Press Conference

Mineral and Raw Material Base Development. Gas Production.

Gas Transmission System Development

May 14, 2019

MODERATOR: Good afternoon, dear colleagues. We begin a series of traditional Press Conferences in the lead-up to the annual General Shareholders Meeting. Within the next six weeks, six Press Conferences will take place, and we are going to discuss the Company's key results for 2018, as well as its future plans and current activities. As in the previous year, we are holding Press Conferences in St. Petersburg and setting up video calls with the press center in Moscow. Broadcasts of the Press Conferences in Russian and English are available on the Company's website and by phone. More detailed information – topics of the Press Conferences and their schedule – can be found on the website.

Today's Press Conference is dedicated to operating issues. We will address the mineral and raw material base development, gas production, and expansion of the gas transmission system.

Participating in the Press Conference are:

– Vitaly Markelov, Deputy Chairman of the Management Committee;

– Oleg Aksyutin, Deputy Chairman of the Management Committee, Head of Department;

– Sergey Menshikov, Member of the Management Committee, Head of Department;

– Vyacheslav Mikhalenko, Member of the Management Committee, Head of Department;

– Vasily Petlichenko, Deputy Head of Department.

QUESTION: Olga Dedyaeva, TASS agency. Considering the growing production currently observed, whether and when can we expect an increase in the production forecast for 2019?

VITALY MARKELOV: The planned production for this year is 495.1 billion cubic meters of gas.

As you know, we align our operations with the market environment. For instance, last year, we raised production by more than 26 billion cubic meters versus the amount initially planned.

Speaking of 2019, we are currently producing 8 billion cubic meters of gas in excess of the planned amount. It is hard to tell what results will be achieved by the end of the year; it all depends on the scope of exports and the conditions of the forthcoming winter period. Therefore, the gas production figures will certainly be adjusted. Gazprom's operations are designed in such a way that adjustments are made on a quarterly basis, so we will reconsider our plans every quarter.

QUESTION: Anton Khlyshchenko, Interfax agency. Could you comment on the statistics of fires at gas trunklines in Russia? Do the figures correspond to the challenges and approaches to renovation and retrofitting of the gas transmission system, as well as the investments allocated for this purpose?

VITALY MARKELOV: The reliability of our gas transmission system complies with international requirements and standards. We display much better performance as compared to other companies that operate gas transmission systems. Indeed, we had eight accidents at gas trunklines last year. But we do very well when it comes to ensuring the reliability of gas supplies. In terms of specific indicators, today's average accident rate is 0.035 accidents per 1,000 kilometers: this is the lowest level in the entire history of Gazprom. The number of accidents at gas trunklines has been steadily declining since 2014.

This year, four accidents have occurred at gas trunklines due to the pipe defect known as stress corrosion. We are taking all the necessary measures to ensure the reliability of gas supplies. As a

result, not a single consumer has suffered any damage. Gazprom maintains a high level of engineering reliability through renovation and overhaul measures. Speaking of the volume of investments in the renovation of gas trunklines, we allocated around RUB 18 billion to this activity last year. This year, we envisage an increase in capital investments for the renovation of gas trunklines. The scope of overhaul operations at linear sections of gas trunklines has grown accordingly.

QUESTION: Tatyana Kudryashova, Rossiya Segodnya agency. A question about the development of the Tambeyskoye field to be performed jointly with RusGazDobycha. You said in a recent interview that the field development concept is being elaborated. When do you think it could be finalized, and what is the priority gas monetization scenario you are considering at the moment?

SERGEY MENSHIKOV: Under the Memorandum of Intent concluded between Gazprom and RusGazDobycha on May 5, 2017, an assessment of the prospects for the possible implementation of a joint integrated project for the development of the Tambeyskoye field resource base was initiated, among other things. Based on the results obtained, the best possible configuration of the facility, including monetization scenarios for hydrocarbons produced, will be determined, and the assessment of the project's economic efficiency will be carried out with a view to facilitating decision-making on joint implementation by the parties.

OLEG AKSYUTIN: In terms of monetization, the main scenario under review is gas delivery into the Unified Gas Supply System. In addition, liquefied petroleum gases (LPG) and condensate are planned to be distributed via offshore pipelines or by rail.

QUESTION: Artur Toporkov, Vedomosti. I would like to ask you for some clarification about the Tambeyskoye field. Even though the concept is still under development, have you already defined any provisional parameters, in particular, the production limit?

OLEG AKSYUTIN: At present, we are conducting geological exploration works in that area. The concept discussion involves three potential scenarios. At the moment, we are focused on the scenario where the Cenomanian deposit development will be the first stage, and with this in mind we carry out geological exploration works, which are planned to be completed in 2022. The field parameters will be determined upon the completion of the geological exploration activities. The parameters are still fluctuating, and, taking into account phased commissioning, we forecast gas production growth from 52 to 80 billion cubic meters per year. These are estimated figures that will be updated after the full scope of geological exploration work is performed. Right now, we are focused on the Cenomanian horizon, a little bit later we will begin geological exploration at the underlying horizon, and then we will see the whole picture.

ARTUR TOPORKOV: The Bovanenkovskoye field has been put onstream, and now you are starting the development of the Kharasaveyskoye field. Which field are you going to develop next?

VITALY MARKELOV: The next field most ready for pre-development is the Kruzenshternskoye field.

ARTUR TOPORKOV: What are the development timeframes?

OLEG AKSYUTIN: The Long-Term Development Program involves three scenarios – from 2025 to 2028.

OLGA DEDYAEVA: Could you please provide details as regards the investments in geological exploration for 2019 in Russia and abroad?

VITALY MARKELOV: This year, we are going to allot RUB 76.7 billion of investments, of which RUB 72.6 billion are slated for exploration in the Russian Federation, RUB 1.5 billion – for exploration to create UGS facilities, and RUB 2.6 billion – to UGS facilities beyond the Russian Federation.

ANTON KHLYSHCHENKO: Will the Baltic LNG project be implemented without any foreign partners? Or will you sign an agreement with Shell, after all? What will be the unit cost of production

capacities?

VITALY MARKELOV: At the time of discussions with Shell, it was quite a different project concerned with liquefaction of gas only. By now, Gazprom has decided to launch a comprehensive gas processing and liquefaction project. The project is an integrated one, and it has a number of advantages over projects focused exclusively on gas liquefaction. It is planned to produce around 3.8 million tons of ethane, over 2 million tons of LPG, and 13 million tons of LNG. Therefore, we anticipate a decent unit cost of LNG production as it will be one of the plant's products.

As for foreign partners, we have signed documents only with RusGazDobycha to set up the RusKhimAlyans joint venture. Regarding partners in terms of technology, we are also contemplating the use of Linde's technologies in this project. Today, the project is ready to come onstream, and we are starting the design works.

ARTUR TOPORKOV: Do you have any concerns about the fact that, after all the valuable fractions are separated, the calorific value of this LNG will be very low compared to LNG offered by most competitors? And what is the sales market for low-calorie LNG?

VITALY MARKELOV: This is an integrated project. The calorific value of gas in LNG production is regulated via appropriate engineering solutions. Therefore, we cannot say that the LNG produced will be low-calorie.

OLGA DEDYAEVA: When will the exact dates for launching gas supplies through TurkStream be determined? Do you expect the Nord Stream 2 gas pipeline to be put onstream in due time, given the lack of permits and other factors?

OLEG AKSYUTIN: Gas supplies via TurkStream are expected to start on December 31. It is clear that the offshore part is ready and the onshore part in Russia is 100 per cent complete, while the pipeline's readiness in Turkey is about 73.5 per cent. We plan to achieve the full construction readiness in November. It will be necessary to carry out start-up and commissioning, and some of our colleagues are still building the pipeline's extension. So, our deadline is the last ten days of December.

VITALY MARKELOV: I can comment on the Russian part of the pipeline for supplying gas into Nord Stream 2. Out of the 880-kilometer gas pipeline stretching from Gryazovets to the Slavyanskaya compressor station, only some 40 kilometers remain to be welded and installed.

QUESTION: Anastasia Goreva, Argus Media agency. You have mentioned a growth from 52 to 80 billion cubic meters per year at the Tambeyskoye field; is it an estimate for the Cenomanian deposits or an overall estimate including the underlying horizons?

SERGEY MENSHIKOV: This is the data on the development phases for the Cenomanian and lower deposits. That is, the field will be developed in a stepwise manner up to the design capacity of 80 billion cubic meters per year.

ANASTASIA GOREVA: My second question concerns the comprehensive project for gas processing and liquefaction. Do I get it right that you are considering the Linde liquefaction technology, but the final scheme has not yet been defined?

VITALY MARKELOV: Linde is one of the licensors. The final decision will be made at the design stage.

ANASTASIA GOREVA: As you explained in a recent interview with the Gazprom corporate magazine, the Company can raise gas production 20 per cent above the projected amount for each field. If each field operates at its maximum design capacity, what will the peak production per year be?

VITALY MARKELOV: Gazprom's production capabilities exceed the current production rates by some 20 per cent. That is, we currently have a surplus capacity of 80–100 billion cubic meters.

ANASTASIA GOREVA: What is the maximum daily production rate that you are planning with respect to the Bovanenkovskoye field and across Gazprom for this year?

What maximum daily deliverability is planned for UGS facilities?

VITALY MARKELOV: As of January 1, 2020, the maximum daily deliverability planned across Gazprom is 1,497.3 million cubic meters.

Last year, the potential deliverability of UGS facilities at the beginning of the withdrawal season peaked at 812.5 million cubic meters per day. In the autumn/winter period of 2019–2020, this figure stood at 843.3 million cubic meters.

SERGEY MENSHIKOV: In 2019, the Bovanenkovskoye field will produce 87.4 billion cubic meters of gas; it is planned to further raise its productivity to 115 billion cubic meters per year taking into account further development of some wells. The current maximum productivity is 317 million cubic meters per day. Later on, the field's daily output will rise to 350 million cubic meters in the peak operation mode. Let me explain: it all depends on the process conditions and the operation of the gas transmission system.

ANASTASIA GOREVA: When are you planning to bring the Kharasaveyskoye field to its maximum design capacity of 32 billion cubic meters per year?

SERGEY MENSHIKOV: In respect to the Kharasaveyskoye field, we will reach the production limit of 32 billion in the third or fourth year of development.

As regards the field development, this year we commenced preparatory works, and have obtained positive conclusions of the state expert review for the design and positive conclusions of the state environmental expert review for the offshore wells. Drilling operations will begin with onshore wells next year.

QUESTION: Dmitry Konstantinov, Gas Industry magazine. What are the prospects for using natural gas as a fuel for power plants at production sites? As we see in the case of the Kovyktinskoye field, this line of activity is developing. What is the economic effect of such a decision? How widely will natural gas be used as a fuel for the engines of drilling rigs, power plants and other power drives across all production facilities of Gazprom?

VITALY MARKELOV: You have raised a very important issue regarding the use of natural gas as a vehicle fuel. Gazprom is actively involved in it today. As they say, before convincing someone, you need to start with yourself, and Gazprom is massively converting its road transport to natural gas.

We went even further in using natural gas; for instance, we use it at power facilities. We are contemplating setting up a gas liquefaction plant at the Kovyktinskoye field; LNG can be used in power generation for drilling rigs. We consider this to be cost effective, especially in remote regions. A decision will be made after we compare LNG supplies with supplies of diesel fuel to such regions from the engineering and economic points of view.

DMITRY KONSTANTINOV: The Kharasaveyskoye field was named number one facility of Gazprom on the Yamal shelf. How and why do you plan to develop the offshore part of the field from the land? What is the estimated length of the wells? Which equipment and technologies will be used? What is the project status now?

SERGEY MENSHIKOV: I have already briefly mentioned that we have obtained a positive conclusion of the state expert review for the pre-development design and a positive conclusion of the state environmental expert review for the offshore wells that will be drilled by a Bentec rig with a horizontal deviation of up to 1,000 meters from the land. We intend to use drilling fluids that will not affect the mudding of the bottomhole area and to apply domestic equipment and proven technologies tested at the Bovanenkovskoye field.

The project is currently in the preparatory stage: the equipment for hydraulic washing in quarries and for installation of temporary buildings and structures is being delivered to the site.

DMITRY KONSTANTINOV: What are the current development vectors for the gas transmission

system of Russia? What new engineering solutions will be used? How will these innovative solutions influence the efficiency of the construction and maintenance of gas pipelines and how will they contribute to maintaining the environmental balance in the regions of your operation?

VYACHESLAV MIKHALENKO: The main vector, as Mr. Markelov has said, is to increase the reliability of the gas transmission system. Today, we view this as not only improving reliability, but also raising energy efficiency. You have probably noticed that Gazprom has recently been focused on the construction of high-pressure gas pipelines, thereby improving energy efficiency in terms of gas transportation in specific terms. In parallel, Gazprom set up a comprehensive program that obliges us to decommission inefficient, outdated and idle gas transmission capacities. This year, we are decommissioning 10 compressor workshops, which is meant to increase the energy efficiency of the gas transmission system.

With regard to the application of cutting-edge technologies, this line of work is associated with the use of various changeable flow channels facilitating lower fuel gas consumption per unit of transported product and utilization of pipes with reduced internal roughness, which improves the hydraulic parameters of the gas transmission process. This includes issues related to designing promising low-emission combustion chambers. Gazprom is working on issues related to the use of methane-hydrogen mixtures, and so on. All of these integrated approaches help improving overall energy efficiency of gas transmission operations.

QUESTION: Vitaly Sokolov, Energy Intelligence portal. You said that Linde is one of the potential technology partners for the project in Ust-Luga. What are the other potential technology partners?

VITALY MARKELOV: Shell and Linde.

VITALY SOKOLOV: Since the project is focused on processing gas from the Nadym-Pur-Taz region, and this gas will be fed partially into gas transmission capacities of the northern corridor and partially into Nord Stream 2, are you going to reconsider the development plans in Yamal?

OLEG AKSYUTIN: We are already taking into account the plant and the supply of the so-called rich gas while working out the approaches to the development of the Yamal fields. Therefore, the factor you have mentioned is, among others, already taken into account as regards the fields and the dates we mention.

VITALY SOKOLOV: The main scenario of gas monetization at the Tambeyskoye field is to supply gas into the Unified Gas Supply System. Are you considering to embark on LNG projects in the Yamal Peninsula on the basis of the Tambeyskoye field or, perhaps, on the basis of offshore fields in the Kara Sea or in Ob Bay?

OLEG AKSYUTIN: As regards the Tambey group of fields, we are not considering them at this stage yet. Regarding LNG projects based on the Yamal fields, offshore: we are not considering such projects yet as part of the ongoing long-term program.

ANASTASIA GOREVA: When are you planning to reach the production limit for the Kamennomysskoye-Sea field? Will you construct a gas pipeline from this field, taking into account future production at the Semakovskoye field, which you are developing together with RusGazDobycha?

OLEG AKSYUTIN: Commissioning of the Kamennomysskoye-Sea field is scheduled for 2025, and the production limit of 15.1 billion cubic meters is expected to be reached within the next three years. As for the Semakovskoye and Parusovoye fields, the Long-Term Development Program accounts for their proximity to each other and assumes that they should be synchronized.

ANASTASIA GOREVA: A question about investments. During the 2020–2021 period, you plan to launch about nine new fields, and this is a big number. Plus, the gas transmission system is being expanded via Power of Siberia and Sakhalin – Khabarovsk – Vladivostok. At the same time, at the Investor Day in February it was announced that, starting from 2022, the investments will be at the

level of RUB 1–1.2 trillion a year, which seems to be a very small amount. At first glance, the volume of investments is much smaller than the scope of planned projects. Accordingly, the question is: are you going to step up investments or suspend any projects?

VITALY MARKELOV: Indeed, 2019 is an atypical year compared to the previous ones because a large amount of the linear sections of trunklines is coming onstream. This year, it is probably for the first time in the 20 years of the Company's existence that we are putting over 7,500 kilometers of gas trunklines into operation, including TurkStream, Nord Stream 2, and Power of Siberia. As a result, the volume of investments this year is at a record high, the highest in 20 years. Regarding the facilities that will be commissioned in 2020 and in subsequent years – these facilities are associated with the development of production capacities and require much less investment than long-distance gas transmission capacities.

The long-distance gas transmission system will be extended, including Power of Siberia we have already mentioned: the first stage – a 2,159-kilometer linear part along with the Atamanskaya compressor station – enters operation this year, and further additions will be subsequently made. The same is planned with regard to the capacities in the northwestern region.

OLEG AKSYUTIN: The Investor Day figures you have mentioned are close to reality. They were calculated based on the idea that we need to ensure the production and transmission of certain volumes of gas.

TATYANA KUDRYASHOVA: I would like to clarify the issue of the license for the Zapadno-Kamchatsky block: you suspended it, but wanted to keep it. What happened to it? Do you still have the license?

SERGEY MENSHIKOV: At this stage, we continue operations in the Zapadno-Kamchatsky block and intend to retain this license for further work.

MODERATOR: We are getting online questions as well. Maria Grabar, Reuters agency, is asking for more details about the resource base for the gas processing and liquefaction project undertaken jointly with RusGazDobycha. It was announced in a press release that gas from the Achimov and Valanginian deposits of the Nadym-Pur-Taz region will serve as the resource base. Could this involve the Semakovskoye, Parusovoye and Severo-Parusovoye fields, or are you designating the Urengoyskoye field for this purpose? What is the gas monetization scheme for the Semakovskoye, Parusovoye and Severo-Parusovoye areas then?

VITALY MARKELOV: The production capacities in the Nadym-Pur-Taz region serve as the resource base for the Ust-Luga project. Annually, 45 billion cubic meters of gas with a high content of ethane will be supplied to Ust-Luga. As of today, the project is aligned with the existing production capacities.

MODERATOR: Lyudmila Podobedova, RBC newspaper, is asking to explain the role of RusGazDobycha in the Tambeyskoye field development project.

VITALY MARKELOV: The company is a partner of Gazprom in the development of the Tambey group of fields. Partnership is a broad concept.

ANTON KHLYSHCHENKO: What is the scope of overhaul works at gas trunklines, and what is the amount of financing for 2019?

VITALY MARKELOV: This year, overhaul operations will be carried out at 840 kilometers of gas trunklines. It also depends on the results of diagnostics; an upward adjustment is possible. According to the renovation program, works will be carried out at some 60 kilometers of the linear part as the scope of renovation at gas trunklines is closely related to the renovation of compressor stations.

ARTUR TOPORKOV: Is there any preliminary data on the production limit at the Kruzenshternskoye field?

SERGEY MENSHIKOV: The limit is 32 billion cubic meters. The reserves are quite plentiful; we may attain this level in three to five years, depending on the tasks assigned.

ARTUR TOPORKOV: You said that, besides Linde, you are still considering Shell technologies for the project in Ust-Luga. Shell explicitly states that it does not provide its DMR technology for licensing in the projects in which it does not participate as a shareholder. Are you still negotiating with Shell regarding their participation in the project as a partner or not?

VITALY MARKELOV: For our plant in Ust-Luga, we are considering the DMR technology, which is used by both Linde and Shell. We have assessed the economic efficiency of both technologies, and they currently show almost identical applicability indicators. Later on we are going to address the application of these technologies in the course of the negotiations.

ARTUR TOPORKOV: The Tambey gas is intended mainly for the Unified Gas Supply System. Both strings from Bovanenkovo to Ukhta and further to Torzhok will be filled with gas from the Bovanenkovskoye field. It was initially planned to build up to six strings. When are you going to build the third string along the Bovanenkovo – Ukhta – Torzhok route? Have you made an estimate of the project value? When are you going to build it?

SERGEY MENSHIKOV: I can comment on a connecting gas pipeline stretching from the Kharasaveyskoye field to the Bovanenkovskoye field, i.e. the beginning of the third string from Bovanenkovo to Ukhta. The commissioning deadline for the gas pipeline is 2023.

ARTUR TOPORKOV: What about the pipelines from Bovanenkovo and further?

OLEG AKSYUTIN: From 2023 to 2025, the construction of the third string will be completed in a stepwise manner. At present, cost estimate documentation is being developed, and much will depend on the engineering solutions which will be adopted.

ARTUR TOPORKOV: When are you going to commission the LNG plant at the Portovaya compressor station?

VITALY MARKELOV: We plan to launch the LNG plant near the Portovaya compressor station before the end of this year. By now, the facility is nearly complete. Moreover, separate units of the plant are already coming onstream. Therefore, it is clear that this project will be put into operation before the end of the year.

MODERATOR: Thank you. The Press Conference is over.