

Press Conference
Gazprom's Power Generation Strategy
May 15, 2014

MODERATOR: Good afternoon colleagues. We go ahead with the press conferences preceding Gazprom's Shareholders Meeting. Our topic for today is Gazprom's Power Generation Strategy. Taking part in the Press Conference is Denis Fyodorov, Head of the Directorate for Power Sector Development and Marketing in Power Generation at Gazprom, Director General of Gazprom Energoholding. He is given the floor, and then come the questions.

DENIS FYODOROV: Hello colleagues. I'll try to be short with the presentation and answer your questions, if there are any.

(Slide 2) The slide shows our activity in 2013. We'll consider our core activity in details further. In terms of the strategic development, the acquisition of MOEK was our biggest deal last year — we are going to consider it in details later on. Besides, we signed a memorandum last year for the possible construction of a 200 MW power plant in Serbia. We are slowly expanding our presence in some European countries.

In addition, we signed an agreement with the Moscow Government and we start implementing the EV charging stations construction project in Moscow. The appropriate sum is already provided by the Mosenergo Investment Program, and we are going to build a few EV charging stations in Moscow soon — near parks and business centers — on various terms. I think this project to be quite interesting. We'll see how popular electric vehicles and bikes will be in our country.

Moreover, we decided to establish an in-house repair & maintenance company. We've been living in a competitive environment for rather long — since 2007. Unfortunately, we believe the decisions of RAO Unified Energy System of Russia on the alienation of maintenance and repairing departments from generating companies to be incorrect. This resulted in quite sad consequences: an increase in costs and decrease in quality of repairs. It took us long to come to such a decision: we started discussing these problems with a number of repair & maintenance companies as early as in 2009–2010 — why the quality of repairs was getting worse from year to year. While we're capable of providing competition in Moscow and St. Petersburg (though we can see personnel drifting among the companies... now you work for one company and then you change for another bidding-winner...), in OGK-2 and similar companies with plants located in small towns as a rule, there is no competition at all.

Therefore, we decided to establish a repairing company — we are going to name it GE Energoremont. It is to accumulate the most relevant repair works for all our generating companies — it's true for MOEK, Mosenergo, TGC-1 and OGK-2. Besides, we've already founded the company to provide the gas turbine maintenance. We have a quite extensive fleet of gas turbines, we have dealt with all the relevant European and Russian companies, including Siemens, Sulzer and Power Machines. Despite our long-term contracts with repairing companies, so far we haven't managed to agree upon arranging storages for components. It results in lots of problems and very costly repairs. Therefore we've already set up a subsidiary pre-called Starservice. It is to perform the major part of main power equipment maintenance.

As to the last-year investments: we commissioned two power units at the Adler TPP and they successfully passed through the Olympics and Paralympics. There were some minor challenges, but they were local, as at any new power generating facility. Many didn't believe we would manage to ensure the required plant performance due to a number of challenges emerged during its construction and commissioning. Nevertheless, we managed to solve the issue and we passed

through the Olympics and Paralympics steadily. Many of those who said the plant would be out of demand, now, to my mind, have taken their words back. Even after the Olympics the plant operates at almost full capacity. That means that the installed capacity utilization factor is much higher than for our other combine cycle gas turbines (CCGT) even in a long time after the Olympic Games.

A number of hydro-turbine units were upgraded as well. Besides, we vigorously decommission inefficient facilities.

As to the industry regulation: there are some resolutions and external factors affecting our work in a negative way. Nevertheless, we keep on working under the conditions that we are set. Unfortunately, the electricity and capacity market model is frozen. We believe it to be a great mistake. I've always said that apart from the power industry, craving for an upgrade, we would destroy our heavy and civil engineering which had just grown stronger. The other day I've read the statement by Sergey Storchak, Russian Deputy Finance Minister, who announced that the GDP decrease had been due to the reduction of the scope of natural monopolies' investment programs. It's evident. We are rather active in dealing with an 'alternative boiler house' (pricing tool for heat generation), and the result is yet unclear, except for higher rates for some regional consumers. I strongly doubt that it's possible to eliminate cross-subsidization because heat is a much more social product than electricity. Instead, we would better construct new facilities to load domestic heavy engineering plants with hi-tech orders — but unfortunately, we don't. I believe it's wrong.

(Slide 3) I've promised to tell you in details about our operational and financial outcomes: Mosenergo, TGC-1 and OGK-2 showed a five per cent decrease in heat generation in 2013. We are optimizing the loads of our power plants. Those plants showing negative profit are naturally subject to heat generation reduction. It's clear that it's due to ambient temperatures.

(Slide 4) Despite the generation fall, the revenue grew by 4.6 per cent and the net profit – by 15.4 per cent. It is connected not only to lower generation by inefficient plants, but also to the ongoing implementation of our programs for enhancing the efficiency of generating companies as well as commissioning new CSA (capacity supply agreements) facilities. Nevertheless, financial results are rather decent.

(Slide 5) The same can be referred to EBITDA – it grew by 11.7 per cent. Our debt increased by 19.2 per cent mostly due to Mosenergo and OGK-2 which continue executing rather large-scale investment projects.

(Slide 6) What we expect from 2014 is as follows. It is clear that the market environment undergoes rather dramatic changes, however, we hope for a minor EBITDA escalation in Mosenergo, TGC-1 and OGK-2. The external factors are not getting better, that's why we'll do fine if we end up with 2013 results. If we manage to improve them – it will be terrific.

(Slide 7) From the point of the investment program implementation, our capacity has somewhat risen. Despite our equipment decommissioning activities, the volume of our investments is also growing, but it is mostly due to the OGK-2 and Mosenergo investment programs. Last year the volume of newly commissioned capacities was rather small, but it's only a temporary break. I am sure that in 2014 and 2015 a considerable amount of new capacities will be launched and we'll arrive at completing our obligatory investment program.

You see that year by year more and more inefficient capacities are being decommissioned. We think we're moving in a right direction. The share of new capacities in EBITDA formation is annually growing and currently it equals almost 50 per cent.

(Slide 8) As for the dividends – an issue everyone is always concerned about. Let us start with Mosenergo. We haven't announced these figures yet. This year we suggest that the Shareholders Meeting should pay out 20 per cent, even though the Mosenergo investment program hasn't been completed yet and demands rather high investments. For TGC-1, as we've already mentioned, we suggest that 20 per cent should be paid out as well. As for OGK-2, we believe that considering the level of the company's debt load, this year it is unreasonable to pay out the dividends. Next year, in 2015 following the results of 2014 we are planning to pay out the OGK-2 dividends, anyway, suggest that the Shareholders Meeting should approve the dividend payout. I can't tell you the amount just yet, but it will certainly be no less than five per cent.

(Slide 9) Here's what we expect in 2014. We are planning a slight increase in almost all operational and financial results, but external factors will still affect the situation. It won't be bad if we have the same results as in 2013. In spite of a somewhat shaky external environment, this year was rather advantageous for us.

(Slide 10) As for MOEK. You all know that we've concluded one of the most significant deals in Russia – or maybe even the most significant one in Europe over the recent years – for acquiring MOEK. At present, we are actively engaged in mapping out a new strategy both for MOEK and Mosenergo with the assistance of external consultants. Right now we are focused on MOEK. We promised that in May or June we'd tell you something about our view on the cooperation between the companies – MOEK and Mosenergo. Currently, we are working on splitting these companies. Figuratively speaking, Mosenergo should encompass the generating capacities and MOEK – heat transportation. I think this will be clear for all the parties involved in the process. There are some issues which haven't been resolved so far, that is why it is too early to further dwell on this topic.

Today, just as we've planned, we are busy transferring the loads from inefficient boiler houses to the more efficient CHPP generation. We implement a part of the program, and partially the work is done by Gazprom Promgaz which is designing the general power, heat and gas supply scheme for Moscow. We hired it in order to complete a part of work that will show the possible stages of shutting down and decommissioning inefficient boiler houses and district thermal plants and transfer their loads to more efficient heat generators.

Currently, as I remember, a decision has been made – or anyway, was submitted for consideration to the Board of Directors – on selling a part of MOEK's boiler houses, located in the coverage area of Mosenergo's CHPP, to Mosenergo. Partially the payments will be effected via a setoff, since MOEK owes to Mosenergo – it's a standard cash gap – that is why there won't be too much cold cash involved in the deal, though there certainly will be some.

(Slide 11) Extra factors for growth. As I've already mentioned, we are going to advance our repair & maintenance and energy service businesses. Several years ago we purchased a blocking share in the Tekon-Engineering automation company. Our experience of cooperation showed that it was beneficial for all the parties. We attained rather advanced automation, now we are coordinating the automation of all the equipment at our power plants. Tekon works both in the Russian and the international markets and is loaded up by other energy companies as well. We have got a payback on our investments into this project and it continues demonstrating high efficiency. As I've already said, after performing a long-run analysis we made a decision on entering the repair & maintenance business and right now we are setting up a subsidiary company to carry out repairs in our companies and maintenance service of gas turbines. Later on, on behalf of this company we will negotiate with Siemens, Sulzer and Power Machines on which of them will fulfill the conditions we set forth.

I've told you about our projects abroad. A project in Pancevo (Serbia) will be based on the foreign law, we'll conclude long-term purchase & supply contracts for power and heat. We consider this project to be mutually beneficial. The shares are distributed between Gazprom Energoholding and NIS – 51 and 49 per cent correspondingly. There are always prospective international projects, but today only our project with NIS is at the detailed design stage.

(Slide 12) As for the strategic business areas. By 2016–2017 we are planning to round up the majority of our CSA projects. We are going to execute a rather expansive program for upgrading the capital assets of generating companies. Despite the fact that presently there are no external incentives for capacities upgrade, we have been selecting the projects for quite a while. Mosenergo which involved Roland Berger three years ago became the pioneer, and we have drafted a program of engineering projects for constructing new capacities or upgrading the existing ones that can be replaced beyond the CSAs. After completing the obligatory investment program, we will go on implementing projects in ODK-2 as well. Our cooperation with Surgutneftegaz in Kirishi where we have a CHPP and Surgutneftegaz is the major consumer may serve as an example. After having implemented our investment program, we'll look into the need for upgrading the Kirishi SDPS in terms of district heat supplies.

We plan to go on decommissioning the inefficient capacities and selling non-core assets. It is possible that this year we'll have to sell one core asset as well. I think there will be some questions concerning the Onda HPP and I will answer them.

As for the further implementation of the program for optimizing the generating companies expenses. Such programs are executed in all the companies under different titles: 'Lean Production', or 'Increasing the Shareholder Value', or 'Cost Reduction'. We will continue implementing them. We are taking our first steps in MOEK – right now we are optimizing the repair and investment activities of this company; we have hired consultants, that's why the programs we are implementing with our foreign partners are transparent and we will continue moving in this direction. Of course, the acquisition of MOEK gave us a free hand for increasing the efficiency and optimizing Moscow's heat supply network.

We do not refuse further acquisition of power industry assets either. Just before the May holidays we have become the major creditor of GT-CHPP Energo. Now we'll deal with this asset, too. There is a number of investment-attractive projects – both in Russia and abroad. We are currently implementing several projects in Russia: we have advanced with some of them, with others – not too much. For example, we have always said that we had Orenburg and Astrakhan, where gas processing plants were located and where we could either build a new plant which would pay for itself in seven or eight years provided that the tariffs for these companies were lowered, or we could make arrangements with heat and power suppliers. In Astrakhan it is Gazprom Energo which supplies heat to the plant.

As for Kargala (Orenburg): I think that in the month to come we will sign a contract for reducing the heat price by five per cent with Volga Territorial Generation Company. It will be a long-term contract, we plan to conclude it for twenty years. It is clear that currently the volatile laws concerning heat supplies restrict our activities a lot. But we think that the amendments which are presently being made will let us sign a rather long-term and solid contract which will yield to Volga Generation Company: it will get off the tenterhooks with regard to whether we will or we will not build a power plant. For us, the contract will provide for a decrease in heat tariffs and outline the issue of cross-subsidization. We understand that it exists within the current situation and it isn't possible to eliminate it overnight. But even a five per cent outright decrease in tariffs is rather a decent figure for the plant.

I'm done here.

QUESTION: Anastasia Vaynik, Karelskaya Gubernia newspaper. As you understand, my question will concern the Onda HPP. Could you please tell us what is going on there, will it be sold or not? There are some internet comments that it has already been sold to RUSAL. What may the consequences be for the Republic, since three districts depend on the Onda HPP? What will happen to the rest of the HPP cascade, which also depends on the Onda HPP?

DENIS FYODOROV: The plant has not been sold just yet. It is rather a complicated and time-consuming process. As for selling it: after a whole series of negotiations in, let's say, high offices of senior managers, RUSAL insists on selling this plant. Though I, personally, still think that it is not quite a right decision to make. We were ready to cut down the electricity price for RUSAL to 65 kopecks (per 1 kWh) – while currently the price at the day-ahead market is 1 ruble at average – and lock it in for ten or fifteen years to come. We understand all the social problems of the Nadvoitsy Aluminum Smelter, and we have been giving them rather a large discount (of about 25 to 30 per cent) for three years for three aluminum companies in the Republic of Karelia and the Murmansk Region. But RUSAL wants to own this power plant no matter what. Agreements have been achieved and we are ready to sell the plant at the market price. Previously we had announced the figure of some RUB 2.5 billion. At present it is being revalued, considering that the previous value was relevant for 2013, and by law it can't be used for divestiture of this asset today. The market environment has got tough a bit – both for the heat and hydropower generation, and there might be some deviations in these figures, though minor ones. Frankly speaking, I do not understand why RUSAL wants this plant. It is clear that it won't cost less than RUB 2 billion, it is doubtless. We all know that RUSAL doesn't have money.

I can say that the net profit of the plant is about RUB 200 million a year. Even if they take on a bank loan, even if the interest is 10 per cent, which I strongly doubt – since presently we attract loans at about 9.5 per cent interest to our good solvent assets with stable covenants not burdened with heavy debts – then annual interest payments will exceed RUB 200 million. That is to say, if they conduct some kind of optimization or something else, they will actually only be paying off the interest, while the principal amount of the loan will remain unchanged. We will certainly implement the agreements we've achieved: we'll make an offer; in the near future we'll raise this point at the TGC-1 Board of Directors meeting, once all the necessary legal issues are worked out. On Wednesday we are meeting with the EuroSibEnergo and RUSAL representatives to discuss the matter. Honestly speaking, I think that a long-term contract for 65 kopecks is an excellent option for them. Back in the day they were saying that 1 ruble would fit them. It is clear that they have to come to an agreement on excluding expensive CSAs from the general rate. It seems quite possible to me, considering that it is a single-industry town and everyone is well aware of social problems and locking in 65 kopecks for ten years would be an excellent result for them.

We understand all the social problems in this town and we certainly accommodate our colleagues and partners, and we'll go on. We may have problems with regulating the plants located below the Onda HPP which form a part of the Vyg HPP Cascade together with it. We will resolve these issues with RUSAL; the RUSAL management gave us a verbal assurance that they would accept all our terms related to the technical operation of the plant. If they do not accept our conditions, we will just bring the management one level down, though such a situation will cause a lot of problems. We'll see what we'll come up with. Anyway, I consider entering into long-term contracts with us to be the best option. I know that Rosseti are ready to provide rather comfortable conditions for agreements with RUSAL, that is for lowering the price of electric power transmission services. We'll see what this will lead to. We've been struggling with this problem for a year and a half or two years and I hope it will be resolved somehow.

We won't leave people to their own devices. If they reduce the Onda HPP staff – though maintaining the headcount will be among our negotiating terms – we'll find where to employ

them. We will offer not airy, but normal conditions. The Onda HPP employees shouldn't worry – they will always get a job at TGC-1, I promise.

QUESTION: Olga Myagchenkova, Business Petersburg newspaper. I have two questions. The first one is about the traces of the last year's Conference. Back then you stated a problem of the St. Petersburg utility companies' debt and told us how you might solve it – either by setting up your own billing or by attracting alternative payment centers instead of State Unitary Enterprise of the Sharing Computer Center in St. Petersburg. At present several bankruptcy proceedings are underway against the most persistent non-payers. How is this problem being solved, has the debt decreased, what is your progress in this area?

My second question concerns St. Petersburg Heating Grid and the city buying out its shares. How will this mechanism work? Will the city fully consolidate the shares this year and if so, at what price? Several years ago it was said that not only was TGC-1 interested in buying out the whole heating grid, but also, perhaps, in obtaining a share in St. Petersburg Fuel and Energy Complex when funding it. Now, as I understand, the policy has changed. What is the reason for that?

DENIS FYODOROV: As for the debts. From the point of view of overdue consumers' debt, the situation hasn't changed much either for better or for worse. That is why we initiated bankruptcy proceedings against a number of utility districts. From our experience of studying one of the utility districts – Vasileostrovsky, if I am not mistaken – it has no considerable effect just yet. But it is due to the fact that the bankruptcy manager was selected from another creditor. That is why we do not see any substantial improvements in the situation with this utility district and in the near future we are going to raise an issue of replacing this bankruptcy manager. I am not saying he is a bad one, but I see that the situation remains unchanged.

The situation with the current payments improved after rather aggressive actions on the part of TGC-1 against the non-payers. In general, our collectability has improved, but as for the bad debts, let's call them so, the situation is the same.

It is highly questionable whether we will go on driving utility districts to bankruptcy and appoint bankruptcy managers, or not. Presently we have compiled a top-ten list of non-payers and we are dealing with the situation: what are the reasons for this, why they do not pay us. In respect of some utility districts we see that their collectability from population is 98 to 99 per cent, while we receive only 76 per cent from them. Perhaps we should not drive them to bankruptcy but more actively apply to law enforcement authorities and deal with these non-payers. We are largely engaged in claims activities – and as I know we win about 90 per cent of cases. We lose about 10 per cent but it is due to the fact that our legal system provides for different norms for calculating heat charges. Nevertheless, we win the majority of cases.

As for setting up a billing company, presently we are making proactive efforts and I suppose by the end of this year we will set up a company and gradually start transferring the payments. We have already transferred a part of payments directly to TGC-1 and the population is working with us. We saw that this experience yielded positive results, that is why we'll continue working in this area; the fact is that changing billing is rather tricky. We do not want people to receive two payment documents at a time; we try to act as carefully as possible.

As for the St. Petersburg heating grids, we really had plans to participate in St. Petersburg Fuel and Energy Complex – it was three or four years ago. We were hoping the rate would increase, we negotiated that the long-term increase would be maintained at the level of 15 to 17 per cent and in this case the heating grid would be switched to RAB-regulation (return on invested capital method). We reached such preliminary agreements with the former governor, but considering the

existing socio-economic environment, imposing a 6 per cent payment limit is presently impossible. Due to various reasons the city can't pay out subsidies on a large scale either.

That is why for some five or six years we have just been bearing a load of maintaining and putting in order the heating grid we had got. I do not remember the exact figures now, I think we've invested about RUB 14 to 16 billion into the heating grid during these years. It is clear that these are stranded costs, we've just plunked them there and now we have a company with the paper gain of RUB 50 million. It is indeed the paper gain, while the actual cash flow is negative there and the debt load keeps growing year by year. We can't afford investing extra RUB 3 or 4 billion every year anymore. Amortization there reaches about RUB 1.5 billion.

We had plans to create an up-to-date European heat supply system without disconnecting consumers from heat. Unfortunately, this experiment failed due to the lack of money and because both we and the regulators had assumed enhanced commitments, and as a result we fulfilled them and the regulators did not. It often happens so in our country, so currently we are negotiating with the city, and the city understands that the St. Petersburg Heating Grid economics is rather transparent, the heating business distinctly stands out in it. They see and understand everything and do not hold demands against us. It is clear to everyone that things can't go on this way. The city is ready to take this load on and we are ready to give it assistance. I will not disclose the conditions yet, because it is a commercial secret, but I suppose that in two months to come you will know them and we will probably relinquish our share in the heating grid equity capital.

QUESTION: Vera Voloshinova, Molot newspaper. Could you please say what caused putting off the commissioning of the ninth power unit of the Novocherkassk SDPP and what is the timeframe today? Thank you.

DENIS FYODOROV: You know that at the Novocherkassk SDPP we are building Russia's only 330 MW CFB-unit (a coal-fired power generating unit based on the circulating fluidized bed technology). OGK-2 is into luck with nonstandard technical solutions. Unfortunately, we have a whole number of questions to the designer and why we needed a CFB-unit if the coal source for the project was selected. I think that we would have launched an ordinary powder fuel unit a long while ago. Only two types of coal can be burned where the Novocherkassk SDPP is located, and presently both of them are used at the existing power units. By the time of Gazprom's arrival, the equipment had already been chosen and contracts had been signed and we implement only those decisions which had been made before our arrival. That is why the main problem is that it will be Russia's first and probably only CFB-unit in the foreseeable future which has never been used in this country before. We certainly plan to commission the power unit in 2015 and we allow eight months for the pre-commissioning operations. At conventional units it takes one and a half to three months, while at the CFB-unit it takes eight. If we manage to bring it to the normal operating mode earlier, we will be only glad. It is just a selected technical solution, and though we were not the ones to select it, we couldn't refuse it. That is why we act according to the circumstances now. You know that almost no coal-fired power units have been constructed in Russia. We've learnt to construct combined cycle gas turbine units, but we are only starting to come up with optimal solutions for coal-fired power units.

QUESTION: Svetlana Turyalay, Energy of South magazine. Mr. Fyodorov, the list of 2014 Olympic venues included the Kudepsta TPP. Last May it was excluded from this program. I have several questions in this context.

Now following the Energy Ministry decision this power station will be constructed in Chechnya. Why did Gazprom Energoholding and OGK-2 become the project operators? What will it be called now? As I understand, the site has been chosen, but is there already a general designer, a

general contractor? Are there any problems with assigning the rights under the CSA from TGC-2 to OGK-2? It was them who purchased the power units. Will you use them or will you purchase new ones? As far as I am concerned, GazEnergoStroy, the last investor would like to take part in the project. Will you engage them?

DENIS FYODOROV: As for the Kudepsta TPP: it just wasn't constructed. The whole issue of moving this project under the CSA from one site to the other is due to the fact that the plant wasn't constructed. Who is to blame and why it happened so is not my business. You were right saying that the power unit was assigned to TGC-2, so we have nothing to do with it.

About Chechnya. I've already been to Grozny and Argun several times, next time I'm going to go to Gudermes, visit the mountains. Frankly speaking, the Republic gives me an indelible impression. Russian energy companies construct new power units. Sometimes they are not necessary – I will not say which exactly, but even the existing units sometimes operate with rather a low CUF (capacity utilization factor), and at times they even stand idle. These are inevitable mistakes in implementing such large-scale investment projects and they have a local nature. The mistake is that this plant wasn't constructed in Chechnya three or four years ago, because I was favorably impressed by the development level I witnessed in Grozny and Argun. I haven't seen too much of it anywhere else. Our project is most likely to be called the Grozny TPP. The future thermal capacity hasn't been determined yet and it is not quite clear whether Rosneft will build an oil refinery there or not. They have it planned, but we do not know for sure.

Why Gazprom Energoholding? Today all the energy companies that have a free cash flow do not reject the CSAs rejected by other power generating companies. Considering a somewhat clouded relationship between Gazprom and TGC-2, we managed to agree with TGC-2 on assigning this CSA on terms favorable for us.

Will TGC-2 equipment be used? Yes, we have preliminary agreements on using the power-generating equipment purchased by TGC-2. But the issue hasn't been fully settled yet, that's why right now we can't guarantee that it will be so. We do not cooperate with GazEnergoStroy within this project. We held talks, discovered that our views were quite different – and maintained normal relations. They waived all their claims against MOEK, so we're in harmony and love with no issues to be resolved.

As for the general contractor. Of course, it is too early to talk about the general contractor. At present the site is being cleared of mines – just a check to make sure there are no explosives there. I think that within the coming month we'll offer a bid for the preliminary stage and finish clearing the site. In the near future we'll invite a bid for design. Presently we have already conducted a bid for the preliminary feasibility study of this project in order to make a final decision on the best pattern possible. We summed up the bidding results and, if I am not mistaken, SVEKO Soyuz Engineering became the winner. They are already carrying out these activities and once they are done with it, we'll have to gather all the basic data, look into all the details, see how gas and water will be connected.

We widely cooperate with the representatives of the Chechen Republic. We are engaged in construction in many Russian constituents and, to tell you the truth, resolving the issues in such a prompt way – not only the regional ones... The land is of federal significance there, but even the issues related to that land are actually being resolved solely by our colleagues. That's why I would like to express my respect to the Industry Minister and to the President of the Republic. We seldom come across with such attitude. Usually we are being asked for something else in addition to the projects we implement, while in this case they ask us, "What else can we do for you? Tell us, and we will help you." That's why we like implementing this project very much.

QUESTION: Has the capacity of this plant been determined so far? Who will supply gas and where will the site be located?

DENIS FYODOROV: Gazprom will supply gas, the site will be provided by CHPP-3, the plant capacity is estimated at 360 MW though it may be higher.

БОИПОС: Olga Kvashina, Krasnoyarsk SDPP-2. My question is related to the Company's social policy and the quality of personnel training. This question was delegated to me not only by the plant's management but also by the representatives of the Power Energy Departments of Siberian Federal University and Tomsk Polytechnic University.

What do you think about creating a project (we have even invented a name for it already – the Future of the Power Industry social project) for partnership among the education and power industry representatives? In their turn, they undertake an obligation of deepening and improving the quality of technical education. On our part, we will provide financial assistance in organizing video conferences and help children to participate in the national Future of the Power Industry project. What is your opinion of such a social project?

DENIS FYODOROV: I think it will be no problem. Denis Bashuk (Director General of OGK-2) will supervise the whole project. In fact, we have no problem with human resources in Krasnoyarsk, because good universities are located there. Returning to the Chechnya issue: we've already submitted the list of requirements to employees to operate this plant. Our colleagues will see in which power engineering universities the representatives of Chechnya study in order to orient them beforehand to work at the Grozny TPP. Plus, if necessary, they are ready to provide career development courses for the personnel operating the power plant. We will need them not in three years, when the construction is complete, but already in a year or a year and a half.

QUESTION: Anastasia Stolbova, Vesti newspaper. The PGU-800 project of the Kirishi SDPP was awarded the Russian Government Science and Technology Prize. How did the unit prove itself at work, what is its efficiency? Do you have plans to construct another one of a kind and is there a possibility for implementing other investment projects in Kirishi?

DENIS FYODOROV: I've already said that after completing the main required CSA stage one of our priority projects is the CHPP reconstruction at the Kirishi SDPP. It includes two parts: condensation and cogeneration. Heat is almost fully consumed by the Surgutneftegaz plant. As I understand, Denis Bashuk is already negotiating with the Surgutneftegaz management their expansion and the need for new steam conditions. We are ready to do it all. We closely cooperate with Surgutneftegaz – and not only within the Kirishi SDPP. That is why we plan to implement an investment project there. It is too early to talk about the conditions now, but the relevant work is already underway at OGK-2. Once they are settled, they will be submitted for discussion by the committee for business strategy and later on – by the Board of Directors.

As for the unit – the beautiful large power unit was opened by Vladimir Putin. As you've mentioned, it was awarded the Russian Government Science and Technology Prize. It proved its worth, it operates reliably and flawlessly with the efficiency of 56 to 57 per cent; there are not so many units of a kind in Russia.

QUESTION: Anastasia Lyrchikova, Reuters agency. I also have several questions. The first one is about Grozny. Could you please give the rough investment appraisal, using what funds will you pay for this plant? Will the funds be borrowed or will OGK-2 be responsible for it, or Gazprom Energoholding itself?

My second question is about TGC-2. As I understand, you've negotiated on acquiring this company's assets or the company itself. At what stage are these talks now and are you interested in it at all anymore?

One more question about your interest in constructing power generating assets in Crimea. You have this interest, the Energy Ministry is planning to assign some CSA to this generating asset in Crimea. Do you know what CSA it might be? Is it the Gazprom Energoholding CSA by any chance?

DENIS FYODOROV: Let us start bottom-up.

As for Crimea: we do not work in Crimea yet. Just yet. The Energy Ministry doesn't announce any conditions so far. When the conditions and the plant properties are announced, we will think about it. Right now there is nothing to discuss at all. I saw certain presentations, but I can't say anything yet.

As for TGC-2, presently we do not negotiate on purchasing TGC-2.

As for the investments into the Grozny TPP: they will not be from the OGK-2 funds. They will be made out of the Gazprom Energoholding funds. As for the amount of money – you're asking about the sum, but we've just laid the commemorative capsule at the site together with the Chechen President. We do not even have the investment rationale for selecting the main generation equipment yet, there are different options: the pattern used at the Adler TPP and the Pervomaiskaya CHPP in St. Petersburg may be applied, which is two 180 MW units. The capital costs will depend on the selected option.

QUESTION: That is, the existing CHPP will represent a gas-fired reciprocating power plant or will you look for some other options?

DENIS FYODOROV: The project doesn't provide it to be a gas-fired reciprocating power plant. The CSA parameters are determined depending on the essential start/stop characteristics of a power unit, its efficiency and capacity – a whole range of parameters. It's not indicated anywhere that it should be a gas turbine, steam-power, steam-gas or even reciprocating power plant. We are not going to use gas reciprocating equipment and we don't use it at our facilities.

ANASTASIYA LYRCHIKOVA: Could you specify the issue of TGC-2. Are you not holding the negotiations, because you had them already and decided that you are not interested in these assets? Or for some other reason? Or maybe you didn't hold them, but will hold later?

DENIS FYODOROV: We held these negotiations, but we have – I don't know what word to choose, because all this affects the stock market – suspended or terminated them. Any of these words can be interpreted differently by the investors, so I said: "We are not holding them today".

QUESTION: Alexander Serebryannikov, Blogger 51 website. I've got several questions.

The first question. I was visiting Iovskaya HPP where hydro turbines are being upgraded now. Will the upgrade of hydro turbines continue at hydropower plants? If so, your contractors fear that the potential sanctions can cause problems with the equipment they are using, in particular, new blades from Austria are being installed there now, as far as I know. Are you ready for the possible consequences of the sanctions? Will the upgrade be continued?

And the second question. At the last year's press conference you talked about the success of transiting to direct payments in the Murmansk Region. However, certain changes occurred

during the last year, the debt continues to grow and moreover, the efforts taken by the largest management company in Murmansk resulted in the launch of investigations against one of your executives, a sales manager. Will you change the company's strategy in the context of these events?

DENIS FYODOROV: The upgrade process will go ahead. We are looking at another Tulomskaya HPP cascade, stipulating considerable investments. If the TGC-1 management has enough time, the necessary expenditures will be entered in the next year's investment program. They were going to include these expenditures already this year, but due to the lack of an investment rationale the Board of Directors Members decided against it. They gave an assignment to develop a feasibility study and to update the investment program next year. Why can't we repair the equipment that brings us profits? We would be in a very bad financial and economic state now if there were no hydropower plants within TGC-1.

About the sanctions. There is nothing to discuss here, especially with regard to the HPP projects. If Austria doesn't supply us, then Power Machines, or China, or Asia-Pacific countries will do. There are some specific challenges, but we don't see any big risks related to this particular question you made. I personally don't see any risks at all. If they don't supply, we will sue the Austrian company. I think they won't be very happy if they face a ban on supplies, because they took part in the bidding and, after a tough struggle, managed to score off even Power Machines which run a close second to it. We are all well aware that the bulk of power generating equipment is not produced in Western Europe, but only comes out with Western European nameplates. I have travelled almost all around China including the regions where the major facilities focused on gas turbines and electrical equipment are based. I was everywhere and I saw everything. We are already using Chinese machinery in Moscow and at Mosenergo sites, and it shows good performance even in the climatic conditions of the Irkutsk Region. So, I don't see any big problems here.

In general, our companies integrated in Gazprom Energoholding are studying all the risks. We are on top of issues and we are moving ahead steadily. For instance, GE Energoremont was set up to help us build up substantial reserves and be able to repair the equipment with no assistance from western companies. Their services are not needed any more. I know that a number of companies don't engage them, not only in repair operations, but also in the gas turbine mounting. We are not panicking. It's all right, we can handle.

Concerning the situation with the sales director. It looks like this: it would be funny if it were not too sad. An error in money transfer under a writ of execution has led to such things. It's a misunderstanding and I hope it will be settled down. There was a wrong money transfer under a writ of execution. It's just nonsense to me, I don't understand how this could have happened. There was no evil intent in that.

MODERATOR: We are getting questions not only from the audience, but also via the Internet. There is one question which matches with the first one made previously. Evgeny Butov, a private investor is asking: in 2011 Gazprom Energoholding launched a policy of import substitution by investing in the domestic manufacturer of the Automated Process Control System – Tecon Group. How do you evaluate the success of these investments and what are the next plans of Gazprom Energoholding in relation to import substitution?

DENIS FYODOROV: In three and a half years we attained a return on investment in this project. Not only ROI, we even have a good profit, and this year I think we will get substantial dividends from this company. Besides, we produce our own controllers. Not all the controllers' elements though are made by our company because it's hard for us to compete with suppliers who sell the elements at the prime cost of 60 kopecks worldwide. Therefore, making them only

for the Gazprom Energoholding companies and several energy companies will not allow us to compete in terms of the prime cost. However, the bulk of the production is based in Russia, the controllers are assembled automatically, so there is no risk of bugs being planted and getting burned, thereby causing the entire plant breakdown just like it happened in Iran once. Steam turbines are mostly made up of this equipment and the lower part of steam turbines is comprised of the Tecon products.

In fact, the Tecon experts already confirm their readiness to produce the top level equipment, i.e. to supply the gas turbine with controllers. I am still cautious about this idea, the temperature there is high enough and the required response speed of the automatic equipment is a fraction of a second, but nevertheless the work is going on. I would also like to add that Siemens was in talks with us a year and a half ago regarding its entry in the project. It's clear that they are pursuing their own goals and we – our own, we spent one year negotiating and then went our separate ways. Now they have real fears. They conducted test trials of the controllers and they liked them, but they are reluctant to issue the expert opinion. I think the project is a success.

Concerning the import substitution: I don't want to discuss it now, within a month or a month and a half you will be informed about one of our large-scale projects related to import substitution and output of high-tech knowledge-intensive products in Russia in cooperation with a major domestic power engineering plant.

QUESTION: Lyudmila Kovalevskaya, Stavropolskaya Pravda newspaper. New power units construction was relocated from the Stavropol SDPP to the Serov SDPP. What are the retrofitting prospects at the Stavropol SDPP (OGK-2) in our region?

The second question: the benefits package for the energy holding employees is less substantial than for Gazprom Group's parent company. The reduction of salary is important when it comes to recruiting young professionals. What are the prospects in this area?

DENIS FYODOROV: About the Stavropol SDPP: we are not planning any extensive investment projects for the near future. There are the investment program, the retrofitting program and the reliability program that are implemented every year. Yet still, we are not planning any large investment programs with the current load of the power plant.

Gazprom's benefits package is better than in Gazprom Energoholding. Naturally, it's better – Gazprom was the first among global companies in terms of EBITDA this year. When our company enters at least the top hundredth in terms of EBITDA globally, then we will revise it.

I don't think we have a poor benefits package, we see it in all the regions. For instance, as far as the Ondskaya HPP is concerned, I know that employees of the Vygsk HPPs cascade wrote a letter to the Russian President saying that they didn't want to be incorporated in RUSAL, but rather stay within Gazprom. Gazprom is stable, Gazprom is reliable and they don't want to leave Gazprom. Of course, people always want things to be better than they are now. And we do this kind of work and communicate with trade unions. Our cooperation helped to ease the tension that existed two or three years ago. Unlike most power companies, we didn't express an intention to reduce salaries. What was meant then is just the freezing in the context of a difficult economic situation.

No doubt, we can't compete with grid companies which have their salary rise embedded in the tariff rate. Nothing is embedded in the tariff for us, we actually don't have any tariff. They provide 15 per cent additionally, but it doesn't concern me. Therefore, we provide support relying on the current financial results. I think we have pretty good social benefits for our employees. Anyway, not many power companies can rival with us.

QUESTION: Vitaly Sokolov, Energy Intelligence agency. I've got three brief questions. The first one: could you announce the investment plans of Gazprom Energoholding for 2014?

The second one: it was reported in February that Gazprom was interested in two France-based assets owned by Austrian Verbund. Could you tell me if Gazprom is still interested in these assets and why? And what is behind your interest in the markets of Germany, the Balkans, Japan, Vietnam and China – the countries you mentioned in your presentation?

DENIS FYODOROV: About the investments: in 2013 we have RUB 67 billion, in 2014 – roughly the same figure, around RUB 67 billion. This is without regard to MOEK, because it has its own investment program and it stipulates RUB 21 billion in this year.

Concerning the French topic: this matter is outside my province, you'd better address the International Business Department or Alexander Medvedev at the press conference. They are dealing with this project.

VITALY SOKOLOV: What about the markets?

DENIS FYODOROV: We have analyzed all the markets for a variety of parameters. We discussed it with consultants and came to the conclusion that Germany was a potentially interesting market. But today we don't see the possibility of entering into it due to a whole number of factors. Either we are not satisfied with the prices at which the assets are available, or some other parameters. Just like I said, from Gazprom Energoholding projects we are only running a project with NIS.

QUESTION: Natalia Skorlygina, the Kommersant newspaper. I've got two questions: one is specific and the other is abstract.

The specific question is as follows: the Energy Ministry has long said that it wants to move a little various CSAs. Has it approached Gazprom Energoholding companies with proposals on shifting some CSA's. If it did, what and why? What was your reaction?

The abstract question is as follows: how, in your opinion can one earn money in the power industry, in what sectors and how the awareness of these trends affects your strategy?

DENIS FYODOROV: Indeed, the 'issue of amnesty' under CSA is under discussion. Therefore, it's rather we should approach the Energy Ministry. We were told that if there were any problems, we could sit down at the negotiating table and discuss them. But so far we don't have such proposals for the Energy Ministry, and we didn't discuss such issues. The issue of the Chechen project is resolved, or rather hasn't been resolved yet, but we got things moving. I am personally grateful to Vyacheslav Kravchenko, Deputy Energy Minister for this, because it could take a year or a year and a half to consider this. Of course, without the CSA shift agreement it would be difficult to build a plant. It's difficult to build any plant without a CSA nowadays.

How does one make money in the power industry? It's rather a tricky question. It has become difficult to earn money in the power industry. If we maintain last year's indicators and financial results this year, it will be just fine. In addition, we are forging ahead with the talks on the competitive capacity outtake projects for 2015 and 2016. To put it mildly, the outlooks are negative for us. They include five or six factors which may have a major impact and lead to negative results for the power generation companies. Nevertheless, having held a number of talks (with the Energy Ministry too), we understand that the resolution posted on the website is not their final stand and they are ready to discuss it. There are certain sound ideas we'll have to agree to. We just do not want all of them dumped on us in 2015 and 2016; we need some time prior to

introducing the negative factors. What is the ban on the must-run heat generation from 2016 about? I tell them, “let us impose the ban starting with 2017, but think of something else.” OK, let’s shut down the Shakhty GTPP. There are many questions to them, I have some too. The heat tariff there is nearly RUB 2,000 and their market profit is higher than that of certain CSAs. Fine, let us deprive them of their must-run generator status and shut them down tomorrow. But what next? Who will supply heat to Shakhty? Will a boiler house appear there within a year? I haven’t seen any projects for a boiler house construction in this region.

That’s why introducing negative factors should go with introducing positive factors. If a certain time limit is set on repairs and after it penalties are imposed – that’s OK, but in this case let me bring out of service the equipment for which I was not given the money to repair. I will not demand the market revenues, but neither will I pay the penalties. All the more so, we do not have much of a yield from such equipment. Or, otherwise, they don’t let me bring this equipment out of service and do not provide me with the source for financing its repairs, though it’s clear for everyone that each autumn-winter period starts with the Energy Ministry representatives rattling their sabers. Why rattling a sabre? They revoked the operational readiness certificate of the Troitsk SDPP. No problem! We have invested RUB 10 billion into it during six years. When we’d bought it, we had applied to all the government agencies, including the law-enforcement ones: find out who had brought the plant to such a state. But the Energy Ministry decided to revoke its operational readiness certificate. We are not very smart people, so to say! We try to find a solution, bring international experts there, invite the representatives of major power plant engineering companies manufacturing boiler equipment in order to solve this problem. But the Energy Ministry resolved it easily. They revoked the operational readiness certificate – but has the equipment started working? I guess not.

I believe we’ll work efficiently with the Energy Ministry and pass the competitive capacity outage in 2015 and 2016 in a normal way.

As for the CSA. The problem of extending the term from ten to fifteen years has been blown out of proportion. There are too many talks about the CSA, way too many. Every year starts with “CSA this, CSA that, CSAs will be canceled, CSAs will be brought down...” Nobody has canceled or brought anything down during these years. There are quite many of those who wish to invest into CSAs today – both the companies of the Unified Energy System of Russia and private investors. The above mentioned GazEnergoStroy just dreams of obtaining at least some CSA. Sergey Chernin, President of GazEnergoStroy has been to every cabinet and talked to every journalist on the matter.

As for me, I do not see any problem in extending the term from ten to fifteen years. We are a strategic investor. We entered the industry not to resell tomorrow the assets we own today, represented by TGC-1, Mosenergo, OGK-2, MOEK. Show a good EBITDA and resell them to someone. For us the extension from ten to fifteen years is only positive, because we will be receiving high payments for capacity for a much longer period of time. They will be a bit less in year terms, but we won’t go to smash in ten years. It’s beneficial for us to have a good sound EBITDA during the whole period of time, not by leaps. It’s beneficial for us and I always say it. Yes, it is risky – my colleagues keep saying that once they start it they won’t be able to stop. This stand has a right to exist, but presently only one amendment is being negotiated – changing the timeline. For us it would be more positive than neutral.

NATALIA SKORLYGINA: Are there any other ways of making money?

DENIS FYODOROV: I am telling you: it has become very difficult for us to earn money. It is obvious – and it is being taught during the second or third year at any power engineering university – the most effective way is operating a CHPP with a regular heat load schedule. If

there are plants which consume large amounts of heat on a regular basis, one should carry out construction in their proximity. Once again, the CHPP of the Kirishi SDPP may serve as an example, with the Surgutneftegaz plant located right on the other side of its fence. Heat is steadily supplied there and the CHPP operates on a regular schedule. It is good for the equipment, for market operations and for the heat consumer – it is good for everyone. That is why looking for such projects today is a good way of earning money.

I believe that the power asset repair business we're about to enter will also be profitable for us. The project for our participation in the automation company has proven it. Today it is actually the first time that we announce we're going to set up GE Energoremont, though the talks of it have been on for a long time; many major and serious business entities come to us ready to cooperate with us almost on any terms. We have a large market and I am sure – we've scored twice before we cut once – that this business will yield profit to our generation companies, because they will know where to take their problems and complaints. It is not simple when, you know, someone digs out a pipe section and runs away and then you chase them. I am aware of this problem.

Artur Trinoga, one of my former deputies, who presently heads St. Petersburg Fuel and Energy Complex, is confined within the strict limits – budget money and things like that. He tells me, “there is this company that takes part in the bid and I understand that they will not do the job for the sum they propose.” We also face it. I have insider information on a number of companies, which take part in our tenders, that they will bring me counterfeit products. Following the current procurement law, there is nothing I can do about it. So, as a matter of fact, they bring me a counterfeit and we expect it, of course, and the security service accepts it. There is nothing I can do about it. Nothing at all. I cannot apply to law enforcement authorities, because most often we do not pay in advance – so no damage is caused. Well, they did bring me a counterfeit, but it didn't cause any damage, did it? So we just sit there and argue with each other, that's all! Returning to Artur Trinoga, he tells me, “I know that the company dug out half of the pipe, ran off, re-registered, and we run around looking for them.” What decision can he make in this case? Obviously he can't leave a dug up heat pipeline for an autumn-winter period. Nobody will explain what to do in such a situation, since its budget money.

That is why I think that our taking control of the repair business will benefit generating companies and jointly with their Directors General we will come up with sound and justified price and repair costs. We have a special panel set up for this purpose, including all the companies' heads and chief engineers – a panel on efficiency. We decided that we'd most likely refuse a fixed price and determine the repair tariffs. The repair tariffs will be determined by special regional panels. We are working on it now.

A. FADEEVA: I have a couple of clarification questions. Could you please specify the amount of a contract concluded with the Volzhskaya TGC? Another one is on the Onda HPP: do you consider the possibility of offering a larger discount to RUSAL in order not to sell this plant? What's Fortum's reaction to this forced sale?

DENIS FYODOROV: Good questions. We have a contract signed with the Volzhskaya TGC for about a 20-year term. Right now we are signing addendums to the existing contract, bearing in mind that we are rather restricted by the current law in terms of entering into bilateral agreements. That is why long-term addendums are being signed for twenty years with a price discount and with obligations that in case of changes in legislation and cross-subsidization level these addendums will be reviewed. We are executing the main contract independently, working on it and thinking it will be mutually beneficial. The amount of discount offered to us by Integrated Energy Systems is about five per cent; it was calculated with the account of both the

volume of investments into the plant for possibly constructing a new plant not far from the Omsk GPP and the problems we may face during the construction.

We think that a five per cent discount is just fine, because later on cross-subsidization level will be slashed and, therefore, the tariffs will be declining. In addition, we allow for the possibility that if a gas price decreases – since not quite conventional gas is supplied there, price formulas might change – the price of heat for the company may also decline accordingly. But this is a different question, which we will consider separately. Presently we have a contract for twenty years with a five per cent discount.

A. FADEEVA: Will there be any other contracts, in Astrakhan, for example?

DENIS FYODOROV: As for Astrakhan – we own a boiler house there leased by Gazprom Energo, so it's unlikely. We are planning to build our own power plant in Astrakhan. Design operations are already underway, we have chosen the site, it is already leased by Gazprom Energoholding for a forty-nine year term, that is why things are in progress there. Not as quickly as we'd like them to be, but it is rather due to a very complex geological structure; moreover, we need to obtain many permits, among other things from the Federal Subsurface Use Agency. We are working on it, but things progress slower than we'd like them to.

As for the Onda HPP. You see, there is a decision that has been made. The assessment will be completed within two weeks and submitted for consideration to the TGC-1 Board of Directors. It is very difficult for me to foresee how RUSAL will act in this situation, because they change their mind quite often. Though we agreed with our colleagues not to offend each other in the media, after I come across some things about us, a question arises: who is the one asking for a favor? They are wiping up the floor with us in the media. We have an asset which operates without interfering with anyone, and they say that we are so mean and so-and-so and don't want to sell it to RUSAL. Why on earth should we?

OK. Knowing that there is a social strain there, we decided on sticking to the market price. Both we and RUSAL are aware of its approximate parameters. Next Wednesday the talks will start on this procedure. We cannot grant an additional discount: 65 kopecks is almost a 40 per cent decrease of the price at day-ahead market. We can't sell cheaper, it might cause questions on the part of tax authorities and everyone else. They used to say: we want it to be 1 ruble. We offered them 65 kopecks, Rosseti offered a certain price too. They could have easily done with 1 ruble. Now they want more. I don't understand what else they want. They need both the power plant and the grid – fine, take the plant, take the grid. But there is a market-based appraisal of the grid and the one of the plant. I don't see any economic substance for RUSAL in this. They will only be able to pay off the loan interest, they won't manage to maintain the principal amount of loan. Yes, perhaps there is a possibility of optimizing these activities. We charge a part of the executive administration expenses to the original cost of the plant. This cost might reduce, but they will not obtain any kind of a considerable decrease this way. This plant will not yield them the annual profit of RUB 700 million.

Fortum's attitude is negative. I will not reveal any insider information though. But as a socially responsible Company, we understand what is going on. I frequent all the meetings – in the Government and the President Administration. The situation in Nadvoitsy is really tangled. It should be resolved. RUSAL suggested a solution – OK, but I believe that it would be more cost-efficient for them to fix the contract for privileged power supply from the Onda HPP for a ten-fifteen year term. We have also agreed with CPP, though CPP is not an easy negotiator either. We have agreed for a twenty-year term and we've almost succeeded – it's likely that we'll resolve this situation by the end of the month. RUSAL wants to buy the plant, and we are ready

to sell it at a market price. The indicative price will be a bit lower than the one we named before, since the external environment has worsened. But it's not too bad yet.

MODERATOR: Mr. Fyodorov, thank you for your substantive responses, as usual. The Press Conference is over.