

# **GAZPROM'S POWER GENERATION STRATEGY**

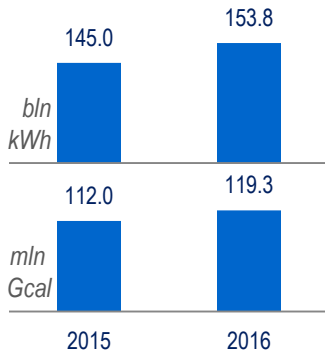
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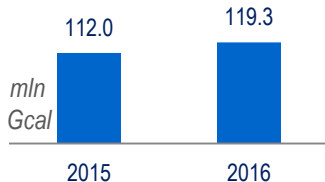
# Gazprom Energoholding Group: 2016 Highlights

## Operating activities

Electricity output **increased by 6.1%** versus 2015



Heat supply **rose by 6.5%** versus 2015



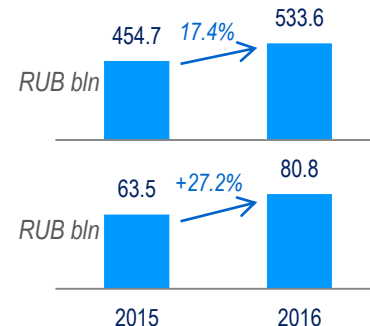
## Investments

Main CSA investment program completed (over 8.5 GW of new capacities built)

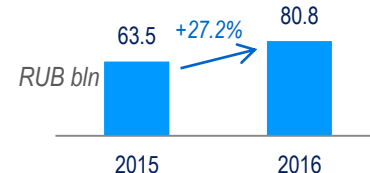
- ✓ Around **1 GW** of new capacities brought onstream in 2016 (OGK-2: STU-660 at Troitsk SDPP – 660 MW, STU-330 at Novocherkassk SDPP – 330 MW, TGC-1: GTU-CHPP at Central CHPP – 100 MW)
- ✓ Last CSA project launched – construction of 360 MW Grozny TPP

## Financial results

Revenues under RAS **grew by 17.4%** versus 2015



EBITDA under RAS **went up by 27.2%** versus 2015



## Major events

- ✓ Key production and financial results improved significantly
- ✓ Debt burden decreased by **RUB 13.6 bln**
- ✓ Benefit from Cost Reduction Programs amounted to **RUB 6.2 bln**
- ✓ **1.5 GW** of ineffective and old equipment decommissioned
- ✓ Market capitalization of generating companies increased greatly

# Key Production Results

- ✓ In 2016, electricity output grew across all companies
- ✓ Operating results are affected by commissioning of new efficient capacities under CSAs, effective equipment utilization by System Operator, efforts made to reduce utilization of inefficient capacities, and weather conditions
- ✓ Lower heat supply by MOEK is caused by transfer of some boiler houses to Mosenergo and load switch from boiler houses to more efficient CHPPs of Mosenergo

## Electricity output

| <i>bln kWh</i> | 2015         | 2016         | Changes 2016/2015 |          |
|----------------|--------------|--------------|-------------------|----------|
| Mosenergo      | 54.7         | 59.1         | +8.0%             | ▲        |
| TGC-1          | 25.8         | 27.7         | +7.2%             | ▲        |
| OGK-2          | 64.4         | 67.1         | +4.2%             | ▲        |
| MOEK           | 0.1          | -            | -                 |          |
| <b>Total</b>   | <b>145.0</b> | <b>153.8</b> | <b>+6.1%</b>      | <b>▲</b> |

## Heat supply

| <i>mln Gcal</i> | 2015         | 2016         | Changes 2016/2015 |          |
|-----------------|--------------|--------------|-------------------|----------|
| Mosenergo       | 71.7         | 81.8         | +14.1%            | ▲        |
| TGC-1           | 23.0         | 24.4         | +6.2%             | ▲        |
| OGK-2           | 6.5          | 6.9          | +5.8%             | ▲        |
| MOEK            | 10.7         | 6.1          | -43.3%            | ▼        |
| <b>Total</b>    | <b>112.0</b> | <b>119.3</b> | <b>+6.5%</b>      | <b>▲</b> |

# Key Financial Results (RAS)

✓ Gazprom Energoholding's revenues have been rising for last few years, reaching almost **RUB 533.6 bln** in 2016

✓ Gazprom Energoholding's EBITDA was **RUB 80.8 bln**, showing **27.2%** increase versus 2015

- ✓ EBITDA increase stems from:
- Putting into operation new efficient capacities
  - Decreasing inefficient generation
  - Cutting down operating costs
  - Growing revenues from sales of electricity and capacities

| Revenues            | RUB mln        | 2015           | 2016          | Changes 2016/2015 |
|---------------------|----------------|----------------|---------------|-------------------|
|                     | Mosenergo      | 164,508        | 190,342       | +15.7%            |
| TGC-1               | 71,235         | 80,132         | +12.5%        | ▲                 |
| OGK-2               | 112,116        | 134,285        | +19.8%        | ▲                 |
| MOEK                | 106,814        | 128,800        | +20.6%        | ▲                 |
| <b>Total</b>        | <b>454,673</b> | <b>533,559</b> | <b>+17.4%</b> | ▲                 |
| EBITDA              | RUB mln        | 2015           | 2016          | Changes 2016/2015 |
|                     | Mosenergo      | 24,129         | 32,196        | +33.4%            |
| TGC-1               | 13,779         | 14,607         | +6.0%         | ▲                 |
| OGK-2               | 8,483          | 16,624         | +96.0%        | ▲                 |
| MOEK                | 17,110         | 17,332         | +1.3%         | ▲                 |
| <b>Total</b>        | <b>63,501</b>  | <b>80,759</b>  | <b>+27.2%</b> | ▲                 |
| Net profit (losses) | RUB mln        | 2015           | 2016          | Changes 2016/2015 |
|                     | Mosenergo      | 6,411          | 11,062        | +72.6%            |
| TGC-1               | 2,757          | 3,834          | +39.1%        | ▲                 |
| OGK-2               | 3,002          | 3,497          | +16.5%        | ▲                 |
| MOEK                | (498)          | 929            | -             | ▲                 |
| <b>Total</b>        | <b>11,672</b>  | <b>19,322</b>  | <b>+65.5%</b> | ▲                 |

Between 2017 and 2018, Gazprom Energoholding expects **up to RUB 65 bln** in annual revenues from sales of capacities commissioned under CSAs

\* TGC-1 results include Murmansk CHPP results

# Gazprom Energoholding Group's Debt Burden

- In 2016, aggregate debt of Gazprom Energoholding Group's companies was RUB 144.1 bln, which is 8.6% less compared to year-end results of 2015
- Debt burden reduction was mostly due to completion of construction projects under CSAs

## Debt (RAS)



| <i>RUB bln</i>     | 2012        | 2013        | 2014         | 2015         | 2016         | Changes 2016/2015 |
|--------------------|-------------|-------------|--------------|--------------|--------------|-------------------|
| Mosenergo          | 18.1        | 24.9        | 48.6         | 49.2         | 43.9         | -11.0%            |
| TGC-1              | 34.3        | 30.3        | 26.5         | 25.9         | 23.2         | -10.4%            |
| OGK-2              | 23.3        | 34.6        | 47.1         | 61.9         | 56.3         | -9.2%             |
| MOEK               |             |             | 26.7         | 20.7         | 20.7         | -                 |
| <b>Total debt</b>  | <b>75.7</b> | <b>89.8</b> | <b>148.9</b> | <b>157.7</b> | <b>144.1</b> | <b>-8.6%</b>      |
| <i>Debt/EBITDA</i> | 1.7x        | 1.9x        | 2.8x         | 2.5x         | 1.8x         | -28.0%            |

Debt came from loans acquired for investment program and is **declining rapidly**

# Gazprom Energoholding's Dividends

## Dividends: history / debt burden of Gazprom Energoholding Group

Dividend calculation principle at Gazprom Energoholding:

**Debt burden** Maintaining balance between debt servicing and dividend payout.

**Investment program** Gazprom Energoholding factors in investments to be made within next 2 to 3 years



2016 dividends recommended by generating companies' Boards of Directors for approval

Amount of funds allocated for dividend payout is **growing annually**

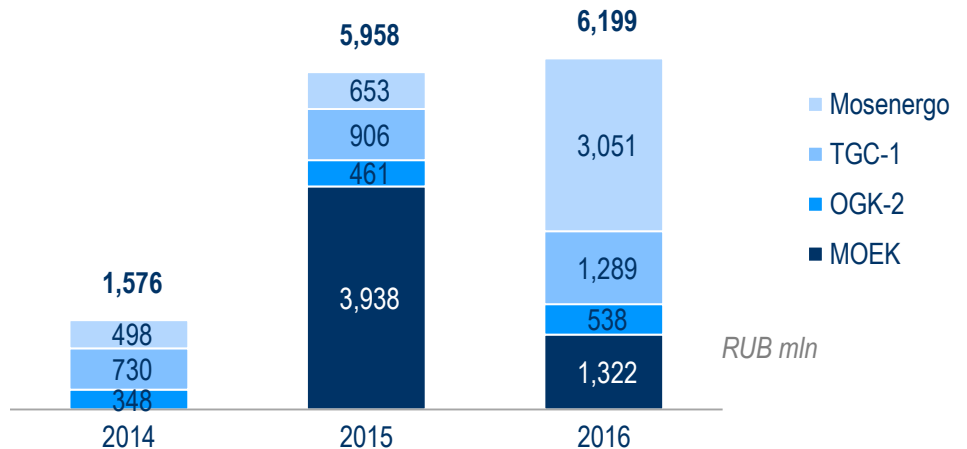
# Execution of Cost Reduction Programs

– In order to boost value of its power generating assets, Gazprom Group takes steps to raise their operating efficiency and runs cost reduction programs meant to improve financial performance

## Optimization measures

- ✓ Efficient use of assets
- ✓ Cost reduction
- ✓ Investment spending cuts
- ✓ Import substitution
- ✓ Sale of non-core assets
- ✓ Additional initiatives

## Optimization effect



- ✓ Updating Gazprom's Power Generation Strategy
- ✓ Construction and upgrade of capacities, depending on economic incentives in power industry
- ✓ Optimization of operating and investment spending
  - Cost reduction potential – 3 years
- ✓ Decommissioning of capacities
  - Approvals granted for decommissioning of up to 1 GW of capacities before 2022
- ✓ Participation in Gazprom's major projects with regard to construction of generating capacities
- ✓ Purchase of core assets
  - Monitoring is underway with regard to horizontal expansion
- ✓ Participation in international projects
  - Pancevo TPP is under construction in Serbia, possible construction of gas-fired generating facilities in China and Vietnam is being discussed
- ✓ Growth of dividends
- ✓ Decrease in debt burden owing to operating flow and revenues from CSA projects

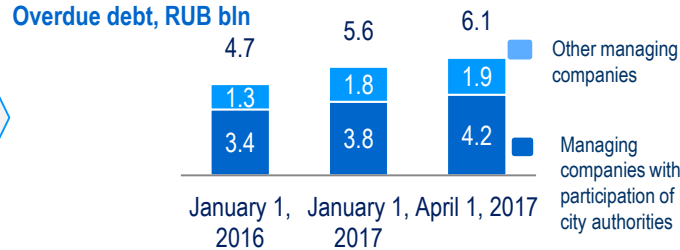


\* involving Gazprom Investproject

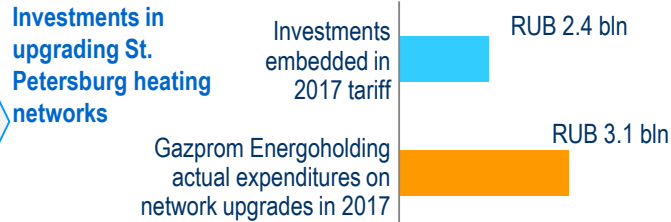


# Main Problems of St. Petersburg Heat Supply Market

By end of Q1 2017, housing maintenance companies owed RUB 6.1 bln to Gazprom Energoholding for thermal energy



Heating networks of St. Petersburg exhibit high degree of deterioration, and tariff rate fixed by city authorities fails to cover modernization expenses



- Gazprom Energoholding offers different solutions for heat supply problems (subsidies, loans, additional capitalization of companies from city budget, etc.)
- City authorities are not showing interest in resolving accumulated problems, while debt amount is increasing
- At the same time, consumers' pay rate reaches almost 100%, yet most of payments are made through intermediary city entity – VTsKP (nearly 70%) or Managing Company

**!** City authorities need to reconsider approach to heat supply pricing for St. Petersburg Heating Grid and/or find additional funding source for investment program (at least RUB 4 bln additionally) in order to prevent accident rate in heating networks from growing further

**!** It is necessary to come to a common ground with city authorities regarding debt settlement by housing maintenance companies

THANK YOU FOR YOUR ATTENTION!