

Press Conference
Gazprom's Power Generation Strategy

May 11, 2016

MODERATOR: Good morning, colleagues. Today we start a series of Press Conferences in the lead-up to the annual General Shareholders Meeting of Gazprom. As usual, the Press Conferences will be dedicated to the Company's major activities. Today we are going to discuss power generation. Taking part in the Press Conference is Denis Fyodorov, Directorate Head at Gazprom and Director General of Gazprom Energoholding. First, Mr. Fyodorov will say a few words about this business segment's performance in 2015, and then we will pass on to questions. Please.

DENIS FYODOROV: Good morning, dear colleagues. I will try to give you a brief overview of the presentation and then proceed to your questions if you have any.

I will not touch upon the general issues and problems the power industry is facing today, as we are only accountable for Gazprom Energoholding and its subsidiaries. I will just highlight the fact that, in our point of view, the key problems of most generating companies have now spread from the electric power industry to the thermal power industry. And the new regulatory acts adopted at the federal level, on the one hand, aim to improve the situation with payments for heat supply, but, on the other hand, they might have a strongly negative effect on housing & utility managing companies. This is why I think that the establishment of a consistent and reasonable financial discipline is of primary importance to both managing companies and Russian regions. As I said at the extended meeting of the Russian Energy Ministry Board and during the review of the autumn/winter period, which involved representatives from all Russian regions, the new legislation introduces heavy penalties for non-payers of utility bills, in particular, for heat and electricity supplies and for deliveries from other resource providers.

(Slide 2) The year's key events are listed in the slide. As regards operating activities, our electricity generation has reduced against 2014. But it is not a problem at all, because our revenue under the Russian Accounting Standards has remained at the same level with a slight increase, and EBITDA under RAS has grown by 20 per cent. It means that we try to produce electricity at power plants that generate income and to reduce the output of the power plants with low financial performance.

More details about our investments and capacity supply agreements (CSAs) to follow *(Slide 6)*. This year we commissioned a number of power units at the Serov SDPP, CHPP-12, and CHPP-20 in Moscow. It received considerable media coverage, as some of the power plants were launched by Russian President Vladimir Putin via a video call. The reconstruction of a 330 MW power unit concluded at the Ryazan SDPP. The investment program has been executed by 84 per cent in physical terms and by 87 per cent in monetary terms. It is essentially nearing completion.

As for heat supply, it fell by about 7 per cent due to weather.

Based on the results of this year, the main developments we're expecting include the dividend payout growing to 35 per cent at Mosenergo; at least, we are submitting this proposal for consideration to the Shareholders Meeting. The payouts will constitute 35 per cent of the net profit for Mosenergo and TGC-1 and 20 per cent for OGC-2. OGC-2 hasn't completed its investment program yet, as you will see in more detail on a later slide, so we'll only have 20 per cent there. Pursuant to a decision of Gazprom Management Committee Chairman Alexey Miller, we will pay 35 per cent in all of our subsidiaries starting next year.

This year we delegated the powers of the sole executive body of Mosenergo and MOEK to Gazprom Energoholding. That was another stage of our strategy we have long and systematically prepared for. Having worked in that capacity, we believe that the annual results of MOEK and Mosenergo are generally consistent with our expectations. Later on, we will take a look at a

more detailed slide with financial results (*Slide 4*).

There has been an increase in stock prices of the generating companies since early 2016, but I wouldn't attach much importance to that, because I don't think the companies' financial performance and the operational efficiency of their managerial staff have a major influence on the stock value today. The companies' shares are strongly undervalued now, which can be explained by the ongoing changes in global financial markets. Gazprom Energoholding Group has nothing to do with this.

Amid the growing stock prices we are selling off our non-core assets – the shares and property the companies had on their balance sheet. Again, we are bound by rather tight restrictions imposed by Gazprom on selling shares of non-core companies, and we act in strict compliance with the instructions issued by Gazprom's financial department and the Board of Directors.

As for the sales of real property assets, we have no intention to get rid of the real property at any price. When we think that an asset is undervalued, even if the price is consistent with the market appraisal, we prefer to give up the deal or set it aside. It's well known that there are no favorable price benchmarks for commercial real estate right now, so we sometimes prefer to wait for better offers.

(*Slide 3*) Production results: I have already talked about them, so I won't discuss each company individually. Everything is presented in the slide: heat supplies, electricity output. I will comment on them later if necessary, but you have the documents and the slides, so I don't think you will need that.

(*Slide 4*) Financial results under RAS. I have already mentioned the revenue. Mosenergo is showing an increase in revenue, which is largely due to new CSAs at CHPP-12 and CHPP-16 (*new power units CCGT-220 and CCGT-420*). As I have already said, they have been put onstream and the revenue has grown accordingly.

Regarding net profit: as you can see, we managed to get quite decent results at MOEK, bringing the losses of nearly RUB 7 billion down to RUB 500 million. Of course, it's still far from perfect as, unfortunately, things were not so good for us last December. The weather was very warm and it resulted in a loss of this particular amount of RUB 500 million. In January we did better as the average monthly output of thermal energy was a little higher than in 2014. However, we don't take the January figures into account; we only consider 2015. Still, I think that a more than tenfold loss reduction proves we are moving in the right direction in terms of establishing a sole executive body for MOEK and Mosenergo.

(*Slide 5*) The companies' debt burden across Gazprom Energoholding remains at a level of 2.5. The main debtor today is OGC-2, which owes quite a sizable debt. However, as soon as we bring onstream new power units at the Troitsk SDPP and Novocherkassk SDPP, and I think this will happen before June 30 – I do hope we will manage to do it before the Gazprom Shareholders Meeting – the figures will change dramatically.

(*Slide 6*) The investment program of Mosenergo has been implemented in full. The unspent balance makes up only 3 per cent – those are the remaining retainages. The data on TGC-1 is not quite accurate: there is 7 per cent of underperformance indeed, and we only need to commission one power plant, which, in terms of capacity, makes up these particular 7 per cent, but it won't be TGC-1 that will provide financing. I'm talking about the power unit at Power Plant No. 1 that we are building in the center of St. Petersburg. It won't be financed by TGC-1: the funds will come from a special-purpose company through borrowing. One could say that, in terms of financing, TGC-1 has fulfilled its CSA obligations 100 per cent. That's why our dividends make up 35 per cent.

On to OGC-2: as you can see, it's due to these two power units – a coal-fired power unit at the Novocherkassk SDPP and another one at the Troitsk SDPP – that we are unable to complete the

investment program. The general contractor for the Troitsk SDPP, with its 660 MW coal-fired power unit and Chinese-made equipment, is Quartz – New Technologies. And the general contractor for the Novocherkassk SDPP, with its 330 MW power unit using the circulating fluidized bed technology, is VIS CG.

(Slide 7) Dividends. We pay out 35 per cent for Mosenergo and TGC-1 and 20 per cent for OGK-2. The ratio of debt to EBITDA stands at 2 in both Mosenergo and TGC-1. It's clear that the companies are financially sound; they easily service their debts and show good results. As far as OGK-2 is concerned, again, here we have a problem of small earnings rather than high expenses. By bringing onstream two coal-fired units with a total capacity of 990 MW, we will strongly boost our revenues and reduce the debt to EBITDA ratio.

(Slide 8) Cost reduction programs. We discuss them every year and we have a consultant in each company for that. Of course, the best results last year were demonstrated by MOEK, and it's reflected in the company's financial performance. The other companies are performing well, maintaining a good working pace and trying to optimize their costs, although this could potentially affect the reliability of our energy equipment, as we are in a rather difficult situation right now.

We had a rather unpleasant incident at TGC-1 this year. However, we managed to get it under control very quickly. Accidents do occur at complex industrial facilities; the most important thing is that they do not become systemic. Those are large and very complex systems with strict requirements for personnel and equipment, including new equipment. Incidents occur in other countries as well; foreign companies also have to face them. Our task is to study them, learn from our mistakes, and prevent them from reoccurring. Although, considering the state of the power industry, namely, a 17 per cent decline in prices during the competitive capacity auction compared to last year, we think that it will affect the company's repair costs anyway. It can't be otherwise.

(Slide 9) Stock price growth. I won't dwell on this matter as I have already expressed my view. In my opinion, the Russian stock market is largely influenced by something other than the financial results of companies, by some other factors beyond our control. The information that we are going to pay higher dividends might also have had an impact. But, from my point of view, all of our companies are strongly undervalued.

(Slide 10) I'd like to go through the challenges facing our company. Firstly, it's debts, that's a key problem. Debts in the power generation market are rather heavy, and the North Caucasus owes the greatest debt, standing, as usual, at the top of the debtors list. Unfortunately, we don't see any measures being taken to approach this problem. We can give many different examples of how this issue was brought up at the meetings at different levels. But as of today, we have to admit that the North Caucasus debt is not decreasing. Of course, the North Caucasus is not the only problematic region, but its problems are most acute.

This year, the situation in St. Petersburg's heat supply market has deteriorated considerably. Some negative signs were already present last year, but we didn't lose hope. A number of meetings were held: I personally met with the Governor, and a little later Alexey Miller and the Governor signed, at a higher level, an Agreement of Cooperation between Gazprom and St. Petersburg. The document reflected concerns about the unabated debt growth and the need to repay debt as soon as possible. The figures in the slide show quite clearly how the debt accumulates. It needs no additional comment. Most of these companies are controlled by the municipal authorities; in fact, these are managing companies with 50 per cent ownership by the city government. No actions are being taken to put things right and it's getting worse every year.

We realize that payments are a nationwide problem, but we can refer to Moscow or Murmansk where the regional authorities are taking measures and the Governors together with Vice Governors are directly involved in dealing with these issues. Here, discussions are for some

reason taking place at the St. Petersburg Legislative Assembly, which, to my great surprise, was among the non-payers for heat supplies. They did pay off their debt later – under the threat of disconnection – but their attitude to this issue has been clear.

All Russian regions we're working with have managed to develop payment mechanisms. Once again, I will mention Murmansk where the tariffs are considerably higher and the standards of living are admittedly lower than in St. Petersburg. Nevertheless, by working with the Governor, we managed to defuse the problem within two to three years. We just sat down at the negotiating table, set our priorities, and started moving toward them. Each of the parties learned its lessons, and we ended up solving all of our grave problems. So I wish to thank the Murmansk Region's Governor once again: it really takes a lot to meet such a difficult and complicated challenge.

It's the same with Moscow: when difficulties arise, we get the appropriate instructions and a week later we all – our company, the prefectures and the managing companies – report on our actions aimed at reducing debt, signing debt restructuring schedules, and implementing them. I mean, those schedules are not just signed to end up in a shredder, but to be implemented. The Moscow Government represented by Deputy Mayor Pyotr Biryukov demands results from all responsible officials every week.

Unfortunately, in St. Petersburg we mostly communicate through press, despite the documents signed by top officials. Honestly, it's beyond my comprehension. I saw the latest documents sent by the Legislative Assembly of St. Petersburg. I was quite surprised. After all, it's very easy to discuss our investment program. It's shown very clear in the slide: the St. Petersburg Tariff Committee, which is a subdivision of the St. Petersburg Government, allocates RUB 1.8 to 2 billion for investments in heating networks as part of St. Petersburg Heating Grid's investment program. It's what they provide for, the city authorities themselves. We spend nearly twice as much – RUB 3 to 4.5 billion a year – on Heating Grid's investment program using the funds of TGC-1 (St. Petersburg Heating Grid's parent company). Even after that, they take us to task, saying: "Let's take a look at your rates." Well, look at our rates! And then some company named Teploenergo shows up and gets a rate 40 per cent higher than ours. How can this be? MPs should wonder first why that company's rates are higher than ours instead of taking interest in our rates, which are, by the way, the lowest in the city. No one has lower rates here.

We are owed money, we have the lowest rates, and yet, we are subjected to severe criticism from all sides. We wrote a letter to the Russian President and received a response from the Ministry of Energy, pointing out all the existing deficiencies. But these deficiencies need to be tackled! Today, as far as I know, another letter is being written, this time to Russian Prime Minister Dmitry Medvedev. The Ministry of Energy held a meeting where our colleagues from St. Petersburg were explicitly instructed what they should do and how. Unfortunately, nothing is being done.

We can't even resolve the problems with St. Petersburg's Joint Computing Center of the Multi-Branch Housing Complex (VTsKP). I'll give you just two figures. In Moscow, all payments are included in a single payment document. The Multiservice Center, which handles all of the city's payment transactions, charges us zero per cent, while the Bank of Moscow, which processes all payments and splits, has a 0.5 per cent agent's commission. Whereas in St. Petersburg, VTsKP has a commission of 2.65 per cent for housing payments and 1.75 per cent for other services. This service agent, which by now, I think, is widely unpopular and notorious, is unable to either properly collect or properly split funds, although it regularly collects those 2.65 or 1.75 per cent. It's too much, in my opinion. I wish the situation in St. Petersburg were vastly different, considering – I repeat once again – that the funds we are asking to pay us back are overdue receivables. We won't use the money to distribute net profit among our shareholders; we will invest them in heating networks – we say that with full responsibility.

Thank you for your attention. I apologize for getting somewhat emotional.

QUESTION: Marina Kotsubinskaya, RIA Novosti agency. Mr. Fyodorov, when you were talking about the transition to dividend payouts in the amount of 35 per cent of the net profit, did you mean RAS or IFRS?

DENIS FYODOROV: This year we will use RAS, next year it will be IFRS.

MARINA KOTSUBINSKAYA: Could you give us the net profit forecasts under IFRS for Mosenergo, TGC-1, and OGK-2?

DENIS FYODOROV: The forecast for 2016 is only under RAS, not IFRS. The net profit is RUB 1.4 billion for OGK-2, RUB 1.1 billion for TGC-1, and RUB 3.9 billion for Mosenergo. Not all of these figures have been approved under business plans; they will be adjusted in the middle of the year. There are various external factors that could have an influence, like several draft laws concerning CSAs and other issues, and they could affect the financial indicators, hopefully for the better. This is a rather conservative forecast. Perhaps we will revise it mid-year.

QUESTION: Olga Myagchenko, Delovoy Peterburg newspaper. You said last autumn at the St. Petersburg International Gas Forum that you had approached the St. Petersburg authorities with an offer to exchange TGC-1's 75 per cent stake in St. Petersburg Heating Grid for the generating capacities of St. Petersburg Fuel and Energy Complex (TEK). Does the offer still stand? Have you officially approached the city government? Do you know what generating capacities could that be and how many? What is your current assessment of the 75 per cent package? Is the issue of Heating Grid related to debt recovery?

DENIS FYODOROV: From our point of view, selling Heating Grid won't resolve the debt issue, because, regardless of Heating Grid, the distribution function is vested in TGC-1. And the debt problem can't be settled by doing that. If they can offset it in any way, of course, we are ready to consider this option. We are aware of an unofficial opinion that our asset is worth one ruble and TEK's assets are rather expensive. We don't think it's reasonable to start the negotiating process based on this attitude. We had a price estimate when we were getting ready for the deal: it was made by someone from the 'Big Four.' The asset's worth was estimated at approximately RUB 6 billion, and we presented an interest-free installment plan for 24 years. That is, the city authorities would have to pay an average of RUB 300 million per year. Unfortunately, this deal was not concluded then due to a variety of reasons.

QUESTION: Anton Khlyshchenko, TASS agency, St. Petersburg. You didn't answer whether the negotiations on selling Heating Grid shares to the municipal authorities are still on the agenda. And could you please tell us how you approached the city government: was it an oral request or did you send a letter? St. Petersburg Vice Governor Igor Albin said he hadn't received that letter from you.

DENIS FYODOROV: We only have working contacts with them these days, while no official action is taken. What's the point of writing a letter after hearing that our value is equal to zero or even less than that? We think it is wrong and pointless to write any letters. If the parties are not ready to negotiate from the beginning, why should we try at all? To work for work's sake – warm up if not catch up – is not quite right, in my opinion.

Let's focus on repayment of debts. I think I understand the intentions of the city government: they want us to bankrupt housing maintenance companies so that there will be no candidates to replace them through a bidding procedure. Then they would say: "You bankrupted them, and that's it." However, we will soon develop a set of measures and take a different path, which, I think, will be more efficient. Unless there is goodwill on the part of our esteemed colleagues.

I remember reading letters addressed to me by Andrey Bondarchuk, Chairman of the St. Petersburg Committee for Energy and Engineering Support. You know, there are no words for that. It makes no sense to write any letters to anyone after reading those, with out-of-context excerpts from legislative acts and comments like, "It's absolutely impossible, the city budget

can't transfer money to TGC-1." As if TGC-1 asked anyone to transfer money from the budget to our account. Of course, it's not the right way of doing things. At the same time, they can easily use special-purpose allocations provided for repayment of debts as a means to increase their net worth. What's the problem here? Neither the Tax Code nor the Budget Code prevents anybody from doing this, and this is what they often do. Now, can the city authorities transfer money directly to TGC-1? No, they can't. It's undeniable. However, there are other ways and I don't know why they are not being used.

QUESTION: Anastasia Lyrchikova, Reuters agency. My question is about Gazprom Energoholding's future strategy in the power industry. The CSA program will end after 2016 and only the Grozny TPP project will continue. What will you do next? What new challenges and investment targets do you have?

Are you still committed to the development plan of Gazprom Energoholding as regards the initial public offering – IPO launch – and in what timeframe? Or has that plan been discarded?

DENIS FYODOROV: We haven't made a decision regarding the Grozny TPP yet; we are preparing materials for the relevant departments of Gazprom. By now, the site is fully ready for construction and the project design is completed. It might be adjusted if the Gazprom Board of Directors resolves to build the TPP. The engineering solutions might be adjusted in favor of full transition to the Russian currency. We received an offer from a Russian manufacturer and it is free from the foreign currency component, as well as an offer from a foreign company, also free from the foreign currency component. So maybe we will change the TPP configuration a little if the Board of Directors approves the construction project. As of today, the decision is yet to be made and the project documents are under review by the relevant subdivisions of Gazprom.

About the IPO: we currently believe that the fundamental value of the company's shares is considerably underestimated. We would be glad to enter the IPO market, but it makes no economic sense right now.

As for our next steps, after we finally settle all the issues related to establishing a sole executive body for Mosenergo and MOEK, where there is still a lot of bureaucratic complexities and uncertainties, we will adopt the same policy with respect to our colleagues from St. Petersburg and OGK-2.

Everything else – share consolidation, IPO launch – will depend on the global market environment. If we see that our companies' stock prices reflect their fundamental value, then, of course, we will start actively preparing for the IPO. Right now, we think it's not exactly economically viable.

QUESTION: Vitaly Sokolov, Energy Intelligence. Mr. Fyodorov, I also have a question about strategy, namely, Gazprom's strategy in the international power markets. Gazprom stated that it contemplated taking part in gas-fired power generation projects in China. I would like to know if you are involved in discussing some projects with CNPC and, possibly, other Chinese companies. Are you talking about any specific projects already? Are you only discussing new construction projects or are there any operational assets in which Gazprom could acquire a stake? And the other way round: could Chinese companies acquire stakes in Russian assets?

DENIS FYODOROV: We act in working groups set up by Gazprom to explore various options; we don't work with anyone independently.

We only have Gazprom Neft's project in Serbia: an agreement with NIS was signed at last year's St. Petersburg International Economic Forum. A bidding procedure is underway; the prequalification stage is over: we selected three companies out of 20 bidders. So now we're waiting for the final decision of Gazprom and Gazprom Neft's Boards of Directors. If we get an approval, we will go ahead.

From my point of view, the project is economically expedient: construction is carried out in

Europe, according to European rules and standards, using European funds. There are only major global companies, which have extensive experience in constructing such facilities in a very short period of time. We like the project very much, to be honest, as everything is rather clear and transparent: it's about heat and electricity supplies under long-term contracts. The power plant owned by NIS is outdated and worn out; it needs to be replaced. So we think this project is economically efficient. We still need to obtain all the required approvals. They gave us a provisional go-ahead, and now we'll have to go through all the review procedures.

As for other international projects, we run them in working groups and offer our expert opinions.

ANASTASIA LYRCHIKOVA: I have one more question about the bidding procedure held by the System Operator of the Unified Energy System. The qualifications-based selection for the construction of generating capacities in Taman is now underway. Is your company going to decide whether you will participate in the competitive procedure for Taman?

Could you also clarify your answer concerning the strategy? In addition to the IPO, Gazprom Energoholding could find some other growth opportunities after the compulsory investment program is completed. Could you name any investment areas you are interested in?

DENIS FYODOROV: We haven't made a decision on Taman, as we have never participated, or considered a possibility of participating, in this project. We didn't think of doing it; we haven't seen the bidding documentation. Or rather, our experts looked it through to study the development process, find out something new or learn new rules, maybe. But we have never thought of participating in this bidding.

As for other growth opportunities, I believe that we have already spent a lot of money, to be honest, and now it's time to gather stones together. This is why we are ready to take part in interesting projects, should there be any, on the condition that they are absolutely straightforward and receive approvals from all subdivisions of Gazprom.

Our stance on this matter is quite clear-cut right now: we do not join any project until we have a go-ahead from the department responsible for the Company's financial strategy or from the Gazprom Management Committee Chairman. The revenue that our company generates is not spent on whatever we want, because we always coordinate our spending, just like with borrowed funds. If any interesting projects come up, we will communicate and coordinate them with all departments. We are consolidating into one group and it's crucial to make sure that everything is well-balanced and precise. Some projects could seem interesting to us but be premature or unnecessary from the viewpoint of a big company.

We don't have any definite plans for now, but it doesn't mean that we don't keep track of the markets. We look at proposals that emerge. I have been asked about the Reftinsky SDPP – of course, we could make a preliminary assessment with regard to the Reftinsky SDPP, but through a normal negotiating process unlike what the UBS bank offers to us.

QUESTION: Polina Stroganova, Interfax agency. I would like to find out more about a certain deal. According to the list of affiliates of Tsentrenergoholding, Kazakh coal trading company Angrenor Trading is now an affiliate of Gazprom Energoholding. Could you explain why this was done? Will it become a wholly-owned subsidiary of OGK-2 as initially planned? What effect do you expect it to have?

DENIS FYODOROV: At the moment, the deal structure seems optimal to us, with Tsentrenergoholding owning 99 per cent and OGK-2 owning 1 per cent. Actually, our motives are quite clear: we buy coal, and the negotiations with our Kazakh partners have always been very complicated. There has always been a foreign currency component in those contracts. It took us a while to do away with the dollar component in those contracts, switching partly to rubles and partly to tenge. Naturally, it's all very complicated, which has strongly affected coal supplies. There are also complex internal arrangements between coal producers.

This is why we decided that having our own resource base would be best. You know, the ash dump is located in Kazakhstan; it will be easier for us to interact with the heads of the Energy and Environmental Protection Ministries. If we act as a full and rightful participant in the project, by building an ash dump in Russia for example, it will be just perfect for us.

We expect this purchase to help us solve a whole set of existing problems. We are not going to change the deal structure today or in the medium term. We think that OGK-2 has a considerable debt burden, so as soon as they deal with it, we may go back to revising the deal structure. We are not going to revise it at present.

POLINA STROGANOVA: How much did you pay?

DENIS FYODOROV: No payment was made at all: it was debt redemption. The deal is worth around RUB 2 million.

QUESTION: Olga Kvashina, Krasnoyarsk SDPP-2. The company's strategy is probably closely linked to the regional development strategy. Do you have any examples of setting up new production facilities in Gazprom Energoholding's areas of operation and of consumption growth in the regions where your power plants are located?

DENIS FYODOROV: We had talks in Pskov with the companies that wanted to build a number of facilities near the power plant in order to gain access to the infrastructure – the heat and power supply networks. Denis Bashuk, Director General of OGK-2, can provide more details on the issue. For all I know, the negotiations are in progress, but the work has just begun. I hope for the emergence of potential investors willing to build something, especially since we have enough land for our potential investors. It goes without saying that the terms of connection to the power and heat supply networks of OGK-2 will be as favorable as possible.

QUESTION: Alexander Serebryanikov, blogger51.com. The Murmansk Region approved a program for upgrading the housing & utility and heat supply system until 2025. It provides for reducing the number of boiler houses, upgrading the existing boiler houses, and constructing new, coal-fired ones. At the same time, according to the documents presented at the meetings of the regional government, SUEK will be the main coal supplier. Do you know about this process and will you participate in it?

DENIS FYODOROV: I have already stressed that we have a working relationship with the Murmansk Region's authorities. And we regularly meet with Governor Maria Kovtun. Of course, she informed us about her plans. As far as I know, she visited the Siberian Generating Company and saw those facilities.

Still, I see two risks here. I believe that the optimal energy supply mechanism – and this is not just my opinion – includes setting discount rates for energy generated by the Kola NPP and ensuring maximum load on electric boiler houses and minimum load on fuel oil-powered generating facilities. Because, in my opinion, all the semi-fixed costs are already embedded in the Kola NPP's rate. Higher power output at a discount rate will only boost the NPP's revenue and profits as they have no semi-variable costs there. They just have to do this. I know that it could bring about opportunities for others like Krasnoyarsk, but here, I believe, the situation is magnified. I think it would be optimal: the least costly and risky solution in terms of attracting large investments.

What risks are involved with the construction of coal-powered generating facilities? The first issue is the cost. They require huge investments. One will never build anything with just RUB 2–3 billion. The second issue is the environment. Of course, ash dumps will be created. It doesn't mean that there are no environmental concerns about our plant – the Murmansk CHPP – which we discussed at our latest meeting with the Governor. We have developed an environmental mitigation program and we are going to implement it. The required funds have been earmarked in the investment program of TGC-1 and those measures will be adopted – I promise you this.

As for coal-fired power generation, the second thing that scares me is that all coal delivered there is from abroad: basically, there is a shipment terminal, a sea port, and the coal price is highly volatile. It can swing every quarter. It's clear that everyone who transports coal through the Murmansk sea port will use the netback pricing method, inverse to the cost of coal delivered via export routes. As a result, we could build a rather expensive boiler house or power plant with a very high fuel component. We could spend a lot of money on ash dumps, desulfurization systems, and dry ash handling, which is also quite costly. So I would think twice before making such a decision.

Moreover, it's necessary to determine who will be the investor and under what guarantees. If there is a long-term rate, a CSA equivalent or anything like that, we will be ready to consider it. We need to figure out the cost of coal: the way it will be fixed and reflected in the price. We have already worked under long-term contracts, triennial contracts with a fixed price and interest. With SUEK, we fixed the interest growth for a three-year period, and at the time of signing the contract – it was about six years ago – we provided for a certain annual average growth rate. Then the situation in the global coal market suddenly changed, and we had to complete the contract that was not very profitable for us at the time.

These are all very complicated issues accompanied by high entrepreneurial risk. So I would choose the way of minimal investments, namely, by loading electric boiler houses and introducing a special rate for the Kola NPP. I think this could generate high revenue for nuclear workers. I don't know how high it would be, but still. It's just an increase in the load at a nuclear plant. All their semi-fixed costs are reflected in the rate. The capacity rate offsets all costs. That is, the output grows naturally. This is why I think it's the most appropriate option.

The construction of a coal-fired power plant should be well-planned and based on a mechanism similar to a CSA. Then it will be worth considering. Again, environmental problems are still present. We also shouldn't forget about the Paris Climate Change Conference that took place in November-December 2015. It could cause significant growth in payments for sulfur oxide and nitrogen oxide emissions. As far as I know, all the agreements have been reached and the documents will be signed, although I still have no idea how this will affect coal-fired power generation. As this sector is now declining in Europe in terms of output, while gas-fired power generation is on the rise, payments for coal-fired plants may increase greatly. This should also be taken into account when the decision on building a coal-fired plant in the Murmansk Region is made.

QUESTION: Svetlana Turyalai, *Energiya Yuga* magazine. Mr. Fyodorov, you announced a special business program last year. What is its status? Did it meet your expectations?

My second question is about the North Caucasus debt: what position did the regional authorities take? Do you see any constructiveness and willingness to settle this debt on their part?

DENIS FYODOROV: The program has been launched and negotiations with potential investors are in process. For the time being, it's difficult to point out any particular improvements. Hopefully, in a year we will be able to give a clear answer on whether we will have obtained any results or, regrettably, failed to attract any investors.

As for settling the North Caucasus debt, this issue should be addressed at the federal level. They don't even call us to meetings on this issue. Those meetings are held by the Russian Prime Minister and President these days, and our company is not represented. Instructions are given, and they are carried out differently in different regions. Today, however, we don't see any positive dynamics in that area. So, unfortunately, things are the same here as they were last year.

OLGA MYAGCHENKO: You said you were not going to bankrupt housing maintenance companies in St. Petersburg, as you have other options. Could you elaborate on those options?

DENIS FYODOROV: Not at the moment. I don't mean we refuse to bankrupt housing

maintenance companies; it's just one of our mechanisms. But we think we will find much more efficient ways to influence those companies. Failing that, we will have to bankrupt them.

From my point of view, like I always say – I see colleagues from St. Petersburg, from Kommersant here – let's conduct an experiment in one district, let's convert them to direct payments. The legislation allows us to do this. I just want you to spare us double payment bills, petitions to the Prosecutor General's Office, and so on. Let's do it the simple way, by letting the heat supply subdivision of TGC-1 send bills directly to the population, bypassing VTsKP. According to our data, 97 per cent of St. Petersburg consumers pay for heat supplies. Where this money goes, I don't know. The figures that I have mentioned – 2.65 per cent for housing and 1.75 per cent for other services – are withdrawn by VTsKP immediately. Let's conduct an experiment in one district and bill the population directly as they do in the electricity sector. Let's try this: introduce a direct payment system and practice it for 1.5 to 2 years. If our experience is positive, we will give up VTsKP altogether.

However, we need the city authorities to support us. Meanwhile, their authorized officials say without hesitation, "Guys, we will do anything to keep you from this, just about anything: we will apply to every law enforcement body, we will mess with you through St. Petersburg TV. We will send two or three payment bills at once and they will differ in price." We know that this could lead to major social turmoil. Heat accounts for some 50 per cent in a citizen's bill, excluding the housing overhaul payment, and it used to be 40 to 50 per cent depending on the region before that payment was introduced.

As you can imagine, we don't want to cause social turmoil. We strive for constructive cooperation. Since we can't cooperate successfully with VTsKP for the fourth year in a row, let's move on to direct payments. If, figuratively speaking, there is no hidden interest in it and, as some St. Petersburg authorized representatives put it, "It's just a calculator for transferring money," let's do away with the calculator! We, as an energy supply company, say: "We don't want this calculator; we don't need it; it's inefficient." They tell us: "No, work with VTsKP." Alexey Barvinok, Director General of TGC-1, tells me that we already have experience in Petrozavodsk and Murmansk. It shows that transition to direct payments could solve all of the problems that we have here.

MODERATOR: Thank you very much. The Press Conference is over.