



# STRONG Foothold IN CHANGING TIMES

GAZPROM  
INVESTOR DAY **2017**

## 01. STRATEGY

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**Oleg Aksyutin**

MEMBER OF GAZPROM MANAGEMENT COMMITTEE  
HEAD OF DEPARTMENT

**SLIDE 4**

## 02. EXPORT

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**Alexander Medvedev**

DEPUTY CHAIRMAN OF GAZPROM  
MANAGEMENT COMMITTEE

**SLIDE 21**

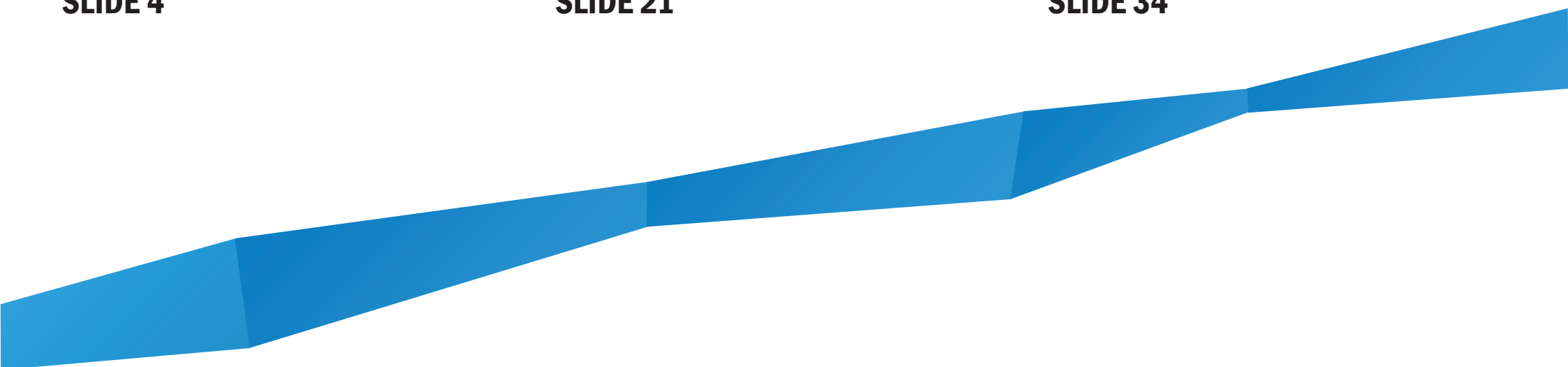
## 03. FINANCE

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**Andrey Kruglov**

DEPUTY CHAIRMAN OF GAZPROM  
MANAGEMENT COMMITTEE

**SLIDE 34**



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# Oleg Aksyutin

MEMBER OF GAZPROM MANAGEMENT COMMITTEE  
HEAD OF DEPARTMENT

## 01. STRATEGY

## MAJOR EVENTS OF 2016 IMPACTING FUTURE ENERGY MARKET DEVELOPMENT

### MARKET & TECHNOLOGICAL

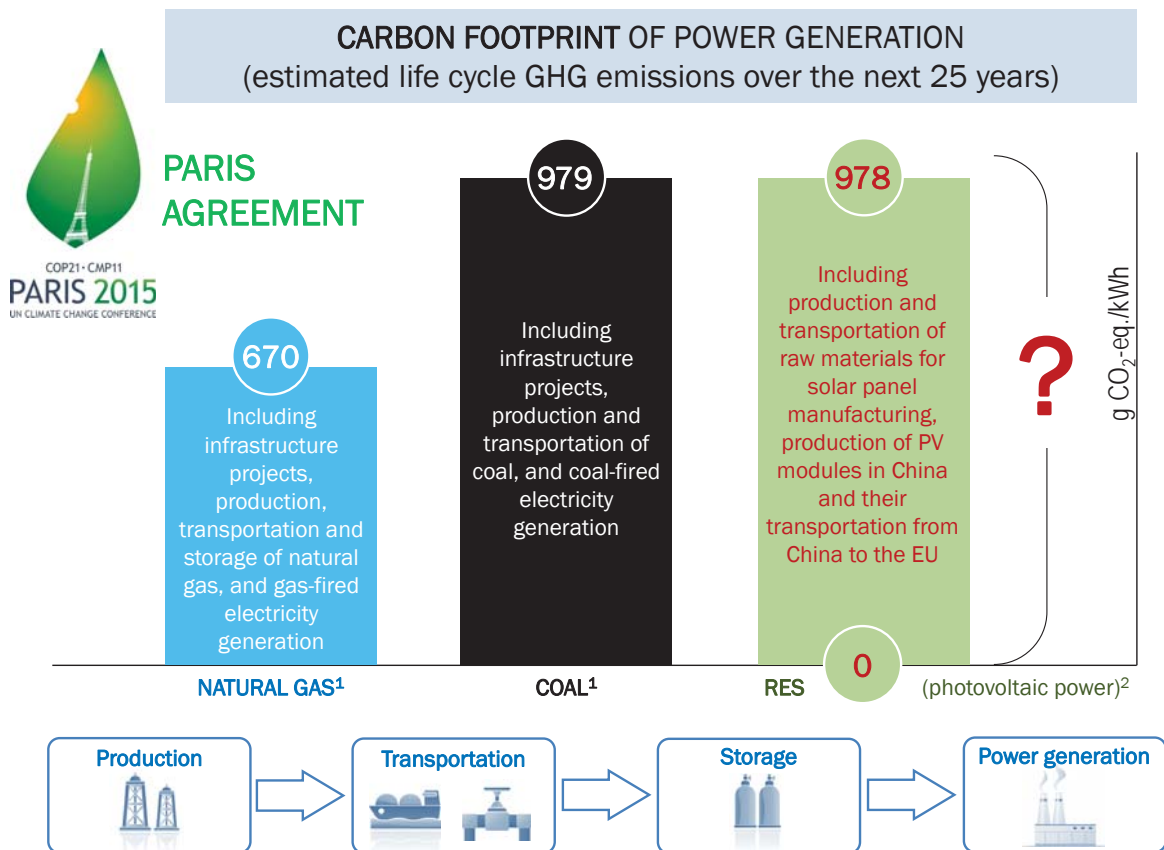
- Oil and gas price stabilization on low-mid levels
- Oil and gas companies' CAPEX cuts (especially in exploration)
- Speeding up of China natural gas demand growth
- Delays or cancellations of some LNG projects
- Commencement of US Lower 48 LNG exports
- Decrease in investments in renewable energy

### POLITICAL & INSTITUTIONAL

- Lifting of sanctions against Iran
- OPEC agreement to cut oil production
- US president election
- "Brexit"
- Coming into force the Paris Agreement on climate change

- The major 2016 events are expected to provide an additional upside to Gazprom's strategic advantages
- Gazprom's long-term position in the global energy market remains stable due to the combination of abundant conventional resource base, well developed gas transport infrastructure and low operational costs, long-term gas supply contracts and ongoing diversification of product range, supply routes and markets

## INTERNATIONAL CLIMATE POLICY



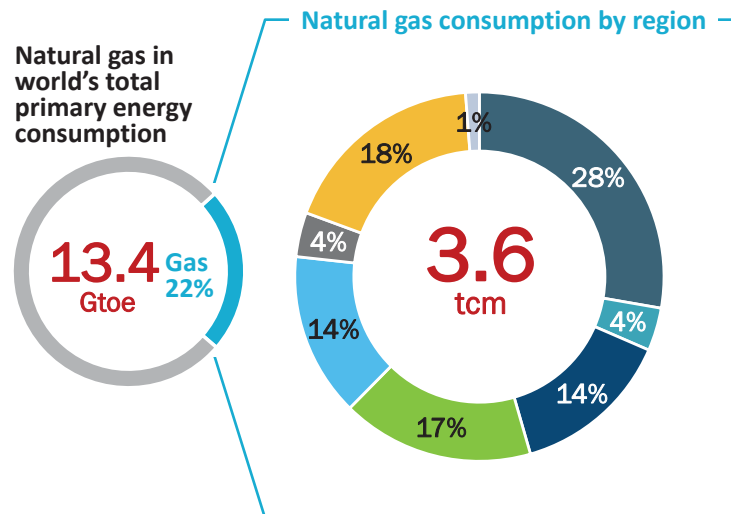
Focus on reducing greenhouse gas emissions - new opportunities for gas business expansion:

- increase of natural gas consumption through reduced coal consumption
- use of renewable energy sources in combination with natural gas
- use of natural gas as a motor fuel for various types of vehicles

Unbiased assessment of the carbon footprint of different energy sources with due regard for the entire production cycle

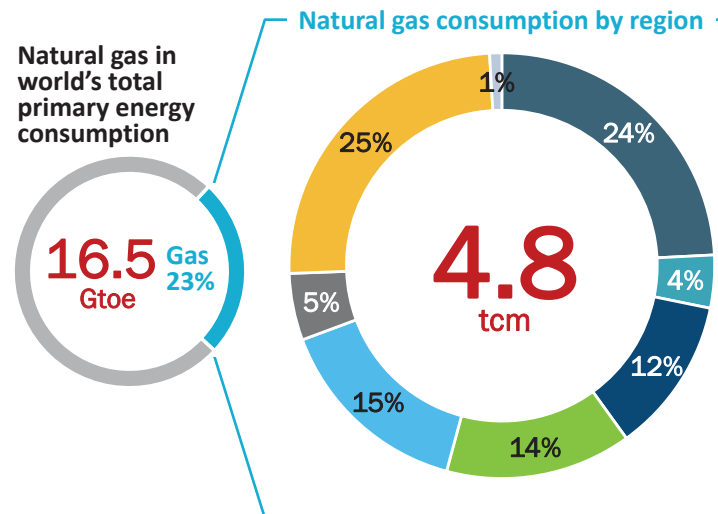
Recognition of natural gas role in the decarbonation of the economy

# TOTAL PRIMARY ENERGY CONSUMPTION AND WORLD GAS DEMAND

**2016**


■ North America  
■ FSU  
■ Asia

■ South America  
■ Middle East  
■ Australia & Oceania

**2035 forecast**


■ Europe  
■ Africa

Calorific value of natural gas = 8850 kcal/m<sup>3</sup> (20 deg. C)

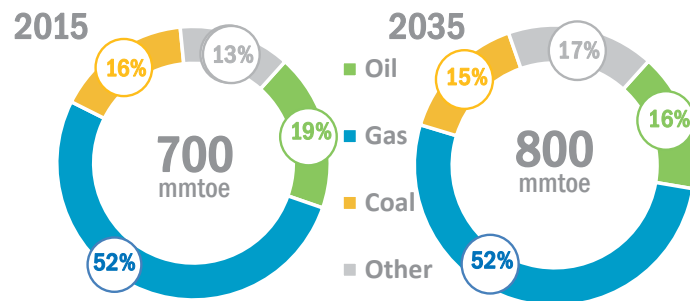
- Global primary energy demand will grow over the next two decades at an average rate of 1% per year
- Natural gas will increase its share in world energy mix from 22% in 2016 to 23% in 2035 to the detriment of oil and coal
- Global gas demand is expected to continue rising by an average rate of 1.5% per year until 2035
- Asia-Pacific is projected to replace North America as the main gas consuming market by 2035

Source: Gazprom long-term forecast, 2016

# RUSSIAN GAS MARKET

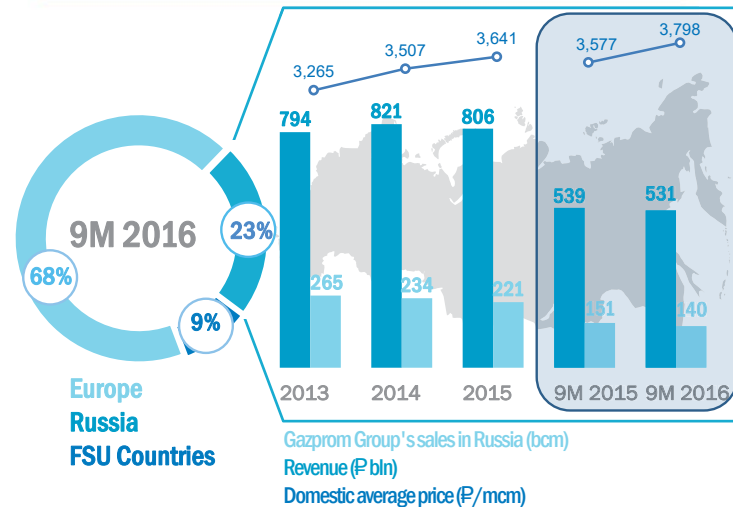
## ROLE OF GAS IN DOMESTIC MARKET <sup>1</sup>

### THE STRUCTURE OF PRIMARY ENERGY CONSUMPTION



## GAZPROM IN DOMESTIC MARKET<sup>2</sup>

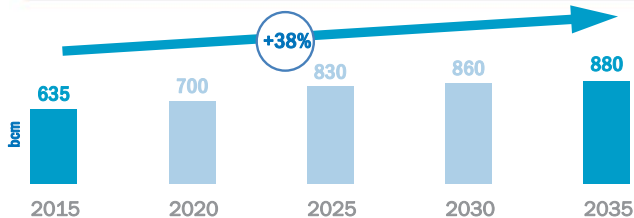
### STRUCTURE OF GAZPROM'S GAS SALES REVENUE



### RUSSIAN MARKET – SOURCE OF SUSTAINABLE GROWTH

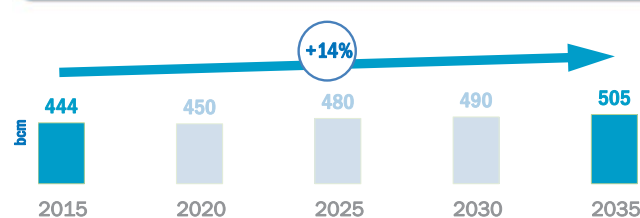
- According to the draft of the Russian Energy Strategy ~14% growth in domestic gas consumption is expected by 2035
- Most of gas is supplied to Russian consumers at prices regulated by the government. However Russian gas exchange has been launched and its role will grow
- About a half of Gazprom's gas is sold domestically with more than 23% of total gas sales revenue
- Gazprom acts as a guaranteeing supplier, including obligations to cover seasonal consumption peak
- Gazprom has the sole right to export Russian natural pipeline gas
- “Existing amount of PJSC Gazprom's functions will be maintained” (The Russian Energy Strategy 2035 (draft))

### GAS PRODUCTION IN RUSSIA



<sup>1</sup> The Russian Energy Strategy 2035 (draft)

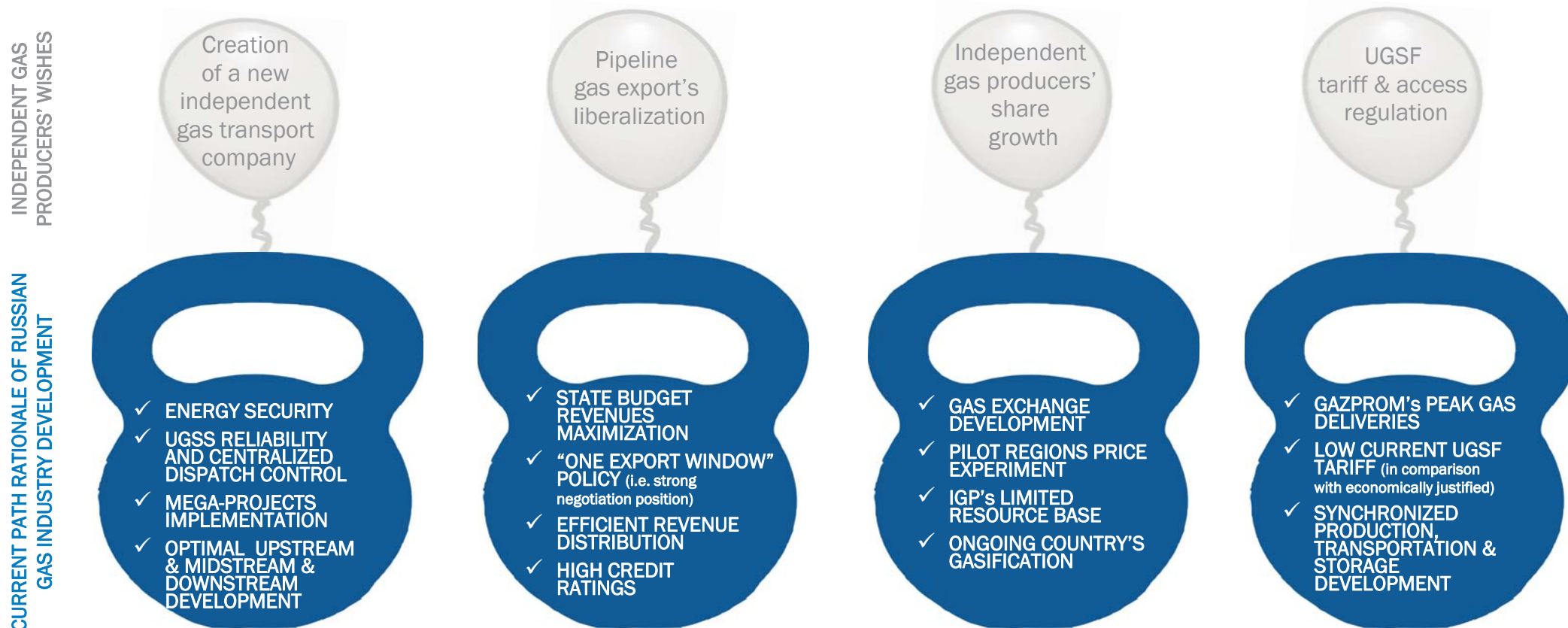
### GAS CONSUMPTION IN RUSSIA



<sup>2</sup> According to IFRS



## RUSSIAN GAS INDUSTRY DEVELOPMENT FACTS AND WISHES



## EUROPE: GAZPROM'S CURRENT KEY EXPORT MARKET



### UPSIDE POTENTIAL FOR GAZPROM'S PIPELINE GAS SUPPLIES TO EUROPE

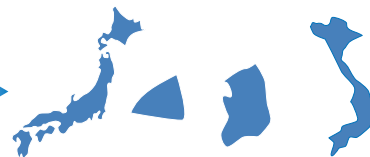


- Natural gas price competitiveness compared to other energy resources
- Price competitiveness of Gazprom's gas to US LNG
- Huge portfolio of LT take-or-pay contracts
- Declining indigenous gas production
- No success in shale gas developments
- Lack of alternative substantial gas supplies
- Growing gas demand in transport sector
- Gas demand recovery in power generation
- Reinforcement of environmental regulation (Paris Agreement)
- Environmental advantages of natural gas compared to coal



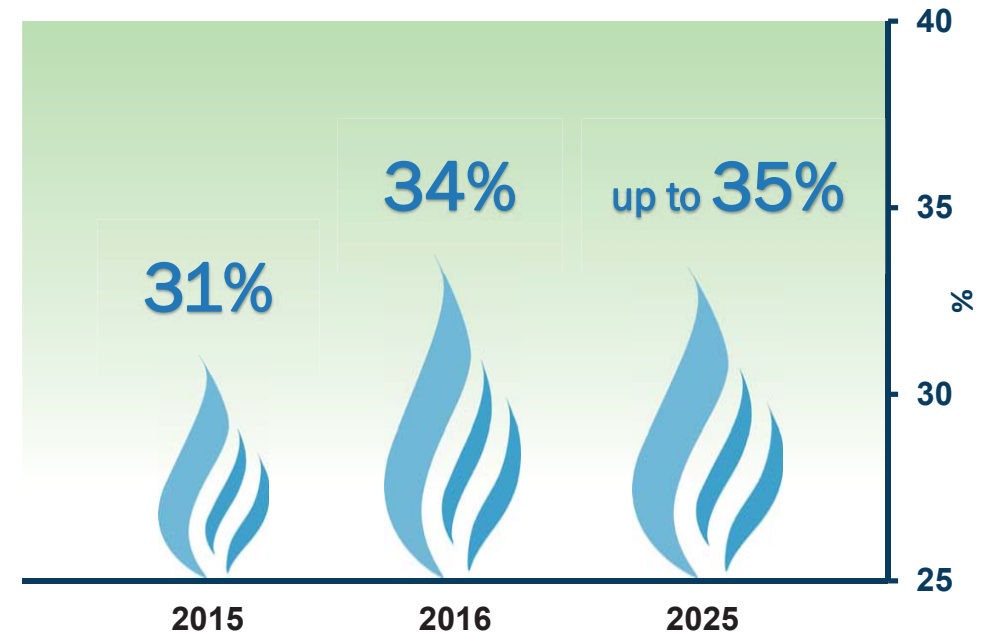
**179.3 bcm**

Record high pipeline gas deliveries to Europe in 2016

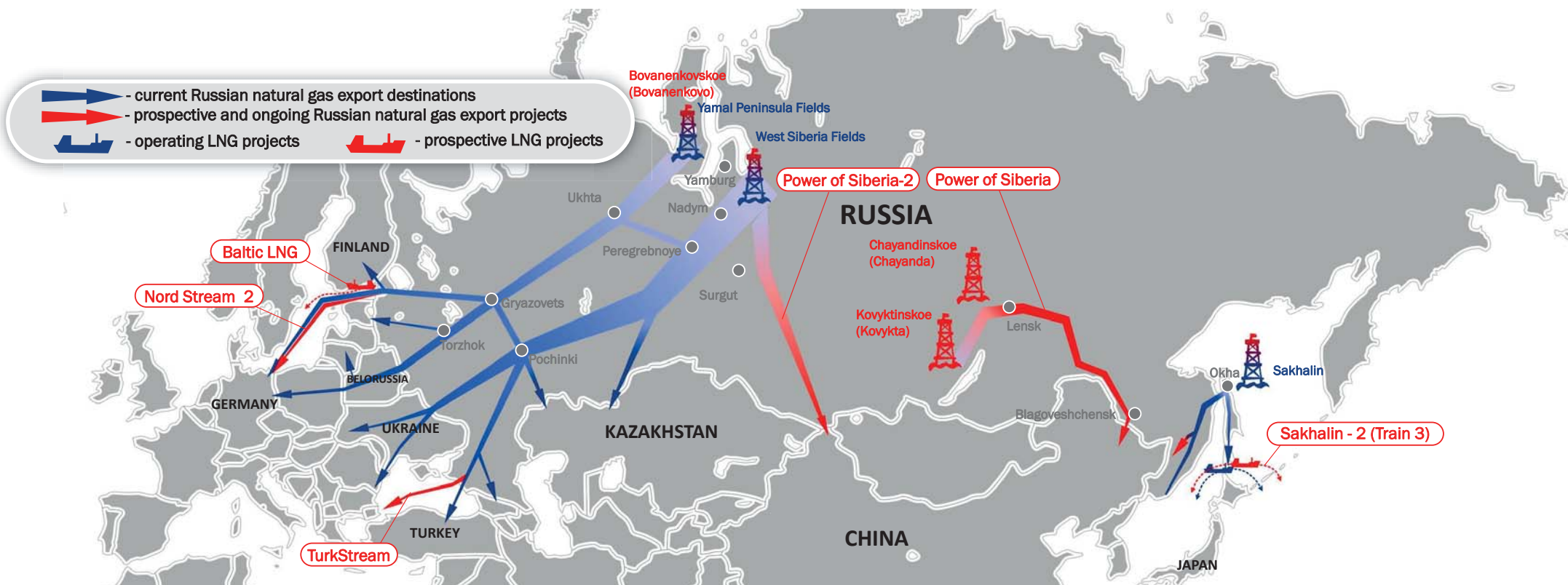


Total annual gas consumption in Japan, Singapore, South Korea and Vietnam

### GAZPROM'S SHARE EVOLUTION IN THE EUROPEAN GAS MARKET



## KEY CURRENT AND PROSPECTIVE EXPORT DESTINATIONS





## NORD STREAM 2

### PROJECT KEY DETAILS

✓ **ENHANCING  
RUSSIA – EU PARTNERSHIP**

✓ **INCREASING EU  
SECURITY OF SUPPLY**

✓ **SHORTENING  
DELIVERY DISTANCE**

✓ **EXCLUDING  
TRANSIT RISKS**

✓ **ENSURING  
LOW ECOLOGICAL FOOTPRINT**

- Project capacity – **55 bcm/year**
- Commissioning date – **2019** (Dec.)
- Pipeline length – over **1,200 km**
- Number of lines – **2**
- Working pressure – **22 MPa**
- Financing mechanism – project financing
- Total investments – **€9.9 bln** (incl. CAPEX - €8 bln and financial and operating expenses - €1.9 bln)
- Planned CAPEX (2017) – **€111 bln**
- Planned subsea section construction start - **2018**
- Transit tariff – **2.1 US\$ per mcm/100 km** (**20% lower** than current tariff and **2.2 times lower** than anticipated tariff in Ukraine)
- CO<sub>2</sub> emissions – **1.8 mln t/year** (**8.2 mln t/year lower** compared to Ukrainian route)



— Nord stream — Nord Stream 2 — existing transit route



# TURKSTREAM

## PROJECT KEY DETAILS

- Project capacity – **31.5 bcm/y**
- Commissioning date – **2019** (end)
- Pipeline length – **over 900 km**
- Number of lines – **up to 2**
- Working pressure – **28 MPa**
- Financing – Gazprom's Investment Program
- CAPEX (subsea section) – **~€7 bln**
- Planned CAPEX (2017) - **~\$42 bln**
- Planned construction start – **2H 2017**



- ✓ **ENHANCING RUSSIA – TURKEY PARTNERSHIP**
- ✓ **INCREASING SUPPLIES TO GROWING TURKISH MARKET<sup>1</sup>**
- ✓ **ENHANCING SECURITY OF SUPPLY TO EUROPE**
- ✓ **SHORTER ROUTE TO SOUTH-EAST EUROPE**
- ✓ **EXCLUDING TRANSIT RISKS**
- ✓ **ENSURING LOW ECOLOGICAL FOOTPRINT**

<sup>1</sup> 40%+ – projected growth of gas consumption in Turkey till 2035 (IHS long-term supply and demand outlook, July 2016)





## POWER OF SIBERIA

### PROJECT KEY DETAILS

✓ THE BIGGEST-EVER AND  
MUTUALLY BENEFICIAL  
CONTRACT (EXPORT GROWTH)

✓ RUSSIAN PIPELINE GAS MARKET  
DIVERSIFICATION TO THE FAST-  
GROWING MARKET

✓ TRADE AND ECONOMIC RUSSIA-  
CHINA COOPERATION EXPANSION

✓ HUGE CONTRIBUTION TO GDP,  
TAXES AND DUTIES

✓ SMART, PRUDENT, EFFECTIVE  
EASTERN SIBERIA & FAR EAST  
RESOURCES MONETIZATION

✓ VALUABLE GAS COMPONENTS  
EXTRACTION

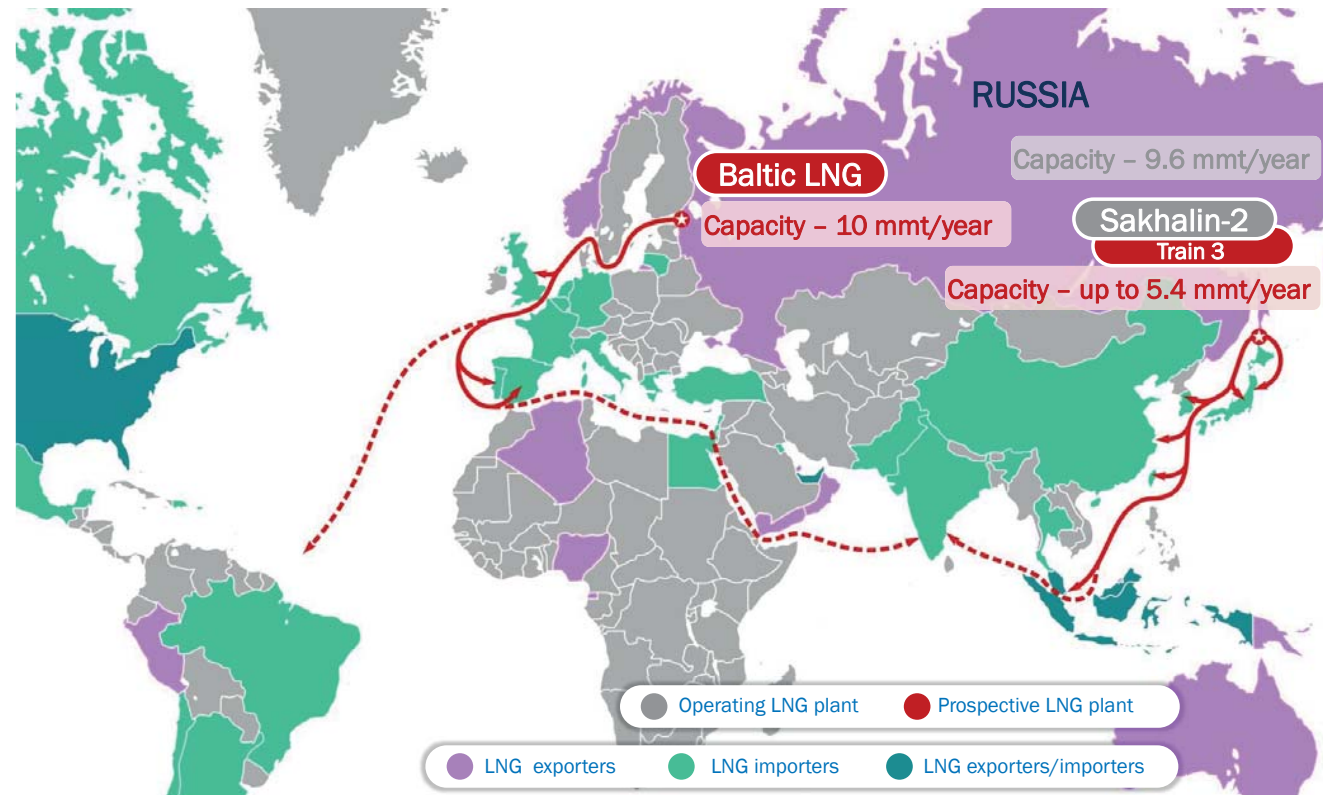
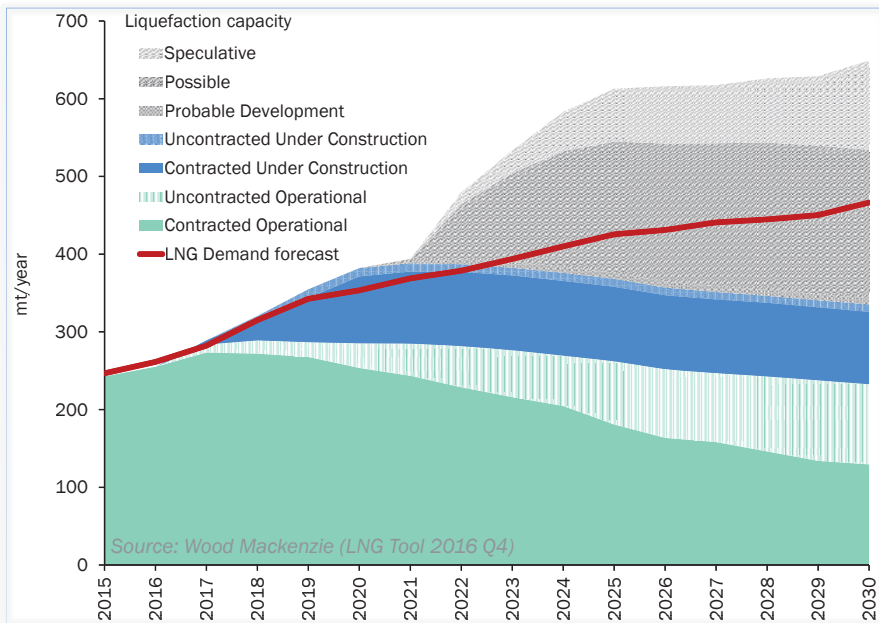
✓ EASTERN SIBERIA & THE FAR EAST  
GASIFICATION (IMPROVING LIVING  
STANDARDS)

- Project export capacity – 38 bcm/y
- Contract lifetime – 30 years
- Export start date – May 2019-May 2021
- Pipeline length – ~3,000 km
- Pipeline diameter – 1,420 mm
- Working pressure – 9.8 – 11.8 MPa
- Financing – Gazprom's Investment Program
- Compressor stations – 9
- Construction start date - 2014
- As of 01.02.2017:
  - 699 km of pipes have been welded
  - 490 km have been laid
- Planned CAPEX 2017 – \$159 bln



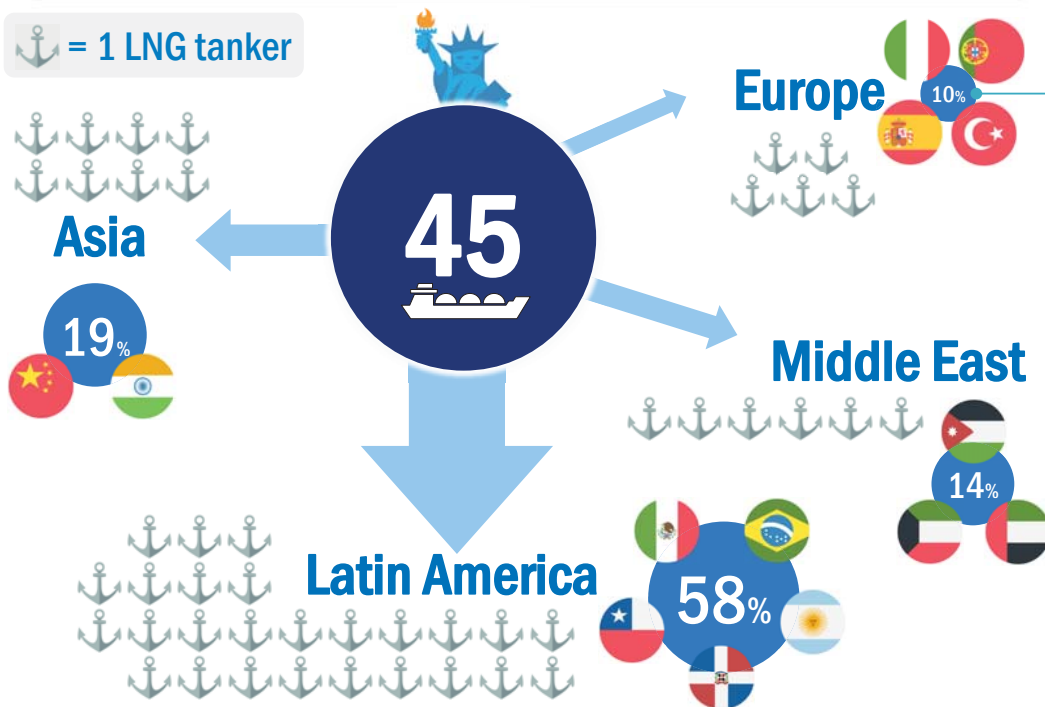
# GAZPROM PROJECTS IN THE LARGE-SCALE LNG MARKET

## World LNG demand and capacity development forecast

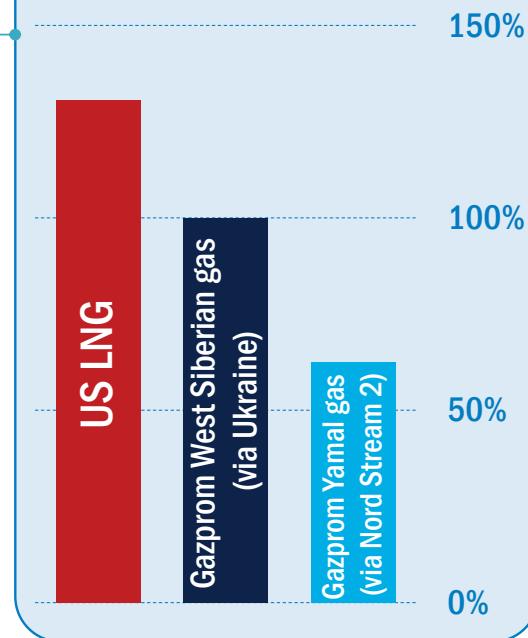


# US LNG PROSPECTS ON THE EUROPEAN GAS MARKET

US-PRODUCED LNG DESTINATION REGIONS IN 2016 AND % OF TOTAL VOLUME<sup>1</sup>



COMPARISON OF GAS SUPPLY COSTS TO WESTERN EUROPE



- Cost+ of US LNG in Western Europe is ~30% higher than Gazprom's most expensive pipeline gas supply route (via Ukraine)
- After Nord Stream 2 commissioning the economics of Gazprom gas deliveries will become even more overwhelming
- Only 5 US LNG tankers reached Europe <sup>2</sup> in 2016 .

Sources: NIIgazekonomika, IHS Markit, Wood Mackenzie  
Emoji art supplied by EmojiOne

<sup>1</sup>Totals don't sum due to rounding

<sup>2</sup> Including Turkey



# DID GAZPROM “SHALE GAS REVOLUTION”? DEFINITELY NOT!

THE COMPANY HAS BEEN KEEPING TRACK OF SHALE GAS INDUSTRY PROGRESS AND PROSPECTS WORLDWIDE SINCE 2009 TO MAKE WISE STRATEGIC DECISIONS

## ✔ PUTTING OFF HUGE INVESTMENTS

in US-oriented gas mega-projects

(while others spent US\$ 7.5+ bn<sup>1</sup> on new US LNG regas terminals)

## ✔ No investments in shale assets in North America



**NO WRITE OFFS**  
**NO LOSSES**

(unlike majority of IOCs, Asian NOCs and “sogo shosha”<sup>2</sup>)

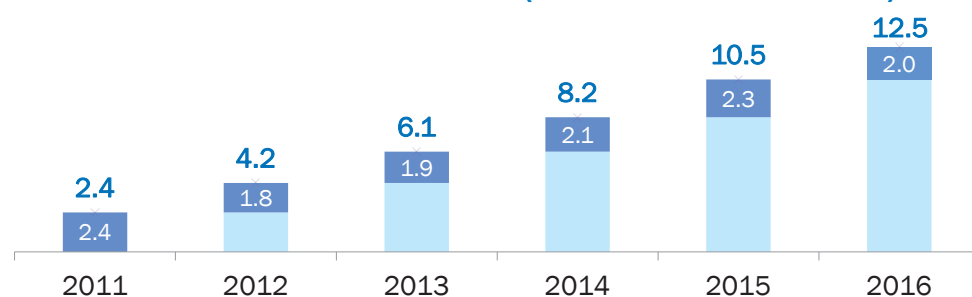
## ✔ NO RISKY SPENDING on expensive domestic and European shale gas exploration projects

(unlike companies, both local and IOCs, in Eastern Europe)

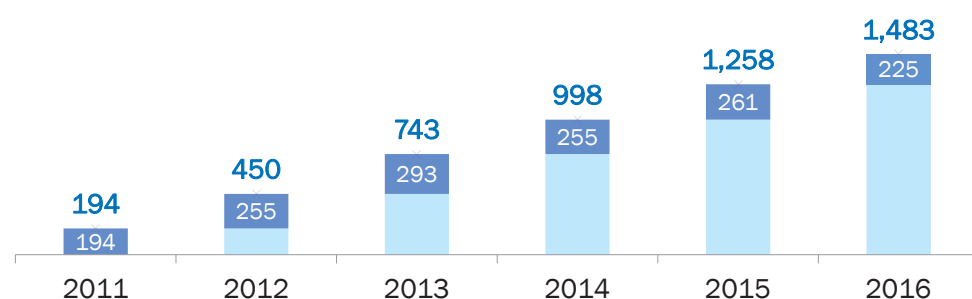
**VAST AND CHEAP CONVENTIONAL RESOURCES BASE  
DOES NOT INCENTIVIZE GAZPROM TO JOIN THE “SHALE GAS RUSH”**

## ENERGY SAVING AND ENERGY EFFICIENCY

**NATURAL GAS SAVINGS, bcm (cumulative 2011-2016<sup>1</sup>)**



**ELECTRICITY SAVINGS, million kWh (cumulative 2011-2016<sup>1</sup>)**



<sup>1</sup> 2016 - estimates

In 2011-2016<sup>1</sup> Gazprom's total savings accounted:

- 12.5 bcm of natural gas
- 1,483 mm kWh of electricity

Savings opportunities:

- ✓ reduction of gas consumption for own operational needs during repairs and scheduled maintenance
- ✓ optimization of flow modes for trunk pipelines based on advanced modeling
- ✓ reduction of gas losses
- ✓ optimization of operation modes for electrical equipment;
- ✓ use of separated gas from degassing units
- ✓ telemetry-based well logging

# INNOVATIONS & PHASE OUT OF IMPORTS

## KEY DETAILS

## THE APPLICATION SITE

✓ 1,200 mm PIPE DIAMETER up to 41 mm WALL THICKNESS	Pipes designed for working pressure up to 25 MPa for subsea long-distance pipelines without using compressor stations
✓ 508 mm PIPE DIAMETER 22.2 / 24.9 mm WALL THICKNESS	Pipes designed for joining of subsea production units with onshore production facilities
✓ GRADE K65 STEEL PIPES 1,420 mm	The use of K65 steel results in 13% pipe weight decrease compared to the use of K60 steel and therefore allows to achieve construction cost optimization
✓ HIGH DEFORMATION CAPACITY PIPES	Pipes capable of withstanding deformation and remaining sealed in highly seismic areas and permafrost
✓ BIOROS HYDROCARBON SPILL CLEANER	Unique substance designed for reduce land and water hydrocarbon pollution in wider temperature range (from +5 to + 45°C) and pH environment (if compared with similar substances)
✓ 800 mm PIPES DIAMETER 39 mm WALL THICKNESS	Pipes designed for working pressure up to 28.4 MPa having 4 times higher capacity (vs. the Blue Stream project) without concrete coating of pipeline's main part



YUZHNO-KIRINSKOYE FIELD

BOVANENKOVO – UKHTA GAS PIPELINE

POWER OF SIBERIA GAS PIPELINE

BOVANENKOVSKOYE FIELD

TURKSTREAM

# GAS CAPEX FORECAST

## Average annual CAPEX, US\$ bln\*



\* - In real terms 2016

## Average annual CAPEX by gas business segment



■ Upstream

■ Downstream (incl. midstream)

## Average annual CAPEX by region



■ United gas supply system

■ Eastern Siberia and The Far East

- Decrease in investments was about 9% down y-o-y vs last year (in US\$ equivalent)
- >60% of Gazprom's CAPEX will be made in downstream projects
- Up to 2025, over 1/3 of gas CAPEX will be allocated in Eastern Siberia and the Far East regions

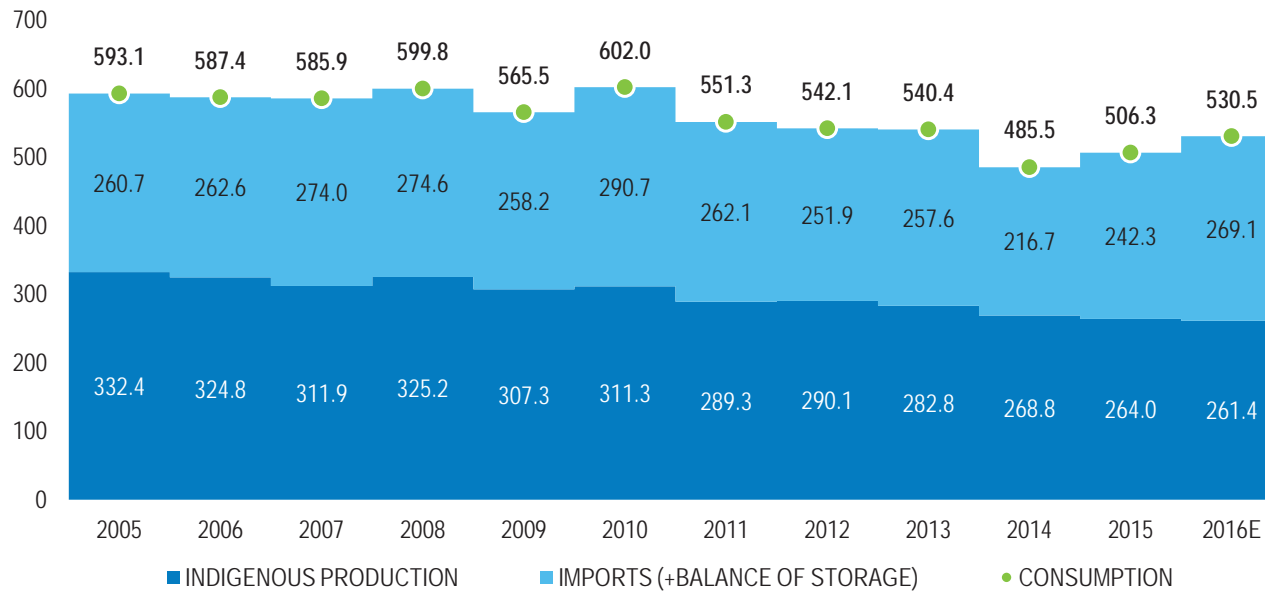
# Alexander Medvedev

DEPUTY CHAIRMAN OF GAZPROM  
MANAGEMENT COMMITTEE

## 02. EXPORT

## EUROPEAN NATURAL GAS MARKET DYNAMICS

European gas balance, bcm<sup>1</sup>



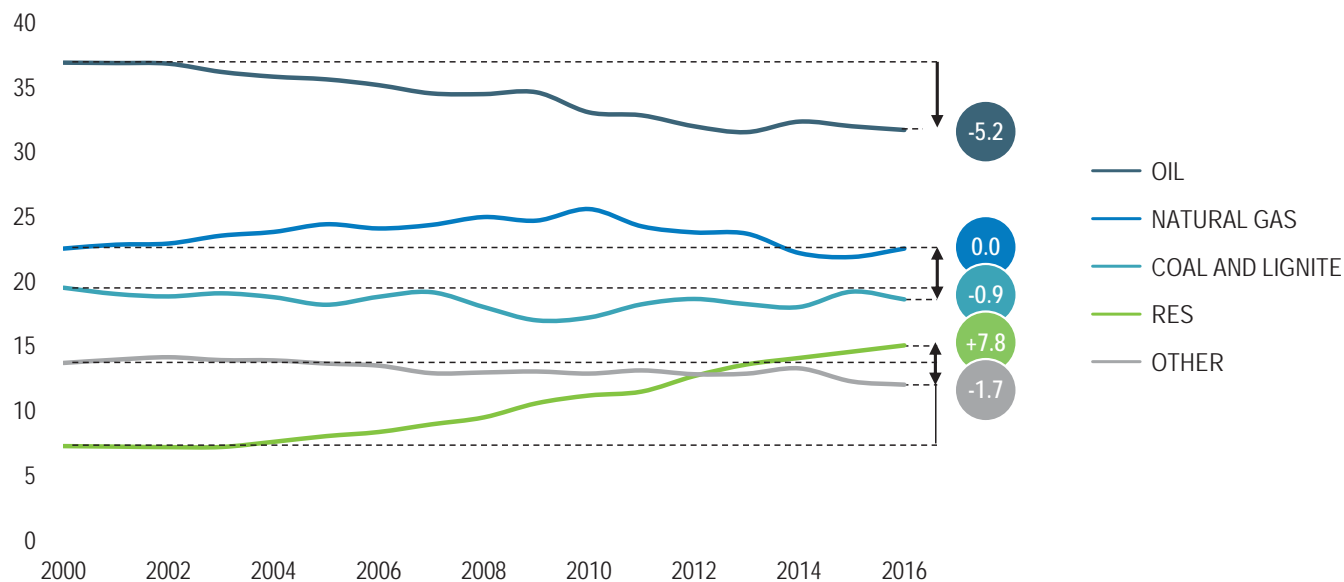
<sup>1</sup> GCV = 8,850 Kcal/Mcm, t = 20°C

Source: Eurostat, National Statistics, IEA, IHS, PIRA

- Gas demand increased in 2016 due to:
  - broader use of gas in power generation (+8% y-o-y)
  - weather conditions in the second half of the year
- European gas imports in 2016 were growing as a result of increased consumption and a decline in indigenous production
- Gazprom's share was 34% in 2016 vs. 31% in 2015 and 23% in 2010

## NATURAL GAS RETAINS ITS BASIC SHARE IN THE LONG TERM

### Primary energy mix (OECD Europe)



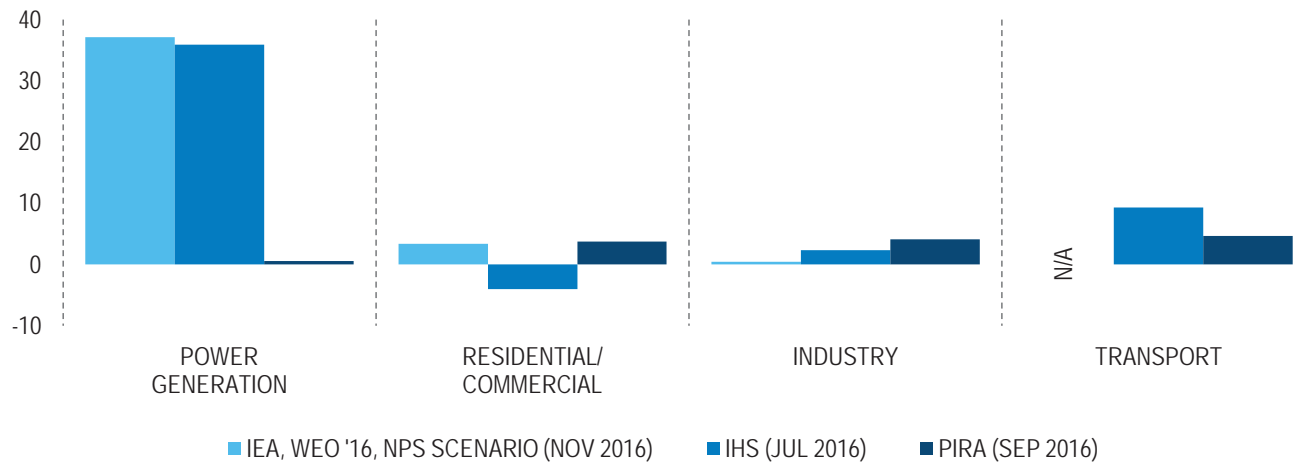
Source: ENERDATA

- Share of natural gas in primary energy has stabilized
- Renewables increased their share at the expense of oil — to a greater extent, due to subsidies and regulatory support
- Natural gas will keep its vital role in the future energy mix, dominated by renewables. It will serve as a clean and economically viable balancing fuel

## GAS DEMAND WILL EVENTUALLY RETURN TO EUROPE

### Bright spots and new applications for gas in Europe

2015-2025 growth, bcm<sup>1</sup>



**By 2025, bright spots – power generation and transportation sectors – could add 45 bcm to total demand or 9% above 2015 levels**

<sup>1</sup> GCV = 8,850 Kcal/Mcm, t = 20°C

Source: IEA, IHS, PIRA

**By 2025 “bright spots” will generate additional 9% of demand growth**

#### Power generation

- Aging of coal and nuclear plants
- Introduction of capacity remuneration mechanisms
- Adjustment of the carbon emission allowances market and carbon taxation schemes

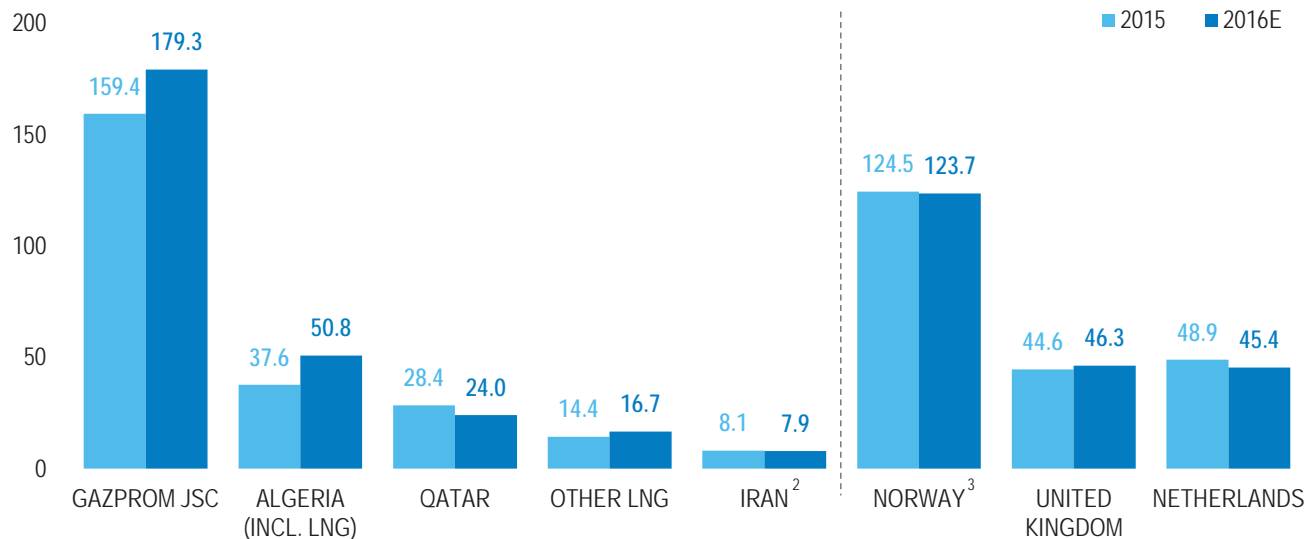
#### Transportation and ssCHP

- Small-scale combined heat and power plants (CHP) offer low-cost energy and tax benefits
- Environmental restrictions and lower costs encourage broader use of LNG in bunkering and road transport



## MAJOR SUPPLIERS TO EUROPEAN MARKETS

### Deliveries by major European<sup>1</sup> exporters and producers, bcm



<sup>1</sup> European countries with Turkey (excluding CIS and Baltics)

<sup>2</sup> Iranian supplies to Turkey

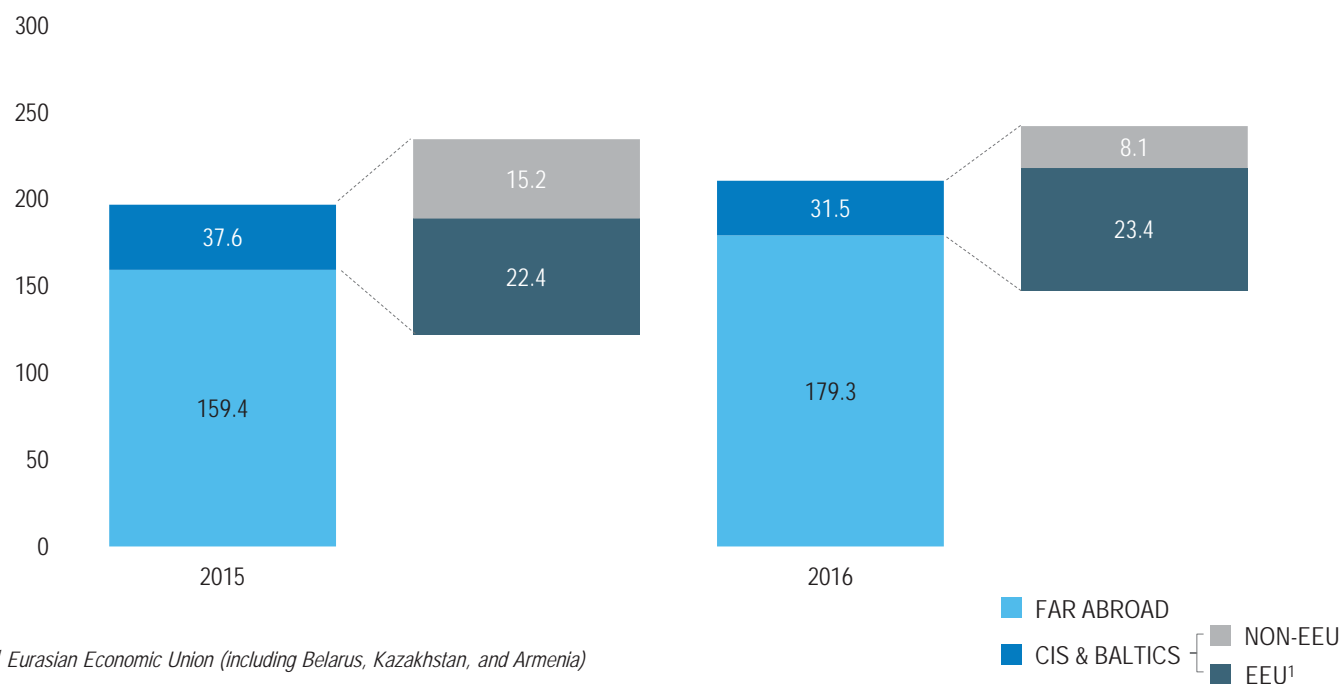
<sup>3</sup> Including pipeline and LNG deliveries from Norway to the European market, but not LNG to Asia and America

Source: Eurostat, IEA, IHS, National Statistics, PJSC Gazprom, PIRA

- A substantial decrease in the Netherlands' supplies was compensated primarily by Gazprom
- Algerian supplies demonstrated growth thanks to oil-indexed price and contract renegotiations
- An absolute record of Gazprom's daily exports was set on 27 Jan 2017 — 636.4 mcm/d

## GAZPROM EXPORT DELIVERIES

### Gazprom deliveries, bcm



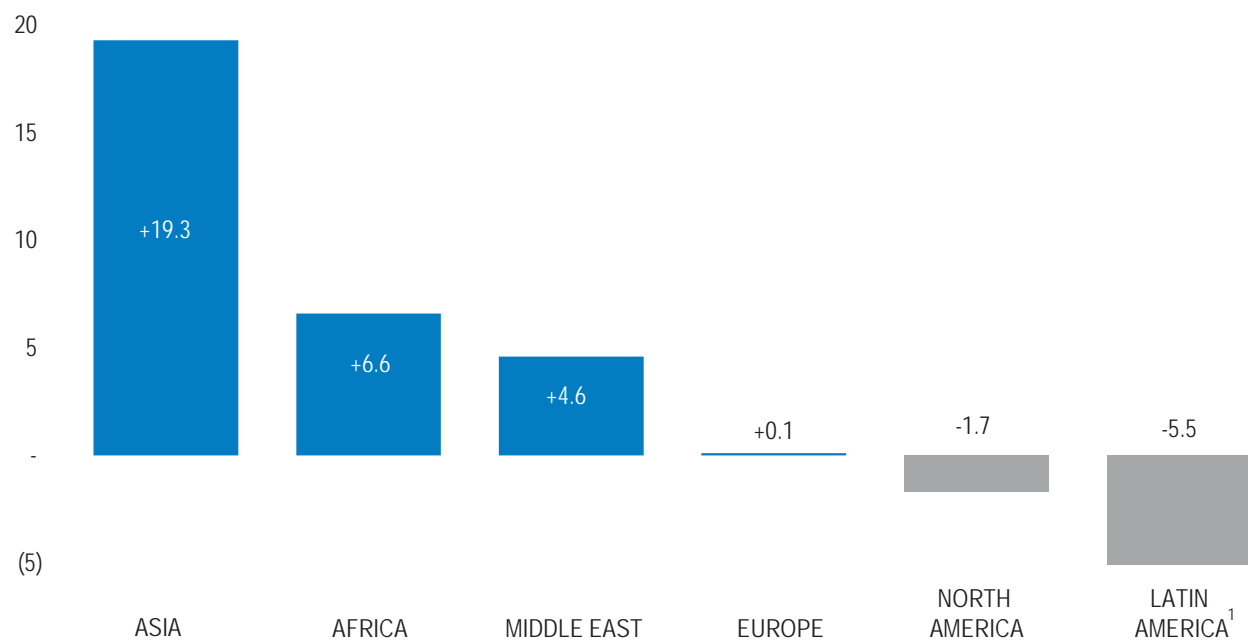
¹ Eurasian Economic Union (including Belarus, Kazakhstan, and Armenia)

Source: Company data

- Gazprom export deliveries to Europe increased by 19.9 bcm or by 12.5%
- Average price of gas delivered to Europe was USD 167/mcm in 2016
- Preliminary forecast of the European gas export price in 2017 is USD 180-190/mcm
- Gazprom deliveries to CIS and Baltics decreased by 6.1 bcm or by 16.2%
- Average gas price of gas delivered to CIS and Baltics in 2016 was USD 152/mcm

## GAZPROM'S STRONG COMPETITIVE POSITION AGAINST LNG ON THE EUROPEAN MARKET

Incremental global LNG imports in 2016 by region, y-o-y, bcm



<sup>1</sup> Excluding Mexico

Source: IHS Waterborne

- Anticipated growth of LNG imports has not materialized: deliveries were practically flat. Incremental supplies were directed to Asia, Africa and Middle East
- Sales of US LNG offer margins on European market on a short-run basis, full costs the US LNG are substantially higher than European hub prices
- Deliveries of US LNG to Europe will result in losses for offtakers

# NORD STREAM 2 WILL DELIVER ADDITIONAL GAS VOLUMES TO EUROPE

## Nord Stream 2 route

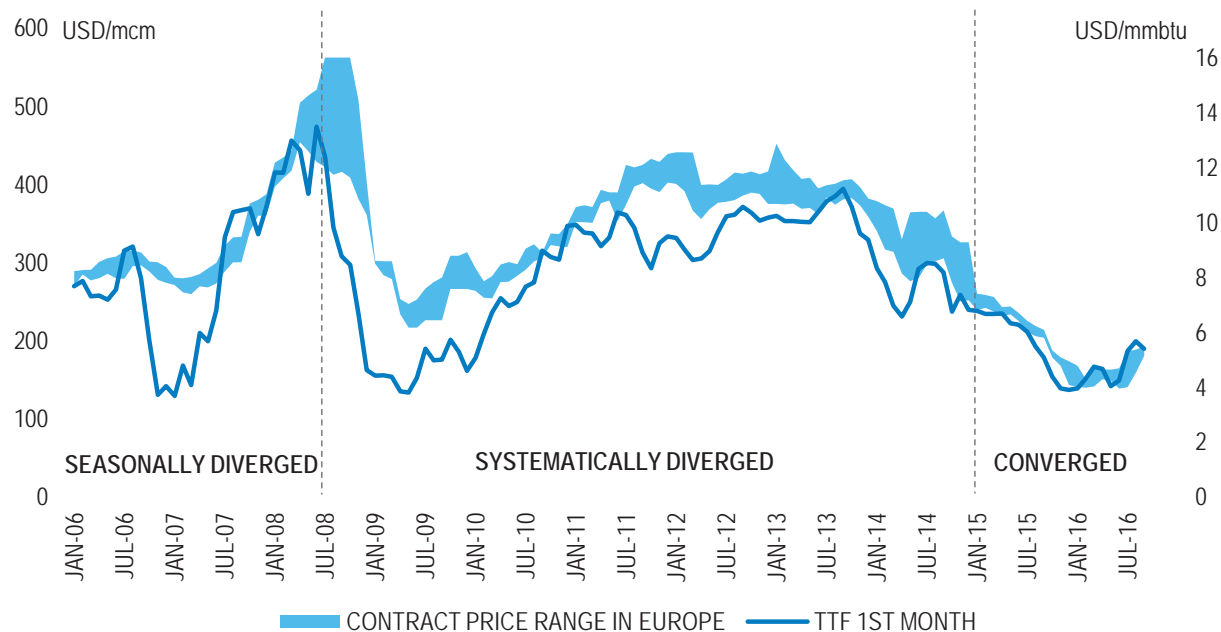


■ NORD STREAM GAS PIPELINE    ■ NORD STREAM 2 GAS PIPELINE

- Gazprom's resource base is currently shifting further to the north from the Nadym-Pur-Taz region to Yamal. This trend significantly affects export and domestic gas flows
- Export flows in the EU are shifting from the center to the north as domestic gas production declines
- Nord Stream 2 is the shortest export route from the resource base in Russia's Yamal to our main consumers in the EU
- Gas transit via Ukraine is 20 per cent more costly than via Nord Stream 2

## GAZPROM'S LTCS OFFER FLEXIBLE SUPPLIES AT COMPETITIVE PRICES

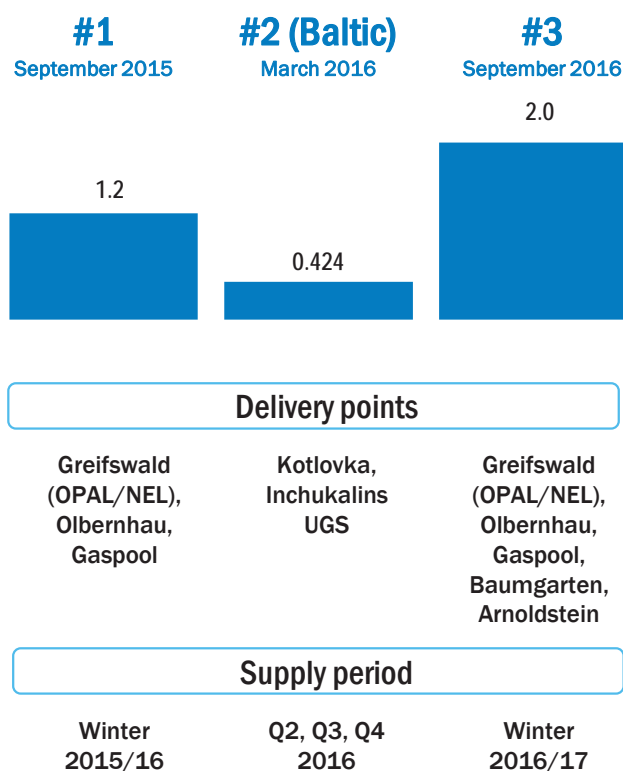
Contract- and hub-prices converged after diverging in the past years



Source: BAFA, Bloomberg, IEA, IMF, World Bank

- Gazprom's competitive market position is strong despite new challenges
- Contract- and hub-prices converged after seasonal (2005-2008) and systematical (2009-2014) divergence in recent years
- Trading on forward hub market plays an increasing and important role in the activities of European midstreamers

## AUCTIONS AS A NEW FORM OF GAS EXPORTS



### Targets

#### Testing the possibilities of:

- selling additional volumes
- delivery points diversification
- new marketing tools
- eligible pricing mechanisms

#### Offer contract terms structured exclusively by the seller:

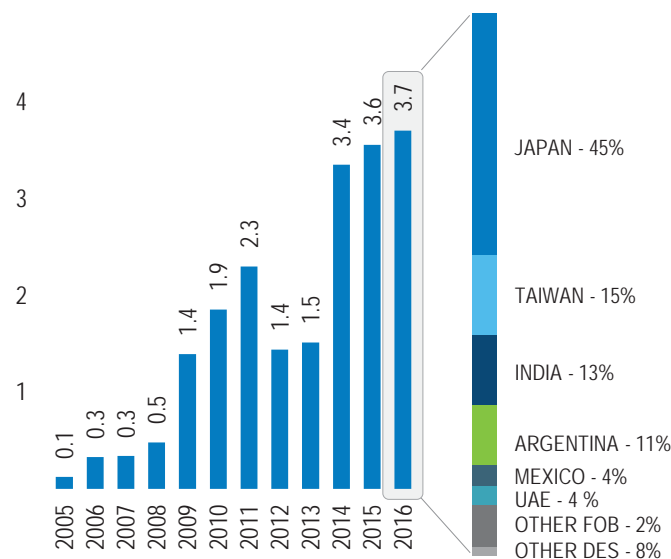
- general sales conditions
- price targets
- customer base

### Bilateral deals on the seller's standard conditions:

- delivery to a border or a trading platform (hub) — a target market
- buyer as an importer (performs customs clearance)
- short-term and one-off deals
- standard small volumes (tranches)
- within the period of market liquidity
- selling commodity and flexibility as separate products

## GAZPROM'S LNG BUSINESS

### Gazprom's LNG trading in 2005-2016, mmt



### Gazprom's LNG projects in operation

#### SAKHALIN-2 (T1,2) — 9.6 MMT/YEAR<sup>1</sup>

- 10.9 mmt of LNG supplied in 2016
- In 2016 Gazprom took delivery of 1.3 mmt<sup>2</sup> of LNG from Sakhalin, which was sold to customers in Asia Pacific

### Gazprom's LNG projects under development

#### SAKHALIN-2 T3 — UP TO 5.4 MMT/YEAR

- In 2015 Gazprom signed MOU with Shell on project implementation
- The project's FEED is under development

#### BALTIC LNG — 10 MMT/YEAR

- Pre-FEED (Justification of Investment) approved in January 2015
- In 2016 Gazprom signed MOU with Shell regarding cooperation on the project

<sup>1</sup> Gazprom holds 50% + 1 share in SEIC (project operator company)

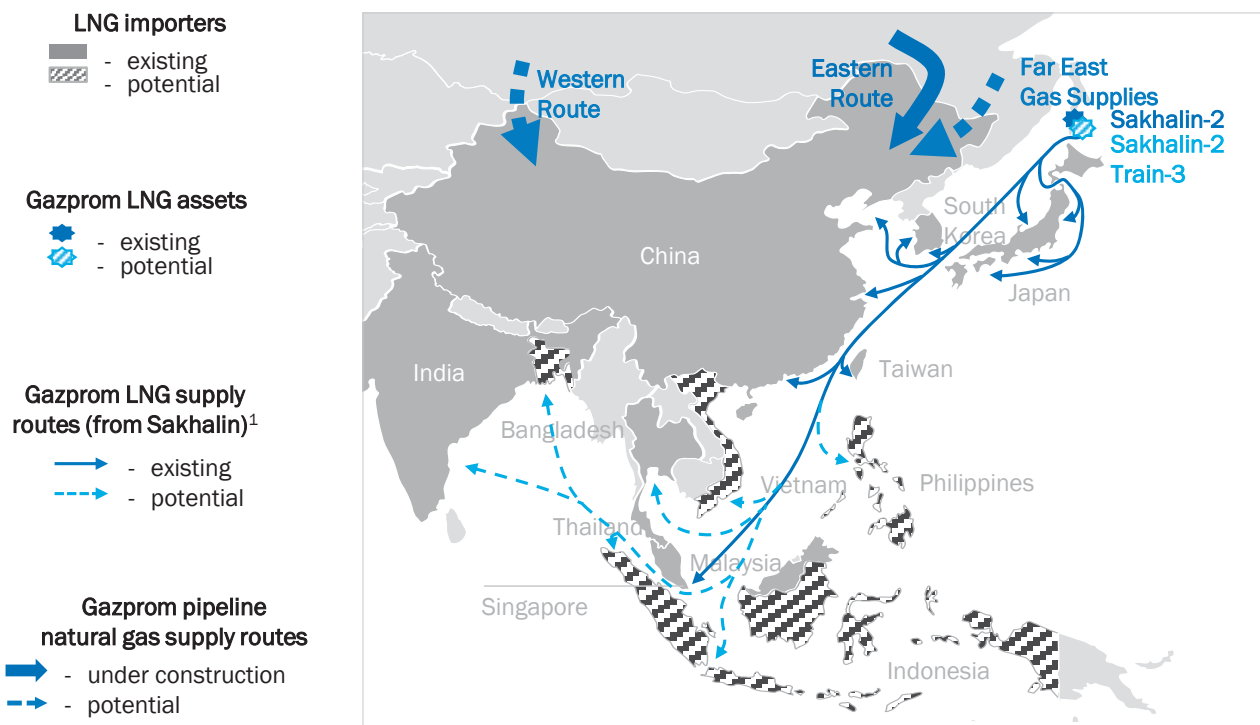
<sup>2</sup> under SPA and spot tenders

Gazprom is committed to building a diversified LNG trading portfolio to continue reliable and timely deliveries of LNG to its customers.

#### In 2016:

- Gazprom delivered **55** cargoes to customers in **10** countries;
- Japan was the biggest importer of LNG from Gazprom portfolio;
- Gazprom continued working on the development of its projects: Baltic LNG and Sakhalin-2 Train 3;
- Gazprom chartered in one LNG carrier from Dynagas to support future deliveries of LNG from Cameroon FLNG project.

## GAZPROM'S NATURAL GAS BUSINESS IN ASIA PACIFIC



<sup>1</sup> shows deliveries from Sakhalin-2 LNG project including those from Gazprom Marketing & Trading (GM&T) portfolio volumes from the project. Supply routes to Asia Pacific from other supply sources in GMT Portfolio are not shown.

Gazprom continues expanding its natural gas business in Asia Pacific developing new projects for both LNG and pipeline gas deliveries.

Gazprom believes there is a big potential for demand growth in the region due to:

- Continued economic growth;
- Liberalization of gas markets in the region, which will bring in new customers;
- Concerns over use of nuclear power and
- Environmental policies that will stimulate development of gas-fired power generation;
- Depletion of resources in some of the region's markets and lower than planned domestic production rates.



## COMPETITIVE ADVANTAGES

Reliable supplier

Competitive prices

Geographical  
diversification

New applications  
for gas

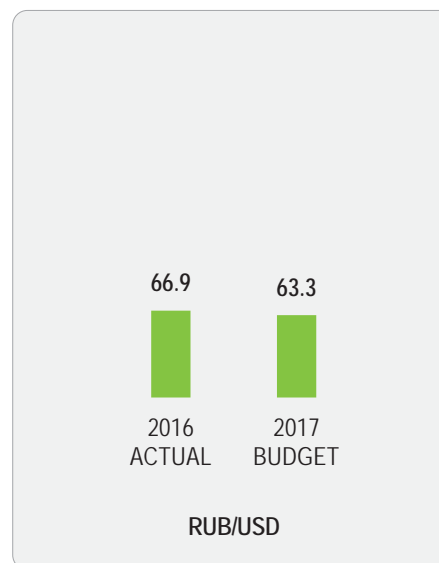
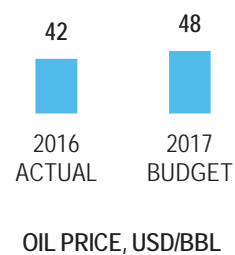
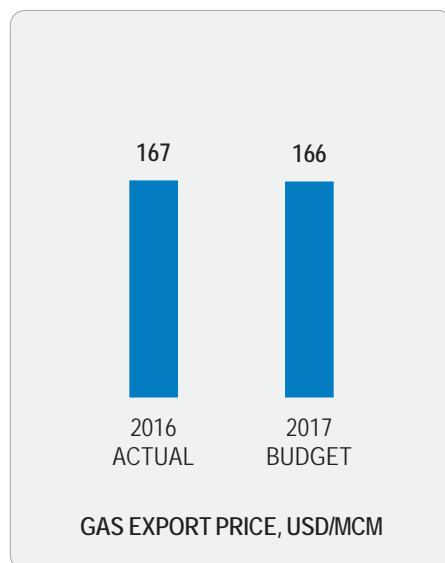
# Andrey Kruglov

DEPUTY CHAIRMAN OF GAZPROM  
MANAGEMENT COMMITTEE

## 03. FINANCE

## KEY PRIORITIES OF FINANCIAL POLICY

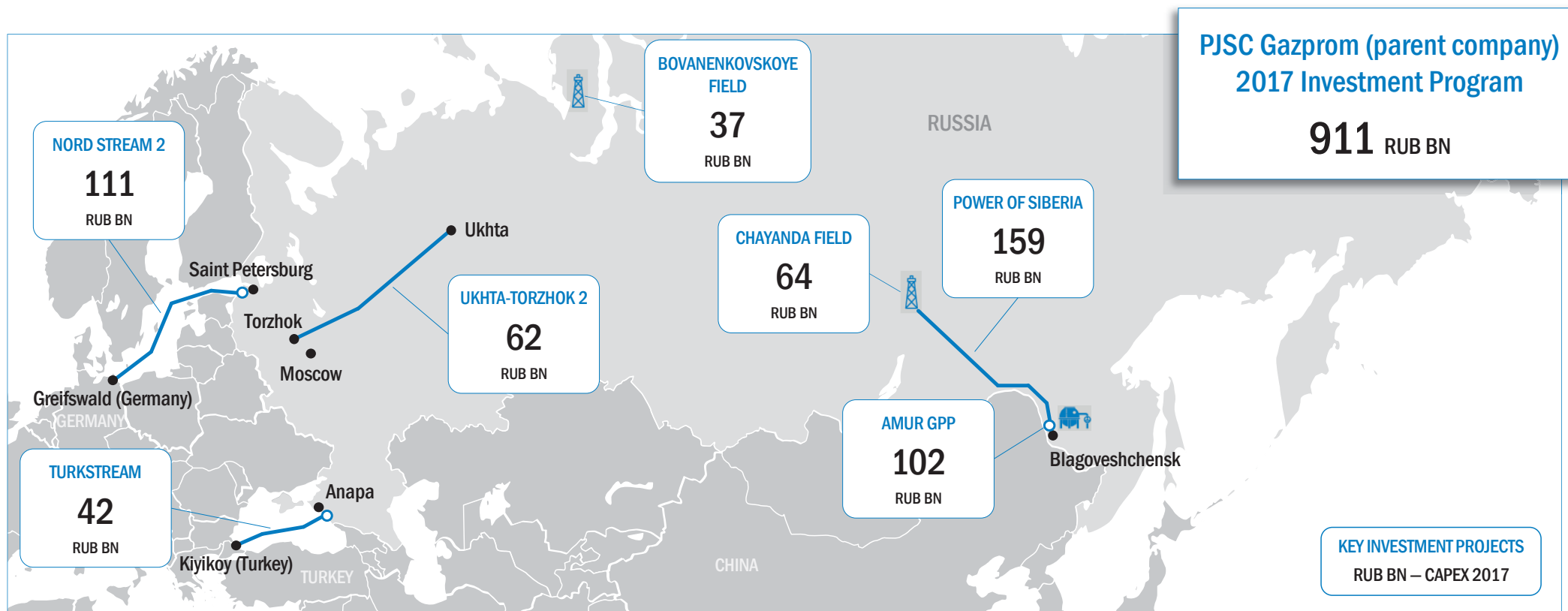
### Key 2017 budgeting assumptions



### Key priorities

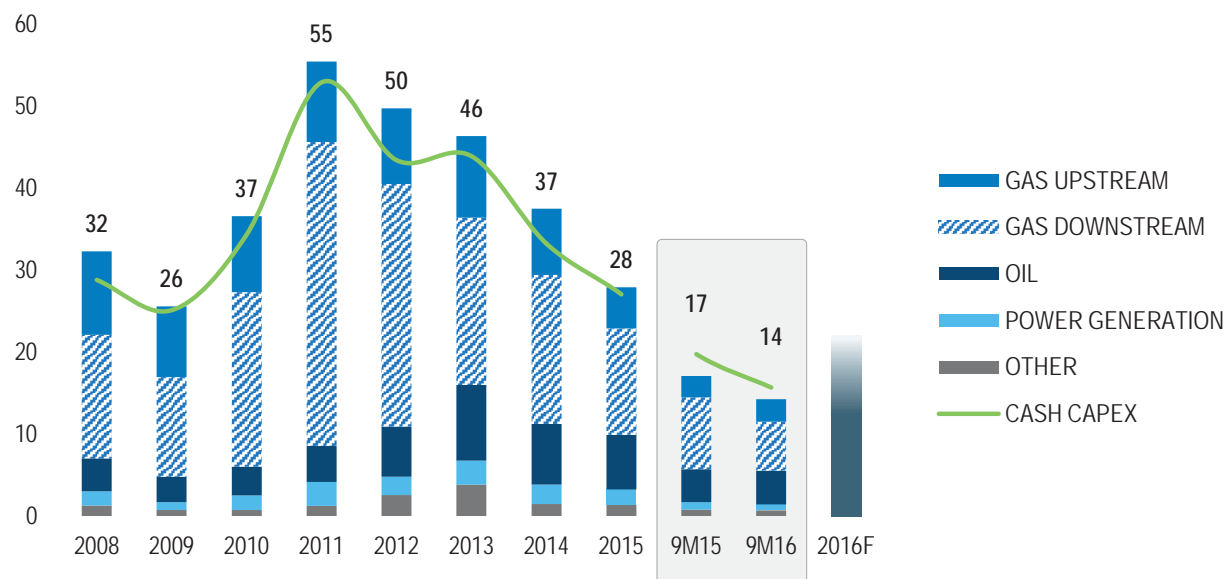
- Conservative budgeting assumption
- Prioritization of investment projects
- Optimization of OPEX
- Minimization of FX risks
- Effective debt management
- Prudent dividend policy

## KEY GAS BUSINESS INVESTMENT PROJECTS



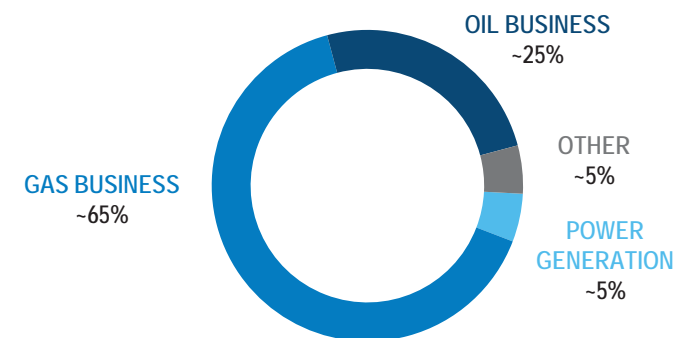
## BALANCED CAPEX

Gazprom Group capex<sup>1</sup>, USD bn



<sup>1</sup> Calculated using average exchange rates for the periods.  
Source: Company data, management estimates

Gazprom Group capex structure



### Capex trends

- Parent company 2016 capex decreased by 21% in RUB and 29% in USD y-o-y








# KEY COST OPTIMIZATION INITIATIVES

## MAIN STEPS TO CURB COSTS

Major cost optimization phases	Details
<ul style="list-style-type: none"> <li>10-year strategic planning</li> </ul>	<ul style="list-style-type: none"> <li>Determine key development targets and three development scenarios for Gazprom, choose priority projects, and build long-term financial models</li> </ul>
<ul style="list-style-type: none"> <li>Project design and engineering</li> </ul>	<ul style="list-style-type: none"> <li>Detailed project documentation</li> <li>Expertise and optimization</li> </ul>
<ul style="list-style-type: none"> <li>Gazprom's 3-year budget and capex plan</li> </ul>	<ul style="list-style-type: none"> <li>Sets capex and opex limits</li> <li>Prioritize and pre-approve capex projects; monitor cost estimates</li> </ul>
<ul style="list-style-type: none"> <li>Gazprom's budget and capex plan for the upcoming year</li> </ul>	<ul style="list-style-type: none"> <li>Sets capex limits</li> <li>Approve the capex plan; monitor cost estimates</li> </ul>
<ul style="list-style-type: none"> <li>Project implementation</li> </ul>	<ul style="list-style-type: none"> <li>Control of project development</li> <li>Procurement optimization; contracts execution control</li> </ul>

## CASES OF INVESTMENT PROGRAM OPTIMIZATION: RESCHEDULING PROJECT DEADLINES

Current gas upstream capacity allows to cover extreme seasonal peaks and shift several investment projects:

Project	2018-2019 project capex RUB bn	Project starting year		
		2018	2019	after 2019
Compressor station on Yamburgskoye field	26.5			
Compressor station on Kharvutinskaya area of Yamburgskoye field	23.2			
Compressor station on Zapolyarnoe field	21.3			
Wells re-equipment on Astrakhanskoye field	5.3			
Reconstruction of Gathering station-2 and gas collection system on Nevskoe underground gas storage	5.1			
Development of Pestsovaya area at Urengoyenskoye field	5.1			
Compressor station on Urengoyenskoye field	2.2			
<b>TOTAL</b>	<b>88.7</b>			

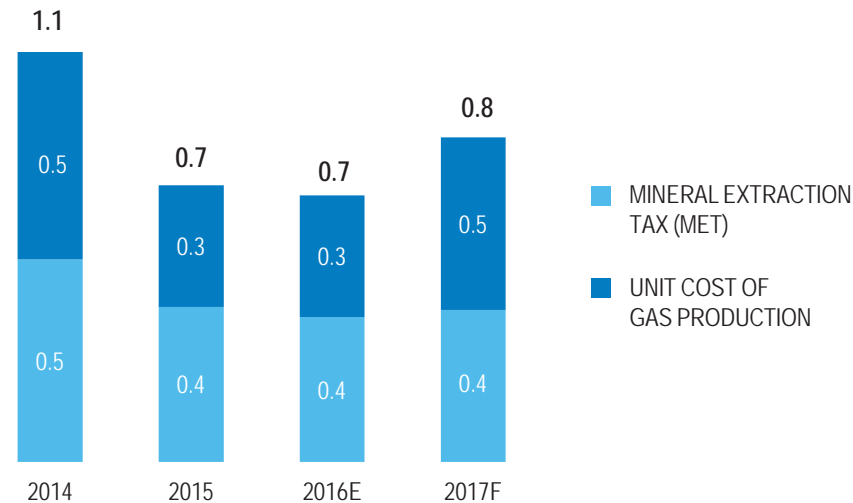
## PRODUCTION AND TRANSPORTATION COSTS

- One of the lowest production costs globally
- Mostly RUB-based costs
- Growth of production costs due to tax increase in 2017

### Cost cutting tools

- Detailed breakdown, cost benchmarking
- Setting cost standards against historical best
- Price justification during procurement process by comparing unit costs

### Cost of gas production USD/MMBTU<sup>1, 2</sup>



<sup>1</sup> Totals don't sum due to rounding

<sup>2</sup> Unit cost of gas production per 1000 cm among 7 major Gazprom's subsidiaries.  
Calculated using average exchange rate for the period

### Mineral extraction tax (MET)

- MET temporarily increased for 1 year
- RUB 70 bn total additional MET for Gazprom in 2017
- Formula-based MET
- Russian Tax Code states MET reduction after 2019
- Tax incentives for greenfields



## ASIAN FINANCIAL MARKETS ACTIVITIES

Gas supply contract with China sets the basis for diversification of financial activities

### Financial Institutions

Syndicated and bilateral loans from Asian banks

### Credit Ratings

AAA rating from Chinese Dagong Global Credit Rating

### Stock Exchanges

Gazprom's ADRs included in the quotation list of Singapore Exchange. Potential listing on one of the leading Asian Exchanges

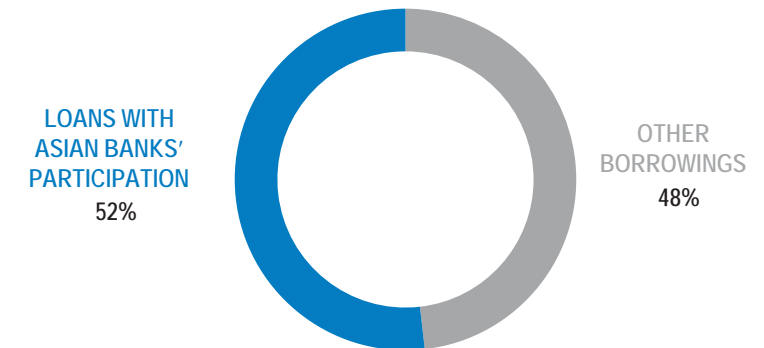
### Investors

Diversification of investor base

## SUCCESSFUL PERFORMANCE IN DEBT CAPITAL MARKETS

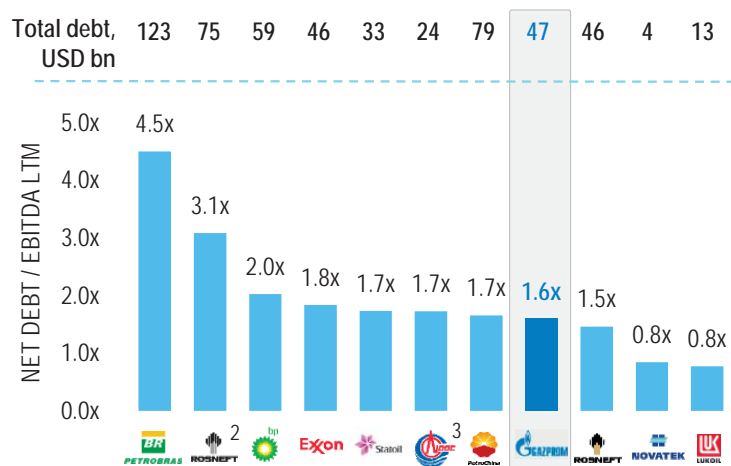
Date	Amount	Coupon	Maturity	Description
March 2016	EUR 2,000 mm	EURIBOR +3.5%	5 years	<ul style="list-style-type: none"> <li>Facility agreement with Bank of China</li> <li>The largest amount of financing from one financial institution</li> </ul>
March 2016	CHF 500 mm	3.375%	2.5 years	<ul style="list-style-type: none"> <li>Public international debt offering under EMTN program</li> </ul>
November 2016	EUR 1,000 mm	3.125%	7 years	<ul style="list-style-type: none"> <li>Public international debt offering under EMTN program,</li> <li>Lead managers — Bank of China, J.P. Morgan, UniCredit Bank, Gazprombank</li> </ul>
November 2016	CHF 500 mm	2.75%	5 years	<ul style="list-style-type: none"> <li>Public international debt offering under EMTN program</li> </ul>
December 2016	EUR 800 mm	EURIBOR +2.6%	4 years	<ul style="list-style-type: none"> <li>Loan from Mizuho, SMBC, and J.P. Morgan</li> </ul>

### Gazprom's borrowings in 2016



## COMFORTABLE DEBT BURDEN

### Gazprom's leverage level vs. peers<sup>1</sup>



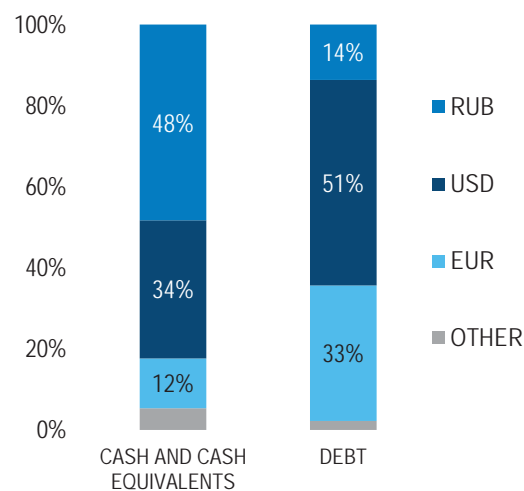
<sup>1</sup> As of 9M2016, IFRS

<sup>2</sup> Rosneft net debt is adjusted for prepayments under long-term oil supply agreements

<sup>3</sup> CNOOC data as of 1H 2016

Source: Companies data, Moody's, Bloomberg

### Cash and debt by currency<sup>1</sup>



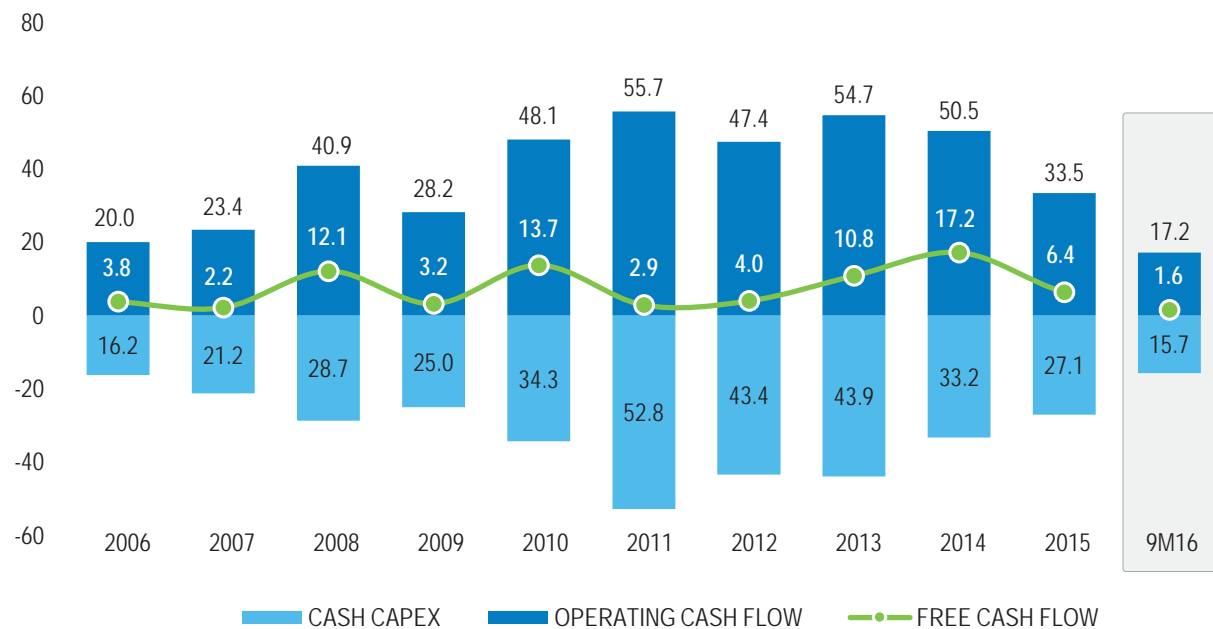
### Credit ratings

	Rating	Outlook
Dagong	AAA	Stable
Fitch	BBB-	Stable
S&P	BB+	Stable
Moody's	Ba1	Stable

- Fitch, S&P and Moody's ratings for Gazprom constrained by the sovereign ratings for Russia
- Fitch, S&P and Moody's revised Gazprom's rating outlook from 'Negative' to 'Stable' last months

## CONSERVATIVE FINANCIAL POLICY

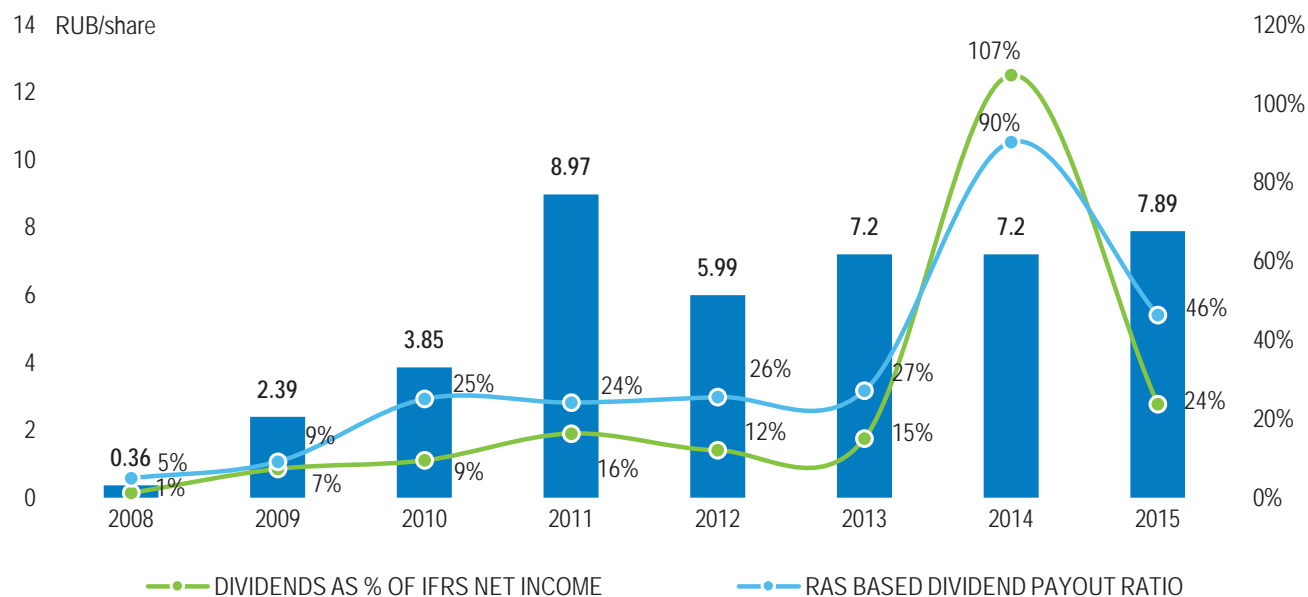
Gazprom FCF generation, USD bn



- Positive FCF generation for past 10 years
- Group capex limited by operating cash flow
- Tightening financial policy

## DIVIDENDS

### Dividend per share<sup>1</sup>



- Management intends to keep DPS at least at the same level y-o-y or higher
- Balanced dividend approach considers:
  - shareholders return
  - financial position
  - long-term development of the Group
- 36% share price growth in 2016 (in USD)
- 43% total shareholders return (TSR) in 2016

<sup>1</sup> Dividend payout ratio = % of parent company net income based on Russian accounting standards

## IMPROVING CORPORATE GOVERNANCE

### Our goal

Continuously improve Corporate Governance in line with global best practices and increase transparency of the Company's operations

### Major achievements of 2016:

- **Currently 3 independent directors on the Board** (independency confirmed by the Russian stock exchanges)
- Majority of **independent directors** in the **Audit Committee chaired by an independent director**
- Majority of **independent directors** in the newly established **Nomination and Remuneration Committee**
- Introduction of the **Corporate Secretary** (with responsibilities assigned to a number of structural units)
- **Key internal regulations** on shareholders' rights protection were aligned with best practices

### Goals for 2017:

- Assess performance of the Board of Directors and its committees
- Conduct an **independent audit** of the Corporate Governance; further improve corporate standards
- Get **National Rating of Corporate Governance** (after implementing the independent audit recommendations)
- Continue practice of **independent directors conference calls and personal meetings** with shareholders and investors

## 2017 INVESTMENT CASE

### STRONG FOOTHOLD IN CURRENT MARKET ENVIRONMENT

Unique fundamentals

Low cost base

Growing exports

Capex optimization  
and project prioritization

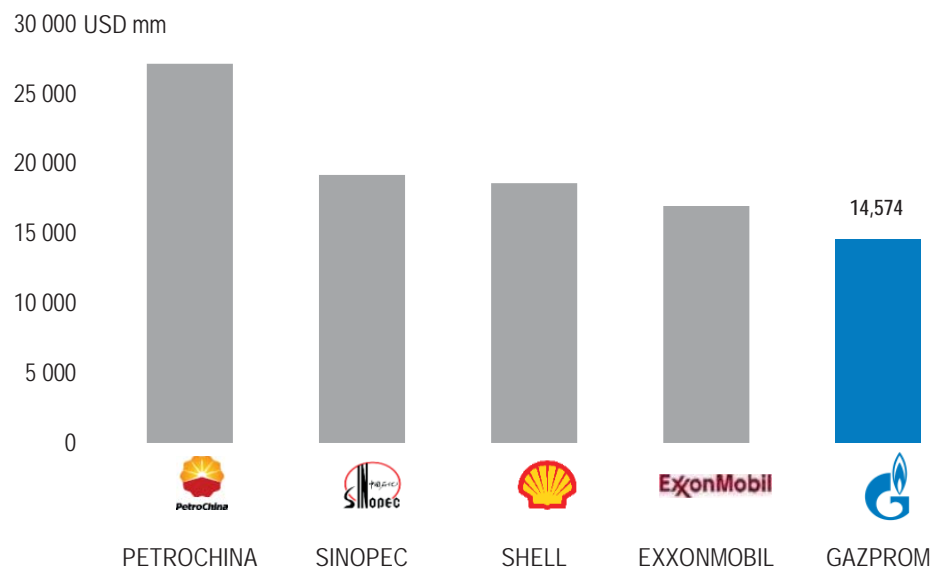
Balanced dividend policy

# APPENDIX

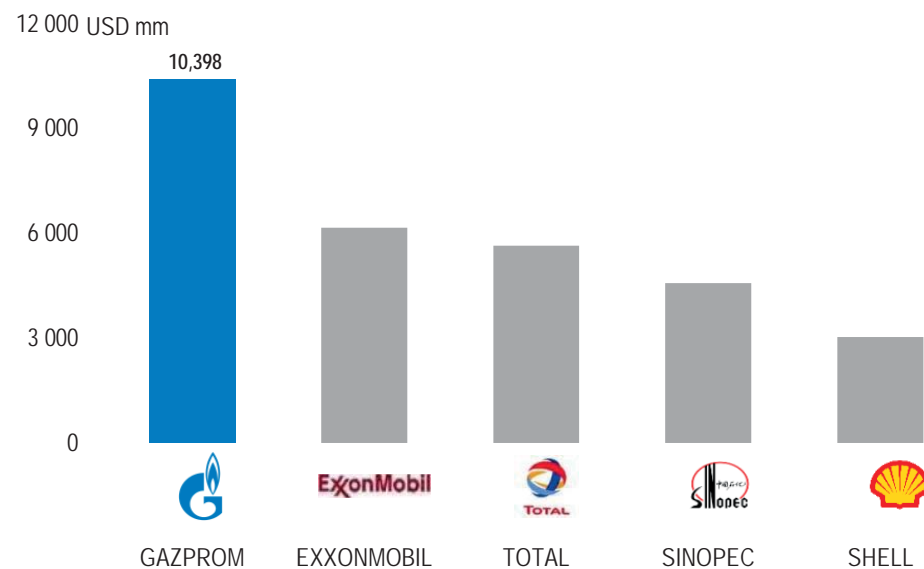


## GAZPROM IN GLOBAL OIL&GAS INDUSTRY

Top-5 by EBITDA, 9M2016



Top-5 by net income<sup>1</sup>, 9M2016



<sup>1</sup> Attributed to shareholders

Source: Companies' reports, Bloomberg, Factset

## GAZPROM GROUP: KEY FINANCIALS

	USD bn	2011	2012	2013	2014	2015	9M2015	9M2016
<b>Sales<sup>(1)</sup></b>		157.993	153.411	164.989	147.217	100.121	71.268	63.345
<b>Operating expense<sup>(1)</sup></b>		100.245	110.133	113.165	103.863	76.418	53.741	56.064
<b>Operating profit (EBIT)<sup>(1)</sup></b>		56.451	43.472	49.881	34.512	20.249	17.668	8.323
<b>Adjusted EBITDA<sup>(1)(4)</sup></b>		65.776	52.975	63.151	51.687	30.910	24.117	14.574
<b>Net profit<sup>(1)(5)</sup></b>		44.532	39.410	35.803	4.188	12.975	11.418	10.398
<b>Cash&amp;Cash Equivalents<sup>(2)</sup></b>		15.690	14.138	21.056	18.454	18.648	16.986	12.470
<b>Total debt<sup>(2)</sup></b>		47.831	49.410	55.056	47.794	47.231	47.522	46.994
<b>Net debt<sup>(2)</sup></b>		32.141	35.272	34.000	29.340	28.583	30.536	34.523
<b>Total debt/Adjusted LTM EBITDA</b>		0.7x	0.9x	0.9x	0.9x	1.5x	1.3x	2.2x
<b>Net debt/Adjusted LTM EBITDA</b>		0.5x	0.7x	0.5x	0.6x	0.9x	0.8x	1.6x
<b>Operating cash flow<sup>(1)</sup></b>		55.790	47.402	54.739	50.455	33.480	23.642	17.245
<b>Cash capex<sup>(1)(3)</sup></b>		52.917	43.422	43.909	33.240	27.052	19.748	15.675
<b>Free cash flow<sup>(1)(3)</sup></b>		2.873	3.980	10.830	17.214	6.428	3.893	1.571

Source: Gazprom Group IFRS results

<sup>1</sup> Data are converted in USD using average exchange rate RUB/USD: 29.35 in 2011; 31.07 in 2012; 31.82 in 2013; 37.97 in 2014; 60.66 in 2015; 59.02 in 9M2015; 68.22 in 9M2016

<sup>2</sup> Data are converted in USD using exchange rate RUB/USD as of the end of the period: 32.20 for 2011; 30.37 for 2012; 32.73 in 2013; 56.26 in 2014; 72.88 in 2015; 66.24 in 9M2015; 63.16 in 9M2016

<sup>3</sup> Excluding capitalized interest

<sup>4</sup> Adjusted EBITDA is defined as operating profit before depreciation and changes in assets impairment provision (impairment of accounts receivable and prepayments, assets under construction, investments and other long-term assets, inventory)

<sup>5</sup> Attributable to owners of Gazprom PJSC