

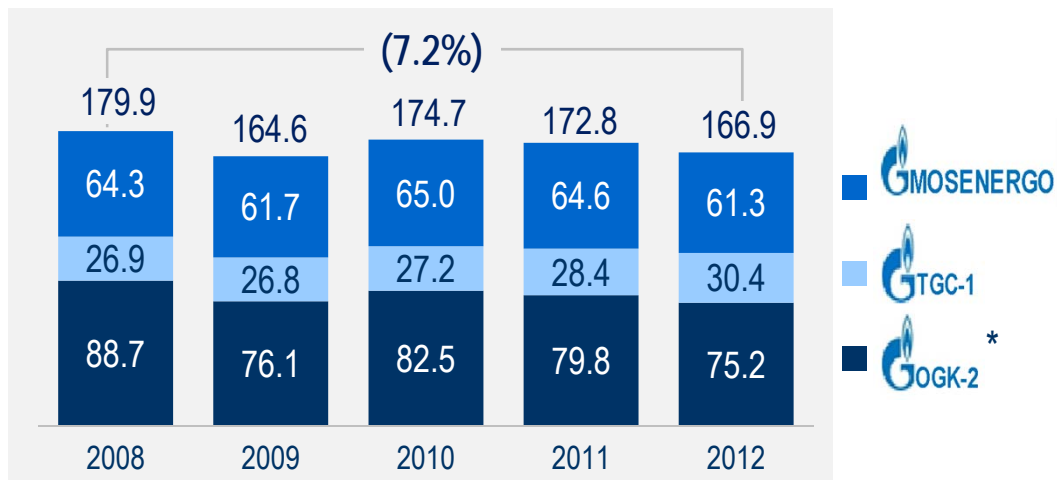
GAZPROM'S POWER GENERATION STRATEGY

Denis Fyodorov

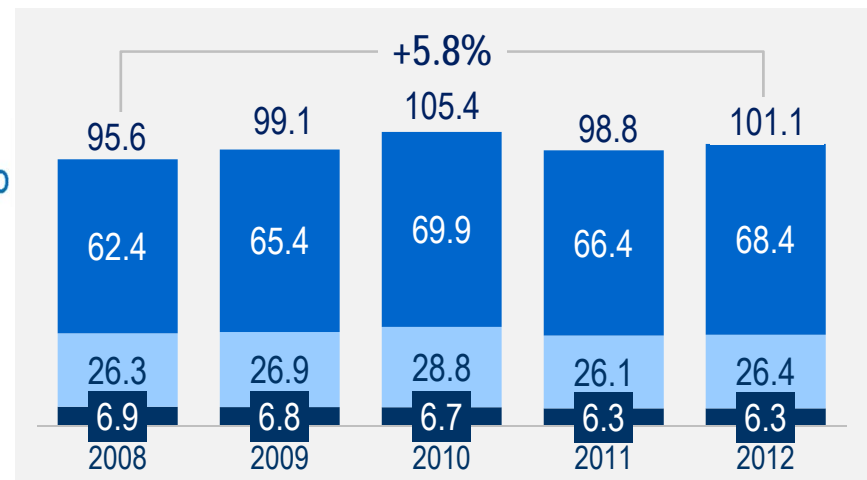
Head of the Directorate for Power Sector Development and Marketing
in Power Generation, Gazprom

Director General, Gazprom Energoholding

Electricity generation, billion kWh

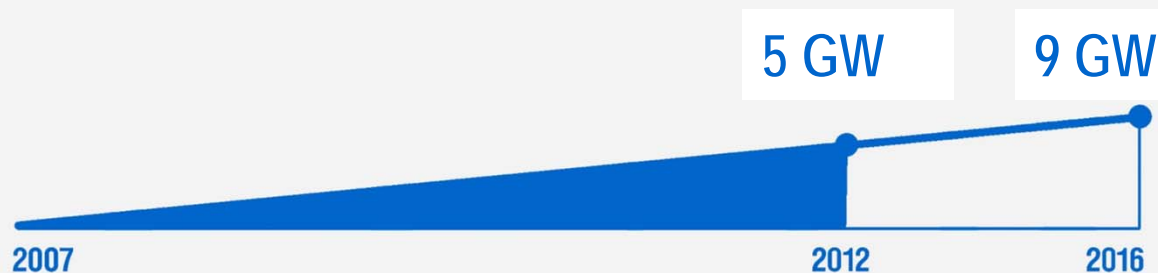


Heat output, million Gcal

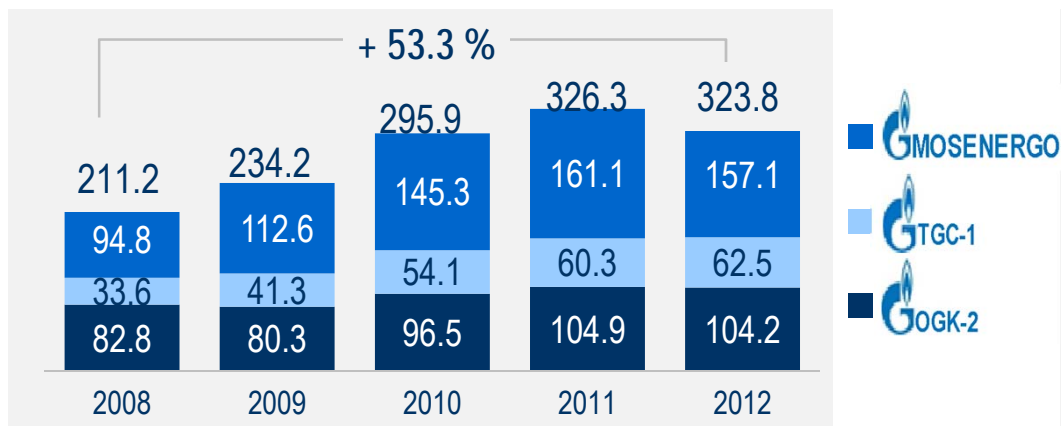


* – data for 2008–2010 are consolidated for OGK-2 and OGK-6

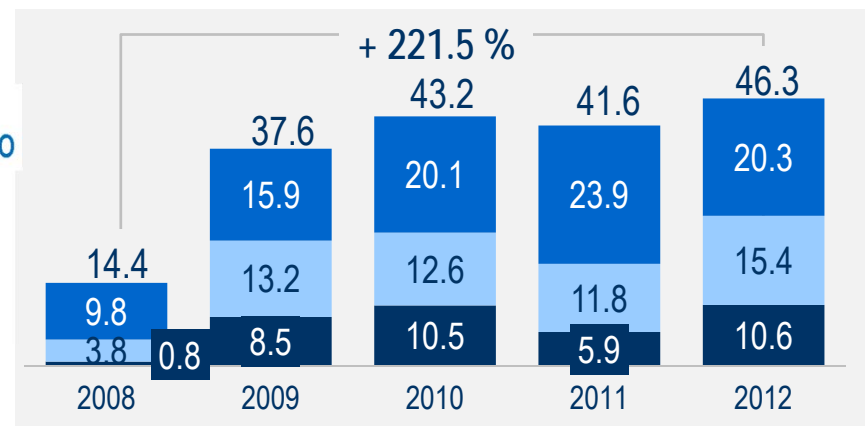
New generating capacities in 2007–2016



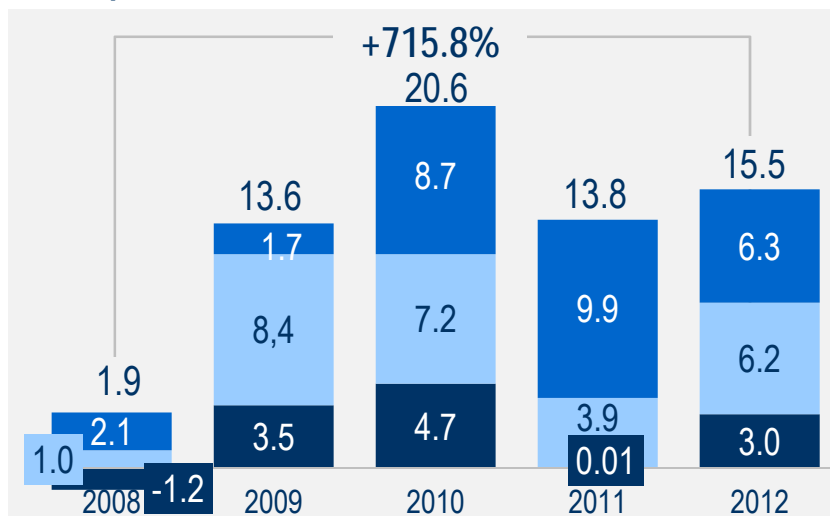
Proceeds, RUB billion



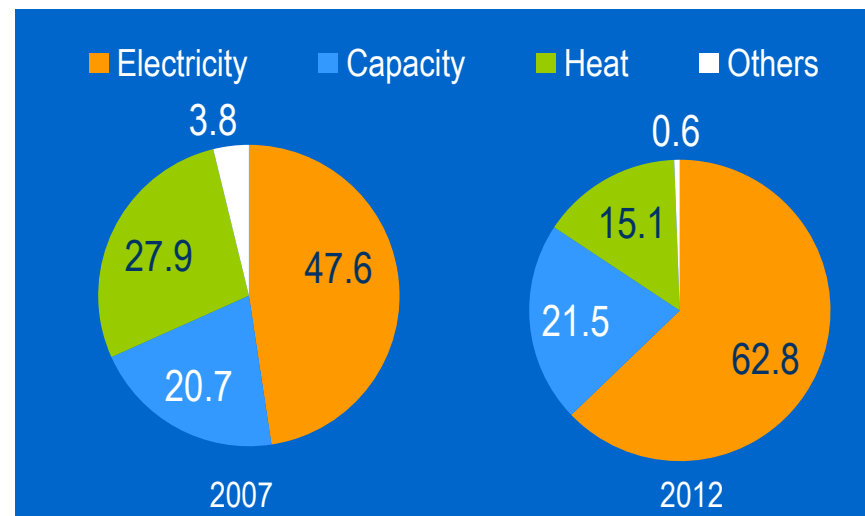
EBITDA, RUB billion



Net profit, RUB billion



Proceeds structure, %



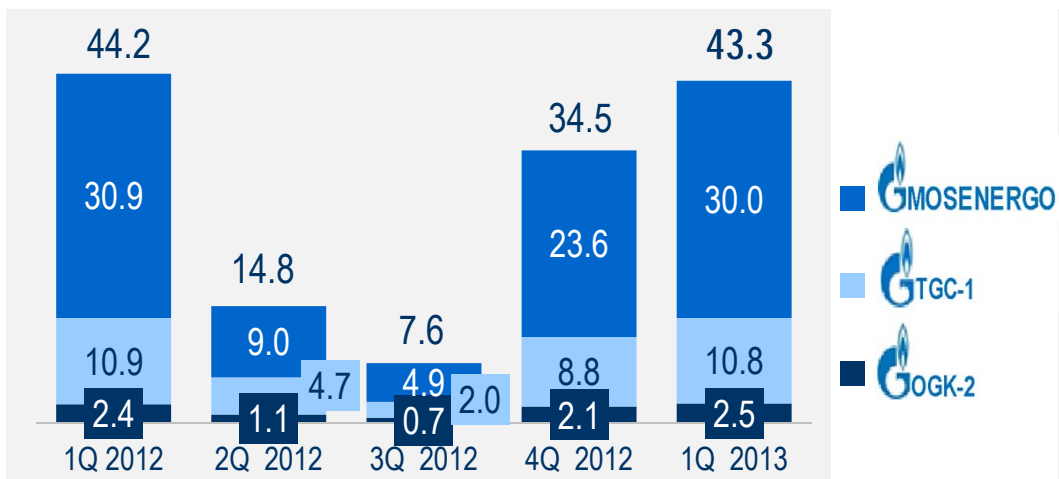
Power generation, billion kWh



Proceeds under IFRS, RUB billion



Heat output, million Gcal



EBITDA under IFRS, RUB billion



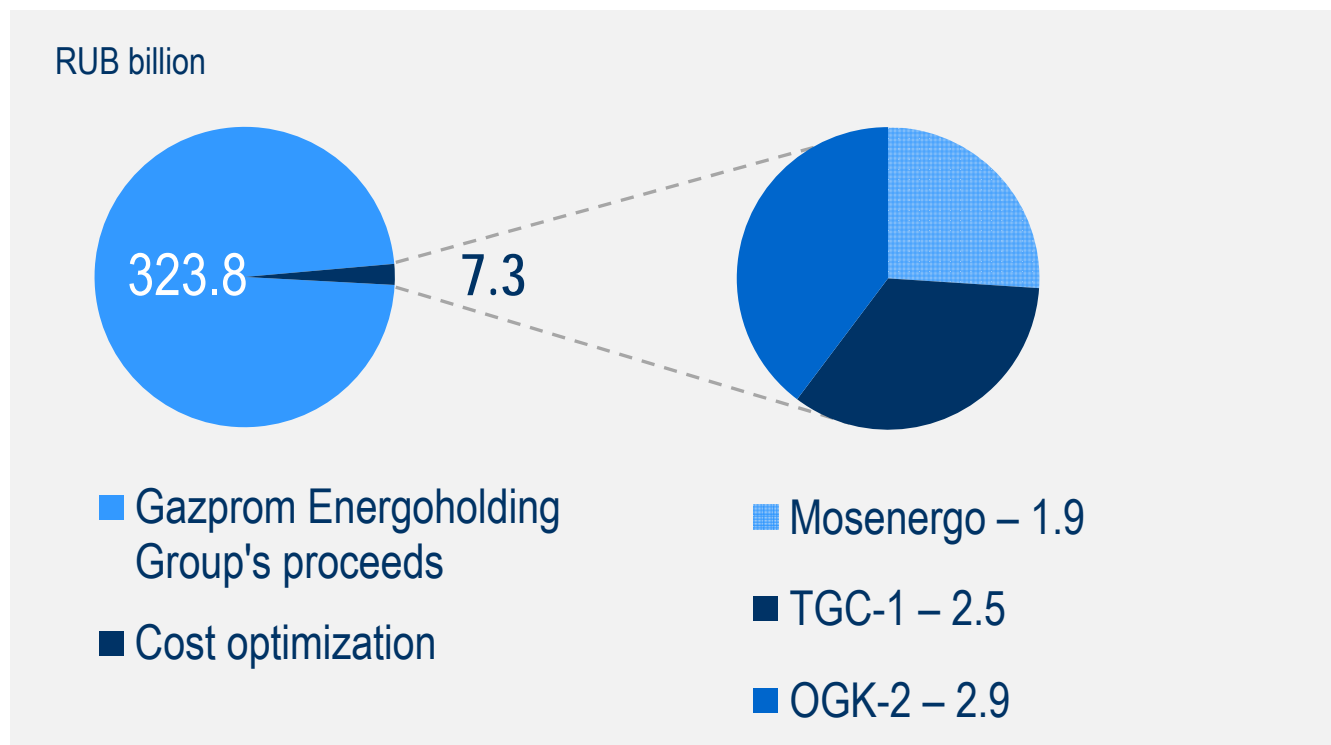
Source: companies' data. * – Estimates

- New highly efficient capacities were put onstream under CSA projects in 2012 to enhance operational and financial performance of generating companies:
 - power unit at OGK-2's Kirishi SDPP – 800 MW
 - power unit at TGC-1's Pravoberezhnaya CHPP – 450 MW
 - power unit at OGK-2's Novocherkassk SDPP – 300 MW
 - hydro power unit at TGC-1's Lesogorsk HPP – 30 MW
- Completion of Adler TPP – 360 MW
- As a result of additional share issue by OGK-2, Gazprom Group raised its interest in this company from 59.61% to 78.34%
- Programs aimed at cost optimization and financial indicators improvement

Work targeted at enhancing operational performance as well as financial indicators through cost optimization programs is in progress so as to upvalue Gazprom Group's power generating assets

Cost optimization results in generating companies

- Lean production
- Program for enhancing shareholder value
- Personnel cost optimization
- Repair and investment programs optimization



- In 2013 construction of highly efficient capacities within CSA projects will continue in order to improve operational and financial performance of generating companies
- It is planned to further implement programs for cost optimization and financial performance improvement. Key positive results will be derived from full-fledged introduction of such programs as:
 - Lean Production
 - Shareholder Value Enhancement
- Programs will help reduce costs in Mosenergo by RUB 1,226 million, in TGC-1 by RUB 1,646 million, in OGK-2 by RUB 886 million*
- Possible expansion of power generating business is being considered through acquisition of new assets and consolidation of Company's positions in heat market

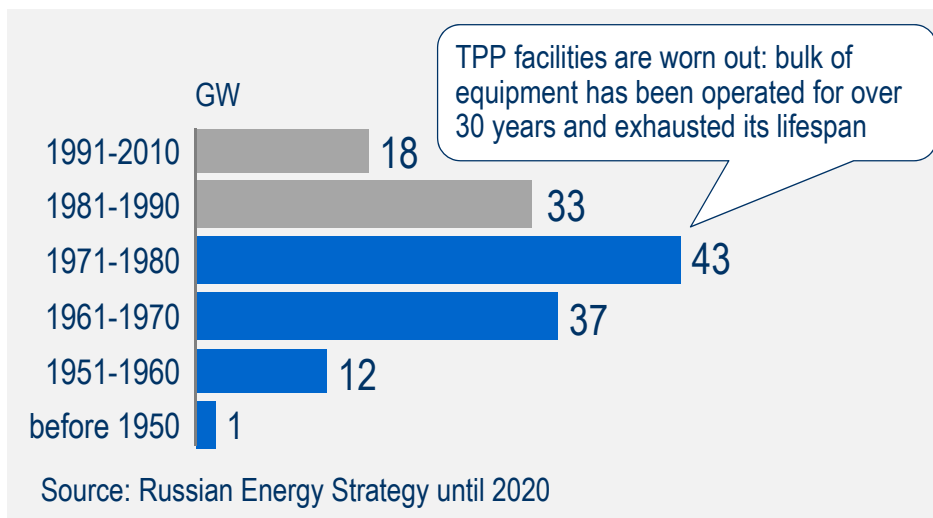
* – Estimates for OGK-2 (to be adjusted)

- Construction of new generating capacities
- Diversifying fuel balance
- Increasing profitability of generating assets
- Measures on developing co-generation
- Optimizing costs and increasing efficiency
- Potential acquisition of generating assets
- Conducting IPO of Gazprom Energoholding
- Easing debt burden of generating companies

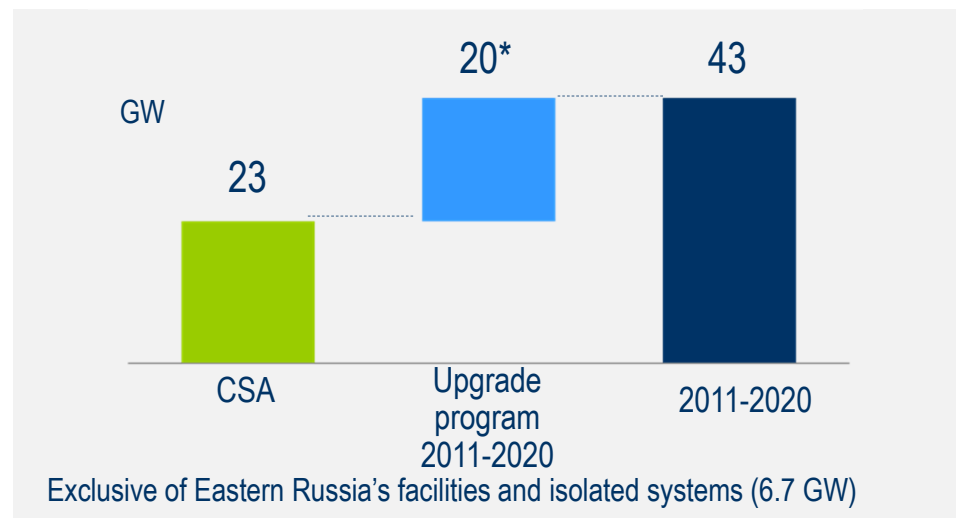
| | Main achievements | Unsolved problems | Market player expectations |
|---------------------------|---|---|---|
| NEW GENERATING CAPACITIES | <ul style="list-style-type: none"> ✓ 16 GW of generating capacities put onstream in 2008–2012, primarily by private investors (according to System Operator) | <ul style="list-style-type: none"> ✓ Lack of investment attraction tools ✓ Equipment wear > 60% | <ul style="list-style-type: none"> ✓ Higher market investment appeal ✓ 33 GW of generating capacities (Energy Ministry) to be put onstream in 2013–2019 |
| POWER MARKET | <ul style="list-style-type: none"> ✓ World's largest day-ahead spot market of electricity established ✓ Competition being created between producers | <ul style="list-style-type: none"> ✓ Lax payment discipline of consumers ✓ Selection of generating equipment is not transparent | <ul style="list-style-type: none"> ✓ Better payment discipline ✓ Higher equipment selection efficiency and transparency |
| CAPACITY MARKET | <ul style="list-style-type: none"> ✓ Bidding-based forward (year-ahead) capacity market set up | <ul style="list-style-type: none"> ✓ Long-term planning of capacity prices is impossible | <ul style="list-style-type: none"> ✓ Long-term capacity market ✓ Economically sound tariff for capacity, including upgrade |
| RETAIL MARKET | <ul style="list-style-type: none"> ✓ Large consumers opt between wholesale and retail markets | <ul style="list-style-type: none"> ✓ High risks of default in payments ✓ Category of 'licensed' non-payers: Tyva, North Caucasus, chemical industry | <ul style="list-style-type: none"> ✓ Higher competition ✓ Better payment discipline of distribution companies |

About 100 GW or 60% of total installed capacity of Russian TPPs exhausted its lifespan

Capacity structure by years of commissioning







Capacity Upgrade Demand

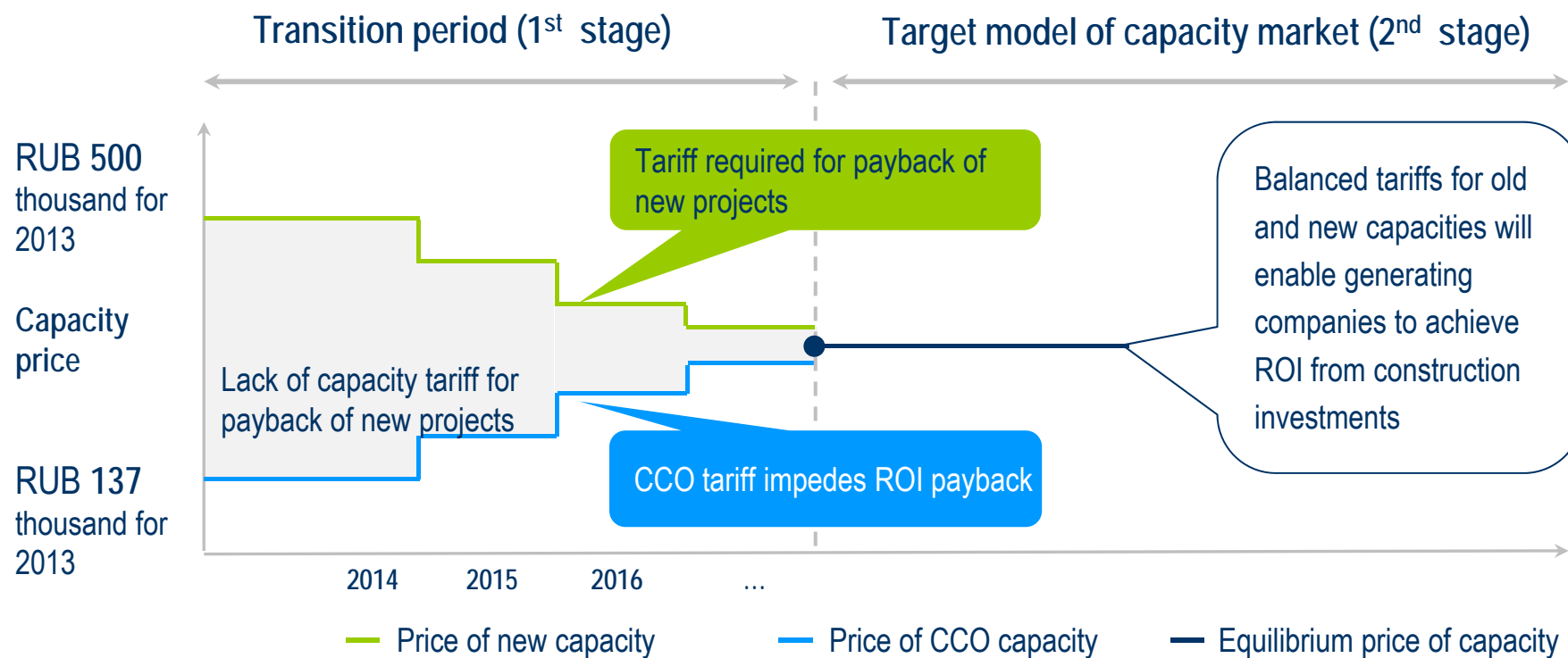


Due to particular importance of power industry for Russia, long-term control over generating equipment should be maintained by Government on integrated and permanent basis through introduction of financial tools for ROI

Impact on final price

| | | |
|---|--|---|
| 1 | <ul style="list-style-type: none"> ▪ Two-stage transition to long-term capacity market with economically sound capacity tariffs (price-cap regulation) ▪ Marginal capacity tariffs are introduced only in heat generation |  |
| 2 | <ul style="list-style-type: none"> ▪ HPP/NPP participate in capacity market only in terms of volume ▪ Capacity tariff for HPP/NPP is set by Government based on share in total profit from electricity sales |  |
| 3 | <ul style="list-style-type: none"> ▪ Decreasing grid share in final tariff through merger of power grid companies and enhancement of regulation efficiency for power transmission tariffs |  |
| 4 | <ul style="list-style-type: none"> ▪ Streamlining market tools of Wholesale Electricity and Capacity Market ▪ Boosting competition at Retail Electricity Market, establishing heat market ▪ Creating conditions and economic incentives for long-term bilateral relations between producers and consumers |  |

- 1st stage requires increasing capacity tariffs up to economically sound level in order to launch new projects
- After tariffs for new and old capacities are balanced, payback of upgrade and construction projects will be regulated by market



Gazprom Energoholding's market model respects interests of all stakeholders

STATE

- Ensuring Russian energy security
- Upgrading power capacities of UES of Russia
- Securing electricity (capacity) demand
- Balancing interests of producers and consumers
- Increasing market investment appeal
- Forecasting wholesale market pricing

CONSUMERS

- Optimizing price of electricity (capacity)
- Providing reliable and uninterrupted power supplies
- Slowing down price growth rates in future through upgrade
- Forecasting wholesale market pricing

PRODUCERS

- Returns on investment projects
- Clear long-term market rules
- Increasing market investment appeal
- Incentives for shut-down of inefficient generating facilities
- Forecasting wholesale market pricing



THANK YOU FOR YOUR ATTENTION!

PRESS CONFERENCE AS PART OF GAZPROM'S ANNUAL GENERAL SHAREHOLDERS
MEETING