

## **Press Conference Background**

### **GAZPROM'S POWER GENERATION STRATEGY**

**(May 30, 2012)**

Gazprom Group is the largest power generating assets owner in Russia and is in a strong position on the Russian power generating market. The aggregate installed capacity of the Group's companies consolidated on the balance of Gazprom Energoholding (Mosenergo, TGC-1 and WGC-2) totals some 38 GW (as at the end of May 2012) and – some 17 per cent of the total amount of electric power generated in Russia.

In 2011 WGC-2 and WGC-6 merged together on the basis of WGC-2. Relevant decisions were made by the shareholders of the two companies at the General Shareholders Meetings on June 21, 2011. Corporate procedures aimed at reorganizing WGC-2 and enabling the merger with WGC-6 were completed on November 1, 2011. As a result, the largest heat generating company was established in Russia, with the installed capacity of over 18 GW (as at the end of May 2012).

Based on the results of 2011, the amount of electricity produced by the Group's companies stood at 172.8 billion kWh (1.1 per cent less compared to 2010), the amount of heat – 98.8 million Gcal (6.3 per cent less than in 2010). Slight decreases in figures are related to the abnormally cold snaps that happened during the previous heating season.

In 2011 the total proceeds of generating companies amounted to RUB 326.3 billion according to IFRS, EBITDA – RUB 41.7 billion and the profit – RUB 12.7 billion.

The bulk of profit is allocated for the investment projects execution.

Gazprom Group is the largest investor in the Russian power industry. As part of the Capacity Supply Agreements (CSA), Gazprom Group's total obligations under the construction and upgrade contracts stipulate commissioning of the generating capacities totaling some 9 GW (between 2007 and 2016). In the meantime, all

investors have an obligation to produce some 30 GW. From 2007 to date, Gazprom has already commissioned some 4 GW of generating capacities within CSA.

In 2011 construction of the following facilities with the aggregate capacity of some 1.9 GW was completed:

- a combined cycle gas turbine unit CCGT-420 at CHPP-26 (Mosenergo);
- a combined cycle gas turbine unit CCGT-180 at the Pervomaiskaya CHPP (TGC-1);
- a combined cycle gas turbine unit CCGT-450 at the Yuzhnaya CHPP (TGC-1);
- hydroelectric unit No.2 with the capacity of 29.5 MW at the Lesogorsk HPP (TGC-1);
- a combined cycle gas turbine unit CCGT-800 at the Kirishi SDPS (WGC-2).

To date, according to financial statements, the power generating companies' investment program has been completed 55 per cent for the CSA facilities. By the end of 2012 this figure will reach 65 per cent.

When implementing the investment projects, Gazprom Group pays particular attention to the Adler CHPS with the capacity of 360 MW. Commissioning of the power station will secure heat and power supplies to the infrastructure facilities to be built for 2014 sports events and to the city of Sochi.

It is planned that following the CSA projects implementation in 2017, the proceeds of Gazprom Group's generating companies will grow 1.8 times (compared to 2011), EBITDA – 3.5 times. It is also expected that in 2017 new generating capacities will yield between 70 and 80 per cent of the profit.

The CSA projects have demonstrated both economic and environmental effects after commissioning of the new generating facilities. In 2011 TGC-1 collected 10 per cent of proceeds and 17 per cent of the profit margin on the wholesale electricity market – owing to the new operational equipment installed at the Pervomaiskaya CHPP and Yuzhnaya CHPP. Commissioning of CCGT-180

allowed reducing the fuel consumption rate by 17 per cent, CO<sub>2</sub> – by 23 per cent in total at the Pervomaiskaya CHPP.

WGC-2 implements the largest CSA project in the national heat generation history – construction of a coal-fired generating unit with the capacity of 660 MW at the Troitsk SDPS. Commissioning of the new unit will allow reducing the emissions produced by existing power units as well as the fuel consumption rate, decommissioning of physically outdated equipment, creation of about 350 new jobs and raising of the national budget tax revenue by RUB 950 million.

All projects on constructing new power plants within CSA are cost effective, the Russian government guarantees return on Gazprom's investments.

Timely implementation of the investment program is crucial for WGC-2 successful operation and capitalization growth: any delays in commissioning of the CSA facilities anticipate heavy penalties (up to 25 per cent of the investment program amount). Meanwhile, new and effective capacities will provide up to 40 per cent of proceeds and 80 per cent of the net profit, therefore increasing the WGC-2 capitalization.

Thus, between 2012 and 2013 Gazprom Group is planning to partially fund the WGC-2 investment program via additional share issue.

Consolidation of the circulating capital, successful completion of the investment program under CSA and optimization of the process control will enable Gazprom Energoholding to get ready to be listed on foreign stock exchanges with the follow-up IPO and transformation into a blue chip company of the global scale.