



# **TGC-1:**

## **UNIQUE POWER GENERATION COMPANY OF RUSSIA**

**October 7, 2010**  
**VTB Capital Investment Forum “Russia Calling!”**  
**Moscow**

## St. Petersburg and Leningrad region

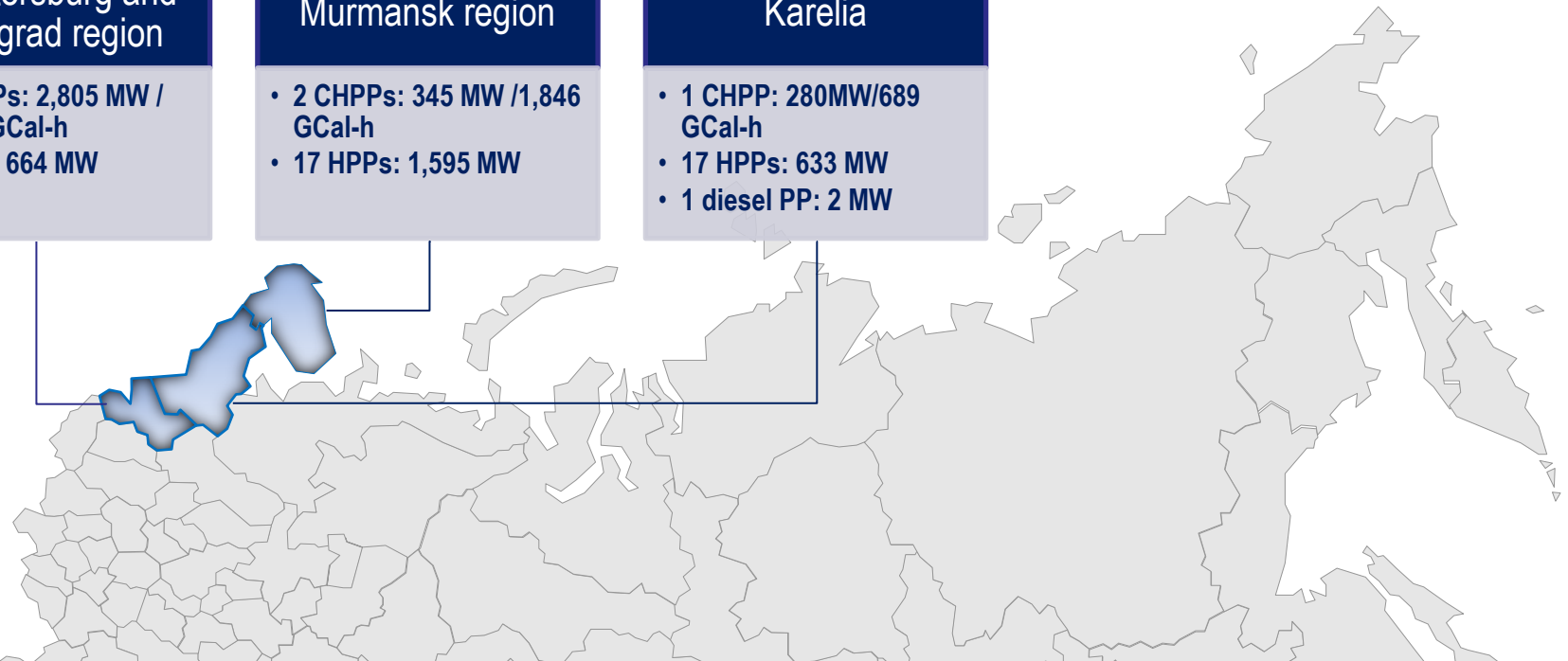
- 11 CHPPs: 2,805 MW / 11,827 GCal-h
- 6 HPPs: 664 MW

## Murmansk region

- 2 CHPPs: 345 MW /1,846 GCal-h
- 17 HPPs: 1,595 MW

## Karelia

- 1 CHPP: 280MW/689 GCal-h
- 17 HPPs: 633 MW
- 1 diesel PP: 2 MW



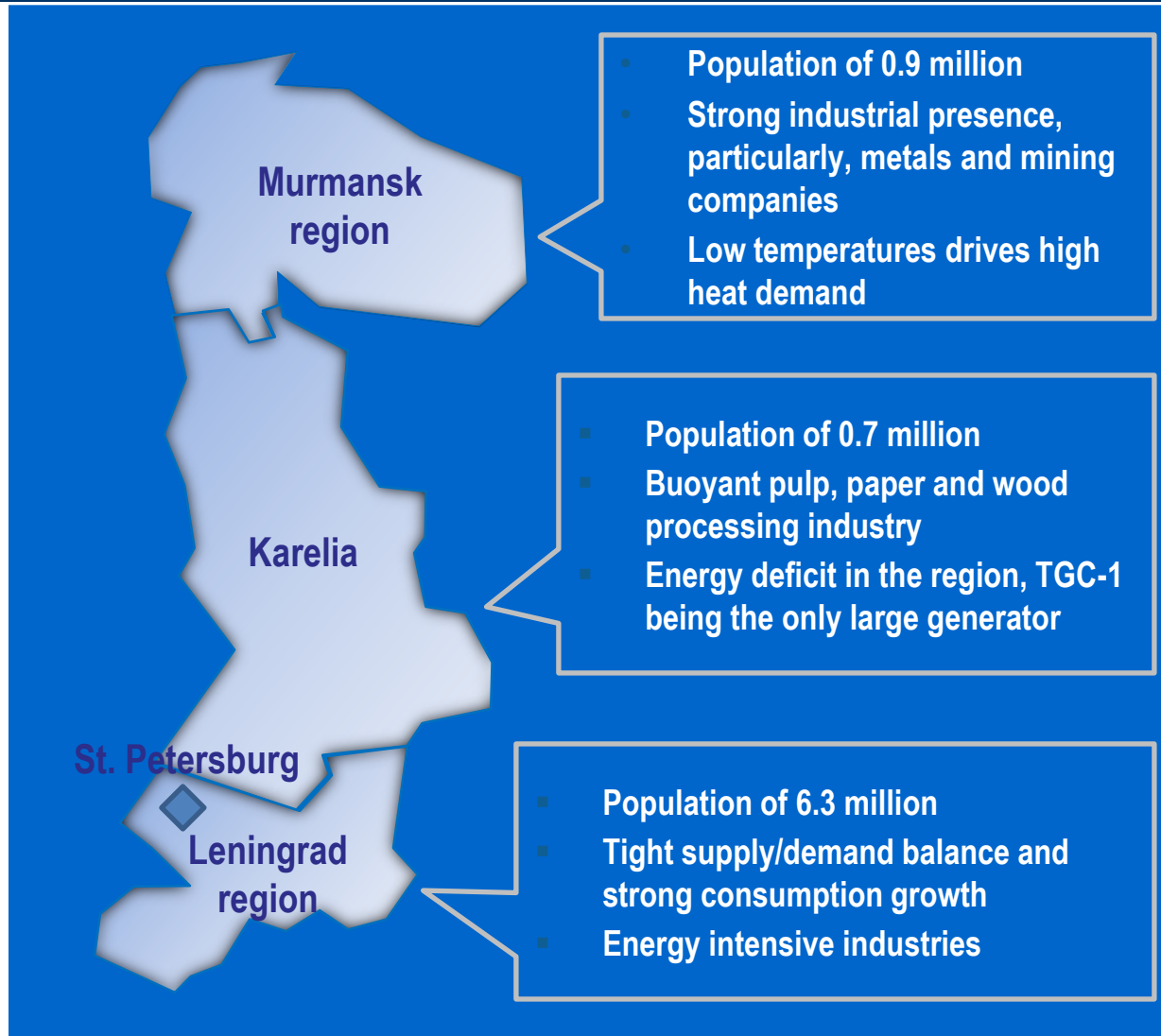
## 2009 key figures

Electricity generation	<b>26.76 TWh</b>
Heat output	<b>26.9 mn GCal</b>
Revenue	<b>41.35 bn RUR (IFRS)</b>
Headcount	<b>c. 9,000</b>

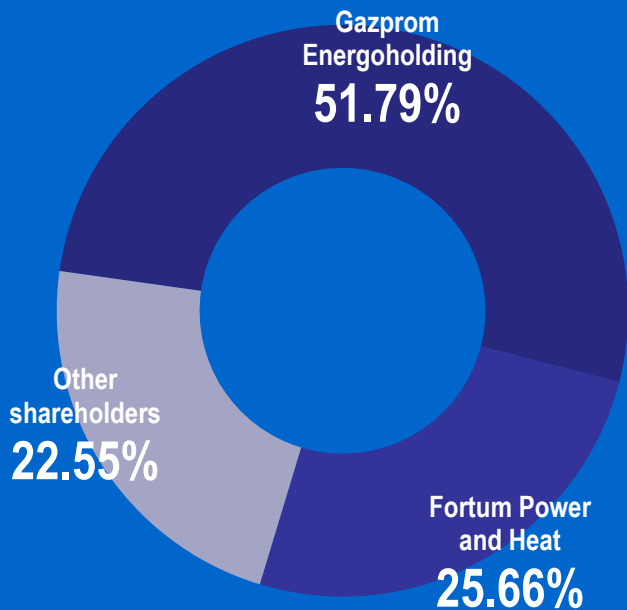
## Position in the industry

- c. 3% of total installed electric capacity in Russia
- c. 6% of hydro installed capacity in Russia
- 3<sup>rd</sup> largest TGC by electric capacity
- the only TGC with significant hydro exposure and export

- Economically developed St. Petersburg and Leningrad region consume c.2/3 of electricity produced in the North-West region
- Major part of consumers in the North-West are households and non-industrial firms traditionally more disciplined as regards payments. In 2009, payments' collectability rate for electricity was 98%, heat – 97%. Same expected for 2010.
- Power demand in the North-West is gradually recovering as economy stabilizes (in 1H 2010 vs. 1Q 2009, +6.2% in St. Petersburg and Leningrad region, +7.6% in Karelia, +0.3% in Murmansk region)



- Share capital – RUR 38.5 bn
- Over 320,000 shareholders
- Shares listed on MICEX (A1 quotation list) and on RTS
- Standard&Poor’s corporate governance score since 2006 (GAMMA-5 for 2009)
- One of the most professional IR and shareholders relations team in Russian utilities (Thomson Reuters Extel Surveys 2008 & 2009)



### GAZPROM

- The world’s largest state-owned gas producer and exporter
- Largest investor in power generation in Russia and owner of generation assets second only to the Russian Federal Government
- An efficient lobbyist of generation sector interests

### FORTUM

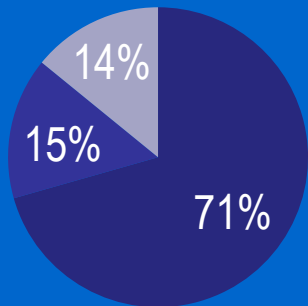
- Largest integrated utilities company in the Nordic area with highest eco-standards dedicated to investment in Russian utilities
- High corporate governance standards
- Expertise in operation of HPPs

### MINORITIES

- Strong institutional presence
- >300K individual shareholders, incl. management (not ESOP)
- Decent liquidity (6M daily average trading volume – USD 1.3m, MICEX)

- Total investment program provides for capacity additions of over 1.6 GW until 2015
- CAPEX financing in 2009 – RUR 20.4 bn (incl. VAT), in 2010 – RUR 17.9 bn (incl. VAT)
- Highly-effective combined-cycle (CCGT) technology to take up c.30% of thermal capacity by 2015
- IRR for new CHPs - 14-16%, HPP – over 20%.
- Long-term investment plans may include green-field construction of HPPs in Karelia and Murmansk region

Breakdown of new capacity additions 2009-2015 by type



■ CCGT-units ■ Steam-power units ■ Hydro-turbines

	Description	Capacity addition, MW	Schedule	CAPEX, RUR bn
Pravoberezhnaya CHPP	New CCGT-unit	450	2012	13.5
Yuzhnaya CHPP-22	New CCGT-unit	450	2010	11.6
Pervomayskaya CHPP-14	New CCGT-units	2×180	2010-2011	15.6
Lesogorskaya HPP	Replacement of all hydro-turbines	4×30	2009-2012	5.2
Svetogorskaya HPP	Replacement of all hydro-turbines	4×30	2009-2012	5.2
Vasileostrovskaya CHPP	New steam-power unit	50	✓2009	1.7
Vyborgskaya CHPP	Modernization of steam-power unit with capacity addition	123	✓2009	1.2
Volkhovskaya HEPP	Replacement of hydro-turbine with capacity addition	12	✓2009	0.4
Central CHPP (or Okhta CHPP)	New steam-power units	2×50	2015	~10



## 2 new gas-fired CCGT-units (360 MW) at Pervomayskaya CHPP-14 in St. Petersburg

- CAPEX: RUR 15,7 bn (ex. VAT)
- Commissioning in winter 2010 - 180MW/160Gcal; 2011 - 180MW/160Gcal



## New gas-fired 450 MW CCGT-unit at Yuzhnaya CHPP-22 in St. Petersburg

- CAPEX: RUR 11.6 bn (ex. VAT)
- Commissioning in winter 2010 - 450 MW/350GCal



## New gas-fired 450 MW CCGT-unit at Pravoberezhnaya CHPP-5 in St. Petersburg

- CAPEX: RUR 13.5 bn (ex. VAT)
- Commissioning in 2012 - 450 MW/350GCal



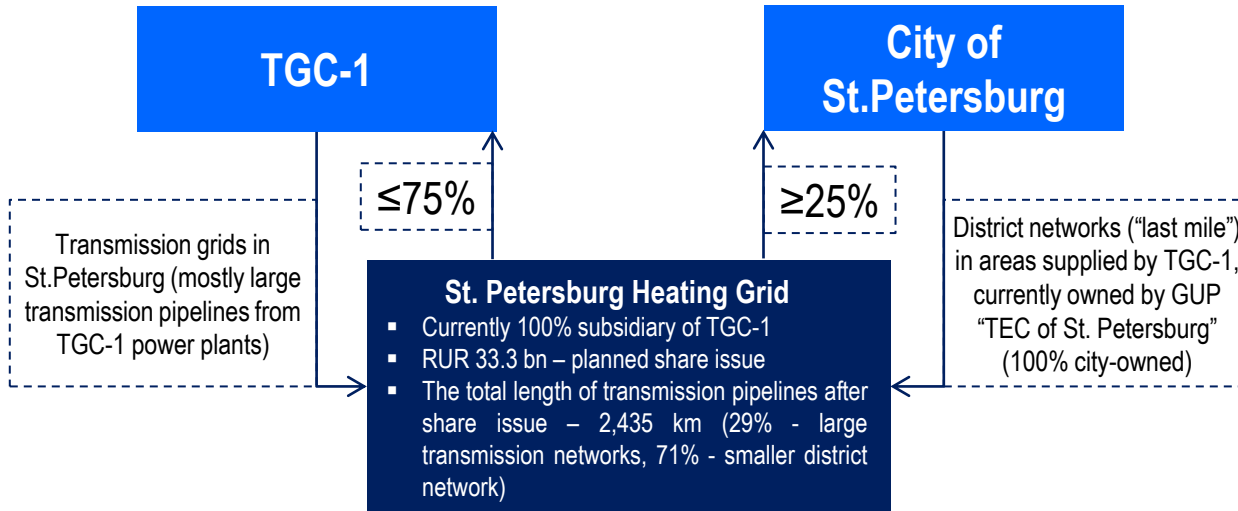
## Replacement of 8 hydro turbines at 2 HPPs in Leningrad region (Vuoksa cascade)

- CAPEX: c. RUR 5.2 bn (ex. VAT)
- Timeline: annual commissioning of 2 turbines (30MW) at each HPP in 2009-2012
- Total capacity to be commissioned – 240 MW (+46% to old capacity)

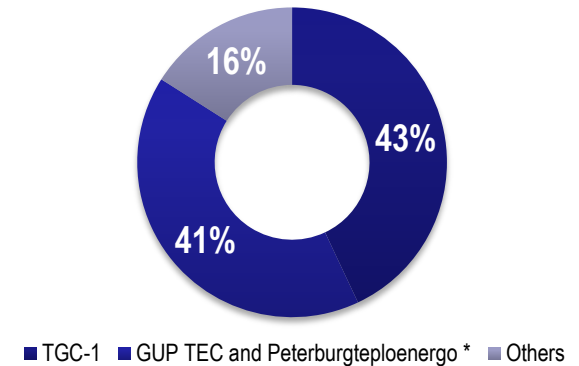


## New gas-fired CHP plant of 100MW to supply “Okhta centre” skyscraper

- CAPEX: c. RUR 7 bn (ex. VAT, not incl. costs of connection to the grid)
- Commissioning in 2015

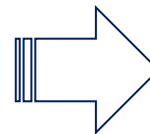


Heat output breakdown in St. Petersburg



**PROBLEMS**

- Reduction of losses of heat number of breakages of networks
- Effective spending of transmission fee included in tariff (of around RUR 1bn annually previously paid by TGC-1 to GUP TEC)

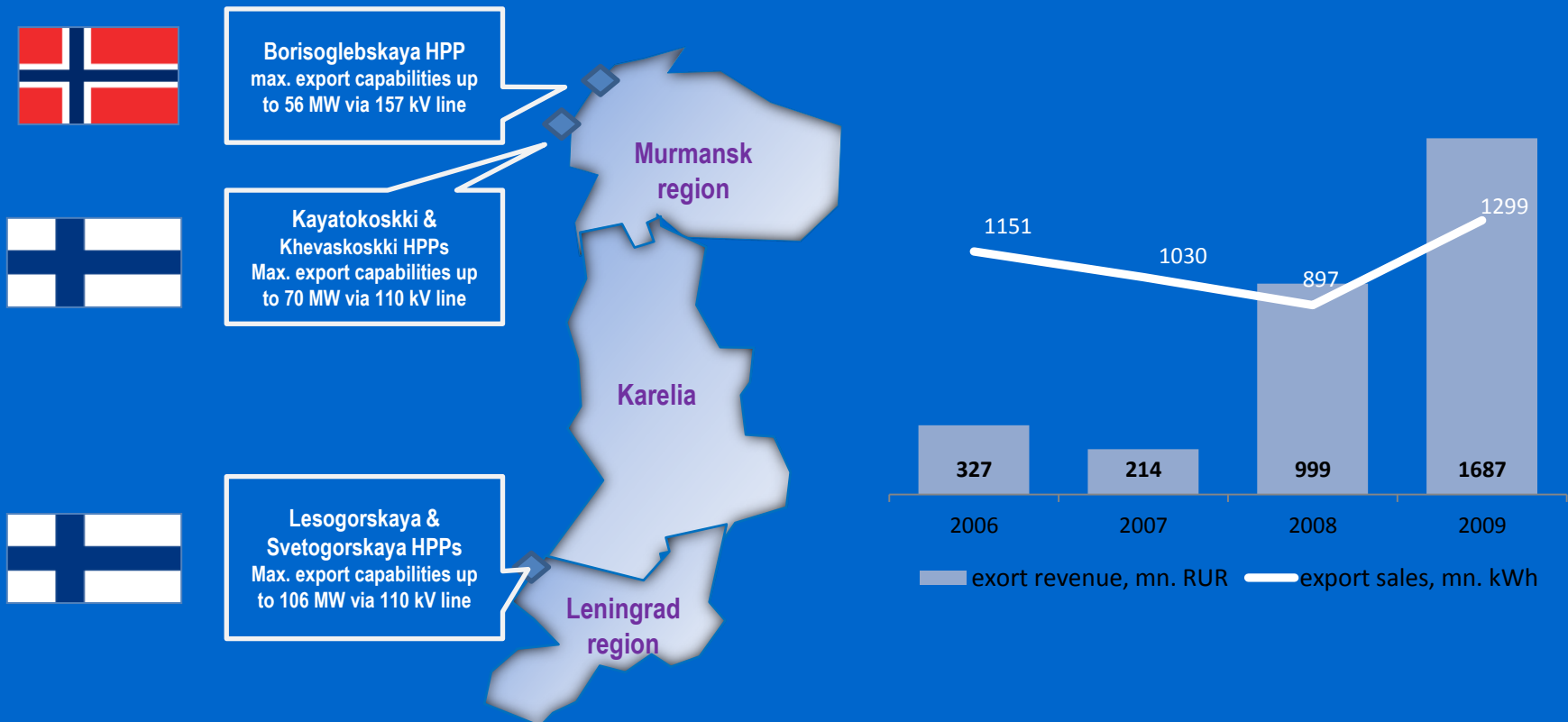


**OUTCOMES**

- Creation of a unified heating area with a single network operator in the city area supplied from TGC-1 plants
- City’s involvement should provide necessary support
- Possible switch to new long-term RoR regulation
- Redical improvement of quality and reliability of heat supply

\* - GUP “TEC of St. Petersburg” is city-owned heating company, 2<sup>nd</sup> largest producer and distributor of heat in St. Petersburg, operating mostly gas-fired boilers; OOO “Peterburgteploenergo” is a local heat producer operating gas-fired boilers controlled by Gazprom

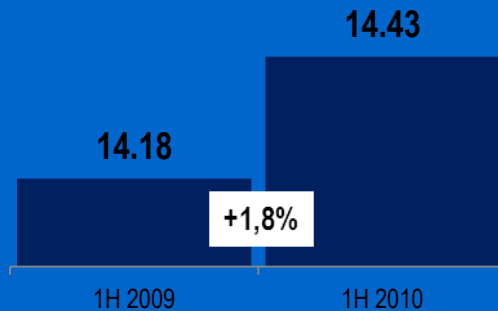
- TGC-1 is the only company among TGCs/OGKs exporting electricity directly
- Operational capacities to export electricity to Estonia (c. 40MW)
- Export sales serve as a natural hedge for loans and contracts denominated in foreign currency



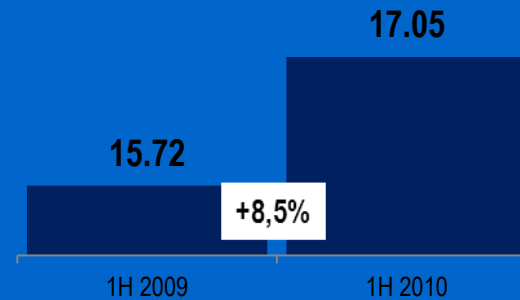


- The increase in demand of electricity in regions of operations: + 6.2% in St. Petersburg and Leningrad region, +7.6% in Karelia, +0.3% in Murmansk region
- Capacity utilization factor increased 0.5 p.p. to 52.6%
- Improvement of heat rates as a result of higher generation in heating mode

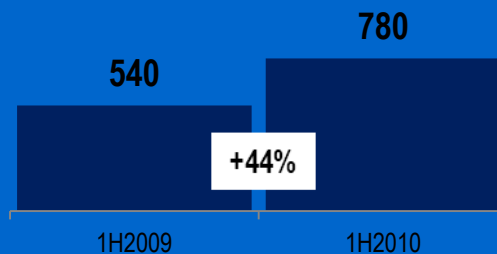
Electricity generation, TWh



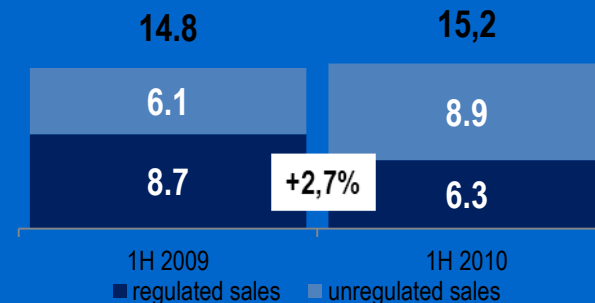
Heat output, mn GCal



Average electricity spot prices, RUB/MWh



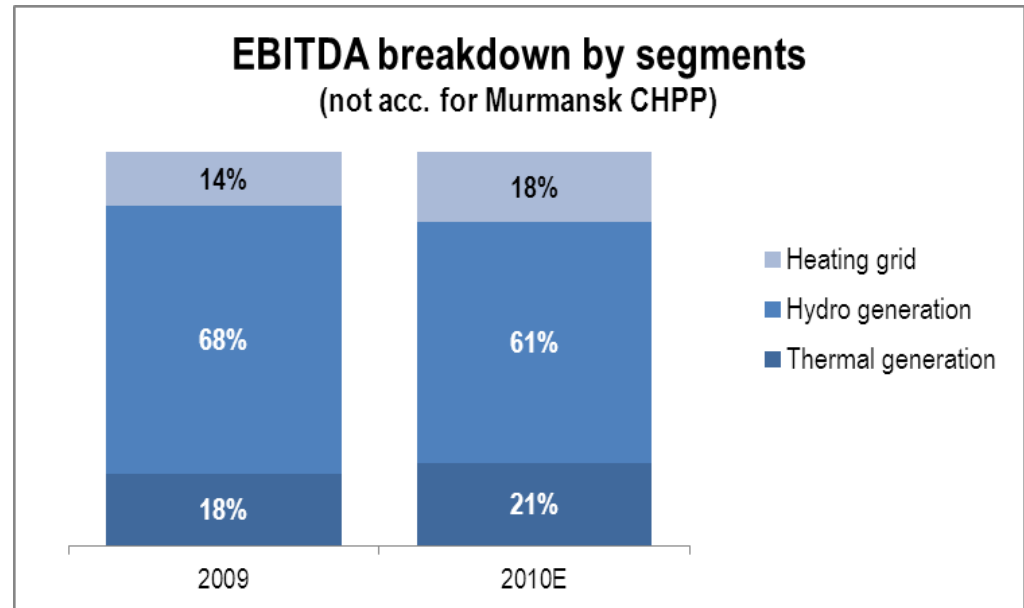
Electricity sales, TWh



- Largely positive half yearly results: very good 1Q and a not bad 2Q
- Margins were heavily influenced by high-base effect

	1H 2010	1H 2009
Revenue	27 203,2	21 245,6
Electricity sales	9 519,7	6 878,6
Capacity sales	4 195,6	3 229,3
Heat sales	13 200,0	10 616,8
Other sales	287,9	521,0
Operating expenses	23 250,4	18 005,7
Operating profit	3 952,8	3 239,9
Pre-tax profit	3 463,3	3 130,5
EBITDA	5 576,6	4 747,7
Profit for the period	2 823,3	2 485,3
EBITDA margin, %	20,5%	22,3%
Net margin, %	10,4%	11,7%

- FY2010 financial results to be well above the plan
- 2H 2010 – commissioning of 180MW at Pervomayaskaya CHPP, 450MW at Yuzhnaya CHPP, 30MW at Svetogorskaya HPP
- Heating grids in St. Petersburg to fully transferred to St. Petersburg Heating Grid company in early 2011, evaluation of assets is now being finalized
- Capacity Supply Agreements (DPMs) to be finalized and signed soon
- RAB methodology for heat approved
- Project financing for Pravoberezhnaya CHPP to be approved by year end



Steady stream of revenues from new capacity commissioned under Capacity Supply Agreement (DPM)

Growth of unregulated electricity sales from efficient gas-fired plants and low-cost hydropower plants on the back of spot prices growth and further deregulation

Prospect of introduction of long-term tariff regulation for heat transmission

Reduction of fixed costs: optimization of headcount, new less expensive head office by year end, better control of water expenses, optimization of maintenance program

Reduction of variable costs mainly on the back of better fuel rates of new CCGTs

## STRUCTURAL INTEGRITY

Disposal of hydro assets or merger of TGC-1 with Mosenergo is not on agenda

## RESPONSIBILITY

- TGC-1 is one of the few Russian utilities to start paying dividend as of 2009
- Gazprom to adopt uniform dividend policy for its electric utilities by year end

## MINORITY PROTECTION

Fortum holds on to its blocking stake; shares expertise and know-how with the Company

## TRANSPARENCY

TGC-1 started disclosing quarterly unaudited IFRS as of this year

## NEW LIFE OF OLD BUSINESS

Spin-off of heating grid, the subsidiary to place share issue in 2010, stakes of TGC-1 and city of St. Petersburg to be approx. 75/25 %

## LOW DILUTION RISKS

Additional share issue is not on the agenda

EFFICIENT COGENERATION

EXPOSURE TO HYDRO

OPERATIONS IN DEVELOPED RUSSIAN REGIONS WITH STEADY CONSUMPTION

EXPOSURE TO ELECTRICITY EXPORT

INVESTMENT PROGRAM ON TRACK, VALUE-ACCRETIVE CAPEX

POWERFUL STRATEGIC SHAREHOLDERS

LOW CORPORATE GOVERNANCE RISKS

EFFICIENT AND EXPERIENCED MANAGEMENT TEAM



**THANK YOU!**



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