

**Press conference on  
“Gazprom’s Energy Strategy”  
May 30, 2012**

**MODERATOR:** Good afternoon. Today we’re going to talk of Gazprom’s strategy in power generation business.

Denis Fyodorov, Head of Directorate for Power Sector Development and Marketing in Power Generation under Gazprom Department of Marketing, Gas and Liquid Hydrocarbons Treatment, General Director of Gazprom Energoholding, participates in the press conference.

I’m going to give him the floor at once for a brief speech, and then come the questions, as usual.

**DENIS FYODOROV:** Thank you. I’ll try to make brief presentation and answer your questions. Slide 2 shows our typical figures we keep displaying in all our presentations. Presently, Gazprom is the largest power generating company in Russia. Installed capacity of Gazprom Group-owned power plants comes to 38 GW. We generated 172.8 billion kW/h of electric power and 98.8 million Gcal of thermal power in 2011. As to fiscal figures: return comes to RUB 326.3 billion, total net profit – RUB 12.7 billion and EBITDA – RUB 41.7 billion.

Slide 3 shows in more details all our process and financial figures related to heat and electricity generation, both in total and per generating company. The same goes for return, EBITDA and net profit showed both in total and per company. Basically, all figures are well-known.

*Slide 4.* We pay much attention to our investment program implementation. We used to meet construction schedules and keep doing so, we meet our obligations we assumed during power industry reformation. In 2011, the investments on Capacity Supply Agreements (CSA) amounted to RUB 47 billion, in 2012 the sum is going to grow up to RUB 56 billion. As it’s already been mentioned, the year of 2011 turned to be a milestone for us. We constructed 1.9 MW of CCPP’s in 2011, it’s more than RAO UESR did for the whole period of its activity. The largest project was recent commissioning of 800 MW CCPP at Kirishi SDPS. These are unrivalled unit and unique technology. In fact, we treat CSA to be not only meeting our obligations. It’s rather high profit as well, which we gain through the new power units. It’s evidently that new power units are much more profitable in operation and yield higher return to the company. All these data are represented on the slide 4. The only thing worth more attention is that our investment program to be implemented by two-thirds by the end of 2013 as soon as we invest the said RUB 56 billion. We turned the half in 2011.

Results of the investment program scheduled up to 2017 are shown on slide 5. We plan to construct 9 GW of installed capacity under CSA by 2017. 4 GW have already been commissioned and another 5 GW are under construction. According to the calculations, our new capacities will yield us 70-80% of the total profit, and the company’s EBITDA will increase by 3.5 times versus 2011 due to investment projects implementation only.

Slide 6 represents projects completed in 2011 in TGC-1 – 180 MW Pervomayskaya CHPP, 450 MW Yuzhnaya CHPP. We are about to complete all CSA projects in St. Petersburg. We will have only one new project to proceed to this year – it’s power plant No. 1 (*PP-1 of TGC-1*). This means we nearly completed all basic volume of our investment program. This year we plan to commission 450 MW CCPP at CHPP-5, and we will have slight upgrades at power plants and just a single large project of 100MW at PP-1 site. In TGC-1 we fulfilled the basic investments volume fell for 2010-2011. For 2012 we expect some reduction within investment program and initiating reimbursement of credits granted for its implementation.

Our Troitsk SDPS (*WGC-2*) is shown separately on the slide 7. It is our quite serious headache. We can see the plant future, most of all, in connection with new investment projects, including one actively developed at this plant, i.e. construction of new 660MW pulverized coal unit. This is quite unique project based on Chinese technologies and the largest pulverized coal unit in Russia. We hope it to be successful.

Let's focus on the key CSA projects of WGC-2. These are Novochoerkassk SDPS, Troitsk SDPS and Cherepovets SDPS. Slide 8 shows their basic figures related to capacities, new vacancies creation, tax revenues growth and ecology.

(Slide 9) Kirishi SDPS is the completed project with new unit in operation. Additionally, Adler CHPP is to be commissioned as far as this year. As you know, it is the basic plant to serve Olympic Games. First unit start-up is in progress now. Undoubtedly, there are some issues of external infrastructure. But as to the works we do within power plant site, there are no serious deviations from the schedule. We believe if all external infrastructure and services are available, the plant will be put into operation in time. And, finally, Serov SDPS – all the figures are represented on the slide. The unit is under construction.

(Slide 10) It's been recently announced of extra issue of WGC-2 shares. It is, above all, due to a great volume of the company's investment program. During 2012-2014 we'll have to invest about RUB 80 billion in CSA projects. We believe the company will require some RUB 20 billion of additional share capital to implement this investment program. CSA projects will allow 40% return increase and 70% net profit growth. These projects feature guaranteed payback. Therefore we suppose an additional issue to be justifiable in current conditions.

Slide 11 informs of Gazprom Energoholding development. We have already consolidated assets through Gazprom Energoholding and conducted WGC-2 and WGC-6 merger. In forthcoming months we are going to carry out extra issue of WGC-2 shares. We're going to complete the main part of CSA projects. We're proceeding with negotiations and dealing with possible company extension – both in Russia and abroad. At that, nobody's cancelled our plans for IPO. As a result, we are striving for creation of a large company, it's anyway the largest power generating company in Russia and one of the largest in the world, nevertheless, we long for being a competitor to the world power industry leaders. We vigorously implement the program for inefficient capacities replacement, strive for power plants reliability growth and, as I've already mentioned, study the possibility for entering European and Asian markets.

That's all in brief. Thank you for attention. Now I'm ready to answer your questions.

**QUESTION:** Natalia Skorlygina, the Kommersant newspaper. Let me start with the clarity. I refer to the slide 11 (the last one you demonstrated): You told you completed the main part of CSA projects. Could you specify the dates somehow?

**DENIS FYODOROV:** Generally, we always indicated the dates. We, conditionally, head for 2015. The CSA basic investment part to be completed by 2015. And the most of power units are to be commissioned. Thus, we can see now the finish line in 2014-2015.

**NATALIA SKORLYGINA:** Thank you a lot. The next question relates to WGC-2. I'd like to clarify the aggregated investment volume to WGC-2 investment program, i.e. to what extent Gazprom is about to finance all essential needs under CSA projects? And does Gazprom Energoholding registered capital reduction (mentioned in yesterday news) result from financing the company affiliates and to what extent?

**DENIS FYODOROV:** I'm going to answer the second question at once, it's no way connected to necessity of facilities extra financing, or, as it was surmised, to possible deal with Renova. It's just legislative requirement. Thus, it's purely technical matter.

As to financing WGC-2 investment program, slide 10 showed that for the forthcoming three years the company will require about RUB 80 billion. RUB 20 billion of this sum is the contribution of Gazprom Energoholding, exactly Gazprom, in WGC-2 registered capital.

**NATALIA SKORLYGINA:** And I'd like you to say a few words about Mosenergo and MUEGC relationships. When are revival in this matter expected and yet, what is the status of companies' relationships?

**DENIS FYODOROV:** The companies' relationships are currently regulated by the recently signed protocol. New agreement signing is being negotiated now and the agreement is to consider the concerns of both parties – MUEGC and MHNC as one party and Mosenergo as another one. When should it be expected? We planned it for ourselves for July or August. By this time the MUEGC-MHNC structure would be absolutely clear, whether they would merge or not, and these factors will influence the agreed structure for Mosenergo, MUEGC and MHNC.

I'm going to stress it again: reliable and uninterrupted heat supply to consumers is the key issue for us. There were a few discussions of different level held: in Energy Ministry and the last one in Federal Antimonopoly Service. As per information I've got, there will be one more meeting in Federal Antimonopoly Service. All such meetings are held by its Head. The basic theme is not to harm our consumers with our commercial interests. Nevertheless, the scheme for consumers heat supply in Moscow has been developed for decades. It proved to be reliable and efficient, so we consider it wrong and unnecessary to break it for the sake of commercial interests only. Therefore we try to find the balanced and paying position for both parties. But reliable heat supply to Moscow consumers is crucial for us.

**NATALIA SKORLYGINA:** Thank you. And the last question. Tell us, please, do we understand correctly that the Mechel company offered Gazprom Energoholding its power energy assets?

**DENIS FYODOROV:** I don't know anything of it.

**QUESTION:** Ekaterina Patrina, Interfax agency. However, I'd like to revert to slide 11. As to IPO: is there any changes in dates or not? And in the hub, respectively?

**DENIS FYODOROV:** The dates didn't changed. We annually report to Gazprom Board of Directors on how our power generation develops and on our plans for future. We indicated every year that we'll complete the basic volume of investment program by the late of 2014 – early of 2015. IPO may be considered if Gazprom's Board of Directors to decide on reasonability and necessity of Gazprom Energoholding IPO, that will depend on future market situation. But we believe that by the moment Gazprom Energoholding will do have to increase its value due to main part of investment program financing, return, EBITDA and net profit significant growth and we'll have something to demonstrate to investors.

Gazprom's Board of Directors has not taken any decisions yet. The Board considers the information, instructs us to keep on acting this way and we didn't alter any dates. During the last three-four years as we report to Gazprom's Board of Directors on our activity, we have deadlines for IPO fall on late 2014 – early 2015. But the final decision is to be made by Gazprom's Board of Directors.

**EKATERINA PATRINA:** Thank you. There is a question regarding WGC-2 extra share issue. You say that Gazprom itself will manage to contribute some RUB 20 billion in this regard. And what is the total sum you plan to attract through extra share issue? Because some 110 billion of shares even with nominal value mean greater sum than the figure mentioned.

**DENIS FYODOROV:** It's quite difficult to me to answer this question, 'cause the stand of most minor shareholders of WGC-2 is unclear to me due to quite high market instability. So, it's rather difficult to state who exactly will decide to keep its interest, who will decide to dissolve it and who will participate in extra share issue. Therefore it's hard to respond the question to the moment.

**EKATERINA PATRINA:** And the last question regarding power assets merger with Renova. First, will they be kept or not? And respectively, if yes, what will be the deal scheme, are you going to appeal to FAS for deal approval and so on?

**DENIS FYODOROV:** We keep our plans unchanged. We keep negotiating with Renova. The State Government team has changed, consequently we need to know the stand of new Minister and Vice-Prime Minister regarding the deal. As you are aware, Sergey Shmatko and Igor Sechin stand for this. We keep negotiating. We're aware of FAS attitude, we discussed it and it's clear for us. Our stand slightly differs, we expect another legal consequences of the deal and FAS ability to block it up. Nevertheless, it's understood that we have to come to an agreement, we have to be aware of the risks indicated by regulators. So, we're going to work on the deal and cooperate with FAS in order to find the solution beneficial for all parties.

**EKATERINA PATRINA:** And did the structure of the deal remain unchanged, i.e. 75% is owned by your company and 25% is owned by Renova? Or anything changed? Are you just thinking over it?

**DENIS FYODOROV:** As far as I remember, the memorandum stipulates not less than 25% and not exceeding 75%. The memorandum was signed and we act accordingly.

**EKATERINA PATRINA:** Thank you.

**QUESTION:** Alexander Batov, Sampo broadcasting company. Let me shift from global to more local issues. What are Gazprom Energoholding interests in Republic of Karelia both currently and for nearest future? Do they relate, in particular, to development of hydropower plants located cascade-like in some our regions? And generally, how do you find our republic in regard to business prospects? Thank you.

**DENIS FYODOROV:** Our business in future will depend on regulators' decisions which, as I hope, are to be taken in nearest future. Basic issues – growth of investments for upgrade, rehabilitation and construction of new capacities – will be connected to decisions on upgrade by the Government. Meeting in Energy Ministry, where we are to report on the project mentioned by Vedomosty newspaper recently (on May holidays), is scheduled for Thursday, i.e. for tomorrow. In fact, I don't know whether the Minister to attend, but his Deputy, Andrey Shishkin, will participate for sure. Later on we'll see what resolutions to be made and what cash flows companies to show for investing into various regions of Russian Federation. So, it's rather hard to me to respond at the moment.

But cash flow yielded by such called “old capacity” doesn't allow us to implement new projects, both new construction and existing capacities upgrade. To resolve the matter interagency working group headed by Energy Ministry was established. We headed subgroup for economics model of upgrade. We'll report on it tomorrow. Basically it agreed with the most of generating companies. I can't say the model was agreed with consumers, but it was introduced to them and it didn't irritate them badly. So, we believe that in case of Energy Ministry good will, we would initiate the process rather soon.

**QUESTION:** Yanina Zayashlaya, TV-21 television company. Shtockman field development is one of the most primary projects for Murmansk Region. Tell us, please, do you plan anything regarding offshore development and what are the nearest outlooks for Murmansk? Thank you.

**DENIS FYODOROV:** As to the offshore, the question is out of my competence, 'cause we're deal with power industry. The only thing I may say is that it will require significant extension of power network infrastructure within the whole Kola grid and construction of new generating

capacities in Teriberka region to provide power supply and operation of such a huge process centre as Shtockman project is. We make plans for this. We completed the work on the project for power supply to the first stage as it was entrusted by Gazprom. Along with the regional authorities we work on selecting appropriate power lines routes and power plant site. Therefore power energy issues within Kola grid in connection with Shtockman project are paid much attention.

**QUESTION:** Anton Stepygin, Surgutinform-TV television company. I'd like to ask you about the future of Surgut SDPS-1. The plant shows quite good performances but it's 40 years old, the equipment is out of date and, naturally, some changes are required. So, I'd like to find out what is planned to be done for mid- and long-term? Thank you.

**DENIS FYODOROV:** Yes, indeed, Surgut SDPS-1 is one of the donor stations for WGC-2. But I wouldn't say it's old. It's not too old in terms of Russia. It may stay in operation for quite long. The plant upgrading plans are vigorously worked out. Surely, our competitors Surgut SDPS-2, having constructed two up-to-date power units, set a high pace for us. Now we have to follow their example.

We elaborate two matters. First one, as I've already said, is the matter of money essential for upgrading. Governmental authorities have to take the appropriate decisions. And the second one: there are quite serious site restrictions. We closely considered the rehabilitation through gas turbines superstructure. There are problems with space availability there, which is too limited to squeeze into. But nevertheless, I repeat once again, it's our donor station and we are going to pay much attention to it. We understand that if we don't want to lose competition in Tyumen region, we certainly have to take measures for the plant efficiency enhancement.

**QUESTION:** Marina Klaim, Chelyabinsky Rabochy newspaper. You said Troitsk SDPS is your headache. I'd like to find out does Troitsk SDPS have a future, to your mind? And what will it be like? And what is the difference of Troitsk SDPS from other investment projects of WGC-2? When is commencement of the eleventh unit construction expected? Thank you.

**DENIS FYODOROV:** The eleventh unit wasn't covered by CSA, therefore its future will depend on decisions to be taken by regulators. It's the first.

The second, it's our headache 'cause we put money into Troitsk SDPS from year to year. We've got something to display – we greatly enhanced ecological situation at the plant, we more or less put the plant in order. Unfortunately, we cannot reach the required equipment availability figures. We cannot enhance fuel consumption efficiency at the plant and the plant operational reliability. Last year, after unit 4 and 5 failure we showed extremely low generation by the plant. I don't want to repeat what it resulted from. The station was nearly abandoned in RAO UESR times.

As to its outlooks, it's evident that the power plant is located in quite intensive power energy center, besides it serves the power bridge that supplies Omsk and Tomsk through Kazakhstan. It's rather important for power supply to consumers in Omsk and Tomsk regions. Accordingly, the plant will be developed and operated. During last years we invested about RUB 4 billion into the plant repair. We're going to deal with and arrange it further. We hope we'll manage to enhance its performances as far as this year. Anyway, repaired unit 8 has nearly reached the design capacity. It operates almost without emergency shut-downs. It's the very unit we rehabilitated hugely. We hope to reach significant enhancement of performances for other units soon.

**QUESTION:** Vera Voloshinova, Molot newspaper. Your slides mentioned unit 9 construction at Novochoerkassk SDPS, the only unit in Russia using fluidized bed technology. It implies coal consumption, and not just coal, but the local one, produced in Don region. The question is: do

coal producers guarantee coal supply with volumes essential for unit 9 operation? It's well-known that Novocherkassk SDPS consumes coal but the consumption is going to increase with the unit commissioning. So, can coal producers guarantee the essential supply volumes?

**DENIS FYODOROV:** You certainly see we live in terms of market economy and it's the matter of price. When we chose circulating fluidized bed technology (it's indeed the unique project that has never been implemented in Russia to date), we selected different coal grades to have an opportunity for diversification and shifting from one coal supplier to another and to provide simultaneous consumption of different coal grades.

It's too early to talk about it, 'cause the unit is not constructed yet and we do not purchase any coal. But there's some trend that suppliers of coal grades that fit for the unit will stay within the single price band. We have no doubt the sufficient volumes of coal for the plant and the unit are to be supplied. Other units of Novocherkassk SDPS may fire gas as a basic fuel that will allow us to apply inter-fuel competition principle. Thus, we have no anxiety about fuel supply for the new unit under construction.

**QUESTION:** Anna Shiryayevskaya, the Bloomberg agency. There're two questions. First one: I'd like to clarify the matter with your WGC-2 shares. Did your stock changed or did you sell it out? And the second one: Could you explain investors why WGC-2 shows the worst figures in the sector, both on profitability and market capitalization, versus WGC-4 and other generating companies? How could you explain this? Thank you.

**DENIS FYODOROV:** As to WGC-2 shares: do you mean my own stock or Gazprom Energoholding one? My own one has extended. As far as this week I raised my WGC-2 interest and going to participate in WGC-2 extra share issue. I'm going, at least, to keep my stock up notwithstanding it's miserable. I bought extra WGC-2 shares for about USD 100 thousands. I may disclose the price, all the same, it's non-confidential information. It's about 50 kopecks per share.

As to the second question: I think it's too incorrect to compare WGC-2 with WGC-4. WGC-4 was called as "diamond in the crown" even by RAO UESR top-managers. There were two "diamonds" – Mosenergo and WGC-4. And the values of the companies differed greatly. WGC-4 stations had initially more advantageous location, than those owned by Gazprom Energoholding and other proprietors, including Inter RAO UES.

As to low financial and economic indicators showed by the company in 2011 and in the first quarter of 2012, I agree with you. It resulted from both high credits and return deficiency, generally, due to Troitsk SDPS. We had an incident with two units resulted in their outage for half a year. Therefore, we faced quite serious shortage of return. Moreover, there are rather extended liabilities of the company, i.e. the maximum we can stand, and all these factors, surely, impact on financial outcomes.

We don't disclaim the responsibility for this. We see, it's incorrect and biased to refer just to external factors, therefore we're about to complete the detailed analysis of consequences and the reasons why it came out this way in 2011. We're taking certain decisions and, I guess, the situation will greatly improve next year.

**QUESTION:** Anastasia Lyrchikova, Reuters. Mr. Fyodorov, tell us, please, did you choose any particular projects abroad or just a region of those you mentioned? It's the first question. And the second one relates to WGC-2 extra share issue. Could you clarify, is RUB 20 billion the maximum amount required to cover WGC-2 investment program deficit? And is Gazprom the only investor of the mentioned sum or you suppose to attract market capital, i.e. to offer shares publicly? Thank you.

**DENIS FYODOROV:** As far as I'm aware of the legislation, any shareholder is entitled to backup its company stock. Therefore, if some investor participates in extra issue it will be welcomed. As to sufficiency of RUB 20 billion, it's rather complicated question. We're now taking measures to decrease WGC-2 debt liabilities and to transfer a number of projects to special-purpose vehicles (SPV) for certain projects implementation, therefore I can't say for sure now that RUB 20 billion will be enough. Nevertheless, we make all the efforts to diminish WGC-2 debt burden. It's the first item.

As to the foreign assets I've already said that we specified countries of our interest, we not once referred to them. A number of investments rationale are in progress now. I'm not about to mention them. But there are particular projects we closely deal with at the moment.

**QUESTION:** Boris Gorlin, Kommersant Saint Petersburg newspaper. I've got two local and one global question. Local ones come first. Do you plan any consolidation at thermal power market of St. Petersburg, which is, roughly, shared between the state enterprise Fuel and Energy Complex and TGC-1? Besides, there is one more company of yours – Peterburgteploenergo, which, under business agreement with the City authorities, utilizes capacities it constructed at the Petrograd side. Market capitalization is quite high there, about RUB 50 billion. How much is it interesting to you? Do you plan to consolidate all this anyhow and buyback, say, the Smolny share?

And, please, explain what was the reason for construction such a powerful unit in Kirishi as it's located 100 km to Saint Petersburg, if I'm not mistaken, and there is no thermal power market in the vicinity and it's unlikely to be? And it's 800 MW unit as far as I remember.

The third question, more global, so to speak. It follows from what you say that IPO to be made as soon as all the CSAs are completed and the company value rise accordingly due to growth of its return and profit. TGC-1 has nearly completed all its CSA in 2011. And, to my mind, there was not visible growth of return and profit as per 2011 results. And moreover, what is the reason for such a growth if domestic capacities expand and consumption, in general, keeps as it is for quite long?

**DENIS FYODOROV:** We may start with TGC-1. The main effect in terms of TGC-1 is expected not in 2011, but in 2012-2013 and later on. It is due to units commissioning just in 2011. They have to be certified, introduced to the market and so on. It's the first. The second – one shouldn't forget that 2011 decisions related to restraining power and heat tariffs growth. It exerted influence in 2011 and it will in 2012.

As to TGC-2 financial figures, let me disagree with you. New power units afforded us more than 10% of return and about 20% of marginal profit. And this don't embrace units commissioned late in 2011. Therefore, the figures of CSA units prove it by themselves.

As to probable demand for the electric power, the matter's solved by RF Government decree as well. All the capacity, all the electric power generated by these units are guaranteed to be consumed during the certain period. Thus, we have no worries about unclaimed new units and capacities. Moreover, one has to note that these units generate the cheapest electric power. They have much higher efficiency than their predecessors. Naturally, they are the first to be introduced into the market. Here we indeed have no worries at all. As to TGC-1, to our mind, the year of 2012 will be hard, and in 2013 and 2014 the situation got to get better for loan repayments, investment program volume decrease and etc. It's the first topic.

The second one relates to powerful unit in Kirishi (WGC-2): is it required or not. You know that, first, there's a large refinery in Kirishi that is one of the Kirishi SDPS basic consumers. Second, Russian Federation features the unified energy system, rather than separate electricity markets. Consequently, 100 km is not so tremendous distance for power transmission. The issue of the unit necessity was really discussed a lot in terms of entire power plant loading. It's not constantly high enough. But note: Kirishi SDPS often operates at full load during autumn and winter peaks.

Moreover, we sharply increased power generation efficiency, i.e. we raised it from previous 33-35% to 55-56%. In other words, we generate 20-30% more electric power with the same gas consumption. Therefore, the question of such projects necessity in Russia is not actual to me. All condensing power generation of Russia, i.e. all WGC gas-fired plants, to my mind, have to become the foundation for repower, provided that availability of nearby power plants firing alternative fuels. Nevertheless, CCGT has the disadvantage – it's, in fact, ability to combust the only type of fuel. I don't talk of the CHPPs 'cause they have higher fuel consumption factor and their efficiency cannot be taken as determinative. Such project, as 800 MW CCGT at Kirishi SDPS, has to become the basement of Russian power industry repower. Let us a year of operation and we'll report you on performances, I guess it would be indicative.

As to future projects on thermal power market consolidation in Saint Petersburg: we have never concealed we're interested in boiler houses located within our CHPPs coverage. We make no secret of it even in Moscow, the respective negotiations are in progress and we believe these boiler houses need to be bought, seized, closed, put to peak load operation, reconstructed and substituted with Centralized heat point, it's essential. This is the legislative requirement for heat supply. That's the reason why we keep hard at negotiation. We'll report on the results as soon as we have it.

**QUESTION:** Andrey Trufanov, Troika Dialog investment company. There are a few questions referring to situation in general. Do you expect price indexing for competitive power takeoff and at what rate? The second question relates to CSA upgrade. Since you'll have a meeting tomorrow and the model is almost clear, could you declare any figures, say, what is the target rate of return and approximate project value, I mean upgrade projects? In other words, what's the difference between competitive power takeoff and the price for new capacity? The third question relates to WGC-2. It's clear that minor shareholders participation will depend on price of extra share issue, i.e. on how it would correlate with market price. Here comes the contextual question: when can we expect price details and Board of Directors' decision on the price? And the last question, shifting from core business to non-core assets. Does Gazprom Energoholding keep its 10% stock in MRSK-Holding and minor stock in FGC? And the next question: how can you estimate the progress with the companies merger and risks to value of your minor stocks in these companies? As market has already responded negatively to merger uncertainty. This means the scheme isn't outlined. Thank you.

**DENIS FYODOROV:** Thank you. As to IDGC and FGC: the Government has taken the decision. New Minenergo Chief, as newspapers reported, supported the decision, it means the decision is taken and subject to no discussion, but to implementation. It's first. We keep IDGC and FGC stocks. They stay unchanged.

As to expected price indexing for competitive power takeoff. New Minister have never put us together and never discussed anything with us, so we live in the existing paradigm that implies gas prices rise and corresponding price growth at Day Ahead Market. You see there's no resolution, in fact there was no meeting. We certainly have an offer and particular view that goes for both Gazprom Energoholding and Power Producers Council. We'll put forth our offers as soon as we're welcomed.

As to upgrade program for CSA. It was reported in details by Vedomosti newspaper on May holidays, as far as I remember. So, it's of no sense to turn back to the idea for details. In brief, we separated non-capital-intensive projects, including turbine and generator replacement projects and etc. And we believe they should be run as per reference CAPEX. They are, in general, to be first offered to the equipment owners. Capital-intensive projects (for instance, Kirishi SDPS, Ryazan SDPS) took us much money for existing part upgrade, but main investments were certainly dedicated to construction of new gas turbine unit, new steam generator equipment and so on. We propose to subject them to bidding for price undercutting, and the second, to apply actual CAPEX to them as it's being done currently for CSA upgrade projects. WACC (Weighted



Averaged Capital Costs) of capital-intensive projects are nearly the same as those shown by CSA projects.

The only thing I'd like to mention is that we analyzed projects sensitivity to fluctuation of project key performances (capital investments volume, current expenses and etc.) and macroeconomic factors impact on project efficiency indicators. It's always disputable what rate of return to preset. So our analysis proved that rate of return fluctuation by 1, 2, 3% for potential investor exerts no influence on the market. The market is fundamentally influenced by upgrade scope. This means that in case of Krzhizhanovsky Scientific and Research Institute is offered tremendous scope of capacity upgrade it can be reduced significantly to the scope of CSA. We think these projects to be of high priority and importance for power industry and the country. Once again, our analysis shows there won't be any serious burden on consumers. If electric power consumption corresponds to forecast by Agency for Forecasting Electric Energy Balances (AFEEB), this will result in wholesale electric power price rise just by 1.5%. Thus, it's nearly nothing. If consumption is twice lower than AFEEB forecast, consumer's burden will keep at 5-6%. It's true for 2017-2018. The approximate figures are like that, as far as I remember. As to extra share issue, Sergey Fil, Director on Corporate Development of Gazprom Energoholding, will give the answer.

**SERGEY FIL:** Good afternoon! The price for share allotment within the forthcoming extra share issue to be specified by WGC-2 Board of Directors after listing FFMS issue, approximate deadline for decision-making is September. While determining the price we, surely, will focus on the current market situation and historical price. We'll certainly invite an independent estimator and probably he'll represent G4. The decision is expected in September. Thank you.

**QUESTION:** Alexander Efanov, Komsomolskaya Pravda newspaper. There are two questions regarding Ryazan SDPS. First comes the general one: how can you estimate your last year activity? The second one is more particular: are you going to replace CCGT-110 for any foreign counterpart due to its malfunction? Thank you.

**DENIS FYODOROV:** Thank you. As to Ryazan SDPS itself: there's no claims to the plant, it worked satisfactory. There are some problems there, but we have no principal questions to the plant management. It's the first. As to new unit, and it's my own view (hasn't agreed yet with Board of Directors), as soon as WGC-2 has a spare capital the turbine should be replaced. As soon as we complete basic facilities under CSA or we have available funds from other sources, to my mind, I repeat once again, GT-110 turbine manufactured by NPO Saturn has to be replaced, the sooner the better.

**QUESTION:** Nonna Tsai, Construction and Municipal Economy journal. My question relates to the situation in construction sector of Saint Petersburg. Now the city features extensive development of residential construction. About 30 projects of infrastructure development are in progress. And this will require extending network construction and new generating facilities commissioning during forthcoming years. And the corresponding question. What conditions are to be provided at the state level and what regulations are to be applied to support construction of power facilities? What is the restraining factor, to your mind, and what could appear to be the driver of power generation growth? Thank you.

**DENIS FYODOROV:** The large-scale program is fulfilled in Petersburg. And, frankly speaking, I'm not aware of any serious problems in relation to availability of generating facilities in Saint Petersburg. Perhaps, there are some bottlenecks within electric networks. But it's not the matter of our competence.

As to needs for extension of existing power plant sites, this may happens, I think, for instance at CHPP-21 where CSA project was originally scheduled. But upgrade is the main task, of course.

We've told a lot that due to our estimation there will be some RUB 30 billion required to bring TGC-1 power plants to proper conditions, I generally mean the Saint Petersburg plants, which are the bulk of TGC-1 heat generating capacities. It's about RUB 30 billion. This sum is currently not provided by the company's return. The money yielded by so called "old capacity" is enough just to keep afloat and this isn't true of every plants. Therefore, adoption of upgrade procedures for Russian power industry is going to become crucial. Although it won't, to my mind, result in boosting investments into power industry. It's due to high debt burden of all companies implementing investment programs. TGC-1 debt to EBITDA ratio comes to 3.5. Even if the procedure for investment recoupment to emerge tomorrow, the company, anyway, has not so many opportunities to attract investment funds. Generally, it's crucial to think over enhancement of investment attractiveness of the industry.

**QUESTION:** Igor Goncharov, ING bank. The question relates to WGC-2 extra share issue. You've already mentioned a couple of figures, RUB 20 billion is your contribution and RUB 80 billion is still required. Could you mention one more figure: what is the minimum sum required, to your estimation, in order to avoid further extra share issue for investment program implementation, taking credits into consideration? And, in case of other shareholders, except Gazprom Energoholding, fail to contribute enough within their priority right, do you suppose participation of other governmental bodies and associated institutes in obtaining shares of this extra issue? And one more question: in what manner does Gazprom Energoholding itself plan to finance its contribution to this extra share issue? Thank you.

**DENIS FYODOROV:** We plan to contribute by means of Gazprom funds. The respective decisions were taken both last and this year. Therefore, in order to carry out WGC-2 extra share issue Gazprom assigns RUB 20 billion for extra share issue buyback, i.e. for participation in WGC-2 extra share issue.

As to our plans for attracting other governmental companies to WGC-2, we've never negotiated it with anybody and don't know anything of it.

As to whether we need one more extra share issue or not, to say in other words, everything will depend on current market situation for power industry. We hope the resolutions on enhancing investment attractiveness and the company profitability growth would be adopted in nearest future, 'cause all these funds remain in Russian power industry and are assigned for upgrade. We hope for this fervently. And much will depend on our Troitsk SDPS. Our profit will raise significantly if it operates properly. Thus, I guess we'll answer your question next year.

**QUESTION:** Alexey Banin, Panorama newspaper. There's my question: for the last three years after Sayano-Shushenskaya hydropower plant (HPP) accident the load on Krasnoyarsk SDPS-2 (*owned by WGC-2*) increased seriously. The region faces deficit and demand for electric power. Do you plan to extend capacity of our Krasnoyarsk SDPS-2 in nearest future? Thank you.

**DENIS FYODOROV:** You know, the regional capacities have been increased immensely, I mean both Sayano-Shushenskaya HPP and Boguchanskaya HPP that, as far as I know, will be commissioned in nearest future, so we're afraid of the adverse effect. It's clear that thermal generation cannot compete with hydro generation. We'll observe the market situation within the second price zone and then we're going to take decisions on Krasnoyarsk SDPS-2. After Sayano-Shushenskaya HPP accident all essential decisions on repair stock extension were taken and to the moment Krasnoyarsk SDPS-2 operates very well.

**QUESTION:** Alexey Grivach, Moscow News newspaper. There's a bit retrospective question to you as a Head of Directorate for Power Sector Development and Marketing in Power Generation of Gazprom? Tell us please how much did it take Gazprom to enter into power industry? How much did it cost Gazprom to obtain all the assets it currently possesses? How much did Gazprom

contribute it terms of investment program? And how soon do you expect the response in the form of some profit for Gazprom that won't be brought back to power industry? And what is the payback period for such investments? Thank you.

**DENIS FYODOROV:** It's difficult to me now to mention the sum Gazprom spent for power industry. As to the extra funds contributed it's RUB 20 billion for WGC-2. We generally try to keep afloat due to own cash flow.

As to investments payback, we believe that in case of favorable market situation in 2015 and Gazprom's decision on Gazprom Energoholding's IPO, we'll manage to reimburse the bulk of money invested by Gazprom in power industry – it's first. Second: we believe we'll be able to pay quite huge dividends to our shareholders since 2015-2016.

**QUESTION:** Dmitry Sergeev, VGTRK Murman broadcasting company. The question's as follows: there's fuel oil-fired Murmansk CHPP. Do you have any plans regarding this plant and is it real and possible to provide gasification of heat-and-power industry of Murmansk region that still falls behind other North-West regions in this regard? Thank you.

**DENIS FYODOROV:** What plans can we have regarding Murmansk CHPP (*owned by TGC-1*)? It's the plant that provides us with not just negative cash flow, but super-negative one. Total debt exceeds company's return. It resulted from both managing companies' default in payments and failure to cover all our losses through the tariff. Thus, the current situation with Murmansk CHPP is certainly not satisfactory. We managed to compromise with the preceding Governor and to bring down to him all issues that face Murmansk CHPP and, consequently, heat-and-power generation of Murmansk. This is due to Murmansk CHPP supplies 75% of heat consumers. Though we got small and insufficient subsidies, but these were the first one we got for the three years. Therefore, we give many thanks to the former Governor Dmitry Dmitrienko. And plans? What plans can we make for today regarding the plant that yields us incredible losses indeed?

**MODERATOR:** Thank you very much. The press-conference is over.