

**Press Conference**  
**Gazprom in Eastern Russia, Entry into Asia-Pacific Markets**  
**June 8, 2017**

**MODERATOR:** Good morning, colleagues. Today, we are going to talk about the Company's work in the east of the country and about eastern projects.

Participants:

- Vitaly Markelov, Deputy Chairman of the Management Committee;
- Alexander Medvedev, Deputy Chairman of the Management Committee;
- Vyacheslav Mikhalevko, Member of the Management Committee, Head of Department;
- Sergey Prozorov, Member of the Management Committee, Head of Department;
- Pavel Oderov, Head of Department;
- Alexander Kalinkin, Deputy Head of Department;
- Vasily Petlichenko, Deputy Head of Department;
- Elena Burmistrova, Director General of Gazprom Export.

**QUESTION:** Evgenia Sokolova, TASS agency. After the most recent talks in China, it was stated that concrete negotiations on the timeline had begun. Could you please say to what extent the contract window is getting narrower now? When can supplies via the Power of Siberia gas pipeline be started?

**ALEXANDER MEDVEDEV:** Colleagues, the window has been identified – 2019 to 2021, and now it's getting narrower. To what extent it can be narrowed down – when we narrow it down, you'll know.

**EVGENIA SOKOLOVA:** In other words, you haven't narrowed it down yet, you've just begun talks about it?

**VITALY MARKELOV:** The contract stipulates that talks on narrowing down the window are to begin in May 2017. We have started that work, and the first talks took place during Mr. Miller's visit within the framework of President Putin's visit to China. We held such talks in May. Today, we are working with the Chinese company CNPC to define the window more precisely.

**QUESTION:** Anastasia Goreva, Argus Media agency. Could you please tell us about the source and scope of gas supplies from the Far East to China?

Has the source of gas supplies for the third train of the LNG plant within the Sakhalin II project been specified? In March, the FEED for the third train was not approved. Why? When will it be approved?

**ALEXANDER MEDVEDEV:** The FEED wasn't slated for approval. It will be approved next year.

As for gas sources, we have just received a price quote from the Sakhalin I project. We are going to review it in depth. In addition, Gazprom's Sakhalin fields are also, and I emphasize this, a potential source for the third train. So everything is going according to plan.

**VITALY MARKELOV:** In accordance with the memorandum signed between Gazprom and CNPC, we are currently engaged in talks on gas supplies from the Far East to China. The delivery point has been identified, and discussion is underway about volumes and timelines.

Our reserves in the Sea of Okhotsk already exceed 900 billion cubic meters, so we are considering all fields together to supply gas to potential and prospective consumers.

**ANASTASIA GOREVA:** Are you considering your fields only, or including Sakhalin I? And what if you fail to reach an agreement with Sakhalin I?

**ELENA BURMISTROVA:** I would designate that [area] as the Sakhalin gas production center, and I wouldn't like to specify now what "might happen" "if." Normal commercial talks with our Chinese partners are underway. Volumes of gas supplies up to 8 billion cubic meters are being discussed. This figure has not been finalized yet; it will be set later, depending on the parties' mutual consent. Therefore, things are taking their course.

**ALEXANDER MEDVEDEV:** But we don't need Sakhalin I gas to arrange supplies to China.

**ANASTASIA GOREVA:** What needs to be done about the Sakhalin – Khabarovsk – Vladivostok gas transmission system (GTS) in order to supply 8 billion cubic meters to China via pipeline? What extensions are required there and how much might they cost?

**VITALY MARKELOV:** I haven't said how big the volume of possible gas supplies to China is, but it's clear that we need to build the linear part of the Sakhalin – Khabarovsk – Vladivostok GTS in its entirety, and this year we are starting that work. It's not only for China, which you have mentioned; first and foremost, it's for our prospective consumers in the Far East such as the Zvezda factory and National Chemical Group (Nakhodka Fertilizer Plant). Consequently, it's for them that we are expanding our gas transmission system. In order to increase gas supplies to the Far East, we could use the option of building compressor stations. To date, we have completed only one gas compression station – Sakhalin GCS – and there are just two compressor units there. In the event of an increase in gas demand, new compressor stations will be built, and that compressor station will be enlarged.

**ANASTASIA GOREVA:** In other words, that compressor station will be enlarged, plus one or more will be built?

**VITALY MARKELOV:** We are currently considering completing the Sakhalin — Khabarovsk — Vladivostok GTS in its entirety. It will allow us to supply prospective consumers with gas to the full extent. If extra consumers emerge, we will build compressor stations based on their needs and will enlarge the capacity of the Sakhalin — Khabarovsk — Vladivostok GTS.

**QUESTION:** Yulia Natarova, NHK television and radio company. In connection with a discernible step-up in the Russo-Japanese talks on economic cooperation (everybody heard about the eight-point proposal by Mr. Abe, Prime Minister of Japan), how do you estimate the progress of cooperation in your area of expertise? What projects are there, and what might Gazprom be interested in doing? What headway has been made?

**ALEXANDER MEDVEDEV:** Naturally, improvement of the political climate creates prerequisites for bolstering our cooperation. Among other things, that includes possible LNG supplies to Japan from the third train of the Sakhalin II plant. The volume of those supplies will depend on what is going to become of nuclear power generation in Japan, which is still an unresolved issue, and also on the role that coal will be playing in Japan's energy mix. In that matter, too, there is a rather wide spread in estimates. We will be able to supply as much gas to Japan as Japan might need.

Moreover, we have revived the project of pipeline gas supplies to Japan, and a company – JOGMEC – has been authorized for that purpose. That company will act as a coordinator in defining the terms and volumes of possible supplies to Japan. Based on general assumptions, we

cannot rule out that building such a pipeline might make economic sense. So, the prospects are very good, and all our counterparties are primed for productive work.

**VITALY MARKELOV:** I will add a few words about cooperation with Japan. We have set up a coordination committee in association with Japan's Agency for Natural Resources and Energy, and that committee performs very well. On December 16 last year, President Vladimir Putin's visit took place. Within the framework of that visit, we also worked in Japan, and relevant memoranda were signed with Mitsui and Mitsubishi on localization of equipment production in Russia. Therefore, our cooperation embraces that vector as well.

**QUESTION:** Svetlana Savateeva, Interfax agency. What capacity is currently contemplated for the offshoot of the Sakhalin — Khabarovsk — Vladivostok GTS for Eastern Petrochemical Company (EPC)?

What hinders you from boosting gas production in Kamchatka? How seriously do you consider constructing an LNG terminal in Kamchatka?

**VITALY MARKELOV:** We are currently in talks with Rosneft regarding volumes of supply. Based on supply volumes, we are going to examine the capacity of the gas pipeline. For now, we are doing only preliminary work.

As for Kamchatka, we are engaged in exploration, and also in follow-up exploration of the Kshuuskoye and Nizhne-Kvakchikskoye fields. Our plans include construction of booster compressor stations. This is the primary mission that we have on our hands today.

Construction of an LNG receiving terminal is not considered for the time being.

**SVETLANA SAVATEEVA:** What minimum and maximum volumes are contemplated for EPC?

If you build booster compressor stations, then, by how much do you plan to increase gas output in Kamchatka?

**VITALY MARKELOV:** We are in talks on gas supply volumes for EPC. Currently, there is no design documentation, EPC's gas needs have not been identified yet, and neither has been the capacity required for the delivery of that gas. We have requested the exact figures and parameters in order to prepare a gas transmission contract. For now, we are at that stage.

**SVETLANA SAVATEEVA:** Gazprom has been in talks with India's GAIL for a few years now regarding the volumes and starting dates for LNG supplies, as well as price-related matters. Could you please say at what stage those talks are now?

**ELENA BURMISTROVA:** We are indeed engaged in those talks, and have been for quite a while. The contract was made as far back as in 2012; the market situation has changed since then, so naturally, all economic metrics have changed as well. There is a number of objective complications. There are also certain complications in India, as far as construction of LNG receiving terminals is concerned, so there are some delays in handling the matter. Nevertheless, Gazprom Marketing & Trading, our subsidiary, keeps the talks alive and visits India on a regular basis, and hopefully before the end of this year we will reach some compromise.

**ALEXANDER MEDVEDEV:** Talks, however, are not pursued in order to visit India. Indian partners come to Europe as well.

**QUESTION:** Maria Gordeeva, RIA Novosti agency. After the talks with Mr. Miller in Vienna, Iran's oil minister said Gazprom had signed an agreement to develop three fields in Iran. Could you please specify the status of that agreement? Is it a memorandum or some pre-investment arrangement? Have any deadlines been set for the signing of binding documents?

**VITALY MARKELOV:** Memoranda have been signed regarding Gazprom's participation in the development of four fields in Iran. We are currently engaged in efforts to examine the background data and to identify the options of Gazprom's involvement in [developing] those fields.

**ALEXANDER MEDVEDEV:** It's very important for the new Iranian oil and gas contract to see the light of day. A lot will depend on that, including our "appetite" for involvement in the proposed fields.

**QUESTION:** Vitaly Sokolov, Energy Intelligence portal. Does the agreement with Iran contain any provisions about development of any fields, including, should you be interested in them, together with Indian partners who have long been in talks about Farzad-B in particular? What is the appeal of Farzad-B specifically, a field that was so much talked about by the Iranian oil minister? If I'm not mistaken, those hydrocarbons have a high sulfur content. Are they of interest to Gazprom? Does Gazprom contemplate upstream projects in Iran as a resource base for potential supplies to India via pipeline?

**VITALY MARKELOV:** Participation of major companies in the development of large fields like those ones is generally welcome. Gazprom always works with partners, and, certainly, we will be pleased to work with our Indian partners in the development of the Farzad-B field.

As for the development of sour gas fields, Gazprom has all required competencies to develop, probably, any fields that exist in the world. Therefore, we are not scared by that.

**VITALY SOKOLOV:** You've said there are four fields there. The Iranian oil minister named three: Farzad-B, Kish, and North Pars. Which is the fourth one?

**VITALY MARKELOV:** Farzad-A.

**YULIA NATAROVA:** What is the situation like regarding the construction project for the third train of the Sakhalin II plant?

What is the future of arrangements with Exxon?

What can you tell us about the impact of the sanctions on Sakhalin projects? Is there any impact or not?

**ALEXANDER MEDVEDEV:** Work on the third train is going according to the schedule. The FEED is getting ready, on the basis of which the final investment decision can be made. The deadline for the decision-making is 2018.

Regarding the sanctions. Despite the fact that deep oil is nowhere in sight, the potential for the development of the oil rim goes far beyond the next decade; nevertheless, the U.S. has levied sanctions – probably in order to bolster the competitive edge of its LNG projects. It's okay, we can develop fields even being sanctioned. Moreover, we do develop them. International evidence suggests that sanctions are counterproductive, especially sanctions against the Russian Federation.

Exxon is the commercial operator of the Sakhalin I project. We have received a price quote from Sakhalin I. But it's not a proposal from Exxon, it comes from the consortium of the parties to the Sakhalin I PSA. We are examining it; hopefully, the results of analysis will allow us to continue the talks.

**QUESTION:** Sergey Gornov, Dialog newspaper. Is Gazprom currently engaged in any activities in the Arctic area and offshore? Is the Company involved in the Northern Sea Route in any way, in modeling transportation in that region? As far as I understand, Gazprom has licensed blocks there?

**VITALY MARKELOV:** Documents on the development of the Northern Sea Route were signed recently with United Engine Corporation and other companies of the military-industrial complex. Gazprom has proprietary technologies in vessel control using spacecraft. Gazprom has rolled out the SMOTR system, which monitors the ice situation in northern seas and provides telecom services to our facilities north of the Arctic Circle. We have signed an agreement with Roscosmos on the development of telecom and monitoring systems in Arctic seas.

As for the fields. Yes, we do have licenses [to operate] in the Arctic, and we carry out exploration there.

**QUESTION:** Vitaly Petlevoy, Vedomosti newspaper. The Federal Antimonopoly Service said recently that nondiscriminatory access rules must also apply to Power of Siberia. What is Gazprom's position on that?

At what stage of construction is the Power of Siberia gas pipeline?

**ALEXANDER MEDVEDEV:** Colleagues, I'm tired of answering those questions. There is a law "On Gas Exports" currently in force. That topic is brought up by Rosneft time and again both in eastern Russia and in Western Europe. We do not see any grounds for amending that law. Not only from the standpoint of Gazprom's economic interests, but, first of all, from the standpoint of economic interests of the Russian Federation. That law was adopted precisely for the purpose of furthering economic interests of the Russian Federation. We did not object to amending that law as far as LNG is concerned. We will see the first fruits of amendments made to that law in the Yamal LNG project; we are buying part of the volumes ourselves. We shouldn't mix up LNG with pipeline gas. We have proved why it is not advisable to do that, and we are convinced that nothing is going to change in that respect.

**VITALY MARKELOV:** Construction of the Power of Siberia gas pipeline is ahead of schedule; by now, we have built 774 kilometers of the gas trunkline. This year, we were planning [to build] 660 kilometers, but we are going to exceed that target. Last winter was warm, we were able to work, [so] the contracting companies are ahead of the plan. We plan to build more than 1,100 kilometers in 2017.

**SERGEY GORNOV:** Will that Yamal LNG gas that you are going to buy go in the eastern or western direction?

**ELENA BURMISTROVA:** First and foremost, we plan to supply gas in the direction of India. Furthermore, there will be swap deals on which we are working now.

**ALEXANDER MEDVEDEV:** The success achieved in the Northern Sea Route implies that, if necessary, gas can be supplied via state-of-the-art gas carriers both to the East and to the West, climate conditions permitting.

**ANASTASIA GOREVA:** Have you analyzed how much gas can be produced annually from the Yuzhno-Lunskoye field, and how long can that plateau last? Is it possible to develop that field using the submerged infrastructure of the Sakhalin II project? Will it be easier to develop the Yuzhno-Lunskoye field compared to Kirinskoye? After all, Kirinskoye is farther offshore, submerged structures will have to be built there. Is it possible to manage just with platforms at Yuzhno-Lunskoye and get around Western sanctions?

**VITALY MARKELOV:** Since the discovery of the Yuzhno-Lunskoye field, we haven't got down to the design works yet. It is a separate structure that we currently consider as part of the block under the Sakhalin III project. That field holds considerable reserves – 48 billion cubic meters of gas.

Today, we are working on the commissioning of the Kirinskoye field at full capacity. Exploration is also underway at the Yuzhno-Kirinskoye field.

**EVGENIA SOKOLOVA:** What are the possible dates for signing a contract on gas supplies to China along the western route? What progress has been made in the talks on deliveries to China from the Far East?

**ALEXANDER MEDVEDEV:** If you analyze the background of the contract signed on the eastern route, you'll understand that one simple rule is to be followed – “as soon as we can.” We are also in talks about the western route and gas supplies from the Far East. Why aren't they progressing as quickly as we would like them to? Because the Chinese party is to identify its needs. If we are going to analyze the potential demand for gas, it's huge, and 500 billion cubic meters of [gas] consumption in China is not a fantasy. The question “When will the key decisions be made?” is to be put to the Chinese party, including what regards the role to be played by coal in the future.

Concerning issues pertaining to environmental protection. You can read about the amounts of money spent to manage effects of pulmonary diseases in a report of the World Health Organization. It's tens of billions of dollars a year. But that is for China to decide. We are ready to supply as much gas as China will need.

**QUESTION:** Oksana Kobzeva, Reuters agency. Are there any talks in progress with Asian investors, including those from Japan and China, regarding their participation in projects in Sakhalin? You said before that they might be involved in the construction of the third train of the LNG plant of the Sakhalin II project or of the Amur GPP.

At what stage are those negotiations? Are you in talks with Chinese banks about funding any projects?

**ALEXANDER MEDVEDEV:** As for the third train, it will be built within the framework of Sakhalin Energy's project, which means that doors are open for Japanese companies.

**VITALY MARKELOV:** Chinese companies are actively involved in our projects. The Chinese Pipeline Bureau is building a submerged crossing of the Power of Siberia gas pipeline under the Amur River. Only recently, we opened a checkpoint at the national border to enable work at the underwater crossing.

As far as the Amur gas processing plant is concerned, China's CPECC has won a contract for the construction of a number of units, and a contract with that company has been signed. Naturally, involvement of Chinese companies also means funding provided by Chinese banks. They are members of the pool of creditors of the Amur GPP.

**SVETLANA SAVATEEVA:** There was a meeting with pipe manufacturers recently, where acceleration in the production of pipe products was discussed. Are you, maybe, considering some accelerated deadlines in the construction of Power of Siberia?

What markets can you tap for swap deals in order to sell gas from Yamal LNG?

**VITALY MARKELOV:** Indeed, there was a meeting with steel workers and pipe manufacturers, where matters related to cooperation were discussed, as well as our pipeline projects and the possibility, for domestic factories, to be involved in shipping materials and equipment for our construction projects, including Power of Siberia.

As for speeding up supplies or the construction of the Power of Siberia gas pipeline, I've said already that construction is currently going ahead of schedule. We were planning to build 660 kilometers this year, but we are going to outperform by a large margin. We will adjust our next year's plans: for now, we are planning more than 600 kilometers, but we are going to review our capabilities as early as 2018. Until 2017 is over, we can't speak about 2018.

**ELENA BURMISTROVA:** LNG volumes can be distributed in India's market, as I've already said. Swaps can take place in the European market as well, i.e. deliveries will be taken as far as the port of Zeebrugge. Among other matters, as you know, a year ago we signed an Agreement of Strategic Cooperation with Shell, and we are examining various options of swap deals. The LNG market has not become global yet (although it's becoming global as we speak), and arbitrage windows can also be considered here. First of all, those will be volumes from our portfolio, I mean Gazprom Marketing & Trading. Among others, it's the Asia-Pacific region.

**VITALY SOKOLOV:** You've said that JOGMEC is analyzing the opportunity of building a gas pipeline, and Gazprom leaves open the possibility that it might make economic sense. As far as I remember, before that Gazprom did not see any point, economically speaking, in supplying pipeline gas to Japan and identified some environmental risks. If now you do not rule out that there might be economic sense in that type of supplies, what helped the Company change its opinion? Environmental risks still remain, as far as I understand, don't they? Is Gazprom involved in that analysis, or is JOGMEC handling it independently for the time being? If yes, then when could Gazprom become involved in that analysis as well?

The day before yesterday, Mr. Medvedev began to talk about the project of a gas pipeline to India from Russia or from Iran, but he promised to disclose the details today. So, what is the most economically attractive route under consideration, and what might be the costs?

**ALEXANDER MEDVEDEV:** We have reached an agreement with JOGMEC on the way we are going to handle that matter. As for risks, of course, they haven't gone anywhere. It's up to the Japanese party to decide how we are going to deal with fishing areas.

As for India, supply options have been narrowed down for now, but it doesn't mean the best possible option has been selected. We are going to work on that some more.

**VITALY MARKELOV:** Last year, a memorandum was signed on the possibility of gas supplies to India. We have worked over all possible supply routes with Engineers India, an Indian engineering company, and we have submitted all available options to the Indian government. Those options are currently under review.

**SERGEY GORNOV:** China has started developing gas hydrates. Is Gazprom alarmed by that?

**VITALY MARKELOV:** No, we are not alarmed. Japanese companies, too, announced they also might start developing hydrates. That technology is costly. I don't think there is a possibility of gas production from hydrates amidst the current pricing environment.

**SVETLANA SAVATEEVA:** How do you seek out structures for natural gas storage in the East?

**VITALY MARKELOV:** We are looking for structures that can be used for building underground gas storage facilities along the Power of Siberia gas pipeline. We have also signed contracts with CNPC to enable Gazprom's involvement in the implementation of UGS projects in China exactly along the extension of the Power of Siberia route.

**VITALY PETLEVOY:** Shell has said it is going to request tax benefits for the Sakhalin II project. What tax benefits are discussed and are they being discussed with the government now?

**ALEXANDER MEDVEDEV:** We've seen that certain benefits have been obtained with respect to building the infrastructure in a number of projects. Before starting to talk about benefits for the third train, our work must be completed in the preparation of the FEED, and only then we'll be able to say whether we will need benefits or not, for the port infrastructure or otherwise. To get benefits, it's necessary to understand first if they are needed at all.

**VITALY SOKOLOV:** At the St. Petersburg International Economic Forum, Gazprom had a meeting with Itochu. Gazprom said in its press release that Itochu was interested in participating in the Baltic LNG project. Are they interested in becoming a shareholder or an LNG buyer? If they are interested in Baltic LNG, perhaps they are also interested in the third train of Sakhalin II?

**ALEXANDER MEDVEDEV:** About the third train of Sakhalin II, I would like to say once again that the project will be implemented within the framework of Sakhalin Energy, so no options of having new partners involved are considered there.

As for the interest displayed by our Japanese colleagues in the Baltic LNG project, including on the part of Itochu, they are interested not only in gas purchases, but also in playing the role of an investor. We have some spots available for participation in Baltic LNG. Who will be selected and on what terms, you'll learn pretty soon.

**MODERATOR:** Thank you. The Press Conference is over.