Press Conference

Gas Export and Enhancing Reliability of Gas Supply to Europe

May 31, 2016

MODERATOR: Good morning, colleagues. We are glad to see you here. Today's Press Conference is devoted to gas export and enhancing reliability of gas supply to Europe.

Taking part in the Press Conference are:

– Alexander Medvedev, Deputy Chairman of the Management Committee;
– Pavel Oderov, Department Head;
– Elena Burmistrova, Director General of Gazprom Export.

I give the floor to Mr. Medvedev. We will then move on to questions.

ALEXANDER MEDVEDEV: Hello, esteemed members of the media. Today is the last day of spring and the weather is fine. I hope you feel fine, too. We feel fine for a very simple reason: despite the exceedingly difficult situation in the gas market and a variety of contradictory trends affecting market development, key performance indicators of Gazprom and its export subsidiary Gazprom Export demonstrate sustainable growth amid a challenging pricing environment. That applies to both gas volumes and revenue.

You have the presentation and the background information. I am not going to reproduce them: let's use that time for your – hopefully – interesting questions. We'll satisfy not only your curiosity, but also the curiosity of your readers, as the latter can only be achieved by doing the former. So, please, ask away. We will all try to give you exhaustive answers.

QUESTION: Maria Vlasova, Interfax agency. Could you please tell us what kind of grave violations by Gazprom's Turkmen partners caused you to terminate their contract? How much do you claim in retroactive payments? Is there a chance of reconciliation with Turkmengaz?

ALEXANDER MEDVEDEV: Answering this question is easy on the one hand and difficult on the other. If there were no grounds for termination, we wouldn't be able to terminate that contract. We would rather not disclose the reasons today. As regards reconciliation and supplies renewal, there is a window of opportunity for that. We have confirmed our readiness to meet with our Turkmen colleagues, but, unfortunately, we have yet to agree on the time and place. Negotiations of such magnitude require, at the very least, all telecommunication means to be in place and ready for use.

So, arbitration proceedings are underway. As we all know, they can be slower than one would like. We strongly hope that the Turkmen party will take into account the arguments that we have repeatedly presented – it's mostly about pricing, and our position is supported by analytical studies and independent auditors – and they will be not only heard, but also translated into a tangible commercial decision. It's too early to talk about the amount and time of payments.

MARIA VLASOVA: Are you doing anything about the guarantee assumed by Gazprom Export for Ostchem Holding's loan issued by Gazprombank? Will the guarantee be transferred to the parent company to clear the balance of Gazprom Export?

ALEXANDER MEDVEDEV: Do you think it's more important to clear the balance of Gazprom Export rather than that of Gazprom? I have always thought that the parent company's balance has priority over the balance of a subsidiary, even one as important as Gazprom Export. Let's not forget that, although it's the main export subdivision of Gazprom Group, Gazprom Export is a commercial agent, not a principal. That's why I don't see an urgent need to clear Gazprom Export's balance from the guarantee issued in favor of Gazprombank.

Of course, many issues are now under consideration. Crucially, the key issue of loan repayment depends on many factors. These factors haven't materialized yet. Naturally, financial reporting requirements play a role. At the moment, it's a technical question rather than a question of business strategy or tactics.

QUESTION: Andrzej Zaucha, TVN television company (Poland). I have two brief questions, perhaps somewhat complicated. A Polish Government representative announced yesterday that Poland was not going to renew its long-term contract for gas supplies with Gazprom. What steps will Gazprom take in response? Will it be a blow to Gazprom? And my second question: the Polish company PGNiG filed a lawsuit with the Stockholm arbitration court to reduce the cost of purchased gas and give up the take-or-pay condition. What is your opinion on this and what are your expectations?

ALEXANDER MEDVEDEV: My colleagues and I are aware of the announcement by the Polish Government representative you're referring to. I am not going to ask whether he did this on his own or at the mandate of the Prime Minister. Let's leave that aside. Even if that was not a personal statement but an opinion he expressed on behalf of the Polish Government, I'm honestly a little surprised. Because if we take a good look at his statement, he said: "The purchase of Russian gas by Poland will depend on the acceptability of prices, but those contracts will not be long-term in any case." Granted, everyone is free to choose how to purchase gas and ensure the competiveness of their economy.

Let me remind you, however, that quite recently the volumes of gas supplies to Poland were increased at Poland's request. Besides, we know that a large part of the country is still devoid of gas. Back in the day, we talked with our Polish colleagues about the ways of meeting the demand arising from the lack of gas in much of Poland.

What can we do about that? We won't take any steps now. We have a contract in effect. We're supplying gas in full compliance with this contract.

As for the arbitration proceedings, the Polish party didn't submit that petition yesterday – or indeed the day before – but quite a while ago. As is customary here, the arbitration process didn't put an end to the negotiating process. Ms. Elena Burmistrova and I have repeatedly met with our Polish colleagues this year. We will meet this week, too. If you ask me whether it's possible to settle the pricing issue outside of arbitration, my answer will be positive. Moreover, we found the solution last year. But due to post-election changes in the leadership of PGNiG, those arrangements were not documented. Today, with the emergence of new factors and arguments – from Russia and Poland alike – the ongoing negotiations aim to modify the agreements in principle made earlier for a commercial compromise on contract issues. So, although such announcements are obviously unlikely to help, I doubt they hurt the ongoing process.

If I put myself in the shoes of that speaker for a second, I would wonder: "Where will we get our gas if there is no Russian gas or less of it? Well, we'll build a gas terminal." Many say U.S. LNG is a panacea against Russian gas. A lot of fuss was made about the first American LNG carrier departing for Europe to arrive in a Portuguese port. The Portuguese were ready to exult, but they had no chance to do that, because the U.S. suppliers didn't like the pricing conditions and the carrier left for somewhere else.

What does this mean? This means that economic factors will shape the competitiveness of U.S. LNG no matter what. Currently, there are more preferable destinations for U.S. LNG than Europe. Note that investors of liquefaction plants need to recover their expenses under a working business model, and that depends on many factors in addition to the Henry Hub spot prices. Given the current and short-term business environment, I wouldn't expect U.S. LNG carriers to go to Poland, Portugal or the UK for charitable purposes. So, economically speaking, the idea of replacing 8–10 billion cubic meters of gas by U.S. LNG in Poland… There is a famous fairy-tale about an old woman who asked a goldfish to make her the mistress of the sea. She was left with nothing in the end. I hope that none of us will meet that fate. But one has to be realistic and analyze the state of affairs.

Diversification of supplies is a good thing, as is the diversification of transmission routes. I think that this kind of rhetoric, unless its pursues a political agenda, is pointless.

ELENA BURMISTROVA: I have something to add. Historically, our relationship with our Polish colleagues goes back to the late 1940s. Our gas supplies to Poland essentially started in 1948. We know that, together, we have come a long way and we have never failed to reach compromises. So, if we disregard political statements – which, in my opinion, sound rather brusque and are sometimes at odds with the current situation and the negotiations between the two companies, I mean Gazprom and PGNiG – we'll see that Poland has found itself in a predicament. It has to deal with an LNG receiving terminal of 5 million tons in capacity and with the contracts it signed with Qatar companies during the peak price period. Unfortunately, as it stands, Poland has had to postpone the commissioning of the terminal for five years. The contracts were signed, but LNG carriers go elsewhere.

Poland essentially has to pay extra for the gas supplied elsewhere. What does it mean? It means that, ultimately, this burden will fall on the consumer. Politicians come and go, but the Polish citizens will choose economic rationality, I think. Regardless of what economic rationality dictates, we realize that, in terms of logistics and geography of supplies, the Russian direction will always be preferable. It's a matter of business arrangements and reasonable behavior on the part of companies in the market.

QUESTION: Evgenia Sokolova, TASS agency. Since we have touched upon arbitration disputes, I would like to ask a question about the Dutch company GasTerra. They have also filed a lawsuit to revise the contract. How are your negotiations progressing? Is it possible to settle the issue out of court? Have any other European consumers demanded to revise the contract? Could you name them?

ALEXANDER MEDVEDEV: Colleagues, I have talked about it many times. Although in recent years it has become fashionable to turn to arbitration – and this right is given by the contracts – we nevertheless manage to settle disputes out of court, with some minor exceptions. Moreover, I would like to draw your attention to the fact that more than once, as a result of arbitration, the complainant received less than the Russian party had offered. I am serious. Those are the facts. So, you never know how the situation will work out. Indeed, there is a simple logic to it: "If we turn to arbitration, then Gazprom and Gazprom Export will be more amenable." But it can go both ways, which weakens the argument. Anyway, as the arbitration proceedings are running, negotiations are going on too, and there are good chances of success.

Moreover, we shouldn't forget that if we took a purely petroleum-based pricing system, which still applies in many contracts – directly or indirectly, with regard to substantial amounts – then we would see that despite the reduced prices in gas hubs, the oil peg yields lower results. This is why, in order to apply for a price revision, one has to justify it and specify the reasons. Be you a Dutchman or, as Pushkin put it, an African, it doesn't matter. So, everything goes on as usual.

ELENA BURMISTROVA: We met with the GasTerra leadership in Amsterdam two weeks ago. In fact, we outlined a number of constructive steps regarding the meetings of negotiating groups. So, I think that in the course of this year at least, the parties will take efforts to find a compromise.

QUESTION: Nadezhda Rodova, Platts agency. Could you please explain how long the market protection strategy can remain effective? In other words, you have revised the prices for many consumers. At what point can Gazprom decide that this strategy is no longer effective and it's possible to sacrifice the volumes for higher revenue? And another question, perhaps related to the previous one: do you think the share of contractual prices for gas across Europe will continue to decline?

ALEXANDER MEDVEDEV: What prices?

NADEZHDA RODOVA: Long-term contractual prices in total sales or the prices pegged to the oil basket, if you will.

ALEXANDER MEDVEDEV: As they say, the best defense is a good offense, isn't it? We don't think it's necessary to act on the defensive or to launch price wars. We have a contract-based system. We don't set prices. The prices are derived from the formulas fixed in our contracts. Some part of traded volumes is linked to hub prices. Another part reflects the hub price dynamics only indirectly. And vice versa, in the form of ceiling or bottom prices. It's a rather complicated system. So, it would be wrong to think that it has outlived its usefulness. As you can see, after hitting the bottom, oil quotes started climbing and even crossed the critical level of USD 50. Our gas prices react with a lag of 6 to 9 months. We expect Q2 to have the lowest prices, but as soon as Q3 arrives, to say nothing of Q4, we will see an upward trend. Again, this is related to the portfolio made up of petroleum contracts and forward contracts, or to hybrid price models where the levels of these prices are taken into account.

As for the volumes, what should we 'sacrifice' them for? Price growth? Do you think we should start manipulating the market? You'd better seek employment with the European Commission, then. We have never done this and we don't intend to.

QUESTION: Sofia Dvornik, RIA Novosti agency. I have two questions concerning Nord Stream 2. I would like to know the cost of the pipeline. Initially, Gazprom said it was EUR 9.9 billion, but Paul Corcoran recently said it was EUR 8 billion. Can we consider that as a reduction in the project's cost?

ALEXANDER MEDVEDEV: It would be great if Mr. Corcoran could bring the project expenses down by almost USD 2 billion. I would like to make it clear that EUR 9.9 billion includes the expenses on potential project financing that we are currently working on. It represents total expenses plus financing. The amount Mr. Corcoran mentioned refers to capital expenses. Naturally, this amount can decrease depending on the scope and terms of financing. Hopefully it won't increase. I would like to remind you that we achieved considerable savings on Nord Stream 1 compared to the approved budget and we saved much more than a hundred million dollars.

SOFIA DVORNIK: When will you award the pipe-laying tender for Nord Stream 2?

ALEXANDER MEDVEDEV: The tender will be awarded this year. We keep on schedule in terms of procuring pipes and services, including pipe-laying services. Besides, the competitive environment is very good: even compared to Nord Stream 1, there are many more potential contractors eager and eligible to participate. It makes us hope that we will be able to set prices without compromising quality and, most importantly, we will meet the deadlines.

QUESTION: Vladimir Soldatkin, Reuters agency. Mr. Medvedev, you've said that gas exports will reach a record-high level this year. What are the main growth drivers?

ALEXANDER MEDVEDEV: Yes, as I said, we are close to setting a record, and we're getting closer every week. It's 165 billion cubic meters in exports under Gazprom Export's contracts alone. I stress this fact because we also have exports carried out by subsidiaries of Gazprom Group. 165 billion cubic meters is an absolutely realistic figure. It's essentially composed of what has been achieved in the first five months plus the amount fixed in the supply schedule approved earlier, that is, we relied on a lower amount slightly upward of 161 billion cubic meters. So, 165 billion cubic meters is absolutely feasible.

I don't rule out the possibility that, if the weather during the autumn and winter periods – which will come soon enough – is average, not even very cold, we might be able to exceed 165 billion cubic meters regardless of the fact that the UGS facilities have more gas than last year. This could influence the withdrawal rates in summer.

VLADIMIR SOLDATKIN: But what has driven this record growth?

ALEXANDER MEDVEDEV: Buying. They are willing to buy it and able to buy it.

ELENA BURMISTROVA: It should probably be noted that gas production from the Groningen field is being reduced. There are certain restrictions. There are technical requirements to gas composition and so on. But generally, the growth is explained by the falling indigenous production in Europe, including from the North Sea fields.

QUESTION: Lyudmila Podobedova, RBC newspaper. I have two questions. The first one is about Turkey: how close are you to reaching an agreement with Botas? Is it possible to settle the matter out of court? What about private companies? Have gas supplies resumed in full and on what terms? Regarding Ukraine: is it true that transit costs will grow by more than 30 per cent and from which year? How are the negotiations going?

ALEXANDER MEDVEDEV: As far as Turkey is concerned, we are supplying Botas and private companies at an equal price. Supplies have been renewed in full and we have no problems whatsoever.

As for Botas requesting to review prices and initiating arbitration, I can repeat what I have already said about arbitration and negotiations. I think that the best option, both for us and for the Turkish party, is to resolve the matter out of court.

LYUDMILA PODOBEDOVA: Am I right in assuming that, since the price is equal, the discount for Turkish companies was restored? Is it really so? Was it the 10.25 per cent discount you used to give?

ELENA BURMISTROVA: What do you mean by 'restored'?

LYUDMILA PODOBEDOVA: Some time ago, supplies were interrupted due to disputes on whether the discount was reasonable in the existing environment.

ALEXANDER MEDVEDEV: We have no discounts now.

ELENA BURMISTROVA: Let's be clear on the terminology: supplies were not interrupted. They never stopped, even for an hour.

LYUDMILA PODOBEDOVA: They were reduced.

ELENA BURMISTROVA: That's very different from being 'interrupted.' There are no discounts at the moment. Today, the price is equal for Botas and independent companies. It's the same price calculated according to the formula we use for all buyers.

ALEXANDER MEDVEDEV: I would like to emphasize that we agreed on the price from the very beginning, from the first day when gas volumes were ceded, with our permission, from Botas to private companies. Unfortunately, the process took longer than a year, because we had agreed that the private sector would operate after prices were brought to the same level, no matter how high or low. And that level is the Botas price.

As regards Ukraine: you know, it's very strange that, in spite of the existing contract, which will remain in force through 2019, our Ukrainian colleagues have suddenly, for no discernible reason, announced a tariff hike in a unilateral manner. And the hike is so big, it's inexplicable. Do they want to make transit through Ukraine utterly unattractive so that we lose interest? Economic factors are crucial. That's why we operate and will continue to operate under this contract. You know very well about arbitration hearings held in accordance with international law in Stockholm, the capital city of Sweden. If we fail to come to an agreement, we will resort to arbitration.

LYUDMILA PODOBEDOVA: Still, what is the current status of the negotiations? When did you last meet and did you manage to find a compromise?

ALEXANDER MEDVEDEV: I went to CERAWeek in Houston aiming to, among other things, meet with Naftogaz CEO Andrey Kobolev. But he wasn't there for some reason. Maybe he found out that I was coming and decided not to. We invited our colleagues to Moscow so that we could have talks or negotiations. We don't refuse to negotiate. Moreover, let me remind you that the Russian Government said we should be ready to discuss the prospects of transit across Ukraine after the contract expires. Perhaps our counterparts were preoccupied with Eurovision or something else.

QUESTION: Alyona Makhneva, Vedomosti newspaper. Could you please update us on the arbitration with Belarus? Is price reduction a possibility?

ALEXANDER MEDVEDEV: There are two things that shouldn't be lumped together. On the one hand, there is a contract between Gazprom and Gazprom Transgaz Belarus, where everything is spelled out in black and white. On the other hand, there is non-payment by Belarusian consumers to the Belarusian company. And the outstanding debt is very high – over USD 200 million. It's quite a sum. It likely wasn't their own decision to avoid payments. So, someone prompted them to do that. I don't think that's the best strategy. Indeed, arbitration is underway. But we are not involved in that process.

Then again, there is an intergovernmental agreement, which is a top-priority document. Belarusian Deputy Prime Minister Vladimir Semashko came to Russia not long ago and met with Russian Prime Minister Dmitry Medvedev. You know, people act differently depending on the price situation. They only want to enjoy benefits leaving the disadvantages to others. It doesn't work that way.

ELENA BURMISTROVA: The fact is that the price for Gazprom Transgaz Belarus is in line with the intergovernmental agreement. Therefore, in order to change the prices, one needs to change the agreement first.

QUESTION: Elena Mazneva, Bloomberg agency. Is USD 200 million the debt of Gazprom Transgaz Belarus to Gazprom or someone else's debt?

ALEXANDER MEDVEDEV: No, it's consumer debt.

ELENA MAZNEVA: So, USD 200 million is owed by Belarusian consumers to Gazprom Group, right?

ELENA BURMISTROVA: It's currently USD 221.4 million. We have filed a claim for USD 125 million.

ALEXANDER MEDVEDEV: Gazprom Transgaz Belarus has filed a claim for USD 125 million in accumulated debt. Naturally, we are going to file another claim later.

ALYONA MAKHNEVA: When will the next exports auction take place and what amounts will be offered for sale?

ALEXANDER MEDVEDEV: We have solid experience in this area. Two gas auctions have been held, one of them for the Baltic states. Our experience is positive. This sales format is complementary to our system of long-term contracts, and it will continue to develop. We are also planning an auction for gas supplies to northwestern Europe. We will announce it in June, specifying the volumes, delivery points, and sales terms. Most importantly, it's a new form of gas sales that has proven its efficiency. It gives us additional revenue and additional gas exports.

Returning to the issue of Poland, maybe they will purchase gas at our auctions eventually, since they are reluctant to buy Russian gas under long- or medium-term contracts. Quite recently, our Lithuanian colleagues – who shall remain nameless – asked us if it was possible to revive the practice of medium-term contracts. Naturally, we'll think it over and give them an answer. They should have thought twice when they said they didn't need the contract. If you don't need it, you should buy gas at auctions. They did, and they saw the difference between facing price and volume risks and having a reliable long-term contract that allows you to plan business activities in the medium and long term.

QUESTION: Vitaly Sokolov, Energy Intelligence agency. Last week, there were discussions about a project provisionally called 'Poseidon.' It's a new route to southern Europe. Could you please tell us what has been done in this area since the signing of the memorandum? How is the third party selected? Are you negotiating with Bulgaria? Are you interacting with Turkey – if not through Gazprom, then through your Italian or Greek partners? What are you planning this year?

ALEXANDER MEDVEDEV: According to the memorandum, the preparations for the feasibility study should be done this year. As to Turkey's role in the process, there are many options, but it's not up to us. This is a question primarily for our colleagues from Turkey and the European Commission. They should determine the route of Russian gas deliveries through the Southern Corridor and the steps to make it possible. Look at what happened to South Stream: there were numerous assertions that nobody had the right to interfere with the pipeline's construction and that it was nonetheless necessary to explore the issue of volumes distribution. But instead of waiting for the end of the construction process and negotiating the volumes, they didn't allow us to start construction and induced Bulgaria into behaving irresponsibly.

Now, you can dream about potential pipeline routes all you want. There are not that many options, however. It's up to the EU to decide. The European Commission is also aware of the fact that it has to find a common ground with Turkey.

VITALY SOKOLOV: Do I understand correctly that, for Turkey to express interest and say, "Let's lay it along such-and-such route," you should make a proposal to Turkey?

ALEXANDER MEDVEDEV: We are not going to make any proposals to Turkey.

VITALY SOKOLOV: So you're waiting for Turkey to take initiative?

ALEXANDER MEDVEDEV: Remember how it goes in matchmaking? 'We've got the goods, you've got the merchant.' Go for it.

VITALY SOKOLOV: Another question on Nord Stream 2. There is uncertainty regarding the European Commission's position on the project. Gazprom's stance is clear: the project falls outside the scope of the Third Energy Package. The stance of the European Commission is not clear yet. You've met with European Commissioners. Do they have any idea of when the EC is going to formulate its final opinion on the project? What is the deadline for the EC to ascertain that they have no issues with the project and it's time to start construction or sign a contract with a contractor?

ALEXANDER MEDVEDEV: Let me stress once again: we operate under a schedule. Moreover, we deliberately designed Nord Stream 2 so that it could meet the regulatory standards of the European Union and all relevant rules, including the Third Energy Package. I mean primarily the onshore facilities that will distribute gas from Nord Stream 2. The procedures are underway: we are filing applications and waiting for auctions. The EC has issued a legal opinion that the Third Energy Package cannot and shall not apply to the offshore part of the Nord Stream 2 project, that is to say, to the offshore pipeline. But, for some reason, this issue hasn't been legally resolved yet. That is, they're leaving room for maneuver to take advantage of it later. So, it's not possible either technically or financially to provide access to the offshore section in the territorial waters of Germany. What is it all about, then? Where should we provide access? On Russian land? Does this mean that the European Commission will interfere with the activities of the Russian Government, on our land? That is to say, I think this issue will be resolved.

I would like to remind you that the Nord Stream 2 project, as it stands now, was essentially initiated by leading European countries. They are well aware that the gas import deficit in Europe can only be bridged by Russian gas. And it has nothing to do with gas transit across Ukraine. Even if we assume that gas consumption in Europe will not increase, the decline in indigenous production will lead to a shortage of gas imports that will reach 80–100 billion cubic meters by 2025, i.e. within less than 10 years, and add another 50 billion cubic meters after 10 more years. Overall, that's 120–150 billion cubic meters that can't be produced domestically, give or take the still-idle regasification capacities, which will be insufficient anyway.

There are some thoughtful politicians left in Europe, though. Look at the UK, which made the critical decision to not only close down coal-fired generation facilities, but also facilitate gas-fired generation by imposing a special tax on CO_2 emissions. Those are tangible efforts to save the environment, and they work. In contrast, Europe has lost nearly 50 billion cubic meters in gas consumption over the past five years despite gas-fired generation being revived for purely economic reasons. That sector is slowly recovering now.

SOFIA DVORNIK: Will you please specify the amount of outstanding debt owed by Naftogaz for the natural gas you supplied to southeastern Ukraine? How large is the debt by Gazprom's assessment? Has Gazprom billed Naftogaz? Recently, Naftogaz announced that you had billed them and they weren't going to pay. Could you please comment on that?

ALEXANDER MEDVEDEV: This press conference is not about politics. However, if you claim a region as your own, why would you refuse to pay for the gas consumed in that region by your citizens? Or do you refuse to call it a part of Ukraine? We have a single contract for gas supplies to Ukraine, which covers the Donetsk and Lugansk Regions – home to Ukrainian citizens, Ukrainian companies, Ukrainian pensioners, teachers, etc. They tell us: "We will not pay those bills." There are no separate bills. Their debt is exceeding USD 600 million already.

SOFIA DVORNIK: So you're not billing Naftogaz?

ALEXANDER MEDVEDEV: We bill them for the total of gas supplied. And they are not offtaking gas at the moment. There are no separate bills for Lugansk and Donetsk, it's all counted together.

SOFIA DVORNIK: So, since you are not delivering gas to Naftogaz directly, you keep sending them bills for southeastern Ukraine?

ALEXANDER MEDVEDEV: Again, gas is supplied under a single contract. There are no separate gas supply contracts for Lugansk or Donetsk.

VITALY SOKOLOV: I have a clarifying question about the cancelled discount for Turkish private importers. Was the discount cancelled on January 1, 2016, or on some other date? Were any other parameters changed, like the take-or-pay volume or anything else? If I understand Ms. Burmistrova correctly, the price formula has not been changed.

ALEXANDER MEDVEDEV: In this case, uniform terms and conditions under the contract with Botas apply, and there are no unresolved issues with those prices. Ms. Burmistrova was right when she said that there had been no supply interruption. The gas volumes were calculated based on amounts paid or to be paid under the current price formula.

VITALY SOKOLOV: You mean from January 1?

ALEXANDER MEDVEDEV: Our decision applies to the entire period starting from January 1.

MARIA VLASOVA: I have a question on Wingas. How do you see the future of this company after closing the deal with BASF? Will it retain its brand name or be renamed with 'Gazprom' as a prefix, like other Gazprom subsidiaries? Will Gazprom's European subsidiaries consolidate with Wingas?

ALEXANDER MEDVEDEV: That's a very good and interesting question. Today, our wholly-owned subsidiaries GM&T and Wingas work with gas volumes exceeding 50 billion cubic meters per year – a very large figure. Both companies are involved in marketing and trading. It would be utterly wrong not to integrate them. All the more since there are certain aspects to the activities of those companies that allow them to achieve synergy. Naturally, in the course of operation we have to account for many factors, including tax regulations that exist in different countries or tax relationships between different countries. So, we have a plan for that. You will see the full picture late this year or early next year.

What's crucial here is that we have made the strategic decision to continue our operations in the market. We are not going to confine ourselves to exports no matter who pushes us to do that. We know how to work. The most important thing is that it will not only yield additional proceeds in the market, but will also help optimize our export activities. It's not just marketing and trading operations, we also use UGS facilities, whose capacity is increasing. By the way, the day after tomorrow we'll celebrate the commissioning of Damborice – a UGS facility based in the Czech Republic. I hope that no one will prohibit the producer from delivering goods to the consumer.

MARIA VLASOVA: About consolidation with European subsidiaries…

ALEXANDER MEDVEDEV: Are you wondering about integration? We're working on it. The Wingas brand name is well known. On the other hand, we could hold a naming competition for it.

ELENA BURMISTROVA: I would put it this way: we are working it through right now. We have set up an integration committee. We are studying all the markets and thoroughly examining where each of these companies is represented better thanks to its operations, client bases, etc. We hope, of course, that this deal will eventually help us optimize all our exports.

In essence, it means a new form of management, new models, and new advanced trading practices, including those taking into account underground storage, trading, and auctions. In other words, those are portfolio proposals for our clients.

As for the brand name, we are thinking about it. The issue is indeed complicated, for obvious reasons. The brand is well-known, it has existed for 20 years and has a high reputation in Germany. However, as part of the Group, we tend to assign our own names.

QUESTION: Jack Farchy, Financial Times newspaper. Could you please comment on Gazprom's recent peaceful settlement with Uniper, as well as with ENGIE? Should we expect these settlements to set an example for Gazprom's other contracts in Europe? Is there a link between these settlements and the fact that both companies – Uniper and ENGIE – are Gazprom's partners in the Nord Stream 2 project?

ALEXANDER MEDVEDEV: I'll start with the second part of your question. Of course, when companies operate in different segments of the value chain, they have a wider and deeper understanding of each other. Naturally, that development is not linked to commercial parameters, infrastructure projects or production projects in which Uniper participates. It's rather about creating a wider horizon for our work. Thanks to a wider horizon, the companies can adopt a more diverse approach to things. So, there is no connection here. Moreover, the decisions we made together with Uniper and ENGIE are different in nature. The starting points were different. You can't directly compare the agreements with ENGIE and Uniper. The only thing I can say is that we are satisfied with the negotiating results and, as far as we know, our German and French colleagues are satisfied as well.

The market is evolving. There are still a lot of uncertainties about its course and behavior. I don't see any reason for jumping ahead or, as we say in Russia, running ahead of the train. Our partners have agreed with that. We have come to agreements spanning the period until 2018. It will be a rather long time, especially since changes are always taking place.

MODERATOR: We have an online question. National Energy Security Fund: what is the status of negotiations on Gazprom's gas supplies to Azerbaijan?

ALEXANDER MEDVEDEV: We have a long history with Azerbaijan. There was a period when we supplied gas, then we purchased gas, then we didn't purchase gas, then we contracted gas out, started to supply it, and then stopped supplying it because the buyer was unwilling or unable to buy it. We see interest from the Azerbaijani party now. In the near future, maybe even at the St. Petersburg Economic Forum, we will hold another meeting to discuss the demands of the Azerbaijani party. Azerbaijan needs to buy Russian gas. We always take the requests of our counteragents seriously, especially in relation to long-term supplies. There is a possibility to supply gas there. We have the resources and transmission capacities.

QUESTION: Stanislav Tropillo, First Arctic TV channel. Could you please explain how the current situation in the European gas market affects Gazprom's projects in Yamal?

ALEXANDER MEDVEDEV: The price drop is not a very positive factor, as it reduces revenue. I would like to point out that Gazprom Group incurs the bulk of its expenses in rubles. Therefore, the devaluation of the national currency has been of considerable help to Gazprom as an exporter and to all other Russian exporters. Currency exchange rates fall either naturally or as a result of regulatory measures, which is always good for exporters. And it has been good for Gazprom, because we've had record ruble revenue. You can see this in the handouts. Speaking of the currency, we expect a revenue of about USD 28 billion this year. Assuming that the exchange rate will hover around RUB 65 per USD, this will amount to RUB 1.8 trillion. Those results will actually be second-highest after last year's results. That means that all of our top-priority projects will be implemented.

Back in the 2008–2009 crisis, we prioritized our projects by five levels. The projects in the first three categories are our top priorities. Although the tax burden is not decreasing – and we know perfectly well why the Government is forced to seek additional sources for the budget – our recommendation on dividend payout was taken into consideration, and as a result the dividend amount will be slightly increased. You'll see that at the Shareholders Meeting. We are convinced that all the projects in the first three categories, Yamal included, will run on schedule and without delays.

About production capacities: we own standby capacities of 100 billion cubic meters of gas per year. The idea is that we are expanding the gas transmission system, including the northern corridor, to adjust it to Nord Stream 2 and Baltic LNG. Indeed, we will incur considerable costs on the gas transmission system. I think we will soon hold a special presentation to demonstrate the economic benefits of gas supplies via the northern corridor. The simplest argument is that it's 2,000 kilometers shorter. We'll give you the details later. It is another proof that our decisions are motivated by not politics – although we can't ignore political factors – but economy first and foremost.

LYUDMILA PODOBEDOVA: As regards independent producers willing to export their gas through Gazprom Export, are your negotiations with Rosneft on this issue over or are they still going? Has the agreement been rejected or is it being reworked? What about NOVATEK? Has a concrete decision been made at the state level already?

ALEXANDER MEDVEDEV: As for our negotiations with Rosneft, we haven't had any and I hope we're not going to. Speaking of their intentions, I can imagine why Rosneft and NOVATEK are so willing, as you've said, to sell gas though or by means of Gazprom Export. But it's not up for discussion. If it was about redistribution of export revenue taking into account independent producers and oilmen, it would be a different story. If someone entered the market today, no matter whether through Gazprom or someone else, it would end up hurting not only Gazprom, but also the Russian budget.

There is a well-known movie entitled 'Mister Decorator.' That's what they want: to make us gloss everything over like a 'decorator.' We can't and won't do that under the applicable law. Don't tell us: "How about we sell gas to a very good and well-known company and you close the deal?" We know that company inside out: we know where it takes gas and at what price. And we know the other purchasers too. I don't have any negative feelings about this, because corporate selfishness is normal. They need to look at the market situation. You can always sell one apple quick and cheap, but how about a ton of them? That's what it's all about.

LYUDMILA PODOBEDOVA: How large are the volumes?

ALEXANDER MEDVEDEV: It doesn't matter.

LYUDMILA PODOBEDOVA: Is it 25–50 billion cubic meters or less?

ELENA BURMISTROVA: Mr. Medvedev, may I add that Rosneft is currently buying Gazprom's gas in the domestic market due to a lack of own resources.

ALEXANDER MEDVEDEV: Indeed. They are fulfilling their obligations in the home market after delaying that process in the previous period.

ELENA MAZNEVA: You've already been asked about the ongoing negotiations on the prices for major European clients. We've mentioned all of them except for Eni. Are you negotiating before they turn to arbitration?

Concerning the claim filed by Saipem with regard to the South Stream contract: how are things progressing? Are you trying to settle the dispute through another contract or by any other means?

ALEXANDER MEDVEDEV: I have not been approached by anyone from Eni.

ELENA BURMISTROVA: Me neither.

ELENA MAZNEVA: So, they are happy with everything?

ELENA BURMISTROVA: You know, not a single company in the world is always happy with everything. They haven't approached us on that matter.

ALEXANDER MEDVEDEV: As for Saipem, the situation was further complicated by what had happened to South Stream. On the other hand, Saipem could potentially participate in the Nord Stream 2 project. We have the opportunities to settle the matter and we hope that it will happen.

ELENA MAZNEVA: So, there is a possibility that a contract with Saipem on laying Nord Stream 2 will settle the dispute on South Stream. Can we say that?

ALEXANDER MEDVEDEV: No, this is not the way to do business. There is the situation with South Stream and there is the situation with Nord Stream 2.

NADEZHDA RODOVA: In view of Gazprom's investments in new infrastructure and production projects, how competitive do you think Russian gas will be against gas from other producers? In particular, against ultra-cheap LNG from the U.S.? Could buyers prefer non-Russian suppliers for purely economic reasons?

ALEXANDER MEDVEDEV: I don't agree that it's 'ultra-cheap.' In addition to the gas price at Henry Hub, there is the cost of liquefaction, transportation, regasification and distribution of that gas in the market. If we factor in those aspects, the costs will surpass the European prices. It's no coincidence that the LNG carrier left Portugal for somewhere else.

What do you mean by 'prefer'? There are sale and purchase obligations, which provide for price revision under a certain procedure. There is no need to reduce the price for our gas right now. Nor will there be in the future, as our gas has been and will continue to be competitive. We survived when 1,000 cubic meters cost USD 65. When I joined Gazprom, the oil price was USD 30 per barrel and I remember pretty well that export revenue and the domestic market situation allowed us to carry out major projects. We don't need super high gas prices. We need prices that will enable us to do our job. And, as the song goes, our job is simple: producing, transporting, and supplying gas to our consumers, earning money, and developing our business further. We run our business in three major segments: gas, oil, and power. Those are our three pillars, and I hope the landscape will stay the same.

NADEZHDA RODOVA: Mr. Medvedev, my question was primarily about the prime cost of gas. You've said that prices have been lower, but we are moving toward more expensive projects than ever before. I mean, do you see the prime cost of Russian gas getting too high?

ALEXANDER MEDVEDEV: No, I don't. Although we bring onstream new hard-to-reach fields, our weighted average price of gas production remains the lowest worldwide. Transmission is an essential cost item, including in the investment program. We introduce new technologies, new pipes, new gas compressors. There is a reason why the Bovanenkovo – Ukhta – Torzhok gas transmission corridor is the most efficient one in terms of fuel gas consumption and CO_2 emissions. We'll talk about it in detail very soon when we present the inner workings of this system.

According to Gazprom's long-term strategy, our production, transportation and marketing costs will allow us to retain the leading position in the market regardless of price scenarios. It's just a question of whether our revenue will be sufficient for top-priority projects and the plans that we have. And we have plenty.

LYUDMILA PODOBEDOVA: What is the prime cost of production?

ALEXANDER MEDVEDEV: About USD 20 per 1,000 cubic meters on average.

MODERATOR: Thank you very much. The Press Conference is over.