

**Press Conference of Alexander Novak, Russian Minister of Energy and Alexey Miller,
Chairman of Gazprom Management Committee**

Gas supply to Ukraine

June 16, 2014

MODERATOR: The Press Conference of Alexey Miller, Head of Gazprom and Alexander Novak, Minister of Energy, dedicated to gas supply to Ukraine is about to begin. I suppose that we'd like Mr. Alexander Novak to give his opinion on the matter from the outset, without needless long opening statements.

ALEXANDER NOVAK: Good afternoon, dear colleagues. Mr. Alexey Miller, Chairman of the Gazprom Management Committee and I have just met with our Prime Minister. The meeting involved a detailed report on the current situation with gas supply to Ukraine and gas supply to European consumers. Today we are ready to answer all of your questions.

First, I'd like to say a few words about the current situation. I want to remind you that today's pressing problems were identified by the Russian party way back. You know that on April 10 Russian President Vladimir Putin addressed the leaders of eighteen European countries which consumed Russian natural gas transited via Ukraine. In his address he squarely pointed out the problems that might emerge in the gas market due to Ukraine's failure to settle the debt for supplied gas and the necessity of injecting gas into underground storages to supply European consumers in the winter period. Throughout this period – from May 2 to June 15 – there have been seven rounds of trilateral consultations: on the levels of Russia, the European Union and Ukraine. In addition, corporate talks were held between Gazprom and Naftogaz of Ukraine.

You know that the latest talks have taken place just these days in Kiev. And surely within these talks the Russian party made every effort and took all the necessary steps to reach a compromise and arrive at solutions that could settle the situation. It's known that the Russian party made rather constructive proposals to the Ukrainian party. That is to say, a whole package of compromise proposals which, in our opinion, could help to settle the current situation. Among other things, this package agreement included a pricing proposal, a debt settlement schedule for supplied gas as well as the terms and conditions of payment for future supply.

Unfortunately, here is what we have achieved by now during the whole period of consultations: as a matter of fact, we received only the payment for February and March to settle the outstanding debt in the amount of USD 786 million. In April and May Ukraine's debt for supplied gas grew by USD 2.2 billion. Moreover, the debt for November and December gas deliveries hasn't been paid off yet. Our proposal, that is, the package agreement we proposed, was totally rejected by the Ukrainian party.

In our opinion, the Ukrainian party has been unconstructive right from the beginning of the talks. It was actually impossible to discuss compromise solutions. The Ukrainian party insisted upon the only condition – a totally unreasonable price of USD 268.5 for one thousand cubic meters of gas with the demand to revise the existing contract. Therefore, within the consultations held the compromise hasn't been reached. I'd like to point it out once again, the Russian party offered the most favorable package of agreements, considering the discount in the amount of USD 100 guaranteed by the Russian Federation Government. I'd also like to note that the European Commission supported our proposal and displayed its readiness to find a compromise based on the proposals made by the Russian Federation. In this context, we pointed out the eagerness to find the solutions that would settle this situation. But unfortunately, as I've already said, the

Ukrainian party totally rejected all our proposals. We suppose it is an absolutely unconstructive approach considering the contract that has been in force since 2009 and its main terms and conditions, they have become effective now. And starting from today Gazprom made a decision to supply Ukraine with the amount of gas actually paid for. But as the Ukrainian party didn't pay for a single cubic meter of gas either for June, or for November and December, or for April and May, starting from today gas will be supplied only to European consumers. I am ready to answer any additional questions of yours.

QUESTION: Dina Khrennikova, Platts Information Agency. Mr. Miller, Mr. Novak, could you, please, say what volumes of gas are transited to European consumers? And do you have an action plan in case less gas than you planned is transited due to some reasons, to some actions on the Ukrainian part?

ALEXEY MILLER: At 10 a.m. Gazprom switched Naftogaz of Ukraine to prepayments for gas supply to Ukraine. A special task force started operating in Gazprom, its meeting will be held every day. In particular, at the task force meeting we certainly analyzed the situation with gas supply to European consumers. And we'll be delivering as much gas to the Russian-Ukrainian border as will be demanded by our European partners. At present, the request for gas transit via Ukraine amounts to a little more than 185 million cubic meters. As for our future actions, in case we observe that gas stays in Ukraine – it may be called siphoning off gas, or it may be referred to in rougher terms – in this case we'll increase the supply volume via the Nord Stream gas pipeline, the Yamal – Europe gas pipeline. We'll boost the volumes of gas injected into European UGS facilities. And of course we'll go on constructing the South Stream gas pipeline. I'd like to stress that it is being constructed in strict compliance with the schedule. In December 2015 first gas will be delivered to Bulgaria.

QUESTION: Svetlana Savateeva, Interfax Information Agency. Mr. Miller, you mentioned that the task force has already been created. Could you, please, tell us if there is any current data whether gas transit towards Velke Kapusany and towards Romania is affected or not. And two more questions at once, if I may. Originally, sometime in June, Gazprom offered Naftogaz a discount both in terms of an export duty and in the form of a direct discount from Gazprom. But then this offer was refused. Could you, please, explain why it was so? And my third question. Do you consider a possibility of filing a lawsuit against Ukraine and levying a distraint upon its belongings?

ALEXEY MILLER: Let us start from the end. As for our actions this morning, once we switched Ukraine to prepayments. We filed a lawsuit to the Stockholm Arbitration at once to enforce Naftogaz of Ukraine to pay off its debt in the amount of USD 4.5 billion. It is not impossible that in future we will also file other lawsuits against Naftogaz of Ukraine.

As for the export duty: it is the issue of price formation. Right from the beginning of the talks, during trilateral consultations the subject of talks has been substituted. I'd like to draw your attention that the subject of the negotiations and the topical issue was the consistent non-payment of Naftogaz of Ukraine for gas supply. By now, the total volume of gas supplied to Ukraine that hasn't been paid off amounts to 11.5 billion cubic meters. And the Russian party, that is Gazprom, appealing to the European Commission, within our bilateral relations addressed Naftogaz of Ukraine, relevant Ukrainian ministries and the Ukrainian Government, stressing that the debt issue had to be settled and solved. Otherwise, under the existing contract, the prepayment scheme would be introduced.

As you know, Gazprom could have introduced the prepayment scheme a good while ago. And we had enough ground for that. But we made concessions to our Ukrainian colleagues and didn't

introduce the prepayment scheme. We made concessions to the European Commission that promised that the next day, then again the next day and once more – the next day we would be paid. Ukraine would receive this kind of support, that kind of help from here, there and elsewhere. And the money was about to be transferred, and the debts would be paid off. But we told them that this situation couldn't last forever.

But during the talks our Ukrainian colleagues simply substituted or at least made an attempt to substitute the subject of talks. They redirected the talks to the price issue. And as a matter of fact, the logics of the talks they've been trying to impose all along (among other things, in the media) was the following: give us an extra-low price – at the level of gas sales to the Eurasian Economic Union. Why would we offer them such prices? But if you don't give us such prices, we won't pay off our debts. We will offtake your gas for free. We will offtake as much gas as we want.

But that's not it. The Russian party says – fine, we are ready to meet your wish and reduce the price. And just fancy what the Ukrainian party replies – you know, you have no right to cut down the price by means of adjusting the export duty. You have no right. And we are totally against the Russian Federation Government adopting any bills to reduce the export duty. But, excuse me, this is a sovereign right of the Russian Federation, of the Russian Federation Government to fix the export duties it finds necessary. We have a special scheme with respect to Ukraine. These export duties may be preferential or protective. And it is the Russian Federation Government that has the last word in price formation, in what the price should be and will be. And it is achieved right through the export duty mechanism.

During our talks, numerous consultations we, together with Naftogaz of Ukraine – and here I'd like to heartily thank my colleague Mr. Kobolev for a very constructive, professional and objective dialogue during these consultations – we analyzed the volumes of gas consumption in different sectors of the Ukrainian economy. We addressed the problems currently emerging in the Ukrainian economy, including those in the gas consumption sector. A backlog of problems builds up there and our talks, among other things, touched upon purely commercial aspects with the account of an interrelation between the volume of gas supply and price aspects.

But what is Ukraine's problem today? And why was this issue, I mean, the purely commercial one, considered just as a part of the discussion, part of the talks? The Ukrainian party represented by Naftogaz of Ukraine can't maintain any consumption volumes today. They can't maintain the minimum annual volume of 41.6 billion cubic meters of gas fixed in the existing contract. They can't maintain 34 billion cubic meters either. They can't maintain anything. No volumes at all.

And in the end, during the talks, the Russian party made another very important concession (and it was purely our own initiative, the Ukrainian party didn't raise this question at all, it was just our free will). We said – yes, in compliance with the existing contract, following the take-or-pay clause, you have to pay very grave penalties for failing to offtake gas in 2012 and 2013. But we are ready not just to reduce the minimum annual volumes fixed in the contract, we told them – please, fix the volumes you find comfortable in the 2014 contract, comfortable at the price of USD 385 for a thousand cubic meters. I believe you understand that this is a very serious concession for our Ukrainian colleagues to feel comfortable and realize they won't need to pay any penalties for failing to offtake gas in 2014.

QUESTION: Following the latest data, are there currently any problems with gas transit towards Romania?

ALEXEY MILLER: No. Only five hours have passed. There couldn't have been any problems at the exit point so far as a matter of fact. We'll meter out gas daily. We'll certainly be

monitoring the situation at any given gas metering station more promptly, but right now I can say that nothing deserving attention could have technically happened, and still less anything to be considered as siphoning off gas.

QUESTION: Irina Kezik, ITAR-TASS News Agency. I have a question to Mr. Novak. Did I get you right, that by now the dialogue with the European Commission hasn't been finished? When will the next meeting take place and what are you planning to discuss? And I am also very concerned about OPAL, as Mr. Miller said that gas supply via Nord Stream could be boosted. But the OPAL issue hasn't been resolved yet. What final decision will be made regarding this issue?

ALEXANDER NOVAK: In the talks that followed we initially took a stand of being ready to resume the talks provided that bills for supplied gas were settled. In fact, it was one of the conditions of all our consultations. Unfortunately, this condition was fulfilled only partially. Money was transferred only to pay off the remaining debt for February and March. Presently, if the USD 4.5 billion debt mentioned by Mr. Miller is settled, we'll possibly resume the consultations, including those on further supply – both in terms of the prepayment scheme and the discount. That is to say, our proposals remain in force.

But that is another matter that now, considering that the Ukrainian party didn't accept our proposals for absolutely unfounded reasons, the existing contract is in force. Within this contract the price is based on a formula. This contract will be effective for five more years. The Ukrainian party has a possibility to contend the contract in a civilized way. You know that there are two options – either direct talks with Gazprom or, in case the agreement is not reached, solving the issue through the arbitration court. It's most likely that the Ukrainian party will file a claim in arbitration court. So, as we understand, these are time-consuming procedures. And the demands that Gazprom has accumulated to the Ukrainian party by now are way more well-grounded and more significant in monetary terms than the claims of the Ukrainian party.

As for the relations, that is, further negotiations with Mr. Oettinger, we are currently communicating by phone. And today there is no need to hold consultations due to the unconstructive stand of the Ukrainian party. But on the whole, as we've mentioned it in the beginning, we are open to the dialogue in furtherance of direct talks and for the negotiations to continue, but only provided that the debt is settled. I suppose, Mr. Miller will tell you about OPAL.

ALEXEY MILLER: About the trilateral consultations – they have been held in this format during the last few weeks. The subject of these consultations is non-topical now, as it consisted in not installing the prepayment scheme and in Ukraine's settling its accumulated debt. The Ukrainian party hasn't settled the debt. The prepayment scheme has been installed. That is why, speaking of the concessions we made, I would also like to draw your attention to the fact that the sum to have been paid off to avoid the prepayment scheme was less than the total amount of debt for November, December, April and May. And we asked our Ukrainian colleagues to pay for November and December supplies. It is the debt admitted by absolutely everyone. As for April and May, in order to save arguments, we told them – pay 500 million we will not fix the price, I mean the rate at which all these payments were made. Conditions that are more than favorable. But it hasn't been done.

What is the reason for this? We can dwell on this topic, too. Firstly, it might be due to Ukraine being a bankrupt. It is really so – the economy is in a disastrous state. Among other things, this directly affects the gas industry, it concerns the financial solvency of consumers – quite low financial solvency and low discipline of gas payments, which keep worsening month by month.

State and economic management mechanisms have been destroyed. In fact, Ukraine is destroying itself. This is certainly the main reason for what has happened. But there is also the second reason for this. This is what we observed with Energy Minister Mr. Alexander Novak during the consultations, our joint opinion is that the Ukrainian party didn't aim to solve the issue. During the whole period of consultations, during all these numerous meetings the Ukrainian party never made a single step to accommodate us or offered a single compromise solution. And we see it quite clearly that they aimed at straining our relations in the gas sector. At bringing them to a violent confrontation, moreover, setting forth such adjustment patterns (as mentioned above) of the issues that the Ukrainian party used as open blackmail. I don't know who taught them such an approach. I have no idea what kind of teachers they have. Minister and I have a clear understanding that the Ukrainian party got what it wanted.

As for OPAL, we touched upon this issue with the European Commission. Today what we say is that if there are problems with gas transit via Ukraine, then the OPAL issue will be raised and solved.

QUESTION: Maria Zueva, RPSI. I have a question to Mr. Miller. Earlier you mentioned that some more lawsuits against Naftogaz could be filed to the Stockholm Arbitration. Will you please say whether Gazprom might file lawsuits to any other courts?

ALEXEY MILLER: No, right now only the Stockholm Arbitration is in question, as it is fixed in the contract.

QUESTION: Mikhail Serov, Vedomosti Newspaper. Mr. Miller, you've mentioned penalties. What is the situation with the penalties for the failure to offtake gas in 2012 and 2013? Will you appeal to the court to get that money back? And what about gas transit in future? Today you are limiting the supply. That means that the injected volume will be limited, too. Right now there is not much gas there. What will happen next? May the transit issue become the subject of future discussions and will they be held closer to winter?

ALEXEY MILLER: You said there is not much gas. On the one hand, there is certainly not enough gas for the whole winter. According to our estimates, it is necessary to inject about 18.5 billion cubic meters of gas into Ukrainian UGS facilities – it is the minimum amount for Ukraine to feel more or less secure in the autumn-winter period. But excuse me, during these months, from the beginning of the year, Ukraine has injected enormous volumes of Russian natural gas into its UGS facilities for free. Right now the working volume of gas exceeds 12 billion cubic meters, out of which 11.5 billion is unpaid-for Russian gas. They also have gas from the previous winter there. We were supplying them with as much gas as they wanted, to their heart's content. In fact, this was our contribution to their energy security, so that no problems occurred. Let someone say what they've done not to have any problems in the nearest winter. You say it is not much. Our gas was injected in huge volumes for free, with no charge, that is for naught.

As for the penalties for 2012 and 2013, I'd like to draw your attention that with regard to those penalties we could have filed lawsuits yesterday, or the day before yesterday, or a month ago, or half a year ago, and so on, but we haven't. But now we'll see. Right now we've filed a lawsuit for the debt to be recovered. Just think of this number – USD 4.5 billion in debt! And they are not going to pay. The question is, what aims they pursue and what they strive for.

QUESTION: Roman Tsymbalyuk, UNIAN Ukrainian Agency. Mr. Miller, could you, please, provide some details, you've mentioned it not once today that there would be new lawsuits filed to Stockholm. What will the subjects of these suits be?

ALEXEY MILLER: Excuse me, I didn't say there would be new lawsuits. I said that there might be.

QUESTION: With regard to this debt of USD 4.5 billion. If notionally Ukraine transfers some amount of money to you tomorrow, will this money be directed to debt settlement or will they be considered as prepayment with 4.5 billion being factored out. And one more question. Late last year the sum of USD 268 for Ukraine was determined by the Russian President, who said that Ukraine was a fraternal nation, its economy was in a grave condition, that is why the price was cut down unilaterally. My question is – what has changed? The economy is still in a poor condition. And the fraternal nation hasn't moved anywhere.

ALEXEY MILLER: I suppose that the answer to your question has been voiced when I answered other questions. The Ukrainian party asks for the prices, I'll stress it, close to those of the Eurasian Economic Union. And it is not clear, why Ukraine demands such prices today. What is the Ukrainian party's ground for raising such questions? Ukraine must settle the debt. And the procedure for settling the situation remains the same so far. The debt must be paid off in the amount we've specified. And we haven't changed the sum by now. But in order to resume the supply, please note that June's bills also have to be paid, I mean the prepayment.

QUESTION: Russia Today TV channel. Here's my question. Yatsenyuk proposes gas reverse. What will Gazprom do in that case? And, secondly, how possible is reversing gas from the European Union?

ALEXEY MILLER: You know, yesterday we met with Ukrainian Prime Minister Mr. Yatsenyuk and I believe that he might be one of the authors of the current approach to our relationship in the gas sector. And I should say that at the yesterday's meeting there were a lot of clichés, slogans and evaluations. I will not comment on those evaluations. But when the words 'gas war' are heard right and left, it bespeaks the attitude.

As for the reverse – the so-called circular reverse, half-fraudulent reverse. No European suppliers are capable of providing the physical reverse of gas supply to Ukrainian consumers. And we closely monitor everything that we track as reverse today – so far we only track it. Ukraine disposes Russian gas in its pipeline as if it were its own. It doesn't have such rights. Though in the Ukrainian gas pipeline, the Russian gas doesn't change its owner. The receiving points of Russian natural gas are located beyond Ukraine. Does Ukraine have a right to dispose our gas within its territory as if it were its own? That's a good question. Does anyone ask us for permission? Does anyone hold consultations related to this issue with us? Or does Mr. Yatsenyuk invent and map out such schemes? They could have asked the gas owners, it wouldn't go amiss.

QUESTION: Stas Natanzon, Rossiya 24 TV channel. Mr. Miller, a question to you. Again, with regard to reverse supply. You monitor, you say. Will you take any specific legal steps? Do you consider such reverse supply to be the masked form of gas stealing, provided that they can't be maintained physically, as you put it? And, Mr. Novak, a question to you as well. In the very beginning, several months ago the Russian Government said that it might demand the return of the gas subsidy in the amount of USD 100 under the Kharkiv agreement, Kharkiv Accord. Even the figure of USD 11 billion was named which the Russian Government wanted to require back from Ukraine, as the subject of that discount wasn't there anymore. Will you claim this USD 11 billion from the Ukrainian Government, the Ukrainian party?

ALEXEY MILLER: As for the reverse. Of course, we keep track of the situation with reverse supply. You know, what's most interesting is that during the recent few days we've been

observing a very curious trend. According to the data from one of the gas metering stations, reverse supply equaled zero, from another one – reverse supply decreased. We'll be watching. And we want to understand what it means. Maybe, it is a positive trend.

As for the steps the Russian party will take, Russian President Vladimir Putin has already commented on the subject. Restrictions will be imposed. Restrictions on gas supply via Ukraine through the gas metering stations where such schemes are tracked. Circular reverse means that pipes are looped on the border, and Russian gas goes round in circles. One meter shows that gas is delivered to the European Union, another meter shows that the same gas comes to Ukraine. But physically no consumers receive this gas – either in Kiev, or Kharkiv, or Donetsk, or Lugansk, or Odessa. In physical terms only our Russian gas is being supplied. Then a question presents itself again – what right do you have to dispose our gas in your pipe? The pipe is Ukrainian, but the gas is ours.

ALEXANDER NOVAK: As for the one hundred dollar discount, it concerns Kharkiv Accords dated April 2010. If I'm not mistaken, the total amount given as a discount in the said period equaled USD 11.4 billion. Presently within the consultation we haven't touched upon the issue of repaying this amount. In fact, we think that as the situation develops, we'll see how necessary it is, then corresponding decisions may be made in this connection.

As for the offers voiced by the Russian party during the consultations. I'll remind you that formerly USD 100 discounts were given within the compensation for the rental payment for the Black Sea Fleet. Today the Russian party has offered even more preferential and comfortable conditions, since this discount is not in exchange for any other expenses the Russian Federation used to incur before. It was just an offer of a discount within reducing the export duties. It is a kind of a contribution the Russian Federation could have made, inter alia, into the Ukrainian economy and retaining the cooperation ties between our companies.

By the way, I'd like to draw your attention that, as Mr. Miller has rightfully mentioned, the consultations were aimed not only at the price issue (or even not as much), but at the issue of debt settlement and Ukraine's solvency. Unfortunately, I should say that this topic was almost left beyond the scope of the consultation. The Russian party heard once the reports by the European Commission members concerning the amount of material aid to be provided to the Ukrainian party through the finance of international banking companies or directly by the EU member countries. And we believe that such amounts don't stand up to scrutiny. It concerned the IMF loan of USD 17 billion; and on May 3 Ukraine received USD 3.2 billion out of which nothing was directed to debt settlement. Not a single dollar in three weeks. We were also provided with the supplementary data that Ukraine would be granted assistance in the amount of about USD 2 billion. But basically some small repayable loans are being mentioned. And of course, this doesn't give an opportunity to say that some real assistance is being rendered or is to be rendered to the Ukrainian party in order to improve its solvency.

That's why, in our opinion, the current situation is caused by the fact that Ukraine most likely wasn't planning to agree to any offers or a compromise right from the beginning, being conscious of the fact that it most likely had no sources for financing gas supply. Moreover, it couldn't expect any other kinds of gratuitous help, as we were not informed about such offers or such data. This is a very serious and important point. We've raised this question not once during the consultations in order to discuss problems beyond the debt settlement. By the way, let me remind you that our delegation included Deputy Finance Ministers, Deputy Economic Minister, Deputy Minister of Foreign Affairs. That is, we had a substantial delegation formed for the purpose of discussing, among other things, Ukraine's economic state and supporting it. And the offers the Russian Federation gave to them as package proposals were exactly of that nature,

such as possible help and support to Ukraine. Unfortunately, we were not heard. And I'll state it once again – it's most likely that the Ukrainian party had mapped it all out from the very beginning.

QUESTION: Natalia Vasilieva, Associated Press Information Agency. This morning the European Commission stated that at the end of the talks a compromise proposal had been voiced that Ukraine paid out USD 1 billion immediately and the talks would go on. Firstly, was such a proposal really voiced? And secondly, why did you decide not to agree to it? According to the European Commission, Ukraine agreed, but Russia did not.

ALEXEY MILLER: I see. As for the conditions of the Russian party: they were voiced late last week. At the end of the last week the Russian party said that those conditions wouldn't change. And the date of switching to prepayments wouldn't change either. It was also mentioned that there would be no meetings or negotiations until June 16. But the Russian party made a concession. We held another series of bilateral and trilateral meetings and consultations, including the ones on Saturday and Sunday in Kiev, being fully aware that we should give Ukraine a chance to settle the November and December debt and to demonstrate the progress with April and May payments. Actually, we agreed to those talks, those meetings that took place on those last days. Yesterday some new conditions were proposed. But the stance of the Russian party has been worked out within over a month of consultations. It was stated. I will stress it once again – it was said that it was our last view of the situation, our last timeframe in respect to introducing the prepayment scheme.

Excuse me, I'd like to add one more thing. You know, Mr. Novak and I were summing up our consultations. The trilateral consultations were aimed at settling the debt issue and avoiding the prepayment scheme. So, during the consultations the debt has grown by more than USD 2 billion – to 2.2 billion, if I'm not mistaken. Here's the outcome of our consultations. We are being requested to soften our demands and the debt in the nearest future will grow even more. Subsequently, in terms of volumes the situation is the same – over 5 billion cubic meters of supplied gas is unpaid for. As of today, the total volume is 11.5 billion cubic meters. Just fancy. It is just an enormous volume of unpaid gas consumed by Ukraine, injected into its UGS facilities.

QUESTION: Elena Mazneva, Bloomberg Information Agency. Mr. Miller, I have a technical question concerning the prepayment. There was an 'either – or' option. Either Ukraine pays off a certain amount of debt before the deadline and then Russia lifts the prepayment scheme...

ALEXEY MILLER: The deadline? What do you mean?

QUESTION: The last day when Gazprom expected Ukraine to transfer money to its account. It was June 16. We all understood pretty well that it was 'either – or'. Either Ukraine transfers a certain amount of money and Russia then lifts the prepayment scheme, or Ukraine is switched to prepayments. Is it possible for Ukraine to pay in advance now?

ALEXEY MILLER: No, it was the matter of debt settlement. Now it is about both debt settlement and prepayment. I mean, the situation for Ukraine has worsened, to be more specific, they have forced themselves into it themselves.

QUESTION: Does this mean that during a month they can't pay for June supply? Will there be no prepayments accepted from them until they settle the debt?

ALEXEY MILLER: You know, the contract actually envisages not only the prepayment scheme, but also the non-supply scheme for unpaid gas volumes.

QUESTION: So, there won't be any supplies for them?

ALEXEY MILLER: Ukraine should settle the debt. And Ukraine was switched to the prepayment scheme. All the volumes that will be supplied to Ukraine in future should be paid for at first.

QUESTION: Do you mean – the debt and the prepayment?

ALEXEY MILLER: The debt and... Why prepayment? Payment – supply, payment – supply.

QUESTION: Well, for example, if tomorrow Ukraine pays off USD 500 million, will you supply it with gas worth USD 500 million?

ALEXEY MILLER: Excuse me, money is transferred following certain invoices.

QUESTION: So, Ukraine has already missed its chance for June, hasn't it? We are trying to understand the procedure.

ALEXEY MILLER: I am telling you once again that they must settle the debt. The first step for Ukraine is to pay off its debt. If Ukraine or someone else thinks that debts are left behind and from now on they'll just pay in advance, they are wrong. Answering the question – the debt must be settled. By no means will it be a situation when USD 4.5 billion is left behind and we'll get it God knows when, but from now on they will pay in advance and receive gas. No way – the debt must be paid off. But again, we are not talking about the total debt, we refer to the specific debt of USD 1 billion 951 million.

QUESTION: The July invoice will soon be issued, won't it?

ALEXEY MILLER: Yes, it will.

QUESTION: Can they clear it without settling the debt? It's important for us because we haven't seen your contract. We've only seen some documents floating around on the Internet in 2009. We want to understand the procedure.

ALEXEY MILLER: The procedure is very simple, even without specifying the debt and the July payment. The procedure is very simple. There is a prepayment scheme, there is supply restraint for unpaid and unsettled debts, for the volumes unpaid-for. That is why the volumes are being limited according to the volumes unpaid-for following the contract terms.

QUESTION: So, it means that Ukraine won't get any gas either in July, or August, or September until it settles the debt...

ALEXEY MILLER: Ukraine should pay...

ALEXANDER NOVAK: They should pay USD 1 billion 951 million and further on...

QUESTION: That is what I am asking you about – before 1 billion 951 million is paid no prepayments will save Ukraine, neither the July, nor the August ones.

ALEXEY MILLER: Debt settlement will save Ukraine. Debts must be redeemed. Settle the debts.

QUESTION: Denis Pinchuk, Reuters Information Agency. I have two questions, both to Mr. Miller and Mr. Novak. Currently solely the volumes required for meeting the consumption demand in Europe are being injected into the Ukrainian pipe. For how long can this situation last, in your opinion? Is it a matter of weeks, months? Will we be able to face the winter with such volumes? And my second question – in case some of these volumes stay in Ukraine, will it be possible to compensate for these losses by Yamal – Europe and Nord Stream? Or will it be not possible to compensate for them to the full?

ALEXEY MILLER: As for Yamal – Europe, Nord Stream, gas to be injected into the European UGS facilities – of course it won't be possible to compensate for those losses to a 100 per cent using these volumes, in case some problems occur with transit via Ukraine. For how long will this situation last? Let's first see what happens at all. Issues should be tackled as they arise, I think. Speaking of the autumn-winter period, surely, Ukraine won't make do without Russian gas. And what's most important, right now we understand that it's summer – and thank God it's summer – and Ukraine needs to inject the required gas volume into its UGS facilities. Prepayment is a pending issue for Ukraine, and there's another issue that we see and the European Union sees, which is how and when Ukraine is going to inject these volumes. The injection period in Ukraine ends in mid-October, and there are still 6-7 billion cubic meters of gas more to be injected. It is a very huge volume. When will Ukraine inject it?

QUESTION: Yury Barsukov, Kommersant newspaper. Mr. Miller, could you, please, once again enlarge upon the procedure. In case Ukraine starts offtaking transited gas, will you limit supply to Europe via the Ukrainian GTS by this volume like you did in 2009? Or will you increase the supply via the Ukrainian GTS by that volume so that the volume of supply to European consumers remained unchanged?

ALEXEY MILLER: You know, I will now repeat what our Ukrainian colleagues said yesterday. Yesterday they said that if a prepayment scheme was installed, they would secure 100 per cent of transit. Let us not speculate, let's see whether they will secure 100 per cent of transit. But at yesterday's talks they stated exactly what I've just told you.

QUESTION: A small technical question. There is this so-called compressor gas, base gas, there is not too much of it, but nevertheless, you supply it during transit. How will this issue be resolved? But Ukraine most likely will not withdraw such gas from its UGS facilities to meet the demands of compressor stations. Will you put it on record as gas siphoning? Will you put gas offtake for compressor stations on record as gas siphoning?

ALEXEY MILLER: No, we won't.

QUESTION: Bulgarian National Radio. At first you said that South Stream was very important for Russia in solving this issue with Ukraine that had been there for many years. And you mentioned that construction was advancing in compliance with the schedule and there were no problems. But Bulgaria resolved to suspend the project until it complied with European laws. So what did you mean when you said there were no problems? Will the project comply with European laws or will construction continue without it?

ALEXEY MILLER: If you mean the Third Energy Package, it doesn't prevent us from the construction. The gas pipeline construction in no way contradicts the Third Energy Package.

QUESTION: What about its subsequent operation?

ALEXEY MILLER: Let us first construct it in good time.

QUESTION: Alexander Kapkov, Govorit Moskva. I have a question to Mr. Novak. Is there an option of conducting a dialogue on the gas issue with southeastern Ukraine?

ALEXANDER NOVAK: I suppose, you should ask the Ukrainian party about it at first place. There is a contract between Gazprom and Naftogaz of Ukraine. Two contracts. One is a gas supply contract, another one – a gas transit contract. And I'd like to say that the Russian party is currently implementing these contracts in full, as Chairman of the Gazprom Management Committee has just said. He has also mentioned the new unpaid-for volumes, which accumulated during one month and a half of the consultations. In this context we are now discussing possible consultations regarding the execution of both contracts by the two economic entities.

QUESTION: Japanese Public Television, NHK Television Company. I think my question is rather to Mr. Miller. Today you have much dwelled on the unconstructive approach of the Ukrainian party. You've given a rather detailed account. In fact, the situation seems to be deadlocked. Does Russia see any way of resolving this deadlock? And I would also like to make it clear: when you mention the prepayment scheme that has been installed today, does it mean simply the halt of gas supply to Ukraine? Is it right to say so?

ALEXEY MILLER: No, it's not. There was no halt of gas supply to Ukraine. No restrictions were imposed on gas supply. And there won't be any. Ukraine will receive as much gas as it purchases. Only the volumes paid for will be supplied.

MODERATOR: We often give this example – at a filling station nobody jumps around a car shouting that supply was halted, when the money paid at the cash register runs out.

ALEXEY MILLER: Let Ukraine settle the debt. Let it try paying for gas.

ALEXANDER NOVAK: I'd like to comment on this issue too, colleagues. During the consultations we felt that the Ukrainian party had always wanted to make Russia guilty of there emerging such a situation as switching to the prepayment scheme. It is a real substitution of notions. In this connection, some of our colleagues, who took part in the talks, as well as the media use the term escalation of the situation. That is to say, certain people may regard the execution of the existing contract as escalation of the situation. At the same time, it turns out that not paying off the debt for the supplied product is being considered as a compromise. In fact, it is really the substitution of notions. And today we are talking about Russia's and Gazprom's entirely rightful demands to pay for the product which was physically supplied and which costs money.

I'd like to say that the debt of USD 4.5 billion is a huge amount of investments which Gazprom currently has to divert from its own activities for maintaining the existing and developing the new fields. This is a very grave situation, colleagues. The execution of the existing contract should not be substituted by the notion called escalation of the situation. It is just the other way round. Situation escalation is when the second party doesn't pay for the physically supplied gas. For the product supplied. Think about any other economic sector and relationships between economic entities – where else have you ever seen anything like this at all?

In our relations, inter alia, with foreign partners when we ask whether such a situation could be possible with supplying any other products, our partners look at us moon-eyed. They still do not

understand how, for example, there can be a situation when the supplied product hasn't been paid for since November. For half a year. At the very least, the next day proceedings would be initiated – halt of supply and so on, be it a different situation. What happened today with installing the prepayment scheme is provided for by the existing contract.

QUESTION: Mr. Miller, I have a question about South Stream. You said that the unsolved issue of complying with the Third Energy Package requirements didn't hinder the construction, but earlier you'd said that in 2015 European consumers would receive gas via South Stream. Does this mean that by that time the issue of compliance with the norms will be resolved? At one of the recent press conferences Gazprom's representatives stated that at the moment all the efforts were concentrated on talks with Ukraine. And as you've mentioned that the subject of the talks wasn't there anymore, does this mean that you will now negotiate the Third Energy Package issue with the European Union? And can the current situation with Ukraine affect the position of the European Union anyhow?

ALEXEY MILLER: You know, we work in 51 countries of the world. And speaking of Ukraine, the East, the Asia-Pacific, South Stream, any other projects – there is always a certain group of people at Gazprom which constantly focuses on them at large, always engaged in the negotiating process. It is not like having finished one thing you go and work in some other sector. As for the timeframe, I'd like to draw your attention that we are talking about December 2015. It is the target date of first supply via South Stream's first string.

QUESTION: Alexander Fyodorov, RBK TV channel. Mr. Miller, could you please say, if theoretically Ukraine doesn't pay for gas for another half-year, there will be another 4.5 billion in debt, won't there? And, by the way, has Gazprom assessed the risks of Ukrainian market not getting Russian gas?

ALEXEY MILLER: What do you mean, they won't pay? At the moment they are not receiving gas – and the debt is not growing. You are answering your question yourself. We won't receive any profit, that's right. We won't have any revenues, there will be shortfalls to the investment program, we won't be able to run a budget surplus in this area. These are Gazprom's risk, very grave ones. I can say that even for Gazprom USD 4.5 billion is quite a considerable amount of money. Just think about it – USD 4.5 billion!

QUESTION: Nikkei newspaper, Japan. Did we get it right that if the debt is not paid off, Ukraine won't have a possibility to inject gas into its UGS facilities? On the other hand, you said that it was very unlikely to compensate for it using alternative options, in case there is some kind of withdrawal, some shortfalls. So, did we get it right that if Ukraine doesn't settle the debt, it is almost inevitable that there will be problems with gas supply to Europe in the autumn-winter period? That's the first question. And the second question is – the volume of gas in Ukrainian UGS facilities totals some 12 billion cubic meters today. For how long will it suffice? For what purposes?

ALEXEY MILLER: As for the Ukrainian transit risks. The Russian party has been speaking about them for a long time. And it is due to the Ukrainian transit risks that such gas pipelines as Nord Stream and South Stream are being constructed. And speaking of current Ukrainian transit risks, there are some and rather considerable ones. As for 12 billion cubic meters of gas – I think you understand that at the beginning of the withdrawal period the situation is quite different from what it will be at its end. The farther from the beginning of the withdrawal period, the less gas is left in the underground storages and the smaller is the volume of active gas; therefore, daily productivity of wells drops. As a consequence, the situation will aggravate by the end of the autumn-winter period. We know how cold it is in February and March. And, by the way, some

countries of the European Union, as you know, have just recently experienced problems with gas from underground storages during cold March.

You know, I will be very glad and very happy if we get at least some money, some payment from Ukraine. There's no doubt that it will be a whole new situation, deserving a new approach to the existing problem. But I'll stress it, Ukraine has to pay off the debt. And the amount of debt we demand is big, but it's not the whole debt the Ukrainian party owes.

I would like to thank the Interfax Agency. You know, during the talks we certainly monitor the situation in the real-time mode – what is going on in the world, in the gas markets, what declarations our partners make. I can say that it was the Interfax Agency that gave us the information about the statement by Mr. Yatsenyuk at trilateral consultations in Brussels. That statement almost wrecked the talks. It was an absolutely destructive statement. So, Interfax contributes to our work, helps us and also kind of participates in the talks. Thanks to Interfax.