

Press Conference Background

GAZPROM'S POWER GENERATION STRATEGY (May 20, 2019)

In the years since Gazprom's entry into the power sector in 2007, Russia's largest vertically-integrated power holding company has been created. The company, Gazprom Energoholding (a wholly-owned subsidiary of Gazprom), brings together the main assets of Gazprom in such areas as power and heat generation, heat transfer and marketing.

In 2018, the aggregate output of the key generating companies of the Gazprom Energoholding Group in Russia (Mosenergo, OGK-2, TGC-1, MOEK, and subsidiaries such as TSK Novaya Moskva and TSK Mosenergo) amounted to 146.5 billion kWh of electricity (a 2.8 per cent decrease from 2017) and 124.4 million Gcal of heat (a 3 per cent increase).

Despite a slight dip in performance, the overall revenue of the Gazprom Energoholding Group under the Russian Accounting Standards in 2018 stood at RUB 585.4 billion (up by 4.6 per cent from 2017), with EBITDA of RUB 114.1 billion (an 8 per cent rise) and the net profit of RUB 53.2 billion (a 17.3 per cent increase). The companies' debt under RAS dropped by 30 per cent to RUB 81.7 billion.

Gazprom is completing the implementation of its ambitious investment program for the construction and modernization of 9 GW of capacities under capacity supply agreements (CSAs). The program covers 17 combined cycle power units, 5 steam power units, 8 hydropower units, and 6 gas turbine units.

In December 2018, Power Unit No. 1 with a capacity of some 180 MW came onstream at the Grozny TPP. The construction process was particularly focused on integrating Russian technological systems and equipment, including automation and relay protection systems, dry fan cooling towers, exhaust stacks with an emission monitoring system, gas treatment and chemical water treatment equipment, and electrical components of switchgear.

In 2019, it is planned to bring Power Unit No. 2, which has similar performance characteristics and equipment, into operation at the Grozny TPP. The aggregate installed capacity of the TPP will thus reach its design value of approximately 360 MW. The new power plant will improve the stability of southern Russia's energy system and will meet a considerable share of the Chechen Republic's electricity needs, contributing to socio-economic development in the region. Power Unit No. 2 of the Grozny TPP is the 36th and final facility in the CSA program.

In order to bolster the value of the Gazprom Energoholding Group's power generation assets, efforts are being made to improve their operational efficiency and execute cost optimization programs. Every year, generating companies pursue action plans to, inter alia, streamline the system of operations, decommission and optimize inefficient and unused assets, sell non-core assets, ensure efficient use of assets, and reduce expenses. The economic impact of these activities in 2018 was RUB 4 billion (compared to RUB 3.65 billion in 2017), with MOEK as the main contributor (almost RUB 1.9 billion). These efforts continue in 2019.

On June 19, 2018, the Gazprom Board of Directors approved the Company's power generation strategy for the next ten-year period (through 2027). The key strategic goal is to achieve sustained profit growth while maintaining the high reliability of energy supplies for consumers. The updated strategy entails, among other things, building and upgrading generating capacities, as well as decommissioning facilities that are no longer economically viable. Particular attention is paid to further improvements in operational effectiveness,

technological development, and the use of import-substituting equipment. In addition, Gazprom is committed to diversifying its power business by entering promising markets in Russia and abroad.

In early 2019, construction of a TPP with a power capacity of some 200 MW was launched in Pancevo, Republic of Serbia. It will be the first of the Gazprom Energoholding Group's projects to be implemented outside of the Russian Federation, as well as the first combined cycle thermal power plant in Serbia. The TPP's construction site is located in the immediate vicinity of the Pancevo Refinery that belongs to NIS a.d. Novi Sad (part of the Gazprom Neft Group). The heat generated by the TPP will serve the needs of the Pancevo Refinery, while the plant's electric power output will be sold in Serbia and neighboring countries. The Pancevo TPP is slated for commissioning in 2020. In March 2019, Gazprom Energoholding and the Ministry of Mining and Energy of the Republic of Serbia signed the Memorandum of Understanding aimed at reviewing further options for building and upgrading power plants in Serbia.