

**Press Conference**  
**Gas Export and Enhancing Reliability of Gas Supply to Europe**  
**June 18, 2019**

**MODERATOR:** Good morning, colleagues. We carry on the Press Conferences in the lead-up to the annual General Shareholders Meeting. The topic of today's Press Conference is "Gas Export and Enhancing Reliability of Gas Supply to Europe."

Taking part in the Press Conference are:

- Elena Burmistrova, Deputy Chairman of the Management Committee, Gazprom; Director General, Gazprom Export;
- Sergey Kuznets, Member of the Management Committee, Head of Department, Gazprom;
- Pavel Oderov, Head of Department, Gazprom.

I give the floor to Elena Burmistrova, and then we will move on to your questions.

**ELENA BURMISTROVA:** Good morning, dear colleagues. I would like to briefly update you on the results achieved last year and the main trends of the current year. It is already known that the Company set a new record for gas exports in 2018. According to our management reports, the total volume of supplies under the contracts of Gazprom Export and Gazprom Schweiz amounted to 201.9 billion cubic meters.

Naturally, such record-breaking performance gives rise to questions, such as: can we maintain these volumes and figures? I would like to point out that trends are often more important in our industry than any figures. The ultimate result of 2019 will primarily depend on the market environment and weather conditions. What really matters is that Russian gas supplies at the level of 200 billion cubic meters per year usher in a new reality in the European gas market.

Let me emphasize that ten years ago our deliveries beyond the former Soviet Union were about 30 per cent lower. Just think about this figure, which is indeed high. The market makes its choice in favor of our gas, as evidenced by the signing of new contracts with Gazprom. Last year, we extended the terms and stepped up gas supplies to Austria. Very recently, at the St. Petersburg International Economic Forum, we signed a new contract with VNG for gas deliveries to Germany. Besides, our Electronic Trading Platform, which has been in operation for less than a year, is performing excellently and helping us sell extra gas beyond the amounts contracted on a long-term basis.

Therefore, we feel quite confident in the European market, where a lot of interesting things are taking place. The year 2018 was very dynamic and full of surprises, and this year is expected to be pivotal for the entire industry. We are witnessing a massive influx of LNG supplies in Europe. The market is becoming global, and new trends are emerging on the demand side, including a trend toward the renewed use of gas in power generation. We anticipate new gas transmission routes to be put into operation at the end of the year to help meet the growing demand for imported gas.

Of course, we cannot disregard the current political dynamics, which substantially add to market uncertainty. I will not go into detail about specific political actions or statements. It is important to keep in mind that Gazprom is primarily a commercial enterprise. Our mission is to sell gas on the terms that are favorable to us, our shareholders and our counterparties. And we know how to sell gas effectively in any circumstances.

Our strategic target is to do all that we can to ensure that the more than half-century history of reliable and cost-effective gas supplies from Russia to Europe continues with new achievements. Let this be a key theme in our work in the coming months. Thank you very much. We are happy to answer your questions.

**QUESTION:** Olga Tanas, Bloomberg agency. Yesterday, Gazprom released data on gas exports beyond the former Soviet Union. Compared to the same period of last year, exports dropped by 5.5 per

cent. Is Gazprom going to revise its export plans for this year or will it stick to the estimate of 194–204 billion cubic meters?

Given the risks of gas transit through Ukraine and the fact that negotiations have not even begun, is the Company going to fill up its European UGS facilities to the maximum extent possible?

**ELENA BURMISTROVA:** Yes, indeed, you have correctly identified the trend. There was a slight drop in the first quarter of this year. We believe that it was caused primarily by weather factors. Besides, gas supplies to Turkey decreased due to the overall economic situation that we observe today in the Turkish market. However, we look to the future with moderate optimism and so far have no intention to reduce our forecasts. As we have repeatedly stated, including at the Berlin conference, the range of 194–200 billion cubic meters seems like a reasonable goal for this year.

As usual, we will see what the weather will be like. Last year's autumn/winter period was quite warm, but the upcoming one might be not as favorable, colder. In that case, gas demand will grow significantly.

Concerning the second question, namely the transit risk and the replenishment of UGS facilities. At present, we are actively injecting our gas into European UGS facilities. The volumes are already 2.5 times higher than in the previous year, and we keep injecting gas.

Moreover, we have adopted a development strategy, according to which at least 5 per cent of our supplies should be kept in European UGS facilities, so that we could fulfill all of our obligations to our European counterparties in a timely manner.

**OLGA TANAS:** What impact will it have on gas prices this autumn?

**ELENA BURMISTROVA:** As you are well aware, prices will depend first and foremost on weather factors and also on the Asian premium. So we could predict the price, of course, but it is a rather thankless task, and I would prefer not to say the exact figure.

**QUESTION:** Anton Khlyshchenko, Interfax agency. You have already mentioned Turkey, the economic crisis, and the price dispute. Will this affect the progress of the TurkStream project and the relations between the two countries in general?

**ELENA BURMISTROVA:** First of all, I would like to note that we are not guided by the current market conditions when we deal with major infrastructure projects like TurkStream. We have been in a variety of situations. When we were building Blue Stream, someone was probably asking the same questions. We can see now that it is entirely cost-effective and working at full capacity. Indeed, various problems sometimes occur in the market, with reductions in supplies or market shares. This also has to do with the energy sector in Turkey. At the same time, this will not affect the inter-country relations, which are exceptionally strong today. We calculated the construction costs and ROI based on standard parameters, which we believe we will comply with.

**ANTON KHLyshCHENKO:** Did the Turkish consumers have to pay an advance under the take-or-pay clause in 2018?

**ELENA BURMISTROVA:** There are certain rules outlined in the contract, I mean the contract terms. Of course, they were fully implemented both by the Turkish buyers and Gazprom in 2018.

**ANTON KHLyshCHENKO:** Will Gazprom show similar [performance] in 2019?

**ELENA BURMISTROVA:** It is only the middle of 2019 now. We do not know how the situation will evolve. We still cannot clearly predict the future prices in the market. For now, we are witnessing a downward price swing, but a period of possible autumn and winter cold is ahead, and the falling supplies of the first quarter might be offset. So, I think it is too early to talk about that.

**QUESTION:** Artur Toporkov, Vedomosti newspaper. Everyone is concerned about the “2020 problem” related to Ukraine. With respect to the concept under which you continue exporting about 200 billion cubic meters of gas to Europe: you still have not extended the transit contract with Ukraine, but let us assume that Nord Stream 2 has been fully completed and Eugal has not, moreover, the European section of TurkStream has not been built by the end of the year, what amounts of gas do you

really need to transit via Ukraine in 2020–2021?

**ELENA BURMISTROVA:** My answer will be as follows. I get your concerns about the commissioning schedules of the projects, but I do not share them yet because all works are going according to schedule. We expect the projects to be launched on time. Yes, there are some difficulties, but they are quite manageable today.

The second point: you have mentioned Eugal, the onshore part. Basically, at this juncture I have no doubt that it will be built. It is progressing on schedule as well. As for TurkStream, I have already commented on it.

This is why today I would rather not single out the volumes that will be transmitted via Ukraine in 2020. Firstly, the transit contract has not yet been signed. Secondly, it will depend on the demand from our European counterparties. And, accordingly, based on the approximate breakdown of the annual volumes that you specified, one can probably make some rough calculations. But for now, I would rather not announce these figures.

**ARTUR TOPORKOV:** A question about gas transit to Ukraine. It has been said several times that you are generally ready to extend the existing contract on the current terms. The existing contract in some way contradicts the Stockholm arbitration ruling, which says that Stockholm considers the volumes specified in the contract to be required to be transmitted. Which way is preferable for you now as part of discussing further transit options? Would you rather extend the current agreement with adjustments, sign a new long-term agreement, or sign a short-term agreement with possible adjustments to volumes for the 2020–2021 period? Have you already presented such options as a commercial proposal at the meetings with the Ukrainian party, or you are not conducting any substantive negotiations at the moment?

**ELENA BURMISTROVA:** No doubt, the Ukrainian transit is quite a complex subject today. As you know, a series of meetings was held in the format of trilateral consultations from July 2018 through January 2019, in which representatives of Ukraine, Russia and the European Commission participated. As you also know, no significant accords have been reached so far. And we are aware of a rather difficult political situation in Ukraine today. We understand that the new Government needs to be appointed and parliamentary changes need to be effected first. And only after that, perhaps, we will resume the discussion of the issue. The truth is – and I do not think it is a secret to anyone – that we do not know who to talk to in Ukraine, who are the people or entities in charge of this.

**SERGEY KUZNETS:** Indeed, we have been urged many times to sign a contract on European terms, but I think this is not yet possible because there are still no relevant institutions in Ukraine that could adequately perform the functions that we, as a Company with a European presence, usually expect from such institutions as a regulator and transmission operator.

Just last week, Ukraine's Cabinet of Ministers issued a resolution, which is not really explicit, but at least it sets the direction in which to move. Prior to that, Naftogaz of Ukraine and the Cabinet of Ministers had been in lasting disputes on what operatorship model to choose and the principles on which to base further work. It is indeed very difficult to speculate regarding the future transit contract without knowing who your counterparty is.

It will be recalled that Ukraine is a member of the Energy Community and has undertaken certain obligations to introduce the Third Package rules, i.e. the so-called European principles, into its legislation. The only information available to us at the moment is a report published on the website of the Energy Community Secretariat (that said, it was published in 2018 and might be somewhat outdated). It says that the basic institutions, namely the regulator and transmission operator, that are important to Gazprom as a customer with respect to these capacities, are still unsatisfactory.

It also says that the regulator, which determines the key economic parameters of transit, namely the calculation of the transmission rates, has not yet become independent in accordance with the European principles. The regulator should be independent, so that there would be no doubt that it is guided exclusively by objective criteria and nothing else in determining the transit amount. With this in mind, we are expecting some kind of progress from Ukraine.

**ARTUR TOPORKOV:** Everyone is talking about transit via Ukraine, but few people recall transit via Poland. Your contract expires next spring. At what stage are the negotiations now? Are they already in progress? If you are not talking about extending the current agreement, then what parameters could be adjusted?

**ELENA BURMISTROVA:** The negotiations are ongoing. Moreover, being underpinned by intergovernmental agreements, they involve various Polish agencies and the Russian Energy Ministry. So far, there have been no results, but we will let you know when that changes.

**QUESTION:** Andrey Gryaznov, TASS agency. Gazprom is drafting a plan to minimize the negative consequences of Denmark's stance on Nord Stream 2, and it is clear that Denmark is stalling the process. Is there a deadline beyond which it will be obvious that the project cannot be completed by the end of 2019? Without permission from that country, that is.

**ELENA BURMISTROVA:** I recall a quote from the movie "Garage": "The legitimate path is viable but rather difficult." The same goes for this situation. We have been following the legitimate path for long enough: three applications have been submitted. Our project company is going to hold consultations with the Danish Energy Agency shortly. Right now, I do not want to express negativity or talk about the point of no return or zero hour because the construction is going on and we are keeping on schedule. We reported yesterday that 58.7 per cent, or 1,441 kilometers in absolute terms, of this gas pipeline had already been laid as of June 16, therefore we are moving at a good, I would even say, more energetic pace than anticipated.

Only a 130-kilometer segment in Danish territory remains in question. Alexey Miller stated the at St. Petersburg International Economic Forum and on the sidelines that we can build it within five weeks at the most, maybe faster, depending on weather conditions. So, we do not see that as a problem.

**SERGEY KUZNETS:** I would just like to point out that Nord Stream 2 AG actually commented on the situation and highlighted the need to protect investor rights. Certain investments were made, and the company expects the Danish authorities to lawfully and impartially review the application.

**ANDREY GRYAZNOV:** When will you determine the starting date of gas supplies via TurkStream?

**ELENA BURMISTROVA:** We set it for late 2019, namely December.

**QUESTION:** Vitaly Sokolov, Energy Intelligence agency. You mentioned that prices are difficult to predict. With the current low prices, are you planning to reduce spot sales, including transactions through the Electronic Trading Platform, in order to support these prices somehow? Or are you comfortable with this situation? Does it suit you? Perhaps you think that you are in a stronger position than, for instance, U.S. LNG suppliers in such circumstances?

**ELENA BURMISTROVA:** After taking a good look at the current situation in the European gas market, we found little evidence that Gazprom's gas is being replaced by American LNG. That is, in this case we are not competing for the same niches.

As for the trade volume on the ETP, we are not planning such a reduction at the moment. We consider the situation to be quite comfortable for us despite the falling prices. We realize that this will have a positive effect on, among other things, the power generation sector and gas consumption in this sector.

My second point: actually, the market has already responded to the fact that we are not restricting our supplies. We are not trying to manipulate the markets. We are fulfilling all our obligations and also selling extra gas. And the prices that we observe today reflect our export policy. So, it seems to me that the market's reaction has already taken place: gas is being injected into UGS facilities, and the work is rather intense. It is not only Gazprom but also many European companies that are injecting gas. This is why we are not expecting such a reduction at the moment.

**QUESTION:** Lyudmila Podobedova, RBC newspaper. Alexander Novak, Minister of Energy of the Russian Federation, recently mentioned that Gazprom had proposed an amicable agreement on the Stockholm arbitration to Ukraine. Could you please fill us in: what is the subject matter and when did you send it? In fact, Naftogaz has denied receiving it.

Have you already calculated the amount of penalties for the non-payment of fines imposed by Stockholm for not providing 110 billion cubic meters for transit?

**SERGEY KUZNETS:** As for the amicable agreement and the proposal to sign it, such proposal was made during the tripartite consultations held in January 2019. Alexey Miller announced that we were ready to consider the “zero” option and resume the negotiations “with a clean slate,” as they say. But the fact is that the Ukrainian side is set on changing the format of this possible amicable agreement. They say: “No, let us leave the decision that was rendered in our favor as it is, but as regards our future demands, let us abandon them and conclude an amicable agreement on their basis.” This reminds me of a joke about Winnie the Pooh, who says: “Out of the ten oranges we were sent, I have already eaten my half, all eight of them.” So, if they wish to negotiate an amicable agreement on fair and equal terms, we will certainly be happy to discuss it. So far, the conditions for that have been unfavorable.

Speaking of the penalty amount. Firstly, Naftogaz installed a wonderful fine counter on their website, and they are carefully calculating the penalties we owe them. So, we are using the assistance kindly provided by our colleagues. Their website also says that Naftogaz collected over USD 2 billion from Gazprom, which is incorrect, of course. They are surely referring to the amount that the Stockholm arbitration considered offset based on the review of two disputes. Other than that, not a single dollar or euro has been collected, and all seizure procedures are currently suspended.

In fact, this is why I would like to emphasize the relevance of our proposal to settle the case out of court, because I think the Ukrainian side is misleading even the European Commission. Mr. Sefcovic said at our recent meeting that he was informed by the Ukrainian party of its intention to recover all amounts in autumn and that there was no need to discuss anything with the Russians, because it was a sure bet and they had the money, so to say, in the bag. In my opinion, we are still talking about two birds in the bush instead of a bird in the hand.

**LYUDMILA PODOBEDOVA:** As you are expecting a change of Government and Parliament in Ukraine, are you expecting a change of Naftogaz leadership as well? Is the current leadership team trying to avoid a substantive discussion? Are you ready to cooperate?

**ELENA BURMISTROVA:** I would rather not make value judgements about our colleagues from Naftogaz of Ukraine at the moment.

**SERGEY KUZNETS:** This is an inappropriate question. But from a regulatory standpoint and based on the European principles of work in the gas market, one of the criticisms made today by the European Commission and the Energy Community Secretariat is that no separation has occurred yet. Naftogaz of Ukraine still combines several functions, operating as a wholesaler in the gas market and controlling Ukrtransgaz, which deals with gas transit. And it is precisely the division of these functions, unbundling, ensuring independence and objectivity, that will remove the distortions that are probably still present in our relations.

**QUESTION:** Tatyana Kudryashova, Rossiya Segodnya agency. A question about Nord Stream 2. Russian Energy Minister Alexander Novak recently said that there are several scenarios for adjusting this project to the changes in the EU gas directive. Could you describe the existing scenarios and the ones are you contemplating?

What purchase volumes of Turkmen gas are being discussed and when can the contract come into effect? When will you finalize your negotiations with the Turkmen party?

**ELENA BURMISTROVA:** After the meeting with Mr. Sefcovic, Alexander Novak made a number of statements. That said, what are Plan A and Plan B in this situation? The directive has not yet been implemented, and it will take some time. It takes up to nine months, I think. Therefore, I believe it is premature to talk about that.

**SERGEY KUZNETS:** We will see how it works only after the amendment norms for the Third Package are implemented in the legislation of Germany, which in this case acts as the host country. It is only after the completion of this process involving amendments to German laws and certain instructions and after explanations are given to German regulators, that it will be clear whether we

need to adjust and in what form. It is too early to discuss it now.

**ELENA BURMISTROVA:** Concerning your second question. We have a short-term contract with the Turkmen party, which will be completed at the end of this month. We are actively discussing a medium-term contract for the coming years. I will not spell out the volumes and prices until the negotiations are completed. Usually, we do not disclose such commercially sensitive information.

**QUESTION:** Anastasia Goreva, Argus Media agency. If we look at the optimistic scenario predicting that Nord Stream 2 will be built, how much gas are you going to supply this year, and this winter in particular, via Nord Stream 2 and TurkStream?

You say that it is very difficult to come to terms with Ukraine. What measures are you planning in order to prevent a crisis in the coming winter? It is clear that you will inject as much as possible into UGS facilities. What else?

**ELENA BURMISTROVA:** Regarding your first question: I have already answered it to some extent. It will depend on the applications from European consumers, based on which we will be able to predict a more accurate balance and breakdown by corridors by the autumn/winter period.

As for the second question about the measures being taken: in fact, we have already listed the main ones. We believe that we have options: two “flows” plus the possibility of reaching accords with the Ukrainian party regarding the extension of the current transit agreement. That is, we would rather disregard apocalyptic scenarios.

**ANASTASIA GOREVA:** And are you going to sell LNG? At least, are you considering this possibility? Sure enough, we would like to disregard bad scenarios, but we have to prepare. So, we need to at least make the best use of European regasification capacities or other existing infrastructure in order to supply gas abroad.

**ELENA BURMISTROVA:** Let us discuss one topic at a time. I am not quite sure about the goal of “making use of European regasification capacities.” It seems to me that this should be Europe’s concern, not ours. We should think about our strategy first, and our strategy is to fulfill the requests of our consumers to the full extent. And, of course, we are thinking about that and we will continue to supply LNG as we are doing today.

**LYUDMILA PODOBEDOVA:** You are talking about extending the contract with Ukraine or signing a new one. What period would such a contract cover?

**ELENA BURMISTROVA:** I talked about extending the existing contract, and it was you who mentioned a new one. The periods may vary. We use a flexible approach: both medium and short term will suit us, and we are ready to discuss all options when we know who to discuss them with.

But, colleagues, I am listening carefully to your questions as well, and I am wondering one thing: why are none of you asking about gas supplies to Ukraine starting from 2020? That is, we operate in an imbalance paradigm: our obligations to Ukraine exist, apparently, but is Ukraine interested at all?

Alexey Miller made a number of remarks at the St. Petersburg International Economic Forum regarding Gazprom’s readiness to supply gas to end consumers in Ukraine at a price 25 per cent lower than the current market price. What is happening de facto at the moment? Our Ukrainian customers are buying the same Russian gas that is reversed to Ukraine, at a price significantly higher than the one we could set in our contract. And everyone is fine with it.

In order to balance our volumes, including via all corridors, we need to know what capacities will be in demand, as well as the technical pressure and capacities that we need to keep on the Russian side in relation to the Ukrainian corridors. To that end, we need to know if we will sell gas, or if Ukraine will buy it from third parties at significantly higher prices. This is an integrated approach that we take.

In order to calculate all these figures, we need to at least establish adequate communication with our counterparties. In this regard, we hope that the Ukrainian party is also interested in continuing the transit and increasing consumption at more attractive prices.

**ARTUR TOPORKOV:** Concerning supplies to Ukraine starting from 2020, it depends on the

political will and economic background in the country of the counterparty. According to the Stockholm arbitration decision, Ukraine should buy Gazprom's gas, even in volumes that are 10 times lower – up to 5 billion cubic meters. Naftogaz put a counter on their website. Are you calculating what they have not oftaken under the arbitration decision? Are you going to invoice them later under the take-or-pay clause?

**ELENA BURMISTROVA:** I will say this: we have not put a counter on our website. We believe that our Company deals with slightly different projects and matters.

**SERGEY KUZNETS:** Of course, it would be easy to calculate everything. However, we are always committed to constructive cooperation. I think that scaring each other with counters is futile, it leads nowhere. We all know our rights and, if necessary, will defend them in court.

**ARTUR TOPORKOV:** Why do you need a route through Denmark? There is a junction point between the German and Swedish free economic zones. Are you looking into extending the Nord Stream 2 route by moving farther north, bypassing the Danish side?

**ELENA BURMISTROVA:** When the application for laying the first route was submitted, Nord Stream 2 AG acted according to the established scheme of the Nord Stream project. And based on simple logic, such a permit would have been easily obtained if the circumstances were different. Subsequently, the second application was submitted, then the third... The second and third options of the route pass through the exclusive economic zone. From our standpoint and from the standpoint of Nord Stream 2 AG, Denmark cannot deny a permit in this case, otherwise it would be a violation of the UN Convention.

**SERGEY KUZNETS:** You are probably familiar with the comments of Nord Stream 2 AG on the matter. From their point of view – and I agree with them – Denmark is entitled to either approve the route or not to approve it, but it has no right to dictate where to lay the pipeline. As for choosing the optimal route, it is in the purview of the company. I agree with Ms. Burmistrova that it would be logical to lay the second string in the same place where the first was laid.

**ARTUR TOPORKOV:** It is just that there are no time limits for reviewing the application, and Denmark is taking advantage of that.

**SERGEY KUZNETS:** But there is also a liability that may go into effect sooner or later. As far as I know, Nord Stream 2 AG has referred to the fact that investments have already been made and a delay in coordinating the gas pipeline route could result in losses that would have to be compensated at some point.

**ARTUR TOPORKOV:** You have a contract for the purchase of 2.5 million tons of LNG from the Yamal LNG project. A long-term contract with GAIL seems to have been revised. How much of this LNG is being supplied to India?

**ELENA BURMISTROVA:** I cannot outline the exact scheme right now, but the contract included direct deliveries to India and the possibility of conducting swap operations in the port of Zeebrugge.

**ANTON KHLISHCHENKO:** Is Gazprom interested in obtaining private Turkish importers? Who won the arbitration case with those importers? If you did, how much do they have to pay the Company and within what timeframes?

**ELENA BURMISTROVA:** We have had a number of litigations this year and last year. In all five cases, which were reviewed by different courts, rulings were made in our favor. The amounts payable constitute sensitive business information, and, of course, they are taken into account in our relationships with the counterparties.

As of today, we are not considering the possibility of buying the companies you have mentioned.

**ARTUR TOPORKOV:** This year, you are injecting nearly twice as much gas into European UGS facilities. What is the benchmark for the maximum daily deliverability by the winter period?

**ELENA BURMISTROVA:** That is a very good question, but it is impossible to give a definite answer because there are no such benchmarks. That is, they do exist, but with a very detailed

breakdown by months, days, and with account for peak daily indicators. So, focusing on the “average temperature in the hospital” will get you nowhere, because the values really differ. Moreover, the withdrawal profile is highly dependent on the month in which the initial withdrawal was carried out. The situation is rapidly developing, but our experts are modeling a variety of scenarios and, of course, we take those scenarios into account when making all calculations.

**SERGEY KUZNETS:** As far as I understand, UGS performance is publicly available information that can be found on the operators’ websites.

**ELENA BURMISTROVA:** True. The data is case-specific, in each particular case it depends on the booking of firm or interruptible capacities, and there is no average value of this indicator.

**MODERATOR:** Thank you. The Press Conference is over.