

Press Conference
Gazprom's Power Generation Strategy

June 22, 2011

Moderator: Good afternoon! Today's Press Conference subject is interesting and features a lot of pitfalls – it's Power Generation. The Conference is attended by **Denis Fyodorov**, Head of the Directorate for Power Sector Development and Marketing in Power Generation of Gazprom's Gas and Liquid Hydrocarbons Marketing and Processing Department; Director General of Gazprom energoholding. Let's give the floor to Mr. Fyodorov and afterwards pass on to your questions.

Denis Fyodorov: Good afternoon, dear colleagues! The presentation is to be handed out to everybody, so I'm going to touch upon its most crucial issues. As for the first slide: we have generally no alterations regarding the ownership structure, we still have four power generating companies and minor stakes [in Russian electric power companies] that we are gradually selling out, but these are not principal volumes yet. We have got Kaunas CHPP and expect its selling to be approved by the Gazprom Board of Directors during the forthcoming weeks. It's already evaluated and the related documents are at the disposal of the Gazprom Board of Directors. Gazprom energo (Gazprom's power grid company) and Mezhregionenergosbyt (corporate power distribution company) are running their businesses accordingly.

As for the power generation assets: we maintain leadership in Russia with 37 GW of domestically installed capacity, followed by RusHydro, Rosatom, Inter RAO UES, Basic Element and IES Holding, respectively. We keep executing the investment program, Slides 4 and 5 show investment figures and construction scope. I'm not going to detail it, because we display these figures quite often. As for particular power generation projects, I would say our program shows quite vivid development, we meet every stipulation, there were some challenges, you know, with CHPP-26, namely with the contractor, but to the moment the unit is ready for operation. As for production results, we disclosed it repeatedly as well, so I'm not going to touch it upon, all the papers to be available to you, let's save time for questions.

Financially we are doing pretty well. Every company displayed sustainable improvement of financial results, i.e. earnings, EBITDA and net profit. In relation to goals we keep moving our way and routinely show this. Yesterday we made out the first step on this way: we held shareholders meetings of WGC-2 and WGC-6 and now I'm about to disclose voting results. Shareholders stood for the companies merger, thus, we keep consolidating our power assets. We're going to interact vigorously with the Federal Antimonopoly Service because nearly all the obstacles are removed and the shareholders were almost unanimous in favor of these companies restructuring. Accordingly, the Boards of Directors remained nearly

unchanged, in WGC-2 it remained almost the same, Inter RAO UES is not represented in the WGC-2 Board of Directors. In WGC-6 we have two Inter RAO UES representatives. As for the advantages of WGC-2 and WGC-6 [merger] we made you aware of it a number of times at the forums, so I'm going to miss the next two slides. Regarding the merger completion, as we have mentioned, we strictly meet our schedule, i.e. the third or fourth quarter, but it is likely to be the fourth quarter of 2011 and we'll have WGC-2 left only.

I think that's all in brief, thank you. I'm ready to answer your questions.

Moderator: Thank you, Mr. Fyodorov. Let's proceed to questions.

Question: Anastasia Lyrchikova, Reuters. Mr. Fyodorov, could you announce, please, your forecast the current financial indicators under IFRS for all the four subsidiaries and, if possible, for consolidated WGC-2 and WGC-6 for the next year.

Denis Fyodorov: I wouldn't like to announce figures, because we haven't approved the business plan adjustment yet. You're aware of the new market terms or the new tariff concepts accepted in the second quarter of 2011. We're now in close cooperation with generating companies regarding business plans adjustment, so it's absolutely incorrect to mention figures approved late in the last year. The figures will surely tend to decrease, because the tariffs were gravely declined for us in 2011 post factum. Due to the fact it seems incorrect to me to announce these figures until they are approved by the Boards of Directors.

Question: Sofia Pekarikhina, RBC. Could you specify how many shareholders of WGC-2 and WGC-6 stand against the merger, how much money are you going to spend for it and how soon are you going to file a petition to the antimonopoly service on the WGC-2 and WGC-6 merger? Thank you.

Denis Fyodorov: As for pros and cons, according to available figures: in WGC-2 87.5 per cent voted affirmatively and 10.81 per cent – negatively; WGC-6 showed 79.64 per cent and 19.5 per cent, respectively. As for the money: the marginal sum to the date is clear and amounts to 10 per cent of the net assets value of each company. Thus, we have recently had aggregate net assets of RUB 40 billion – 4 billion per company which means 8 billion for the two companies. This is the maximum amount we'll spend for shares redemption from unwilling shareholders and those willing to offer their shares for redemption. As for filing to FAS, we cooperate with the antimonopoly service now and complete the documents. The antimonopoly service has some questions related mostly to disclosure of Gazprom's full list of persons – a typical procedure and we are working on it. I believe we'll have all the required documents within two weeks and submit them to the antimonopoly service.

Question: Denis Lebedev, Delovoy Peterburg. Mr. Fyodorov, not so long ago,

when a large office building was planned for construction by Gazprom organizations in St. Petersburg, large facilities were supposed to be built in the Okhta area to support not only the said facilities but to develop the local infrastructure. Now the plans are changed, Gazprom's development plans have suffered changes, and will the location of generating facilities scheduled in St. Petersburg be adjusted?

Denis Fyodorov: We planned this power plant to be constructed under Capacity Supply Agreements (CSA), so we can not change the site layout, because it's covered by the Russian Government resolution [Russian Government Decree No.1334-r dated August 10, 2010] and the alteration procedure is quite complicated and labor intensive. But understanding the challenges that arose at the Okhta Center design stage, we generally provided for some clearance for ourselves: we determined the site within a six kilometer radius from the existing power plant. Thus, we are currently planning to return to PS-1 site [Tsentralnaya CHPP] – the existing power plant located at the distance of six kilometers from the Okhta Center. We are going to construct build 100 MW there within the scope of our liabilities. We are going to start designing the power plant in the nearest future and its construction based on the design outcomes. So, in this region we are going to construct a power plant. I cannot specify the power plant type and the capacity per unit – the work is in progress.

Gazprom neft hasn't yet asked us about a new site, to my mind the preliminary work is underway there. If they ask us, we will consider the construction possibility and necessity. Frankly speaking, I cannot say for sure whether we have nearby power plants there. If we do, we'd better use the existing ones.

Question: Andrey Reznichenko, RIA Novosti. Good afternoon, Mr. Fyodorov. I've got two brief questions: Do you negotiate with IES Holding regarding its assets purchase? And what can you say about Kaliningrad CHPP-2?

Denis Fyodorov: I'm going to start with the second question. As for Kaliningrad CHPP-2: quite recently, the other day we signed related documents – we sold power unit No.2 to Inter RAO UES. In fact, we are out of ownership for Kaliningrad CHPP-2 power unit No.2. All the documents are signed and I think Inter RAO UES will ceremonially announce that at its shareholders meeting.

As for negotiations with IES Holding: no comments, we negotiate with all the market players on a huge list of assets. Today, there are a lot of companies wishing their assets to be exchanged or partially sold, so we negotiate with everybody. Moreover, and I'd like to highlight it, together with our colleagues from SIBUR and Gazprom neft we have lately made a great, one might say, trip around our major consumers. One shouldn't forget we are not only a large generating company, Gazprom is a large power consumer. Besides, Mezhtregionenergosbyt supplies power to Gazprom neft and SIBUR holding facilities, let alone those owned by Gazprom. And surely, the increase of tariffs in regions we can see today

couldn't pass unnoticed for Gazprom, SIBUR and Gazprom neft.

We have done and are doing now a great job on optimizing tariff plans. First of all, it concerns grid companies and the decrease in the grid companies value. That's why we visited a number of SIBUR and Gazprom plants and found them being within the scope of IES Holding activities among others and some part of the assets could be of particular interest for SIBUR, Mezhhregionenergosbyt and us.

Andrey Reznichenko: I see Inter RAO UES shareholders will be glad to hear various interesting details. And could you please us with the deal details?

Denis Fyodorov: The details and terms of the deal are quite clear: the amount we have invested is the amount we are going to get. For us this project was not and is not the core one, it's never been within our scope and strategy, the Russian Government prescribed to construct the power unit within a tight schedule. We've done this and we think there shouldn't be two owners at the same site. That's why we considered the issue of obtaining the first power unit that is what the Government initially wished. But due to some reasons this protocol, signed by the Prime Minister, failed. So, we preferred to abandon the project, because we believe there should be the only owner.

Surely, we take with satisfaction the fact that we're authorized by the Government for such complicated projects construction within a tight schedule. We executed the task, suffered no losses for Gazprom and consider it to be the right decision. Besides, I'd like to highlight again that the whole grid infrastructure was constructed by us as well, because grid companies just failed to do this. During the year we constructed a great number of grids, came to agreement with many land owners and as for the grid infrastructure – we negotiate with FGC UES on selling it. Generally, our position and my personal one is that we've done a lot in the Kaliningrad Oblast and there should be the only owner of the power grid infrastructure, power distribution company and all power generating assets. In this case only there will be a clear history of the power generation industry development and well-grounded and predictable tariffs, because it's not a price zone and everything is too complicated there.

Moderator: Let's give a chance to ask a question via Internet. Alyona Rus, VI investment fund, asks, "Is it possible for Mosenergo and TGC-1 to merge the same way as WGC-2 and WGC-6 did? If yes, how will it happen?"

Denis Fyodorov: We answered this question many times too. Both Mosenergo and TGC-1 have minor shareholders such as the Moscow Government and the Fortum company. We didn't negotiate with them on their shares redemption. I don't think them to be delighted with being offered to exchange shares of these companies. This is the first reason. And the second one is that we wish to observe the results of the merger between WGC-2 and WGC-6. Today, Mosenergo and TGC-1 are "blue chips" at the exchange, they have their own history and value, and the matter of

benefit of these companies, as well as Gazprom energoholding and Gazprom in general, through our mergers and acquisitions is of crucial importance for us. So, we're going to carefully analyze this process. We don't exclude the process but it's not covered by our agenda so far.

Question: Jake Rudnitsky, Platts. What are Gazprom's plans on investing in foreign generating companies and does Gazprom intend to own assets or just to supply gas?

Denis Fyodorov: Late in the last year we submitted to the Gazprom Board of Directors our strategy on penetrating the Western European power generation sector. Gazprom agreed with our proposal to consider possibility, say, for participating in a number of power projects. Nowadays, we cooperate with investment banks on developing investment rationales for European power plants. The work is in progress and we have to report to the Gazprom Board of Directors on certain projects late in this year. It's already fixed in the Gazprom Board of Directors agenda, so I think in December we'll submit to the Board of Directors the exact projects through which Gazprom, to our mind, could take part in the Western European power generation sector.

Question: Svetlana Petrova, Kirishsky Fakel. Due to the forthcoming WGC-2 and WGC-6 merger is it planned to alter the personnel strategy, how will it affect people from your point of view and, in particular, is it planned to dismiss Kirishi SDPS personnel?

Denis Fyodorov: First. Mr. Alexey Mityushov who headed WGC-6 for the last three years, will be appointed Director General of the merged company and Kirishi SDPS will be consolidated with WGC-6, so I believe one shouldn't expect any crucial changes at the plant. As for the plant personnel, we certainly don't plan any large-scale dismissal. The staff reduction will mainly regard Moscow executives, because to keep two executive offices for a single company is senseless and we aren't going to do this. We have the staff reduction schedule and we're going to meet it. As for the plant personnel, I think they will benefit, because the unified motivation program will enhance the position of our generating companies staff.

Question: Nikolai Khrenkov, Gazprom Journal. Mr. Fyodorov, the Energy Ministry elaborated a draft Law on Power Plant Engineering Development that aims, through various actions including the export duties increase, at boosting to 80 per cent the share of power machinery manufacturers in the power industry. Thus, what is your attitude to the mentioned draft version and do you suppose any amendments while it's still at the draft stage? Are you going to adjust your investment projections based on this law that is likely to be adopted due to the support by the Prime Minister, and what is the percentage of domestic power plant engineering enterprises in your investment program? Thank you.

Denis Fyodorov: You asked a very good and right question. The issue doesn't

have a single solution. I consider export duties imposed on foreign goods to be controversial, because, for example, Russia doesn't produce state-of-the-art gas turbines with the capacity of above 150 MW and it won't in the nearest future. They are simply unavailable. We have no related technologies, we fell behind for decades. At the same time we're assigned by the Government (through Mosenergo) to construct modern power plants not yielding to foreign ones.

Here, we may just lean on Siemens, Alstom and GE equipment. There is, surely, Power Machines whose equipment we widely use, and accounting for above 60 per cent of our total gas and steam turbine supplies. A relatively small share results from the fact that during the UES of Russia restructuring featured with basic contracts for equipment procurement they couldn't cope with the amount of orders and we had to place quite a huge order (four units) with Siemens. So, the share of Power Machines reduced but it actually varies between 60 to 70 per cent now. That's why it's not absolutely clear to me why to impose duties, because it will increase the cost of power units construction and shift this burden onto consumers. Generally, there is no alternative, because otherwise one will have to adjust the standard CAPEX.

As for electric equipment, I can say for sure that Russia produces neither metal-clad switchgear cubicles nor switchyard bays of modern design. There is rather good equipment by Alstom, Siemens, ABB and Hyundai. We made the first purchase of Chinese devices, it's already in Moscow and we are about to assemble it and watch it running. But nothing is being done yet in this regard in Russia.

As for transformers, we have a good modern factory, Electrozavod. But it always quotes too high when bidding. Say, transformers from the Zaporozhye show the same quality as those of Electrozavod, perfectly the same. And they are cheaper. Our experts have great experience in running these transformers. So it's hard for us to choose more expensive equipment. But we buy Electrozavod equipment, we use their transformers at our facilities and they generally showed themselves well, although there are some problems. That's why I consider it unreal to reach the share of 80 per cent.

All our boiler equipment is made in Russia. To mention boilers, i.e. heat recovery steam generators, we have the only imported one at CHPP-26, all the rest are domestically produced ones. There we had a turnkey contract with Alstom so they procured the equipment. All the rest boiler equipment is made in Russia. Reaching the 80 per cent figure, to my mind, looks unreal in the current situation, because the power island (steam and gas turbines) is the most expensive part of any station. They are only supplied from abroad. Yes, Power Machines currently supplies gas turbine equipment but their capabilities, in fact, are not boundless – it's the first issue. And the second one – they don't produce turbines of high capacity, their product line is limited to 150 MW. Yet, their new 60 MW turbine [GTE-65] is the first one to be installed by us at Mosenergo CHPP-9. So we take their advanced models.

But, for instance, at the Ryazan SDPS (WGC-6) we installed a 110 MW turbine manufactured by NPO Saturn, the Rybinsk Motors factory. We got, mildly speaking, nothing to brag about. We invested a pile of money in this project. Up to date, unlike other projects constructed under CSAs, this one doesn't yield a satisfactory cash flow. It constantly fails and shuts down, so we're unable to reach the required unit parameters. Moreover, we are poorly referenced by our Saturn colleagues in a lobby. So why to cooperate with people who speak of you in an undesired manner and yet provide you with imperfect equipment?! And it's not only our problem. Just look at the combined cycle gas turbines produced in Ivanovo by Inter RAO UES and you'll see the same picture. They have two or three turbines failed out of the four installed.

That's why I think the task is right and demanded. And as we meet with Siemens and Alstom and they ask us about their competitive advantages in Russia to proceed with our long-term cooperation we keep on telling that these are localized manufacturing in Russia. If some of these major companies arrange their manufacturing locally, then we'll be ready to enter long-term equipment supply agreements with them.

Question: Olga Ivanova, Baltic Financial Agency. Does Gazprom energoholding plan to sell its stake in Eastern Energy Systems?

Denis Fyodorov: Eastern Energy Systems is considered to be our non-core asset. In case there are some volunteers to purchase this stake at the price we think to be fair, we'll sell it. But a resolution of the Gazprom Board of Directors is surely required for that. Nevertheless, this is currently our non-core asset, so we are ready to sell it.

Question: Mr. Fyodorov, how much do WGC-2 and WGC-6 management differ from one another? I mean how much time is needed to provide the uniform work arrangement with the managing company?

Denis Fyodorov: The project for the WGC-2 and WGC-6 merger started long ago, about a year and a half, and we usually put our companies to the uniform management standards. So, a great scope of work has already been done. I've said we already initiated the program for power plant personnel motivation, which is uniform among all the companies. WGC-2 and WGC-6 are quite similar in terms of the management structure. They show a slight difference in power distribution activity arrangement, but I believe we'll settle the matter soon.

Question: Anna Peretolchina, Vedomosti. Mr. Fyodorov, I have two clarifying questions. The first one: what was the attendance at the WGC-2 and WGC-6 shareholders meetings? And the second one: how much in total did you invest in the Kaliningrad CHPP power unit construction and in grid assets, to be aware of approximate figures?

Denis Fyodorov: As for the attendance at the WGC-2 and WGC-6 shareholders meetings [the attendees representing shareholders' interests]: WGC-2 – 61 per cent [of shares]; WGC-6 – 69 per cent. As for Kaliningrad CHPP-2: the unit construction costs amounted to RUB 17 billion. Power lines – some RUB 1.2 to 1.5 billion. Additionally, we had to pay for connections, this means substation retrofitting fulfilled by Yantarenergo that cost some RUB 500 to 600 million. And a gas lateral. But the gas lateral currently remains under our ownership and we negotiate with parent Gazprom on its transfer.

Question: Xenia Bachmanova, Interfax. I'd like to clarify the issue on the non-core assets. Previously, you mentioned an approximate estimate of USD 1.8 billion for all non-core assets, could you designate the actual current estimate of these assets? And in what way are you going to sell them? For example, in relation to Eastern Energy Systems – is it presumable for you to contribute [Eastern Energy Systems shares] to the additional issue of RusHydro shares that is in progress now and allows shares as payment for its own ones? Are you going to make such a conversion? And what are you going to do with the rest of stakes, for instance, IDGC Holding and so on? Thank you.

Denis Fyodorov: As for the actual estimate, this is a kind of a creative matter. The market alters crucially every day, so constant monitoring of our non-core assets value looks senseless. You mentioned USD 1.8 billion, but prior to the crisis, for example, the world's leading banks estimated it at USD 5 billion, so we keep waiting. We cooperated with Gazprombank. Gazprombank estimated all our non-core assets, every stake, every proprietary company and put some price benchmarks we agreed with. As soon as the price reaches such benchmarks we sell the respective companies. We sold WGC-5, you know, there was a big stake of about 5 per cent. We are ready to negotiate on other assets, we are ready to sell them, it's non-core property for us, non-core assets.

Question: Sergey Ezimov, Wermuth Asset Management. Does your TGC-1 strategy provide for segregation, selling or any disposal of hydro generation assets of the company?

Denis Fyodorov: Actually, no.

Question: Timur Abdullaev, Rossiyskaya Gazeta. Mr. Fyodorov, you've already mentioned the equipment supply challenges, and as an expert, could you specify Russian electric power market challenges in general?

Denis Fyodorov: Russian electric power market features the lack of predictable and clear rules of play. It's a great, significant challenge.

Besides, and I've mentioned this repeatedly, [the challenge] is imbalance in the gross proceeds of the industry. Today, power grid companies, note I don't mean FGC UES, I mean IDGC Holding, I mean regional grid companies serving lower

voltage – they consume up to 60 and sometimes 70 per cent (depending on the [grid] voltage level) of the money paid by consumers. It's nonsense for the world electric power industry. In every ordinary country with sane electric power market 65 to 70 per cent of proceeds or a tariff is made up by thermal generation. Nobody knows where we [Russian consumers] send our money to.

Moreover, and I've mentioned this repeatedly too, the profitability of power distribution in Russia, to my mind, is too high. Look at the largest distribution companies' reports for the first quarter and you'll see their profit figures are much higher than those of generating companies. And they make no investments, they assume not a single risk. That means the pure lack of risks for distribution activity unlike, for example, generation, and those companies get some extreme revenues. It's wrong, to my mind, and the situation should be changed.

Another challenge is aging of the facilities. It's what everybody connives at and says that we ratified a CSA and everything is alright. Nothing is alright. In St. Petersburg prior to the [International Economic] Forum I made a presentation and showed our estimates. We say that in the nearest future one has to upgrade, according to the most modest and conservative estimates, 50 GW capacities in the country. 50 GW! For TGC-1 we even disclosed particular figures – some RUB 32 billion one needs to spend by 2020 for upgrade of nearly 1.5 thousand MW of the company's capacities, i.e. approximately one-fourth of all their capacities. At the same time, there would not be a capacity increase, there would only be 200 MW there. So, we mean machinery replacement and components upgrade. We gave an example of Ryazan SDPS: the first four units were constructed in fact during a year and a half, the gap in the first four units commissioning is a year and a half. And the units will start falling out of operation within the same period. And then we'll together start fussing about and thinking what to do.

Currently, there is an opportunity to adopt a sensible and obvious upgrade program. It's essential to adopt the program, assign special money for this upgrade program and to start its implementation. Then we'll be able to prolong it and to pass all critical points by. As for what Krzhizhanovsky R&D Institute works at now, I've told you about it, the company has not even approached us and has not asked for any power plant of us, has not request any paper. And then its head said, "I've twice talked to your First Deputy by phone and spent two hours with your Technical Director." He believes this is the way he described how to upgrade to 37 GW.

Nowadays, we accomplish the work by ourselves and adopt about 25 business plans regarding the upgrade. And I've repeatedly got in touch with the Energy Ministry and all responsible authorities, "The upgrade is much more complicated than the CSA and we'll never reach standard CAPEX." Many are chasing the standard CAPEX in an upgrade, but they are unobtainable. A number of upgrade projects will cost much higher than construction of the new ones, but it's required and we may pass through the upgrade with real CAPEX only. But in order to pass through with real CAPEX we have to do design work and in this case only we may

proceed with something.

I give the CHPP-12 example where we've just commenced the new unit construction and, naturally, revised all archival documents in this regard. A half of basements occurred to be made of wood! And what standard CAPEX could be here, if a half of the station basements are made of wood? Additionally, CHPP-12 is architectural legacy. How much money should one invest to save the architectural legacy and to mount new equipment onto the old basements? Here comes an issue on engineering and construction codes and standards. It's a tremendous problem for the Russian power engineering, a tremendous one! We're requested to construct up-to-date units to be not worse than western ones and at the same time we're guided by the standards of the 1970s. It's abnormal, we wouldn't get much in such a situation. As for construction of new projects, we became experienced, but as for upgrade, it's going to be too complicated and morbid.

Question: Alexey Grivach, Moscow News. Mr. Fyodorov, does such an emotional tirade of yours mean that Russian power industry reform of the last 10 to 13 years failed? Because its aim was to upgrade the Russian power industry. The second question related to the investment program for five years from 2012 to 2016: are there any figures or parameters on how much you have to invest in the new capacities and upgrade?

Denis Fyodorov: As for the power industry reform results – it's rather a philosophic question. The fact that there will be 30 GW capacities constructed in Russia until 2015–2016 is, undoubtedly, the positive moment for the Russian power industry. I don't think UES of Russia could do that in the then condition. I may give an example regarding heat generation: Gazprom energoholding now constructs more during a year than UES of Russia did during 10–12 years of its existence. We construct more during a year. Surely, there are some positive moments in it.

As for the negative ones, and it's my personal point of view, I've always told about it, a sci-tech approach was missed. Here, we all rushed to construct CCGTs without even thinking of what risks these CCGTs will expose us to. Everybody now deals with non-conventional power generation. The importance and necessity of non-conventional power generation is clear to me, but one has to consider all its negatives, including costs and impacts on the environment and humans. All these exist and are apparent. We regularly move around West European countries, America, China and observe their way of arranging the power industry. Yes, indeed, in Sweden, in Lithuania and in other countries non-conventional power generation takes a good share, but when I asked the Finns about how they would heat up Moscow, they answered, "Only with gas."

The comprehensive sci-tech approach was missed when reforming UES of Russia, this caused us a lot of problems and we finally moved back to what we'd started and we revised our general scheme, construction sites and projects. It's the first. The second – it was raw in terms of arrangement and methodology. And what we

have now in relation to electric power market is, mildly speaking, a too hard-operating mechanism with great exposure to regulators impact. So, I wouldn't say the reform failed. Undoubtedly, the industry now is at a somewhat new development stage after reforming UES of Russia, but in fact we've done a lot of mistakes.

As for our investment program scope – it's shown in the presentation (slide 4). We have to construct 9 GW by 2016 and to our estimates it will cost us RUB 367 billion, RUB 182 billion is already invested. We made estimates for our power assets upgrade until 2020 and we mostly succeeded in TGC-1. We suppose the company upgrade to cost RUB 32 billion by 2020. As for other companies – I cannot say for sure. And these are preliminary figures, we haven't developed a feasibility study for these projects that means we cannot unveil exact figures on the upgrade. As for the nation-wide power industry, we estimate upgrade costs of not less than RUB 1.5 trillion. I mean all power projects, not only ours.

Question: Nadezhda Timokhova, JP Morgan. I have a question related to some uncertainty presently observed in the capacity market and to rules reshaping. Do you presume it's sensible to put some capacities out of operation in order for them not to demolish the profit increment provided by other, more efficient stations? Are you planning to put any capacities out of operation, if it's certainly allowed by the system operator?

Denis Fyodorov: You've answered your question by yourself. It's no doubt we would put some of the capacities out of operation if it's allowed by the system operator. An excellent example is Murmansk CHPP. We'd like to put it out. But nobody has approved it yet.

Nadezhda Timokhova: But you, to my mind, are entitled for this during three years?

Denis Fyodorov: Yes, we are, during three years. We submitted the corresponding documents for this power plant closure during three years, but currently, you see, 75 per cent of the Murmansk city is supplied with heat and hot water by Murmansk CHPP.

Nadezhda Timokhova: So, why not sell it out to somebody?

Denis Fyodorov: We are ready to do it during three years. Where are the buyers? I'm ready to put my signature right now with no lawyers' initials.

Nadezhda Timokhova: What about transferring the plant to the government if it's eager for it to be subsidized?

Denis Fyodorov: Nobody takes anything, nobody wants to take anything. Why does the government need the detrimental asset? Although the government itself,

in fact, provides for the asset losses. That's why our plans on putting capacities out of operation would have been more aggressive indeed. But currently we're restricted by the Unified Energy System Operator.

Nadezhda Timokhova: And what scope of capacities do you suppose to be agreed for sure with the System Operator?

Denis Fyodorov: We suppose nothing for sure. We act on a project-by-project basis – the one agreed is the one put out. To my mind, we managed to put out the old section of CHPP-5 in St. Petersburg and putting out the CHPP-14 old section is negotiated. But I cannot still say we reach understanding of the guaranteed putting out scope. And again, the capacities being put out of operation should be replaced with something. And today construction beyond the CSA only means local sites adjacent to consumers.

Question: Denis Lebedev, Delovoy Peterburg. May I specify the grid share in energy tariffs? You've said it's wrong and a lot of consumers that we frequently talk to agree with that. And tell us, please, what measures would you propose to regulators in order to improve the situation, to reduce the grid share in the tariff?

Denis Fyodorov: There are a lot of measures, for example, IDGC Holding privatization. It's the first option. The second option – in case the government anyway plans to sell some stakes in IDGC (5, 10, 20 per cent) – it would be possible to issue additional IDGC shares to implement the investment program. The government will invest in it that will result in the new grids construction by IDGC and then the new modern company will enter the market and conduct an IPO in Europe, Asia and somewhere else. There won't be any serious burden for consumers in this case. The effect is similar. There are a lot of options, but they're not being implemented. You could see an example of transfer under MUEGC management, we wonder what would be the outcome. We'll keep an eye on it.

Question: Anastasia Ryabykh, TV-21. You've already mentioned Murmansk CHPP. Being a Murmansk city resident, I have a general question on the Murmansk Oblast development prospects.

Denis Fyodorov: The meeting of Shtokman Development AG Operation Committee was held last week. And as far as I know, the meeting of Shtokman Development AG Board of Directors is to be held this week.

As for power generation, I can say that grid infrastructure and generation capacities construction is entrusted to Gazprom energoholding and now we're going at it tooth and nail. We've already entered the civil engineering work contracts and have to deliver to the Teriberka site about 20 MW by the late next year. This means we would develop the power grid infrastructure from Serebryanskie Hydropower Stations Cascade. That's why we are planning the first phase construction of power plants totaling some 400 to 500 MW and massive

development of the power grid infrastructure across the entire Kola power system.

So, I believe there will be great, serious funds invested in Murmansk including the regional power industry.

And as for Murmansk CHPP, the story is likely to make everybody's mouth sore. I've been to Murmansk lately and met Governor Dmitry Dmitrienko, the City Major and some of his Deputies and we could see the light at the end of the tunnel that should either turn into the ray or go out for good. Let's wait until the end of the month and we'll see the way it happens. We hope for an improvement.

Question: Anna Belyaeva, BaltInfo. I have a question on the challenging project – Pervomaiskaya CHPP in St. Petersburg. Tell us, please, to what extent it's currently uncertain, how soon is it going to be commissioned (the second unit, as far as I know) and how much does it cost? And more, you've mentioned investments of RUB 32 billion. Where, to your mind, will the money come from?

Denis Fyodorov: As for CHPP-14 (Pervomaiskaya CHPP) I may note with satisfaction that we improved the situation. We, in fact, pushed the contractor out and got everything within our grasp. Currently, we're meeting the schedule. I'm not going to mention any figures and a certain commissioning date, but we are ahead of schedule now with the second unit and I believe it's going to be commissioned much earlier than late 2011. According to the schedule, we have to put it in operation late in this year.

As for the project CAPEX, everything is ambiguous here, because CHPP-14 (to mention imperfections of UES of Russia sci-tech strategy) shows the necessity of auxiliary water boiler house construction, so called BOP [balance of plant]. Its preliminary costs currently amount to RUB 5 billion. As a whole, this CSA project comes to be detrimental for us. Nobody thought it over, nobody calculated thermal loads and as a result we've got what we've got. That's why final CAPEX are now unclear to us. They are clear in regard to CHPP-14 units, but unclear in regard to BOP. Moreover, BOP should be connected to the station-service control system that looks rather complicated.

As for RUB 32 billion, I don't know where to get it. It should be provided through the tariff and there's no alternative. Currently, we invest in re-equipment and upgrade in St. Petersburg about RUB 2.2 billion annually. It doesn't concern the heat supply system, but only the power island. It's anyway very big figures. And yet I don't count repairs lavishly financed by us. To our estimates, in order to provide reliable grid operation and its setting in a new manner we need more than a two-fold increase for re-equipment and upgrade. It means that we have to raise our costs from RUB 2.2 billion to RUB 5.2 billion according to preliminary estimates. Currently, this sum is not covered by the tariff.

We approached to the Energy Ministry with a proposal to include in CSAs the projects that required urgent rehabilitation. These are not all projects and while there are no codes they still can be incorporated in CSAs. All rehabilitation

projects under CSAs imply actual CAPEX, and we are 35 times revised there by anyone who feels like that, so I think it would be a right decision.

Question: Vera Voloshinova, Molot, Rostov-on-Don. Anyway I'd like to return to the subject regarding consumers, so to speak, the final chain link. You see what occurs: you may merge, you may talk of synergy, economies of scale, managerial staff optimization, but I may quote you as saying, "Profitability of the Russian grid business is too high, the market is unpredictable." And, finally, what does a consumer get? He actually consumes everything. This means that your efforts are unclear to a consumer. What is a consumer's advantage due to your merger?

Denis Fyodorov: Our work gives electricity and heat to a consumer. It's the first. The second – to tell the truth, I always give this example myself: Mezhtregionenergosbyt buys electric power at RUB 1.6 in the wholesale market in the Central region of the European part of Russia, for an end consumer (of Gazprom) it costs nearly RUB 4.5. That's the answer. The market shaped by itself. It's understood that corporate captive sales don't provide some great money. A two ruble margin is consumed by infrastructure companies beyond the wholesale market. It's consumed right there. That's why the question should be readdressed. We may just pose our proposals that we repeatedly do.

Question: Ekaterina Tripoten, Broker Credit Service. I have a question related to RAB for thermal power. You considered TGC-1 as the primary Group candidate for conversion to RAB in regard to thermal power. At the same time there have been mass media announcements lately stating that authorities discuss the matter of rescheduling mass conversion to RAB for thermal power for 2013. What is your information?

Denis Fyodorov: I don't possess any general information, the only thing I may say is that one shouldn't allow the mistake that was done in terms of the power grid when RAB was being introduced massively, no matter right or wrong. We've got what we've got. Why is RAB needed for the Moscow grid, is there anybody to explain? I don't see. It's the highest tariff in Russia including transmission. Moscow doesn't need RAB for grids, because its introduction will result in a tremendous heat tariffs growth.

And St. Petersburg, for instance, needs RAB to be introduced for grids, because grids are in the terrible condition there and require investments of RUB 5 to 7 billion annually. This year we will invest nearly RUB 5 billion and RUB 6.5 billion is scheduled for the next year. At that, profitability of the business is negative. No owner will invest such money in a detrimental business. So, in St. Petersburg, for example, RAB is required in terms of thermal power, the city administration understands that and we closely cooperate on this matter.

So my attitude – RAB is helpful and required, but it should be considered locally and in those regions only where it's indeed in demand. Introducing it by all means everywhere will lead us to a very sad situation, because heat, to my mind, is a

much more social product than electricity. If the electricity price rise caused such an emotional storm, so just imagine what the heat price rise can cause. And with tariff restrictions of 12, 10 or 5 per cent, RAB cannot be implemented. So, the schedule for conversion to RAB for heat supply grids will be adjusted explicitly.

Question: Anastasia Lyrchikova, Reuters. I'd like to clarify the matter of Inter RAO UES shares that you get.

Denis Fyodorov: We don't get Inter RAO UES shares, we get money.

Anastasia Lyrchikova: And what is your stake left in Inter RAO UES?

Denis Fyodorov: We have nearly 2 per cent.

Anastasia Lyrchikova: The fact is that Inter RAO UES has stated they give you shares for the Kaliningrad unit [second power unit of Kalinigrad CHPP-2], don't they?

Denis Fyodorov: They don't. We have an option: we may take their shares. In case of the shares are quoted three times higher we'll, surely, take them.

Anastasia Lyrchikova: This means that the lock-up period they specified with other stakeholders [during which the management cannot sell shares out] is not valid for you?

Denis Fyodorov: The lock-up period isn't valid for us. We may at any time take their shares and market them. But currently the priority and, as we see, the single way to return money for the Kaliningrad unit is taking cash. It's stipulated and signed in the agreement.

Anastasia Lyrchikova: Are you going to sell a 2 per cent stake in Inter RAO UES this year or to exchange it anyhow with Inter RAO UES itself?

Denis Fyodorov: Currently the quotation of Inter RAO UES shares is 30 per cent lower than that determined during the additional issue. Why should we sell these shares out in such conditions? Only if the shares are quoted higher, I tell you once again, two- or three-fold. Inter RAO UES is an advanced and rapidly developing company and we think it has the potential for its share quotation increase, so we'll be waiting for them to reach the adequate value and then sell them out. You indeed understand that 2 per cent disallow us to be represented in the company's Board of Directors. And frankly, having a representative in Inter RAO UES Board of Directors is not our goal.

Question: Nikolai Klyukin, Region. I'm going to paraphrase one of the previous questions. In case all minority shareholders offer their shares, what percentage would be redeemed?

Denis Fyodorov: Proportionally to the stocks offered. For example, you offered shares of WGC-6 and we are limited to RUB 4 billion. Thus, we count everybody who offered shares, their percentage and distribute accordingly.

Nikolai Klyukin: And is it known how many of them would be offered approximately?

Denis Fyodorov: No, it isn't. A lot of shareholders missed the meeting, there was quite an insufficient quorum. To our mind, it proves that they stand for the WGC-2 and WGC-6 merger, because the lack of quorum looks positive for us in terms of voting. This means they stood for the WGC-2 and WGC-6 reform but kept an option for themselves to offer their stocks partially. If they voted positively they would lose such an option. That's why they supported us but kept an option for themselves. I tell you once again: when we quoted the redemption value higher than the market one it was a considered decision of ours. We think the unified company would be very expensive and we're ready to redeem shares within the specified amount of funds, because we believe it's going to be a good business for us.

Moderator: There's a question in furtherance of the subject. The Leader company asks about WGC-6: when is the additional issue expected on a stock exchange?

Denis Fyodorov: Do you mean the unified company exchange or entering foreign markets?

Moderator: No, not foreign markets.

Denis Fyodorov: Ah, domestic ones? On November 1.

Moderator: The Press Conference is over. Thank you!