

Press Conference
Gazprom in Eastern Russia, Entry into Asia-Pacific Markets
June 15, 2018

MODERATOR: Good morning. We are starting the Press Conference devoted to Gazprom's eastern projects.

Taking part in the Press Conference are:

- Vitaly Markelov, Deputy Chairman of the Management Committee, Gazprom;
- Alexander Medvedev, Deputy Chairman of the Management Committee, Gazprom;
- Vyacheslav Mikhalevko, Member of the Management Committee, Head of Department, Gazprom;
- Andrey Skrepnyuk, Head of Department, Gazprom;
- Elena Burmistrova, Director General of Gazprom Export.

I give the floor to Mr. Medvedev and Mr. Markelov, and then we will move on to your questions.

ALEXANDER MEDVEDEV: Good morning, ladies and gentlemen, members of the media. I think that all Russian citizens present here are in a very good, winning spirit. I hope that we will retain this winning spirit throughout the Press Conference, which is focused on a highly important topic – the development of our business in eastern Russia and the Asia-Pacific region. The chosen strategic direction for geographic and product diversification is being successfully pursued.

I'd like to emphasize that the results obtained as of today – the most important of them being the construction of Power of Siberia and the start of pipeline gas supplies to the People's Republic of China in the fourth quarter of 2019 – are just the beginning of what we want to achieve.

VITALY MARKELOV: Good morning, dear colleagues. Let me add my congratulations on the victory of our football team in the match with Saudi Arabia yesterday. I also wish to congratulate everyone on the anniversary: ten years ago, the first gas was supplied to Khabarovsk via the extended gas pipeline from Komsomolsk-on-Amur. After that, new facilities have been coming onstream every year: the Sakhalin II project (LNG plant), the gas pipeline in Kamchatka, and the Sakhalin – Khabarovsk – Vladivostok gas pipeline.

Today, we are implementing Power of Siberia, a very important project scheduled for commissioning in 2019. We have a lot of work to do there. Last week, I held staff meetings at the facilities being built within Power of Siberia, and I can share my thoughts at this Press Conference.

QUESTION: Dmitry Matveev, Interfax – Severo-Zapad agency. Could you tell us about the timeframes and parameters of the projects for building loop lines for 30 and 38 billion cubic meters within the Power of Siberia gas pipeline?

VITALY MARKELOV: The welding operations are nearing completion at Power of Siberia: only about 80 kilometers are left. Some parts of the pipeline are being cleared of foreign objects, and tests are running. Work is underway on block valves and the construction of auxiliary facilities: communications, remote control, gas pipeline operation centers.

The Chayandinskoye field is well on track, too. We will complete the testing of process trains before late 2018. In the same year, two facilities – water intake and sewage treatment plants – will be put into operation. We are ready to perform the start-up of power supply facilities to provide the field infrastructure with electricity. Wells are being drilled in line with the production expansion schedule; comprehensive gas treatment unit No. 2 is under construction.

The construction operations are proceeding on schedule, sometimes even ahead of it, like the linear section of the gas trunkline. Therefore, there is no doubt that the facilities will come onstream and gas supplies will be launched on December 20, 2019, in accordance with the contract.

The first stage of the Amur Gas Processing Plant (GPP) is in full swing, the foundations are ready. By the end of June, heavy equipment will arrive at the GPP and will be immediately transported from the wharf on the Zeya River to the construction site. One of the world's biggest tower cranes with a capacity of 1,600 tons is mounted on the site. There are only four cranes like this in the world, and two of them are in Russia, including the crane for heavy equipment installation at the Amur GPP. The construction is progressing on schedule, and the first train of the GPP will become operational in 2021.

As for the Power of Siberia loop lines, the design work is being carried out, with ongoing pre-construction of the loop lines and additional capacities for compressor stations. The whole project remains on track.

QUESTION: Anna Artemova, TASS agency. A question on the negotiations for gas supplies to China from the Russian Far East. Is there an understanding on the contractual volumes and timeframes?

ELENA BURMISTROVA: The negotiations with CNPC on gas supplies via the Far Eastern route are in progress. We can't announce the definitive dates of the arrangements yet. As you remember, the previous negotiations were rather long. But we intend to finish them by the end of 2018.

ALEXANDER MEDVEDEV: These expectations are based on the fact that China is showing really heightened demand for natural gas. And this is another reason for the negotiations to be completed by the target date.

QUESTION: Maria Buravtseva, RBC newspaper. Gazprom is developing gas pipelines in the Russian Far East, and one of the largest among them is Power of Siberia, which is meant to convey gas to China. Are you going to supply gas to Russian consumers via this pipeline or will it only transit across our regions? If domestic supplies are planned, with whom do you have contracts already and what are the timeframes for starting gas supplies to major domestic consumers?

VITALY MARKELOV: The gas balance for the Power of Siberia gas pipeline includes supplies to domestic consumers in Yakutia and the Amur Region. We are cooperating with the authorities of those regions to determine the potential consumers. There are no specifics yet.

DMITRY MATVEEV: A few questions about the Iran LNG project. Can Gazprom's participation in the completion of this project be considered appropriate and cost-effective? How will the costs be divided among the partners and who will be the technological partner? When will Gazprom submit proposals to the Iranian party? Won't you have to withdraw from the Iranian project due to the risk of new sanctions?

VITALY MARKELOV: I have visited the project site. So far, only a power plant has been put onstream, and large-capacity equipment has been installed. The facilities are temporarily shut down. The Iranian party offered Gazprom to join this project. We have signed a Memorandum of Understanding, and right now we are just carrying out a technical audit.

ALEXANDER MEDVEDEV: As far as the sanctions are concerned, you know that European countries expressed their dissatisfaction with the threats of sanctions in connection with the USA's withdrawal from the Iranian deal. There is a saying, "nothing ventured, nothing gained." We are studying all the project risks – technical, economic, and those related to sanctions – and we will make a decision depending on the situation at hand.

QUESTION: Evgenia Sokolova, TASS agency. You planned to complete the paperwork in May for participation in field development projects in Iran. Is it done? When will you make the final decision on joining these projects?

VITALY MARKELOV: Pursuant to the Memorandum, we were to prepare our proposals on the basis of the feasibility study of the documents submitted by the Iranian party. This work has been completed and we are beginning a series of discussions on four projects with Iran. We need to analyze, negotiate, review the contract and its terms and conditions, and then we will arrive at a decision.

QUESTION: Yulia Natarova, NHK TV and radio company. My question concerns the possibility of building a gas pipeline between Russia, North Korea, and South Korea. It was announced in 2011 that Gazprom and KOGAS were discussing this possibility in theory. But then the situation with North

Korea became much worse, and the negotiations were halted. Today, the situation is improving again. Are you taking any actions to resume the negotiations? Is the project worth doing in your opinion?

It was made known that natural gas from Sakhalin I could be sold and supplied to Sakhalin II and that the negotiations on this matter would be over soon. Is that true?

VITALY MARKELOV: In respect to the gas pipeline running to South Korea via North Korea, the project is not a new one; we started discussing it back in 2011. The routes were selected, negotiations were held with the North Korean and South Korean parties. But then the relationship between the two countries deteriorated, and that put an end to the negotiations. The political situation is somewhat different today, and South Korea has reached Gazprom with a proposal to resume the project. A series of negotiations has taken place. As they are still in progress, we can't say what the results will be.

ALEXANDER MEDVEDEV: Sakhalin Energy (the operator of the Sakhalin II project) and the consortium of the Sakhalin I project have been negotiating for quite a long time. As the majority shareholder of Sakhalin II, we are not only aware of what is going on, but also have the ability to influence the course of these negotiations just like Rosneft, although their stake in Sakhalin I is smaller than our stake in Sakhalin II.

Apart from the pricing conditions that you are most interested in, any such project includes a number of key parameters that reflect its economic substance and invariably influence the commercial conditions of potential deliveries. These are the delivery start date, the profile of deliveries, and the possible term of deliveries. In addition to natural gas from Sakhalin I, the negotiations may include Rosneft projects in the Russian Far East and, accordingly, there can be other consumers besides Sakhalin II. The best possible option for us is to accumulate all the gas in the portfolio of Sakhalin Energy and Gazprom in order to optimize all the parameters I have mentioned.

Negotiations should be held in secrecy. As for the terms, we believe that decision-making is not far off because the Sakhalin II project has passed the Russian expert review, which is a critical step forward. Therefore, we would like the final investment decision to be made in the fourth quarter of 2018 or in the first quarter of 2019 at the latest. All the more so that all preconditions for a positive final investment decision are in place. I think that our colleagues from Sakhalin I, including Exxon Neftegaz and Rosneft, are interested in the negotiations not being dragged out but concluding with a mutually beneficial long-term solution, as is usually the case with us.

QUESTION: Vitaly Sokolov, Energy Intelligence portal. Sakhalin Energy forwarded the latest commercial proposal to the Sakhalin I consortium in March 2018. Was there any response to this proposal? If not, when do you expect it, given that the investment decision could be taken at the end of 2018 or at the beginning of 2019? By which particular date do you need to complete the negotiations and decide on the resource base for expanding the Sakhalin II project?

Speaking of the Rosneft projects that may be included in the agreement, do you mean the Eastern Petrochemical Company or any other projects?

Can the negotiations between Sakhalin Energy and the Sakhalin I consortium influence the ongoing negotiations with CNPC on gas supplies from the Russian Far East? If you reach an agreement with Sakhalin I, you will obtain more gas for your portfolio.

ALEXANDER MEDVEDEV: Since we are planning to arrive at the final investment decision in the fourth quarter of 2018 or in the first quarter of 2019, the negotiations should be completed before this potential event.

The negotiating framework will be expanded to include the Rosneft-owned fields in the Russian Far East. As regards the need to provide gas to Rosneft projects, we are aware of this, it is the company itself that should contact a gas supplier. Therefore, I would not like to go into the specifics and details of the negotiating process, as the result is more important than the process, after all.

ELENA BURMISTROVA: At the moment, we don't link the negotiations with CNPC on the Far Eastern route with the negotiations on Sakhalin I and Sakhalin II.

ALEXANDER MEDVEDEV: There is no need.

QUESTION: Mikhail Kolmatsky, Federal Press agency. What is Gazprom planning to do in relation to gas supplies to Kamchatka, which is currently facing a production decline and gas shortages sometimes resulting in a failure to fully meet the region's needs?

Will the Company's resource base and transmission network be sufficient to satisfy the needs of the Russian regions in the Far East without jeopardizing export supplies to China?

VITALY MARKELOV: The year 2020 will mark the anniversary of gas supplies to Petropavlovsk-Kamchatsky. Geological exploration activities are taking place at the fields and are going to be finished soon. We are also building a booster compressor station to maintain production at the current level of some 400 million cubic meters per year.

As for the other regions, the throughput of the Sakhalin – Khabarovsk – Vladivostok gas pipeline and the available production capacities are sufficient to supply domestic consumers with gas.

QUESTION: Maria Grabar, RIA Novosti agency. My questions are about the Iran – Pakistan – India gas pipeline. Do you have an understanding of the size of the stake Gazprom will obtain in the joint venture? What amount of investments is planned? Could the pipeline be fed with gas from Iranian fields that may be developed by Gazprom? Taking that into account, could you develop four Iranian fields together with India, for example?

When are you going to sign the contract for the supply of LNG to Pakistan? When will the supplies begin and in what volume?

VITALY MARKELOV: Pursuant to the memorandum signed with the National Iranian Oil Company (NIOC), we are looking into the possibility of participating in four fields and are reviewing the gas supply routes from these fields. One of those routes is the aforementioned Iran – Pakistan – India. By now, we have signed a Memorandum of Understanding with Iran to cooperate within the project for building a gas pipeline along this route. We haven't signed a similar document with Pakistan yet, as it is under consideration. The situation is the same with India. This document provides for an investment rationale that will contain all the information you are requesting. We have not yet started this work.

ELENA BURMISTROVA: In March 2018, the Gazprom Group submitted a commercial proposal to the Pakistani side, but we haven't received an answer so far. That is, the tender results have not been published yet, but we are waiting for the information on the matter.

VITALY MARKELOV: I would like to add that an interim government is currently in power in Pakistan. A new government will be formed after the elections, and it will probably give a new impetus to our relationship.

VITALY SOKOLOV: Are you discussing the possibility of Gazprom's participation in the construction project for a gas pipeline from Iran to Oman? Will this pipeline transmit gas from one of the fields you are currently discussing in Iran?

VITALY MARKELOV: We are considering our possible participation in the projects for developing four fields in Iran. We are looking into it in terms of the monetization of reserves and availability of gas supply routes from these fields, including pipeline transmission capacities. Accordingly, it would be possible to convey gas via the pipeline you have mentioned. There may also be projects for gas liquefaction. We are considering many different options.

KOLMATSKY: Tell us about the Amur Gas Processing Plant: the timeframes, investments, profitability, investment attractiveness, and the markets for the final products.

VITALY MARKELOV: The Amur Gas Processing Plant is the largest gas processing plant in our country. It is the most advanced GPP today, and Linde is the equipment licensor. We have already started building the first train due to come onstream in 2021. The whole plant will be completed before the end of 2024.

As for its efficiency, we made the decision based on the assumption that the plant's profitability rate should allow its efficient operation and sales of all derivatives, including ethane deliveries to the Amur Gas Chemical Complex to be built by SIBUR. We manage costs to make the project highly efficient.

MODERATOR: We are receiving questions online. Anastasia Goreva from Argus Media is asking: “When will the Production Sharing Agreement (PSA) for Sakhalin II be extended? How long will the extension be? When will you sign the provisional contracts for LNG sales from the planned third train of the LNG plant at Sakhalin II? For what period are you planning to sign them?”

ALEXANDER MEDVEDEV: You have raised an issue that has not been settled yet. We are keeping in touch with the Russian Government and the government officials in the Supervisory Board of Sakhalin II. The subject has been brought up and the PSA parties agreed that the extension terms would be based on the decisions regarding the third train of Sakhalin II, on which the extension parameters depend. So, let’s not jump ahead. One should never put the cart before the horse.

DMITRY MATVEEV: A clarifying question to Vitaly Markelov about the loop lines of the Power of Siberia gas pipeline: what is their length, tonnage and construction period?

VITALY MARKELOV: The capacities of the gas trunkline’s linear part were calculated based on the gas supply schedule under the contract. I can’t share any details on the loop lines or their location, as the design documentation is under development. I will stress that the expansion of compressor stations’ capacities and the construction of loop lines will be aligned with the amount of supplies stipulated by the contract.

EVGENIA SOKOLOVA: You keep saying that China is showing its readiness to consume more Russian gas; however, we have not heard anything about the negotiations on the western route in a long time. Does it still have a future?

ALEXANDER MEDVEDEV: Quite evidently, it does. The question is when it will take the form of specific agreements. If you look closer, there is a wide variation in the estimates of additional imports by China, as is often the case. Once again, gas consumption in China is expected to be a half a trillion cubic meters. Most importantly, there is no turning back in this situation from a strategic point of view, and this is confirmed by Chinese sources. The share of coal in China’s energy mix will decline rapidly. This can be proven by simple figures. China has analyzed what would be more profitable: to transfer the economy to gas or to waste huge sums on fighting lung diseases and paying out disability benefits. The World Health Organization has these figures, they are easy to find.

ELENA BURMISTROVA: China is known to be one of the most promising gas markets in the world. Its consumption rates are growing, rising by 15 per cent in 2017 alone. This is why our Chinese partners hold negotiations on additional gas supplies with all of their suppliers. This applies to both LNG and pipeline gas. At present, China is shaping its own energy mix and its own consumption geography, which will, of course, decide the fate of further negotiations.

MODERATOR: A question via the Internet. Nadezhda Rodova from S&P Global Platts is asking: “How do you view Gazprom’s medium- and long-term production potential in the region?”

VITALY MARKELOV: Eastern Russia is a strategic region for us. A gas production center has been established on the Sakhalin shelf. The Irkutsk and Yakutia centers are under development. The largest fields in that area are Kovyktinskoye and Chayandinskoye. We are performing extensive geological exploration in Yakutia, the Irkutsk Region, and Sakhalin. The whole area is under development now, and its potential is enormous. This work is primarily aimed at meeting the demand of domestic consumers and also at supplying gas to other countries. I will not name the specific figures: they change every day because we are carrying out a large scope of geological exploration activities.

ALEXANDER MEDVEDEV: The presentation shows the amount of reserves reflecting the potential of working in the Russian Far East, Eastern Siberia, and the Asia-Pacific region.

Let me draw your attention to a very important development – the beginning of Gazprom’s LNG deliveries to India that we celebrated together with India’s energy leaders and company representatives. The launch of deliveries to a new market is a historic event.

ELENA BURMISTROVA: India, just like China, is quite an important market for the energy community and for future consumption as a whole. This is why I would like to proudly announce that on June 4, our first LNG tanker arrived in the port of Dahej in India. This marks the beginning of a new relationship and, accordingly, a new quality of this relationship. We plan to work with GAIL

under a long-term contract for up to 20 years, and I would like to congratulate the Gazprom Group on this achievement because the Company is entering new global markets. I extend my congratulations to all of my colleagues who took part in this project, and I am proud to say that we expand the geography of our supplies with every passing year. I hope that the LNG portfolio will grow and we will discover new promising markets not only in Asia-Pacific, but also in other regions of the world.

MODERATOR: Thank you. The Press Conference is over.