

Press Conference
following the Topical European Energy Issues roundtable discussion

February 21, 2011

Question: Alexey Novikov, Interfax. Good afternoon, Mr. Miller. I would like to address my question to you and those experts who have gathered here, to those who know how to answer this question. The EU-Russia Summit is to be held this week, attended by Russia's major political forces. What are your expectations as of the key party concerned in this dialogue? What results are you looking forward to? What arguments and proposals has the Russian party prepared for it?

Alexey Miller: The EU-Russia dialogue has become more intense lately. We are discussing the issues going far beyond this decade. In particular, I mean the signing of the gas Roadmap until 2050. At the same time, this is not a long period of time for the gas industry because our business is based on long-term contracts, and Gazprom has already signed up contracts effective until 2035. Due to this fact we may speak about gas consumption prospects for the European market at the turn of 2050 with a high degree of probability. Besides, we have recently agreed to conduct a proactive dialogue on the Third Energy Package at the expert level. At present, there is a range of issues needing joint discussion and clarification regarding separate provisions of the Third Energy Package. And, certainly, we have been discussing intensely the construction of new gas export corridors. We are speaking of the progress with the North Stream project and the prospects for the South Stream project.

We hope all these issues will be discussed – and these are our main expectations for the upcoming meetings and talks. And we realize that the Third Energy Package issues will surely hold a special place in the discussion.

What are Gazprom's expectations of the upcoming meetings and talks related to the Third Energy Package? We realize and see the risks being inherent to it at the moment. First of all, they are linked to investments in gas transmission facilities. We believe that the Third Energy Package implementation will bring about the loss of investment appeal for gas transmission capacities. The existence of direct constraints in gas transmission investments for a supplier, particularly for Gazprom, as well as for large European companies that purchase large amounts of Russian gas at wholesale prices will make the sector less appealing for investments. Who will invest, on what terms and conditions – these are the questions needing discussion. There is also a question regarding the principles and ways of upgrading and reconstructing gas transmission facilities being built and – what is more important – fully completed by the moment. That's why we think that the upcoming meetings and talks should result in adopting a mutually acceptable EU-Russia cooperation strategy in the Third Energy Package context.

Vladimir Feigin: Mr. Miller, your speech was very detailed. Now I would like to share my impressions with everybody. On Friday a meeting was held in Brussels on the group of strategies, forecasts and other issues. A large-scale action plan is currently outlined for this year. Our European counterparts say that Gazprom is currently most informed on the Third Energy Package issues across Europe. That's actually what it is. There are many technical challenges and it is probably not the right time to discuss them. But, for instance, we see that there are certain issues with the Package introduction timing if it ever happens. There will be some years of uncertainty when neither old nor new rules will apply.

We also face difficulties with long-term requests and orders for transmission capacity supply. Europe accepts long-term contracts but considers that long-term capacity supply orders upset the market. How can these two points of view exist at the same time? There are a lot of such things that if not clarified or agreed on will create real risks, and if some elements of long-term contracts don't work – it means supply risks. There is a feeling that the Europeans realize that we tell them something as experts not because we want to sting them – we feel these difficulties objectively. In particular, we feel this because we have great experience in operating the Unified Gas Supply System. And what they are trying to create in Europe is a kind of a unified gas supply system but on a different basis, perhaps. But the laws, the laws of operating such large-scale system, they exist. We are ready to exchange this information with Europe, to share our thoughts.

I must say it was very difficult to reach such contact because Europe first said that it would tell us about the Package structure. But we pointed at the problems with it. Again they had to admit that there were problems and they were in the Package itself. And we should solve them together, otherwise these will be just problems we will actually face. Unfortunately, European consumers will face them as well. We should not let the things happen in this way.

Alexey Miller: I would like to add something on the upcoming talks to be held in Brussels. We expect the EU-Russia dialogue on the Third Energy Package to deepen and broaden. We expect the EU to take a non-discriminatory attitude towards new projects on gas transmission corridors for Russian gas supply to the EU. We believe the forthcoming meetings will pay proper attention to the discussion of the mutually acceptable strategy of cooperation between Russia and the European Union during the Third Energy Package implementation, and certainly to the discussion of prospects and opportunities of signing such a document as the Roadmap for cooperation in the gas sector until 2050.

Question: Igor Solovey, the UKRINFORM information agency. Mr. Miller, will you inform us, please, at what stage are currently the talks on setting up a joint venture (JV) between Gazprom and Naftogaz? There hasn't been much information about it lately. Have the existing approaches changed or, perhaps, have the new ones appeared concerning the JV establishment? And the second question

related to it – is there a possibility that the joint venture if established might influence the South Stream prospects?

Alexey Miller: Concerning the stage of the talks, we are currently coordinating the incorporation of a company to appraise the assets of NAK Naftogaz Ukrainy. Our approaches to the JV creation haven't changed: as has been agreed, Gazprom will contribute gas production assets as its stake and Ukraine – gas transmission facilities, accordingly. The JV creation won't influence the South Stream project execution at all.

As for the loading of the Ukrainian gas transmission capacities, this is the question you haven't asked, but were supposed to. In addition to the JV establishment and the South Stream project implementation I can say that if we agree on a merger between Gazprom and NAK Naftogaz Ukrainy, Gazprom is sure to load the Ukrainian gas transmission facilities to the extent possible, which will lead to a rise in Ukraine's budget revenue. But the most important thing is that in this case, as of the time of signing, Gazprom will supply gas to Ukraine at Russian domestic prices. It concerns the Ukrainian population and utility sectors as well as gas supplies to industrial and power generating companies. As you know, the price of gas for Russian industrial consumers is presently much lower than for Ukrainian ones. You know that gas supplies to Russian population are regulated by the Russian Federation Government at the moment as they will be in the future. At the same time, the approach underlying the price regulation for population is based on the inflation level. That's why gas prices for population will remain moderate or, rather, low for a long time. Therefore, if the decision on a merger between NAK Naftogaz Ukrainy and Gazprom is taken, Ukraine is sure to get a strong economic impetus for its socioeconomic development as natural gas is a crucial energy resource, the basis of energy consumption and energy consumption is known to be the basis of economic growth. No doubt, such a decision would give a serious impetus to Ukraine's economy development.

Question: Maria Cannata Francesco, AGI. You've been to Rome, Italy, recently. What do you think of the prospects for the South Stream project and EDF joining it?

Alexey Miller: As for the South Stream prospects – I can say that we are on schedule with the project. At present, we have no doubt we will implement it by late 2015 – construction of the first string. All work on front-end engineering design, feasibility studies and establishment of relevant joint ventures in transiting countries is being carried out on schedule.

As for the shareholders' agreement signing, we are in the process of negotiations with our partners. I mean, first of all, Eni and EDF. During the talks held in Rome last week we defined that there were no fundamental controversies with our Italian partners on the new shareholders' agreement at the moment. The talks will be

resumed and we expect to reach a final agreement both with Eni and EDF. Anyway, we definitely mean the year 2011. It is clear that all the agreements reached – I mean the corresponding memorandums signed with these companies – imply that these are the project participants engaged in its implementation. I think that in the nearest future agreements on the entry of new participants into the South Stream project may also be signed.

Question: Vitaly Knyazhansky, the Den newspaper. Mr. Miller, today you have offered Ukraine a beautiful and tasty candy in the form of Russian domestic gas prices in case of establishing a joint venture, but I am feeling suspicious about...

Alexey Miller: Not in case of establishing a joint venture, I said – in case of merging Gazprom with NAK Naftogaz Ukrainy.

Question: It is far more difficult for Ukraine and to my mind our Government won't be able to accept this offer. That's why my question to you is: will you soften your stand concerning the gas price formula and what will you demand from Ukraine in return?

Alexey Miller: First of all, I would like to begin my answer by saying that there is an example of a large-scale merger – between Gaz de France and SUEZ, when the French and the Belgian companies merged, thus creating a major European energy market player. That's why, speaking of mergers – it is a widespread model for the energy sector nowadays. Mostly importantly, it is mutually beneficial for Gazprom and NAK Naftogaz Ukrainy. Why do I think so? The answer is: we think that Gazprom is objectively Ukraine's top-priority partner in the gas sector. There are many reasons for it, but I would like to observe the key ones.

Firstly, Ukraine is an energy-deficient country and the tendency we observe today will continue and develop: gas production in Ukraine will decline and consumption will grow. We proceed from the assumption that the Ukrainian economy will develop successfully. The present-day level of gas consumption clearly shows that Ukraine has not solved all of its economic problems. In this regard, gas supplies to Ukraine will increase in the medium and long term.

Secondly, if a merger takes place, we will load Ukraine's gas transmission system to the extent possible and it surely means additional income that is significant for the Ukrainian budget. At the same time, if the Ukrainian gas transmission system is loaded with some 95 billion cubic meters of gas per year, we know well that it may deliver 120 and even 125 billion cubic meters with a particular level of investments in modernization and reconstruction, of course. And if small investments are made in new compressor stations and pipeline loops, we may probably speak of 140 billion cubic meters of gas. However, we realize that European gas consumption will grow. According to our estimates, gas demand in Europe may grow up to 130-140 billion cubic meters of gas by the turn of 2020. Therefore, I think that South Stream, North Stream and gas transmission corridors via Ukraine and Belarus will

probably rule out any load deficiency problems with different kinds of facilities, in Ukraine inclusive.

Speaking of the European Union – we discussed the Third Energy Package issues – actually, the Third Energy Package implementation or, let's say, Ukraine's aspiration to adopt European rules in its gas market – particularly this imedes investments in reconstruction and modernization of the Ukrainian gas transmission system. That's why we think Gazprom is objectively Ukraine's prioritized partner, while European companies cooperating under the Third Energy Package are at least not so prioritized. I think this should not be treated as a matter of politics, but rather addressed from the standpoint of economic and social benefits for Ukraine.

As for the current agreement, at present Ukraine pays 30 per cent less for the supplied gas as compared to the European consumers and the price is lower than the European one pursuant to the terms and conditions of the agreement. And we don't expect any changes in the price formula or the agreement revision.

Anatoly Dmitrievsky: It goes without saying that Russia launched both North Stream and South Stream to ensure diversification, reliability and stability of supplies. As you know, when the Yamal – Europe gas pipeline was constructed, problems occurred first with Poland and then with Belarus, thus we decided to construct this pipeline under the Baltic Sea to bypass any transiting countries. The idea of constructing South Stream came during one of these aggravations.

Currently, we should realize – and Russia states its position straight – Ukraine wins in this case. It surely wins, as Mr. Miller already said, as domestic prices are similar to the Russian ones. Forever.

Secondly – the issue of orientation: the European Union and Russia. I would say that the European Union has hurried with the Third Energy Package to make Ukraine decide. Analyze the situation. If Ukraine enters the European Energy Community and implements, for instance, all the EU plans, you will lose the gas transmission system. There will be neither an operator at your choice nor an independent one, there will be an operator elected by the European Union on a tender basis, such an opportunity will be given. Here you have a gas transmission system constructed before adoption of the energy package. The dispute with Poland showed that particularly this position helped defend this section of the Yamal – Europe pipeline, because everything had been done before the energy package adoption.

And here are two points. On the one hand, the Third Energy Package means a competition, on the other – this competition shouldn't infringe an investor's right for efficient return of investments. It is for Ukraine to choose, but this merger will solve all of Ukraine's energy problems. It is the joining of efforts especially on exploration of new gas resources on the shelf, deep gas and gas dissolved in

reservoir waters. This implies very high costs. But this is also an opportunity, and Russian scientists have some turnkey solutions to tackle these problems.

One more thing – I have already told Mr. Miller that three fields have been finally discovered in the southern part of the Caspian Depression this year, and we received Gazprom's prize for discovery of the fields which, to tell the truth, contain hydrogen sulfide, and a technology has been worked out, the technology that costs 180 to 200 times cheaper than a gas processing plant. That's why the proposal to the Ukrainian party on joint development of the fields is very beneficial and will bring together our positions in the energy sector.

Evgeny Kopatko: A few words from the Ukrainian party. I think there is a reason for experts and journalists to pay attention to the fact that there are economic and political matters in our today's dialogue. Certainly, if instead of finding the reasons hindering our progress in respect to Ukraine, first of all, and Russia, we are try to find some ways to overcome these hindrances, then, I think, success is achievable. And one more thing I would like to say and to draw attention to is that without creating a favorable domestic political environment in both Russia and Ukraine, rapid development is undoubtedly impossible. I would like to remind that it will soon be a year since Russia and Ukraine have signed the Kharkov agreements, and they are just waiting for both economic and humanitarian filling.

Alexey Miller: You know I would also like to add that Ukraine hasn't got much time to decide on the destiny of its gas transmission system, on how it is going to develop. According to estimates, in the next 7 years it will cost EUR 6.5 million to reconstruct and upgrade Ukraine's gas transmission system with EUR 3 billion needed for priority operations. That's why Ukraine hasn't much time to decide how the gas transmission system will develop in future.

Question: Sergey Kozinets, Vesti FM radio. My question is short and considers weather. It is cold in western regions of Russia now, and many regions demand increased gas supplies. I hope it won't cause the limitation of current gas supplies to Europe and Ukraine, will it?

Alexey Miller: No, actually it doesn't and it won't cause any limitations. I can say that we are fully meeting the volumes of gas supplies to Europe on the requests we are receiving every day. I can say that in this cold period in Russia and Ukraine we are supplying even additional volumes above the contracted amount and I can say that at the moment we are making concessions to our Ukrainian partners to supply them with heat and their consumers with gas in the volumes needed. And mostly important, I would like to emphasize that we surely realize that in cold periods of the year our consumers regard Russia as a reliable supplier. Here I would like to give an example with Turkey. When interruptions in gas supplies from other sources occur in Turkey, Gazprom, I can say, regularly – because such interruptions occur regularly due to various reasons – supplies gas to the Turkish

market above the contracted obligations and makes concessions to our Turkish counterparts in winter periods as well, when it is cold both in Russia and in Europe. That's why we can provide assistance and help not only to Europe but Asia as well.

Question: Sarah Louise Arno, the Independent newspaper. Taking into account the growing share of renewables and shale gas, what can Gazprom do to improve its image in Western countries, Russian gas supplies' image, I mean, that the issue is much politicized and many people consider these supplies to be unreliable.

Alexey Miller: I think we should bear in mind two things concerning the Company's image. The first is related to the image from the point of our European Union consumers. I want to say that for more than 40 years of gas supplies to Europe we have never violated our contractual obligations, fully and timely supplied the required gas volumes to our consumers. Thus, concerning Gazprom's image for our consumers, I can say that it is very, very high. As for the image created by different mass media in the USA and the EU – that is quite a different thing, politicized and not at all related to Gazprom's economics.

As for shale gas – it is an international PR campaign, well planned by mass media. There are plenty of those campaigns – global warming, biofuel, I can give other examples. The campaigns are good because if we look at the shale gas production volumes in the USA, we will simply see that the US shale gas and natural gas production volumes grow correspondingly. Shale gas and coalbed methane production technologies have existed for decades but these technologies began to appear only during the fall in the US natural gas production, at a very high production cost, in conditions when the US proven natural gas reserves amount to 6.9 trillion cubic meters. With the existing gas production level in the USA – these are enough for 11 years. But then a question rises – perhaps, shale gas is produced in the USA because of problems with natural gas production? It is the first thing. The second – everyone knows about the problems related to technological and environmental aspects of shale gas. It is an unacceptable way of development for Europe.

As for energy alternatives – I would like to mention the Third Energy Package here, because ideologically it is aimed at supporting energy alternatives. The Third Energy Package was adopted before crisis. We think that today, in the current post-crisis period, the Third Energy Package has become outdated from the standpoint of supporting energy alternatives. The reason for this is quite simple – state budget deficits in the European countries. And if some time ago the European Union could afford itself to provide large subsidies for alternative energy, today we see that the situation has changed and the amount of subsidies is reducing rapidly. That's why power energy prospects didn't seem to look good with the existing subsidies, but, anyway, at present, in the post-crisis period, they seem to be even more problematic than before. That's why we consider the 20th century to be the age of

oil and the 21st century – the age of gas. Gas is surely the key fossil fuel, which will dominate the European Union energy balance in the medium and long term. I'm sure about it.

Question: Maria Tatevosova, PRIME-TASS. My question is for Christian Grovitsh. The spot trade development is likely to result in making gas a real exchange commodity. Aren't you afraid that it will drive to volatility in gas prices, and, consequently, consumers won't obviously benefit both from this and the oil price that has been changing recently within the range of USD 100. The same question is addressed to Mr. Miller as well, and another one concerning Shtokman. Could you tell us whether the investment decision on pipeline gas will be taken in the first quarter or a little bit later?

Alexey Miller: I'll begin with the last question. The Shtokman Development AG Board of Directors meeting will be held in March and it is for the Board to take the decision, because Gazprom is one of the Shtokman project shareholders. That's why, together with our foreign counterparts Statoil and Total, we will take a joint decision at the Board of Directors meeting. The issue is already on our agenda and the corresponding decision will be taken.

As for the European market spot trade – its share on the European market will not increase, and it won't surpass 15 per cent. We should realize that it is not willingness or unwillingness of spot trade development that influences the quality of gas as an exchange commodity. Gas is known to be a non-standard exchange commodity and it is this fact that determines market specifics. Oil is a standard exchange commodity. And gas, due to its physical properties, terms and conditions for transmission and delivery to the market, has no prospects of becoming a standard exchange commodity.

Vladimir Feigin: Mr. Miller, perhaps, the direct question is: are we afraid of spot price volatility? I would answer we are, that's why we don't want to move over.

Alexey Miller: In this respect I would like to give an example of talks having been held all this year with our counterparts. The spot market price is known to have risen – we are speaking of a period from December 2009 to December 2010 – two times I think. And this winter [*N.B.: 2009-2010*] the spot market price surpassed Gazprom's long-term contract price. And then we addressed an absolutely direct question to our European counterparts that raised the question on spot market prices in that very period when spot prices were higher than Gazprom's long-term contract prices. I'm telling you about the way the talks were held. I say, "We are ready to sign the terms and conditions of transition to spot prices. What about you?" And the answer is, "No, we are not".

I'm not misquoting or making of something, it is the fact from the talks that have really taken place. Everybody raises questions when the spot price is considerably lower than the long-term contract price. When it approaches to or, all the more,

surpasses its normal level – the issue is closed. But let's remember that some years ago the price for 1,000 cubic meters of gas in the UK market was above USD 1,000 and 3 times higher than Gazprom's price. That's why spot market volatility is an extremely dangerous thing for a customer. And most important is that predictability and reliability of supplies is eventually a priority for a customer. A customer has to be sure that he will receive gas in a definite period of time and in a definite volume. In this respect, actually, spot market gas is a completely different commodity than long-term contract gas, as spot market gas doesn't stipulate for long-term delivery. And it is impossible to buy gas in any spot market now for 3 years ahead, let alone gas supply in 2030.

Christian Grovitsh: I would like to express the following idea of the same period Mr. Miller was talking about. Since then the price of oil has become three times higher, that's why I think we should keep in mind not only spot prices but the futures that are a lot less volatile. This morning I have demonstrated a diagram showing that price volatility on spot markets in the USA and the UK is lower than the one in the European market, in its continental part. I agree that it is, perhaps, more difficult to apply spot price principles to gas than to other feedstock commodities, but we have significant costs in our oil business. If we agree on some global benchmark spot price for gas then... I realize that it is impossible to transit to such a system immediately but in a decade or within a decade – why not?

Alexey Miller: I think that in a decade the role of gas will rise due to the development of natural gas vehicles. And with a drop in oil production, in its reserves, the role of gas as a transport fuel will rise. That's why gas pegging to oil will be even more relevant than it is today, perhaps.

Anatoly Dmitrievsky: I wouldn't like to return to the question, but Mr. Miller said that mass media often distort Gazprom's position. Have a look at it – I'll speak short. Remember the story with biogas, wonderful – 20 per cent by 2020, and mass media start writing that it will enable escaping from dependence on Russia. Then we find out that biogas is there, together with food supply problems, etc. Then we observed the European Union's wonderful program – “20-20-20”. I think, there's no need of deciphering it – everyone knows about it. And again mass media say that it will enable reducing dependence on Gazprom and Russia. The same thing is with shale gas. First, no one will cope with shale gas transportation, because it is too expensive, add transport – and it is already a business with no prospects. I have a plea for mass media – would you please stop frightening Europe, stop frightening everyone around with Russia and Gazprom. For Europe it is a real blessing that it has such a powerful neighbor with such conventional gas reserves. Exploration of non-conventionals [*N.B.: Non-conventional energy resources*] may end with no results, as experience of certain countries shows. So let's live in peace and friendship and contribute to strengthening Russia's contacts and ties with the European Union and Ukraine.

Question: Sevgil Musaeva, the Vlast Deneg magazine. Mr. Miller, tell us, please, whether we establish a JV or merger, money is still needed for the GTS upgrade – you have already mentioned 6.5 billion [*N.B.: euros*] – and even for fields development. Where can we get them? And will these costs, to be included in the gas price, affect the consumers? And the second question: You have already touched upon the issue of PR campaigns, could you tell us, please, how much it cost you to arrange the event and what final objectives you set for this press conference?

Alexey Miller: Speaking of the event objectives – first, the truth is surely born in disputes. Second, it is necessary to listen to each other, of course, it is necessary to understand each other's point of view, to know the participants' opinion on various issues. And mostly important, I will emphasize it once more, it is necessary to understand the principles on which Gazprom operates. Our principle is rather simple and short – if we are speaking about Ukraine, if we are speaking about our European partners, then it is the principle of mutually beneficial cooperation. You say – whether we establish a JV, merge Gazprom with NAK Naftogaz Ukrainy. The principle is very simple – it must be beneficial both for you and for us. But if it isn't beneficial for you and you consider it not to be beneficial for you, then it is your assessment, your decision and you act in the appropriate way. But if you consider it to be very beneficial for Ukraine in terms of economics, so it is probably necessary to follow that very direction, for tackling those issues that were highlighted in the course of today's discussion. Considering the political matters, we should see if we can overcome and, perhaps, if we should overcome these challenges.

Concerning investments in Ukraine's gas transmission system and in Ukraine's gas projects I can generally say that it is necessary to understand a simple thing that we will merge the two companies on the basis of assets evaluation, but the balance of assets differs much from balance of income. As you see, Gazprom's income level is many times – I can't even say several times – many times higher than the one of NAK Naftogaz Ukrainy. And in case of a merger, it will be based on assets evaluation. As you see, it is the answer to the question on where to get the investments.

Question: Stefano Agnoli, the Corriere della Sera newspaper. I would like to ask the following question. Do you think that the political events taking place in the Middle East might affect gas supplies to Southern Europe and, particularly, to Italy? Are you planning to expand your operations in Italy?

Alexey Miller: As for the events taking place in the Middle East and in Northern Africa – first, it is a new presentation of the question on reliability of hydrocarbons supply from this region. And, as we can see, the exchange price for oil is actually a true indicator of what we are currently observing in this region. I think the questions related to reliability and security of hydrocarbons delivery, in particular,

to the European Union, due to the events taking place there, should be observed and analyzed more critically than ever.

As for Italy – Italy is one of our key markets, and we are currently supplying gas directly to our consumers pursuant to the agreement reached some time ago. We have received 3 billion cubic meters of gas from Eni's volumes. We are certainly interested in expanding cooperation with our Italian partners. In this regard our actions are based on the fact that Italy is one of the South Stream project target markets. No doubt that in a medium or long term new gas supplies to the Italian market will be carried out, in particular, owing to this project.

We are interested in Italy and the Italian partners not only from the standpoint of a player in the Italian domestic market. Italy is our strategic partner. At present, there are not so many companies from the European countries with whom we make asset swap deals and some Italian companies currently act as producers in the Russian Federation. As with our German partners, we are seeking to create a single process chain – from production operations to ultimate consumers. That's why we may say that cooperation with Italian companies has recently achieved a higher quality level. It doesn't imply purchase and sale transactions or gas supply contracts any more – it is cooperation at each and every link of the value added chain in the gas market.

Thanks you, dear colleagues, and bye for now.