

The European Strategy and Vision of the Leading Gas Supplier to the CEE Region

Elena Burmistrova, Gazprom Export Director General

Budapest Energy Summit, 3 December 2018

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of the Leading Gas Supplier to the CEE Region**

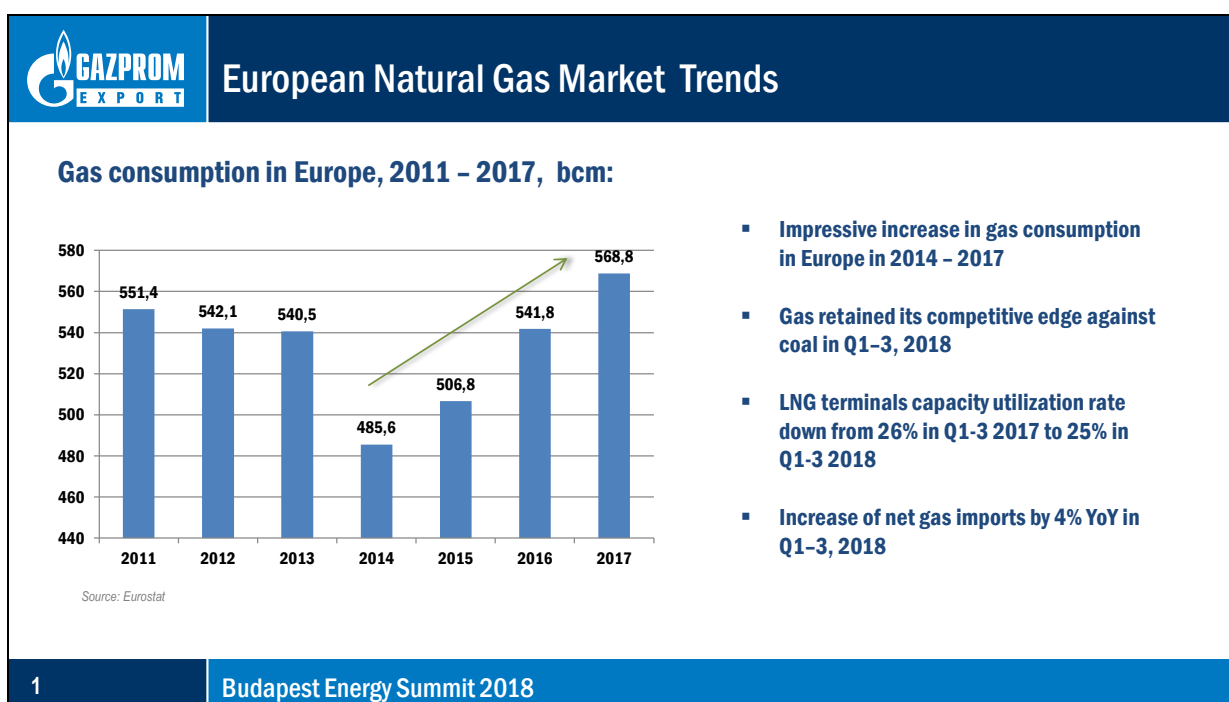
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Good afternoon, ladies and gentlemen!

I am delighted to have the opportunity to speak in front of such a respected audience. Sharing views on the future of the European energy markets from Budapest, in the very heart of Europe, is a special pleasure for me.

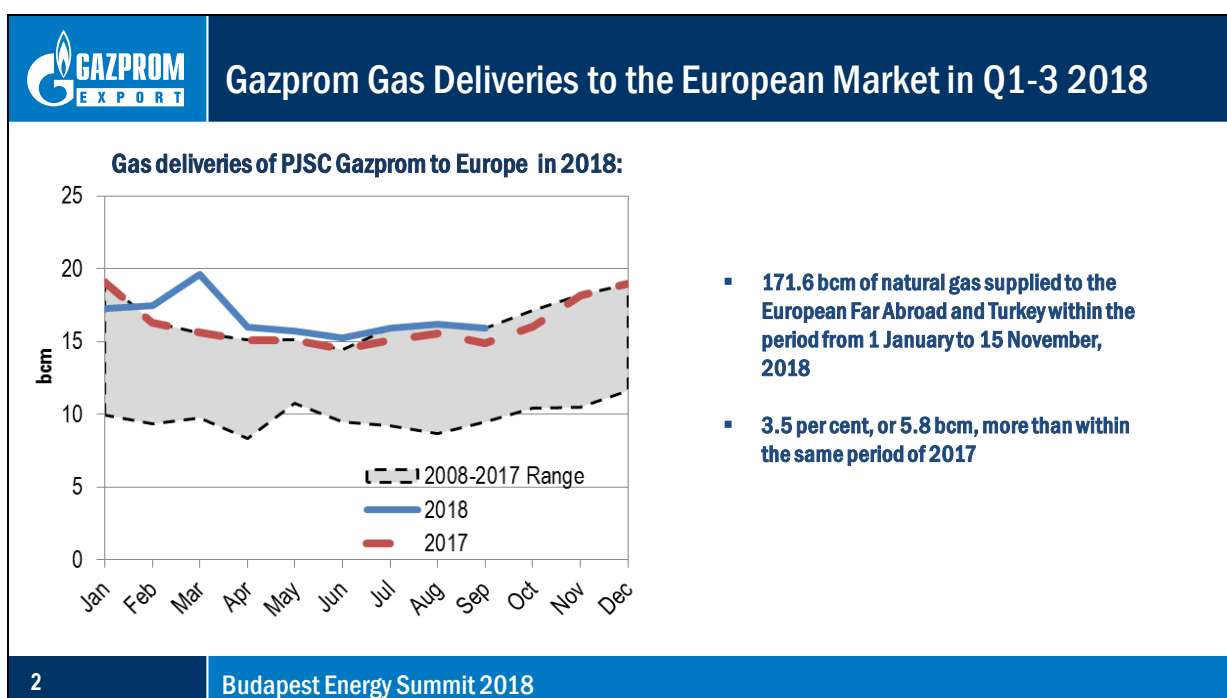


First of all, I would like to focus on the current trends and on their implications for Russian natural gas exports.

Let us look at what is happening on the European gas market now. Over the last four years, it has shown an impressive increase of nearly 70 bcm. The growth slowed down slightly within the first three quarters of current year, due to weather conditions, which were unfavorable for gas. However, demand for imported gas did not fall, and European net gas imports increased by 4 per cent on a year-on-year basis.

The main global trend within the three quarters was a worldwide increase of energy prices. Oil prices rose by an average 38 per cent. Coal prices grew significantly, but still less than for gas. However, with carbon emissions prices considered, gas kept its competitive edge against coal.

The more favorable conditions in the Asia-Pacific region did not contribute to an increase of LNG supplies to the European market. Instead, they lured LNG away from Europe and also served as a limiting factor for potential supplies from the US. Higher volumes of LNG were supplied to Europe within the last few months, but it is still unclear if this trend will be maintained up to the end of the year.



Against all these factors, Gazprom will reach a new record on supply to the European Far Abroad. Gazprom supplied here 171.6 bcm of natural gas from 1 January to 15 November this year, more than in last year.

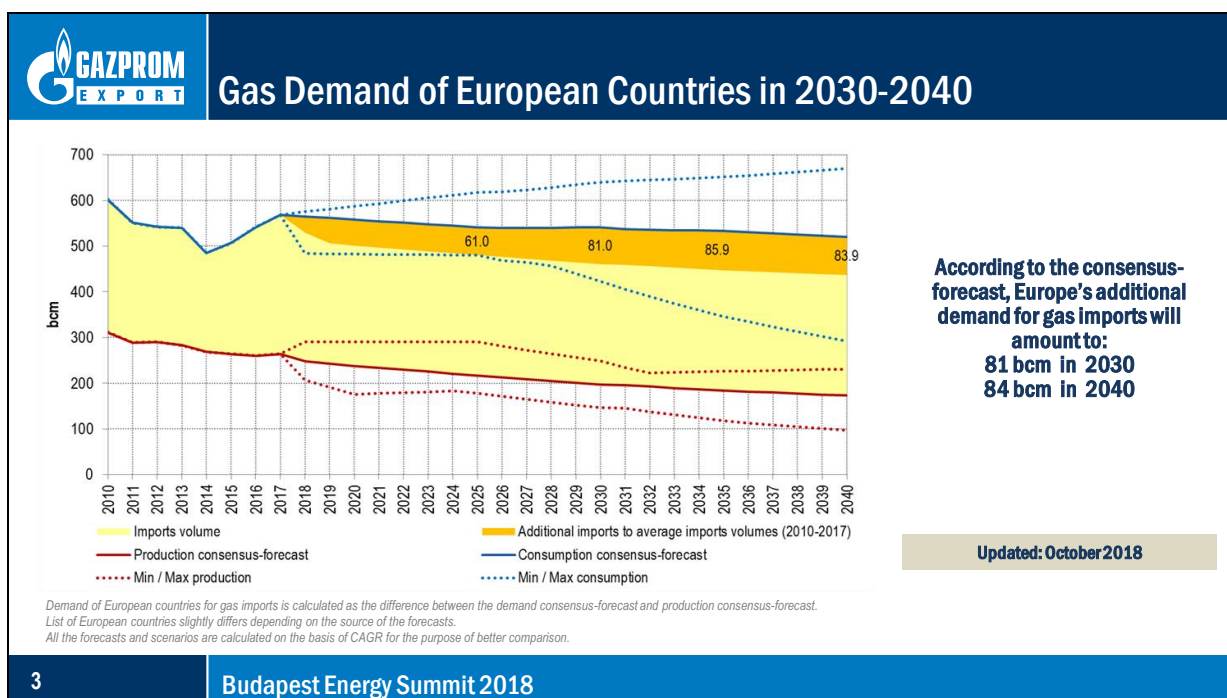
We see a robust increase on year-on-year basis in our supplies to the Netherlands, to Austria, and to Germany. In addition, it is important that the demand for Russian natural gas grows throughout the whole of Europe – in Northern, Central, or Southern regions.

Within this year, Gazprom has also increased exports to Greece and to Hungary. This proves the importance of Gazprom’s plans to construct the TurkStream gas pipeline. It will bring volumes of gas to the Southern borders of Europe. We recently celebrated a significant event, the completion of construction of the off-shore part of this pipeline. We hope that in the future, it will work at its best for the interests of Southern and Central European countries. We will continue to further implement the TurkStream and Nord Stream 2 projects, aimed at developing new gas pipeline systems, and at better security of gas supplies to Hungary and other European countries.

As we are in Budapest, I would like to highlight that we consider Hungary to be one of our key energy markets in Central Europe. Our partnership with this country is based on long cooperation, mutual benefit and good business relations. Looking ahead, we intend to continue gas supplies to Hungary on a long-term basis. Last year, Gazprom Export and Hungarian Gas Trade Ltd signed a Memorandum of Understanding to continue long-term cooperation in gas supplies. A roadmap to

develop Hungary's gas transmission system was signed between Gazprom and Ministry of Foreign Affairs and Trade of Hungary in 2017 as well.

We are quite positive about the mature performance of the European natural gas market. The most liquid European gas hubs do not require excessive financial securities and licenses for gas trading activities and for capacity booking. We are sure that Hungary has all the possibilities to get its well-deserved place within those promising European natural gas market realities, with further development of gas transportation system and bookings.



For the years to come, industry analysts have increased their expectations for natural gas demand in Europe. In the near future, the demand will remain stable. Forecasts for the mid-term perspective are even more positive. They predict a call for additional gas volumes, driven by power generation and transport sectors. Under the most favorable circumstances, additional gas could be demanded by households and industrial players as well.

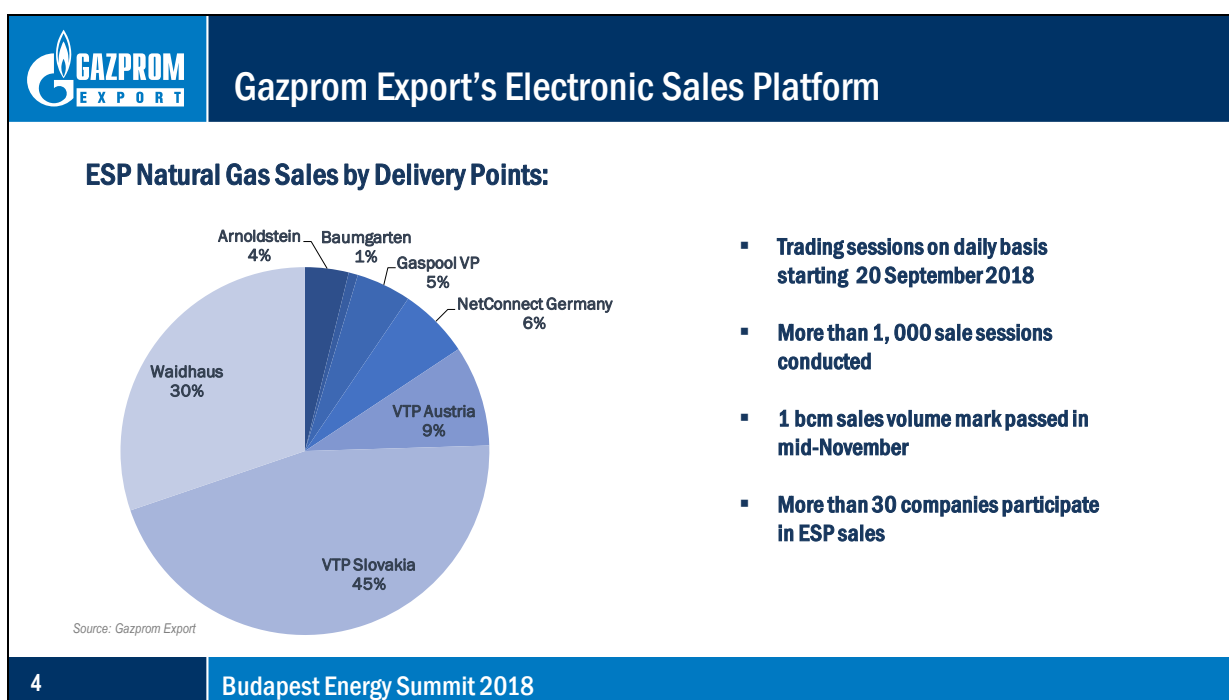
What matters for us as a supplier, is the future of indigenous natural gas production in Europe. In this area, market analysts speak in one voice: it will further fall, even under the most optimistic forecasts. With this trend, the need for imported volumes of gas will predictably grow, both in the mid-term and long-term.

The current consensus forecast of the leading think-tanks says that the need for additional imported gas in Europe could reach 81 bcm in 2030, and 84 bcm in 2040. With that in mind, we are able and ready to provide Europe with as much gas as it needs.

If we evaluate the competitiveness of pipeline gas and LNG, in the mid-term perspective we can predict that some volumes of LNG, which were earlier directed to the premium markets, can return to Europe. However, demand for gas in Asia, including the new importers, will be the main factor that will determine the availability of the new volumes of LNG.

If asked about how we see our role in Europe in the coming years, I would suggest that Gazprom's position will remain stable. The achieved level of Russian gas

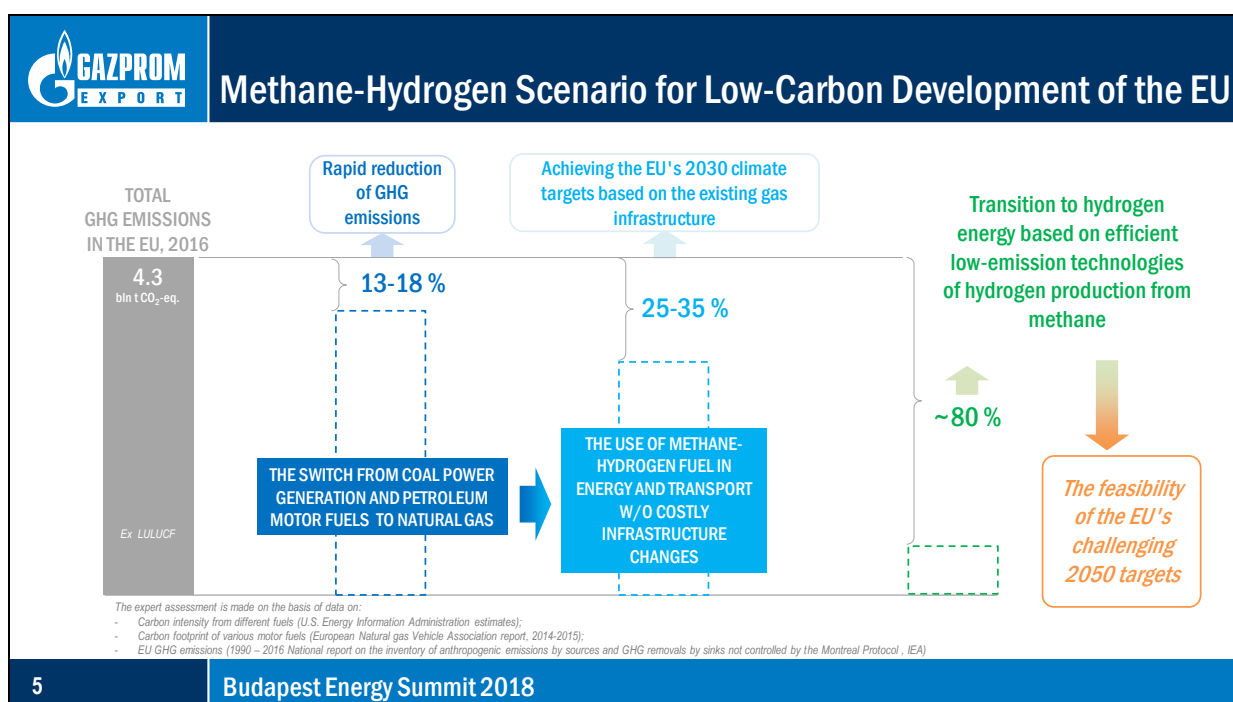
exports has already been recognized as a ‘new market reality’, backed by objective factors and structural developments. That means that we and our European partners have decades of intensive cooperation ahead.



Gazprom closely follows the trends that drive the European energy market. We do not shy away from the changes that are now taking place. Our company has demonstrated that it can work in accordance with new European market realities. We continue to incorporate hub pricing in our contracts, meeting the requirements of the current market. And I am sure that Gazprom will continue to apply the best models available to its business.

I am delighted to update you on Gazprom Export's electronic sales platform activity. The platform is only a few months old, but is already producing mature results. Starting from 20 September 2018, Gazprom Export has carried out daily trading sessions, offering contracts for gas supply to European delivery points. I am proud to say that in the middle of November, sales through the platform reached the 1 bcm mark. We expect that it will further be a robust trading tool, providing more flexibility to our clients and additional revenues for our company.

Looking forward, the principles of the future energy system have to meet the most elaborate requirements – in economic, environmental, technological and many other terms. Natural gas provides the best compromise for both secure and clean energy.




In our view, gas has an abundance of opportunities ahead, even in a world of strong environmental commitments. First, switching to gas from coal generation allows for immediate CO₂ reduction at a reasonable cost.

Further progress can be achieved by switching transport to natural gas, which can allow the immediate reduction of greenhouse gas emissions in Europe by up to 18 per cent compared to existing levels. Gas offers readily available solutions for heavy-load transport, where electric technologies cannot fit the specifics in the best way.

In a more distant perspective, the gas industry can offer a smart and elegant solution for a low-carbon future. It is hydrogen. According to Gazprom's assessments, the use of methane-hydrogen fuel can reduce emissions by up to 35 per cent and allow a smooth transition to a low-carbon economy. If widely used, hydrogen could result in up to an 80 per cent emissions reduction in the EU by 2050.

We must be realistic about natural gas. It has repeatedly proven its self-sufficiency as an essential element of the new global energy system. It can provide affordable, reliable and clean solutions. And it is a perfect partner fuel which, hand in hand with renewables, can lead Europe into a new, low-emission, sustainable and competitive energy reality.

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Thank you for your attention!

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Dear colleagues,

Ahead of a new winter, our aim is to fuel our consumers all across Europe and to supply their homes with a stable source of energy. The market itself will choose the best options for the most beneficial solutions about prices and volumes. For our part, we are ready to further provide it with robust guarantees of energy security. I am sure that we already have the most reliable basis to further strengthen our cooperation.

Thank you for your attention!