

**Press Conference**  
**Gazprom's Power Generation Strategy**  
**May 20, 2019**

**MODERATOR:** Good afternoon, dear colleagues. We continue the series of Press Conferences in the lead-up to the annual General Shareholders Meeting of Gazprom. Today's Press Conference is devoted to the power sector.

Participating in the Press Conference is Denis Fyodorov, Head of Directorate at Gazprom and Director General of Gazprom Energoholding.

Now I give the floor to Mr. Fyodorov, and then we will pass on to your questions.

**DENIS FYODOROV:** Good afternoon, dear colleagues.

*(Slide 1)* Speaking about the results of Gazprom's activities in the power sector for 2018, I would like to point out the key importance of the meeting of the Gazprom Board of Directors devoted to the strategy in the power sector that was held in June 2018. At that meeting, we made a preliminary summary of our work performed in 2007–2018. We reported to the Board of Directors that, in general, the work was completed in the full scope. The tasks set are being accomplished. The Company is financially sustainable. Without a doubt, the Company has certain weak points in terms of the technical condition of, say, heating networks in St. Petersburg. It has long been well known. The strategy for the next decade of our work has been approved. It includes both the development in Russia via implementation of, inter alia, the CSA Prime projects, and the projects abroad. We commenced our first project abroad in 2018: a power plant is being built in Pancevo, Serbia, jointly with Gazprom Neft.

The main technical and financial details are shown on the slide. This year, our power production has slightly decreased due to various factors. Heat production has grown, mainly due to seasonal factors, such as a colder winter. There have been no other factors that could affect heat output.

As regards financial and economic indicators, the revenues under Russian Accounting Standards grew by 4.6 per cent and totaled almost RUB 585.5 billion, and EBITDA grew by 8 per cent and amounted to RUB 114 billion. It has to be noted that the financial results showed growth despite a drop in power generation, which means that the management bodies of the energy companies are actively working to reduce their own costs. Our debt burden decreased by RUB 35 billion. We devoted much effort to [cost] optimization programs, inter alia, by divesting our non-core property. The total effect of the program amounted to RUB 4 billion. We phased out inefficient power units with a total capacity of 548 MW: the old part of the Serov SDPP (OGK-2) and the old part of the Troitsk SDPP (OGK-2). Besides, we phased out one unit at the CHPP-17 operated by Mosenergo.

*(Slide 2)* At the slide you can see a more detailed representation of the key generation figures. In terms of power generation, the only company showing growth is Mosenergo. The growth is by almost 1 per cent, and it is due to increased efficiency and distribution of output between combined cycle power units. Generation figures declined at TGC-1 and OGK-2. The decline in generation is most evident at TGC-1, and this is to a great extent due to the fact that the old part of the Serov SDPP (388 MW) was phased out, as well as due to enhanced efficiency of wholesale market activities.

At Mosenergo, heat output grew by 3.6 per cent, which is related to the seasonal factor. Growth was also observed at TGC-1, and was also caused by the seasonal factor. OGK-2 generates very small amounts of heat energy, and their influence on cash flow is negligible. Nevertheless, the fact is that they also demonstrate a 3.7-per cent growth in terms of heat energy output. Mosenergo and MOEK are pretty much the same as regards heat output in Moscow. Therefore, heat energy output grew overall by 3 per cent in the Gazprom Energoholding Group companies. I would like to point out again that this is mainly due to seasonal temperatures.

*(Slide 3)* At the slide you can see a more detailed representation of the key financial results of the Gazprom Energoholding Group by each company. The revenues are growing steadily, totaling

RUB 585 billion in 2018 and showing an increase at all of the Group companies. EBITDA grew by 8 per cent, amounting to RUB 114 billion.

There is a deviation as regards Mosenergo and TGC-1. At Mosenergo, it is due to the transition of two combined cycle power units from payment as per the tariff set under capacity supply agreements (CSA) to payment as per the so-called “old capacity price.” The reduction in EBITDA and net profit at TGC-1 is, first of all, due to the Murmansk CHPP which is included in the [financial] statements of TGC-1. Last year, there was a sharp rise in fuel oil prices. The peak price for fuel oil at the Murmansk CHPP was as high as RUB 24,000 and the average annual price amounted to RUB 18,000. Of course, the prices reflected in the tariffs are totally different. Besides, the subsidies we received in 2018 were a bit smaller than we expected, which caused the decrease in the financial results of TGC-1.

I would like to note that there is a significant growth of EBITDA and net profit at OGK-2. As I have already mentioned, we are actively working to reduce ineffective generation at loss-making power plants. Plus, our cash flow is growing due to CSA projects.

We are often blamed for constantly insisting on making changes to the legislation for the benefit of heat energy generation, although we already have decent or good financial results. Please note that the CSA units added RUB 64.4 billion to EBITDA in 2018. This amount is to be spent on paying the bank loans we took, as well as on paying dividends to our shareholders. That is why the things we are being told are not quite true.

*(Slide 4)* Regarding the debt burden. Here you can see the dynamics starting from 2012. As of 2018, our debt (the joint debt of Mosenergo, TGC-1, OGK-2 and MOEK) amounts to RUB 81.7 billion. We plan to further continue the debt reduction in 2019. By the end of 2019, our debt will be RUB 67 billion. The debt was contracted to provide financing for the investment program, and now we are paying it off using the gains from the sales of power and capacity under the CSA projects.

*(Slide 5)* The dividends of our power companies are shown up to 2017. Everyone wants to know how much we will pay in 2019 based on the results of 2018. For all companies, we are putting forward a proposal at the shareholders meetings to pay out 35 per cent of the net profit. For Mosenergo, this will amount to RUB 8.32 billion, for TGC-1 – RUB 2.5 billion, and for OGK-2 – about RUB 4 billion.

The debt–EBITDA ratio stays at a very comfortable level: at Mosenergo – 0.1, at TGC-1 – 0.8, and at OGK-2 – 1.4. There were years when we had a debt–EBITDA ratio of as much as 6 at OGK-2.

*(Slide 6)* Implementation of cost reduction programs. It is clear that the effect will be gradually decreasing in absolute terms, considering that we have implemented quite a large number of measures in the recent years. Nevertheless, the effect is about RUB 4 billion this year, owing, inter alia, to the divesting of non-core assets.

We are also taking active import substitution measures. An example of this is our TER-Servis company. At the very beginning of its operations, foreign manufacturers performed literally 85–100 per cent of our service contracts. Today, we have already provided training at gas turbine manufacturing plants for our specialists so that they are able to perform service works for practically all types of gas turbines. We have established industrial cooperation with many companies in Russia. That is why we minimize the scope of works procured from foreign companies. Currently, these works only concern blades and some parts of combustors.

*(Slide 7)* Key development projects. This includes, of course, the implementation of Gazprom’s power generation strategy, modernization and construction of new capacities, and, provided that we have the required incentives, further implementation of the operating expenditures optimization program. We plan to further proceed with the program for phasing out inefficient and outdated capacities, and we intend to reduce their volume to 2,000 MW by 2022.

Participation in Gazprom’s large-scale projects for the construction of generating capacities. As you know, we are building the Svobodny TPP with a capacity of 160 MW in the Amur Region. We have already performed the construction works on Phase 1 of the open switchgear, i.e. its main part, and it is already under voltage and in operation. We are actively building the power station now. We plan to

completely finish the construction of the main building by winter. Installation of three boilers is in progress now, and by the year's end we expect to receive two turbines, 80 MW each, manufactured by the Power Machines plant. Our plan is to put the power station in operation by the end of 2020. We have been complying with this timeline so far.

Participation in international projects forms quite a large part of Gazprom's power generation strategy. Under this assignment, we are already constructing the power station in Pancevo. It is a joint venture of Gazprom Energoholding and Gazprom Neft named Gazprom Energoholding Serbia with the shares of participation distributed as 51/49. The project financing is provided by Gazprombank. The general contractor is Shanghai Electric. We plan to finish the construction of the gas turbine power station in late 2020; it uses the equipment manufactured by the Ansaldo plant located in Italy, and the rest of the equipment is from China.

In addition to that, we are discussing some more power plant construction projects in Serbia. I think we will be able to tell you something about it at the St. Petersburg International Economic Forum. Gazprom Energoholding and the Ministry of Energy of Serbia signed a memorandum of understanding where it is stated that the parties are interested in heat generation development in Serbia.

One of the key priorities for us is to reduce the debt burden, because we have a gradual decrease under the CSA Prime. You have seen the cost of selections performed under it, and the figures are not the same as they were during the implementation of the CSA projects. That is why it is important for us to maintain the financial stability of the Company in the conditions where our revenues and other financial and economic indicators decrease.

I was trying to be very brief in my comments to the presentation, so as to devote the major portion of time to answering your questions. Thank you.

**QUESTION:** Ivan Peschinsky, Interfax agency. Could you tell us about your expectations as regards the financial indicators for 2019? Will the Company keep the dividend payout levels at 35 per cent, like this year?

**DENIS FYODOROV:** I cannot tell you about the year 2019. We have developed some options to work with, they are basically agreed with the relevant subdivisions of Gazprom, but as of this date they have not been endorsed by boards of directors. That is why it would not be appropriate for me to disclose these figures before their approval.

In terms of dividend distribution, we included a slide showing the dividends so as to demonstrate our annually increasing dividend payouts. And, if nothing extraordinary happens to us, the management will continue proposing the dividend increase. I mean the increase not only in terms of percentage ratio, but also in the amount of monetary funds received per share. But next year two more units at Mosenergo will be withdrawn from the CSA projects (payments for capacity will no longer be made under capacity supply agreements), and that is why we will have to see what happens then.

But, in general, the strategy is to increase the dividend payout. At the same time, the debt burden and the investment program are to be always taken into account.

**QUESTION:** Olga Myagchenko, Metagazeta newspaper. The first question is about your declared plans to buy out the share of the Power Machines plant in Siemens Gas Turbine Technologies (SGTT). What is the status of the negotiations on this deal now, and when can it be completed?

The second question is about the purchase of a block of shares from St. Petersburg Heating Grid by the Government of St. Petersburg. When will the city become the absolute owner, and what is the price set for the shares?

**DENIS FYODOROV:** Let us begin with the second question. Over recent years, we have been discussing a large number of options to take with regard to St. Petersburg Heating Grid. Today, none of them is of priority yet. As you know, this year, the Government of St. Petersburg allocated additional RUB 1.5 billion for the repair of heating grids. I guess we will be able to discuss these issues again in more detail in September–October. We will show to the new head of the power division of St. Petersburg the proceedings of all the negotiations we held with his predecessors. Accordingly, we hope that one of

these options will be deemed acceptable or that our colleagues will propose another option. We confirm that the situation with St. Petersburg Heating Grid is extremely complicated.

As regards buying out a stake in SGTT, I can explain the situation. This is directly and immediately related to the fact that, as I have already mentioned, our equipment is gradually coming to the end of its 10-year operating life. Right now, we are facing quite a serious dilemma: we have 33 gas turbines in operation, and they were quite evenly put into operation over the 10 years. The operating time of two turbines is already coming to a point where they will be in need of so-called large-scale, major inspections which cost practically as much as the installation of new gas turbines. CSA projects cannot be included into the CSA Prime project, as this would be illegal. That is why we are discussing what can be done now.

In fact, the 33 turbines which we have and which make up the main equipment fleet have a capacity of 150–160 MW. This is a huge market today, in the conditions where there is a decline in power generation in the European market and gas turbines are put on sale. We have to decide now whether we will just replace those turbines or hold their inspections. If we are going to replace the turbines, then we should probably ask our colleagues from manufacturing plants which can make similar turbines to localize this equipment in the Russian Federation.

For example, we have a number of outstanding technical issues to solve with Siemens with regard to the implementation of a vacuum circuit-breaker project. We have not asked anyone for support, we do not need money, we do not need budget injections, and we do not need to make third-party orders. We will do it all ourselves. And by 2022, we plan to reach a localization level of 75 per cent. You can say as much as you like that this is still not 100-per cent localization, but I think a step from 75 per cent to 100 per cent can be made much faster than a step from 0 per cent to 100 per cent.

We say the same thing about gas turbines: we do not need help or support from anyone, we just want to discuss equipment localization possibilities with the key manufacturing plants. We do not need monetary funds from the budget; we are not going to participate in this competitive tender worth RUB 7 billion. We do not need anything. I am speaking about our negotiations with Siemens, and, possibly, with other manufacturing plants. It is clear that if the major part of the equipment fleet uses the Siemens turbines, it is more proper to start the negotiations with Siemens first.

We are in fact considering three options. The first one is to hold major or main inspections now, pay money for them, and return to this talk in about five years. Of course, operation-wise, all directors of power plants will support replacing old turbines with new ones. But we have to take the economic factors in consideration here, too. The second option is to just effectively agree with gas turbine manufacturers that we are ready to make this order, but we need them to set a good price comparable with the cost of major inspections, and close the issue at that point. This is the easiest thing we can do. As regards the third option, we are living in Russia, after all, and we want to do something good for Russia in this situation. An order for 33 turbines is considered huge nowadays. That is why we could raise the question about localization, but we always face some interference in our work in this case.

Our technical specialists worked with the GTS-110 turbine of Saturn made at the Ryazan SDPP. I do not want to mention that its operating life between repairs is 7,000 hours, whereas for Siemens [turbines] it is 25,000 hours or, if modernization is carried out, 50,000 hours. I do not want to mention this, because the operating life [of GTS-110] has never actually reached 7,000 hours. I do not want to mention that we had a court dispute with Saturn for five years to make them take the turbine for repair. I do not want to mention that after we had brought GTE-65 [turbine] manufactured by the Power Machines plant to our CHPP-9 operated by Mosenergo under a CSA project, we held 117 start-ups in two months and did not even manage to establish synchronization with the network. As a result of that, the Power Machines plant took the turbine back, gave us a refund, and we purchased an Ansaldo turbine of exactly the same typical size, which is now working perfectly and complies with all conditions of the CSA.

We have visited many cities around the world where equipment is localized: the equipment of Siemens, and Ansaldo, and General Electric, and Alstom which is now part of General Electric. And plants are working perfectly there, and technologies have been transferred. That is why I think that one thing should not interfere with the other. If there is an opinion that an all-Russian turbine needs to be manufactured, then it can be done, but it should not create obstacles for the localization of equipment. This is my

position.

As for discussing that “we have already agreed with someone at some time” or “what the status of the negotiations is,” I can say that there is currently no status, this is a talk we maintain to understand the basic things, and we are having this talk for our own purposes. Of course, our colleagues are aware of our negotiations, too. But we have not moved on to discussing any substantial details so far. We have around 1.5–2 years before the works on the first turbines start.

**QUESTION:** Elena Vavina, Vedomosti newspaper. Mass media wrote that T Plus was assessed at RUB 40–45 billion. You commented that the assessment is not formally completed until the parties sign an agreement. Does it mean that the business value was actually assessed via an independent audit? What was the assessment based on, and, accordingly, what issues are the parties negotiating now?

**DENIS FYODOROV:** At the end of last year, in compliance with our schedule and contract, we had signed on our part the certificate of works performed with PricewaterhouseCoopers. However, considering that the contract is trilateral, the certificate is to be also signed by Renova. And, as far as I understand, the work is not finished. And if the work is not finished, it means that Renova has not signed the certificate. This is all I can say.

PricewaterhouseCoopers is a well-known company with a global reputation. All the information was provided to them in full, and they made an assessment. They described the factors that influence the value of the company and broke the risks down by companies. The existing assessment is signed on our part. I do not know whether Renova will sign it. We are not planning to have any further negotiations with Renova now.

**QUESTION:** Vyacheslav Gorodetsky, B-Port agency (Murmansk). Once again, we have everyone talking about gas infrastructure expansion in the Murmansk Region. What is your opinion about further prospects: are those just words or real plans, after all?

Considering that the garbage reform is being implemented very actively throughout Russia, and there are proposals, inter alia, to burn garbage for energy generation purposes, what is your opinion about this prospect, along with the construction of windmill farms, speaking about the Murmansk Region, too?

A separate question about Apatity and Kirovsk: do these two towns have a chance to switch to a closed heat supply system?

Please give your comments as regards the situation with the HPP in Kandalaksha, will you let it go or not?

**DENIS FYODOROV:** I will describe the status of gas infrastructure expansion in Murmansk. I come across a lot of things about it in different mass media. Indeed, when the price for heating oil was as much as RUB 24,000, it was clear that these figures were exorbitant. And with those prices, the payback period of the project...

We are now discussing gas infrastructure expansion only in respect to the Murmansk CHPP and boiler houses in Murmansk, because their installed electric capacity is as small as 12 MW, and it can be said that they work to serve their own needs. There was a meeting in Murmansk held by Vitaly Markelov, Deputy Chairman of the Management Committee, on the part of Gazprom. An assignment was given. As of today, we have signed a contract for making a pre-investment feasibility study with regard to supplying gas to the power facilities which provide 75 per cent of heat supply in Murmansk. The results under the contract will be ready this year. This is the only official information I can tell you.

We initiated this, because RUB 24,000 is a price beyond good and evil. Of course, we compared the volumes of heating oil which were exported in the past with the volumes currently exported, and we see that the percentage has not changed. It is just that there is a decrease in the production of heating oil in the country. Unfortunately, this is an objective price, a market price. That is why we made a request, and we were assigned to explore this issue and report on it. We expect the results to be in place in August.

As for windmill farms, I am not aware of their status in the Murmansk Region, because we did not win the competition for this project. The only thing I would like to mention in this regard is that electric grid facilities need to be developed in the Murmansk Region in this scenario, because the system is already an isolated one. And even the low-cost hydropower generation which we have at TGC-1 is in practice used

as an addition to the Kola NPP. If windmill farms are added there, there will be a very difficult situation where big, day-ahead amounts of low-cost power will exist in the market but there will be no possibility to transmit them into the adjacent power systems. That would be very odd.

I will not say anything about the garbage reform, because I know all the projects selected in connection with the garbage energy plant construction, and I know about these projects not only from mass media. Let us see how their implementation will progress. In my opinion, it is extraordinarily expensive and it is a serious price surcharge for the market, which leads to a rather negative attitude towards the power sector people among consumers. Much is being said about the huge price of power, and it is also being said that non-market surcharges (this is a fashionable word to call them now) form a substantial part [of the prices] in the wholesale power and capacity market. This is not our purview, although, of course, we follow the situation in the market, and if more projects arise, we might take part in them.

As regards Apatity and Kirovsk, we are going to have a meeting with the Governor of the Murmansk Region and discuss a whole set of issues. I cannot describe them exactly right now. A while back, we considered a transition to closed schemes in the heat supply scheme. But the expenditures shown by the calculation were unacceptable for the Murmansk Region Government. That is why we will see and discuss; not everything is up to us here, after all.

As for the Niva HPP-3 in Kandalaksha, this is a hydropower plant. Our colleagues from En+ or EuroSibEnergo (part of En+), actually asked the Governor of the Murmansk Region to take the 150 MW hydropower plant away from us, although they deny it in mass media. They can deny it as long as they want to, but I even have the letter with the request I am talking about. That is why now they seem to have abandoned this project, even in public, as far as I know.

Our opinion is that this is completely wrong; we are totally against this idea, considering the power plant is a part of a cascade of HPPs. We sold the Onda River HPP in favor of EuroSibEnergo for the purpose of saving the Nadvoitsy Aluminum Smelter. But if you look at what the sale of the Onda River HPP resulted in, you will understand everything. As I understand, unemployment grew by 23 per cent there. The power plant was transitioned to the retail market, and now it sells electric power at retail. That is, the purchase of the power plant from TGC-1 was not what it was described as, it was not a social project, and this is just what we said many times. The purpose of the project was to use administrative resources to get the power station, and for this purpose a beautiful tale was told about how the cities near the Onda River HPP would experience a revival. None of this happened. This was merely a way to earn money.

That is why, as regards the Niva HPP-3, I told my colleagues right away that we follow the social situation in the regions where we work. We are perfectly aware of what happened after we sold the power station. What happened there is clear for everyone.

**QUESTION:** Irina Krivoshapka, Power and Industry of Russia newspaper. Do you plan to develop in the direction of renewable energy sources (RES), as some Russian companies do? Will it be wind energy, solar energy, or maybe some other, local direction?

**DENIS FYODOROV:** It is too early to speak about our large-scale entry into the market of non-conventional fuels. We plan to participate in the tender for 50 MW of windmill farms in the Leningrad Region. Very soon, at the end of May, we will submit a technical request, and then an economic one.

**QUESTION:** Marina Kotsubinskaya, Rossiya Segodnya agency. During the presentation, you mentioned the purchase of core assets as one of the development directions. What assets are you taking into consideration?

Have you submitted applications for the modernization of the TPP projects under the quota provided by the Governmental Power Sector Development Commission? How do you evaluate the results of the competitive bidding for the projects, and does Gazprom Energoholding have any proposals as to the adjustment of the competitive bidding? Because the Ministry of Energy plans to collect such applications.

**DENIS FYODOROV:** Let us begin with the simplest question. Every year, we say that we monitor the situation with the core assets. If any interesting proposals emerge in the market, and we deem them to be economically feasible, we apply to the relevant subdivisions of Gazprom. Today, there are no such

proposals. But, however, this is our work, we perform it, we have relevant assignments from the Gazprom Board of Directors.

As regards the Governmental Commission, yes, we have submitted the applications. I cannot disclose the information about capacity or projects, but we have made the submissions. We hope that some of our projects will be selected.

As regards the adjustment of the project selection rules, initially, we advocated a different concept. I do not want to criticize anyone now. Possibly, the perfect is the enemy of the good. Everyone has different approaches, but I think that it is, after all, important to adjust the equipment selection mechanisms, so that the price would not be the only top priority. Because in that case we will just continue replacing generators or separate elements of power stations.

Probably, this can be broken down into several elements. Because there are power stations that are in need of heat supply, and they will never, under any circumstances be selected in the competitive biddings for modernization under the current rules. And it is not quite clear what to do with them next. Must shareholders continue investing money in them, while understanding that, given the current price for power, they will never pay off?! Moreover, these investments are non-recoverable, these power stations will never start bringing profit. Say, you invest RUB 40–50 billion, and the station still brings you RUB 300, 400, 700 million of losses per year. Investment decisions like this are quite hard to make. That is why, of course, suitable mechanisms are to be provided. I think that this is very important.

We proposed to partially share the quotas for the installed capacity. Each given generation company has a better knowledge of the equipment that is in a worrying or critical condition. And not all companies have a free cash flow to perform large-scale replacement of equipment. At CHPP-22 operated by Mosenergo, we are replacing T-250 turbine, but not everyone has such possibilities. And moreover, T-250 provides a significant amount of heat, inter alia, to new consumers in Nekrasovka (a district of Moscow covered by the CHPP-22 heat supply area) and beyond. The heating pipe main is already functioning there, that is why in that case this is economically feasible.

At some meetings of the Government, I heard governors saying that “you do everything wrong, you should better invest money [in the facilities] where everything is bad.” This is some strange reasoning. It seems to me that governors should create relevant investment conditions for investors to join and invest money. Because when you have a collectability of payments at a level of 60–70 per cent for the heat energy supplied, and the tariffs are two times lower than the national average, and you still say “Let us implement this project for me, anyway” – this is not right. That is why regional authorities have to create the conditions for investments in the first place.

Let us take Moscow and St. Petersburg as an example. For quite a long time, we were, so to say, “exchanging courtesies” with St. Petersburg. But for the second year in a row now, the collectability of payments for heat energy is over 100 per cent, and this is not only owing to the work of the TGC-1 generating company. This is the result of our joint work with St. Petersburg. The city authorities realized the importance, [realized that] the investments will only come here if suitable conditions are created. I can state that, based on the results of both 2017 and 2018, the collectability of payments for heat energy in Moscow and St. Petersburg exceeded 100 per cent.

That is why, from my point of view, the rules for the selection of projects do need to be adjusted. It is required to add into the rules the indicators related to the reliability of power stations, their remaining life, both in the fleet and individually. All of this has to be taken into account. It is also required to take account of the importance [of a power station]: some stations directly depend on heat energy generation, and the proposals to build a boiler house can be implemented in some cases, but not in all cases. That is why, I think, it is necessary to adjust the selection mechanisms for modernization projects based on the results of the second selection in September. All interested federal bodies and investors will have to discuss this.

**QUESTION:** Alexey Zakharov, TASS agency. A question about Serbia. As you have told us, new projects are being discussed. Might a decision be made this year? Could you please give us more details?

According to the presentation, there are projects in China and Vietnam. What is the implementation stage

of those projects, and what is the progress towards solving these issues?

**DENIS FYODOROV:** As regards Serbia, as I have said, we have already started one project. We are now considering another project: the Kragujevac power station [with a capacity] of up to 300 MW.

As for China, we have signed a cooperation agreement, and as for Vietnam, we are at the stage of preliminary elaboration.

**IRINA KRIVOSHAPKA:** What interests you about windmill farms? Do you consider it reasonable to build so many windmill farms in Russia?

**DENIS FYODOROV:** The last quota of about 75 MW is left to be auctioned for windmill farms. The Government has not made any further decision as of today. Will there be additional CSAs for renewables? Probably, yes, but no one knows in which scope and at which price indices. Therefore, I cannot say that we are currently interested, because we do not know the conditions which will exist at the time these projects will be auctioned.

My personal opinion about the need for this scope of non-conventional energy sources is negative. And it is not because we are some backward country from a technological point of view or something like that. Until 10 years ago, the price for solar batteries was 10 times higher than it is now. And, taking into account that technologies are actively developing, the price will continue to decrease even further, for sure. Why localize the production of the equipment which will be falling behind due to the fact that in the producing countries (primarily China, if we speak about solar energy) it will be cheaper and of a better quality anyway? This infrastructure is not of critical importance for Russia, and it is not a must to produce it in our country.

The same is true for windmill farms. I think this issue is not critically important for a country with vast gas and coal reserves. Besides, one should understand that a large-scale presence of non-conventional energy (taking into account that it has a very low capacity use factor, for example, a good capacity use factor for a wind power plant is about 27 per cent, which means that the plant works for as little as 27 per cent over the time of its operation) creates the necessity of having backup cycling power units for a non-conventional energy plant to cover the entire capacity of the plant. For example, you have built a 200 MW plant, and, accordingly, you need 200 MW to be reserved for you. And this backup reserve must be able to start working at any moment and fast. It is not quite clear who will pay for the reservation, and, besides, two payments are to be made: the CSA RES payment and the payment for reservation of capacities. We also have to develop electric grids for this purpose, and the grids are to be connected to the general system of networks. This will require the construction of separate transformer substations.

That is why the reasonable solution is to include some percentage of RES into the installed capacity of the energy system in order to understand how it works, and use it in the systems which are not connected to the unified energy system and where fuel is expensive but a solar battery and/or windmill are used frequently, and, at the same time, there is a diesel generator in close proximity to provide backup reserve. In such cases it [the use of RES] is reasonable and feasible from an economic point of view.

For sure, we have some things to be done right now with regard to the national heat generation sector and our heating network! Russia is a northern country. For our people, heat is a much more socially significant product than electric power. We are perfectly aware of the condition of heating networks in many Russian regions. That is why I think that today the focus should be on the heat supply system infrastructure, as it is in need of major investments. As regards the arguments that the current tariffs for heat energy are sufficient to put the heat supply system in order... If they were, this would have been done a long time ago. Of course, it is necessary to develop nuclear power generation, but to a reasonable extent as well.

In Germany, the amount of renewable non-conventional energy sources is already so large that they are regulating them through the use of coal-fired power units. At the same time, they do not have enough cycling power units required for the reservation of the capacities they have built. Officially, they deny this, but in informal talks with energy sector representatives they express their utmost anxiety. That is why the main thing is that in the power sector politics must not prevail over the technical issues. Development is necessary, but to a reasonable extent, and only where it is required and economically



feasible.

**MARINA KOTSUBINSKAYA:** If so, why does Gazprom Energoholding need the wind energy project? If it is just to try and gain experience, then 50 MW is a rather small figure. There were estimates that the order should be for about 1 GW in order for the Company to gain a profit from the localization of its technologies. Will you buy third-party technologies or use your own technologies?

**DENIS FYODOROV:** Localized windmills already exist in Russia, so we are not going to localize anything for 50 MW. Why reinvent the wheel, considering that there is even a choice of localized equipment manufactured by Russian companies?! We never experiment for the sake of pure experiment; otherwise we would not have the financial results we have now. Without any doubt, the economic feasibility of the project is a priority consideration for us. In the Leningrad Region, the project is economically feasible.

The second point is that the Leningrad Region is our area of operation; the Lakhta Center is there. I think it would be not quite right for us to look at third-party windmills from the windows of the Lakhta Center. And, considering that the project is economically feasible, why not implement it?!

**MARINA KOTSUBINSKAYA:** Where exactly can this windmill farm be located?

**DENIS FYODOROV:** This is a decision we will make jointly with the Government of the Leningrad Region.

**MARINA KOTSUBINSKAYA:** What is the situation with the Novocherkassk SDPP?

**DENIS FYODOROV:** We are waiting for the Governmental Commission. I guess nothing depends on us now. I think we did all we could do, and maybe even a little bit more. We explained, showed, and told everything to everyone. We will wait for the Governmental Commission, and everything will be clear after the Governmental Commission [makes the decision]. It was supposed to take place today, if I am not mistaken, but was postponed.

**MODERATOR:** Questions are coming via the Internet. Roman Filkin, Prosperity Capital Management, is asking about the possibility of an asset exchange with Fortum according to the latest proposal: the HPP of TGC-1 and the heat energy business of Fortum or a part of it. A similar question with regard to Moscow: do not you think it would be reasonable to buy out the share of Moscow in Mosenergo today?

**DENIS FYODOROV:** As regards Fortum, our attitude towards this proposal is negative, as we have said many times before. I will not go into detail about this situation, everyone is perfectly aware of it, and there have been constant discussions about it for six or seven years already. Our attitude towards those proposals is negative due to an entire set of reasons, and not all of them should be disclosed by me.

As regards Mosenergo, our joint work with the Government of Moscow is going very well and, in my opinion, is harmonious. They [some members of the Government of Moscow] participate in the Mosenergo Board of Directors. They see all the problems of Mosenergo and MOEK, although they see them not the same way as they are seen on weekly briefings held by Petr Biryukov (Deputy Mayor of Moscow Government for Housing and Utilities and Improvement). We do not consider it necessary to change the stock capital structure.

**ELENA VAVINA:** A question about the possible deal with T Plus, with Renova. Have you reached any agreement with the Federal Antimonopoly Service? Have the parameters of this possible deal been discussed with the FAS, and have you gained any preliminary consent, or an understanding that the deal will be approved?

**DENIS FYODOROV:** We have not discussed anything with the FAS. It is too early to apply to the FAS, because, and I want to say it again, we made an assessment in broad lines, so there has been no proper assessment made in the way it should be made when companies are uniting. We wanted to see how much we agree or disagree as regards the value of the company and its further management mechanisms if it becomes a joint company. That is why, in my opinion, it will be reasonable to apply to the FAS only after we agree on something. If we have not agreed on anything today, there is no sense in applying to the FAS. We can do the work for the sake of work, but I think it is unreasonable at this stage, especially given that we already applied to the FAS several years ago. And we withdrew our application on our own, because

we understood that we were far from reaching an agreement. We do not want to repeat the mistakes we made in the past and go around in a circle again and again. If we agree, then we will agree; if we do not agree, then we will not apply to the FAS.

**MODERATOR:** Thank you. The Press Conference is over.