

2011.01.26 Conference Call Lenenergo

Kharenko

Good afternoon, dear colleagues. Good afternoon, dear planners. I would like to talk about the securities market in the first part of our report. This issue probably is to some extent of the greatest interest for analysts for today. I would like to talk about our estimates for the next year. Since, as far as I understand, almost all of the companies present here now are getting prepared for the review for the following period. So I'll give brief history of the year 2010 events. In the first quarter of 2010, Lenenergo's shares traded in the general growing trend of the companies of the whole sector, as a whole repeating the market dynamics. In the second quarter of 2010, the sector of the distribution companies went through a serious correction, the company's shares during the whole reporting period ...

Kharenko

In the second quarter of 2010, the company's shares were losing their value and fell 20 - 25 % on the average for the second quarter. This decrease is explained by the internal factors of the company, and, as a whole, by the negative general trend of the market in connection with the displacement of time for adoption of RAB regulation. The stable restoration of the rate of the stock value of JSC "Lenenergo" is observed as from the beginning of the third quarter. The company capitalization continued to grow in the fourth quarter in expectation of adoption of RAB regulation by the company. At the end of 2010, FTS approved adoption and parameters of RAB regulation of "Lenenergo", which provides guarantee to our investors in respect of recovery of the money invested. For today, the value of Lenenergo's ordinary shares varies around 26 rubles. The preferred shares vary around 37 rubles per unit. The company capitalization at 25 January was 27 billion rubles. The significant price unbalance between ordinary and preferred shares of the company is related with the attractiveness of the dividend policy in respect of the preferred shares. The estimated growth of the company's net profit influences the amount of dividends, which accordingly stimulates the demand for preferred shares of the company. But we plan to hold additional measures to increase the investment prospects of ordinary shares as well. This includes implementation of the reasonable dividend policy in order to prevent similar unbalance in the future. Let's talk about the estimated value of the company's shares for 2011. Within the framework of adoption by "Lenenergo" of RAB regulation without failures to meet target dates of FTS and without failures in respect of the parameters declared earlier by the management, as well as within the framework of implementation of the large investment program - the largest one in the history of "Lenenergo", which will result in increase in the shareholder value of the company, we expect an ascending trend of the company value growth. The management aspires to ensure the stable growth of the company capitalization at the expense of the internal reserves as well. The company aspires to hold the open and transparent policy to the extent possible in respect of the whole investment community. Besides, the company holds work to increase the liquidity of marketable securities, and increase trading volumes. Moreover, the company considers the opportunity of raising the capital of some large investment funds and institutional investors. We plan participation of the company in the conferences of investment banks, non deal roadshow. On February 2-4, JSC "Lenenergo" takes part in the investment forum "Russia -2011" arranged by "Troika Dialog". I think that all of us present here are going to participate in the event anyhow or analyze it in any event. The company conducts work to improve its financial figures as well. But this will be covered by Sergey Valerievich Nikolaev in more detail. The agenda item, which is of interest for analysts, is certainly the issue of the additional offering. The print media published much insinuation on this subject in the form of various treatments, different points of view. I would like to bring certain clearness. We have already discussed once the issue of the additional ordinary share offering in the form of the public subscription in 2011. Currently it is assumed that IDGC Holding and Saint Petersburg Administration will exercise their pre-emption right to shares for the amount of two billion and one

billion accordingly in the course of the additional ordinary share offering in 2011. The other shareholders will be offered to use their pre-emption right. If shareholders do not use their pre-emption right in respect of the additional shares, they will be offered in the open market. This approximately equals to 24.5%. We invite our potential investors to discuss their participation in the additional public offering at the investment forum of "Troika Dialog" on February 3-4, 2011. The total estimated volume of the additional offering of ordinary shares in 2011 will be around 4 billion rubles. The company preliminary plans to raise the funds of shareholders for the amount of 7.5-10 billion rubles during the period from 2011 through 2013. This includes the assumed stakes of the following major shareholders: JSC "IDGC Holding" - 5 billion rubles, Saint Petersburg - 2.5 billion rubles. The special purpose of the funds is the program of renovation of the cable grid in Saint Petersburg. Let us emphasize once again that the additional offering is public, and the pre-emption right will be provided to each shareholder. The funds generated as a result of the additional offering will be allocated for the implementation of the investment program, which in its turn will lead to the growth of the net profit, reduction in the accounts payable and growth of the share capital. There is a certain legal gap as regards incorporation of the assets created at the expense of the additional offering-related target funds into the base of RAB. There are several points of view. One point of view consists in the following: the assets created at the expense of these funds are similar to the assets created at the expense of payment for connection, which are excluded from the calculation of the capital base and do not participate in tariff model. The other point of view: the assets created in such a way must be included in the base of the capital. Now this situation is analyzed by the regional tariff regulatory authorities of FTS, and the issue will be settled in the near future. It is early now to assess how the assets created as a result of this source will be considered. Nevertheless, the company management will achieve the respective inclusion immediately. Therefore I suggest that it's early now to make comments upon this issue. Moreover, the facilities constructed at the expense of the funds of the additional offering will be incorporated into RAB within the framework of reconstruction in the future. Let's talk on the additional preferred share offering. The company management also considers the opportunity of the additional offering of the preferred shares in favor of the strategic investor. It is assumed that the preferred shares of the new type will be issued, which will prevent the dividend yield from dilution and accordingly preserve the shareholders' rights per the existing preferred shares of the company. That is all what I would like to tell you. I would like to give floor to Mr. Nikolaev, Deputy General Director for Economy and Finance.

Nikolaev (9:00)

Good afternoon, dear participants of our conference call. Let me continue the report which has been opened by Grigory Mikhailovich. He has actually covered even a number of the aspects, which I planned to touch. I will probably repeat something in part. Probably the key aspect of the company activity since 2011 is adoption of RAB regulation. The very important point is that on December 27 the company's board of directors approved the business plan of "Lenenergo" for 2011-2015, which was generated according to the scenario conditions including adoption by the company of RAB, both in Saint Petersburg and in the Leningrad Region, and the resolutions of the regulatory authorities of the constituent entities of the federation, which were finally taken, actually 100 % correlate with the business plan approved by the board of directors at the end of 2010. I would like to emphasize that we consider this to be a rather important event for the activity of the company. First, we approved the business plan before the calendar year, which is an important point, and, actually, rather priority point. Secondly, the business plan, which was generated by us, has found its reflection in the tariff decisions, the respective acknowledgement of which is that now we have the capable business plan of the company confirmed by respective resolutions of the constituent entities of the federation, which is quite clear and transparent and is intended for a five-year period of planning. In essence, actually, a lot of figures are available, which are covered by my report, therefore I shall try not to read all of them in order not to tire all of you out, I shall focus on any key parameters. Any issues requiring expansion and explanation will be covered in the questions and

answers section. So, the full amount of the invested capital accepted by the regulators was 177.7 billion rubles. The residual amount of the invested capital at 01.01.2011 was 78.5 billion rubles. These are the figures, which were generated by the independent appraisers and, in their turn, were accepted by the regulators and FTS without changes and any updating. The amount of the CAPEX considered for the purposes of tariff regulation, namely, in the transmission tariff, equals 69.4 billion rubles. The rate of return on the invested capital, on the old capital, namely, the capital generated before 01.01.2011, equals 6 % in the first year, 9 % in the second year of the regulation and 11 % in the third year and further. The rate of return on the new invested capital equals 12 % in first two years, 11 % - since 2013 and further. Thus these key parameters were approved by the regulatory authorities, confirmed by FTS and incorporated into the basis of the company's business plan for the nearest 5 years. Let's focus on the features of formation of the components of the necessary gross earnings of electricity transmission services for a five-year period. First of all, we consider that the important point is that we managed to defend at regulatory authorities the amount of regulated charges, which essentially increased in comparison with the approved levels of regulatory charges of 2010, and meets those indicators, which are incorporated by the company into the business plan. This, first of all, proves that we managed to agree to avoidance of formation of the electricity transmission loss, which unfortunately, by virtue of various components, first of all, political ones related to restraint of the gain in tariffs, took place during the previous years. We managed to convince the regulator in this situation not to postpone this problem. Subject to adoption of the 5-year tariff regulation, we generated the proved level of regulated charges, which is base for the nearest 5-year period. Let me mention that this level of charges is corrected for the next 5 years, more exactly 4 years, as follows: first of all, the inflation index is considered, which will be taken into account in the course of future recalculation of regulated charges, as well as the growth of the standard units of the attended companies will be considered. The RAB method also assumes that the company must show the cost management efficiency, and accordingly the cost reduction rate is incorporated into the tariff from year to year. It equals 1 % a year under the resolutions approved by the regulator. Therefore we make provision of certain dynamics of growth of regulated expenses for the subsequent years, which is caused by these two factors and corrected by the factor related to the actions to be held by us within the framework of cost reduction. Unregulated charges include, first of all, payment for the services of JSC "UES FGC", services of adjacent grid entities, losses in the grids of "Lenenergo" and a number of other unregulated expenses, which will be corrected every year on the basis of the factual data. Let us hypothesize that based on the results of 2011, as one of the examples, I should name a possible correction: payment for the services of JSC "UES FGC", because the regulators had made a resolution before FTS finally approved the tariffs of JSC "UES FGC" for the nearest years, in view of lengthening of RAB of FGC, therefore it represents the objective factor, which will be considered during the subsequent regulatory periods and is not strongly negative, wrong for the activity of the company in 2011 and the next years. The recovered return on the capital is accordingly calculated in reliance on the base mentioned by me, subject to the scheduled investment program of the company, which will be implemented within the 5-year period. I probably mentioned the amount of the capital expenditure considered in the representative regulation, the figure was 69.3 billion. The total amount of the investment program planned for implementation for the 5-year period is 102.8 billion rubles now, of which 82.5 billion concern the city of Saint Petersburg, and 20.3 billion rubles - the Leningrad Region. Let's speak on the positive moments to be noted in our opinion, which are related to adoption of RAB regulation. First of all, they include the fact that the long-term tariff policy as at now has been generated, and we can speak on the reasonable level about the type of the company's earnings dynamics, dynamics of the company's profit, dynamics of the source of financing of the company's investment program. Earlier the system "cost +" (the fact is obvious probably, nevertheless we must mention it) allowed us to speak only about what will happen in the nearest year, and we built plans for the subsequent years based on the scenario conditions, which were not supported by the actual decisions. By the current moment these decisions are available, as well as the figures reflected by us in the presentation; they are supported by particular decisions of regulators. Let me speak in more detail

on how adoption of RAB will be reflected in the key financial figures of "Lenenergo's" activities. We plan to double the equity within 5 years, almost double the earnings related with the sale of products, 42.4 billion rubles is the estimated amount for 2011. By 2015 the earnings must reach 85.4 billion rubles. The main growth and focus here pertains to the growth of the earnings generated as a result of electricity transmission services, thus reducing the share of the earnings generated as a result of technological connection services smoothly, any way, in terms of percentage. In terms of the absolute value, this reduction in the nearest years will be not so appreciable in financial figures of the company, but every year the share of the earnings, accordingly, the share of the net earnings which is formed at the expense of the payment for technological connection, will fall in view of implementation of the tariff decision. I started to speak about technological connection, so the below are the main issues I would like to cover. As you know, since 01.01.2011 the investment component was excluded from payment for technological connection. This is the component, which was earlier used by the company to build power supplies, develop the grid, which was not directly related to consumers. Now all these investment charges are included in the investment program financed at the expense of the transmission tariff, and the payment for technological connection, for some reason, implied such opinion, that the payment for the technological connection will disappear in the event of RAB adoption. That's not right. Those actions remain, which are necessary for direct connection of subscribers to the grids of "Lenenergo". Accordingly, the decisions taken for the current period at the end of the last year by the regulators of Saint Petersburg, and the decisions planned to be taken by the administration and regulators of the Leningrad Region prove that the payment for the technological connection will be certainly corrected aside reduction. Let us say that the reduction was actually a little less than 50 % on the average in Saint Petersburg, but this preserves all the actions required for connection of the subscriber to the grids of "Lenenergo". Therefore this certainly influences the company earnings, receipt of money within the long term planning, but, naturally, this effect will not be one-stage. First of all, during the nearest period of 2-3 years, the company will still implement the agreements concluded according to the payment rates, which included the investment component; therefore there will be no essential change, at least in absolute value, in the shares of earnings generated as a result of the technological connection and net profit. In the further, this effect will be much more appreciable, because it will incorporate two factors: a serious, already accumulated gain of the earnings in the transmission tariff and, accordingly, gradual reduction of volumes of the payment for technological connection. If we speak about figures - let us speak in terms of shares, the share of technological connection services in the earnings will decrease from 23 % in 2011 to approximately 3 % in 2015. The share of technological connection profit in the total net profit decreases from 100 % in 2011 (this is the effect which resulted from the loss in the course of transmission, that is, actually, the whole net profit was generated due to the technological connection activity) to 6 % in 2015. Apparently, the structure of the net earnings are expected to be significant, and, probably, they should be regarded positively, first of all because the profit generated in the tariff for transmission is subject to estimation, forms a constant monetary flow of the company, is more stable, does not depend so materially on the differences of the consumer demand, like this dependence exists in technological connection activity. The bright example is the year 2009, 2010 when the company had to correct the business plan figures, one of the main bases was reduction in payment for technological connection caused by a slowdown of the business activity, suspended construction of various facilities and business, and so on. This effect, which brought the negative background into the activity of the company, will smooth out from year to year. As to the cost indicators, the scheduled cost will increase 50 % for 2015 in relation to 2011; this accordingly improves such parameters as EBITDA, total profit, net profit, and debt/EBITDA relation, EBITDA margin, and so on. That means that the net profit planned based on the results of 2011 by the current moment by us is estimated on the level of 4.4 billion rubles, and we expect its growth by 2015 to 23 billion rubles. Other issues that are worth mentioning in respect of key financial figures. I have already spoken on the structure of the earnings. Let's talk on the credit plans of "Lenenergo" for the nearest period. Certainly, implementation of such a challenging investment program on the one hand, and rather conservative

requirements of the federal authorities in respect of the gain in tariffs in 2011 and in 2012, on the other hand, impose a necessity of a certain adjustment of the tariff growth, therefore, according to FTS methods, the method of tariffs smoothing of the gain in tariffs is applied, which allows to distribute the loading on financing of the investment program more smoothly at the expense of the transmission tariff. This means that financing of the investment program will be implemented by the consumer not in full in the first years, and the greater volume of the first years is represented by credit resources, which may be reasonably raised by the company in the market, having a clear principle of formation of the return on the capital and clear principles of the capital recovery. In this relation, the level of the credit loading on the company will grow, and the years 2011-2012 will see the most essential growth of the credit portfolio because the effect of smoothing is first of all observed in the first two years. According to our estimations, in 2011, net raising by the company will be on the level of 12-15 billion rubles; in 2012, the additional raising will be around 9-10 billion rubles. This tendency will decrease by 2014. In 2015, the company plans already the reverse dynamics, namely, the debt reduction dynamics. We plan the net repayment of around 15 billion rubles. Namely, the cumulative credit portfolio of the company will grow to the level of 40-45 billion rubles by 2014, and the scheduled repayment will start by 2015. The year 2010 was finished with the debts per credits equal to 15 billion rubles in total. This proves that the company, having received the necessary sources, necessary guarantees for provision of the capital return and income may reasonably involve credit resources for financing of the investment program, having the respective sources of their repayment. Such dynamics will be clear to bank institutes, investors. Unlike the previous years, we quite demonstratively have the sources of repayment of the recoverable credit resources, they are clear for the whole community, which, in our opinion, is also a very important positive moment of activity of the company. As to the investment program, I should tell in brief that if we speak about its structure from the point of view of the technical promotion and reconstruction, approximately 57 billion out of 102 billion is assigned for technical promotion and reconstruction, and 45 billion rubles - new construction and expansion. From the point of view of the source of investments financing, if we speak in the simplified form, the electricity transmission tariff represents around 67 % (the main source of financing) and technological connection payment represents around 20% of financing within the 5-year period. These are the funds to be collected in the form of payment under current agreements and the funds to be collected as payment for "the last-mile" under newly concluded agreements on the basis of those tariff decisions, which have been already taken in Saint Petersburg, and which are expected to be taken in the Leningrad Region. The remained 13 % will be generated due non-tariff sources, Grigory Mikhailovich has told about them at the beginning of our report. Accordingly, this is the way of formation of the financing sources structure. Let me repeat that it is clear that the credit resources will be used here during the first periods, but as a whole we hope that this plan, which has been generated by us and presented for your attention now, is substantiated, has all necessary resources to be implemented. As a whole, I have completed a part of the report devoted to figures, please ask questions, they are likely to appear. I think this is an easier way for us to cover any moments, which have remained unclear and uncovered within the framework of our reports. Thank you.

Moderator (28:46)

Ladies and gentlemen, if you have any questions to the company, please press figure 7 on your telephone set. The first question comes in: Alexander Kornilov, Alpha-Bank. Alexander, please ask your question.

Kornilov (29:05)

Thank you. Good afternoon. Many thanks for the presentation, it is very detailed, comprehensive, probably, perhaps, one of the most detailed presentations as regards all IDGCs. I have the following question as regards the preferred shares. They were in rather great demand among investors in the

past on the eve of dividend payment, they were distinct in rather high dividend yield, so the question is the following: What are the expected payments per the preferred shares accordingly for 2010 and what is the expected policy of the company in respect of the preferred shares? Thank you.

Kharenko (29:43)

Good afternoon once again. The Articles of Association of JSC "Lenenergo" has the requirement in respect of the preferred shares. We allocate 10 % of the net profit for payment of dividends. Nothing will change. I would like to draw your attention to the interest in the market in the preferred shares, and if you look at the dynamics, you can see that the preferred shares outperformed the ordinary shares long ago, though the normal situation is approximately identical value. If we hold the additional preferred share offering, as I already said, in favor of a certain strategic investor, they will be preferred shares of a new type. And this will not affect the holders of the preferred shares of the current type. Nevertheless, we understand without bias and obviously that this means certain unbalance, and our dividend policy will deal with such unbalance in this connection in the future. Thank you.

Kornilov (31:23)

Thank you very much for your answer, I would like to specify my question. Could you please name particular figures in respect of dividend payments per the preferred shares for 2010, namely, already this year, and I have not understood completely, you have mentioned that the dividend policy has some unbalance. Could you explain this in more detail? I mean, how will it be changed in the future? You have told, that you will eliminate this unbalance, won't you? Thank you.

Nikolaev (31:47)

I should say the particular figure. We expect the net profit... actually as at now the results are not final yet, January has not ended yet. Naturally, we have provisional figures, which are now considered by us. We expect the year to be ended with the net profit on the level of approximately 3.5-3.7 billion rubles, which exceeds the estimated figures of the updated business plan; so 10 % out of this amount is accordingly 350-370 million. But these are rough figures, we have not finally generated the balance, but these are the figures, which I am ready to report now, if we speak about them. As far as the second part of the question is concerned, Grigory Mikhailovich will probably complete it.

Kharenko (32:35)

You know, when the transmission-related net profit is generated, the question on its distribution emerges. Such questions are discussed among shareholders as well, and now we speak about the development of the company. I think such additional incentive will entail a change in the dividend policy. Thank you.

Kornilov (33:07)

Thank you very much. The only clarification question: do I get it right that in the future, as a matter of fact, the technological connection-related part of the net profit will not be related to dividend payment, namely, in other words, the calculation of dividends will be held only on the basis of that part of the net profit which is directly related to the core business of the company - electricity transmission?

Kharenko (33:27)

No, that's not right, because, in general, we divide activity lines for the purpose of assessment of the efficiency of this or that activity line. As far as shareholders are concerned, it is probably expedient to consider the company's profit as a whole with reference to all activity lines. Therefore we simply show the openness, speaking of the problems we have, of the unbalance of profit generation from one activity line to another. Now this unbalance will be eliminated, and the company will simply

show greater share and greater efficiency from two kinds of activity. That's about it. The shareholders will obtain profit as a whole, you know the figures, from the level of 4 billion, which we expect for the year 2011, to the level of 25 billion in 2015.

Kornilov (34:38)

I have got it, thanks a lot.

Moderator (34:42)

Thank you. The following question is from Matvey Tait, "Uralsib". Matvey, please ask your question.

Tait (34:48)

Hallo, good afternoon. Thank you very much for the presentation. I would like to clear up the following: as regards the unregulated charges - payment for FGC services for 2011, what growth of the tariff did you consider when these figures were submitted to RECs (regional energy committees)?

Kharenko (35:05)

As far as the tariff projection submitted by us in 2011 is concerned. We used the figures according to those tariff decisions, which were in effect as at that moment, namely, before December 28. That is the parameters of RAB adoption, which were approved by FTS for FGC last year. Accordingly, when I mentioned in my report that the charges in respect of FGC have not been considered in full by the current moment (I just mentioned this situation), the decision, which was taken by FTS on December 28, assumes a little higher gains in tariffs, including for 2012, 2013. And regarding the fact of formation of these expenses: since they are objectively beyond regulation, they will be incorporated into the tariff during the subsequent periods. Namely, roughly speaking, the deficiency to be generated (if generated) by us in 2011 will be submitted by us to RECs as additional unregulated expenses.

Tait (36:07)

Thank you.

Moderator (36:11)

Ladies and gentlemen, there are no questions as at the moment. Let me remind once again, please press figure 7 on your telephone set, if you have a question to the company. The following question comes from Dmitry Bulgakov, "Deutsche Bank". Dmitry, please ask your question.

Bulgakov (36:33)

Good afternoon. Thank you for your presentation. I have a clarification question with regard to the income shortfall, FGC and losses. You tell in your presentation that the expected deficiency must be compensated as short-received charges in the tariffs for 2012-2013. When this compensation will take place in your opinion? Thank you.

Nikolaev (37:01)

Look, the situation is the following, when we will sum up the respective results... We have several iterations actually. There is an iteration that we already now have the understanding, what tariff decision in respect of FGC was taken for the nearest period, and we can already since April, conditionally speaking, start negotiations with FTS on the following: when the additional charges will be included and what their volume is. It is clear, that they will be included in the subsequent regulation periods. There is another aspect: in 2011 the Ministry for Power Industry must take the decision on the level of losses in the grids of FGC, this may also influence this factor. That is, roughly speaking, we shall correct our projection within a year in respect of the fact of how the

charges in respect of FGC will be developed, and we shall accordingly include them in the years 2012-2013-2014 in the optimum manner. According to the actual deviation between those expenses which have been already included in the tariff decision, and to the deviation developed on the basis of the fact. Namely, the question is subject to negotiations, which may be started already now.

Bulgakov (38:22)

But will they be larger in 2012 or in 2013, in your expert opinion?

Nikolaev (38:28)

In the expert opinion, we certainly estimate that, most likely, such opportunity, if we speak about its least influence on tariff gains, naturally, such opportunity exists to a greater extent in 2013. But I would like to note that in the general structure of NGE, the amount, which now may be potentially considered as deficiency, is not so large, and we hardly need to focus on it seriously, in view of the fact that if we expect earnings estimated for the year 2011, this figure will be not so essential in the transmission tariff. Therefore we can go through this issue without serious consequences for the activity of the company.

Bulgakov (39:19)

Well, from the point of view of NGE – yes, it is small, but it is large from the point of view of the net profit.

Nikolaev (39:25)

From the point of view of the net profit in any case, since the years 2011-2012 are the period of smoothing of the RAB tariff, yes, accordingly, the structure of the net during these years still does not strongly differs from what we had during the last periods. Actually the activity on technological connection will form greater volume, in 2011 - actually in full, in 2012 - in a slightly smaller volume. Simply, if in 2010, when we spoke that we had the loss in the transmission tariff, and we did not know, what will happen next, we had disagreements in FTS, we had legal proceedings and so on, now we have an agreed dynamics, and we see that the transmission-related loss, which is received at the expense of smoothing, pertains to the years 2011-2012, is implemented in the profit since 2013. This is already an objective fact, which cannot be neglected by anyone.

Bulgakov (40:23)

That is clear. I have one more clarification question in respect of unaccounted payment of losses in the grids. It is written here that the total deficiency as regards two constituent entities will be 650 million rubles. This figure takes into account your estimated prices in the wholesale market, doesn't it? May this size vary depending on the actual prices?

Nikolaev (40:52)

Yes, this size may vary. Naturally it may be less. Moreover, I'd like to tell that we now hold certain work with the Ministry for Power Industry in respect of revision of the loss norms in the grids of UNPG (united national power grid) and also expect a certain decrease in these norms. Namely, why we now do not fix this figure rigidly? Yes, actually we estimate that this figure most likely will be less as a result of a set of several factors.

Bulgakov (41:22)

Could you explain please, how the decrease in the norms may influence the estimated deficiencies? Just in brief?

Nikolaev (41:33)

If the loss norms are less, accordingly the absolute amount of losses is less, accordingly the value of losses is less. That's in brief.

Bulgakov (41:42)

OK. Yes, I have nothing to say against this. All right, thank you.

Moderator (41:49)

Thank you. The following question comes from Alexander Seleznev, "Uralsib Capital". Alexander, please ask your question.

Seleznev (41:56)

Good afternoon. Many thanks for the interesting presentation. Actually, I have a clarification question in respect of the tariff decision in the Leningrad Region for 2011-2012. If I get it right, now it is stipulated by laws that the volume of smoothing must not exceed 12 % of the NGE. As far as the Leningrad Region is concerned, for 2011-12 they equal 20 % and 15 % accordingly. Could you explain please, how did this happen?

Nikolaev (42:19)

We will explain this, of course. The situation develops in such a manner that this is the position of the governor of the Leningrad Region, first of all, who restricted the gain in the transmission tariff to 15 %, and, accordingly, in view of the fact that the regulatory authority increased the charges for the adjacent grid entities drastically enough, as a whole the general growth of the NGE volume demanded smoothing in a greater volume. Let us say that we have agreed to such an approach as at the current moment. FTS is aware of this approach, it saw it, because all the tariff models submitted by us and by the constituent entity to FTS have been viewed by FTS. Therefore when the problems of the regions were discussed, at the end of 2010 within the framework of RAB adoption it was discussed that such large constituent entities as Saint Petersburg, the Leningrad Region, Moscow may have the deviations in respect of a number of parameters from those norms which are incorporated into the FTS methods. Therefore the political decision happens to influence this situation, which will be preserved. It is clear that in any case this tariff decision, like any tariff decision, is based on certain scenario conditions. namely, the way how the price in the wholesale electricity market is developed and so on; all this as a whole may affect the actual implementation of this tariff decision, and, probably, the situation will be not so critical. But we estimate that as a whole there are no risks for the company on such deviation from those parameters which are incorporated by FTS. If FTS pays attention to this parameter after all, the growth of the transmission tariff for the Leningrad Region will need to be corrected. As a whole we offered this scenario condition to the Leningrad Region, but at the moment of the tariff decision-taking they considered the position of the governor of the Leningrad Region to be guiding for them, a foundational one. Therefore they have generated the tariff decision in such a way for now. Probably, the correction will be made, as may be necessary, on this or that level. But for our company, this will not cause the negative growth. Moreover, we consider that it will not render essential influence on the final tariff for the consumer, which is especially important. Because the leverage, that is the share of the tariff for transmission in the total tariff for end users is not essential. It is certainly essential, but around 20-25 %. Accordingly, even if the tariff for transmission is corrected so that this parameter of smoothing according to FTS method is complied with to the extent possible, this will not affect the final tariff, according to our estimations, due to this factor. The regulatory authority currently considers that it is more important to secure oneself and implement the position assumed by the governor of the Leningrad Region. That's the approximate description of the situation.

Seleznev (45:53)

I've got it. Thank you very much. Please answer the following clarification question in respect of the smoothing as well. If I get it right, you expect that in 2015 actually all that was owed to you, the whole volume of smoothing will be returned to you actually in 2015. I have the question: Don't you

have a concern that, as a matter of fact, the recovery of these short-received incomes may be implemented during 3-5 years, rather than during a year, because this period turns to be two years in the Leningrad Region. 2014-2015, the tariff grows more than 30 %. Don't you consider that this assumption is optimistic enough?

Nikolaev (46:27)

No, we don't. According to our estimations, in general, the tariff model, which... You have correctly explained the logic of what happens to smoothing. It is negative for the company in the first years and positive in the subsequent years. According to our estimations, implementation of this mechanism is grounded enough, it does not contain additional risks. Actually we expect that we shall win back this situation within the 5-year period and expect no negative additional consequences for ourselves.

Seleznev (47:08)

And the last clarification question: other unregulated charges in Saint Petersburg grow approximately 2 times, and almost 10 times in the Leningrad Region. Could you please explain, what kind of charges are these?

Nikolaev (47:25)

Larger unregulated charges? Well, basically, in the Leningrad Region ... As far as Saint Petersburg is concerned, they basically include taxes to the payment fund, leasing charges, a number of other taxes. Actually, what is the question, I haven't got it?

Seleznev (47:45)

Well, as far as the Leningrad Region is concerned, if Saint Petersburg dynamics meets some limits, they grow 10 times in the Leningrad Region. And exclusively with growth in 2013 and exclusively with growth in 2015, with significant rise.

Nikolaev (48:01)

The structure is a little different, let us say, the unregulated expenses in the city of Saint Petersburg include leasing charges. This represents a rather large amount, 714 million, if I am not mistaken, this is included in 2011 and in the subsequent tariff model, and no such situation is observed in the Leningrad Region. But the Leningrad Region has unbalance in respect of the profit tax, for example, which is included in a larger amount than required. Probably if you have any special interest in this, let's see, analyze, what is happening in this respect, but we can tell in a simplified form that the essential difference in the structure, which I see at a rough estimate, is that this figure is much larger in Saint Petersburg, besides it includes the expenses, leasing in particular, which are not present in the Leningrad Region; accordingly, this gives such kind of effect in percentage terms, first of all.

Seleznev (49:04)

I have got it. Thank you very much.

Moderator (49:11)

Thank you. The following question comes from Mikhail Rastrigin, "VTB". Mikhail, please ask your question.

Rastrigin (49:18)

Good afternoon, thank you for the presentation. It is really a very good presentation. I have a question concerning CAPEX. You have provided the total amount of CAPEX, and, if we calculate the amount of the CAPEX, which you wish to incorporate for the period 2011-2015 and compare it with the amount, which is considered in the tariff decision, there is a difference there. As far as I

understand, this difference is just what concerns technological connection. The difference is 33 %. How is this allocated by years, namely... The question is clear, isn't it?

Nikolaev (49:53)

The question is relatively clear, namely you have covered the difference absolutely correctly, regarding that the investment program, which is covered as a whole, comprises both technological connection and the investments which are implemented at the expense of the transmission tariff, as well as at the expense of the non-tariff sources. I think the definition of the source itself by years is included in the presentation. What do you wish to see, to understand? Is it the dynamics of spending?

Rastrigin (50:27)

In other words, what part will be related to technological connection and what part will be related to investment within the framework of RAB every year from this total amount of CAPEX?

Nikolaev (50:43)

I should say that slide 14 contains the dynamics of the investment financing sources. It clearly demonstrates that a significant figure is observed in respect of the years 2011-2012, and it is shown in percentage terms; if we look at the year 2011, around 10 billion is electricity transmission, 6.4 - technological connection, 6.7 non-tariff sources. Let us accept that by 2014-15 the share of the earnings and the share of the investment program in respect of the technological connection essentially decrease against the share of the investment program which is financed at the expense of the transmission tariff. This is a rather bright example. It may be potentially broken into spending, but the picture will be approximately the same. Because spending is related to those sources, which concern financing. Slide 14 of the presentation, it seems to me, contains the figures. Reading them out now, I think, is not very efficient.

Rastrigin (51:56)

Yes, it's clear, thank you.

Moderator (52:02)

Thank you. The following question comes from Ekaterina Tripoten, "BCS". Ekaterina, please ask your question.

Tripoten (52:08)

Yes, good afternoon. Do you hear me?

Moderator (52:17)

Ekaterina, we hear you, continue please.

Tripoten (52:19)

I would like to clear up the issue of the investment program. The years 2011-2012. The part, which is covered by RAB and the part, which is not covered by it. I understood the issue from the point of view of the technological connection payment, but, nevertheless, not the whole that amount of the investment program, which is planned for 2011-2012, refers to the payment for connection. I have the following question, why does REC ... First, what are the projects, which are not covered by RAB and why are they turned out to be beyond the coverage of REC. What is the need for implementing them, if REC considers these investment projects to be unnecessary? This is the first question, I shall continue after it.

Nikolaev (53:08)

The question is not absolutely clear after all.

Tripoten (53:09)

The question is not absolutely clear. Look, I examine your diagram 2011-2012. Yes, the breakdown by sources is 9.5 billion rubles in 2011 at the expense of the tariff, so this is the part of the investment program, which is approved by RECs and is included in RAB, right? In 2012 this figure equals 12.9 billion rubles. Accordingly, as to the payment for connection - 6.4 and 3.1. And there is still a certain part of the investment program, which will be financed at the expense of certain non-tariff sources. If I get it right, these are the investment projects, which are not paid at the expense of the payment for technological connection, and at the same time are not included in RAB. Actually, what kind of projects are these? Why weren't they approved by RECs in the course of RAB adoption? Why weren't they included in the approved program?

Nikolaev (53:59)

Yes, I understand the question. I've got its essence. Look, the city of Saint Petersburg and the government of the Leningrad Region, "Lenenergo" and IDGC Holding (the major shareholder) entered into the cooperation agreement in 2010, which includes the approved investment program as an enclosure in respect of each of the federation constituent entities. These investment programs include all those facilities considered by the city, "Lenenergo" and IDGC Holding as the major shareholder to be necessary and possible for construction, based on the potential sources. So, the volume of the investment program in Saint Petersburg approved by the administration of Saint Petersburg is 82.5 billion rubles. As to the Leningrad Region, it accordingly equals 20 odd billion rubles. These investment programs are approved by both the administrations, tariff committees and energy committees of both constituent entities. They are approved facility-by-facility, and ranged in respect of those sources of financing, which are available. The approved facilities, which are financed at the expense of the technological connection payment, are also included therein, as well as the additional facilities, which are planned, financed at the expense of other sources. These sources were declared, they were covered by Grigory Mikhailovich, namely, let us accept, the additional offering and the funds allocated in the federal budget for realization of the program of the cable grid renovation. In other words, this investment program was accompanied by formation of the additional source in the form of the funds of the federal budget. It is also planned that the money for implementation of this program at the expense of the part of the shares, which will be redeemed by the city, will be obtained from the city. Accordingly, this is simply the additional source, which allows, on the one hand, to unload the transmission tariff, because it is clear, that there are a lot of problems in this respect, and, probably, the volume of the investment programs could be larger, couldn't it? We always want more than it is possible to have. Nevertheless, all these programs are approved by all constituent entities and each of them has its own source. If no such source exists, probably the structure of the investment program, the internal structure, could be subjected to any updating, and this target program in any part was included in the transmission tariff. But these are the technical aspects, not financial. Subject to the fact that this source has been generated, there was an opportunity to generate the investment program in a greater volume. And the city, by signing this agreement, agreed that it will participate in this or that kind in all elements of implementation of this investment program. The additional offering concerns first of all the city, therefore I focus on the city. The situation is easier in the Leningrad Region. There are only two sources: the transmission tariff, technological connection payment. The investment program of 20 billion is approved there as a whole, though the transmission tariff approximates 16 billion, and accordingly technological connection payment is around 4 billion. They are approved by regional tariff committees, those authorities, which are vested with powers, governors, accordingly, in full, without dividing, whether they are included in RAB or not... So the investment program is implemented by the company as a whole, based on all sources.

Tripoten (57:25)

Well, if I understand you right, these investment projects are necessary, but the regulator has not included them in the approved program in order to minimize the growth of tariffs.

Nikolaev (57:36)

Actually, that's certainly right.

Tripoten (57:37)

And you have the additional offering, which you show as the main non-tariff source of financing of this difference, which does not cover completely, let us say, in 2011 these 6.7 billion rubles. In other words, if these facilities are necessary, then why doesn't the holding, which obtains budgetary money, if I get the scheme right, initiate offering of a greater volume and why doesn't it provide you with all necessary funds through the capital?

Nikolaev (58:09)

You ask a good question. Probably, the federal budget has certain limits of capacity to provide funds. Actually we have the projected particular program of the cable grid renovation. Its value has been determined. This program passed necessary ministries, Ministry for Power Industry, and so on. Namely, as a whole, the share to be financed at the expense of the federal budget has been determined. The part to be financed at the expense of the tariff and other additional offering has been determined, let us say, on the part of the city. The amount of the investment program has been substantiated, its sources have been substantiated and generated. It is not absolutely clear, what the holding must do to...

Kharenko (58:53)

I would like to add some words in respect of the preferred shares program. If you pay attention, you have missed this aspect, and we declared it repeatedly, therefore, you can in principle see this money as the source. Thank you.

Tripoten (59:11)

Well, I would like to ask, actually to confirm the information, which I read in slide 4 of the presentation. It is said there that the price of the additional offering to be held before 2014 will be determined using the principle of the weighted average price for three months. You actually have not focused on the fact, whether this principle will be constant during all these years when you will hold offering, and will this principle be applied for definition of the offering price, if the additional offering of preferred shares takes place.

Kharenko (59:48)

This issue is discussed in IDGC Holding. I think that in any case the shareholder should be asked these questions. Nevertheless, I think, that this order will be preserved. This is my personal subjective opinion. On the basis of already held additional offerings of other SDEs (subsidiaries and dependent entities).

Tripoten (1:00:13)

One more clarification question. I would like to return to the previous theme of the investment program of the facilities, which are not included in the investment program approved for RAB. Do I get it right, that, eventually, the facilities to be constructed at the expense of non-tariff sources, sooner or later will be included in RAB, asset base, in the next years? Let us say, in the following period of regulation?

Kharenko (1:00:38)

Yes, Ekaterina, that's what I was talking about. Moreover, we constantly hold consultations with the economists of the Holding, and, anyway according to my information, the holding will undertake

certain measures for such decision. The positions absolutely coincide in this respect. But this is the question of convincing the regulator.

Tripoten (1:01:03)

And, accordingly, the facilities constructed at the expense of the payment for connection will never be included in base of the capital, will they?

Nikolaev (1:01:10)

Not exactly. The subsequent reconstruction of these facilities will be included in the base of the capital. That is, the additional investments, which will be made at these facilities in due course, clearly, not tomorrow; fortunately, these facilities will go through reconstruction, modernization and so on. As soon as any works of the capital nature are held at these facilities, accordingly these works will be included in the base of the capital. So no problems exist in this respect. Ekaterina, I would like to stress one point based on your words. Our investment program is approved as a whole, it is approved...

Tripoten (1:01:50)

I understand.

Nikolaev (1:01:52)

This is important, this is an important point because you again divided things into "approved", "not approved". It is approved as a whole, otherwise the agreement could not be signed. The source is generated like that. It is normal.

Kharenko (1:02:08)

Ekaterina, I would like to say, that if you look at the history of our mutual relations with regulators for the previous period, you can see, that all the declared parameters are complied with. For today the work which has been held by economists, financiers, is regarded as successful enough.

Tripoten (1:02:30)

Thank you very much.

Moderator (1:02:34)

Thank you. The following question comes from Fyodor Kornachyov, Alpha-Bank. Fyodor, please ask your question.

Kornachyov (1:02:40)

Good afternoon. Thank you for the presentation. I would like to ask you the following question. As you say, the funds, namely the investments, which were made at the expense of the funds raised within the framework of the additional offering, will be included in the base of the RAB capital in the further. Could you explain please your logic? In my opinion, the following explanation is quite logical: if they are budgetary funds, they have been already paid once by the consumer, industry, in the course of payment of taxes and so it's a little bit illogical for the company to pay the same investments and pay the return on them for the second time in the further. In other words, the logic, in my opinion, is the same, as with the payment for technological connection.

Kharenko (1:03:26)

The method does not prohibit this. New objects are created. Why not?

Kornachyov (1:03:34)

Well, I simply would like to learn your logic when you come to REC and say that your... primary goal is to convince EC of the necessity to include this. I would simply like to understand your argument, which you produce to REC in respect of the fact of inclusion.

Nikolaev (1:03:52)

Fyodor, let's go the following way. There is a method of the capital base formation. Probably the company as a whole and its shareholders would like to see the facilities created at the expense of the technological connection payment to be also included in the base of the capital which would form the additional income, return, and in general would generate more profit for the company and its shareholders. Right?

Kornachyov (1:04:18)

Certainly.

Nikolaev (1:04:19)

Unfortunately, the method excludes these facilities from the base of the capital, and we have to be tolerant of this irrespective of the fact, whether we agree with this logic or not. As regards the facilities created at the expense of the additional offering, actually, if we closely look at the current method, it does not prohibit this. All the fuss over the issue, whether to include these facilities or not grew warm thanks to or due to Olympic Games in Sochi, when there is a particular region, where a huge number of facilities are created, thus it is not comparable or it is comparable with the total volume of electric grid assets of the region, which were available before this moment. Are you familiar with this situation?

Kornachyov (1:05:10)

Certainly.

Nikolaev (1:05:11)

The position of the local authorities is the following: taking into account the fact that the gain in the assets essentially influences changes of the asset balance in the region as a whole, it turns out that their maintenance should be implemented as a whole by the population of the Krasnodar Territory. This unbalance of the amount of the assets, which existed earlier and which is formed, raised this problem. When we formed our tariff application in April 2010, we had no such problem. We included this part of the investment program in the base of the capital. Since in April this problem became public, we excluded these assets, as required by prudence and our estimations of how the base of the capital will be generated, how it will allow us to implement our plans. But formally if we had done this, on the contrary REC would have to prove that we have no right to include these assets in the base of the capital. Simply, such process is conciliatory. In our base of the capital, as you see, this amount is not so essential. Though it's clear that it's not our logic. It's the question of the method, policy, the way how it will be generated. We are interested as the management, the task of which is to maximize the profit of the company, we are interested to include these assets. So, we lobby the method, which will be interesting for our shareholders. That is, actually, all. It is for the federal authority to solve, how this will be resolved.

Kharenko (1:06:58)

Fyodor, I would like to add, I just cannot but add, because I am a member of the board of directors of "Kubanenergo". If you look attentively at the volume of the programs and just compare percent figures, Olympic Games, proper program of "Kubanenergo", and compare 100 billion, conditionally speaking, of the investment program of "Lenenergo" and the minor amount of this program at the expense of the additional offering, you will see, that it is much easier to convince regulators in this event. So the unambiguous opinion for today that it will not be included looks at least absolutely ungrounded. Thank you.

Kornachyov (1:07:50)

I have understood you. When do you think approval of this method takes place approximately?

Nikolaev (1:07:57)

It is available, isn't it? The question consists in its updating. Negotiations are held. As far as I understand, we are first of all in the wake of this process. As far as I understand, this problem should be solved in 2011.

Kornachyov (1:08:12)

I have understood you. Thank you.

Moderator (1:08:17)

Thank you. The following question comes from Matvey Taits, "Uralsib". Matvey, please ask your question.

Taits (1:08:22)

Hello, good afternoon. You know, the question may be slightly out of the topic, Grigory Mikhailovich, tell me please, there was a rather large share holding, which was originally owned by Fortum, then it was owned by IES, partially by VTB, and it's not clear, everything disappeared, and no information is available. Unfortunately, the proprietors are not disclosed in the quarterly report to such a level. It just mentions IDGC Holding and the city of Saint Petersburg. What is going on with this rather large share holding? Is it consolidated in some way, who is the owner?

Kharenko (1:09:00)

Good afternoon, Matvey. We have communicating with each other quite for a long time. Probably, since 2003. I can certainly tell about the history of this share holding, because I perfectly understand its history. Yes, really, this share holding was owned by IES, VTB was the nominal holder. Actually, this is a technical moving of the same share holding belonging to IES through nominal holding. That's all. Therefore this represented no news as a matter of fact. What was the reason for such IES transfer inside? Well, I can not tell for sure, but I do not think, that there are any secret reasons and meaningful actions. Probably, the agreement was simply expired. So this is just an assumption in this respect. And on the contrary, now IES shows, that it is now in the authorized capital through its own fund.

Taits (1:10:18)

It's clear. Does this mean that it is still owned by IES?

All is clear, thank you very much.

Kharenko (1:10:22)

Yes, it does.

Moderator (1:10:28)

Thank you. The following question comes from Nadezhda Timokhova, "J.P. Morgan". Nadezhda, please ask your question.

Timokhova (1:10:35)

Thanks a lot. I have two technical questions. The first concerns the services of TGEs. I would like to understand, why is the growth for services such enormous in Saint Petersburg, especially in 2014 - almost 50 %? What is the reason?

Nikolaev (1:10:57)

You mean the services of adjacent entities, don't you? Do you mean adjacent grid entities?

Timokhova (1:11:03)

Oh, yes.

Nikolaev (1:11:04)

So, what is the reason? Probably the reason is that the adjacent grid entities also implement their investment programs. Actually, this situation is similar, symmetric to that in Saint Petersburg, that in the Leningrad Region. It's not a secret that there is a grid entity in Saint Petersburg, the investment program of which becomes larger year by year. And the Leningrad Region also has an adjacent grid entity, the volume of the investment program of which, certainly, is not comparable with "Lenenergo's" one, but, nevertheless, it grows every year. I may assume, that subject to the fact that smaller adjacent grid entities may adopt RAB since 2012 as well, this norm is at least incorporated into laws, the law on electric power industry, energy efficiency, energy saving, so, accordingly, this is probably an additional parameter of preparation for possible adoption by these companies of RAB.

Timokhova (1:12:04)

It's clear. And the second technical question, what rate of return is incorporated for the purpose of smoothing recovery?

Nikolaev (1:12:12)

I told about the rate of return at the very beginning. It does not depend on smoothing. Smoothing is the mechanism of the tariff correction, and the rate of the return on the capital is the rate determined by laws.

Timokhova (1:12:28)

No, it is smoothing that goes with the recovery of the return, which was short-received by you, isn't it? Is it 11 %, as far as I believe?

Nikolaev (1:12:36)

Well, the method gives 12 %. There exists a restriction in respect of smoothing, accordingly it is exceeded in the Leningrad Region, as it was already said in our discussion, and it is within the limit in Saint Petersburg.

Timokhova (1:12:48)

Well, you say that 12 % is related to NGE. And I say that if now we have the smoothing towards the negative side, should it be restored in any rate of return in the future period?

Nikolaev (1:13:01)

Well, 12 %.

Timokhova (1:13:02)

12 %? All right, thank you.

Kharenko (1:13:05)

Thank you, colleagues. The last question please. We are already out of time limit. Thank you.

Moderator (1:13:12)

The last question comes from Alexander Seleznev "Uralsib". Alexander, please ask your question.

Seleznev (1:13:18)

Good afternoon once again. I have such a slightly clarification question. Your slides 11 and 14: slide 11 contains breakdown by earnings related to technological connection, accordingly by profit related to technological connection, and slide 14 contains breakdown in respect of CAPEX financing. My question is the following: Why do the figures in respect of the earnings and profit related to technological connection exceed the figures in respect of financing, and why is this exceeding so considerable?

Nikolaev (1:13:41)

Simply enough, because the earnings are the indicator related with performance and closing of agreements, first of all; accordingly, the earnings include performance of certain obligations which were not complied with by the company as at 01.01.2011. That is we have a rather large volume of obligations, which we plan to close by 2013-2014. Since we shall perform our obligations with advancing rates to subscribers against receipts of money under new concluded agreements, therefore this leads to such advancing.

Seleznev (1:14:19)

Thank you.

Kharenko (1:14:27)

Dear colleagues, thank you very much for your interest in the conference call. I should say that the number of participants grows essentially from one conference call to another. We express gratitude to the event planners. We express gratitude to analysts for their interest in our company. Thank you, all the best.

Nikolaev (1:15:00)

Thank you very much.