

## Follow-up Press Conference to annual General Shareholders Meeting of Gazprom

June 30, 2016

Participants:

- Viktor Zubkov, Chairman of Gazprom's Board of Directors;
- Alexey Miller, Chairman of Gazprom's Management Committee.

**MODERATOR:** Good afternoon! The new Board of Directors has held its first meeting. Viktor Zubkov has been named as Chairman of the Board of Directors and Alexey Miller as Deputy Chairman.

As the tradition goes, the final Press Conference will start with a question addressed to Viktor Zubkov.

**QUESTION:** Evgenia Sokolova, TASS agency. Good afternoon. Let me congratulate you on the adjournment of the Shareholders Meeting. In 2013, following a Governmental Order, Gazprom purchased Rosneftegaz's assets, including those of gas distribution companies (GDCs). Could you comment on how you address the conflict with the minority shareholders of those companies who wished Gazprom to buy their shares? Thank you.

**VIKTOR ZUBKOV:** This issue has recently been highly discussed. It is indeed true that a lot of complaints were received from the minority shareholders. I personally was involved in dealing with that situation. The Management Committee was given many instructions and performed very extensive work, including its consultations with the management of the Bank of Russia. We consider the purchase of GDC shares from Rosneftegaz to be part of our large-scale consistent work to consolidate gas distribution assets. This will improve the reliability of gas supplies to Russian consumers, including by introducing a centralized policy in GDC management and technical development.

As of today, the shares of 55 GDCs have been transferred to the Gazprom Gazoraspredeleniye specialized company. The rest of GDC shares are being transferred.

As you know, many minority shareholders think – I wonder why – that Gazprom has to buy their shares. Of course, we understand the reasons, but we think that the legislation granted us the right to refuse. Therefore we do not and will not buy those shares.

We will further protect our rights and lawful interests, including through court action. The overall situation demonstrates the necessity of improving the current Russian legislation on transactions conducted by state-controlled companies – like Gazprom – when they implement the Orders of the President and Government. Gazprom was executing the Governmental Order. And that work will continue. Thank you.

**MODERATOR:** Thank you, Mr. Zubkov, for such a comprehensive answer. Indeed, that issue was discussed at the Shareholders Meeting today, although not that much. Thank you. And we move further.

**QUESTION:** Alexey Novikov, Interfax agency. Good afternoon, Mr. Miller. My congratulations on the successful Shareholders Meeting. My question is related to production. It is clear that gas production rates are largely defined by the market conditions. Still, there are objective processes related to the redirection of commodity transportation activities from the central corridor to the northern one. We could say that, currently, each Gazprom Transgaz company must be facing a historical decline in transportation volumes, with the exception of Gazprom Transgaz Ukhta and Gazprom Transgaz Saint Petersburg. Transportation volumes of some Gazprom Transgaz companies

plummeted by 25 per cent, which begs the question whether the staff numbers should be reduced by 25 per cent as well.

This raises the question of whether the Company intends to optimize and restructure gas transmission companies due to the redirection of volumes from the center to the north, as well as to optimize Gazprom's staff numbers.

**ALEXEY MILLER:** Thank you for your question. I must say this is a well-informed question and an objective and accurate assessment. At present, we are witnessing the redistribution of gas flows in Russia. This primarily results from the current shift of our main gas production center located in the Nadym-Pur-Taz region (Yamal-Nenets Autonomous Area) to Yamal and the establishment of a new powerful transportation corridor, a northern one, which is comprised of the Bovanenkovo – Ukhta, Bovanenkovo – Ukhta 2, Ukhta – Torzhok and Ukhta – Torzhok 2 gas pipelines. Of course, it frees the capacities in the central corridor.

What does it mean? It means that Gazprom has already considered and adopted its capacity optimization program. According to the newly-launched program, 4,300 kilometers of single-string trunklines will be decommissioned in the central corridor. It will be done within three and a half years, by 2020. It is planned to close 62 compressor shops with a capacity of over 3 MW. On the other hand, it will help Gazprom save over USD 1,600 million in merely three years.

It is first and foremost about capacity optimization. Still, your question about human resources is absolutely reasonable. There definitely will be a redistribution of our human resources in line with the changes in gas flows within the Unified Gas Supply System. We have started this process already. I must reiterate that this is an objective reality. As you know, each Gazprom Transgaz company has strict limits with respect to geography, responsibility and specialization. However, the question of changing the configuration of subsidiaries has not arisen yet. But over time, we will have to address this issue because of, among other things, the changes in commodity transportation volumes.

**QUESTION:** Vadim Shkodin, PrimaMedia Media Holding, Vladivostok. I will split my question in two. It is related to the Vladivostok LNG project you are implementing in the Primorye Territory. The project has been running for years. The news on the project status has been inconsistent. It was only last year that the project was announced to be deferred, which was mentioned in the Annual Report. Could you comment on the length of its delay and the factors it depends on. Will the Company bring the project forward or finally cancel it?

The second part of my question concerns the recent meeting of the Supervisory Board of the Free Port of Vladivostok, which is the main deliberative body of this concessional mechanism. The Supervisory Board approved the application of a peculiar resident intending to launch a liquefied natural gas production project in the Lomonosov Peninsula, in the same place where Gazprom planned to build Vladivostok LNG. Could you tell us whether Gazprom has something to do with that project? If not, then how do you plan to share the rather small Lomonosov Peninsula with such an unexpected competitor?

**ALEXEY MILLER:** Thank you for your question. Vladivostok LNG remains in the Gazprom portfolio, but not as a priority project. What will the decision on implementing the project depend on? First of all, it will depend on the Asia-Pacific market. The project is in the Company's portfolio and we are monitoring the market, which offers rather good conditions based on the results of early 2016.

As for the other project, I cannot comment on it. I am hearing about it for the first time. The answer is therefore clear: Gazprom has nothing to do with it.

**QUESTION:** Vitaly Sokolov, Energy Intelligence agency. Mr. Miller, my question has been asked often, but you could probably tell us something new after your recent visit to China. What is the status of the negotiations with CNPC regarding gas supplies via the so-called western route? When do you plan to sign a contract?

**ALEXEY MILLER:** We have made the price and volume proposal to our Chinese partners at CNPC on gas supplies to China. The proposal is currently under consideration by CNPC and in case of its acceptance the contract may be signed at the earliest possible time.

**QUESTION:** Alyona Makhneva, Vedomosti newspaper. Good afternoon. Following the question above, could you tell us on what terms Gazprom might consider Chinese participation in gas production, transportation and marketing, knowing about China's interest in the integrated contract with Gazprom on supplies via the western route?

**ALEXEY MILLER:** Thank you for your question. It is true that our Chinese partners voiced proposals on an integrated approach during the latest negotiations held just recently. Summing up those talks, I can say that we will deliver gas to China via the western route in accordance with the Heads of Agreement signed between Gazprom and CNPC in May 2015.

Many of its provisions are of legal nature. We do not consider the integrated approach for gas deliveries via the western route to be acceptable. The negotiations with our Chinese partners will therefore continue strictly according to the Heads of Agreement on gas supplies signed by the two companies.

**QUESTION:** Maria Tatevosova, Rambler agency. Good afternoon, Mr. Miller. What is your forecast for this year's exports?

**ALEXEY MILLER:** It is such a nice question to answer. We are pleased with the dynamics. In the first six months of 2016, Gazprom delivered to Europe 10.6 billion cubic meters of gas more than in the same period of 2015. As you know, the Company's gas exports to Europe in 2015 amounted to 159.4 billion cubic meters. If we add to that figure an increase of 10.6 billion cubic meters and keep the same dynamics without any decline, we may expect Gazprom's exports to reach 170 billion cubic meters.

With a very high degree of confidence, I can say that Gazprom's exports in 2016 will range between 166 and 170 billion cubic meters at the least. This will ultimately depend on the fourth quarter. Cold temperatures in the fourth quarter may increase the figure even further.

**QUESTION:** Jack Farchy, Financial Times newspaper. Good afternoon, Mr. Miller. What is your price trend forecast for Gazprom's gas in Europe? What has a larger influence on Gazprom's export revenue in Europe: changes in oil prices or changes in the gas spot market?

How would you estimate the percentage of spot market contracts, hybrid contracts and oil-indexed contracts in Gazprom's export portfolio?

Does Gazprom still believe it is necessary to maintain oil indexation of its gas price in Europe as Sergey Komlev wrote in 2013?

**ALEXEY MILLER:** Gazprom saw its gas prices under contracts for gas supplies to Europe hit bottom in the second quarter of 2016. The key factor causing the decline in gas prices under our contracts was a drop in oil prices rather than spot market indexes. The price formula is linked to the market basket of a six- or nine-month period. Compared to the gas sector, the oil industry is much quicker to face the negative implications of lower oil prices and just as quick to cope with them. On the contrary, the gas industry faces the consequences with a six- or nine-month lag and therefore copes with them much later.

Moving back to the second quarter of 2016, it was the bottom of our prices, which was mainly attributed to the unprecedentedly low oil prices, with Brent at USD 27 per barrel. That is why the main factor is oil, the oil peg.

What does the future hold? We can only make forecasts. According to our pricing formulas, the average gas export price in the third quarter will be higher than in the second quarter; of course, it is just a forecast, but it accurately reflects the dynamics. As I said, the prices reached bottom in the second quarter. Therefore, the price in the fourth quarter will be higher than in the third quarter,

whereas the price in the first quarter of 2017 will be higher than in the fourth quarter. That is why we forecast an upward pricing trend for our gas.

As for our contract portfolio, you know that we apply a quite flexible approach. We use spot indexes in some of our oil-pegged contracts. In fact, there is no strict distinction and it is difficult to make one. I can give you an estimated percentage for spot- and index-linked contracts; it is some 15–20 per cent.

As for your question concerning the oil-pegging principle, whether Gazprom still believes it should be applied. I shall say that Gazprom will continue doing things this way. We do not play games where others impose rules.

**QUESTION:** Nadezhda Rodova, Platts agency. Mr. Miller, how much gas do you plan to offer for bidding in Northwestern Europe? Perhaps you could share more details, namely the countries involved and the bidding period.

**ALEXEY MILLER:** In my speech at the annual Shareholders Meeting I said that we were planning the next auction. I think it will be held around September. The bidding terms will be announced in July; the target market is Northwestern Europe; the delivery points are Greifswald, Olbernhau, Gaspool, and others. We have not made the final decision on gas volumes, although it will range between 3 and 4 billion cubic meters. The deliveries are scheduled for the 2016–2017 autumn/winter period. The final terms will be published on our website in July.

**QUESTION:** Elena Mazneva, Bloomberg agency. I have two questions. One popular question posed to everyone today is about Brexit. Obviously, it will not affect Gazprom in the long term, but experts see possible losses in the short term. The price for your gas could drop by USD 1–2 in the third quarter because of Brexit, for example, and so on. I mean that Brexit could affect the Company's performance by causing a loss of your revenue in the amount of some USD 100 million or by aggravating the situation with GM&T, or something similar. You must have analyzed the possible consequences.

Another pressing issue is related to Poland, which would like to withdraw from long-term contracts with Gazprom after the current contract expires in 2022 and substitute that gas with LNG, Norwegian gas, coalbed gas, or something else. How does Gazprom see this situation? It is about rather large gas volumes. Eastern Europe is currently a troublesome market for Gazprom. The Company has lost or partially lost Ukraine as a customer and your relations with the Baltic States are going through challenging times. How does Gazprom see the situation with Poland going forward? Are you continuing the negotiations on changing the price under the current contract? Thank you.

**ALEXEY MILLER:** I will start with Brexit. We do not see any negative implications for Gazprom here. As for the United Kingdom, we are overwhelmingly pleased with the British market. Gas supplies to the UK in the first six months grew by almost 4 billion cubic meters in absolute terms compared to the same period of last year. For reference, in 2015 we sold 11.1 billion cubic meters to the UK.

I must say that since Brexit happened, the upward trend in gas demand in the British market has not changed and has been keeping an extremely high growth rate. If the trend continues, we will have a record increase of 8–12 billion cubic meters in gas supplies to the British market this year.

Speaking about the UK outside the European Union, we will build an open, direct and mutually beneficial dialogue with the UK without any intermediaries. I believe it will benefit both the gas exporter and importer.

As for Poland, indeed, senior Polish government officials stated that Poland would consider neither the prolongation of the long-term contract, which will expire on December 31, 2022, nor gas purchases under long-term contracts. For reference, the annual contracted volume under the current contract amounts to 11 billion cubic meters of gas. That contract has an early termination clause enforceable by any party, be it seller or buyer, within 36 months before its expiration date. In other

words, between December 31, 2019, and December 31, 2020, either party may announce its decision not to extend the current long-term contract.

Firstly, we know that Russian gas is absolutely competitive in the Polish market. Polish gas imports also demonstrate outstanding growth. Over the recent time, gas volumes have increased enormously. Besides, the current long-term contract offers up to 11 billion cubic meters of Russian gas per year, which is a great amount. It is therefore unclear who will be able to replace it.

The Polish market is liberalized. Gas can be supplied both by national and foreign companies. We have very good relations with PGNiG, our Polish partners. These relations have been built up over many decades. However, PGNiG no longer enjoys its monopoly rights and gas can now be supplied to the Polish market by other domestic and foreign companies.

Of course, we could explore the scenarios concerning the future of that long-term contract even in the short term. As an option, we could consider making business offers to new customers, including non-Polish ones, but only under the condition that either party to that contract announces its decision to withdraw from the contract within 36 months prior to its expiration date.

If there are companies interested in such a deal, if they offer comfortable commercial terms and agree to the clause that the new contract will enter into force only if the parties withdraw from the long-term contract, then we will be able to define the future of the contract in a much shorter term than late 2022.

Gas would be delivered to the Belarusian-Polish border like today, but the buyer would be able to trade it freely in the Polish market.

The current Polish price is absolutely competitive without any doubt. I mean the price of Gazprom's gas for Poland.

**QUESTION:** Anastasia Goreva, Argus Media agency. I have two questions for you, Mr. Miller. What is the current status of your negotiations with SOCAR? What volumes do you plan to supply in the short or long term? Can we speak about larger volumes?

Do you consider the possibility of exchange transactions or swap deals between Gazprom and SOCAR via TANAP and TAP, the planned export gas pipelines?

**ALEXEY MILLER:** As you know, last year we started to deliver gas to Azerbaijan. We signed a contract for 2 billion cubic meters. At present, our Azerbaijani partners are interested in increasing those gas volumes by additional 3–5 billion cubic meters.

Currently, we are negotiating the price. As soon as this issue is settled, we will be able to boost Russian gas supplies to Azerbaijan.

As for the TAP and TANAP projects and the related swap deals, I must say it is difficult to speak about the projects that do not exist yet and have unclear implementation dates. Gazprom is currently working on the ITGI project together with Edison and its Greek partner within the Poseidon project. The design capacity of the ITGI gas pipeline running through Greece and the Adriatic to southern Italy is 12 billion cubic meters of gas per year. This is why if we consider swap deals in the future, they should be linked to the projects relevant to us and with our direct participation in their implementation. We therefore are not conducting any negotiations with SOCAR on any exchange transactions or swap deals within the projects that do not exist yet and have unclear implementation dates.

**VITALY SOKOLOV:** Mr. Miller, could you comment on the current status of the Poseidon project? What has been done since the memorandum with Edison and DEPA was signed? Is there potential for increasing the number of participants? Recently, you held talks with Eni on that project. Is Eni interested in the project and might it join in? Is there any interest from the EU, Bulgaria, and Turkey, as our relations with the latter may soon normalize, with regard to the creation of gas supply routes to southern Europe?

**ALEXEY MILLER:** Speaking about the Poseidon project, as of today neither the European Commission, nor Turkey, nor Bulgaria have expressed any interest in our work with Edison or our Greek partners. That is my first point. And secondly, Eni showed no interest in that project.

As for the project's status and our objectives, we are currently involved in the feasibility study, which includes possible entry points, supply volumes, and delivery times. This work of the memorandum parties is scheduled for completion in late 2016.

I should say that initially we discussed a design capacity of 12 billion cubic meters per year for the Poseidon project. However, we believe that this gas pipeline could have a higher capacity. Still, the key question is from where gas will flow to Greece. The memorandum contains very vague expressions, like "country/countries." But that matter is, of course, not in our hands.

**VITALY SOKOLOV:** I also have a question related to Georgia. At the St. Petersburg International Economic Forum, Gazprom and Georgia's Gazko+ signed a contract for gas supplies in the amount of 100 million cubic meters over the course of 2016. Could you clarify whether Gazprom will deliver gas in repayment of gas transit across Georgia to Armenia or whether Gazprom will be paid with money? If so, how much?

**ALEXEY MILLER:** The contract signed with Gazko+ is about extra volumes in addition to those Georgia receives in repayment of gas transit to Armenia. Those volumes will be delivered on commercial terms.

**QUESTION:** Olga Mordyushenko, Kommersant newspaper. Does Gazprom plan to restart gas procurements from Turkmenistan in the foreseeable future? If so, on what volume and price terms?

**ALEXEY MILLER:** We are currently going through arbitration with our Turkmen colleagues. Gazprom is waiting for the arbitration resolution first and foremost or for the settlement of those disputes by non-arbitration methods.

**MODERATOR:** We have some online questions. One of them is whether Gazprom is currently involved in the corporate negotiations on the gas price for Belarus.

**ALEXEY MILLER:** No negotiations are running on the gas price for Belarus or its debt, because Belarus does not have any debt payable to Gazprom for gas supplies. Gazprom's wholly-owned subsidiary in Belarus pays in full to Gazprom for gas deliveries every month and there is no indebtedness to Gazprom on the side of Belarus.

In fact, there is a debt dispute between our subsidiary in Belarus and Belarusian customers. I reiterate, it is about accounts receivable, about a debt dispute between two Belarusian entities, which is currently in court.

**ALEXEY NOVIKOV:** Mr. Miller, your colleague Andrey Kobolev from Kiev said today that Naftogaz had received indicative information from Gazprom on the gas price for the third quarter and that they were waiting for additional documents from the Company required to launch the contract process. Could you comment on that? Also, could you please tell us if you plan to start supplying gas in the third quarter or in the near future? And what is the price for the third quarter?

**ALEXEY MILLER:** All right, we will disclose the third-quarter price for Ukraine. In line with the price formula specified in the contract signed in 2009, the price for Ukraine in the third quarter is USD 167.57. We have presented Naftogaz of Ukraine with a pro forma invoice. All they have to do for supplies to resume is to make an advance payment. We can guarantee Gazprom will deliver as much gas to our Ukrainian colleagues as they pay for.

The Ukrainian party suggests we should sign some appendices to the existing contract. There is no need, however, for any appendices to the contract to resume gas supplies. An advance payment would suffice. Besides, the current gas price under our contract is lower than the ones in the European market, so it seems that Ukraine would benefit from buying Russian gas from us.

The volumes our Ukrainian colleagues are requesting for the third quarter are quite large – 3 billion cubic meters of gas – and that amount is fully justified. We closely monitor how Ukraine injects gas into its underground gas storage (UGS) facilities. Unfortunately – as far as we know, there were similar issues with gas shortages in Ukraine’s UGS facilities in the previous years – as of today, in 2016, our colleagues are behind the schedule of the previous two years, because they have yet to inject over 2,220 million cubic meters of gas into their UGS facilities.

That is indeed an exceptionally large amount. It means that every day – literally every day – Ukraine deliberately acts in such a way that it will soon have to constantly increase the amount of gas it injects into its UGS facilities on a day-to-day basis until the injection period is over.

Today, they inject about 20 million cubic meters of gas into their UGS facilities on a daily basis. But if Ukraine wants to have 17 billion cubic meters of working gas capacity by the heating season, it will have to inject almost 60 million cubic meters of gas into its facilities every day. Please note that this figure grows with each passing day, and I’m speaking of the daily amount specifically.

This is why 3 billion cubic meters for the third quarter is a reasonable and justified amount. Our price is absolutely competitive. And most importantly – I’d like to stress that again – we have presented Naftogaz of Ukraine with a pro forma invoice. They only need to make an advance payment. Gazprom will supply as much gas as Ukraine pays for. There is no doubt about that. But Gazprom will not sign any appendices to the existing contract. There is just no need for that.

**QUESTION:** Roman Tsimbalyuk, UNIAN agency. Mr. Miller, I have two good questions on Ukraine for you. Could you please tell us how much longer Gazprom is going to supply gas for free to Donbass, which is not controlled by the Ukrainian Government? Naftogaz officials say they do not accept gas you deliver there.

My second question is, what do you think about the ongoing court proceedings concerning Crimea-based property of Naftogaz at a number of international courts that refuse to recognize the annexation of Crimea?

**ALEXEY MILLER:** Speaking of southeastern Ukraine and gas supplies, I would like to note right away that we only have one gas supply contract with Ukraine, the contract signed in 2009 by Naftogaz of Ukraine, which specifies the entry points for gas deliveries to Ukraine, including the points in southeastern Ukraine. Naftogaz of Ukraine has not signed any other agreements with Gazprom to change the entry points and we have no such documents. We supply gas to the southeast of the country under the very same contract, just like we do with all other areas of Ukraine. That was my first point. My second point is, the outstanding debt is USD 718.5 million as of today.

As for the court proceedings, that is a question for arbitration judges.

**QUESTION:** Maria Gordeeva, RIA Novosti agency. I have a question on the debt for gas supplies to southeastern Ukraine and the arbitration proceedings. Am I correct in assuming that Gazprom is not planning to take that issue to the Stockholm Chamber of Commerce?

**ALEXEY MILLER:** As of now, we have not taken that issue to the SCC.

**EVGENIA SOKOLOVA:** Mr. Miller, you said at the St. Petersburg Economic Forum that the Russia-based capacities for gas transit across Ukraine would be reduced to 10–15 billion cubic meters. I’d like to know if Gazprom intends to use and load those capacities or if they will be considered part of a backup route after all the new pipelines are brought onstream.

**ALEXEY MILLER:** Indeed, back at the Forum I mentioned 10–15 billion cubic meters of capacities for gas transit across Ukraine in the central corridor. Right now, we think of using those capacities in case we sign a new contract for gas transit across Ukraine starting from January 1, 2020. That is, those unused capacities can be loaded if a transit contract is signed.

**NADEZHDA RODOVA:** I have a follow-up question. If you cut down on transit across Ukraine, most of your gas will likely be conveyed by Nord Stream. If European companies say they want to

buy gas to supply it to Ukraine, will Gazprom consider imposing some limits on those supplies like it did with respect to reverse flow deliveries across the current transit route?

**ALEXEY MILLER:** Thank you. The collision arising from the current transit contract is related to so-called virtual reverse flows. We would like to point out that, under the existing contract, there is no change in ownership of our gas when it enters Ukraine, which is why the Ukrainian party cannot treat our gas like its own.

Speaking of gas supplies to Europe via Nord Stream and Nord Stream 2, we could transport gas from Europe to any country just as well, as long as it is profitable and competitive. However, our European partners, with whom we currently collaborate on the Nord Stream 2 project, have not proposed anything to that effect yet.

**OLGA MORDYUSHENKO:** I have a question on Slovakia. It is hardly a secret that your Nord Stream 2 project still has some opponents, and Slovakia used to be one of them. Yet lately there have been unofficial reports that the country's position has changed in your favor. Could you comment on that? Was it all a result of negotiations?

**ALEXEY MILLER:** Today, we met with Eustream, a Slovakian operator, and reached an arrangement to use Slovakian gas transmission capacities in the Nord Stream 2 project. The parties have arrived at an understanding with regard to joint efforts and cooperation within the project. Specifically, we have agreed that our collaboration would be long-term.

**OLGA MORDYUSHENKO:** Mr. Miller, could you by any chance tell us how you managed to reach an agreement? Did anyone have to compromise? Did you outline any prospects?

**ALEXEY MILLER:** Since the parties have reached an agreement, it must have been mutually beneficial.

**QUESTION:** Vladimir Kondratyev, NTV channel. Mr. Miller, the relations between Russia and Turkey are now starting to normalize. As we know, the TurkStream project was put on hold. I remember talking to you mere days before the tragic incident in the Syrian airspace. Is it possible to revive TurkStream today and do we need that project with Nord Stream 2 essentially entering the construction stage?

**ALEXEY MILLER:** Speaking of South Stream, TurkStream, Black Sea Stream – whatever you call it – the target market of that project is the Balkans, southeastern Europe. It is absolutely clear that, for a number of countries in the region, gas supplies via Nord Stream and Nord Stream 2 are not competitive. I don't mean all of those countries, since Nord Stream 2 is targeted at Baumgarten, Austria, which means that some gas volumes will undoubtedly end up in the Balkans.

The project is highly ready, in both technical and organizational terms. You know very well how much we accomplished there. Basically, a pipe-laying vessel was stopped in the Black Sea just because we didn't have permission from Bulgaria at that point in time. The European Commission blocked the project, and, of course, today – as has been said before and as our President, Vladimir Putin, has pointed out – we can only resume the works if the European Commission makes a written statement about the project being a priority.

**QUESTION:** Vladimir Soldatkin, Reuters agency. Mr. Miller, as Gazprom is planning to double Nord Stream's throughput capacity to 110 billion cubic meters of gas per year, some fear that it could lead to gas deficits in southern Europe due to such large amounts being redirected north. What is your opinion on that?

**ALEXEY MILLER:** As I have already mentioned, Nord Stream 2 is targeted at Baumgarten, so some gas will undoubtedly end up in the Balkans. But the risks – the deficit risks you are talking about – actually stem from something completely different. The risks are caused by transit across Ukraine and the failure to implement the South Stream project, also known as TurkStream.



**VLADIMIR SOLDATKIN:** Could we talk about renewable energy? What do you think about the focus on renewables in Europe? Is there a possibility that Europe will no longer need Russian gas in the near future?

**ALEXEY MILLER:** My opinion on renewable energy is as follows. The expectations seem too high. Way too high. Take the example of our top trade partner – I mean Gazprom’s trade partner – Germany. Germany buys more gas from us than anyone else: as you know, they hit a record of 45.4 billion cubic meters of gas last year, with a healthy addition of 1.5 billion cubic meters this year.

At the same time, Germany is the country that leads the European market in terms of renewables. Despite being the leader, Germany continues beating records in gas purchases, boosting volumes, and building the Nord Stream and Nord Stream 2 pipelines.

If you look at the electricity price structure, it is quite fascinating: 20 per cent, or one-fifth, of the end-user price for electricity in Germany is used to subsidize renewables. Not only do the end users have to pay for that, but also – most importantly – those subsidies distort the interfuel competition, as we are well aware, and eventually lead to unfair prices for different types of energy sources.

That said, I have no doubt that European countries will continue working in that area, but I would like to stress once again that the expectations seem too high and the price of those efforts is enormous. That is to say nothing of the trends in the gas market.

**JACK FARCHY:** This year, the U.S. started exporting LNG. Does Gazprom have concerns over LNG from the U.S. posing a threat to its share in the European market? And if the prices – and we all know that the prices are quite low at the moment – rise high enough to allow the U.S. to export LNG to Europe on beneficial terms, does Gazprom plan to make amendments to its contracts in order to make its gas competitive?

**ALEXEY MILLER:** Thank you for your question. No, we have no concerns over American LNG supplies to Europe. The main trend in the European market – the dominating trend, the defining trend – is the decline in domestic production. Regardless of whether the Americans deliver LNG to Europe or not and whether they supply more or just a little bit more, Gazprom’s share in the European gas market will still grow.

We have discussed that before. One could continue: regardless of whether the demand for gas in the European market increases, remains unchanged or plummets, Russian gas exports and their share in Europe will only grow in absolute terms. I would like to remind you that our share reached a record of 31 per cent last year.

**MARIA GORDEEVA:** Mr. Miller, has the issue of Shell joining the Baltic LNG project been finalized? When will the final documents be signed? Has the deal been closed and what share might Shell get in the project?

**ALEXEY MILLER:** Thank you. You know, on the one hand, your questions are quite specific and I have specific answers, but, on the other hand, I am bound by the confidentiality agreement under this very memorandum, so, unfortunately, I cannot give you the numbers.

On June 16 in St. Petersburg, Shell and Gazprom signed an agreement on the Baltic LNG project. Its design capacity is 10 million tons. I will try to answer your question by saying just one thing: before the end of the year, we are planning to set the basic terms for creating a joint venture. It will come onstream in 2022, maybe December 2021.

**ALEXEY NOVIKOV:** Mr. Miller, my question is somewhat unorthodox: your Press Conference is such a momentous, once-a-year event that I keep coming back to what question would be most potent.

Back when I started reporting about Gazprom, ‘liberalization’ was the important word, the trigger that prompted Gazprom’s stocks to rise. All you had to do was to mention it in a headline, and the

stocks would react instantly. After 2006, the word 'China' started eliciting a similar response. Could you please tell us – if possible, in one word – what is Gazprom's main investment idea today?

**ALEXEY MILLER:** The word of the day – of today, in the literal sense – is about Gazprom buying out its shares from Vnesheconombank. 3.6 per cent.

**QUESTION:** Elena Tikhonova, Khabarovskiy Vesti newspaper. My question is this: In Russia's Far East, gas prices are set in dollars, while the rest of the country pays for gas in rubles. As a result, those of us who live in the Far East pay twice as much for gas as other Russians. Are you planning to reconsider this approach in light of the Government's current policy for developing the region and cooperating with Asia-Pacific countries?

**ALEXEY MILLER:** Thank you. Let us look at the situation from several angles. Firstly, Gazprom is not in charge of pricing in the domestic market, for one thing. The average wholesale price for the industry across the country is RUB 4,200. We are well aware of the situation in the Far East because of our extensive efforts in the region. As a matter of fact, the price for the Primorye Territory – not the Khabarovsk Territory but Primorye where Gazprom does supply gas – is around RUB 4,400. Again, the average wholesale price for the industry across Russia is RUB 4,200. In case of Sakhalin, the price for the industry across the region – for the gas supplied by Gazprom, mind you – is less than RUB 3,000.

As for the Khabarovsk Territory, Gazprom does not deliver gas there. To my knowledge, that region receives gas from the Sakhalin I project. If those prices are pegged against the dollar, there is nothing we can do about it.

**QUESTION:** Ksenia Semyonova, Sakh.com information agency, Sakhalin Region. In Sakhalin, Gazprom is planning to continue the expansion of the LNG plant and build a third train there. At what stage is the project right now? On that note, I'd also like to know about the negotiations with Rosneft on the gas from Sakhalin I to be used by the third train. Court proceedings are underway; what is the progress of the business talks on the matter?

**ALEXEY MILLER:** Thank you. First of all, the stage the project is at is the so-called FEED stage. It should be noted, however, that the agreements we have already signed with Shell de facto – just de facto – constitute the final investment decision.

As for the Sakhalin I gas price, the negotiations are conducted by Sakhalin Energy and not by Gazprom, and I think it is a good thing that the commercial negotiations have finally started. It should be said that this development comes after a period of inactivity. And the fact that the parties are now discussing the price and procurement conditions is a good sign.

**QUESTION:** Tatiana Dumenko, Kapital magazine, Kemerovo. Good afternoon, Mr. Miller. My question is about gas, although I am from a coal region. Kemerovo Region. What is your current appraisal of the first coalbed methane production facility established by your subsidiary? How relevant do you think that project is: are you still interested in it or not? And what plans do you have for 2016?

**ALEXEY MILLER:** Speaking of our project for coalbed gas production in Kuzbass, the first thing is competency development, as those technologies are similar to shale gas production methods. The project is economically attractive due to the fact that we essentially extract gas in the immediate vicinity of our customers. So, although the prime cost of coalbed methane is higher than that of natural gas, when you take into account the transmission costs for pipeline natural gas, which are rather high, the methane produced in Kuzbass becomes quite competitive.

Besides, we realize that there is a crucial social aspect to it: coal bed degasification. Coalbed methane production allows us to degasify coal beds by 80 per cent. That undoubtedly makes the miners safer.

We have no other projects of this kind. Right now, we consider it unique with respect to its economic performance, which has been acceptable. I would like to underline that, thanks to working in an

industrially developed and quite densely populated region that is essentially located in a coal basin, we spend very little on transporting coalbed methane to end consumers. We will continue working on this project and advancing our competencies.

**QUESTION:** Dmitry Lyustritsky, Oblastnaya newspaper, Irkutsk Region. It was announced today that the financing for the Power of Siberia project had been cut, while the deadlines remained the same. Could you please comment on the cuts you've made?

Here is my second question: Is the Irkutsk Region's gasification program tied to the Power of Siberia project and have there been any recent changes in the gasification schedule due to the situation at Sayanskkhimplast and the conflict between businesses over ethylene?

**ALEXEY MILLER:** Thank you for your question. Speaking of the investments in the Power of Siberia pipeline, nothing has changed. The number we announced earlier remains the same in dollar terms – USD 55 billion.

As for the schedule optimization for commissioning various facilities within the project, it is motivated by our understanding that we can optimize our logistics and, most importantly, we are right on schedule under the contract for gas supplies to China. I would like to remind you that the contract came into force in May 2015. Gas deliveries will start within four to six years from its entry into force. As such, we will begin to convey gas to China between May 2019 and May 2021. The two-year period was specified in the contract pursuant to which the signatories have the right to refrain from commenting on the reasons for delays.

In addition to that, we have an arrangement with our Chinese colleagues for a so-called 'shrinking window,' so when the supplier starts delivering gas, the consumer will be able to receive that gas via its system. This mechanism will be launched in 2017 by our joint coordinating committee.

As for the Irkutsk Region's gasification, you know the background. The issues we face today stem from the fact that the region's energy mix has a considerable share of coal – above all else – and water resources. The share of gas is too small at the moment.

What is the bottom line? The bottom line is that we do not have enough consumers even for the medium term – I would like to underline that – consumers who would give us an internal rate of return for gas transmission, for building gas transmission capacities. And even if there are potential consumers interested in purchasing gas, their number is too small to ensure the profitability of laying a gas pipeline for hundreds of kilometers. We might as well use golden pipes.

We communicate with the Administration of the Irkutsk Region. Without a doubt, we should explore the possibilities for the gasification of the region, but, again, everything depends on the consumer. As you know, Gazprom's guiding principle is about selling gas first. We should find a consumer before laying pipes and asking ourselves how to make a profit and where to supply that gas.

Still, the outlook is good. Why? Because it is in the Irkutsk Region where the second main gas field for the Power of Siberia pipeline is located. The field can produce up to 25 billion cubic meters of gas per year. I have no doubt there is huge potential for the region's gasification.

**QUESTION:** Sayana Mongush, Tuvinskaya Pravda newspaper, Republic of Tyva. Please excuse me for asking a question that is neither political nor operational. Kyrgyzstan hosts unique international competitions called the World Nomad Games. The competitions are very important to our region and to other Asian peoples in Russia. Gazprom used to be among the general sponsors of the event. Do you plan to support the second competition this year as well?

**ALEXEY MILLER:** Thank you, that is a nice question. As you know, Gazprom assumed full responsibility for gas supply to and gasification of Kyrgyzstan. We became the sole owners of Gazprom Kyrgyzstan. We are currently taking large-scale efforts to renovate and modernize the country's gas transmission system. We are happy about the fact that last winter every population center in Kyrgyzstan was provided with stable gas supplies.

As we assumed full responsibility for gas supply to Kyrgyzstan, Gazprom, as a socially responsible company, has also launched the Gazprom for Children program in the Kyrgyz Republic. First and foremost, we are going to put into operation a new health and fitness center in the town of Cholpon-Ata by the upcoming World Nomad Games. The center will host some of the competitions.

Indeed, we sponsored the First World Nomad Games. Please rest assured that we will support this year's event as well, including through the media. I'm talking about the resources of Gazprom-Media Holding. I am also planning to attend the event in person, so that I could support our Kyrgyz friends at this year's World Nomad Games.

**QUESTION:** Mr. Miller, here is another question, one from an online user. Rafael Yaroshevsky wants to know if you enjoy the works of Semyon Slepakov.

**ALEXEY MILLER:** As a matter of fact, I have a story for you. Some time ago, before the management changes at Gazprom-Media Holding, Semyon Slepakov wrote a popular song about Gazprom. The holding's managers approached me – they looked astounded, I might add – and said, “Mr. Miller, we have to ask you something. Can we play this song on our TV channels?”

As I heard them say that, I felt that they half-expected me to give a negative response. And I replied, “Yes you can. It's a good song.”

By the way, I can tell you that we follow Slepakov's efforts. We even published the lyrics to that song in Gazprom's corporate magazine. I think that covers it.

**MODERATOR:** Dear colleagues, I know that you have a lot of questions. We cannot answer all of them now, but we will eventually. So let us thank Mr. Miller for his exhaustive, thorough and completely frank answers to the questions you have asked. We will answer the rest of your questions in person later.

**ALEXEY MILLER:** Colleagues, thank you very much for this Press Conference. Thank you for giving Gazprom your attention. I think we can all agree that today's Press Conference featured a number of new topics that will undoubtedly dominate our future meetings and conversations. Thank you for your attention.