

Shorthand record of speech by Oleg Aksyutin, Deputy Chairman of Gazprom Management Committee – Department Head, at Gazprom’s Investor Day

Good afternoon, dear ladies and gentlemen.

I am leading the investment and strategy unit of Gazprom. Today, I am going to tell you about the Company’s development strategy.

The year 2020 became a true challenge for the global economy, in particular for the energy sector. The black swan of the pandemic resulted in a decline of economic activity and a downfall in demand for energy commodities, including natural gas.

The 2020 crisis took its toll on the current energy market and affected the short-term decisions made by the companies of the sector, while longer-term trends and targets that Gazprom is basing its strategy on have remained mostly unchanged. First and foremost, these include sustainable growth of demand for natural gas in the long term.

Let us consider independent assessments of the dynamics of the global energy mix and demand for energy commodities. In the coming two decades, two energy carriers are going to dominate: gas and renewables.

Lately, I often hear that gas is simply a “bridge fuel.” Well, we can call gas a “bridge.” According to all recent assessments, that bridge goes far beyond the horizon. We are standing at its first pier, while the bridge itself covers many decades ahead. This is what defines the high potential of Gazprom’s projects.

What else do we need to take into account? Gas is unique in terms of its environmental characteristics. Gas is economically feasible and competitive, remaining in high demand at the other end of the energy bridge.

Here are a few recent examples. In 2021, Europe saw a rather cold winter, which increased demand for natural gas. A shortage of gas supply along with interruptions in power supply in Texas (USA) in February 2021 left millions of people without water and electricity. This demonstrates that gas is fundamental to the sustainability and efficiency of energy systems. The sustainability of energy systems is declining and the use of interruptible energy sources, such as solar and wind power, is increasing. So, the demand for gas is going to grow.

How much in demand is it going to be? Let us look at the numbers more closely. At first glance, the key growth point for the global energy sector is renewables. Their global share is going to rise by 4 p.p. to 9 per cent by 2040, while the share of gas will only go up by 3 p.p. to 27 per cent. Nonetheless, natural gas is clearly contributing to satisfying the growing energy demand. It is natural gas that will become the fuel of choice in this area. By 2040, natural gas is expected to satisfy about 40 per cent of the new demand for energy as compared to 34 per cent for the renewables.

Gazprom is closely following the recent global energy outlooks. Traditionally, the Company is guided both by its own assessments and those of the most respected independent sources. While opinions may differ on other matters, everyone agrees on gas: it will be the most important energy resource in the decades to come. The growing demand for gas creates a favorable macroeconomic environment, which facilitates Gazprom’s long-term development strategy.

Next, I am going to discuss the main strategic targets of the Company for the upcoming decade and focus on the key projects in the domestic market, Europe, and Asia. I am also going to address the prospective financials of the Company and its contribution to low-carbon development.

Let me start with the strategic priorities at the beginning of the gas value chain, i.e. production.

Gazprom is greatly outstripping its competitors on the following metrics: the volume of proven reserves,

annual production, and annual exports of natural gas. The demand in the key sales markets is growing, which is why the Company continues to expand its resource base.

The development of a new gas production center in the Yamal Peninsula will provide most of the production increase in the long run. The Company is developing unique fields in Yamal, including Bovanenkovskoye and Kharasaveyskoye. Thanks to these and other promising fields, the total gas production in Yamal is going to exceed 200 billion cubic meters per year by the end of the decade.

In parallel, the Company will further develop production capacities in the areas of the Ob and Taz Bays, as well as the Nadym-Pur-Taz region. Firstly, we are going to tap the deeper layers of the producing fields (Achimov deposits of the Urengoyevskoye field). Secondly, we are going to bring new fields into operation, such as Severo-Kamennomysskoye and Kamennomysskoye-Sea.

Gas demand is growing in the east of Russia and in export markets, mainly China. This demand is going to be covered by fields in Eastern Siberia and Russia's Far East. I am talking first and foremost about unique fields, Chayandinskoye and Kovyktinskoye, whose total design output amounts to 50 billion cubic meters per year. On top of that, Gazprom is developing its production capacities in Sakhalin.

The share of natural gas in Russia's energy mix stands at around 54 per cent. The Gazprom Group's deliveries account for over 60 per cent of the total gas consumption in the country. The Company provides reliable supplies in autumn and winter periods and guarantees energy security in the country. It is the Russian market that is the key market for the Company.

Russia's energy strategy sets targets for annual gas consumption. By 2035, it could be as high as 520 billion cubic meters of gas. This target ensures growth of gas sales in the long term. By 2030, as per the Russian President's instructions, Gazprom is going to achieve a 100 per cent gas grid coverage in Russia to the extent technically possible. This will allow the Gazprom Group to increase its market share.

Considering the domestic market, we must also take note of the environmental aspect of Gazprom's operations. The importance of the global environmental agenda is growing. Against that backdrop, more and more companies are trying to showcase their environmental awareness and highlight their emission reduction efforts. Gazprom dedicates a lot of attention to that matter, but we prefer to take real action to reduce our environmental footprint.

Russia's gas infrastructure expansion program includes a transition from coal-fired power generation to gas. Let us consider the per unit emissions. The transition from coal to gas is up to 50 per cent more efficient than transition from gas to renewables.

It is indeed impossible to give up hydrocarbons in the observable future. However, we are already doing systemic work to reduce emissions. We are literally making Russian cities healthier and improving the quality of life.

The Company is reducing the carbon intensity of the Russian economy and making a major contribution to low-carbon development in the export markets. To this end, we are ramping up gas supplies via state-of-the-art gas pipelines to Europe and China.

In December, we celebrated one-year anniversary since the start of pipeline gas supplies to China. The Power of Siberia gas pipeline delivers gas directly to the Chinese market, one of the fastest-growing in the world. With the pipeline's launch in 2019, Gazprom became the first company to supply pipeline gas to both Europe and Asia. We also received the status of the largest supplier of natural gas in Eurasia.

Now let us discuss the largest import-oriented gas markets in the world – Europe and China. By the end of the decade, gas consumption in China may well reach that of Europe or even outpace it. European gas demand is expected to stay at about 0.5 trillion cubic meters, whereas China's gas consumption is on the rise. By 2030, the total demand for gas in both of these target markets may come close to 1 trillion cubic meters. Indigenous production in Europe is declining, while in China it is growing at a slow pace. Therefore, we expect gas imports to grow from 470 to 550 billion cubic meters in both markets.

So, this is what we have now. There is a heightened demand for gas imports in the target markets.

Secondly, the portfolio of Gazprom's long-term contracts is nearing 250 billion cubic meters of gas per year under the contracts signed. Thirdly, we are working on actual and potential export projects. All these factors are going to reinforce the Company's positions.

Moreover, Gazprom is interested in going beyond that and creating new up-to-date export routes enabling us to implement yet another strategic priority in our export activities, i.e. to improve the reliability of gas supplies.

Let us review the long-term prospects of new gas pipelines. What will be the export capacity of state-of-the-art pipelines towards Europe and China? About 330 billion cubic meters of gas per year, which is approximately one-third of the demand expected in both markets.

Reinforcement of the positions in external markets will be facilitated by a high competitive edge of Gazprom's supplies. Europe has more than half a century of mutually beneficial cooperation with Russia. For our European partners, Russian pipeline gas has long become synonymous with reliable and stable supplies.

In China, we are at the stage of building up our presence and winning the trust of the consumers. The Company is efficiently developing its operations in the country, which is proven by the fact that actual daily supplies regularly exceed the contractual ones as requested by the Chinese party. This was the case in 2020, and this remains true in 2021.

China's interest in stepping up gas supplies via Power of Siberia has a very simple explanation: pipeline gas delivered by Gazprom is the optimal source of imports for the target markets in China across many metrics.

First and foremost, it is highly competitive. Russian pipeline gas wins over its main competitors, i.e. gas from Central Asia and LNG under long-term contracts. And the reason is very simple: a very short transportation leg between the border and the capital region. In 2020, the only gas able to compete against Russian pipeline gas in the Beijing region was spot LNG. Its price went down over the last year because of the surplus supply in the global market.

Then again, it is worth mentioning what happened to low prices for spot LNG observed in summer 2020 in the Asia-Pacific region. In early 2021, they soared to record highs (up to USD 1,000 per one thousand cubic meters). As a result, importers incurred significant losses. From this perspective, supplies via Power of Siberia have an undisputed benefit, namely, protection against sharp fluctuations of the spot market and price volatility.

Finally, Power of Siberia has the significant advantage of providing sustainable supplies during cold spells.

This was very much on the agenda for Chinese consumers in last heating season. Supplies from Central Asia fail to ensure sufficient stability and flexibility, especially in winter. The same was true for LNG at various periods. LNG tankers could not offload the gas because the coastal sea area in the north of China was covered with ice.

The high demand for gas supplies via Power of Siberia opens up new opportunities to expand cooperation with Chinese companies, and new pipeline projects towards China have a huge export potential.

When implementing new projects, in particular those for pipeline gas exports to China, Gazprom is determined to maintain its balanced approach aimed at efficient and sustainable development of the Company with a stable pace of its annual investment program.

Our capital investment strategy is based on the idea that the investment program is not a fixed constant, but rather a flexible mechanism, which allows Gazprom to pursue its targets as effectively as possible within the framework of a volatile market environment. Our investments will serve for decades as a solid foundation for high volumes of natural gas production, ensuring that the growing demand in the target export market is met.

The key to our success is sustainable growth of gas production, ramp-up of supplies in Russia and foreign countries, and higher performance thanks to cutting-edge high-tech gas pipelines. All these factors will yield additional economic benefit for the Company. According to estimates, the EBITDA will grow by several trillion rubles in the coming decade against the backdrop of the implementation of major projects. This will secure good financial results of Gazprom's operations for the benefit of our shareholders and investors.

Now let us expand on that matter. Gazprom, as a global energy company, is fully aware of its responsibility towards future generations to come. First and foremost, I mean the environmental aspect of our operations.

Minimizing its environmental impacts and pursuing low-carbon development are important priorities for Gazprom. While considering the domestic market, we have already looked at the input of the gas infrastructure expansion program in emission reduction across Russia. With regard to the export markets, let me explain how we are going to supply gas externally. It is about the environmental advantages of gas transmission via state-of-the-art gas pipelines.

According to independent studies, Russian pipeline gas has minimal environmental footprint as compared to our potential competitor fuel, i.e. LNG. Just for your reference: the carbon footprint from pipeline gas delivered from Russia could be compared to the length of a human footstep, while that left by LNG supplies from Qatar and Algiers – to an elephant footstep, and by LNG supplies from the USA – to a dinosaur footstep.

With efficient state-of-the-art pipelines on hand, the Company views environmental transparency and reporting on emissions along the entire gas supply chain as an opportunity rather than as a threat. We are ready to contribute to the low-carbon development of Europe and China through our export activities.

The greenhouse gas emissions statistics of the Company is absolutely transparent and verified by respectable international agencies. The Gazprom Group's measures to improve energy efficiency and reduce the environmental impact are yielding results: greenhouse gas emissions have dropped by nearly 15 per cent within just one past year. We have managed to achieve corporate environmental targets: pollutant emissions have been reduced by 17 per cent in a year, while methane emissions – by 21 per cent.

We intend to maintain green investments to implement best available technologies, improve energy efficiency, and advance gas infrastructure expansion across Russian regions. From 2021 to 2025, we are going to channel over RUB 0.5 trillion towards that end. These significant investments are another indication of the Company's tangible input into green future.

In the long view, a broader use of hydrogen could be an additional tool to foster low-carbon development. Today, more than 75 per cent of all hydrogen in the world comes from natural gas.

Gazprom's priority at the current stage is to develop hydrogen production from natural gas. Later on, we would like to achieve hydrogen production with zero CO₂ emissions. According to independent assessments, natural gas and CO₂ capture technologies are now a much cheaper way of doing that than renewables.

There are two lines of activity that can contribute to further reduction of carbon footprint. The first one is the broader use of methane-hydrogen fuel, inter alia, in gas transportation. And the second one is the development of innovative technologies for hydrogen production with zero CO₂ emissions. Gazprom is already working in both of these directions to help promote hydrogen energy based on natural gas. In this way, we are building a strong foundation for the energy bridge.

In conclusion, I would like to focus on the Company's goals for the upcoming decade.

In the production segment, we aim to ensure a sustainable growth of production at the most efficient fields, given the domestic and external market environments. We are going to achieve that through developing new unique gas production centers, mainly in Yamal and eastern Russia.

Gazprom will continue enhancing energy security of Russia, contributing to national low-carbon development, and guaranteeing energy security in the domestic market. The main objectives are the implementation of the gas infrastructure expansion program and the provision of sustainable supplies to the consumers.

On the export side, Gazprom has a large-scale goal of firmly establishing itself as the leading supplier of gas in Eurasia. This goal will be achieved through maintaining the positions in the European market and ramping up exports to China to a considerable extent under both existing projects and new arrangements with Chinese partners.

The growth of economic indicators will be attained through a flexible approach to the investment program and accumulation of free cash flow.

On the environmental and sustainable development side, the Company will remain a significant contributor to the achievement of global climate goals.

Thank you for your attention.