Press Conference
Gas Export and Enhancing Reliability of Gas Supply to Europe
June 6, 2017

MODERATOR: Good morning, colleagues. We are carrying on this series of Press Conferences ahead of the annual General Shareholders Meeting. Today, we are going to talk about exports and enhancing the reliability of gas supplies to Europe.

Taking part in the Press Conference are Alexander Medvedev, Deputy Chairman of the Management Committee, Pavel Oderov, Head of Department, and Elena Burmistrova, Director General of Gazprom Export.

Colleagues, please pay attention to the fact that the Press Conference on the eastern projects of the Company, including export ones, will take place on June 8. Therefore, please save all questions about the Asia-Pacific region until the day after tomorrow.

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

ALEXANDER MEDVEDEV: Colleagues, good morning. Apparently, the SPIEF, quite deservedly, has diverted so much attention that today we have a smaller audience than usual. But it gives everyone in attendance more time to ask questions and prepare interesting coverage.

I suggest organizing our work in such a way so that we focus on your questions. But, nevertheless, I cannot help saying in the beginning that last year we witnessed all-time records in the Company’s history. A record 179.3 billion cubic meters of gas was exported. That amount includes Gazprom Export contracts for 178.3 billion cubic meters, and 1 billion cubic meters was exported by GAZPROM Schweiz. Furthermore, as reported in our statements prepared according to IFRS, we sold 228.3 billion cubic meters across the Gazprom Group at large. Those volumes include exports and trading.

The year 2017 also began quite spectacularly: new daily records were set, and we are 9.5 billion cubic meters ahead of our export schedule; under last year’s schedule, we were 8.5 billion cubic meters ahead. That gives us very good chances, and, even taking a very, very cautiously optimistic attitude, we can say as early as today that we are going to clear the bar set at 178 billion cubic meters. I cannot even rule out a new record. What’s the basis for these assumptions? Gas is being actively pumped into UGS facilities both by us and our counterparties, because the reserves in storage at European UGS facilities have probably been at their lowest in the past 10 to 15 years. There are, however, certain requirements for the minimum utilization rate of UGS facilities, to ensure security of supply in the autumn/winter period, and there are certain requirements for Europe in general. Therefore, we are de facto operating in winter mode in May and in early June.

A number of underlying factors warrant these figures, including the short-term weather factor and the related UGS factor. Furthermore, there are mid-term and even long-term factors. Those are the changed structure of energy consumption in Europe with respect to gas and, as a positive example, the moves of the UK government, which not only announced the phasing out of coal-fired generating units, but also took economically simple measures, known probably since the times of the Club of Rome. The matter is that a tax levied on this or that parameter can achieve an economic result that will change the energy mix. As a matter of fact, the UK energy mix was turned upside down within a short time span of three years. And now gas will prevail. I spoke to a number of senior executives of major British energy corporations, who made no secret of the fact that they would need extra imports in the very near future. The reason lies not only in the changed consumption structure but also in the declining production in the fields that remain the basis of their gas consumption.

Unfortunately, continental Europe does not have a consistent energy policy like that, but an increasing number of politicians in their respective countries and, as it appears, even at the European Commission level, are starting to think that it's time to stop playing with appealing slogans. Because the subsidies that are covered by the consumer in the long run can reach tens of billions of euros and even more in the aggregate. Therefore, natural gas has very bright prospects, and, using only economic conditions as a springboard, we now carry out our infrastructure projects in order to be ready to meet the demand under both our current and prospective contracts. I would like to remind you that we have take-or-pay contracts for more than 4 trillion cubic meters of gas. Looking at prospective demand, it may turn out that even with the construction of Nord Stream 2 and two strings of TurkStream the gap between demand and supply will not be filled. When someone says, "And what about the underutilized capacity of regasification facilities, which are currently utilized at about 25 per cent?" it must be borne in mind that, according to the working principles of regasification terminals and subsequent gas distribution, those facilities are not designed to see 100 per cent of those capacities utilized. To ensure the optimal operation of those regasification facilities, their capacity utilization must not exceed 70 per cent. Therefore, even if that capacity utilization reaches that 70 per cent, it remains unclear how to meet the growing demand for imports. From the standpoint of competitiveness and capabilities, we have no limitations. We have a reserve of production facilities that can be put into operation by turning a shut-off valve – over 100 billion cubic meters.

Our gas production center is shifting to the Yamal Peninsula, where simple economic calculations show that the Northern Corridor, a new route, will enable us to save USD 50–60 on transportation alone. This is a very substantial figure, because the projected export price is around USD 180. Maybe USD 2 or 3 more. So, if you extract the export duty and look at that revenue, you will see that USD 50–60 is nearly half of that price. It means that cost-cutting and, by implication, competitiveness of that route is an essential factor. We shouldn't forget about transit security either. We went through a lot, to be frank, both in 2006 and in 2009, and we are not going to jeopardize our business.

So today, speaking about our traditional European market and not about the Far East or the Asia-Pacific region, I would like to stress: we are convinced that our projects will be profitable. Nord Stream 2 is going according to schedule, construction of TurkStream has begun, pipe-layers are working already. Yesterday, importance of the TurkStream project was highlighted in the conversation between our President and Recep Erdogan, President of Turkey. That project is also going according to schedule, and the documents that were discussed and signed at the SPIEF reveal an enormous amount of interest in its implementation.

MODERATOR: We are moving on to your questions. TASS.

QUESTION: Evgenia Sokolova, TASS agency. I would like to start with the most topical issue of the day – severance of diplomatic relations between Arab countries and Qatar. Could you please assess the impact of that event on the LNG market? Could you, perhaps, give a forecast for how the situation with supplies from that country might evolve? Will it affect gas prices in any way? Maybe, in that connection, you are going to revise your outlook for the export price? For this year, as far as I remember, you predicted USD 180–190 per 1,000 cubic meters.

ALEXANDER MEDVEDEV: What has happened to the diplomatic relations between Qatar and its neighboring countries is not unprecedented. Qatar's diplomatic relations were broken off once, but they were restored in the same year – in November, I believe. Russian Foreign Minister Sergey Lavrov said political relations between those countries were their internal dealings. While Qatar is not an oil but a gas exporter, we cannot rule out any problems with Qatar LNG exports as a result of this escalation. Whether or not that will happen, we don’t know. And when the market is in an upheaval for some reason or another, it’s certainly a matter of interest to stock and commodity speculators who make money on market volatility. We would rather have a predictable outlook, so let us watch. I’m not an astrologist, so I cannot predict how the situation will work out. We need to wait and see.

QUESTION: Ivan Peschinsky, Vedomosti newspaper. Have you revised your outlook for gas exports in 2017 in any way in connection with the events in Qatar?

And a follow-up question. According to your forecast, what countries will show the biggest growth?

ALEXANDER MEDVEDEV: Just a couple of days have elapsed. Even political scientists have not made their analysis yet, and you want us to start changing our outlooks for volumes and prices. It’s work in progress. Should the price go up, we’ll benefit from it. If volumes grow, the same. We have a reserve of extra pipeline gas supplies. Especially if the Opal issue is resolved, which has been pending, unfortunately.

ELENA BURMISTROVA: Regarding the increase in gas consumption. Basically, it is about northwestern Europe, primarily Germany, the Netherlands, Italy. We expect consumption to grow in those countries this year.

IVAN PESCHINSKY: What exactly are your expectations about the consumption growth, in view of the weather factors?

ELENA BURMISTROVA: Forecasts vary considerably. There is a consensus forecast that shows a 6 per cent growth in Germany, there is another one that shows an 8 per cent growth in the Netherlands. We have quite a conservative estimate for now, but, nevertheless, as Mr. Medvedev said at the beginning of his speech, we are already ahead of schedule compared to 2016.

QUESTION: Svetlana Savateeva, Interfax agency. Talks with Bulgaria took place recently, as far as I understand. And they allegedly asked Gazprom to supply 15 billion cubic meters of gas. Are you ready for that? And in what direction, via which pipeline?

ALEXANDER MEDVEDEV: I have been with Gazprom for 15 years, and at first I used to have a shelf where I put all requests for gas purchases that started from 10 billion cubic meters. In 15 years, that big shelf got filled up with those files. Eventually, I had to have them recycled, because they were all similar. And those requests went straight into the garbage bin if they contained certain words.

In this particular case, I took part in the negotiations. We received no requests for 15 billion cubic meters. The current volume of the Bulgarian market is well-known. Bulgaria does have potential for gasification. A while back, we made active attempts towards gasification in Bulgaria, and the gas distribution facilities that we put in place back then can deliver 350–400 million cubic meters of gas per year to consumers. However, unlike Turkey, where gasification was going on aggressively during the high-price period and continues in the low-price period, in Bulgaria, where no focused policy is pursued and no other sources of energy are available, the level of consumption, which was as high as 7 billion cubic meters per year in the times of the Soviet Union, is now below 3 billion cubic meters.

To resell gas, we have our own marketing and trading divisions. Those are GM&T and Wingas, two companies that successfully operate in Europe. We do not need intermediaries for gas resales. We can do that ourselves, and do it well.

QUESTION: Maria Gordeeva, RIA Novosti agency. Bulgarian media wrote today that in the course of the talks at the SPIEF Bulgaria had raised the question about the construction of South Stream (they call it South Stream 2 now), perhaps of a smaller capacity than planned before. Is there any discussion underway about the construction of any new capacities? Maybe as an extension of TurkStream?

ALEXANDER MEDVEDEV: I'm not going to disclose the details, because we've just started to work with our Bulgarian colleagues. I would like only to remind you of some background facts. Everything was ready for the construction of South Stream in the direction of Bulgaria. There were pipes, there were pipe-layers. The European Commission kept saying that the question of access to the capacities needed to be discussed, but nobody gave as much as a hint that construction was prohibited.

Afterwards, Bulgaria, probably under some pressure from the outside, decided to block the construction of South Stream. And we, as you remember, shut down that project officially. While they say that you can't step into the same river twice, still you can try and walk along another riverbed. The options for distributing gas along the second string of TurkStream are versatile, including a northward direction in addition to the direction to Italy, and the ways to meet every country's needs for extra transmission capacities are negotiable. Therefore, we are discussing development options for Bulgaria's gas transmission system with our Bulgarian colleagues. I'd like to emphasize that this is what is being discussed for now.

QUESTION: Vitaly Sokolov, Energy Intelligence portal. At the SPIEF, Gazprom signed an agreement for the Poseidon project, which, of course, would be an extension of TurkStream to Greece and then on to Italy. You are saying you're still discussing the matter with Bulgaria. Are those options mutually exclusive or can there be two extensions of TurkStream to [different] European countries?

What is the likelihood of connecting TurkStream to the TAP project? It was reported that Italy's Snam, a shareholder in that project, proposed that you connect TurkStream to TAP. Another shareholder, Fluxys, apparently does not oppose the idea either. What is your standing on the matter?

Another question is about Nord Stream 2. Brussels wants to hold talks on a special legal framework for the project. Is Gazprom going to be involved in those talks?

ALEXANDER MEDVEDEV: As for Poseidon and TAP, the situation in which a constructed pipe will lie unfilled is unnatural. Therefore, theoretically – just theoretically – TAP's capacities could be utilized in the implementation of the Poseidon project. But we absolutely cannot and will not solicit anything here. It should be the TAP owner's headache. Because you know what gas source was contemplated there. You can easily learn about the situation in the Azerbaijani oil and gas sector from the media. Azerbaijan has pressing and growing needs for gas flooding to maintain oil production from its key fields. It's not a laughing matter. It's not a matter of choice but a matter of necessity. Oil is the main source for the budget of Azerbaijan. And if TAP capacities turn out to be empty in that situation, it will be up to the TAP stakeholders to keep them empty or try and find mutual understanding, for instance, with us. Theory is theory and practice is practice. We are open for any options of business development in Europe, and we believe that cooperation would be ideal. But we are not going to compel anyone.

About Nord Stream 2. That legal conflict has been around for years. There is a legal opinion that the Third Energy Package of the European Union cannot apply to the offshore section of the Nord Stream 2 pipeline, just like they were not applicable to Nord Stream 1. Now, for some reason, we are told, “Let us obtain a mandate for the talks – it’s unclear with whom, Gazprom or the Russian Federation – to make the rules, the energy principles of the European Union, applicable to Nord Stream 2. But we nevertheless proceed from the assumption that the principles of market economy will still work in Europe. Or does the European Commission want to assume the role of Gosplan? I would like to believe that common sense will prevail anyway. There’s no need, there’s nothing to discuss, because we have agreed to all the rules of the European Commission for the onshore part. Moreover, the onshore part is being carried out on those principles exactly, according to the established regulations. Therefore, I don’t see any reason whatsoever to discuss this topic. The European Commission had better handle the discussion of the energy policy, that would be more useful.

QUESTION: Emre Abay, Anadolu agency. My first question pertains to discounts on gas for Turkey. We are aware that the talks have been going on for about three years now, but we haven’t seen any results yet. How can you characterize those talks and when are we going to see some results?

My second question is connected with the crisis in Qatar. What is your opinion about that crisis from the standpoint of the prospects of the global natural gas market?

ALEXANDER MEDVEDEV: It’s a very long story. In principle, sometimes our price negotiations last even longer. But in this particular case, we started the talks when prices were very high, and now we are living in a low-price period. We should probably discuss extra charges now instead of discounts.

Ms. Burmistrova is constantly in contact with Botas and the Energy Ministry. I was in Turkey not so long ago myself. We defined our respective positions. I always prefer to settle things using other methods rather than arbitration, although some people might think that arbitration can bring better results. But there have been occurrences, more than once, when an arbitration ruling resulted in much worse terms for our foreign partners than what we had offered them in the course of the talks. I hope joint implementation of the TurkStream project will help settle commercial issues, among others.

Regarding Qatar. I think we need to wait and see, because it’s very difficult to predict further developments now. So far, we are seeing restrictions in air travel, cargo shipping, including foods. Qatar’s exports to the LNG market are huge. Should any trouble arise there, it certainly might lead to an extremely negative fallout for the price situation. Maybe not for Europe, but for Asia, Qatar’s LNG is of fundamental importance. The European market is still segregated from the Asian market or the U.S. market, therefore the impact, if any, cannot be disastrous.

QUESTION: Anastasia Astrashevskaya, Platts agency. My first question is about Poseidon. You’ve signed an agreement with DEPA and Edison. Were there any arrangements reached on the dates when supplies could commence and on the volumes?

My second question concerns the ruling of the Stockholm tribunal. You've had time to evaluate that ruling, which is not in Gazprom's favor. How serious is it for the Company, and what steps are you going to take?

And as a follow-up on the Ukrainian topic: How does Gazprom intend to carry out supplies via Ukraine after 2019? Gazprom has said more than once that it was going to continue to transit certain volumes along that route.

ALEXANDER MEDVEDEV: Our arrangements on Poseidon are still far from the point at which we would be able to determine the starting date for supplies. But, in principle, all our projects are focused on one date – it's early 2020.

Recalling a question put to me by an American lady reporter, I'm going to ask you as well: Have you read the ruling of the Stockholm arbitration tribunal, since you're saying with so much confidence it's not in our favor? No, you haven't. But I have. In any case, the bottom-line of that ruling is positive for Gazprom, even at the preliminary stage. Its scope will be determined on the basis of the tribunal's final award.

I will touch upon one issue only. They say the arbitral ruling canceled the take-or-pay clause. It's not true. It didn't cancel the take-or-pay clause. I'm not going to tell you what it was, but the take-or-pay clause was not canceled. It's a kind of a mind game played on the public.

It's work in progress. We have always respected and continue to respect arbitral awards. There's still time to discuss the preliminary ruling. I believe the Ukrainian party is also going to make some comments. The balance will be determined on the basis of the final decision. But since the representatives of the Ukrainian party are thumping their chests so loudly, I will quietly say that the balance is tipped in Gazprom's favor.

Regarding supplies via Ukraine after 2019. We are ready to enter into negotiations, I invite our Ukrainian counterparts to come to us. They provide services, therefore there's nothing malicious in it. They always used to come here to discuss transit. In reply, we had received, even before Trump was elected, an invitation for talks in the U.S. Maybe it's a subtle joke. I haven't been to New York in a long time, and I would like to go there, but not for this reason. Certain volumes could, I emphasize, could still be transited via Ukraine, it's true. But the size of those volumes will depend, among other things, on the terms that can be proposed and agreed with the Ukrainian party. Unfortunately, there is the factor of technological hazards – those aren't our data, they can be found on the official website of the European Union. The accident rate in the Ukrainian gas transmission system is above the standards of the European GTS, and not just manifold but by several orders of magnitude. Only multibillion investments can close that gap. And taking risks with transit, especially in wintertime, is unacceptable.

QUESTION: Elena Mazneva, Bloomberg agency. Staying on the subject of Ukraine, I would like to ask: Are you expecting the final award of the Stockholm arbitration tribunal on June 30? I'm asking this because of a recent statement by Naftogaz that a full ruling with all the figures is expected [to be released] in 2 or 3 months, where all damages of the parties will be tallied up, etc.

My second question concerns Rosneft and its plans to obtain the right to export gas from Russia. Are you holding any discussions with Rosneft to make Gazprom a commission agent, unless legislation is amended, specifically in furtherance of the memorandum signed between Rosneft and BP on gas supplies to Europe starting in 2019?

ALEXANDER MEDVEDEV: The date that you've mentioned, June 30, is the date for the submission of objections and comments. It doesn't mean that the full ruling will come out right on June 30. Moreover, as we know, arbitration tribunals frequently reschedule their awards. And, generally, they tend to delay them rather than accelerate. It's not an easy question, and it requires serious work.

As for Rosneft, I have answered that question many times. If you've grown one apple and you think you can sell it better than someone who has grown a ton of apples and has been selling them for 40 years, then, of course, you can, perhaps, sell one apple for a slightly higher price. All the more so if your costs of growing that apple are much lower than the costs of growing a ton. We have a law that was amended to allow LNG exports, and such exports will begin this year from the Yamal LNG project, where we, by the way, are one of the major buyers.

We have no shortage of gas for satisfying our consumers in Europe. We can, as I've said, immediately add more than 100 billion cubic meters by turning a tap. Therefore, if the UK needs gas, we can deliver it there.

ELENA MAZNEVA: In other words, you are not holding discussions with Rosneft about performing the functions of a commission agent?

ALEXANDER MEDVEDEV: I have met with some high-ranking Rosneft executives, but none of them asked me about it. Maybe they think I shouldn't be asked about it. But the main thing is that I don't see any economic sense in it for Gazprom, much less for Russia.

QUESTION: Oksana Kobzeva, Reuters agency. My first question concerns the European Commission, which is running a market test. It is dragging on, because everybody kept saying that everything would become known as early as May. But we see a number of countries giving their comments already. When do you expect the talks on that matter to be over and a decision to be made? Could Gazprom make some other concessions to the European Commission in discussing that issue?

The second topic of my interest concerns the Opal pipeline. When do you expect to get access to the auction? Are you going to get involved in any litigation on the matter? Or have you gotten involved? I'm asking this because your memorandum said you were taking a proactive attitude in the matter.

My third question regards financing Nord Stream 2. A report appeared today that Gazprom had signed another agreement on deficit financing after 2019. Could you please explain the scheme? Since initially there was talk of a bridge loan of more than EUR 6 billion from partners, in what way will this amount be refinanced after 2019? Has Gazprom assumed any obligations to provide part of the amount? Is Nord Stream 2 AG itself going to raise funding in the market or not?

ALEXANDER MEDVEDEV: Let us begin with the antitrust investigation. The market test procedure announced by the European Commission is over. A moderate number of remarks and comments has been collected, and during my meeting with the European Commission, we agreed how we were going to proceed with those comments. First of all, the European Commission is to decide which comments will be admitted for further review and which won't. Why am I saying they won't be admitted? Because, even though there was an arrangement that this topic shouldn't be discussed publicly until the final decision is made, some politicians – setting aside company representatives who also took that liberty – and senior officials, including the president even, started to make political statements. Not so much politics as politicking. They said that no test was necessary, but that Gazprom should be punished, pure and simple. Again with USD 1 billion and so on and so forth. Destroying the gas market, turning everything upside down. I'm not going to comment on politicking. I do hope that we're going to remain within the boundaries of that investigation, which are clearly defined. The topics are known, and all of them were covered. We have not pleaded guilty and we are not going to. We are not of the kind portrayed in a play by Ostrovsky, "guilty without guilt." We are just innocent. But we agreed to a dialogue with the European Commission to help the European market develop, and the European Commission, represented by the Commissioner for Competition, was sure that competition was developing. And, actually, being the pioneers of competition in the monopolized German market, we are no less – and sometimes even more – than the European Commission, with the office of its Commissioner for Competition, interested in seeing competition develop. Because we are an active market participant. We have outlined how we are going to proceed, and we'll see what comments have been made, whether it's possible to take them into account, whether they are acceptable. Hopefully, it'll be routine work. At least from what I heard, I'm not seeing any peculiarities, shocks or surprises. And I will take no notice of the comments given to the media by our Polish and Lithuanian colleagues. For now.

Regarding comments and timelines. We are not going to disclose the list, because it's not clear yet which items will be admitted for review. We'll pursue the matter further. I still hope that maybe everything will be resolved before the end of this year.

Now about Opal. It's like in the saying, "I will cut off my nose to spite my face." Opal is a key element of gas distribution in Europe. During the short time span when we were given access to 100 per cent of its capacity, the pipeline proved its importance and efficiency. Before I move on to this subject, I will say, like Comrade Saakhov, "Long live the European Court of Justice, the most just court in the world!" to be on the safe side. So, they went and filed a complaint to the European Court of Justice against the European Commission, asking for injunctions, too. As a result, we cannot use Opal again. They promised to address the issue of the interim injunctions in March, April, May... they didn't. We have not been allowed to be a party in reviewing this issue.

Maybe it's too simple, legally speaking, but the European Commission employs representatives of all nations, including Poland. The Opal decision has been developed for many years, and Poland's representatives have also been involved in the process. As far as I'm aware, no negative votes were cast by the European Commission. And then questions arose about the decision made, notably about the amended opinion, which was different from what we had originally agreed upon and to which we had been able to adapt in full compliance with all the rules. I think the European Commission's ability to act is what's at stake now. Therefore, let's wait and see.

Regarding Nord Stream 2. I'd like to say that all the documents related to the project's funding have been formalized and signed. They pertain to initial, interim and final funding. The details of the structure will become clear later. But the most essential thing is that the project is fully financed.

MODERATOR: We also have questions from online users. Here's a question from Wood Mackenzie. Is Gazprom Export going to increase gas sales via auctions in 2017?

ALEXANDER MEDVEDEV: I suggest that Ms. Burmistrova answer it on behalf of Gazprom Export.

ELENA BURMISTROVA: As you know, we organized two and a half – almost three – auctions in 2016, which proved effective. It is evident from the numbers as well, which have been announced here – 178.3 billion cubic meters. This is the largest amount of gas supplies in the Company's entire history.

Speaking about gas auctions in 2018 or in 2017, i.e. in the current year, we do not rule out the possibility of their taking place. But I will hardly be able to tell you the exact dates right now. As likely as not, that will take place closer to the autumn/winter period, because so far, we are ahead of schedule anyway. Generally, our strategy for 2017 will show if those auctions are necessary, should there be a need for extra sales of extra volumes.

QUESTION: Lyudmila Podobedova, RBC. I would like to turn to the Middle East for a moment. How do you estimate the prospects of gas supplies to India, for instance, from Iran or from Russia? Which route do you perceive as having the highest priority?

And about Iran. It was reported recently that an agreement had been signed on Farzad-B. What stake is Gazprom interested in and on what conditions? What is the internal rate of return that you would be happy with in Iranian EPC contracts? Are there talks underway on any particular projects?

ALEXANDER MEDVEDEV: It seems to me Iran should be discussed within the framework of the Asia-Pacific region.

MODERATOR: Let us postpone this question until Thursday.

ALEXANDER MEDVEDEV: To give you an answer, I can only say that many options of pipeline gas supplies to India have been examined, with potential involvement of not only Iran and Russia, but third countries as well. By now, the number of options has been scaled back dramatically. In other words, whatever is economically unsound has been left out, and the options that can produce acceptable economic results in terms of the target price of gas in the market remain and will be discussed further. Clearly, optimization potential lies in the implementation of swap deals involving several countries and taking into consideration supplies that are slated to be arranged in the near future. Potentially, India is an enormous market. After all, as the Prime Minister of India has mentioned on multiple occasions, the country has 1.25 billion people, with a consumer model that implies excessive energy consumption.

QUESTION: Jaroslav Koribsky, Hospodarske Noviny newspaper. Mr. Medvedev, you said some time ago that there was a possibility of supplying gas to be transmitted via Nord Stream 2 through Slovakia after 2019. Is there anything new to say about that in terms of volumes?

ALEXANDER MEDVEDEV: The most important thing is that we have no bad news. All the arrangements that we have reached with our Slovak colleagues remain in force. They are of binding nature, and I have no doubt that gas will go through Slovakia.

QUESTION: Evgenia Sokolova, TASS agency. My question is about the now-defunct South Stream project. You are involved in litigation with Saipem. A counterclaim has been filed. Why has this decision been made if you mentioned earlier that a settlement was an option, including by picking that company to be a contractor for other projects?

ALEXANDER MEDVEDEV: It's not common practice to reveal the inner workings of arbitral proceedings at press conferences. We have what we have. No such solutions have been found yet. You know how that goes: "Either I take her to get married or she'll take me to the prosecutor's." Arbitral proceedings are going on.

QUESTION: Ivan Peschinsky, Vedomosti newspaper. Mr. Medvedev, recently there was an incident in Ukraine with Gastransit. What is your standing with respect to the seized shares? Is there any leverage left to assert your rights and within what timeframes do you plan to do that?

ALEXANDER MEDVEDEV: Ukraine has not called Kafka a Ukrainian author yet, although it might as well do so. But Ukraine's actions are purely Kafkaesque. If you read closely, Gazprom was accused of being a monopoly in a situation where we are not a service provider but a service recipient. Whatever Pythagorean or Lobachevskian logic or geometry could be applied here, I cannot find any explanation even if I try to put myself in Ukrainian bast shoes.

Because it didn't end there. A fine was levied in the amount of billions of U.S. dollars, and the way it was calculated is a mystery. And now they have started to look for ways to enforce that fine, notwithstanding that during my meeting with Mr. Sefcovic and Energy Minister of Ukraine in Brussels they were saying all too loudly that no actions would be taken that could jeopardize transit of Russian gas to Europe. But if they think the risk is linked only to the seizure of gas and that they can seize, in a cavalier manner, the assets of a company that has been operating for decades and providing substantial volumes of transit in the southern direction, including via the Danube's underwater crossing, it's absolutely irresponsible. Moreover, it runs contrary to the promises that have been made. Therefore, we are going to undertake all necessary steps to get Europe to see what's going on, and to make the appetite for such actions disappear. Because there was a statement recently: "Yes," they said, "we searched far and wide for Gazprom's assets in Ukraine, but in vain. There's nothing left. Now we're going to look abroad." I wouldn't like to quote either Ukrainian or Russian authors, although I could. But some of those quotations have expletives in them, therefore I will refrain from using them.

QUESTION: Svetlana Savateeva, Interfax agency. My first question is about Turkey. It was reported not so long ago that you were selling Bosphorus Gaz. Could you please comment why? Do you have a potential buyer for that asset already?

My second question. Could you please comment on this? Recently Gazprom's Department 310 was entrusted with supervising Russian gas flows in Europe. How well are they handling that task?

And could you please tell us about the goals and objectives of the Strela (Arrow) project? What are the stages of its implementation? How many people have been let go?

ALEXANDER MEDVEDEV: How many people have been hired, you mean?

SVETLANA SAVATEEVA: Let go or hired. And what are the efficiency metrics for that project?

And my last question. A year ago, you told us about the stages and purposes of integrating Wingas into Gazprom. We see some Wingas subsidiaries operating under the Gazprom brand already. Maybe a year later you have something else to say about Wingas's integration into Gazprom?

ALEXANDER MEDVEDEV: The developments in the Turkish market are complicated, including due to the economic situation in Turkey. The recent political events have made a very strong impact on the value of the Turkish lira. Furthermore, prices remain regulated; there is a mechanism for subsidizing gas sold by Botas. Therefore, although a gas law was adopted a while back, a full-fledged free market is yet to emerge. In that connection, especially considering the moves that are being undertaken by Turkey with other private companies, we started to consider the possibility of withdrawing from that asset in view of economic reasons and volatility. This has no implications for our relations with our Turkish partners. We were the only company that agreed to resell a portion of its volumes to private buyers. Naturally, it had an impact on market development, but the ultimate owner is not determined yet. There are certain rules of operation, and it's too early to talk about them.

About the supervising functions. Your information is not quite correct. Department 310 is involved in the work, it has played and continues to play a certain role. We cannot say that Gazprom Export is removed from that chain. It's not. Ms. Burmistrova, could you please comment?

ELENA BURMISTROVA: Yes, it's a question that should be put to us rather than anyone else. The Chairman of the Gazprom Management Committee signed an order on the provisional rules of acknowledging purchase requests. Previously, it was Gazprom Export that performed the full scope of those functions. Now we share them with Department 310, it's the Central Operations and Dispatch Department. But, essentially, the mechanism remains the same. It's just that when we supply gas from West Siberian fields to Europe, we naturally want to have a complete understanding of the entire process and the operations of each and every individual compressor station. Gazprom Export, on the contrary, signed an order yesterday to hire a few more people to interact with Department 310, carrying out that job. Of course, those in-house developments have had no impact on the volumes and quality of gas supplies to European consumers, which is the most important thing in our case.

ALEXANDER MEDVEDEV: Moreover, a very simple goal is pursued here – optimizing management of the Russian GTS and export supplies. There is room for optimization, and it is precisely from this perspective that certain extra functions were assigned to Department 310.

Now about the Arrow project. There's a fairy-tale, I believe, in which a young man shot an arrow, went to pick it up, and found a frog sitting on a hillock. The rest is history. "Arrow" is a good, beautiful name, and the integration of international operations is a logical step at this stage of our development, especially on account of two powerful subsidiaries wholly owned by Gazprom and based in the UK and in Germany, with their unique features and specifics of trading and marketing operations. What the final configuration of the Arrow will be and what the frog that catches the arrow will turn into, you'll know soon enough.

What regards branding. I believe the Gazprom brand is universally recognized. It's only natural that we spend certain funds on the promotion of our brand in different ways, including through sports. The Wingas brand was known within the framework of our joint venture with Wintershall. Our overall strategy is built on the premise that we work under the Gazprom brand in Europe, and we're going to move in that direction. And when something is going to get rebranded, it's a matter to be decided on a case by case basis.

QUESTION: Anastasia Astrashevskaya, Platts agency. I have a question about Nord Stream 2. Five European companies have agreed to finance nearly one half of the project cost, and Gazprom remains the company's sole shareholder. On what terms have the European companies agreed to do that? Is there any agreement behind this?

My second question is about Baltic LNG. It was announced recently that the plant's commissioning was going to be postponed, but at the SPIEF, Gazprom signed two agreements with Shell. What stage is that project at, and what was the postponement connected with?

ALEXANDER MEDVEDEV: You've pointed out correctly that there are no foreign shareholders in the shareholder structure of Nord Stream 2 AG. Therefore, the project is being carried out on the basis of a financing pattern in which our foreign counterparts have assumed certain obligations. All those obligations have been defined by now, and financing is beginning to work. What happens next, it's hard to say.

Financing is handled by Nord Stream 2 AG, whose CEO has successfully completed the first Nord Stream project. We also have the same Chairman of the Board of Directors, Mr. Gerhard Schroeder.

About Baltic LNG. The project is moving to a very important stage of preparing a joint investment feasibility study, where engineering decisions will be made that will lay the foundation for the transition to the design documentation stage. The project has obvious benefits because it's not tied to any particular field. It means that, especially in view of the reduction in unit costs that we have achieved and will continue to pursue, not only it is going to be competitive compared to expensive Australian projects, but I'm sure it will be able to match American projects as well in terms of competitiveness. That project will give us extra flexibility in our operations. The markets – it's clear which ones – signal their demand, and we are going to embark on marketing activities shortly as well. That project is not new, we discussed it quite a long time ago. All the groundwork we laid back then is also coming in handy now. So, I'm convinced that the project will be implemented. The deadline is currently 2023.

ELENA BURMISTROVA: It's worth adding here that the rescheduling was caused by the current market situation, and it shows that Gazprom makes adjustments to its strategy every year, depending on the market developments.

QUESTION: Evstolia Taranda, Yamal-Region TV and radio company. Mr. Medvedev, you have mentioned in passing the exports of liquefied natural gas from Yamal. Could you elaborate on the background of the matter, and on what is happening now? Could you please give us some figures?

ALEXANDER MEDVEDEV: According to the information available to our colleagues from NOVATEK and Total, supplies from the Yamal LNG project are scheduled to begin in the fourth quarter of this year. There is a schedule for reaching the design capacity of 10 million tons per year. We have a contract with Yamal LNG for 2 million tons, with an option to increase that volume to 2.5 million tons. The contracts among which first LNG supplies will be distributed are a matter for further discussion. The starting date for deliveries to Gazprom will be determined pretty soon, I believe. Maybe even before the end of this year.