

Press Conference Background

POWER GENERATION: DEVELOPMENT PRIORITIES (May 14, 2021)

In 2020, Gazprom continued the implementation of its power generation strategy for 2018–2027, which provides, in particular, for the creation of new and upgrade of existing generating capacities, as well as the decommissioning of facilities that are not economically feasible, further improvement of operational efficiency, use of import-substituting equipment, and diversification of activities by entering promising markets in Russia and abroad.

The Gazprom Group includes Gazprom Energoholding – Russia’s largest vertically integrated power generation holding, which combines assets in power and heat generation, heat transmission and sales, as well as in related segments.

The key generating companies of Gazprom Energoholding are TGC-1, Mosenergo, OGK-2, and MOEK.

In 2020, the aggregate power output of Russia’s key generating companies amounted to 126.6 billion kWh of electricity (a 11.5 per cent decrease versus 2019) and 111.1 million Gcal of heat (a 3.6 per cent decrease). The decrease in total power generation is due to a general drop in demand in the country, as well as the optimization of the operation of power plants and reduction in generation at inefficient facilities. The decrease in heat output is due to higher outdoor air temperatures observed during the 2019–2020 heating season.

In this regard, the overall revenue of the key generating companies of Gazprom Energoholding under Russian Accounting Standards decreased by 3.7 per cent to about RUB 491 billion, EBITDA decreased by 5.5 per cent to RUB 116.2 billion, and the net profit decreased by 11.7 per cent to RUB 48.8 billion.

Meanwhile, these indicators exceeded the target figures:¹ in terms of revenues by 2.3 per cent, in terms of EBITDA by 13.2 per cent, and in terms of the net profit by 48.5 per cent. In addition, the companies’ aggregate external debt under RAS dropped by 13 per cent to RUB 95.1 billion.

Gazprom Energoholding is making efforts to improve its operational efficiency and implement cost optimization programs aimed at improving financial performance. The generating companies annually form and implement plans in a number of areas, including: streamlining of production activities, cost optimization, sale of non-core assets, reduction of the costs of goods delivery/services rendering through the use of competitive procurement methods, and applying import substitution measures. The effect of the activities carried out in 2020 was RUB 3.8 billion (versus RUB 2.2 billion in 2019).

In the challenging year of 2020, Gazprom Energoholding managed to reach the final stage of the Svobodny TPP construction in the Amur Region, despite the restrictions imposed due to the spread of the coronavirus infection, difficult natural and climatic factors, and remoteness from equipment manufacturers. The facility was commissioned in due time, i.e. in April 2021, which made it possible to supply process steam for the purpose of start-up and

¹ Target for 2020 adjusted on the basis of the results for the first six months of the year, taking into account the costs of combating the spread of COVID-19, as well as the implementation of measures to optimize the operating and investment expenses.

commissioning to the Amur Gas Processing Plant being built by Gazprom. Domestic equipment was widely used during the TPP construction, including such core equipment as three power steam boilers, two steam turbine power units, a single digital control and monitoring system, and much more.

Gazprom Energoholding pays utmost attention to the environmental aspects of its activities: the improvement of environmental management efficiency, environmental safety assurance, rational use of natural resources, and energy saving. In the fuel mix of its generating companies, a transition is ongoing from coal to natural gas, a more eco-friendly type of fuel, which helps reducing their environmental footprint. As a result, waste generation was decreased twofold between 2017 and 2020.

The investment programs for the construction and upgrade of capacities (about 9 GW), optimization of the structure of capacities, and implementation of environmental protection measures made it possible to cut down the total gross air emissions of Gazprom Energoholding generating companies by 65 per cent and greenhouse gas emissions – by 26 per cent in the period from 2007 to 2020.

The generating companies of Gazprom Energoholding continue upgrading their power generating equipment as part of the program for competitive-based selection of projects for upgrade (COMMod) for 2022–2027 at their facilities (Mosenergo: various equipment at CHPP-22, CHPP-23, CHPP-25, and CHPP-21; TGC-1: the Avtovskaya CHPP, Vasileostrovskaya CHPP, and Severnaya CHPP; OGK-2: the Kirishi SDPP and Surgut SDPP-1). Moreover, a project to build two combined-cycle gas turbine units (CCGT-324 and CCGT-165) at the Novocherkassk SDPP of OGK-2 is about to start based on the results of the competitive selection of facilities for 2027–2029 involving innovative domestic gas turbines. The Gazprom Energoholding companies also intend to engage in the selection procedures for 2028–2031.

In 2020, Gazprom Energoholding diversified its activities by expanding into adjacent and highly potential markets in Russia and abroad.

For instance, starting from November 2020, Gazprom Energoholding has been the trust manager of the shares issued by Gazprom Teploenergo, a parent organization of the group of companies focused on small-scale heat generation. It unites regional enterprises that ensure the work of heat generating facilities in 20 regions across Russia, with a total installed thermal output of 8,600 Gcal/h (as of December 31, 2020). Plans are afoot to improve the efficiency of Gazprom Teploenergo's production and economic activities, including through the investment projects aimed at retrofitting and upgrading heat supply systems.

2020 saw the merger of REP Holding, a major manufacturer of the power engineering industry, into the Gazprom Energoholding Group. The company has adopted the uniform standards and policies established by the Gazprom Group for the management, procurement, finance, business planning, and investment planning activities. This allowed the company to close the year with net profit for the first time since 2012 (RUB 716 million – consolidated data for the REP Holding Group).

REP Holding continues its development as an affiliate of GEH Industrial Assets, which is an umbrella organization for all engineering, repair, maintenance & servicing assets of the Gazprom Energoholding Group. The development priorities of GEH Industrial Assets include shaping a control system covering all lifecycle phases of the gas turbine and compressor equipment operated by the Gazprom Group, from design development to service maintenance.

As regards the implementation of international projects, the construction project was ongoing for the Pancevo TPP in Serbia with an installed power capacity of about 200 MW (the commissioning is scheduled for 2021).