

**Press Conference**  
**Gazprom's Financial and Economic Policy**  
**June 21, 2019**

**MODERATOR:** Good afternoon, dear colleagues. The series of Press Conferences in the lead-up to the annual General Shareholders Meeting of Gazprom is coming to an end today. As usual, we conclude it with a Press Conference devoted to the financial and economic policy of the Company.

The Press Conference participants are:

- Famil Sadygov, Deputy Chairman of the Management Committee, Gazprom;
- Elena Vasilieva, Deputy Chairman of the Management Committee, Chief Accountant, Gazprom;
- Alexander Ivannikov, Karen Oganyan and Vitaly Khatkov, Heads of Departments, Gazprom;
- Mikhail Rosseev, Deputy Chief Accountant, Gazprom.

Now, I give the floor to Famil Sadygov and then we will pass on to your questions.

**FAMIL SADYGOV:** Good afternoon, ladies and gentlemen. It is my pleasure to greet all of you in this room. Thank you for your interest in Gazprom. We are pleased to have a traditional annual meeting with you today.

It is fortunate that during the past few weeks you have met the representatives of almost all the structural units of the Company. This will make it easier for me and my colleagues to discuss our respective business segments with you.

Today, you will meet the financial & economic unit and the accounting unit. I took over the financial & economic unit quite recently – in April this year. The unit deals with a remarkably broad range of matters: budgeting, tax administration, price and rate regulation, investment activity, debt management, treasury operations, liquidity management of the entire Group, dividend policy, investor and shareholder relations.

As the new head of the financial & economic unit, I have been entrusted with, and have also set jointly with my team, the tasks aimed at improving the financial and economic efficiency of the Gazprom Group, as well as ensuring financial and economic stability and transparency of Gazprom.

Such concepts as “transparency” and “efficiency improvement” will be frequently mentioned in the rest of my presentation and in the replies to your questions. At a recent Management Committee meeting, the Management Committee Chairman outlined them as the key business indicators for Gazprom's top management to pursue.

My colleagues have prepared a brief presentation containing the key financials, as well as the short-term and long-term tasks that we need to address. I would like to highlight some figures and tasks, especially considering that we have something to show off.

I am pleased to remind you that in 2018 Gazprom set records unprecedented in the entire history of the Company: its revenues amounted to RUB 8.2 trillion, showing a 26 per cent rise against the previous year, EBITDA in rubles grew by 7.7 per cent to RUB 2.6 trillion from 2017, and the net profit doubled to RUB 1.456 trillion within a year. And, what is most important, we have managed to maintain a positive free cash flow at a time when we are delivering large-scale projects of national importance, such as Power of Siberia, Nord Stream 2 and TurkStream. And we have set this level as a benchmark for the coming years.

It is undeniable that a favorable external environment has also contributed to our outstanding results. In the previous year, our gas supplies beyond the CIS countries reached a new peak. But it is equally undeniable that the successes of 2018 can be attributed primarily to the effective and concerted efforts of all structural units of Gazprom, including the financial & economic unit.

These financial achievements gave the Management Committee and then the Board of Directors the grounds to make the decision on the payout of record-high dividends – RUB 16.61 per share, nearly double the size of dividends paid out based on the results of 2017. Of course, as one would expect, the investment community welcomed this decision.

This was not a one-time move, but rather a result of deliberate efforts taken by Gazprom. The Board of Directors decided to issue in the second half of the year our new dividend policy aimed at achieving a gradual increase in the dividend payouts to bring them to the level of 50 per cent of the net profit under the IFRS within the next three years.

In this way, we plan to share our achievements with our shareholders, both majority and minority ones, and to link the amount of dividends directly to the Company's financial results, as well as to make it sufficiently transparent for all investors, so that they could calculate it themselves in advance.

We have reached a new level in our relations with investors and shareholders. Of course, we remain focused on the regions with the highest concentration of our shareholders, such as the United States of America, the United Kingdom, and continental Europe. But we also intend to develop these relations in the Asia-Pacific region.

As concerns our work format, we have decided to intensify our efforts in this area, primarily by establishing continuous communication. In this regard, we have set ourselves the task to maintain contacts via regular conference calls and periodic meetings with investors to explain our views on various issues. In the span of two months, my colleagues and I had eleven meetings of various types, including meetings with the Company's top executives, Members of the Management Committee and independent directors. We are determined to proceed further with this work.

I would like to add a few words about tax administration as one of the major thrusts of the Company's activities. As you know, Gazprom is one of the largest taxpayers in the Russian Federation: we paid RUB 3 trillion in taxes. Our consolidated group of taxpayers includes 65 organizations; we pay taxes in practically 76 constituent entities of the Russian Federation.

A stable and predictable tax regime is imperative for maintaining the investment attractiveness of Gazprom and the gas industry in general. First of all, this refers to the severance tax being of paramount significance for our Company. In this regard, we are in constant constructive dialogue with the financial authorities.

At the St. Petersburg International Economic Forum, Vladimir Kolychev, Deputy Minister of Finance of the Russian Federation, made a landmark statement on behalf of the Ministry of Finance, saying that in view of our new dividend policy the financial authorities are giving up on the practice of seizing profits through severance tax since 2019. That is, no additional tax multiplying factors will be imposed this year, nor will they be applied in subsequent years. In addition, I would like to remind you that the Tax Code already provides for the cancellation or reduction to one point of the multiplying factor in the gas severance tax formula for Gazprom starting from 2021. Of course, all these updates will reduce our tax burden and have a certain impact on the Company's EBITDA.

Our investment costs have been rather high in recent years. Large-scale projects – TurkStream, Nord Stream 2, and Power of Siberia – span the years of 2018 and 2019. What is the mainstay of our future investment plans? It is the selection of projects the effectiveness of which is thoroughly confirmed using the best practices of corporate economic analysis. All the approved investment projects are monitored for compliance with the CAPEX budget and for achieving the required returns on investments.

We have been consistently gaining skills in project financing and extending their scope of application in recent years. As you may know, we are implementing a rather extensive project – the Amur Gas Processing Plant. We intend to subsequently finance it through project financing. Looking forward, an increasing number of Gazprom's projects will be based on this scheme, and I wish to emphasize this now.

In conclusion to my brief opening speech, I would like to once again highlight the priority goals and objectives that the financial & economic unit sets for itself. These include an increase in the transparency and efficiency of the Gazprom Group's financial and economic activities. Our motto is “transparency is always the best policy.”

In the next place, we seek to improve the quality of corporate governance, including the accountability of heads of subsidiaries with all types of ownership for reaching the established targets. You have seen in the handouts that, starting this year, we established rigid key performance indicators (KPIs) for all leaders of our 819 subsidiaries. Each of them will be fully assessed against these KPIs at the end of 2019. This year, we tested the KPI-based control system, and 2020 will be the defining year for it.

Another challenge is to sustain growth of shareholders' returns and promote the Company's investment attractiveness. We consider Gazprom's shares and depositary receipts to be among the best in the market in terms of the assets' price-to-quality ratio and their price growth potential. And we will strive to make the investors believe in this too, to make them share this confidence with us.

Finally, I would like to mention the sustainable development of the Company. I mean sustainability in both of the generally accepted meanings of the term.

First of all, it is financial stability. We will pursue a conservative financial policy in debt management. Our goal is to keep the debt/EBITDA ratio at the level strictly below 2 for the foreseeable future. Another goal is to ensure centralized management of cash flows in full as part of the Company's treasury. We have already achieved this goal, but we need to expand the range of our activities, inter alia, by engaging the subsidiaries located abroad and some subsidiaries which were not covered by the policy in the Russian Federation.

Secondly, I mean sustainable development, of course. Everyone is familiar with this concept. We are fully aware of the imperative impact it has on the environment, on social responsibility, and on proper corporate governance in view of the scale, importance, and range of Gazprom's activities in Russia and worldwide.

**QUESTION:** Dina Khrennikova, Bloomberg agency. You have mentioned that Gazprom intends to follow a conservative financial policy. As far as I understand, this will primarily concern your debt policy. How do you see Gazprom's operations in the debt market, including its planned Eurobond issues? How do you plan to control the debt level in the coming years until the completion of all major projects?

**FAMIL SADYGOV:** The conservative financial model that we adhere to is not focused exclusively on the debt/EBITDA ratio and its containment. We are primarily committed to a conservative approach to the budgeting process, from setting cost limits to ensuring the implementation of these budget targets throughout the year. By applying this principle, we certainly expect some positive outcomes. Of course, we need to follow the Company's development strategy, but we wish to get better results through budgeting activities coupled with well-arranged budget execution. This is the first point.

The second point: creditworthiness is a big challenge for the Company. Therefore, we would like not to expand the debt by any means, but, whatever our projects are, we are still driven by the goal to keep the free cash flows positive. We are not going to increase the debt/EBITDA ratio, at least above 2. Today it stands at 0.8, and my colleagues do not expect it to grow higher than 1 this year. I think that we will keep up with this level since we have already basically made the entire volume of market borrowings planned for this year.

However, our goal is different. Gazprom is well-positioned enough as a permanent market player to change its objectives. Therefore, we will be in the market – now I am answering your second question about borrowing funds through a Eurobond issuance. I do not see this as Eurobonds, issuance in rubles or other currencies – I see this as entering the market and procuring funds from the capital market.

We have set the goal: to stay in the market in order to get different objectives. It is not because we need liquidity – everything is fine with the liquidity, all our projects are supported by free cash flows, even now. We will participate in the market, more specifically, in the ruble market, in order to get different objectives. This is point one.

As for Eurobonds, we already placed them at the beginning of the year and received quite a substantial financial return. Yes, we are getting ready for another bond issue, among other things. But apart from that, we are considering a few other debt instruments, including multicurrency corporate bonds in the Russian market in compliance with Russian law. We want to be first. The Russian Federation has already entered the international capital market. We would like to be the first among Russian corporate borrowers. We are already working out our program. There is a need to update the investment support legislation, so we have already discussed it with the Ministry of Finance and received some backing on these issues. We propose amendments to the legislation in order to enter the domestic market with the same program this autumn. Of course, I cannot outline the specific parameters or the date of issuance now.

**DINA KHRENNIKOVA:** You stated that you are preparing a new Eurobond issue. Will it take place as early as this year? Or is it meant for a distant term?

**FAMIL SADYGOV:** If the issue takes place this year, it will probably be by the year's end.

**QUESTION:** Yulia Titova, Forbes magazine. In what currency?

**FAMIL SADYGOV:** In euros.

**QUESTION:** Anton Khlyshchenko, Interfax agency. How can you evaluate the results of the introduction of the tax monitoring system at Gazprom Export? Can you talk about the prospects of implementing the monitoring system at the parent company, PJSC Gazprom? What does this mean for the shareholders?

**FAMIL SADYGOV:** I will begin by saying that we have decided to switch to the tax monitoring system not only for Gazprom Export – Gazprom itself is switching to tax monitoring performed by the Federal Tax Service. We are now undertaking pilot monitoring at our subsidiary company Gazprom Export. In subsequent years, it will be put into practice across nearly all subsidiaries that are part of a consolidated group of taxpayers. Next year, we will include six more companies into the system so as to reach the number of 40 companies within a three-year period. Of course, Gazprom will be among them, too.

What does it mean? First of all, it means transparency. We were looking for the best mode of interaction with the Federal Tax Service and came to the conclusion that the “tax display” is the best option. The tax authorities can establish a direct connection to our primary data registration, with no need for reports, at any moment – as they say, twenty-four seven, at any time of day or night. Therefore, this is a way to be transparent for us. And we deliberately chose to adopt this system because Gazprom is the Company that can afford it.

**KAREN OGANYAN:** Yes, we expect Gazprom to switch to this system in 2022 or 2023 as well.

**QUESTION:** Ilya Fedosov, NTV television company. Could you give us more details about the new dividend policy, in particular, relating to Gazprom’s plans to increase the amount of dividends, bringing it up to 50 per cent of its profit? Will the dividend amount depend on other financial indicators, besides net profit?

**FAMIL SADYGOV:** I have already told you that the Management Committee was the first to decide on the dividend increase and then the Board of Directors made the same decision. The approved dividend amount will be paid out this summer. In absolute terms, it will be the maximum dividend amount among all Russian companies. It will also be the largest amount in the entire history of the domestic stock market.

Anyhow, we were given the task of developing the dividend policy. The dividend policy is based on a lot of objectives: the need to maintain a balanced strategy for development, and at the same time the need to ensure creditworthiness and pay out dividends to shareholders. The first indicators will depend on the net profit, and then the dividends will be gradually brought up to 50 per cent of the net profit.

As for other indicators having an impact on the dividend amount, these will of course be discussed with the shareholders, independent members of the Board of Directors and majority shareholders will participate in the discussion. Our objective obviously is to adjust the net profit for non-cash items in order to remove the influence of, say, foreign currency revaluation. Some colleagues say that we need to link them to financial targets. Meanwhile, independent members of the Board of Directors insist that calculations should be based on the net profit. These discussions will also involve the Ministry of Finance.

Our aim, of course, is to make the dividend calculation very simple so that the shareholders could do it themselves. So that we take care of the financial results and then the calculations are done by the investors based on the obtained figures. We will try to build our dividend policy in line with this logic. The policy will be publicly available following its drafting and approval by the Board of Directors.

**QUESTION:** Tatyana Kudryashova, Rossiya Segodnya agency. Are you planning to use or, perhaps, test the practice of interim dividend payouts as part of your new dividend policy?

My second question is about the placement of Eurobonds. In March, Gazprom looked into the possibility of placing Eurobonds in Swiss francs. Are you still considering this idea? If not, why did you reject it?

You have mentioned that you are now contemplating a bond issue in euros. Could you provide the details regarding the size of the issue?

**FAMIL SADYGOV:** Regarding the payout of interim dividends. Frankly, this does not scare us because we always have enough free cash flow.

We have majority shareholders that also decide on the timing of payouts. If they uphold this idea, then we

will make a decision. But until now, the decision was traditionally made once a year, and we paid out dividends once a year. When we discuss the dividend policy at the Board of Directors meeting, we might also discuss the frequency of payouts.

As for the placement, I said that, from the perspective of liquidity, it is currently not necessary. Indeed, we are exploring the possibility of an issuance in Swiss francs. As part of the St. Petersburg International Economic Forum, I met with my counterparts and officials of banks, both Swiss and Russian, which are organizing this bond issue. Yes, we are also considering euros. Moreover, we want to follow up on last year's success of our issuance in yens, I mean the issue prepared and carried out as part of the so-called GATE program. We had negotiations with export agencies, including JBIC. We will also try to make up a relevant program. We are going to implement it late this year or early next year, the exact time is not so important for us.

**DINA KHRENNIKOVA:** Could you please provide clarifications regarding the Gazprom Group's investment program for the current year? You normally revise it several times a year, and the latest amount you published in the statements for the first quarter was RUB 2.078 trillion. Has it been revised? Or does it remain the same?

**FAMIL SADYGOV:** I am not going to talk about the Group, I would rather talk about Gazprom. We have an investment program, and, indeed, we occasionally update it. Just yesterday or the day before yesterday, we revised the investment program: its financing decreased by RUB 47 billion, for the first time ever. Moreover, the reduction was not unexpected: we conducted an analysis, considered various optimization options, and finally made this decision. The financing of the investment program has been reduced by RUB 47 billion.

**DINA KHRENNIKOVA:** Is the RUB 47 billion reduction a calculation on a year-to-year basis or an update to the previous plan for this year?

**FAMIL SADYGOV:** It was this year's plan that we updated. We planned a different figure, but it turned out to be RUB 47 billion lower. This is the budget that we have adopted.

**ANTON KHLyshCHENKO:** What is the status of the negotiations on attracting project financing for the Amur GPP? Have you signed documents with any banking institutions on their participation in the project?

**FAMIL SADYGOV:** I will start with the last question – of course, we have not done it yet. We have the financial closure this year, presumably in the third or fourth quarter, most likely in the fourth quarter. We have received offers from all banks. I will say briefly that we were planning to use a classical project financing scheme, namely, 30 per cent – the Company's own funds, 70 per cent – the borrowings. Of course, I cannot disclose all the details right now as the negotiations are still going, but we have received binding offers from all banking institutions, including export agencies, European banks, Russian banks, and Chinese banks.

The only thing I can say is that it has been oversubscribed 2.5-fold. Honestly, we did not expect that. Yes, the project is lucrative, and everyone likes it, but 2.5 is an impressive figure. Therefore, we are negotiating a new financial plan. We can be more demanding now, in both financial and legal terms. Currently, the financial documents are being agreed and the financial conditions are being discussed. As far as I know, the first meetings were held today. The deadline is set for the end of the year, and I am sure that we will deliver this project.

About the participation: we are going to act as usual. Since the project is implemented internationally, the participation will be distributed as follows: 30 per cent – export agencies, and 30 per cent – European banks. We expect a Russian bank to join us, and, of course, we rely on Chinese banks too, and we would like to receive an offer for a 30 per cent participation from them.

**ANTON KHLyshCHENKO:** Is the contractual price of supplies via Power of Siberia dependent on engaging China Development Bank to finance the Amur GPP? Could China demand that the terms of the gas supply contract be revised if this bank refuses to finance the Amur GPP construction project?

**FAMIL SADYGOV:** Honestly, I do not understand what prompted this question. The participation of banks is not dependent on anything. Participation in the Amur GPP financing is not dependent on any conditions, and even less on the gas supply contract. The contract is not a matter of negotiation – it has been signed

already. This is why the answer is no.

**QUESTION:** Vitaly Sokolov, Energy Intelligence agency. A question about dividends. From what I understand, 50 per cent of the net profit is a target indicator that you are planning to reach within two to three years, but it is not the required minimum. If so, what will the required minimum be – 27 per cent or a bit more?

How long do you expect to maintain the payouts at the level of 50 per cent based on investment programs and other factors?

**FAMIL SADYGOV:** We are currently drafting the dividend policy, which will then be reviewed at the Board of Directors meeting. The dividend policy we are drafting states that we aim to attain the level of 50 per cent of the net profit after a certain number of years, two or three years maybe. How long will it remain unchanged? As long as the dividend policy approved by the Board of Directors remains in force. If the Board of Directors changes the policy, the approach to dividend payouts might turn out different. We are not going to change anything for now.

**ALEXANDER IVANNIKOV:** The question is probably related to some cutoff figures that we provided before. We used to say that after reaching the payout level of RUB 8 we would not reduce it regardless of the amount of profit.

Mr. Sadygov said that the document should be exhaustive, and we will probably avoid additional conditions. That is, 50 per cent is the target level that we need to attain. As you said, “two or three years.” You are correct, and further adjustments will be made if and when necessary. As we have mentioned, we have passed the peak of the investment cycle, and we see a possibility to pay out dividends of 50 per cent of the net profit without prejudice to other goals. In theory, we may update the dividend policy and change the target figure if the situation changes. But most likely, we will adhere to the target level of 50 per cent.

**VITALY SOKOLOV:** What severance tax payments do you expect this year in absolute terms? Can you compare them with the base level of 2015 and also with the payments for the preceding year?

**KAREN OGANYAN:** In 2019, the amount of severance tax on natural gas is expected to be RUB 522 billion. Of these, RUB 362 billion is the base amount, that is, severance tax before the multiplying factor. Accordingly, RUB 160 billion is due to the Cgp coefficient.

**FAMIL SADYGOV:** Yes, these are bottom-line results, and they are not subject to updates as was the case in the last two years. There will be no updates this year.

**QUESTION:** Ekaterina Alieva, Gas Industry magazine. On June 4, Alexey Miller outlined Gazprom’s capitalization growth as being above USD 85 billion, coupled with a one-and-a-half increase in the share value and the attainment of the top position in the Russian stock market. How can you explain this growth?

**FAMIL SADYGOV:** Firstly, the financial & economic unit set itself the goal of enhancing the investor and shareholder relations. Secondly, the decision to pay record-high dividends encouraged investors to invest. As a result, the Company’s quotes changed, and this was not unexpected.

It is thanks to our relations with investors and shareholders that we retain this level today. This is the result of our dividend policy and our statements regarding our ways of providing dividend flows to shareholders.

In addition, a sound financial performance has its effect on the situation. In the first quarter, we achieved a fairly good level. I think the second quarter will be equally successful. Investors and shareholders appreciate our results.

Moreover, I can say that this asset was simply undervalued before, although, as I pointed out in my speech, it is of the highest quality today. And now, investors believe that as well.

**QUESTION:** Jaroslav Koribsky, Hospodarske Noviny newspaper (Slovakia). You are running major investment projects, such as Power of Siberia, Nord Stream 2, TurkStream, and the Amur GPP. What sources of financing are you using for the projects this year? How will the financing strategy change in the medium or long term, if ever?

**ALEXANDER IVANNIKOV:** Thank you for the question. I would like to remind you that three of the four projects you have listed are being completed this year. I will explain their financing schemes now. I will not

talk about the future, as changes are unlikely to occur within the remaining six months of the year.

The financing of Nord Stream 2 is shared on a parity basis by Gazprom and the co-financing parties – our potential shareholders – on 50/50 terms. Financial investors rigorously comply with all their obligations, and neither the sanctions nor any other actions have been able to change this scheme.

As for TurkStream, it is currently in the final phase and is financed under the investment program of Gazprom.

In the case of Power of Siberia, the project consists of three major parts, namely field development, gas pipeline construction, and Amur GPP construction. The field is due onstream this year, and its further development will be financed under the investment program of Gazprom, as will be the construction of the gas pipeline. The construction of the Amur GPP, as I have already pointed out, is based on project financing with a debt-to-equity ratio of 70 to 30 per cent and is due to be completed in 2024. We do not expect any fundamental changes in the financing scheme.

**FAMIL SADYGOV:** As you know, we were taking efforts to arrange project financing for both Nord Stream 2 and TurkStream. We will continue these efforts.

**QUESTION:** Alexander Branis, Prosperity Capital Management. Could you please comment on the interim milestones and plans to reduce operating costs?

**VITALY KHATKOV:** In accordance with the directives issued by the Government and the decision of the Board of Directors, Gazprom adopted relevant regulations for increasing its operational efficiency. It provides for relevant efforts to be taken with regard to all types of the Company's business activities, including production, transportation, storage, and processing. As part of these regulations, all structural units involved shall undertake appropriate measures to enhance efficiency. This also refers to the control over operating expenses, streamlining of procurement, and optimization of capital investments.

According to provisional estimates and calculations made for 2018, the total Company-wide savings generated through such efficiency improvement measures make up RUB 247 billion. These estimates include all fields of activity: investment optimization, design work, procurement policy, reduction of costs for routine activities, reduction of costs for the procurement of materials and equipment. That is, the figure is aggregate.

The work has been in progress for several years now, to be more exact, for about 10 years, and we continue it in 2019 as well. The results of 2019 are calculated by half-year periods, that is, we will be able to discuss them at the next Press Conference.

**MODERATOR:** Thank you very much. The Press Conference is over.