Follow-up Press Conference to annual General Shareholders Meeting of Gazprom

June 29, 2018

Participants:

— Viktor Zubkov, Chairman of Gazprom's Board of Directors;

— Alexey Miller, Chairman of Gazprom's Management Committee.

MODERATOR: Good afternoon. We begin our traditional gathering in the follow-up to the Shareholders Meeting. The newly-elected Board of Directors of Gazprom has just held its first meeting. Viktor Zubkov was named as Chairman and Alexey Miller as Deputy Chairman of the Board of Directors.

As we are conducting the Press Conference in the usual format, I suggest that the first question be addressed to Viktor Zubkov. Please.

QUESTION: Dmitry Vtorov, Tatarstan state TV and radio broadcasting company. Mr. Zubkov, please accept our congratulations on being re-elected to this senior position. And let me ask a question: today, it is self-evident that converting vehicles to natural gas is eco-friendly, cost-effective and, most importantly, safe. What are gas producers doing to encourage motorists to switch to this type of fuel?

VIKTOR ZUBKOV: Thank you for your congratulations and for this question, as we indeed need to think about the environment and keep in mind that in a few years oil reserves may dwindle or even, as analysts say, deplete in 28 to 30 years if the extraction rates remain the same. And then what's next? How to power hundreds of millions of cars?

This is why we created Gazprom Gazomotornoye Toplivo, which is essentially our structural unit that is currently focused on building cutting-edge gas filling stations across Russia. Some of these gas filling stations have 90 per cent of their equipment manufactured domestically, literally everything from compressors to dispensers. Therefore, eco-friendliness is highly profitable. Russian President Vladimir Putin has repeatedly said publicly that the future of Russia lies in NGV fuel and transition to natural gas.

It is the most eco-friendly type of fuel, leaving basically no harmful residues or emissions. In order to generate electricity for electric vehicles, something has to be combusted first, be it coal or natural gas. And we are speaking of natural gas, methane in its liquefied form, which is also the most economical type of fuel today. The average price of gas at Gazprom-owned filling stations, the total count of which is already close to 300 in Russia, is RUB 13.7–14 per liter.

What I mean to say is that we are not trying hard enough to promote this cleanest, cheapest and safest type of fuel. And I criticize the managers who are responsible for this field of work. A few days ago, Rostov Region Governor Vasily Golubev and I were attending the opening of a natural gas filling station in Aksai. I walked up to a car owner and asked: "Well, how is it going?" And he said: "Mr. Zubkov, today I spend one ruble per one kilometer driven." My next question was: "And how much did you spend on gasoline?" He replied: "I used to spend five rubles." Do you see the difference? People spend RUB 100 per 100 kilometers and RUB 1,000 per 1,000 kilometers now. And how about getting this message across to a wide public? The economic benefits of natural gas are not advertised well enough.

There were fears several years ago as to the safety of NGVs. And now, with modern filling stations, compressors, filling dispensers and composite cylinders put into use, it turns out that there is no risk in deploying NGVs at all.

So, we will continue to construct gas filling stations. This is a very promising business area. Our program envisages setting up a network of 500 state-of-the-art filling stations by 2020.

Nevertheless, consumers are still few and far between. Why? All countries producing this type of fuel provide state subsidies, especially at the initial stage, as the NGV industry is still small in scale and it is impossible to bring down the prices of gas-driven vehicles to the level of mainstream vehicles. A vast number of vehicles are powered by conventional fuel – their production counts in millions; and only several thousand vehicles run on natural gas. Therefore, subsidies are needed. We don't have enough now, they should be increased. This is the first challenge.

The second challenge is reaching real consumers. This is already understood by the businesses that have to cover most of their expenses with their own means. This includes taxi drivers, all sorts of private coachmen, small- and medium-scale entrepreneurs. Many of them are switching to natural gas in a number of cities and towns. But the network of gas filling stations is not wide enough, although we are building them every year. This is due to the fact that no-one is actually dealing with this task except for Gazprom, whereas some regions are serviced by independent companies. They should also join this activity, so as to increase the number of filling stations from 500 to 1,000. Then it would be easier to raise the number of vehicles, build more such stations and win more consumers.

And the last challenge: it takes time to build a modern filling station. All engineering, land allocation, construction and commissioning activities take a year or so. In one region, we recently performed an experiment highly significant for the agricultural industry. A mobile refueler was put into operation to serve several farms. The refueler, with a total worth of around RUB 20–25 million, can be connected to gas grids within two weeks. The farms that have already started using it, have figured out that refilling 100 units of equipment by this mobile refueler for one year will result in the annual savings of RUB 120 million. You can imagine what immense reserves, especially for the agricultural industry, can be unlocked by creating such mobile units, especially for united farm groups. We are ready to work in this area in order to satisfy such demands.

We consider this a promising direction and we will proceed with that. It will lead to a considerable reduction in delivery expenses that will have a positive effect on the prices of goods and products. It also reduces costs – I told you the figures. I consider it a promising business segment and we are going to develop it.

MODERATOR: Dear colleagues, Mr. Zubkov needs to leave for another appointment now. Let's thank him for participating in the Press Conference and then continue.

QUESTION: Dmitry Bandura, Nikkei newspaper. Under the terms of agreement with the European Commission following the antimonopoly proceedings, the European consumers were essentially vested with the right to directly impact the prices, which means that it is no longer a question of your relations with consumers but the authority of European regulators. Could you please explain why you agreed to these terms, why did you go to such lengths? Does it mean a shift in your priorities from price stability and price guarantees to capturing a market share, perhaps, in anticipation of heightened competition in Europe caused by LNG exports, among other things?

How, in your opinion, will these agreements affect Europe's demand for Russian gas and its price?

ALEXEY MILLER: Thank you for your question. First of all, I would like to explain that the agreement does not affect the price in any way for the simple reason that the agreement does not regulate the price. Neither does it regulate our gas supply volumes or our market share in the European Union.

You know that the agreement has been successfully tested in the market conditions and this is confirmed by the growing demand for Russian gas this year. In the first half of the year, we set a historic record of 101.2 billion cubic meters of gas. Demand for Russian gas is steadily growing in the European market. There was no change of priorities in Gazprom. Our priority remains the same – meeting our contractual obligations to our European consumers in full and on time.

QUESTION: Andrey Volodchenko, Stavropolskaya Pravda newspaper. My question concerns a highly relevant subject that has caused a lot of speculation lately. Is the United States, as an LNG supplier, capable of competing with Russia in the European market?

ALEXEY MILLER: The United States will never catch up with or overtake the Russian Federation in natural gas supplies to the European market. The reason is that the issues of price and supply reliability are of key importance to the consumer. As for pricing, the price of pipeline gas in the European market will always be lower than the price of LNG, particularly LNG from North America. This is because our fields, our gas production centers are located much closer to Europe than those in North America. Experts have the appropriate statistics and charts showing the distances that make liquefied natural gas unable to compete with pipeline gas. The distance between our gas production centers and the European market is such that it allows Russian pipeline gas to always be competitive in Europe. And today, as you know, the prices for US LNG are tens of percentage points higher than those for Russian pipeline gas. Besides, the share of US LNG in the European market is currently minuscule: only about 0.5 per cent. Regarding the overall outlook, I repeat: America will never catch up with or overtake Russia in this matter.

QUESTION: Anastasia Goreva, Argus Media agency. By now, Gazprom has more than 5 billion cubic meters of working gas in European UGS facilities where it owns storage capacities. Is Gazprom planning to augment its capacities in Europe and if so, to what extent and by when?

ALEXEY MILLER: Indeed, we own UGS capacities in Europe with a total volume of 5 billion cubic meters of gas. As for the last winter, namely, the autumn/winter period of 2017–2018, we had 8.6 billion cubic meters of gas then. This was undoubtedly essential in helping Europe successfully cover the winter peak, which lasted from the end of February to the beginning of March. Both natural gas from UGS facilities partly owned by Gazprom and natural gas that Gazprom injected into European UGS facilities was helpful in meeting the peak demand that we all witnessed.

During that period, the gas market was facing major challenges brought on by a hike in demand for daily supplies. In the course of 13 days, from February 18 to March 2, daily demand was skyrocketing and we had to increase our daily supplies by almost 20 per cent. We actually set absolute daily records for 10 consecutive days, and the ultimate historic record for daily supplies to the European market was 713.4 million cubic meters on March 2. I once again emphasize the great significance of UGS facilities with participation of Gazprom and the European facilities in which the Company injected its natural gas.

As for the planned volume, I told you that we had accumulated 8.6 billion cubic meters of gas by the beginning of the withdrawal period. Our goal was to achieve 5 per cent of the export volume in European UGS facilities, which translates into some 10 billion cubic meters. Today we intend to bring our European supplies to around 200 billion cubic meters of gas per year.

QUESTION: Alexey Novikov, Interfax agency. Until recently, some European consumers used to take off less gas than prescribed by the “take-or-pay” contractual provision. Now the situation is different: the supplies are growing, we are close to a new historic level of 200 billion cubic meters per year. It is obvious that we are about to hit a new high by approaching the ceiling figures of annual contractual rates. The contracts with some of our consumers, for example, with Serbia, have already been updated in terms of supply volumes. Austria has long exceeded the annual contractual amounts.

On the other hand, you were referring to the first days of March and, perhaps, the whole winter when spot prices in Europe were significantly higher than the settlement prices under contracts with Gazprom according to official sources. This creates reasonable grounds for a substantial revision of contracts on the part of Russia. Furthermore, transmission contracts are expiring next year for a variety of directions, such as Yamal – Europe and the Ukrainian corridor, while new gas transmission corridors are coming onstream. It turns out that a milestone period for Gazprom is approaching. How can you outline the Company’s plans in this area, in the context of this negotiating campaign?

ALEXEY MILLER: Deep knowledge of the subject indeed. Speaking of annual contractual amounts, I have already mentioned that we are aiming for the exports level of 2018, which means about 200 billion cubic meters of gas. But let’s take a closer look at this figure in the context of the annual contractual amounts. A total of 101.2 billion cubic meters of gas was delivered in the first half of the year. The question is: how much gas will we export in the second half of the year? In the last three years, the volume of gas exports in the second half of the year was 1.5–6.5 billion cubic meters higher than in the first half of the year. A simple mathematical operation: 101.2 multiplied by two plus a number ranging from 1.5 to 6.5 billion cubic meters at your choice. The resulting amount will be 205 billion cubic meters or higher. Meanwhile, the maximum annual contractual amounts of Gazprom under all of its export contracts to countries beyond the former Soviet Union make up 205.3 billion cubic meters.

We closely follow your publications on gas-related topics as well. And we also know your market forecasts. I remember well the articles that came out after Gazprom set a historic record of 194.4 billion cubic meters in 2017. Experts predicted that total supplies would likely remain the same but the volume of exports in 2018 would decline a little. An increase, if any, would be insignificant. Nevertheless, we are witnessing booming demand today: high growth rates of almost 6 per cent in the first half of the year, which makes up an additional 5.5 billion cubic meters of gas. In this connection, I would like to stress that no analytical materials or media outlooks predicted that Gazprom might attain export volumes equivalent to the maximum annual amounts under all of its contracts by the end of 2018. There were none.

All that we are speaking of now is really taking place in today's market. I would like to underline, however, that we are not limited to the level of annual contractual quantities. We are certainly not. But the fact that we reached the maximum annual amounts for all export contracts undoubtedly brings about a new frame of reference for the Company, and we need to explore it.

You spoke about the advent of a milestone period with regard to the Yamal – Europe gas pipeline and Ukraine. I share this view. I don't think this milestone period will fall on 2019, but rather on the timeframe between 2019 and 2020 – December 31, 2019, and January 1, 2020. It is within this period that the contract for gas supplies to Ukraine and the contract for gas transit through Ukraine will expire, and it is also planned to sign an extension of the contract for gas supplies to Belarus with our Belarusian friends and to determine the pricing principles for 2020–2025. In March 2020, the agreement for gas transmission via the Polish section of the Yamal – Europe gas pipeline ends. The planned timeframe for the commissioning of Nord Stream 2 is late 2019. The first and second strings of TurkStream will be put in operation by late 2019. On December 20, 2019, gas supplies to China via the Power of Siberia gas pipeline will be launched. I think we can agree that this is a milestone period. But it will also overlap with the new frame of reference that we spoke of before. Add to that the fact that Gazprom is already fulfilling all of its contractual obligations under all export contracts. Therefore, if we are talking about the year of 2019, we may call it, considering a large number of new gas transmission capacities put onstream, the year of gas trunklines. And we may also call it the decisive year in terms of conditions that will determine our activities in the medium-term perspective.

MODERATOR: You raised the subject of commissioning Nord Stream 2 in your answer. Nadezhda Rodova from S&P Global Platts, a regular participant in our Press Conferences, unfortunately couldn't join us today in person, but she is following the Conference online, and she requested an answer to the following question: "How much gas will Gazprom be able to transport via Nord Stream 2 in 2020, considering that EUGAL, a receiving gas pipeline located in Germany, will only be operating at half of its capacity by then?"

ALEXEY MILLER: The design capacity of Nord Stream 2 is 55 billion cubic meters of gas. EUGAL always had as its responsibility and objective the synchronization of commissioning activities. This objective remains unchanged. The EUGAL project is being implemented in Germany and our German colleagues bear the responsibility for the commissioning deadlines.

QUESTION: Yulia Makarova, Russia 24 TV channel. When will you start laying the Nord Stream 2 gas pipeline, given that Denmark has not yet issued a permit?

ALEXEY MILLER: The pipelaying of Nord Stream 2's offshore section will start according to the schedule – this summer. Germany, Sweden, and Finland have already issued all the construction and operation permits for the gas pipeline. There is an uncertainty about Denmark's permit. But we have a plan for addressing this issue.

QUESTION: Evgenia Sokolova, TASS agency. I have several questions concerning the TurkStream project. Could you tell us about the route of TurkStream's second string intended for European consumers? Is there any chance for Bulgaria to be traversed by this string?

The commencement date for gas supplies to China is already known. Can you give us the date for Turkey?

In the long term, is there a possibility of building a gas pipeline directly to Bulgaria across the Black Sea and, given the growth prospects of the Turkish market, using TurkStream solely for Turkey while delivering gas to Europe through Bulgaria?

ALEXEY MILLER: The TurkStream offshore gas pipeline goes from a compressor station on the Black Sea coast in Russia to a receiving terminal in Kiyikoy, Turkey. This is the route of TurkStream.

As for the scheme for gas flows via the TurkStream offshore pipeline, one should note that Bulgaria, Serbia, and Hungary recently decided to expand their national gas transmission networks. Accordingly, Bulgaria made the decision to expand the Bulgarian gas transmission network, the responsibility for which falls on the Bulgarian gas transmission operator and the Bulgarian regulator. It should be mentioned that these decisions were made in full compliance with the current European energy legislation. Therefore, when fully operational, TurkStream could convey gas through the gas transmission networks of Bulgaria, Serbia, and Hungary. I cannot give you the exact date like with Power of Siberia and December 20, 2019. But I'm absolutely certain that the first and second strings of TurkStream will be put into operation before late 2019. And you well know that the first offshore string of TurkStream is already completed.

As for the long-term possibility of building a gas pipeline directly from Russia towards Bulgaria across the Black Sea and using TurkStream solely for the Turkish market, you know that last year we hit the ceiling of our gas supplies to Turkey, reaching 29 billion cubic meters. Today, we speak about an annual 30 billion cubic meters of gas under our contracts with Turkey. With the design capacity of 15.75 billion cubic meters, one string of TurkStream can transport a little more than 50 per cent of the annual contractual volume. It would be exceedingly optimistic to assume that in a very short space of time the Turkish market will add another 50 per cent. The Turkish market will certainly grow, but not so rapidly as to make us consider using both strings of TurkStream for gas supplies to Turkey.

The project for constructing a direct pipeline to Bulgaria is called South Stream, but Bulgaria halted this project some time ago. As you know, we suffered financial losses and there are pending arbitration proceedings over that issue. Of course, we don't want this to happen again, so if building a direct pipeline to Bulgaria across the Black Sea is at all possible, the European Commission and Bulgaria have to provide firm and absolute guarantees.

QUESTION: Maria Grabar, RIA Novosti. The Stockholm Arbitration Court's ruling not only failed to settle the dispute between Gazprom and Naftogaz of Ukraine, but also complicated their relations even further. The companies are submitting mutual claims. What do you think is the way out of the current situation? As we all know, some gas volumes are still going to be transited through Ukraine after 2019 and the companies will have to negotiate. How do you see your relationship with Naftogaz of Ukraine? How are you going to maintain this relationship?

What do you think about trilateral negotiations on gas-related issues? Should they be maintained or should the contract terms be discussed solely between the companies?

ALEXEY MILLER: Yesterday, the Svea Court of Appeal confirmed its judgment on suspending the Stockholm Arbitration Court's ruling regarding the transit contract. Naftogaz of Ukraine filed an appeal against the Svea Court of Appeal's judgment. The appeal was rejected and the judgment was confirmed. Therefore, no-one can implement the Stockholm Arbitration Court's decisions regarding the transit contract at this point. As you know, the decision of the Stockholm Arbitration Court concerning two contracts – the supply contract and the transit contract – was asymmetrical and strongly undermined the balance between the interests of the parties. In order to avoid deepening the imbalance, in particular regarding the possibility of new fines for 2018 and 2019 if the Stockholm Arbitration Court's decision is upheld, Gazprom filed a new claim to terminate the current contracts – the contract for gas supplies to Ukraine and the contract for gas transit through Ukraine. I would like to inform you that the Stockholm Arbitration Court is now forming a tribunal to consider Gazprom's claim to terminate the existing contracts.

You asked about the "way out of the current situation" and how to "maintain this relationship." First of all, it is vital to restore the balance between the interests of the parties. How? Either by amending or reversing the Stockholm Arbitration Court's decision through an appeals court. Or maybe Ukraine will make constructive proposals. So far, we haven't heard any constructive proposals from Ukraine.

It is imperative to restore the balance between the interests of the parties in order to conduct further negotiations. And Ukraine certainly has to demonstrate the economic feasibility of gas transit through its territory.

With respect to trilateral meetings, I must say that there were no trilateral negotiations. There were trilateral consultations between the relevant ministries of Russia and Ukraine and the European Commission. Trilateral consultations were held in the past and they may happen in the future.

QUESTION: Lyudmila Podobedova, RBC newspaper. Could you please tell us whether Gazprom has ever asked for financial or any other assistance, like legal support, in connection with the risks of having its foreign assets seized or the dispute with Ukraine in general? What type of assistance would that be, given that Naftogaz of Ukraine claimed that it would persist in challenging the decision that is currently keeping Gazprom's foreign assets from being seized?

ALEXEY MILLER: Gazprom has never asked for any kind of support. The Svea Court of Appeal's decision, which was made yesterday and which confirmed the judgment on suspending the Stockholm Arbitration Court's ruling regarding the gas transit contract, renders the issue of asset seizure irrelevant. Of course, we understand that the appeals court's decision is an interim measure, merely a suspension of the Stockholm Arbitration Court's ruling. The appeals court should proceed in the matter and make a final decision. Only then will the situation be completely clear.

QUESTION: Galina Mironova, Zvezda Altaya newspaper. Good afternoon and thank you for the opportunity to raise an issue of concern for all residents of our region. Can you tell us whether you are holding discussions on the implementation of the Power of Siberia 2 project, formerly known as the Altai gas pipeline, or is it no longer on the table?

ALEXEY MILLER: We have signed the Heads of Agreement for gas deliveries with our Chinese colleagues in relation to Power of Siberia 2 (the Altai gas pipeline). Some clauses of this agreement are legally binding. We discuss the implementation of the project every time we meet with the CNPC management. The meetings are held on a regular basis, so the negotiations are in progress, and the project is still very much on the table. We continue the negotiations because the Chinese market is the most dynamic in the world. Today, we noted at the Shareholders Meeting that China's gas demand is growing at an accelerated pace: in 2017, China's gas consumption rose by 15 per cent, reaching 237 billion cubic meters. Meanwhile, China has a goal to expand the share of gas in the country's energy mix from 7 per cent to 10 per cent. This means that China's gas consumption may soon reach 360 billion cubic meters. According to our medium-term forecast, China's need for pipeline gas supplies from Russia may reach 80 to 110 billion cubic meters by 2035. Previously, we gave the figure of 100 billion cubic meters but now it is 110 billion cubic meters. Of course, this figure also includes gas deliveries via Power of Siberia 2 (Altai gas pipeline).

QUESTION: Vitaly Sokolov, Energy Intelligence portal. My question also touches on the eastern orientation, namely China. Another project under negotiations with your Chinese partners involves pipeline gas supplies from the Russian Far East. When is a contract for these supplies expected to be signed? What amounts and what starting date are being discussed?

You have said both at the Shareholders Meeting and just now that the annual exports of Russian pipeline gas to China will make up 110 billion cubic meters by 2035. By my calculations, Power of Siberia will transmit 38 billion cubic meters, the western route is being discussed to deliver 30 billion cubic meters, and supplies from the Russian Far East were estimated at 8 billion cubic meters if I remember well. So, the total figure is slightly under 80 billion cubic meters. What routes and gas resources could be used to increase exports to 110 billion cubic meters?

ALEXEY MILLER: Indeed, last year we signed the Heads of Agreement with CNPC for gas supplies from the Russian Far East. We haven't fixed a target date for signing the contract for these supplies. The contract is a work in progress.

With respect to the figure of 80–110 billion cubic meters of Russian pipeline gas supplies, it should be noted first of all that Gazprom will continue delivering gas under the signed contracts, including those with China, from the Russian gas transmission system and not from specific gas fields. On the border between Russia and China, Gazprom will sell gas from the Russian gas transmission system, as it does today. The main resource bases for gas deliveries to China are undoubtedly Eastern Siberia and the Russian Far East, including the shelf.

Gazprom's gas reserves in the region's licensed areas stand at 5.8 trillion cubic meters. As you see, the reserves are abundant. These gas production centers are well known: the Yakutia, Irkutsk and Sakhalin gas production centers. Of course, Power of Siberia 2 will convey gas from Western Siberia, whose reserves are even bigger; the resources are enormous.

You have calculated the precise amount of 38 billion cubic meters plus 30 billion cubic meters. Indeed, we have a contract for delivering 38 billion cubic meters of gas to China via Power of Siberia. The general terms for gas supplies via Power of Siberia 2 indicate 30 billion cubic meters. As for the Russian Far East, the figure of 8 billion cubic meters that you mentioned is not yet final and will be defined in the contract. I will not prejudge the final arrangements, but the figure under discussion is not 8 billion cubic meters.

Needless to say, we will continue our business operations in the Asian market, particularly with China, guided by the principle of selling gas first, then extracting it and then building gas transmission capacities. This is how we implement the Power of Siberia project. We signed a contract for gas deliveries in the amount of 38 billion cubic meters first and then we started pre-developing the Chayandinskoye and Kovyktinskoye fields and building the Power of Siberia gas trunkline. After signing the contract and assuming the obligations regarding supply volumes and delivery times, we will prepare the resource base, develop the field infrastructure and create new gas transmission capacities in due time.

Speaking about the new projects mentioned today, it should be noted that there is a possibility of increasing gas deliveries to China and using the Power of Siberia gas transmission corridor later on. We are not ruling out this possibility, it is under consideration.

QUESTION: Artur Toporkov, Vedomosti newspaper. My question is about the prospects of commercializing the reserves of the giant Tambey field. The Company reported that it was looking into using the reserves both for the Unified Gas Supply System and for liquefaction. To compare these options, what reserve capacity do you plan to use for liquefaction in this region, from this cluster?

ALEXEY MILLER: It is indeed an important issue as the Tambey group's current reserves are really immense. As you know, last year we added 5 trillion cubic meters of gas to the Tambey group's reserves that stand today at 7.7 trillion cubic meters in aggregate. This is truly a planetary-scale figure. This is twice as much as the annual gas consumption worldwide. Of course, it gives rise to the question of how to commercialize these resources. We are considering different options at the moment. You mentioned some of them, but we haven't made the final decision yet. When will we do it? I think the decision may be expected before the end of 2018. So, I think it's a little early to talk about the correlation between pipeline gas and LNG or about commercialization options. It is nonetheless indisputable that, taking into account the reserves added to the Tambey group, the Yamal gas production center has become Gazprom's largest in the Russian Federation.

QUESTION: Ilya Fedosov, NTV television company. What is the status of the Baltic LNG project? How do you see its development prospects? Are you in talks with new potential partners? If so, at what stage are the negotiations now?

ALEXEY MILLER: I will start with the stage of the Baltic LNG project. First of all, we are finalizing the project's feasibility study. Right now, we are doing the FEED study that will be completed before the year's end. The next step is to develop a technical concept. The project deadlines are set for 2023. The design capacity, as you know, is 10 million tons in the first phase.

Speaking about the project participants, it should be noted first of all that Shell and Gazprom are currently working towards setting up a joint venture. A large number of companies from around the world are interested in the project, but I would like to note strong interest from Japanese companies, including the shareholders in the Sakhalin II project.

QUESTION: Elena Barkova, Zolotoy Rog newspaper. Mr. Miller, you claimed a year ago that Gazprom was resuming the Vladivostok-LNG project in a new format providing for the production of natural gas as a fuel for marine and river fleet. The international regulations on the entry of Russian vessels into foreign ports and on fuel emissions are becoming more severe. Things are not going well in the Zolotoy Rog bay, as those in the know can attest. When is it planned to set this project in motion? I think that if Gazprom does not hurry up, this market in the Asia-Pacific region will be fully formed in two or three years – the demand for natural gas as a fuel for vessels is soaring.

ALEXEY MILLER: It's true, we decided to implement the Vladivostok-LNG project and we announced that a year ago. We know the market situation, which you have just described so briefly yet vividly. The market segment has vast potential. Today, we are carrying out the feasibility study for investments into the project. Construction will begin in 2020. We need to prepare the project documentation first, so we can't begin the construction before 2020. Speaking about Gazprom's market position, the Company will not miss out on anything. This is evident from our collaboration with the enterprises that secure the said demand, including Japanese ones. For instance, we signed an agreement for implementing the Vladivostok-LNG project with Mitsui, so we are currently implementing the project together.

QUESTION: Sergey Druzhinin, Mariyskaya Pravda newspaper. What jobs will be in demand at Gazprom in the coming years? What young professionals or future specialists who are just choosing their career path will have the biggest chance of getting a job with Gazprom in the future?

ALEXEY MILLER: Gazprom is well aware of its need for young professionals and knows its jobs in demand, I mean specific jobs for specific projects. This is regulated by the Company's workflow management. As you know, Gazprom's ten-year program is revised every year. The current program covers the 2018–2027 period, and we annually shift program one year forward and decide on new potential projects that can be included in the program. It is a key, fundamental document that is important for developing the investment program for the next budget year and three-year period. The program reflects Gazprom's priority strategic projects. All this activity is based on the ten-year gas balance statement. Experts, professionals and journalists who write about natural gas know that the statement is actually a guidance document for the Company, outlining with high probability how much gas will have to be produced, what production capacities will be required, and how this gas will be distributed.

Thus, we see what gas production, transmission and underground storage projects need to be implemented by Gazprom during this period. That's why the employment issue is clear to us for the next ten years. I can give you the numbers. In the next ten years, Gazprom will employ 300,000 young specialists, including 100,000 college-educated people.

Gazprom cooperates with 12 leading Russian universities that we call Gazprom's core universities. These 12 universities primarily educate specialists for Gazprom's in-demand jobs. What jobs? I think that we can even rank them. Firstly, these are engineering jobs for oil and gas facilities, for process machines and equipment, for example. Secondly, economics; thirdly, construction. IT and applied geology are ranked fourth and fifth, respectively. Most of all, we need engineers and economists.

Speaking about graduates of Gazprom's 12 core universities, we successfully cooperate with these universities and, of course, we know how their graduates get employed. Gas specialists from these universities have the highest professional employment rate among all graduates of higher education institutions in the country. This is my first point.

My second point is no less important. Graduates of these universities majoring in said areas have the highest starting wages after finishing university. As you can see, Gazprom not only has a high demand for young and well-trained specialists, but also offers graduates of the Company's core universities good opportunities for starting a professional career.

QUESTION: Anzhelika Kirillova, Chuvashia state-owned TV and radio broadcasting company. Mr. Miller, everyone has become accustomed to the slogan "Gazprom is a national treasure." But nothing stays the same. What slogan do you think the Company will need for the next five or ten years?

ALEXEY MILLER: I think you will agree with me that the slogan "Gazprom is a national treasure" is directly connected with the Company's mission. The mission is well known – providing reliable, uninterrupted gas deliveries to consumers in the Russian Federation, especially in winter periods. Winters in our country are bleak and long, but our consumers will always have certainty, as they do today, that their homes will be heated during those long and bleak winters. They will always have gas in their homes. Therefore, the slogan "Gazprom is a national treasure" will remain relevant for many, many years. Undoubtedly.

MODERATOR: Most of the journalists attending today's event represent regional media. We've carefully studied the questions you've posed. One way or another, each of them is related to gas grid coverage and gas deliveries to the regions. The questions are different as every region has its own specifics and bottlenecks. We will certainly give answers to each of you personally, but there are a number of principles that Gazprom follows in this area. I think that it would be appropriate if Mr. Miller spoke about it. It will clarify a wide range of questions.

ALEXEY MILLER: We often discuss gas penetration issues with the heads of Russian regions, we travel around the country, hold meetings, meet with our consumers. I will start responding to the question by pointing out that Gazprom doesn't fix gas prices. The prices are set for us by the Federal Antimonopoly Service. We receive a lot of questions about gas prices. Gazprom doesn't fix prices. This should be stressed again and kept in mind.

As for the gas infrastructure expansion program, Gazprom's broader engagement with the program began in 2005 pursuant to the order by Russian President Vladimir Putin. We achieved a lot in this period. First and foremost, it should be noted that the gas penetration level in the country has risen from 53.3 to 68.1 per cent. We discussed it at today's General Shareholders Meeting. I think that the time period we are now discussing and the increase made – from 53.3 to 68.1 per cent – can be considered a medium-term benchmark for further growth of the gas penetration level in our country.

The investments are substantial. Since 2005, Gazprom has invested RUB 325 billion in this program. More than 30,000 kilometers of gas pipelines have been built. Most importantly, when we talk about the bottlenecks the regions are complaining about, we need to highlight that the gas grid coverage program is in fact a two-way program. The responsibility for the program lies not only with Gazprom but primarily with the regions. When we together with the regional authorities adopt a gas infrastructure expansion program and prepare general gas supply and gas grid coverage schemes, it is the local authorities who propose which localities should be provided with gas. It is the regional officials who set priorities as to which off-gas grid areas of the regions should be connected first. These priorities are the priorities of the regions and we take them into account.

The priority has always been given to connecting rural areas to gas grids. I would like to add that over the said time period the rural gas coverage level has grown by 1.7 times. Today, natural gas penetration level in rural areas is 58.7 per cent. It is higher than the average gas penetration level in the country we had in 2005.

The potential for accelerating activities aimed at connecting settlements to gas grids primarily depends on the regions. Unfortunately, we have to adjust gas infrastructure expansion programs downwards every year for a large number of Russian regions. The reason for this is the incomplete execution of synchronization schedules. Gazprom builds gas branches and inter-settlement gas pipelines to the borders of population centers and municipalities. Gazprom's responsibility ends there. The construction of intra-settlement, urban, and household gas pipelines, along with the building of boiler houses and, most importantly, the preparation of consumers for receiving natural gas are the responsibility of regional authorities, as recorded in the agreements that Gazprom signs with constituent entities of the Russian Federation.

Since 2005, only 10 regions have fulfilled their obligations under the synchronization program in full measure. Only 10 regions. In the other regions, Gazprom has created capacities that have not been fully utilized. There is no doubt that apart from the continued implementation of new joint gas penetration projects, the underperforming regions have potential to finance the gas infrastructure expansion program and to eliminate the backlog that they have without any additional financing from Gazprom. They are capable of fulfilling their current obligations and, accordingly, boosting the gas coverage level in their regions.

In 2018, we increased the financing for the gas infrastructure expansion program across the country. Gazprom allotted RUB 36.7 billion to complete its part of the work. Let me remind you that in 2017, taking into account the adjustments we had to make, Gazprom's financing was RUB 29.5 billion. We hope that the amount of our financing will remain as planned. Without question, we are ready to further increase the allocations for annual gas infrastructure expansion programs for Russian constituent entities if the regions are up to it.

MODERATOR: Thank you for your interest and participation in this Press Conference. See you next year.