



# GAZPROM'S FINANCIAL AND ECONOMIC POLICY PRESS CONFERENCE

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Moscow

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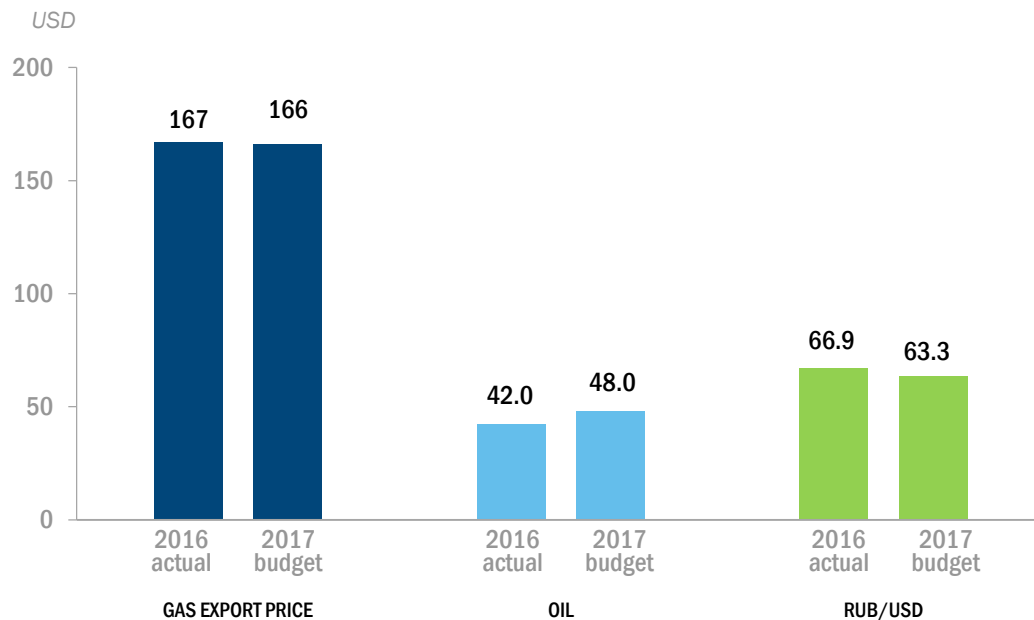
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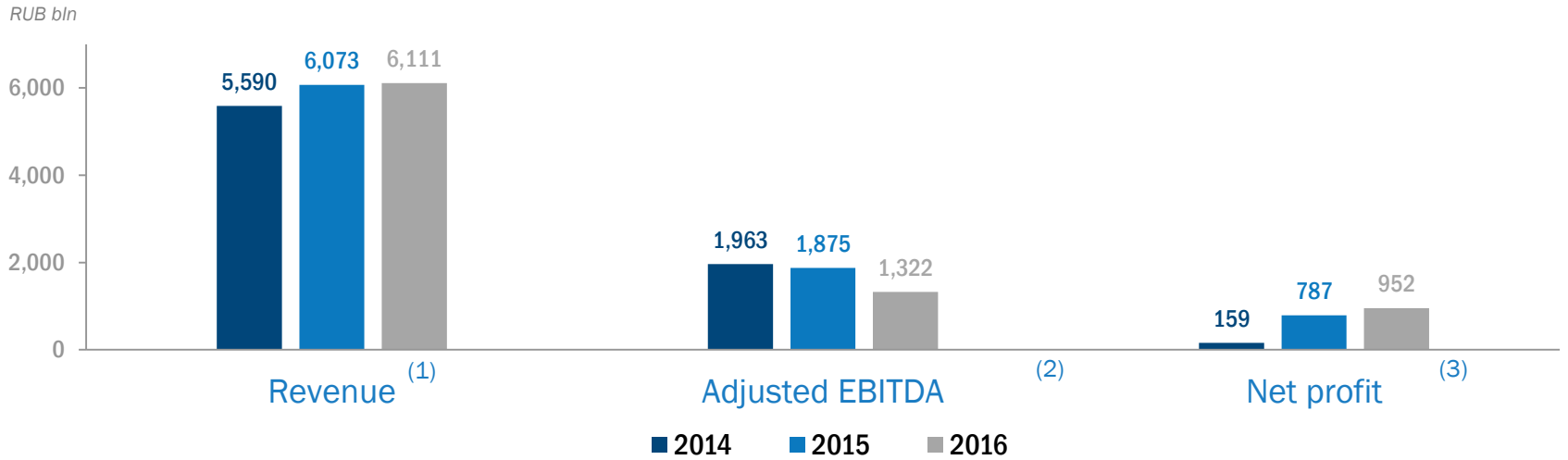
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## Basic planning assumptions for 2017 budget

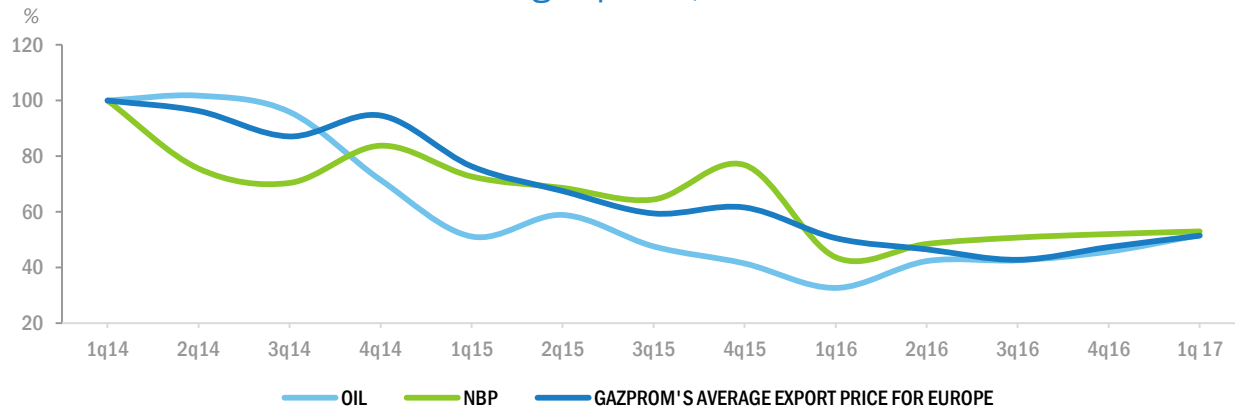


## Key developments in Gazprom’s financial performance throughout 2016

- Increased severance tax on natural gas
- Reduced revenue from gas sales (caused by lower contract gas prices) offset by record gas exports
- Positive free cash flow (RUB 202 bln)
- Strong discipline with regard to capital expenditures
- Dividends increase to RUB 190 bln in 2016
- High level of corporate governance at Gazprom confirmed by Moscow Exchange



Oil and gas prices, 2014-2017 (4)



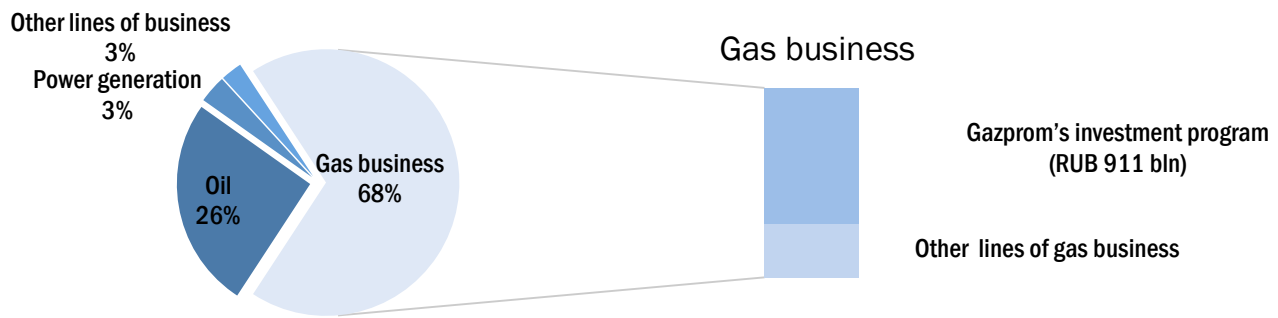
(1) Net of excise tax, VAT and customs duties

(2) EBITDA is adjusted by changes in asset impairment reserves

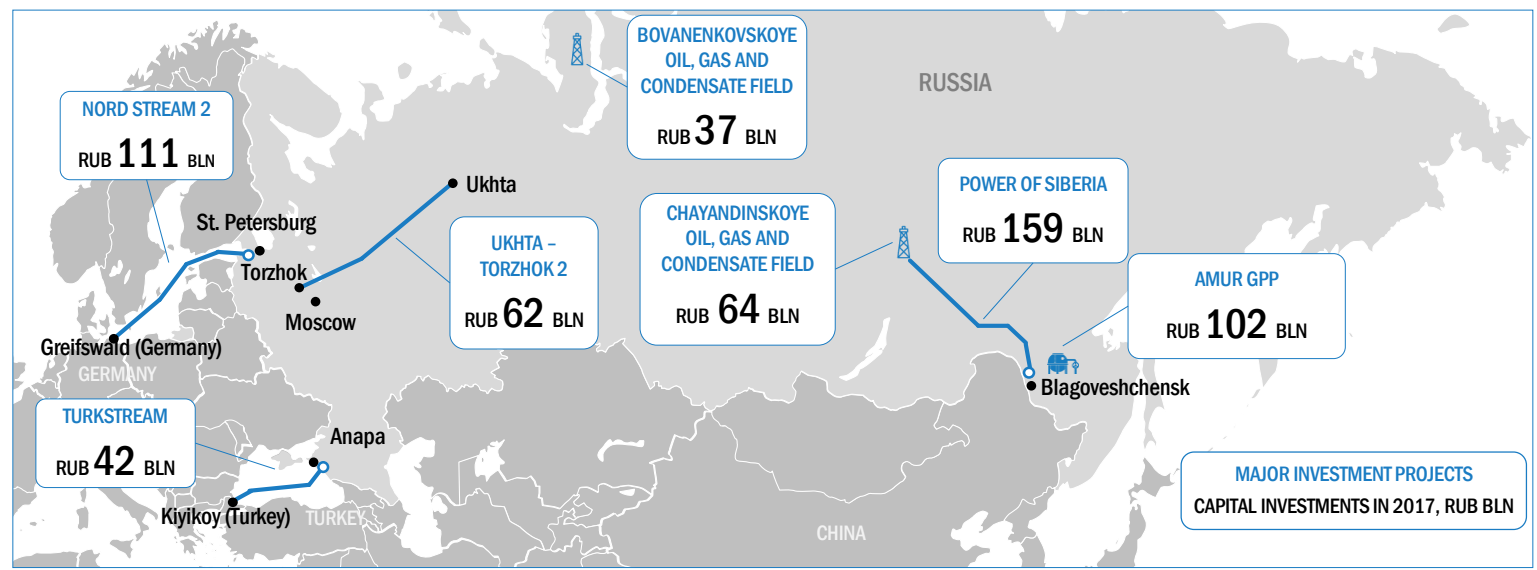
(3) Annual profit attributable to Gazprom shareholders

(4) Average quarterly figures

## Gazprom Group's Investment Program for 2017



## Major projects under Gazprom's Investment Program for 2017





## Major steps in restraining cost escalation

Main cost optimization stages	Scope of work
<ul style="list-style-type: none"> <li>Strategic planning for 10-year period</li> </ul>	<ul style="list-style-type: none"> <li>Defining key development targets for Gazprom and scope of priority projects, building long-term financial model, and developing three development scenarios for Gazprom</li> </ul>
<ul style="list-style-type: none"> <li>Project development</li> </ul>	<ul style="list-style-type: none"> <li>Detailed analysis and design</li> <li>Appraisal and optimization of project solutions</li> </ul>
<ul style="list-style-type: none"> <li>Gazprom's 3-year budget plan and investment program</li> </ul>	<ul style="list-style-type: none"> <li>Setting limits for investment program and operating expenses</li> <li>Ranking investment projects and preliminary approval thereof. Control of claimed costs</li> </ul>
<ul style="list-style-type: none"> <li>Gazprom's budget and investment program for upcoming year</li> </ul>	<ul style="list-style-type: none"> <li>Setting limits for investment program</li> <li>Approving investment program. Control of claimed costs</li> </ul>
<ul style="list-style-type: none"> <li>Project execution</li> </ul>	<ul style="list-style-type: none"> <li>Control over project execution</li> <li>Procurement optimization. Control over contract performance</li> </ul>

## Cost optimization (reduction) program, 2016–2017

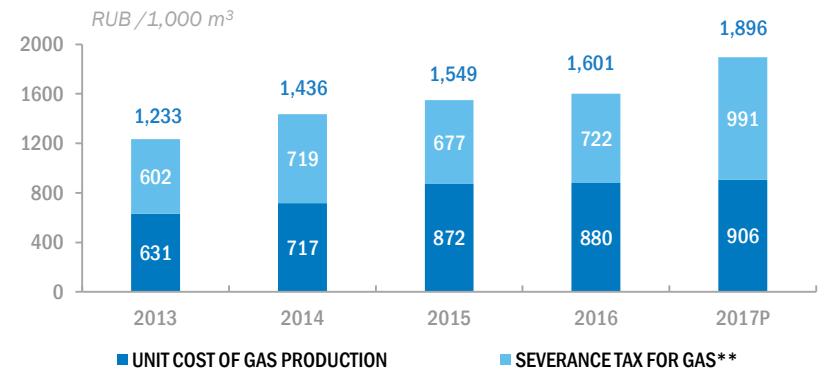
### Effect from Program in 2016: RUB 19.7 bln:

- Operating activities:
  - current costs: RUB 9.8 bln
  - financial costs: RUB 1.2 bln
- Investment activities: RUB 8.7 bln

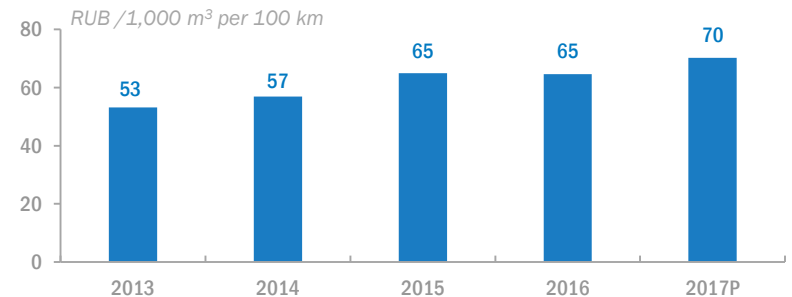
### Forecast effect from Program in 2017: RUB 12.2 bln:

- Operating activities:
  - current costs: RUB 6.9 bln
  - financial costs: RUB 0.2 bln
- Investment activities: RUB 5.1 bln

### Prime cost of gas production\*



### Prime cost of gas transmission\*\*\*



\* Prime cost of gas production – costs for production of 1,000 m³ of gas by 7 major gas producing subsidiaries of Gazprom

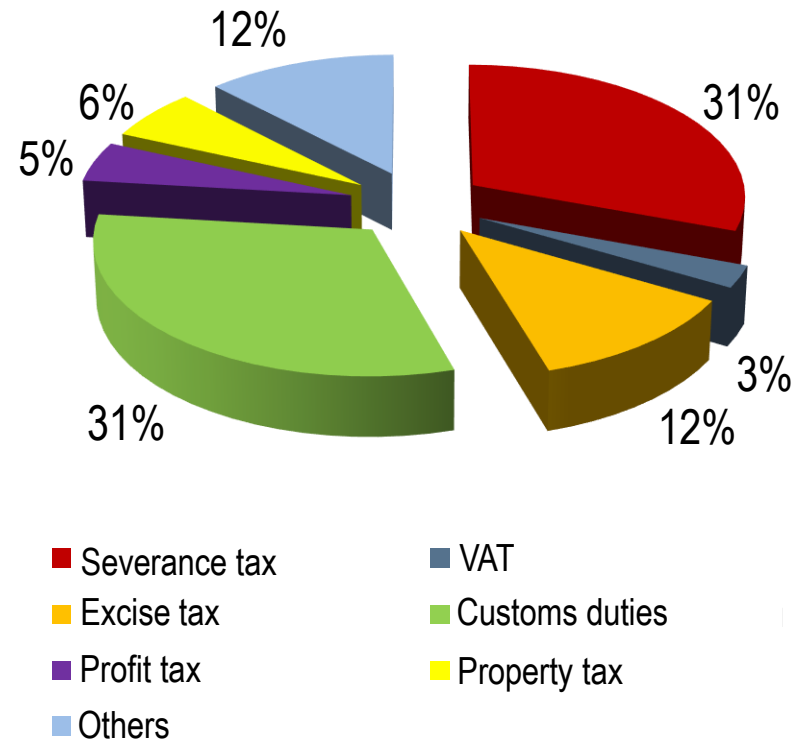
\*\* Average severance tax rate for taxable volume of gas production

\*\*\* Prime cost of gas transmission – costs for transmission of 1,000 m³ of gas per 100 km by Gazprom's gas transmission subsidiaries (within Russian Federation)

Tax payment by Gazprom Group's companies (RUB mln)

	2015	2016
Customs duties	693,746	617,788
Severance tax	599,433	601,985
Excise tax	219,105	236,892
Property tax	110,123	120,391
Profit tax	104,729	95,576
VAT	27,586	53,771
Others	191,942	240,048
<b>Total:</b>	<b>1,946,664</b>	<b>1,966,451</b>

Tax payments in 2016





# CHANGES IN SEVERANCE TAX FOR NATURAL GAS PRODUCTION BY GAZPROM GROUP



Fixed severance tax rate for Gazprom Group  
RUB 700 / 1,000 m<sup>3</sup>

Introduction of formula-based severance tax. Single withholding ratio for Gazprom Group and independent producers:

- 0.15 with no time limit

Upward revision of withholding ratio in severance tax formula for gas and condensate produced by Gazprom Group:

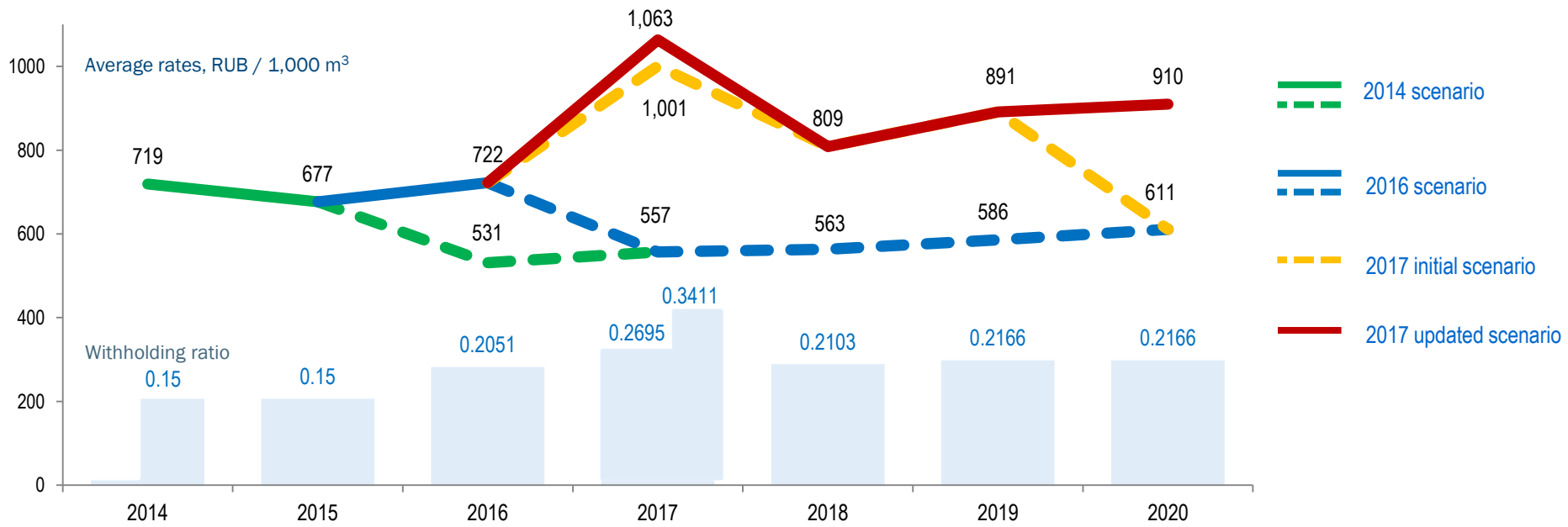
- 0.2051 in 2016

Upward revision of Cgp coefficient in severance tax formula for gas produced by Gazprom Group:

- 1.7969 in 2017
- 1.4022 in 2018
- 1.4441 in 2019

Upward revision of Cgp coefficient in severance tax formula for gas produced by Gazprom Group:

- 2.2738 in Q4 2017
- 1.4441 in 2020



## Current terms

For Gazprom	For independent gas producers
Wholesale gas price regulation <span style="color: red;">—</span>	Free gas pricing <span style="color: green;">+</span>
Regulated prices and tariffs do not offset costs of gas transmission via UGSS <span style="color: red;">—</span>	Lower tariffs for gas transmission services <span style="color: green;">+</span>
Increased tax burden on gas production <span style="color: red;">—</span>	Preferential taxation (severance tax) <span style="color: green;">+</span>
Obligations to ensure reliability of gas supplies to all consumer categories, including in peak consumption periods <span style="color: red;">—</span>	Gas supplies mostly to major industrial consumers in high-yield regions <span style="color: green;">+</span>
Social obligations for gas supplies to and gasification of regions <span style="color: red;">—</span>	Short transportation distances <span style="color: green;">+</span>

## Measures aimed at creating equal conditions for competition in domestic market

1. Various approaches are being explored for gradual transition from stringent regulation of Gazprom’s gas prices in the domestic market to pricing within a regulated range and free pricing.
2. Work is underway on deregulation of gas prices, providing for gas liquefaction at any stage of gas delivery.
3. Proposals are under development to allow Gazprom to sell its natural gas at unregulated prices to companies specializing in gas liquefaction for export purposes.
4. A joint working group for domestic gas market development was set up under the Federal Antimonopoly Service of Russia.
5. Gas volumes supplied via an established trading platform are increasing.

## Centralized Management of Gazprom Group's Cash Flows

- developing ruble-based cash pooling system
- developing cash pooling system involving Gazprom Group's companies based abroad
- setting up single transaction processing center for Gazprom Group

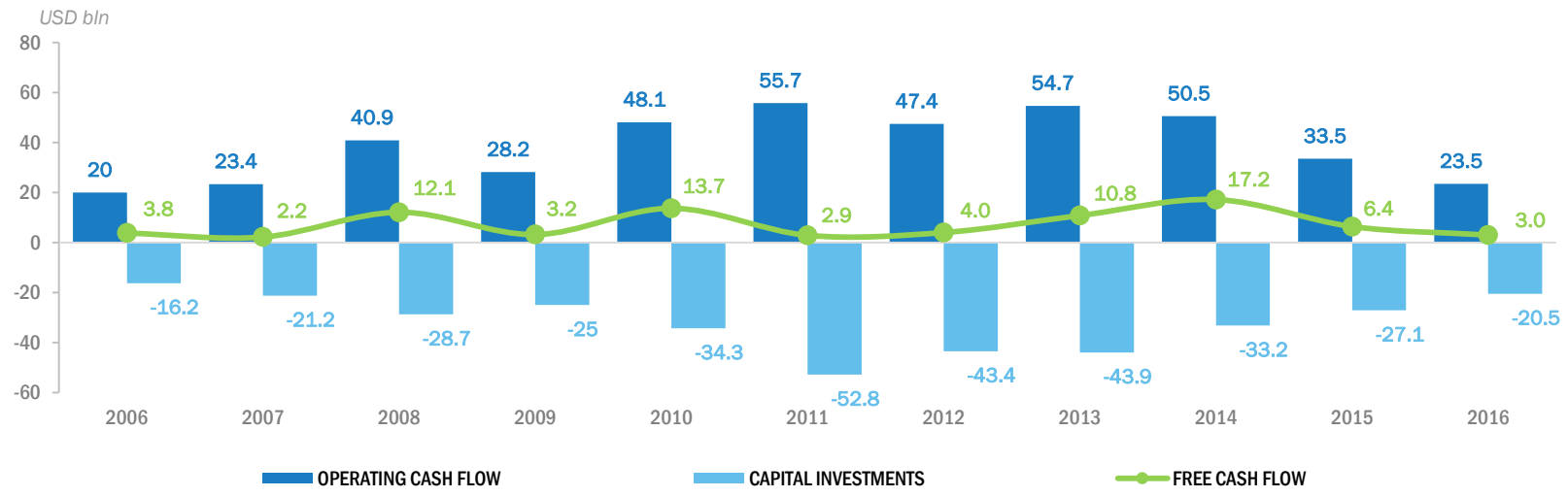
## Efficient Liquidity Management at Gazprom

- expanding list of treasury instruments
- maintaining liquidity reserve through short-term credit lines
- improving financial discipline across Gazprom Group

## Centralized Management of Financial Risks

- introducing uniform standards for financial risk management
- setting limits on credit institutions, including foreign ones
- creating internal control and efficiency evaluation system for treasury operations

## Conservative financial policy : generating positive free cash flow for 11 years



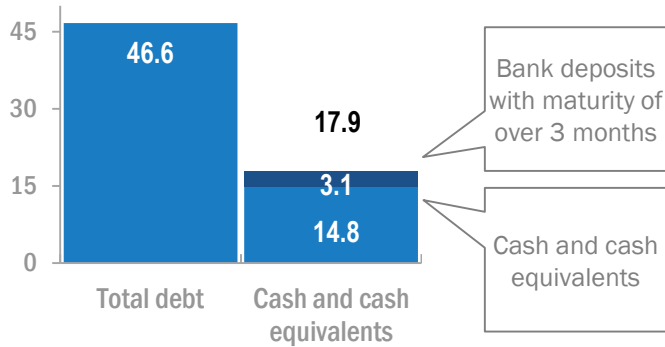
- In 2016:**
- unfavorable price environment for natural gas at foreign markets
  - low prices for oil and petroleum products
  - growing debt burden
  - + strong trend for gas exports
  - + increasing revenue from oil and power generation businesses
  - + tight discipline in capital investment management



**+ USD 3.0 bln**  
of free cash flow

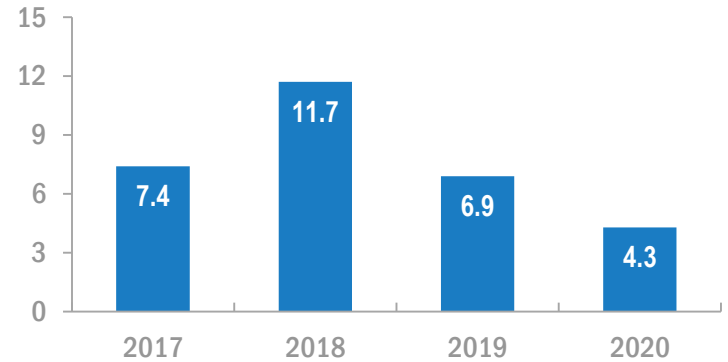
## Gazprom Group's debt under IFRS\*

USD bln



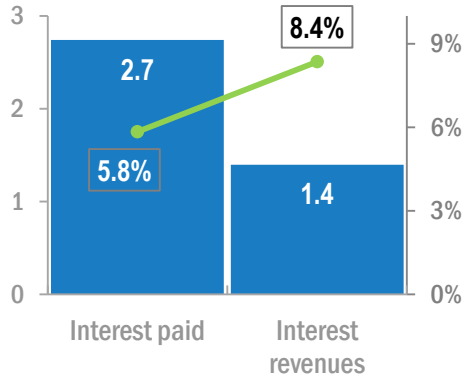
## Repayment schedule of Gazprom Group's debt for 2017-2020\*

USD bln



## Interest revenues and expenses\*\* of Gazprom Group in 2016

USD bln



— Average interest rates of borrowings and placements

- Efficient debt and liquidity management
- Conservative financial policy

\* As of late 2016

\*\* Including capitalized interest

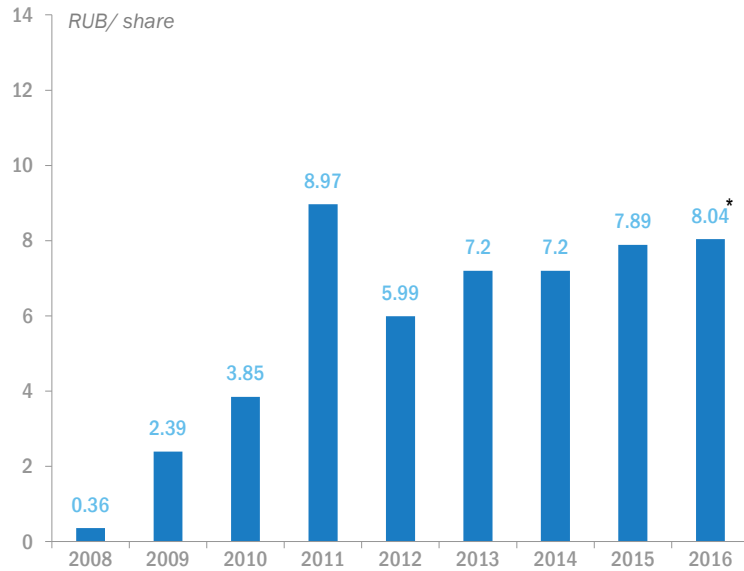
	Loans		Bonds	
Q1 2016	EUR 2,000 mln EURIBOR+3.5%		CHF 500 mln 3.375%	
Q4 2016			EUR 1,000 mln 3.125%	CHF 500 mln 2.75%
Q1 2017	EUR 700 mln EURIBOR+2.5%	EUR 800 mln EURIBOR+2.6%	USD 750 mln 4.95%	RUB 30 bln* 8.9%
Q2 2017	EUR 300 mln		GBP 850 mln 4.25%	

- In March 2016, Gazprom got a EUR 2 billion loan from Bank of China. It was the Company's largest deal in terms of financing attracted directly from one credit institution and first bilateral loan facility agreement with Chinese bank.
- In March 2017, Gazprom placed dollar bonds for the first time in three years.
- In April 2017, Gazprom issued bonds for GBP 850 mln, thereby closing the largest deal in the UK among the same-ranking companies in the emerging markets over the past 3 years.
- Two bond issues were placed in Q1 2017, each with value of RUB 15 bln.
- In June 2017, Gazprom obtained a long-term loan of EUR 300 mln from VTB Bank (Austria), with insurance coverage provided by Austria's export credit agency OeKB.

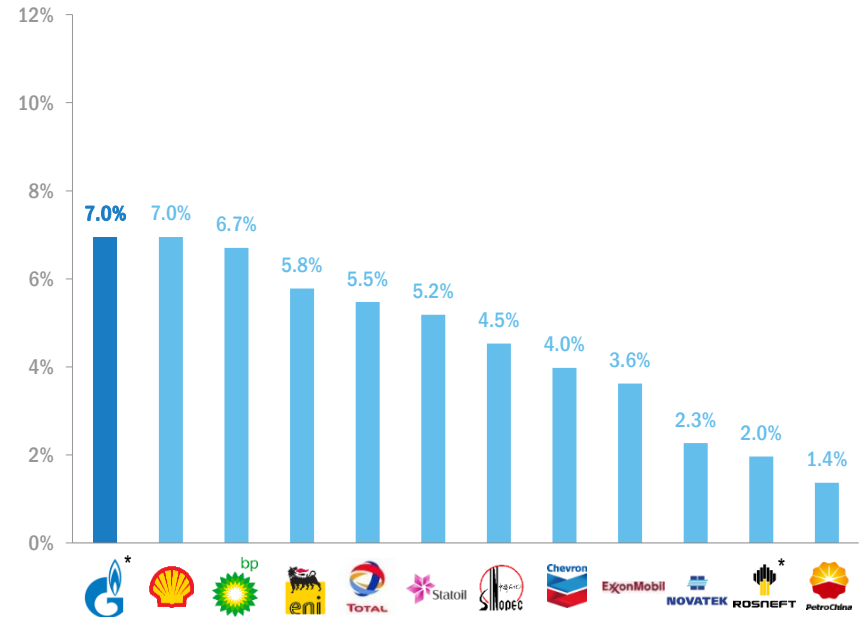
\* Two bond issues each worth RUB 15 bln



## Dividend payout



## Dividend yield on shares in largest global oil and gas companies\*\*



Dividend yield on Gazprom's shares is commensurate with that of largest global oil and gas companies

\* Proposed by Board of Directors

\*\* Dividend yield: ratio of dividends for 2016 to share price as of June 16, 2017

SOURCE: COMPANY'S DATA, BLOOMBERG, JP MORGAN

## Goal

Continuous enhancement of corporate governance standards in accordance with best practices and improvement in transparency of Company's activities

## Results of efforts made in 2016:

- **Current Board of Directors includes three independent directors** (status is confirmed by Russian stock exchanges)
- **Audit Committee**, largely made up of **independent directors** and **chaired by independent director**, was created
- **Nomination and Remuneration Committee**, consisting **mostly of independent directors**, was set up
- **Corporate Secretary unit** (responsibility distributed among several structural units) was established
- **Gazprom's key corporate documents** aimed at protecting shareholders' rights were updated to best practice standards

## Planned efforts:

- to conduct **independent audit** of Company's corporate governance; to receive and implement recommendations on further improvement of corporate standards
- to **evaluate Board of Directors and its committees' performance**
- to receive and implement **recommendations on further streamlining of corporate standards based on independent audit** of corporate governance
- to continue practice of arranging **conference calls and personal meetings of independent directors** with shareholders and investors

Stable tax and regulatory environment needed for sustainable development of Company

Continuous cost control and optimization at all levels

Efficient debt and liquidity management

Stable dividend policy

Corporate governance improvement