



Federal Grid Company of Unified Energy System

Investor Presentation

June 04, 2009

Renaissance
Capital

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Company Overview (as of 31.12.2008)

FGC UES is the natural monopoly in the electric energy transmission sector, it owns and manages United National Energy Grid (UNEG) (220 kV and above)

73 regions of 13.6 mln sq .km in total area are covered

Shareholders:

Russian Federation Government – 77.66%, free float – 22.34%

Share capital – USD 17.3 bln

Personnel – more than 11,000 employees

Credit ratings are at the following level

- S&P: **BBB/** negative forecast** (international scale), **ruAAA** (Russian scale)
- Moody's: **Baa2/** stable forecast, **ruAAA** (Russian scale)

Tickers:

- MICEX: **FEES**
- Bloomberg: **FEES RU**

Market capitalization

Market capitalization as of 01.06.2009 is USD 10,300 mln

UNEG Map

Regions covered by FGC



Key Financial Figures *

(Russian Accounting Standards)

	<u>2008</u>
Sales	USD 2,753 mln
EBITDA	USD 1,183 mln
Net profit	USD 180 mln

Key Production Figures

Number of substations	757 substations
Aggregate capacity of transformers 35-750 kV	286,184.7 MVA
Overall length of grids	118 thous. km
Electric energy supply	472 bln kWh
Volume of energy losses in UNEG	22 bln kWh

* Average exchange rate for 2008 is RUB 24.87 / 1 USD

**According to ratings conferred to FGC UES the forecast was reviewed from "Stable" to "Negative" to reflect forecast under the sovereign credit ratings

Investment Case

- ▶ **No competition:** World's top 3 largest natural monopoly by transmission facilities and transformer capacity- FGC controls the electricity transmission in main-land Russia via Unified national electric grid (UNEG)
- ▶ **Revenue stability** of FGC is determined thanks to year-long transmission tariffs, regulated by Federal Tariff Service, and the amount of declared capacity, the value of which is fixed for the whole year as well.
- ▶ **Growing margins:** Transition to RAB (new tariff regulation system) by 2010, as expected, will ensure the positive margin of FGC operation
- ▶ **Potential for tariff increase:** The small weight of transmission costs in end-consumer prices (5-6%) makes possible even the substantial increase FGC tariffs and limits the Government incentives to control the end-consumer prices in expense of FGC tariffs
- ▶ **Liquid stock:** The largest capitalization within Russian utilities segment and the inclusion in MSCI Emerging Markets and MSCI Russia indices made FGC's stock one of the most liquid papers in Russian utilities
- ▶ **Financial stability:** FGC's Net Working Capital was USD5,9 bln at the beginning of 2009. Additional liquidity will be raised during 2009-2011 via sale of other Utilities shares, and retirement of bills transferred by RAO UES to FGC, and additional shares issued to Russian government
- ▶ **Sovereign-debt-risk plus upside potential:** Once dividend paying, FGC shares may become a golden investment instrument with the risk as low as that of Russian sovereign debt, but still with upside potential due to growing profit margins and electricity consumption.

Tariffs: Regulation in 2008

Tariff for electric energy transmission (maintenance of grids)

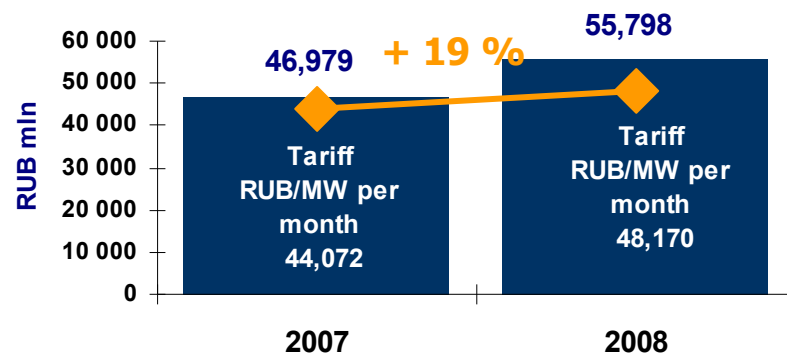
The tariff for electricity transmission is approved by Federal Tariff Service on annual basis

The average share of tariff for electric energy transmission in the end consumer tariff comprises **5-6%**

In 2008 the tariff according to “cost+” regulation method set at **USD 1,937/MW per month (RUB 48,170 MW per month)**

(tariff during 2008 grew 9% y-o-y)

Dynamics of revenues from electric energy transmission (2007-2008)



Outlook

The tariff was approved according to “cost+” regulation method at the rate of 58,159 RUB/MW per month for 2009 including growth in the amount of 20.7 % as compared to 2008 level

The RAB – regulation methodology was approved by Russian Government in 2008

Application of RAB-regulation expected in 2010 will raise profit margin and set the motivation toward cost efficiency and investment

Credit Portfolio

- ✓ Debt is nominated in rubles
- ✓ FGC UES is included in the list of companies receiving the government support by both credit instruments and regulatory measures
- ✓ Credit ratings at the following level:

S&P: **BBB/negative forecast*** (international scale), **ruAAA** (Russian scale)

Moody`s: **Baa2/stable forecast**, **ruAAA** (Russian scale)

Credit portfolio as of 31.12.2007

Bank (sponsor)	Date of redemption	% rate	Current liability, RUB
Bonds of 02 series (JSC NB "TRAST")	22.06.2010	8.25	7 000 000 000
Bonds of 03 series (JSC NB "TRAST")	12.12.2005	7.1	7 000 000 000
Bonds of 04 series (JSC "Gazprombank")	06.10.2011	7.3	6 000 000 000
Bonds of 05 series (JSC "Gazprombank")	01.12.2009	7.2	5 000 000 000
EBRD	10.04.2014	Mosprime 3M+2.15 %	5 000 000 000
Total			USD 1,222 mln**

**exchange rate as of 20.04.2009 is RUB 24.55 / 1 USD

Credit portfolio as of 20.05.2009

Bank (sponsor)	Date of redemption	% rate	Current liability, RUB
Bonds of 02 series (JSC NB "TRAST")	22.06.2010	8.25	7 000 000 000
Bonds of 04 series (JSC "Gazprombank")	06.10.2011	7.3	6 000 000 000
Bonds of 05 series (JSC "Gazprombank")	01.12.2009	7.2	4 980 000 000
Total			USD 531 mln***

***exchange rate as of 20.04.2009 is RUB 33.47 / 1 USD

Transition to RAB Regulation

Transition to RAB regulation starts in 2010

- Transition from “cost+” tariff pricing method to the return on invested capital method in accordance with the best international practice
- Regulator guarantees the market return on invested capital
- Investment stimulation upon reasonable increase in tariffs for a consumer
- Enhancement of efficiency using cost cutting
- “Pilot” projects have been put on

Regulation period

- ▶ 5 years. The first transition period comprises not less than 3 years

Depreciation period

- ▶ 35 years uniformly for all assets

Return on RAB

- ▶ WACC comprises 12% in rubles after taxes for new investments. For the first regulation period the capital structure is as follows: Debt is 30%, Equity is 70%. Return on Initial RAB in 2010 – 6%, in 2011 – 9%, in 2012 – 12%

Uncontrollable Opex

- ▶ Shall be compensated based on fact, including cost of electric energy used to compensate purchased losses

Controllable Opex

- ▶ Shall be adjusted according to CPI, index of the sales territory change. X-factor of cost reduction from 1 to 2.5%

Motivational scheme

- ▶ Economy from reduction in controllable OPEX is retained within several years

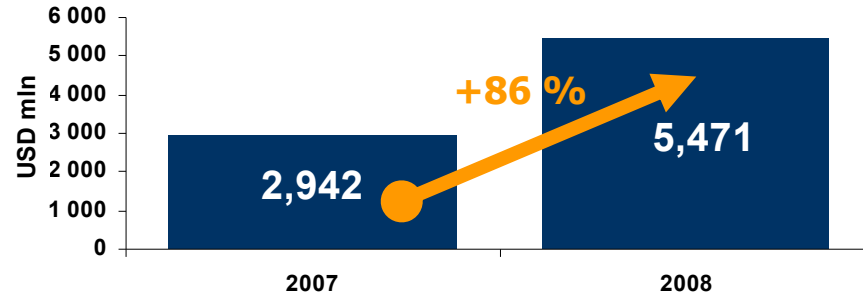
Annual updates

- ▶ Actual inflation, real volume of energy transit, actual investments

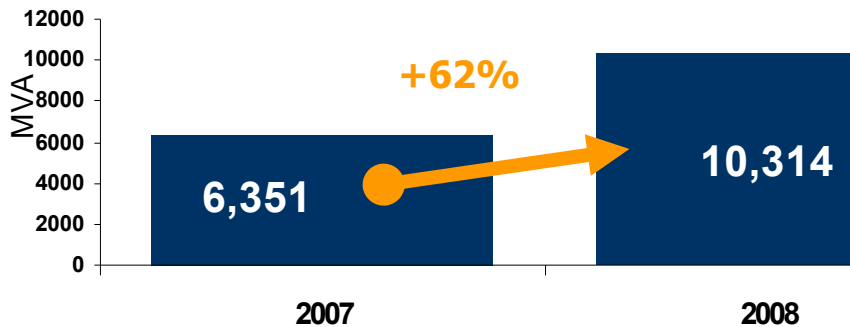
Investment Policy

- ▶ Priority direction of FGC UES investment policy involves UNEG development at the expense of new commissioning and reconstruction of the existing facilities
(in 2008 the share of budgetary funds in investment financing comprised 15%)
- ▶ Underlying principle of FGC UES investments planning consists in formation of the medium-term investment program for the Company with regard to power industry development and change in UNEG Development Scheme

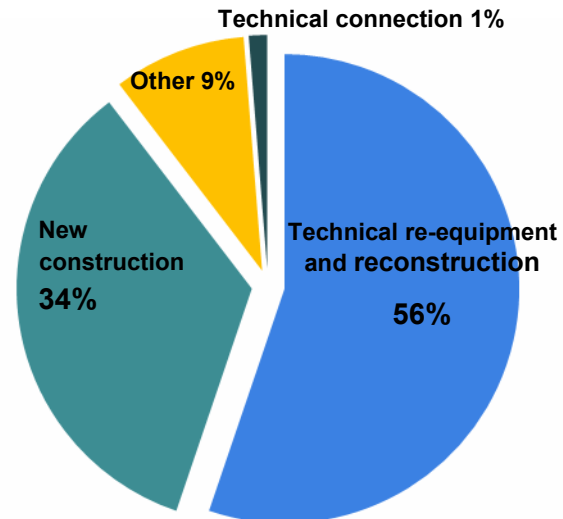
Investments in 2007-2008



Dynamics of production capacities commissioning in 2007-2008



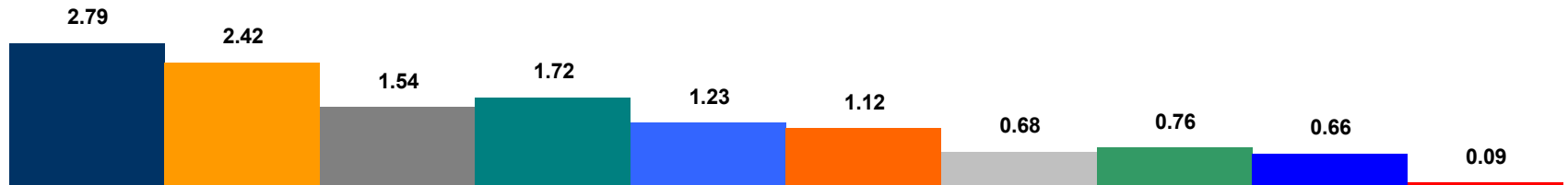
Structure of Investments in 2008



Investment Program (1)



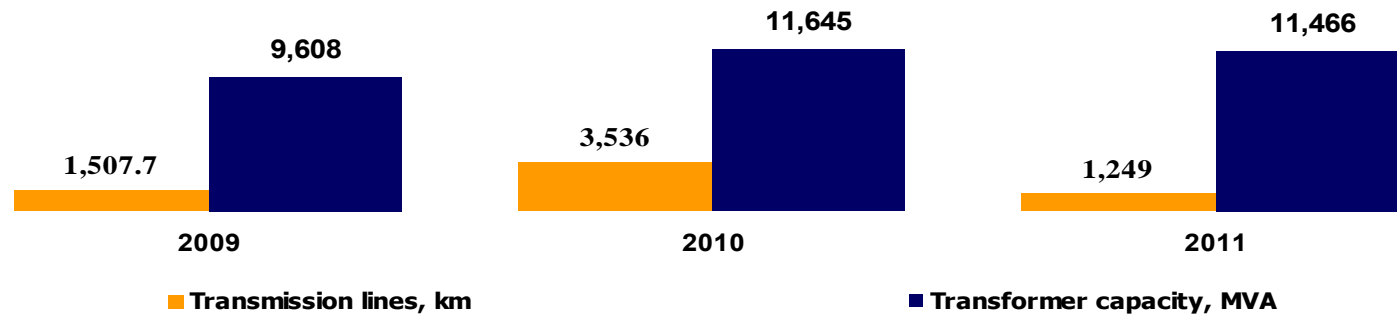
FGC UES is expected to expend USD13 bln for the investment program implementation 2009-2011



- Renovation of the fixed assets
- Improving power supply reliability for Moscow, St. Petersburg and Tyumen
- Agreements concluded with the regions' administrations (except for Moscow, St. Petersburg and Tyumen)
- Delivery of capacity at NPP, HPP and TPP
- Technical connection
- Development of backbone grids not included in the Agreements
- The Sochi program
- Development of technological control, informatization and additional purpose-oriented programs
- Federal purpose-oriented program for the Far East
- Other (design and exploration work, infrastructure facilities)

Investment Program (2)

Investment Program for 2009-2011



Planned investment sources of FGC UES in 2009-2011 (inclusive of VAT), USD mln

	2009	2010	2011
FGC own funds	1,180	1,883	2,463
Funds from the federal budget including funds channelled for the federal purpose-oriented program for the Far East and Sochi	1,123	123	73
Funds received from sale of RAO UES assets	1,392	1,445	
Credits and loans	750	982	1,585
Total investment program	4,445	4,434	4,121

* exchange rate for 2009-2011 is RUB 35.1 / 1 USD

Key Figures for 2008

Production Figures	2007	2008	Change, %
Electric energy supply from UNEG, mln kWh	464,045	471,958	1.7 %
Volumes of energy losses in UNEG, mln kWh	21,401	21,866	2%
Financial Figures (exclusive of VAT), USD mln	2007	2008	Change, %
Total revenues from sales	2,407	2,750	12 %
Revenue from sales on electric energy transmission*, including:	2,334	2,656	11%
<i>compensation for losses</i>	492	415	-18%
Revenue from sales on technical connection	4	2	-56%
Revenue from sales on other activities **	69	93	31%

* Tariff for electric energy transmission (USD/MW per month) **2007** – 1,728.3; **2008** – 1,934.5

** Proceeds incidental to sale of property and property rights, interest income, insurance indemnity and etc.

Forecast for Key Financial Figures (2009-2011)

	USD mln *		
	2009 plan	2010 forecast**	2011 forecast**
Total revenues from electric energy transmission	2,359	3,917	5,040
<i>including transmission and exclusively of losses</i>	1,882	3,343	4,369
Expenses incidental to production sale of services	2,088	2,660	2,924
Other extraordinary charges	105	136	236
Profit before tax	166	1,123	1,881
Net profit	130	898	1,505
Credits and loans	750	982	1,585
Tariff growth	20.7%	72.5%	26.9%
Tariff , USD/MW per month	1,657	2,858	3,626

*exchange rate for 2009-2011 is RUB 35.1 / 1 USD

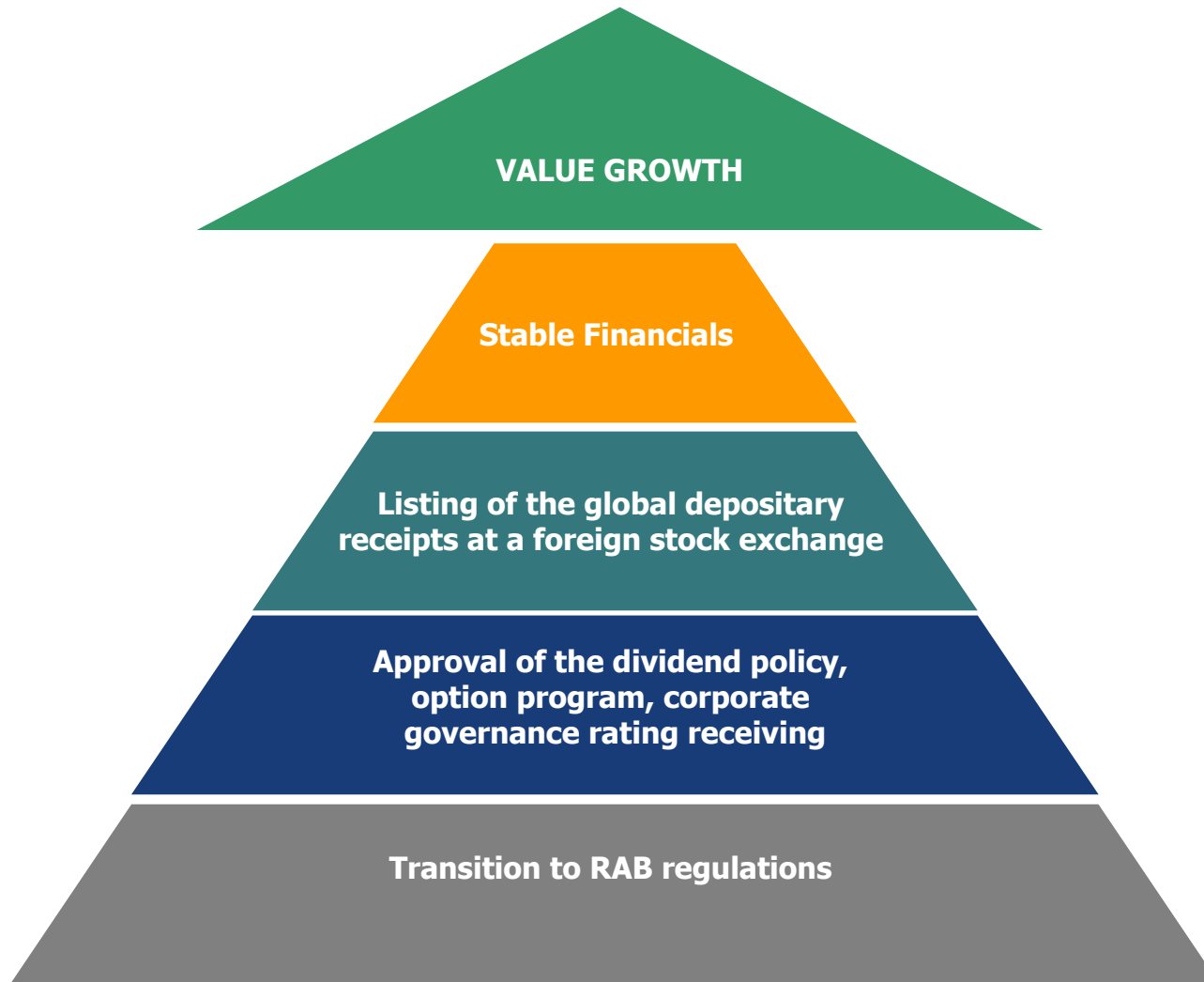
****with regard to RAB-regulation using the following parameters :**

Initial RAB (base) – USD 17.64 bln

Rate of return (after taxes) : 2010 – 6%, 2011 – 9%, 2012 - 12%

Period for capital depreciation – 35 years

Value Creation





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