

2018 | GAZPROM  
INVESTOR DAY



# GAZPROM: BUSINESS GROWTH, ENHANCING SUPPLY SECURITY



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# GAZPROM | PRESENTATION SPEAKERS



**ANDREY KRUGLOV**  
Deputy Chairman  
of Management Committee  
Finance



**ALEXANDER MEDVEDEV**  
Deputy Chairman  
of Management Committee  
Export



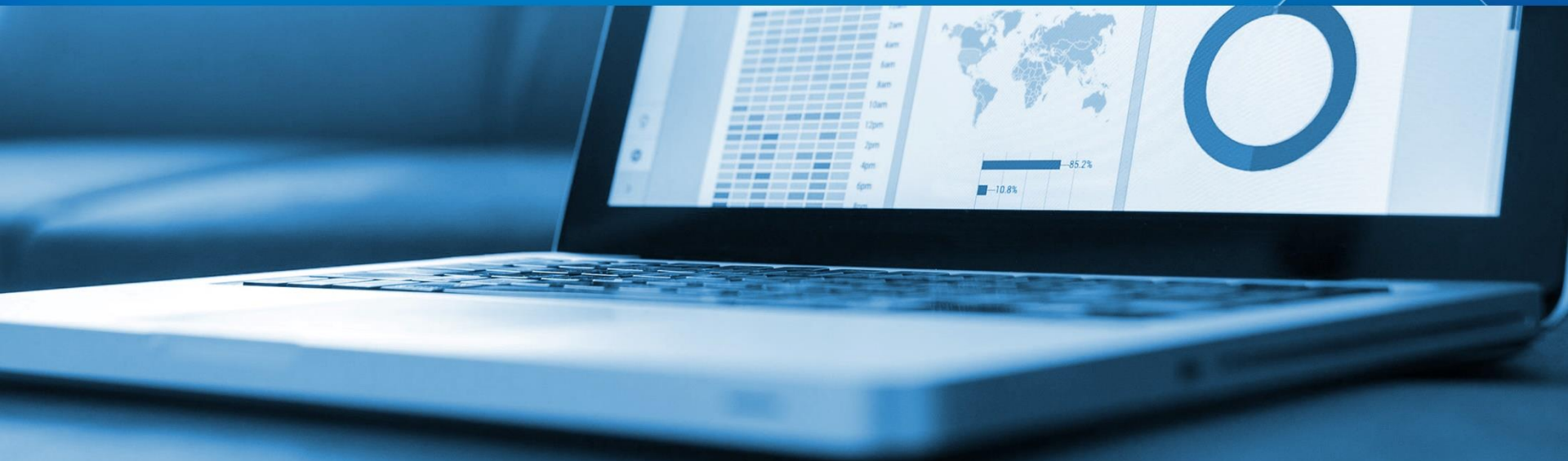
**VSEVOLOD CHEREPANOV**  
Member of the Management Committee,  
Head of Department  
Upstream



**KIRIL POLOUS**  
Head of Directorate  
Strategy

# STRATEGY

KIRIL POLOUS  
Head of Directorate



## GAZPROM'S ANNIVERSARY



### Production



**13**  
tcm of gas

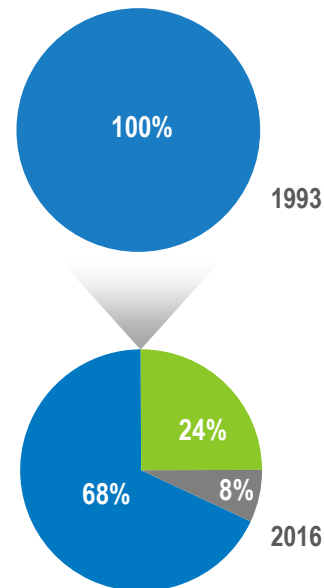
**> 700**  
bn t of oil and  
condensate

### Exports<sup>2</sup>



**> 5**  
tcm

### Revenue structure<sup>1</sup>



<sup>1</sup> According to IFRS standards and taking into account revenue structures of gas, oil and electrical power companies of Gazprom's Group

<sup>2</sup> Including exports to FSU countries

## KEY EVENTS AND DEVELOPMENT TRENDS

### KEY EVENTS

- Extension of OPEC and Russia's agreement to cut oil production
- Gradual increase of hydrocarbon prices
- New US, Australian and Russian LNG volumes show up
- US gas production cut in 2016
- Imposition of gas export restrictions mechanism in Australia
- Cancellation of Northern field production cap in Qatar
- Hydrocarbon production growth in Iran after partial lifting of sanctions
- Historic high growth of demand and imports of natural gas in China

### TRENDS

- Coal-fired generation stalling in some European countries
- Declining global investments in renewable energy
- "Asian LNG premium"
- LNG "marinization"
- EV rush
- Increased demand for Russian gas in Europe

**Gazprom's long-term position in the global energy market has a great potential due to:**

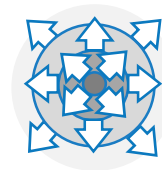
- Rich resource base of conventional fields
- Well-developed gas transportation infrastructure
- Low operating costs
- Availability of long-term gas supply contracts
- Active work on diversifying the range of products, supply routes and markets

**KEY EVENTS OF 2017 CREATED AN ADDITIONAL POTENTIAL FOR STRENGTHENING GAZPROM'S STRATEGIC ADVANTAGES**

## 2035 GLOBAL ENERGY OUTLOOK



**+20%** World energy  
consumption



Asia-Pacific  
region



**+2 p.p.** Gas share in energy mix

**1.5%** CAGR

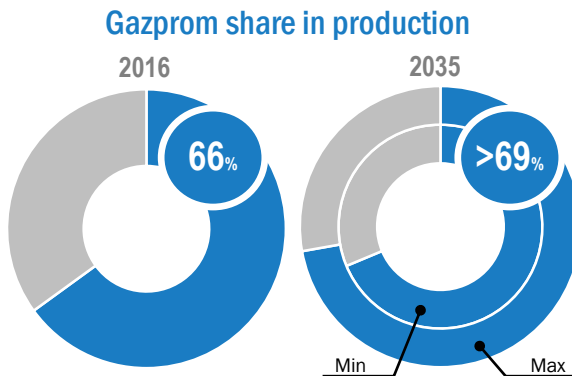
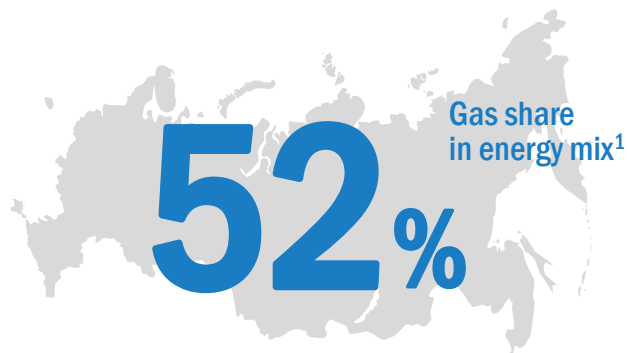


**#1** New leader in terms  
of gas consumption



Asia-Pacific  
region

## 2035 RUSSIAN GAS INDUSTRY OUTLOOK

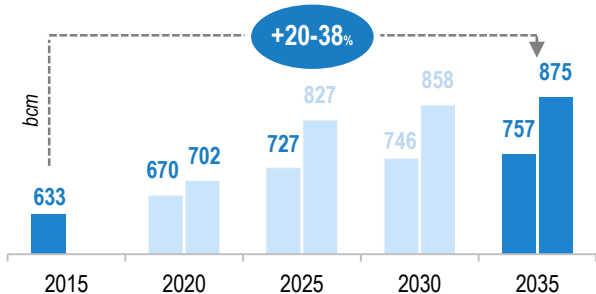


Gazprom holds exclusive rights for gas pipeline exports from Russian

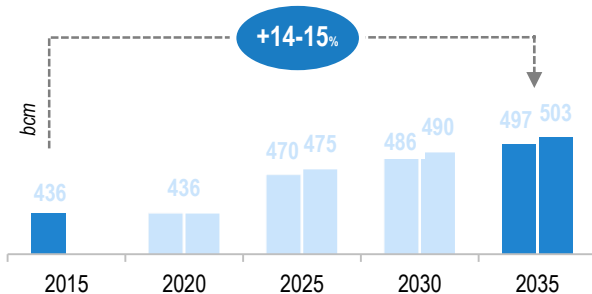
“Existing amount of PJSC Gazprom’s functions will be maintained”

DRAFT RUSSIAN ENERGY STRATEGY UNTIL 2035

Gas production in Russia<sup>1</sup>



Gas consumption in Russia<sup>1</sup>



<sup>1</sup>Source: Draft Russian Energy Strategy until 2035 (as of March 2017), Energy Research Institute of Russian Academy of Sciences.



## ARE ANY SUBSTANTIAL CHANGES NEEDED FOR THE RUSSIAN GAS INDUSTRY?

VS.

### PROS

- Mass media pressure
- “Bright future” of the industry in theory

### CONS

- Affordable domestic prices
- High level of gasification in Russia
- Considerable share of Russian gas in the European market
- Historic high levels of Russian exports to Europe
- Ability to maximize export revenue and government payouts avoiding external competition
- Huge spare production and transportation capacities for quick domestic and external market response
- Favorable conditions for domestic competition and independent gas producers’ output growth

**The answer is obvious:  
“NO, not in the foreseeable future”**

## GAZPROM'S PRODUCTION STRATEGY

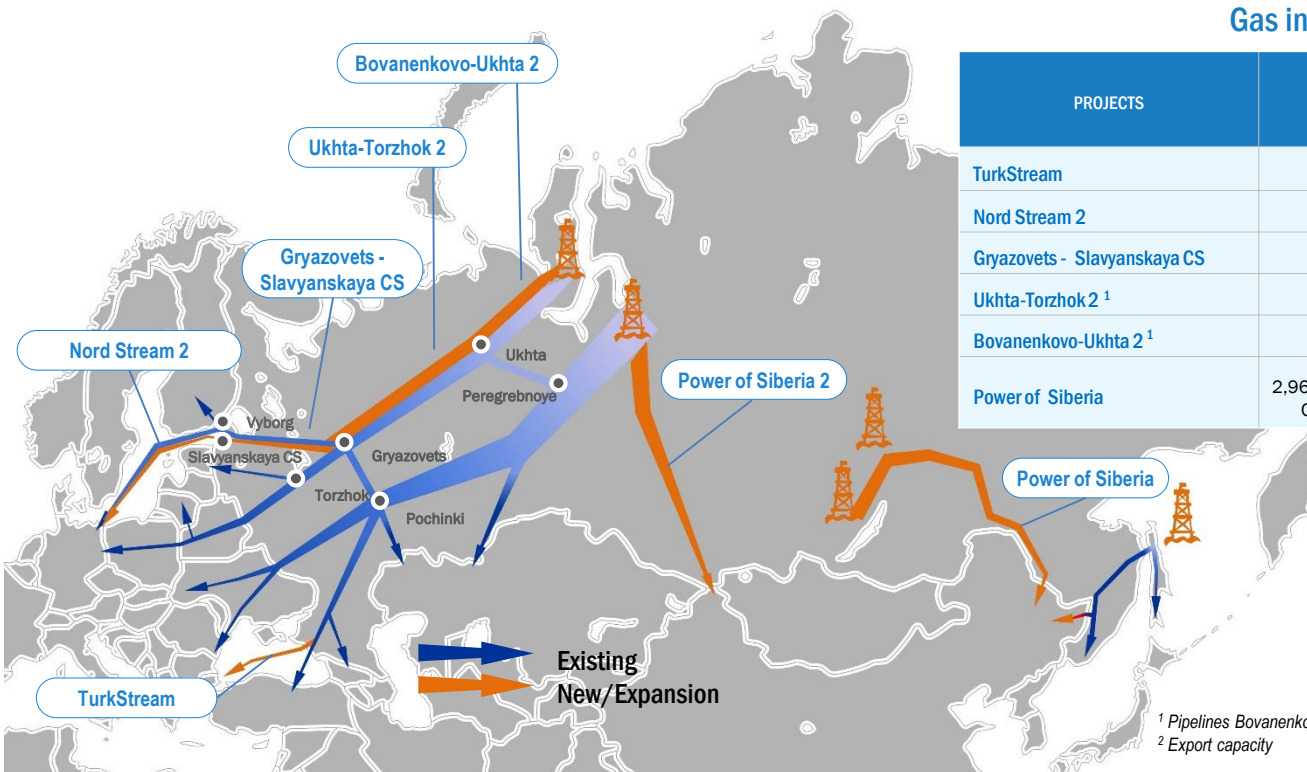
### New upstream gas projects

FIELDS	ANNUAL DESIGN CAPACITY, bcm	YEAR OF LAUNCH	YEAR OF ACHIEVING DESIGN CAPACITY
Kharasaveiskoye (cenoman-aptian)	32	2023-2024	2026-2027
Kharasaveiskoye (neocomian-jurassic)	18	2026-2027	2028-2029
Bovanenkovskoye (neocomian-jurassic)	25	2024-2025	2029-2030
Severo-Kamennomysskoye	14.5	2025-2027	2030-2032
Kamennomysskoye-sea	15.1	2023-2025	2025-2027
Chayandinskoye	25	2019	2024
Kovyktinskoye	25	2022	2025
Yuzhno-Kirinskoye	21	2023	2033-2034



## GAZPROM'S TRANSPORTATION STRATEGY

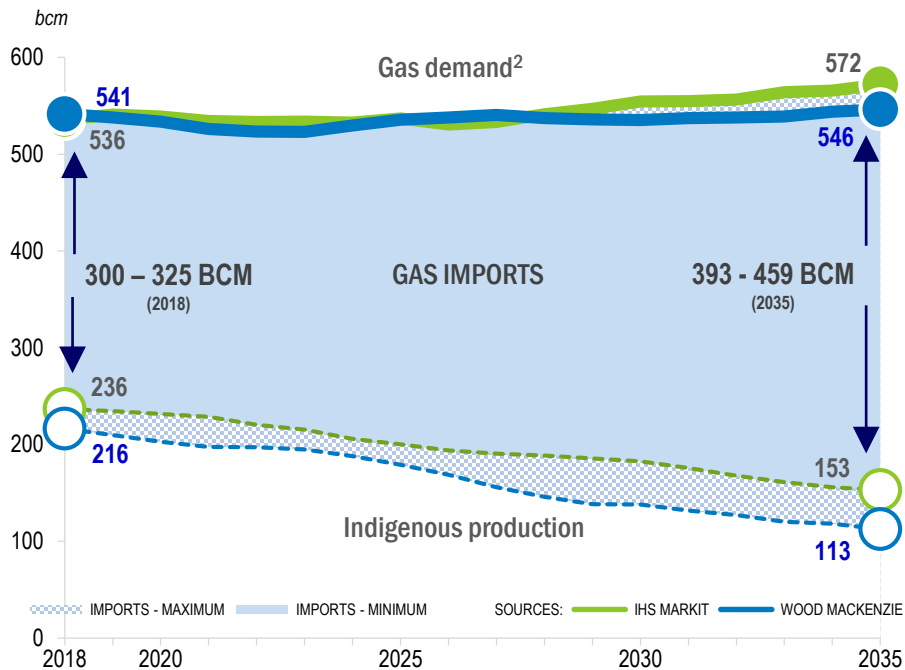
### Gas infrastructure development



PROJECTS	LENGTH, km	ANNUAL CAPACITY, bcm	YEAR OF LAUNCH
TurkStream	> 900 km (offshore section)	31.5	2019
Nord Stream 2	~1,200	55	2019
Gryazovets - Slavyanskaya CS	870	~80	2019
Ukhta-Torzhok 2 <sup>1</sup>	970	45	2019
Bovanenkovo-Ukhta 2 <sup>1</sup>	> 1,200	57.5	2016
Power of Siberia	2,962 km, including 2,158 km of the Chayandinskoye-China border	38 <sup>2</sup>	2019

<sup>1</sup> Pipelines Bovanenkovo-Ukhta and Ukhta – Torzhok were launched in 2012

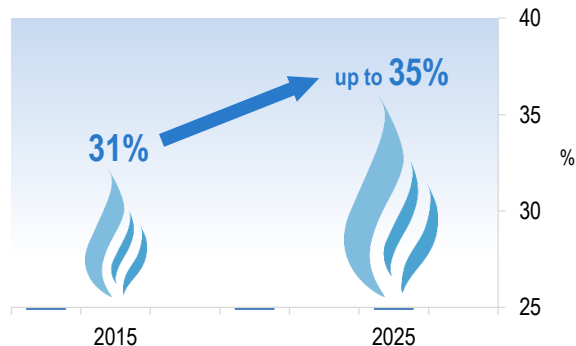
<sup>2</sup> Export capacity

EUROPEAN<sup>1</sup> GAS MARKET HOLDS STRONG LONG-TERM POTENTIAL

Sources: IHS Markit, Wood Mackenzie, Gazprom

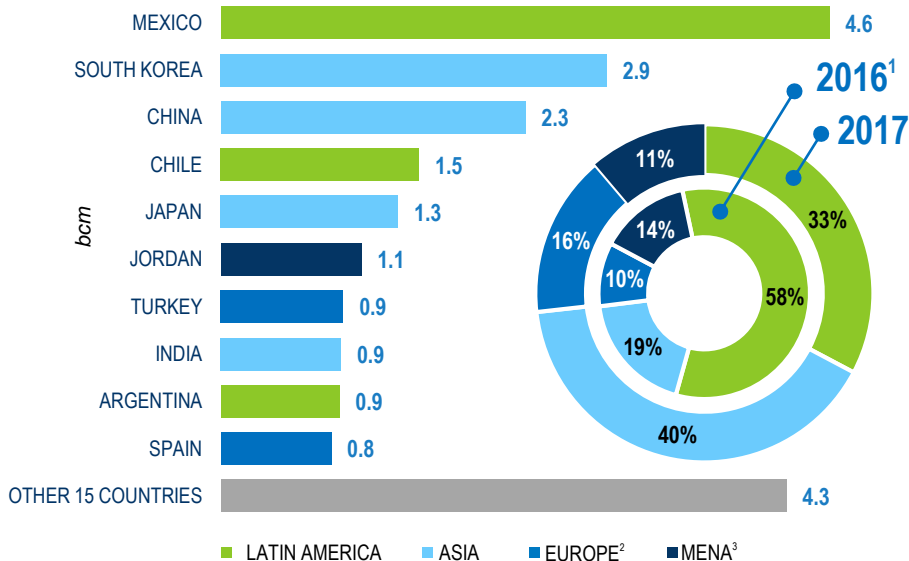
- Conventional gas production nearly halves by 2035
- “Shale fail”: little or no unconventional gas expected
- Demand prospects are stable with upside potential
- Gas is essential for success of EU’s ambitious climate policy
- Gazprom will keep further strengthening its market position in Europe in line with previously set targets

## GAZPROM'S SHARE EVOLUTION IN THE EUROPEAN GAS MARKET

<sup>1</sup> Including Turkey<sup>2</sup> Including exports (both pipeline & Snøhvit LNG), net of UGS stock changes

## DESPITE THE MEDIA FUSS, U.S. LNG IN EUROPE WAS ALMOST NON-EXISTENT

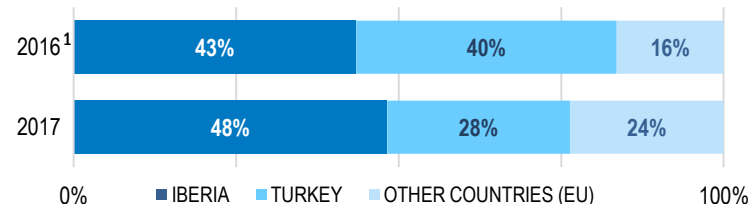
Top-10 U.S. LNG destination countries in 2016–2017 and total supply by region



Comparison of Gazprom and U.S. LNG supply volumes to the European<sup>2</sup> market (figurative)



U.S. LNG was mainly supplied to European markets with constrained access to pipeline gas



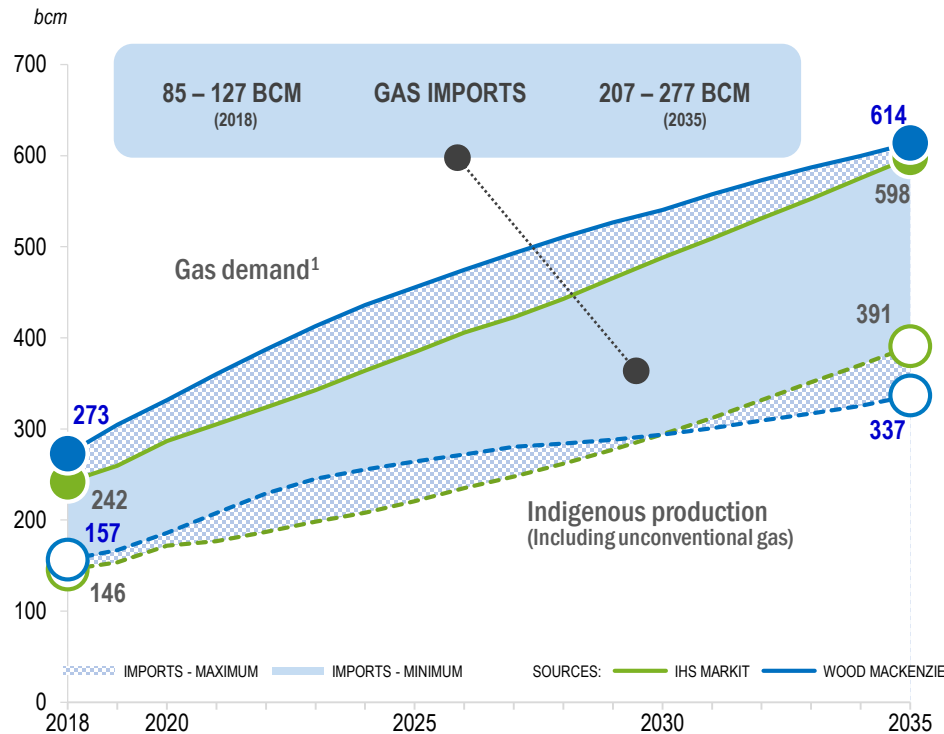
Sources: IHS Markit, Gazprom estimates

<sup>1</sup> Totals don't sum due to rounding

<sup>2</sup> Including Turkey

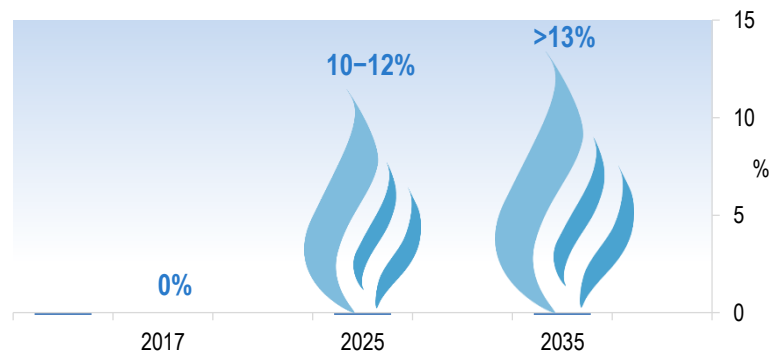
<sup>3</sup> Middle East & North Africa (i.e. Egypt)

## CHINA'S GAS MARKET: TRANSITION FROM BYSTANDER TO MAJOR SUPPLIER



- Indigenous gas production growth is crucially dependent on shale potential, which is yet to be proven countrywide
- Even with shale gas success, demand growth will outstrip it
- In less than a decade Gazprom is set to become a major player in China holding the largest gas supply contract ever
- Further growth expected as new pipeline projects advance

### GAZPROM'S PIPELINE GAS SHARE REVOLUTION IN THE CHINESE GAS MARKET

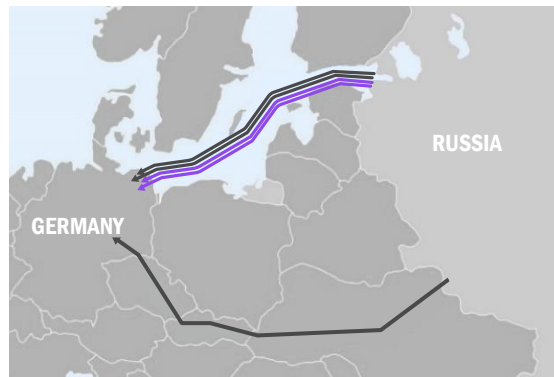


<sup>1</sup> Net of UGS stock changes

Sources: IHS Markit, Wood Mackenzie

## COMMISSIONING OF LARGE EXPORT-ORIENTED PROJECTS BY 2020

### Nord Stream 2



← EXISTING PIPELINE ← PERMITTING STAGE

### TurkStream



← EXISTING PIPELINE ← PIPELINE UNDER CONSTRUCTION

### Power of Siberia



← PIPELINE UNDER CONSTRUCTION

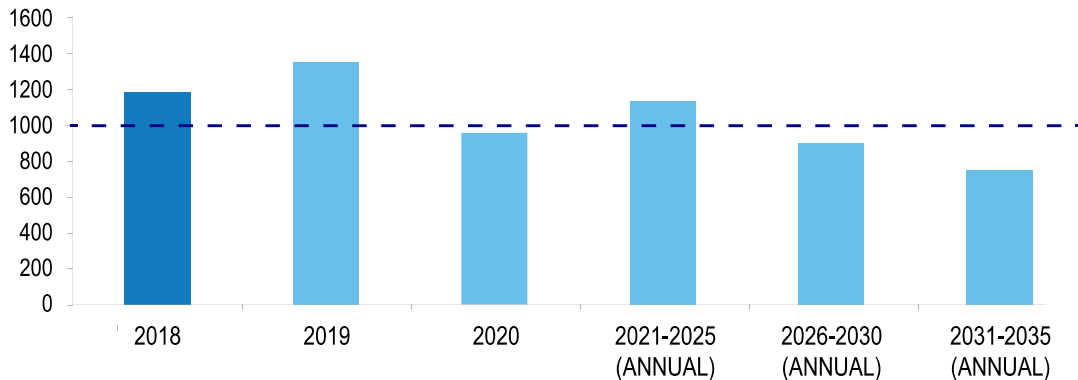
Export capacity, bcm	55	31.5	38
Length, km	>1,200	>900	2,158 <sup>1</sup>
Construction start-up	2018	2017 (Q2)	2014
Commissioning date	2019	2019	2019

Built as of  
01.02.2018



<sup>1</sup> From Chayandinskoye field to the Russia-China border

## GAS BUSINESS INVESTMENT OUTLOOK

bn RUB<sup>1</sup>

Average annual investments  
up to 2035 will be capped  
at RUB 1 tn

That includes maintenance projects, construction in progress (i.e. Chayanda, Kovykta, Power of Siberia, Nord Stream 2, TurkStream, Amur GPP etc.) and projects with no FID taken yet (Baltic LNG, Sakhalin 2 expansion etc.)

Growth YOY to 2016,%	2020	2025	2030	2035
GAS PRODUCTION VOLUMES	+15%	+27%	+31%	+35%
EXPORT VOLUMES OF PIPELINE GAS AND LNG (EXCLUDING FSU)	+9%	+34%	+35%	+35%

<sup>1</sup> In real terms 2017, incl. VAT



# UPSTREAM

**VSEVOLOD CHEREPANOV**

Member of the Management Committee,  
Head of Department



## GAZPROM'S RESOURCE BASE

GAZPROM IS A GLOBAL LEADER BY HYDROCARBON RESERVES AMONG PUBLIC COMPANIES

Gazprom: proved and probable reserves, 31.12.2016

**17%** of global gas reserves

Proved and probable reserves:

**23.9 bcm / 155 bboe** of gas

**2.4 bn t / 18 bboe** of oil & condensate

Natural gas accounts for

**89%** of total hydrocarbon reserves

Gazprom vs global majors: proved reserves, 31.12.2016

Gazprom Group  
133 bboe



Supermajors  
Combined  
96 bboe



Major Emerging  
Markets Combined  
97 bboe

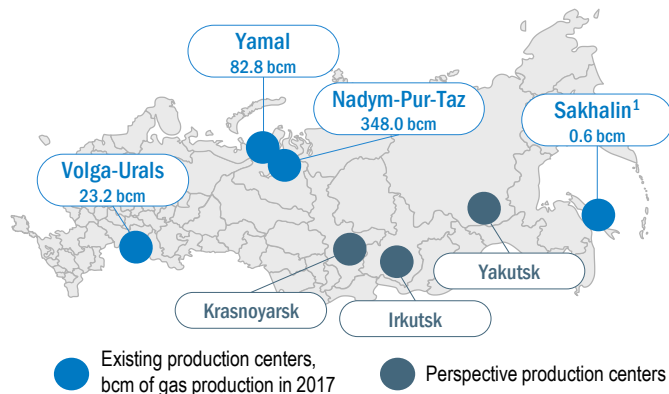


TOTAL PROVED  
RESERVES OF  
HYDROCARBONS

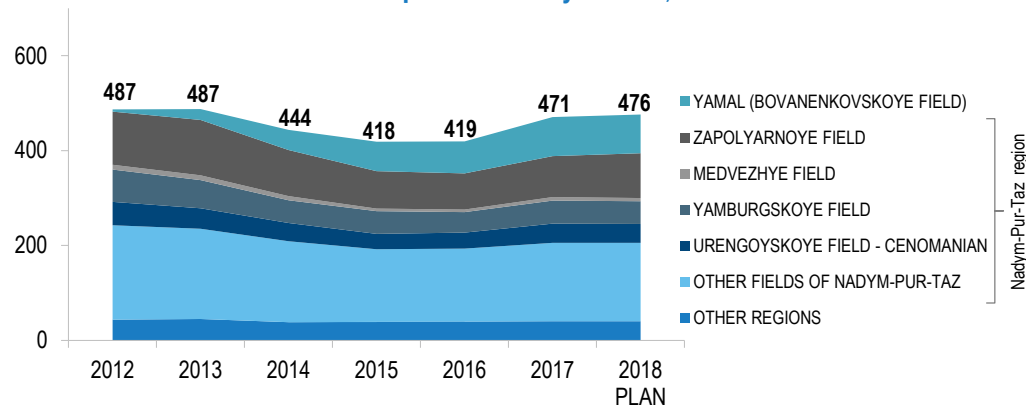
Source: Company data for Gazprom,  
Bloomberg for peers

## PRODUCTION STRATEGY

### Key gas production centers



### Gas production by fields<sup>2</sup>, bcm



- Unique parameters of major fields located in West Siberia and Russia's Far East ensure Gazprom's competitive edge amid a period of low prices for hydrocarbons
- Comprehensive activities aimed at maintaining current production levels at the company's major fields coupled with bringing new fields into development
- Cost optimization for projects under implementation

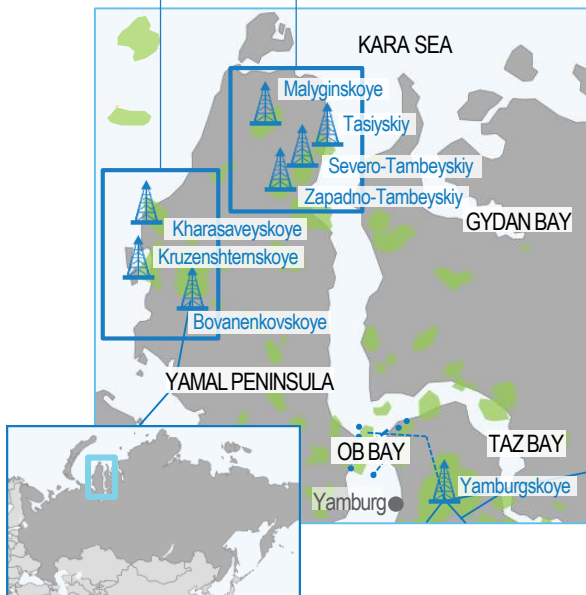
<sup>1</sup> Does not include Sakhalin Energy (Sakhalin-2 project)

<sup>2</sup> Excl. share in production of companies, investments in which are classified as joint operations

# YAMAL PRODUCTION CENTER DEVELOPMENT

BOVANENKOVSKOYE GROUP OF FIELDS

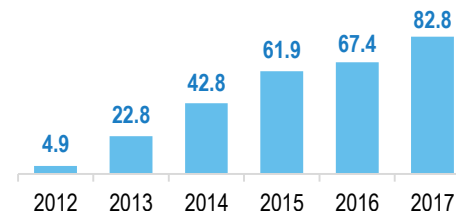
TAMBEYSKOYE GROUP OF FIELDS



## Bovanenkovskoye group of fields

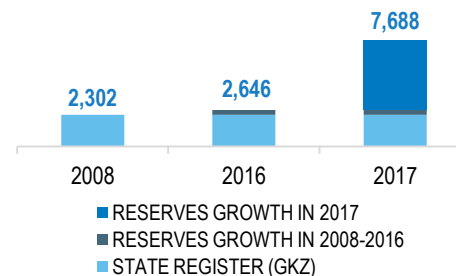
	Natural gas	Gas condensate
Overall reserves <sup>1</sup>	7.5 tcm	149 mt
Annual production	220 bcm	4 mt

Bovanenkovskoye field production, bcm



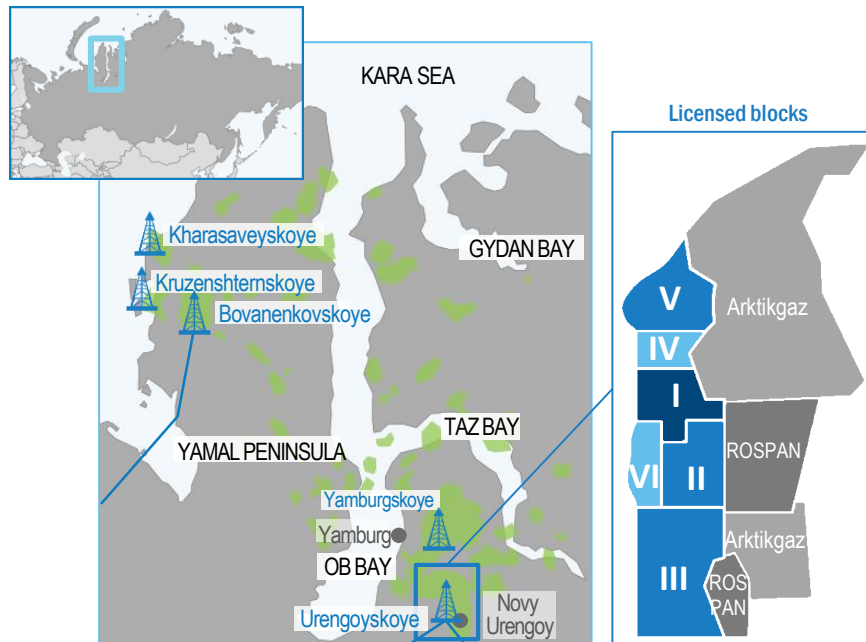
## Tambeyskoye group of fields

	Natural gas	Gas condensate
Overall reserves <sup>1</sup>	7.7 tcm	599 mt

Change in gas reserves (C1+C2 category<sup>1</sup>)  
at Tambeyskoye group of fields, bcm

<sup>1</sup>Reserves as of January 1, 2018, calculation is based on the Russian reserves classification system

## EFFICIENT PRODUCTION AT DEVELOPED FIELDS

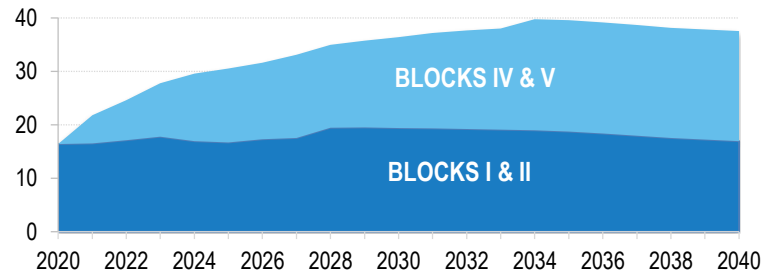
### ACHIMOV DEPOSITS OF URENGOYSKOYE FIELD



#### Licenses for blocks I–IV of Achimov deposits are owned by Gazprom:

- Block I is developed by Achimgaz, a service joint venture between **Gazprom (50%)** and **Wintershall (50%)**
- Block II is developed by Gazprom
- Blocks IV and V are to be developed by Achim Development, a service company owned by **Gazprom (74.99%)** and **Wintershall (25.01%)**, starting 2020

#### Forecasted production at Achimov deposits, bcm

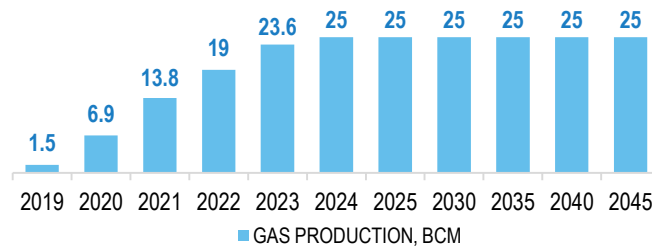


# NEW GAS PRODUCTION CENTERS

## KEY DESTINATION – SUPPLY TO THE POWER OF SIBERIA GAS TRUNK PIPELINE



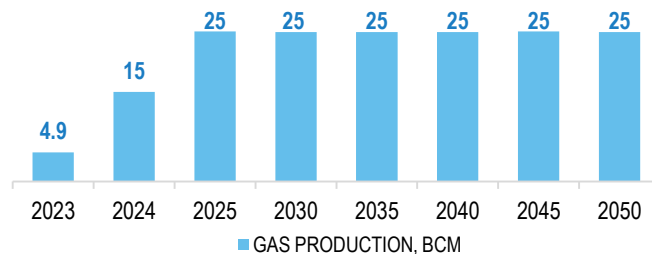
### Chayandinskoye gas, condensate and oil field



#### Reserves<sup>1</sup>

1.4 tcm of gas  
76.7 mn t of oil and gas condensate  
7.4 bcm of helium

### Kovyktinskoye gas and condensate field



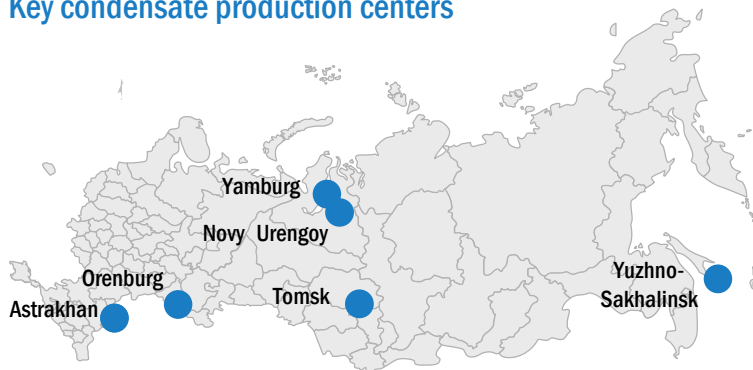
#### Reserves<sup>1</sup>

2.7 tcm of gas  
90.6 mn t of gas condensate  
7.7 bcm of helium

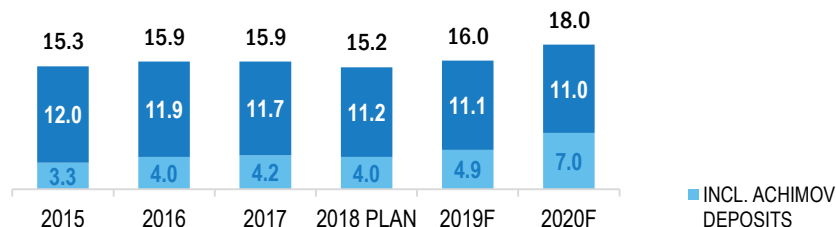
<sup>1</sup> Reserves calculation is based on the Russian reserves classification system

## GAS CONDENSATE – PREMIUM PRODUCT

### Key condensate production centers



### Gas condensate production, mt



- Compared to oil, condensate is a premium product thanks to a low level of heavy impurities
- Diversification of the company's revenue sources via increased volumes of condensate sales

## TECHNOLOGIES FOR MAINTAINING GAS PRODUCTION AT CONVENTIONAL FIELDS



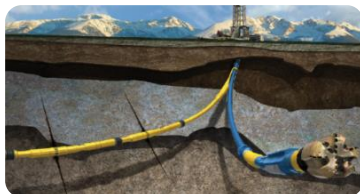
### Modular compressor unit

Modular compressor unit allows to produce natural gas at wellhead pressures of up to 0.1 MPa



### Hydraulic fracturing

Hydraulic fracturing is one of the most efficient ways to stimulate hydrocarbon inflows, improving oil and gas recovery at the final stage of development



### Sidetracking

Sidetracking allows to extend operation of wells that were previously stimulated using various methods to improve the flow



## IMPORT SUBSTITUTION AT GAZPROM

### PURPOSES OF IMPORT SUBSTITUTION

Cutting costs, increasing economic efficiency

Mitigating risks related to:

- Technology
- Foreign exchange
- Sanctions

Increasing operational efficiency

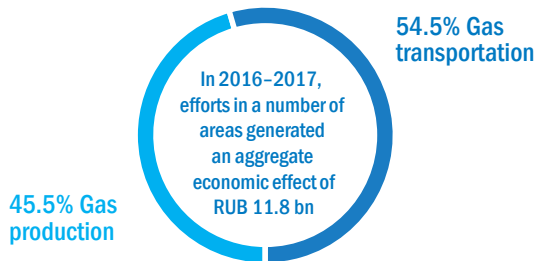
Import substitution mechanisms:

- R&D by Gazprom
- R&D by manufacturers
- Technology licensing and acquisition
- Engaging in equipment production under long-term agreements with manufacturers

State aid:

- Subsidized R&D
- Subsidized lending
- Special investment contracts, etc.

### IMPORT SUBSTITUTION EFFICIENCY



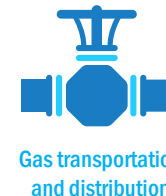
#### Examples of efficient Import substitution in 2016–2017

- Engaging in repairs of imported gas compressor unit engines
- Engaging in production of highly corrosion-resistant underground equipment able to withstand pressures of up to 70 mpa
- Engaging in production of certain types of ball valves (pn = 2.0–10.0 mpa; DN = 50–700 mm)
- Engaging in production of silica gels to be used for ensuring safe underwater transportation of gas

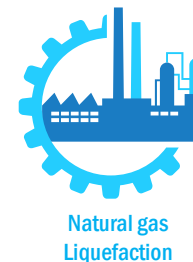
### RESULTS ACHIEVED



100% share  
of domestically  
produced  
equipment and  
materials



### PROSPECTIVE PROJECTS



Scheduled for  
2021–2025



# EXPORT

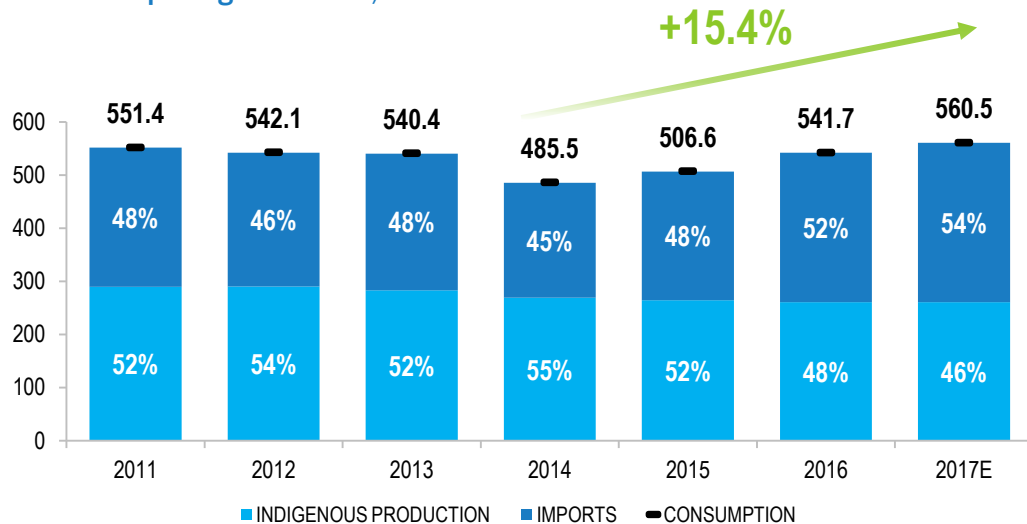
ALEXANDER MEDVEDEV

Deputy Chairman of Management Committee



## GROWTH VECTOR: EUROPEAN NATURAL GAS DEMAND RECOVERY

European gas balance, bcm<sup>1</sup>



Gas demand recovered  
above 2011 level due to:

- Broader use of gas in power generation (+6.2% YOY)
- Drop in demand for coal
- Economic growth in leading European gas markets

Growing demand and declining indigenous production over the last four years led to increased import requirements

Gas prices in Europe rebounded as a result

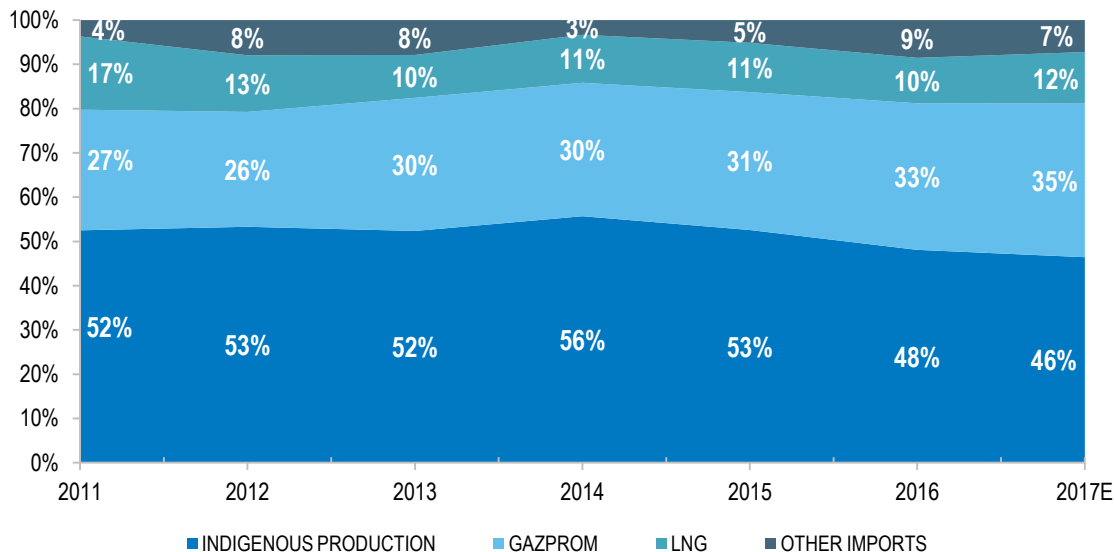
Source: IEA, Eurostat, National Statistics, IHS Markit

<sup>1</sup> Hereinafter except as otherwise noted: European countries with Turkey (excluding CIS and Baltics)

GCV = 8,850 kcal/cm, t = 20°C

## GAZPROM INCREASES ITS SHARE IN THE LONG TERM

### European gas balance



Source: PJSC Gazprom, Eurostat, National Statistics, IEA, IHS Markit

Gazprom's share in European consumption was up to 34.7% in 2017 vs. 33.1% in 2016 and 27.3% in 2011

Pipeline gas is the main source meeting the growing demand for imported gas

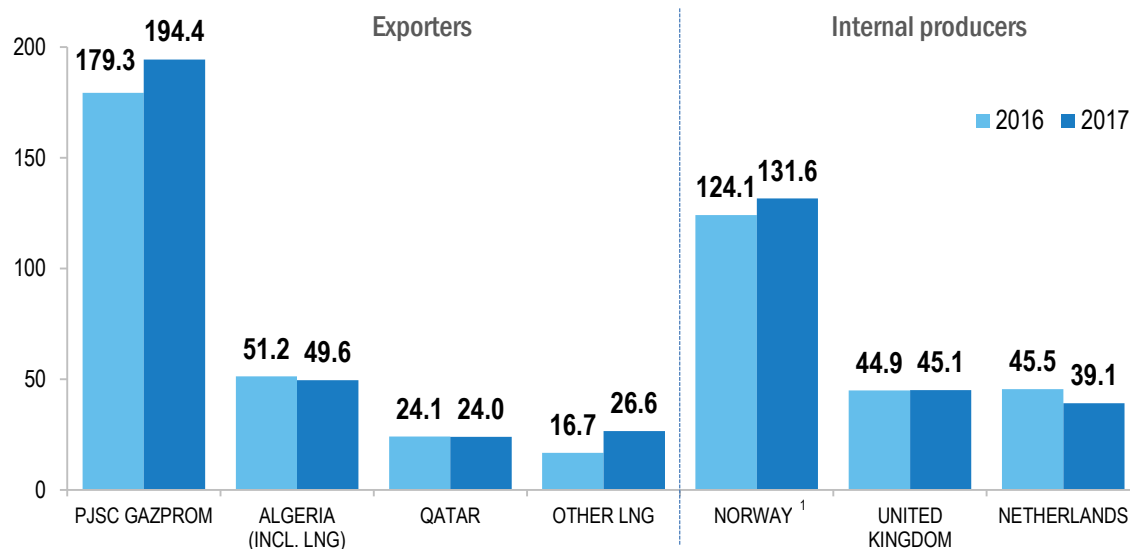
While modestly increasing in 2017, LNG supplies to Europe still remain significantly below the 2011 record level

Gazprom met two-thirds of the incremental demand in 2017 and proved its ability to fill in any additional supply/demand gap

Gazprom average export price increased by 17.8% yoy, up to \$197/mcm

## MAJOR SUPPLIERS TO EUROPEAN MARKETS

### Deliveries by Europe's major exporters and producers, bcm



In 2017, Gazprom had another year of record high sales on the back of sluggish deliveries by other suppliers except for Norway

The Netherlands inched further on the path of becoming a net importer

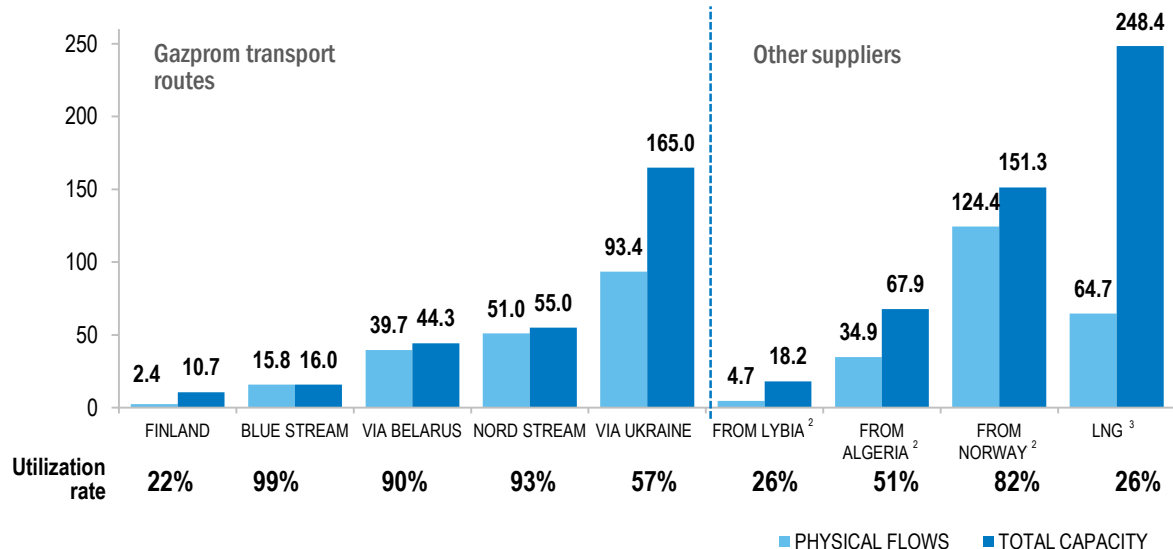
On 19 Dec 2017, Gazprom set an absolute record in terms of daily export deliveries at 640 mcm/d, demonstrating its robust ability of being a swing supplier at a time of demand spikes

<sup>1</sup> Including domestic consumption, pipeline and LNG deliveries from Norway to the European market, but not LNG to Asia and America

Source: PJSC Gazprom, Eurostat, National Statistics, IEA

## GAZPROM'S EXPORT ROUTES

Capacity utilization of main routes for gas supplies to Europe in 2017, bcm<sup>1</sup>



<sup>1</sup> Physical flow volumes, including fuel gas, UGS injection, gas for Moldova transited through Ukraine, gas for Lithuania transited through Belarus

<sup>2</sup> Pipeline exports

<sup>3</sup> Including LNG trading between European countries and capacity of FSRUs, excluding small-scale LNG supplies

Source: ENTSOG, Bloomberg, IHS Markit

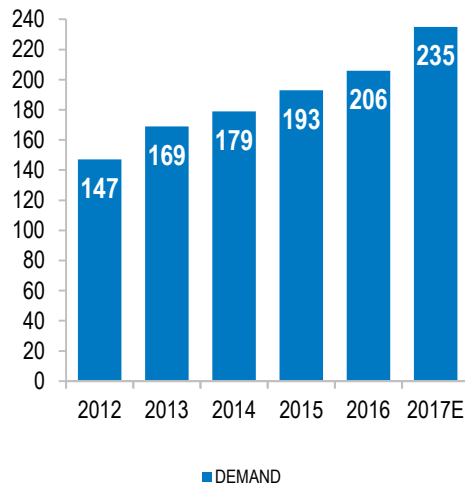
Utilization rates of Gazprom transport routes reached their maximum level in 2017, which requires capacity extension for the pipelines running to Europe

Utilization rate of the competing routes was below capacity or even declined (i.e. Libya, Algeria)

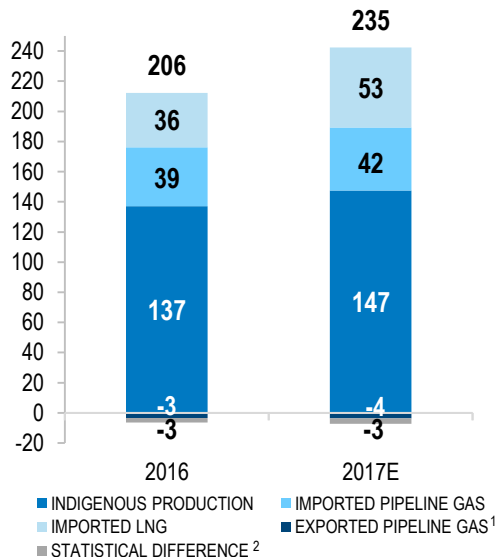
Utilization rate of LNG terminals in Europe stood at 26% of their capacity in 2017

## GROWTH VECTOR: GAS DEMAND IN CHINA IS GROWING FASTER THAN IN OTHER MARKETS

Gas demand in China  
in 2012-2017, bcm



Gas supply in China, bcm



### China is the main driver of demand growth in Asia:

- Gas demand: **+14%** YOY
- LNG imports: **+47%** YOY
- Pipeline imports: **+8%** YOY
- Total imports: **+27%** YOY

In 2017 Chinese imports surged and China became the second largest net importer of natural gas in the world.

China could take over Japan as the world's largest natural gas importer in coming years.

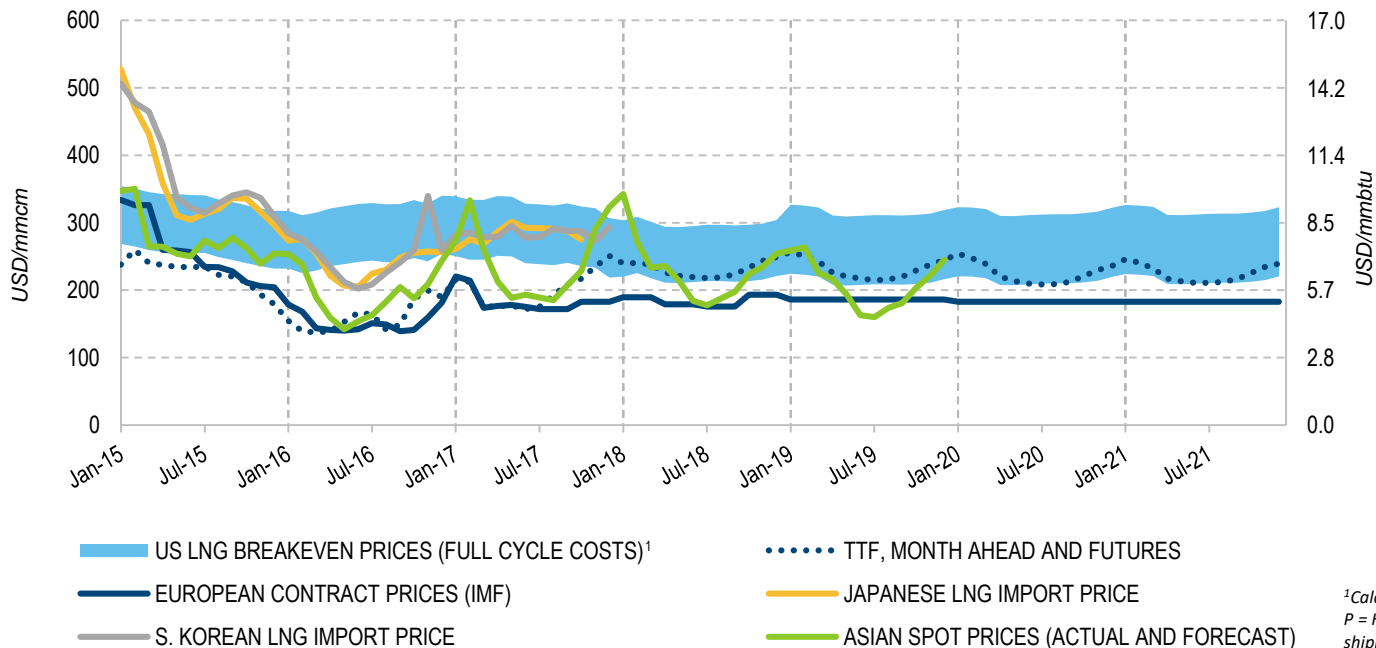
<sup>1</sup> Pipeline exports in Macao and Hong Kong

<sup>2</sup> The statistical difference in consumption and gas supply is due to gas in transit, volumes in storage, losses and statistical discrepancies

Source: IEA; General Administration of Customs, National Bureau of Statistics, National Development and Reform Commission, National Energy Administration, People's Republic of China; CNPC Research Institute of Economics and Technology

## US LNG IS ATTRACTED BY PREMIUM NON-EUROPEAN MARKETS

### Economics of LNG supplies from USA



Although European hub prices significantly increased above short-run marginal costs, they are still below full-cycle costs of US LNG

For the off-takers with deliveries to Europe, it is a loss making exercise

European market is not a first choice for LNG from the USA

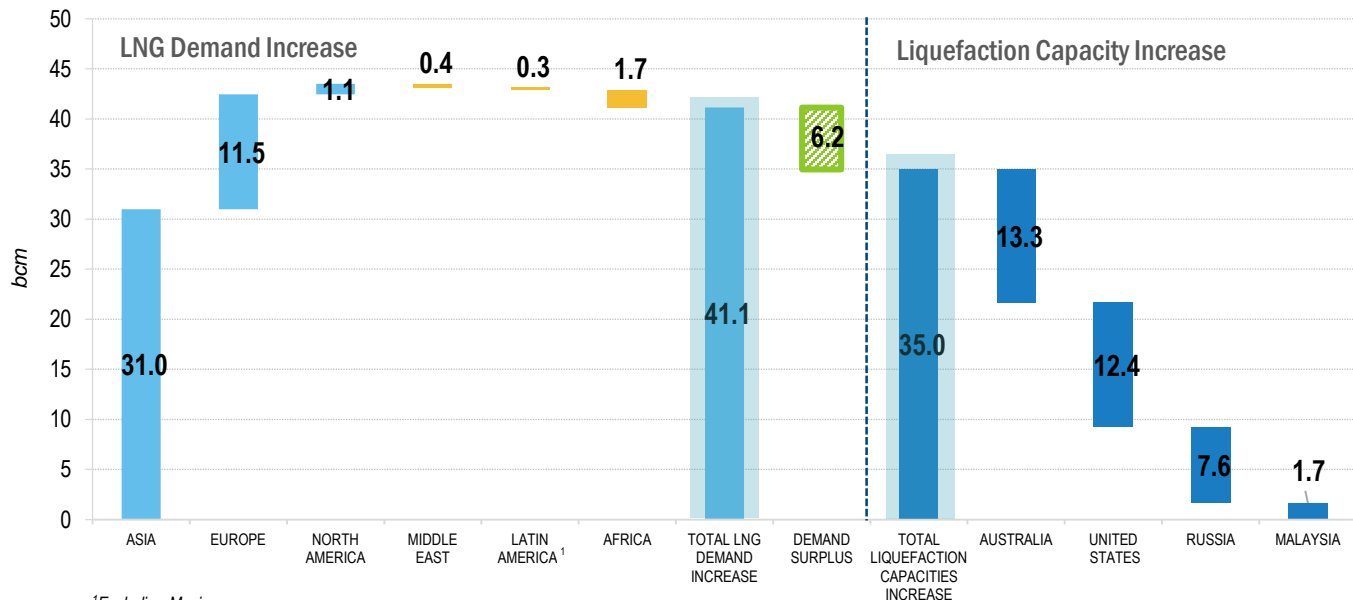
<sup>1</sup>Calculated on the basis of Henry Hub Futures prices,  $P = HH * 115\% + X$ , where  $X$  – costs of liquefaction, shipping to Europe, regasification

Source: IMF, Korea Customs Service, Bloomberg, IHS Markit



## LNG DEMAND GROWTH IN 2017 WAS SLIGHTLY HIGHER THAN LIQUEFACTION CAPACITY INCREASE

Incremental liquefaction capacities and demand in 2017, YOY, bcm



<sup>1</sup>Excluding Mexico

Source: IHS Markit

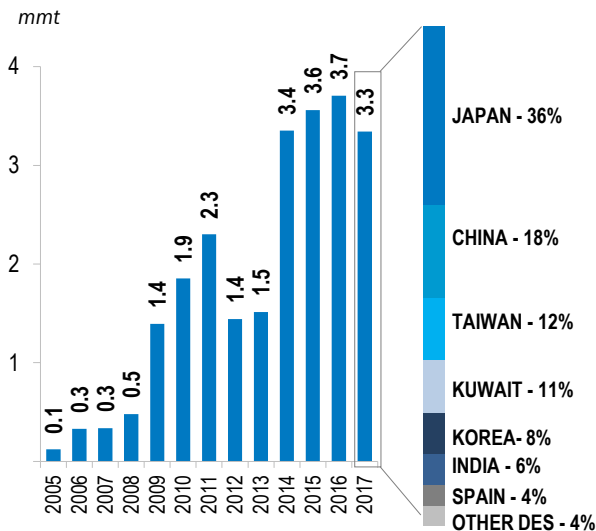
**In 2017, demand for LNG caught up with liquefaction capacities expansion**

Over 70% of total LNG demand growth in the world came from Asia, mainly from China and South Korea.

Higher spot prices on the European gas market attracted more LNG in 2017 compared with 2016.

## GAZPROM'S LNG BUSINESS

Gazprom's LNG trading in 2005-2017



### Gazprom's LNG projects in operation:

Sakhalin 2 (T1,2) – 9.6 mmt/year<sup>1</sup>

- 11.3 mmt<sup>2</sup> of LNG supplied in 2017
- In 2017 Gazprom took delivery of 1.5 mmt<sup>3</sup> of LNG from Sakhalin which was sold to customers in Asia Pacific

### Gazprom's LNG projects under development:

Sakhalin 2 T3 – up to 5,4 mmt/year

- In 2015, Gazprom signed MOU with Shell on project implementation
- The project's FEED is currently under development

Baltic LNG – 10 mmt/year

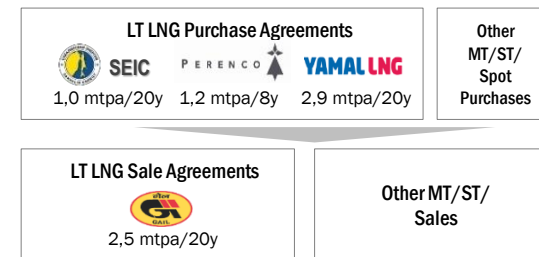
- Signed HOA to set up a Joint Venture with Shell
- Joint Feasibility Study with Shell is currently under development

Gazprom is committed to building a diversified LNG trading portfolio to continue reliable and timely deliveries of LNG to its customers.

### In 2017:

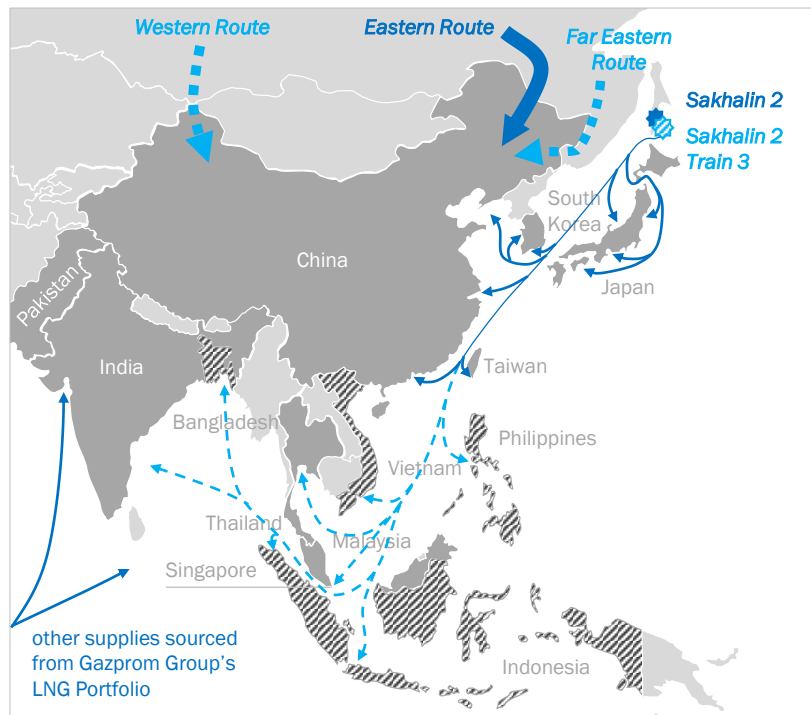
- Gazprom delivered 48 cargoes to customers in 9 countries;
- Japan was the biggest importer of LNG from Gazprom's portfolio.

### Gazprom LNG portfolio overview:



<sup>1</sup> – Nominal capacity. Gazprom holds 50% + 1 share in SEIC (project operator company). <sup>2</sup> - Calculated as per SEIC reporting methodology. <sup>3</sup> - Under SPA and spot tenders. Calculated as per PJSC Gazprom reporting methodology

## GAZPROM'S NATURAL GAS BUSINESS IN ASIA PACIFIC



Gazprom continues to expand its natural gas business in Asia Pacific by developing new projects for both LNG and pipeline gas deliveries.

In 2017 Gazprom and CNPC signed a number of key milestone agreements:

### Eastern Route

**Jul'17** Additional Agreement to the Eastern Route SPA narrowing the delivery start period to December 2019.

**Dec'17** The final pack of specialized technical agreements governing the implementation of natural gas supplies via the Eastern Route.

### Far Eastern Route

**Dec'17** Heads of Agreement for natural gas supplies from Russia to China via the Far Eastern Route.

### Underground Natural Gas Storage

**May'17** Three contracts for pre-development surveys of prospective underground gas storage sites in China (Gazprom being the contractor).<sup>1</sup>

### Natural Gas Power Plants

**May'17** Memorandum of Understanding between Gazprom, CNPC, and China Huaneng Group on cooperation in the power sector within China.<sup>2</sup>

<sup>1</sup> - more specifically, Gazprom VNIIGAZ and Gazprom Geotechnology will perform the services under the contracts; <sup>2</sup> - the document reflects the intention of the parties to explore the possibility of implementing joint projects for the construction of thermal power plants.

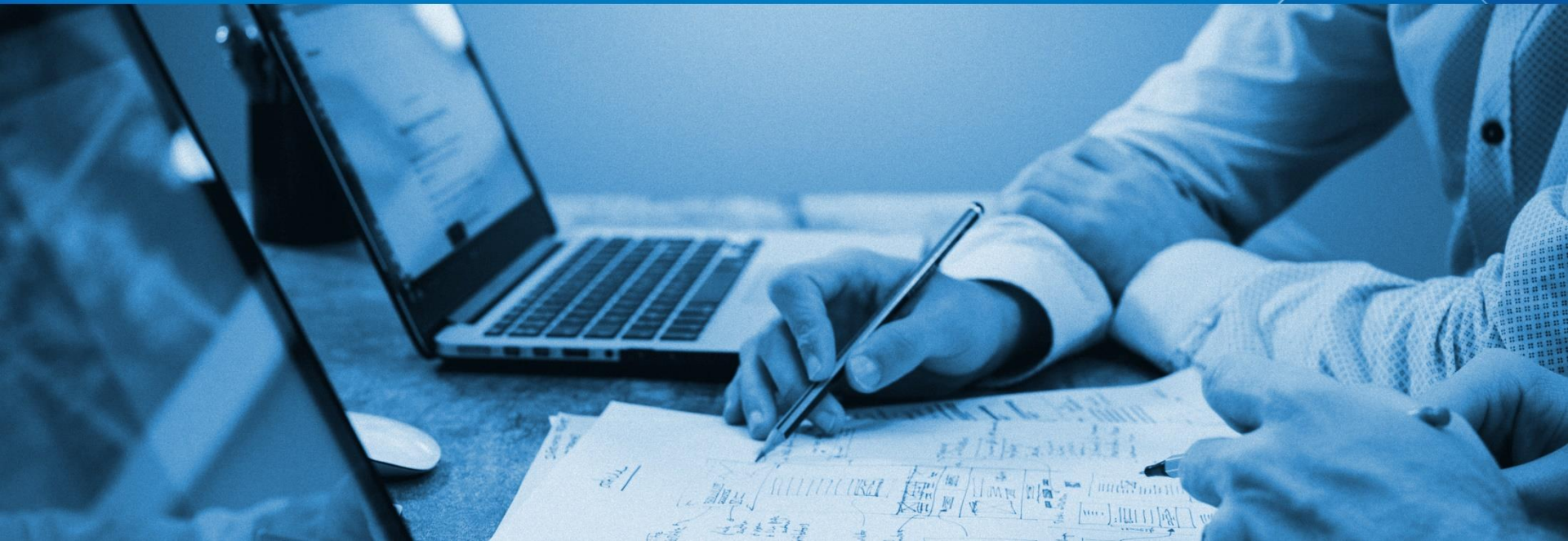
## COMPETITIVE ADVANTAGES



# FINANCE

**ANDREY KRUGLOV**

Deputy Chairman of Management Committee



## FINANCIAL AGENDA

Management focus for 2018 – 2020

### Conservative financial policy

- Conservative budgeting
- Budgeted oil prices are lower than current prices
- Cost control
- Risk control

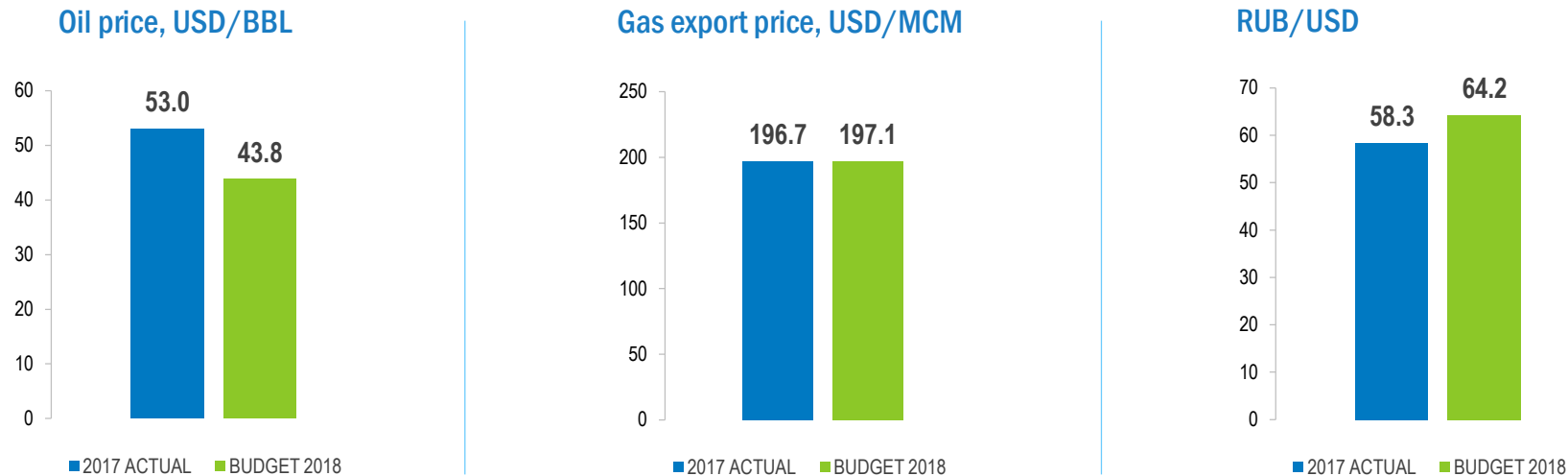
### Peak of CAPEX cycle in 2018 – 2019

- Launch of key strategic projects in 2019
- Additional profit growth after 2019

### Optimization of debt repayment schedule

- Wide access to debt capital markets
- Significant liquidity cushion

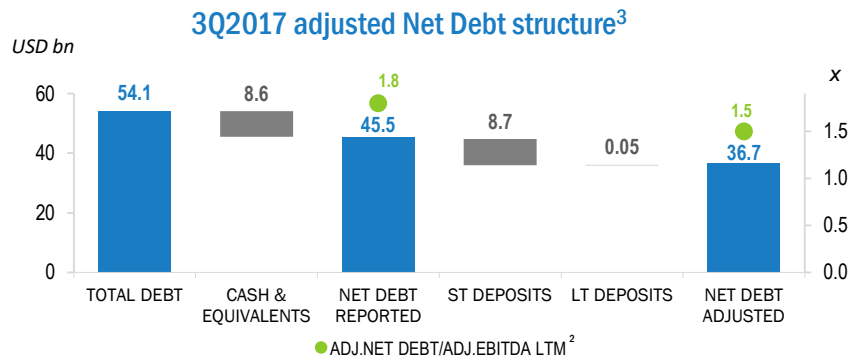
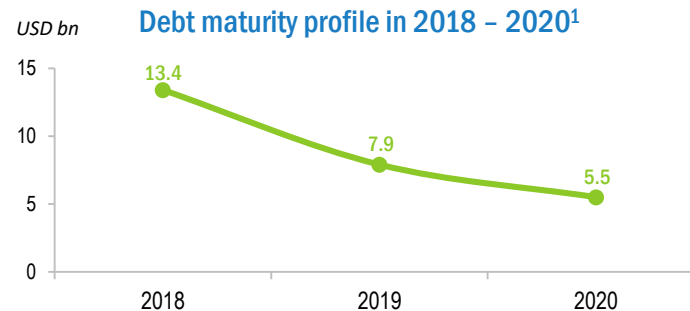
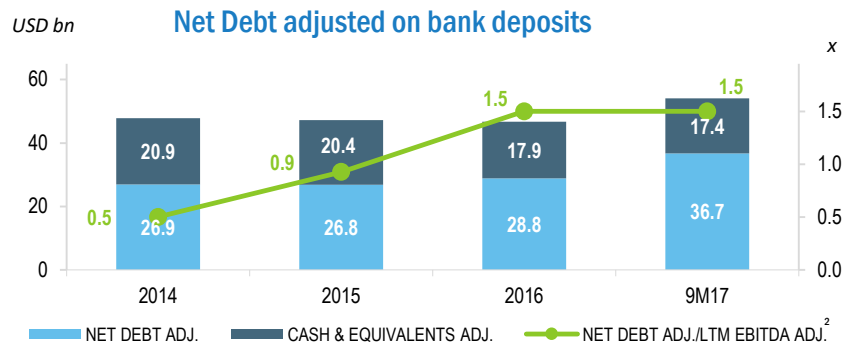
## CONSERVATIVE BUDGETING: KEY 2018 ASSUMPTIONS



### Key priorities of financial policy

- Conservative budget assumptions
- Prioritization of investment projects
- Optimization of OPEX
- Risk control
- Effective debt management
- Balanced dividend policy

## COMFORTABLE LEVERAGE



	GAZPROM'S RATING	RUSSIAN SOVEREIGN RATING
MOODY'S	Baa3 / positive (investment grade)	Ba1 / positive
FITCH	BBB- / positive (investment grade)	BBB- / positive (investment grade)
S&P	BB+ / positive	BB+ / positive
DAGONG	AAA / stable	A / stable

<sup>1</sup> Existing loans, data based on 9M17 IFRS report

<sup>2</sup> Calculated using dollar values of Net debt and EBITDA

<sup>3</sup> According to 9M17 IFRS report



## GAZPROM'S BANK DEPOSITS: A \$9 BN ISSUE

According to Gazprom 9M2017 IFRS report<sup>1</sup>:

### 12 OTHER CURRENT AND NON-CURRENT ASSETS

Included within other current assets are prepaid taxes, predominantly VAT in the amount of RUB 208,020 million and RUB 97,869 million and profit tax in the amount of RUB 25,184 million and RUB 12,916 million as of 30 September 2017 and 31 December 2016, respectively. Other current assets include short-term deposits in the amount of RUB 507,162 million and RUB 144,035 million as of 30 September 2017 and 31 December 2016, respectively.

As of 30 September 2017 and 31 December 2016 other non-current assets include:

- intangible assets in the amount of RUB 47,228 million and RUB 46,126 million;
- VAT recoverable related to assets under construction totalling RUB 38,393 million and RUB 35,702 million;
- long-term deposits in the amount of RUB 2,679 million and RUB 42,230 million;
- net pension assets in the amount of RUB nil million and RUB 20,499 million (see Note 20).

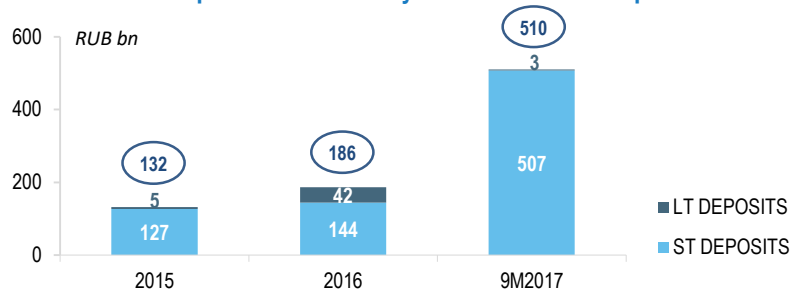
### Key features of bank deposits<sup>2</sup>:

- Early withdrawal clause
- Deposit term of over 3 months
- Are NOT included in Cash and cash equivalents

### Impact of substantial increase in bank deposits:

- Decrease in Cash and cash equivalents
- Increase in Net Debt and Net Debt/EBITDA
- Reduction in Cash flows from operating activities (changes in working capital)<sup>3</sup>
- Decrease in Free cash flow<sup>3</sup>

### In 9M2017 Gazprom substantially increased bank deposits volumes



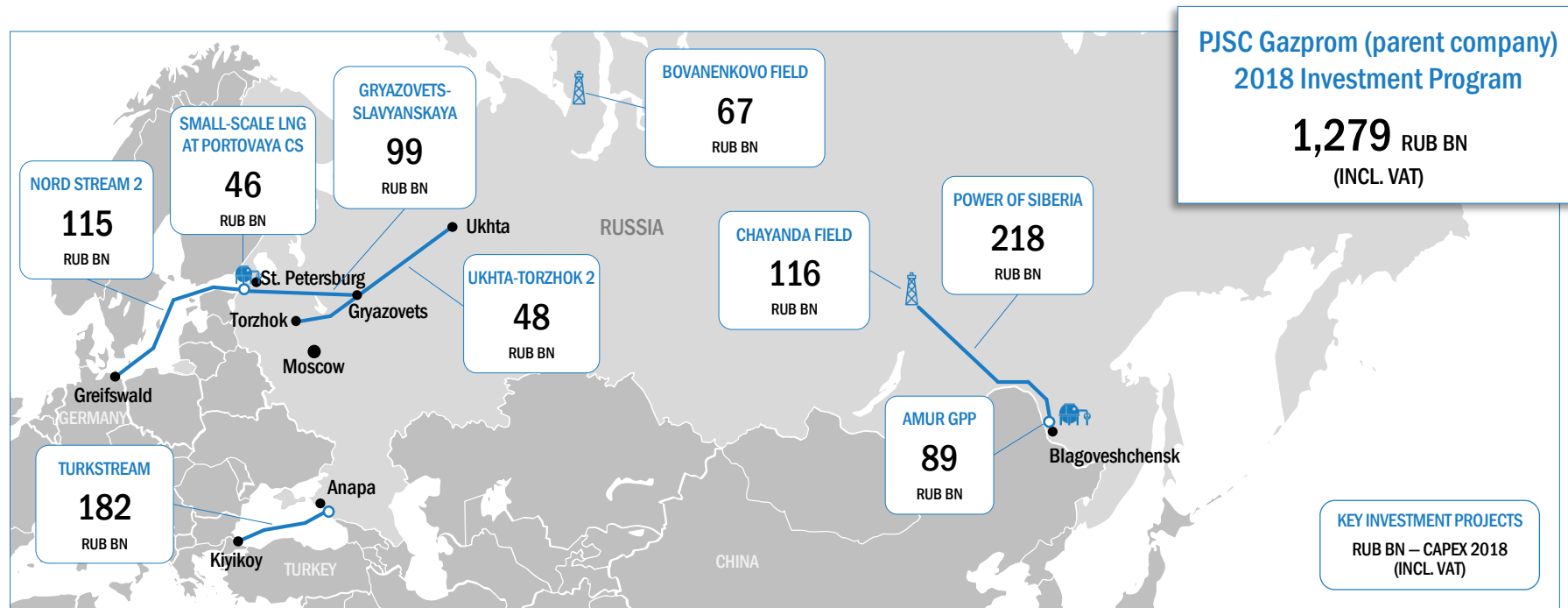
INCREASE IN LT AND ST BANK DEPOSITS IS AIMED AT IMPROVING THE EFFICIENCY OF LIQUIDITY MANAGEMENT

<sup>1</sup> Source: Gazprom 9M2017 IFRS report, page 19

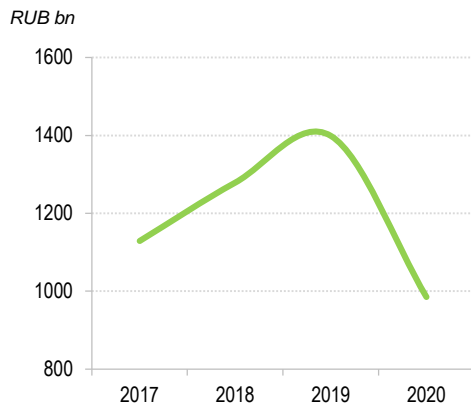
<sup>2</sup> Reported as a part of Other current assets and Other non-current assets

<sup>3</sup> Affected by ST deposits

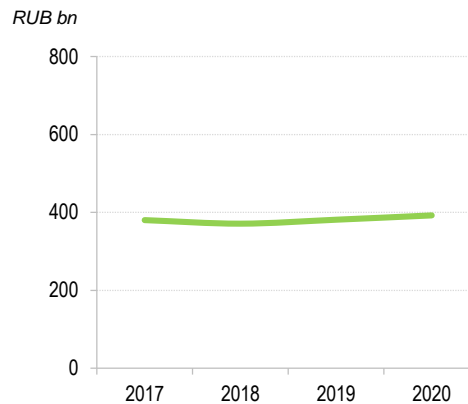
## KEY GAS BUSINESS INVESTMENT PROJECTS



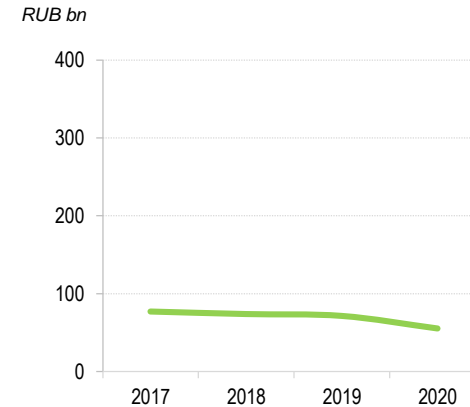
## GROUP INVESTMENT PROGRAM IN 2018 – 2020

**Gas business<sup>1</sup>**  
(PJSC Gazprom – parent company)**Key projects:**

- Power of Siberia (incl. upstream)
- Nord Stream 2
- TurkStream
- Amur GPP

**Oil business<sup>1</sup>**  
(Gazprom Neft)**Key projects:**

- Key greenfields developments
- Brownfields maintenance
- Downstream projects: Moscow and Omsk Refineries

**Power generation business<sup>1</sup>**  
(Gazprom Energoholding)**Key projects:**

- Grozny TPP
- Amur TPP
- Panchevo TPP
- Maintenance

<sup>1</sup> Incl. VAT

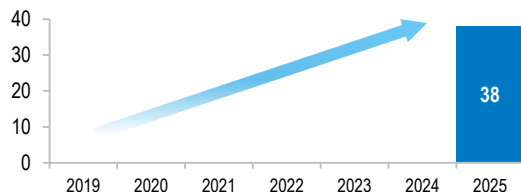
## STRATEGIC PROJECTS TO DELIVER PROFIT GROWTH

### GAZPROM'S KEY STRATEGIC PROJECTS TO START CONTRIBUTING TO EBITDA AND FCF SINCE 2020

#### Gas export growths

Supplies to China via Power of Siberia pipeline

#### Project design volumes of gas deliveries to China



20% of additional gas export volumes<sup>1</sup>



8% of additional gas production volumes



Start of deliveries **In 2019**



Rouble cost base

Export revenues linked to USD denominated oil product prices  
Mineral extraction tax breaks

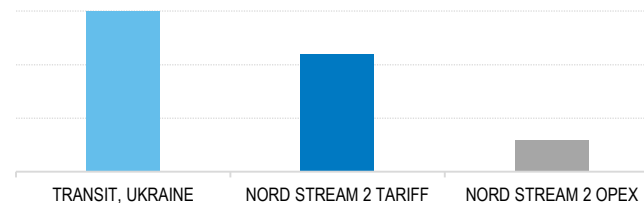


Sales of liquids from Chayanda field

Sales of helium, LPG, ethane from Amur GPP

#### Cash cost reduction

Positive effect of consolidation



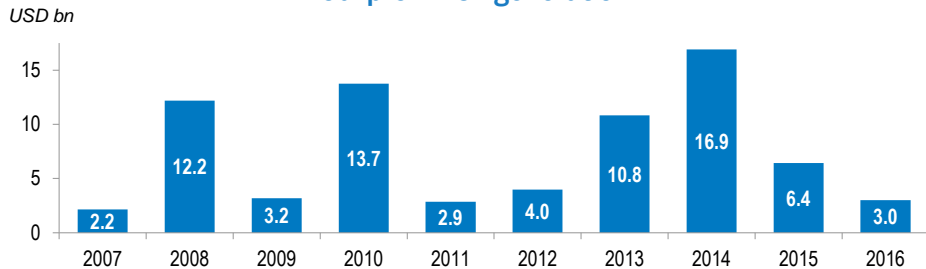
#### TRANSPORTATION COSTS REDUCTION

- Positive effects of full consolidation of Nord Stream 2 and TurkStream
- #### Nord Stream 2
- 2,000 km shorter export route from field to Germany
  - Modern high pressure fuel-efficient pipeline corridor: lower transportation costs for Russian part of the route and especially for Nord Stream 2 from consolidation and lower transportation costs
  - > \$1.0 bn per year positive effect on EBITDA and FCF level
  - Positive effect on net income
- #### TurkStream
- Currently deliveries to Turkey go via Ukraine, Romania and Bulgaria
  - Highly efficient 280 atm trunk pipelines

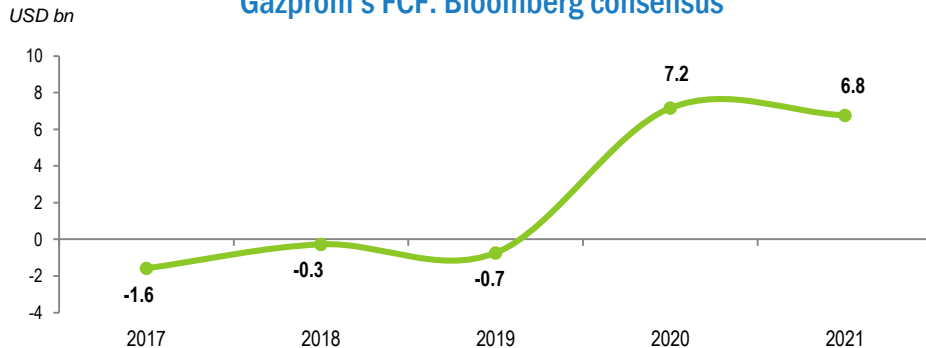
<sup>1</sup> At target level of gas exports of 38 bcm, compared to 2017 non-CIS gas exports

## FREE CASH FLOW GENERATION

### Gazprom FCF generation



### Gazprom's FCF: Bloomberg consensus



### Key factors of FCF dynamics in 2018 - 2021:

#### Strong market positions

- Strong foothold on the European market
- Strong oil and gas prices, improved outlook

#### Revenue growth

- Start of gas exports to China from 2019
- Oil and condensate production growth

#### CAPEX optimization

- Lower CAPEX after 2019
- CAPEX optimization and prioritization
- Favorable currency structure of OCF and CAPEX
- Transition of oil and power generating businesses to positive FCF territory

#### Costs optimization

- Additional transportation costs reduction in 2020 (TurkStream, Nord Stream – 2)
- Mineral extraction tax reduction of c.RUB100 bn per year in 2018 and further reduction after 2020
- Cost control and optimization

## POTENTIAL IMPACT OF U.S. AND EU UKRAINE-RELATED SANCTIONS ON GAZPROM'S BUSINESS

### SANCTIONS PACKAGES

- Technological Restrictive measures: Gazprom Group's oil exploration and production activities
- Financial Restrictive measures: Gazprom Group's financing activities
- New restrictive measures under the US law of August 2017

### KEY CONSTRAINTS

- Arctic offshore projects<sup>1</sup>
- Shale projects<sup>1</sup>
- Deepwater projects<sup>1</sup>
- Yuzhno-Kirinskoye field development<sup>2</sup>
- Raising international long term debt finance by Gazprom Neft
- Raising international long debt finance by Gazprombank<sup>3</sup>
- No explicit prohibitions on Gazprom, but the new US law touches upon possible secondary sanctions to be imposed on a making significant investments in Russian energy export pipelines or in a special Russian crude oil project.

### SANCTIONS EFFECT

- Covers below 1% of Gazprom Group's production
- No restrictions for Gazprom's raising finance in capital markets, with the Company being an active player in debt markets (except for Canada's market)
- The guidance published by the US Department of State on October 31, 2017 "grandfathers" Russian energy export pipeline projects "initiated" prior to August 2, 2017

**THE US AND EU SANCTIONS DO NOT LIMIT GAZPROM'S ACCESS TO THE GLOBAL CAPITAL MARKETS**

<sup>1</sup> Projects that have the potential to produce oil in the Russian Federation or that are initiated on or after January 29, 2018, outside Russia where the Gazprom has control or has an interest not less than 33 % (US Directive 4 as amended on October 31, 2017)

<sup>2</sup> According to the US BIS designation as of August 2015 <sup>3</sup> Gazprom Group's associated company

## IMPROVING CORPORATE GOVERNANCE

### BRINGING CORPORATE GOVERNANCE STANDARDS IN LINE WITH THE BEST PRACTICES

#### 2017 results

- First time assessment of the Board of Directors and its committees performance
- Independent audit of corporate governance on a regular basis
- Third-party assessment of anti-corruption initiatives
- Corporate governance road shows in Europe, UK and US, as well as ESG road show
- Annual sustainability reporting (biennial prior to 2017)

#### 2018 plans

- To develop and gradually implement a corporate governance improvement plan based on independent audit recommendations:
  - ✓ To make a larger number of documents available prior to shareholder meetings and launch electronic voting
  - ✓ To launch an induction programme for newly-elected directors
  - ✓ To use a personal attendance criteria for directors remuneration
  - ✓ To make further steps to prevent conflict of interest of the Board members
  - ✓ To amend respective internal regulations in order to allow the Board committees to engage advisors
- To introduce communication between shareholders, investors and independent directors

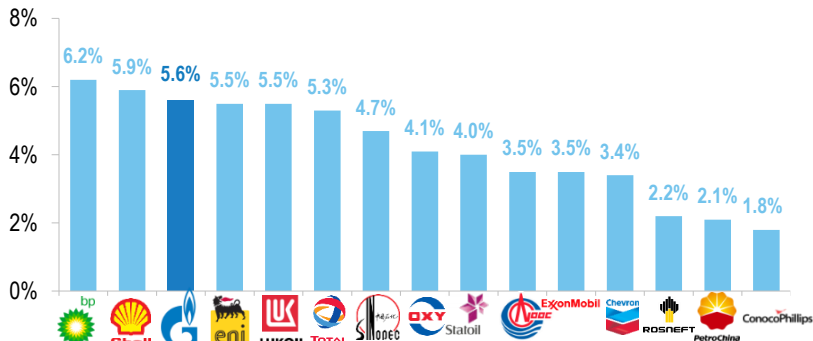
## DIVIDEND PAYOUT

### GAZPROM PURSUES BALANCED DIVIDEND POLICY

#### Outlook for 2018 – 2019:

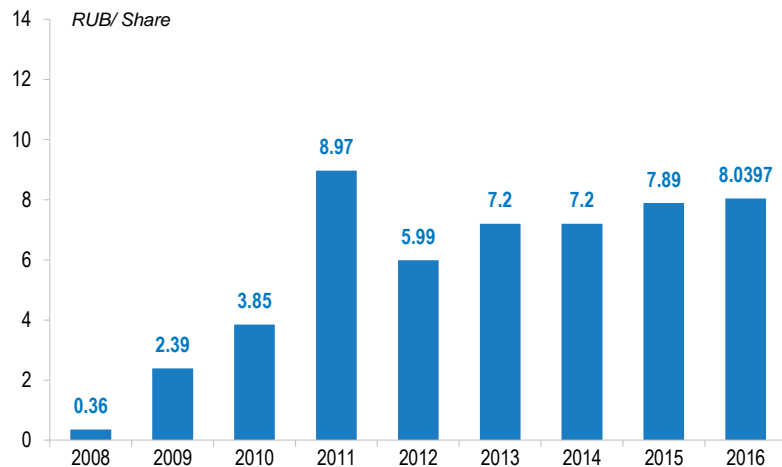
- Keeping the DPS equal to the level of the previous payment
- Maintenance of conservative financial strategy
- Balanced approach to the dividend policy
- Increasing the Company's investment attractiveness

#### 12M dividend yields of major oil & gas companies<sup>1</sup>



#### Dividend per share

Over the past few years, Gazprom consistently increased its dividend payments:



Source: companies data. Bloomberg

<sup>1</sup> Dividend yield is defined as approved dividends for the period divided by the share price as of January 31, 2018



## INVESTMENT CASE

### BUSINESS GROWTH, ENHANCING SUPPLY SECURITY

Conservative  
financial policy,  
costs control

Improving  
FCF profile

Balanced  
dividend policy

**STRONGER FINANCIAL  
OUTLOOK**

Strategic transformative projects  
(capex peaking  
in 2018 - 2019)

Business growth  
in gas and oil  
segments; further  
growth potential

Improving gas markets  
outlook.  
Spare production and export  
capacity

**BUSINESS  
GROWTH**

Outstanding resource base and  
infrastructure

Low cost base

High competitiveness  
of Gazprom's gas.  
Record exports

**UNIQUE  
FUNDAMENTALS**