

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

June 30, 2017

Participants:

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

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

Our final Press Conference will be held according to the well-established scheme. We have collected questions in advance in order to organize them in a certain logical chain, so that we don't have to leap from Nord Stream-related questions to football and then to China, although such a connection does exist.

Regional media constitute the majority of the audience. There are questions concerning the principles, rules and approaches adopted by Gazprom when implementing the Gas Infrastructure Expansion Program. I think it will be appropriate to pose these questions to Viktor Zubkov.

QUESTION: Mikhail Lukash, Kursk public TV and radio broadcasting company. Good afternoon, Mr. Zubkov. Gazprom is making consistent efforts to expand gas grid coverage in Russia, but they are not equally intense in all regions. How will you explain that?

VIKTOR ZUBKOV: Alexey Miller has already brought this up in his speech and mentioned some figures. Gazprom is actively bringing natural gas to Russian regions. Around RUB 300 billion was invested in regional gas infrastructure between 2005 and 2016 alone, and this is a rather large amount. During that period, the gas penetration level rose from 53 to 67 per cent. Gas infrastructure expansion was at its most rapid in rural areas, where it showed a 1.6-fold increase.

Let me reiterate the principles laid down in the agreements with regional authorities. Gazprom is responsible for the construction of gas pipelines up to the boundaries of populated areas, and the local officials have to construct gas distribution networks and prepare consumers for gas supplies. Our joint efforts need to be fully synchronized. We highlight it in our agreements with each region.

Unfortunately, many regions seem to neglect this point. Between 2005 and 2016, only 11 Russian constituent entities fully complied with their obligations to prepare consumers for gas supplies. I am going to name the regions whose leaders really care about the well-being of their citizens – these are the Belgorod, Kemerovo, Kursk, Omsk, Penza, Tyumen and Yaroslavl regions, as well as Kalmykia, Mordovia, Chuvashia, and the city of St. Petersburg. As many as 36 regions were behind schedule, and 19 regions had a very significant delay and persistently failed to fulfill their obligations. This is the first obstacle that affects the rates of gas infrastructure expansion.

The second obstacle, which is very significant, is the debt for gas. As of June 1, 2017, the debt for the consumed gas exceeded RUB 196 billion, showing a 22 per cent increase from the beginning of the year.

These two obstacles – the failure of regional authorities to fulfill their obligations and the accumulating debts for gas supplies – are the main deterrents to gas infrastructure expansion. Of course, we are addressing these concerns, but the current situation is as I have described it.

We are making decisions with regard to highly-indebted regions, and we either slow down their gas infrastructure expansion or stop it completely. It's not a good thing, of course, because it's the people who suffer in the first place. We are well aware that gas infrastructure expansion gives a strong impetus to improve the quality of life. So I think some regional leaders should behave far more responsibly in this crucial social project than they do now.

MODERATOR: Dear colleagues, Mr. Zubkov has to go meet other Members of the Board of Directors now. Let's thank him for his participation in the Press Conference and continue.

QUESTION: Evgenia Sokolova, TASS agency. Mr. Miller, we have a chance to talk to you at such a major Press Conference only once a year. Could you sum up the annual results and name the most important events of the year in your opinion?

How do you see the latest initiative by the European Commission to negotiate with Russia a special legal regime for the Nord Stream 2 gas pipeline? Could the EC influence its completion timelines or disrupt the project completely?

ALEXEY MILLER: Speaking of the most important events, let's talk about the 12 months that have elapsed from the past annual General Shareholders Meeting to the present day.

The milestone events that are worth mentioning include, first of all, the launch of new production capacities at the Bovanenkovskoye field and the increase of the peak daily productivity to 264 million cubic meters, as well as the launch of the 1,264-kilometer Bovanenkovo – Ukhta 2 gas trunkline, one of the most advanced in the world, rated for the operating pressure of 120 atm.

Of course, I should also mention our numerous record-breaking results. First of all, it should be noted that by the 2016–2017 autumn/winter period Gazprom injected a record-high volume of working gas – 72.01 billion cubic meters – in its UGS facilities and reached the peak daily performance of 801.3 cubic meters of gas by the beginning of the withdrawal period. These are historical peaks. These volumes are certainly crucial for securing the reliability and stability of our gas supplies to Russian consumers during the autumn/winter period.

Speaking of records, it should also be noted that last winter we set an all-time record for daily gas exports at 636.4 million cubic meters. It surpasses the last record by almost 100 million cubic meters of gas. As regards the records for gas supplies to foreign markets, it is of course worth mentioning that we achieved unprecedentedly high gas supplies beyond the former Soviet Union in 2016 – as much as 179.3 billion cubic meters. Just within a year and a half, we added 30.4 billion cubic meters to the physical gas volumes exported beyond the former Soviet Union. Based on the 2016 supplies, our share in the European gas market is 33.1 per cent.

With regard to other major infrastructure projects, it should be undoubtedly pointed out that the construction of the TurkStream offshore gas pipeline has commenced. Pipelaying activities have started in the deep sea, and Russian President Vladimir Putin has taken part in the launch of deep-water operations.

As far as Nord Stream 2 and the EC initiatives are concerned, we are very pleased to hear your opinion that Gazprom can and should review the EC initiatives. Yet, in respect to the initiative to obtain a mandate for negotiations with the Russian Federation on the Nord Stream 2 project, our stance is as follows: there is, of course, no need for any special regime in this project.

You know that the technical concept of the Nord Stream 2 project is exactly the same as that of the Nord Stream project. Nord Stream 2 is routed in the same corridor as Nord Stream. We implemented the Nord Stream project in line with the effective international laws, and we followed all the rules and regulations. No special regime has ever been established for this project, nor has it been established for the offshore gas pipelines going to Europe from Algeria, Libya or other countries.

The Nord Stream 2 project is advancing within the strictly defined timeframes according to the

time schedule. We are absolutely confident that it will be built in line with the prescribed deadlines.

QUESTION: Vitaly Sokolov, Energy Intelligence agency. When do you expect to attract project financing for the Nord Stream 2 project? What banks – Russian, foreign, European or maybe Asian – are you negotiating with today?

ALEXEY MILLER: You know that we entered into long-term financing agreements for Nord Stream 2 with a number of European companies: they secure mezzanine financing and bridge financing for the project. We also signed a project financing strategy with them. Project financing won't be required for the construction of Nord Stream 2 in 2017. This year, the financing for Nord Stream 2 will be provided through mezzanine loans from European companies and through Gazprom's financial obligations with respect to the project.

As far as banks are concerned, these are Russian, European and Asian banks and export credit agencies. According to our plan, project financing will be carried out in 2018.

QUESTION: Lyudmila Podobedova, RBC. You have obtained loans from the European partners just before the introduction of the possible sanctions, which are yet to be agreed upon. Could you explain how you secure these loans? Are they really based on some long-term gas contracts designed according to the same principles as the oil deals concluded by Rosneft with CNPC? Or maybe a different loan structure is used?

ALEXEY MILLER: Let me note that we have defined them quite comprehensively. This is mezzanine financing. And the second scheme is project financing. You all know the mechanism of attracting mezzanine and project financing. Therefore, no contracts were signed to secure these loans. There are none. The information about their existence is not true.

QUESTION: Anastasia Goreva, Argus Media agency. Gazprom, Edison and DEPA recently inked an agreement stipulating, in particular, that the companies shall coordinate the execution of the TurkStream and Poseidon projects. What is the likelihood that the second string of TurkStream will be routed to Europe across Bulgaria? And if you opt for this choice, how will the existing pipelines of Botas and the European pipeline system be used?

Which European countries and companies have already expressed their willingness to buy gas from the second string of TurkStream? What gas volumes are implied here? Will European consumers receive gas from TurkStream at a lower price? If so, why?

ALEXEY MILLER: As regards the directions of our gas supplies from the TurkStream offshore gas pipeline in Europe, indeed, we signed a number of documents at the St. Petersburg International Economic Forum. It should be noted that the documents deal first of all with the construction of new gas transmission capacities routed towards Greece and Italy, I mean the Poseidon project and a roadmap we signed with Bulgaria to develop the Bulgarian gas transmission capacities.

It should be underlined that we give no priority to any of these routes. We are working on both of them.

When it comes to using the Botas gas transmission system, I can say that for the first string of TurkStream, which is designed exclusively for the Turkish market, it will be Botas that will build the gas transmission capacities in Turkey from the receiving terminal to the tie-in with the gas trunkline within the Trans-Balkan corridor in Turkey.

As for the second string of TurkStream, pursuant to the arrangements reached by Turkey and Russia within their intergovernmental agreement, Gazprom and Botas are authorized to build new gas transmission capacities up to the border of Turkey with its neighboring countries. The intergovernmental agreement doesn't specify this direction. Therefore, it will be decided through negotiations with our European partners how these gas transmission capacities will be routed.

The final choice of the route will depend on the position of our European partners.

As regards the construction of gas transmission capacities in the countries adjacent to Turkey, this is the responsibility of gas transmission operators in these respective countries. Therefore, the final route will be determined depending on their work and the course of negotiations.

The volumes slated for the supply to southern and southeastern Europe make up 15.75 billion cubic meters of gas. Most of the companies based in these European areas showed their interest in concluding contracts for gas supplies via this corridor. The supplies will be carried out according to a pricing principle based on a certain price formula. There will be no preferential pricing regime for TurkStream supplies.

QUESTION: Alexandra Suvorova, Russia-24 TV channel. Mr. Miller, as you have already mentioned in your speech, the construction of TurkStream is in full swing now. When will the first gas supplies flow through the pipeline and when will the project be fully operational?

ALEXEY MILLER: The first offshore string will be completed in 2018 when the offshore pipeline reaches the Turkish coast. The second string will reach the Turkish shores in 2019. But an offshore gas pipeline also includes onshore facilities. The onshore terminal and gas transmission capacities, particularly in Turkey, are a prerequisite for the acceptance of gas. So, pipeline commissioning and the start of supplies are scheduled for December 2019. Turkey and southern and southeastern Europe will receive Russian gas starting from late 2019. As you see, the project is progressing in strict compliance with the schedule. There are no doubts now that this project will meet the prescribed deadlines.

QUESTION: Vasily Milkin, Rambler News Service agency. Is Gazprom looking into the possibility of engaging partners as shareholders in the TurkStream project? If so, what companies are interested in entering into it and what companies are you negotiating with?

ALEXEY MILLER: Gazprom is currently the sole shareholder of this project. When we were contacting European gas transmission operators or negotiating totally different matters with them, they expressed interest in obtaining a stake in the TurkStream project. Our position is that we are not negotiating such proposals for the time being. The main objective we are pursuing today is the construction of TurkStream.

However, in principle, we are ready to consider the possible entry of gas transmission operators into the TurkStream project in the future. We may start negotiations on this matter after a while. I don't think it's worth mentioning the companies that were interested in the entry, for one simple reason: it's now only a manifestation of interest, not negotiations. But I can say that those operators are very big and prominent gas transmission companies from Europe.

As you remember, Gazprom owned 50 per cent in the South Stream project. I won't name the companies we were partnering with; I would just like to point out that, after the South Stream project was suspended, the European partners thanked Gazprom for its promptness in resolving all the issues related to their trouble-free withdrawal from the project.

QUESTION: Vladimir Soldatkin, Reuters agency. Are there any risks that European partners may refuse to finance Nord Stream 2 because of the U.S. sanctions? Could these sanctions impede the construction of the second string of TurkStream? I mean both potential and existing sanctions.

ALEXEY MILLER: The existing sanctions can't do this. And with respect to the potential sanctions, let me cite our partners. These statements were made by CEOs just several days ago. Isabelle Kocher, CEO of the French energy company Engie, said: "I don't think at all that the US can stop this project." She was talking about Nord Stream 2. Klaus Schaefer, CEO of the German energy company Uniper, said: "It is unacceptable that European energy policy is now being made in the US." These quotes from our partners are the answer to the second part of your

question.

QUESTION: Anastasia Astrashevskaya, Platts agency. What possible consequences does Gazprom see for itself if the EC ratifies the proposed changes into the terms and conditions of supplies to the central and eastern parts of Europe?

Is Gazprom planning to hold any gas auctions in the near future? If it does, then what volumes can be traded there?

ALEXEY MILLER: You know that the market testing procedure initiated by the European Commission is over. A moderate number of remarks and comments were issued as a result of the testing. Gazprom expects the antitrust investigation to be completed this year.

As for gas auctions, Gazprom was given an assignment just last week to prepare invitations for auctions planned for the fourth quarter of this year. Let me emphasize that those are just assignments to prepare proposals. The decision hasn't been made yet, but it may be made in early September.

LYUDMILA PODOBEDOVA: As we know, Ukraine initiated the seizure of Gazprom's property, in particular, Gazprom-owned assets in Gastransit and its dividends as part of antitrust proceedings. Can Gazprom somehow prevent the seizure of this property? Will it challenge these actions in international courts, and if it will, in which courts and when?

ALEXEY MILLER: The Russian Federation and Ukraine entered into the Agreement on Promotion and Mutual Protection of Investments in 1998. Based on the Agreement, Gazprom resolved to send a notification to the Cabinet of Ministers of Ukraine requesting to eliminate the violations you've listed in your question. If the violations are not eliminated, then, based on the provisions of the Agreement signed in 1998, Gazprom will resort to international arbitration as stipulated by the current Agreement.

QUESTION: Roman Tsymbalyuk, UNIAN agency. Mr. Miller, will Gazprom comply with the ruling of the Stockholm Arbitration Court which is closing now? Could you explain who is in debt to whom and in what amount?

Do you miss the Ukrainian market and endless talks with the Ukrainian partners? Do you think that this market is lost for Gazprom, either for a long time or forever?

How much gas have you supplied to the uncontrolled occupied part of Donbass and what was its total worth?

ALEXEY MILLER: As regards the ruling of the Stockholm Arbitration Court, the first thing that needs to be noted is that the arbitration tribunal issued an interim ruling. It's not a final but an interim decision. Still, it is a decision.

Pursuant to the provisional ruling of the Stockholm Arbitration Court, more than USD 1.7 billion shall be collected from Naftogaz of Ukraine in favor of Gazprom, according to tentative economic estimates. At the same time, the arbitrators' reasoning doesn't seem to be substantiated enough on many issues of the interim decision. Gazprom decided to appeal against the interim decision of the Stockholm Arbitration Court in the court of appeal in Sweden.

As for the Lugansk and Donetsk People's Republics, they were supplied with 5.46 billion cubic meters of gas with a total worth of USD 1.196 billion.

Regarding the market, nothing has been lost. Maybe someone else is lost or has wandered off the track. But we haven't lost anything.

MODERATOR: Yury Barsukov from the Kommersant newspaper is ill, but he asked me to pose his question on his behalf. What amount of gas does Gazprom see appropriate to leave in the gas supply contract with Ukraine, taking into account the arbitration tribunal's position on lifting the ban on re-exports?

ALEXEY MILLER: The contractual volumes in a purchase contract depend primarily on the buyer's position. The buyer is to determine the volumes that he needs in the market. But when it comes to required and sufficient volumes, we should, first of all, bear in mind the peak daily consumption rates during the autumn/winter period. It is exactly these volumes that are, and should be, accounted for in determining the annual contractual volumes of gas to be purchased.

As for re-exports and other related issues, it's too early to say anything. There has been no final decision by the Stockholm Arbitration Court yet. Its final decisions are essential for further negotiations with Ukraine on the matters of gas supply and transit. So, we shall wait and see.

QUESTION: Maria Gordeeva, RIA Novosti agency. Mr. Miller, we know that Gazprom plans to keep transiting some minor amounts of gas through the territory of Ukraine after 2019. At the same time, the gas transmission system of Ukraine requires a significant upgrade and it's unlikely that the required investments are being made now. Taking into account the system's deterioration, what is the maximum amount of transit through Ukraine you consider possible after 2019? And how will the transmission routes of Russian gas change in this connection?

ALEXEY MILLER: I would change the cause and effect relationship here: it's not the state of the Ukrainian gas transmission system that predetermines the possible volumes of transit across Ukraine, it's the gas transmission flows and gas transmission capacities of Russia that predetermine the potential volumes of gas transit across Ukraine. The disastrous state of the Ukrainian gas transmission system doesn't play a key role here.

As to gas transmission flows in the Russian Federation, they have already been altered. The main reason for this is the emergence of a new gas production center in Yamal. Other factors are the new northern gas transmission corridor and new gas trunklines. They cause alterations in the geography of gas flows across the Russian Federation, with the northern corridor becoming the backbone. Hence, we see the reduction and optimization of gas transmission capacities in the central corridor, and we understand that the restructuring of transmission flows in Russia will cause the potential gas transit across Ukraine in the central corridor to amount to about 15 billion cubic meters – between 10 and 15 billion – by 2020.

ANASTASIA GOREVA: This year, Gazprom and CNPC started the negotiations on narrowing the window for gas supplies via Power of Siberia. When will Gazprom and CNPC determine the starting date of supplies via the pipeline?

Gazprom has already announced that the Amur GPP would become operational in 2021. Does it mean that exports via Power of Siberia will also begin in 2021?

ALEXEY MILLER: We have already reached the in-principle agreements with our Chinese partners regarding the specific starting date of gas supplies to the Chinese market via Power of Siberia. We are currently finalizing the details, and an addendum to the main contract on the commencement of Russian gas exports to China will be signed in the nearest future. You will hear about it in the next few days.

QUESTION: Mikhail Konshin, Orlovskaya Pravda newspaper. I am from the city of Oryol. You've been there recently and attended the opening ceremony of a large spiritual center. We know that you personally did a lot for this center, and our citizens are deeply grateful to you.

ALEXEY MILLER: Thank you.

MIKHAIL KONSHIN: My question is about Power of Siberia. How well is the Chinese side fulfilling its obligations? How are they moving towards our border? And what is your estimate: will this flow eventually pay off considering that the prices for energy carriers have declined significantly?

ALEXEY MILLER: What do you mean by "eventually"? Without any doubt, it will be profitable throughout its lifecycle, not just eventually.

Our Chinese partners keep up with the schedule. I've already pointed out that we have agreed to a specific date – please note that it is a specific date, not a period or a timeframe. As we were holding negotiations, we were fully aware – and we still are – that our Chinese partners are ready to perform the scope of work they are obliged to do.

QUESTION: Natalia Michurina, Vostochno-Sibirskaya Pravda newspaper. On what terms can independent suppliers pump their gas through the Power of Siberia gas pipeline? What is the format of the ongoing negotiations with the independent suppliers on this issue?

ALEXEY MILLER: Firstly, the Russian legislation doesn't permit that. Secondly, it's not economically viable for our country. Thirdly, Gazprom is not holding such negotiations. And fourthly, the terms and conditions outlined in the intergovernmental agreement with China and in the signed contract are such that the whole volume of gas transmitted by Power of Siberia shall be provided by Gazprom. Accordingly, we are creating production capacities precisely to match the gas transmission capacities of Power of Siberia.

Besides, our investments in production and transmission operations are based on a price formula. And it is also understood that all these investments have been made by Gazprom. There have been no independent suppliers there, they have made no investments, and there are no available capacities in the gas transmission system for them either.

QUESTION: Semyon Trofimov, Sakha public TV and radio broadcasting company. The year of 2017 is announced as the Year of Ecology in our country. We all know that northern nature is extremely fragile, especially in permafrost areas. What environmental strategy is being employed as part of the Power of Siberia project?

ALEXEY MILLER: Indeed, Gazprom gives a lot of attention to environmental issues, and you know that the Company has developed and adopted an environmental policy. In line with our environmental policy, we are taking advanced and comprehensive environmental and compensation measures, which also include continuous environmental monitoring and control of our operations, in order to preserve the environment during the construction of Power of Siberia. And I can assure you that Gazprom has been, and will be, very respectful towards the environment of the regions where it carries out its extensive investment projects.

VLADIMIR SOLDATKIN: The oil price has declined considerably in recent months and the gas price is following suit. Is there a possibility that contractual gas prices for China will be revised in connection with the reduction in oil prices? Is there a need for further negotiations on gas supply to China via other routes in addition to the eastern route? What are your views on the prospects of cooperation with China's CNPC?

ALEXEY MILLER: We don't see any decline in gas prices, that is absolutely certain. I will not give you the absolute figures under our long-term contracts. I can only note that the average price under Gazprom's long-term contracts is currently higher than the average annual price laid down in our budget. This is absolutely certain.

The second point. When we look at the market, we notice that during certain periods spot prices considerably exceed the prices indicated in long-term contracts. This is especially true for the autumn/winter period. During this period of time, gas supplies under our contracts, particularly the supplies meant for the European market, become highly beneficial to our customers.

Regarding gas supplies to China, a price formula is embedded in the contract for gas exports via Power of Siberia. Therefore, the supplies will be carried out strictly in compliance with the price formula. No updates are needed there. Everything is fully automated.

Is there a need to carry on the negotiations on gas supplies with China? Yes, there is such a need, primarily due to what we are witnessing in the Chinese market. In 2016, gas consumption in the Chinese market exceeded the crucial psychological threshold of 205 billion cubic meters.

Remarkably, China's internal gas market keeps growing at very high rates. In the first four months of 2017, gas consumption in China has risen by 12 per cent. At the same time, we clearly understand what 12 per cent means in terms of the scope of supplies we are talking about. This is quite a large amount.

We see the existing demand for extra gas supplies from Russia to the Chinese market. Naturally, this is reflected in the negotiating stance of our partners, such as CNPC. Further increases in gas exports from the Russian Federation will take place progressively as the project for gas supplies via the eastern route develops. The route of gas supplies from the Russian Far East has been determined as well. Besides, the border crossing point has been identified and we have started commercial negotiations with CNPC – please note those are commercial negotiations – aiming to achieve the following: to sign the basic legally binding terms and conditions of gas supplies to China from the Russian Far East before late 2017.

About cooperation prospects: it should be noted first of all that we have established a truly strategic partnership with CNPC over a relatively short period of time. We are bound by the joint actions performed as part of the world's largest investment project in the oil and gas sector – Power of Siberia.

We are also broadening and enhancing our cooperation in many other areas. First of all, this includes the construction of underground gas storage facilities in China. We have signed three contracts for these works with CNPC. Of course, our efforts in power generation need to be mentioned; we have singled out a specific project, the Hsingyuan Power Plant, and we are ready to invest into this project as partners. We are also looking at gas-fired power generation in China as a promising area of cooperation. We are optimistic about this type of activity and, I stress, we have already reached definite agreements. This is absolutely specific.

Also noteworthy are the NGV sector and the agreements we have signed with CNPC. What is the most important is the use of natural gas as a vehicle fuel in strategically important infrastructure projects like the Europe – Western China motorway.

I would also like to point out our cooperation in the standardization and adoption of compliance standards that we started as part of joint scientific studies, staff training and staff development activities.

I could list many other aspects of our cooperation. Of course, cultural cooperation is among them. The Chinese team from CNPC has become a mainstay in the Fakel Festival for amateur performers.

Indeed, CNPC is our strategic partner and we see great potential in our cooperation.

QUESTION: Artur Toporkov, Vedomosti newspaper. Mr. Miller, you've mentioned the Far Eastern corridor. Could you clarify the details about the former Altai project currently known as the western route, Power of Siberia 2? The Chinese market is growing, but gas supplies intended for this market will be ramped up via the Far Eastern route. China is buying large amounts of liquefied natural gas (LNG) from Australia, and the western regions are receiving gas from Turkmenistan. How feasible is the Power of Siberia 2 project at the moment? Could it be postponed or frozen? Or do you have any other solutions?

ALEXEY MILLER: You've mentioned Turkmen gas, LNG growth, and so on. Of course, we are thoroughly monitoring the markets we are operating in. We are also studying the situation in the autumn/winter period. In fact, the case with Central Asian gas in the Chinese market is the same as in the other markets. Unfortunately, Central Asian supplies are unable to cover peak demand during the autumn/winter period. The required amounts of gas are not available. China felt compelled, and I stress, compelled to buy additional volumes of LNG during the autumn/winter period.

Being an expert, you perfectly understand that pipeline supplies of Russian gas will be much more competitive. And most importantly, we will guarantee the coverage of peak demand in winter. Therefore, all the projects have very good growth prospects. I would like to emphasize again that gas supplies from the Russian Far East are designated to ensure further growth of Russian gas exports to China as part of the eastern route.

With respect to the Power of Siberia 2 project, we have an effective legally binding agreement on the terms of gas supply via this route. Based on the market situation, this gas transmission route will certainly be needed.

QUESTION: Andrey Ostrovsky, Novaya Gazeta in Vladivostok. Exactly one year ago we, journalists from the Primorye Territory, asked you about the prolonged planning and delayed start of LNG plant construction near Vladivostok. You said last year that this project had not been eliminated from Gazprom's investment portfolio but had become a long-term rather than near-term project. Has anything changed in this regard after a year? What is hampering the project? How do matters stand now? Furthermore, we know that a land plot near Vladivostok originally designated for the project is still reserved for Gazprom.

ALEXEY MILLER: I want to share some good news with you. When we were discussing this project a year ago, we mentioned that it had not been withdrawn from the list of our investment projects, but its implementation had been moved from the nearest future to a more distant point in time. Now, we plan to start this project much earlier than we had intended.

I will explain the reasons for this decision. It is caused by the growing demand for natural gas as a vehicle fuel in the Asia-Pacific market, first and foremost in bunkering. You know that navigation is very intense in this region. We see very strong demand there. And, what is most important, we see that foreign companies in the region are willing to engage in this project as they understand its focus on the Asia-Pacific market segment, i.e. the NGV segment, including bunkering.

To that end, we are reviving the project. We won't discuss right away the nominal capacities we initially planned under the Vladivostok LNG project. I will only note that it's a medium-scale project in terms of tonnage capacity, without specifying any particular volumes. But I can say that very recently, in the last few months actually, the project was reactivated.

QUESTION: Ivan Balov, Sakhalin-Kurily agency. When will you adopt the investment decision on the construction of the third train at the LNG plant as part of the Sakhalin II project? What benefits and prospects will it bring to the Sakhalin Region and Russia in general?

ALEXEY MILLER: As you know, the third train of Sakhalin II is at the design stage now. The final investment decision will be made between the fourth quarter of 2018 and the first quarter of 2019. Accordingly, the commissioning will take place in 2023–2024.

As for benefits and advantages, they certainly include budget payments. I think it's appropriate to note again that the Sakhalin II project, the LNG plant in Sakhalin, is the most cost-efficient LNG project in the world. The experience gained by Gazprom in this project will be used in the future projects of the Company. The project has been underway for several years, but its economic performance continues to improve, particularly its operating capacities, which is especially heartening. This is also true for the LNG supply and oil production volumes.

VITALY SOKOLOV: At what stage is the Baltic LNG project now? When are you going to shape its shareholding structure? And who can obtain a stake in it besides Shell?

ALEXEY MILLER: We signed an agreement with Shell at the St. Petersburg Economic Forum to prepare a feasibility study within nine months. The second document we signed with Shell is devoted to the principles of setting up a joint venture. Therefore, I would say that the agreement on the shareholding structure is to be reached during the development of the feasibility study.

Together with Shell, we have determined the size of their stake in the project's equity capital.

Who else could become a shareholder? Companies experienced in gas liquefaction. I wouldn't rule out the possibility of engaging other Russian companies as the project's shareholders.

MODERATOR: We have a few questions about the Sakhalin III project. They come from Evgeny Basenko from the OTV channel, Valentina Goncharenko from the AiF – Sakhalin – Kurily newspaper, Vladimir Kochkovsky from the Sakhalinskaya Zhizn newspaper, and Lyubov Khmelevskaya from the Dalnevostochny Kapital magazine. I will sum them up in one question.

What plans do you have regarding the Sakhalin III project? Are the sanctions affecting the development rates of the Yuzhno-Kirinskoye field? When will you bring it into production? How are you addressing the challenges to imported equipment which is subjected to sanctions but nevertheless required for the project?

ALEXEY MILLER: As regards the plans for Sakhalin III, it should be noted once again that we have added reserves at the Sakhalin gas production center, the amount of gas in which is close to 1 trillion cubic meters now. Along with the possibility of supplying gas to consumers in the Russian Far East, these gas reserves can also be used for export-oriented projects, including the projects for gas liquefaction and pipeline gas exports.

The Yuzhno-Kirinskoye field will be brought into production in 2023. The company has developed a pertinent schedule for infrastructure construction and field development. We are operating under this schedule.

How we are dealing with sanctions: as you know, Gazprom is running an import substitution program and is doing it quite successfully. The equipment determined as having primary significance as part of the program includes seabed production systems we are going to employ at Sakhalin III. We successfully cooperate with Russian companies, which are ready to produce equipment for seabed production.

Russian producers are showing great willingness to cooperate. We consider this equipment to be the most significant, and at the same time our producers are showing an incredibly strong interest towards it. We are totally confident that they will supply seabed production systems in the amounts sufficient to satisfy Gazprom's needs in the nearest future.

I would like to remind you that thanks to the long-standing cooperation with pipe manufacturers, Gazprom is now buying 100 per cent of the whole range of its pipes and as much as 95 per cent of its materials and equipment in the Russian Federation. We're almost there.

LYUDMILA PODOBEDOVA: What Iranian projects – I mean both gas production and liquefaction projects – is Gazprom interested in? What stake would it like to obtain in the Farzad-B project? Will this project really supply gas to India if the Iran – Pakistan – India gas pipeline comes onstream?

What rate of return or margin ratio would suffice for Gazprom in Iran's new IPC contracts? Is there a possibility of engaging in individual negotiations on your part in order to work out exclusive terms and conditions in this regard for your joint projects?

ALEXEY MILLER: All the production projects are listed in the memorandum we signed with our Iranian partners. I will name these four fields – Kish, North Pars, Farzad-A, and Farzad-B. Indeed, the memorandum envisages, among other things, the cooperation along a vertically integrated value chain, which also provides for possible gas liquefaction.

As for gas supplies to India, Gazprom has offered its Indian partners a number of route options for possible pipeline supplies to India. You've just mentioned one of them.

In estimating the internal rate of return, we shall proceed only from the internal rate of return that is adopted at Gazprom. We have our own benchmark level that we take into account in making a

final investment decision. We will make final investment decisions in such projects on the basis of this benchmark level.

VITALY SOKOLOV: According to the Company's recent statements, the project for pipeline gas supplies to India could include swap transactions involving China and Iran. How would such supplies be conducted? What Russian gas resources are you going to monetize in this case?

ALEXEY MILLER: When it comes to pipeline gas supplies and those possible routes we've talked about, we consider it economically viable to supply gas to India on the basis of swap deals between several countries. Regarding Gazprom's resources that could be used in such transactions, we could mobilize the resources of Sakhalin III or our production centers in Eastern Siberia and Western Siberia.

VITALY SOKOLOV: Speaking of Western Siberian resources, do you mean integration with the Power of Siberia 2 project?

ALEXEY MILLER: Yes, I do.

VITALY SOKOLOV: You are negotiating an asset swap transaction with Shell. When are you planning to close the transaction?

You've said that you are trying to resolve the issue of sanctions targeting the Yuzhno-Kirinskoye field. Are these sanctions affecting the ongoing negotiations with Shell and making Shell lose interest in the transaction?

ALEXEY MILLER: The sanctions are not affecting our current negotiations.

As for the asset swap, Gazprom has selected an asset that suits its interests among the assets proposed by Shell as part of the swap transaction. We filed a request to Shell seeking more detailed information about this asset. At the moment, we are waiting for this information to be provided.

VITALY SOKOLOV: You've mentioned in today's speech that you could engage partners from Russian companies in developing the Tambey group of fields. Are you not considering any western or other foreign partners in developing the Tambey group or in developing Yamal fields in general, taking into account the role of Yamal in gas supplies to the European market?

You've already selected one partner for the Tambey group of fields and you've already signed a provisional agreement, I mean RusGazDobycha. What was your choice based on? What competencies of RusGazDobycha attracted you?

ALEXEY MILLER: As regards the engagement of western companies in the development project, given that Gazprom has had such experience in Nadym-Pur-Taz, my answer is as follows: we are not conducting such negotiations at the moment.

Now, on to the Tambey group and RusGazDobycha. We have really signed an agreement for a comprehensive gas production, processing and gas chemistry project with this company, with the Tambey group of fields serving as a resource base. Firstly, it should be pointed out that RusGazDobycha has assumed the responsibility for all survey costs and for all paperwork at the pre-investment phase.

Secondly, RusGazDobycha is our technology partner.

And thirdly, we are already partnering with RusGazDobycha in developing the following fields in the Yamal-Nenets Autonomous Area: Parusovoye, Severo-Parusovoye, and Semakovskoye.

VITALY SOKOLOV: Are you planning to initiate gas liquefaction projects on the basis of the Tambey group of fields? Have you discussed this issue with NOVATEK, which has experience in constructing an LNG plant in Yamal?

ALEXEY MILLER: Speaking of the Tambey group of fields, I would like to highlight that the

addition of reserves there is 4.1 trillion cubic meters of gas, which makes up 6.7 trillion cubic meters in total. Of course, this growth in Gazprom's reserves makes it possible to consider the projects focused on gas processing, gas chemistry and LNG together with Russian companies that have the requisite experience in these areas. For instance, NOVATEK is experienced in gas liquefaction. We are not ruling out the possibility that the resources we have obtained may serve as the basis of negotiations on joint projects in this area as well.

QUESTION: Arseny Pogosyan, Izvestia newspaper. What other joint projects, apart from LNG, could you have with NOVATEK? Are you discussing anything or would you like to?

ALEXEY MILLER: We are ready to discuss potential cooperation with all Russian companies on all matters within the scope of their competencies. Therefore, we are ready to discuss any and all cooperation matters and projects with NOVATEK within the scope of its competencies.

QUESTION: Irina Ivanchenko, Krymskiye Izvestia newspaper. U.S. Secretary of State Rex Tillerson recently declared that the USA is ready to fully meet the energy demand of Europe through its LNG supplies. This led some experts to conclude that Gazprom would have a harder time now. Do you share those concerns? And could Russia be sidelined in the gas market?

ALEXEY MILLER: First of all, I would like to draw your attention to the fact that the publicity campaign for American LNG is not as loud as the one for shale gas revolution. I think you will agree. Several years ago, everyone kept asking us or even asserting: "Gazprom will fall on hard times now. All European countries will start producing gas from their shale deposits any day now. Gazprom will lose the European market. Just you wait and it will lose the European market." But nobody is asking us about the shale revolution today. American LNG is the focus of everybody's attention these days. Well, let them discuss American LNG, why not.

I think it should be reiterated, and this is my first point, that LNG has been and will be less price-competitive in the European market than pipeline gas supplies.

My second point is that the question of reserves is very significant for any company wishing to establish itself in external energy markets, in particular, the gas market. The latest data for June 2017 that I came across indicate that the United States has 8.7 trillion cubic meters in proven gas reserves, including non-conventional gas. Please note that this figure includes both conventional and non-conventional gas. And I believe that everyone in this room knows the average level of gas production in the USA, I mean internal production of conventional and non-conventional gas. It is around 750 billion cubic meters by all companies combined. We can make a simple arithmetic operation: 8.7 trillion cubic meters divided by 750 billion cubic meters gives them less than 12 years.

Moreover, if we look at the same data for June 2017 concerning the operating results of the U.S. gas industry and its position in the gas market in 2016, we will see a 2.2 per cent decline in gas production in the U.S. market, a decrease by around 17 billion cubic meters.

And my last point, which is no less important: the United States has always been a net importer of gas. The U.S. market is consuming much more resources than its domestic production can satisfy.

We always keep track of U.S. LNG supplies to Europe. Firstly, they constitute a thousandth of the total volume of the European market. Secondly, let's remember that it's a market after all. And I think we shouldn't disregard the well-known American Henry Hub, the indices of which are widely published, and we are monitoring and analyzing them as well. The question is, what is more important and more significant: the indices or the volumes?

Russian gas has been and will remain competitive in the European market. Let me stress this again: we have been told about the shale revolution and now about U.S. LNG, whereas we have stepped up our physical gas exports by 30.4 billion cubic meters! If I had announced a figure like

that a year and a half ago here, no-one would have believed it. They would have told stories about shale gas or something. I would have probably been cautious myself about this forecast.

Indeed, such growth rates of gas demand are good news for Gazprom to a certain extent. They are caused by a sharp decline in the European Union's internal production with a simultaneous increase in gas demand and market growth. Internal production is falling faster than was predicted not so long ago.

QUESTION: Vadim Davydov, Pravda newspaper. My question is rather heavy. This Press Conference, just like the previous one, is taking place in the wake of the annual General Shareholders Meeting, and I would like to ask a question directly related to the interests of the shareholders. The February Revolution took place 100 years ago, followed by the October Socialist Revolution, which established the nation's ownership right for the land and its subsurface resources. After the restoration of capitalism in Russia, private companies started developing subsurface resources, albeit with state participation. The only possibility for a citizen to keep ownership of Russia's subsoil assets is to become a shareholder of such a company.

As Gazprom was the largest company at the time when it entered the free exchange market, its shares were worth RUB 340–360, which was equivalent to USD 10–12, and the forecasted value was RUB 480. Gazprom's capitalization has been steadily falling since then, and its shares look like the absolute leaders in falling among blue chips, many of which have reached their ceiling values after all the downturns, including the shares of Gazprom Neft. As of today, its losses are sixfold if denominated in dollars and threefold if denominated in rubles.

The questions are, as they say in this country, "What to do and who is to blame?" Is the Company making efforts to restore its capitalization for the benefit of minority shareholders? What is the reason for this capitalization drop? Is it somehow related to the fact that foreign stakeholders from the West left the Board of Directors and withdrew their assets?

I would like to thank you for the Company's information policy, as the diversity of opinions that we see here and the possibility to debate is virtually unthinkable among other blue chip owners. Gazprom is better than others in this regard. But Gazprom has an asset called Echo of Moscow where one can never hear a favorable opinion about our country. Since Gazprom presents itself as a "national treasure," how does its information policy ensure that the shareholders know the Company cares for them?

ALEXEY MILLER: Let's begin with the end of your question. I'd like you to know that Echo of Moscow is not Gazprom, after all. Just look at its shareholder composition.

VADIM DAVYDOV: (*Speaking in English*) Better late than never. (*Speaking in Russian*) Better late than never.

ALEXEY MILLER: Let's speak Russian, I encourage everyone in this room. There are so many English loan words, words that clutter up our language. Those are foreign words, aren't they? And our national experience is enshrined in our language. It's better late than never to save our language.

As for the capitalization, there is indeed such an issue. When answering this question, I wish to remind you about the mission of Gazprom. Its mission is to secure reliable gas supplies in Russia during cold Russian winters. As you know very well, in order to pass the autumn/winter peaks, Gazprom owns production capacities well in excess of the annual production volumes. Today, these surplus capacities are 167 billion cubic meters of gas per year, and we use them for several days or maybe weeks a year, depending on what the winter is like: cold, very cold, or warm. As a company responsible for gas supplies under Russian laws, we will continue doing this. If we assess whether we need such production capacities for improving financial performance from the viewpoint of a private shareholder or a private company, the answer will be negative.

The same is true for gas transmission capacities. In addition to the surplus capacities we need to operate during autumn/winter peaks, we also have a surplus amount of transmission capacities. I guarantee that Gazprom has a clear notion of the peak gas balance in the Russian Federation for 10 years ahead, as well as of the production and transmission capacities that the Company needs and the replenishment ratio the Company is to maintain for 10 years in order for the country to easily survive the autumn/winter periods.

At the same time, our work is not confined to gas supplies. We are active in the thermal and electric power industries, social support, provision of assistance to kindergartens, nurseries and hospitals. The question is, if the Company becomes focused exclusively on increasing its capitalization, to whom and how shall we explain the lack of capacities during the autumn/winter periods? This is the first part of my answer.

The second part of my answer is specifically about capitalization. You named the figures and they are entirely correct. If we look at the Company's capitalization, we see that it is not high. And, of course, the Company's shares are undervalued. I would also like to emphasize that the dividend yield per Gazprom's share is pretty good, to put it mildly. It is 6.74 per cent. This is the dividend yield that the Company has now. We said at the Shareholders Meeting today that for 11 years now we have been securing a positive cash flow and maintaining our dividend level, all the while gradually and steadily increasing it.

Is there any potential? The potential is actually really enormous. In this context, it would be right to add that if we look at Gazprom's shares in the mid- and long-term perspective, then, I am sure, you will agree that this is a profitable long-term investment.

There are a lot of prerequisites for that. Some of them are quite clear to us, such as the growing gas demand abroad that we have discussed in detail today. And this trend will continue. We can also add the growing gas demand in the domestic market, which is also very good. I would like to reiterate that Gazprom has secured 36.2 billion cubic meters, or 18.4 per cent of additional production, against the same period of last year. Remarkably, where does consumption grow the most? In the private sector, in housing & public utilities, and in the social sector. Consumption is also growing in power generation, agrochemistry, and the metals industry. These are our basic industry segments. So, we are witnessing economic development in our country over the last few months. This is primarily reflected in the growing gas consumption.

This trend will persist. The volume of revenues and the Company's proceeds will be much higher. As declared today during the Press Conference and the General Shareholders Meeting, Gazprom together with its Chinese partners has determined the starting date for gas supplies, and we will announce it very soon. It's very close. It means that Gazprom's exports will rise by about 20 per cent in the nearest term. This will boost the revenues as well.

Moving on. We are well aware that we are engaged in many investment projects now. And we are running extensive investment projects simultaneously, namely Power of Siberia, the northern gas transmission corridor, Nord Stream 2, and TurkStream. At the same time, we recognize that these investments will be over in a year or two. But we will immediately generate cash flow through increased gas supplies from these projects.

Therefore, in respect to the prospects for capitalization growth, our forecasts are optimistic. As I've already said, Gazprom's shares are undervalued. No doubt, we have vast potential. And I promise you that we will continue to work on that.

QUESTION: Alexey Novikov, Interfax agency. I would like to continue the conversation we had a year ago. Responding to my question then, you said that the main news for the shareholders, which also influenced the Company's capitalization, was the purchase of Gazprom's stake from Vnesheconombank a year ago. By this time, owing partly to that deal, Gazprom has accumulated a huge stake of 6.5 per cent within the Group.

Andrey Kruglov, Deputy Chairman of the Management Committee, responded to this question not long ago. I would like to address my question to you, due to your competencies and strategic vision. Over the last year, have you come to an understanding of how to dispose of this stake in the best interest of the Company's shareholders? Would you like to sell it to a strategic investor or to have it redeemed? We know that many Russian issuers have been redeeming stock in recent years.

ALEXEY MILLER: Actually, your question follows up on the one made by the Pravda newspaper. To a certain extent, it's an instrument, too.

A year has passed. I can say that we are definitely studying certain options for this stake. There are several options. We are not going to make a decision at the moment. We will make it a little later. There is definitely potential there. We see opportunities enabling us, among other things, to increase capitalization growth at the Company.

ALEXEY NOVIKOV: The European and Russian gas markets are changing. We see Russian prices reaching the level of equal profitability and we can expect that the united market of the Eurasian Union will be formed soon. There have been rumors lately about a merger of Gazprom Mezhregiongaz and Gazprom Export. Could you comment on this idea?

ALEXEY MILLER: You said about rumors. I will dispel them right away, because this information is not true. Nobody is going to arrange a merger of Gazprom Export and Gazprom Mezhregiongaz, and we never intended to.

ALEXEY NOVIKOV: Commenting on Baltic LNG, you've mentioned a possibility of admitting new Russian companies to its shareholding structure. You've mentioned NOVATEK's expertise in LNG production. Could NOVATEK join the Baltic LNG project?

ALEXEY MILLER: I mean any Russian companies with the relevant expertise. We haven't had any talks with NOVATEK on this issue so far.

QUESTION: Maxim Vasyukov, Delovoy Peterburg newspaper. When will the transfer of Gazprom to St. Petersburg be completed? I am talking about the relocation of the head office and registration with the city's tax authorities. How many of Gazprom's employees have already moved from Moscow to their new job locations in St. Petersburg?

ALEXEY MILLER: We know the exact number of administration officials who have already moved to St. Petersburg, but I will give you a percentage. A little more than 90 per cent of the Gazprom administration employees are working in St. Petersburg. That is, 9 out of 10.

Construction of the head office will be completed before the year's end and then the finishing works will begin. It will take us about a year to get it done. We'll complete it eventually.

QUESTION: Maria Gordeeva, RIA Novosti agency. The media recently reported about your possible resignation from the post of the Management Committee Chairman to become St. Petersburg Governor. A question in this regard: are you ready to leave Gazprom now?

You've told us about Gazprom's mission in general. Do you think you've fulfilled your personal mission at the Company? And what was it?

ALEXEY MILLER: Let me be upfront and frank. I have neither seen nor read any such news. It's the first time I've heard about it. Which is telling in and of itself.

As for the Company's mission, when we were having a fruitful and very interesting, in my opinion, discussion with the Pravda newspaper, I clarified the Company's mission: reliable gas supplies in winter. If we talk about the Company's leader, his duty is general guidance, organization and management of the Company in the pursuit of its mission. I will assure you as the Company's leader that Gazprom is doing it every day.

Speaking of reliable gas supplies in winter, we are actually gearing up for winter already.

Regarding the subject of record-breaking peak daily gas supplies, I am totally confident that we will meet soon and discuss the new record levels of gas supplies in the upcoming autumn/winter period. Every year, Gazprom summarizes the autumn/winter results, along with the annual results, at the end of the autumn/winter period. The corresponding meeting of the Management Committee has taken place and we have made adjustments, inter alia, to our investment program. We are closely watching the market.

In fact, the autumn/winter period hasn't ended for us all. The weather was very cold in European Russia, and it is still cold. The cold spell persisted in April, May and June. There are a lot of jokes on this subject. A common joke goes, "It was an eighth month of winter..." As for Gazprom, we see it as a reality of everyday work. Our gas supplies in July were carried out in the winter operating mode, which has never happened before.

If we take the mission of the management team – some of Gazprom's top managers are here today – it is to ensure that the guidance, management and operation of the Company comply with the Company's mission. We fulfill it every day, without exceptions. I would like to stress that our mission is to provide reliable gas supplies throughout the country.

QUESTION: Elena Revnyakova, AiF – Yuzhny Ural newspaper. Mr. Miller, you are a passionate fan of the Zenit football club. Considering your busy schedule, do you manage to play football yourself? If you do, who plays on your team? And whom would you like to have a match against?

ALEXEY MILLER: Actually, the answer is yes. Although not very often, I do play football sometimes. Who plays on my team? My workfellows do. But sometimes I have a chance to play with the teams of regional governors and heads of the Russian Federation's constituent entities. We often visit regions, hold meetings, expand gas infrastructure, and sometimes it is possible to play with the governors' teams.

The person I would like to play against at a football match is Georgy Poltavchenko, Governor of St. Petersburg, and I would like our match to take place at the new football stadium of Zenit.

MODERATOR: A question from Dmitry Grozny from the Delovoy Peterburg newspaper. What do you dislike about the new stadium of Zenit?

ALEXEY MILLER: It's hard to answer this question in a serious vein. I don't like the jealousy about the new stadium. A head of a football club came up to me once after a football match and said: "We have built a nice stadium for the club, it's a wonderful stadium. But Zenit is now getting a football stadium of a totally different, higher class." And then he said exactly this: "We look at this stadium like at a higher-class car owned by a neighbor and we are jealous."

Maybe – and I stress, maybe – some critical acts and comments with respect to the stadium are dictated by, among other things, this viewpoint. And look around: for some reason, nobody is wondering about other stadiums, about their leakages or electricity disruptions. No-one cares. No-one is jealous. This is the humorous part of my answer.

Speaking seriously, I just want to wish the new football stadium in St. Petersburg to bring as much luck to the Russian national football team.

MODERATOR: Colleagues, let us thank Alexey Miller. The Press Conference is over.