



Presentation for investors

October, 2008

**JSC FGC UES -
Backbone electric grids**

**JSC “MRSK Holding” -
Distribution electric grids**

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FGC: Backbone grid complex

Main facts

- ▶ FGC is the natural monopoly in electric energy transmission in Russia, it owns and operates national electricity grid UNEG (220kV and above)
- ▶ The company revenue is regulated. The average share of tariff for electric energy transmission in the ultimate energy tariff comprises 8%
- ▶ Principal shareholders: government – 77.6%, private investors – 22.4%
- ▶ Beginning on July 2008 FGC UES shares [FEES] are listed on the Russian stock exchanges MICEX and RTS. Market capitalization comprises \$1 bln.*
- ▶ Beginning on July 2008 GDR are available for the foreign investors.

UNEG map



Financial results of FGC*, 2008

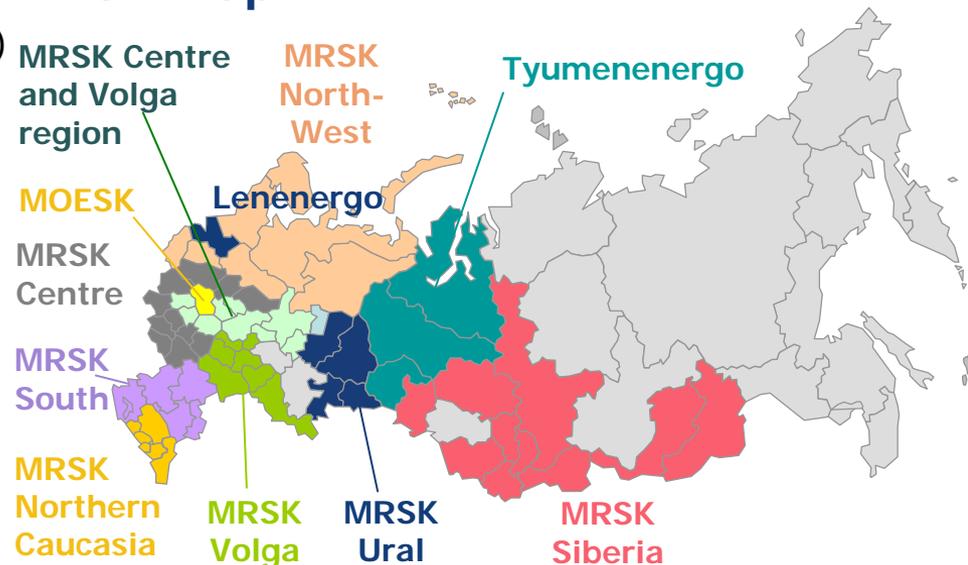
Total revenue, \$bln	2.5
EBITDA, \$bln	1
Net debt at the year end, \$bln	-3

MRSK: Distribution grid complex

Sector review

- ▶ 11 Interregional distribution grid companies (MRSKs) are operating companies. They own and operate distribution grids (110 kV and below)
 - 51%+ in each MRSK belong to MRSK Holding
 - Total capitalization of 10 MRSK* - \$4.7 bln**
 - Lenenergo issued GDR in October 2008.
- ▶ MRSK Holding is a management company
 - 53% of the authorized capital in MRSK Holding belong to the government
 - Beginning on July 2008 is listed on RTS exchange***, capitalization comprises \$0.7 bln**
 - GDR will be issued in December 2008.
- ▶ MRSK revenue is regulated. The average share of tariff for electric energy distribution in the ultimate energy tariff comprises 30%

MRSK map



Financial results of MRSK*, 2008

Total revenue, \$bln	16
EBITDA on electric energy transmission, \$bln	1.8
Net debt at the year end, \$bln	5.3

* Tyumenenergo is not listed, 100% of management company belong to MRSK Holding

** As of 24.10.2008

*** Shares are traded at RTS Board over-the-counter market

* Expected aggregated data on RAS for all MSKs, exchange rate RUR 26 / 1 USD

Grid complex – investment idea No.1 in the electric power industry of Russia

Fundamental value is becoming clear

- ▶ **Regulation system was changed in 2008** and nowadays it corresponds to the best world practice: normative base is adopted, pilot projects have started
- ▶ Regulator guarantees fair-market return for the invested capital + additional profit option from the operating and financial improvements

Growth prospects

- ▶ Implementation of investment programs will enable to double RAB by 2015.
- ▶ Stable EBITDA from electric energy transmission will be increased **in 4 times in 2011 relative to 2008.**
- ▶ Growth of tariffs is linked with investments: Government has approved the average annual growth of ultimate energy tariffs by 23% for the period of 2009-2011.

Sector is essentially undervalued

- ▶ The companies are being traded with multiplier **$EV / \text{Target Initial RAB} = 0.3x$.** Target Initial RAB* is confirmed by the regulator in pilot regions.
- ▶ Liquidity will be increased due to consolidation of the distribution grid complex and issue of GDR for FGC, MRSK Holding, Lenenergo

Key event 2008 – change in regulation system

Control mechanism provided in the laws corresponds to the best world practice :

Period of regulation

- ▶ 5 years. The first transitional period – not less than 3 years

Initial RAB

- ▶ Using asset replacement cost as a base after deduction of ageing and inefficiency (Optimized DRC).

Net working capital

- ▶ From 4% to 8% from the preceding year revenue

RAB amortization period

- ▶ 35 years for all assets, regularly

Return on RAB

- ▶ WACC for the new investments comprises 12% in rubles after taxes. Capital structure: debt - 30%, joint stock capital – 70%. Reduced return to Initial RAB: 2009 - 6%, 2010 - 9%, 2011 - 12%

Independent expenditures

- ▶ Will be recovered against the fact, including cost of electric energy used to compensate losses

Controllable expenditures

- ▶ Will be adjusted according to CPI - index of change in servicing zone. X-factor of cost saving from 1% to 2.5%

Motivation scheme

- ▶ Effect of reduction in controllable OPEX will be preserved within 5 years, notwithstanding period of regulation

Annual adjustment

- ▶ Actual rate of inflation, real volume of electric energy transmission, actual investment level



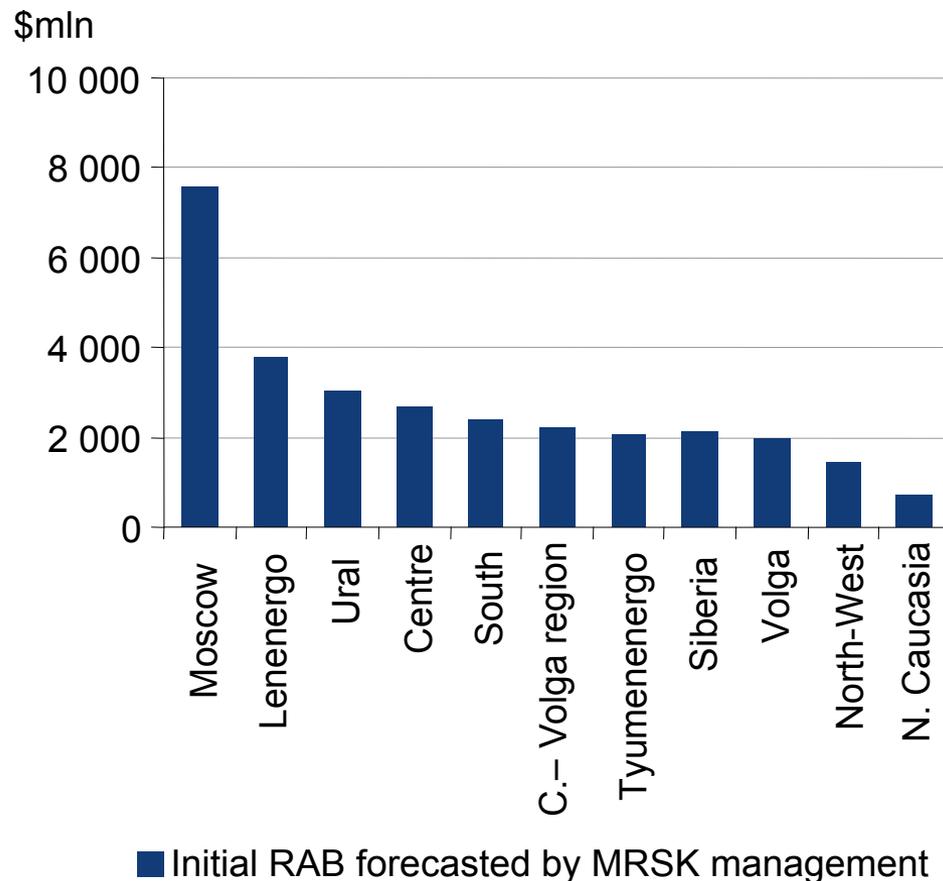
Tasks of the distribution grid complex – JSC MRSK Holding

Task No.1: transfer to new regulation system

RAB transfer plan is being executed:

- ▶ 4 regions have turned to RAB in September – October of 2008
- ▶ Regulator has accepted Initial RAB suggested by MRSK management. In the average IRAB is in 2.8 times more than the balance sheet value of assets
- ▶ Up to 10 regions will turn beginning in 2009. Priority for major territories: Moscow, St. Petersburg, Ural
- ▶ The rest regions will turn beginning in 2010. The problem regions - beginning in 2011

Objectives on the initial base*



Total base in MRSK comprises \$30 bln.

* Calculated Initial RAB beginning of 2009. Hereinafter exchange rate RUR 26 / 1 USD

Tariffs grow owing to EBITDA growth

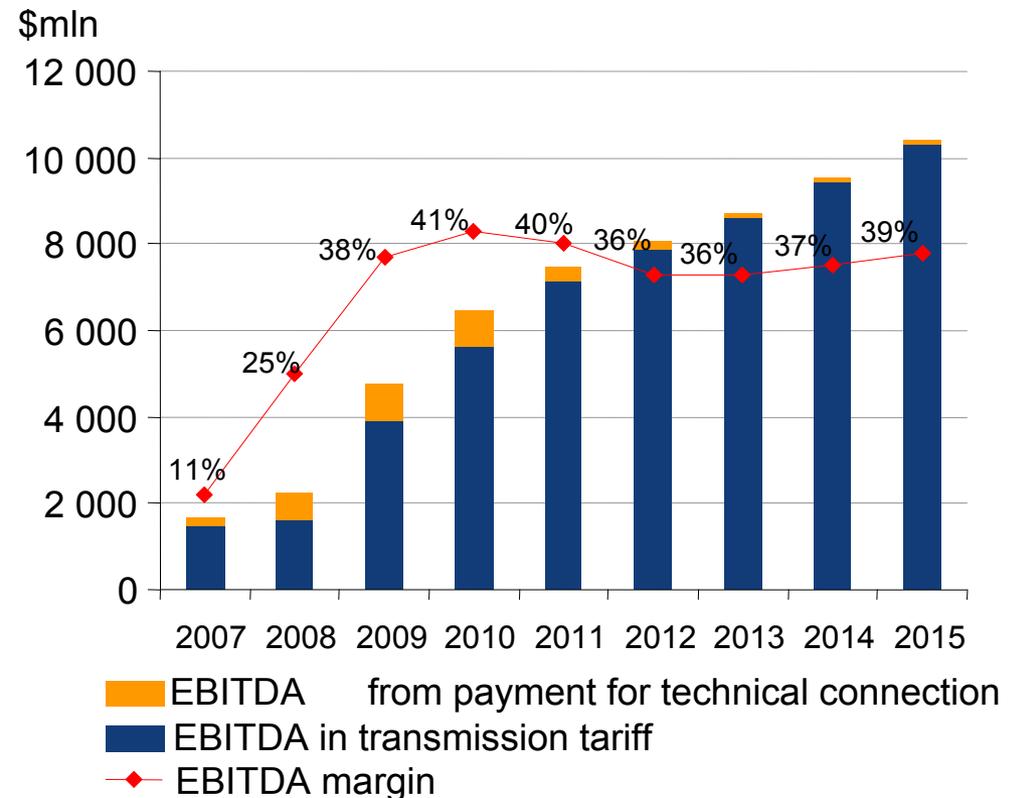
Sources of capital return are changing, but not the size of investment programs:

- ▶ **Tariff on transmission** (through RAB), becomes the major source for investments, other than payment for technical connection
- ▶ MRSK do not take market risks: unredeemed part of investments made against future payment for technical connection, will be included into RAB

Structure of companies revenues changes cardinally:

- ▶ In 2006-2008 tariffs have increased by 20-25% per annum as a consequence of operating expenses (OPEX) growth
- ▶ **Starting from 2009 tariffs will be increased by 20-25% per annum in RAB system owing to EBITDA**

EBITDA and MRSK EBITDA margin*



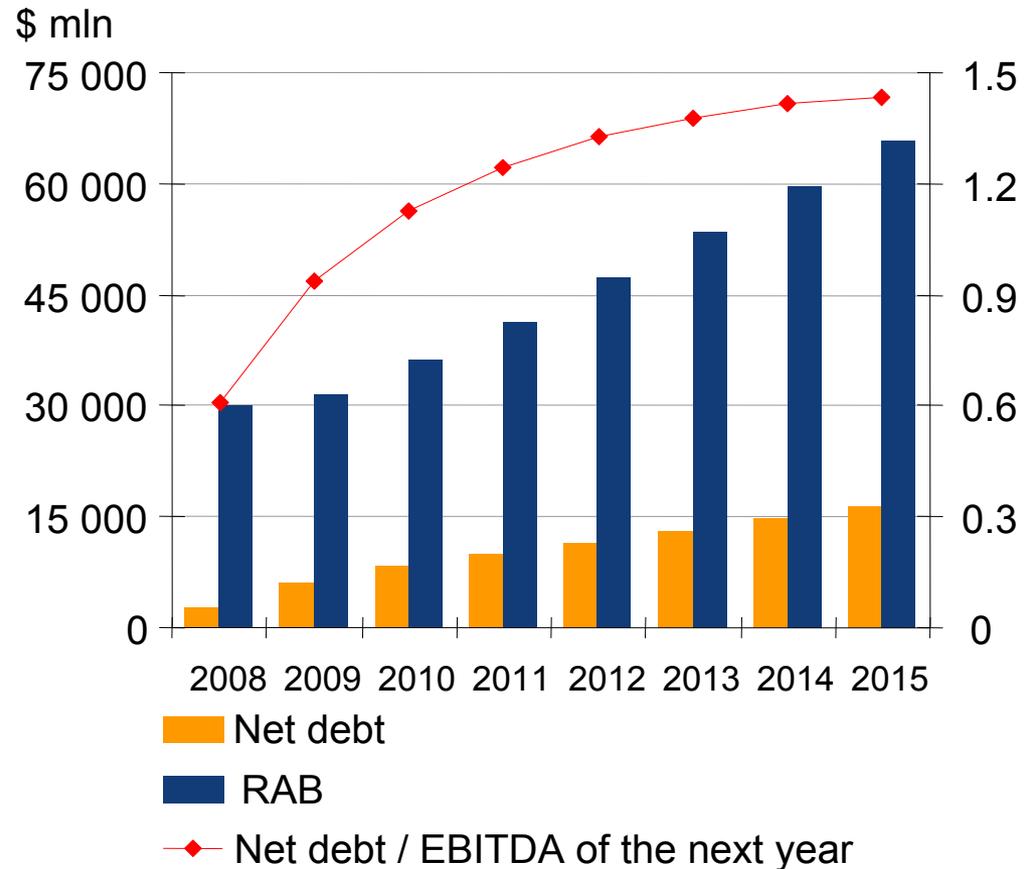
* Aggregated for all MRSK in accordance with the management expectations

Low debt helps to pass through the world financial crisis

In 2009 there are no critical debt obligations :

- ▶ Level of borrowed capital as of beginning of 2009 will achieve \$5.3 bln, which comprises 17% of Target Initial RAB
- ▶ Payment of principal amount of debt falls on 2010-2011
- ▶ In 2009 we plan re-credit of current debt totaling \$1 bln in banks with state participation
- ▶ On worst case scenario up to 30% of investment program will be deferred to 2010

Debt loan of MRSK



MRSK Tasks for 2009-2010

Risks decrease

- ▶ Transfer to RAB of companies in developing territories: higher priority companies - MOESK, Lenenergo, MRSK Ural
- ▶ Involvement of pension funds in financing of debt and joint-stock capital in MRSK/FGC will decrease risks of private investors

Efficiency objectives

- ▶ Approval of motivation scheme for the management to achieve the **target IRR on joint-stock capital of 18-20%** at 2009 year-end

Capitalization growth

- ▶ Objective – liquidation of discount for the equity value : **EV/ Target RAB from 0.3x to 1.0x by the early 2010**
- ▶ Development and approval by the government of the dividend policy in 2009 will support capitalization during the world economic crisis.



Tasks of the backbone grid complex of JSC FGC UES

MRSK business model will be applied in FGC UES starting from 2010

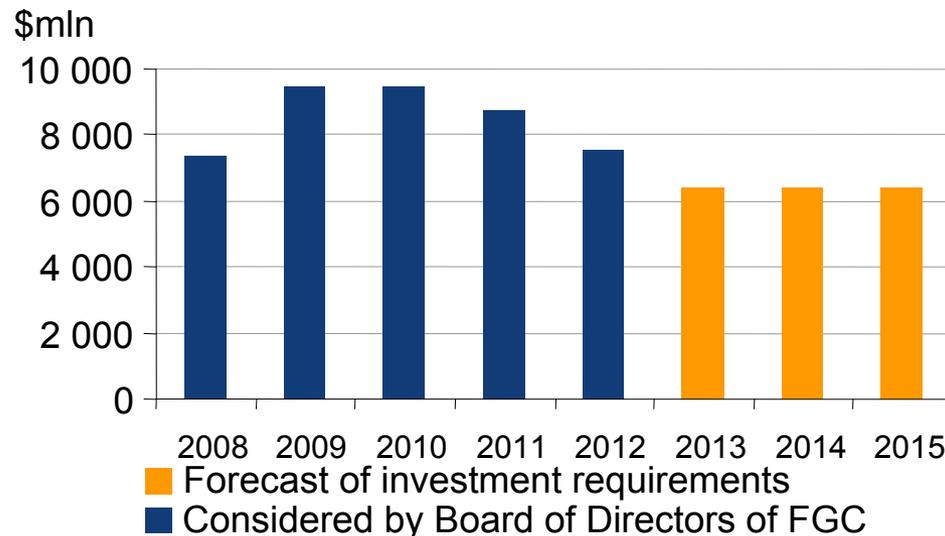
In 2009 FGC investments are covered by the sources

- ▶ Investment program comprises \$9 bln
- ▶ By the early 2009 Net Debt (-) \$3 bln:
 - Debt \$2.4 bln
 - Monetary means, bills, shares (conservative estimate) \$5.4 bln
- ▶ Government is to complete payment of additional issues in the amount of \$2 bln
- ▶ Tariff revenue of 2009 - \$1.7 bln
- ▶ Debt requirements - \$2.3 bln

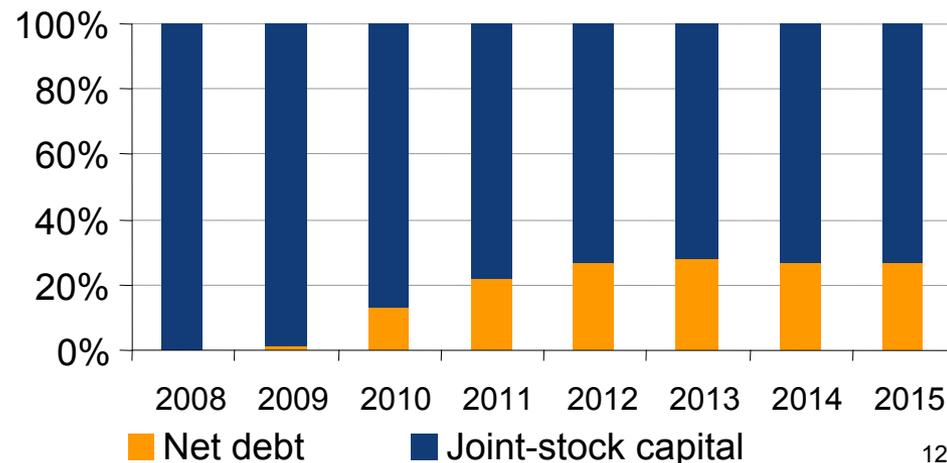
Starting from 2010 FGC UES will aggressively raise debt

- ▶ Starting from 2010 FGC UES will take RAB-regulation
- ▶ Parameters (Initial RAB, return) will be represented in April-May of 2009

Annual investments of FGC



FGC indebtedness



Summary

- ▶ Government supports the electric grid complex, as investment financing and liquidation of infrastructure restrictions is considered to be strategic objective of the government.
- ▶ Moreover, government welcomes private capital to participate in joint investments, for which it changes the system of tariff regulation. Electric grids are the first among infrastructure industries to take RAB.
- ▶ There are no substantive liquidity problems in 2009.
- ▶ **The electric grid complex is the best investment idea in 2009: low risks, substantial under-value.**

Q&A

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