

## Press Conference

### **Gas Supply to Domestic Market. Executing Russian Regions Gasification Program and Power Generation Strategy**

**June 21, 2010**

**Moderator:** Good afternoon, colleagues. We continue our traditional series of meetings with journalists prior to the Gazprom Shareholders Meeting. Today we will address gas supply to the domestic market, gasification issues and the Company's strategy in the power generation sector.

The participants of the Press Conference are:

- **Kirill Seleznev**, Member of the Management Committee – Head of the Gas and Liquid Hydrocarbons Marketing and Processing Department, Gazprom; Director General, Mezhregiongaz;
- **Denis Fyodorov**, Head of the Directorate for Power Sector Development and Marketing in Power Generation, Gazprom; Director General, Gazprom energoholding.

The Press Conference will be held in the following way: first, Mr. Seleznev will deliver a speech on gas supply to domestic consumers and answer your questions. Afterwards, we will yield the floor to Mr. Fyodorov, who will also give answers to your questions afterwards.

**Kirill Seleznev:** Good afternoon. I will start with gas supply to the domestic market. In 2009, 262.6 billion cubic meters of natural gas from Gazprom's resource base were marketed to the Russian Federation consumers under supply contracts. In 2009 the Company's proceeds from gas sales (net of VAT and excise tax) grew on average by 4.3 per cent versus 2008 and totaled RUB 494.9 billion. The average gas price on the domestic market rose in 2009 by 14 per cent versus 2008 and made up RUB 1,885 per 1,000 cubic meters.

In 2009 Mezhregiongaz sold 287.7 billion cubic meters on the domestic market, a 5 per cent fall versus 2008. The decrease in gas supplies stems from the outcomes of the global financial and economic crisis, the cutback in industrial production and the drop in energy consumption. Gas consumption dropped most significantly in the power generation, metallurgical and agrochemical industries. In the first quarter of 2010 Mezhregiongaz supplied 107.5 billion cubic meters of natural gas, which is 7.5 per cent higher as compared to the first quarter of 2009. 8 billion cubic meters of gas were marketed on the terms and conditions set forth in Directive No.333 by the Russian Federation Government, which, in turn, is higher than it was last year. The revival of gas sales during the first quarter of 2010 is explained by the spell of colder weather in comparison to the first quarter of 2009.

The bulk of the gas consumption increase falls on the population, utilities, power generation and metallurgical industries.

I would like to provide more details on gas supply to socially significant population strata. These consumers were provided with 94 billion cubic meters of gas in 2009, which makes up 33 per cent of the total supply amount. Gas delivery to these consumers rose by 1.7 billion cubic meters versus 2008.

The efforts taken by Gazprom in cooperation with authorities at all levels made it possible not only to retain a high level of payments (92 per cent), but to reduce arrears for the previous years by RUB 7.6 billion including the reductions among state budget funded consumers (by RUB 550 million) and utility companies (by RUB 7.1 billion).

The level of payments for current gas consumption by the utility sector dropped by 3.9 per cent down to 88.1 per cent as compared to 2008. As a result, the indebtedness grew RUB 5.9 billion over 2009. The aggregate gas debt of utility companies totaled RUB 13.7 billion as of January 1, 2010.

At the same time, a persistent trend towards a significant drop in the payment level was observed in the following southern regions of Russia: the Republic of Ingushetia (by 34 per cent), Kalmykia (by 25 per cent), the Republic of North Ossetia – Alania (by 16 per cent), Kabardino-Balkaria (by 13 per cent) and the Volgograd Oblast (by 12 per cent). The utility sector of the Chechen Republic has almost fully ignored gas payments – the payment level averaged 0.5 per cent. An increase in gas payments (by 7.5 per cent) is only noticed in the utility sector of the Krasnodar Krai.

I would like to say a few words about the Electronic Trading Platform (ETP). As you know, due to the absence of the Russian Government Directive in 2009, natural gas was not traded via ETP. Nevertheless, Gazprom and Mezhrefiongaz continued the joint efforts aimed at improving the electronic and exchange gas trading processes on this platform. In 2009 a number of actions were taken as described on Slide 7.

Now, I would like to dwell on the issue of the Russian Regions Gasification Program. As part of this Program, Gazprom continued in 2009 the construction of inter-settlement gas pipelines. The approved Gasification Program stipulated RUB 18.5 billion of investments in the reporting period, with RUB 17.14 billion slated for furthering the construction of 252 facilities, as well as for launching the construction of 72 new facilities. RUB 1.36 billion was allocated for design and exploration activities to ensure future construction projects. During 2009 additional funds were earmarked to fulfill the assignments by the Russian Government. Taking into account these new allocations, Gazprom's investments in the Gasification Program amounted to RUB 19.31 billion.

Over the reporting period, 69 Russian Federation constituents took part in the Program. The allocated funds allowed engaging five additional constituents: the Kamchatka and Primorsky Krai, the Jewish Autonomous Oblast, the Chechen Republic and the Republic of Ingushetia. The investment amount earmarked in 2009 for each of the Gasification Program participants was proportionate to the results achieved in 2008 by a participating region in the preparation of ultimate consumers. In 2008 the synchronization schedules were disrupted in 10 regions – the Volgograd, Voronezh, Kurgan, Leningrad, Lipetsk, Orel, Ryazan, Samara, Tomsk Oblasts and the Komi Republic. Therefore, the amount of 2009 investments for these regions was reduced and allocated solely for the completion of already launched facilities as prescribed by the terms and conditions of the Gasification Program. The comparison between the finance amounts for the 2008 Gasification Program and the 2009 Gasification Program in these regions is illustrated on Slide 10.

Pursuant to the approved plans and schedules, 178 facilities in 45 Russian constituents were completed in 2009. Gazprom's obligations for 2009 were met in full. Besides, taking into account the decisions adopted upon the requests of a number of regions and considering the consumer readiness for gas supply, construction of 18 inter-settlement gas pipelines and startup complexes was finalized in 2009 ahead of schedule. By bringing onstream the inter-settlement gas pipelines, Gazprom facilitated the connection of 79.5 thousand households and 579 boiler houses, provided that the regional administrations had met the assumed obligations. In 2009 gasification facilities construction was completed in 47 regions, out of which 23 regions (slightly less than a half) fully met the obligations on ultimate consumer preparation.

Based on the last year results, seven regions fell considerably behind the schedules for consumer preparation, both in terms of deadlines and the number of consumers. These are the Republic of Altai, the Altai Krai, the Republic of Karelia, the Volgograd, Kostroma, Leningrad and Nizhny Novgorod Oblasts. In addition, Karelia, the Volgograd, Kostroma and Leningrad Oblasts were late with consumer preparation in 2007 and 2008, which seems to have become a regular trend. Slide 14 presents the indicators of consumer preparation in the lagging regions.

Based on the performance indicators achieved in the first half of 2010, Gazprom will sum up the interim results in implementing the Gasification Program with due regard to the defaulted obligations of the previous years. If the authorities of the lagging regions don't fully meet the undertaken obligations before this deadline, the funds identified as our provisions will be allocated as was previously planned.

The Russian Regions Gasification Program stipulates RUB 25 billion of investments for the current year. The key targets of the Program are given on Slide 15. This year 65 constituents of the Russian Federation are taking part in the Gasification Program. The Republic of Karachaevo-Cherkessia was included in the

Program for the first time. The Stavropol Krai and the Republic of Mordovia were not listed in the 2010 Program as their gasification level almost achieved 100 per cent.

It is projected to finalize the construction of 138 out of 140 transiting facilities stretching for some 2,000 kilometers within gas distribution networks. Another two facilities with the length of nearly 50 kilometers will be completed in 2011. Besides, the Company launched the construction of 178 facilities with the total length of around 2,000 kilometers.

This year the priority is given to a number of projects in the Far East and South Russia. The main facilities and construction deadlines are shown on Slide 17. An inter-settlement gas pipeline to combined heat and power plant No.2 (CHPP-2) of Petropavlovsk-Kamchatsky will be completed in the Far East before the end of July 2010 and an inter-settlement gas pipeline to Yuzhno-Sakhalinsk CHPP-1 will be completed on Sakhalin in December 2010. Underway is the construction of an inter-settlement gas pipeline to Vladivostok CHPP-2 and the facilities intended for the APEC Summit on the Russky Island (by September 2011).

In South Russia, natural gas is arriving in mountainous regions of the Republic of Dagestan, large-scale projects are progressing in Nazran and Grozny. As part of preparations for the Olympic Games, massive projects have been launched to gasify the Adler combined heat and power station (CHPS) in the Krasnodar Krai, the population centers and facilities in the Adler District to service the Olympic Games, as well as the settlements of Krasnaya Polyana and Esto-Sadok. Thank you for your attention, I am ready to answer your questions.

**Moderator:** Let's pass on to questions.

**Question:** Savateyeva Svetlana, Interfax. You specified the volume of gas supply pursuant to Directive No.333. Could you tell us what was the average selling price and are you really offering natural gas at the price below the level set by the Federal Tariff Service? The second question: Gazprom's long-term contracts envisage penalty coefficients (3 for the winter period and 1.5 for the summer period). Consumers assert that they have managed to abolish these coefficients through court action. Has these coefficients been really excluded from long-term contracts? Thank you.

**Kirill Seleznev:** Thank you for the question. Concerning the gas selling price according to Directive No.333, I can't specify the exact figure, it always varies. The first-quarter coefficient fluctuated from 1 to 1.2 – it depends on the consumer category and on our position in the negotiations. Therefore, we supply gas both with 1.1 and 1.2 coefficients depending on the region, the specific consumer and the agreements reached. In general, we are supplying natural gas with the coefficient exceeding 1.

As far as the coefficients related to unsanctioned gas offtake are concerned, they [3 for the winter and 1.5 for the summer period] were really provided for in long-term agreements. Although, following the results of interaction with consumers, as well as a number of meetings in the Federal Antimonopoly Service and the Economic Development Ministry, Gazprom agreed to reduce the coefficients to the level of those set in the Gas Supply Rules – 1.5 for the winter period and 1.1 for the summer period.

Gazprom doesn't sell natural gas cheaper than the level set by the Federal Tariff Service.

**Question:** Eugenia Sokolova, RIA Novosti. Could you tell us when do you expect the resolution on gas exchange trading and, accordingly, when will the trading process be resumed on the electronic platform? Thank you.

**Kirill Seleznev:** You know we expected that this resolution will be issued before 2009, because the trading experiment was recognized as a success. It is not clear to us, why it hasn't been issued yet. All we know is that the draft resolution was submitted to the Government, but then it was sent back to the Energy Ministry for amendment. This is all the information I have.

**Question:** Anna Peretolchina, Vedomosti. Mr. Seleznev, I would like to ask a question regarding long-term contracts. What is the minimum gas amount you had to supply to your consumers in 2009 under these contracts, how large is this amount for 2010? Have you imposed any penalties for taking off less gas than agreed? Many industrial consumers asserted to have come to the agreement with Gazprom concerning the cancellation of penalties for them. Thank you.

**Kirill Seleznev:** I voiced the gas supply amounts in my speech. As for the penalties for falling short of the agreed minimum – such cases really happened. As you know, we have a definite take-or-pay corridor and a consumer may vary his offtake amounts within this corridor. This issue is related to the operating regime attributable to the consumer, the amount of heat or condensation output by this consumer, if we look at the power industry. Natural gas is offtaken within this corridor. In some cases we imposed penalties for offtaking less gas than agreed and we won several court proceedings.

**Question:** Natalia Grib, Kommersant. Will you please answer two questions? The first is: what are your plans on increasing the gas sales volume in 2010 (maybe, in comparison to 2009 or 2008)? The second question: six weeks ago we raised the subject of payment defaults, mainly on the part of utility companies. How acute is this problem now, and what is the amount of indebtedness, if it exists?

**Kirill Seleznev:** Thanks for your question. Speaking of increasing the gas sales volume in 2010, Gazprom approves the annual gas balance and uses it as the basis for the Company's activities. If consumers request extra gas volumes, we will be

ready to supply them. As I have already mentioned in my speech, we had to considerably increase the gas supply volume in the first quarter of 2010 due to the fairly cold weather period. If the weather is favorable for us, we will be able to supply consumers with extra gas volumes in the fourth quarter of 2010 as well.

Speaking of the debt for the supplied gas – this problem remains acute for Gazprom. In general, the problem exists beyond Central Russia, in the Southern Federal Okrug. A certain progress in this issue is noticeable: we interact with regional authorities, state-funded organizations and federal bodies. But the problem still exists and we will continue our efforts.

**Question:** Natalia Grib, Kommersant. Could you specify the annual balance, I mean, the exact amount?

**Kirill Seleznev:** This year the supply amount stands at 281 billion cubic meters.

**Question:** Voronezh Oblast, Bereg newspaper. According to the synchronization schedule between Mezhrefiongaz and the Voronezh Oblast administration, construction of inter-settlement gas pipelines is to be finalized in our region in 2011, while the intra-settlement gas pipelines will be ready by October 2010. Is Mezhrefiongaz going to adjust the construction schedule for inter-settlement gas pipelines? Thanks.

**Kirill Seleznev:** The question is rather topical. It is not only in your region that the Company works ahead of schedule. As I have mentioned before, we satisfy the regional authorities' requests on commissioning the completed gas pipelines by the heating season startup, like in your case. It will depend on consumer readiness to receive gas. If administrations comply with the obligations undertaken and consumers are ready to receive gas, these gas pipelines can be put onstream during October–November 2010.

**Question:** Mr. Seleznev, there is a question from Stavropol. You said that our region was not engaged into the Gasification Program for the first time as robust results had already been reached. Though, our administration is requesting to include several more settlements into the Program. Can we expect that the region will be included into the Program next year or this year, maybe?

**Kirill Seleznev:** Your region was not included because it is 100 per cent gasified as I have already mentioned. You see, there must be a certain degree of reason and, undoubtedly, economic viability for engaging one or another population center in the Program. Therefore, if there exist undersupplied population centers, Gazprom in cooperation with the Stavropol Krai Government is ready to address various schemes of supplying natural gas (LNG inclusive) there. If we find it necessary and expedient to gasify these population centers, we will certainly add them into the next year program.

**Question:** A question from Kostroma. Nadezhda Soldatova, Kostroma state TV and radio broadcasting company. What is your assessment of the gasification pace in our Oblast? As it is known to be rather slow, are you going to administer any measures to our Oblast?

**Kirill Seleznev:** My latest assessments of the Kostroma Oblast gasification pace are quite positive. RUB 1.8 billion was invested in the Kostroma Oblast gasification during 2005–2010. Nevertheless, in 2007, 2008 and 2009 the Kostroma Oblast was among the lagging regions and Gazprom supplied it with RUB 10 million only in 2010. I have already stated that the half-year operating results will be summed up. If the Oblast doesn't improve the pace of consumer preparation, the investments will remain on the present level for 2010 and 2011 and we will not raise it any more. If the region improves, we will be ready to consider the increase in the gasification investments for it.

**Question:** Sergey Lapshov, Karelia newspaper, Petrozavodsk. Regarding the potential placement of a gas pipeline from the Shtokman field: how do you think it will influence further gasification of the Republic of Karelia and the environment of the neighboring regions? Thanks.

**Kirill Seleznev:** I think the gas pipeline construction will certainly give a new impetus to the regional gasification. As for the environment, I think Gazprom, being a socially and environmentally responsible company, will take best efforts not to disrupt the Karelia environment.

**Question:** Maria Pomelova, Channel 7, Vologda Oblast. Our Oblast covers a spacious territory, and you will probably share my opinion that natural gas penetration in the Oblast is insufficient. Besides, there are a lot of distant settlements. Will you please comment on the gasification plans for 2010, we are particularly interested in the Kirillovsky District frequently visited by tourists. In spite of this fact, the region is not supplied with natural gas and it is shameful. The second question: you declared that not all local authorities comply with their duties on laying the gas pipelines they were obligated to. What is the gasification status in the Vologda Oblast, have you got any reclamations? Until now, we haven't found our Oblast in the list of underperformers. Thank you.

**Kirill Seleznev:** The Vologda Oblast received some RUB 990 million between 2005 and 2010. According to our opinion, the region is neither an underperformer nor a leader. RUB 75 million was allocated in 2010, we assess the level of consumer preparation as satisfactory. Certainly, there are things to be improved. As I said, we will evaluate the Oblast's operating results for 2010 and relying on the obtained results we will decide whether to raise or to retain the current level of investments for the region and to complete already launched facilities.

**Question:** Denis Lebedev, Delovoy Peterburg. Considering the Leningrad Oblast listed among the underperformers: could you clarify the amount of investments

earmarked by your Company for the Oblast gasification last year? What is the planned amount for this year and how greatly was it reduced? Besides, I would like to clarify the following issue: the problems in the Oblast were debated as early as in the beginning of the year, back then, in response to our question “what has to be done?” the regional authorities asserted that the problem was being negotiated with Gazprom and they had almost settled it. Do I get it right and the negotiations have come to a deadlock? Will you brief us on the subject of the negotiations, the terms proposed by Gazprom, the authorities’ requests and the achieved results?

**Kirill Seleznev:** Thank you for the question. Regarding the Leningrad Oblast, I can say that the total investment amount between 2005 and 2010 was considerably high according to the Company’s evaluations – RUB 2.357 billion, that is nearly RUB 960 million in 2007 and RUB 600 million in 2008. In 2007–2008 the Oblast was already behind the schedule on consumer preparation, therefore we reduced the investments down to RUB 342 million in 2009 and the Leningrad Oblast received only RUB 10 million in 2010. Let me point this out, in my speech I have drawn the audience’s attention to the regions falling behind the Gasification Program, the identical trend is observed with the payments. As a rule, if a region is unable to meet the deadlines for consumer preparation (this characterizes the regional administration’s efforts), the same holds true for gas payments in state-funded enterprises, municipalities and utility companies. Naturally, we are negotiating with the Oblast authorities the issues of debt repayment, gasification advancement and consumer preparation. Starting from 2007, the Oblast is lagging in the preparation of consumers. As soon as we notice any progress in this area, we will review the possible increase in investments. By now, no accords have been reached and no steps have been taken by the Oblast authorities.

**Question:** Anna Shirayevskaya, Bloomberg. The first question: I would like you to clarify the gas balance for 2010. You said that 280 billion cubic meters comprise all the supplies by Gazprom Group to Russian consumers, or are these the supplies by Mezhhregiongaz? The second question: what is your assessment of the demand recovery on the Russian market? Do you see any economic effect: does the economic recovery influence the domestic consumption in Russia or was it merely caused by the seasonal factor (cold winter period of 2009–2010)? Thanks.

**Kirill Seleznev:** Thanks for the question. We make assessments relying on 281 billion cubic meters as the balance of Gazprom Group: Gazprom’s natural gas accounts for 270 billion cubic meters, the remaining gas will be purchased by Mezhhregiongaz from independent producers or through our joint ventures.

Speaking of the gas supply increase stemming from the economic and industrial revival, I may say that this trend has certainly emerged, but it is still insignificant. Following the outcomes of two quarters, the resulting figure makes up some 1.5 per cent, this is the precise dynamics provoked by the demand recovery due to the improved economic environment, rather than by seasonal factors.



**Moderator:** Let us thank Mr. Seleznev. Thank you very much. Now, let's yield the floor to Denis Fyodorov.

**Denis Fyodorov:** Good day, ladies and gentlemen. At present, the power business is a harmonious addition to our oil business. Over the last three years since the adoption of Gazprom's Power Generation Strategy by the Board of Directors, this segment has risen almost from zero to the scale noticeable both against Gazprom's greatness and against the backdrop of the global power industry.

The installed capacity of Gazprom Group's generating assets averages 36 GW or 16 per cent of the total installed capacity in the domestic power industry. The Group is among top ten global electric power producers, which is witnessed by the data on the electric power generated in 2009 totally equal to 165 billion kWh.

As a result of reforming RAO UES of Russia, Gazprom became the largest owner of generating assets in Russia outstripping the state-owned Rosatom and RusHydro in terms of installed capacity. The share of electric power generation by Gazprom's energy assets accounts for some 17 per cent of the total electric power generated in Russia.

The status of the country's major owner of generating assets assigns special responsibility in meeting investment obligations concerned with the Russian power generation sector. The Company executes power investment projects according to the assumed obligations. At present, Gazprom Group is engaged in more than 10 large-scale power investment projects worth in excess of RUB 200 billion.

Between 2008 and 2009 Gazprom commissioned 57 per cent of new generating capacities (1,120 MW) in Russia. It is projected to commission nearly 2,000 MW of new capacities this year.

Slide 3 presents the current structure of Gazprom Group's energy assets. There was established a vertically integrated company, Gazprom energoholding, managing four generating companies: Mosenergo, TGC-1, WGC-2 and WGC-6. In late 2009 the controlling stakes in these companies were finally consolidated on the balance of Gazprom energoholding. Gazprom Group also includes Mezhhregionenergosbyt – Russia's largest power distribution company at present. Based on 2009 results, the aggregate amount of energy trading exceeded 80 billion kWh.

Gazprom energo is a large power distribution company operating low- and medium-voltage electric power assets. In addition, Gazprom is implementing new construction projects – the second power generating unit at Kaliningrad CHPP-2 (the unit is nearing completion – the commissioning is slated for late 2010), as well as constructing Adler CHPS to be the main energy supply facility for the Olympic Games. Besides, Gazprom energoholding participates in other Russia's power generating companies representing non-core assets of Gazprom Group.

In addition to providing the efficient management of the key generating companies, Gazprom energoholding faces the task of optimizing the asset structure through the exchange of the holding's non-core assets into the power assets of Gazprom Group's interest.

Despite the general reduction in the amount of electricity produced by power generating companies in 2009, the four companies of Gazprom Group demonstrated impressive financial performance. The total EBITDA rose to RUB 34 billion, while the net profit increased to RUB 12.5 billion according to Russian accounting standards.

Further development of power generating companies will be driven by two factors: investments and improvement of operating activity. The 2010 plans provide for shaping the development strategy for Gazprom Group's energy assets until 2020, as well as creating the business architecture within the management system for electric power assets within Gazprom energoholding.

As for the investment development, the investment program implementation is nowadays a prioritized task of Gazprom. As I said, Gazprom is the most responsible domestic investor in Russia's power generation sector and all the investment projects in this sector were implemented and will be further implemented in compliance with the assumed investment obligations. The Investment Program of Gazprom energoholding envisages increasing the installed capacity of generating assets to 44.8 GW by 2020. Gazprom is also taking large-scale actions on shaping the program of equipment commissioning and decommissioning up to 2025. The program will include, inter alia, the projects on reconstructing and upgrading the existing capacities. This will help Gazprom raise the operating efficiency of power stations on the wholesale market and assure the reliable operation of equipment.

Raising the operational efficiency is among Gazprom's prioritized objectives. It calls for a systematic approach. In this respect, the Company is performing inspection of the entire system of Gazprom Group's generating assets management to work out the ways of its optimization with due regard to the best management practices in international power generating companies (Enel, E.ON, EDF, RWE and others). For the purpose of elevating the operating efficiency and optimizing the management structure Gazprom addresses the issue of consolidating WGC-2 and WGC-6.

In my opinion, the merger of these two companies is the right historical step for Gazprom. I would like to say a few words about the preconditions of the merger. First of all, a largest thermal power producer with the installed capacity of over 17 GW will be formed through the power generation business expansion. The merger will also create a synergetic effect that will save the operating costs on the managerial staff, eliminate the redundant subdivisions, centralize the procurement,

optimize the loading of production capacities, centralize planning and execution of the investment program. Moreover, the shares liquidity will be higher and the access to the equity capital and debt markets will be facilitated in case, inter alia, of a possible inclusion of MSCI Russia index into the calculations. At the moment, we have invited the leading western and Russian investment banks to preliminary discuss the project. Gazprom is studying different merger options. If the decision is taken to execute the project, its provisional deadline will be the next annual General Shareholders Meeting. I would like to emphasize that we don't set the task of integrating for the integration sake, we are striving to obtain a significant synergetic effect in the result, both in the operating activity and in the capitalization of the integrated company. Furthermore, it is extremely important to successfully synchronize the merger with the decision-making on financing and the investment program execution. It is also significant that such a transaction has never been implemented on the Russian electric power market before.

The exchange between prominent market players is considered to be the next stage of the industry's assets consolidation. As a result of the dissolution of RAO UES of Russia, Gazprom obtained a substantial portfolio of shares in non-core assets with the current market value of nearly USD 1.8 billion. Before the crisis it was evaluated by leading western banks at USD 5 billion. Gazprom is not planning to sell the shares so far; they will be exchanged or utilized in some other way so as to yield profit. Investment banks are engaged in the appropriate activity now preparing proposals for Gazprom.

Summing up the results, I will outline the following top-priority tasks of Gazprom energoholding for the nearest future. The first task is a reliable and sustained supply of electricity and heat to consumers. The second task is execution of investment programs in generating companies. The third task is aimed at shaping the strategy and the target business architecture for Gazprom Group in the power generation business, as well as establishing an efficient management system. The fourth task is the increase in the operating efficiency of generating companies. The fifth task stipulates the merger of WGC-2 and WGC-6 and efficient exchange of non-core assets.

Thanks for your attention, I am ready to answer questions.

**Question:** Andrey Reznichenko, RIA Novosti. Mr. Fyodorov, will you provide details of the negotiations on the asset exchange process? If I am not mistaken, you are negotiating with various western companies including Fortum. How is your relationship with InterRAO progressing? Has the company returned to the negotiations?

**Denis Fyodorov:** Yes, it has, we are having another round of negotiations at the Energy Ministry's premises tonight. In fact, we are holding a constructive dialogue and the parties are sharing the view of the subject, but some issues have not been

yet agreed on. As for our negotiations with other players, we are interacting with SUEK, IES-Holding and Fortum. When the decision is made, it will be announced.

**Question:** Xenia Bachmanova, Interfax. Mr. Fyodorov, you said about the investment program. Meanwhile, a rumor has appeared that all Addenda No.1 to the Capacity Supply Agreements (CSA) have been agreed on. Therefore, you must have developed the concept of your new investment program, could you voice it? Taking into account the decommissioning plans, have you possibly extended the planned number of facilities to be commissioned? Relying on the investment program for your major assets: WGC-2, WGC-6 and TGC-1 and Mosenergo, which assets are covered by the CSA?

**Denis Fyodorov:** I have mentioned the investment amount in my speech, it exceeds RUB 200 billion. Now, about the generating companies. The initialed Addenda No.1 cover the following assets in Mosenergo: three generating units in Moscow: two 420 MW units at stations No.16 and No.20 plus one 220 MW unit at station No.12. In TGC-1 the following assets are included: two 180 MW units at Pervomaiskaya CHPP, 450 MW of capacity at CHPP-22 and either the Okhta Center electric power station or site No.2 of electric power station No.1 with some 100 MW in capacity. Besides, in 2011 we should commission 450 MW at CHPP-5. I think that is all with TGC-1. As for WGC-2, we may speak about one 660 MW generating unit at the Troitsk state district power station (SDPS) powered by coal dust, one generating unit in Stavropol (420 MW cogeneration unit) and one unit at Serov SDPS (420 MW cogeneration unit). As for WGC-6, a new generating facility was commissioned in Ryazan this year, a few weeks ago, in Kirishi (800 MW cogeneration unit slated for commissioning next year), Cherepovets SDPS (420 MW cogeneration unit) and Novocherkassk station (330 MW coal-fired power generating unit based on the circulating fluidized bed technology). These all are our investment projects covered by CSAs.

**Question:** Are you going to continue integration in the corporate structure of network operators, power producers and power distributors? Wasn't it a mistake to split them up initially? Thank you.

**Denis Fyodorov:** As for the integration process: I think, our today's power generation business has been formed in a clear and transparent way, it doesn't make sense for me to integrate the generation, distribution and network sectors. The question is rather difficult as we are not allowed to obtain network assets before 2011. On the other hand, these network assets are a sort of the ultimate stage for the company, it assures the reliable operation of the gas transmission system. Therefore, we will take the necessary actions in cooperation with the Federal Antimonopoly Service and the Government to settle the legal issues with these assets, such cases have already taken place.

Considering the second question about the expediency of conducting the reform – the Government came to the conclusion that it was the right thing to do, therefore, right it was.

**Question:** I represent the Vologda Oblast here and my question is concerned with Cherepovets SDPS. You have mentioned that construction operations are planned to be launched there, but the initial project was to install there a coal-fired power generating unit. What was the reason for replacement and what will it offer or take away from the Oblast citizens? Thank you.

**Denis Fyodorov:** I don't think it will take away anything from the citizens. The aggregate installed capacity will be increased versus the initial project. From the perspective of natural gas utilization our estimates have revealed that a) this project is more attractive in terms of economic efficiency; b) in terms of environmental protection natural gas utilization is obviously more environmentally friendly than coal utilization. Therefore, consumers in the Vologda Oblast will only benefit from constructing the cogeneration unit.

**Question:** Rostov-on-Don, Molot newspaper. My question is about Novocherkassk SDPS. When will the ninth generating unit construction start?

**Denis Fyodorov:** By now, the Board of Directors has adopted the decision and we are launching the initial construction stage projected to be finalized in 2010. Equipment is being delivered to the construction site and there are no reasons for delaying the investment project execution – giving up the construction now would yield much higher costs. All the issues have been settled today and construction of the power station is to be launched within the next few weeks.

**Question:** Denis Lebedev, Delovoy Peterburg. Mr. Fyodorov, my question is related to Saint Petersburg: you mentioned the plans on building an electric power substation for the Okhta Center, will you say a few words about the planned capacity, the startup deadline and its approximate value? And what is the future of hydropower assets?

**Denis Fyodorov:** As for the Okhta Center, one of our electric power stations is located near it. It is old and in a poor state. Initially, the investment project stipulated its full upgrade and reequipment. We have examined the station and found out that it would be very cost-intensive and inexpedient to upgrade this station and we would have to face a lot of technological challenges. That's why we convinced both the Energy Ministry and the System Operator of the Unified Energy System that it was necessary to expand the potential deployment area for the power station. By now, we have just started addressing the possibility for building an electric power station for the Okhta Center, therefore the CSA fixes it in the following way: site No.2 of electric power station No.1 plus the surrounding area with a 2.5-kilometer radius, if I am not mistaken. The Okhta Center fits

exactly within this radius. If the site is located near the Okhta Center, the station capacity will be some 100 MW, the project execution deadline – 2015.

As for the hydropower assets: let me reiterate that we have no intention of selling hydropower assets. At the same time, we admit that there are two companies that express interest in our hydropower assets. These are Finish Fortum and Russian RusHydro.

**Question:** Olga Kvashnina, Krasnoyarsk SDPS-2. Mr. Fyodorov, you have specified all the stations of our company, where new capacities are being commissioned. But our station was not listed among them. Yet, Krasnoyarsk SDPS has been very productive lately raising the capacity utilization factor to 70 per cent already. We would like to have a new generating unit, because the first unit will be 50 years old next year.

**Denis Fyodorov:** As far as the Krasnoyarsk SDPS is concerned, we are all aware why it has produced a high capacity utilization factor. Earlier, the station was inoperative for nearly two years and after that a tragedy occurred at the Sayano-Shushenskaya hydropower station.

About the new investment project: I visited the station several times and we discussed investment projects with its management. We are seriously worried, I should say, about the current situation in Siberia. The early commissioning of the Boguchanskaya hydropower station with no potential consumers will entail the buildup of unnecessary capacity potential that will not meet demand. In addition, RusHydro is gradually increasing the pace of reinstating the Sayano-Shushenskaya hydropower station, we were all present at the celebrations dedicated to the hydropower units commissioning. Therefore, we are afraid that within two or three years a very low or, actually, a zero price will be formed in the region due to the redundancy of the supply on the part of hydropower generation. Of course, it is unreasonable to utilize coal-fired generation when hydropower generation is available.

No doubt, we make investments in the station upgrade and maintenance, as well as allocate additional funds in case of necessity as we realize its importance. The imbalance of the hydropower and thermal power generation sectors is very dangerous. It was back in the Soviet times when hydropower generation was always backed up by thermal energy. Exactly this principle allowed us to survive through those tragic events in Siberia with no significant problems. In fact, if any decisions are taken in relation to the market of system services or standby capacities, we will come back to this issue. Thank you.

**Moderator:** Thank you. Now, it is time to adjourn the Press Conference.