

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

June 28, 2019

Participants:

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

QUESTION: Oleg Goncharenko, Belgorodskaya Pravda newspaper. Mr. Zubkov, the gas infrastructure expansion in our region is going smoothly and steadily, so there are no questions about it that are worth raising here. But the emerging use of natural gas as a vehicle fuel has caused great interest and a lot of new questions. I mean the pilot project for accelerated development of the NGV markets in the Belgorod and Rostov Regions. There are plenty of questions concerning, for instance, the creation of infrastructure. Is Gazprom planning to invest in the construction of CNG filling stations in the region? Overall, what are the current results of this pilot project, and what outcomes can we expect?

VIKTOR ZUBKOV: Thank you for the question. Indeed, as Mr. Miller noted in his speech today, Gazprom owns a large fleet of motor vehicles. We have already converted more than half of them, namely 52 per cent, to natural gas. Why? Because it is cheaper and also because it is vital from the ecological standpoint. The reduction in air emissions after the conversion of those vehicles exceeded 100,000 tons over the years.

It should be noted that the Russian NGV market is going to attract genuine interest this year. It is reaching some kind of turning point, in that many local governments and businesses are eager to build a gas filling network and to convert transport to natural gas.

Gazprom is currently working in 17 constituent entities of the Russian Federation. Last year, it was decided to undertake additional efforts in two more areas – the Rostov and Belgorod Regions. We have delivered the so-called pilot projects for accelerated development of the NGV market. Why did we choose these regions? Because we wished to use them as a case study in how to fulfill Gazprom's obligations for extensive development of the NGV infrastructure market. Moreover, we wanted the regions to ensure that enough vehicles visit the stations, which we had not succeeded in doing by that point.

Certainly, this is an essential part of the projects. The number of NGVs in the Rostov Region should rise to 55,000 in the next three years. In the Belgorod Region, it should increase to 19,000 units. To this date, Gazprom has built and is operating 11 CNG filling stations in the Rostov Region, and another 7 stations are to be built by the year's end, which makes for a total of 18 stations. We are operating 4 CNG stations in the Belgorod Region and intend to build 9 new stations before the year is out. We are building good, modern, high-performing stations. In the near future, we will increase the number of refueling stations in each of the regions to about 39 or 40 units.

Of course, the regions are taking the appropriate legislative measures. The Belgorod Region has halved the motor tax for NGV owners. The Rostov Region has devised a subsidy program for converting transport to natural gas. Gazprom Gazomotornoye Toplivo, on its part, has fixed the fuel price per one refill for the next three years, which is a very significant move. At present, the price per cubic meter is RUB 16.40 and RUB 16.50 in the Belgorod and Rostov Regions, respectively. This is highly cost-effective if compared to the price for conventional fuel we see every day. We expect the number of gas-powered machinery to soar in the course of the pilot projects.

Of course, attracting private sector financing is also important. Gazprom actively cooperates with private investors. Together, we have built 9 CNG stations, with 18 stations under construction at the moment and another 30 stations being considered.

In this way, taking these pilot projects as a case study, we hope to ramp up the volume of gas-powered vehicles in these regions within the next two to three years. Compared with conventional fuel, the cost of refueling with natural gas is almost three times lower. Needless to say, the regions attach special

importance to environmental protection.

MODERATOR: Let us thank Mr. Zubkov for participating in the Press Conference. We are moving on.

QUESTION: Olga Korobova, AiF v Omske newspaper. The issue of gas supplies is raised year by year and remains critical for the regions. Meanwhile, it is increasingly felt that the regions cannot live up to their obligations and it would be a good idea if all the costs related to gas grid expansion, including the costs for building inter-settlement gas networks or even street-level networks, were to be incurred by Gazprom. How do you feel about this idea? How is gas grid development going in general?

ALEXEY MILLER: Thank you for your question. The issue is not so much about costs as it is about authority and responsibility. The regional and municipal budgets of Russian constituent entities have a gas infrastructure provision based on the scope of authority, responsibility and size of a region. This obligates regional governments to disburse funds under the gas infrastructure provision. The work is structured with a clear delineation of the roles and responsibilities of Gazprom and constituent entities.

As you know, every year Gazprom signs a work synchronization schedule with each of the Russian regions, clearly specifying all the facilities it is going to build in the corresponding year and the funding that it will commit for this purpose. The document also outlines all facilities falling under the responsibility of the corresponding region and the latter's obligations to finance them from its own budget.

What we see now is that the gas penetration rates are currently stifled because of how the regions carry out gas infrastructure expansion on their part. It should be understood that each constituent entity has an actual obligation to provide its share of financing. Gazprom is neither able nor obliged to pay or, in other words, to implement someone else's budget. Our duty is to pay federal and regional taxes. Let me underscore that the question of whether Gazprom can bear these costs is actually about the boundaries of authority, responsibilities and property. As you know, the gas grid expansion program covers a great number of facilities and thus implies bringing gas to public housing, working with in-house networks, building municipal boiler houses, and so on.

As for the amount of costs, last year Gazprom allocated a record RUB 36.7 billion to the program for gas grid expansion in Russian regions. We can channel twice as much into the program, maybe even more. Yet, I am stressing once again that, in view of the ongoing relationships, as well as the obligations, responsibilities and authority assumed by all of the program's participants, the Company cannot provide financing for any particular cost items instead of the regional authorities.

Regarding the amount of funds that can increase the gas penetration rates: of course, Gazprom possesses these financial resources, but, again, the issue is not about the amount of financing.

Nevertheless, we observe that the majority of the regions – we are currently expanding gas infrastructure in 66 regions – are complying with all or most of their obligations, and some 20 per cent of the regions are lagging behind. But what is interesting is that the backlog accumulates within just one budget year. Constituent entities of the Russian Federation take on obligations at the beginning of the year, and then their backlogs accumulate month after month before our very eyes.

We create capacities that turn out to be excessive, and then it turns out that there are no consumers, consumers are not ready for gas supplies, boiler houses are unfinished, and so on. Even if we look at these underperforming regions from the perspective of fiscal discipline, we will see that it is not the fiscal discipline of some 50 years ago but that of the current budget year.

QUESTION: Evgenia Sokolova, TASS agency. My question is also about consumers, albeit the foreign ones. You said last year that Gazprom was already close to the upper limit of the annual contractual amount under supply contracts with its foreign consumers. This year, your export levels have not yet reached this limit, but perhaps the consumers have already asked you to raise it should such need arise?

ALEXEY MILLER: Thank you. You say, "should such need arise." Speaking of such a need, it would probably involve daily gas supplies to the European market rather than annual contractual amounts.

Let me remind you of a well-known accomplishment: on March 2, 2018, Gazprom set an all-time

record – 713.4 million cubic meters of gas – in daily supplies to non-CIS markets. Even with our current annual contractual amounts, we are ready to repeat or even surpass this daily record.

When it comes to the annual contractual amounts and requests from foreign companies, you see, foreign companies are probably not that interested in the upper limit of the total contractual amount in terms of supplies per annum. They are focused on their own contracts and their own annual contractual amounts. Among the recent contracts, it is worth mentioning the contract on increasing gas supplies to Austria, which was signed last year. This year, a contract on increasing gas supplies was signed quite recently with Germany's VNG at the St. Petersburg International Economic Forum. A number of other proposals on the conclusion of medium- and long-term contracts have been received by Gazprom as well.

QUESTION: Olesya Astakhova, Reuters agency. I have a question about American liquefied natural gas (LNG). Despite the obvious preponderance of Russian gas in the European Union (EU) market, we are witnessing a growth in LNG supplies from the United States. Could you tell us your forecast regarding the share of Russian gas in the EU market this year: will it increase or decrease? What is your assessment of the LNG share in the EU market: will it increase or not?

ALEXEY MILLER: I suggest we talk about Russian gas volumes and leave foreign LNG to those who work with it. So let us talk about our volumes. As you know, in the second quarter or, more precisely, in the middle of the second quarter, we estimated our gas exports for 2019 to be within the range from 194 to 204 billion cubic meters.

The first half of the year is nearly over, and we can give a much more accurate forecast. Firstly, it is based on actual exports data for the first half of 2019. Secondly, it takes into account the current market environment – the trends and conditions that have been observed in the market since the beginning of the year. Besides, we are able to extrapolate the scenarios observed in the previous years to the situation with gas supplies to Europe in the first half of the year as well as to the market developments in the second half of the year.

With regard to the operating results in the first half of the year and considering the current state of the market and its dynamics, we may forecast today that in 2019 Gazprom's pipeline gas supplies to the EU and Turkey will be between 198.6 and 201.1 billion cubic meters. As you can see, the figures are very close to our all-time record of 2018.

As far as the final amount is concerned, I think we will produce a more accurate forecast soon. Apparently, it will be somewhere near 200 billion cubic meters, but I would like to stress that it can be even higher – between 198.6 and 201.1 billion cubic meters, as I have said. This is today's forecast based on the results of the first six months of the year.

And now for the Company's market presence. We not only provided the unprecedented gas volumes totaling 201.9 billion cubic meters for export beyond the CIS last year, but we also expanded our market share to 36.8 per cent. Please note that we attained its increase by 5.3 per cent in just three years.

In the current realities when Russian gas demand has broken new ground and reached a new annual threshold of about 200 billion cubic meters, our market share is somewhere between 35.5 and 37.5 per cent.

QUESTION: Marina Koreneva, France Presse agency. Two questions, please. The first one is about TurkStream: what are the prospects for its extension towards southern Europe and when are you planning to start gas deliveries?

The second question concerns Nord Stream 2: what is the commissioning deadline considering the recent constraints, I mean Denmark's permit and other issues?

ALEXEY MILLER: As for TurkStream, the project is marked by a lot of record-setting achievements, and each one is more impressive than the last. These are records in both the speed and depth of laying a 812-millimeter pipe offshore, and the works are performed ahead of schedule – the entire project is a great success. This is how we can work when no one creates obstacles for us. TurkStream is an offshore gas pipeline stretching across the Black Sea from the Russian coast with the Russkaya CS as the starting point and reaching the Turkish coast near the settlement of Kiyikoy. Therefore, in the literal sense, the

name of the gas pipeline refers only to its offshore part.

The required gas transmission capacities are also being established in Turkey. The works are proceeding in strict compliance with the schedule there, and the completion deadline is late 2019. There are no uncertainties at the moment as to whether Turkey will be able to meet the deadlines, and I am absolutely convinced that it will stay this way.

Now, let me talk about Bulgaria and Serbia. Gazprom carried out the obligatory booking of capacities, and gas transmission operators of these countries are by their own means creating new gas transmission capacities for the supply and transit of gas through their respective territories. Works are underway both in Serbia and Bulgaria. The completion deadline is also late 2019.

Serbia and Hungary signed an intergovernmental agreement regarding the cross-border point between the countries; the preparations for the connection of the two gas transmission systems are currently in progress. The deliveries are scheduled to start on January 1, 2020.

The Nord Stream 2 project is going on schedule. There are no delays as compared to the initial schedule as of today. By now, 1,482 kilometers of Nord Stream 2 have been laid, which is 60.4 per cent of the total length of its two strings. Besides, the capital expenditures have already been financed by more than 80 per cent. This is why the project has long passed the point of no return. The project will be put onstream as there are no legal tools now to prevent its implementation. Therefore, the plans we have set remain in force: the commissioning will take place in late 2019. The lack of a permit from Denmark is not yet critical. The Danish section, which is some 130 kilometers long, will be finished within five weeks or less.

QUESTION: Ilya Fedosov, NTV television company. Is it possible that Gazprom will take legal action against Denmark if the latter delays the approval of the Nord Stream 2 route?

ALEXEY MILLER: Right now, the Executive Director of Nord Stream 2 AG is holding a meeting at the Danish Energy Agency regarding the issuance of a permit by the Danish regulator. According to our current information, the dialogue in the meeting is constructive. So we are expecting the results today.

QUESTION: Tatyana Kudryashova, RIA Novosti agency. I also have a question about Nord Stream 2, or rather, about another issue related to the project – amendments to the EU Gas Directive. As we know, they were adopted in May, and now EU countries have nine months to introduce these amendments into their legal systems, i.e. by late February 2020. Clear enough, this process will not prevent the timely completion of Nord Stream 2's construction, but can this transition period hinder the timely commissioning of the project in late 2019?

Are you holding the relevant negotiations with Germany? Did German officials indicate any approximate deadlines for introducing these amendments into their national legislation? What is going on with the talks to make the project exempt from the amendments? Do you have a backup plan if you fail to achieve that?

ALEXEY MILLER: Thank you very much for the question. The only thing that I can say right now is that it is too early at this point to take any practical steps to solve this issue. You have rightly noted that European Union countries have nine months to introduce the Gas Directive amendments into their legal systems. It is not possible to assess the impact these amendments will have on the project until they are adopted in Germany. All we can do now is just make assumptions. So let us wait for the amendments to be implemented in the German legal system and evaluate their impact on the project. It is only after that we will deal with this issue in practical terms. Generally, the whole situation with the Gas Directive amendments is just one of the aspects of our usual work.

QUESTION: Olga Tanas, Bloomberg agency. What is your plan B if Nord Stream 2 is not completed on time and you fail to extend the gas transit contract with Ukraine? What will happen on and after January 1, 2020?

And the second question: can Gazprom agree to replace the gas transit agreement with a gas swap agreement as was proposed by Ukraine?

ALEXEY MILLER: As far as I can make out, by “plan B” you mean the plan B which some top executives from Naftogaz of Ukraine were speaking about. As Naftogaz of Ukraine put it: “We have a plan A, plan B, and so on.” You know, there is always a plan X for any plan B.

I come across various scenarios while studying foreign analytical materials and talking to my foreign colleagues. There are plenty of scenarios. They say (just like you started): “What if Nord Stream 2 is not completed on time and what if it is? At the same time, what will happen if you sign a new transit agreement and what will happen if you do not? And what if you sign a direct agreement for Russian gas supplies to Ukraine, or if you fail to sign it? And what if TurkStream is not commissioned on time, or are you going to comply with the commissioning deadline?”

In fact, these combinations of “yes” and “no” are quite numerous; it can be “what if it is a ‘yes’ here but a ‘no’ there, and a ‘yes’ there and a ‘no’ here,” and so on. I saw a lot of materials and attended a lot of meetings that touched upon this issue. But foreign analysts do not mention all the options. They overlooked an option where Nord Stream 2 is built on time, a new transit contract is signed before December 31, and a new contract for direct supplies of Russian gas is signed by the Russian and Ukrainian parties. Why leave this option aside? And some other options besides this one are missing, too.

Therefore, we can choose from a large number of options. First of all, we should make every effort to have the relevant agreements reached. And at the very same time we should insure ourselves, and Gazprom in particular, against the risk of failing to fulfill our obligations to the European consumers, no matter what scenario comes to pass.

As regards the replacement of gas transit by a gas swap, we have not received any official proposals from the Ukrainian party. There was nothing more than some statements posted in social networks by some of Naftogaz of Ukraine’s executives. We do not take seriously such statements posted in social networks. One can find a lot of interesting things in social networks, such as a proposal to replace gas by firewood. This is why we take seriously neither the social networks that carry this kind of information, nor the messages that circulate in them.

You are asking what will happen on and after January 1. On January 1, we will have New Year’s Day, a holiday, and New Year’s holidays mean that we will be celebrating and having fun.

QUESTION: Lyudmila Podobedova, RBC newspaper. You said that gas injection in UGS facilities will be ramped up. You used to name a figure 2.5-fold more than the last year’s amount. For how long will this gas suffice to secure the backup plan for consumers if there is no transit? How much extra gas will you have to purchase in the market, because you obviously cannot be in breach of your obligations?

ALEXEY MILLER: You know, this is a follow-up to an earlier question about various options and scenarios: “You are injecting more gas into UGS facilities, what would happen if...” and so on. Our vision and view of the situation today is that Nord Stream 2 will be commissioned on time. I stress once again that even the lack of Denmark’s permit today is not an obstacle to completing the works before the year’s end and putting the gas pipeline into operation. You say: “What will happen if...?” If Nord Stream 2 is constructed, then everything will be fine and, given the gas volumes injected into the UGS facilities, consumers will absolutely receive the volumes that we are obliged to provide them with under contracts.

This year we expanded the volumes of gas injection into UGS facilities located abroad, and you were correct to say that they show a 2.5-fold rise compared with the corresponding period of last year. And the target volume that we will inject into European UGS facilities should be not less than 11.4 billion cubic meters. Not less. What does it mean? If we have an opportunity to inject more, then we will do so. We will stockpile as much gas as we can.

At the same time, in terms of our UGS strategy in target markets, 11.4 billion cubic meters is nothing new. We have always announced this goal, and we have noted at the Press Conference that the target level of the working gas inventories in UGS facilities abroad at the beginning of the withdrawal season should be 5 per cent of the annual exports. For instance, last year we supplied 201.9 billion cubic meters of gas, and if we calculate 5 per cent of that, we actually get the current volume of injection.

Basically, your question is relevant in terms of how long this gas can suffice. There are so many factors

that affect the duration of this period. Firstly, it depends on the working gas inventories stockpiled at the beginning of the withdrawal period: the larger it is, the higher the initial daily deliverability of UGS facilities. The UGS daily deliverability is, of course, linked to weather conditions and the current demand. Accordingly, the lower the daily deliverability is, the longer the withdrawal period for the working gas inventories. At the same time, as natural gas is withdrawn from UGS facilities, the working gas inventories gradually decrease and the daily deliverability steadily declines. By the end of the withdrawal period, the daily volumes of gas available in underground storages will be completely different, i.e. significantly smaller than before. Let us get back to the question. We proceed from the fact that Nord Stream 2 is now advancing strictly according to the schedule.

QUESTION: Yulia Makarova, Rossiya 24 television channel. Could you tell us when you will start the negotiations with the Ukrainian party? It is June now, and the agreement with Ukraine expires in December. On what terms might Gazprom be willing to extend the gas transit agreement with Ukraine starting from 2020? Besides, it was declared that Gazprom is ready to start the negotiations “from scratch.” Do you think Kiev is ready for it?

ALEXEY MILLER: First of all, I think I need to clarify once again what this “from scratch” means. The main point is to restore the balance of commercial interests of the two parties – Russia and Ukraine. And this balance was undermined by the ruling of the Stockholm Arbitration Court. Is Kiev ready for it? I think this is not improbable.

When will Gazprom be ready to start the negotiations? As you know, Ukraine is getting ready for extraordinary parliamentary elections, which will be followed by the formation of its new government. Therefore, substantive negotiations can probably begin after the new government of Ukraine is established.

You said: “What are Gazprom’s terms for concluding a transit contract?” You know, a very important point should be noted here. Everyone keeps asking: “What will happen to the transit contract? When will you start the negotiations? What are the conditions? What will be the governing law?”, and other questions.

In fact, the most important and top-priority question is concerned with direct supplies of Russian gas to the Ukrainian market. And a lot depends on this.

If Ukraine says no, then, accordingly, the Russian Federation will have no obligations with regard to the corresponding cross-border transmission capacities required for gas supplies.

These gas transmission capacities are still available. We maintain their ability to carry 114 million cubic meters of gas per day, based on the volume of 52 billion cubic meters of gas per year under the gas supply contract, which is valid until the end of this year.

If the answer is negative, then this is not just a question of whether gas is supplied directly to the market or not. In this case, we will have to deal with the question of whether we will have obligations to keep these cross-border gas transmission capacities or not. This will give rise to some questions for Ukraine to find an answer to. Should this be the case, Ukraine will need to first of all think of gas supplies within the country rather than of gas transit.

The gas supply question involves, inter alia, the matter of the so-called reverse possibilities. And only with due account of our obligations for gas transmission capacities – or absence of such obligations, as the case may be – at the border between Russia and Ukraine, it will become clear if there is a possibility of reversing Russian gas from Europe back to Ukraine. Or maybe this possibility will be reduced significantly, or even cease to exist at all.

Let us move on. The question about Russian gas supplies to Ukraine under a direct contract also concerns the level of gas prices for Ukrainian end consumers. Ukraine should then decide at what prices it will continue to supply gas to the domestic consumers. To reverse Russian gas from Europe (which, as we know, is much more expensive than direct supplies) or not? This question should also be answered.

We say that if the Ukrainian party shows interest in signing a new contract for direct gas supplies, the price for the end consumer in Ukraine will be 25 per cent lower. Therefore, to ask questions about the

beginning of the transit negotiations, the gas volumes and the applicable legislation is akin to trying to put the cart before the horse.

As regards the applicable legislation as a whole and the legislation governing the transit contract in particular, we will talk about this, too. You wondered about our conditions to be incorporated into the contract. There is one simple condition. Ukraine will not be able to sign a new transit contract under the EU laws until the end of the year, i.e. until the expiry of the current transit contract. This opportunity has been missed, and the only option is to let it go. We declare that we are ready to extend the current transit contract, and in terms of its economic aspect, of course, we want this contract to be economically viable for the Russian party.

YULIA MAKAROVA: One more question about the extension of gas supply contracts, this time with the Belarusian party. The current contract expires in 2019. Are you negotiating new supply conditions with Minsk for the 2020–2025 period, and how close are the parties to reaching an agreement?

ALEXEY MILLER: You are asking really good questions. This question expands on what is going to happen on January 1. As you know, we have received the first proposals from the Belarusian party. We are studying them right now, but the negotiations have not yet begun.

QUESTION: Oleg Govorshchenko, Altai state TV and radio broadcasting company. The question is about China you are already negotiating with. I am wondering about the prospects of the export gas trunkline, which has already been named Altai. At the end of 2014, Gazprom and China's CNPC signed the agreement on gas supplies via the so-called western direction, or western route. It provides for supplying 30 billion cubic meters of gas via the pipeline stretching from the Yamal-Nenets Autonomous Area across the Altai Territory and the Altai Republic. We have not had any news about it in a while. Are there any changes with the agreement now and what is its current status? Are you going to put this project in motion in the foreseeable future?

ALEXEY MILLER: As far as the project's name is concerned, there is a proposal that the project be called Power of Siberia 2 instead of Altai. But we have yet to discuss how to better name it. We hold competitions, meet with regional representatives and talk to locals for this purpose.

We have signed the Heads of Agreement for gas supplies via the western route. Please note that most of their provisions are binding. The Heads of Agreement stipulate that the agreement is concluded for a 30-year period, and the annual supply volume is 30 billion cubic meters. The Heads of Agreement also define the profile of supplies, etc. Actually, only one provision is missing – the provision on the gas price. As soon as we agree on the price with our Chinese partners, we will immediately put this project in motion. I think our negotiations on the new export gas trunkline project will intensify after we finish the Power of Siberia megaproject.

As for the project's future in general, it is just bound to be implemented for one simple reason. Power of Siberia is a giant, large-scale megaproject, which is secured with a resource base for many, many decades to come. Its resource base comes from large, unique fields – Chayandinskoye and Kovyktinskoye. The Altai, or Power of Siberia 2, project has no specific large and unique gas fields to serve as a resource base. It is not even a gas production center that will feed the project — it is a gas pool, which will produce gas for Russian and foreign consumers for more than 100 years. This is a crucial difference between this project and any other projects. The resource base for this project is a gas pool. Therefore, this project essentially has no other option than to be implemented. As soon as we agree on the price, we will launch it.

QUESTION: Vitaly Sokolov, Energy Intelligence portal. My question is not about gas exports but about gas purchases in Central Asia. Gazprom has been gradually increasing its gas purchases in Uzbekistan over the past couple of years. This year, it resumed purchases in Turkmenistan. How much gas do you plan to buy in Central Asia this year on a medium-term horizon, given that prices in the European market are low this year?

ALEXEY MILLER: Thank you for the question. It is very specific. And I will give you a very specific answer. This year, we plan to purchase a little over 20 billion cubic meters of gas in Central Asia.

In 2020, the purchases will be slightly above 20 billion cubic meters as well. We have not decided yet for 2021, but I think the figure will be very close to those of the years 2019 and 2020.

VITALY SOKOLOV: Another question, this time about your project development strategy in foreign countries. Do you plan to change this strategy under the current conditions, in a changing economic and geopolitical environment? Are you still focused on gas exploration and gas production as your primary activities abroad? Are you maybe planning to invest more in downstream, gas chemistry and petrochemical segments? Are you going to invest in LNG projects beyond Russia? What new regions of activity are you considering?

ALEXEY MILLER: As for our foreign strategy, it is primarily dictated by the fact that we have the world's largest gas reserves – 35.2 trillion cubic meters – in our possession. You understand that it is a highly important factor for our foreign strategy. For 14 years, our reserves addition volumes have surpassed the annual production volumes thanks to exploration activities. In fact, our foreign strategy has not changed, and we have no intention to change it. We run our projects in such regions as South America and Southeast Asia. We are not changing the geography of our operations.

About our lines of work abroad: today we are engaged in exploration and production, as you rightly noted. We are not contemplating foreign LNG projects. All in all, we do not see any prerequisites for changing our strategy as of this date.

QUESTION: Alexey Novikov, Interfax agency. It was decided a few months ago to proceed to the practical implementation of the Baltic LNG project in Ust-Luga. Thereby, Gazprom may get its own large-scale LNG infrastructure in the Baltic region in 2023. In parallel, another Russian project, Arctic LNG 2, is about to launch production for the global markets, including Europe, around this time. It looks like a Russian LNG producer will compete with another Russian LNG producer. Are you ready for such competition?

It was previously announced that this highly efficient project will produce low-price LNG. Could you name an approximate cost per ton?

ALEXEY MILLER: As to the competition, let me tell you straight away that a situation where Russian gas will have to compete with itself will not arise. I will have to disillusion those who count on this. There will be no internal gas competition.

As for the Ust-Luga project and the production cost per ton: I will not give you a specific figure at the current stage, yet I will stress that the project has undeniable advantages. They are due to the fact that the project is comprehensive, which means that it includes integrated site utilities, integrated infrastructure and integrated cycles meant, on the one hand, for gas processing and, on the other hand, for gas liquefaction. And so on. All this will make the production cost very competitive.

QUESTION: Artur Toporkov, Vedomosti newspaper. Following up on the subject of Ust-Luga, I have a slightly different question, which does not go as far as to cover internal gas competition. The construction period of the Amur GPP is more than five years starting from the casting of the foundation. The global construction practices for LNG plants envisage an average timeframe of four years for a greenfield project. Back at the St. Petersburg International Economic Forum, you presented the project schedule, which stipulates the completion of the first stage roughly within a three-year span. Firstly, by what means are you going to speed up the project so much? Secondly, how certain are you that you will manage to deliver it within such timeframes? The latest major project carried out by PETON has already been postponed for a year, even though it is much smaller.

If not the unit cost per ton of product, could you please name at least an approximate cost of the integrated LNG production and GPP project? RUB 700 billion is a very optimistic estimate.

ALEXEY MILLER: You said “roughly within three years.” Let us count how much time we have until late 2023: 2020, 2021, 2022, 2023 plus six months of 2019 make four and a half years. Therefore, the completion deadline completely fits into the timeframes you have mentioned – four to five years. As of today, I do not see any inconsistency with the global practices. Consequently, these four and a half years mean exactly the end of 2023.

And now for RUB 700 billion: It was announced at the presentation that the amount was above RUB 700 billion, not RUB 700 billion flat. According to the current estimates, the amount is RUB 750 billion. But the point is that we have the design and estimate documentation, as well as the working documentation, to be developed, and the construction and installation activities to be performed, and so on. You are a man of experience, and, perhaps, you are even familiar with some calculations, which lead to the revision of the initial investment amounts. So let us confine ourselves to around RUB 750 billion, while keeping in mind the design and estimate documentation, working documentation, construction and installation works, and then, in fact, we will see the final answer.

As for the deadlines? The deadlines are rigid but absolutely realistic.

ARTUR TOPORKOV: Could we then move on from a specific construction project to your approach to large construction projects in general? In the 2000s, the Company was selling its non-core assets, including construction ones. Just last year, the former Stroygazconsulting was literally absorbed into your Company and Gazstroyprom was created. What has changed in the Company's strategy, causing the events I have just mentioned? Do you expect any significant decrease in specific investment costs for large projects now that a major contractor has been established within the Group?

Does this mean that you consider the old focus on developing and awarding large EPC contracts to third-party contractors erroneous? Will you build up and increase the assets of Gazstroyprom, and are you planning to buy any other companies?

ALEXEY MILLER: Thank you for the question. I can repeat what you have just said. This is a non-core business for Gazprom. Indeed, as mentioned before, this is a non-core business for Gazprom. And we are going to further scale down the minor participation that we have now, which means that Gazprom is not creating a mega-contractor.

What has changed and what is the nature of our new approaches? Sure enough, they will definitely be implemented. I would like to point out that the staff changes at the Company, which you are well aware of, were meant to achieve absolutely specific tasks, including those in the field you have mentioned. The goal is to create an effective mechanism for monitoring the investment and construction cycle, from the parent company to the specific contractor. Please note that, regardless of whether it is a general contractor, a subcontractor, or a sub-sub-subcontractor, the entire chain up to the final performer of the works will be covered. It will be an effective mechanism.

Moving on. What are the main questions that arise in this connection? Specific costs, which, as you have correctly noted, will be properly controlled. But there is one more issue, which is called "timely commissioning of the facility," i.e. compliance with the preset deadlines. As you know, in terms of the economics of a given project, specific costs can sometimes be slightly less important than timely commissioning of the facility within the set deadlines. Because timely commissioning means the start of cash flow generation. Which is why, as of now, we have set these tasks for ourselves, the mechanism is under development and is scheduled to be implemented.

As for the questions, I would like to reiterate: this is a non-core business for Gazprom.

As for "turnkey" projects, we have recognized the turnkey agreement practice as sound and this line of activity as viable, and we are going to widely use turnkey agreements in our future work.

QUESTION: Yury Barsukov, Kommersant newspaper. This year, we have all witnessed major changes at Gazprom, probably the most serious ones in recent years. Could you explain the specific reasons that prompted the decisions to effect such changes? Can we assume that the changes are over? Or should we expect some new important announcements?

ALEXEY MILLER: Let me say straight away that these changes are not over yet, and we will continue them in the very near future.

Speaking of the tasks, we have already identified one task when responding to the question by Mr. Toporkov – the creation of an effective mechanism to monitor the investment and construction cycle.

Therefore, the tasks that we are facing are very important.

In general, the changes are aimed at overcoming (and now listen carefully please) lingering obstacles in the Company's development process. Once again, lingering obstacles in the Company's development process. Our task is to enhance the transparency of the Company. We know how to achieve this, and we are already doing it. This involves a gradual introduction of tax monitoring, both for the parent company and for Gazprom's subsidiaries. All of them will be absolutely transparent.

Let us proceed further. One should not forget about our commitment to increase the systemic efficiency of Gazprom as a vertically integrated company. In this case, it is necessary, as we have repeatedly said, to pay more attention to goal-setting and control of financial and economic indicators; mind you, this needs to be achieved all the way through from the parent company to the objects of investments. As you know, the Company has quite a lot of them.

These, in fact, are the main reasons. I emphasize once again: we will continue this work.

ALEXEY NOVIKOV: Mr. Miller, we have already discussed at several annual meetings the 6.6 per cent package on the balance sheet of the Group's companies. Of course, it has strongly grown in value, especially in recent months, but Gazprom still remains undervalued. Could you once again clarify your vision of how to manage these shares? It is clear that the goals for which they were once deposited on the balance sheets of foreign companies are no longer relevant for Gazprom. It does not make sense either to sell them in the market or to use any convertibles – Gazprom attracts enough financing on unsecured conditions. On the other hand, you could attract a partner or an ally using this package or perform a buyback... We saw last season that some Russian companies successfully performed this operation in order to create additional value for their shareholders.

ALEXEY MILLER: Let us conclude our Press Conference with this question.

Indeed, the question regarding the quasi-treasury shares of Gazprom was raised more than once during our previous meetings. And, apparently, this question is more relevant than ever. The reason is that Gazprom is currently the leader of the Russian stock market. This is my first point.

My second point is that the package of quasi-treasury shares is rather large, that is, very big for the market – 6.64 per cent, even slightly more. Everyone in this room knows what it means for the market in general.

Of course, the issue of managing the Company's capital, the effectiveness of managing the Company's own capital is an important issue for the top executives. Considering that Gazprom is currently the leader of the Russian stock market, this issue is of course being explored and analyzed.

You ask if we are contemplating a possible sale, you wonder if we are going to sell this package to an ally. You know, I would say that we are looking at various market options to monetize the quasi-treasury share package of Gazprom.

MODERATOR: Dear colleagues, we have been working for much longer than an hour. I suggest that we call it a day.

ALEXEY MILLER: Dear colleagues, thank you very much for the Press Conference. As we say at Gazprom, thank you all, and let us go on with our work.