

Press Conference Background

GAZPROM'S POWER GENERATION STRATEGY

(June 6, 2013)

Gazprom Group holds leading positions in the Russian power market, being the largest owner of generating assets. Gazprom accounts for some 17 per cent of electricity and 8 per cent of heat generated in Russia. The aggregate installed capacity of the Group's companies consolidated within Gazprom Energoholding (Mosenergo, TGC-1 and OGK-2) is some 38 GW (as of late 2012).

Gazprom's generating capacities are located in the regions with sustained financial solvency, including Moscow and Saint Petersburg. The asset structure includes both gas- and coal-fired power plants, and this permits to manage more flexibly the fuel mix. The Group also comprises hydro power plants that are owned by TGC-1.

In 2012 the amount of power produced by the Group's companies stood at 166.9 billion kWh (-3.4 per cent compared to 2011), the amount of heat – at 101.1 million Gcal (+2.3 per cent).

The total proceeds of generating companies under the IFRS (inclusive of Mosenergo forecast indicators) amounted in 2012 to RUB 323.8 billion (-0.77 per cent versus 2011), EBITDA – RUB 46.3 billion (+11 per cent) and net profit – RUB 15.5 billion (+22 per cent). Compared to 2008, the total proceeds grew 1.53 times, EBITDA – 3.22 times, net profit – 8.16 times.

In order to increase the value of Gazprom Group's power generating assets, work is underway for enhancing their operational efficiency, cost optimization programs are in progress and actions are taken for improving the financial indicators:

- Lean Production program;
- program for enhancing shareholder value;
- personnel cost optimization;
- upgrading end retrofitting process optimization.

The implementation of these measures in 2012 made it possible to optimize costs by RUB 7 billion 268 million, including:

- Mosenergo — by RUB 1 billion 911 million,
- TGC-1 — by RUB 2 billion 853 million,
- OGK-2 — by RUB 2 billion 504 million.

On June 22, 2012 the annual General Shareholders Meeting of OGK-2 resolved to increase the company's equity capital by placing additional shares. The additional issue of shares allowed Gazprom to raise its interest in OGK-2 from 59.61 to 78.34 per cent (placement report registered by the Federal Financial Markets Service of Russia on April 26, 2013). The funds received as a result of the additional issue are meant to finance the OGK-2 investment program.

Gazprom Group is the largest investor in the Russian power industry. The Group's generating companies implement the investment program, taking account of their obligations under capacity supply agreements (CSA). This secures a substantial cash flow from selling the capacity of new power generating units. Gazprom Group's overall obligations under construction and upgrade contracts within CSA stipulate commissioning a total of 9 GW of generating capacities between 2007 and 2016. At the same time, all investors are committed to commissioning around 30 GW. From 2007 to date, Gazprom has already commissioned 5.1 GW of generating capacities within CSA (including the Adler Thermal Power Plant taken into operation in early 2013).

The construction of two combined-cycle gas turbine units with a capacity of 180 MW each at the Adler TPP (OGK-2) was finished in late 2012. The capacity of the plant will help solve the electrical shortage problem in the vicinity of Sochi. The TPP will ensure reliable energy supply to the venues of sporting events in 2014 as well as further development of the region and Sochi.

2012 also saw the CSA based commissioning of several new highly efficient capacities aimed at enhancing the operational and financial performance of generating companies:

- power unit at OGK-2's Kirishi SDPP — 800 MW;
- power unit at TGC-1's Pravoberezhnaya CHPP — 450 MW;
- power unit at OGK-2's Novocherkassk SDPP — 300 MW;
- hydro power unit at TGC-1's Lesogorsk HPP — 30 MW.

The combined cycle gas turbine unit with a capacity of 800 MW (CCGT-800) at the Kirishi State District Power Plant became the largest heat generating facility commissioned over the last 30 years. It is the most powerful combined cycle gas turbine unit in the country. CCGT-800 is a unique project for Russia. The power unit No. 6 at the Kirishi SDPP (commissioned as early as in 1975) was upgraded and two state-of-the-art gas turbines were built up in addition to the existing steam turbine. The unit efficiency grew from 38 per cent to 55 per cent. Such a large-scale upgrade of the already existing power unit was performed for the first time in the history of the Russian power industry.

In 2013 construction within CSA continues on new highly efficient capacities that will help improve the operational and financial performance of generating companies.

The implementation of programs for cost optimization and financial performance improvement continues as well. The key positive results are expected to be derived from the full-fledged introduction of Lean Production programs as well as programs targeted at enhancing shareholder value. Consequently, in 2013 it is planned to cut Mosenergo's costs by RUB 1 billion 226 million, TGC-1's costs – by RUB 1 billion 646 million, OGK-2's costs – by RUB 886 million.

Moreover, the possibilities are being considered for expanding the power generation business through the acquisition of new assets and the consolidation of the Company's positions in the heat market.