrogaz - Peer Multiples

	2006E	2007E	2008E	2009E	2010E	2011E	2012E
MCAP * (US$ mn)	$47.1	$45.3	$44.6	$44.6	$44.6	$44.6	$44.6
EV (US$ mln)	$49.1	$43.1	$43.3	$44.6	$44.7	$38.8	$30.0
P/S (x)	0.49	0.38	0.29	0.23	0.17	0.13	0.10
EV/EBITDA (x)	5.68	3.45	2.70	2.27	1.40	0.69	0.36
EV/EBIT (x)	7.51	4.47	3.45	2.83	1.63	0.76	0.39
EV/S (x)	0.53	0.37	0.28	0.23	0.17	0.11	0.06
P/E (x)	27.45	13.81	10.83	8.86	4.69	2.36	1.56
P/BV (x)	2.44	1.97	1.61	1.37	1.06	0.73	0.50

** based on RTS board quotations*

Source: Sovlink

STOCK RATING POLICY

STRONG BUY:	Upside over 25%; confidence level – high / upside over 100%; confidence level - low
BUY:	Upside between 15 and 25%; confidence level – high / upside between 25% and 100%; confidence level – low
HOLD:	Upside of less than 15%; confidence level – high / upside of less than 25%; confidence level – low
SELL:	Target price at or below current price levels

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