

Address by Denis Fyodorov
at the meeting with chief editors of Russia's regional mass media

March 19, 2010

(Slide 1)

The power generation sector is nowadays a natural supplement to the Gazprom Group's gas business.

Gazprom entered the power generation sector in pursuance with the Group's business diversification strategy. Over the past 4 years, this sector has progressed from nearly the ground level to the level notable not only within Gazprom, but on the global scale as well. As a result of proactive participation in the RAO UES restructuring, Gazprom transformed into a largest owner of power generation assets in Russia and outstripped such companies as RosAtom and RusHydro. The installed capacity of power generation assets of the Gazprom Group accounts for 36 GW, which is 16 per cent of Russia's total.

At the same time, Gazprom is one of the world's top ten power producers. This is confirmed by the data on electric power generation by the Gazprom Group's assets, which totaled 180 billion kWh in 2008.

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Why is the Company so interested in the power generation business?

Approximately one-third of the total amount of natural gas consumed in Russia is used to produce heat and electric power. The Gazprom Group's power generating companies account for some 40 per cent of this amount.

There is an inverse relation: Gazprom is one of Russia's largest electric power consumers.

Gazprom was not the first to integrate power generation and gas businesses together. A number of global energy companies went the same way and expanded their scope of business. In Europe this may be exemplified by:

- Ruhrgas acquired by E.ON;
- Italian Enel's engagement in the gas business.

We suppose that integration of the gas, oil and power businesses will ensure the synergy of the Company's activities. This slide demonstrates the role of power generating companies within the Gazprom Group structure both in terms of revenues and capitalization. Based on the Company's statements for 9 months of 2009, the power generating companies (Mosenergo, OGK-2 and OGK-6) yielded 6 per cent of the Group's revenues. The results of TGC-1 were not consolidated in the Gazprom Group's nine-month statements. The aggregate capitalization of Gazprom's shares in four power generating companies adds up 3 per cent to the overall capitalization of the Gazprom Group.

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This slide shows the current structure of Gazprom's power generation business.

The backbone of Gazprom's power generation business was formed as a result of RAO UES restructuring and participation in the distribution of additionally issued power generating companies' shares.

Gazprom set up Gazprom energoholding, a vertically-integrated company that manages four major power generating companies: Mosenergo, TGC-1, OGK-2 and OGK-6.

In late 2009 these companies were finally consolidated within Gazprom energoholding.

Moreover, Gazprom energoholding owns the stakes in other power generating companies and Russian power generation market players that represent the Company's non-core assets.

In addition to efficient management of key power generating companies, Gazprom energoholding faces nowadays the challenge of optimizing the asset structure, which may be tackled through non-core assets swapping for the power generation assets that are of interest to Gazprom.

The Gazprom Group also comprises:

- Mezhregionenergosbyt – one of Russia's largest energy distributors so far;
- Gazprom energo – an operator of low- and medium-voltage power supply networks owned by the Gazprom Group companies.

In addition, the Gazprom Group is implementing projects for new facilities construction:

1. 2nd power generating unit at Kaliningrad CHPP-2 (capacity – 450 MW);
2. Adler CHPS (capacity – 360 MW).

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As has been noted, the Gazprom Group acquired the bulk of its power generation assets during the RAO UES restructuring and distribution of additionally issued power generating companies' shares.

In late 2009 the decision by the Gazprom Board of Directors was implemented on consolidation of these assets within Gazprom energoholding.

Power generating companies of this energy holding are efficient and competitive players of the energy and capacity market:

- **Mosenergo** is the world's largest heat generating company.
- **TGC-1** is the largest company of the northwestern region. As compared to other energy producers, the advantage of TGC-1 is that hydropower assets generate around 50 per cent of the company's electric power.
- **OGK-2** is a power generating company with the biggest share of natural gas in its fuel mix. OGK-2 owns one of the largest gas-fired power stations in Russia – Surgut State District Power Station (SDPS-1).
- **OGK-6** is the second largest company in terms of installed electric capacity and installed thermal capacity among wholesale power producers.

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In 2009 the power generation market was burdened with the economic crisis. Electricity demand was declining throughout most of the year at the rate of over 10 per cent in certain periods. Relative stability on the market was observed closer to the year end (in September – October). A drop in consumption was accompanied by a price decrease in

the deregulated market sector.

Nevertheless, the crisis year of 2009 was unable to impair the companies' operating results. Even despite an adverse market situation, the new power generation assets demonstrated rather impressive operating results. Judging by the interim profitability indicators we may expect positive annual results. Based on the 2009 results, the EBITDA indicator has grown considerably in all the companies:

- by 86 per cent in Mosenergo;
- by 111 per cent (more than twice) in TGC-1;
- by 404 per cent (five times more) in OGK-2;
- by 132 per cent (more than twice) in OGK-6.

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In late November the Market Council non-commercial partnership approved a new verification procedure for compliance of capacity sales price quotations with feasibility requirements, which had previously been the key factor of uncertainty related to the return on investment in power generating companies. According to the newly-approved procedure, the payback period covers around 12–15 years with the average capital value (net of inflation) of 9.6 per cent. Clarification of the new capacities price is of utter importance for power generating companies. The mechanisms for assessing the amount of payments for capacity use and their size make a considerable impact on the economics of investment projects and power generating companies in general.

The procedure approval enabled Mosenergo to acquire RUB 533 thousand per 1 MW a month in 2010 for the new capacities instead of the last year's RUB 370 thousand per 1 MW.

The new capacities account for 11 per cent and provide Mosenergo with around 36 per cent of revenues.

The new capacities account for 3.7 per cent and provide TGC-1 with around 15.6 per cent of revenues.

At present, the Energy Ministry is negotiating with all the market participants to finally

define the long-term capacity market parameters that will be included in the Decree by the Russian Federation Government.

The long-term market launch is the main prerequisite for ambitious investment programs implementation and an impetus for investments engagement into new generation capacities construction.

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Gazprom is the most responsible investor in the Russian power industry and all the investment projects in this sector are carried out in compliance with the obligations assumed during power generation assets acquisition.

Currently, the Gazprom Group's power generating companies are executing more than 10 large-scale investment projects worth in excess of RUB 200 billion in total.

Between 2008 and 2009 Gazprom accounted for 57 per cent (1,120 MW) of new capacities commissioning in Russia. It is projected to put more than 1,800 MW of new capacities into operation this year. Provided that other investors fulfill their obligations, Gazprom's share of the capacities to be commissioned in Russia will total 45 per cent this year (in case other investors fail to fulfill their obligations, Gazprom's share will increase respectively).

This will be another proof of the Gazprom Group's leadership in the Russian power industry.

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Acquisition of power generation capacities by the Gazprom Group was accompanied by undertaking of the investment obligations related to new capacities commissioning.

Throughout 2009 Gazprom energoholding was developing a number of proposals on optimizing investment programs for power generating companies against a decrease in consumption. As a result, we approached regulatory authorities with the initiative to partially relocate projects to other sites and to adjust the commissioning schedules. At the same time, the cumulative amount of capacity commissioning is to be unchanged.

With due regard to the adjustment made, the Gazprom Group investment program envisages an increase the installed capacity of Gazprom's power generation assets from 36.8 GW to 44.8 GW by 2020.

We are expecting that the Russian Government will make decisions on our proposals in the first half of 2010.

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The final slide of our presentation shows the comparison of the Gazprom Group's power generating companies with their global peers in terms of market value per 1 kW of installed capacity.

As you see in the diagram, the Gazprom Group's power generating companies are grossly undervalued and have a considerable potential of value growth.

The key factors of growth are:

- economy stabilization and recovery of industrial production, demand and electric power prices;
- power generation market liberalization;
- long-term capacity market introduction;
- investment programs adjustment;
- operating efficiency increase.

To sum up my address, I would like to say that we face the future with optimism and confidence in efficient development of the Russian power industry in general and of the Gazprom Group's energy holding in particular!

Thank you for your attention!