

Press Conference

Gazprom in Eastern Russia. Entry into Asia-Pacific Markets

June 16, 2015

MODERATOR: Hello, colleagues. The topic of our Press Conference today is “Gazprom in Eastern Russia. Entry into Asia-Pacific Markets”.

Taking part in the Press Conference are:

- Vitaly Markelov, Deputy Chairman of the Management Committee (in charge of the production unit);
- Alexander Medvedev, Deputy Chairman of the Management Committee (in charge of the international business unit);
- Oleg Aksyutin, Member of the Management Committee, Department Head (gas transportation and underground storage);
- Dmitry Lyugai, Member of the Management Committee, Department Head (prospective development);
- Vsevolod Cherepanov, Member of the Management Committee, Department Head (hydrocarbon exploration and production);
- Pavel Oderov, Department Head (international business);
- Viktor Timoshilov, Deputy Department Head – Directorate Head (coordination of East-oriented projects);
- Elena Burmistrova, Director General of Gazprom Export.

Mr. Medvedev will make a brief introduction. Then we’ll pass on to your questions.

ALEXANDER MEDVEDEV: Good morning, dear colleagues. Today we have an impressive delegation at our Press Conference dedicated to the prospects for business development in Asia-Pacific. As an introduction I would like to cite a Chinese wisdom. Two thousand years ago the Chinese noted that the more formidable and acute the problem was, the ampler and deeper the possibilities for resolving it were. We live in a difficult time – both politically and economically. But maybe, thanks to these problems as well, the possibilities for business development in Asia-Pacific are so vast and versatile. Your handouts have all the necessary figures and data, therefore, since there are many of us today and we are ready to answer all the questions – from production to sales across the whole value chain, we suggest that we should pass on to your questions right away.

QUESTION: Kirill Marenin, Kamchatsky Krai newspaper. Presently Kamchatskenergo is the only purchaser of gas. Do you get requests for the blue fuel purchase from other companies? If you do, in what amount? And if you are ready to meet this demand, at what price will you sell this gas – at a reduced rate or at a fair market price?

VIKTOR TIMOSHILOV: Actually you described the situation correctly. Today gas is mainly supplied to major generating facilities. In addition, the Kamchatka Territory gasification program, which is currently underway, provides for supplying gas to the utility sector and the population as well. Here the supplied volumes will depend mostly on the availability of resources. All in all, today we have brought to an equilibrium our production opportunities and gas volumes supplied to major power facilities. That's why in future we'll be bringing the volumes of gas supply to our extra consumers in line with our production opportunities. We also plan to go on with geological exploration on the west coast of Kamchatka. As for the rate setting, you know it is regulated by the Federal Tariff Service. The Federal Tariff Service has our proposals and business plans regarding the cost of gas production. We make no secret of the fact that the existing rates do not provide for the return on investment with a necessary profitability rate. Nevertheless, we suppose that we'll go on negotiating with the Federal Tariff Service of Russia the optimal level of rate setting that would both profit the gas producer and be acceptable for consumers.

QUESTION: Lyubov Radchenko, Teleport newspaper. I have a question about the gas processing plant being constructed near the town of Svobodny in the Amur Region. How is the construction going on, what is the completion deadline, which facilities will be commissioned first? How many construction workers do you plan to involve, will it be the local workforce? What specialists will work there?

VITALY MARKELOV: Today we have started constructing a plant in the Amur Region near Svobodny. Right now, the design work is in progress and the relevant permits needed to start the construction are being developed. I should say that this year we are launching the construction of the first train of this plant.

It's a very ambitious project in terms of scale: having the annual processing capacity of 38 billion cubic meters of gas, the plant will deliver helium, ethane, propane-butane and propane-butane derivatives. That's why, considering its size, specialists from various professions will be involved in the construction. First of all, the local workforce will be employed. We reckon that some ten thousand people will be engaged in the plant construction.

It's a big plant. We have never constructed such plants before. It will be a gas chemical cluster in the Amur Region.

QUESTION: Vitaly Andrianov, Yakutia newspaper. Scheduled geological exploration is being performed for quite a while already in the Chayandinskoye field. Right now is it possible to specify the timeframe of when the field will be fully explored? What are the plans for exploring new fields and building up the resource base in Yakutia?

VSEVOLOD CHEREPANOV: Geological exploration in Yakutia is in progress. We are drilling seven wells there: five of them will be drilled this year and the remaining two will be completed next year. According to our plan, we'll complete geological exploration of the Chayandinskoye field in 2016.

Right now we can say that we've achieved rather a decent result. In 2015 the reserve build-up in the Chayandinskoye field has reached 201 billion cubic meters of gas, 2.4 million tons of gas condensate and 800 thousand tons of oil. In total, the amounts of reserves to be outlined in a new development plan make up around 1.36 trillion cubic meters of gas, 20 million tons of gas condensate and 66.7 million tons of oil. That's roughly the outcome we'll put on record in 2015; that's rather a fair result since the start of geological exploration in the Chayandinskoye field.

In addition, we continue working at all our licensed blocks in Yakutia. We are done with seismic surveys at the Tas-Yuryakhsky block, this season we are conducting them at the Sobolokh-Nedzhelinsky block. Two drilling rigs are being installed at the Tas-Yuryakhsky block now. This year we are going to start exploratory drilling there and complete it next year. At other blocks – Verkhnevilyuchansky and Srednetyungsky – we are also conducting reconnaissance surveys and preparing for the seismic surveys. Basically, these are five blocks where we continue working.

QUESTION: Vitaly Solomatin, Gubernskiye Vedomosti newspaper. Have you set the deadline for starting the construction of the third train of the LNG plant in Sakhalin? Has the resource base been specified, will it be sufficient for loading these additional capacities? As I remember, this was the reason for delaying the decision on construction.

ALEXANDER MEDVEDEV: Regarding the project for the third train of Sakhalin II, right now, as agreed by Gazprom and foreign shareholders of Sakhalin Energy (Shell, Mitsui and Mitsubishi), the FEED operations are in progress. The preliminary stage is to be completed in autumn, the principal stage – next year. Based on the results of this work, answers should be provided to all the questions, such as economic, technical and resource ones. It is no secret that follow-up exploration is taking place not only in the Chayandinskoye field, but also at the Sakhalin Region fields, at Sakhalin III. That's why it is impossible to give a full answer to your question today. But in the near future, the next year, we might get such an answer.

QUESTION: Anna Sitnikova, Dalnevostochnaya State TV and Radio Broadcasting Company. Do you plan to construct a branch from the Sakhalin – Khabarovsk – Vladivostok directly to China?

ALEXANDER MEDVEDEV: It depends on whether we sign a contract with the relevant delivery point. The Chinese party has been expressing an interest in such a route for a long time. But right now the main topic of our negotiations with the Chinese is the western route. Once we are done with discussing the western route, we'll go back to the issue of using the Sakhalin – Khabarovsk – Vladivostok gas pipeline. Of course,

we have the necessary technological capabilities. If there is demand, there will be a transmission facility.

QUESTION: Dmitry Sokurenko, RIA Novosti agency. I have a question for Viktor Timoshilov. What opportunities for building up gas consumption in the domestic market are being regarded within the Eastern Gas Program? Presently much emphasis is laid on international supplies, and meanwhile the whole region could become a gas consumer. How is it planned to develop consumption, in what sectors, do you think, can gas be used?

VIKTOR TIMOSHILOV: That's right, gas export from this region is largely discussed today. It's really so because Asia-Pacific is the most dynamically developing region of the world. Nevertheless, if you remember, within the Eastern Gas Program it was the domestic market which was marked as a priority, and of course we do not forget about it. Although there are some limiting factors. To our mind, they are related primarily to insufficient tax incentives to gas producers for supplying gas to the domestic market and the imperfection of the pricing mechanism, regulating gas sales.

That is why, returning to the first question, I'd like to add that we plan to continue negotiating with the Russian Federal Tariff Service on creating a more flexible pricing mechanism that would encourage producers to extract gas for supplying it to the domestic market at a price not too charged up for consumers. Today we witness a certain gap. That's what hinders the gas market development in the East. We see that currently the actual consumption volumes lag behind those outlined in the Eastern Gas Program. That is why we believe that the Government should get involved and create such a mechanism.

What else can I tell you about our businesses? At present it is mostly large-scale power industry. We converted to gas everything that could be converted. But we should move on. It is certainly the utility and chemistry sectors. We are receiving a whole range of applications for establishing gas chemical facilities, inter alia, for export supplies. For this kind of consumers a separate category should be introduced in order to promote the appearance of such projects in the East.

VITALY MARKELOV: Colleagues, I'd like to add that in 2014 we launched the Kirinskoye field to provide gasification in the Far East. Last winter we were feeding gas into the Sakhalin – Khabarovsk – Vladivostok GTS in order to supply it to Vladivostok under the existing contracts.

That is why the resource base for supplying the Far East with gas has been provided. Thus, we'll be developing the Kirinskoye field in the Sea of Okhotsk based on the consumption volumes in the Far East. No need to worry about the resources for supplying gas to the Far East.

QUESTION: Vasily Milkin, TASS agency. How will the price be formed for gas supplies to China via the western route? Will the base price differ from the base price

for gas supplies via the eastern route? At what basket will the gas price formula be targeted?

Is it possible to start the commercial development of the Kovyktinskoye field ahead of schedule?

My third question is for Mr. Timoshilov: earlier you've stated that synergies could be reached through the interaction of Sakhalin I and Sakhalin II within the LNG projects. Could you clarify the benefits of such cooperation?

ELENA BURMISTROVA: I guess it's for me to answer the first question. Probably it would be inappropriate to give a distinct answer to this question just now, because the commercial talks on the western route have entered their active stage, and this is a commercial secret. But naturally, when we hold talks, first and foremost we consider the current economic environment of both parties.

On May 8, 2015 within the celebrations dedicated to the 70th Anniversary of Victory in the Great Patriotic War and within the visit of Xi Jinping, President of China, the Heads of Agreement for gas supplies via the western route were signed, and they outlined the legally binding volumes, timelines and delivery points. The talks are in progress. Stay tuned.

VITALY MARKELOV: The Kovyktinskoye field is a part of the general project for gas supply to China via the eastern route. Thus, the commissioning timelines of the Chayandinskoye and Kovyktinskoye fields are synchronized. They remain unchanged – it is planned to launch the Kovyktinskoye field in 2022.

VIKTOR TIMOSHILOV: That is true, we have discussed it for a while, inter alia, at the Oil and Gas of Sakhalin conference, that there was a certain synergy regarding natural gas as part of the Sakhalin I and Sakhalin II projects. It involves both the construction of new gas liquefaction capacities in Sakhalin at the premises of the existing LNG plant within the Sakhalin II project, and shorter term of implementation that we could achieve – up to two years, we think.

In addition, it is absolutely obvious that the specific costs of LNG production per unit will be lower. Global experience shows that it is at least 30 per cent – if such volumes are produced at the already existing plant. In the case with Sakhalin we think the potential to be even higher – savings might be up to two times larger. It should be noted that it concerns the costs which are recoverable from the Russian budget under the Production Sharing Agreement (PSA). That's why in this case it would be in the interests of the Russian Federation, as a party to the PSA, to maintain the cost of creating new capacities at the minimum level.

This is what we see as the synergy – not only for the operators of the Sakhalin I and Sakhalin II projects, but for the Russian Federation as a country as well. This could be a win-win-win situation.

Returning to the question about the third train of Sakhalin II, I can say that gas from the Sakhalin I project could be considered as one of the additional sources of gas deliveries to the third train of the LNG plant. It would benefit everyone. We think that the Russian Energy Ministry should continue the dialogue with two project operators in order to unite them in gas terms. Gas purchase which Sakhalin Energy as the Sakhalin II project operator offered to the Sakhalin I project fully complies with the PSA terms, all the legal peculiarities of this mechanism and would be applicable.

QUESTION: Olga Dedyaeva, Interfax agency. You are against the access of independent suppliers to the gas transmission system underpinning it by the fact that the Chinese market consumption capacity is limited. At the same time, when you started negotiations on the western route, you stated the possibility of boosting gas supplies from 30 to 100 billion cubic meters a year. What are the real outlooks for the Chinese market growth and what is the place of independent suppliers of Russian gas to China?

ALEXANDER MEDVEDEV: Everyone might have their own opinion on the so-called access of independent suppliers to export gas pipelines to China. But based on the volumes which have been contracted and will be contracted in future, if we imagine the situation where transmission capacities created by Gazprom – not by any third parties whatsoever! – are in some incomprehensible way given to someone else, surely, this can't but affect the economy, both in terms of production and transmission. Not for the best, of course.

That is why, with regard to the existing contract volumes, the issue of access can't be considered, reasoning from the fact that the project economy should remain the same as it is now. It should also be kept in mind that the market situation changes as well and sometimes it is not for the better. We want the project to be efficient, to pay off and yield taxes to the Russian Federation budget, and, just like in a good family, the interference of a third party may ruin everything.

As for the outlooks, Gazprom's resource base is sufficient for meeting the Chinese party's demand in the volume you've mentioned – 100 billion cubic meters of gas. Moreover, I believe the downbeat statements that there will be no such demand in China to be far from true. A 100-billion demand for Russian gas is an absolutely real order. I'd even say, a conservative order.

ELENA BURMISTROVA: I'd like to add that today we are discussing only the supply of 30 billion cubic meters of gas, but in future, depending on the growing demand in China and its domestic production, we may boost the volumes to 100 billion cubic meters. Our resource base allows us to do it. But it doesn't mean that we are selling 100 billion cubic meters of gas now.

During the last two years the forecasts have been changing rather quickly. In 2014 the State Council of the People's Republic of China adopted a strategic plan for the power industry development, which envisages rather conservative consumption volumes. But it is obvious that such figures are always specified in the plan and may be exceeded as a matter of fact. That is why it all depends on the rate of economic growth in China, GDP,

etc. Gazprom with its resource base is ready to boost the volumes of gas supply to China up to 100 billion cubic meters of gas, in case of a need on the part of the country.

QUESTION: Anastasia Goreva, Argus Media agency. I have a question for Mr. Cherepanov. You've noted that the Chayandinskoye field reserves had grown to 1.36 trillion cubic meters. Could you say whether those are C1 or C2 reserves?

Mr. Markelov mentioned 38 billion cubic meters of gas as being the planned capacity of the gas processing plant in the Amur Region. The yield should be 38 billion cubic meters, but how much gas should be fed initially?

One more question for Mr. Cherepanov: when you talk about gas production in the Chayandinskoye and Kovyktinskoye fields – 25 and 35 billion cubic meters of gas respectively – do you mean marketable gas or the gas that was produced and will be delivered to the Amur gas processing plant? Did I get it right that since Eastern Siberia's gas is so rich in different fractions, it should first be delivered down to Blagoveshchensk to be purified, treated and only then transported further to China?

And a question about the third train of Sakhalin II and the pre-FEED stage, which is to be completed in October. What issues are to be settled at the pre-FEED stage before October? What is being done now? What should be done in order to move on to the principal FEED stage which is to be completed next year? When was the last time that you offered Sakhalin I to purchase their gas?

VSEVOLOD CHEREPANOV: As for the build-up, the situation is the following: 1.3597 trillion cubic meters of gas I've mentioned are C1+C2 reserves. The aggregate reserves we had before haven't increased. But we converted a part of C2 reserves into C1, which means that the degree of exploration became higher. C1 reserves can serve as the basis for field development. I've already told you that this year they would be increased by 205 billion cubic meters, that is, converted from C2 to C1. Thus, the summary on the Chayandinskoye field is the following: C1 gas reserves will reach 913.271 billion cubic meters, C2 gas reserves – 446.679 billion, C1 gas condensate – 13.4 million tons, C2 gas condensate – 6.1 million tons, oil – 53.3 and 13.5 million tons accordingly.

As for the gas volume: gross production is outlined in the project, not marketable gas. 35 and 25 billion cubic meters of gas from the Kovyktinskoye and Chayandinskoye fields respectively is gross production.

As for the content: it is clear that our gas is multicomponent. You can make up a proportion yourself. In general, the share of pure dry methane in the Chayandinskoye field varies between 83 and 88 per cent from area to area. All the rest is represented by methane homologs – rich gases – and gas condensate; the Chayandinskoye field holds 70 grams per cubic meter of gas condensate. In the Kovyktinskoye field it is 92.5 per cent of pure methane and all the rest is also rich gases and gas condensate. There are two horizons there: one of them holds 60 grams per cubic meter of gas condensate, the other one – 16 grams per cubic meter. That's the proportion.

VITALY MARKELOV: The capacity of the Amur GPP was calculated based on the volume of gas supply to China – 38 billion cubic meters of gas a year – with the possibility of expansion subject to boosting the volume of gas supply to China.

As for the gas balance of the Power of Siberia gas pipeline, we are going to channel about five billion cubic meters of gas to gasification and process needs. This figure will be specified once we are finished mapping out the Amur gas processing plant design. When the design is completed, we'll update the consumption volumes and tell you more precise figures probably next year.

ALEXANDER MEDVEDEV: As for Sakhalin II, I'd like to remind you that last year in February a roadmap was signed, and we draw on it during the FEED stage. That's why the pre-FEED stage is combined with the beginning of the FEED stage. There's not much left to do, actually. We should select a FEED contractor. I would also like to point out that the funds and the budgets were earmarked and approved by all the participants.

You were right to say that the resource base was the key issue, considering the current situation with the Sakhalin II resource base, the Sakhalin Island resources in general and Sakhalin I resources, of course. In this context I'd like to call to your memory another Chinese wisdom, "If you say something once, they'll easily believe you. For the second time they will have some doubts. For the third time they'll think you want to deceive them." That's why there is no point in constantly making offers. We made a decent sound offer, which, in my opinion, would allow Sakhalin I to repay the investments into the gas phase development. So, we'll wait for a while.

QUESTION: Tatiana Krapivina and Nakagawa Hitoki, Asahi newspaper. According to the map, the Power of Siberia route ends in Blagoveshchensk. Is there a possibility for supplying gas from Eastern Siberia to other Asia-Pacific countries, particularly, to Japan? If there is, will gas reserves of Eastern Siberia be sufficient, as it was said that 100 billion cubic meters would be mostly supplied to China?

The second question concerns Vladivostok LNG. Some time ago there were talks that this plant most likely would not be constructed. Now these talks have been resumed. Will it be constructed, after all? If it will, when will the construction start and finish?

VITALY MARKELOV: You know Gazprom's principle – first we need to sell gas and only after that it will be produced, transported and processed. All our projects are based on this principle. I think, Power of Siberia is a model project. The contract was signed and we started implementing this project.

As for the Vladivostok LNG project, today the project documents are in a high degree of readiness, they are almost completed. We've already submitted the documents for expert appraisal. That's why a decision on the construction of this plant will be made once we are finished with the documents and once the marketing strategy is developed.

ALEXANDER MEDVEDEV: A ceremony dedicated to the start of the gas pipeline construction in China (eastern route) is scheduled for late June; it will be a nice coverage opportunity for you. Keep track of information notices.

As for the options of gas sales: we studied the possibilities of pipeline gas supplies to Japan and for a number of reasons, including environmental and fishery regulation ones, we do not consider this option. Nevertheless, the prospects for LNG export to Japan are being looked into with regard to the existing contracts and interest of our Japanese customers in additional purchases. Certainly, the potential is sufficient: it is the third train of Sakhalin II and Vladivostok LNG. So, we consider Japan to be one of our main target markets for LNG supplies in the Asia-Pacific Region.

QUESTION: Vitaly Sokolov, Energy Intelligence portal. CNPC entered into an LNG contract within the Yamal LNG project of NOVATEK, though it had always stated that it was more interested in pipeline gas supplies. Do you consider an option of some kind of a swap deal – more Gazprom’s pipeline gas to China in exchange for LNG, contracted by CNPC in Yamal? Has China made such an offer?

Do you negotiate with Japanese companies and banks the financing of the third train of the LNG plant within Sakhalin II? Do you contemplate a possibility of bringing the construction project of the third train beyond the scope of the PSA for even a greater economy of budget funds?

ELENA BURMISTROVA: Concerning your question on pipeline gas supply to China in exchange for LNG supply, the so-called swap deals – the Chinese party hasn’t brought up this issue and we haven’t considered it. But if our colleagues are carefully watching our press conference now, I think they will pose this question with pleasure later. By now, no talks have been held on this topic.

ALEXANDER MEDVEDEV: I’d like to remind you that it was Gazprom which pioneered in the area of ‘pipeline gas to LNG’ swap deals, having to put up with a skeptical attitude to the expedience of such operations. However, now such operations are conducted on rather a large scale. When the relevant capacities are launched, such operations will be given a green light provided that they are economically feasible.

As for the talks on Sakhalin II, the final investment decision hasn’t been made yet for us to hold any serious negotiations. Certainly, during consultations and meetings with bankers we do not ignore their interest and readiness for providing funds, inter alia, related to export guarantees on the part of different export agencies. That is why, despite a complicated political situation, we have no doubt in the possibility of attracting funds for the Sakhalin II and Vladivostok LNG projects, because there are not so many projects in the world in which one could invest for their own benefit.

If you want to assess and compare the pros and cons of working under the PSA and the current tax regulations, you may hire a consultant – he will easily figure out what can happen provided this or that scenario. But here apart from economic factors there are some organizational ones – executing and obtaining permits, and so on. That is why the time factor plays a major part. I think it absolutely wrong to regard the issue only with the possibility of there being black or white. Certainly, the government interests have been and will be considered when implementing all our projects. Somebody has already said that probably the benefits for implementing certain projects hadn’t been sufficient.

That's because to get something in future, something should be contributed now. It's a general tax principle. I think it's too early to say what way this or that project will be implemented.

QUESTION: Alexandra Konevskaya, Rossiya 24 TV channel. Did you get a clear understanding of what currency will be used within the new contract with China? In what currency will payments be made for supplies via the western route?

ELENA BURMISTROVA: As we haven't signed the purchase & sale contract yet, the payment currency hasn't been agreed either. Nevertheless, both the Chinese and Russian parties are thrashing out the possibility of effecting payments both in yuans and rubles.

QUESTION: Isabel Gorst, Financial Times newspaper. Do you consider the new Yamal LNG project to be your competitor in the Chinese market? Does Gazprom have plans to invite the Chinese party to take part in gas projects in Russia either regarding some field or a gas pipeline? The Chinese participate in Yamal LNG, perhaps, it would be interesting for them to work with you this way, too?

ELENA BURMISTROVA: We do not consider Yamal LNG to be a rivaling project. Moreover, we think it to be a complementary project, inter alia, in terms of supply, because it concerns LNG. In our turn, today we closely work on pipeline supply projects and different forms of cooperation are possible here. Right from the start, when we made a road show dedicated to Vladivostok LNG in Japan, China and Korea two years ago – even at that time we didn't think our projects to be rivaling, considering the forecasts made by different agencies on growing gas demand in Asia-Pacific.

The swap deals you were asking about – I'm referring to LNG in the first place – are also possible. Answering your question, I'll say that we do not consider this project to be our competitor. Moreover, we welcome a wide variety of cooperation forms and LNG delivery points.

ALEXANDER MEDVEDEV: You shouldn't forget that we are the NOVATEK shareholders, that's the first thing.

Secondly, as a rule, not only nothing is sold to competitors, but nothing is shown to them either. And we have contracted out three million tons of LNG from Yamal LNG. We consider our relations to be a partnership.

As for the participation of Chinese companies in the production or transmission projects: speaking of transmission, we've never had and we'll never have a need to invite foreign partners to our territory. As for the production projects, we have already announced our position, and the Russian Government also has. We consider the possibility of involving foreign companies in our projects only – I stress it – only under the condition of swapping assets that should be equal in price and strategic importance. It emerged, that though we have conducted several deals, our foreign partners, much as they would like to take part in our production projects, do not have such projects or are

not ready to offer us projects that would arouse our strategic interest. However, theoretically it is possible.

Speaking of Chinese assets, I can remind you the case with the long negotiations on the East – West project, where the Chinese party, despite there being a strong consortium including Gazprom, made a decision not to engage foreign companies in this project – either in transmission, or in production. We have also developed our own approach to this. Only in the times of the war was there a habit of a ‘blind swap’. Well, now we do not swap without looking.

QUESTION: Konstantin Zhalnev, United Korea Internet portal. Since the last year the situation concerning cooperation with the Democratic People’s Republic of Korea (DPRK) hasn’t changed, but did they make any new offers in April when their Oil Industry Minister came here?

Will South Korea continue building carriers for Gazprom?

ALEXANDER MEDVEDEV: For now the level of communication and cooperation is not sufficient not only for discussing the project for pipeline gas supply via the DPRK to South Korea, but even for moving on to conducting a feasibility study. Though from the economic point of view, probably it would be the most efficient way of supplying gas to South Korea, all the more so there is a demand for pipeline gas. But we know that sometimes ‘pennies fall from heaven’. Such a possibility remains. However, it all depends on settling political issues between the DPRK and South Korea. There are certain positive signs, but there are negative ones as well.

VITALY MARKELOV: That is true, the Oil Industry Minister of DPRK visited Gazprom, the relevant memorandums of cooperation were signed between Gazprom and the Ministry, we are working on this.

As for the carriers, there are shipyards not only in South Korea. Domestic shipbuilding is developing in Russia. First and foremost we look into the capabilities of the Russian shipbuilding industry and only after that we consider the results of bidding procedures for this or that order.

QUESTION: Andrey Kudisov, Ekho Stolitsy newspaper. Should the implementation of such complicated projects as Power of Siberia as well as the development of the group of fields in the Republic of Sakha (Yakutia) under extreme natural and climatic conditions be regarded as Gazprom’s claim for global technological leadership?

VITALY MARKELOV: Why don’t we shoot for the sky? That’s right, the most cutting-edge engineering developments applied by Gazprom are taken into consideration when developing fields, constructing gas trunklines or plants.

I’ll tell you that in the Bovanenkovskoye field we introduced Gazprom’s technical innovations. The Bovanenkovo – Ukhta gas trunkline system is made of 1,420-milimeter pipes unrivalled in the world, designed for the pressure of 120 atmospheres. The same approach is pursued in the development of the Chayandinskoye and

Kovyktinskoye fields. We build on our working experience in the Extreme North, in the first place. Secondly, we pay attention to the composition of gas we need to process in order to extract the most valuable components to the maximum extent possible. We are talking about helium and presently designing the necessary technologies of helium extraction and its supply to the market.

Of course, there are a lot of technical peculiarities. These include seismic faults we have to consider when laying the route, local permafrost lenses, as we call them, which we come across during the linear section construction, mountainous areas. Thus, we apply unmanned technologies, too. So, as you've put it, a whole range of technical innovations will be applied while implementing this project.

Moreover, I'd like to inform you that Gazprom will apply Russian technologies during this project.

QUESTION: Evgeny Pavlov, Irkutsk State TV and Radio Broadcasting Company. What is the progress with geological exploration activities in the Kovyktinskoye field as well as other license blocks in the Irkutsk Region? Have any results been achieved so far?

VSEVOLOD CHEREPANOV: In the Irkutsk Region geological exploration, mostly covering the Kovyktinskoye field and the Khandinsky block, are underway. Right now four out of fourteen planned wells are being drilled in the Kovyktinskoye field. I think that this year we'll finish the construction, come up with some result and see what we have in terms of build-ups. But we also drill in the C2 field there, so build-ups will be mainly due to the conversion of C2 to C1. We are conducting seismic surveys at certain local areas where we have 'blind spots'. Scheduled activities are in progress.

QUESTION: Ekaterina Golubkova, Reuters agency. Ms. Burmistrova, concerning the contract on the Altai project, you've mentioned that payments might be made both in yuans and rubles. What will the currency be of the price formula – US dollars, yens or some other?

ELENA BURMISTROVA: I'd rather not give any comments on price formation today, as the contract hasn't been signed yet. I'll repeat myself and say that intense talks are in progress and, to my mind, it is unreasonable to give any estimates just now. As for the payment method, you've been absolutely right to note that it might be represented by a currency basket, it might be of any kind. But the issue of price fixing will be settled when we agree on signing the contract, that's why I'd rather not give any preliminary estimates or comments.

EKATERINA GOLUBKOVA: My second question is about the aggregate cost of the Altai project. It is clear with Power of Siberia: the costs there are divided between the gas pipeline construction itself and the connection to the resource base. In case with Altai, there is no need for a broad-scale connection to the resource base. Could you say how much this gas pipeline will cost you approximately?

VITALY MARKELOV: We prepared the Investment Rationale in 2008. Today the situation has changed both in terms of construction and prices for material resources, pipe products and other process equipment. Currently we are recalculating them. This year we are going to finish updating the Investment Rationale. Right now I can't tell you anything, because I only have the outdated figures, and there are no new ones yet.

QUESTION: Anastasia Strashevskaya, Platts agency. Continuing the DPRK, Japan and China chain – what about India? India also shows interest in the gas pipeline construction.

ALEXANDER MEDVEDEV: You are right saying that India would like to receive pipeline gas, different routes are being mapped. But as for Gazprom, we have already contracted a certain LNG volume for India. We consider the Indian market to be very promising, but we do not work on the project for pipeline gas supplies at the moment.

QUESTION: Igor Ageenko, Amur State TV and Radio Broadcasting Company. Recently it has become known about tax exemption for Gazprom in a number of Far Eastern regions where it operates. What additional measures does Gazprom take to support the economy of its activity regions, inter alia, in economic and environmental terms, since the construction of all these facilities damages the environment?

ALEXANDER MEDVEDEV: There is room for argument here, whether the environment is being damaged or not. All the projects that Gazprom implements, including those in the regions with sensitive environment, are being executed with special attention to environmental measures. I'd like to draw your attention to the fact that Gazprom hasn't had a single accident in Sakhalin, for example. I hope there won't be any in future either, because close attention is given to safety measures on all levels: both on the operational one and on the level of the Board of Directors. It is always a top-priority issue addressed at the Management Committee and Board of Directors meetings. The first thing is a report on safety and environmental protection. It's not for appearances, it's for a real cause.

VITALY MARKELOV: Of course, all our projects undergo environmental expert reviews. We work in compliance with our documents which, I'd like to tell you, are quite strict in environmental terms.

When I was Director General of Gazprom Transgaz Tomsk, journalists told me that we would come to Altai and ruin its nature. I answered, "Let's get on a helicopter and I'll show you the place where the gas pipeline was laid and you'll try to work out the exact location." It is impossible to see where the gas pipeline is laid, it can be learnt only with the help of special indicators showing that the pipeline is buried right there.

We follow the most stringent environmental requirements. Gazprom constantly states and does it. I believe our projects will take all these factors into account. Wherever we work – in the North (particularly, the Bovanenkovskoye field and the Bovanenkovo – Ukhta gas pipeline), in Yakutia, where nature is fragile – we will surely observe all the

environmental requirements. I suggest that you also have a look at how the gas pipeline is laid once its construction is completed.

I'd like to point out that we closely cooperate with the regional authorities of Yakutia and the Amur Region. We take into consideration the proposals and requirements on the part of regions, concerning the participation of construction or design companies in implementing these projects. We are well aware that regional authorities always know their regions better and they give us hints on better ways of working there.

VIKTOR TIMOSHILOV: I think that the Amur Region is really lucky to have several major industrial facilities constructed there: Gazprom's gas processing plant, SIBUR's to-be chemical plant. You should understand that it is an additional tax base. That's why I think that many Far Eastern regions could look on you with admiring envy.

Here, as we all understand, a principal decision has been made on creating a zone of advanced socio-economic growth. We believe that the interest balance will be struck here; the Government encourages the emergence of such zones and gives their residents a chance to work efficiently. Then again, the region will get direct returns.

QUESTION: Alexander Gasparyan, Dni.ru web portal. I have a question on Sakhalin III and the Yuzhno-Kirinskoye field. When will the field development plan be approved? Is subsea production envisaged there the same as in the Kirinskoye field, requiring foreign equipment? If it is, how realistic is it provided the sanctions regime? What will Gazprom do if no foreign equipment is supplied? If things turn out right, where will gas from this field be supplied? Do you have any idea just now?

VSEVOLOD CHEREPANOV: As for the Yuzhno-Kirinskoye project, it is known that this March Gazprom passed the State Mineral Reserves Committee review, registered new build-ups and reserve volumes in this field, laid the foundation for the field design, which is presently being conducted by Gazprom's relevant specialized subsidiary. We expect to complete the design activities some time in September, then pass the approval procedure with the state authorities and obtain the necessary permits. That is to say, in 2015 the Yuzhno-Kirinskoye field design will be completed.

As for the technology, it has been announced on many occasions. We do not have many options. There is the Kirinskoye field where we earned a unique experience while developing it and we continue working there. Just about the same technology will be applied in the Yuzhno-Kirinskoye field. We have a clear idea of what the pilot start-up complex should be like, it has already been included into the design which is being worked out now. The field physiography allows us to easily side-step the sanctions issues you've mentioned. In no way does this field fall within the existing sanction list.

The Yuzhno-Kirinskoye field is the resource base for the Vladivostok LNG plant in the first place. You know, we are still working on the plant project: design, expert review; nobody has cancelled the project, but we stay updated and keep an eye on the market conditions. It is always possible to adjust the field commissioning schedule. Presently, we are meeting all the deadlines and conducting design operations; after that we'll

consider the global demand and market conditions as well as other possibilities and options. So far, we have fulfilled everything we planned.

ALEXANDER MEDVEDEV: There are many places to distribute natural gas.

VIKTOR TIMOSHILOV: I think I should clear things out. At first, Mr. Markelov said that gas from the Kirinskoye will be intended mainly for the domestic market. We expect that in a while all this gas will be sought for by the domestic market. As it has already been mentioned, the work is underway in the Yuzhno-Kirinskoye field, different scenarios are being looked into.

MODERATOR: Thank you, the Press Conference is over.