

Press Conference

Gazprom's Power Generation Strategy

May 13, 2015

MODERATOR: Hello, colleagues! We are glad to see you again after a year. You know that every time we hold meetings with journalists and investors prior to the Shareholders Meeting. Today is our first press conference dedicated to power generation. It is a topic which always enjoys a great success. You all know the speaker very well – it is Mr. Denis Fyodorov, Head of Gazprom's Directorate in charge of this business sector, Director General of Gazprom Energoholding. I yield the floor to him, after that you'll have a chance to ask your questions.

DENIS FYODOROV: Thank you. Good afternoon, dear colleagues! I'll try to be as brief as possible in my report and try to answer all your questions later.

(Slide 2) The slide shows the main performance indicators of Gazprom Energoholding and companies of the Group. Our investment program is nearing completion. Last year new 420 MW power units were commissioned at the Cherepovets SDPP and CHPP-16 of Mosenergo as well as a 65 MW gas turbine unit at CHPP-9 of Mosenergo. This year we also plan to commission several new facilities, whereas next year will be the closing one, only some minor projects will be left and also a new project we're about to launch – the Grozny TPP. I can say that our investment program will be almost completed.

(Slide 3) Due to external reasons, power and heat generation dropped – winter was warm. A drop in power generation is related both to the general decrease in demand and optimization of our power plants' operation. We do not task our managers to boost power generation at any cost. The task is to generate power only when it benefits us. If it doesn't benefit us, we try not to generate power.

Our proceeds under RAS grew, while EBITDA dropped and further on I will tell you why.

Mentioning major projects I will dwell on later, within the year we have set up and consolidated a repair & maintenance holding. It took us long to come up with a decision, to analyze whether we needed it or not. This issue had been pending, I suppose, from the moment we had acquired the power assets. At that moment RAO UES of Russia resolved that repair & maintenance was not a core business for the power industry companies and might be run by different companies on a competitive basis. But experience has shown – it particularly concerns SDPPs and it became clear by the example of OGK-2 – it is difficult to provoke competition in this sector. Some kind of competition may be possible in Moscow and St. Petersburg, while, for example, at the Krasnoyarsk SDPP located 300 kilometers away from Krasnoyarsk setting up several repair & maintenance companies to compete with each other would be pointless. People were just moving from one company to another one which had won the bid. That's why we decided to set up our own repair & maintenance holding, including, inter alia, a company for servicing gas turbine equipment which we'd been using at our construction sites in the recent years. We think that within our investment program we're on the right track with this business, the decision had been made before any sanctions were imposed. In my opinion, the current situation has confirmed that our decision was sound.

We are actively engaged in import substitution activities and we have always been, it's just that they didn't have a high-sounding name of import substitution. In my interview in today's issue of the Kommersant newspaper I have given a rather detailed account of automation systems

we've designed, which matches world's cutting-edge counterparts. I will not name the holding but we've already received proposals from major European companies on acquiring a share in the company's equity capital. We haven't reached an agreement and today we apply our own-produced automatic equipment and we are going to supply it, among other things, to Europe.

We're constructing a thermal insulation plant in Stupino. The production of high-temperature thermal insulation materials is rare in Russia, and the materials produced do not quite meet the required quality standards. That is why we set up a joint venture together with Lomonosov Moscow State University, developed new samples of such materials and started constructing the plant. I hope that we'll commission it before the year-end. Accordingly, within this project we set up a certification & research center, where we certify all thermal insulation materials supplied to our facilities.

We have several other import substitution projects, but I will not dwell on them.

(Slide 4) Financial results under Russian Accounting Standards. Our proceeds in 2014 were about on the same level as in 2013. EDITDA decreased, at first place, due to industry problems in general, with lower returns on electric power and heat. There is nothing new, plus not all capacities pass the competitive capacity procedure. Net profit declined, but if you have a look at Mosenergo results, it is because of the company's high currency loans, which led to the reassessment. As for the operational cash flow – it hasn't decreased much and remained practically on the last year's level; so it's a purely fictitious deviation.

(Slide 5) I've already mentioned the projects under the capacity supply agreements (CSA), we've already invested 87 per cent of the investment program. Some parameter adjustments are possible and we have already started making them. They are caused by changes in the national currency rate, price escalation will take place – somewhere it will be bigger, somewhere smaller. Practically all of our contracts include a currency clause, because the share of foreign equipment is considerable. It is possible that the cost of our projects might somewhat increase. It actually already has to some extent, but it will increase more in future.

I'll dwell on the Grozny TPP a bit. We have obtained the CSA and we'll be constructing two power units. The bidding procedure has already been completed, the results have been summed up – it will be the Siemens equipment, with no cosy deals, which at first were offered to us by foreign companies at the time of introducing sanctions. Now it is purely market-based.

Russian steam turbine manufactures participated in the bidding procedure. We have already applied the Russian pilot developments before – at the Adler TPP and Pervomaiskaya TPP as well as at CHPP-12 in Moscow. Unfortunately, for some reason Russian turbines are more expensive than foreign ones even considering the recent currency changes. It is very strange and sad for us, besides the differences are substantial – not by two, or five, or seven per cent. That's why we've chosen the Siemens equipment, including the steam turbines. We discussed it with Siemens that they would move the production of this equipment to the plant in St. Petersburg and among other things would manufacture steam turbines at the St. Petersburg plant.

That's a shame that Kaluga Turbine Works in my native Kaluga sets higher prices than Siemens. That's very strange! Then there is Ural Turbine Works we cooperate with a lot – and it also set a price higher than the Siemens one. This is beyond me.

(Slide 6) Our debt burden increased, but nevertheless we maintain the debt-to-EBITDA ratio at the level of 2.8, which we consider to be comfortable, so we see no major problems with this.

(Slide 7) As for the next year's dividends: the Boards of Directors have already made decisions to be brought up at annual General Shareholders Meetings. We have the following data on the dividends: we'll recommend the TGC-1 shareholders meeting to approve the dividends in the amount of 25 per cent of net profit, Mosenergo – 25 per cent and OGK-2 – 15 per cent. It will be the first time we'll pay out the dividends at OGK-2, that's why they'll account for 15 per cent now. In future years we'll be building up the amount of payments and reach the figures we've promised in the beginning – we'll aim for 25 per cent.

I understand that at Mosenergo the sum in money terms will drop because we have rather low net profit under RAS. It would be not very comfortable for us to distribute 100 per cent of net profit.

(Slide 8) We are implementing a large-scale cost optimization program at Mosenergo, TGC-1, developing a program for OGK-2. Every year we talk about these programs at meetings with journalists as well as meetings with shareholders and investors.

(Slide 9) I reckon that the situation with MOEK will arouse the most concern. All power generation facilities in Moscow are being conveyed to Mosenergo, all heating networks – to MOEK. The third round of conveying boiler houses to Mosenergo to prepare them for winter had taken place before the May holidays. We are systematically withdrawing all generating capacities from MOEK, turning it into an ordinary heat distribution company.

Of course, we are switching loads, saving gas, producing power and heat more efficiently, selling district thermal plants and boiler houses, which we decommission, or sites.

(Slide 10) I've already mentioned the consolidation of the repair & maintenance holding. Presently we are working on the optimal structure of this holding; it will cover all our maintenance requirements. We expect that we'll be fulfilling 60 to 70 per cent of our repair & maintenance program and process-related maintenance program using our own resources, the rest we'll be selling in the market. It's good that we had made this decision prior to all the problems which presented themselves. I can say that the majority of contractors, especially those who, tentatively speaking, have volumes carried over from 2014 to 2015, refuse to work at the same prices and rates as last year, that's why our holding could not have appeared at a better time. It already fulfills a bulk of work. Otherwise, we would have come across a problem of considerably lagging behind the repair & maintenance program.

(Slide 11) Streamlining corporate management. You know that we are systematically, step by step, approaching the IPO. It is being somewhat put off due to a number of factors, the majority of which do not depend on us – those are external factors. Currently within our strategy we have transferred the authority of the sole executive body from Mosenergo and MOEK to Gazprom Energoholding – it will be approved at extraordinary shareholders meetings on May 20, 2015. Starting from May 20, Gazprom Energoholding will become the sole executive body of both Mosenergo and MOEK. Once we have completed this first consolidation stage, TGC-1 and OGK-2 will also be subject to it. I hope that in 2015 we'll figure out the integration of Mosenergo and MOEK, and will plan that of TGC-1 and OGK-2 for 2016.

(Slide 12) Our key development priorities include working out an optimal structure of production capacities and implementing cost reduction programs at our companies. Though recently there has been nothing to reduce: since 2008 we have been told it was time to tighten our belts, that's why since 2008 we have been 'making new holes in our belts', and soon we won't know where to put new holes. Actually, the current situation and reliability rates across the country which we observe and which are being reported to the Energy Ministry show that regardless of whether we want it or not, the operating reliability of power generating units decreases and at the same time

the number of human-involved failures drops. It means the only thing – the equipment is aging, it needs replacing. I'm tired of saying this at every conference, every session, every meeting with shareholders and investors: if we do not change the situation at its very core, we'll face enormous problems already in the mid-term. The equipment is not getting newer, and that which we manufacture within our investment programs will not allow us to fully solve all the problems related to the obsolete capacities.

The problem of there allegedly being excess capacities is a very tricky matter, in my opinion. It is easy to say, "Let us decommission 20 GW of capacities we are talking about tomorrow." OK, let someone take on the responsibility for decommissioning 20 GW of capacity. But this is idle talk, there isn't even a procedure for decommissioning capacities. To my mind, decommissioning capacities is taking a padlock, putting it on the door of a power plant, providing for the required reliability and security and leaving. However, from the point of view of our Government and federal authorities, decommissioning means that they simply stop paying me, while I still have to keep this power plant running, set it off at necessary modes and at necessary time. I deem it wrong and inappropriate.

I am ready to answer your questions.

QUESTION: Svetlana Turyalay, Energy of South magazine. Mr. Fyodorov, how is the Adler TPP currently running? During the Olympics it took on the main load, I'd like to know how things are going on there today. And two more questions, if I may. Last year at the similar Press Conference you told us about the plans for purchasing power generating assets in Astrakhan. Have you done it or have you refused these plans? Is OGK-2 going to take part in the bid for the Novorossiysk TPP construction?

DENIS FYODOROV: As for the Adler TPP: it's alright, the plant operates in a normal way, with a normal installed capacity utilization factor. We have some problems with 60 MW steam turbines of power units at the nearby plant where my father worked – Kaluga Turbine Works. There is a problem with the journal bearing – it is peculiar for all 60 MW units manufactured at this plant. We still haven't resolved this problem, we are waiting for the plant decision, currently we have extended the equipment warrants. Our colleagues from other energy companies also have problems with these power units. In general, we are satisfied with the Adler TPP. There is no considerable load decrease there: it was said that the plant would be standing idle with zero load, that it was located in the dead-end hub – we are not facing such problems. Its installed capacity utilization factor does not stand out against the average one across Russia.

As for Astrakhan: I've mentioned the construction of a power plant for the needs of the Astrakhan GPP. We have already completed 99 per cent of its design and submitted it to the State Expert Evaluation Department. Gazprom has allotted a land lot, but the plant construction is currently on hold due to rather a considerable change in currency differences and a high price of ancillary equipment. Speaking of the main power generating equipment – gas turbines, steam turbines, boiler house equipment – a drop in demand has its effect, and companies which manufacture it try to adjust their prices. Plus, international manufacturers do not want to lose the Russian market, so they offer rather decent discounts on equipment they supply. But as for the equipment used within the general production course, it is considerably going up. This causes problems from the point of view of an increase in CAPEX (capital expenditures) for plant construction. We'll be carrying out investigations. Presently we've suspended this project. Once we are through with the State Expert Evaluation Department and have everything reassessed, we'll see whether it is worth implementing or not.

As for the 600 MW Novorossiysk TPP in Taman. Not so long ago the bidding terms and conditions for this facility were posted on the Energy Ministry website. From my point of view, these terms and conditions will deter the investors. They are much worse compared to the CSA projects, though even now we understand that the CSA conditions are inconsistent with the current environment. That is why the first thing to do is to make sure to alter the terms in order to attract investors to this project – this is my own personal stand. Secondly, reasonable deadlines should be set up for constructing this plant. In my opinion, late 2017 is just unrealistic. Thirdly, there should be a clear understanding of who will develop the infrastructure and how. Going back to the Adler project, the infrastructure considerably lagged behind the power plant construction process. We had constructed the plant before the infrastructure was ready. We had problems which we resolved together with Olimpstroy and our contractors, including the grid operators. Everything should also be clear-cut regarding these issues: project economy should be calculated, there should be comfortable and transparent timeframes and an understanding in terms of external infrastructure. Then it will be possible to carry out analysis. Presently we do not consider our participation in this project.

QUESTION: Olga Myagchenko, Business Petersburg newspaper. I have a question about consumer debts for utility services. It is one question consisting of several parts.

First of all, I am, of course, interested in debts of St. Petersburg consumers to TGC-1 – today the overdue debt has already reached RUB 5 billion. How are you planning to deal with the debt growth? At the 2014 Press Conference you said you were going to set up billing especially for St. Petersburg – but this idea hasn't been put into practice so far. In addition, you mentioned switching to direct consumer payments for utility services – this hasn't been implemented yet either. In your opinion, how is it possible to block the debt growth today? It is the first part of the question.

The second part is: if it is possible to block the debt growth theoretically, can these arrears be repaid? Or is it impossible to have them repaid by any means, since management companies have no assets to use for repaying this debt? How can it be recovered or will it have to be written off?

Does your company undertake any initiatives for making legislative changes in order to resolve this issue comprehensively?

DENIS FYODOROV: The situation with St. Petersburg is rather tricky. Why haven't we established the billing system or switched to direct payments? We had some arrangements with Vladimir Lavlentshev, former Vice Governor of St. Petersburg on executing such projects. Unfortunately, the Vice Governor was released from duty, and currently we are negotiating with the new one. Right now we are being told, "Hold on, let us figure it out, we'll help you."

As for recovering the overdue debt – let us be realistic: a part of debt will have to be written off anyway. It is obvious. For that which has been adjudged, we present orders of enforcement, block accounts, make the management companies pay. What we can't adjudge we'll write off. But I would like to draw your attention to the fact that at least 30 to 35 per cent of overdue debt falls on non-profit organizations. I think that the city itself should be concerned with recovering this money. We have told the city authorities not once, "Pay this money back, we'll channel them not to our company's profits, but to the required maintenance of city heat distribution network." The sum you've named – RUB 5 to 7 billion – is rather a substantial amount, which can largely (not to the highest standard, but largely) alter the situation with heat supplies to St. Petersburg consumers, if it is repaid within five or six years. Unfortunately, right now we don't

see any steps made to accommodate us and neither do we receive any major support from the St. Petersburg Government.

Changes are being made to the national law. The second hearing took place of a new federal law stipulating rather grave penalties to management companies and consumers in general for not paying for utility services. I hope that it will be adopted during the autumn session. Just yesterday at the working group meeting we discussed new amendments to this federal law. I do hope that it will be adopted and though it might not change the situation fundamentally, it will affect the payment discipline. That's the first thing. Secondly – the approach itself needs to be changed. Now if consumers don't pay and we disconnect them from heat, a public prosecutor comes to us and imposes an administrative penalty for not supplying consumers with heat. Though a consumer is to blame, it is us who are being punished – the conscientious party gets punished. To my mind, this is an absolutely wrong approach, and it is the consumer who should be punished.

So far we haven't set to more aggressive methods of combating non-payers. In Moscow and St. Petersburg we are often offered to come and get consumer debts. What does it mean – come and get consumer debts? It means that we are to delegate them to a debt collector with a certain discount, then the collector prohibits the debtors to leave the country, impounds their cars, other property, etc. It is not a right task for socially oriented company, but if a situation gets worse we'll probably try to collect from management companies the receivables of ultimate consumers.

We are switching to billing and direct payments partially in several districts of St. Petersburg. But right now we still expect that the new Vice Governor will tell us something about St. Petersburg Heating Grid – whether the city needs it or not, and what the view of the city authorities is on further improving the quality and reliability of heat supply to consumers, with possible subsidies, or what not.

I'll repeat it once again – we are ready to sell St. Petersburg Heating Grid to the city on a twenty-year installment plan. We are ready to receive subsidies and invest them into distribution grids by means of boosting the city's share in the heating network. We are ready to look into different options. But today it is obvious that the company is loss-making, for form's sake we arrive at a zero balance there in order to attract loan funds, but in reality the company is a loss-maker and it exists only due to TGC-1. The whole Nevsky branch, comprised of all the St. Petersburg CHPPs is deep in the red. That is to say, in St. Petersburg we bear losses not only with regard to the heat transportation costs, but also to power generation.

The situation should be changed. I think that the first step here should be crossing over to the physical method of distributing fuel costs – that's what Fortum is currently doing in Chelyabinsk and Tyumen and what was done long ago in Moscow. It will be somewhat painful for the city but right now we do not see any other methods. You know that in Chelyabinsk Fortum has won an action: the city Administration tried to prohibit crossing over to the physical method of distributing costs between electric power and heat, but Fortum has won the suit in the first instance. That's why we also initiated similar actions concerning a switch to the physical method in order to compensate for the existing losses at least partially.

QUESTION: Konstantin Bobylev, Globus newspaper. The construction of two power units at the Serov SDPP has been underway for several years already; E4 was the project contractor. As I know, there were some problems with this company and the contract with it was terminated. This raises some questions. Was a new contractor selected? Was E4 penalized for disrupting the deadlines of facility commissioning? How did the situation in general affect the construction, at what stage is it now and when will the facilities be commissioned?

DENIS FYODOROV: The situation with E4 is clear, it has been covered by all the media sources. To our great delight we've actually introduced our own management there. E4 was constructing two power units for us – in Serov and in Cherepovets. As a matter of fact, we introduced our own management in Serov one and a half years ago and the power unit had been commissioned before all those problems thrust upon E4. Unfortunately, in Serov we haven't managed to do it for various reasons. I will not blame the company management: I consider the E4 management team to be qualified and competent, they were doing their best in the existing situation. There were some internal reasons, like a high debt ratio, which didn't allow them to complete the project.

That's true that currently we have terminated the contract with E4 and delegated the Serov SDPP project to OGK-Investproject, a wholly-owned subsidiary of Gazprom Energoholding. It has an experienced management team, who has been involved in constructing this power unit for a long time, that's why the power unit will be commissioned before the end of 2015. There are certain problems there but I suppose we'll settle them. We will not construct the second power unit due to the alterations in the economic situation and because this capacity is not demanded by the market yet. We took our claims to E4 to court. We understand that apart from us there are also banks and other contractors awaiting. Bankruptcy supervision hasn't been organized there so far neither has administration in bankruptcy been set up. Once it is done, we'll try to recover something from them.

Our main problem is the hung up power unit, which had to be delivered to the Serov-2 construction site. It was not conveyed to us – though it had to be as far back as a year ago – because during the reloading in the port of Antwerp a 420 MW power unit fell down and sunk – bad luck comes in threes. It had been underwater for a long time and, of course, became nonoperational, that's why it was not delivered to us. In our opinion, this power unit is at the risk of becoming a bankruptcy asset. So, that's the problem. It's in our pledge, though, because we have paid 95 per cent of its price. The only thing which redeems our position is that the pledge will be covered by 70 per cent of tender funds that will be paid over to us, not to other companies standing in line. But right now we do not see any possibilities of recovering the revenues we've lost and compensating for the direct losses we've incurred in case E4 is driven to bankruptcy.

QUESTION: Vera Voroshilova, Molot newspaper. I have two questions. There have been some talks on extending the deadline for commissioning the ninth power unit of the Novochoerkassk SDPP. Could you please say, whether the situation in the Rostov Region coal market had its effect on it? What is your attitude to the situation in general? I remember that in the recent years there has been some misunderstanding between coalmen and powermen.

My second question is as follows. A meeting of the Council of Power Producers took place at the Novochoerkassk SDPP at the end of last May. It was dedicated to the selection criteria in the competitive capacity market. What should be done for coal-fired TPPs to be put on an equal footing with power plants running on other types of fuel, in keeping with the Russian President's proposal to diversify the types of fuel used at power plants?

DENIS FYODOROV: As for the Novochoerkassk SDPP: it's true, there has been a shift in the timeframe. I hope that we'll launch the power unit in the middle of the next year. It is a pilot coal-fired unit – a sophisticated one, with the circulating fluidized bed technology. There are some problems connected to its construction, they are not related to financing or the general economic environment. It's just that no similar units have been constructed in Russia and, unfortunately, the plans we had with our contractor were not put into practice for various reasons.

As for the coal market – the things are going from bad to worse there. We were called on the Governor’s carpet and threatened with death penalty for buying Ukrainian coal instead of the Rostov one, because it was cheaper at the moment. We’ve reached a kind of a compromise, signed contracts – but they are not being executed mostly by coal companies, in the first place. When the currency rate changes, coal starts being exported. Last year the share of coal in our fuel mix equaled some 90 per cent, whereas this year it is about 50 per cent. We switched to natural gas because we are not being supplied with coal. We have to do with lean coal supplies from other regions now in order to draw up the balance. So far, coalmen haven’t complained that we were bad purchasers. Though I am sure that once the situation develops in the international market and national currency stabilizes, they will come again and say, “You guys, why don’t you buy our coal at a higher price?”

The situation is what it is. As I have already mentioned, unfortunately, nobody – suppliers of equipment to our power plants, coal companies, petroleum product suppliers – has a price-cap (an adjustable ceiling of price growth). Only we have a price-cap. They base on the netback price (export alternative) and sell their products. Nobody controls them and one can’t take them either to court or to FAS because they sort of operate in the market. It’s like we both control the power market and have a price-cap. We are undersupplied with coal, and the coal which is supplied is not of the necessary quality and we have to supplement it with gas. Basically, in simple terms, that which does not qualify for export is delivered to us. That’s it.

As for the coal-fired TPPs: recently we have been actively resolving this issue because there are actually some problems with capacities of coal-fired power plants being selected for the competitive capacity outtake. There are some external reasons. Constant costs at coal-fired power plants are obviously higher than at gas-fired ones, although presently in the day-ahead market coal-fired power plants are much more efficient in comparison with gas-fired power generation. We believe that carrying out the competitive capacity outtake procedure as it is will lead to shutting down coal-fired power plants in Central Russia. Bearing in mind that the bulk of electric power generation in the European part of Russia – 85 per cent – is gas-fired, it is crucially important that we should keep coal units running.

Moreover, it has to be understood that coal units may affect miners and lead to social consequences. Decommissioning three or four power units at the Novocherkassk SDPP (which is technically possible within the context of the current competitive capacity outtake procedure) will lead to reducing our coal consumption more than by half. In its turn, this will lead to closing down a number of coal production companies – we are well aware of the situation at the Rostov Region mines. Miners will have to hit the streets.

Let us take the Cherepovets SDPP running on Inta coal. If it is decommissioned with no special rate offered as a coal-fired generating company, or if no specific procedure is established, we’ll have to face great problems there, because the whole Inta (Komi Republic) actually lives on coal. We are one of the main consumers of this coal. That is why a whole range of factors has to be taken into account when making such decisions. Presently the Energy Ministry has deferred to our recommendations and asked us to provide them with information on a certain model OPEX (operating expenses) for coal-fired power plants. We have submitted it, and now work is in progress. We are discussing the ways of preserving coal-fired plants in Central Russia.

QUESTION: Lyudmila Kovalevskaya, Stavropolskaya Pravda newspaper. The project for constructing a gas turbine unit at the Stavropol SDPP was farmed out to the Serov one. What prospects do we have? The experts state that the equipment is 90 per cent run-down.

DENIS FYODOROV: I wouldn't be so pessimistic about it being 90 per cent. The Stavropol SDPP isn't even among the plants where we observe serious problems. That's why from the point of view of the plant operation reliability everything is OK there.

As for the unit – no, we are not going to implement new investment projects. We have an excess of 20 GW across the country, capacities are not being loaded. That is why now there are no prospects for constructing new power units at the Stavropol SDPP.

QUESTION: Dina Khrennikova, Bloomberg agency. Mr. Fyodorov, I have two questions. The first one is about the equipment. Do you consider the possibility of purchasing equipment in Asia or organizing joint production with Asian partners in Russia? It could be a good price decision, couldn't it?

My second question concerns the IPO. Today during the interview you have said there was a possibility of being listed in the Asian exchange. Has any fundamental decision been made and is it just the timeline which is unclear? Or, perhaps, the Asian exchange is just some preliminary stage and there is no decision yet?

DENIS FYODOROV: As for the IPO – yes, it is a preliminary stage and there is no decision yet. Before Gazprom's offsite Investor Days were held in London and New York, while this year we have been to Hong Kong and Singapore, where at the working meetings we observed a keen interest of Asian investors in the Russian power industry. In addition, we are holding working meetings here, our colleagues, inter alia, from China visit us and they are ready not only to supply all the equipment but also invest their money and enter investment projects as participants. That's why today the Asian market – based on a kind of a surface analysis – may be more interesting than taking part in the IPO somewhere in London, say. Again, this is only an idea.

I guess that during this year we'll see how the situation unfolds in the financial markets. Next year we'll start working closer to the topic, plus we'll have a clear understanding of the deadlines for commissioning the majority of our projects, see what decisions on competitive capacity outtake are made this year, make a forecast and then, next year, we'll choose the location and make a decision on participating in the IPO. Then again, it is for Gazprom to decide, not for Gazprom Energoholding.

As for the Asian equipment. First of all, the tenth power generating unit of the Troitsk SDPP is fully Chinese. We'll launch it either this year, or next year in the first quarter. It is a nice example that Asian equipment may be used with no trouble. A Chinese-made SF₆-insulated metal-clad switchgear is installed on PGU-420 at CHPP-16 in Moscow. Presently, there are no problems with this equipment. We are also engaged in talks with the Asian companies on booster compressors and generating equipment. We offer them to be more active taking part in bids for equipment supply. By the way, our European partners saw it and now they try not to let the Asian countries into our market by means of heavy dumping.

QUESTION: Anastasia Lyrchikova, Reuters agency. I have a question in the wake of the interview you've referred to not once today. You've said that presently, according to your estimates, the situation was favorable for purchasing the shares of generating companies with an eye to a single share. Does it mean that you are ready to buy out the shares of principal minority shareholders in your energy companies? For instance, are you getting down to talks with the Moscow Government? And, continuing on the topic, concerning Fortum's proposal to convert its share in TGC-1 into the hydropower assets of TGC-1: could you lay out the conditions under which you could accept this offer? Are you engaged in detailed talks with them?

DENIS FYODOROV: As for the current environment in stock markets: yes, we think they are at the bottom and hardly can get any worse. In addition, we've observed a considerable increase in the price of the OGK-2 shares, which within a month actually rocketed from 18 to 30 kopecks. Basically, it signifies that markets are at the bottom and we are working on buying out the shares of our companies. As for the talks with the Moscow Government and Fortum, I cannot comment on them. They are commercial talks and my comments on them might be interpreted in a wrong way as insider's words.

As for the hydropower assets, I would like to once again mention what I've mentioned in the interview. Firstly, we are not interested much in selling our hydropower assets. Secondly, we are ready to consider the offers from different purchasers, if there are any. Thirdly, a deal may be concluded only subject to a number of conditions: the price agreed by the parties, legal assessment, approved shareholders agreement as well as a whole range of other documents: the decision of the antimonopoly service, decision of the Commission on Foreign Investment, etc. It's a large amount of work and materials. Today we don't have any of these documents. As for the talks we are engaged in and with whom we are engaged in them – well, there are many of those.

ANASTASIA LYRCHIKOVA: You do not comment on the talks with the Moscow Government and Fortum, but are there talks with the Moscow Government on buying out the share in Mosenergo?

DENIS FYODOROV: These talks have been held once in a while since 2010 when a new Mayor took the office. So far we haven't reached a consensus.

MODERATOR: We are also receiving questions via the Internet. Dmitry Bulgakov from Deutsche Bank has two questions. Dividends for 2015: is the company's management or shareholder ready to pay out over 25 per cent of net profit in the form of dividends in the power generating subsidiaries? Under the current conditions 15 per cent at OGK-2 or 25 per cent at TGC-1 and Mosenergo seem insignificant. The second question is: what are the reasons for assigning the Mosenergo and MOEK management to Gazprom Energoholding? What about the resignation of Valery Yakovlev, Director General of MOEK and Mosenergo? Won't the management tighten up? How can it be explained?

DENIS FYODOROV: I've already dwelled on the 2014 dividends. To my mind, the dividends are more than decent. There is really a certain problem concerning Mosenergo, due to the fact that the Russian Accounting Standards consider different paper gains and losses. That's why the Mosenergo shareholders might really feel somewhat offended. I agree with that, however, I do not agree with the same concerning OGK-2 and TGC-1. The TGC-1 profit is very fair, the OGK-2 profit is very fair as well, the investment volume has grown substantially – to my mind, 25 per cent is more than decent. As for the greater sums – our dividend policy provides for the maximum of 35 per cent, that's why we'll have a look at the 2015 results and the competitive capacity outtake in 2016. Then we'll be able to make decisions.

Once again, I do not think that we deceive our shareholders and investors in any way. We try to comply with all the offers and conditions there have been. We haven't distributed the OGK-2 dividends from selling the Onda HPP, which we had mentioned back in the day – the problem there was that we hadn't managed to sell St. Petersburg Heating Grid because of Fortum which had blocked this decision. We had to direct the funds received from selling the Onda HPP to financing and repairing heat distribution grids in St. Petersburg. That's why minority shareholders can pose questions to our colleagues, members of the Fortum Board of Directors, who also act as members of the TGC-1 Board of Directors – not to me.

I'll stress it once again – had we managed to sell St. Petersburg Heating Grid back then, firstly, we would have got rid of a non-performing asset with rather a high debt and, secondly, we would have distributed the dividends in the amount of RUB 2 billion received from selling the Onda HPP. We voted for it, but our colleagues from Fortum blocked this decision.

As for assigning management to Gazprom Energoholding, we have been preparing for it for a long time, the majority of functions have already been assigned to us. First there were agency agreements, but now we are simply switching to a more clear-cut, intelligible and transparent procedure of managing these assets. We've always claimed it. We know the company well, the Mosenergo management is located in the same building as the Gazprom Energoholding management, MOEK is within a 15-minute reach. Frankly speaking, I don't see why the management might tighten up, it's a long-standing decision.

As for Vitaly Yakovlev's resignation – it was his wish and his decision to withdraw from this business and try hand in something else. We are very thankful to Mr. Yakovlev, he has done a great job, streamlined many things, launched the lean production process at Mosenergo, which allowed us to annually save rather fair amounts of money. That is why we have no claims against Mr. Yakovlev, we are grateful for the work he had done at the companies.

QUESTION: Elena Voskanyan, Power and Industry of Russia newspaper. Recently the concept of an alternative boiler house has been largely discussed, but you are not the supporter of this method. Could you please say why and give your view on the mechanism of attracting investments into retrofitting the grids.

DENIS FYODOROV: You've put it very mildly saying that I was not the supporter. I am an ideological opponent of this method, even though out of all power generating companies we have spent the most money on analysis and consulting services because of owning the largest heat distribution business.

Why? Heat is a social product, and we live in a northern country. In some regions the heating season lasts for eight or nine months. We closed the heating season in Moscow late in April, and already in May we are having a meeting at the city council, dedicated to a new heating season. Actually it never ends and constantly goes on. What the alternative boiler house concept provides for is to liberalize the heat rates. The government doesn't interfere with their regulation, there is a certain limit which is set by means of a certain countable model and, as a matter of fact, after that it becomes a problem of a single heat distribution company – where to get heat. In order to maximize the profit it should get it from the most efficient companies with the lowest net prices.

That's theoretically speaking. In theory everything really seems ideal. But nothing is ideal in this world, an ideal or alternative boiler house is not an exception. We calculated that the cost of constructing a boiler house in Moscow, conventionally speaking, would be RUB 3 million. Let anyone build a boiler house somewhere near CHPP-12 at Berezhkovskaya embankment at any price. Will at least someone be able to build a boiler house at any price there, or not? That's unfeasible. If we decommission seven CHPPs which haven't passed the competitive capacity outtake at TGC-1, we'll have to construct from one to two thousand boiler houses in St. Petersburg, including infrastructure facilities, grids, sewage systems, gas distribution stations, etc. It is just impossible, in my opinion.

Even in different districts of Moscow the construction cost for heat sources – alternative or replacement ones – will vary a lot. I think that in our country the government will never refuse regulating heat rate setting. The power industry reform has been underway since 2002, it's 2015

now – so many years have passed, but the government hasn't renounced rate regulation. According to some of our estimates, up to 60 per cent of electric power in the market is regulated by the government. In addition, we have many price-caps, which affect the cut-off prices formation, electric power price formation. As a citizen, I take a look at my payment document and see that about 90 per cent of the amount payable accounts for heat. So, within such circumstances, do we propose it that the government should renounce regulating these 90 per cent? It never will! It would be ideologically wrong.

From my point of view, there are three key issues to be resolved. Firstly, there are regions with a low base – mostly in the Urals and in Siberia. The existing base is objectively low there and it is not right to measure its growth in per cent (consumer price index plus two per cent), measurements should be taken in absolute terms. That's true that somewhere growth might reach 30 or 40 per cent, but it should be expressed in figures, not in percentage terms. The base needs improving, because every year a 10 per cent growth in one Russian constituent and the same 10 per cent growth in another one only aggravate the imbalance between these constituents. This issue needs resolving. There are not too many constituents of this kind. I do not understand why it is so hard to inform the government about such problems. They shouldn't be resolved as if you could just close your eyes and we would do a little something there, and everything will be OK and happiness will attend us! But it won't.

The first thing to do is improve the existing base in the regions where it is extremely low. Secondly, the debt issue is to be tackled, whatever social country we may be. It is already very acute, regarding retail electricity markets and gas debts, and presently it is turning into a big problem concerning heat. Thirdly, the situation with current payments is to be smoothed out and cross-subsidization between electricity and heat is to be eliminated. It is painful and unpleasant, but then again these tasks are to be resolved step by step. We shouldn't say, "Hey, government, we've made up a kind of an alternative boiler house for you. Close your eyes and when you wake up in two years happiness will attend you."

As for attracting investments, given the current pricing mechanism, I do not see any possibilities for attracting them into this sector, particularly any private ones, especially bearing in mind that the regional energy commission can just efface everything we've saved up by relaying a heating pipeline, shutting down an inefficient boiler house, etc. In a year they tell you, "OK, buddy, you've been selling heat at RUB 1,800 per Gcal from this boiler house, while the net price at the CHPP is RUB 900. Why are you selling it at RUB 1,800? Let us cut it down by RUB 900 or, maybe RUB 800, here's RUB 100 and be happy we've left it for you." This just does not work, nobody is going to invest money and run risks until certain rules of the game are laid down.

I see the rules of the game in there being some kind of a long-term model – it can be shaped up, linked to the price formula, etc. We chose to go for an alternative boiler house – I think we just wasted two years, loads of intellectual, physical and psychological resources, we all fell out over it. It seems to me we should change our direction.

QUESTION: Ilya Shcherbakov, b2bmap.ru website. Could you please say how much will the power industry investment program be adjusted in percentage or money terms? Or has it already been adjusted compared to what had been planned prior to the crisis? What major facilities are you going to invest into in terms of repairs, upgrades and construction? Another question is, why isn't this year's investment program publically available? Why is it a problem to get it?

DENIS FYODOROV: Investment programs are posted on the companies' websites. From the point of view of possible changes, we estimate their adjustment due to the exchange difference at about 10 per cent of the aggregate investment volume.

As for the design & survey operations: today we are involved in the only major project, which is replacing the T-250 turbine units. We launched the first pilot project at Mosenergo. It's at the design stage now, after that the turbine will be supplied. Right now it is difficult for us to dwell on further implementation of this project – 22 power plants in Moscow and St. Petersburg need to have these turbines replaced – because we do not understand yet what the competitive capacity outtake procedure will look like next year and whether the price-cap in Moscow will hold up or not. And, of course, it depends on how the new upgraded turbine unit will operate. That's why until 2017 our only large-scale project beyond the CSAs in terms of design & survey operations is replacing the T-250 turbine unit at CHPP-22 in Moscow.

QUESTION: Marina Klain, Chelyabinsk Worker newspaper. Mr. Fyodorov, how true is it that presently Troitsk SDPP refuses to supply heat to Troitsk in 2015?

DENIS FYODOROV: We do not refuse to supply Troitsk with heat. The situation is about the following. The plant heating Troitsk has gone obsolete both physically and morally. Of course, we want to decommission it. There are three small turbine units there, we've applied to the municipal authorities for decommissioning them. Replacement procedures are to be carried out within three years, but we need to receive some money within these three years. We've filed an application and we are actively cooperating with potential investors who could construct a boiler house for heating a part of Troitsk and, possibly, Energetikov settlement. But right now it implies a considerable increase in heat rates, because it will be a gas-fired boiler house, not a coal-fired one, and there won't be combined generation, etc. It is one of the problems we talk about at the Energy Ministry when they tell us, "Let us not use must-run generating units, let us take some replacement measures." It is possible to carry them out, the issue is that a consumer might get a rate increase of 50 to 60 per cent, which is unacceptable under the current conditions. That is why the project is progressing with great difficulty.

It is true that we have forwarded a request to the Administration on decommissioning this train of the plant, but we do not refuse to supply heat. In 2015 we will supply Troitsk consumers with heat just as before.

From the point of view of reliability, you know well that in 2013 we had problems because of the low-quality coal supply. We resolved them and prevented any failures in power and heat supply to consumers. Anyway, we think that to secure the reliability of supply, we need to construct a gas-fired boiler house, find an investor and implement this project.

QUESTION: Matvey Tayts, Gazprombank. I also have a question about the investment program. It consists of two parts. Firstly, is the second unit of the Serov SDPP included into the planned RUB 450 to 470 billion? And could you please say some words about the rest of the finance volume and its sources?

DENIS FYODOROV: Yes, the second unit is included there. From the point of view of its design, it has been financed only partially. In addition, we constructed infrastructure for two units, but it was attributed to the cost of the first unit. Besides, it comprises the power island still withheld by E4. Moreover, a number of activities were carried out at priority rates for preparing the construction site for the second power unit – we drove the piles and excavated the pit. Now we are backfilling it – the costs are relatively low, that's why they will be adjusted down.

MATVEY TAYTS: Does it mean that no additional costs of this power unit are taken into account within the estimated growth up to RUB 450 to 470 billion?

DENIS FYODOROV: We've already taken them into account, for the Serov SDPP as well...

MATVEY TAYTS: Once and for all?

DENIS FYODOROV: Yes.

MATVEY TAYTS: What about the sources of financing the remaining part?

DENIS FYODOROV: It will be from our own borrowed funds. We are not going to initiate any IPO procedures.

QUESTION: Galina Polyanskaya, Panorama newspaper. Mr. Fyodorov, recently Russian President Vladimir Putin has approved the amendments to the bill on the territories of priority development, and from now on the urban areas representing restricted-access territories may qualify for such a title. In one of them, namely in Zelenogorsk, the Krasnoyarsk SDPP-2 is located, which is a company with a well-developed infrastructure and an electricity and steam reserve. Presently the city is engaged in large-scale activities for attracting major investors. Could OGK-2 possibly take part in this work?

DENIS FYODOROV: It depends on their status.

QUESTION: Olga Kvashina, Krasnoyarsk SDPP-2. Here's what is meant: you mentioned domestically manufactured C&I and heat insulation. Could you possibly open a branch in Zelenogorsk? We have a transport junction, no waiting lists to kindergartens; it's a nice little town. You could help us to load the plant capacities somehow.

DENIS FYODOROV: Well, let us think about it, right now we are considering several import substitution projects. Why not? We'll think it over.

QUESTION: Alexander Serebryannikov, blogger51.com website. Last year thanks to the Murmansk branch and the press service I privately visited hydropower plants and talked to powermen, to employees. I should say that I obtained some very curious results. Three problems presented themselves.

The first one is the pay rates.

The second problem is the absence of infrastructure in small towns, such as Tumanny, for example. It is impossible to send a child to school after the ninth grade and presently the amount of classes is being reduced.

And the third problem. I'll quote it as it stands, one of the employees said, "I have five bosses, a certain instruction and thirty seconds to make a decision." Based on what I'd heard, I made a conclusion that people who work in small towns, for example, Tumanny settlement or Teriberka try to leave these areas and transfer to other companies, for example, to Kola Mining and Metallurgy Company (subsidiary of Norilsk Nickel Mining and Metallurgy Company) or to Rosatom. Could you please say whether there is any strategy for employee retention? In five years or so the problem will become really acute.

DENIS FYODOROV: I've already said a lot about Rosatom in today's interview, I will not give any more comments on it.

As for the pay rates and our employees possibly transferring to other companies. When we were forced to sell the Onda HPP under our obligations, there was a huge amount of letters to the Russian Presidential Administration, to Gazprom's executives, to the Russian Government,

saying “let us stay at Gazprom, we do not want to transfer to Basic Element, or RUSAL, or anywhere else.” Once groundless rumors about our selling something to the Finnish in the near future spread all around – you should have seen the heaps of documents received by the Energy Ministry and Presidential Administration. Nobody wants to leave, everyone wants to work at Gazprom.

It is clear that we cannot compete with Rosatom in terms of salaries, just because the information on their operational costs is confidential, nobody knows it or analyzes it. They do not have model CAPEX or OPEX. It is a certain kind of security – all the information is restricted, some things were asserted, but the market doesn't know about them. As a matter of fact, they operate in the market, but at the same time they don't. That's why we can't compete with them, the same way we often can't compete with distribution companies which simply account for that money in their rates. They may well increase the wages by 15 per cent at once. But we operate and compete in the market. Besides, I think you should know that hydropower plants haven't passed the competitive capacity outtake procedure for the second year in a row and we incur losses because of that.

It seems to me that the social security level of our employees is rather decent. Young people come to work for us. We pay close attention to there being younger employees around 40 years old among the middle managers (for example, deputy chief engineers), who could tread on the heels of older chief engineers and plant executives to provide for fair competition. We keep track of it, our HR service attends to it. I can't say that this issue is far-fetched: everyone wants to live a bit better than they do now. It is obvious that we can't offer the same level of social benefits as Gazprom. We just can't do it for reasons beyond our control. Nevertheless, I believe that throughout all the generating companies our benefits package is among the most competitive ones. That's the first thing.

Secondly, infrastructure, schools, kindergartens are concerns of municipalities and the government – you should apply to them. Had there been a need to repair something or help in some other way, we could probably join in. But it certainly is not about building schools, setting up and financing classes or private schools. That's not our business segment.

As for the statement “I have five bosses”, as I understand, all the regulatory standards followed by our auxiliary-level employees have existed since the Soviet times, we haven't made any major changes to them. The list of standards and rules followed by an employee in decision-making has remained intact. We haven't made any brand new amendments to it. I won't say that this problem is far-fetched, it is always pending. Of course, when we come to a plant, nobody tells us about it. But when I come there I always go and have lunch at the canteen without notifying the management, have a look at utility rooms and shower rooms. For instance, back in the day I was shocked by the shower rooms at the Troitsk SDPP. I came there when we had just bought this plant. You couldn't enter the shower room without being horrified at it – I had never seen such shower rooms in my life before. It's a coal plant – it doesn't matter what clothes you have on, once you have a walk around it, you're all covered in black. That's why we try to pay rather close attention to everyday issues.

I haven't heard any major criticism. Besides, we have a hot mail line, where employees can anonymously forward their complaints, to which we attend. A number of plant managers were punished because of this, but I won't tell you in what way or who they were.

QUESTION: Alexey Kirichenko, live-energo.ru web portal. Mr. Fyodorov, I have a question about completing the CSA program at TGC-1. The company has commissioned around 2 GW of capacity, which presently has turned out to be excess power both in St. Petersburg and

throughout the Leningrad Region. Plus, there has been a drop in electricity demand which has aggravated in these areas starting from 2013 and 2014. So, how much has been invested into these facilities and how can the problem with excess be resolved? The CSA facilities will pay their way, but what will happen with other TGC-1 facilities, which might acquire a must-run generation status? In fact, it will damage consumers even more.

DENIS FYODOROV: I will repeat once again what I've said not long ago at the meeting of the government commission for the power industry development. If we calculate the cost of maintaining a single WWER-120 reactor built by nuclear generation companies, it will be the same as maintaining 20 GW of old capacities. Should we decommission 20 GW for the sake of a single WWER-120 reactor? Who will assume the responsibility for decommissioning 20 GW? Remember the post-Soviet times, when the economic development base was low. Afterwards, when Russia began progressing in leaps and bounds, we gave you the figures – the annual build-up came up to about 20 GW. Nobody asked back then where this capacity came from. It is because it had already been there before. It was easier to maintain it because there was a single company – RAO UES of Russia, a big holding which could redistribute resources. Now there is no such problem.

Then again, we're calling it 'excess', though as a matter of fact, today 20 GW is the cheapest efficient generation within the overall system. It is amortized and sold at RUB 100 thousand for one megawatt. Why shut it down? Let us put it on a standby for a while. What will happen tomorrow, if our economy suddenly shows an explosive growth? Will we hit the brakes and build new power units for another four years, while our consumers will be purchasing power not for RUB 100 thousand, but for 500 thousand per each power unit?

In the power industry you can't limit your thinking to one year, you should make plans for five or ten years in advance. If there is capacity – so be it. You know, when you come to a university to study power engineering, the first thing they explain to you at the introduction class is that electric power is a peculiar product which can't be accumulated and stored on a commercial scale. Power is either there or it is not. Therefore, it is better to have it than not. Everyone says it's bad, but I think it's good that we have this excess capacity which at any moment can prop up the economic growth I'm sure we'll have in our country. That's it.

We should invent a procedure for maintaining this capacity. Look, the whole Europe does it. Why doesn't Europe introduce gas-fired generation? Its capacity utilization factor is 10 to 15 per cent. At some power units I saw the capacity utilization factor of five per cent. They are activated only several times a year there. Why doesn't Europe say, "Let's just take them down"? Why is a capacity payment mechanism being introduced in Germany now? It is for these power units to be around. Let them be. Not too good as they might be, they are their own.

ALEXEY KIRICHENKO: Can I ask another little question then? Previously the St. Petersburg Government offered you to purchase the Yugo-Zapadnaya CHPP.

DENIS FYODOROV: The Yugo-Zapadnaya CHPP should be shut down. I mean it: they should shut it down and forget about it. There is the Pervomaiskaya CHPP located four kilometers away from it, where a power unit was built, which was selected under the CSA. The Yugo-Zapadnaya CHPP was constructed with an eye to future loads. But there weren't any. Today this plant is an example of must-run ones, which, perhaps, may be shut down. We should think of the way of doing it. It is clear that there were investors who placed money into it and maybe some procedure for a partial recovery of expenses should be invented. But it just doesn't seem right to me to drag on this plant, which is actually not necessary either in terms of heat or electricity. We are not going to purchase it.

MODERATOR: Thank you very much, the Press Conference is over.