



# JSC Lenenergo Road Show

February 2008

## **Presenting management team:**

Alexander Chistyakov, Chairman of Lenenergo BoD, First Deputy Chairman of FSK Management board (COO)

Valery Chistyakov, CEO of Lenenergo

Pavel Akilin, CFO of Lenenergo



## Key Ideas

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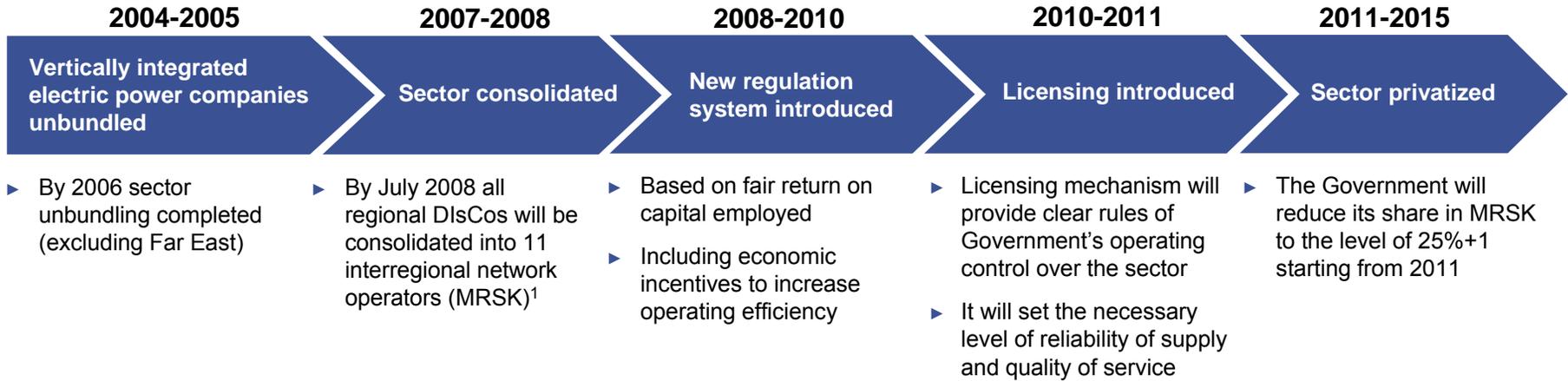
- ▶ Lenenergo is servicing second largest and rapidly growing region in Russia
- ▶ Electricity distribution sector reform brings western standard regulation
- ▶ The Company is highly supported by regulator, who is now a 25% shareholder
- ▶ Lenenergo executes an unprecedented investment programme
- ▶ High investment needs drive long-term EBITDA increase
- ▶ Economic incentives to reduce Opex will be a significant addition to the shareholder value



# **Electricity Distribution Sector Strategy**



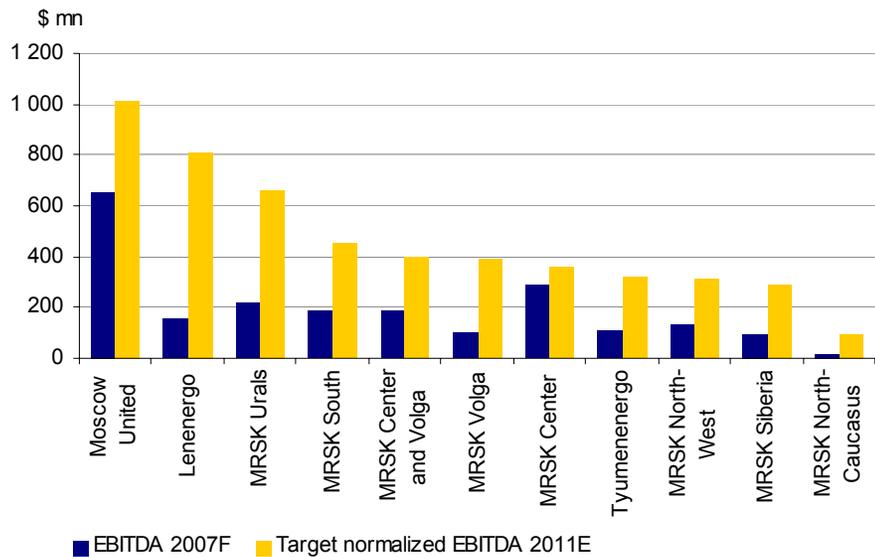
# Electricity Distribution Sector Reform in Russia



## Strategic Goals Approved by Government

- | Long-term investment attractiveness  | Efficiency and reliability of supply  |
|--|---|
| <ul style="list-style-type: none"> <li>▶ By 2015 invest \$55 bn into network expansion and maintenance (2007 prices)</li> <li>▶ Achieve the cost of capital compared to the countries of similar economic development by 2015</li> <li>▶ Stabilize EBITDA at the level sufficient to execute long-term investments into network expansion and maintenance by 2011</li> </ul> | <ul style="list-style-type: none"> <li>▶ Decrease the level of assets depreciation to the normalized level of 40% by 2015</li> <li>▶ Create the system capacity reserve surplusing economic development by 3-5 years</li> <li>▶ Introduce the quality of supply and reliability system by 2010</li> </ul> |

## Target 2011 EBITDA level set by FSK



<sup>1</sup> See the map of Russian MRSK in Addendum  
Source: Electricity distribution sector reform strategy approved by RAO UES, Company data



# Regulation System Introduction and Listing Policy in Transition Period

## RAB<sup>1</sup>-based Regulation System Cornerstones

- ▶ Distribution tariff includes fair rate of return on invested capital according to the best international practice of RAB-based approach
- ▶ Fair rate of return is expected to be established on the basis of CAPM model and achievable capital structure
- ▶ 5 years regulatory period (3 years during the transition period)
- ▶ Initial RAB to be determined based on DRC
- ▶ Incentives to achieve better operating efficiency by retaining cost cutting gains for a the period of 5 years
- ▶ Annual adjustment mechanism in the regulated revenue formula for objective and macroeconomic factors, quality and reliability performance
- ▶ The possibility of exceeding the distribution tariff price cap levels in case of investment needs

### Key dates of regulation system introduction:

- ▶ Changes into the Government Decision №109 «Tariff setting principles in the power industry» – **1H 2008**
- ▶ Distribution tariff calculation methodology – **1H 2008**
- ▶ Price control decisions based on new regulation system will be approved in up to 10 distribution companies – **2H 2008**
- ▶ Price control decisions based on new regulation system will be approved in all companies of the sector – **2009-2010**

## Listing Policy in Transition Period

- ▶ Regional DisCos consolidation into the interregional network operators (MRSK) will be completed by:
  - Delisting of regional DisCos shares from stock exchange and
  - Listing of MRSK single shares
    - The period between listing and delisting is 2 months
- ▶ To provide MRSK shares quotes in transition period FSK management is discussing the possibility to introduce OTC quotes by a selected market maker
  - The only company in the sector, which shares will not be delisted is Lenenergo (its final structure set in 2007 and not to be changed further)
- ▶ FSK is developing the programme of DisCos shares liquidity improvement at the moment (including A-level GDR programmes launching)

### Key dates of MRSK listing:

- ▶ MRSK Center and Volga, MRSK Center, MRSK North-West, MRSK South, MRSK Volga region, Moscow MRSK, MRSK Siberia, MRSK North Caucasus – **1 June 2008**
- ▶ MRSK Urals – **1 July 2008**
- ▶ MRSK Lenenergo – **already listed (will not be delisted)**
- ▶ MRSK Tumenenergo – **will not be listed (RAO UES 100% subsidiary)**

<sup>1</sup> RAB – regulatory asset base



## **Company Profile and 2006-2007 Results**



# Lenenergo Profile

## Company Overview

- ▶ Lenenergo is a monopoly provider of electricity distribution and connection services operating the network of 0,4-110 kV
- ▶ Electricity distribution business in Russia is regulated on the Federal and Regional levels:
  - Federal Tariff Service establishes total price cap levels of distribution tariff for regions
  - Regional Tariff Services approve final distribution tariffs and connection charges for companies in regions
- ▶ Lenenergo services two rapidly growing subjects in the North-West of Russian Federation:
  - St. Petersburg - the second largest city in Russia:
    - 2007F GRP of \$41,3 bn
    - Real GRP CAGR 2007-2025 of 7,5%
    - Electricity consumption CAGR 2007-2025 of 6,2%
  - Leningrad region – important industrial center:
    - 2007F GRP of \$10,3 bn
    - Real GRP CAGR 2007-2025 of 6,4%
    - Capacity demand CAGR 2007-2025 of 5%
- ▶ Controlling shareholder is Unified Energy System of Russia (RAO UES) – 60% of authorized capital, which is under management of Federal Grid Company (FSK)

## Lenenergo Service Territory



## Key Company Data

Key company data	2007F
Service territory, thou. km <sup>2</sup>	87,1
Population within the service territory, mn	6,2
Customers, thou., including:	1 848
Residencial, thou.	1 780
Commercial, thou.	68
Network length, thou. km, including:	54
Overhead lines, thou. km	39
Cable lines, thou. km	15
Transformer capacity, MVA	18 013
Distribution volume, TWh	26
Total revenue, \$mn	627
BV of Fixed Assets	1 787
Market capitalization as at 14.02.2008, \$mn	1 394



# 2005-2006 Challenges Aligned Interests of Lenenergo and Regional Authorities

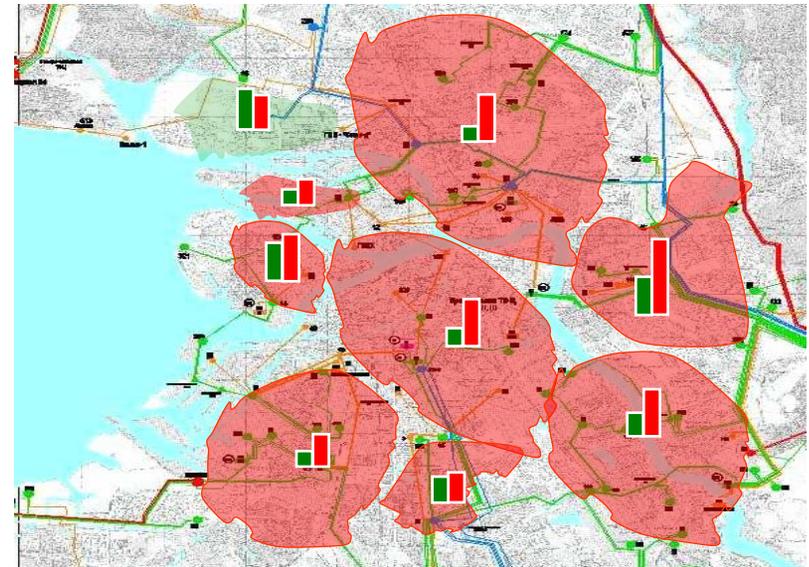
## Challenges in the Transition Period

- ▶ Financial results improvement
  - During Lenenergo unbundling the major portion of investment component in the electricity tariff was allocated in favor of generation
- ▶ Conflict of interests with regional authorities resolving
  - Due to arising capacity deficit regional governments formed their own distribution companies, thus, competing for the tariff
  - Distribution tariff, including investment component, was allocated by regulator not in favor of Lenenergo leading to low EBITDA margin and lack of investment resources
  - Widening gap between capacity demanded from the city and ability of Lenenergo to deliver necessary assets resulted in disparity of distribution infrastructure and territory economic development

## Lenenergo and Regional Authorities Interests Aligned

- ▶ Conflict resolved by signing the Agreements between city and regional administration and RAO UES:
  - The parties agreed joint investment programme of \$4,2 bn for 2007-2012
  - Agreement approved the merger of Lenenergo and St. Petersburg distribution companies:
    - St. Petersburg city administration receives 25+1% of common shares in Lenenergo
    - Regional authorities representatives became Lenenergo BoD members starting Nov. 2007

## Capacity Deficit Zones in St. Petersburg 2006



- - connection refused
- - capacity demand
- - connection available
- - capacity reserve

- ▶ Red areas above show the territories, where connection of new customers were not possible in 2006
- ▶ Bars above show the excess of demand over supply - distribution capacity deficit at the end of 2006 totaled 1,6 GVA
- ▶ ...thus, capacity demand which is driven by growth of the city determined the launch of the most accelerated investment programme in Russia and subsequent tariffs increases

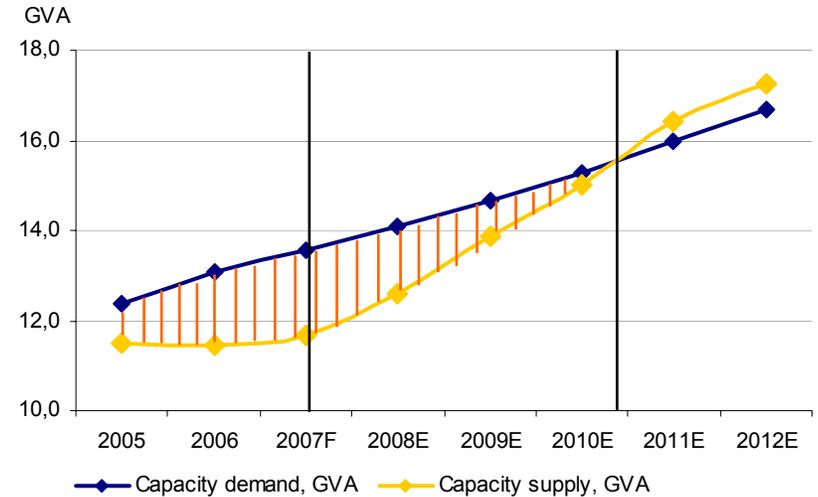


## 2007 Key Events

### Lenenergo Key Events in 2007

- ▶ Lenenergo and regional authorities signed investment agreements totaling \$4,2 bn to resolve distribution capacity bottleneck
- ▶ Connection charge is introduced in St. Petersburg and Leningrad region as a source to finance mid-term capital investment shortages (connection charge revenue in 2007F - \$158 mn, in 2008E - \$423 mn)
- ▶ Regulator approved distribution revenue growth for 2006-2007 of 45%
- ▶ St. Petersburg city subscribed for Lenenergo additional shares issue<sup>1</sup>:
  - City Administration subscribed for 25+1% of common shares
  - \$356 mn additional shares issue to be paid by :
    - \$122,5 mn in cash (already contributed)
    - \$233,5 mn of distribution assets to be transferred to Lenenergo by the end of 2008
- ▶ New structure of Lenenergo BoD was set (total 13 members):
  - 4 members representing city and regional authorities
  - 3 members representing minority shareholders
  - 6 members representing RAO UES/FSK
- ▶ Strategy and Risk Committee is formed to provide opinion on Lenenergo key development decisions to BoD:
  - FSK is committed to include minority shareholders representatives into Committee

### 2007-2012 Capacity Deficit Elimination Plan



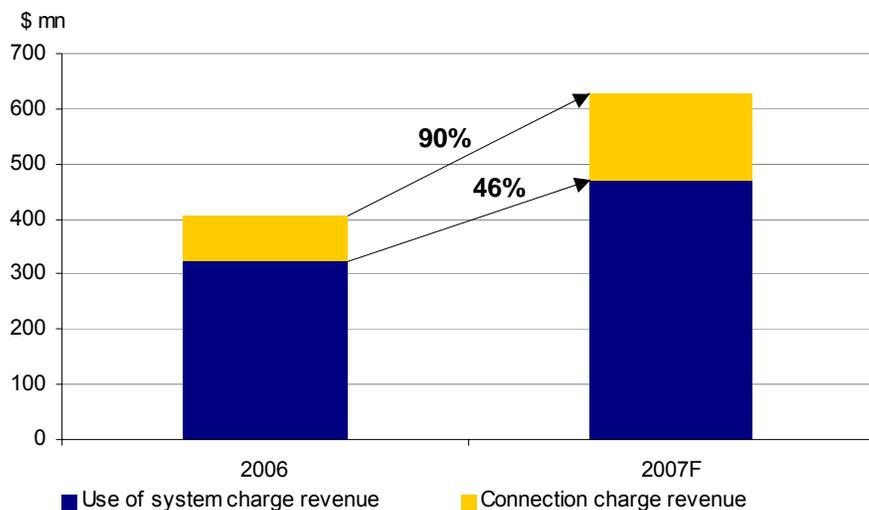
- ▶ The gap between electricity distribution capacity demand and supply will be closed by 2011
- ▶ From 2011 Lenenergo will focus on reduction of core-asset wear and tear and implementation of operational efficiency programme

<sup>1</sup> See additional shares issue details in Addendum  
Source: Company 2007F data. The stated capacity demand reflects summarized demand for the transformer capacity of 35-100 kV voltage

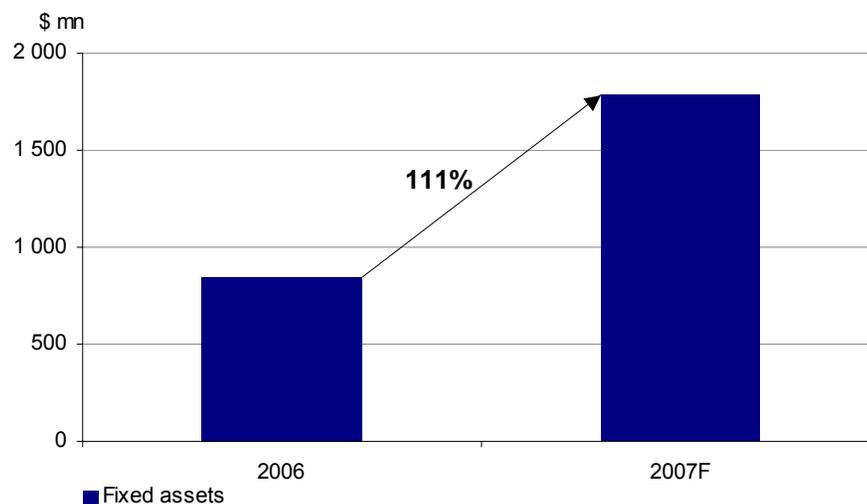


# Key Financials 2006-2007

## Revenue Increased by 55% from 2006 to 2007



## Fixed Assets Increased by 111% from 2006 to 2007



## P&L 2006-2007

Income statement (RAS), \$mIn.	2006	2007F
Total revenue	404	627
Use of system charge revenue	321	469
Connection charge revenue	83	158
<i>Total revenue growth, %</i>	30%	55%
Controllable Opex (excl. D&A)	101	195
Uncontrollable Opex (excl. D&A)	229	292
EBITDA	74	141
<i>EBITDA margin, %</i>	18%	22%
Depreciation & Amortization	37	80
Net income	16	37

## Balance Sheet 2006-2007

Balance sheet (RAS), \$mIn.	2006	2007F
Cash and cash equivalents	42	133
Accounts receivable	83	80
Prepayments	106	355
Fixed assets	846	1 787
Others	39	67
<b>Total assets</b>	<b>1 115</b>	<b>2 422</b>
Accounts payable	216	547
Financial debt	176	456
Total shareholders equity	717	1 458
Retained earnings	-30	-80
Others	37	40
<b>Total liabilities</b>	<b>1 115</b>	<b>2 422</b>

<sup>1</sup> Including assets revaluation in 2007  
Source: Company 2006, 2007F data



## **Long-Term View on Company Development**

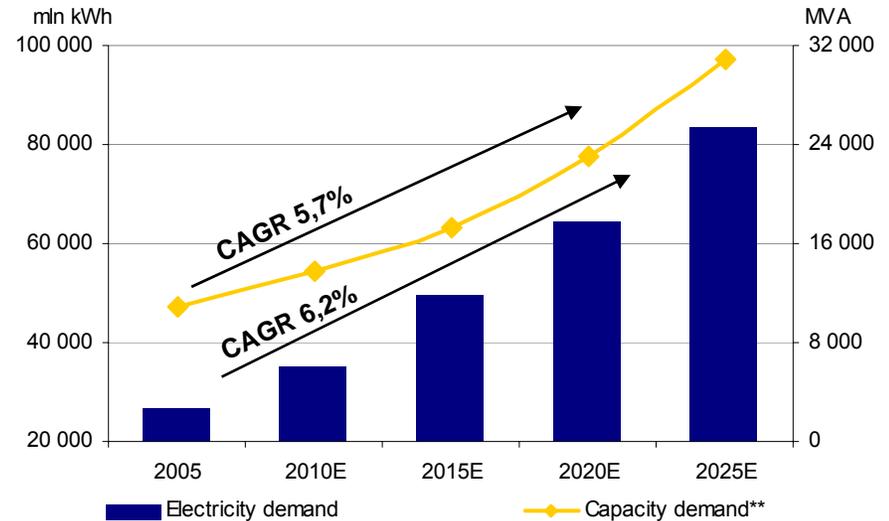


# Operational Targets Determined by Strong Macro Drivers

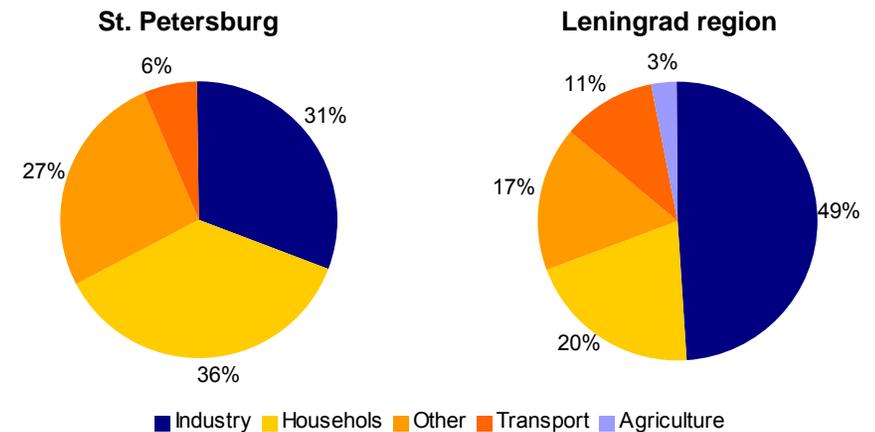
## Lenenergo Mission and Growth Drivers

- ▶ Lenenergo mission is to provide reliable and efficient electricity distribution infrastructure to service customers in St. Petersburg city and Leningrad region
- ▶ Operational goals are determined by the growth of service territory - the most intensive in Russia, which is defined by:
  - Electricity consumption CAGR 2005-2025 of 6,2%
  - Capacity demand CAGR 2005-2025 of 5,7%
- ▶ Main electricity consumption and capacity growth drivers<sup>1</sup>:
  - Region Industrial development:
    - Mechanical engineering and metal-working industry development 2005-2025 CAGR of 8,4% in St. Petersburg
    - Chemical and petrochemical industry development 2005-2025 CAGR of 10,8% in Leningrad region
  - Transport infrastructure development:
    - Railway shipment volume 2005-2025 CAGR of 6,2% in St. Petersburg
    - Trans-shipment volume 2005-2025 CAGR of 6,2% in Leningrad region
  - Urban building development:
    - Residential living space 2005-2025 CAGR of 4,4%
    - Commercial floor space 2005-2025 CAGR of 11,8%

## Electricity and Capacity Demand Forecast<sup>2</sup>



## Electricity Consumption Structure in 2007<sup>3</sup>



<sup>1</sup> See electricity consumption and capacity growth drivers details in Addendum

<sup>2</sup> Source: Company data, Regional governments' websites (<http://www.gov.spb.ru>, <http://www.lenobl.ru>), long-term forecast provided by the Strategy development group of RAO "UES of Russia". The stated Capacity demand reflects summarized demand for the transformer capacity of 35-100 kV voltage

<sup>3</sup> Source: Company data 2007F



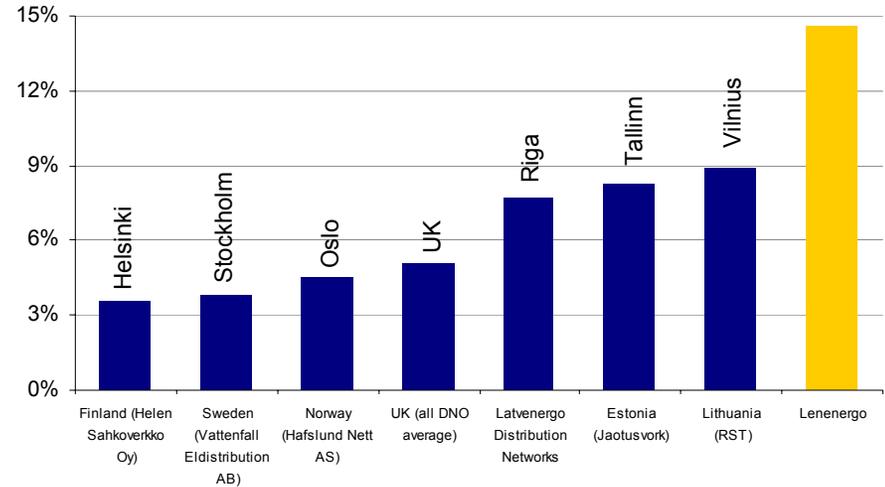
# Efficiency Targets based on European Piers Performance

## Opportunity to Get Cost Cutting Gains

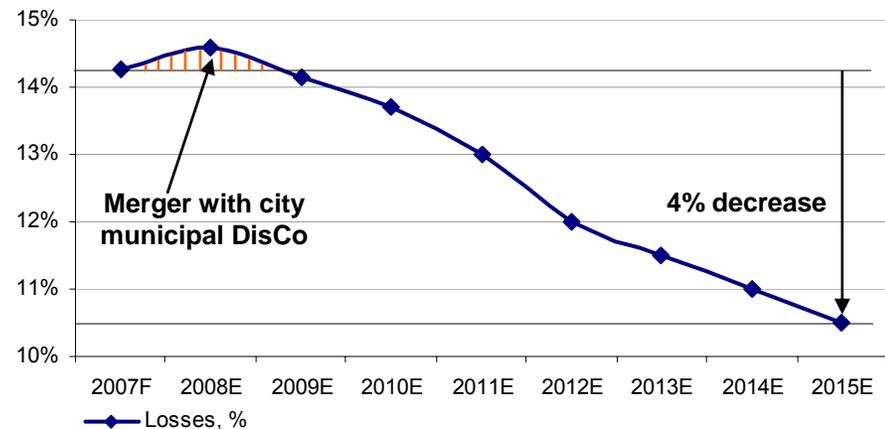
- ▶ Electricity distribution in Lenenergo before 2007 was less efficient in comparison with European piers:
  - High level of core-assets wear and tear
  - Outdated operational technology
  - Lack of metering points due to long-term underinvestment
- ▶ From 2008 Lenenergo management is focused on efficiency improvement :
  - Metering system modernization introduced in 2007 (forecasted investments of \$242 mn for 2007-2010)
  - Merger with city municipal company provides total control over distribution assets at the service territory
- ▶ From 2011 management is going to invest in assets renovation, which will drive electricity losses decrease
  - Management conservative forecast is to reduce losses to the level of 10,5% in 2015

**This will increase market capitalization of the company as new regulation system propose to retain benefits of operating costs reduction for 5 years**

## Electricity Losses Comparison 2007



## Electricity Losses 2007-2015 Projection





# Ambitious Investment Targets and Financial Sources

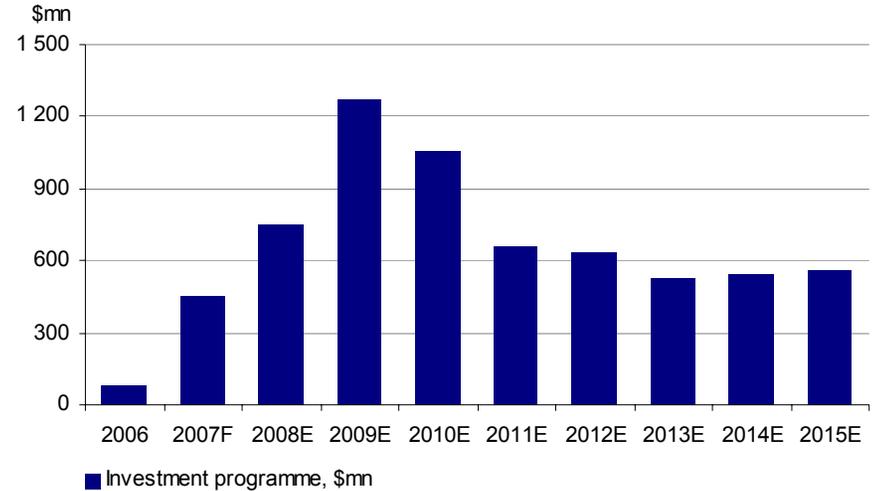
## Investment Programme

- ▶ 2007-2015 Investment programme results forecast:
  - Distribution capacity to be constructed of 8,6 GVA
    - 56 new substations is expected to be built for 2007-2015
  - Network to be constructed of 3 997 km (7,5% of current)
  - Fixed assets are expected to increase by 407%<sup>1</sup>
- ▶ Forecasted total Capex for 2007-2015 totaling \$6,4 bn
  - Including \$4,2 bn under Investment agreements between Lenenergo and regional authorities for 2007-2012

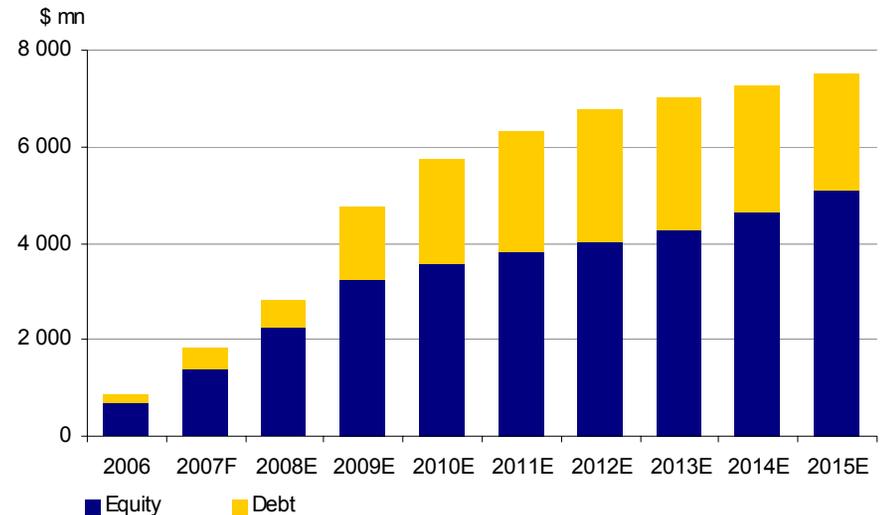
## Lenenergo Financial Sources

- ▶ 2007F financial debt totaled \$456 mn (Debt/Capital ratio - 25%, Net Debt/EBITDA ratio – 2,3)
- ▶ Company plans to increase debt financing to the level of \$2,45 bn in 2015 (forecasted Debt/Capital ratio - 33%, Net Debt/EBITDA ratio – 2,2)
- ▶ In 2008 the company is planning to get credit rating by Moody's
- ▶ Target debt structure: 20% of short-term debt, 80% of long-term debt

## Investment Programme 2006-2015 Projection



## Financial Sources 2006-2015 Projection



<sup>1</sup> Including assets revaluation in 2007, 2008, 2009  
Source: Lenenergo long-term development strategy

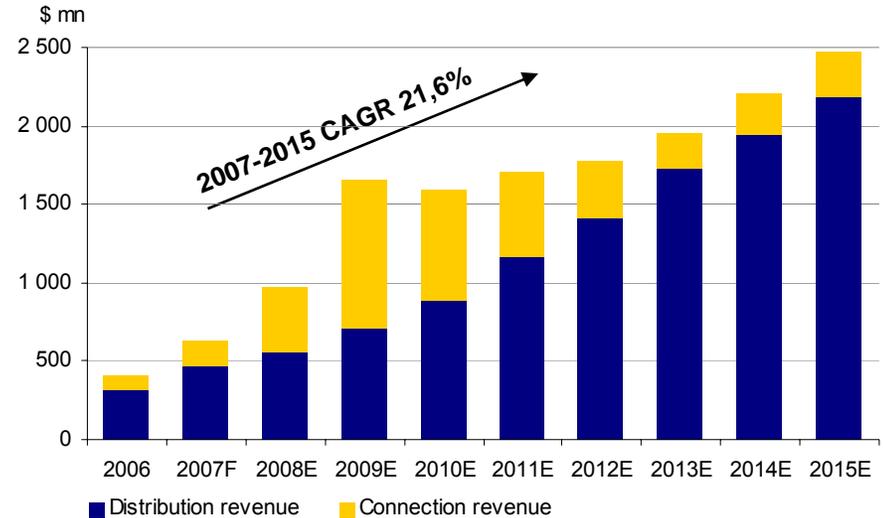


# Considerable Revenue Increase Forecast

## Distribution Revenue and Connection Revenue

- ▶ Company's capital expenditures are included in allowed revenue and to be allot to distribution tariff and connection charge
- ▶ For transition period (2006-2011) connection charge revenue compensates politically justifiable distribution tariff growth
  - 2006-2007 connection charge introduction aimed to meet accumulated demand on distribution capacity, thus, to become a temporary step to boost Lenenergo cash flows
  - For 2007-2011 70% of Capex is financed through the connection charge
- ▶ According to the Federal Law N35 "On the electric power industry", from 2011 capital expenditures on distribution assets reinforcement and new construction will be financed through the distribution tariff
- ▶ Hence, connection charges revenue share in total revenue will be gradually reduced from 2011 substituted by distribution revenue

## Total Revenue Structure Projection



**Considerable revenue growth will be ensured by regulator support, which subscribed to become Lenenergo 25% shareholder**

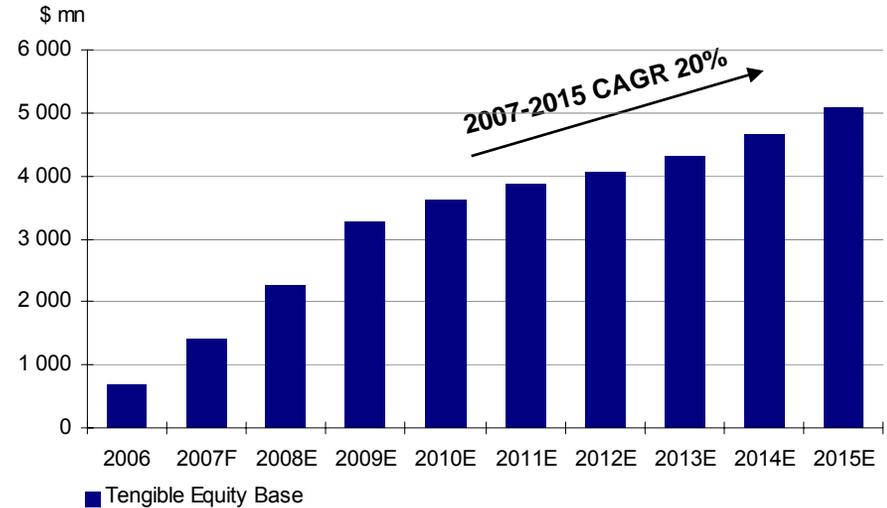


# Financial Performance 2006-2015 Forecast

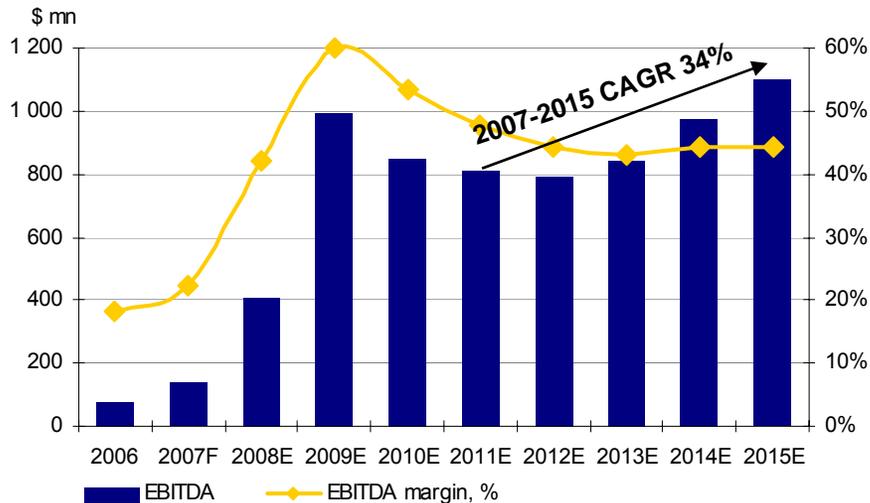
## Strong Improvement of Performance Figures

- ▶ Tangible equity capital base (Fixed Assets + NWC - Net Debt) to be increased by 3,6x from 2007 to 2015
- ▶ Total revenue CAGR 2007-2015 of 21,6% is determined by:
  - Distribution tariff growth
  - Connection charge introduction
- ▶ Thus, EBITDA CAGR 2007-2015 of 34%; EBITDA margin stabilizes at the level around 40% from 2012
- ▶ Long-term development strategy model assumes to repay debt, but management appreciates the possibility to reinvest excess cash or pay dividends from 2012 simultaneously stabilizing Net Debt/EBITDA ratio at the level of 3.5

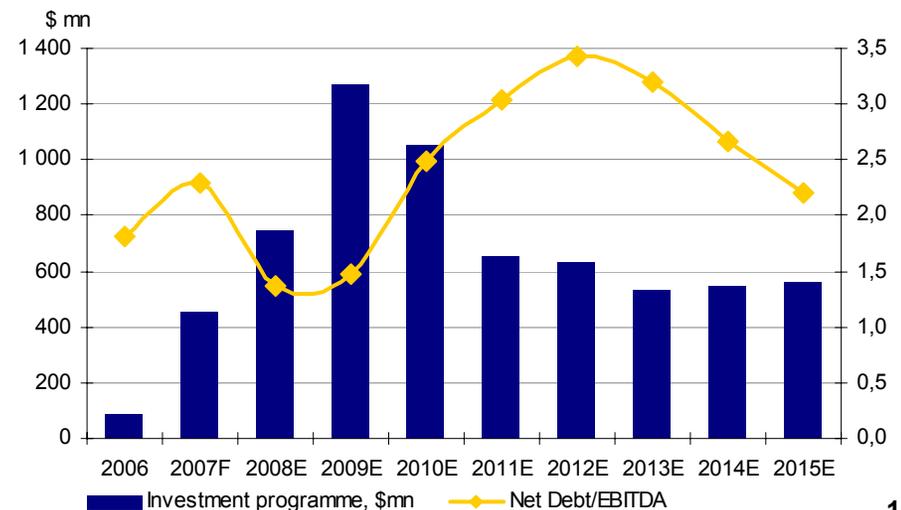
## Tangible Equity Capital Base Projection



## EBITDA 2006-2015 Projection



## Capex and Debt Coverage Ratio Projection





## Summary

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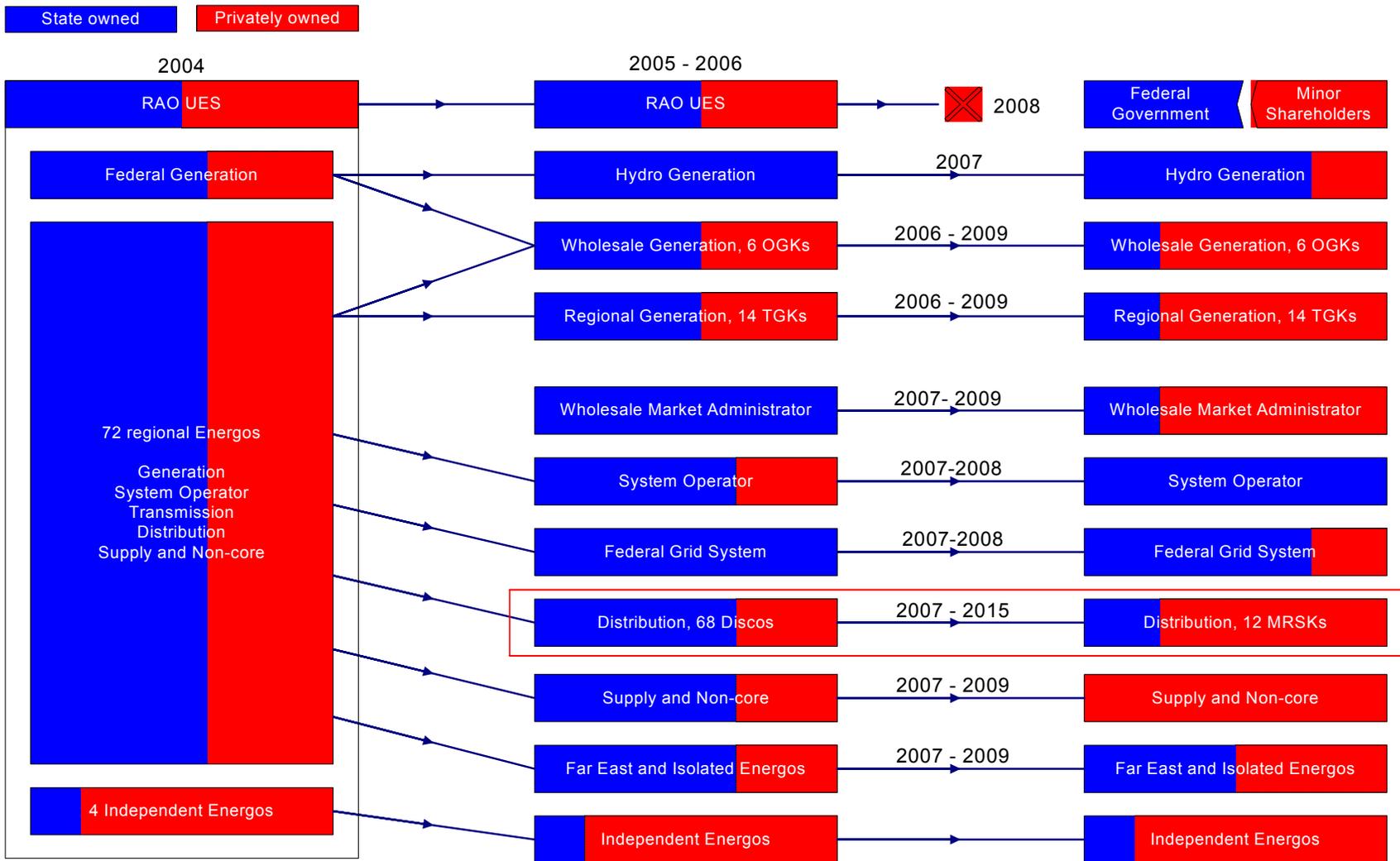
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## **Addendum**



# Russian Power Sector Unbundling and Liberalization



The ongoing reform of the power sector seeks to reduce the Government's presence in the industry and attract private investment and expertise in line with best international practice of liberalization



# Electricity Distribution Sector Configuration in 2008 (11 MRSK<sup>1</sup>)

**MRSK Moscow**  
MOESK  
MGEsK

**MRSK Center**  
Belgorodenergo  
Bryanskenergo  
Voronezhenergo  
Kostromaenergo  
Kurskenergo  
Lipetskenergo  
Orelenergo  
Tambovenergo  
Smolenskenergo  
Tverenergo  
Yarenergo

**MRSK South.**  
Astrakhanenergo  
Volgogradenergo  
Kubanenergo  
Rostovenergo

**MRSK North. Caucasus**  
Dagenergo  
Ingushenergo  
Kabbalkenergo  
Kalmenergo  
Karcherenergo RSK  
Nurenergo  
Sevkavkazenergo RSK  
Stavropolenergo

**MRSK Volga**  
Mordovenergo  
Orenburgenergo  
Penzaenergo  
Samaraenergo  
Saratovenergo  
ulyanovskenergo  
Chuvashenergo

**MRSK Center and Volga region**  
Vladimirenergo  
Ivenergo  
Kalugaenergo  
Kirovenergo  
Marienergo  
Nizhnovenergo  
Ryazanenergo  
Tulenergo  
Udmurtenergo

**MRSK St. Petersburg**  
Lenenergo

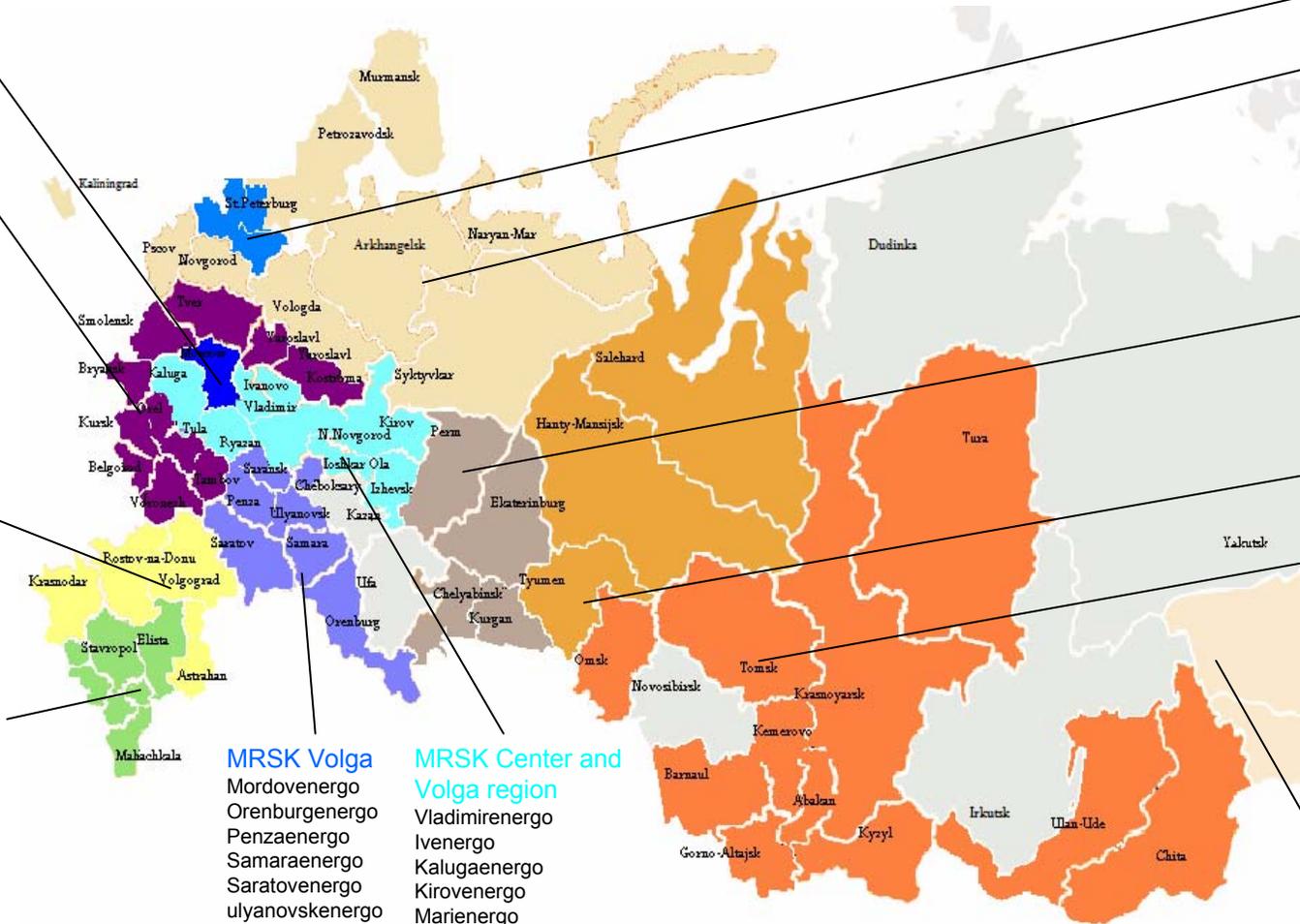
**MRSK North-West**  
Arkhenergo  
Vologdaenergo  
Karelenergo  
Kolenergo  
Komienergo  
Novgorodenergo  
Pskovenergo  
Yantarenergo

**MRSK Urals**  
Kurganenergo  
Permenergo  
Sverdlovenergo  
Chelyabinskenergo

**MRSK Tyumen**  
Tumenenergo

**MRSK Siberia**  
Altajenergo  
Buryatenergo  
Krasnoyarskenergo  
Kuzbassenergo  
Omskenergo  
Tomskenergo RSK  
Tyvenergo  
Hakasenergo  
Chitaenergo

**Far East IES**

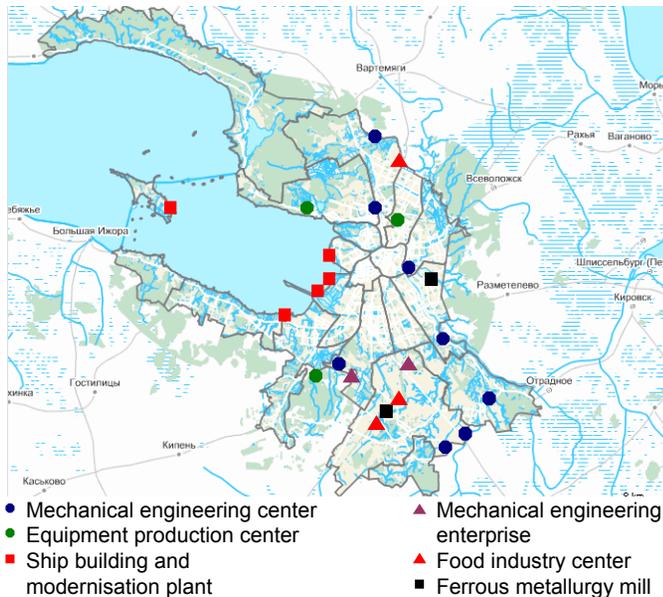


<sup>1</sup> Excluding the Far East



# St. Petersburg: Industrial Development

## Industrial Centers Allocation



## Main Industries and Projects

### Main Industries:

- ▶ Energy and science intensive production are predominant in industry:
  - Power machine-building (Power Machines group, OMZ – Uralmash-Izhora Group, Nevsky Zavod)
  - Radio-electronic industry (Leningrad Electromechanical factory, LOMO)
  - Shipbuilding (state-owned «Admiralty Shipyards» and «Nevsky Shipyards», JSC «Shipbuilding plant «North Shipyards»)

### Main projects\*:

- ▶ Mechanical engineering expansion: Vagonmash (rail car production), Scania bus production unit, Bridgestone tire factory creation by 2011
- ▶ Automobile plants construction: Toyota (2008), Nissan (2009), GM (2008), Suzuki (2011), Hyundai (2011). Overall capacities for the production of 200 thou. cars p.a. (projected electricity consumption – 610 mln kWh p.a., capacity demand – 55 MW)
- ▶ Food industry expansion: Baltika (beer), Coca-Cola, Petmol (dairy), Polustrovo (mineral water)
- ▶ Ferrous metallurgy expansion: Izhorsky Pipe Mill – Severstal group (projected electricity consumption – 380 mln kWh p.a., capacity demand – 63 MW for 2011-2015)
- ▶ PPG Industries – glass factory construction with a daily 1,2 tonnes output (capacity demand – 35 MW)

## Industrial Production Growth Forecast

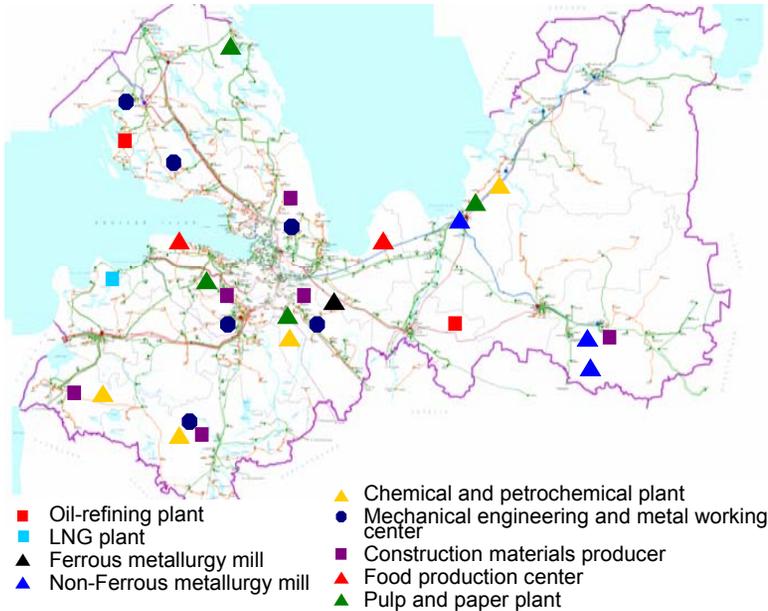
	2005	2006	2007	2010	2015	2025	CAGR
Mechanical engineering and metal-working, \$bln	2,2	2,5	3,2	3,9	9,2	11,0	8,4%
Electrical equipment production, \$bln	1,8	2,0	2,4	3,5	6,6	9,7	8,7%
Shipbuilding, \$bln	2,0	2,1	2,2	3,0	4,8	11,0	9,0%
Automobile production, mln cars	0,0	0,0	0,0	0,3	1,0	1,5	11,3%
Food industry, \$bln	4,6	5,5	6,4	8,8	15,2	21,1	7,9%
Ferrous metallurgy, mln tonnes	0,5	0,6	0,6	0,8	1,0	3,0	9,4%

**St. Petersburg is the largest Industrial center in the North-West of Russia. Industry comprises more than a quarter of GRP and quarter of working population of the city**



# Leningrad Region: Industrial Development

## Industrial Centers Allocation



## Industrial Production Growth Forecast

	2005	2006	2007	2010	2015	2025	CAGR
Oil-refining industry, mln tonnes	14,0	14,5	15,0	17,0	19,0	22,0	2,3%
Wood-pulp industry, mln tonnes	1,6	1,7	1,7	2,1	2,7	3,8	4,4%
Chemical and petrochemical industry, \$bln	0,5	0,6	0,6	0,9	2,3	3,9	10,8%
LNG production, mln tonnes	0,0	0,0	0,0	0,0	3,0	6,0	7,2%
Mechanical engineering and metal working, \$bln	2,8	3,0	3,1	3,3	5,3	6,3	4,1%

## Main Industries and Projects

### Main industries:

- ▶ Oil-refining (Kirishinefteorgsintez-Surgutneftegas)
- ▶ Pulp and paper (Svetlogorsk, Siasstroy, Sovetsk and Kommunar mills)
- ▶ Chemical and mechanical engineering (Phosphorit Industrial Group, collagen casings factory Belkozin, Henkel plant)

### Main projects\*:

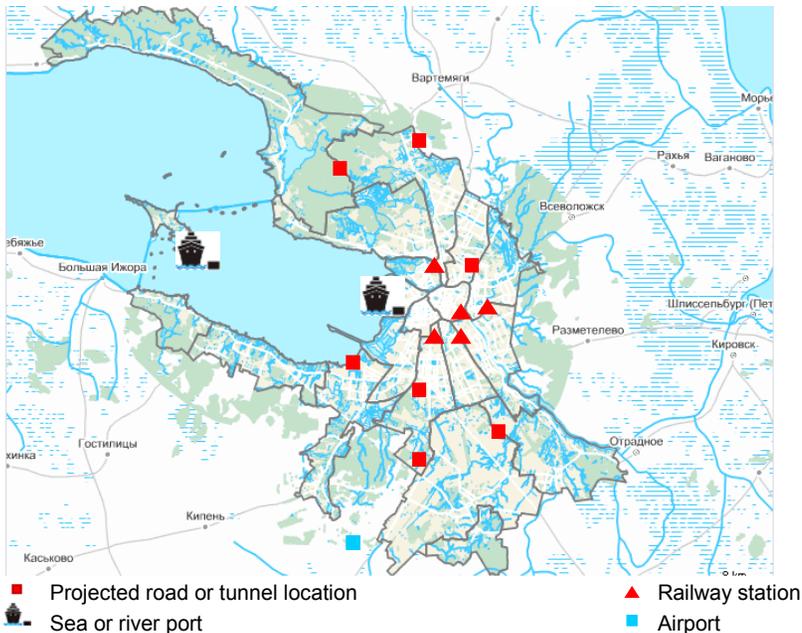
- ▶ Kirishinefteorgsintez growth is closely linked with the construction of a deep petroleum-refining unit, which is to increase the depth of refining to 96% (electricity consumption of 1 000 mn kWh p.a. by 2011)
- ▶ Surgutneftegaz oil-refinery plant construction in Primorsk (projected electricity consumption – 470 mln kWh p.a. for 2011-2015)
- ▶ Oil-refinery plant creation in Kingisepp by Amerol-Ecotech in 2011-2015 (capacity demand – 25 MW)
- ▶ PhosAgro nepheline concentrate processing complex development in 2011-2015 (projected electricity consumption – 680 mln kWh p.a)
- ▶ Gazprom LNG plant with a production of 5 mln tonnes p.a. is planned to be launched in 2009 (projected electricity consumption – 2 000 mln kWh p.a)
- ▶ Non-Ferrous metallurgy expansion: Boksitogorsk alumina, Pikalevsk alumina, Volhovsk aluminium

**Industry is the cornerstone of Leningrad region economic development. The sector employs 29% of working population, it's production growth rate achieved 127% in 2006**



# St. Petersburg: Transport Infrastructure Development Plans

## Transport Infrastructure Scheme



## Transport Infrastructure Overview and Main Projects

### Overview:

- ▶ St. Petersburg is the leading transport nodal point in the North-West of Russia. It stays on the crossroad of the Eurasian transport corridors: “North-South”, “Transib” and “Pan European transport corridor”
- ▶ Sea and river ports of the city (in the Gulf of Finland of the Baltic sea and in the Neva delta) finish the Volga-Baltic Water Way
- ▶ St. Petersburg’s railway junction connects Russia with Finland, Estonia and serves as the gate to the sea routes (operates 10 railway directions)

### Main projects\*:

- ▶ Ring Road construction by 2010 (projected electricity consumption – 600 mln kWh p.a., capacity demand – 4 MW)
- ▶ Orlovsky toll tunnel construction – link between historical downtown and federal highways (projected electricity consumption – 100 mln kWh p.a., capacity demand – 20 MW)
- ▶ Motorway Western High-Speed Diameter building by 2010 (projected electricity consumption – 900 mln kWh p.a., capacity demand – 6 MW)
- ▶ Seaport passenger terminal project construction includes deepening and reconstructing of existing waterways by 2015 (projected electricity consumption – 60 mln kWh p.a., capacity demand – 4 MW)
- ▶ Creation of a new high-speed passenger transport system – Elevated Express by 2015 (projected electricity consumption – 200 mln kWh p.a., capacity demand – 20 MW)

## Transport Infrastructure Figures Forecast\*

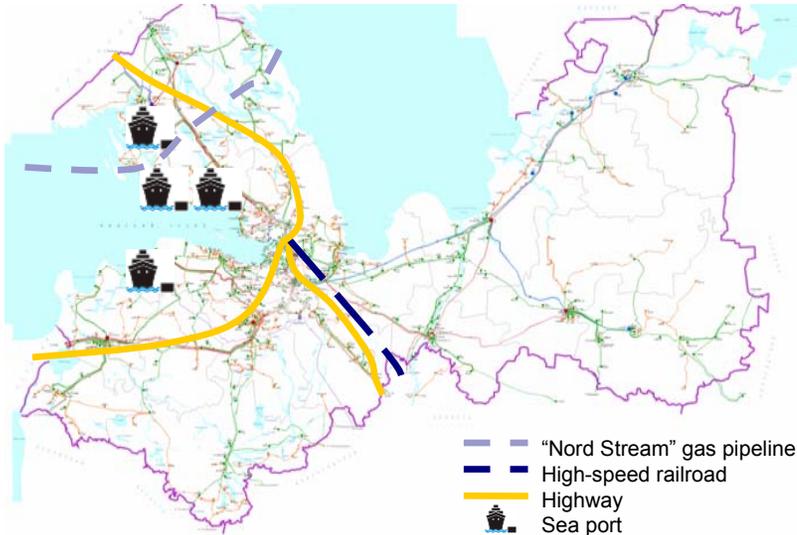
	2005	2006	2007	2010	2015	2025	CAGR
Sea transport’s passenger turnover, mln people	1,2	1,4	1,5	2,0	2,5	3,0	4,7%
Railway passenger turnover, mln people	98	99	100	105	122	138	1,7%
Railway shipment volume, mln tonnes	6,9	7,3	7,8	10,6	14,0	22,9	6,2%
Automobile shipment volume, mln tonnes	5,6	6,0	6,4	8,8	11,5	18,8	6,2%

**Saint-Petersburg is the “European gate” of Russia and the major transport nodal point linking Europe and Asia. Sea, river, railways and roads infrastructure development determines significant electricity and capacity demand growth**



# Leningrad region: Transport Infrastructure Development Plans

## Transport Infrastructure Scheme



## Transport Infrastructure Figures Forecast

	2005	2006	2007	2010	2015	2025	CAGR
Length of railroads, thou. km	2,9	3,0	3,0	3,3	3,8	4,5	2,2%
Length of roads, thou. km	10,7	10,9	11,0	12,0	12,6	13,0	1,0%
Trans-shipment volume, mln TEU	1,1	1,4	1,8	3,2	6,1	11,0	12,1%
Railway shipment volume, mln tonnes	34	37	42	57	76	130	6,9%
Automobile turnover of goods, bln tonnes/km	1,1	1,2	1,3	1,8	2,3	9,4	11,3%

## Transport Infrastructure Overview and Main Projects

### Overview:

- ▶ Railroads' length is already over 3 thou. km, 30% of them are electrified. Railroad density is 32 km per thou. km<sup>2</sup>
- ▶ Road length is over 11 thou. km. Road density is 108 km per thou. km<sup>2</sup>
- ▶ Volga-Baltic Water Way and White and Baltic Seas channel unites the basins of major river ways in Russia with the Baltic Sea ports

### Main projects\*:

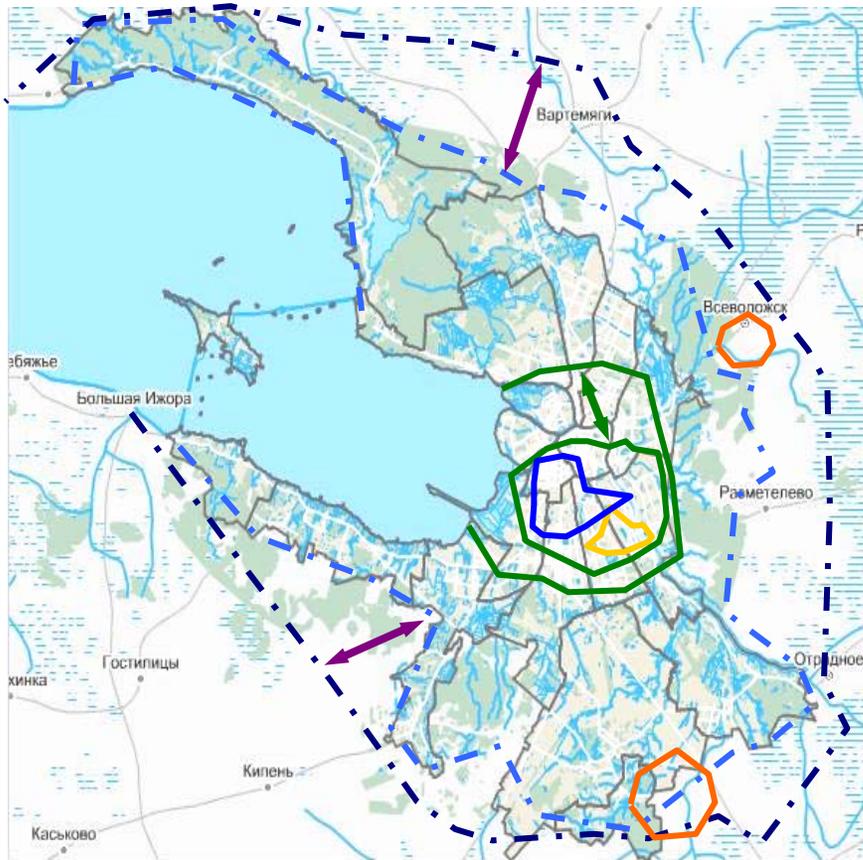
- ▶ JSC Russian Railways realizes some projects, including high-speed railroad to Finland, to optimize train schedule and carrying capacity of the railroads (projected increase in capacity demand – 160 MW)
- ▶ Baltic Pipeline System is a new export direction for transportation of Russian oils of Timan-Pechora region, Western Siberia, Urals and Volga region, including oils of the CIS member states and, first of all, Kazakhstan (projected capacity demand – 6 MW)
- ▶ Within the framework of the BPS project implementation, construction of new ports in Luzhsk Bay, in Batarejnaya Bay and in Primorsk region (construction of a new terminal for crude oil transshipment) is underway
- ▶ "Nord Stream" gas pipeline is going to cross the territory of Leningrad region (projected capacity demand – 20 MW by 2010)

**Leningrad region geographical location determines the direction of territory development as a transport corridor between Russia, European Union and Asian Countries. Infrastructure provides an opportunity to realize regional authorities ambition plans, e.g. rail-roads density is 6 times higher than average in Russia**



# St. Petersburg: Urban Building Development

## St. Petersburg Map



- - - City border in 2007
- - - City border in 2030
- «St. Petersburg City»
- Financial center
- Cultural center
- Mass building up areas

## City Growth by 2025

### Historical downtown in 2025

- ▶ Major overhaul of the old buildings and dot construction. Objects of elite residential and commercial real estate
- ▶ Living space area: 15 mln sq. m, commercial: 7,6 mln. sq. m
- ▶ Population: 0,2 mln people, electricity consumption: 4 090 mln kWh

### Outskirts in 2025

- ▶ Mass residential area building
- ▶ Living space area: 94 mln sq. m, commercial: 26 mln. sq. m
- ▶ Population: 2,4 mln people, electricity consumption: 18 820 mln kWh

### Mass building up areas in 2025

- ▶ Major modern-type construction (mass residential and commercial building, industrial and logistics areas)
- ▶ Living space area: 127 mln sq. m, commercial: 32,8 mln sq. m, industrial and logistic sectors area: 10 mln sq. m
- ▶ Population: 2,1 mln people (together with Pushkin and Kolpino), electricity consumption: 26 920 mln kWh

## Dynamics of Commercial and Residential Building

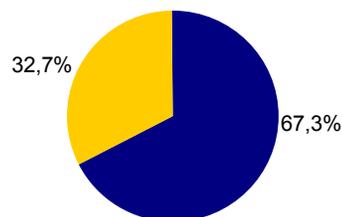
	2005	2006	2007	2010	2015	2025	CAGR
Total floorspace, mln sq. m	115	119	123	172	224	312	5,1%
Commercial, mln sq. m	3	3	3	8	14	26	11,8%
Office, mln sq. m	13	14	15	20	26	38	5,4%
Hotel, mln sq. m	2	2	2	4	7	12	8,6%
Residential, mln sq. m	97	100	103	134	201	236	4,5%
Residential living space, sq. m per capita	21	22	22	29	43	50	4,4%



# Lenenergo Additional Issue of Common Shares

## Before Additional Issue

Total shares data			
Common	691 854 144	100%	
Preference	93 264 311	100%	
Total value of shares*, \$	1 187 717 476		
RAO UES package			
Common	465 896 500	67,3%	
Preference	0	0%	
Value of shares, \$	711 965 917		
St. Petersburg administration package			
Common	0	0%	
Preference	0	0%	
Value of shares, \$	0		
Others			
Common	225 957 644	32,7%	
Preference	93 264 311	100%	
Value of shares, \$	378 999 193		



## Additional Issue

Common shares additional issue	
Total common shares issue volume	239 937 573
<b>St. Petersburg administration package</b>	<b>232 949 100</b>
Value of package, \$	355 984 257
Distribution assets payment**, \$	233 535 278
Cash payment, \$	122 448 980
<b>Minor shareholders package***</b>	<b>6 988 473</b>
Value of package, \$	10 679 528
Cash payment, \$	10 679 528
Total common shares issue value	366 663 785

## Additional Issue Timeline

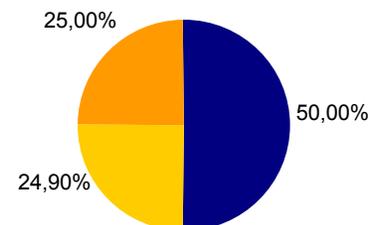
- ▶ Additional issue beginning – November 2007
- ▶ Additional issue finishing – IV Q 2008
- ▶ Long period of additional issue is determined by distribution assets payment mechanism\*\*

## Voting shares owners structure

■ RAO UES   ■ Others   ■ St. Petersburg Administration

## After Additional Issue

Total shares data			
Common	931 791 717	100%	
Preference	93 264 311	100%	
Total value of shares, \$	1 554 381 261		
RAO UES package			
Common	465 896 500	50%+1	
Preference	0	0%	
Value of shares, \$	711 965 917		
St. Petersburg administration package			
Common	232 949 100	25%+1	
Preference	0	0%	
Value of shares, \$	355 984 257		
Others			
Common	232 946 117	24,9%	
Preference	93 264 311	100%	
Value of shares, \$	486 431 087		



**Saint-Petersburg authorities committed to get blocking stake in Lenenergo to provide the necessary control of company's operating and investment development**

\* Additional issue price of common shares of \$1,53 per share is determined according to: RAO UES Appraisal Committee decision approved by Lenenergo BoD.

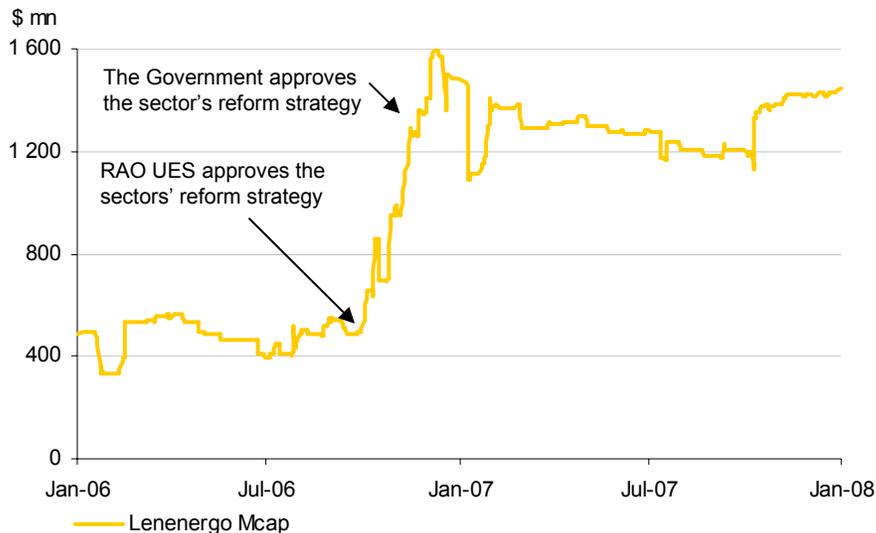
\*\* Electricity distribution assets to be transferred to Lenenergo as a payment for common shares buyout under additional issue contains of two parts: electricity distribution assets owned by St. Petersburg administration as at 01.01.2007 and assets constructed during Jan. 2007 – IV Q 2008 and financed by St. Petersburg administration

\*\*\* Minor shareholders package is included into additional issue in case of minor shareholders, that have a priority right to buy shares, would take a part in additional issue.



# Lenenergo Share performance

## Share Performance



- ▶ Trading volume from 01.01.2006 to 01.01.2008 of \$7,7 mn at RTS<sup>1</sup> and \$9,1 mn at Micex<sup>2</sup>
- ▶ Current liquidity of Lenenergo shares is low due to the following reasons:
  - Most transactions with Lenenergo shares are done through the OTC market referencing official stock exchange quotations; such transactions are not registered by the stock exchange
  - Current free float is extremely low - 7,66% of common shares and 47,9% of preference shares
  - Uncertainty of additional shares issue scheme during 2007

## Capitalization and Stock Data

### Capitalization & Stock data

Ticker	LSNG/LSNGp
Current price as at 14.02.2008 (bid, com.), \$	1,82
Current price as at 14.02.2008 (bid, pref.), \$	1,45
Shares out (com.)	691 854 144
Shares out (pref.)	93 264 311
Market capitalization, \$mn	1 394
Net financial debt, \$mn	323
Enterprise value, \$mn	1 717
Dividends (2007), \$mln.	3
EV/BV of Fixed Assets (2008)	0,5
EV/EBITDA (2008)	4
EV/Distribution volume, \$/MWh	65
EV/Network length, \$/'000km	31

- ▶ Lenenergo have unsponsored GDR programme ( $\leq 0,1\%$  of outstanding shares, depository bank – BNY)
- ▶ This programme is expected to be replaced by currently preparing sponsored GDR programme, which will be launched during 2H 2008
  - Common shares quantity of 172 963 535
  - Preference shares quantity of 48 633 100
  - Split ratio 80:1

**Current low liquidity of Lenenergo shares should be improved by introduction of the sponsored GDR programme**

<sup>1</sup> RTS – Russian stock exchange. Source: www.rts.ru

<sup>2</sup> MICEX - Closed Joint Stock Company "Moscow Interbank Currency Exchange". Source: www.micex.ru