

Press Conference
Gazprom's Financial and Economic Policy
June 22, 2017

MODERATOR: Good morning, colleagues. Today, we are concluding our series of Press Conferences in the lead-up to the annual General Shareholders Meeting. As usual, the last Press Conference will address Gazprom's financial and economic policy.

Participants:

- Andrey Kruglov, Deputy Chairman of the Management Committee;
- Elena Vasilieva, Deputy Chairwoman of the Management Committee, Chief Accountant;
- Alexander Ivannikov, Head of Department;
- Karen Oganyan, Head of Department;
- Vitaly Khatkov, Head of Department;
- Mikhail Rosseev, Deputy Chief Accountant.

I give the floor to Andrey Kruglov, and then we will move on to your questions.

ANDREY KRUGLOV: Good morning, ladies and gentlemen. Let me share the key results produced by Gazprom's financial unit and the tasks we are facing. My colleagues and I will be happy to answer your questions.

Please bear in mind that certain information contained in our presentation is offered as a forecast and not as official data.

(Slide 2) The year 2016 was quite challenging for the global energy market. In the highly unstable external economic environment, Gazprom continued to pursue a conservative financial policy. In its financial strategy, Gazprom has been focused on cost control, investment program optimization, effective debt management, currency risk mitigation, and a well-balanced dividend policy. The price assumptions for the 2017 budget were USD 48 per barrel of oil and USD 166 per thousand cubic meters of exported gas, given the exchange rate of RUB 63.30 per USD. In such an environment, conservative financial planning is justified.

Despite the unfavorable external economic conditions, Gazprom delivered solid results in 2016, exporting a record 179.3 billion cubic meters of gas and generating a positive cash flow of RUB 202 billion. Capital expenditure was further reduced to 17 per cent below the 2015 figure. We consistently move toward funding our investment program from the operating cash flow.

(Slide 3) Last year, Gazprom demonstrated positive performance amid the continued volatility in the oil and gas markets. The upward trend persisted for key indicators such as revenue and net profit. The Group's revenue grew steadily in ruble terms, adding 1 per cent against 2015. The oil and power generation segments of our business effectively supplement our gas business, showing an even higher growth in revenue. Net profit was up by 21 per cent year on year, while adjusted EBITDA dropped by 29 per cent over the same period.

(Slide 4) The two major components of the Gazprom Group's 2017 investment program are the oil business, which takes up 26 per cent of our capital investment, and the gas business accounting for 68 per cent. Note that over 70 per cent of gas business investment is earmarked for the parent company, whose investment program totals RUB 911 billion in 2017.

Our key gas projects are shown on the map. They can be grouped into western and eastern ones.

The western projects seek to strengthen Gazprom's presence in the European market, increase the efficiency of gas transmission routes, and reduce transit risks. Those are the gas pipeline construction projects: Nord Stream 2, TurkStream, and Ukhta – Torzhok 2.

The eastern projects are focused on gas exports to China: development of the Chayandinskoye field, construction of the Power of Siberia gas pipeline and the Amur Gas Processing Plant.

Both groups are of strategic importance as they serve to improve Gazprom's positions in the key markets, produce efficiency gains, expand our export capacity, and reduce operational risks.

(Slide 5) Efficiency improvement would have been impossible without the Company taking serious effort to control and optimize its capital investment and operating expenses. This is done within the framework of Gazprom's comprehensive, multi-level system for planning, budgeting, execution, and procurement review and control. The system processes involve the staff of many structural units including the departments responsible for strategic development, economic analysis, budgeting, project design and construction, as well as a specialized department for corporate expense management. This approach allows for comprehensive analysis and control leading to optimal solutions.

(Slide 6) Thanks to our cost control efforts, Gazprom's production costs are among the lowest in the world. As you can see on this chart, most of the cost increase is attributable to the higher tax burden, while the unit cost of production in 2016 grew by just 1 per cent to RUB 880 per thousand cubic meters.

(Slide 7) Gazprom is among Russia's most important taxpayers. In 2016, the Gazprom Group's tax payments totaled RUB 1.966 trillion, with the tax-to-revenue ratio of around 32 per cent. As in the previous years, customs duties and severance tax together accounted for more than 60 per cent of that amount.

(Slide 8) Despite the importance of tax regime stability for Russia's investment climate, the taxation scheme for the oil and gas sector continues to change every year. Severance tax rates for gas are still on the upward trend.

The formula-based severance tax for gas and gas condensate was introduced in 2014 so as to avoid the practice of manual upward adjustment of tax rates on an annual basis. The new formula took into account key macroeconomic parameters, such as oil prices, RUB to USD exchange rate, gas prices in Europe, and a number of other factors. A single withholding ratio of 0.15 with no fixed term was set for the Gazprom Group and for independent gas producers.

That said, this formula remained unchanged for slightly over a year and was first revised as early as 2015. The withholding ratio for the Gazprom Group was raised from 0.15 to 0.2051 for one year until the end of 2016. The amount withheld additionally was around RUB 100 billion.

The situation repeated itself in 2016 as the Gazprom Group's withholding ratio was further increased for a three-year period – from 2017 through 2019 – with an upward revision of the C_{gp} coefficient in the severance tax formula. The amount to be withheld additionally in 2017 was estimated to be around RUB 70 billion above the 2016 figure, or RUB 170 billion versus 2015. That means that the withholding ratio for the Gazprom Group has been adjusted annually since 2015.

(Slide 9) Challenges persist in Russia's domestic gas market. Taking advantage of their pricing privileges, independent suppliers mostly sell gas to major consumers in high-yield regions, a situation which is not conducive to a balanced gas supply system serving Russian consumers.

For the gas industry and the domestic gas market to develop normally, all market players need to operate on equal terms, primarily with respect to pricing. We believe that efforts toward this goal should be initially focused on the step-by-step liberalization of price regulation. This is why Gazprom continues to lobby for transitioning from administered prices to a price range enabling the Company to sell its gas at negotiated prices.

Work is underway to develop amendments to governmental decrees to deregulate natural gas prices under supply contracts that involve liquefaction at any stage. The Ministry of Energy has drafted a governmental decree allowing Gazprom to sell the gas contracted after January 1, 2017, to export-oriented LNG producers at unregulated prices.

In order to address these and other issues related to gas market development, an ad hoc working group was set up jointly with the experts from the Federal Antimonopoly Service.

Much of the Company's effort to advance market relations is concentrated on trading platforms where Gazprom constantly expands its presence as the dominant gas supplier.

(Slide 10) Centralization of the Group's money management functions continues to be one of the key objectives of the financial unit.

Over the past year, we implemented a number of activities toward the following:

- centralized management of the Gazprom Group's cash flows within the framework of the cash pooling system;
- efficient liquidity management within the Gazprom Group;
- introduction of uniform principles of financial risk management.

Our cash pooling system currently covers as many as 149 Russian companies, including Gazprom subsidiaries, as well as several companies of the Gazprom Group based abroad.

It must be noted that, in settling its payments and interacting with credit institutions, the Gazprom Group is in compliance with Russian laws and the restrictions of the financial sanctions imposed by the European Union and the United States against a number of Russian companies, and that includes our subsidiaries and companies in which we own a share, such as Gazprom Neft and Gazprombank.

(Slide 11) As we have repeatedly pointed out, Gazprom takes a conservative approach to financial planning and adheres to the principle of securing capital investment through the operating cash flow. Even in 2016, amid some of the worst oil and gas market conditions in a decade, with our tax burden increasing and major strategic projects underway, we managed to generate a positive cash flow in excess of USD 3 billion. Let me remind you that last summer gas prices in Europe dropped to around USD 150 per thousand cubic meters. Gazprom had not sold gas at that price since 2005. Our efforts toward business optimization and higher efficiency appear to be producing a positive result.

(Slide 12) Gazprom's strong fundamentals and conservative financial policy allow the Company to maintain a moderate debt burden and enjoy stability.

For the sake of predictability and sustainability, we try to have a sufficient liquidity cushion. On average, the Gazprom Group repays 10 to 20 per cent of its debt portfolio every year. The Group's debt liabilities are expected to peak in 2018. On the other hand, our liquidity cushion and wide access to sources of debt financing help us make scheduled repayments.

(Slide 13) Moving on to debt financing sources, let me specially mention our productive efforts in the debt capital markets. We pursue a balanced approach in our financial policy to make sure that our total debt burden remains at a comfortable level.

In late 2016 to early 2017, we closed a number of successful deals to raise financing. The EUR 2 billion loan facility received from Bank of China in Q1 2016 deserves a mention as the first bilateral loan facility agreement with a Chinese bank and Gazprom's largest transaction in terms of financing raised directly from a single credit institution.

In April 2017, Gazprom issued GBP 850 million worth of bonds, closing the largest deal in the UK among those made in the last three years by our peers from the emerging markets.

This year, Gazprom also entered the ruble bond market with two issues, RUB 15 billion each. This month, we raised a loan based on a guarantee from Austria's Export Credit Agency.

As you can see, Gazprom employs a wide range of financial instruments denominated in a variety of currencies.

(Slide 14) In May, the Board of Directors recommended that the Shareholders Meeting increase the dividend amount based on Gazprom's performance in 2016 to RUB 8.04 per share, which constitutes 20 per cent of the yearly net profit under IFRS and almost equals the Company's free cash flow. Gazprom's dividend payout for 2016 will be the largest among Russian public companies, both in absolute terms and by measure of the amount payable to the state budget.

Gazprom's dividend yield is quite attractive and commensurate with that of leading global oil and gas companies – around 7 per cent. Let me also remind you that Gazprom's share price rose by 36 per cent in USD terms over 2016 and, given the dividends, shareholder return on investment amounted to 43 per cent.

(Slide 15) Gazprom consistently works to improve corporate governance and, in doing so, tries to employ best international practices.

In 2016, significant efforts were made in this regard. One of the major outcomes was the confirmation from the Moscow Exchange that Gazprom had fulfilled all quality requirements for corporate governance to retain its position on the top-tier quotation list. The Board of Directors includes three independent members whose status is confirmed by Russian stock exchanges.

We are taking further steps toward higher operational transparency. Materials provided to the shareholders prior to the 2017 General Shareholders Meeting included a report on related-party transactions; this practice will continue.

(Slide 16) In conclusion, let me once again highlight the main aspects of my presentation.

The Company needs tax and regulatory stability to develop in a sustainable way. We, on our part, continuously work to control capital and operating expenditures and improve efficiency, pursue a conservative financial policy and apply a broad range of instruments for maximum efficiency in debt and liquidity management. Gazprom's dividend policy makes it possible to balance shareholders' immediate needs against the Company's long-term development goals. In addition, Gazprom is taking important steps to improve corporate governance in the interests of all our shareholders. On the other hand, today's external environment is characterized by a degree of instability and volatility, and we need to take a responsible and balanced approach to planning any further activities for cost optimization and income increase.

Ladies and gentlemen, thank you for your attention. My colleagues and I are now ready to take your questions.

QUESTION: Elena Mazneva, Bloomberg agency. Can you share the expected key financial indicators for 2017? What market benchmarks do you have with regard to the free cash flow in particular, especially with the rather unexpected Q1 results – that is, minus RUB 216 billion, not adjusted for working capital? What to expect at year-end?

Are you in talks with Asian, particularly Chinese, banks to raise financing for Nord Stream 2? And if so, are these efforts related to the sanctions now contemplated by the United States?

Russian President Vladimir Putin recently instructed Rosneft to consider a dividend payout of 50 per cent of IFRS profit. We should probably expect Gazprom to be given a similar instruction. Has Gazprom been involved in any consultations on this matter and what payments does Gazprom anticipate based on its 2017 performance?

ANDREY KRUGLOV: As regards this year's key indicators, first of all, we expect to maintain a positive cash flow, which was above RUB 200 billion last year, as I have already mentioned. It would be premature to give a specific figure for the 2017 free cash flow, but at least we can reasonably presume a similar result.

And we are justified in those expectations as the amount of gas sold domestically and exported is at least comparable to the 2016 figure and may well go beyond that. We intend to export as much as we did last year, which was a record year for us: over 179 billion cubic meters of gas sold to Europe. Our minimum target for this year is 178 billion cubic meters, but we may repeat or even beat last year's record.

Note that the average export price of gas is likely to grow from last year and may even exceed the price assumption of USD 166 per thousand cubic meters used in the 2017 budgeting process. We now assume the annualized average price to be close to USD 180.

We thus have sufficient reason to expect the trend for Gazprom's positive cash flow to persist. We may as well outperform last year's results.

According to our plan, EBITDA is bound to grow in 2017; as of now, we expect a 10 per cent growth.

Revenue is hard to estimate now. But once again: the gas sales are good.

In response to your question about positive cash flow: yes, we will sustain it.

As for Nord Stream 2, the news of possible sanctions makes us consider alternative implementation scenarios for the project. But, generally speaking, the scenario approach is a tool we routinely use, and we've made no changes so far either to the Nord Stream 2 project financing model or its implementation schedule. Everything is going as planned.

Communicating with credit and financial institutions is common practice. We have business with various banks, European as well as Asian. Emphasis on Asian banks was prompted by certain sectoral sanctions. But we have learned to operate under those conditions since 2014. This is why I have no doubt that Nord Stream 2 will be completed successfully, just like Nord Stream.

The Company's position on dividends was articulated at the latest annual General Shareholders Meeting and the ones earlier: we pay either as much as in the previous year or more. The trend is upward, year after year, and this time the payout is once again higher, albeit slightly.

How the situation will develop next year is up to our shareholders to decide. There are many factors in play. We first need to see how things will be this year. Guessing would not be very useful. Still, it is very probable that our shareholders, and particularly the government as the largest shareholder, will be taking the same approach as before – that is, maintaining a certain balance between dividend payout (and of course, the purpose of any commercial organization is to work for the benefit of its shareholders and make profit) and the Company's development plans. You know that our plans are ambitious and they have been endorsed by our shareholders. We regularly communicate our plans to the Board of Directors, which approves our development and investment programs.

QUESTION: Oksana Kobzeva, Reuters agency. A follow-up question on Nord Stream 2. Do you have a "Plan B" in case new sanctions are imposed? Will you accumulate debt to finance Nord Stream 2 on your own if the European partners pull out of it? Will you ask the government for money? Do you have some other option? How are you going to finance it if the Europeans give up?

Your budget is based on the assumption of the oil price of USD 48 and the exchange rate of RUB 63 per USD. But this yearly average price seems unlikely. Are you going to make adjustments to your investment program this year? Will you expand your borrowing plan for 2017?

Could you share your borrowing plans for 2018? You said the intention was to finance your investment program from the operating cash flow. Could you elaborate on that: what is your vision for 2018, given your massive investment costs?

ANDREY KRUGLOV: Let me first take the middle question – the oil price and exchange rate scenarios built into the budget. The RUB-USD exchange rate is an official figure designated by the Ministry of Economic Development. We take what we are given. As for the oil price, the federal budget scenario is even more conservative at USD 40 per barrel. Gazprom's budget assumption of USD 48 was calculated by our foreign economy experts, who also analyzed a number of 2017 oil market scenarios. The Management Committee found that USD 48 per barrel was a balanced price but more on the conservative side.

Now to the adjustment of our investment program and financial plans: we do it regularly. As you know, a lot can change over a year, so we will continue doing it. Based on the six-month results Gazprom will revise its investment program and budget, most probably in September, as usual. When it happens, we will tell you right away.

As for financing Nord Stream 2, you named some options that we have not even considered. But as you know, the US Senate initiative is yet to receive final approval.

Regarding the expansion of our gas transmission capacities and restrictions for commercial projects. As Mr. Alexander Medvedev said before at his Press Conference, the pressure against our project is a manifestation of unfair competition and an attempt to put certain U.S. gas suppliers in a privileged position. European leaders have been quite vocal about that effort. As you know, it has been criticized by Austria and Germany. After all, Nord Stream was initially viewed (in Europe in particular) as a commercial, not political, project implemented by two entities: Gazprom on the one part and our West European partners on the other. It remains to be

seen how the situation will develop. In any case, as I have said, some solution will be found and Nord Stream 2 will be built.

It's too early to discuss or forecast our 2018 budget. However, bearing in mind the three-year plan that was approved, one would presume that the 2018 investment program will be comparable in size to the 2017 program.

QUESTION: Svetlana Savateeva, Interfax agency. Your initial assumption for the gas export price was USD 166, and now it has been revised in the macro forecast to USD 182.

ANDREY KRUGLOV: In the budget it is still the same, USD 166. It has only been revised in the forecast so far.

SVETLANA SAVATEEVA: Are there any plans to cut down the borrowing program? Can you cite any updated figures? What percentage is already complete, taking into account the deals that have been (or are yet to be) announced?

Initially the budget was drawn up with a borrowing program of RUB 90 billion. Given the current shift in the exchange rate, can you give us an update on the program size?

Regarding an additional capitalization of Gazprombank with RUB 60 billion for the benefit of Gazprom: according to analysts, Gazprombank has no problems with capital despite the Western sanctions. Could you clarify the reason behind that action? Allegedly, the cash is intended for the additional capitalization of Gazprom-Media by Gazprombank. Will it involve funds or assets? And what about the additional capitalization of Gazprombank with RUB 25 billion?

And the final question about the treasury shares on Gazprom's balance sheet. Have you made a decision about the future of nearly 6 per cent of Gazprom shares? What are you going to do with them?

ANDREY KRUGLOV: Right now we are not planning to do anything with them. They are actually quasi-treasury shares as they are kept on our subsidiary's balance sheet. Strictly speaking they do not fit the definition of treasury stock. We believe that Gazprom shares are currently undervalued, and of course, in this situation we have no intention to use them in any way. We see them as a good asset that will increase in value over time.

You asked about Gazprombank's capitalization. First of all, let me answer your question about RUB 25 billion. The plan is to additionally capitalize Gazprombank by issuing a subordinated loan. Apart from that, there will be additional capitalization in cash for RUB 60 billion. The purpose is to bring Gazprombank's equity capital to meet the existing requirements. As you know, the bank previously received government support through the Deposit Insurance Agency for capital adequacy purposes, partly as a response to the sanctions. We as a major shareholder are also involved in the process.

Now to the Gazprombank – Gazprom-Media story. I don't know all the details of their relationship because here Gazprombank is in charge. But as far as I know, additional capitalization of the media asset by Gazprombank is performed by way of converting Gazprom-Media's obligations to Gazprombank into equity.

Regarding the borrowing program: it has been defined in the amount of RUB 288 billion. Indeed, the revision is linked to the national currency's exchange rate against USD and EUR – the main currencies in which we borrow. We used to raise around RUB 90 billion in debt annually, and

three or four years ago that was roughly equal to USD 4–5 billion. The foreign currency amount remains more or less the same, it's just the ruble equivalent that has grown.

We have executed almost 90 per cent of our borrowing program, having raised some RUB 240 billion. We plan to complete the program in the first half year, because our immediate plans include a Eurobond issue. So, the annual borrowing program will probably be completed in the first half year. Otherwise, there are no plans to change it.

Coming back to the gas price assumption: the price you see in the budget is still USD 166. The budget has not been revised, but we expect that the yearly average forecast price will be around USD 180 per thousand cubic meters. The relevant adjustment will probably be made during the budget revision process in September.

QUESTION: Olga Danilenko, Prosperity Capital Management. My question is about the recent proposal of the Finance Ministry and the Government Commission to increase the severance tax for gas in Q4 2017. Do you think it could be the Finance Ministry's attempt to make up for their expectations with respect to the dividend payout in 2017?

In the draft budget, I also saw a higher dividend figure. Considering this year's idea about the severance tax, do you think there is a risk of the severance tax going up again next year – in mid-year or otherwise? How will the Company respond to it?

ANDREY KRUGLOV: To the first part of your question: it might well be that the Finance Ministry wants to be compensated for their dividend expectations. It might be something else. I can hardly speak for the regulator. Nevertheless, as I said in my presentation, the anticipated change in the tax burden and taxation regime in general is as important for Gazprom in its production and business planning as it is for any other entity. So we definitely prefer the terms and rules to be clear and not subject to change several times a year. This is my personal view.

KAREN OGANYAN: The severance tax formula includes the standard rate, or withholding ratio, of 15 per cent. We have already set the scale factor of 1.4022 for 2018. It means that we have the scale factors fixed for three years. So the move that is anticipated in Q4 2017 will add a multiplying factor to the multiplying factors.

It is difficult to talk about what 2018 will bring. In my view, the decision-making in this case aims to compensate for some budget shortfalls. This is why we cannot say we are 100 per cent sure there will not be some other ad hoc decision in 2018 – I would rather not make such a claim. Anything can happen, but we hope otherwise.

Let me reiterate Mr. Kruglov's message: it's not so much about additional taxation imposed on us as about clear and transparent rules that enable us to plan our operations. This is what we don't see happening in respect of Gazprom. Which is very sad, of course.

QUESTION: Jaroslav Koribsky, Hospodarske Noviny newspaper. Your presentation did not mention the Kovyktinskoye field among your major investment projects. If possible, please comment on your planned investments.

Question about the Amur GPP: when will construction begin and when do you expect to put the facility into operation?

ALEXANDER IVANNIKOV: Construction of the Amur GPP is underway, and all of the financing for 2017 has been secured. In parallel, we are working out a project financing arrangement. As you know, it is usually 30/70: 30 per cent is shareholders' contribution and the

other 70 per cent is funds raised elsewhere. We expect to secure project financing toward the end of 2018.

Anyhow, the plant construction schedule is synchronized with the Power of Siberia contract milestones and the scheduled start date for gas deliveries to China. You remember those contract obligations: four plus two years. Accordingly, the contract entered into effect in May 2015.

The 2016 investment program included RUB 7 billion for Kovyktinskoye.

QUESTION: Maria Gordeeva, RIA Novosti agency. Could you provide details on the 2018 loans? You said it was difficult to make projections, but still, should we expect a significant expansion in borrowings next year? After all, there will be peak repayments, plus your investment program, and you will probably have to pay higher dividends.

Could you also specify the updated cost estimate of both strings of TurkStream? What amount of project financing do you expect to raise? And has there been any progress in your negotiations with banks on TurkStream?

ANDREY KRUGLOV: As of now, there is no need to expect any significant increase in borrowings next year. We do not currently plan a substantial expansion in borrowings in 2018.

Regarding TurkStream, the total investment level is around USD 6 billion. As for project financing, we have discussed that option for the offshore section, and it is being considered. Essentially, though, we planned to complete TurkStream using Gazprom's funds only.

QUESTION: Artur Toporkov, Vedomosti newspaper. Is the Company ready for listing on the Hong Kong Stock Exchange, a move that has been discussed quite a lot? What is the likelihood of it happening in 2017, given that the listing window will shut down at the end of July? Is the Company planning to issue debt securities in yuan?

My second question is about the liberalization of gas prices in Russia. The pilot project proposed by the Federal Antimonopoly Service was suspended indefinitely. Do you have any expectation as to when, where and how it may start?

ANDREY KRUGLOV: As regards the Hong Kong listing, we have worked on that for quite a while, and, as you remember, we have made announcements in that respect. There were some issues that were eventually resolved, such as HKEX listing compatibility with the Russian stock trading system, and HKEX confirmation that the shares would be traded under internationally accepted regulations. We also needed to make sure that the terms of trading on the Moscow and Hong Kong exchanges were similar. And we reached an agreement on that point.

There were concerns about corporate governance as well, namely the presence of three independent Directors on the Board. We have addressed this, too. Three directors sitting on Gazprom's Board were recognized as independent by the Moscow Exchange, and this MOEX decision was accepted by HKEX.

Why are we not listing our shares this year? Basically, the opportunity is there, and we have something to place – there was a question about shares acquired from Vnesheconombank. But when doing something, you should know why you are doing it. Given the current market conditions, it does not make sense to list the shares at the value that we can receive right now. Not this year, anyway. So this year we will not make any such steps.

As for the issue of yuan securities, we have analyzed this opportunity but have made no plans so far to raise any funds in yuan. All our Chinese contracts include an option to pay in yuan, but as of now, we deal in the currencies traditional to our contracts, namely, USD and EUR. If we make a transaction in a different currency, such as GBP (this happened quite recently), we immediately enter into a currency swap. This allows us, first, to reduce the present value of borrowings and, second, to avoid foreign exchange risk as our borrowings are redenominated in the currencies of our revenue portfolio, USD and EUR.

VITALY KHATKOV: Dear colleagues, you know that a decision will be made this year on the indexation of gas prices for industrial consumers starting from July 1. Based on the forecast and the parameters of social and economic development, gas price indexation will be 3.9 per cent. The FAS Management Board has already made a decision to that effect, and an order has been drafted and submitted to the Ministry of Justice.

As you also know, Gazprom has prepared more than one proposal on the options and mechanisms of staged liberalization. You referred to the pilot project for selling gas at deregulated prices within the Khanty-Mansi and Yamal-Nenets Autonomous Areas. We do not see any legal obstacles to its implementation. We have prepared the relevant proposals on amending regulatory acts. They were submitted to the Ministry of Energy and are currently under review. The actual decision and its timing will depend on the regulator.

Apart from the pilot projects, we have proposed an option to sell gas to major industrial consumers at prices within an adjustable range. This initiative is more readily supported by the Ministry of Energy. We have also come up with initiatives and proposals on deregulation for gas supplies that involve subsequent liquefaction. They are considered by the ministries, and some progress is being made in this area, but everything depends on the extent of cooperation between FAS, Ministry of Energy, and Ministry of Economic Development.

Gazprom is probably the leader in terms of putting forward such initiatives. We are determined to continue those efforts.

QUESTION: Anastasia Goreva, Argus Media agency. Your colleagues from the production unit said the Power of Siberia project would be accelerated this year. Do you anticipate any upward adjustment of investment for the project this year? What is the expected amount of investment for Power of Siberia in 2018 and 2019?

ANDREY KRUGLOV: Accelerating a project does not necessarily imply an expansion. Let me tell you how projects are normally considered by the Gazprom Management Committee.

First of all, the speeding up of a project may necessitate not only an expansion of the investment program, but also some adjustments to the schedules of other projects by way of internal reallocation. The decision – whether it will be a 100 per cent increase in investment funding for Power of Siberia, or reallocation of funds from other resources within the same investment program, or a combination of both – will be made at the Management Committee’s session on budget adjustment. Because the monetary value of the investment program is part of the budget.

ALEXANDER IVANNIKOV: In drafting our three-year program we refer to the total investment program value for 2018 and 2019. The RUB 850 billion figure is currently cited without any breakdown. If you follow the logic explained by Mr. Kruglov, after the adjustment, be it reallocation within the investment program or expansion, the 2018 budgeting process will begin in September, and that is when the decision will be made on the relative share of investment in the projects. As of now, no figures for 2018 and 2019 have been specified with respect to Power of Siberia. The 2017 figure is RUB 159 billion, as you well know.

QUESTION: Lyudmila Podobedova, RBC. How do you secure loans of your European partners for Nord Stream 2? Do you offer them the option of prepayments for gas as a deposit?

ANDREY KRUGLOV: No. Only our word of honor and reputation.

QUESTION: Vitaly Sokolov, Energy Intelligence portal. How much has Gazprom already invested in Nord Stream 2 and how much have its European partners? According to Alexander Medvedev, over EUR 1 billion.

ANDREY KRUGLOV: That is correct.

VITALY SOKOLOV: I'm looking for a specific figure. Have they already invested EUR 1.425 billion that they were supposed to invest?

ANDREY KRUGLOV: They have.

VITALY SOKOLOV: What instrument did they use? What was the interest rate?

ANDREY KRUGLOV: It was an investment in the amount you've just mentioned, made in the form of a corporate loan to the Nord Stream 2 project company.

The interest rate is in line with the standard practices for the European market. This was possible because our European partners in the Nord Stream 2 project issued a loan to the European company registered in Switzerland – Nord Stream 2 AG.

VITALY SOKOLOV: Are you negotiating TurkStream project financing with any banks?

ANDREY KRUGLOV: As of now, we are not. As I mentioned before, this could be an option. We are currently in negotiation with banks on Nord Stream 2 only. Their involvement in TurkStream cannot be ruled out, but there are no negotiations.

VITALY SOKOLOV: You said TurkStream would cost USD 6 billion. Does this include the sunk costs of South Stream? I mean the pipes that were purchased and are now kept in storage in Bulgaria. And there are two strings, is that right?

ANDREY KRUGLOV: Yes.

ALEXANDER IVANNIKOV: We are talking about the estimated cost, not just a sum of items, whether purchased or not. It is an investment estimate. Having said that, the pipes purchased earlier will be used for this project and will be included in the cost estimate, among other things. They are not a footnote – we are dealing with two different parameters.

VITALY SOKOLOV: Does it mean that you have already paid a portion of it?

ALEXANDER IVANNIKOV: That's true, part of that amount has been paid.

MODERATOR: Thank you. The Press Conference is over.