

Press Conference Background
GAZPROM'S POWER GENERATION STRATEGY

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

The Gazprom Group's strategic goals in the power industry are as follows:

- establishment of an optimal structure of production capacities;
- diversification of tariff regulation risks;
- diversification of the fuel balance; and
- improvement of operating efficiency and optimization of costs.

Gazprom continued to actively develop its power generation business in 2016. The Group worked to ensure the sustainable production and supplies of electricity and heat, as well as pursued important investment projects. The installed capacity of Gazprom Energoholding (some 39 GW), which encompasses the Group's core power generation assets (the Mosenergo, TGC-1, OGK-2 and MOEK production companies), constitutes about 17 per cent of the installed capacity of Russia's Unified Energy System. Over the course of 2016, the Gazprom Group's main generating companies in Russia produced a total of 153.8 billion kWh of electricity (a 6.1 per cent increase from 2015) and 119.3 million Gcal of heat (a 6.5 per cent rise). The operating results were affected by, among other things, the commissioning of new efficient capacities under capacity supply agreements (CSAs) and the reduction in the capacity utilization of inefficient power units.

Last year clearly demonstrated the effectiveness of Gazprom's long-term efforts to improve its operating efficiency, optimize costs, upgrade production capacities, and rearrange Moscow's heat supply system. All of the core production companies showed substantial improvement in financial and economic performance. The overall revenue (Mosenergo, MOEK, OGK-2, and TGC-1) under the Russian Accounting Standards in 2016 stood at RUB 533.6 billion (up by 17.4 per cent from 2015), with EBITDA of RUB 80.8 billion (a 27.2 per cent increase) and the net profit of RUB 19.3 billion (a 65.5 per cent rise). Meanwhile, MOEK finished the year without losses for the first time in its history.

Throughout 2016, MOEK acted as the single heat supply organization after having been granted that status in February 2015. In that connection, all of Mosenergo's contracts with heat consumers were transferred to MOEK, with the latter assuming the marketing functions in full. In addition, on December 16, 2016, Russia's Energy Ministry approved the first-ever heat supply schemes for Moscow's Troitsky and Novomoskovsky municipal districts. Those schemes allowed the Gazprom Group to intensify its efforts to provide gas connections to new consumers.

The Gazprom Group systematically commissions new, highly efficient power units, thereby gaining additional capacities and competitive advantages in the electricity markets. The Group's obligations under CSAs are largely fulfilled. 2016 saw two brand-new coal-fired power units with a total capacity of some 1 GW come into service at the Troitsk and Novocherkassk SDPPs operated by OGK-2. In St. Petersburg, construction was completed for a 100 MW gas turbine CHPP, which is supposed to make energy supplies in the city's

central district more reliable, at the Central CHPP's Power Plant No. 1. With the commissioning of the new CHPP, the CSA-related obligations of TGC-1 can be considered fulfilled.

Since 2007, when the Group first entered the electric power sector, Gazprom has brought to completion over 30 projects, constructing state-of-the-art combined cycle, gas turbine and coal-fired power units and upgrading conventional steam power units and small hydropower plants. The aggregate capacity of those units exceeds 8.5 GW. Today, Gazprom has extensive experience in building, modernizing, adjusting and operating a wide range of modern energy equipment. The Group has completed the development phase for its last CSA-based project – construction of the Grozny TPP with a capacity of 360 MW – and started its implementation.

The increase in the share of gas-fired units in the new and modernized capacities helps boost profits, reduce fuel consumption, and improve environmental performance. Since 2010, emissions of pollutants and greenhouse gases from the Gazprom Group's power plants have been reduced by 39 and 14 per cent, respectively, with water consumption and disposal decreasing by 30 and 33 per cent.

Successful execution of investment projects allows the Group to alleviate its debt burden. In 2016, the overall debt of the Gazprom Energoholding Group under the Russian Accounting Standards shrank by 8.6 per cent to RUB 144.1 billion. Moreover, the Gazprom Group takes measures to bolster the value of its power generation assets by working to improve their operational efficiency and executing cost optimization programs for greater financial results. The economic impact of these activities in 2016 was RUB 6.2 billion, with Mosenergo as the main contributor (RUB 3 billion). These efforts continue in 2017.

By the end of 2017, it is planned to complete the updating of the Gazprom Group's long-term Development Strategy for the Power Sector until 2035.