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

June 26, 2015

Participants:

— Viktor Zubkov, Chairman of the Gazprom Board of Directors;

— Alexey Miller, Chairman of the Gazprom Management Committee.

MODERATOR: Good afternoon, dear colleagues. The first meeting of the newly elected Board of Directors has taken place. The Board of Directors elected Viktor Zubkov as its Chairman and Alexey Miller as Deputy Chairman.

QUESTION: Maria Tatevosova, TASS agency. Mr. Zubkov, I'd like to congratulate you on your appointment and clarify something: there were rumors that Alexander Novak, Russian Energy Minister, would be elected Chairman of the Board of Directors. Could you possibly comment on those rumors?

VIKTOR ZUBKOV: Firstly, thank you. All I can say is that everything's fine at Gazprom; everything is going smoothly. It is borne out by today's speech made by Alexey Miller, Chairman of the Gazprom Management Committee, and by the General Shareholders Meeting as well. The shareholders, particularly the Government, which is our main shareholder, support the Company's strategy of sustainable growth and believe that we are on the right track. That's why the Government decided that no changes were needed in the Board of Directors, including its membership structure. As for Alexander Novak, he's a highly qualified professional; I've known him for a long time since my service in the Russian Government. Today he joined the Gazprom Board of Directors as a Member. That's all I can say.

MODERATOR: Esteemed colleagues, Mr. Novak is actually here right now, so, if you don't mind, we'll let him and Mr. Zubkov continue their dialogue while we go on according to the plan of our Press Conference.

VIKTOR ZUBKOV: Thank you. I wish you a successful question-and-answer session, Mr. Miller.

ALEXEY MILLER: Good afternoon. Your questions, please.

QUESTION: Mikhail Serov, Vedomosti newspaper. Mr. Miller, I have a question about Nord Stream. As you said in St. Petersburg and mentioned today, all new capacities, all those 55 billion cubic meters of gas, will be meant for new contracts. Do you already know in which markets and countries that gas can be sold? Is there a possibility of signing new long-term contracts for gas supply to the UK?

ALEXEY MILLER: That's true, we signed a highly important document in St. Petersburg – an agreement among four companies, namely Gazprom, OMV, E.ON, and Shell – on constructing the Nord Stream 2 gas pipeline with the capacity of 55 billion cubic meters of gas per year. The construction deadline falls on late 2019. It will allow us to supply more Russian gas to the European market.

In addition, I'd like to draw your attention to the fact that the pre-investment and pre-design activities have been going on during the last few years. The study of possibilities to expand the Nord Stream 1 capacity started back in November 2011, by decision of the Nord Stream AG Shareholders Committee. Throughout this period, the so-called small office of Nord Stream AG was developing relevant technical and financial documents, which are ready now. In spring 2014, the Nord Stream AG Shareholders Subcommittee ordered the pre-investment and pre-design documents to be prepared for making a prompt decision on the project's feasibility.

As you know, the situation in the European gas market is such that only Russia and Norway have increased their volumes of gas supply to Europe in the recent years. Moreover, Gazprom's figures are almost five times higher than those of Norway. The key factor that has a major influence on the European gas market is a decline in domestic production, namely domestic production in Northwestern Europe, which is a very receptive and large-scale market for gas supply. This is why we will deliver 55 billion cubic meters of new Russian gas to Europe via the third and fourth strings.

As for our operating principle, which goes "gas should be first sold and then produced," it is still in use. However, it directly applies only to projects performed exclusively by Gazprom, such as the Power of Siberia gas pipeline and the Yakutia and Irkutsk gas production centers. The classic example is the agreement for gas to be supplied via the eastern route to China signed last year.

As for Nord Stream 1, you are well aware of how that project progressed. The latest gas supply contract for Nord Stream 1 was concluded even after the second string was put onstream. The decision to implement this project was not made solely by Gazprom — we made it together with our European partners. It should be understood that the decision on supplying new volumes of Russian gas was also made jointly with major European market players. Such is their stand, their vision.

Now, the target markets for gas supply via Nord Stream 2 are basically the same as for Nord Stream 1. As of today, up to 15 per cent of gas conveyed by Nord Stream 1 is supplied to the UK.

QUESTION: Maria Tatevosova, TASS agency. Mr. Miller, let me also congratulate you on a successful year despite the crisis. I'd like to know when your partner BASF/Wintershall, which participated in the construction of the first two strings of Nord Stream, will join this project. Will it be before or after September? What stakes will your partners hold in this project?

ALEXEY MILLER: The talks on BASF/Wintershall joining the Nord Stream 2 project will be resumed in July. We expect them to become a project participant before September as we plan to register the project company before the end of the third quarter and BASF/Wintershall will be a shareholder of that company. Since we expect one more project participant to join us, there will be a certain amount of shares for our European partners in this project. It will vary between 9 and 15 per cent, maybe up to 15.5 per cent, assuming that Gazprom will hold 51 per cent.

QUESTION: Sofia Dvornik, RIA Novosti agency. Mr. Miller, let me also congratulate you on signing the Nord Stream 2 agreement, it's a milestone event. How, according to Gazprom and its European partners, will natural gas be offtaken from Nord Stream 2 in Greifswald? Will you need to expand OPAL and NEL, construct new capacities or set up a new gas hub?

ALEXEY MILLER: All of the possibilities you've mentioned are viable, be it setting up a gas hub, expanding the existing capacities or building new ones. This issue is currently under consideration and it will be resolved.

As for Nord Stream 2, it's only the offshore section that is involved here. As of now, the documents inked in St. Petersburg apply only to the offshore section. As a matter of fact, I'd like to stress that it was the same with Nord Stream 1.

MODERATOR: Keeping to the topic, there is a question from the Financial Times newspaper, I will read it out loud. Does the Financial Times newspaper understand it correctly that the new project for gas transmission via the Baltic Sea has to be approved by the European Union's regulatory bodies, just like Nord Stream? Has Gazprom started any talks with the regulator and what are the prospects?

ALEXEY MILLER: The offshore gas pipeline construction doesn't need any approval on the part of the European Commission, and we haven't received any permits for Nord Stream 1 from the European Commission. As for getting all the necessary permits and approvals, they will be obtained by our joint project company with our European partners, not by Gazprom.

QUESTION: Vitaly Sokolov, Energy Intelligence web portal. According to media reports, OMV is interested in constructing a gas pipeline for delivering the TurkStream gas from the Turkish-Greek border to Baumgarten. Are you negotiating this issue with OMV? Are you discussing their participation in constructing the TurkStream offshore gas pipeline?

ALEXEY MILLER: As for the TurkStream offshore gas pipeline, Gazprom will construct the offshore section by itself using its own financial resources only.

As for Baumgarten, it is a major European gas hub. OMV has made considerable efforts for Baumgarten to take its rightful place on the European gas map. OMV's participation in the Nord Stream project signifies that thanks to this project the role of Baumgarten in the European gas market will only grow.

Still, our talks with OMV haven't been limited to Nord Stream 2. I can tell you that they are also interested in TurkStream. As you know, there are different routes. Gazprom has always stated – and it has been our principled stand – that the best option is to deliver gas via the Black Sea to Baumgarten. There are different options, but if we decide to make it this way, OMV has a big interest in it. They also support our vision and look forward to participating in this project. As you know, one of the options – via Hungary to Austria – envisages the construction of an Austrian section of this gas pipeline within the project.

QUESTION: Sofia Dvornik, RIA Novosti agency. I'll start my question with some more words of congratulation, because there are infinite reasons for congratulating you this month. Recently Turkey issued a survey operations permit for TurkStream. When do you expect to obtain a permit for laying an offshore gas pipeline in Turkish waters?

ALEXEY MILLER: Regarding surveys at the Turkish section, earlier this week we obtained the notes issued by the Turkish Foreign Ministry. Accordingly, we are preparing for surveys in the Turkish economic zone. So a permit for construction in that area may only be obtained once we are finished with the surveys. I'm speaking about constructing the section from the 660th kilometer to the Turkish shore.

QUESTION: Maria Tatevosova, TASS agency. Mr. Miller, can the TurkStream extension in the EU merge with the TANAP project? Is integration possible?

ALEXEY MILLER: As for the TANAP gas pipeline, this project is aimed at supplying gas from the Caspian region to the European market. As such, there are projects for extending the TANAP gas pipeline in Europe, particularly some pipelines crossing Greece.

That's why we can certainly see how the experience of supplying gas to Europe via the TANAP gas pipeline could be used in the TurkStream project with a view to supply gas from the Turkish-Greek border.

We have those opportunities because presumably – it's a tentative assessment – gas will flow across the Black Sea via TurkStream before TANAP deliveries reach European consumers. What does it mean? It means that the projects for extending TANAP in the European Union might, to a greater or lesser degree, be integrated into our plans for supplying gas to Europe across the Black Sea.

QUESTION: Nadezhda Rodova, Platts agency. We heard that Gazprom planned to stop supplying gas via Ukraine once TurkStream was constructed. The European Union hasn't supported this decision yet. Nor have we heard from any European companies on the matter. Have you already started the talks on changing gas delivery points and is there a need for additional amendments to the existing contracts with European companies in this context?

ALEXEY MILLER: We haven't started the talks yet. In case of the first string, it provides only for gas supply to the Turkish market. There is no doubt that we have enough time for holding negotiations. Why haven't we started them yet? Because the issue of routing, as well as the terminal point of the TurkStream project, hasn't been settled and remains open. You know that one of the options is gas delivery to the border between Turkey and Greece. There are other options, too. That's why we still have time to further examine this issue, receive offers, make a timely decision and hold negotiations.

QUESTION: Anastasia Goreva, Argus Media agency. Which of the existing and projected gas pipelines in Europe does Gazprom seek to use for transporting the TurkStream gas? I mean such pipelines as Nabucco, Eastring, the Trans-Adriatic Pipeline, the existing interconnectors between Turkey and Greece, and the projected interconnector between Greece and Bulgaria.

ALEXEY MILLER: Speaking of our stance on TurkStream, it boils down to the construction of gas transmission capacities as far as the Turkish-Greek border. After that, everything will depend on the pro-active attitudes of the countries interested in a transit gas pipeline crossing their territories.

This is our response to the invitations, so to speak, which we might receive. For instance, Greece expressed such an interest and applied to the Russian Federation to have the relevant gas transmission capacities constructed in Greece. A decision has been made that VEB Capital representing Russia would have a 50 per cent share in the project and the TurkStream gas pipeline under a different name would be extended to Greece.

Certainly, there are different options for routing from Greece. I'd like to stress that we will prioritize invitations to participate in projects offered by potential transit countries. That's why I can't say what Gazprom seeks here; we do not have an active stand on this issue. There is a route that might stretch from Greece through Macedonia, Serbia and Hungary to Baumgarten in Austria. There is Eastring, which was pushed forward by Slovakia, Bulgaria and Romania. There is a route for gas supply from Greece to Italy. We should definitely keep in mind the best practices of these projects.

Speaking of the route across Serbia and Hungary to Austria, this section of the possible project is in a high state of readiness, with all the necessary approvals and permits obtained, as the work on this route was carried out within the South Stream project. If the Serbian and Hungarian parties find our participation in the project possible and necessary, we will certainly consider this possibility and maybe make a positive decision. There are other routes as well. I can say that the project for the Greece – Italy route has also been elaborated very well. We know that extensive efforts have been made within this project and all required approvals and permits have been obtained.

All I can say now is that we are interacting with Greece, which has taken an active stand and declared its interest, and the relevant agreements have been already achieved. We signed a memorandum on implementing a joint Russian-Greek project for the gas pipeline construction in Greece and reached agreements on setting up a joint venture between Greek partners and the Russian financial company VEB Capital.

MODERATOR: We are receiving questions about Greece, some of them via the Internet. They are asking whether Gazprom is sure that the construction project for the TurkStream extension in Greece will not contradict the limitations set out by the Third Energy Package regarding the possession of infrastructure facilities.

ALEXEY MILLER: As for the project operator of the joint venture that will be set up, I think there won't be any problems with that. It's a Russian financial company. We are told that the Third Energy Package isn't stacked against Russia and isn't discriminatory. What risks can there be then? We do not see any risks.

QUESTION: Yury Rylov, ZDF Television Company. Please comment on the construction of two new gas pipeline strings across the Baltic Sea to Greifswald: what is your idea of transporting gas across Germany, provided that the OPAL capacities are restricted? Are the unplanned new strings needed there at all, considering that the existing Nord Stream strings are still not fully loaded?

ALEXEY MILLER: This question has been partially answered. That is true, the OPAL capacities are not 100 per cent loaded right now, and only 75 per cent of Nord Stream is being used at present. We need transmission capacities in Germany; this issue has been raised and it will be resolved.

I would like to draw your attention to the fact that the German company E.ON also takes part in this project and it has already signed an agreement with us. We expect BASF/Wintershall to join us, too. There is no doubt that the issue of constructing gas transmission capacities in Germany will be examined and solved.

Let me emphasize that we had a similar situation with Nord Stream 1 at the same stage. All project participants will certainly use the experience gained from Nord Stream 1, and the result will be even better.

QUESTION: Sofia Dvornik, RIA Novosti agency. When are you planning to sign the contract on the western route with your Chinese partners, so that we could congratulate you? What issues concerning the western route are yet to be settled with the Chinese party? If it is a matter of price – which is most likely – what is the gap between the offers of the Russian and Chinese parties?

ALEXEY MILLER: If we compare the work schedule for the contract on the eastern route, Power of Siberia, and the one for the western route, Power of Siberia 2, it will take us about six or seven months to arrive at contract signing.

Sustained efforts were made to prepare the contract on the eastern route. Note that the talks are progressing faster now. As you know, in early May we signed the basic supply conditions, which are legally binding – more than ten essential clauses. That's why we should look to the timeline we had within the previous contract – the one on the eastern route. Still, I believe we'll manage to complete the preparations for the contract much faster.

The contract for Power of Siberia was prepared in such a way that the price issue was the last one to be settled. As you know, final arrangements were made during the Russian President Vladimir Putin's visit to China and, undoubtedly, thanks to the President's personal contribution to the talks. Eventually, the direct talks between our President and China's leader as well as the possibility of making prompt decisions were a governing factor for arriving at a mutually beneficial price and signing a contract on Power on Siberia.

Presently, the work on the contract for the western route, Power of Siberia 2, is progressing in the ordinary course. The parties are not holding substantive talks on the price yet: like in the case of the eastern route, they are saved for the last. It is the last issue to be resolved. I think, just like the last time, we'll get down to the price issue in the end, when all other contract conditions – you know it's a document of a major scale – are settled.

QUESTION: Alexey Yelizaryev, SM Nomer Odin newspaper, Irkutsk. Mr. Miller, my first question is about Power of Siberia and Power of Siberia 2. The eastern regions pin certain hopes for development on Power of Siberia, so I'd like to know: will the Power of Siberia project be adjusted in terms of production volumes due to the start of the Power of Siberia 2 project?

As a follow-up question, have you finally decided on the payment currency for your Chinese partners? It is known that US dollar is out of the question. Will it be yuans or rubles?

ALEXEY MILLER: As for the Power of Siberia and Power of Siberia 2 gas pipelines, their implementation schedule won't be affected in any way. The first project is being implemented in compliance with the schedule, and the second project will be implemented following the schedule we'll agree on with our Chinese partners. The project schedules do not affect each other.

As for the payment currency, this issue is being negotiated; we are considering the possibility of making payments both in yuans and rubles. Right now, it is negotiable.

QUESTION: Elena Khodyakova, Forbes magazine. A year has passed since the signing of an unprecedented contract with China worth USD 400 billion. Considering the oil prices and the contract peg, what is the actual contract's worth now?

ALEXEY MILLER: The estimated contract's worth that we announced – USD 400 billion – is the amount starting from the beginning of the first supply year for 30 years onward. Last year the contract's worth was estimated at USD 400 billion, this year it's USD 400 billion, next year and several years later it will still be USD 400 billion. For 30 years.

ELENA KHODYAKOVA: Fair enough. I just don’t understand how this correlates with the oil peg, but you know best.

ALEXEY MILLER: We estimate the contract at USD 400 billion for a 30-year period.

ELENA KHODYAKOVA: Roughly in the same period, you put the capital costs at USD 55 billion. Did that sum include the Amur GPP construction back then? If it wasn’t, how much more will this construction cost?

ALEXEY MILLER: As for the Amur GPP, we have always said that the Amur GPP is not a part of the Power of Siberia project. It will be carried out through project financing, not the investment program. Once the FEED stage is completed, the final value of capital costs will be calculated. It will be based on project financing. We will not finance this project through Gazprom’s investment program.

ELENA KHODYAKOVA: You’ve already mentioned that the prices for the western route have not yet been negotiated. Nevertheless, China’s economic growth has slowed down, and you still need to lay another four thousand kilometers of the gas pipeline to consumers on the east coast. With that in mind, according to your forecasts, will you make do with a discount of some USD 100, or could it be higher?

ALEXEY MILLER: First of all, China’s rate of economic growth has been the highest in the world for quite a long while.

Secondly, the Chinese gas market is the most receptive, dynamically developing and fast growing market in the world.

Now, the price issue is key, of course. I should mention that we are negotiating the price for supplying gas to the Russian-Chinese border. Our main aim is to agree on the reasonable and, what’s most important, mutually beneficial conditions, just like it was done with the eastern route. Gazprom’s analysis and negotiating position apply only to the transmission route running across Russia – from the production sites to the Russian-Chinese border – under the mutually beneficial conditions.

QUESTION: Vitaly Sokolov, Energy Intelligence web portal. In the context of low oil prices and closer cooperation with China, what is Gazprom’s strategic priority? Is it boosting pipeline gas supply to China or diversifying the export routes to Asia-Pacific through LNG supplies? Gazprom mentioned that it might cancel the construction of an LNG plant in Vladivostok in favor of increasing pipeline gas supply to China. When will the final decision be made on this issue?

ALEXEY MILLER: One of our strategic priorities is the execution of strategic partnership agreements concluded by Gazprom. In St. Petersburg we signed a strategic partnership agreement with Shell. As you understand, the main focus in our cooperation is placed on Russia’s East and LNG.

Our strategic cooperation agreement with CNPC has been in force for many years. It has already led us to signing the world’s biggest gas contract and implementing the largest investment project in the world. In addition, China is Russia’s strategic partner. Fulfilling all obligations to our strategic partners is Gazprom’s strategic priority.

As for your question about Vladivostok LNG and gas supply from Vladivostok to China, Vladivostok LNG is not a priority investment project for Gazprom right now and it is not on the list of projects to be implemented in the near future.

As for pipeline gas supply to China from the Russian Far East, it is one of the terms of our five-year strategic cooperation agreement with China. That agreement defines the eastern route, Power of Siberia, and the western route, Power of Siberia 2, as our key joint projects. The third priority is the investigation of the possibility for gas supply from Russia's Far East near Vladivostok to China. We are considering this possibility now.

QUESTION: Pavel Krasnov, Channel One Russia television company. Mr. Miller, the other day the Russian President made it clear that a discount on gas for Ukraine in the current amount of USD 100 is unlikely to apply any longer. For that matter, if a new agreement is to be concluded and made effective in a couple of days, do you have an understanding of what the discount should be and at what price gas will be sold to Ukraine? What will be the length of a new agreement with Ukraine: will it be for a quarter, just like now, or for a longer period? Will the take-or-pay principle be used for Ukraine in the next period?

ALEXEY MILLER: As for the period of the possible discount, the decision was made when the issue of the previous discount was discussed – it will be provided on a quarterly basis. The Russian President stated in his speech that the Russian Federation would use the prices for Poland as a benchmark. What's most important is that it's June 26, Friday evening, and Monday will be June 29. As a party to the contract, Naftogaz of Ukraine hasn't forwarded a discount request to the other party, which is Gazprom. Since there is no request, there is nothing to discuss.

As for the take-or-pay principle, we've already specified the term for which we had released our Ukrainian partners from this commitment. Speaking about 2014, you know that the decision was made on October 31, so the take-or-pay condition had been in force from January 1 through October 31; accordingly, we imposed a fine on our Ukrainian colleagues in strict compliance with the contract. The total fine payable by Naftogaz of Ukraine under the take-or-pay commitment equals USD 26.7 billion.

QUESTION: Roman Tsimbalyuk, UNIAN agency. What is Gazprom's stance on gas supply to the Donetsk and Lugansk Regions, which are currently not controlled by the Ukrainian Government? Will you sign a contract with the 'combatants' or 'militias' as you call them – as you've mentioned before, leaving open that possibility? Could you specify why you issue invoices for that gas to Ukraine's Naftogaz, although the Russian Prime Minister had said that gas would be supplied to the areas beyond Ukraine's control as humanitarian aid?

ALEXEY MILLER: As for humanitarian aid, firstly, we all know that there is currently only one gas supply contract between Gazprom and Ukraine – the one with Naftogaz of Ukraine. Some time ago, Naftogaz of Ukraine approached us with a very peculiar request. They said, "Do not supply gas to the Southeast." Secondly, they said they wouldn't pay for those supplies. That's why by providing aid from Russia, we fulfill our contractual obligations and, Naftogaz of Ukraine's position notwithstanding, go on supplying gas we are not being paid for. Such is our help.

As for gas supplies to the Southeast, we have a single contract that specifies the entry points. A contract for gas supplies to Ukraine. If Naftogaz of Ukraine considers Ukraine's Southeast – that is, the Lugansk and Donetsk People's Republics – to be Ukraine, then they should have no conflict regarding the payments for these supplies. If Naftogaz of Ukraine doesn't think so – it has a different opinion on that territory and doesn't consider it to be Ukraine – they should tell us. But they are not saying anything.

As you know, according to Ukraine's legislation gas import agreements can be concluded not only by Naftogaz of Ukraine but also by any other trading company. Back then, we made an offer to Naftogaz of Ukraine. We said that, since they were not willing to pay for our gas supplies to Lugansk and Donetsk, the Southeast, and wanted us to stop supplying gas to those territories, they could – in strict compliance with Ukraine's law, I wish to underline that – let some trading company conclude such a contract.

At present Naftogaz of Ukraine doesn't give an answer as to why it doesn't pay for gas supplies to Ukraine, doesn't supply gas to the abovementioned territories, advises us against that and doesn't say whether some trading company could sign a direct contract with us to supply gas to those regions under the Ukrainian law. This is why we think that Naftogaz of Ukraine should take a clear-cut position on these issues.

By now, Gazprom has delivered 704 million cubic meters of gas to Lugansk and Donetsk; Naftogaz of Ukraine owes us USD 212 million for supplies to these regions.

QUESTION: Denis Pinchuk, Reuters agency. If the decision on stopping gas transit via Ukraine after 2019 is final, what will happen to the transit contract with Slovakia, concluded on a ship-or-pay basis until 2029?

You said Gazprom could take part in constructing pipeline branches from TurkStream to European countries. How much could Gazprom spend on such projects?

ALEXEY MILLER: Let us start with your question on stopping gas transit via Ukraine. They say that Gazprom's evil plan is to stop gas transit via Ukraine. Let us make it clear. There is a contract in force for gas transit via Ukraine through 2019. Ukraine has taken a proactive, I'd even say defiant, stance so as to introduce into this contract the conditions we cannot accept, despite the fact that the contract signed back in 2009 was absolutely well-balanced. Moreover, these conditions concern not only the key contract provisions but also, which is very important, an increase in the fees for gas transit via Ukraine. Today's transit fees equal USD 2.7 for 1,000 cubic meters per 100 kilometers. Our Ukrainian colleagues state they want to raise the fees to five dollars.

Thus, the contract will be effective for another four and a half years, up to the end of 2019 – until January 1, 2020. We assert that we will never sign a transit contract under the terms unacceptable, unfavorable and unfair for Gazprom. The Ukrainian party has stated its position. They are trying to push forward the amendments to the current contract terms. Nevertheless, we will never agree to the terms they are proposing.

Everyone should be aware of the risks that will arise if the contract is not signed. But we've never said that we wouldn't negotiate the transit contact with Ukraine. When the contract nears expiration, we'll hold talks on the transit contract with our Ukrainian colleagues in due course. As a matter of fact, we have a direct instruction from Russian President Vladimir Putin on this matter, which we'll follow by holding the negotiations. As for the risks and the conditions set forth, we all know them very well. The position of our Ukrainian colleagues on transit remains defiant.

DENIS PINCHUK: What about the expenses Gazprom is ready to undertake when building TurkStream-related infrastructure, say, from Greece through Serbia, Hungary…

ALEXEY MILLER: Let us wait until Gazprom is invited to take part in this or that project, and then we'll discuss under which conditions and in which countries we'll get involved. As of today, we've received an offer from Greece. As you know, in Greece a Russian financial company acts as a project participant on behalf of Russia.

DENIS PINCHUK: You've mentioned you are ready to negotiate on transit with Ukraine. Does it mean that if the negotiations are a success and the contract terms suit you, you will be ready to prolong the transit contract? Did I get it right?

ALEXEY MILLER: No one will prolong the contract on unacceptable and unfavorable terms. We'll hold negotiations with our Ukrainian partners before the contract expires.

QUESTION: Mikhail Serov, Vedomosti newspaper. Mr. Miller, in addition to the strategic partnership agreement with Shell, a memorandum was signed on expanding the LNG plant within Sakhalin II. It stipulates that Gazprom is ready to consider the possibility of supplying the expanded plant with gas from Sakhalin III. Up to now, the plant was supposed to be supplied with gas from Sakhalin I (though no agreement was reached), while gas from Sakhalin III was meant either for Vladivostok LNG or for supplies to China via the Sakhalin – Khabarovsk – Vladivostok gas pipeline. If this gas is used for the expanded plant within the Sakhalin II project, does it mean that the Vladivostok LNG project will be abandoned along with the third gas pipeline string to China? Or will this gas be sufficient for several projects?

ALEXEY MILLER: This gas will be sufficient for several projects. I can say that by the 2020s our resource base at Sakhalin III will allow us to produce over 20 billion cubic meters of gas per year with a prospect of further growth. That's why there will be certainly enough gas for several projects. As for Vladivostok LNG, I'll repeat it once again, it is not a priority project for Gazprom right now and it won't be implemented in the near future.

MIKHAIL SEROV: You've noted that there might be an asset swap within your cooperation with Shell. This opens up broad opportunities for Shell after they close the deal for acquiring BG. Does it mean that Gazprom might buy out some assets from Shell, particularly BG?

ALEXEY MILLER: Indeed, our strategic cooperation agreement is aimed at building the entire value chain in the gas industry and, of course, it includes an asset swap. However, we do not plan to buy anything from Shell, nor are we planning to purchase any BG assets.

As for the timeframes, I believe that by the end of this year, we'll compile the final list of assets that might be included into the deal. I think that the optimistic – or, rather, realistic – timeframe for concluding an asset swap deal with Shell is in a year or so. I suppose our collaborative effort will be a success if we sign the agreement at the next St. Petersburg Economic Forum.

QUESTION: Yaroslav Kurashov, NHK television company. Mr. Miller, what are the prospects for mutually beneficial cooperation among Gazprom and Japanese companies? Which projects would you call successful and what is yet to be done?

ALEXEY MILLER: The Sakhalin II project, implemented jointly with the Japanese companies Mitsui and Mitsubishi, is the most successful and efficient LNG project in the world. We have had positive experience working with our Japanese colleagues in the LNG sector. We signed the resolution to implement the third train within the Sakhalin II project with Shell and I believe our Japanese partners could join this project later.

QUESTION: Olga Mordyushenko, Kommersant newspaper. How is the Baltic LNG project progressing? What companies are you negotiating with and who might become your partner? There were talks at Gazprom that the project deadline could be extended because of the sanctions and equipment problems – is it really so and to what extent?

ALEXEY MILLER: No deadline extensions are planned at present; next year we'll complete the design stage and decide on the technologies and final capital investments. In the light of signing an agreement with Shell in St. Petersburg, we'll hold talks on Baltic LNG with this company in the near future. The scheduled completion date is 2020.

QUESTION: Alexey Novikov, Interfax agency. Mr. Miller, regarding today's corporate agenda, a new version of the Articles of Association was adopted. It states that Gazprom's General Shareholders Meetings can take place not only in Moscow, but also in St. Petersburg. As things have been moving rapidly these days, could the very next Meeting be held in St. Petersburg? Will you, like some other companies, hold it concurrently with the St. Petersburg Forum or will you stick to the last Friday of June?

ALEXEY MILLER: Since the decision was made and amendments were introduced into the Articles of Association, one can wonder why it was done, and your question is absolutely reasonable. Yes, we are planning to hold the next Shareholders Meeting in St. Petersburg. As a matter of fact, this issue was raised at the recent meeting of the newly elected Board of Directors, and the Members of the Board of Directors supported that decision. As for our tradition, we hold the annual General Shareholders Meeting on the last Friday of June and we will not break with this tradition.

ALEXEY NOVIKOV: Speaking of St. Petersburg, during your speech at the St. Petersburg Forum – back in 2008, I believe – you said that a hub for selling the Nord Stream gas could be established in St. Petersburg. Recently, you noted that you were planning to set up a hub at TurkStream's terminal point, at the Greek-Turkish border. Is Gazprom ready for that?

ALEXEY MILLER: We are updating our business strategy for the European market. Gazprom resolved to adopt a new pricing mechanism for gas supplies to Europe. We'll work out, among other things, a procedure for holding gas auctions. The first bidding will take place, as you may have already guessed, in St. Petersburg this September. About three billion cubic meters of gas will be put out for bids, divided into 120 lots with a delivery point in Greifswald. I think there will be several other points as well. Namely, gas could be supplied to the Gaspool trading platform at extra charge.

It's a supplementary mechanism for our operations in the European market, not an alternative to gas supplies under long-term contracts. All details concerning the terms and conditions of the gas auction as well as participation therein will be posted on the Gazprom Export website in July.

ALEXEY NOVIKOV: Mr. Miller, we recognize that figure – three billion cubic meters of gas release is the European Commission's demand concerning the OPAL pipeline capacities. Does it mean it's the same gas release?

ALEXEY MILLER: No, it doesn't. I'd like to call your attention to the new mechanism once again.

ALEXEY NOVIKOV: Does it mean that this step doesn't erase the problem of getting access to half of the OPAL pipeline capacities?

ALEXEY MILLER: It's about a new mechanism. We are changing our business strategy in the European gas market. The new mechanism is not an alternative to long-term gas contracts; we are introducing the gas bidding mechanism.

ALEXEY NOVIKOV: Going back to the St. Petersburg news, I was surprised by a rather inconspicuous press release about the meeting with the State Oil Company of the Azerbaijan Republic (SOCAR). SOCAR used to purchase our gas; then it turned into a rather ambitious exporter and Russia stopped supplying gas to Azerbaijan. After that, SOCAR started selling gas to Russia, with extensive plans for boosting supplies. Apparently, SOCAR may turn to Russian gas resources again. That said, back in the day Azerbaijani gas was considered a serious competitor to Russian gas in Europe. Could you comment on the situation?

ALEXEY MILLER: It's not that they 'may' turn to Russian gas, they already have. Our Azerbaijani colleagues asked us to start supplying Russian gas to Azerbaijan in the near future. Gazprom's purchase contract for Azerbaijani gas will be in force until the end of this year; there are no supplies at present and there haven't been any since mid-2014. Azerbaijan's economy is growing. Its domestic demand is increasing along with its domestic needs. The point at issue concerns deliveries on the basis of a mid- or long-term contract for several billion cubic meters of gas per year; gas supplies might begin before the year-end.

MODERATOR: We are also receiving questions via the Internet. Anton Khersonsky, a private individual, asks if Mr. Miller can comment on the progress of the talks on the extension of the contract between the Zenit football club and Andrey Arshavin.

ALEXEY MILLER: This question has absolutely nothing to do with the agenda of the annual General Shareholders Meeting. I think we'll answer it privately.

QUESTION: Mikhail Serov, Vedomosti newspaper. You've mentioned that your partnership with Europe used to be based on the operations across the whole supply chain, whereas now you will stick with the Eurasian strategy, not the European one. However, you didn't specify what it would be like. What is your vision of it? Will you use the same strategy with your Asian partners as with European ones? You've mentioned CNPC today; they have been your partners for a long time, but there haven't been any asset swaps with them, nor have they participated in any of Gazprom's projects.

ALEXEY MILLER: As for Gazprom's Eurasian strategy, to which we are switching now, it is a global strategy. It is about uniting the gas transmission capacities of Russia's East and West, creating a unified gas supply system from Russia's western borders to the Russian Far East and combining the resource bases of Western and Eastern Siberia as a result. The creation of a unified gas supply system across the whole country and integration of resource bases will provide for a more reliable and stable gas supply to consumers both in Russia and abroad.

I'd like to point out once again that I'm referring to the global dimension of this strategy. It should be understood that integrating the resource bases and creating a unified gas supply system gives us additional competitive advantages in the international market. Speaking of our Eurasian strategy, I can tell you that LNG plays and will continue to play a more prominent role for Gazprom in this strategy than it has played in the European market.

MIKHAIL SEROV: Mr. Miller, could you comment on creating value chains in Asia – will it be possible to do it the same way as in Europe or will you act differently?

ALEXEY MILLER: Firstly, if we speak about our Eurasian strategy, it is about expanding the geography of our supplies to many countries across the globe.

Gazprom currently operates in 51 countries. The process of developing cooperation schemes for certain companies and partners based on the global vision of our business strategy involves, for instance, uniting efforts in third countries.

Therefore, speaking of the Eurasian strategy, I'd like to first and foremost emphasize the fact that we and our strategic partners are focused on operations in third countries. That includes countries where Gazprom has not operated before.

QUESTION: Simon Pirani, Gas Matters magazine. Mr. Miller, today you said that in 2014 Gazprom produced 443.9 billion cubic meters of gas and the production potential was 617 billion cubic meters of gas. That means that there was an enormous capacity excess – over 170 billion cubic meters of gas. Why does the Company go on investing so much into developing new capacities? Why not wait until the market changes?

ALEXEY MILLER: When we say that our gas production potential exceeds 600 billion cubic meters, while the production capacity is 617 billion cubic meters, it is not excess capacity at all. Gazprom's mission is to ensure a continuous gas supply in winter for our consumers in Russia and abroad.

Russia is a northern country, our winters are extremely cold and we have very high fluctuations between gas supplies in summer and in winter. The capacities we have are necessary and sufficient for the autumn/winter period. In addition, we need these capacities as much as we need the UGS capacities. Therefore please note that these are not excess capacities but the capacities required for the autumn/winter peak period.

But the paradox here is that if the peak capacities used in winter for uninterrupted gas supplies to the thermal power industry, power industry, utility sector and population were used throughout the whole year, the volume of supply would exceed 600 billion cubic meters of gas per year. So my answer to your question is: the Russian winter made Gazprom strong and hardened. We are afraid of nothing.

QUESTION: Nadezhda Okovitaya, Zolotoy Rog newspaper, Primorye Territory. I have a question about regional gasification. The Russian Far East is the region with the lowest level of gasification. Right now, we have a gas main from Sakhalin and a gasification program which is not being executed. According to certain data, by 2015 as many as six major municipalities should have been gasified, consuming a total of 1.3 billion cubic meters of gas. They haven't consumed a single cubic meter, though. Companies operating in the priority development areas complain that they can't get access to gas. How can the gasification process be spurred and who is responsible for the pipe-to-consumer chain?

ALEXEY MILLER: The Gasification Program is Gazprom's priority; we have been systemically implementing it since mid-2005. The Program's geography is expanding: it already covers the Russian Far East and Eastern Siberia.

There is a very clear distinction between the functions and areas of activity of Gazprom and the constituent entities of the Russian Federation. Gas distribution stations, gas branches and inter-settlement gas pipelines fall within Gazprom's responsibility. We work up to the boundaries of population centers. As for intra-settlement gas grids, street grids, boiler houses and consumer connections, it is the responsibility of the regions, not of Gazprom.

You know that we operate according to the annual synchronization schedule. During all these years, the annual synchronization schedule has provided for a very clear separation of responsibilities, scope of financing and facilities to be commissioned at a high level, meaning on the part of Gazprom, and at a low level. What's most important is that every year heads of Russian regions and Chairman of the Gazprom Management Committee put their signatures to this document; these are our obligations.

Now let's have a look at the work done under the Program we've been running for many years. We see that Gazprom has constructed over 25 thousand kilometers of gas pipelines under the Gasification Program; pipeline gas has been delivered to more than 3,511 localities. The question is: to what extent are these gas pipelines loaded and how many gas consumers have been prepared for supplies? We can supply consumers with 33.4 billion cubic meters of gas every year via the pipelines constructed under the Gasification Program, but in 2014 less than 9 billion cubic meters were pumped through these pipelines. These grids are loaded by less than 27 per cent now. That's why even if Gazprom doesn't increase the amount of financing to continue the Gasification Program, there is a possibility of increasing gas supply to consumers via the gas grids that Gazprom has already built by almost 25 billion cubic meters of gas. All of it is the area of responsibility of the constituent entities of the Russian Federation.

As for the scope of the Program financing, Gazprom is not slowing down. The same is true for the Eastern Gas Program. I'd like to note that a Gasification Program for 2016–2020 is being developed for the Sakha Republic (Yakutia) and the Amur Region, which joined the Program quite recently. It is clear that they were included in the Program thanks to the Power of Siberia gas pipeline construction project. What's most important here is that, despite the performance of the Russian regions, we keep the total amount of annual investments in the Gasification Program at slightly over RUB 28 billion. This year it will be some RUB 28.8 billion.

We have always prioritized rural areas, as I've mentioned in my speech. Compared to January 1, 2006, rural gasification has reached the average nationwide level we had on January 1, 2006. Today's rural gasification, I mean with pipeline gas, equals 54.6 per cent, while the average nationwide level as of early 2006 was 53.3 per cent.

Speaking of the gasification level in general, it looks quite even: in urban areas (if we take pipeline gas together with LNG and LPG) it totals 78 per cent, in rural areas – 76 per cent, across the country – 77 per cent on average. Of course, pipeline gas supplies are more reliable and, most importantly, they are cheaper. We will certainly go on implementing this Program, as it has been and will remain our priority.

QUESTION: Elena Mazneva, Bloomberg agency. You've said that Gazprom is ready for talks with Ukraine on the transit contract if normal conditions are offered. If there is no system for supplying Russian gas from the Greek border to the European Union by late 2019, Gazprom will have to extend the contract with Ukraine anyway, won't it?

Gazprom has a contract with Slovakia under the take-or-pay condition until 2028. Are you planning or already negotiating to change that condition with Slovakia? If there is no Ukrainian transit, there won't be Slovakian transit either, while you'll have to pay.

What is the rough cost estimate for TurkStream?

ALEXEY MILLER: If there is a dispute, it is for the court to decide who is to pay whom and how much should be paid. If the parties do not agree… for example, we are in arbitration with our Ukrainian colleagues now. It appears that we shouldn't expect the court in Stockholm to make a decision before 2017.

If the European Union doesn't create capacities, we will not sign a contract that will be unprofitable or unacceptable for us. If the capacities are not created, it means that… well, everyone is informed about the risks and it has been mentioned more than once… it means that gas will be sold in other markets.

As for Slovakia, I've already said: firstly, if there is a dispute, it is for the court to decide who is to pay whom and how much should be paid. Secondly, it should be understood that if a contract cannot be performed due to the need to execute some other contracts, it is not that easy to decide who is to blame for that collision.

Dear colleagues, it is Elena Mazneva's birthday, let us greet and congratulate her.

Let us wind up our work. We are always pleased to meet you. I believe that we'll have more good news soon.