



## **North-West MRSK Corporate Presentation**

---

Management roadshow

Moscow

10 September 2009

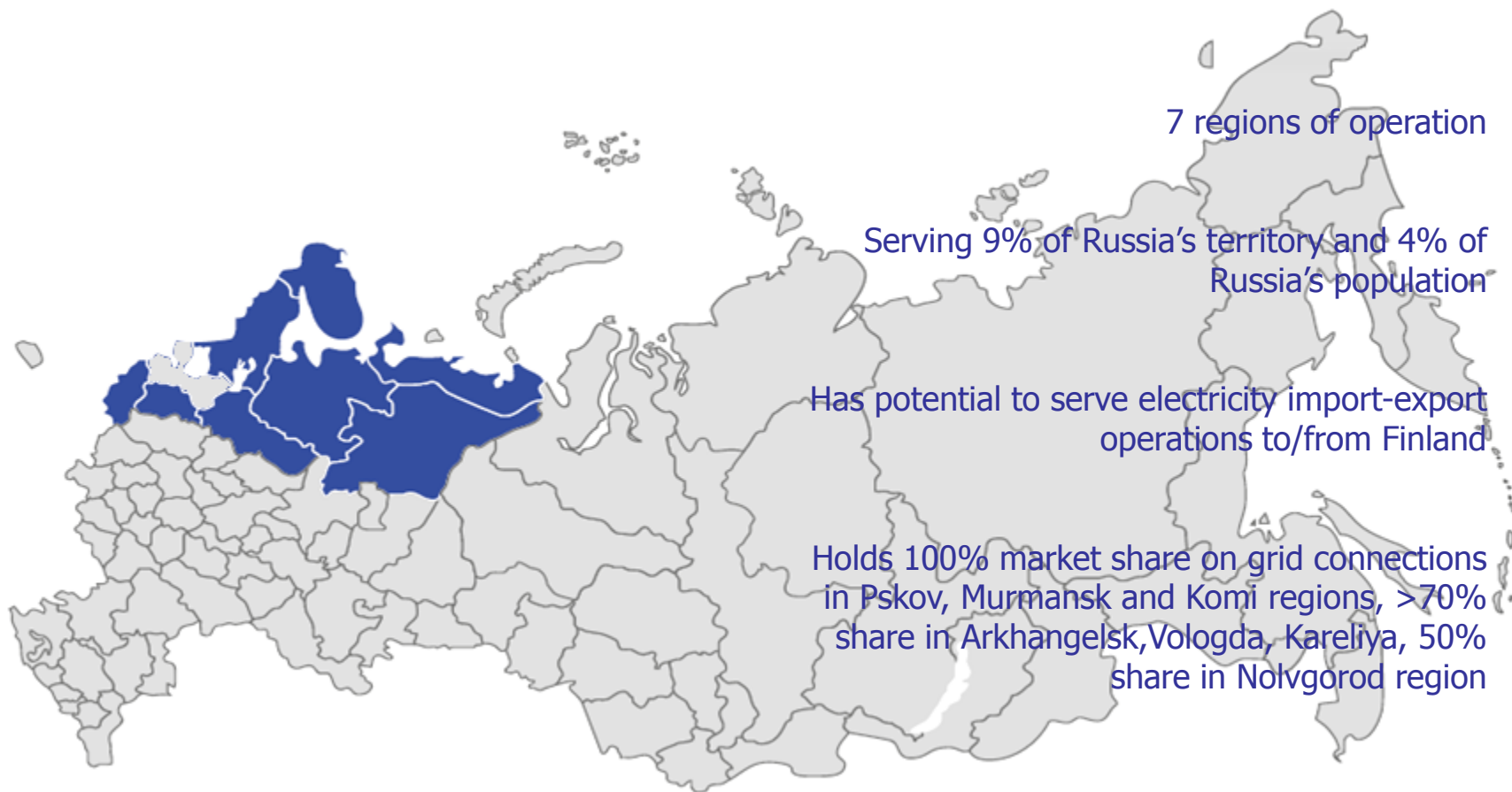


“I believe that tariff regulation of infrastructure companies should be based on the following principles. First, long-term tariffs should provide investors with guaranteed returns and profit on invested capital that is consistent with market norms. Second, we have to link the tariff level with the quality of service offered and to provide financial incentives to reduce operating costs. It has to be understood that without stability, there will be no development in this sector”.

**Vladimir Putin: Prime Minister' State Duma address 8 May 2008**



# Territory of operation





# Territory of operation

| Region   | Population, '000 | Average annual salary, \$ (at current X rate), 2007 data | GDP of the region, \$mn (at current X rate) 2007 data |
|--|------------------|--|---|
| Karelia  | 688              | 5,099  | 3,332   |
| Komi   | 959              | 6,526  | 7,721   |
| Arkhangelsk  | 1,262            | 5,503  | 9,136   |
| Vologda  | 1,218            | 4,935  | 7,769   |
| Murmansk   | 842              | 7,101  | 6,120   |
| Novgorod   | 646              | 4,206  | 2,788   |
| Pskov  | 696              | 3,420  | 2,010   |
| Total for regions of North-West MRSK (total/average) | 6,311            | 5,355  | 38,875  |
| Total for Russia                                     | 141,904          | 5,195  | 899,814   |
| % of Russia's  | 4.4%             | 103.1%   | 4.3%  |

Source: Central Statistical Agency



# Balanced customer mix

## Largest companies, served by North-West MRSK include

**Severstal** – one of Russia’s largest steelmaker. World largest standalone integrated steelworks located in Cherepovets is served by North-West MRSK



**Rusal** - 3rd world largest aluminium producer in the world. Company has Nadvoitskiy & Kandalashkiy aluminium plants and Sredne-Timanskii bauxite mine being served by North-West MRSK



**Norilsk Nickel** - world's leading producer of nickel and palladium and is Russia's leading gold producer. Kolskaya GMK – one of company’ largest producing facilities, is located in Murmansk region, served by North-West MRSK



**Akron** – Europe 5th largest fertilizer producer. Company’s major mining and producing facilities are located in North-West region



**EuroChem** – Russia’s largest and Europe’s 3rd largest fertilizer producer. Kovdorskiy ore-dressing & processing enterprise, company main asset and Russia’s second largest apatite producer is located in North-West region



**Transneft** - owner of the largest pipeline system in the world



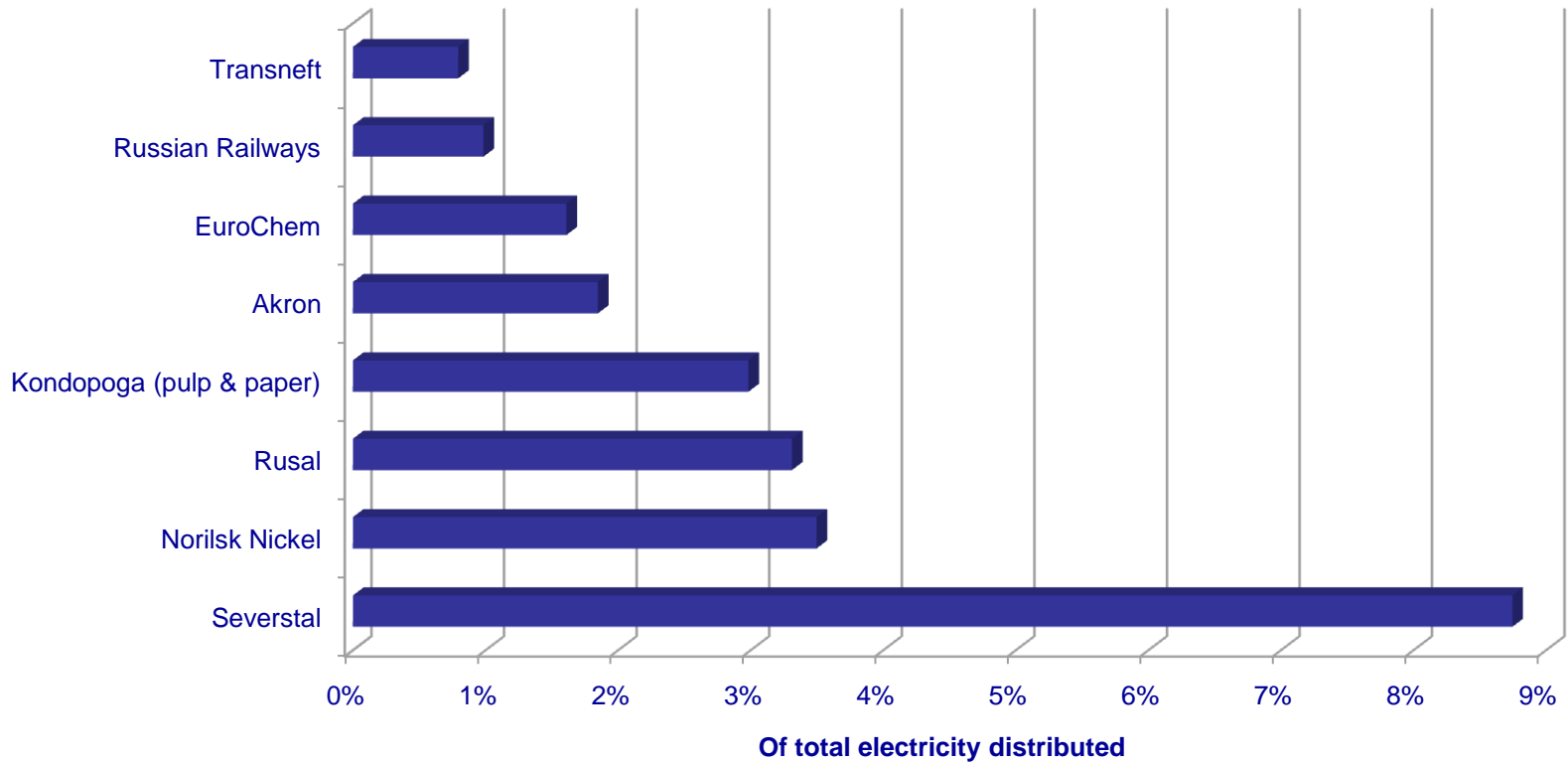
**Russian Railways** – one of the world largest railway companies, consumes 6% of electricity, generated in Russia





# Consumption

The total share of electricity distributed to households in North-West MRSK balance totals 13.7%.  
Largest consumers include





# Company board

| Name               | Current position   |
|--------------------|--|
| Demidov Alexey     | MRSK Holding, CFO<br>Energeticheskiy Soyuz,<br>deputy CEO, strategy &<br>development |
| Dronova Tatiana    | Federal Grid Company (FSK),<br>deputy CEO  |
| Ivanov Sergey      |  |
| Kukhmai Alexander  | North-West MRSK, CEO   |
| Popov Alexander    | Deputy CEO, MRSK Holding<br>head of Market Council<br>partnership                    |
| Popovskiy Sergey   |  |
| Sinyanskiy Vasiliy | North-West branch of System<br>Operator, general director                            |
| Remes Seppo        | Kiuru, general director  |
| Khvalko Alexander  | EnergoAtom, deputy general<br>director, electricity supply                           |
| Shvets Nikolay     | MRSK Holding, CEO  |
| Shogenov, Valeriy  | Ministry of Energy, deputy<br>department head  |



ОАО «КОНЦЕРН ЭНЕРГОАТОМ»



# Highly experienced management team



## **Kuhmai Alexander – General Director**

Born in 1951, Russian, graduated from Leningrad polytechnic university, Academy of national economy

Previous job positions: deputy general director SevZap NTC, technical director of North-West MRSK

## **Turlov Georgy – Chief Engineer**

Born in 1951, Russian, graduated from Leningrad agriculture university, Academy of national economy

Previous job positions: Director of technical development and grid connection at North-West MRSK, head of board of Pskovenergosbyt



## **Kushnerov Anatoly – Corporate governance officer**

Born in 1971, Russian, graduated from East-Kazakhstan state university (law), Academy of national economy, State management university (MBA)

Previous job positions: Corporate policy executive at Bryanskenergo, corporate policy and development executive at Volgogradenergo

## **Makarova Olga - CFO**

Born in 1971, Russian, graduated from St-Peterburg university of economy and finance (economist) Academy of National Economy(MBA)

Previous job positions: deputy head of department head of economy and planning at Pskovenergo





# Highly experienced management team



## **Mikhailov Alexander – head of development and supply**

Born in 1962, Russian, graduated from Leningrad polytechnic university, Academy of national economy

Previous job positions: Head of South branch of Pskovenergo, head of strategy at North-West MRSK

## **Ignatyev Anatoly – head of logistics and good&services provision**

Born in 1949, Russian, graduated from Leningrad agriculture university

Previous job positions: General Director of PskovEnergoAgent, commercial director and head of provision at North-West MRSK



## **Bloshitsin Vladimir – chief investment officer**

Born in 1958, Russian, graduated from Alma-Aty energy institute (electricity)

Previous job positions: Chief engineer at Lenenergo, head of grid development and electricity distribution at North-West MRSK, deputy head of technical director North-West MRSK



# Highly experienced management team



## **Chekhoev Aslan – chief investment officer**

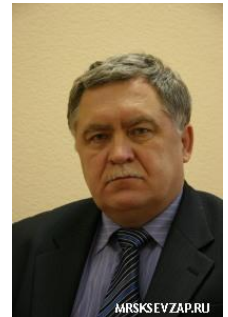
Born in 1965, graduated from Leningrad medical institute, St-Peterburg academy of management and economy

Previous job positions: Deputy CEO of coal company "KiselevUgol", first vice-president of RusInkor, chief investment officer at OGK6

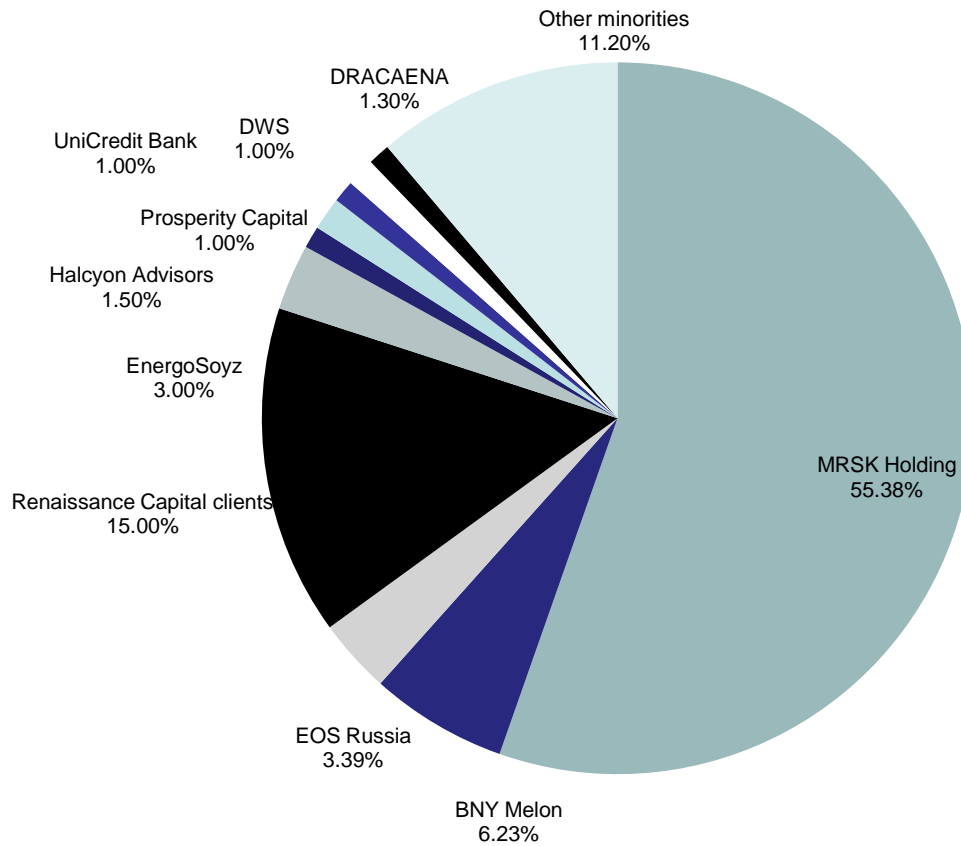
## **Vladimir Shestov – head of security**

Born in 1955, Russian, graduated from Tula polytechnic institute, Higher School of KGB

Previous job positions: various job positions at KGB/FSB, assistant to head of security of Northern federal enterprise on handling of radioactive waste



# Shareholders capital

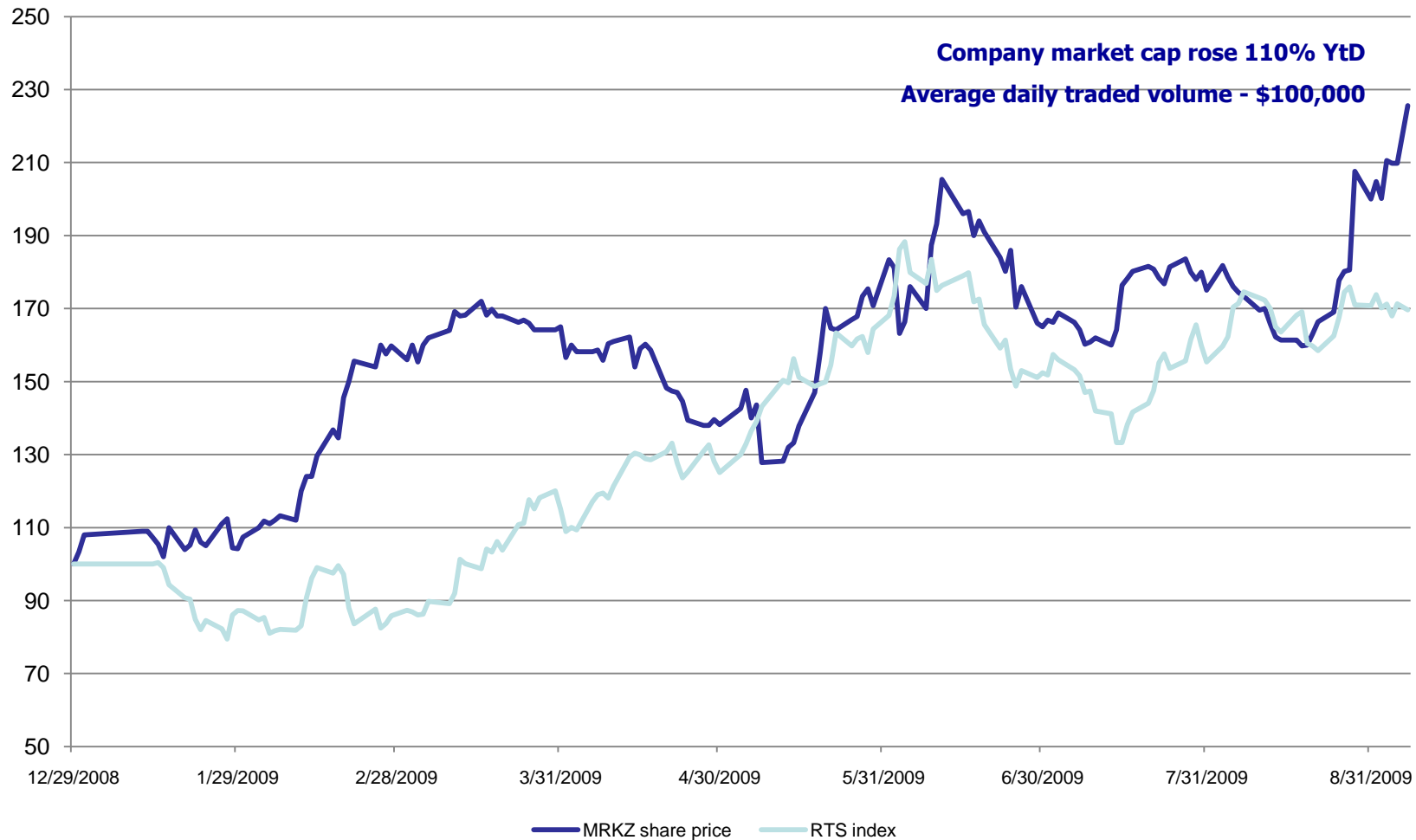


Source: Company data, Renaissance Capital estimates



# Share price performance

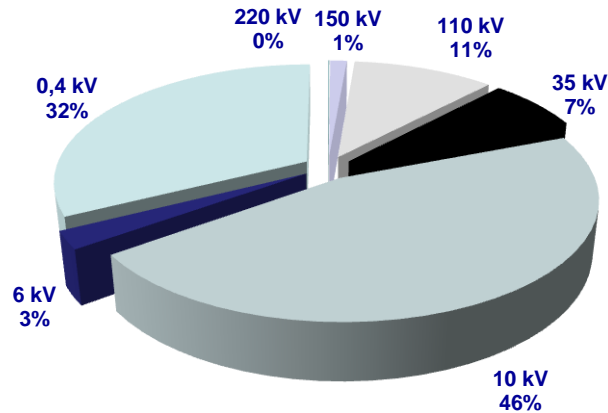
North-West MRSK Share price performance (rebasing as of 1Jan09)



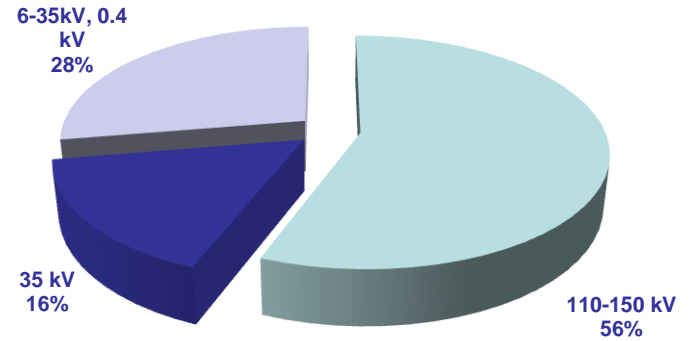


# Assets of the company

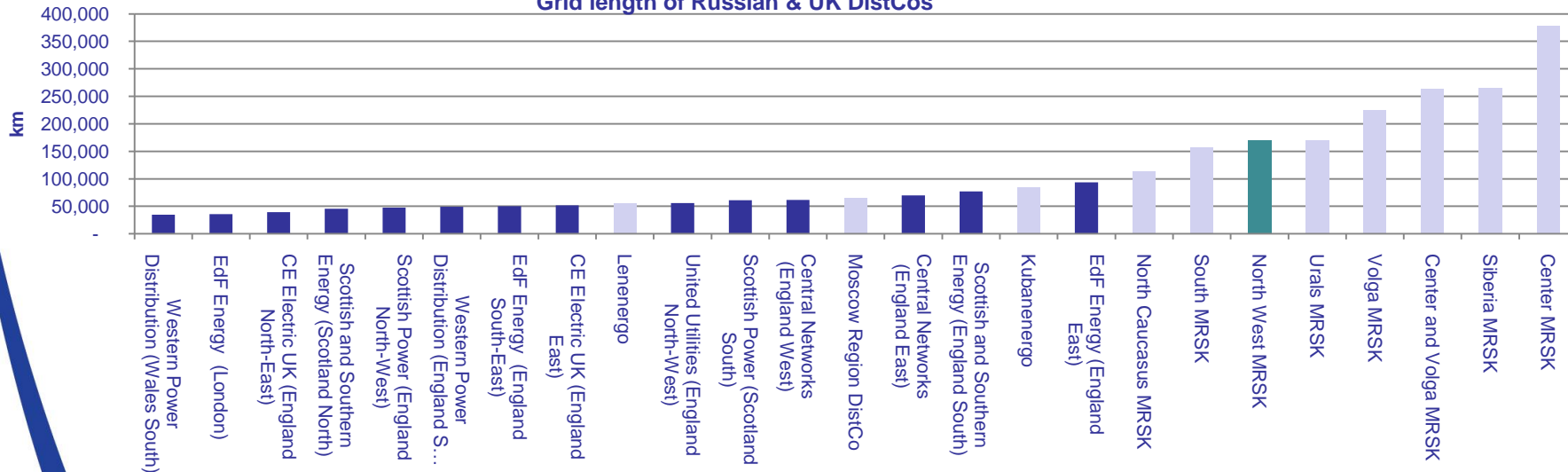
**Total grid length of North-West MRSK is 169,535 km.  
Physical depreciation of the grid is estimated to 46%**



**Total capacity of North-West MRSK substations equals 24,452 MVA**



**Grid length of Russian & UK DistCos**

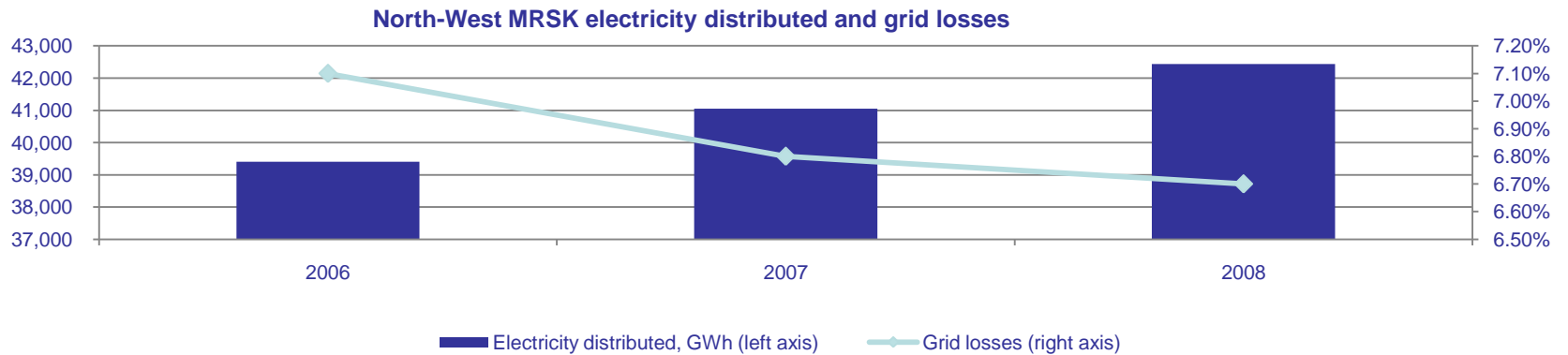




# Consumption & Losses

**Electricity distribution increased 3.4% YoY in 2008**

**Total electricity losses in 2008 decreased by 550 MWh vs 2007**



## North-West MRSK meets best international benchmarks for grid losses

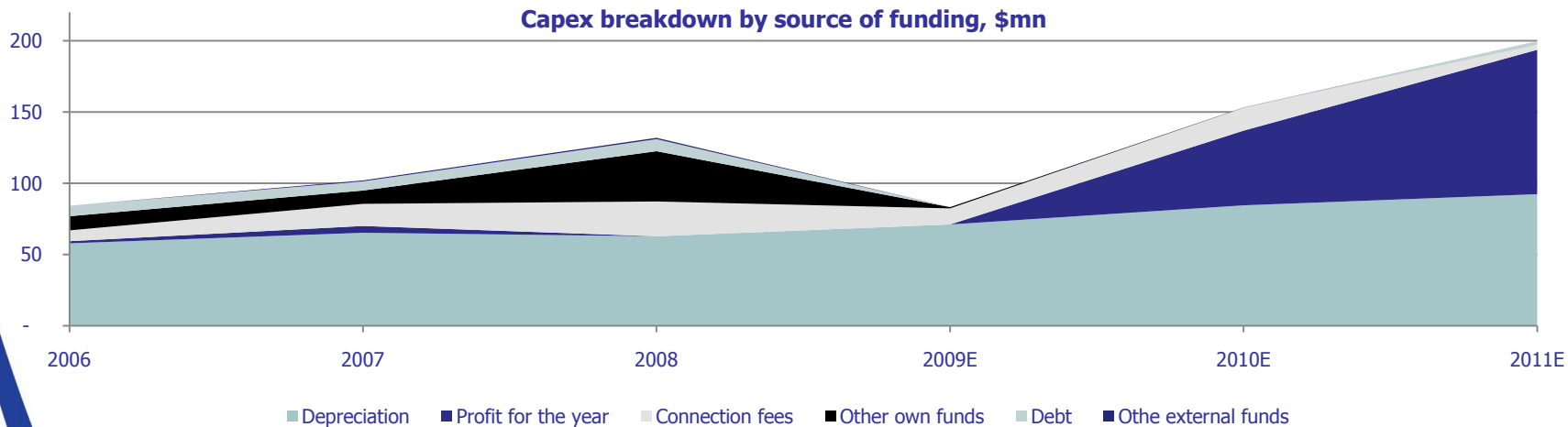
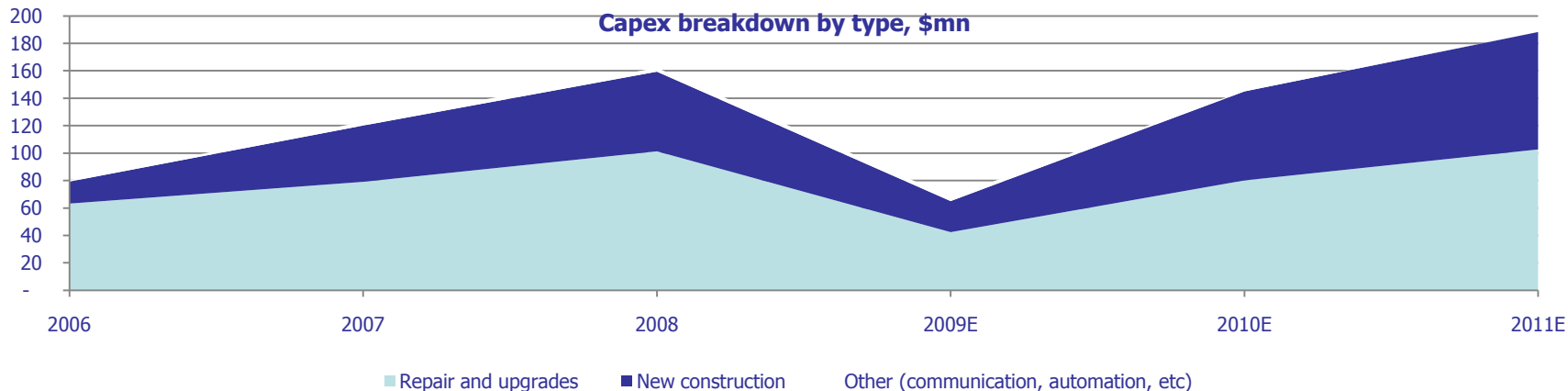


Source: Reinassance Capital estimates

# Investments



**North-West MRSK invested \$162 mn in total in 2008, with 36% going into new grid construction**





# Company financials

## North-West MRSK 2008 IFRS financials, \$mn

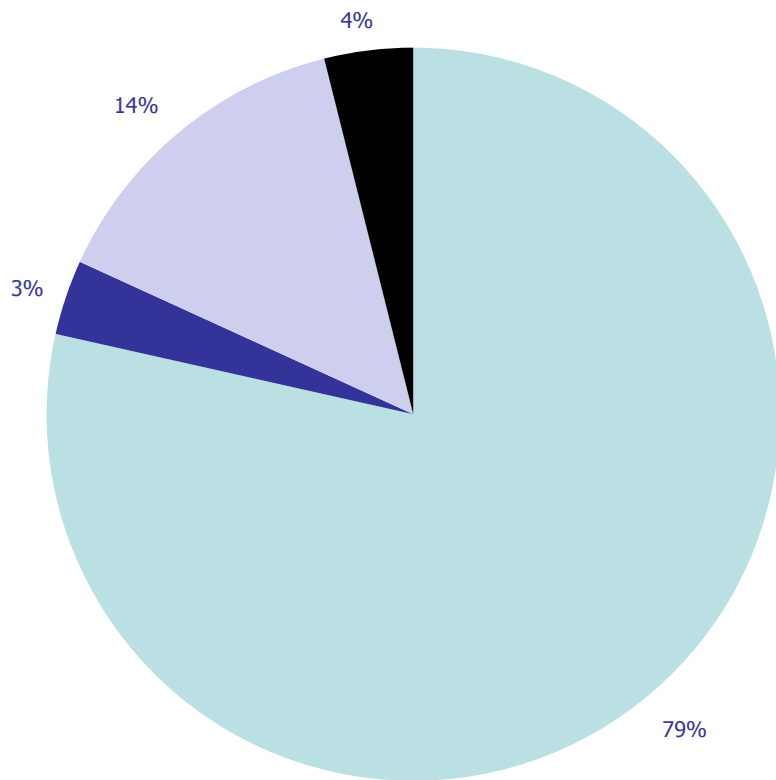
|   | 2008 | 2007           | YoY change, % |
|---|------|----------------|---------------|
| Total revenue, including                        | 937  | 832            | 13%           |
| Power distribution                              | 736  | 641            | 15%           |
| Connection fees                                 | 31   | 24             | 29%           |
| Sale of electricity                             | 134  | 113            | 19%           |
| Other revenue                                   | 37   | 54             | -32%          |
| Government grants (cross-subsidies liquidation) | 6    | 4              | 32%           |
| Operating costs, including                      | 894  | 786            | 14%           |
| Grid losses purchased electricity               | 115  | 98             | 17%           |
| Re-sale of electricity                          | 65   | 49             | 34%           |
| Personnel expenses                              | 222  | 224            | -1%           |
| Depreciation                                    | 87   | 73             | 19%           |
| Electricity distribution services               | 227  | 167            | 36%           |
| Repair  | 32   | 27             | 19%           |
| Other operating costs                           | 145  | 147            | -1%           |
| Operating income                                | 49   | 51             | -4%           |
| EBITDA  | 136  | 124            | 10%           |
| Net income                                      | 43   | 33             | 33%           |
|   |      | <b>Margins</b> |               |
| Operating                                       | 5%   | 6%             | -15%          |
| EBITDA  | 15%  | 15%            | -3%           |
| Net   | 5%   | 4%             | 18%           |

Source: Company data, Renaissance Capital estimates



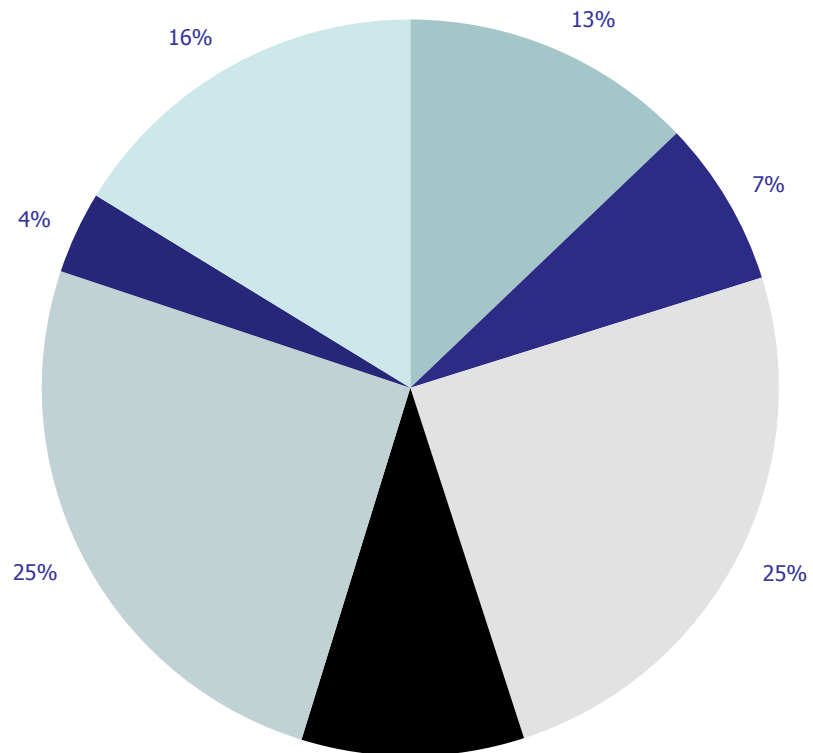
# Company financials

Revenue structure (2008)



- Power distribution
- Connection fees
- Sale of electricity
- Other revenue

Expenses structure (2008)



- Grid losses purchased electricity
- Personnel expenses
- Electricity distribution services
- Other operating costs
- Re-sale of electricity
- Depreciation
- Repair



# Profitability in sight

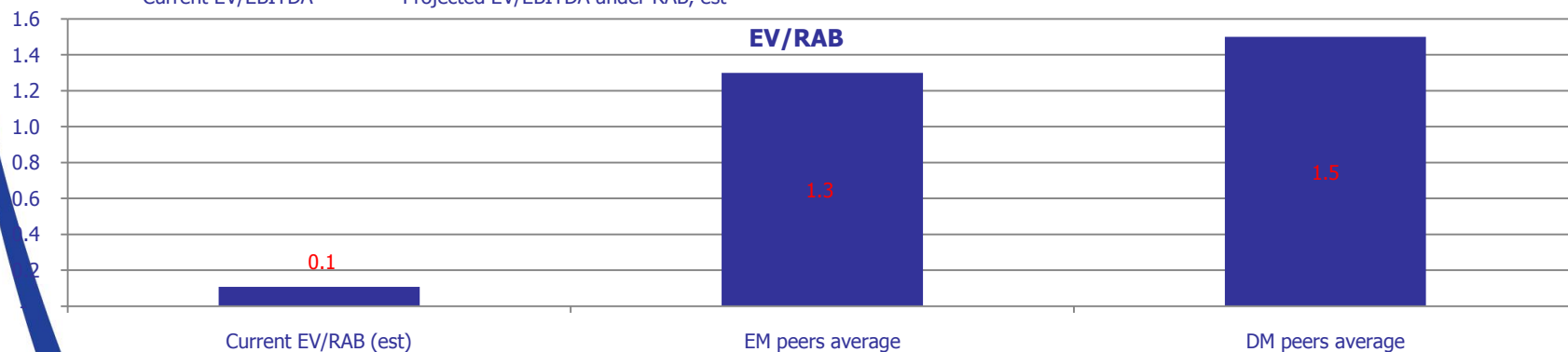
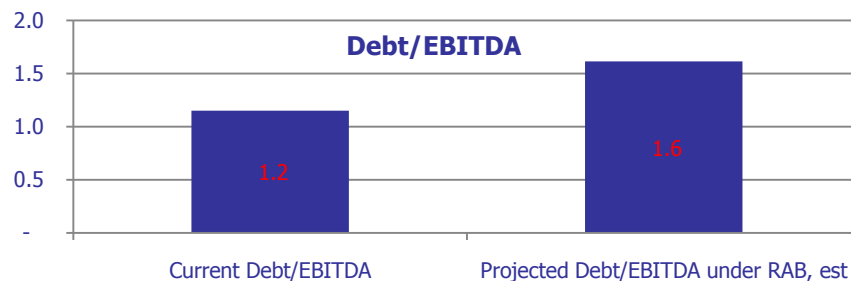
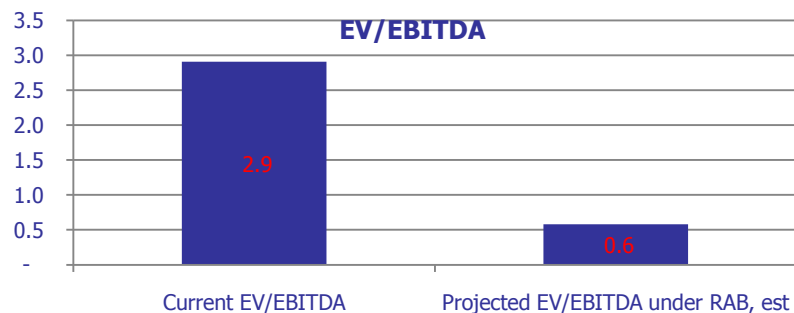
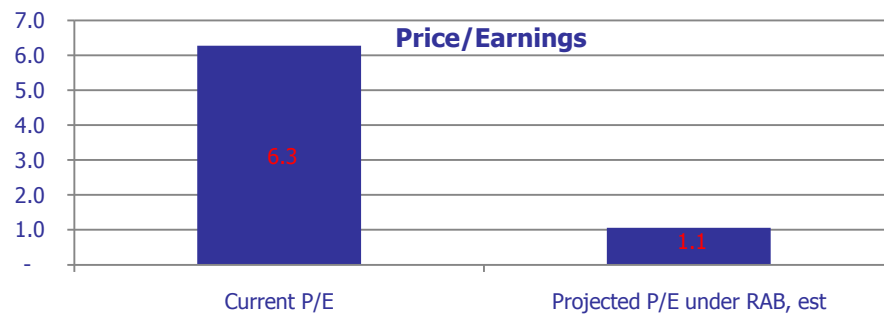
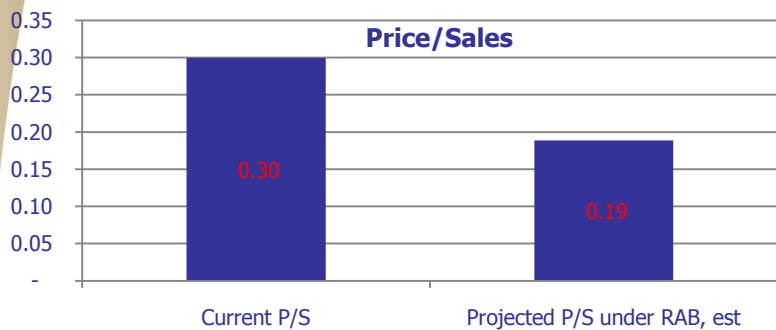
## Prof-forma Income Statement after full RAB implementation

| iRAB, \$mn  |                              | 3,662 |
|---|------------------------------|-------|
| Invested capital, \$mn  |                              | 6,803 |
| Under RAB regulation, \$mn                                      |                              |       |
|   | Change to 2008 actual result |       |
| Revenue, including coverage of economically justifiable costs   | 1,488                        | 59%   |
| return on iRAB  | 796                          |       |
| compensation of interest paid                                   | 527                          |       |
| Operating costs   | 1,001                        | 12%   |
| Grid losses   | 115                          |       |
| re-sale of electricity  | 65                           |       |
| Personnel expenses  | 222                          |       |
| Allowed regulatory depreciation (repayment of invested capital) | 194                          |       |
| Electricity distribution services                               | 227                          |       |
| Repair  | 32                           |       |
| Other operating costs   | 145                          |       |
| Operating income  | 486                          | 902%  |
| EBITDA  | 681                          | 401%  |
| Finance expense (@ 15% interest rate on 30% of iRAB)            | 165                          |       |
| Taxes (20% corporate tax rate)                                  | 64                           |       |
| Net income  | 257                          | 493%  |
| Margins   |                              |       |
| Operational   | 33%                          |       |
| EBITDA  | 46%                          |       |
| Net   | 17%                          |       |

Source: Reinassiance Capital estimates



# Multiples – now & after

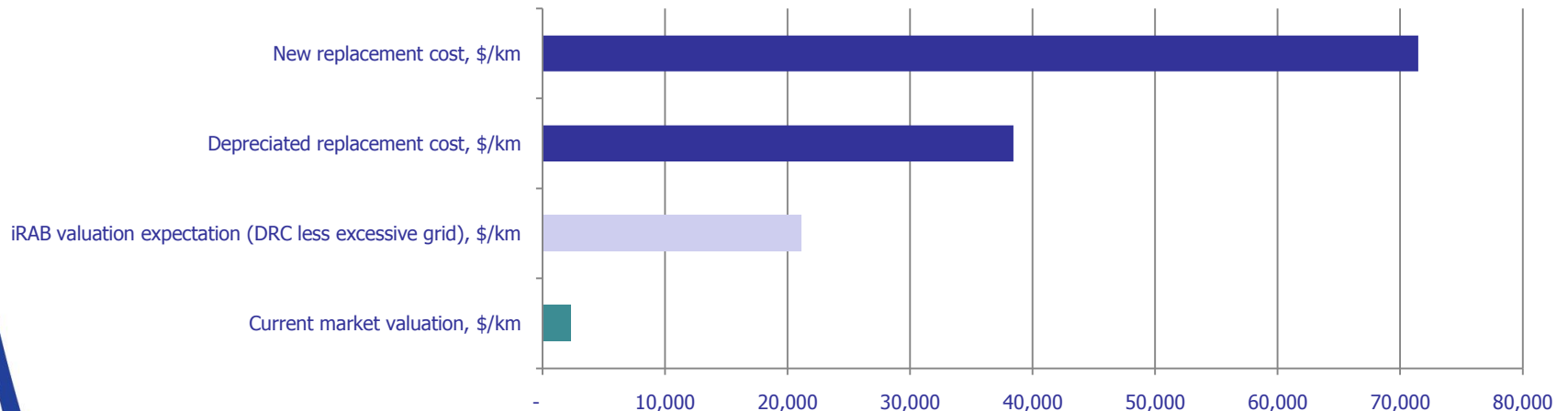




# New tariff – iRAB valuations

| Regional grid                | New replacement cost, \$/km | Depreciated replacement cost, \$/km | iRAB valuation expectation (DRC less excessive grid), \$/km |
|------------------------------|-----------------------------|-------------------------------------|---|
| Arkhenenergo                 | 74,650                      | 41,225                              | 24,425  |
| Vologdaenergo                | 56,941                      | 31,037                              | 15,819  |
| Karelenenergo                | 87,513                      | 38,302                              | 20,712  |
| Kolenergo                    | 268,348                     | 144,728                             | 74,967  |
| Komienergo                   | 95,566                      | 54,539                              | 33,895  |
| Novgorodenergo               | 71,421                      | 33,650                              | 18,087  |
| Pskovenergo                  | 44,191                      | 25,806                              | 13,282  |
| <b>North-West MRSK total</b> | <b>71,474</b>               | <b>38,427</b>                       | <b>21,134</b>   |

North-West MRSK valuations vs current market, \$/km



**Based on valuations of independent auditor, company iRAB is estimated at \$3,600 mn or \$21,000/km. This implies that currently North-West MRSK trades at EV/RAB of 0.1**



## **North-West MRSK Corporate Presentation**

# **Questions & Answers**