

Press Conference Background
GAZPROM'S POWER GENERATION STRATEGY
(May 16, 2018)

In 2017, Gazprom's power business celebrated its 10th anniversary. In a mere decade, Gazprom created the largest power holding company in Russia, bringing together assets in such areas as power and heat generation, heat transfer and marketing. Gazprom Energoholding (a wholly-owned subsidiary of Gazprom) consolidated the assets of Mosenergo, MOEK, OGK-2, and TGC-1.

Today, Gazprom is the leader in power generation among domestic heat producing companies. Gazprom's plants generate about 16 per cent of all electric power in Russia's Unified Energy System. The Company is the largest heat producer in the world.

Gazprom holds the top positions in the Moscow Region's heat supply market – the world's largest – and ensures the operation of the entire value chain from gas production to power and heat generation to consumer supplies. The Company's efforts in the Moscow heat supply market are starting to pay off, with strong financial and economic performance from MOEK for two consecutive years. MOEK continues to develop as a modern heat supply company oriented toward the needs of a growing city, adopting best managerial practices, pursuing a client-focused policy by identifying the most important demands and expectations of its consumers, and implementing a set of measures to improve the quality and timeliness of its services.

Over the past decade, Gazprom has nearly fulfilled the obligations for facility construction and modernization that it assumed when entering the power sector. The Company implemented more than 30 projects, building and modernizing some 8.6 GW of generating capacities. Work is underway on the final CSA-based project – the Grozny TPP (up to 360 MW in installed capacity), which will operate as part of OGK-2. The new TPP, which is expected to become operational in 2019, will eliminate power shortages in the region, provide consumers with uninterrupted electricity, and expand the geography of gas sales. Meanwhile, OGK-2 continues to streamline its system of operations and optimize inefficient and unused assets. In 2017, preparations were completed for the decommissioning of obsolete equipment at the Serov SDPP (388 MW capacity) after its useful life had expired.

Mosenergo, which was the first power asset to be acquired by Gazprom back in 2007, celebrated its 130th anniversary last year. Its core generating equipment, however, is among the most modern in Russia. The company successfully operates seven large combined cycle power units with a total installed capacity of some 3 GW, which were commissioned under Gazprom's investment obligations. In 2017, the share of new power units in Mosenergo's power output reached 28.5 per cent against 27.2 per cent in 2016.

Also in 2017, TGC-1 switched over the historic center of St. Petersburg to the state-of-the-art equipment of the Central CHPP – a modern 100 MW gas turbine.

Today, all of Gazprom's power companies demonstrate steady growth and increasing financial stability.

The aggregate output of the main generating companies (Mosenergo, MOEK, OGK-2, and TGC-1) in 2017 amounted to 150.8 billion kWh of electricity (a 1.9 per cent decrease from 2016) and 116.7 million Gcal of heat (a 2.2 per cent drop).

Despite a slight dip in performance, the overall revenue of the companies under the Russian Accounting Standards in 2017 stood at RUB 559.9 billion (up by 4.9 per cent from 2016), with EBITDA of RUB 105.7 billion (a 30.9 per cent rise) and the net profit of RUB 45.4 billion (a 2.3-fold increase). The companies' debt under RAS dropped by 19 per cent to RUB 116.7 billion.

In order to bolster the value of its power generation assets, the Gazprom Group takes measures to improve their operational efficiency and execute cost optimization programs for greater financial results. The economic impact of these activities in 2017 was RUB 3.65 billion, with MOEK as the main contributor (over RUB 1.5 billion). These efforts continue in 2018.