

Press Conference
Gazprom in Eastern Russia, Entry into Asia-Pacific Markets
May 28, 2019

MODERATOR: Good afternoon, dear colleagues. We continue the series of Press Conferences in the run-up to the annual General Shareholders Meeting of Gazprom. Today we will address the projects in eastern Russia.

Taking part in the Press Conference are:

- Vitaly Markelov, Deputy Chairman of the Management Committee, Gazprom;
- Elena Burmistrova, Deputy Chairman of the Management Committee, Gazprom; Director General, Gazprom Export;
- Sergey Menshikov, Member of the Management Committee, Head of Department, Gazprom;
- Vyacheslav Mikhaleiko, Member of the Management Committee, Head of Department, Gazprom;
- Pavel Oderov, Head of Department, Gazprom.

The Press Conference materials are posted on the website and you also have their printed copies, so we can proceed immediately to the questions.

QUESTION: Olga Dedyeva, TASS agency. What is the progress with the negotiations on gas supplies from the Far East to China? Have you determined the volumes and the signing dates of the contracts?

How are the negotiations on supplying gas to China via the western route going?

ELENA BURMISTROVA: The Heads of Agreement for natural gas supplies were signed in December 2017. The negotiations are currently quite intense, the Chinese party is keen to purchase additional volumes, but the final parameters have not yet been determined. As soon as we get new information on the topic, we will make it available.

Regarding the western route, or the Power of Siberia 2 gas pipeline: the relevant negotiations started a long time ago, back in 2009. Since we are discussing the East today, let me quote Lao Tzu's saying: "The journey of a thousand miles begins with a single step." This step was taken in 2009, the negotiations continue, and we look forward to their successful completion as the leaders of both countries attach high importance to them.

QUESTION: Dina Khrennikova, Bloomberg agency. I have a question about gas supplies via Power of Siberia: what amounts are you expecting to supply this December and when will the supplies start? Moreover, how much gas will be supplied for the whole year of 2020?

ELENA BURMISTROVA: We have repeatedly stated in our messages and press releases that the planned supplies are 38 billion cubic meters per year. In 2025, we will achieve exactly this target. Deliveries will begin this year on December 1. We believe that this will be a landmark event that will pave the way for Russian gas to enter the Chinese market.

DINA KHRENNIKOVA: What is your view of the situation with Chinese consumption of natural gas – delivered by pipelines and in liquefied state – in the coming year, especially amid the emerging trade wars with the United States? Do you anticipate an increase in global gas supplies in this context, and how can this affect the cost of gas in the region?

ELENA BURMISTROVA: As you know, gas consumption in China grew by 18 per cent last year versus 2017 and totaled 280 billion cubic meters in absolute terms. According to our forecasts, the growth rates will not show any significant slowdown. As for the second part of the question regarding the prices, we observed various situations in the region during the peak period of 2017–2018. For example, we saw China's gas demand soaring as indigenous production was unable to meet the country's demand, which led to higher LNG imports. Simultaneously, pipeline gas supplies from Central Asia were decreasing for technical reasons, which pushed the prices to nearly their peak level during that period. The autumn/winter

period of 2018–2019 saw a slight lowering in the overall price across the region due to warm weather. With normal weather conditions during the current autumn/winter period, we expect gas prices to remain at their standard winter level with an allowance for possible peaks.

QUESTION: Artur Toporkov, Vedomosti newspaper. It was said earlier that the export capacity of Power of Siberia could be increased by 10 billion cubic meters due to an increase in the design output of the Kovyktinskoye field. Are you holding substantive negotiations with the Chinese partners concerning, inter alia, the commercial terms or a possible increase in the contractual supply volumes? Are you discussing these issues with them in the context of China's gas demand and its expected growth?

ELENA BURMISTROVA: Indeed, our Chinese partners have a strong interest in extra gas volumes. We have not agreed on the final amount of supplies yet, nor have we settled on the price. We hope to resolve these issues in the nearest future and impress our investors with a potential increase in supplies via Power of Siberia.

ARTUR TOPORKOV: A follow-up on this topic: let us consider the Far Eastern route. It was reported that the provisional terms and conditions containing, inter alia, the volume of supplies, the maximum period of attaining the design capacity, etc., have already been signed with China, but the official figures have never been disclosed. Could you possibly inform us on these?

ELENA BURMISTROVA: Unfortunately, I cannot provide such information since the sale and purchase agreement has not been signed yet. I gave you an example: we started the negotiations on the western route, i.e. Power of Siberia 2, in 2009. I hope that it will not take us as long this time because we know that the target market of China is growing rapidly and there is a high gas demand right in the southeast of the country. And, of course, it all depends on the development rate of China's transmission infrastructure and the needs of our Chinese counterparties.

QUESTION: Anton Khlyshchenko, Interfax agency. It was recently announced that Sakhalin Energy was authorized to carry out direct sales of LNG to the Chinese market and was about to sign six contracts. What companies and what volumes are indicated in the contracts? Why have you given up selling gas via Gazprom Marketing & Trading? Will you test this scheme in other countries as well?

ELENA BURMISTROVA: It would be wrong to say that Gazprom Marketing & Trading has suspended LNG purchases from the Sakhalin II project. The company is buying gas under long-term contracts, delivering 0.9 million tons per year besides its spot amounts. As for Sakhalin Energy Investment Company, we are well aware that it continues selling gas just as before. Some agreements were, indeed, signed by the company. However, those are not sale and purchase agreements but so-called master sales agreements with counterparties, such as the Chinese company PetroChina, which are meant to optimize supply opportunities and sell gas at spot prices in the spot market.

QUESTION: Dmitry Bandura, Nikkei newspaper. What is the current status of the third train of the LNG plant within the Sakhalin II project? How is the search for its resource base going? The resource base was supposed to be found by the first quarter of this year; is there any certainty about it? And what are the expected timeframes for putting this project into operation in light of the current situation?

ELENA BURMISTROVA: In June 2015, Gazprom and Shell signed a roadmap for the third production train of the LNG plant within Sakhalin II. The FEED process was completed in January–February 2018, and a positive opinion was issued by the Glavgosexpertiza of Russia (State Expertise Agency). At present, the project documentation is being prepared to launch a tender for the project's infrastructure construction contract.

DMITRY BANDURA: As far as we know, the resource base, i.e. the gas source for the third train, has not been identified yet. Where will this gas come from? Consideration was given to the Yuzhno-Kirinskoye field and to a partnership with Sakhalin I. For all I know, no definite information has been provided on this issue yet. What was the final decision?

ELENA BURMISTROVA: Indeed, no official information has been provided. We are currently negotiating with potential suppliers of feed gas for the project, and as soon as these negotiations are over, we will issue the official information.

Concerning new projects with Japanese partners. At present, we are contemplating the construction of

a 1.5-million-ton mid-scale LNG plant near Vladivostok. We have signed a relevant memorandum of cooperation with Mitsui. Of course, we do not rule out the accession of our long-standing partners, such as Mitsui and Mitsubishi, to the project for the third production train of the Sakhalin II LNG plant.

VITALY MARKELOV: We are looking at our local resource base, the Sakhalin III project, for the mid-scale LNG plant.

QUESTION: Tatyana Kudryashova, RIA Novosti. I would like to hear more details about the LNG supply proposal you made to Pakistan in 2018. Have you had any response, are you still in negotiations, and what supply volumes are expected in this case?

Bahrain has repeatedly expressed its interest in receiving LNG from Russia at its terminal that is currently under construction, and has mentioned Gazprom among the potential suppliers. Are there any substantive negotiations now and what supply volumes are being discussed?

ELENA BURMISTROVA: We have conducted such negotiations but withdrawn from them by now. I suggest Mr. Oderov comment on this issue.

PAVEL ODEROV: Indeed, Pakistan ran a tender for major shipments of LNG, but we did not win that tender. I do not know how matters stand with it now. As a result, we are not maintaining the previous form of relationship with this country.

In respect to the second question: a working group was formed to discuss possible LNG supplies to Bahrain. This issue is outside our priority areas, that is, we are not conducting detailed negotiations with partners from Bahrain.

QUESTION: Vitaly Sokolov, Energy Intelligence. A question for Elena Burmistrova. You have mentioned that you hope to successfully complete the negotiations on the western route. Could you clarify when you expect the negotiations to be completed: this year or maybe next week?

ELENA BURMISTROVA: The negotiations are now in progress; as soon as they are finished and we sign the corresponding contract, we will be happy to issue a press release to inform our investors, the media and all stakeholders about the signing, the contractual volumes and timeframes of delivery.

VITALY SOKOLOV: At what stage is the construction project for a pipeline from Iran to India – is it still on the agenda?

VITALY MARKELOV: We signed a project development memorandum with National Iranian Oil Company. Gazprom EP International set out to review the feasibility study for the gas pipeline construction within the framework of deliveries to India. To date, we have signed two documents: one with Iranian Oil Company and the other with Pakistan relating to feasibility study development. The work has not started yet.

QUESTION: Anastasia Goreva, Argus Media agency. As far as I know, Yuzhno-Kirinskoye and the Sakhalin I fields are viewed as a resource base for the third train of the Sakhalin II LNG plant. Besides these fields, are you considering or about to consider any other Sakhalin fields for the third train?

VITALY MARKELOV: We are choosing from among Sakhalin I, Sakhalin II and Sakhalin III gas fields. All the possibilities of supplying gas to the third train of the Sakhalin II LNG plant are being taken into account.

ANASTASIA GOREVA: When are you planning to enter into an EPC contract for the development of Yuzhno-Kirinskoye and the construction of the third train? Given that Technip has merged with FMC, does the consolidated company have a chance to procure this contract now that the company is no longer US-based – it is registered in London, if I am not mistaken?

VITALY MARKELOV: Today, the Yuzhno-Kirinskoye development project is advancing in accordance with the action plan. The field is expected to come onstream in 2023; it will have the annual capacity of 21 billion cubic meters of gas and 37 production wells. The work was commenced in 2018: four wells were drilled to the pay zone. This year, we are also setting to bring in four wells. Meanwhile, design works and selection of equipment are underway. The pre-development will be conducted by the Company without subcontracting.

In the case of TechnipFMC, you probably mean the equipment contractor that we were indeed considering. We are considering other suppliers as well, such as General Electric and other companies that are willing to supply equipment for subsea production systems.

ANASTASIA GOREVA: You are not going to enter into an EPC contract for the development of Yuzhno-Kirinskoye, are you?

VITALY MARKELOV: The design works for the field are in progress. When they are finished, we will conclude the appropriate contracts. We are going to proceed from design to the pre-development stage this year.

ANASTASIA GOREVA: What is the deadline for the FEED investment decision regarding the third stage of the Sakhalin II LNG plant? The date is being shifted constantly. Is there a new date now?

PAVEL ODEROV: There is a certain scope of work that we need to perform. It was very rightly said that finalizing the accord on feed gas supply for the third production train is a top priority. In addition, we need to select an EPC contractor for the third stage through competitive bidding. It is only after these two goals are met that all parties will be ready to adopt the final investment decision (FID). The bulk of work for obtaining a positive FID has already been done.

ANASTASIA GOREVA: Who are these EPC contractor candidates? What companies may get the contract?

PAVEL ODEROV: There will be a number of major EPC service providers qualified for the bidding. I do not think it would be wise to name specific companies outside of the formal bidding process.

VITALY SOKOLOV: Back in February, you signed an agreement with the Almaz-Antey Corporation for the supply of import-substituting products, including equipment for subsea gas production. Which fields will be provided with Almaz-Antey equipment? Will Almaz-Antey participate in the bidding for the Yuzhno-Kirinskoye field on equal terms with TechnipFMC and General Electric?

Have you already laid out the plans for developing the Yuzhno-Lunskoye field? When can it be brought onstream? How much gas will be produced there and what will be the supply destination: the Sakhalin II LNG plant or Vladivostok LNG?

VITALY MARKELOV: The manufacturer of equipment for subsea production has not been determined yet. We are cooperating with the Russian Ministry of Industry and Trade to create domestically-made systems. In accordance with the contract, the prototypes should be ready this year. Therefore, we will decide on the use of domestically-made production systems based on test results. We cannot speak of their applications until we complete this work.

Yuzhno-Lunskoye is not a large field. We prioritize our two major fields: Kirinskoye as the most developed field in terms of gas supplies to consumers, primarily within the Russian Federation, and the Yuzhno-Kirinskoye field, which is currently at the design and pre-development stage.

ANASTASIA GOREVA: What facility will separate the ethane, butane and helium fractions from the Chayandinskoye field until the Amur GPP is put onstream?

VITALY MARKELOV: The first train of the Amur GPP, which will process gas from the Chayandinskoye and Kovyktinskoye gas and condensate fields, will be commissioned in 2021. Until 2021, gas with a high content of propane-butane fraction will be supplied via a gas pipeline to China, and the helium component will be separated onsite using a membrane unit and pumped back into the reservoir.

OLGA DEDYAEVA: Have you attracted project financing for the Amur GPP? If not, when do you plan to do it?

VITALY MARKELOV: We are contemplating to raise project financing, but right now we are building the GPP under Gazprom's investment program.

ANTON KHLISHCHENKO: What kind of a competence center will Gazprom create on Russky Island? What can you tell us about its staff, size and functionality?

VITALY MARKELOV: Pursuant to the assignment given to our Company by Vladimir Putin, President

of the Russian Federation, at the Eastern Economic Forum, we are establishing our engineering subdivisions on Russky Island in the Far Eastern Federal District. The engineering subdivisions will focus on technological development in the sphere of gas liquefaction. We have met with the Rector of the Far Eastern Federal University to discuss the details, select the location and sign the required documents and roadmaps relating, in particular, to Gazprom's participation in this engineering center and its interaction with the University and the Russian Ministry for the Development of the Russian Far East and Arctic.

ARTUR TOPORKOV: A clarifying question about gas balance in the Far East. Some time ago, you reached an agreement with Rosneft on the supply of 2.3 billion cubic meters for the needs of the Eastern Petrochemical Company. An assignment was given by the President, and the companies reached an agreement in principle. Rosneft recently announced that they do not consider the construction of this complex economically feasible in the current macroeconomic conditions. Besides, you were going to build a pipeline that would stretch to the planned petrochemical complex. Does the cancellation of the construction plans for the Eastern Petrochemical Company make your gas balance scheme for the Far East simpler? Where can these 2.3 billion cubic meters be used?

What are the Company's conceptual priorities in terms of gas monetization? You have the domestic market, along with pipeline export and monetization opportunities related to the construction of the third train within the Sakhalin II LNG plant. Could you please rank the Company's priorities in order of importance?

VITALY MARKELOV: We started to design a gas pipeline to the petrochemical complex of the Eastern Petrochemical Company, and the project is nearing completion. Just like you did, we learned from the media that this complex will not be built in the current circumstances. But we have not yet received an official response from Rosneft confirming that these plans will be abandoned. We are preparing a request now. When we receive a reply, we will provide more accurate information regarding the construction parameters of the gas pipeline. We have other gas consumers besides the Petrochemical Company, so if we receive an official reply, we will probably adjust the gas pipeline's capacity for these consumers.

ELENA BURMISTROVA: I will add that Gazprom is focused on financial opportunities and strategic goals when running its projects for the monetization of gas reserves. Therefore, it will probably be wrong to name priorities now, since this also depends on our Asian counterparties, in particular on China, and on the timing of reaching agreements on sales and purchase contracts.

TATYANA KUDRYASHOVA: A question about Iran. I would like to inquire about your interest in the joint construction of a gas pipeline from Iran to Oman. Are you still interested in it? Oman planned to negotiate with Washington regarding the acquisition of a special permission to implement this project. Are you following these developments? Could you update us on them?

VITALY MARKELOV: We follow all developments that take place in the gas sector, including the project you have mentioned. Many companies are expressing their willingness to participate in this project, but Gazprom is not among them.

TATYANA KUDRYASHOVA: But you signed memorandums to develop four fields in Iran. You stated last year that this gas pipeline was one of the options for delivering gas from the fields and, accordingly, that the Company was interested in this project. Have you given up on it?

VITALY MARKELOV: We pay attention to each and every option for gas delivery, but we still have some work to do to join the project in Iran, which is why talking about gas delivery from Iran would be premature for Gazprom. We are currently in the process of considering our participation in Iran's project. A joint coordination committee has been set up with our Iranian counterparts to discuss all these issues.

ARTUR TOPORKOV: What is the status of the production program for the western shelf of Kamchatka? As far as I know, several areas did not live up to the Company's expectations, and the issue of stepping up production to ensure potential demand was suspended. NOVATEK is currently proposing to provide the region with boil-off gas through the construction of an LNG transshipment terminal. Would it be easier for you that way? Or maybe you have some production plans in parallel to that?

VITALY MARKELOV: Gas supplies to Petropavlovsk-Kamchatsky started in 2010. Today, we provide the city with stable supplies of certain amounts of gas, and, of course, we need to account for the growing

demand in the area of Petropavlovsk-Kamchatsky. There are different options. I would like to ask Sergey Menshikov to elaborate further.

I should add that 340 million cubic meters of gas for Petropavlovsk-Kamchatsky is a large amount. The gas demand would be much lower if the regional authorities introduced an energy saving program. We are discussing with the Ministry of Energy the possibility of launching energy conservation processes in the region.

ARTUR TOPORKOV: If I remember correctly, an annual increase to 700 million cubic meters was initially planned. The figures were apparently based on the forecasts for demand growth. The forecasts have changed; do you think that 340 million cubic meters are sufficient at this point?

VITALY MARKELOV: I believe that the potential for energy saving is rather high.

SERGEY MENSHIKOV: Gazprom has a geological exploration program until 2030 for Kamchatka, outlining onshore and offshore activities, namely, in the Zapadno-Kamchatsky block, where we carry out exploration and 3D seismic surveys. At the next stage, we will perform offshore drilling to estimate the reserves. The onshore assets are represented by the leased out areas, namely the Noyabrsky 1 and Noyabrsky 2 blocks. We continue our work there to get additions to gas reserves. The development plans will be made up after the data interpretation is completed. As regards the operating fields – Kshukskoye and Nizhne-Kvakchikskoye – booster compressor stations will be built and commissioned at the fields this year. We are also addressing the issue of the terminal, but I have no information on its status at the moment.

ANTON KHLyshCHENKO: What are the prospects of signing a contract with Prime for the transshipment of liquefied petroleum gases (LPG) from the Amur GPP? Are there any alternatives?

ELENA BURMISTROVA: We continue to discuss the possibility of signing it, and Prime is preparing documents for an EPC contract. In parallel, we received a proposal from SIBUR Holding offering to purchase the above volumes for the production of polymers. For the moment, we are reviewing both options, as well as the possibility of transporting LPG by rail and road to China. The final decision has not yet been made; the negotiations are ongoing.

MODERATOR: A question from the Internet. Nadezhda Rodova from S&P Global Platts is asking for a clarification on the plans for the use of helium at the Kovyktinskoye and Chayandinskoye fields. Is gas injection the only option that is currently being reviewed? When are you going to use helium?

VITALY MARKELOV: This is the only option that we have until 2021. The first supplies of helium will start in 2021 with the commissioning of the first train of the Amur Gas Processing Plant. With all the trains put onstream, the annual output of the GPP will amount to 60 million cubic meters of gas. That is, helium will be used starting from 2021.

This year is the year of Power of Siberia; the huge project is almost complete. A 2,159-kilometer segment of the gas trunkline will be brought onstream during the first stage, the Atamanskaya CS-7a compressor station will be built, pre-development works at the Chayandinskoye field have been finished, and a helium extraction unit has been installed. The unique project is based exclusively on domestic technologies. Gas supplies will commence on December 1, and I would like to congratulate all of you on this milestone achievement.

MODERATOR: Thank you. The Press Conference is over.