

**Press Conference on
Gazprom's Power Generation Strategy
June 6, 2013**

MODERATOR: Good afternoon, colleagues. Today we hold our fourth Press Conference of six ones scheduled before Gazprom's Shareholders Meeting. It's dedicated to Gazprom's strategy in power generation industry. Denis Fyodorov, Head of Gazprom's Directorate for Power Industry Sector Development and Marketing, CEO of Gazprom Energoholding, is our respondent today. Mr. Fyodorov, you are given the floor for short intro and then come the questions, as usual.

D. FYODOROV: Thank you. I'll try to be brief having in mind that all associated information and presentations are available for everybody. Hence, we'll pay more attention to questions if there are some.

Our operational and financial results for the previous year are already well-known, we've represented them not once. To compare the latest figures we achieved with those of 2008, you'll see that we managed to raise earnings by 53 per cent, EBITDA — by 221 per cent, net profit — by nearly 716 per cent. Electricity and heat generation figures are nearly equal and vary generally due to seasonal factors and price for electricity we sell out. We have early results for the 1st quarter of 2013, they are displayed in the presentation. These results are still preliminary ones. As to the earnings, our electricity and heat generation results are worse in comparison to those for the 1st quarter of 2012, as to EBITDA — we managed to raise it. The data is not exact yet, it may change, but slightly.

We mentioned our basic results many times, apart from operational and financial ones these include our investment activity. For 2012 according to Capacity Supply Agreements (CSA) we put in operation 800 MW unit of the Kirishi SDPP, the unit of the Pravoberezhnaya CHPP owned by TGC-1, completed unit upgrade project at the Novocherkassk SDPP owned by OGK-2 and commissioned hydroturbine unit of the Lesogorsk HPP owned by TGC-1. We also managed to complete the construction of the Adler power station designed for power supply to Olympic facilities current output of 360 MW.

Taking into account rather hard year 2012 — there were rather disadvantageous external factors, restraining electricity and heating tariffs — nevertheless, due to introducing various programs on efficiency enhancement aimed at cost reduction, three our companies managed to achieve quite good results (Mosenergo, TGC-1 and OGK-2).

This year, i.e. 2013, didn't change the picture drastically with regard to tariff decisions made by regulators. We are going to proceed with optimizing our costs in generating companies, though we are at the point where further cost reduction appears to be quite risky and complicated.

I should say the activity on fuel balance optimization has been in progress since the past year. We managed to sign a number of new contracts. Particularly, we signed the new contract and new collateral agreement with Surgutneftegaz related to the Surgut SDPP, enabling us to raise the consumption of Surgutneftegaz gas next year, and we obtained an extra discount for this gas. We entered into a gas supply contract with NOVATEK for Mosenergo. The bidding procedure for certain gas volume for TGC-1 is to be announced during two forthcoming weeks. We hope that

independent suppliers will apply for bidding and offer us the contracts for approximately 2 billion cubic meters next year — this figure will be offered for bidding in 2013.

Besides, we optimize our costs for coal. We have found alternative suppliers almost for all power plants. Previously we generally used to attach to a single supplier, but now, being driven by the world coal market changes, we managed to achieve rather good results in terms of reducing its price. The worst result is keeping the contract provisions at the current year level for a year and a half ahead; the best result is that we strive for, among other things, 20% reduction of coal prices for a number of power generating facilities. We work hard for it. We have the only Novocherkassk TPP without a new contract. Although the bidding is nearly finished and we're going to sum up the results. We addressed to FAS, we believe there was a cosy deal between the largest companies in the Rostov Region, i.e. Donugol and UTK (Southern Fuel Company) – they submitted the single bidding. We applied to the Federal Antimonopoly Service for their interference in the process.

Unfortunately, no power generation upgrading happened, no market model accepted. According to our assessment nearly 20 GW capacities need upgrading up to 2020. Otherwise, we believe the major part of our equipment (above 50 per cent) will grow out-of-time by 2020 that will affect reliability of consumer's power supply. Currently, as you know, Minenergo and other regulators consider different models, but they didn't come to a solid conclusion. We've held the meeting of non-profit partnership Power Producers Council in Tula lately that gathered a lot of generating company's CEOs including Minenergo representatives. Unfortunately, we failed to reach unanimous decision on the model to implement.

We raise lots of claims against our debtors. In view of availability of such called in-law debtors, I mean the Northern Caucasus, Tuva and chemical industry, obstructing such activity, we, nonetheless, keep it on stream and now we focused the great efforts on Energostream. In case the outstanding debts won't be recovered through proceedings in the Russian Federation, we are ready to appeal to foreign courts — we know where Energostream's shareholders keep their money and property — and we're going to do this in the nearest future and not Gazprom Energoholding solely, but a number of other generating companies. Currently, at some company's request we cooperate with a well-known global law company. I think we'll be ready to bring suits to foreign states in two or three weeks.

In the end, I would say that we don't expect 2013 to be easier for us. Unfortunately, I'm so far unaware of whether the resolution on gas price indexation is passed or not and what exactly it would be. It's evident that the higher gas price indexation, the better for power energy men: efficient capacities which are in plenty for Gazprom Energoholding due to extensive investment program, which we implement will certainly increase our marginal revenue at electricity market. In case of insignificant gas price increase we will lose revenue. We don't know anything of the CCE (competitive capacity extraction at the electricity wholesale market) indexation extent in 2014 — the figures had to be announced by June 1, but they're still missing. Whether CCE indexation will happen or not ... in the worst case scenario there won't be any CCE indexation and indexation of natural gas tariffs will be low, in this case we expect lost profits for the Group to amount nearly RUB 600 – 700 million EBITDA (in the second half 2013 — 2014), that will also impact our operational outcomes. Thus, we hope the resolution to be passed will come well-balanced.

Let's proceed to questions.

QUESTION: Andrey Reznichenko, RIA Novosti. You consider business extension through the new assets. Could you tell us in details about these new assets and strengthening your position at heat sales market. Thank you.

D. FYODOROV: It's evident that we've never refused potential projects on power generation assets acquisition. Now we're dealing, and we mentioned that not once, with a number of power generation companies. We achieved the best results during our negotiations on Quadra. We signed an agreement with ONEXIM (owner of Quadra control stock), and now we're waiting for FAS resolution. If FAS decision is satisfactory and doesn't stipulate structural and behavioral conditions unfavorable to us, we will acquire this company. We agreed with ONEXIM shareholders on the basic terms of the company acquisition.

The second project we are actively doing with is dealing in MOEK privatization (Moscow Unified Power Generation Company). Currently, MOEK privatization notice is posted up at the relevant web-site and the corresponding announcement is made as well. Now we are dealing with Gazprom's core-activity departments and we plan to complete the bargain and submit documents to Gazprom's Board of Directors, where we will substantiate the expediency of the bargain participation, its structure and all relevant issues required for the Board resolution. We will ask to coordinate Gazprom Energoholding participation in MOEK privatization.

Apart from these two basic projects we have other ones in progress. Though these two are the most successful ones.

MODERATOR: As we are talking of Quadra, there is a question from a Quadra's shareholder received via the Internet: will minor shareholders be made an offer? Is it good time to respond?

D. FYODOROV: Let's act the following way. First, we haven't acquired Quadra yet. And it's too early to talk of the offer. Second, we all know that the law on insider's activity has been adopted in Russia, and it treats me as an insider. Any word of mine — "we will", "we won't" and my indicating the price — will have the sad consequences for me. It's a law. It's obvious that any commercial venture, including Gazprom Energoholding Group, craves for cost saving, particularly those for binding offers. But all these are within the legal field: if an offer is inevitable — well, there will be an offer; if the deal structure allows us doing without an offer — it means we won't make an offer.

QUESTION: Ekaterina Patrina, Interfax. I'd like you to clarify the structure of the Quadra's deal. Who are the buyers and in what shares?

D. FYODOROV: I guess I may disclose the details. There probably can be a number of buyers out of those supposed. One share will be done by Mosenergo, another one — by Centerenergoholding, our affiliate 99%-owned by Gazprom Energoholding. However, that is not final structure. So far we imagine it like this.

QUESTION: Alexander Lifanov, the Komsomolskaya Pravda — Ryazan. I have a few questions regarding the Ryazan SDPP. For how long the plant will stay underloaded? It may operate better and harder but generated just between 20 and 30 per cent in May. It also influences upon salaries and rewards that depend on output. It's a sensitive issue for such city-founding facility.

The next question: since April 1, to my mind, not just the Ryazan SDPP, but many other plants have been operating according to adjusted staff list. In other words, there was a staff reduction. The Ryazan SDPP passed through it more or less painlessly by reducing available pensioners and vacancies. Nevertheless, people are worrying about whether the second wave will take place, and if it does, when will it happen? Surely, we expect you to tranquilize them.

Is there any deliberate strategy in place to avoid mediators such as managing companies in order to provide direct payments to power producers?

And the last: what do you think of the Ryazan SDPP operational results this year? Are there any recommendations, claims and something to the management? Thank you.

D. FYODOROV: Thank you. As to how long the plant will stay underloaded — that's not our competence but rather of the System Operator (SO UES — the System Operator of Unified Energy System of Russia). Every 10 days it indicates the equipment to be involved in operation.

As you know the new nuclear power units are being successively commissioned all over the Central Region and they are naturally assigned for basic load mode, 'cause they are not subject to regulation in Russia. Moreover, we provide for, so called, reservation for them via our units including those of high-capacity. The Ryazan SDPP is also involved in NPP capacities reservation, therefore it will never be able to operate at full load. It will always save stand-by capacities to keep system balanced in case of some nuclear plants failures.

As to the second wave of staff reduction: last year we analyzed best-practices based on official data from all OGKs. The main problem we detected is too many employees per MW of installed capacity. We were last but one among all Russian OGKs by this item. Of course, there are three-year program on employees number optimization in place, but due to construction of the new 300 MW unit, I believe it will less affect the Ryazan SDPP and there won't be serious staff reduction.

As to salaries and rewards granted to the power plant employees: in case of the plant optimal mode the rewards will be higher. Besides, we think the social protection of our generating companies' staff to be rather high. Anyway, it's higher than that of our competitors. But not everywhere: wherever the grid companies are, wherever they include their cost in the tariff — it's understood they are capable to pay out more. It's not true for us, our actual price is made up through supply and demand, thus, realizing our social responsibility we stick to more realistic approach.

As to the avoidance of mediators: the Ryazan SDPP doesn't generate too much heat to be concerned with the issue. As to OGKs – heat generation there takes just from 1 to 1.5 per cent in the total revenue. Although it's obvious that OGKs work on it, the heat indebtedness of the managing companies and budget-financed entities shows reduction year by year.

Our biggest problem is the Murmansk CHPP. Indeed, our debt amounted to RUB 4.5 billion by the last year end, while the total plant income showed the same figure. We used to and we now conduct a deliberate campaign – about 60 per cent of companies are assigned for direct payments and we managed to enhance the payment discipline in Murmansk.

Currently the situation is getting worse in St. Petersburg. It looks like hard times in terms of payment there, so we think of introducing the new billing systems. Moreover, I think we'll start

working with managing companies this year, that means direct submission of utility bills, 'cause we are not satisfied with VCKP activity in Petersburg (GUP Joint Computation Center for Multi-industry Household Services). We hope to enhance the situation considerably during a year or a year and a half.

I seem to have answered all the questions. Generally, the new unit construction is in progress at the Ryazan SDPP, we hope it will be put in operation in 2014. The plant is incorporated in the Moscow Power Grid and it's not one that causes us the biggest problems. It's a good and adequate station. This year we managed to get a good discount for coal supplies including those to the Ryazan SDPP. We had five companies for the bidding procedure, three of which were direct suppliers of coal. As per the new regulation, we cannot refuse anybody: if a company confirms it has a contract for coal of required quality, we are obliged to admit it to tender. The immediate producer — the Russian Coal Company — won the tender this year, to my mind, under very comfortable terms for the plant for nearly two-year period. It's comfortable for us and, I hope, for the supplier. Thus, I hope for enhancing financial outcomes this year.

QUESTION: Maria Smolyarova, Arguments and Facts – Ryazan. There's one more question regarding the Ryazan SDPP. Is it scheduled to continue the first stage rehabilitation of the coal-fired units? If yes, so what are the time limits?

D. FYODOROV: We have a quite extensive investment program for OGK-2 that has to be completed. We expect its major part to be completed in 2015–2016, and then we'll manage to discuss new investments. In case the rehabilitation program to be adopted — it's clear that the Ryazan SDPP is a relatively new plant versus the most Russian assets and is not of the first priority — we are ready, from the next year on, to start outlining rehabilitation for a number of power generating assets.

QUESTION: Anastasia Vaynik, Gubernia Daily Internet portal. The question relates to a rather complicated situation related to the Nadvoitsk Aluminium Plant. As long ago as in early May our Republic Head said the matter can be solved by selling out the Ondskaya HPP incorporated in the Vygsk HPPs cascade (covered by TGC-1). Will the plant be sold? And tell us about general situation in Karelia: what kind of investments is possible? Will such investments be made into HPPs upgrading due to their out-of-date condition?

D. FYODOROV: Indeed, these HPPs are quite old and that's a burning issue provided that they are a basic source of revenue for TGC-1, both by EBITDA and the net profit. It's clear that keeping the “golden-eggs-layer” cosy and warm is of top priority and we do a lot for the sake of HPPs located not only in Karelia, but in the Leningrad and Murmansk Regions. There's a large-scale program and as soon as we complete it — we are going to finish rehabilitation of units in 2013 — we will further analyze the equipment life-time and necessity of upgrade.

As to the situation with the Ondskaya HPP: we believe we show great support to RUSAL plants including those located in the Republic of Karelia and the Leningrad Region. Two years ago we entered into non-binding bilateral agreements which brought us RUB 240 million losses this year. This sum represents no less than 50 per cent of the total wage fund of the three RUSAL plants. There has been a letter to the government stating “to settle” and “to report” the issue. There was a meeting at the Presidential Administration of the RF, which resulted in submission of corresponding

proposals agreed with the RF President. In particular, the Ondskaya HPP selling is thought to be the most reasonable way to settle the matter.

We entered a contract with Ernst&Young on a short notice. The joint working group prepared scenarios not to collide with RUSAL, as it took place within a few projects where they were entrusted with plants purchasing. They used to agree on scenarios for a year and a half 'cause no existing market indicators are capable to demonstrate the real power assets value. Therefore, DCF-model (the model of discounted cash flow) being a basic indicator showing plant profitability is multiplied by a number of years resulting in an asset value definition and a plant is put for sale. The working group of representatives of Gazprom, RUSAL, the Ministry of Energy, the Ministry of Economic Development and Market Council (the non-profit partnership Council for Organizing Efficient System of Trading at Wholesale and Retail Electricity and Capacity Market) was established in order not to collide and not to submit different approaches to the management. It's clear that the main part was played by the ministries responsible for scenario submission by 2025 based on which an assessor will make corresponding assessment. Accordingly, scenario was submitted, mainly thanks to the Ministry of Energy, on short notice, and we expect the work to be completed by the mid-June. Ernst&Young is to file us a report, which we will submit to RUSAL, the Ministry of Economic Development, the Presidential Administration of the RF, the Ministry of Energy and to TGC-1 Board. I think we would have some problems with our Finnish partners (Fortum, shareholder of TGC-1), but we are going to solve them. We got recommendations from the government, which we are going to follow. Therefore, in mid-June we expect an assessor report and then everything will depend on RUSAL position.

QUESTION: Elvira Kopylova, Yuzhnouralskaya Panorama. I have a question regarding the Troitsk SDPP. It was initially planned to construct two 660 MW power units. Construction of the first one is nearly completed and I'd like to know when and on what terms the decision on the second one construction to be made.

D. FYODOROV: "Nearly completed" is rather gross exaggeration. As far as I remember, the plant commissioning is scheduled for late 2014 — early 2015. Taking into consideration the notorious events happened to Chinese constructors, crane failures and so on, as well as the fact that such units have never been erected in Russia — Russian industry doesn't even manufacture the corresponding equipment for 660 MW — and, unfortunately, some time-schedule adjustments are quite possible.

As to the second unit: currently, we implement the OGK-2 investment program and face its basic stage, i.e. peak investments. We believe that in 2015–2016 when we commission the major equipment, the company's EBITDA will grow considerably and we will get the huge financial leverage. Gazprom helped OGK-2 this year and assigned RUB 20 billion for the company extra-capitalization to enable it to go on implementation of investment projects. After that we'll resume this topic.

For sure, if the Troitsk SDPP was in proper condition it would be one of the donor plants. But, due to the plant improper technical condition, unfortunately, we have different results per month that resulted from a variety of the operative equipment.

As to the second unit: we discussed it with Chinese partners, but it won't happen until 2016. Although we arrange infrastructure fit for two units. It's logical: we invest rather big sums into

existing equipment maintenance, but it looks more simple to construct the new facilities there. Though the external factors don't allow us to increase investment program yet.

QUESTION: Marina Tovkaneva, Komsomolskaya Pravda North Caucasus. I'd like to continue our talking of investments and you said it's more simple to construct something new. I'd like to put in a word for the Stavropol SDPP located in Solnechnodolsk. I know that the project for the construction of two units has, to my mind, been completed. What is the current status, when are you going to proceed to work? Stavropol Territory desperately hopes to start up this project and to fill the budgets of all levels. Thank you.

D. FYODOROV: As to the Stavropol SDPP: indeed, it was primarily covered by the investment program approved by RAO UESR. The project design was completed and subjected to governmental expertise within the two 420 MW units. But after careful analysis we and the regulators took the decision to designate these units to the most wanted projects in Russia. I may give you the same answer I gave before: we'll resume projects consideration after completion of the investment program. The Stavropol SDPP is in quite good condition. I was there just a week ago — it's a very good plant.

QUESTION: Vera Voloshinova, Molot. You've come lately for inspection of the ninth unit construction at the Novocherkassk SDPP. So I have two questions in this regard.

The first one: how the business goes on? Will this unit be put into operation by the late 2014?

The second: this is the coal-fired unit. So the question again relates to your relationships with coal producers. If, God forbid, you don't come to any agreement with coal producers, what ways to solve the problem can you see, 'cause you understand it's the principal question for the ninth unit. Thank you.

D. FYODOROV: Since recently, I use to leave for Rostov-on-Don even more often than for any other regions. It's due to the new unit construction and to our relationships with coal producers. The unit is under construction, and there are some issues — boiler with circulating fluid bed that is unique for Russia. We hope to meet the schedule but due to rather sophisticated design of this coal-fired unit, pre-commissioning is expected to be complicated. We are likely to extend the time-schedule for the unit commissioning. And again, it'll be done within the available grace periods.

As to the relations with coal producers: there was a common perception that Rostov faces coal deficiency. When we initiated tender procedures, we were told we had to take everything they offered and ignore all the rest. I would say the coal is of low-grade. The plant is built to fire coal of 5,800 kCal/kg calorific value but we, at best, have 4,800 kCal/kg. Taking into account availability of ash disposal system, we have to afterburn the poor coal with gas. That means we lose all the commercial value of coal-fired plant operation. Surely, we focus on suppliers of the high-grade coal, and currently, despite our coal producers wailing, the highest grade coal is supplied by Ukrainians, though it comes from the same coal province. Last year we signed a contract with Ukraine for quite large volume of supplies — about 20 per cent of total plant consumption. It stipulates decrease of the corresponding gas share within the fuel balance, i.e. the Russian coal producers didn't suffer from our dealing with the Ukraine companies.

We aren't going to increase the Ukrainian coal share. Ukrainian coal for us — keeping in mind that it's nearly equal to the Russian one by calorific value and of lower price — generally, is 20 per cent cheaper than the Russian coal taking all the factors into account. During the tender procedure the only thing was done – we slightly decrease the price and proposed to all Russian companies to correspond it. It's better for them than the contract Ukrainians have, but it's worse for us. Nevertheless, we, bearing in mind all social factors, made this step and introduced the coefficient for the low-grade coal. It's not applied to the one of the mines 'cause it declares bankruptcy. They need support for a year due to relatively small volumes, thus we prolonged the existing contracts with them. As to the rest, we were submitted 40 per cent more coal bids than our plant requires. There is coal in the region, there is an option of suppliers. We aren't afraid of coal deficit. We just try to agree with major companies, bearing in mind their 50 thousand employees, but it looks like we are the only ones who want it. I met managers and shareholders of these companies, 'cause 50 thousand people are no less than 50 thousand people, and I tried to persuade them of the need to come to any agreement. The figures for five years, that we among others submitted to the Ministry of Energy and to the Rostov Region Administration, show that coal value increment rate for us was not fall within factors adopted by the Federal Tariff Service and the Ministry of Economic Development, but turned to be much higher. Accumulated increment for coal during 5 years was immense, much greater than all these factors calculated while tariff setting or computing the most costly generation. So we believe coal producers have to give us in for a year or a year and a half. Moreover, the more costly coal, the lesser plant load. One has to understand that we act in competitive environment and that the lower the price, the higher power unit loads. I hope the common sense will prevail and we will solve all the issues.

QUESTION: Olga Kvashina, the Krasnoyarsk SDPP-2. The question is simple: the destiny of the Krasnoyarsk SDPP-2. Held in February this year the economic forum focused on regional power generation. Despite the fact that 50 per cent is provided by hydrogenation, our plant remains in demand even at the mean level of water content. The installed capacity factor has recently grown up by 30 per cent and exceeds now 60 per cent. Kamala substation is under development. It provides output. Coal from the Borodinsky open-pit coal mine of high calorific value is adjacent. That means we need capacity increase. 1 250 MW is not enough. We demand 410 MW more. All essential conditions are available and the plant employees hope for upgrading program to be introduced and we would be listed for further development.

And the second one: today's the Pushkin's date of birth, the day of Russian language. Who's your favorite writer? Thank you.

D. FYODOROV: We use coal not only from the Borodinsky open-pit coal mine, but from the Pereyaslovsky one as well. When I mentioned our opportunity for competitive relations instead of being dependent from a single coal producer, I also meant the Krasnoyarsk SDPP. Thanks to our plant the Pereyaslovsky open-pit coal mine is in progress, 'cause we used to take 100% of coal from the Borodinsky one.

I agree that the Krasnoyarsk SDPP is one of the donor plants along with the Surgut SDPP. It shows very high economics. I cannot confess we make no investments there. We implemented rather extensive upgrading program there including electrical equipment. When the Sayano-Shushenskaya HPP is completely commissioned and the Boguchanskaya HPP at last starts operating and power delivering diagrams are drawn, we believe, or it's rather an objective reality, that the Krasnoyarsk SDPP efficiency will be higher anyway than that of the most other plants firing conventional fuels.

We'll become one of the first who reaches the balance. We expect neither plant output reduction nor any other problems. Economically this plant is of high importance for us and it's given the priority, we invest a lot into the existing equipment upgrade.

To build new unit or not to build? Well, let's see how the Sayano-Shushenskaya HPP and the Boguchanskaya HPP will operate during at least two years, 'cause it's quite extensive increment for relatively cheap capacity. I'll tell you once again: the Krasnoyarsk SDPP is one of the best among all the plants firing conventional fuels, surely, within this grid. And we're certainly going to maintain its proper condition.

O. KVASHINA: And your favourite writer?

D. FYODOROV: You confused me 'cause I have no favorite writer as such. You read something, it starts carry you away and you can't help reading... Surely, I may mention some trivial names: Turgenyev, someone else. I'd better mention my favourite poet – it's Brodsky. As to the writers, it depends on the life period and the scope you read.

QUESTION: Xenia Klochkova, Fontanka.Ru. You started telling about Petersburg, namely about payments and the program to be introduced. The question is: could you tell us about the program itself in details? TGC-1 initiated bankruptcy of several utilities in Petersburg. Is it part of the program?

And the second one that relates to financing. We face ruptures over and over again. Will pipe repair be financed more extensively for upcoming years? Thank you.

D. FYODOROV: I start with the second question. Heat network is our sensitive issue. There are five thousand failures a year just within our networks. It's not just unsatisfactory — it's mere critical situation. As to our investments: we invest into heat network more money than heat network profit is. We used to invest there about RUB 4-4.5 billion annually during the last three years. Currently, since Gazprom has become TGC-1 shareholder we invested about RUB 18–19 billion into heat networks. That's not enough. We believe, to arrange heat networks it requires to invest at least RUB 50-60 billion during 5 years. You should understand we currently have no sources. Heat tariff in Saint-Petersburg is 30 per cent lower than that in Moscow. Almost all heat generation in the city is loss-making. TGC-1 persists only due to hydrogeneration located in Murmansk, the Leningrad Region, Karelia and so on.

The investment program approved for this year provides for RUB 2 billion, but nothing prevents us from its adjustment. We not once appealed to various regulators for the situation required changing. We submitted various approaches and procedures. Nevertheless, it's clear that even with RUB 4 billion recently invested the situation cannot be improved. We need to invest at least RUB 6–7 billion more.

Besides, we have an extensive investment program for TGC-1, which we almost completed. Only PP-1 is yet to be built (the project for two units of 100 MW in total at the power plant 1 of the Central CHPP in Saint-Petersburg), and we are going to construct it with no TGC-1 funds in order not to put an extra burden upon the company. Moreover, all the advantages of CSA will be certainly given to TGC-1. We just don't know where we may take money from to invest about RUB 50–60 billion into heat networks during the upcoming 5 years to complete the certain volume of the program.

I used to express this view before the governmental commission and governor at each meeting; and this issue is raised at almost every interdepartmental committee of Gazprom and the city authorities. However, we haven't had any resolutions yet. We are deciding on unconventional power generation, the government says: we'll get CSAs, we're going to increase the share of unconventional power generation from 0.5 per cent to 2.5 per cent as a minimum. The question is: why to invest gigantic money in construction of unconventional generation assets in the country that has plenty of gas and coal. The whole Europe successively refuses unconventional sources. During the last two years I quite often attend all these conferences related to renewables. If you could see German coal-fired plants used as a reserve for unconventional assets in operation. They just start up and shut down the steam generator every two hours. It's a slow death for steam generator. It can be relatively suitable for flexible gas-fired equipment but not for coal-fired one.

Thus, to my mind, they take rather contradictory decisions that are not supported either by power producers (except IES-holding by clear reasons) or by consumers. The corresponding letter signed by all power producers and consumers was sent to the prime-minister stating ambiguity of the situation subject to discussions. Nevertheless, such decisions are taken during a few months. And in case decisions are really crucial they may take long.

My speech is so emotional 'cause it's a real problem, people are perishing, the real human fates stand behind this. A lot of people suffer from serious burns. That's the problem.

What do we do except investing money? This year we decided to restore hydraulic testing practice and to conduct it in summer time. We know, a lot of people don't like it and that it leads to certain discomfort in terms of lack of hot water in summer. Nevertheless, I believe we'll manage to identify our problems as we pressurize sections. It's better than to conduct such testing afterwards on Petersburg citizens in winter time. Therefore, we'll conduct hydraulic testing in summer and, I hope, we'll find the majority of failures and start working over them.

As to payment collection: unfortunately, it's getting worse. There are considerable debts of budget-financed entities and managing companies. We are going to bankrupt those we can and even go beyond. Collection of payments for heat is getting worse. We used to negotiate with the Multiple-Access Computing Center (VCKP) — it's a body that billing nearly 70 per cent of managing companies. We don't understand the way they are billing. We referred the great part of indebtedness to courts and won tons of proceedings. Nevertheless, we waste time, debts rise and sometimes there's nobody to enforce, therefore we are thinking of establishing an alternative billing company for those who are not covered by VCKP — there are about 30 per cent of such. TGC-1 has an experience with the Murmansk power plant, as I've already mentioned. The person who coordinated transition to direct contracts in Murmansk now deals in Saint-Petersburg. We're going to work upon it.

As to the money in bulk: I not once told all relevant managers in Petersburg that in case all the debts due to TGC-1 are discharged by governmental entities under the city competence, all the money to be dedicated to heat network in order to improve Petersburg heat supply.

QUESTION: Vyacheslav Gorodetsky, b-port.com Media Agency (Murmansk). Is Gazprom Energoholding interested in obtaining any assets in the Murmansk Region? I mean grids and so on. 'Cause despite electricity surplus and availability of the Kola nuclear plant in the region, electricity

is very expensive. And electric boiler houses are either costly or loss-making. Could you comment that, please?

D. FYODOROV: I cannot agree that electricity tariffs are high in the Murmansk Region. They're the lowest — to my mind only the Irkutsk Region shows the lower tariffs. I don't know any other regions with such low electricity tariffs. As to heat — I entirely agree: we stay close to some psychological barrier beyond which raising tariffs will lead to total default of payments. This is resulted from using fuel oil and electric boiler houses throughout the Murmansk Region.

Frankly speaking, I cannot see the way out of the situation yet except government subsidy. It can be either direct subsidies, as it happens now, or indirect, as we proposed before and discussed under Dmitry Dmitrienko (the Murmansk Region governor in 2009-2012) and under the new governor. That means introducing some preferential tariffs. It's really very simple: there's the Kola nuclear plant, all its fixed costs are included in the tariff. Raising the plant output means just enhancing its economics. We believe, the introduction of a reduced tariff for electricity consumed by electric boiler houses wouldn't do any harm but instead would be beneficial. Moreover, if we loaded these electric boiler houses to the maximum, we would reduce the fuel oil share in heat generation and somewhat equalize the situation. Nevertheless, there are no solutions yet.

As to our interests in the Murmansk Region: I've already told it's rather sad situation there in terms of debts and everything, thus we're not going to extend our business.

QUESTION: Ekaterina Strukova, the RBC agency. The Russian authorities carry out the policy of gas tariff indexation or reduction — how it may affect the activity of your companies? Moreover, you noticed that gas tariff and Competitive Capacity Extraction (CCE) indexation may adversely affect EBITDA. I'd like to know why. It looks like tariffs are getting lower. Thank you.

D. FYODOROV: Quite large scope of new equipment and units within the process structure was introduced by many companies including Gazprom Energoholding. When a marginal price is fixed and the fuel price is rather high those plants that show the most efficient operational modes, fuel balance and consumption of equivalent fuel per kW/h, naturally, have greater marginal income. They are efficient and they get more money. Therefore, the higher fuel or gas price (every company may optimize cost balance, choose among independent suppliers and so on), the higher our income provided by these new units. Besides, if gas price doesn't rise rapidly the price of new capacity will grow. It's a paradox: you don't raise gas prices or you raise it insufficiently and our income a day ahead provided by the new units in this case will reduce, 'cause it's calculated as a difference, and this will result in capacity tariff growth. Therefore, the decision on indexation should be deliberate. As to CCE: if they don't indexing CCE at least for inflation... you know, it's been indexed just once recently. What is CCE? These are our conditional fixed costs comprising employees' wages and maintenance funds. So if CCE is not indexed for us at least for inflation we will face harder times.

E. STRUKOVA: Did you expect reduction until 2013 or for 2013–2014?

D. FYODOROV: The new prices for CCE will appear since January 1. That means CCE will be carried out now and the price will be indexed or not since January 1. Furthermore, in June we expect indexation and some resolutions on gas. Since July 1, surely under certain gas tariffs, there would be certain price signals in the market. I would say it'll take rather a year and a half. During the half of this year we'll partially have effect or not, and during the next year we'll get an effect or we won't.

QUESTION: Timur Arkhangelsky, Argus Media agency. Mr. Fyodorov, could you tell us about your Asian projects. As far as I see there were messages stating that some power plants are scheduled for construction in China and, as far as I remember, in Korea and Japan. What kind of fuel is supposed to be consumed there in case some certain plans are available? In case of gas, whose gas you plan to use?

And the second question. The seventh slide shows the item regarding electric power assets obtaining. It was discussed not once, but nevertheless, are there any more plans except heating assets or everything has been said? Or does it include any overseas assets perhaps as a form of development your foreign generation facilities? Thank you.

D. FYODOROV: Just a month ago the Gazprom's Board of Directors meeting was held where we reported our results in domestic and European electric power industry. As to European power industry we came to the conclusion that we have to monitor the situation, it's not good for conventional sources either for coal or for gas. It highly focuses on unconventional sources and conventional ones look unprofitable. Nevertheless, we monitor the situation, and we have 2–3 projects there. But we don't show much interest in them yet. As to the European assets: we sold the Kaunas CHPP in Lithuania. The deal was completed a few months ago.

As to Asia: there's a corresponding instruction from Gazprom's Board of Directors. Gazprom have chosen the consulting company through tendering, this is Boston Consulting Group, and we start working with them on Asian projects. It's clear that we're going to cooperate within those countries which will be supplied with Gazprom's gas. We believe, Asian markets could be of much interest to us. But we're going to report late this year, therefore we hope to complete this work before the year end and understand what conditions can provide our sharing in the Asian power sector.

As to the Russian acquisitions: I've already named two projects, these are MOEK and Quadra. We negotiate other assets, perhaps they are not so massive, but we haven't agreed on them yet.

QUESTION: Anastasia Lyrchikova, Reuters. I have a question in this regard as well. You say, you negotiate with a few Russian generating companies. Are there any sellers in Russia except ONEXIM? I mean not separate large power plants, but stocks of your affiliates? For instance, you plan buying minor interests back from Inter RAO, say, OGC-2 — do they have something?

And the second question related to your priorities until 2020. As to reducing debt burden of your affiliates — could you specify the total debt amount for today, is it critical or not, what are the ways of the debt settlement, is there any stages for settlement? May be you're going to sell something instead of buying. Is there any conflict with your assets acquisition or Gazprom is going to finance all the acquisitions, but not its affiliates themselves?

D. FYODOROV: I've told you everything I could for the first question. Who sells, who buys — it's a tender issue... Someone, I can't remember, used to tell: if you cannot buy something for money you may buy the same for the big money. The market economy implies the possibility for acquisition and sale of certain power assets.

With regard to the debt: I can't specify the debt amount, but Gazprom Energoholding Group doesn't fall beyond 2.5 ratio in terms of debt/EBITDA. Surely, there are some problems, primarily in OGC -

2 where we face huge credit burden and investment program. Of course, RUB 20 billion from Gazprom helped us much but we hope for adjustment of these figures due to new power units commissioning and EBITDA rise until 2016 with further successive decrease of these figures. This issue isn't important for Mosenergo now, i.e. it shows rather low figures, to my mind, nearly 1.5–1.7 that look very comfortable for power generating company. For TGC-1 the annual figure comes to about 3, but if we look at the quarter statements (and we are liable to do so), we'll see that in II–III quarters, which were the most unprofitable for the company, the figure comes to nearly 4. Hence, to reduce TGC-1 debt figures, bearing in mind that we completed the basic stage of the investment program, we seek for a reasonable balance among dividend payments, debt burden reduction and investments to reliability enhancement. We implement investment and construction projects within OGK-2: I think the company will reach the Debt/EBITDA factor equal to 4 by the end of the year. We can't see any problems with high debt in Mosenergo. We feel the optimum Debt/EBITDA ratio for our companies to be 2.5.

As to acquisitions: it depends on a particular deal. We are solely implementing the Quadra project without parent company support.

QUESTION: Natalia Skorlygina, the Kommersant newspaper. Could you tell us in more details about new market model? You mentioned the latest attempts to reach consensus. I'd like to understand, in terms of actual situation, what Federal Executive Authorities support any models? Did you agree on anything? And is it possible to agree on any matters? Are there any disagreements and how soon can we get any new market model? Thank you.

D. FYODOROV: As to Federal Executive Authorities: I've only heard the Ministry of Energy viewpoint, they stand for such called "Udaltsov model" (Yury Udaltsov — the Head of Supervisory Board of NP Market Council). It's hard to comment on it due to different apprehension of the model by particular people. I would say, everything we do, I mean not just Gazprom Energoholding, but Enel, E.ON and Fortum as well, is wholly supported by us and Inter RAO. The Udaltsov model is fully supported by SUEK, KES and EuroSibEnergo. The rest of the companies consider both models to be disputable, though it's not correct of me to announce the other companies position — they can do it by themselves. Though me personally is a man who believes revolutionary changes are not the things to make it better having in mind that the government would anyway act as a regulator and interfere with technical strategy. It's, to my mind, the immediate liability of it. All in all, we're the socially responsible state, we're the cold state in terms of heat-supply season duration. Electricity and heat tariffs will surely be rather social-oriented.

The model being currently developed by the working group headed by Yury Udaltsov, with all my profound respect to him, is undoubtedly good, but we discord with how deep the government is going to interfere with this model. If it's going to meddle with the model proposed by the Ministry of Energy, it would result in much more negative consequences for us than the existing model does. We all clearly understand that the existing model cannot work independently without any adjustments or settings and produce correct investment signs within the industry. The model should be substituted. In which manner — that's the question.

QUESTION: Elena Shesternina, RBK-Daily. I'd like to specify Reuters question: did you define MOEK acquisition and financing scheme?

D. FYODOROV: MOEK financing scheme can only be defined by Gazprom's Board of Directors 'cause it falls within their competence. We have some proposals and we're completing them with Gazprom's core departments. We nearly ran out of disagreements, but I cannot disclose the scheme 'cause it's a trade secret. We believe Gazprom Energoholding should participate in the tender. The Board to decide in which manner the structure to be financed, and our task is to propose the appropriate scheme together with core departments.

QUESTION: Yana Lisitsina, Power and industry of Russia newspaper. We can frequently hear an idea that the best news for power industry is lack of news. That means we'd like everybody to come to any agreements and start working.

I'd like to ask you about two acts adopted regarding heat supply and energy efficiency. They are known to have been passed, but they work poorly, 'cause regulations are missing and in fact not elaborated. When, to your mind, are all these going to be fine-tuned and what's your part in it? And is there any way to bring an influence on the situation? What's your forecast? Thank you.

D. FYODOROV: As to heat supply: I'm a member of the subgroup on heat business under the state commission. You answered your question by yourself: the laws were adopted, but regulations are few. Nearly 40 bylaws were planned under the heat supply law, but only 8 were passed during as long as 2 years of law enforcement. Thus, separate deliberately done regulations are unfortunately not valid to the moment.

You ask when we would come to any agreement? There are no serious contradictions as such between regulators. And a lot of Federal Executive Authorities also understand that alternative boiler house is the only adequate way to regulate heat tariffs or prices. But the single issue is, as usual, the cost of such alternative boiler house. Previously the Ministry of Economic Development announced RUB 1 000 per Gcal, but this isn't worth mentioning: it's better to proceed with existing tariff regulation, prove your costs and conform to socio-economic figures assigned by the Ministry. If this price is determined on the regional basis, I mean the work done by Electricity Producers Council which we, among others, represented at the Ministry of Energy, it will come to RUB 1 800 per Gcal. This is the suitable scenario.

However, in some regions, such as Murmansk, this figure is higher, in Moscow it's nearly the same and in St. Petersburg it differs greatly. Therefore, we need some equalizing tool: we cannot instantly raise tariffs in the regions from 5 per cent to 40 per cent during a year, so one has to define the period for transferring to the mentioned price. Today we do this job together with producers, it provides for defining social consequences in every region: this means particular price for particular region during particular period to avoid social shock. I believe we'll complete the work within a month and a half and submit it to the government. We are keep talking, everything's clear to everyone but no statutory acts have been adopted yet.

I'm glad that instructions on heat tariffs calculation were at last approved late last year — it's rather serious methodology and conflicts to some extent with alternative boiler house: if we choose alternative boiler house we'll have to make some adjustments. But just talking about long-term heat tariffs and necessity of its adoption is, by itself, considerable progress. However, I cannot say when it would happen.

QUESTION: Nikolay Khrenkov, the Gazprom Journal. I have two questions.

The first one relates to the Adler TPP: due to the absolutely clear fact that Gazenergostroy is not going to construct anything — what are your expectations with regard to the Adler TPP operation, installed capacity utilization factor (ICUF) and heat generation, especially in terms of the Olympic nature of the forthcoming February?

And the second one: You mentioned a very good pool of investors in electric power generation, while in heat generation there are investors who either don't want to or cannot work efficiently. To your mind, is it worth expecting market structure to change during next 7–8 years due to emerging some (may be three of four) really big and adequate investors who may share heat generation sector among themselves? Thank you.

D. FYODOROV: As to the Adler TPP: we've been supplying heat since last September when we just pre-commissioned the plant and the heat was already needed. Unfortunately, we really give it for free, as you said, there's no tariffs, therefore we provide free heat for pilot tests of sport facilities. We hope for tariff decisions to be taken since the appropriate instruction has been given by Dmitry Kozak, the Vice-Prime Minister.

It's not easy to comment on ICUF now, 'cause all assessments are based on probable peak consumption during the Olympic games. It's too much complicated to assess future ICUF, I hope everything will be alright if FGC (Federal Grid Company of Unified Energy System) and MRSK (Russian Grids, former — Holding of Interregional Distributors) have everything done. There are various assessments, so we'll see.

It was clear as long as half a year ago that all Gazenergostroy assurances of the Kudepstinskaya TPP construction are, to my mind... We have a great construction experience and it's ridiculous to build-up power plant during a year.

As to the pool of adequate investors: we have three major European (sooner international) consortiums: Enel, E.On and Fortum. We attracted lots of major domestic companies including Basic Element, ONEXIM and Renova. We have two major state-owned companies as well: Gazprom Energoholding and Inter RAO. It's hard to say what Russian industry features the same number of investors as we do — this is a qualitative set of investors.

As to the market restructuring — it wholly depends on models and signs produced by the market. I believe foreign investors to stay: they spent lots in buying these assets and constructing new generating facilities. Therefore, I'm sure they came with serious intents and for long, and I don't expect them to escape from the Russian assets in forthcoming 5–7–10 years.

As to our investors: if every year we find ourselves in the same old situation of uncertainty, Russian investors, as we can see, will start escaping. It wasn't in vain that we negotiated combining with IES-Holding, we negotiate with Quadra and so on. Thus, the current situation needs improvement otherwise we'll probably have just Gazprom Energoholding, InterRAO and a number of foreign companies in the industry. That's all.

N. KHRENKOV: It's good.

D. FYODOROV: Why good? I think the more investors, including private ones, the better for power industry. There are things we handle better. As to the Ondskaya HPP: at the meeting held by

Elvira Nabiullina at the Presidential Administration of the RF, Oleg Deripaska (the Head of Basic Element Supervisory Council) mentioned Gazprom Energoholding as an efficient power energy investor and said that further decrease of electricity prices for Gazprom Energoholding does not make any threat at all. Perhaps it's the first time when I proved you that everything is not so perfect with us as you may think it is.

QUESTION: Ekaterina Patrina, Interfax. Could you specify regarding the fuel? You mentioned TGC-1 tender. Did independent suppliers provide them with gas so far? Yes or no? It's the first question.

And the second: are you going to increase the share of independent suppliers for other generating companies and facilities, I mean to attract any more suppliers?

And I'd like you to specify regarding overseas assets: you mentioned Europe that is not so interesting, you said you monitor about 2–3 plants, as far as I understood you meant Gazprom Energoholding. As to the Gazprom as a whole: a Belgium plant owned by Enel has been mentioned lately, is it actual? Is it being negotiated and are you going to buy it?

D. FYODOROV: Negotiations are carried by the Gazprom's Department of Foreign Economic Activity and Gazprom Export, thus, the question should be addressed to them.

As to the gas from independent suppliers: everything will depend on the market conditions. There are not too many good offers at the market. We believe it's of no purpose to enter agreements with independent suppliers before 2016–17 with no clear view of where the gas market will move to. The parent company approved our entering such agreements in case of attractive projects and offers are available. Therefore, if the offers are made — we'll increase the number of independent suppliers, otherwise we won't.

QUESTION: Natalia Kolosova, the Kirishsky Fakel newspaper. What is the effect of CCPP-800 last year commissioning?

D. FYODOROV: The effect is good. It yields us much money within the Power Supply Agreement. So, we're glad that we've built it at last.

QUESTION: Marina Kline, the Chelyabinsky Rabochy newspaper. My question is related to the Troitsk SDPP, in particular to the ash dump located in Kazakhstan. The Kazakh party have been insisting on the complete ash dump reclamation since 2018. Where, in this case, are you going to dump wastes or do you plan construction afterwards?

D. FYODOROV: The Kazakh party routinely insist on the complete ash dump reclamation. We jointly considered the issue, and we believe this ash dump may stay on stream after 2018. We annually invest a lot to maintain the ash dump, so I think its potential cannot be exhausted in 2018. Another issue is that the Chinese equipment we use is the pilot equipment of such an output in Russia and it was RAO UESR to decide upon its construction. We were invited for discussions due to our plans to buy OGK-2. We discussed what particular coal grade is fit for burning by these steam generators in terms of high abrasiveness and ash content of the Kazakh coal and due to China's lack of experience for handling such coal grades. And the heating surfaces clearly evidence the way of the Troitsk SDPP operation with such coal grade.

It was decided to design the unit that would fit coals from the Kuznetsk basin. We hope we would resolve the matter of utilizing ash produced by the new unit 'cause the Kazakhs are likely to refuse to take it. Though, we deal with a number of companies. We're aware of plants operation in Germany with no ash dumps at all: they have dry ash handling system and all their ash are sold for years ahead. It's hard to imagine this in the Russian conditions, hence OGK-2 executives are working out new offers having in mind that the new unit commissioning is just round the corner. They would either agree with the Kazakh party or find some options in Russia. Neither first nor second option seem fantastic to us, we believe we're capable to solve this task.

MODERATOR: Thank you very much, Mr. Fyodorov, for amazing and profound answers. The Press Conference is over.