
Internet-conference
"TGK-1: the IFRS financial results of 2008 and the future prospects for the company"
June 15, 2009
(held and translated from Russian by open-utilities.com)

Participants from TGK-1:

1. Boris Vainziher, CEO;
2. Raisa Stanishevskaya, Chief Accountant;
3. Sergej Redkin, Deputy CEO (development);
4. Eduard Lisitskiy, Head of investments department;
5. Alla Anisimova, Head of economics department;
6. Arkadi Nazarov, Head of department of energy supplies;
7. Olga Solomina, Head of corporate governance department;
8. Larisa Semenova, Head of PR

Mikhail Rasstrigin, VTB Capital

What can you say about power exports to Finland? As I recall, there was a problem with the price. In general, it would be interesting to hear your forecasts for this year concerning the level of payment collection, as well as for the slump in demand for electricity and heat in your region.

A.Y.Nazarov, Head of delivery and power supply department

The 10-year contract with Fortum Power and Heat for power supply to Finland expired in 2008. On the 30th of December 2008 TGK-1 and Fortum Power and Heat signed a new contract that runs through the end of 2009 that has a price definition formula based upon an hourly calculation of spot electricity prices on the NordPool (between EUR20 and EUR50).

At the moment, electricity export is being carried out under this contract, and all the obligations undertaken by the parties are being appropriately fulfilled. The forecast for the level of payment collection for this year is 95%.

OTKRITIE Investment Bank

Does TGK-1 export any electricity abroad, specifically, to Finland? Do you think there is any chance that power could be exported to the European countries? If so, what is the intended export scheme? Would exports go through Inter RAO?

A.Y.Nazarov, Head of delivery and power supply department

Some of the electricity generated at the HPPs owned by the company is being exported to Finland and Norway.

Currently electricity transmitted to Finland is provided by:

- A number of Vuoksinskie HPPs (Lesogorskaya HPP (No.10) and the Svetogorskaya HPP (No.11) in the Leningrad region on the Imatra-1 line with 110kV voltage. The maximum export capacity is 64-70 MW in 2009. The volume of electricity supply is between 300m kW and 450m kW;
- A number of Pazskie HPPs (HPPs 4-7) in the Murmansk region on an L-82 line with 110 kV voltage. Maximum export capacity reaches 70 MW at high water times.

Electricity supply for Norway is provided by: - Borisoglebskaya HPP-8 on an L-225 line with 157 kV voltage. The maximum export capacity could amount to 56 MW, however in standard mode it is 28 MW.

- The volume of electricity supply generated by the Pazskie HPPs (HPPs 4-8) fluctuates between 720m kW and 760m kW.

The location of the company's generating facilities offers excellent potential for developing cross-border trade (including existing technology for electricity transmission to Estonia). At the same time, the prospects of the export business are currently contingent on the prices of the wholesale power and capacity market, as well as on the Scandinavian power market (NordPool) --

consequently, the level of foreign consumer interest in Russian electric power also depends on these market price levels.

At the moment, neither the export scheme, nor the possible participants, are clear. TGK-1 is already exporting electric power, partly in cooperation with INTER RAO UES. Development of the partnership depends on maintenance and/or volume growth, as well as expanding the export geography of the generating company.

OTKRITIE Investment Bank

Could you please explain what caused the discrepancies in the 2008 IFRS and RAS results?

Raisa Stanishevskaya, Chief Accountant

RAS net income TGK-1	231
RAS net loss Murmanskaya CHPP	-458
Provision for impairment of property, plant and equipment	1,179
Effect of the change in the income tax rate accounted as decrease of deferred income tax charge	479
Difference in depreciation accounted under RAS and IFRS	-307
Others	573
Total IFRS income	1,016

16.06 10:24, Raisa Stanishevskaya, Chief Accountant

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OTKRITIE Investment Bank

What are the chances of constructing new hydro generating capacities in the future in the region and does the company have such plans?

Boris Vainziher, CEO

New HPPs could be built in Karelia and Murmansk region. The projects were under way in the 1970 and 80s : Segozerskaya HPP on the Segezha River with IC of 24 MW, Beloporozhskaya HPP on the Kem River with IC of 130 MW, cascade of HPPs on the Rynda and Yokanga rivers on the east of the Kola peninsula with total capacity of 590 MW. As for our plans, we are seriously considering that.

Group of independent portfolio investors Energo Holdings Limited

It is stated on the 50-th page of auditor's report that as a result of a tax inspection the company has to pay about RUB 640m to the budget. What effect will this have on the company's financials? Is it possible to see a loss at the end of the year? Could other tax claims affect the company's cash flow and how?

Stanishevskaya, Chief Accountant

As a result of a field tax audit on 2 March 2009 the Company was charged with RUB634m of claims. The Company did not agree with the findings of the tax inspectorate and appealed to a higher tax authority the RF Federal Tax Inspectorate. Until the latter adopts a decision the claim remains in abeyance. TGK-1 (if necessary) believes it has quite a strong chance of winning an appeal against the tax authorities in court.

OTKRITIE Investment Bank

Do you see serious competition from Leningradskaya NPP, especially in the long term, when new units are commissioned at the NPP?

Boris Vainziher, CEO

We do not see any serious competition from Leningradskaya NPP. New units are to replace the old ones, which will only slightly increase its capacity.

Andrey Zhukov, RBC Daily

The Ministry of Energy intends to control the fulfillment of investment programs by generating companies. Meanwhile representatives of TGK-1 announced that the company does not have adequate resources to finance its investment programs. Question: Does TGK-1 intend to coordinate the revisions to investment program with the Ministry of Energy? What is the timeframe? If so, to what degree will the investment program be financed in 2009 and 2010? What sources will be used to finance the company's investment program?

Boris Vainziher, CEO

Gazprom Energoholding is negotiating with the Ministry of Energy on behalf of TGK-1. The deadline for commissioning unit No 1 and two SGT-180 at Pervomayskaya CHPP-14, turbines 50 MW at Vasileostrovskaya CHPP-7 are not subject to correction. By this time, TGK-1 has had its investment projects audited. As we are considering the possibility of extending the deadline for Southern CHPP, Pravoberezhnaya CHPP-5, Northern CHPP and Central CHPP. At the same time we have no doubts about implementing the whole investment program.

Denis Voronchikhin

The main reason why revenue lags behind operating expenses, in my opinion, is due to the dynamics of receipts from the sale of thermal power, since the company's electric power sales have been quite strong. How does the management of TGK-1 plan to increase the efficiency of its heat business and what are the main difficulties?

Sergey Redkin, Deputy CEO (development)

By implementing new thermal grid construction projects and raising heat output and also by launching projects aimed at increasing the quality of heat supplies.

OTKRITIE Investment Bank

What is TGK-1's investment program for the next three years? In case it has not yet been adopted, when can the resolution on this issue be expected?

Sergey Redkin, Deputy CEO (development)

TGK-1's investment program was approved in September 2008, while adjustments and revisions to the program are made on a yearly basis. The volume of financing for the priority projects is RUB14.5 bn in 2009. The key objects of the program in 2009 are putting into operation the capacities on Volkhovskaya HPP, cascade of Vuoksinские HPPs, Vasileostrovskaya CHPP-7, Vyborgskaya CHPP-17 and the first CCGT 180 MW at Pervomayskaya CHPP-14, CCGT 450 MW at Southern CHPP-22, new hydro units on the cascade of Vuoksinские HPPs.

OTKRITIE Investment Bank

Could you please tell us what the company's future dividend policy is?

Boris Vainziher, CEO

I believe that it is right to pay dividends. Management ought to provide the profits; its distribution is up to the shareholders.

M.Muraviev

Mr. Vainziher, what is the timeframe for postponing the projects at Southern CHPP, Pravoberezhnaya CHPP-5, Northern CHPP and Central CHPP?

Boris Vainziher, CEO

1-2 years at Southern and Pravoberezhnaya CHPPs and a broader timeframe at the others.

Dmitry Kotlyarov, Gazprombank

What is your forecast of decrease/growth in production and supplies of electricity during this year and next year? What do you think will happen to prices on the free electricity market?

Sergey Redkin, Deputy CEO (development)

TGK-1's production stays at the same level as last year, and we don't expect any growth this year. We associate the further increase in production mainly with the commissioning of new SGTs that are in demand on the market. Next year's price growth for electricity will mainly be attributed to dynamics of increase in natural gas prices. According to the 2009 business plan, electricity production and heat supplies amount to 25.6bn kWh and 23.1m Gcal, respectively (without Murmanskaya CHPP's results).

Arkadi Nazarov, Head of department of energy supplies

We forecasted the weighted average price of 1 MWh of electricity on the free market to be RUB469 at the beginning of the year; now we are planning to end up with RUB578 per MWh by the year's end.

Group of independent portfolio investors Energo Holdings Limited

How is TGK-1 doing on implementing its 2008 investment program?

- How many facilities have been financed compared to the target figure, in terms of percentage?
- How many have been actually completed compared to the target figure, in terms of percentage?
- Are there any guarantees for the sources of financing in 2009-2010?

Will the program be sharply revised downward?

Eduard Lisitskiy, Head of investments department

Actual financing of the investment program in 2008 amounted to RUB20 bn. The cost of services rendered and supplied equipment in 2008 totaled RUB18 bn.

This volume of financing provides for completing the construction of a number of priority objects:

- new hydro unit, 30.5 MW at Svetogorskaya HPP (launched in May);
- replacement of turbine 100 MW for 120 MW at Vyborgskaya CHPP (launched at the end of May);
- replacement of hydro unit 23.25 MW for 29.5 MW at Lesogorskaya CHPP;
- new SGT 180 MW at Pervomayaskaya CHPP.

In addition, work was conducted on upgrading heat grids in St. Petersburg and creating a system of automated commercial power accounting.

Julia Tikhonova, ALSTOM

What is your take on eco-friendly projects? Do you have any plans to upgrade or replace old equipment with coal-fired boilers?

Eduard Lisitskiy, Head of investments department

We prioritize those aspects in the new construction projects. Among those is reduction of NOx and sulphur emission, ceasing polluted emissions into surface reservoirs, use of environment-friendly turbines, that prevent oil from being discharged into rivers, and reducing greenhouse

gas. All of the above issues are integrated into our new construction and reconstruction projects for the plants.

OTKRITIE Investment Bank

Do the Murmansk CHPP's negative financial results continue to affect the company's overall financial reports?

Raisa Stanishevskaya, Chief Accountant

Since Murmanskaya CHPP is a subsidiary of TGK-1, its financial reports are subject to IFRS consolidation. Therefore, Murmanskaya CHPP's financial results affect TGK-1 Group's IFRS results. Therefore, Murmanskaya CHPP's RUB655m IFRS in 2008 (including RUB35m which fell to minority shareholders), is integrated into the TGK-1 Group's 2008 consolidated IFRS financial statements.

Group of independent portfolio investors Energo Holdings Limited

How are you doing on minimizing TGK-1's expenditures? Is the document finally ready and will it be made available to the investors and on the company's site?

Alla Anisimova, Head of economics department

When forming the Business Plan for 2009 management expenditures were cut by the largest possible amount. Further expense optimization requires thorough elaboration because it implies considerable one-time spending. Such work is under way regarding all the company's activities, ranging from optimization of a number of managers and its transfer to a different office building to improvement of industrial processes and increasing the efficiency of main assets used. The business plan for 2010 will reflect the results of this work. Its main parameters will be available in November-December 2009.

OTKRITIE Investment Bank

TGK-1 has a depreciated asset base. How will it influence the following aspects of the company's work in the future:

- fuel-effectiveness of the plants;
- correlation of investment costs of new facilities and maintenance of old ones;
- forecasts for decommissioning?

Eduard Lisitskiy, Head of investments department

The nominal depreciation index does not always mean the breaking point of the plants' equipment. Of course, we have CHPPs where we are constructing new modern effective SGTs and closing down old ineffective facilities. We are currently constructing 2 180 MW SGTs and subsequently shutting down 7 worn-out steam boilers and seven 330 MW turbines at the Pervomayskaya CHPP in St. Petersburg. At the same time, our CHPPs are equipped with and will in the next 10 years continue to use 50-year old machinery. Those are steam turbines that still have adequate capacity or have been refurbished. Their future operation does not affect the fuel efficiency. We have balanced out the investment program so that putting new capacities into operation would make it possible to decommission the old ones that have reached the breaking points without increasing investment expenses for maintenance. We expect to put into operation 1,670 MW and decommission 480 MW in 2009-2015.

Dmitry Bulgakov, Deutsche Bank

What is the breakeven point of new projects, expected NPV, IRR? What are the target values?

Eduard Lisitskiy, Head of investments department

IRR of new SGT's construction in St. Petersburg is 14-16%.
For modernization projects of HPPs the IRR is about 30%.

At the same time the major assumptions are:

- power production for the projects is extra;
- calculation of capacity fee is based upon actual spending on construction.

Group of independent portfolio investors Energo Holdings Limited

What is the current status of plans for an additional share issue? Could you specify the timeframe, type of placement, possible number of shares and price? Does TGK-1 plan to remain a public company or will the additional issue only increase the equity positions held by Gazprom and Fortum and diminish minority holdings?

Olga Solomina, Head of corporate governance department

We are not plan to make any decisions on an additional placement until the end of 2009. The priority is given to alternative sources, such as leasing and bond loans. We plan to place a second RUB5bn bond issue at the beginning of July.

As for the status of public company the answer is yes and our plans moving forward are as follows:

- placing the shares on the MICEX A1 quotation list (June 2009)
- acquiring a credit rating (July 2009)
- placing the bond loans on the A1 quotation list (August 2009)

Group of independent portfolio investors Energo Holdings Limited

What about the offer that Gazprom failed to make using loopholes in the Russian legislation, transferring part of its 47% stake offshore? Will the shareholders of TGK-1 receive fair value when they "pull out of the business"?

Boris Vainziher, CEO

This matter is left up to our shareholders.

Dmitry Bulgakov, Deutsche Bank

Are there new forecasts for net income and EBITDA for 2009 taking into account the first 5 months of 2009?

Alla Anisimova, Head of economics department

During the first 5 months the company considerably overshot its targets. Here a few factors come into play:

- increase of water content and corresponding income growth at HPPs;
- fairly steady winter temperatures;
- saving on reserve fuel – residual fuel oil.

However, in 2009 we expect to adjust our plans according to the 1H09 results, as TGK-1 is currently implementing a number of improvements in quality of heat supply. This will require adjusting expenses.

Optimistic results in the first 5 months make us hopeful that all the indices approved in the 2009 Business Plan will be achieved.

OTKRITIE Investment Bank

In your opinion, what is the water content forecast for this year, as well as the forecast for average long-term level of electric power generation by the hydro generating plants? Was generation in 2008 lower than this level? Will the forecasted generation be lower in 2009?

Alla Anisimova, Head of economics department

Electric power generation at HPPs in 2008 and 1Q09 is higher than the average long-term one, specifically in the 1Q09 - by 400 m kWh because of the increase in water content in the fall-winter season 2008-2009. Production at HPPs has gone down in 2Q and is within the average long-term limits for this period. Production in 2009 is expected at the planned level, taking into account the results of the 1Q.

Group of independent portfolio investors Energo Holdings Limited

What are the company's management forecasts for the rate of decrease in electricity consumption in its regions of activity in 2009-2010 (2011)?

Alla Anisimova, Head of economics department

The decrease in electricity consumption in the regions of activity of TGK-1 had no impact on the company's power output:

-5m08 – 12,462 m kWh

-5m09 – 12,468 m kWh We expect to maintain the level of 2009 in 2010, and growth is expected starting 2011 thanks to the launch of effective capacities 2-6%.

In our opinion, the slump in consumption is considerably lower in the region than in many others. Hopefully there will be no further decrease in consumption in the region.

OTKRITIE Investment Bank

Does the gas tariff growth for TGK-1 agree with the forecasts made by the Federal Tariff Service? According to management's forecasts, how badly will the profitability fall compared with the 1Q09.

Alla Anisimova, Head of economics department

The rise of the wholesale gas price in 1Q09 and 2Q09 corresponds with the limits approved by the FTS. In the time of the pronounced seasonal demand for power the main share of the energy companies' profit is formed in the 1Q. The main expenses for repair works occur in 2Q and 3Q. For this reason, profitability will go down, however by the 2009 results we plan to reach the target figures approved in our 2009 business plan.

Yakov Danilevskiy

Good afternoon!

I would like to know what the Finnish concern's role is in managing TGK-1. Has the Finns' participation added new ways of managing and/or increasing production effectiveness?

Boris Vainziher, CEO

Fortum takes an active part in managing the company. Fortum owns 25.66% of TGK-1 shares and has 3 seats on the Board of Directors. Representatives of Fortum actively participate in the work of Committees on business strategy, investments, and reliability. The company's management actively cooperates with Fortum's experts in hydro energy projects as well as process automation projects for technical service and equipment repair.

Group of independent portfolio investors Energo Holdings Limited

Why did the AGM make a decision advising not to pay out dividends on 2008 results? Has it become a critical amount needed to finance TGK-1's multi-billion ruble priority investment projects?

Boris Vainziher, CEO

If the company pays out dividends, the sum will have to be raised under market conditions to provide financing for the investment program. In our case, the profit is retained by the company which will reduce the expenditures pertaining to the attraction of loans in the future.

Group of independent portfolio investors Energo Holdings Limited

Having worked at RAO UES, does Mr. Vainziher plan to improve the company's corporate governance, specifically by publishing the full versions of minutes from TGK-1 BoD's meetings?

Boris Vainziher, CEO

I believe it is possible provided that we have the approval of the Board of Directors.

Olga Solomina, Head of corporate governance department

TGK-1 is one of the few Russian companies in the electric power industry that has been assigned a corporate governance rating (CGR) by Standard & Poor's. We have had a CGR since we begun operating, and as yet we have no plans to give it up. We are working on improving the quality of corporate procedures, building relationships with shareholders, although much remains to be done. We try to convey the information about the most important deals and decisions approved by the Board of Directors to all the parties concerned. We are planning to come back to the question of publishing the minutes of BoD meetings on the site after launching the new version of the site that is now under construction.

Irina Lisitsyna, Otkritie

Does TGK-1 intend to launch bonded loans?

Olga Solomina, Head of corporate governance department

Yes we do. This week banks intend to start accepting applications for the second series of a RUB5 bn bonded loan. The placement is scheduled for the beginning of July on MICEX.

Dmitry Bulgakov, Deutsche Bank

What capacity tariffs does TGK-1 expect to have in its projects next year (2010)?

Boris Vainziher, CEO

We expect to have economically valid tariffs, based on actual losses and timeframe for investment project returns.

Uriy Melnikov

Is TGK-1's investment program adjusted due to the fall in electricity demand? If so, did the adjustments concern some corrections in particular projects (regarding technology, equipment etc.) or it is simply a shift in the commissioning?

Sergey Redkin, Deputy CEO (development)

We constantly analyze the process of energy consumption, but the priority in forming investment programs is competitiveness and efficiency. As for the consumption value, the important things for us are long-term forecasts. Besides, the overall decline in the country's electricity consumption virtually missed St. Petersburg and the Leningrad region. The volume of electricity consumption during the first months of 2009 was 97% compared with last year's level. There are no huge electricity consumers in the Leningrad region unlike, for instance, Severstal in the adjacent Vologodskaya region where the consumption ratio by metallurgy accounts for 50% of total electricity consumption.

The existence of a large amount of various industrial plants, sophisticated transport infrastructure, retail sector and services sector, increased share of energy consumption by domestic households mean that energy consumption will be less dependent on economic downturns. Electricity consumption in the Murmanskaya region fell by 3% and in Karelia by 12%.

Dmitry Bulgakov, Deutsche Bank

Does TGK-1 have any plans to launch an additional share issue? What are the sources of capex planned for 2010-2011?

Sergey Redkin, Deputy CEO (development); Olga Solomina, Head of corporate governance department

An additional issue is an issue for our shareholders, capital stock has always been considered as the main but not the only source of investment program financing. The current financial uncertainty in the country as well as in the world is not the best time for such decisions. Investors and our shareholders are worried today about only one issue – guaranteed investment returns. In connection with this problem, one of the most important events of the year is the expected RF Government resolutions on the long-term capacity market. Guaranteed capacity payment that would allow an investor to recoup investments is the missing and needed link today. As soon as the market rules become clear to investors, the questions of project financing and attracting players into the industry can be resolved.

Andrey Uspensky, Argus Media

How will TGK-1's fuel balance change in 2009? Will the share of coal-fired facilities go up? Did the company sign 2009 coal supply contracts at a fixed price or did the price get adjusted every month? Are there any prospects for burning new coal grades that have not been previously used at TGK-1 plants?

Eduard Lisitskiy, Head of investments department

The share of coal in TGK-1's fuel balance in 2009 is about 4%. We use coal at Apatitskaya CHPP in the Murmansk region and at Dubrovskaya CHPP in the Leningrad region. We are not expecting a drastic change of coal share in the fuel balance. In 2009 the company signed coal supply contracts that will be valid until the end of the year. The contracts allow for price revisions in 2H. If we have profitable commercial offers, we will consider the possibility of using new coal grades, the use of which is allowed on the current equipment by the project.

Inese Romanovska, SIB

What portion of electric power is being currently sold at unregulated prices and what figure is targeted for the end of 2009? When are the auctions of available capacities planned for?

Arkadi Nazarov, Head of department of energy supplies

According to the results of the first 4 months – 30% of electric power output is sold on the day-ahead market, we are planning to reach 43% by the end of the year, therefore the average figure this year will total about 35%.

Price bids on Competitive Capacity Selection 2010 are to be submitted before 10 December 2009 according to the current statutory requirements. All 2009 bids for the Competitive Capacity Selection have been formed and submitted earlier.

