

Press Conference

Gas Export and Enhancing Reliability of Gas Supply to Europe

June 24, 2009

Moderator: Good afternoon, colleagues. Our today's Press Conference is headlined Gas Export and Enhancing Reliability of Gas Supply to Europe. The Conference participants are: **Alexander Medvedev**, Deputy Chairman of the Gazprom Management Committee, Director General of Gazprom export and **Stanislav Tsygankov**, Head of the Gazprom International Business Department. I'm going to give the floor to Alexander Medvedev, and after that we will proceed to the questions.

Alexander Medvedev: Good afternoon, ladies and gentlemen! The subject of today's Press Conference attracts increased attention for a very simple reason. The financial and economic crisis, unfortunately, has spread everywhere. In the environment of the global disaster there is no secure place.

Last year the Company's performance rose to unprecedented heights in all areas, both in terms of production volumes and proceeds and, naturally, we will look at it more closely so as to, at least, make these record figures remembered, especially because it will take quite a time to surpass them.

I couldn't help missing the comments by mass media and investment analysts who came to some rather odd conclusions that Gazprom was allegedly loosing the European market and the Company's currency proceeds were disproportionate as compared to other natural gas exporters. First, I decided to disregard these comments, but later on came to the idea that this subject should be addressed and resolved to alter the alarmist moods of these "expert writers" and investment analysts or at least, make them think that gas business is run on a long-term basis and it passes on from generation to generation. Though, generations are changing nowadays faster than before. A short time ago I found out that psychological values are changing now, in journalists inclusive, one time every seven years instead of twenty five years as it used to be previously. That is, an age gap of thirty years embraces four generations. This is possibly the reason why different people see the same event in a different way, but this is digression.

I have long deliberated on what will be the key idea of today's discussion and decided to offer you the following one: our weaknesses stem from our merits. I hope I will prove this beyond doubt. The current statistics of gas consumption in Europe enables us to track the evolvement of the financial and economic crisis and its effects, particularly in the fourth quarter of 2008 and the first quarter of 2009, when it was on a rise. Based on the International Energy Agency data, in the European countries beyond the former Soviet Union, which is the part of Europe we are going to focus on during our today's Press Conference, natural gas

consumption dropped by 16.1 billion cubic meters in the fourth quarter of 2008 and 11.4 billion cubic meters in the first quarter of 2009, which was 8.4 and 5.6 per cent respectively. Therefore, over the two quarters the drop in consumption accounted for 27.5 billion cubic meters (6.9 per cent). Preliminary data for the second quarter of 2009 demonstrate that negative demand trends became weaker. As a result, the first conclusion we may come to is as follows: natural gas consumption in Europe has dropped, but not as dramatically as was expected. Moreover, if we compare the consumption volumes over the winter period of 2008/2009 to the relatively warm winter of 2006/2007, we may see that gas consumption in the crisis environment turned out to be even 5.3 per cent higher reflecting the conspicuous gas market specifics, according to which climatic conditions play a more important role than GDP dynamics and gas capacity of a unit of gross output. Despite a relatively small decline in consumption, the net gas import by European countries in the fourth quarter of 2008 and the first quarter of 2009 substantially declined – almost by 20 per cent or by 30.4 billion cubic meters. In this respect there is a simple question, to which analysts should have paid attention: if gas import dropped so greatly and gas production in Europe remained on the previous level or even declined, how did Europe manage to draw up its gas balance? Mikhail Lomonosov stated that “nothing vanishes without a trace, what was lost in one place may appear in another one”. This question is very simple to answer. The balance was made up due to natural gas withdrawal from underground storages. Only in the first quarter of 2009 natural gas withdrawal from UGS facilities grew by 14 billion cubic meters (65 per cent) in absolute terms versus the first quarter of 2008. Let me remind you that last year, under the conditions of fast and apparently rampant oil prices growth European consumers injected record volumes of natural gas reserves into their UGS facilities. In the fourth quarter of 2008 and the first quarter of 2009 when the prices for gas imported under long-term contracts hit record high, there arose great demand for less expensive gas from UGS facilities. Therefore, the decline of exports to Europe is primarily explained by the replacement of expensive imported gas by the cheaper one from UGS facilities, rather than by the crisis effect.

Along with Gazprom, the drop of export volumes was also experienced in Algeria and Nigeria. Naturally enough, there was recorded a growth in the Norwegian gas exports. The exports decline influenced natural gas supplies unevenly due to the specific pricing under long-term contracts in Gazprom and competing companies. According to the current estimates, in late 2008 – early 2009 gas prices under our long-term contracts slightly surpassed the contractual prices of our major competitors, with gas prices at the spot market being twofold lower as compared to the prices under long-term contracts, this should be taken special note of. At the same time, natural gas was physically available. As a result, natural gas purchasers, being reasonable gas consumers and governed by their commercial interests reduced natural gas offtake under the contracts with high prices and increased gas offtake from less expensive sources.

Is it really a solid ground for rushing to conclusions made by some media representatives saying that Gazprom was losing its share on the European market due to the non-flexible pricing policy? My colleagues and I strongly deny this assertion. The gas export situation at the beginning of the year may not be addressed separately from the past year's record indices. Therefore, if we continue our assessment and look at both the record year and the previous period, I hope you will agree with my conclusions. According to the Statistical Office of the European Communities, gas demand last year increased only 2.7 per cent. We supplied Europe with 5.5 per cent of extra gas as compared to 2007, which accounts for extra 8 billion cubic meters of natural gas in absolute terms. Meanwhile, other suppliers, except for Norway, only achieved 3.7 per cent of increase. In Norway export growth is primarily explained by the commissioning of the large Langeled gas pipeline last year.

The main advantage of contracts with a linkage to the crude basket price and a long (6–9 months) maturity period is a predictable price enabling the gas consumer to optimize its portfolio. I would like to outline again the major principles of the gas market operation that have been shaped during more than thirty years: the price risks are assumed by the seller and the volume risks – by the purchaser. It is apparent that having the forecasts for natural gas price growth in late 2008 and early 2009 our customers intensively built up gas reserves. Besides, Russian gas was cheaper than the gas on the European spot markets over ten months, from November 2007 to September 2008. This situation boosted extra demand for Russian gas last year. At the end of the last year and the beginning of this year, our consumers optimized their portfolio in another way. At that time natural gas offtake under our long-term contracts was minimized by our customers due to the fact that in the last quarter of the last year and the first quarter of 2009 our prices were still high, which reflected the last year's price peaks for oil and petroleum products. Naturally enough, consumers preferred to utilize UGS gas acquired previously at a lower price or to replenish their reserves on the spot market. In fact, this may be described as a shift in demand for an earlier period. Of course, it is impossible to track the path of each minimal amount of gas, but it is clear that the gas volumes injected into UGS facilities last year were offtaken at the beginning of this year to substitute more expensive gas.

This is why we have no reason to panic or be pessimistic. The dynamics of gas offtake by our consumers is predictable and fits into the model of a rational market. Moreover, according to the information that we have, more Russian gas is withdrawn from April to June as compared to the previous months of 2009. It is clear, although, that the projected volume of supply will not be achieved. The volume of gas exports by Gazprom over the first half of 2009 is estimated at 59.5 billion cubic meters or 74 per cent of the projected amount.

It is evident that the half-year reduction derives from the disruption of Russian gas

transit to Europe by Ukraine. As was estimated, around 4.5 billion cubic meters of natural gas were undersupplied to European customers over this hard January period despite the fact that all possible alternative routes were engaged including Blue Stream and Yamal – Europe; gas from UGS facilities was offtaken as well. Therefore, the resulting figures were influenced by the overall demand and Ukraine's actions. Nevertheless, looking at the forecasts for the second half of 2009, we may see that its export volumes surpass the identical periods of 2005, 2006 and 2007. Naturally enough, the price drop couldn't help affecting the proceeds. This year, despite all the problems, it will amount to nearly 40 billion, which is higher than in 2006 and 2005. However, this is a very conservative forecast as we are witnessing increased gas offtake taking into account the amounts already withdrawn from UGS facilities. We think that gas injection into UGS facilities may surpass our wildest expectations.

As for gas supplies beyond the FSU, it is conservatively estimated that 142.1 billion cubic meters will be exported. As you may remember, I previously said that gas exports would be nearly 140 billion cubic meters, and as far as I remember from my mathematics lessons, 142.1 is only a little bit more than 140.

Nowadays, we are recommended to discount the price. When trading additional volumes, although, the discount should make difference with the spot price that was twofold lower. It doesn't make great sense especially if we consider the production and transmission costs of extra volumes, so much more that, as far as the proceeds issue is concerned, we are secured by the take-or-pay principle.

Let's proceed to more optimistic matters. What are the positive effects of increased offtake? These are flattening out gas prices under the contracts of Gazprom export and key competitive companies and the need to replenish gas stocks in UGS facilities, which requires 11 billion cubic meters according to the available estimates. If purchasers try to restore their gas reserves up to the level of the first quarter of 2008, they will need additional 11 billion cubic meters of gas. Surely, nobody wants to fall short below the take-or-pay level and we can see that our partners wish to keep up with it.

It is clear that the crisis affects Gazprom's commercial and financial performance. On the annualized basis, however, as long as gas offtake under long-term contracts grows, gas production and financial receipts start increasing inevitably. In general, we expect that the average prices of the current year will be compatible with the prices of 2007. Of course, they are lower than the record high indicators of the past year, but still are rather satisfactory and enable Gazprom Group to implement, with certain updates, its investment programs, to develop steadily and to look into the future with confidence, especially as it is too early to come to conclusions on how long the crisis will last, how adverse it will be and what impact will it make on the economic growth.

Now, I would like to focus again on the Company's performance, which is always pleasant to talk about: just like last year, this year Gazprom keeps retaining the top spot as an exporter and secures around a quarter of the global gas exports. You know these figures very well. Our key customers are Germany, Turkey, Italy and France. Turkey takes the second place and keeps increasing gas offtake, while showing interest in the existing contracts extension and extra gas purchases. Based on the 2008 results, our export volumes have achieved the record level of 158.8 billion cubic meters. I hope this level will be surpassed in the future.

Our currency proceeds accounted for some USD 65 billion reflecting both the volumes and the prices. In the total amount of gas import by the countries located beyond the FSU, Russia's share accounted for 59 per cent, while the consumption level averaged 26 per cent.

The profit from natural gas exports is certainly a crucial element of the Russia's balance of trade. Last year natural gas accounted for some 14 per cent of the total value of domestic exports. It is clear that natural gas will retain its important role in securing Russia's balance of trade and balance of payments.

Undoubtedly, the reliability issues are utter of importance. I won't describe the situation that happened in January as it was described many times. I would like to brief you on what is going on with natural gas transit across Ukraine. The gas transmission system of the Soviet Union was created as a united system, both comprehensive and coordinated. When distributing the property of the collapsed Soviet Union, nobody thought about the results of technical splitting of the gas transmission system. Only after the new team of Gazprom's management took office, an attempt was made to reinstate this system on economic principles. It was not easy to do this and the process still continues.

The Ukrainian gas transmission system operates in such a manner that physical transit in the winter period is relatively small. The bulk of gas supplied through physical exchange with Ukraine's eastern regions and gas withdrawal from UGS facilities. If the amount of gas in Ukraine's UGS facilities is insufficient, it will be impossible to deliver gas to European consumers, despite any actions we may take. We have repeatedly drawn attention to this fact on the corporate level, while the Russian Government and President negotiated it with the European Union. We know that the European Union is debating nowadays on how to resolve this problem. It is apparent, however, that it can be resolved only by united efforts. We hope it will finally be possible to find the solution that will rule out technical and technological risks related to gas supply to Europe.

The underground gas storage system development is a key element of the energy security. We have a specific comprehensive program: there are two major UGS facilities in Germany and Austria. At present, we are already implementing Phase 2 of the Haidach UGS facility in order to double its capacity. A number of

projects have either reached the investment decision stage or all the commercial terms and conditions have been agreed on and the project valuation documents are under preparation for the investment decision to be taken. These projects involve UGS facilities in the Netherlands, Serbia, Hungary and Germany. The process is not only a key to the market, but also an important contribution to the European energy safety. Our partners and we make considerable investments and this is the best response for those who like to speak much and do little. We cannot find a lot of examples of substantial investing into the gas transmission and underground storage sectors.

Therefore, it is crucial to diversify gas transportation routes – to construct the Nord Stream and the South Stream gas pipelines. We are confident that there is absolutely no reason to refuse the issuance of a permit for the Nord Stream construction. The permits should be granted before the year-end by the countries, whose economic zones are crossed by the pipeline route, which will allow us meeting the construction deadline.

As for the South Stream project, it is at the pre-investment stage: the feasibility study is being prepared and the possibility of increasing the pipeline's offshore section capacity from 31 to 63 billion cubic meters per annum is being considered.

Thus, two factors are being addressed – demand for new gas and, I won't deny it, optimization of gas flows along the existing routes. I don't mean, however, the elimination of the existing routes, but rather their optimization. It is clear that the Ukrainian gas transmission system has been deficiently funded over a long period of time and, taking into account potential gas demand, it is necessary to implement new transmission routes as soon as possible.

Regarding LNG we had a special Press Conference; therefore, I won't speak on this subject again. LNG is an important contribution in our diversification portfolio. Despite the fact that final consumer properties of regasified LNG are identical to those of natural gas, its marketing business-model is absolutely different. That's why, having produced around one million tons of LNG per annum as part of the Sakhalin II project, we created preconditions for LNG marketing up to the ultimate consumers on the US and Asia-Pacific markets.

In addition to natural gas, Gazprom trades oil, petroleum products and a wide spectrum of petrochemicals including monomers, liquid chemical products, mineral fertilizers, polymers and synthetic rubber via the unified export channel of Gazprom export.

The supply volume of these products rose to 7.7 million tons in 2008 versus 4.3 million tons in 2007, the proceeds increased to USD 4.57 billion from USD 2.4 billion. This is an important area of activity, all the more gas chemical projects development is included into Gazprom's strategic plans, especially in Eastern Siberia and the Far East. From the standpoint of these products marketing

Gazprom has all the necessary prerequisites for success. I think we should leave some time for questions. Thank you.

Question: Anastasia Goreva, Argus Media agency. Mr. Medvedev, I've got two questions for you. Yesterday, Sergey Kudryashev, Deputy Energy Minister, said in his speech at the Oil and Gas Congress that Gazprom's export policy was non-flexible. In particular, he mentioned the non-flexible pricing policy. The question is as follows: When hearing such statements on the federal level, will Gazprom keep pursuing this non-flexible pricing policy or are there any changes possible? Kudryashev also made reference to Norway that had a more flexible pricing policy.

Alexander Medvedev: In fact, Norway is not flexible at all. It just has a specific structure of price formulas, in which the spot aspect takes the predominant position. I am not going to reveal their secrets, but there is one peculiarity. We carry out comprehensive market operations. In addition to cross-border sales, our companies, either joint ventures or subsidiaries, operate on markets and gain additional profits from gas sales to ultimate users. Therefore, let's leave this issue to those who have the conscious to make such statements.

We are discussing this issue on the federal level. It will be addressed at the next meeting of the Economic Development Ministry in the context of regulated gas prices defining for various types of consumers for the next year.

Naturally, the Government as the majority shareholder has the right to ask questions: how well are you working on foreign markets? Could you earn more? We are not determining the prices. Actually, we have the practice of discounting that boosts gas offtake, and we also consider seasonal fluctuations. Hence, we don't have to introduce any innovations here. But when it comes to the fact that Gazprom has to award large-scale discounts in the crisis environment of the first quarter, my answer is as follows: it doesn't make sense to reduce gas prices twofold in order to increase gas offtake by 3 per cent. We care more about the market stability. We rely on the long-lasting results, rather than the temporary ones. We attach importance to securing our market positions, robust export proceeds including regular tax payments into the Russian Federation budget.

Question: As far as I understand, it is possible to change the price somehow and this issue is being discussed now.

Alexander Medvedev: No, you have misinterpreted my answer. Gazprom doesn't set prices, they are defined with the use of specific formulas. We are not going to change the formulas, as they ensure the business efficiency, both when the market goes up and when it goes down. The figures that I've mentioned show that gas offtake volumes started to surpass our expectations from early April.

Question: The second question. Tell us please, what conclusions have you come to after the first disastrous six months? Are you going to adjust Gazprom's export

policy in any way? If not the pricing aspect, but maybe anything else? Thanks.

Alexander Medvedev: If you went to Sochi on a vacation and had a rainy spell of weather, would you quit visiting the place? I don't think so. Or you could go to Cannes and had rainy weather there again. In this case, the decisions have to be carefully planned and balanced. We both rely on long-term contracts and operate on the spot market as well through our subsidiaries. For example, our subsidiary Gazprom Marketing & Trading purchases gas on the basis of pegging to the oil basket and runs its business on the liberalized UK market.

I can give simple arithmetic examples for you to understand that accepting this advice and changing the price formula would be the same as when selling one apple per ruble you may end up selling two apples per 0.5 rubles, but if you have only one apple on the apple-tree, you have to plant another apple-tree, to water and fertilize it. Thus, the effect will be weaker as compared to selling one apple. I hope this example has demonstrated the irrelevance of changing the gas market principles. Moreover, it is clear that the market is unlikely to go up.

Question: Anastasia Lyrchikova, RBC agency. Mr. Medvedev, what is going on with Belarus now? Can you confirm that it has cleared the payments for May? Are the negotiations for settling the January-April debt progressing successfully?

The second question is concerned with RosUkrEnergo. You promised to provide information soon about the way Gazprom envisions the future activity of this company. Are you going to quit its shareholding structure, sell your stake or wind it up at all? Thanks.

Alexander Medvedev: Our today's meeting is dedicated to the countries located beyond the FSU. I was on a business trip and, therefore, I have no recent information on the situation with Belarus. I hope everything will be settled down according to the contractual terms.

The key issue related to RosUkrEnergo is clearing the company's arrears. Negotiations are underway with the other stakeholder's representatives in compliance with the corporate procedures. That's why I can't say what will happen to the company in the future until the debt issue is resolved.

Question: Tsvetana Krasteva, Bulgarian National Television. Mr. Medvedev, will you make a direct supply contract with Bulgaria until the year end or will you wait until the existing contracts expire? Besides, will you please tell us about Gazprom's plans relevant to a UGS facility in Bulgaria: will you invest in the expansion of the existing UGS facilities or the construction of the new ones? Thanks.

Alexander Medvedev: In addition to the principle that I have already mentioned, there is another principle on the gas market: the signed contracts are to be followed

and fulfilled. We are negotiating the issue of direct contracts with the Bulgarian part (Bulgargaz), but all the existing contracts will be completely fulfilled.

As for UGS facilities – we have expressed interest in joining the Chiren UGS facility development, but haven't received any response yet. If the answer is positive, we will gladly consider it, the more so as we have the necessary experience in this area.

Question: Anna Shirayevskaya, Platts agency. The first question is concerned with Alaskan projects: last year you asserted about your interest in this sphere – how are the negotiations progressing now and will you sign any documents on American projects during Obama's visit in early July? Regarding the African trip of the Russian President: what are your projects of interest in Angola? And give us additional information about Nigeria: what will the joint venture deal with and what will be Gazprom's expected investments in this country? Previously, USD 2 or 3 billion were stated, has the figure changed since that time? Thanks.

Alexander Medvedev: Speaking of Alaska – we have to wait till the “reset” first and then we will see what financial opportunities will be offered to us. We don't hide our interest. This is conditioned by the fact that the natural-climatic and mining-geological conditions in Russia's Extreme North are largely similar to the conditions of Alaska. There are great technological achievements that may be utilized in Alaska. It is obvious, that the issue is not limited to the relations between companies – we are discussing possible cooperation in the production and transportation sectors in Alaska with a number of companies, but I'd rather describe this process as a preliminary stage. No doubt, political preconditions are very essential for this kind of cooperation. We shall hope that the meeting between the two Presidents will open up new opportunities in this sphere.

As far as Africa is concerned, let's wait until the end of the visits. Our key priority is actually related to the cooperation deepening in Nigeria, in which a joint venture is projected to be set up on the terms and conditions agreed upon in the Memorandum. Gazprom's representatives are also taking part in the President's visit. Let's wait for them to return.

Question: Timur Olevsky, Ekho Moskvyy radio station. Mr. Medvedev, recently in Minsk, the EU Commissioner for External Relations proposed Belarus a loan in return for the control over the gas network. What is Gazprom's attitude toward this idea and will it influence gas supply security in Europe?

Alexander Medvedev: As you know, Gazprom and Beltransgaz have a joint venture with the shareholding structure steadily approaching the 50/50 level. In case, the Belarusian party would like to make use of its stake somehow, there is a special clause envisaged for every joint venture, according to which the stakeholders should bring their actions into accord. We haven't received any official requests yet. At the same time, EU Commissioners act in an unpredictable

way sometimes: they may purchase natural gas in Turkmenistan or take some other unusual action. I will refrain from comments yet.

Question: Larisa Zadorozhnaya, Inter TV Channel, Ukraine. We are hearing now rather fragile implications that the agreement between Russia and Ukraine will be amended. Several weeks ago Didenko interrupted very important meetings in Kiev, took off and went to Moscow for an urgent visit. Answer, please, are the negotiations on adjusting the agreement between Ukraine and Russia really taking place? What is your attitude toward this process in future? Thanks.

Alexander Medvedev: Let's sort the wheat from the chaff. Every first-class supply contract enables each party to revise the contractual prices once a definite period, or even once a ten-year period (an extra right). But there should be a reason behind this move. Negotiations on revision start at the moment when a party to the agreement can substantiate its claim. There were instances in the past when a claim was submitted, but was not accepted due to being ungrounded. This is a standard procedure: a certain period of time is spent for negotiations and if they fail and the parties are unable to come to an agreement, the case is passed to the arbitration court. As a rule, for the first time a party may resort to the revision rule much later than on the first day after the contract signing – a certain period of time must pass before it becomes possible. Honestly, my colleagues and I can't find any reason for revising the pricing or transiting conditions. Especially, when such claims don't come from our partners, but rather from politicians. We have to face this challenge again and again, but I put aside the political statements. We are doing business. I hope that contracts will be fulfilled including the part related to the revision of any terms and conditions.

Moderator: To continue the Ukrainian subject – we have received a question on the website. May Gazprom inject its natural gas into Ukraine's UGS facilities under the EU supervision so as to sell it to Europe in winter?

Alexander Medvedev: Let's come back to history, there is an old rule: those who do not remember history – have no future. Unfortunately, we are confronted by the fact that a substantial amount of our natural gas, around 8 billion cubic meters, was gone without a trace in Ukraine's UGS facilities. Throughout the winter we submitted requests trying to recover at least one cubic meter of gas. After that, a decision was taken against storing natural gas for our needs in Ukraine's UGS facilities.

According to the current agreements, the responsibility for replenishing UGS facilities with gas and supporting the gas transmission system entirely rests with Naftogaz Ukrainy. They were fully aware of that. We know that the economic crisis affected Ukraine, but it doesn't release the country from fulfilling its obligations as a transiter.

In cooperation with our main purchasers we proposed on the corporate level to

inject gas into Ukraine's UGS facilities under joint supervision and according to the mechanism agreed on by the international gas monitoring system. Although Gazprom was not obligated to let international observers into its dispatch center – it was a manifestation of good will on our part: we had nothing to conceal and let them in. Unfortunately, international and Gazprom's observers were not allowed into the dispatch center or UGS facilities of Ukraine, despite the fact that it had been specified by the documents signed.

Today, our foreign partners are saying we can only agree on joint gas injection into Ukraine's UGS facilities provided that full transparency of gas injection and withdrawal are secured. This is an absolutely reasonable demand. Though, this issue is still being considered and I can't comment on the outcomes of this problem at the moment.

Moderator: Besides journalists, there are also representatives from investment and financial companies here. May be they also have questions.

Question: Pavel Kushnir, Deutsche Bank. Tell us, please, is it possible to export LNG from the Yuzhno-Tambeyskoye field avoiding the unified export channel of Gazprom or is it necessary for Gazprom to take part in the project? As far as I understand, there is some possible solution for the project now. Thanks.

Alexander Medvedev: There exists the law on the unified export channel in our country. For all I know, nobody denies its existence. Moreover, at the initial stage our cooperation with NOVATEK goes beyond than just between two independent companies – let me remind you that Gazprom is a shareholder of NOVATEK. We are doing our best to achieve the goal that in case the project is implemented, Gazprom, similarly to the Shtokman project, will become the owner of the project's LNG through Gazprom export. The specific terms will be defined by the business model of cooperation within the project. Besides, I think this business model will embrace several phases of the projects based on Gazprom-owned fields. By now, it is clear that LNG will be traded by Gazprom export.

Question: Yulia Nazarova, RBC Daily newspaper. I would like to know, when and on what terms Gazprom is going to resume Turkmen natural gas purchase. Thanks.

Alexander Medvedev: Your newspaper stated that I had returned from Turkmenistan. This is true. Our negotiations have a very constructive nature, but let's see how they will further evolve.

Question: Financial Times newspaper. Aren't you worried that the decision to postpone the Bovanenkovskoye field development may add to the loss of a European market share by Gazprom or to trigger the searching for other gas sources by European customers? As you said it is too early to speak of the crisis depth – with this in mind, may we expect some other investment reductions?

Alexander Medvedev: First of all, the Bovanenkovo project has been rescheduled only for a year and this has no crucial impact on the resources availability for exports. In addition, let me remind you that we don't export gas from separate fields – it comes from the Unified Gas Supply System. I would like add that over the cold winter of 2005–2006 Gazprom demonstrated its ability to annually produce around 620–630 billion cubic meters of gas using the available production capacities with no extra investment – relying on additional operational costs only. We use the existing production base! Over this period the situation couldn't have changed drastically. Moreover, it has improved, as we are putting on stream new fields, for instance, the Yuzhno-Russkoye field is reaching the plateau production stage. Therefore, I am going to reiterate that there are no risks of Gazprom's share reduction on the European market and, beyond that, the related key criterion – export efficiency and currency proceeds – is not declining.

Moderator: Well, our time is running up. The last two questions: one – from an investment and financial company, the other – from journalists. Thank you.

Question: Natalia Mescheryakova, Otkrytiye company. I would like you to specify the amount of 140 billion cubic meters or even more to be supplied to Europe. Will it be comprised by Russian gas only or by the gas of independent producers as well?

Alexander Medvedev: Like in the previous years, we are selling gas from our portfolio. This is both the gas we produce and the gas we purchase. That's why, when purchasing gas from third parties, both from abroad and from independent suppliers and oil companies, we replenish our portfolio with it. The difference between our Company and other big market players lies in the fact that the bulk of this portfolio is produced gas, while in other companies, on the contrary, purchased gas prevails over produced gas.

Question: TV and Radio Company of Finland. As you may know, Sweden and Finland are quite worried about the environmental problems related to Nord Stream and feel troubled about the Baltic Sea ecosystem in general. Do you understand the anxiety of Finland and the Baltic countries? Are you ready for the possibility that environmental issues may be the reason why Finland will not permit Nord Stream AG to construct the gas pipeline?

Alexander Medvedev: As a conscious citizen, I am not surprised by the concern about environmental issues, I support it. But there are different reasons for concern. It is possible to feel concerned, but at the same time to be able to think over how this or that project may be implemented. If we continue being concentrated only on our concerns, we may reverse the technical progress, and go back living in caves instead of skyscrapers. It may take a long time to discuss this subject.

I would like to declare it officially: the development level of the Nord Stream

project surpasses all technical and environmental solutions applied at all the gas pipelines previously built. I am not going to refer to the opinion of our colleagues who said that “what you have achieved with Nord Stream brings preparation of offshore gas pipeline projects to a new level”. There is a good reason why we have spent so much time, efforts and resources for this project. We can’t see a question that we are not able to give a reasonable answer to.

We are worried about the fact that instead of making a qualified analysis of what has been done and how it has been done, there come politically-motivated demands with the environmental organizations involvement. This doesn’t improve their image because an ecologist has to be objective instead of starting turmoil, while there is no reason for worries, let alone turmoil.

Nord Stream is really a complex engineering project. There is a set of measures, provided for in international guidelines by the way, on laying both gas pipelines and cable networks. In fact, in terms of modern technologies, laying a pipeline has a lot in common with laying a cable. In this case, we should take a decision and lift all cables and wirelines from the Baltic Sea bottom, quit using telephony and Internet...

This is the reason why we expect Finland, Sweden, Germany and Russia to consider the issues related to Nord Stream in a professional way. We are absolutely confident that we comply with all the necessary requirements.

And, to sum it all up, as I always keep my promises, I will tell you the forecast gas price for the current year. The latest forecast shows that the average gas export price for the countries beyond FSU will exceed USD 280 per 1,000 cubic meters.