

Press Conference Background
GAZPROM'S POWER GENERATION STRATEGY
(May 11, 2016)

Power generation is a strategically important business area for Gazprom Group. The expansion of Gazprom Group's presence in the power sector helps strengthen its overall business in the long term and derive additional income. The Group's strategic goals in the power industry are as follows:

- diversification of tariff regulation risks;
- diversification of the fuel balance;
- construction of new capacities; and
- improvement of operating efficiency.

Gazprom Group continued to actively develop its power generation business in 2015. Despite a drop in domestic demand for power and a reduction in heat supply due to warm weather, the systematic and long-term efforts to enhance efficiency, optimize production capacities and improve the corporate management system translated into good overall financial results for the Group's core generating companies. Over the course of 2015, the Group's core companies (Mosenergo, MOEK, OGK-2, and TGC-1, including the Murmansk CHPP) produced a total of 145 billion kWh of electricity (a decrease of 4.7 per cent compared to 2014) and 111.9 million Gcal of heat (a drop of 6.9 per cent). The overall revenue under the Russian Accounting Standards in 2015 stood at RUB 454.7 billion (close to the 2014 level), with EBITDA of RUB 63.5 billion (a 20 per cent increase from 2014) and the net profit of RUB 11.7 billion (a more than threefold increase). Meanwhile, MOEK's losses decreased from RUB 6.9 billion to RUB 0.5 billion. The abovementioned improvements can be attributed to, among other things, the reduction in the capacity utilization of inefficient power units, the commissioning of new generating capacities, and the reconfiguration of the Moscow heat supply system.

At its own initiative, Gazprom Group reconfigures the Moscow heat supply system, which includes transferring heat generating facilities from MOEK to Mosenergo and switching the load from MOEK's facilities to more efficient CHPPs. The target model provides for concentrating all generating facilities in Mosenergo, with heating networks and marketing functions delegated to MOEK.

In 2015, MOEK was granted the status of a unified heat supply organization in the operating areas of Mosenergo CHPPs, its own heating sources, and other heat generating facilities, with the exception of small isolated areas.

Moreover, the generating companies of Gazprom Group take measures aimed at improving financial results, optimizing operating costs, and implementing reconstruction and re-equipment programs, such as Lean Manufacturing and the Program for Shareholder Value Enhancement. The economic impact of these activities in 2015 was some RUB 6 billion, with MOEK as the main contributor (66 per cent). In 2016, the generating companies will continue to implement programs aimed at increasing their operating efficiency. The economic impact of cost optimization in 2016 is expected to be some RUB 5 billion.

Meanwhile, St. Petersburg faces a set of key issues that are particularly threatening to the reliability of heat supply in the city, where TGC-1 (a subsidiary of the St. Petersburg Heating Grid, which specializes in thermal energy transmission) provides heat to certain consumers. Over the past years, St. Petersburg housing maintenance companies have accumulated a steadily increasing debt to TGC-1 for thermal energy: RUB 6.9 billion by the end of the first quarter of 2016 (the consumers' pay rate reaches almost 100 per cent, yet the payments are made through an intermediary city entity – VTsKP). The heating network of St. Petersburg exhibits a high degree of deterioration and the tariff rate fixed

by the city government does not cover the costs of modernization. The actual investments of Gazprom Group in facility upgrading substantially exceed the amounts under the tariff rate. Gazprom Energoholding offers the St. Petersburg authorities different solutions for heat supply problems in the city.

In achieving its strategic goals in the power sector, Gazprom Group focuses on building new generating capacities, which enhances the efficiency of the Group's power business and increases its power and heat output.

Last year, Mosenergo completed the implementation of its investment program under capacity supply agreements. In 2015, Gazprom Group brought into operation in Russia a number of new generating units with a total capacity of 1,390 MW, namely:

- a combined cycle gas turbine unit with a 420 MW capacity at the Serov SDPP operated by OGK-2;
- a combined cycle gas turbine unit with a 420 MW capacity at CHPP-20 operated by Mosenergo;
- a combined cycle gas turbine unit with a 220 MW capacity at CHPP-12 operated by Mosenergo; and
- a reconstructed steam turbine unit, with its capacity increased from 270 to 330 MW, at the Ryazan SDPP operated by OGK-2.

Between 2007 and 2015, since its entry into the power industry, Gazprom Group commissioned over 7 GW of new capacities under capacity supply agreements. Overall, it is planned to put in operation some 9 GW of capacities.