

Press Conference
Gas Export and Enhancing Reliability of Gas Supply to Europe
June 7, 2018

MODERATOR: Good afternoon, dear colleagues. We proceed with the series of Press Conferences in the lead-up to the annual General Shareholders Meeting of Gazprom. We have already addressed production and power generation issues, and today's Press Conference is focused on gas exports to Europe.

The Press Conference is attended by Alexander Medvedev, Deputy Chairman of the Gazprom Management Committee, Sergey Kuznets, Deputy Head of Department at Gazprom, and Elena Burmistrova, Director General of Gazprom Export.

I yield the floor to Alexander Medvedev, and after his speech, we will move on to questions. Mr. Medvedev, please.

ALEXANDER MEDVEDEV: Good afternoon, ladies and gentlemen, members of the media present here in St. Petersburg. We are meeting here for the first time in the history of Gazprom. Plus, I understand that we have a lot of real-time followers on the web, and our audience is not limited to the attendees in this room. Therefore, questions can be made both directly and online.

In order to save more time for your carefully thought-out questions, I will make a very short introduction. Let me start by saying that, just like the previous year, 2017 was a record year. We hit the absolute record of 194.4 billion cubic meters in gas supplies, including the gas sold by Gazprom Export under a commission agreement with Gazprom, and the gas distributed by Gazprom Schweiz.

As for the current year, it started off very successfully, too. We are ahead of the last-year supply schedule by almost 5 billion cubic meters, and conservative forecasts suggest that this year's exports will be record-high again. The expected result varies from 196 to 197 billion cubic meters of gas. I would like to stress that this is a conservative forecast.

This year, another absolute record was set in daily exports to Europe – 713.4 million cubic meters of gas in one day. And this occurred not in December or in January, not even in February, but in March as a gift for International Women's Day. A total of 713.4 million cubic meters was exported to Europe on March 2, 2018. If you multiply this volume by 365 days, you will appreciate Gazprom's export capabilities for Europe. The Company has created production and transmission facilities exceeding 250 billion cubic meters in capacity. This confirms our vast potential for meeting the growing import demand in Europe. Europe will need gas imports, because even if the overall gas consumption doesn't rise and remains flat, or even slightly falls, as they often declare in Europe, this will be the result of a steep decline in Europe's internal production rates. The main reason for this is collapsing gas production at the well-known Groningen field in the Netherlands, which is actually close to shutting down. In the last few years, its output was reduced by more than four times due to the risks of flooding rather than earthquakes. The field will be decommissioned entirely in a very short period of time.

The British and Norwegian gas production sectors are not up to the mark either: they are about to face production cuts on an accelerated schedule. Let's recall the expert estimates stipulating much lower gas requirements than those we have already named, whereas we predicted this situation five years ago: in contrast to the consensus forecasts of, I stress, additional imports, previously anticipating extra demand to drop down to 40 billion cubic meters by 2025, the most conservative assumptions of today indicate that Europe may need up to 60 billion cubic meters of extra gas imports per year by 2025, and up to 80 billion cubic meters by 2030. In fact, based on more objective predictions, additional imports may not only surpass 100 billion cubic meters beyond 2030, but may also approach 200 billion cubic meters. The only question is if it will happen in 2035 or 2040. By the way, the contract with our partner, OMV, has been extended until 2040, and this date is not incidental.

Of course, you are wondering: “What prices will be set for this year?” As you already know, our export portfolio has been adapted to the ongoing changes in the European market. Along with the conventional petroleum linkage, we also use the so-called hybrid model, which combines hub prices and prices for petroleum products. But predictions are quite easy when there is a direct link to hub prices. Now, let’s look at our export portfolio: compared with the last year’s price, which was about USD 197 for 1,000 cubic meters, our cautious assumptions suggest that this year’s price will be around USD 220, like the AC voltage, with a possible increase. Then why do we make cautious predictions? Because in forecasting it is better to be conservative than unreasonably optimistic. Still, our sense of optimism will increase each month because oil is still strongly correlated to the prices of more or less liquid gas hubs, including NBP in the UK, the NCG in Germany and the DTF in the Netherlands, so its price will advance by at least USD 23–28 for 1,000 cubic meters from last year. Additionally, the ruble-dollar and euro-ruble conversion rates resulted in record-high ruble revenues last year. This allows us to plan our investment program for the major investment projects. Of course, you know them all, including the Nord Stream 2 project and the TurkStream project with its first string already completed as the receiving terminal in Turkey is being constructed according to schedule. Quite recently, an intergovernmental protocol was inked regarding the second string of TurkStream in Turkey, where natural gas will be delivered to the border between Turkey and Bulgaria, and from there on each member country of the project will develop its own gas transmission system in accordance with the applicable rules of the European Commission and the European Union. Gas transmission operators are already taking measures to ensure that the gas transmission systems of these countries are available for additional gas deliveries.

Natural gas supply from Russia to the People’s Republic of China is another large-scale project. The deliveries are scheduled to start next December. The Power of Siberia gas pipeline is well on track; our Chinese colleagues are doing their job on time as well. The construction of the river crossing is nearing completion. The Amur Gas Processing Plant, which is closely related to gas supplies to China, is also being built as planned, which means that the geographic diversification, which we mentioned as a part of our strategy, will be given a material manifestation next December.

The third train of the Sakhalin II project has successfully passed an expert examination, which paves the way for the final investment decision. We plan to accomplish this either in the fourth quarter of this year or in the first quarter of the next year.

Another great and promising project is Baltic LNG with a total capacity of up to 15 million tons, being carried out in partnership with our colleagues from Shell. The project schedule also implies that the final investment decision will be reached next year. And the results of the preliminary technical and economic surveys have clearly indicated that this project will be competitive, I would even say one of the most competitive in the global market.

Our activity is based on long-term planning, and we are confident that the plans Gazprom has outlined for itself will come true and, of course, our export activities, gas deliveries within and outside the former Soviet Union, greatly contribute to fulfilling them. You have the relevant information, so I’m finishing my short introduction, and we are ready for your questions.

QUESTION: Evgenia Sokolova, TASS agency. Good afternoon. My question is addressed to Mr. Medvedev, I think. Can I start with the most painful issue?

ALEXANDER MEDVEDEV: Is it painful for you or for us?

EVGENIA SOKOLOVA: Naftogaz has made a triumphant declaration about the seizure of Gazprom’s assets in Switzerland and Holland. Is that true? Could it affect the Nord Stream 2 project and Russian gas transit to Europe? Thanks.

ALEXANDER MEDVEDEV: I think that your question has substantial legal content. I suggest that Sergey Kuznets provide his legal expertise on this issue.

SERGEY KUZNETS: Good afternoon. Yes, we have become aware of the statements made by Naftogaz and other concerned parties, as well as of the actions being taken to enforce the Stockholm arbitration ruling. We are not yet able to confirm the information about the seizures, primarily because Gazprom hasn't been officially notified of these actions. The point is that both Switzerland and the Netherlands, which are mentioned in this regard, act as parties to the international agreement stipulating a certain procedure of notifying litigants. This procedure involves sending notifications through the Ministry of Justice and through judicial authorities. Gazprom hasn't received any such notifications. In this context, we look forward to receiving such documents and, for our part, we are taking all necessary measures to protect the interests of Gazprom, and we will keep all concerned parties updated as more information becomes available.

As for the possibility of affecting the Company's operations, I think Mr. Medvedev will tell you how the matter really stands.

ALEXANDER MEDVEDEV: As a Member of the Board of Directors of Nord Stream AG and Nord Stream 2 AG, I can say that both companies are running their business operations as usual in accordance with their respective missions.

QUESTION: Elena Mazneva. I'd like to ask two questions, although I have even more and I would appreciate it if you could give me a chance to pose them all later if there is enough time.

Continuing the topic of Ukraine. As various legal proceedings are ongoing now, you are trying to contest the ruling of the Stockholm Arbitration Court in Sweden. Nevertheless, considering that Naftogaz is actually undertaking certain measures, and we know that these are interim measures, don't you think it would be easier for Gazprom to pay USD 2.6 billion now and then continue the litigation, so that you could charge the money back if the Stockholm ruling is canceled? Wouldn't it be easier from a reputational perspective? What objections do you have against paying this amount now?

ALEXANDER MEDVEDEV: That sounds a little odd. "Wouldn't it be easier?" Mr. Kuznets has told you: we don't even have any information regarding the Ukrainian party's actions against Gazprom. It is a complicated procedure indeed. Just as money requires strict confidentiality, so do court proceedings on an issue as complicated as this one.

MODERATOR: I suggest we get back to the topic of the Press Conference. We have received questions from the Interfax agency. The first question is: "When will you start supplying gas to Turkey via the first string of TurkStream?"

And the second question is: "Is the possibility of diverting the second string of TurkStream towards Bulgaria from its Black Sea route still on the agenda, or will the second string only come to Bulgaria through Turkey?"

ALEXANDER MEDVEDEV: Gas supplies meant for Turkey via the first string of TurkStream will begin before the end of 2019. The exact date depends on the readiness of the offshore section and also on the availability of the Turkish gas distribution system. Everything is going according to schedule. There is no doubt that supplies will start in 2019.

Now, concerning the second question. As you have rightly emphasized, during the visit by the Bulgarian President and Prime Minister, the Bulgarian side raised the question of whether the second string could be routed directly to Bulgaria, essentially following the route of South Stream. From my point of view, this reflects the regret felt by the Bulgarian side, as a while ago they had actually halted the South Stream project, which was ready to start. But you see, these visits took place just a week or a couple of weeks after the Intergovernmental Protocol was signed with Turkey regarding the onshore part of TurkStream's second string, where each side assumed certain obligations. Speaking of the project's prospects, let us not get ahead of ourselves. When it comes to the figures of additional imports that Europe may need by 2025, 2030, 2035 and 2040, many experts said, and Alexey Miller acknowledged it as well, that if Europe confirmed its demand, we could provide enough gas to satisfy it. Clearly enough, the new volumes will require new gas transmission routes. Naturally, it's too early

to speak about their possible names or destinations. As for Bulgaria, you should probably ask the direct participants in the negotiations.

QUESTION: Maria Grabar, RIA Novosti. A question about the Ukrainian transmission route, if you don't mind. Taking into account the actions of Naftogaz on assets seizure or non-seizure, are you still negotiating gas supply and transit after 2019? Has Gazprom prepared an offer for Naftogaz on guaranteed transit volumes after 2019? What volumes would those be? Thank you.

ALEXANDER MEDVEDEV: If you closely followed the press and TV coverage, you would know that there were plans for trilateral talks of the ministerial level involving the European Commission and the Russian and Ukrainian parties. So far, we haven't received any notifications but we know that the Ukrainian side is taking certain actions. Whether these negotiations are going to take place is not for us to say.

QUESTION: Good afternoon. Artur Toporkov, Vedomosti newspaper. A clarifying question on the subject of the Ukrainian transit. It has been said repeatedly that transit can be resumed if you find the economic terms acceptable.

Firstly, what terms would you find acceptable?

And secondly. It has often been stated that the volume of transit gas flows through Ukraine after 2019 was supposed to be 10–15 [billion] cubic meters per year. Besides, you need standby capacities in case of technological emergencies on other routes. What capacity reserve would you like to have on this route and will you discuss it with the Ukrainian side?

ALEXANDER MEDVEDEV: You make rather categorical statements about the need for a technical reserve! Let's consider the case of Baumgarten. Some "experts" tried to use the Baumgarten accident to prove the unreliability of Russian gas supplies to Europe. In fact, Baumgarten faced a breakdown at a gas metering facility, not at the city's gas storage, due to a gross safety violation. Unfortunately, the accident caused a death: the man who made this tragic mistake died. The accident was caused by adverse circumstances: bad weather and humidity. But it was eliminated within the shortest time possible: gas transit was completely restored the next day. As far as offshore gas pipelines are concerned, let's look at Blue Stream. The only supply interruption at Blue Stream was caused by preventive maintenance, which can last up to one week, and not even every year. Other than that, Blue Stream has been working like clockwork for 15 years now. So, your position is highly debatable, at least from a technical standpoint, concerning the need to maintain a certain technological reserve. The amounts of gas transit through Ukraine will be determined based on very different considerations. Among the critical factors mentioned by the Russian President were acceptable economic terms. This concerns not only the tariff level, but also the guarantee of compliance with this tariff. Ukraine publicly asserted that, being a part of the energy community, it was going to adopt European legislation and it was therefore the state regulator that should set the tariff. And whom shall we negotiate with then? With the regulator or someone else? We get no response even to these simple questions. In that case, neither Naftogaz nor Ukrtransgaz can be responsible for tariffs. There should be someone responsible for the negotiations. Colleagues, it is dangerous and unnecessary to jump the gun in such matters.

MODERATOR: Reuters, please.

QUESTION: Oksana Kobzeva, Reuters agency. Let me ask a few questions. The first one is related to discounts for Turkey. It was stated at the last conference call that a part of the back payments would be made in the form of a future discount. Could you explain whether it applies beyond the earlier contract for 2015–2016, which means that Gazprom will provide a discount to Turkey for future years as well? If so, what is the discount percentage and what amount will be discounted? The second question is about the antitrust case regarding the settlement of the case with the EU. What changes will be made to Gazprom's contracts? And a clarifying question about the expansion of Sakhalin II. Could you please explain why Gazprom is still delaying the investment decisions on this issue? Thank you.

ALEXANDER MEDVEDEV: Quite often, information presented by the press, and I mean both Turkish and Russian media, doesn't quite reflect the reality, to put it mildly, although it may have something in common with the truth. For instance, when round numbers are mentioned, it can be concluded that they were rounded off. Elena Burmistrova was directly involved in this, so she may expand on my comment. Let me point out that, in addition to 2015 and 2016, we have a contract-based price in force, and as for the payments, Ms. Burmistrova will explain how they will be made.

ELENA BURMISTROVA: Absolutely true, Mr. Medvedev. We provided exclusive discounts to Botas for 2015–2016, and now we are using an old contract-based price and we continue to work in line with this scheme. I would like to stress that, first and foremost, the parties agreed on the price in an extrajudicial settlement, and the negotiating process was rather substantial. I am reluctant to announce the exact sums of payments because it is a commercial issue. I may add, however, that the discount is divided into two parts: one part will be provided in the form of back payments, and the other part will be deducted through discounts in the nearest supplies. This is how matters stand in general.

ALEXANDER MEDVEDEV: Let's proceed further. In respect to the antitrust investigation. It was a long and often arduous process, not always pleasant. You probably remember how it all began – with a seizure of documents from our subsidiaries in the countries that had initiated this investigation, but then the process took an absolutely professional, business-like direction. A “statement of objections” – that can be translated in different ways – “claims,” some like to put them as “accusations,” I would construe a “statement of objections” as a “claim” or “concern” that needs to be eliminated somehow. And I believe that we will attain this goal jointly with all of our skilled professionals and international experts whom we have engaged to prove that our pricing system is not discriminatory towards the countries that appealed to the European Commission. Some of these concerns were related to the so-called market segmentation because if we look back, our contracts had a so-called destination clause. But the truth is that we had started to remove these provisions even before this investigation was commenced. And I will keep saying that it was actually Gazprom that pioneered gas liberalization in Europe and in Germany, where no-one gave us a free share of the market. We established a joint venture with BASF in 1991, and over the years we have made significant investments in transportation. Today, vertically integrated companies are not allowed to make investments in Europe, as this heavy burden is placed on gas transmission operators, although they are guaranteed a certain level of yield. As a matter of fact, it was Gazprom that monopolized nearly all of the German markets and became a pioneer of liberalization. Nobody gave us a market niche or customers, yet our share in the German market rose to 15 per cent during the period of cooperation with our partners. Nevertheless, regarding the concerns, claims, doubts that the European Commission had... We arranged a series of meetings at the top executive level of Gazprom Export and Gazprom, and Ms. Burmistrova repeatedly took part in them, we had so many working meetings it's hard to count them. Our reasoning takes into account the changing market conditions, and we evolve and adapt without any investigations. As we are interested in developing the market, we continue to invest in the underground gas storage (UGS) network, which not only contributes to energy security, but is also instrumental in market development, falling in line with the EC strategy that aims to ensure unhindered distribution of gas among countries. Anyway, if we look at northwestern Europe, gas demand is satisfied there through multi-billion investments and the diversity of gas suppliers, i.e., supply sources, not traders. As for the Baltic States or Bulgaria, it is fair to state that the situation in these countries is different from that in Western Europe. However, together with the European Commission, we worked out a solution that subsequently underwent market tests which were then followed by further adjustments in order to allow the buyer in a particular country, subject to the availability of transmission capacities, to request that gas be delivered to another country, to a different delivery point under certain economic terms. And those were meaningful negotiations, involving measurement and analysis of gas transmission systems in each country, as well as the study of possibilities to carry out supplies. It is easy to draw arrows on a map, but one should bear in mind that gas supplies are subject to certain physical laws. Gas can't be pumped into pipelines with lower pressure without technical

assistance. This is often overlooked, but one can't ignore the laws of physics. Together with the European Commission, Gazprom thoroughly addressed all the claims that were brought against the Company, and we managed either to rebut them by proving their groundlessness or, in the cases when these doubts, claims and requests were driven by real market conditions, take them into account in developing our agreements, which are coming into effect now, and I hope that this situation will not occur again.

QUESTION: [inaudible]

ALEXANDER MEDVEDEV: We still keep up with the schedule as I have already mentioned. The deadline is the fourth quarter of this year or the first quarter of 2019. We have a lot of projects in the Far East, and keep in mind that the Far East is a priority development area. Furthermore, natural gas penetration level in the Far East is still lower than the level it could reach. Russian companies have a number of export-oriented projects involving gas, so all these factors should be taken into consideration, and, needless to say, we will select the most effective project. But, again, if we look over the long term, the resources of the Far East and Sakhalin will not be depleted even with the Sakhalin I, Sakhalin II and Sakhalin III projects fully onstream. You can look up the notice from the Ministry of Natural Resources, which mentions the Sakhalin IV and Sakhalin V projects meant to use as-yet-unproven reserves. We are inspired by the joint success achieved by our colleagues and the Company, when initial proven reserves were revised upwards, which is rather encouraging. And yet, our business has a long-term perspective, with a time horizon of not just 10 or 15 years, but 25–30 years and more. Therefore, I would not say that we are lagging behind, especially since we are committed to quality, and it was not by chance that we received the Russian State Expertise Agency's approval at the first attempt, without any critical remarks.

MODERATOR: We are receiving online questions. Which buyers will have their contracts revised by Gazprom in accordance with the European Commission's decisions?

ALEXANDER MEDVEDEV: We don't have any requirements on price revision now. We have outlined a certain procedure for price revision, with all relevant periods and conditions thereof. Moreover, these rights are mutual. Please don't assume that they always come to us for price reductions: during our term of office, i.e., since Elena Burmistrova and I have been employed with Gazprom, we have repeatedly – I stress – increased prices in line with contractual terms and conditions. The same is true for the countries that appealed to the European Commission.

ELENA BURMISTROVA: I would add that, of course, both Gazprom and Gazprom Export are ready to introduce the necessary changes into the contracts that are subject to such changes, and to appeal to the buyers for these changes in pursuance of the European Commission's decision. Still, there is nothing extreme about it, no drastic revisions or game-changing conditions, the entire process will be in a standard operating mode and, of course, its progress will be monitored by the European Commission. All in all, this is an excellent result in my opinion, and indeed, the European Commission approached the issue very carefully, which is especially impressive considering the pressure, the political pressure, that was exerted. In our opinion, the decision was completely fair and economically reasonable, which is quite a pleasing outcome.

MODERATOR: Thank you. The Mir TV company, please.

QUESTION: Good afternoon, I am Nakhid Babaev from the Mir TV company. My question is probably for Elena Burmistrova. Recently, we celebrated the 50th anniversary of the start of Soviet gas supplies to Austria. The year 1968 saw rather unfortunate political events happening, it was during the Cold War, but Vienna went for it. What are the results of that cooperation? And the second question: you re-signed your contract with Austria a short while ago, although it would be valid until 2028. What does it mean, given that the relationship with Western countries is far from perfect again?

ELENA BURMISTROVA: Thank you for your question. It was very nice to hear it because, indeed, we witnessed the first official visit of the Russian President to Austria, and it coincided with the contract extension and the celebration of the 50th anniversary of the start of gas supplies. You are quite

correct, Vienna had decided to start buying gas in July 1968. Moreover, at the celebration ceremony we heard a lot of different stories, even legends, about how it all happened. It was very interesting to learn all these details. The Austrians who had opted for Russian gas gave their assessments. They believe that they have really benefited from it. There had been competition from Norwegian and Algerian gas at the time, but Austria is still favoring Russian gas, which is why we extended the existing contract. The OMV management and the politicians who were present at the event gave rather harsh judgements regarding alternative supplies of American LNG, for instance, LNG exports to Europe. In fact, this is vivid proof that our partners, our key European partners, are eager to cooperate with us, being aware of the competitiveness of Russian gas. Moreover, those 50 years of joint work give us further proof as to the flexibility, reliability and ability to meet peak demands and cover all consumer needs. The visit was arranged at the highest level and went very well, leaving warm memories, at least as far as I am concerned, and Alexey Miller feels the same way. This is indeed a case when a strong long-term relationship produces the results and benefits that can be used by us and by, if I may say so, the future generations that will join Gazprom's team.

QUESTION: What were the Austrians telling you?

ELENA BURMISTROVA: I will tell you about it when we meet some other time. They told us how difficult it was to make decisions in those years under a really tough pressure. In general, the situation was somewhat similar: the pressure of the NATO countries, and Austria's decision-making process, and distribution of votes, for example, at the company level: whether to trade with the Soviet Union or not. It wasn't very clear even to the Austrians themselves whom to contact: the Ministry of Foreign Trade or the Ministry of Gas Industry, and how to shape the procedure? Well, we will write all this in our memoirs someday. Thank you.

MODERATOR: Thank you. Energy Intelligence, your turn.

QUESTION: Good afternoon. Vitaly Sokolov, Energy Intelligence agency. I would like to get back to the antitrust case and then move on to TurkStream, if possible. If I understood the European Commission's message correctly, the decision in the antitrust case includes a clause concerning your work with gas transmission facilities in Bulgaria. Could you explain if your work with the trans-Balkan gas pipeline is going to change somehow as a result of the decision in this antitrust case, if the booking procedure is going to change for you, if the third energy package rules apply to this gas pipeline, which has always provoked complaints by the European Commission for not complying with the aforementioned rules? Are you still considering it to be part of TurkStream, that is, do you plan to use it in reverse mode? The second question is also related to TurkStream. Previously, an alternative, or second, route for gas deliveries from Turkey to Italy across Greece was discussed, and you met with Edison officials at the recent economic forum in St. Petersburg. Surely you were discussing the Poseidon project there. Will you update us on the project status now? Is it viewed as an extension of the TurkStream project? Thanks.

ALEXANDER MEDVEDEV: You know, this story has two dimensions. The first one is the procedure for interaction with gas transmission operators in certain countries with regard to innovations put into practice in these respective countries. The second dimension is the antitrust investigation, which did not address the work of gas transmission operators, and our interaction with the investigators. They were concerned about the unhindered distribution of gas, and the operators just perform their official duties in this case. As for our cooperation with the operators: we have certain test agreements in force and we are not going to comment on them, since they are just being tried out. One of the prerequisites is that we shall not demand compensation for damages from Bulgaria in connection with the failed South Stream project. But we don't intend to. On the contrary, we are faced with the fact that they are asking us to revive the project. But, again, returning to the issue of the right time for building new gas transmission routes from Russia, I am sure that the right time will come as soon as Europe demonstrates solvent demand. Quite another matter is what this project will be named. Regarding the second part of your question. As the saying goes, you can't have your cake and eat it too. We considered two options: through Greece to Italy, or through Turkey to Bulgaria towards

Baumgarten. But I wish to emphasize: we are not going to develop the gas transmission systems of the countries traversed by the gas route under our contract. In accordance with European standards, it is the responsibility of independent gas transmission operators, which, having assumed certain liabilities, usually on an auction basis, have to raise funds in the European financial market following a certain procedure and to build infrastructure in accordance with the relevant procedures. For our part, we are ready to insist on the performance of the obligations for the transmission of this gas in accordance with our contracts. As to the scope of capacities to be created: if someone else provides capacities, it does not mean that we will get less of them. We have already come across such a case when there were attempts to force us out of our capacity reservation contracts, even despite the “you don’t use – you lose” rule that applied. As for us, we were using all of our capacities at that time. There were cases when companies that didn’t use their capacities lost them, including the auctioned off capacities of a certain well-known gas pipeline. Having obtained these capacities, the buyers, instead of using them, were trying to profit from them as they had no gas. Some of these buyers were seriously affected by making such orders. But we do possess gas for which we need this gas transmission capacity. And we made it known that, after what happened to the South Stream project, where we were supposed to participate in the construction of relevant gas transmission facilities, we were told that we shouldn’t do that. All right, then we will act according to the standards set by the European Union and the European Commission. And now we expect that all these rules effective in the European Union will be implemented. We see from Nord Stream 2 that the EUGAL gas pipeline is being implemented in strict compliance with these standards. The consortium of gas transmission operators is performing its direct duties in accordance with the schedule, and we are satisfied with the work being done. As the gas market of southeastern Europe is not as well-developed as that of northwestern Europe, we are still expecting everything to be carried out in accordance with the prescribed rules and regulations. We fully comply with these rules and regulations, and we are ready to abide by them within the existing and future projects.

ELENA BURMISTROVA: With regard to the question about Poseidon, I would like to add that the Poseidon project continues to be viewed as one of potential extensions of TurkStream.

VITALY SOKOLOV: But what about having your cake and eating it?

ELENA BURMISTROVA: We are not trying to do that. We are doing construction work right now and I would say it is quite intensive.

VITALY SOKOLOV: So, you are considering both the route to Italy and the one across Bulgaria?

ELENA BURMISTROVA: We are considering all options. You see, it would be odd if we did not.

ALEXANDER MEDVEDEV: I mean to say that regardless of our priorities, the route will be determined at the auction where certain capacities can be guaranteed to be ordered. These can be booked on one route or the other. I will not comment on the likelihood of either option today.

MODERATOR: Thank you. This year, we have adopted a new format: in addition to the livestream, we are also connected by a video call to the TASS center in Moscow. Let us switch to it. Yes, thank you. Good afternoon, colleagues. You may ask your questions now.

QUESTION: Anastasia Goreva, Argus Media agency. I have two questions. A clarifying question concerning TurkStream. When will the route of the transit pipeline through Turkey be determined: is it going to run to Italy, to Greece, or to Bulgaria? And are there any definite agreements reached with European operators, stipulating that they will really expand the pipeline capacities to accept Russian gas from TurkStream via the second string? This is the first question. And the second question is about UGS facilities in Europe. Tell us, please, how much gas Gazprom pumped or held in its European UGS facilities last year, and how much gas was withdrawn? Did Gazprom use third-party services, and how much gas are you going to inject in European facilities this year? What withdrawal rates are you expecting and are you planning to enter into a contract with outside companies?

ALEXANDER MEDVEDEV: I have to reiterate that the route will be finally determined following the results of a relevant auction, which, I emphasize, is mandatory. Gas transmission operators, I mean Bulgarian or Greek operators, are supposed to conduct it, but they may choose not to. It's up to them. We are ready for it. You should understand that the situation when we acted as an investor or co-investor in gas transmission projects was different. In the current circumstances, what we are most interested in is the capacities that we could use for our export contracts on a long-term basis. As for UGS facilities, you were right to point out the storage capacities we have created in Western Europe, which we have also increased many times over. Very recently, we had much smaller transmission capacities than now. Today, their total volume exceeds 5 billion cubic meters stored per year. In addition to our own capacities, we also rent some. We do this for two reasons. One is to secure gas supplies even in the midst of the coldest and harshest winter in Europe... Well, just like in previous years, this winter was rather mild in Europe, too. Nevertheless, Europe has realized the importance of gas for the region's energy security. As a consequence, European countries widely used UGS facilities. Notwithstanding the fact that the gas volumes in UGS facilities are now at their lowest in absolute and relative terms, we are actually still operating in the winter mode, with daily supplies sometimes exceeding 500 million cubic meters. Even though it is summer now, June actually, we are still supplying gas in line with the winter regime that was put into practice 3 to 4 years ago. One of the most significant factors behind this, in addition to the fact that gas has already proven its advantage over coal, is the existence of UGS facilities; therefore we have our own and rented capacities. Our goal is very simple: to accumulate 8.5 billion cubic meters of working gas in our European underground gas storages, both the Company-owned and rented ones. I mean exactly the working gas which can be withdrawn according to a certain schedule, including at the time of peak demand, to meet the urgent need for gas. And I will stress the fact that there has not been a single day in the winter period for a number of years, when we failed to fulfill our obligations on supplies, sometimes reaching top heights, i.e., the maximum contractual amounts. And the contribution of UGS facilities is really enormous, yet it should be considered not separately but in connection with the capacities of our gas transmission system and domestic UGS facilities, which are also being expanded in accordance with the long-term development plan. We hold more than 70 billion cubic meters of working gas in Russian UGS facilities each winter.

MODERATOR: Rambler information agency.

QUESTION: Vasily Mirkin, RNS. I have a question about Nord Stream 2. Is there any progress in securing bank financing for Nord Stream 2? When can we expect the first loans, and could you possibly name the lending institutions that are ready to participate in the financing?

ALEXANDER MEDVEDEV: The work on securing project financing is being carried out by our financial experts together with our consultants and advisers. I know that journalists are curious about both the result and the process. In this case, I do not consider it possible to talk about the process, since I have always told you that I value the result, although the process can be interesting, too.

MODERATOR: Thank you, our Moscow colleagues. We are getting back to St. Petersburg. We have already gone beyond the preset time limits... Are there any questions left? One question from Bloomberg and one from Vedomosti.

QUESTION: I would like to ask my second question after all and to get into specifics about Ukraine. I get that financial issues should be tackled in secrecy, the legal procedure requires confidentiality, but still, could you give us a hint as to when these USD 2.6 billion may be paid, because Gazprom's investors are also waiting for this expense to be accounted for?

ALEXANDER MEDVEDEV: Are you so worried because you are a stakeholder?

QUESTION: I am not, I am just representing my readers who really show great interest in this, so I would like to hear an answer to this question, thank you very much.

ALEXANDER MEDVEDEV: A legal question requires a legal answer.

SERGEY KUZNETS: Thank you. Yes, indeed, Gazprom made certain reserves in its accounting system. You know that we are obliged to do this under Russian law and IFRS rules. We make reservations when potential obligations occur, but this does not mean that we have to pay immediately because, as you know, Gazprom is not satisfied with the Stockholm arbitration ruling. We believe that gross violations were committed during the proceedings. We announced the filing of an appeal to the Swedish state court. So, we have no guarantees that, if we pay the money now, we will get it back in case the ruling is amended or reversed completely as we hope, therefore the proceeding continues.

Actually, there is no deadline, which is why Naftogaz is trying to seize some property in the hope of forcing Gazprom to make a payment as soon as possible. We believe that there is no need to hurry, we have to settle the matter and to finally decide who is the debtor. We believe that we have a chance for the arbitration award to be revised.

MODERATOR: The last question, Vedomosti newspaper.

QUESTION: Sorry to mention Ukraine again. I am wondering about the other arbitration decision regarding the beginning of direct gas supplies to Ukraine. They did not start in March because the additional agreement to the contract had not been signed. The question is: have you signed it already? Or are you still negotiating its contents? If the negotiations are in process, what is the reason for the disagreement, what conditions are still being negotiated? And a little follow-up question: given that the supplies did not begin in March, does Ukraine have the technical capability to select the adjusted take-or-pay amount this year in accordance with the contract, I mean 4 billion cubic meters of gas? If it doesn't, are you ready, as soon as the additional agreement is approved, to agree to transfer the non-offtaken volumes of this year to the next year? Thank you.

ALEXANDER MEDVEDEV: Gazprom has already commented on this situation. I can only repeat what was written in our press releases and said by Alexey Miller. Firstly: the deliveries have not started. Secondly: for what reason? The reason is that the additional agreement needs to be signed for gas supplies to start again. First of all, it was the Ukrainian party that insisted on it, and it was properly documented. During the period of time between the first arbitration decision and the second decision, certain events occurred that ruined the balance that had been maintained between the two contracts. In a situation where this balance is not restored and the additional agreement is not based on this balance, we need the additional agreement itself to contain all of the required provisions. The contract had to be restored and reflected in an additional document, so that this supplement contained all these terms and conditions. And it has to be kept in mind that we didn't insist on creating an additional agreement, it was the Ukrainian party's request. This is what led to the current state of affairs.

QUESTION: Considering the second arbitration decision, which upset the balance of interests, it doesn't seem possible to you to continue negotiations on the first arbitration decision, does it? Am I getting it right?

ALEXANDER MEDVEDEV: No, it does not. As you know, we do not negotiate arbitration decisions.

QUESTION: You mean the enforcement of this decision and the signing of an additional agreement to the contract on direct supplies?

SERGEY KUZNETS: Well, just after the second arbitration decision, which was not acceptable for us, we suggested that Ukraine and the Company restore the balance and reach an agreement again because, as we think, the legal intervention in our relationship was unsuccessful. And, as Mr. Medvedev said, the balance was upset. And the parties held a series of negotiations, where Gazprom outlined its demands and proposed to restore it by striking an accord. The Ukrainian party rejected these proposals, no accords were reached, which is why Gazprom has now filed a new lawsuit in the arbitration, requesting the court to either restore this balance or cancel these contracts as no longer reflecting the realities of our relationship.

ELENA BURMISTROVA: In response to the take-or-pay question: the take-or-pay amount is usually estimated according to the year-end result. We have at least six months ahead, so it is too early to comment on that now.

MODERATOR: Dear colleagues, thank you very much, the next Press Conference is scheduled for June 15 and will be devoted to eastern projects.